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BEFORE THE ARIZONA CORPORATION COMMISSION

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GARY PIERCE,
Chairman
BOB STUMP,
Commissioner
SANDRA D. KENNEDY
Commissioner
PAUL NEWMAN,
Commissioner
BRENDA BURNS,
Commissioner

AZ CORP COMMISSION
DOCKET CONTROL

RECEIVED Arizona Corporation Commission
DOCKETED

AUG 17 2011 AUG 19 2011

ARIZONA CORP. COMM
400 W CONGRESS STE 218 TUCSON AZ 85701

DOCKETED BY

IN THE MATTER OF THE APPLICATION
OF VAIL WATER COMPANY FOR A
RATE INCREASE

Docket No. W-01651-B-99-0406
**APPLICATION TO EXTEND
TIME FOR CAP PLANNING**

When it approved the rates and tariffs currently in effect for the Vail Water Company (the "Company") nearly eleven years ago, the Commission (in Decision No. 62450) authorized the collection of CAP Service Fees and CAP hook-up fees that would be dedicated to the purpose of utilizing the Company's allocation of water from the Central Arizona Project. To date, more than \$2.4 million has been expended to purchase and recharge CAP water, as reflected in the annual reports that have been provided annually to the Commission in accordance with the Decision.

It was the common understanding in the year 2000, as it is today, that the preferred course of action with respect to CAP utilization is that the direct use of CAP within the Company's service area is preferable to CAP recharge -- at least at such time as direct deliveries become feasible. Because the Company's service area is more than twenty miles from the CAP Aqueduct, no one envisioned that the Company would be economically capable of building a stand-alone water transmission system to provide its customers with CAP water. Rather, it was anticipated that at some juncture, the CAP's largest customer, the City of Tucson, would eventually expand eastwards until its delivery

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1 systems were sufficiently close to the Company's infrastructure that the Company could
2 then extend its system to that of Tucson Water, the City's wholly-owned water utility.

3 As far back as the mid-1970's, the City of Tucson had envisioned becoming a
4 wholesale CAP delivery utility, serving other water utilities in the Tucson valley. A.R.S.
5 45-401.31 (a)(ii) was incorporated into the Groundwater Management Act to specifically
6 recognize private water companies that had, prior to 1980, agreed to become customers of
7 a Tucson Water CAP transmission agreement then known as the Northwest Water
8 Agreement.

9 Notwithstanding the intentions of the City of Tucson from 1975 to 1995, initial
10 problems with the City's CAP treatment facility frustrated its own ability to utilize CAP
11 water, and later lead to the expiration of the Northwest Water Agreement. [In the interim,
12 all the private water companies that were party to the Northwest Water Agreement were
13 purchased by municipal or governmental utilities.] Consequently, between 1975 and the
14 summer of 2011, Tucson Water did not wheel CAP water to anyone, notwithstanding that
15 its service area expanded dramatically over that period, and notwithstanding that its
16 infrastructure became increasingly accessible to numerous utilities, including to the
17 Company.

18 In 2008, the Mayor and Council of the City of Tucson and the Board of Supervisors
19 of Pima County agreed to enter into a wide-ranging water policy planning exercise,
20 reviewing the fundamental changes that would be needed in the Tucson valley to ensure
21 the community's future. Both Pima County Wastewater Management and Tucson Water
22 dedicated significant time and effort into what was called the joint *Water Infrastructure,*
23 *Supply and Planning Study*, approved in February of 2010, and which lead to the
24 adoption of the *City/County Action Plan for Water Sustainability* in November of last
25 year. The plan reaffirmed the goal of enabling Tucson Water to become a CAP wheeling
26

1 entity in the Tucson valley. (All the planning documents can be found at
2 www.tucsonpimawaterstudy.com.)

3 Thereafter, Tucson Water again pursued the difficult job of finding mutually-
4 acceptable ways to become the entity that transmitted CAP water from the CAP Aqueduct
5 to various utilities around the Tucson valley. Finally, in June of this year, after eighteen
6 months of discussion, the City of Tucson and the Town of Oro Valley entered into an
7 intergovernmental agreement for wheeling CAP water that Tucson anticipates will serve
8 as a model for providing similar services to other residential water utilities in eastern Pima
9 County, including the Company.¹ A copy of that agreement is attached as an illustration
10 of the issues involved in such contracts, as Exhibit A.

11 Following these developments closely, officials from the Vail Water Company
12 contacted Tucson Water to ascertain the feasibility of entering into a similar wheeling
13 agreement. The City of Tucson, having looked forward to serving in this capacity now for
14 some thirty five years, was strongly encouraging, and negotiations have begun in earnest
15 between Tucson and the Company.²

16 As a means of illustrating the new water policy regime in effect at Tucson Water,
17 the Company asked Tucson Water to provide a position statement of its interest in
18 becoming a wheeling entity for the Company, and was provided with the correspondence
19 from Interim Director Andrew Quigley, attached hereto as Exhibit B.

20 In the year 2000, when the Decision was entered, the Commission required the
21 Company to begin taking CAP water by the year 2015, and required that “final plans for
22 the direct use of CAP water within Vail’s service territory” be submitted by the end of last
23

24 ¹ The City also reached a more comprehensive service area agreement with the Pascua Yaqui tribe in
25 February of this year. That agreement includes a wheeling component, and the Tribe is now ordering its
26 CAP allocation for storage in Tucson facilities.

