

SUBJECT

First Reading of Ordinance No. 022, 2011, Establishing Rental Rates and Delivery Charges for the City's Raw Water for the 2011 Irrigation Season.

EXECUTIVE SUMMARY

This Ordinance approves rates for the rental and delivery of the City's raw water supplies. The Water Utility uses these rates to assess charges for agricultural use, for various contractual raw water obligations and for raw water deliveries to other City departments. The proposed rate for each type of water is based on several factors, including market conditions and assessments charged by irrigation companies.

BACKGROUND / DISCUSSION

The City is a shareholder in several local irrigation companies. Most years there is water in excess of that needed to meet City uses. To the extent there is surplus raw water, it can be rented to others for their use. Each year prior to the irrigation season and after the irrigation companies have established their annual assessments for water shares, the City Council approves rental rates and delivery charges for the use of the City's raw water. The Water Utility uses these annual raw water rates and charges for the purpose of charging for various uses of its raw water. These uses include rental to agricultural users, meeting certain raw water delivery obligations, and uses by other City departments. The attached tables show the assessment rates as set by the irrigation companies and the raw water rates charged by the City for 2008 through 2010 as well as proposed rates for 2011.

The snow pack is well above average in the Poudre Basin this winter. Additionally, last summer's well-timed abundant rains combined with favorable stream-flows this fall allowed storage reservoirs to fill. In addition, the City was able to carry over water from the 2010 water year for use in 2011. To ensure that adequate supplies are maintained, staff will continue to closely monitor City water supplies when making surplus raw water available for rental each year. The first priority will be to insure that adequate supplies will be carried over into 2012. In 2010, the City rented about 18,400 acre-feet of surplus water for just over \$600,000.

This year, staff is proposing two categories for raw water rates and charges. The first category includes only those sources for which an active rental market exists for the City's surplus water. The second category includes sources delivered under raw water agreements and used to irrigate greenbelts and City facilities (parks, golf courses, etc.).

Surplus Water Rental Market

Those sources with active water rental markets include the Colorado Big Thompson Project (CBT), North Poudre Irrigation Company (NPIC), and Water Supply and Storage Company (WSSC). For these sources the proposed rates are based on expected rental market conditions.

Fort Collins will likely have some CBT water available for rent this year. Staff recommends that agricultural rentals of CBT water be made at a price of \$30 per acre foot. This is a lower price than last year's price of \$35 per acre-foot. Last year, the Northern Colorado Water Conservancy District (NCWCD) released additional CBT water to the rental market in an effort to manage the storage levels of the District reservoirs. This had the effect of reducing the market rental price for CBT water. This year, NCWCD may again release CBT water to the rental market. This will likely contribute to lower rental prices and is the reason that City staff is proposing a lower CBT rental price for 2011. Staff further proposes that CBT water rented for municipal or industrial (M&I) purposes also be reduced from the 2010 price of \$54 per acre-foot to a price of \$49 per acre foot in 2011. CBT water for municipal or industrial uses is typically rented at a higher rate than CBT for agricultural purposes to reflect higher assessments charged to M&I water users.

The City also expects to have surplus NPIC water that can be made available for rent. Each share of North Poudre Irrigation Company has an "agricultural" component and a "multiple use" component. The "ag" component can only be used for agricultural purposes on land served by the NPIC system. It is likely that all of this component of each NPIC share will be made available for rent in 2011. The multiple use portion of each NPIC share is available for the City's use and is largely comprised of NPIC-owned CBT water. When users under the NPIC system rent either "ag" or "multiple use" water, it is run through the North Poudre System in the same way. Therefore, it is proposed that both the "ag" water and excess "multiple use" water be rented at \$30 per acre foot. This is a lower price than last year's \$35 per acre-foot price. It is anticipated that the availability of a plentiful snowpack will likely increase the rental water supply and will cause the rental water price to fall. In some years there is a special class of NPIC water available for agricultural users for a very limited time early in the irrigation season. If this "early ag" water is available in 2011, staff proposes a rental rate of \$12 per acre foot to reflect its very limited use.

