

Questions and Answers to all Questions submitted through 11.30.10 Pertaining to the CAP ADD Water Program Proposal

No.	Question	Response
1	How was the volume of water for Just Water determined?	The 50,000 AF came from NAMWUA representatives during the HIOG process. CAWCD asked Ron Doba and Brad Hill about the origin of the figure, and both indicated this was an approximate number based on planning studies for NAMWUA members. CAWCD staff chose to retain that number for the proposal, while recognizing that it may require further evaluation.
2	Has the strawman been evaluated against the current CAWCD enabling legislation to determine if any, or all, of the proposal can be implemented under the current powers and duties of the District?	Implementation of certain aspects of the CAP Staff Proposal, i.e., that portion relating to the CAGR and the ADD Water Program would require legislative changes. On the other hand, implementation of other aspects of the Proposal can be accomplished within CAWCD's current statutory authorities. For example, CAWCD's enabling legislation provides it broad authority to "acquire in any lawful manner real and personal property of every kind necessary or convenient for the uses and purposes of the district." A.R.S. Section 48-3713.B.2. CAP staff anticipates that it will work with the stakeholders to determine what legislative changes will be required to implement the ADD Water Program once the details of the program have been clarified and adopted by the CAWCD Board.
3	What specific statutes provide the authority for CAWCD to use the tax levy for purposes of acquiring, developing and delivering non-Project (ADD Water) water supplies?	A.R.S. 48-3715.A provides the CAWCD Board with the authority to "fix the amount to be raised by direct taxation for the purpose of carrying out the provisions of" Title 48, Chapter 22. If CAWCD has or is granted authority to implement ADD Water, then it necessarily has authority to use the tax levy for that purpose. If CAWCD does not have or is not granted authority to implement ADD Water, then the point is moot.

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4	Is there a timeline that lays out the steps necessary (e.g. stakeholder processes, Board approval, legislative changes, NEPA, ESA consultation etc.) to have the first ADD Water deliveries begin in 2015?	CAWCD has not developed a specific timeline laying out the steps necessary to have the first ADD Water deliveries in 2015. Ideally, we would like to have stakeholder consensus on any required legislation in time for the 2012 legislative session. That would require general consensus on the overall ADD Water program and CAGR modifications by the fall of 2011. Any necessary environmental review could be completed between mid-2012 and mid-2014. CAWCD would aim to secure water supply options by mid-2014. ADD Water contracting would likely occur in the latter half of 2014, allowing for deliveries in 2015. When there is a consensus on the major components of the ADD Water program, CAWCD will establish a more detailed timeline.
5	What criteria will be used to determine that there are no additional supplies available and the 300,000 AF goal can't be reached?	No criteria have been established. The potential volume of Colorado River water rights and groundwater available for importation into an AMA is substantially greater than 300,000 AF, but acquisition of either type of water supply depends on willing buyers and sellers. When there are no sellers willing to part with water at prices that potential ADD Water contractors are willing to pay, then CAWCD will conclude that there are no additional supplies of those types available for the program. The availability of brackish groundwater, if it is included as an ADD Water supply, will depend on a number of factors, including access to the supply, regulatory treatment by ADWR and cost.
6	How (e.g. where will the money come from) will CAWCD acquire additional supplies before contracts are offered?	Prior to the time that contracts are offered, CAWCD only anticipates securing options to purchase new supplies. The cost for these options are expected only to be a fraction of the ultimate water supply acquisition cost, and the costs of the options will be included in the pre-launch costs for each phase. How CAWCD will pay pre-launch costs is described starting on page 6 of the CAP Staff ADD Water Program Proposal. At the time of contracting, all remaining costs will be due from the ADD Water contractors.

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7	How will the negative impacts on existing CAP contractors, subcontractors and excess water contractors of obtaining water currently unused (currently project water) be mitigated?	Rights to water that is currently unused by an existing contract holder must be acquired before the ADD Water Program can acquire any Colorado River water from that existing entitlement holder. Otherwise, there is no guarantee the current Colorado River contractor will actually reduce its consumptive use. Today, the unused Colorado River water is available to CAP as excess water, creating a shortage buffer that benefits CAP M&I subcontractors. But the existing Colorado River contractors have the right to develop that supply, so the current buffer is not guaranteed. Indeed, ADWR projections consistently show that this water will be put to use over the coming decades, decreasing the supply available to CAP. Acquisition of unused water by the ADD Water Program would reduce the buffer sooner than currently anticipated. CAWCD would expect the ADD Water Program to assist in mitigating the incremental impact on CAP M&I subcontracts resulting from its acquisition of Colorado River water. One way to do that would be to acquire/develop a backup supply that may be delivered to CAP M&I subcontractors to offset the incremental shortage to those subcontracts resulting from the acquisition of unused Colorado River water by the ADD Water Program. The backup supply could be groundwater, dry-year options with on-river agricultural users or some other supply. We would anticipate that the cost of the backup supply would be shared between the ADD Water Program and existing CAP M&I firming programs. CAWCD is open to other suggestions for win-win solutions.
8	For imported groundwater acquisitions, is only the renewable portion of that resource going to be acquired or will mined groundwater be included in the acquisition?	The proposal contemplates using a portion of the amount of groundwater that is statutorily available for importation to the AMAs. That total volume has not been determined, but could include both renewable and mined groundwater. The actual importation volume may also consider such factors as the minimum production required to maintain infrastructure, budgetary constraints or other pertinent factors.