² In addition, the City of Tucson reached a “reliability agreement” with the Central Arizona Project
earlier this year that expressly contemplates use of the joint City/CAP Pima Mine Road recharge facility to
meet the “terminal storage” needs for the Company’s CAP allocation.

1 year. [See, Section 25(f), Lines 17-18, Page 15, Decision No. 62450.] The Company was
2 unable to provide such plans because the only practical way of implementing direct use of
3 CAP water would be for Tucson Water to serve as a wheeling agent -- and Tucson Water
4 had not agreed to serve in that capacity with anyone at that time. The Company is now
5 entirely confident that it will be able to reach an accommodation with Tucson Water to do
6 what everyone hoped it could do a decade ago, but is seeking the Commission's
7 permission to provide the requisite plans by June 30, 2013. The Company does not seek
8 an extension in the 2015 deadline for actually introducing CAP water directly into the
9 Company's service territory.

10 While the Company was unable to precipitate a resolution to the "CAP Direct Use"
11 problem by the end of 2010, as it had been directed to do by the Commission a decade
12 ago, the Company argues as follows:

- 13 • Direct use of CAP remains a goal that the Commission should
14 encourage, and it is one that is now feasible for the Company.
- 15 • The millions of dollars that the Company has spent to date to ensure
16 that a renewable water supply would be available to its customer base
17 will have gone to naught if the performance date for utilization
18 planning is not adjusted to comport with Tucson Water's availability.
- 19 • The Company needed the City of Tucson to be a willing partner to
20 wheel CAP water across the Tucson valley for use by the Company's
21 customers, which has always meant that the Company would not have
22 exclusive control of the terms or timing of any final plans for direct
23 use of its allocation.

1 Janice Alward, Chief Counsel
Robin Mitchell
2 Legal Division
3 Arizona Corporation Commission
1200 W. Washington Street
4 Phoenix, Arizona 85007

5 Steve Olea, Director
6 Utilities Division
Arizona Corporation Commission
7 1200 W. Washington Street
8 Phoenix, Arizona 85007

9
10 *Lynnette Ross*
11
12

13

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Exhibit A

F. ANN RODRIGUEZ, RECORDER

Recorded By: JCC

DEPUTY RECORDER

305

SOROV
TOWN OF ORO VALLEY
11000 N LA CANADA
ORO VALLEY AZ 85737



SEQUENCE: 20111940566
NO. PAGES: 16
RES 07/13/2011 18:00
MAIL
AMOUNT PAID: \$13.50

RESOLUTION NO. (R)11-50

A RESOLUTION OF THE MAYOR AND COUNCIL OF THE TOWN OF ORO VALLEY, ARIZONA, AUTHORIZING AND APPROVING AN INTERGOVERNMENTAL AGREEMENT BETWEEN THE CITY OF TUCSON AND THE TOWN OF ORO VALLEY RELATING TO THE SHORT-TERM DELIVERY OF CENTRAL ARIZONA PROJECT WATER

WHEREAS, the Town of Oro Valley is a political subdivision of the State of Arizona vested with all associated rights, privileges and benefits and is entitled to the immunities and exemptions granted municipalities and political subdivisions under the Constitution and laws of the State of Arizona and the United States; and

WHEREAS, pursuant to ARS § 11-952, the Town of Oro Valley is authorized to enter Intergovernmental Agreements for joint and cooperative action with other public agencies; and

WHEREAS, pursuant to ARS § 9-511, *et seq.*, the Town has the requisite statutory authority to acquire, own and maintain a water utility for the benefit of the landowners within and the without the Town's corporate boundaries; and

WHEREAS, on March 16, 2011, Council directed staff to negotiate and develop an intergovernmental agreement with the City of Tucson for short-term delivery options of the Town's Central Arizona Project Water; and

WHEREAS, it is in the best interest of the Town to enter into the proposed Intergovernmental Agreement with the City of Tucson to set forth the terms and conditions of the agreement.

NOW, THEREFORE, BE IT RESOLVED by the Mayor and Council of the Town of Oro Valley, Arizona, that:

SECTION 1. The Intergovernmental Agreement, attached hereto as Exhibit "A" and incorporated herein by this reference, between the Town of Oro Valley and the City of Tucson regarding the short-term delivery of the Town's Central Arizona Project Water is hereby authorized and approved.

SECTION 2. The Mayor, Water Utility Director and other administrative officials are hereby authorized to take such steps as necessary to execute and implement the terms of the agreement.

PASSED AND ADOPTED by the Mayor and Town Council of the Town of Oro Valley, Arizona this 6th day of July, 2011.

TOWN OF ORO VALLEY


Dr. Satish I. Hiremath, Mayor

ATTEST:


Julie K. Bower, Town Clerk

Date: 7/7/11

APPROVED AS TO FORM:


Tobin Rosen, Town Attorney

Date: 7/6/11

ADOPTED BY THE
MAYOR AND COUNCIL

June 28, 2011

RESOLUTION NO. 21752

RELATING TO INTERGOVERNMENTAL AGREEMENTS; APPROVING AND AUTHORIZING EXECUTION OF AN INTERGOVERNMENTAL AGREEMENT BETWEEN THE TOWN OF ORO VALLEY AND THE CITY OF TUCSON TO WHEEL CENTRAL ARIZONA PROJECT WATER TO ORO VALLEY; AND DECLARING AN EMERGENCY.