The decreed use of the City's Water Supply and Storage Company shares remains agricultural at this time and, except for a special exchange that may be exercised in some situations, these shares are not available for diversion by the City of Fort Collins. These shares will be made available to irrigators under the WSSC system in 2011. This has historically been a very active rental market and the rental price of WSSC water is expected to be about \$3,200 per share again this year. In addition, it is anticipated that WSSC's reusable return flow rental program will generate revenues of approximately \$1,400 per share.

The City occasionally has rental demand for reusable sources to satisfy state requirements for substitute supply and augmentation plans. The City's primary reusable sources are Joe Wright Reservoir water and reusable effluent from the City's water reclamation facilities. It is proposed that the rental price for these sources be \$500 per acre-foot in 2011.

Raw Water Delivery Charges

This category covers sources that are used primarily on City facilities, such as parks and golf courses, or by other entities that have turned over raw water or otherwise met the City's raw water requirements. These other non-City entities with raw water agreements are mostly HOAs and the Poudre School District. Sources in this category include the Pleasant Valley and Lake Canal Company (PV&L) shares and other "Southside Ditches" shares. It is proposed that the charges be set at a rate that is 10% above the assessments charged by the various irrigation companies. This is to help offset administrative costs. For example, the assessment rate for PV&L water has been set at \$175 per share. Based on this method, the raw water delivery charges would be set at $\$175 \times 1.1 (110\%) = \192.50 per share.

The City has delivery obligations for reusable water where the City's raw water requirement has been met. In this situation it is proposed that a fee of \$100 per acre-foot be charged to help offset operation and administrative costs.

The City's Natural Areas Program owns some shares in the Boxelder, Loudon and North Loudon irrigation systems. Occasionally the Natural Areas will rent these shares to other water users in these systems. In the event that the Natural Areas chooses to rent these shares in 2011, the rental price proposed is the same as the share assessment due to the very limited market for these shares.

FINANCIAL / ECONOMIC IMPACTS

The revenue from the City's rental and delivery of raw water is expected to be approximately \$500,000 for 2011. The revenue generated through the rentals helps off-set costs incurred by the City.

ENVIRONMENTAL IMPACTS

The City's raw water rental program assists farmers in Northern Colorado and indirectly supports an open space agricultural landscape.

STAFF RECOMMENDATION

Staff recommends adoption of the Ordinance on First Reading.

BOARD / COMMISSION RECOMMENDATION

Each year prior to the irrigation season, the City's Water Board ("the Board") makes a recommendation to Council regarding the raw water charges. The Board discussed the proposed rates and charges at its February 17, 2011 meeting and unanimously voted to recommend adoption of the proposed rates and charges. The minutes from that meeting are attached.

ATTACHMENTS

1. Proposed water rental rates for 2011
2. Water assessment rates as set by the irrigation companies
3. Raw water rental rates charged by the City from 2008 through 2010 and proposed 2011 rental rates
4. Water Board minutes, February 17, 2011

ATTACHMENT 1

Type of Water **Proposed 2011 Rental Rates/Charges**

Surplus Rental Rates

NCWCD Water (CBT) - Ag	\$ 30.00 /ac-ft
NCWCD Water (CBT) – M&I	\$ 49.00 /ac-ft
North Poudre Irrigation Co. – Early Ag Use	\$ 12.00 /ac-ft
North Poudre Irrigation Co. - Ag Use	\$ 30.00 /ac-ft
North Poudre Irrigation Co. – Multiple Use	\$ 30.00 /ac-ft
Water Supply and Storage Co.	\$ 3,200.00 /share
Reusable Sources	\$ 500.00/ ac-ft