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9	For brackish groundwater acquisitions, is only the renewable portion of that resource going to be acquired or will mined groundwater be included in the acquisition?	The amount of brackish groundwater that could be used has not been determined. Like imported groundwater, it could consider such factors as what portion of the resource is renewable, minimum production required to maintain infrastructure, budgetary constraints and other pertinent factors.
10	Is brackish groundwater that exists inside AMAs being targeted for acquisition?	Brackish groundwater will be considered on a case-by-case basis, and could include groundwater within the AMAs.
11	Are there legal issues with pumping brackish groundwater inside AMAs?	It is possible that the existing rules governing groundwater pumping within the AMAs may not adequately address issues related to the development of brackish groundwater as an ADD Water supply. As we explore this opportunity, those issues will be identified and dealt with, as necessary. It is conceivable that the legal issues surrounding pumping brackish groundwater within an AMA may prove difficult, thus making brackish groundwater a less attractive option for an ADD Water supply.
12	Will hydrologic analyses be performed to insure that groundwater rights of water users adjacent to brackish groundwater will not be negatively impacted?	Yes.
13	Is the right acquired to be held by CAWCD with contracts with customers for permanent service as agreed to in the SEC?	Yes. CAWCD will retain title to all rights that are acquired, and will enter into long-term ADD Water contracts with customers that are for permanent service.

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14	What sideboards will be put on the management of the single supply portfolio that cuts across phases?	The portfolio concept provides several aspects that are designed to manage risk and uncertainty. While CAWCD will exercise appropriate diligence when acquiring/developing supplies, all supplies (whether short-term or long-term) entail some risk. A single supply portfolio that increases in size allows those risks to be managed in a way that is efficient for CAWCD and all ADD Water contractors. For instance, if a 5,000 acre-foot supply in the first phase becomes at risk, the impact of replacing the supply on 300,000 acre-feet is significantly less than on 50,000 acre-feet.
15	Is the 80%/20% long-term/short term portfolio illustrative or is that ratio set in stone?	The 80:20 ratio is not "set in stone." CAP staff believes there are benefits to including some shorter-term supplies in the overall ADD Water portfolio, but that these should constitute a relatively small proportion of the total.
16	If the portfolio has a short term component in it, how does the permanent service contract work?	The long-term permanent service contract guarantees a volume of water will be delivered to the contractor under defined conditions. As short-term supplies reach their term, CAWCD will replace those supplies so that it can continue making all contract deliveries. Effectively, this puts an additional obligation on CAWCD, but one that staff believes is manageable (if short-term supplies are kept to no more than 20% of the portfolio) and outweighed by the benefits of diversification.

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17	Does the inclusion of replacement costs for non-permanent supplies in the context of one portfolio mean that a contractor is on the hook forever for paying for water acquisition?	It is anticipated that all ADD Water supplies will be managed as a single pool. That pool may consist of up to 20% of supplies that are not permanent in nature, but with terms of not less than 30 years. Those supplies will have to be replaced as their contract terms expire. This approach is being taken to reduce costs and spread risk. It is anticipated that the cost to replace the non-permanent portion of the ADD Water portfolio will be collected from all ADD Water contractors (regardless of phase) as a component of the annual delivery charge ("Big W"). The Big W charge will be the same for all ADD Water contractors. Every attempt will be made to manage Big W to anticipate necessary replacements, avoid large increases or decreases in Big W and keep it smooth from year to year. Even if the ADD Water portfolio did not include any non-permanent supplies, it would probably still be necessary to include a Big W-type component to address contingencies that may arise with regard to "permanent" supplies.
18	How is the expressed need for certainty and a finite cost for water supplies met under the replacement cost rate structure proposal?	See response to question 17. Absolute certainty and finite cost for water supplies for an individual ADD Water contractor can only be achieved by linking a specific supply to a specific contract, and such "certainty" is an illusion, since there is some risk of interruption for every supply. To the extent that some contractors might be insulated from risk by paying a one-time cost, the underlying risk would be shifted to CAWCD and other ADD Water customers. Managing all ADD Water supplies as a single pool, including the non-permanent supplies, spreads risk and reduces cost. Using a "Big W" annual delivery cost component to finance the replacement of non-permanent supplies means that each ADD Water contractor would have to contribute about 1/30 of 20% of the cost of replacing the supply each year. If the cost to replace a 30 year lease is \$1000 per acre-foot, the annual cost to finance this replacement could be about \$7 per acre-foot of ADD water contract entitlement.