BE IT RESOLVED BY THE MAYOR AND COUNCIL OF THE CITY OF TUCSON, ARIZONA, AS FOLLOWS:

SECTION 1. The Intergovernmental Agreement between the Town of Oro Valley and the City of Tucson Relating to the Short-Term Interim Delivery of Central Arizona Project Water, attached hereto as Exhibit "A," is approved.

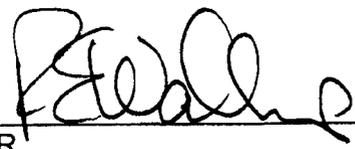
SECTION 2. The Mayor is authorized and directed to execute the said Intergovernmental Agreement for and on behalf of the City of Tucson and the City Clerk is directed to attest the same.

SECTION 3. The various City officers and employees are authorized and directed to perform all acts necessary or desirable to give effect to this Resolution.

SECTION 4. WHEREAS, it is necessary for the preservation of the peace, health, and safety of the City of Tucson that this Resolution become immediately

effective, an emergency is hereby declared to exist and this Resolution shall be effective immediately upon its passage and adoption.

PASSED, ADOPTED AND APPROVED by the Mayor and Council of the City of Tucson, Arizona, June 28, 2011.



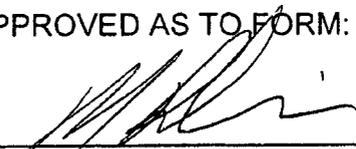
MAYOR

ATTEST:



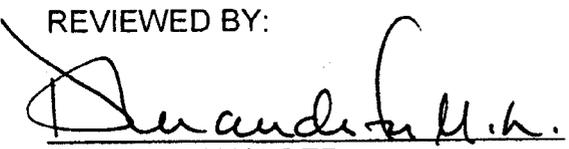
CITY CLERK

APPROVED AS TO FORM:



CITY ATTORNEY

REVIEWED BY:



CITY MANAGER


CA/dc
10/29/2009 10:13 AM

INTERGOVERNMENTAL AGREEMENT BETWEEN THE TOWN OF ORO VALLEY AND THE CITY OF TUCSON RELATING TO THE SHORT-TERM INTERIM DELIVERY OF CENTRAL ARIZONA PROJECT WATER

WHEREAS, This Intergovernmental Agreement ("IGA") is entered into this 28th day of June, 2011, by and between the City of Tucson ("City" or "Tucson Water") and the Town of Oro Valley ("Town" or "Oro Valley Water Utility") relating to the short-term interim delivery of the Town's Central Arizona Project (CAP) water through the Tucson Water potable distribution system, also referred to as wheeling.

RECITALS

WHEREAS, The Town and the City may contract for services and enter into agreements with one another for joint and cooperative action pursuant to A.R.S. § 11-951, *et seq.*; and

WHEREAS, The Town has an allocation of Central Arizona Project water a portion of which can be delivered to Tucson Water underground storage facilities in Avra Valley and subsequently recovered and conveyed through the City's potable water distribution system; and

WHEREAS, The City currently has excess underground storage and system delivery capacity to store, and deliver the Town's CAP water; and

WHEREAS, Both the Town and City have engaged CH2MHill to develop a wheeling rate and study the feasibility of interim storage and delivery of a portion of the Town's CAP allocation through the Tucson Water potable distribution system for a 5-year term, and the CH2MHill report has been provided to both parties; and

WHEREAS, The Tucson Water potable distribution system has the current hydraulic capacity for delivering up to 2,000 acre-feet per year of the Town's CAP water to the Town, but both parties are interested in exploring options that would provide as much as 4,000 acre-feet per year to the Town; and

WHEREAS, The Town and City desire to mutually cooperate to deliver additional renewable CAP water supplies to protect and preserve groundwater in Southern Arizona.

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein, set forth and for other good and valuable consideration, the parties agree to the IGA as follows:

AGREEMENT

1. Delivery to the Oro Valley Water Service Area. City will recharge, recover, and deliver an initial volume of up to 2,000 acre-feet per year of the Town's CAP water to the Town's Oro Valley Water Service Area ("OVWSA") and/or the

Town's Countryside Water Service Area ("CSWSA"). The location of these service areas are depicted on Exhibit "A".

1.1 The Town will store its CAP water in City underground storage facilities located at the Central Avra Valley Storage and Recovery Project (CAVSARP) and the Southern Avra Valley Storage and Recovery Project (SAVSARP), for subsequent delivery to the OVWSA and/or the CSWSA.

1.2 The Town will make the necessary arrangements with the Central Arizona Water Conservation District for the Town's CAP water to be delivered to City underground storage facilities at CAVSARP and SAVSARP.

1.2.1 Town will annually coordinate with the City regarding the schedule for the delivery of the Town's CAP water for recharge at least 30 days prior to each Party's final placement of the order with the Central Arizona Water Conservation District for the following calendar year. If the City and Town are unable to reach an agreement about the timing of the Town's deliveries, the Town's order will be placed according to an 11 month delivery schedule, with no anticipated deliveries during the month of November.