Raw Water Delivery Charges

NCWCD Water (CBT) – Ag	\$ 30.00 /share
Arthur Irrigation Co.	\$ 18.70 /share
Larimer County Canal No. 2	\$ 550.00 /share
New Mercer Ditch Co.	\$ 990.00 /share
Pleasant Valley & Lake Canal Co.	\$ 192.50 /share
Warren Lake Reservoir Co.	\$ 330.00 /share
Sherwood Res. Co.	\$ 8.80 /share
Sherwood Irrigation Co.	\$ 660.00 /share
Reusable Sources	\$ 100.00 /ac-ft

Natural Area Program Rental Rates

Boxelder Irrigation Company	\$ 600.00 /share
Louden Irrigation Company	\$ 160.00 /share
North Loudon Irrigation Company.	\$ 160.00 /share

Notes:

- (1) Rental rates may be adjusted to reflect the remaining yield or the prevalent market price of the water stock being rented.
- (2) Charges for those who have satisfied the City’s raw water requirements are set at approximately 110% of the assessments charged by that company.

Table 1
Water Assessments

Source	2008	2009	2010	2011
CBT (NCWCD, \$/unit)	23.60	24.32	25.06	25.06
North Poudre Irrigation Co. (\$/sh)	90.00	100.00	100.00	110.00
Water Supply & Storage Co. (\$/sh)	2,300.00	2,300.00	2,500.00	2,500.00
Arthur Irrigation Co. (\$/sh)	14.00	14.00	14.00	17.00
Larimer County Canal #2 (\$/sh)	350.00	450.00	350.00	500.00
New Mercer (\$/sh)	425.00	475.00	600.00	900.00
Pleasant Valley & Lake Canal (\$/sh)	175.00	175.00	175.00	175.00
Warren Lake (\$/sh)	300.00	300.00	300.00	300.00
Sherwood Reservoir (\$/sh)	7.00	7.00	7.00	8.00
Sherwood Irrigation (\$/sh)	855.00	600.00	600.00	600.00
Reusable Sources (\$/ac-ft)	n/a	n/a	n/a	n/a

Table 2
Water Rental Rates/Charges

Source	2008	2009	2010	2011
<i>Surplus Water Rental Rates</i>				
CBT Agriculture (\$/ac-ft)	35.00	35.00	35.00	30.00
CBT Municipal/Industrial (\$/ac-ft)	54.00	54.00	54.00	49.00
NPIC Early Ag (\$/ac-ft)	14.00	14.00	14.00	12.00
NPIC Agriculture (\$/ac-ft)	35.00	35.00	35.00	30.00
NPIC Multiple Use (\$/ac-ft)	35.00	35.00	35.00	30.00
Water Supply & Storage Co. (\$/sh)	3,200.00	3,200.00	3,200.00	3,200.00
Reusable Sources (\$/ac-ft)	500.00	500.00	500.00	500.00
<i>Raw Water Delivery Charges</i>				
CBT Agriculture (\$/ac-ft)	35.00	35.00	35.00	30.00
Arthur Irrigation Co. (\$/sh)	17.00	17.00	15.40	18.70
Larimer County Canal #2 (\$/sh)	420.00	540.00	385.00	550.00
New Mercer (\$/sh)	510.00	570.00	660.00	990.00
Pleasant Valley & Lake Canal (\$/sh)	210.00	210.00	192.50	192.50
Warren Lake (\$/sh)	360.00	380.00	330.00	330.00
Sherwood Reservoir (\$/sh)	8.40	8.40	7.70	8.80
Sherwood Irrigation (\$/sh)	900.00	720.00	660.00	660.00
Reusable Sources (\$/ac-ft)	100.00	100.00	100.00	100.00

Notes:

- (1) Rates may be adjusted to reflect the remaining yield or the prevalent market price of the water stock being rented.
- (2) Charges for those who have satisfied the City's raw water requirements are set at approximately 110% of the assessments charged by that company.

Draft Excerpts from the February 17, 2011 Water Board Meeting

2011 Rental Rates and Delivery Charges

Water Resources Engineer Susan Smolnik provided information on this year's recommended raw water rental rates and delivery charges. Staff anticipates additional raw water supplies this year due to above-average snowpack in the Poudre Basin this winter. For this reason and other factors, staff recommends lowering some of the rental rates.