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19	Is the concept that Assured Water Supply will be met with this proposal that 80% of the water (long-term permanent) purchased is eligible or is the proposal to allow 100% of the supply to be eligible by changing the AWS statutes or rules?	In this proposal, a long-term ADD Water contract is a non-declining permanent service delivery contract, and the intent is for the full entitlement to satisfy the 'legally & physically available' provisions of the Assured Water Supply rules, similar to an M&I CAP subcontract. CAWCD staff understands that ensuring this outcome based on a portfolio approach may require modification of the existing rules or statutes. Staff will work with ADWR and stakeholders to develop appropriate planning requirements or other safeguards that will maintain the full integrity of the AWS program. Water providers that pledge a long-term ADD Water contract would remain responsible for satisfying all of the other provisions of the AWS rules, including continuous availability and proving physically available groundwater for ADD Water that is recharged and recovered outside the area of impact.
20	How does "allocating" available water in each phase meet the SEC proposal that each provider determines their own need?	Each potential ADD Water contractor has a unique set of factors, including cost, that influence their need for ADD Water. Those factors are reflected in the volume of water they bid on at a specified price. As stated on page 5 under Market-based Allocation Method number 2, "Each participant [in the auction] will determine its own need, based on its evaluation of current and future demand, cost, other supply options (including conservation) and its own projections as to the price of contracts in future phases."
21	What is the thought process in prohibiting the AWBA from participating while at the same time proposing to convert excess water that has been historically available to the Bank into non-project ADD Water by buying unused Colorado River water?	The CAP staff proposal adheres to the SEC in stating that AWBA may not obtain a long-term ADD Water contract. But the proposal also includes flexible contracting provisions that would enable the AWBA to partner with other ADD Water contractors, thereby creating a potential win-win situation for both parties. With regard to currently unused Colorado River water, see response to question 7.

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22	Since the proposal contemplates allowing the sale for profit ("assignment") of an ADD Water supply, how will remarketers be defined and prohibited?	The SEC defines a "remarketer" as "an entity whose primary business purpose is to purchase and store water for future resale." The CAP staff proposal does not change that definition, but added the caveat that a group of eligible parties (e.g. landowners) may form a joint entity to purchase an ADD Water contract for assignment to the individual parties in between phases. Under the CAP staff proposal, all assignments must be approved by CAWCD, and remarketers are not eligible to contract for an ADD Water entitlement. We contemplate that there will be a defined process and criteria by which CAWCD will determine whether a potential transferee of an ADD Water contract falls within the definition of a remarketer.
23	Are the CAWCD standards for approval of assignment or lease to protect operational impact only or are other issues included in that concept?	The proposal provides that CAWCD may impose operational requirements to prevent harm to CAP contractors or other ADD Water contractors. The approval process will also: (i) determine whether the proposed transferee/lessee is an eligible party to receive an ADD Water contract, (ii) ensure the transferee/lessee complies with all applicable environmental requirements, and (iii) satisfies other administrative requirements for entering into an ADD Water contract (e.g., scheduling and paying for water deliveries).
24	What conditions, if any, will be placed on the ADD Water reserve fund e.g. can it be used to subsidize the cost of future phases of ADD Water?	ADD Water reserve funds would be created for specific purposes and used only for those purposes (e.g., major repairs and replacements). Such reserve funds would not be used to subsidize the cost of water in future phases of ADD Water. If not otherwise needed in the short-term, ADD Water reserves could be used temporarily to cover pre-launch costs of a phase, but the reserve fund would be repaid upon launch of that phase. As described in the proposal, "carryover revenues," which are not "reserve" funds, would be used to reduce the floor price of the next phase.

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25	What is the policy purpose for a bidding process that would result in any contractor paying more than the actual cost incurred by CAWCD to purchase the water supplies?	The primary purpose of the market-based method is to provide a means of adjusting demand to available supply without having a third party determining need.
26	Why wouldn't any revenue above the floor be set aside to replace the short term component of the water acquired for that phase, knowing that those water supplies need to be replaced and having had the contractor who needs that water replace already paying more than the actual cost?	The floor price for each auction could include a specific component that would be used to replace short-term water supplies in the future. But carryover revenues--i.e., those above the floor price--have a particular purpose in the proposal.
27	Are the above floor revenues carried forward to the next phase solely for acquisition cost offsets or can that money be used to offset energy or fixed OM&R?	Revenues collected in excess of the floor price can only be used to offset the floor price in the immediately following phase. They cannot be used to offset energy or fixed OM&R except after the last phase is completed. Any carryover revenues from the last phase can be used for these purposes.
28	Will CAWCD reject all bids if there are no bids above the floor?	The floor establishes the minimum bid, so there would be nothing to reject. CAWCD cannot accept anything less than the cost of acquiring water and administering the ADD Water program; to do so would lead to bankruptcy.
29	Will CAGR as a bidder be able to borrow money, as it is currently able to do, from non-CAGR CAWCD sources and outbid the subcontractors and post-ADD member service areas and member lands?	This question combines two issues. The proposal does not specifically address the question of CAGR borrowing from CAWCD, but CAP staff believe CAGR should be able to fully participate in the auction and use resources it has available to it. As for outbidding, like other potential bidders, CAGR will have to evaluate its willingness-to-pay for ADD Water relative to its alternatives. The notion of outbidding all other contractors suggests that CAGR would act in a way that is fiscally imprudent for its own members.