1.2.2 The volume of the delivery of up to 2,000 acre-feet of the Town's CAP water will be calculated annually to include adequate storage volumes to account for a potential 5% cut to the aquifer for long term storage that may be required by ADWR.

1.2.3 The volume of the delivery of up to 2,000 acre-feet of the Town's CAP water will be calculated annually to also include evaporation losses at the City's storage facilities that will be calculated by the City in accordance with the terms of its storage permits, and 4% system losses during transmission from the storage and recovery facility to the delivery point to the Town.

1.3 Tucson Water will deliver up to 2,000 acre-feet per year of potable water to the CSWSA and to the OVWSA; the OVWSA connection will be from the Tucson Water Naranja C-Zone Reservoir to a point of interconnect located approximately ten feet outside of the wall on the City's property, hereinafter referred to as the "Ten Foot" connection point, as depicted on Exhibit "B", attached hereto and incorporated herein by this reference.

1.4 The City may deliver potable water recovered from the Town's stored CAP water to other points of connection subject to mutual written agreement of the parties.

2. Term. The term of this agreement will be five (5) years with a five (5) year renewable term based upon mutual written agreement of the Director of Tucson Water and the Oro Valley Water Utility ("OVWU") Director.

- 2.1 The term shall commence on the first date of actual delivery through the Ten Foot connection point.
- 2.2 The City and Town shall work together to commence delivery to Town on January 1, 2012.
- 2.3 The first date of delivery is expected to be no later than April 30, 2012.
3. Volume Charge. OVVU will pay Tucson Water \$499.89 per acre-foot for each acre-foot of potable water delivered up to the 2,000 acre feet and within the term of this agreement.
 - 3.1 Tucson Water will be responsible for reading the meter and billing the Town for water delivered. Payments due will be invoiced monthly by Tucson Water.
 - 3.2 If this Agreement is renewed for an additional term, the payment per acre foot may be amended by OVVU and Tucson Water. The mutual consent of both the Tucson Water and OVVU Directors shall be necessary to establish the amended cost per acre-foot.
 - 3.3 In addition to the volume charge there will be a monthly service charge of \$323.32 for the term of this agreement for the Tucson Water/OVVU interconnection meter installed for deliveries to the Ten Foot connection point.
 - 3.4 If deliveries are made in the future to the OVVU Countryside Water Service Area, the above rates and methodologies will apply except for a cost reduction for power.
 - 3.5 Tucson Water will send all invoices to Oro Valley Water Utility, 11000 N. La Canada Drive, Oro Valley Arizona, 85737-7016.
 - 3.6 OVVU will pay the monthly invoices within thirty (30) days of receipt.
4. Phased Delivery. Tucson Water may deliver up to 2,000 acre-feet per year to OVVU during the term of this Agreement.
 - 4.1 During the initial phase ("Phase 1") of this agreement, Tucson Water will deliver up to 1,500 acre-feet per year to OVVU.
 - 4.2 After Phase 1 deliveries commence and at the request of OVVU, Tucson Water may deliver an additional 500 acre feet per year to the Town, which shall not exceed the volume stored at Tucson Water's recharge facilities. Such deliveries shall not exceed the total volume of 2,000 acre feet per year.

4.2.1 Any amendment to this Intergovernmental Agreement for additional deliveries beyond 2,000 and up to 4,000 acre feet per year must be approved by mutual written agreement between the Tucson Water Director and the OWWU Director and adopted by the respective governing bodies.

4.2.2 Additional phases following Phase 1 may include the possibility of deliveries to the OWWU Countryside Water Service Area.

4.2.3 Since the OWWU Countryside Water Service Area is located in a lower pressure zone, the electric power component of the rate will be reduced accordingly and upon mutual agreement in accordance with paragraph 3 above.

4.3 The Town will be responsible for all additional infrastructure necessary to take delivery of its CAP water that is needed to increase the delivery capacity of the existing Tucson Water potable distribution system for all phases under this agreement, including design, permitting, and construction costs.

5. Infrastructure Requirements.

5.1 Tucson Water will design all of the pumping equipment located inside the perimeter wall of the Naranja Reservoir site within the existing easement to the Ten Foot connection point which is located ten (10) feet beyond the outside of the perimeter wall, including, but not limited to: the pump, motor, the discharge header, valves, flow meter, electrical equipment, monitoring equipment, the pressure tank, and the below ground pipe.

5.2 OWWU will provide the design parameters to Tucson Water who will design all infrastructure listed in paragraph 5.1 above in accordance with Tucson Water's published engineering standards.

5.3 OWWU will review and accept all final designs prior to construction.

5.4 OWWU will compensate Tucson Water for the design of these facilities at the "Developer-Required Facilities Rate for Electrical" and "Control System Design Fee", which rates and fees are part of Tucson Water's standard rate schedule.

5.5 Tucson Water will be responsible for the construction of all infrastructure required to connect Tucson Water potable infrastructure to the OWWU potable distribution system at the Ten Foot connection point including but not limited to: pumps, motors, meters, valves, monitoring and control equipment, the pressure tank, pipe and other appurtenances.