Related to the two \$35 rates going to \$30, was the Utilities able to rent at \$35 last year? Last year, the Utilities could not rent all of its surplus water.

If it gets hot in June this summer, will water demand change? The water demand would increase if it gets hot, but because water supplies are expected to be plentiful, this may not affect the price.

Are the numbers of shares listed? We have that information and can provide it as needed.

Why are the reusable sources priced at \$500? To the extent possible we try to follow the regional market for reusable water. We only rent small quantities from this source.

Is reusable water the effluent from the treatment plant? Most of the effluent is single-use water. Single use water can only be used one time and then must be returned to the Poudre River where it is reallocated under the prior appropriation doctrine. Reusable water is water that can be re-used multiple times and is not reallocated.

It's difficult to interpret some of this information where shares are sometimes used instead of acre-feet. Some of the markets use the acre-feet as the unit of measure and others use shares as the unit of measure.

Is there a reason we need to lock in the prices now, or could we wait and be responsive to the market later as weather conditions develop? Language is provided to allow for adjustment if the market conditions change.

Motion: Vice Chairperson Balderson moved the Water Board recommends the proposed rental rates and charges be adopted by the City Council. Board Member Phelan seconded the motion.

There was no discussion on the motion.

Vote on the motion: It passed unanimously.

ORDINANCE NO. 022, 2011
OF THE COUNCIL OF THE CITY OF FORT COLLINS
ESTABLISHING RENTAL RATES AND DELIVERY CHARGES FOR THE
CITY'S RAW WATER FOR THE 2011 IRRIGATION SEASON

WHEREAS, each year prior to the irrigation season, the City staff and the Water Board make a recommendation to the City Council regarding rental rates and delivery charges for the use of the City's raw water; and

WHEREAS, the Water Utility uses these rates to assess charges for agricultural rental water, for various contractual raw water obligations and for raw water deliveries to other City departments; and

WHEREAS, on February 17, 2011, the Water Board discussed the rental program and the use of raw water and recommended the following rates for the 2011 irrigation season:

2011 Rental Rates/Charges

Type of Water

Surplus Rental Rates

NCWCD Water (CBT) - Ag	\$ 30.00 /ac-ft
NCWCD Water (CBT) - M&I	\$ 49.00 /ac-ft
North Poudre Irrigation Co. - Early Ag Use	\$ 12.00 /ac-ft
North Poudre Irrigation Co. - Ag Use	\$ 30.00 /ac-ft
North Poudre Irrigation Co. - Multiple Use	\$ 30.00 /ac-ft
Water Supply and Storage Co.	\$ 3,200.00 /share
Reusable Sources	\$ 500.00/ ac-ft

Raw Water Delivery Charges

NCWCD Water (CBT) - Ag	\$ 30.00 /share
Arthur Irrigation Co.	\$ 18.70 /share
Larimer County Canal No. 2	\$ 550.00 /share
New Mercer Ditch Co.	\$ 990.00 /share
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Natural Area Program Rental Rates

Boxelder Irrigation Co	\$ 600.00 /share
Louden Irrigation Co.	\$ 160.00 /share
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Notes:

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- (2) Charges for those who have satisfied the City's raw water requirements are set at approximately 110% of the assessments charged by that company.

NOW, THEREFORE, BE IT ORDAINED BY THE COUNCIL OF THE CITY OF FORT COLLINS that the rental rates and charges as set forth above are hereby approved as the City's raw water rates for 2011 and the Utilities Executive Director is authorized to rent or deliver such raw water at said rates.

Introduced, considered favorably on first reading, and ordered published this 1st day of March, A.D. 2011, and to be presented for final passage on the 15th day of March, A.D. 2011.

Mayor

ATTEST:

City Clerk

Passed and adopted on final reading on the 15th day of March, A.D. 2011.

Mayor

ATTEST:

City Clerk