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30	If after all rounds of a bidding process are completed and not all the water was bought, why would early round bidders who dropped out not be able to purchase that water if they are willing to pay the ultimate bid price?	The objective of the auction process is to determine the price at which demand equals supply. By definition, there will not be any "leftover" water. If the initial demand for water in any phase is less than 50,000 AF, then CAWCD could reduce the size of the phase to match demand. Excluding re-entry of dropped bidders is simply an example of a potential auction condition. CAWCD would expect to enlist outside expertise to help design the auction process.
31	What will pre-qualification of bidders entail?	Pre-qualification of bidders is typically done to ensure that successful bids can be fulfilled, thereby insuring the integrity of the auction process. Pre-qualification is simply an example of a potential auction condition. CAWCD would expect to enlist outside expertise to help design the auction process.
32	How is limiting max/min volumes per bidder consistent with "each participant will develop its own needs?"	Limiting the volume of a bidder is simply an example of a potential auction condition. CAWCD would expect to enlist outside expertise to help design the auction process. Stakeholders may feel that no single bidder should be able to acquire the entire supply available in a given phase.
33	Is the establishment of an account in January 2012 to track expenditures applicable to ADD Water only or will Just Water expenditures be tracked in this account or some other account?	It is anticipated that most pre-launch costs will be applicable to both ADD Water and Just Water. CAWCD will apportion an appropriate share of pre-launch costs to Just Water. CAWCD may consider a separate tracking account for Just Water if it appears that there are significant pre-launch costs that relate only to that program. That has not been the case thus far.
34	Given discussions about future impacts on repayment, OM&R, and energy due to Navajo Generating Station environmental compliance, shutdown or replacement, how can the concept of "unused" taxing authority be valid?	Currently, the CAWCD Board is assessing only 6 cents of the possible 10-cent tax. If the CAWCD Board determines that any portion of the remaining taxing authority is needed for a CAP purpose, such as NGS, then CAP would have first priority to use it prospectively, as stated in the staff proposal.

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35	How will CAWCD insure that rates and taxes will not increase due to ADD Water borrowing from CAWCD?	The only borrowing by ADD Water from CAWCD that is being contemplated is the borrowing of "excess reserves," i.e., reserves in excess of targets. In fact, if the targets are exceeded, the amounts in excess of those targets are not really designated reserves at all. Borrowing is only anticipated to occur to finance ADD Water pre-launch costs. All borrowing from CAWCD by ADD Water is expected to be repaid in full plus interest and any appropriate administrative charge. Interest earnings and costs are not included in the calculation of CAP OM&R rates, so there will be no effect from any borrowing on rates. Taxes will only increase if the CAWCD Board does so for a specific ADD Water purpose.
36	If purchasing a voucher, to create a borrowing option, how would the voucher be redeemed in light of the auction proposal?	Vouchers would be redeemed just like any other borrowing, i.e., from the proceeds of the contract sales. Vouchers could be used just like cash by those entities that hold them. The floor price for ADD Water contracts would include the amount necessary to redeem all vouchers, including the interest or other premium due.
37	If a water option contract designed to create security for a loan is exercised who loses their existing water supply or is CAWCD going to hold some volume of water from the auction block?	No one would lose their existing water right. If options were used as security for a short-term loan, the terms of the loan agreement would not allow the lender to exercise that option unilaterally without some sort of a default, which CAWCD would have the right to remedy by assuming the option on behalf of CAGR D using CAGR D's own funds or some other means. A default on the loan would only occur if some contractor did not pay the amounts due when due, in which case that contractor and only that contractor would not have any contract delivery rights. After the auction process, there would be a closing date, much like the closing date for a house. The ADD Water closing would involve signing of ADD Water contracts, payment for the ADD Water contracts, execution of ADD Water supply options and repayment of the bank loan. After that point, there is no need for water options serving as security for a loan.