5.6 Town will pay for all infrastructure construction costs in paragraph 5.5

- 5.7 OVVU will prepare designs for the below ground pipe installation from the Ten Foot connection point to the connection point with the existing 12-inch OVVU water line located in Naranja Road.
- 5.8 Town will furnish and install a Remote Terminal Unit (RTU) with cabinet and antenna inside the perimeter wall of the site. This work will be coordinated with Tucson Water.
- 5.9 The meter for measuring deliveries to OVVU will be located on the above ground discharge header upstream from the Ten Foot connection point.
- 5.10 Warranties of workmanship and equipment will be provided through standard construction contract documents and manufacturer's warranty for any repair or replacement of infrastructure paid for by Town and still under warranty. Beyond the warranty periods, Town will be responsible to pay the costs to repair or replace all equipment that was paid for by Town and installed by City on City facilities. This includes installation of any new meters, pumps, motors, pressure tanks, pipe, valves, controls, instrumentation or other equipment or appurtenances provided by Town, but does not include any pre-existing City infrastructure.
- 5.11 At the end of the final term of this agreement or a renewed agreement, Town equipment installed by City will be removed by and returned to Town. This includes the electrical panel, the pump, motor and discharge header, the flow meter and the pressure tank and appurtenances. Below ground pipe will be abandoned in place. In addition, the RTU cabinet and antenna furnished and installed by Town will be removed by same.
6. Operation and Maintenance. City will perform all routine maintenance for the safe and reliable delivery of the Town's CAP-based potable water allotment to the OVWSA.
- 6.1 Once constructed, the facilities will be maintained by City except for the RTU cabinet and antenna, which Town will maintain. Maintenance performed by City includes but is not limited to: maintenance and repair of boosters, pumps, motors, reservoirs, wiring, motor controls, motor savers & monitors, power supply & distribution, current overload protection, Programmable Logic Controllers (PLC's), tactical Supervisory Control and Data Acquisition (SCADA) equipment, and communications equipment (radios, phone lines, computer interfaces, etc.), grounds keeping, security fencing, and other critical assets owned by the City, except devices maintained and as agreed by OVVU.
- 6.2 For all deliveries to the OVWSA, Tucson Water will be responsible to provide and pay for electrical power to supply water to the OVVU E-Zone Reservoir.

- 6.3 All day-to-day operations and delivery amounts will be determined and implemented by Tucson Water and OWWU certified water operators.
- 6.4 When OWWU needs to access the Naranja C-Zone Reservoir site, OWWU must notify the Tucson Water system operator.
- 6.5 Maintenance activities that affect subject pumping equipment will be coordinated and scheduled with both Tucson Water and OWWU operators.
7. Delivery Flow and Pressure. Tucson Water will deliver a daily amount of CAP-based water allotment based upon request by OWWU.
- 7.1 Tucson Water will deliver an annual amount to OWWU based on a mutually agreed upon schedule.
- 7.2 The daily amount of the Town's CAP-based allotment delivered through the Ten Foot connection point may vary based upon daily decisions made by the Tucson Water and OWWU certified water operators.
- 7.3 For the OWWSA, Tucson Water will deliver water under sufficient pressure to the OWWU E-Zone.
- 7.4 OWWU will control the operation of the pumping equipment installed under this agreement to deliver the Town's CAP-based allotment to the OWWSA.
- 7.5 Tucson Water will have an interlock with the OWWU's RTU cabinet that allows turn-off of the pump in the event of an issue in the Tucson Water system. Notice of a turn-off will be provided to Tucson Water Operators and OWWU Operators. In an emergency, Tucson Water will have the ability to shut off all deliveries to the Town for the duration of the emergency and will notify the OWWU certified water operators immediately. Tucson Water shall have discretion to determine whether such an emergency condition exists within the Tucson Water potable distribution system.
- 7.6 If OWWU does not maintain a regular minimum flow through these facilities, Tucson Water cannot warrant that water in the lines will be maintained in adequate condition.
- 7.7 In the event that Town does not request and have more than 20 acre feet delivered in any month, then Town will be responsible to pay an additional minimum maintenance charge of \$2000.00 for that month. This additional charge will not apply if the system is down for maintenance or repairs.
8. Regulatory Requirements. OWWU and Tucson Water will cooperate to meet all regulatory requirements and acquire any permits required.

8.1 City and Town will comply with all Arizona Department of Water Resources regulations regarding the recovery and delivery of potable water.

8.1.1 The Town will obtain a storage permit to store its CAP water in Tucson Water's CAVSARP and SAVSARP recharge facilities.

8.1.2 The Town will obtain recovery well permits to allow the recovery of its CAP water from Tucson Water's CAVSARP and SAVSARP facilities.

8.1.3 Town will pay all permit fees and storage costs, and will be responsible for preparing and submitting all reports associated with its storage and recovery well permits based upon information provided by the City.

8.1.4 Whenever possible, all water stored by Tucson for the Town will be used in the same year stored.

8.1.5 In accordance with Paragraph 1.2.2 and 1.2.3, the Town is responsible for ordering sufficient amounts of CAP water from its CAP allocation to account for its total deliveries to the OVWSA through the Ten Foot connection point and/or the CSWSA. In the event that the storage balance is less than what is ordered by the Town, or an outage on the CAP canal or other event prevents the Town from delivering a sufficient volume of CAP water to the City's storage facilities during any calendar year and the Town desires to continue deliveries, then the Town will transfer to City an equivalent number of credits from its storage accounts to offset any negative storage balance, and will be responsible for locating alternate storage capacity for the balance of its order in other facilities .