No.	Question	Response
38	What infrastructure costs are contemplated for Phase 1? Is the SEC concept that every AF of ADD Water would include and infrastructure component separate from water acquisition costs still in play?	CAWCD would collect revenue for common infrastructure costs to improve CAP canal capacity starting in Phase 1 and continuing through the last phase. There is no established schedule for CAWCD to make specific canal capacity improvements. The staff proposal on this issue mirrors the SEC, except that the specified period of time for paying the common infrastructure costs may or may not be 20 years.
39	How will CAWCD know the market clearing price in Phase 1 that will be charged at the time of contracting?	The ADD Water Program Proposal specifically addresses this matter under Auction Rules on page 5. The auction will be conducted in rounds. In each round, potential contractors will submit bids for specific ADD Water contract entitlement volumes at the price specified for that round. The specified price for the first round will be the floor price. If the demand for ADD Water contract entitlements in a round exceeds the volume available in that phase, a subsequent round will be conducted at a higher specified price. The auction will continue until the aggregate contract demand equals the volume available in that phase, establishing a market-clearing price for that phase.
40	If the actual price exceeds the market clearing price paid for in the contract what happens? (i.e., without money how does CAWCD secure water at a fixed cost and without a fixed cost how does CAWCD set a firm price in a contract.)	CAWCD will use pre-launch funding to secure supplies through option agreements and similar contractual arrangements that specify actual acquisition costs. Those acquisition costs will be incorporated into the auction floor price. The final price of the ADD Water contract is determined by the market clearing price, which must be greater than or equal to the floor price.
41	Why is there a need for a peak capacity surcharge to discourage use of CAP delivery capacity since all CAP capacity is protected and senior to ADD Water delivery capacity?	There may or may not be a need for a peak capacity surcharge or a conservation charge. These are examples of other potential rate components CAWCD may consider. Such surcharge or charge would pertain to ADD Water contractors only and not CAP subcontractors.
42	Why is a conservation charge needed for entities subject to ADWR mandatory conservation programs?	See response to question 41.

No.	Question	Response
43	What is the definition of “working capital” for an ADD Water Reserve fund and does it include a component of money that would be used to buy water in subsequent phases so that post-Phase 1 contractors don’t need to pay all their money up front unlike Phase 1 contractors?	Working capital is a source of money designed to manage cash flow. It can be used for many program purposes including paying pre-launch costs. All contractors, whether they are in Phase 1 or a subsequent phase, are required to pay all costs due at the time of contracting. Those costs include pre-launch costs paid by CAWCD, using working capital, as well as all water acquisition costs and common infrastructure costs due at the time of contracting. See also response to question 24.
44	What is contemplated for Pre-ADD water supplies that do not otherwise meet the requirements for inclusion in the ADD Water supply portfolio since the ADD portfolio proposal include short term supplies?	Under the staff proposal, up to 20% of the ADD Water portfolio may include non-permanent supplies with a minimum term of 30 years. Therefore, non-permanent supplies with a term of less than 30 years would not meet the requirements for inclusion in the ADD Water portfolio. In the event that such a supply becomes available (e.g., a Colorado River water right holder decides it will only lease water under its entitlement for a maximum of 20 years), CAGRDR may contract for it outside of the ADD Water program to meet replenishment obligations for Pre-ADD CAGRDR members. Under the proposal, CAGRDR could use its CAP aqueduct Interim Set-Aside capacity to transport the water.
45	Is the proposal to create all Just Water supplies to be available for delivery from the River creating a superior right to Colorado River supplies for Just Water, especially since ADD Water has a component of short term supplies that require perpetual payments by ADD Water contractors?	CAWCD will not be responsible for delivery of Just Water supplies. As a practical matter, then, those supplies must be available to Just Water contractors directly from the Colorado River. The staff proposal was designed to avoid the need for any long-term contractual relationship--and ongoing obligations--between CAWCD and Just Water contractors.
46	Is there a potential conflict problem for ADWR being assigned Just Water supplies when ADWR may have to approve transfers or forbearance to effectuate the purchase of Colorado River water?	CAWCD intends to work with Just Water interests to determine the appropriate entity to hold Just Water supplies. If using ADWR poses a conflict or is problematic in other ways, CAWCD will transfer the water rights to a different entity.

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47	Does the revision upon non-timely payment by ADWR or other for Just Water mean that CAWCD is going to front the money to acquire Just Water rather than have Just Water pay 100% of the acquisitions costs upfront?	No. The Just Water program will have to pay the cost of water acquisition as well as its share of pre-launch costs. CAWCD will not finance the cost of water acquisition for Just Water.
48	Will questions and issues that arise from the CAWCD strawman be addressed in the existing task team process?	CAWCD believes that the best way to advance the ADD Water process at this time is by having the Broad Implementation Group focus discussion on the inconsistencies and unresolved elements in the SEC that were identified by the task teams and which are addressed in the CAP Staff ADD Water Program Proposal. If and when there is stakeholder consensus on an integrated ADD Water program, there may be a role for smaller teams, such as in drafting the standard form of ADD Water contract or proposed legislation. CAWCD will evaluate the need for and objectives of such smaller teams at that time.
49	What happens if there is not enough water available in a phase to meet the 50,000 AF goal? Will the launch of the next phase be accelerated or delayed, or will the five year schedule be maintained?	If there is insufficient water available to meet ADD Water demands for any phase, up to the 50,000 AF goal for each phase, then CAWCD will re-evaluate whether or not it will continue the ADD Water Program. See question 5.
50	What happens if a water acquisition is more than 50,000 AF, for example if a seller demands CAWCD purchase an entire supply or if it is more cost-effective to develop a large groundwater basin as a larger unit?	If CAWCD determines that it cannot acquire supplies on a scale and timeframe consistent with the approach agreed upon for ADD Water, it will re-evaluate how to proceed.
51	If an ADD water contract does not link a water supply to a specific source, how will contractors justify to ADWR that this water will meet the requirements for an Assured Water Supply?	CAWCD will work with ADWR to ensure that long-term ADD Water contracts based on the ADD Water portfolio can be pledged for AWS purposes.

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52	Will the ability to assign or sublease ADD water contracts result in a secondary market for ADD water that may tend to drive the price up?	The ability to assign or sublease ADD Water contracts may result in a secondary market that may impact the price of other ADD Water contracts. It is impossible to predict what such impacts might be. It is just as likely that ongoing phases of ADD Water could impact the price of ADD Water contracts in the secondary market.
53	Are there examples of the market-based allocation process featuring an auction process currently used in other water arenas? What was the source of this idea, and has it been successfully employed elsewhere?	Auctions have been used with various levels of success for the purpose of acquiring and allocating scarce resources, such as water. CAWCD's market-based allocation process is unique to ADD water and has not been employed elsewhere, as far as we know.
54	What is the rationale for a rather complex auction process, if as the Summary of Emerging Consensus states, "costs are determined at the time of contracting" (Q7, #2)? What policy purpose does the auction serve?	The auction described in the proposal is not particularly complex--it is a conventional ascending clock auction. Contracting occurs after successful bidding, at which point costs are known. See also response to question 25.
55	Rather than discouraging speculation, won't the carryover revenue mechanism instead serve to subsidize later purchasers of water with funds paid by those that contract early?	This is not an either/or circumstance. In general, speculation is based on a premise that future costs will be greater than the holding costs associated with "overacquiring." The carryover mechanism is designed to remove some of the incentive to acquire water earlier than necessary. This does generate some "subsidy" between phases, but it also encourages contractors to contract for water as need arises.
56	On what basis does CAWCD staff believe that hoarding and speculation will be a serious problem? Won't the high cost of ADD water discourage entities from purchasing more than they absolutely need?	CAWCD staff does not know if hoarding and speculation will be a serious problem, but believe it is prudent to address the possibility. Stakeholders have expressed similar concerns during Project ADD Water. While the expected high cost of ADD Water may suppress speculative activity, it is typically more directly related to future expectations of higher costs (i.e., purchasing 'extra' now to avoid higher cost later). The carryover revenue provisions of the auction are intended to dampen this kind of activity.

No.	Question	Response
57	What statutory changes will be needed to authorize the ADD water and Just Water programs?	See response to question 2.
58	If CAWCD subcontractor and excess water contractor reserves are obligated for non-project purposes such as ADD water and Just Water during the pre-launch or other phases, how will these reserves be reimbursed should a shortfall occur prior to these reserve funds being repaid by these new programs?	Only CAP reserves in excess of CAP reserve targets would be available to loan. The bulk of the pre-launch costs will be incurred close to contracting. The pre-launch costs will be reimbursed upon contracting. The risk exposure in terms of time is very short. Should CAWCD need to be reimbursed during this timeframe, CAWCD could offset this risk through some sort of insurance and require ADD Water contractors to pay that cost as part of the floor price for the water.
59	Why wouldn't self funding financing be available from ADD water contractors for the first Phase in a type of escrow arrangement?	Financing from potential ADD Water contractors is one of the pre-launch financing options being considered. This would be done through the voucher program, which is a "money-for-money" proposition, just like all of the other borrowing alternatives under consideration. Presumably, any borrowed funds would be consumed during the pre-launch to cover costs; there would be nothing to escrow.
60	If it is not realistic to expect that CAWCD pledge its existing reserves, revenue streams, and taxing authorities for water supply acquisition costs during Phase I, why is it permissible to pledge those same resources for pre-launch expenses?	CAWCD cannot pledge or use any of its existing reserves, revenues or taxing authority for the permanent acquisition of ADD Water supplies for two primary reasons: (1) there is not a sufficient amount; (2) any amounts available are only available temporarily and must be repaid or, in the case of taxes, eventually be made available for other purposes. The use of CAWCD financial resources for pre-launch costs are much smaller in magnitude and are of limited use or duration since they will be repaid or discontinued after a short period of time (i.e., the next launch).