8.1.6 If, after termination of this agreement, there is a positive storage balance of the Town's CAP water stored in City storage facilities, the Town will recover such credits from the Town's recovery wells sometime within the following three (3) years as long-term storage credits taking into account the five percent cut to the aquifer. Should there be a negative storage balance of Town's CAP water in City storage facilities, the Town will transfer sufficient credits from its storage accounts to eliminate the negative storage balance.

8.2 Tucson Water and OVWU will comply with all National Primary Drinking Water Regulations (NPDWRs or primary standards) as enforced by the Arizona Department of Environmental Quality (ADEQ).

8.2.1 Tucson Water is responsible for complying with all NPDWRs and policies enforced by ADEQ as they relate to wholesale systems that deliver finished water to a consecutive system.

8.2.2 City and Town will comply with all NPDWRs and policies enforced by ADEQ, including regulatory requirements that are applicable to a consecutive water system.

8.2.3 City will provide applicable water quality data to Town at least annually to be used for the Town's consumer confidence report, and upon the Town's request.

8.2.4 City and Town will acquire all the required approvals of construction.

9. Storage Balance Reconciliation. By end of February, City and Town will provide each other with sufficient information to complete its required ADWR reporting by March of each calendar year. By the end of March, Tucson will calculate the preceding calendar year's volume of the Town's water in storage. The amount purchased can exceed annual deliveries so long as there is an accounting of OWWU credits in Tucson Water's recharge facilities.

9.1 The Tucson Water CAP allocation will have first priority for storage during any scheduled delivery month, immediately followed by OWWU and other parties with storage agreements with Tucson Water on the effective date of this agreement.

9.2 This reconciliation process will be necessary to account for unexpected problems such as CAP canal outages, changes in facility infiltration rates, power interruptions, or failures in water system assets.

10. Priority of Storage. The following describes the priority that entities have to store CAP water in Tucson Water recharge facilities:

10.1 The City will have priority of storage for its water orders over all other entities and agreements.

10.2 Town will have priority to store its water in Tucson's recharge facilities over the Arizona Water Banking Authority.

10.3 Town will have priority to recharge and store water in City's recharge facilities, should the City reach a similar "wheeling" Agreement with the Metropolitan Domestic Water Improvement District.

10.4 Any pre-existing contracts that the City has with other entities to store their CAP M&I water will have priority above the Town to store in City recharge facilities.

11. Additional Documents. The parties agree to execute such further documents as may be necessary to carry out the terms and intent of this IGA.

12. Entire Agreement. This IGA and the Exhibits hereto contain the entire agreement between the parties, and the terms of this IGA are contractual, not merely a recital.
13. Recordation. This IGA shall be recorded with the County Recorder of Pima County, Arizona after the IGA has been approved and executed by the Parties.
14. Successors and Assigns. This IGA and all of the terms and provisions hereof shall inure to the benefit of and be binding upon the successors and assigns of all of the parties hereto.
15. Notices. All notices shall be in writing and together with other mailings pertaining to this IGA shall be made to:

FOR ORO VALLEY:

Director
Oro Valley Water Utility
11000 N. La Canada Drive
Oro Valley, AZ 85737

WITH COPY TO:

Oro Valley Town Attorney
Town of Oro Valley
11000 N. La Canada Drive
Oro Valley, AZ 85737

FOR TUCSON:

Director
Tucson Water
P.O. Box 27210
Tucson, AZ 85726

With Copy to:

City Attorney
City of Tucson
P.O. Box 27210
Tucson, AZ 85726

or as otherwise specified from time to time by each party.

16. Miscellaneous. The parties agree and acknowledge that time is of the essence with respect to this IGA. If any lawsuit or other enforcement proceeding is brought to enforce this IGA, the prevailing party shall be entitled to recover the

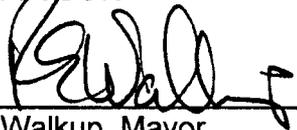
costs and expenses of such action and reasonable attorneys' fees incurred. The IGA shall be governed by and construed in accordance with the laws of the State of Arizona.

17. Effective Date. This IGA shall become effective when the IGA has been executed by all of the parties and their respective legal counsel and has been recorded at the office of the Pima County Recorder and in accordance with paragraph 2.1 subject to Section 2 of this agreement entitled "Term."

18. Conflict of Interest. This Agreement is subject to A.R.S. § 38-511 which provides for cancellation of contracts by municipalities for certain conflicts of interest.

IN WITNESS WHEREOF, the Parties hereto have hereunto set their hands the day and year first written above.