No.	Question	Response
61	<p>What financial impact will the ability of CAWCD to “allocate” ADD supplies to pre-ADD obligations have on existing CAGR users? On post-ADD CAGR users?</p>	<p>The financial impact on pre-ADD CAGR customers cannot be fully determined until the price for ADD Water has been established. When the CAGR develops its bidding strategy for the auction, it will evaluate other available supplies and decide how much ADD Water it will bid for during the auction. One thing to keep in mind is that the current CAGR Plan of Operation anticipates acquisition of long-term Colorado River water rights and imported groundwater over the next 15-20 years to meet a significant portion of the replenishment obligation for members that enrolled during the effective period of the first two Plans of Operation (i.e., pre-ADD members). The fact that such supplies would be acquired as part of the ADD Water program over several phases rather than directly by CAGR should not significantly change the costs of those supplies. Therefore, the proposed ADD Water program should have minimal financial impact on pre-ADD members when compared to a scenario without ADD Water in place. CAGR will not be acquiring ADD Water to meet post-ADD obligations. Instead, new member lands and member service areas and any existing member service areas expanding their use of the CAGR will be acquiring either an ADD water contract or some other acceptable permanent supply themselves to transfer to the CAGR.</p>
62	<p>It sounds as if Just Water supplies will only be available from the Colorado River. It seems like this will essentially limit Just Water to higher-priority, less-costly on-river supplies – as opposed to limited and expensive groundwater supplies. If this is the intent, what is the justification?</p>	<p>See question 45. It is not clear that on-river supplies are necessarily less costly than groundwater supplies. Even if that is the case, however, the staff proposal provides that CAWCD's costs of acquiring supplies for the ADD Water Program and Just Water Program for each phase will be aggregated and distributed proportionately among the two programs, so that the cost of water to each program in each phase is the same.</p>

No.	Question	Response
63	For ADD water contractors, CAWCD will own the water right (SEC Q13, #1). For Just Water, CAWCD plans to assign the water rights to a holding entity until a contract with an end-user is executed. What is the rationale for the different approaches with respect to water rights between the two programs?	The staff proposal was designed to avoid the need for any long-term, ongoing contractual relationship between CAWCD and Just Water contractors.
64	Does the CAWCD have an obligation to protect and defend Just Water rights during the acquisition process? How will Just Water contractors pay for these costs prior to the time CAWCD assigns those water rights to the managing entity?	We do not understand what "protect and defend" might mean in this context. In any event, the Just Water program will be responsible for paying its share of any pre-launch costs incurred by CAWCD.
65	The CAP Strawman proposal contemplates obtaining unused portions of sub-contract water entitlements: 1) Please define unused portions of sub-contract water entitlement; and 2) How would they be obtained	The ADD Water Program Proposal does not contemplate using any unused portion of CAP subcontracts for ADD Water. Under types of supplies on page 1, CAWCD indicates that effective acquisition of Colorado River rights may entail obtaining rights to water that is currently unused by the Colorado River contract holder. See response to question 7.

No.	Question	Response
66	<p>During the CAP Strawman presentation it was first indicated that 80% of the water supplies would be perpetual supplies; later the same 80% were referred to as 100 year assured water supplies; and later still they were referred to as a pool of differing water supplies; 1) what is the CAP definition of these 80% percent of water supplies as they relate to assured waters supply programs? (question 2 is addressed in question 67)</p>	<p>The ADD Water Program envisions one pool created in a series of six phases. The eventual pool would made up of long-term, permanent and short-term supplies. 80% of the pool is expected to be made up of long-term and permanent supplies. CAWCD defines long-term as greater than or equal to 100 years in length (e.g., a lease with a term of 100 years). Permanent supplies are perpetual (e.g., purchase and transfer). The ADD Water Program does not specify what portion of the 80% will be long-term and what portion would be permanent. Theoretically, the entire 80% could be long-term with no permanent, vice versa or a blend. Short-term supplies are those supplies with terms greater than or equal to 30 years but less than 100 years. The ratio at the phase level does not necessarily have to meet the 80:20 ratio. CAWCD expects to manage the overall pool at the 80:20 ratio. The concept behind the 80:20 ratio is that such a ratio will provide sufficient security to assure ADWR that CAWCD can meet contractual deliveries perpetually.</p>
67	<p>During the CAP Strawman presentation it was first indicated that 80% of the water supplies would be perpetual supplies; later the same 80% were referred to as 100 year assured water supplies; and later still they were referred to as a pool of differing water supplies; 2) will all the water supplies that are required to meet assured water supply provisions be certified by ADWR as assured water supplies prior to contracting? (question 1 is addressed in question 66)</p>	<p>It is CAWCD's intent that the ADD Water Program will provide a long-term contract entitlement that can be pledged in an application for a designation of assured water supply. Therefore, CAWCD will work with ADWR prior to execution of ADD Water contracts in each program phase to certify that long-term ADD Water contracts represent a pledgable supply for assured water supply purposes. See also response to question 19.</p>