CITY OF TUCSON



Robert E. Walkup, Mayor
Date: June 28, 2011

TOWN OF ORO VALLEY



Dr. Satish I. Hiremath, Mayor

ATTEST:



Roger Randolph, City Clerk
Date: June 28, 2011

ATTEST:



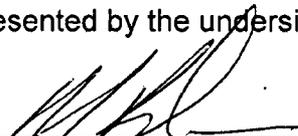
Julie K. Bower, Town Clerk

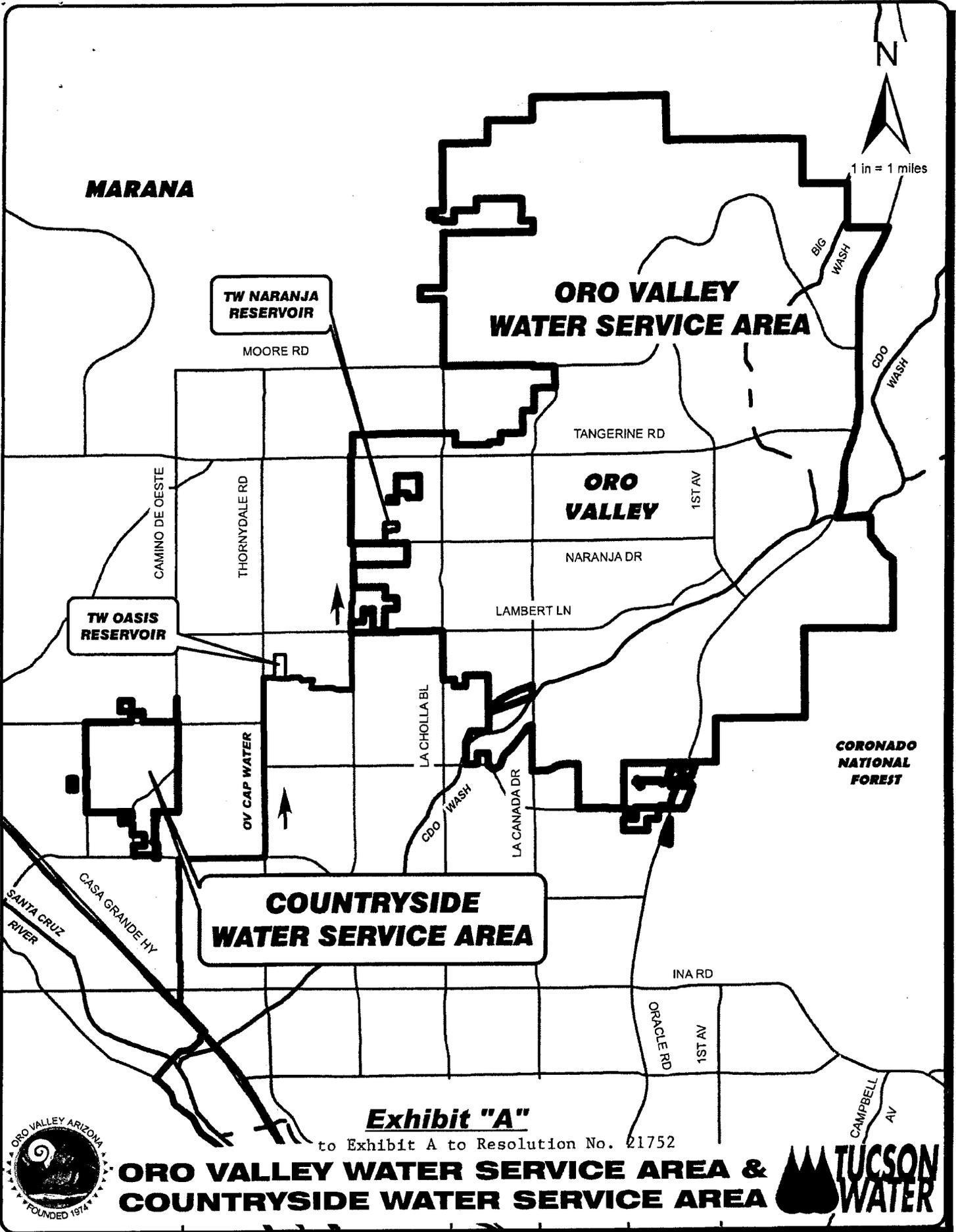
Date: _____

Date: 7/7/11

Intergovernmental Determination

The foregoing Intergovernmental Agreement between the City of Tucson and the Town of Oro Valley has been reviewed pursuant to A.R.S. § 11-952 by the undersigned, who have determined that it is in proper form and is within the powers and authority granted under the laws of the State of Arizona to those parties to the Intergovernmental Agreement represented by the undersigned.


Michael Rankin, City Attorney
Tobin Rosen, Town Attorney



1 in = 1 miles

**TW NARANJA
RESERVOIR**

**ORO VALLEY
WATER SERVICE AREA**

**TW OASIS
RESERVOIR**

**COUNTRYSIDE
WATER SERVICE AREA**

**CORONADO
NATIONAL
FOREST**

Exhibit "A"