No.	Question	Response
68	During the CAP Strawman presentation it was indicated that CAP would not own water rights and that ADD Water would pay for itself however, later it was indicated that CAP would not only obtain but own the various ADD Water rights; 1) Is it the intention of the CAP to own all the ADD Water rights versus simply wheel various right holder water supplies?	The staff proposal is consistent with the SEC. CAWCD will hold underlying rights to specific water supplies. ADD Water contractors will have a contract right to delivery of water from the ADD Water portfolio. The ADD Water program was expressly developed as an alternative to a traditional wheeling program where individual entities would be responsible for obtaining their own supplies.
69	In the Strawman presentation it was indicated that ADD Water Contractors pay for this activity and CAP would not be obligated for financing or risk in accordance with the SEC. 1) Per the presentation it was proposed that based on target financial obligations, excess monies could be used to fund ADD Water by CAWCD, therefore how will the target or future financial targets be calculated in reference to their financing ADD Water versus CAP activities?	The use of CAP reserve funds that are in excess of established reserve targets is one of several potential pre-launch funding options that have been included for consideration. CAP reserve targets would not be adjusted to accommodate ADD Water.
70	What happens if entities bring water to the table as an ADD Water Contractor	The ADD Water Program Proposal does not address the possibility that ADD Water contractors may "bring water to the table." If someone wants to sell a water supply to the ADD Water Program, then CAWCD will consider that supply along with any other supplies available to it. CAWCD will either decide to purchase the supply or not. If terms are agreed upon, the sale will be made and CAWCD will pay the purchase price. The seller may or may not be an ADD Water contractor.
71	What if the ADD Water Contractor or regulatory entity requires that the actual water supply be owned by the receiving entity especially if ADD Water Contractors are paying for all costs?	The ADD Water Program is not a program for third-party wheeling. See response to question 68.

No.	Question	Response
72	The 100 million or more required to expand canal capacity will have to bond in requirements of a debt service structure. How will this debt service be repaid if very few ADD Water contractors apply for water supplies that will pay this debt service? Also keeping in mind that the ADD Water program cannot harm current CAP sub-contractors?	The costs associated with expanding the common infrastructure will be collected in advance of any improvements being made. There will be no need to bond or assume any debt service. Contractors will begin paying the common infrastructure fee upon signing ADD Water contracts. When sufficient funds have been collected and in conjunction with regular CAP improvements or maintenance, CAWCD will make improvements to the common infrastructure.
73	Is the intent of CAWCD to borrow for pre-launch of ADD Water efforts? If so and ADD Water doesn't go forward, how will this debt be repaid and by whom?	To cover pre-launch costs for Phase 1, the proposal identifies at least two general revenue sources: (1) temporarily using CAWCD's existing unused taxing authority to create a revolving fund, and (2) borrowing, in which case no revolving fund would be created. For borrowing, the proposal describes two options: (1) CAWCD excess reserves, and (2) third party lending. If ADD Water does not go forward, CAWCD would liquidate any assets acquired for ADD Water and cover any remaining pre-launch costs incurred to that point.
74	If CAWCD is going to use imported groundwater supplies as assured water supplies how will the CAP or ADD Water meet statutory damages provisions of pumping groundwater?	CAWCD would comply with all applicable regulations associated with pumping imported groundwater. To the extent that damages occurred as a result of pumping imported groundwater, CAWCD would have to address them. Any legal fees, settlements or penalties realized would become operating costs for the ADD Water Program.
75	How will CAWCD ensure a "no speculation or hoarding" policy regarding ADD Water contractors and at the same time stay out of the business activities of assignment with ADD Water contractors?	CAWCD has an interest in discouraging entities from over-acquiring supplies (i.e., "hoarding") because it is detrimental to all of the other potential ADD contractors in a phase. The carry-over revenue mechanism is designed to reduce that activity. On the other hand, the ability to lease and assign contracts between parties does not raise those same concerns. On the contrary, CAWCD wants to encourage partnering so that users' particular supply needs can be met efficiently. Staff believes the parties themselves are in the best position to set the terms of those transactions, even if a secondary market arises as a result.

No.	Question	Response
76	What statutory changes would be required to allow for the ad valorem tax to be used for ADD Water contracts, and how would this potentially harm current CAP sub-contracts? How much of the Ad valorem tax is really available and based on decreased property values what is the total potential if CAP decided to use a viable portion of these proceeds?	See responses to questions 3 and 34. Current estimates indicate that CAWCD collects about \$6 million for each cent of ad valorem tax it assesses.