to Exhibit A to Resolution No. 21752

**ORO VALLEY WATER SERVICE AREA &
COUNTRYSIDE WATER SERVICE AREA**



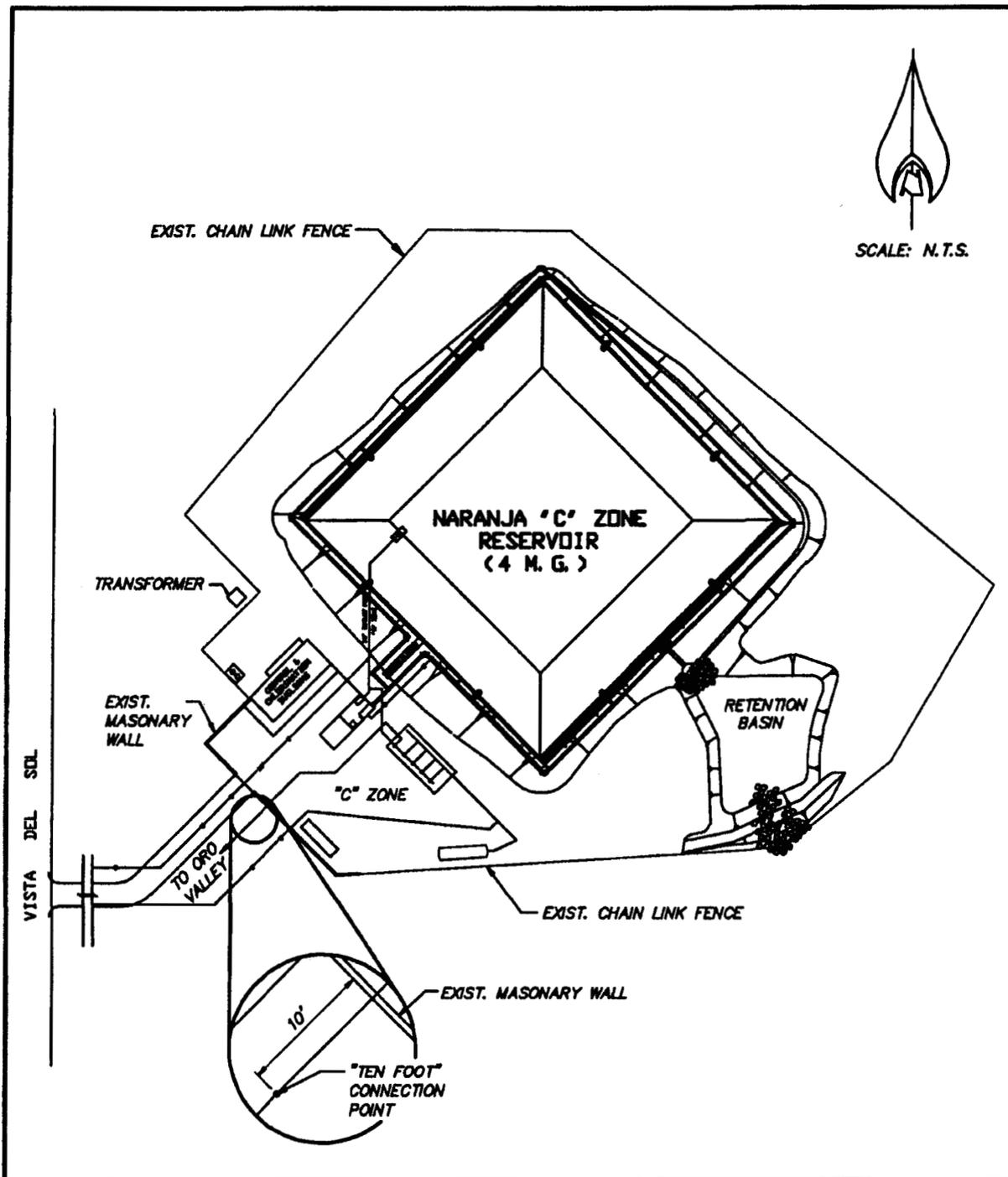


EXHIBIT "B"
to Exhibit A to Resolution No. 21752

**"TEN FOOT"
CONNECTION POINT**



Exhibit B

August 16, 2011



CITY OF
TUCSON

TUCSON WATER
DEPARTMENT

Christopher Volpe
The Estes Company
1010 N. Finance Center Drive, Suite 200
Tucson, AZ 85710

Subject: Wheeling CAP Water to Vail Water Company

Dear Mr. Volpe:

Thank you for approaching Tucson Water about wheeling a volume of the Vail Water Company CAP allocation, through our distribution system to your water system. As discussed, our extensive discussions with the Town of Oro Valley helped to identify the critical steps for building a foundation for a wheeling agreement. These steps include:

- Hydraulics analysis of our two water systems and identification of a connection point between them.
- Performing financial calculations of capital and operating costs plus the subsequent generation of a wheeling rate.
- Developing necessary legal documents.
- Construction of the necessary infrastructure to connect the two systems.

With respect to the recently completed wheeling agreement with Oro Valley, which was our first, this process took more than two years. A more complex agreement with the Pascua Yaqui Tribe took five years to complete. Based on the Oro Valley experience, we should be able to do much of it in a shorter timeframe; between six and twelve months.

Shortly, staff will be in contact with you to set up working meetings to begin building this foundation. I look forward to working with the Vail Water Company to complete a mutually beneficial agreement to move a volume of its CAP allocation off the canal, through the Tucson Water system and to the Company's service area.

Very truly yours,

Andrew H. Quigley
Interim Director

AHQ/lr

cc: Richard Miranda, Deputy City Manager
Sandy Elder, Deputy Director, Tucson Water

