

AGENDA ITEM SUMMARY

FORT COLLINS CITY COUNCIL

ITEM NUMBER: 19

DATE: March 21, 2006

STAFF: Dennis Bode

SUBJECT

Resolution 2006-035 Establishing Rental Rates and Delivery Charges for the City's Raw Water for the 2006 Season.

RECOMMENDATION

Staff and the Water Board recommend adoption of the Resolution.

FINANCIAL IMPACT

The revenue from the City's delivery of raw water is expected to be approximately \$300,000 for 2006.

EXECUTIVE SUMMARY

This Resolution approves rates for the rental and use 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. 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 rental rates and charges at its February 23, 2006 meeting. The proposed rate for each type of water is based on several factors including market conditions and assessments charged by irrigation companies.

BACKGROUND

The City is a shareholder in several local irrigation companies. Part of the water available from these companies is typically used to meet raw water obligations of the City. To the extent there is surplus raw water, it can be rented to others for their use. Although the early winter snow pack is encouraging, the City will continue to closely monitor its supplies when making surplus raw water available for rental this year. The first priority will be to insure that adequate supplies will be carried over into 2007.

The Water Utility uses its annual rates set by City Council to charge agricultural water renters, contractual water users and City departments that use raw water. The water rates are separated into two categories. The first category includes only those sources for which an active rental market

exists. The second category includes sources with a limited rental market or which are used primarily to irrigate City facilities (parks, golf courses, etc.).

With the exception of water from the Colorado Big Thompson Project (CBT), Joe Wright Reservoir and Reusable Effluent, water cannot be rented from one irrigation company system into another. Therefore, for most systems, the rental market is limited to individuals under each ditch system and the price is largely dependent upon the supply and demand within each irrigation system. This results in considerable variation in prices per acre-foot among the various supply sources.

Active Rental Market

Those sources with active 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 has some 2005 water remaining in the Colorado Big Thompson Project (CBT) system for use in 2006. This carryover, along with a minimum 2006 quota of 60%, means there will likely be CBT water available for rental to the agricultural sector this summer. It is also expected that CBT water will be more readily available for rent this year than it has in years past. Therefore, it is expected that the market value will be less. Staff recommends that agricultural rentals of CBT water be made at the rate of \$28.00 per acre foot. Staff further proposes that CBT water rented for municipal or industrial (M&I) purposes be charged at \$50.00 per acre foot again in 2006 to reflect higher assessments charged to M&I shareholders.

Each share of North Poudre Irrigation Company is typically split into an "early agricultural" component, a "seasonal agricultural" component and a "multiple use" component. The "agricultural" components can only be used for agricultural purposes on land served by the NPIC system and therefore will be made available for rent to those under the NPIC system. It is proposed that the "early agricultural" rate be set at \$12 per acre foot to reflect its limited use, and the "seasonal agricultural" rate be set at \$28 per acre foot. The "multiple use" portion of each NPIC share will be available for the City's use but not all of it will likely be needed. Staff proposes that the rental rate be set at \$28 per acre foot.

The City typically makes its Water Supply and Storage Company shares available to irrigators under the WSSC system. 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 this year.

Limited Rental Market

The second category is for those sources that have a limited rental market. This category includes the Pleasant Valley and Lake Canal Company (PV&L) shares, other "Southside Ditches" shares and the City's reusable sources (primarily Joe Wright Reservoir or reusable effluent). There are few agricultural renters that remain in the areas irrigated by these irrigation companies. These shares 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 for their properties. The objective of the Utility for this latter group of users is to recover the costs associated with delivering this water. It is proposed that the charges for these users be set at a rate that is 20% above the assessments charged to the City by the various irrigation companies. For example, the assessment

rate for PV&L water has been set at \$150 per share. Based on this method, the charges would be set at $\$150 \times 1.2 = \180 per share.

For users that have not satisfied the City's raw water requirements but have a need for rental water, staff is proposing that the rental rates be set to reflect a price of about \$20 per acre-foot. Since the Pleasant Valley Pipeline became available in 2004, the use of the City's southside ditches is of more value to the City than it has been in the past. Based on an estimated dry-year yield, the price per share was determined for each type of water. For example, it is estimated that PV&L shares will produce 25 acre-feet; therefore, the rental price would be $\$20 \times 25 = \500 per share.

For several companies, the difference between the above two methods of calculating the raw water rate is significantly different. For example, the Arthur Irrigation Company has a very low assessment resulting in a low price for those having satisfied the City's raw water requirements. When based on the yield, the price is much higher but is in line with the prices for the other southside ditches. Warren Lake, on the other hand, produces only about 7 acre-feet per share and would rent for \$140 at \$20 per acre foot. The assessments for this water, however, are \$300 per share in 2006, so the rental rate has been adjusted to \$360 to reflect the minimum rate of 20% above assessments.

Similarly, major repairs were anticipated by the Sherwood Irrigation Company beginning in 2005 and their assessments more than doubled from \$400 per share in 2004 to \$855 per share in 2005 and 2006. In this case, 20% above assessments (\$1,026) seems excessive for the very limited rental market (less than two shares each year). For this reason, staff is suggesting that the rental rate of \$900 be maintained for 2006.

Recent drought years, in addition to other factors, have increased the State's scrutiny of well depletions. As a result, the City has seen increased demand for its reusable sources to satisfy state requirements for substitute supply plans and augmentation plans. The City also has a few ongoing obligations for reusable water, primarily for City facilities. 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 \$400 per acre-foot again in 2006.

Beginning in 2006 the City will have obligations for small amounts of reusable water on lands where the City's raw water requirement has been met. However, there is no annual assessment upon which to base a charge as occurs in such cases within the Limited Rental Market (see below). In these cases it is proposed that a fee of \$100 per acre-foot be charged to help offset operational and administrative costs.

At its February 23, 2006 meeting, the Board unanimously recommended that the following rates for raw water be adopted:

Type of Water	Proposed 2006 Rental Rates/Charges (1)	
	<u>RWR Not Satisfied</u>	<u>RWR Satisfied</u>
<i>Active Rental Market</i>		
NCWCD Water (CBT) - Ag	\$ 28.00 /acre-ft	n/a
NCWCD Water (CBT) – M&I	\$ 50.00 /acre-ft	n/a
North Poudre Irrigation Co. – Early Ag Use	\$ 12.00 /acre-ft	n/a
North Poudre Irrigation Co. - Ag Use	\$ 28.00 /acre-ft	n/a
North Poudre Irrigation Co. – Multiple Use	\$ 28.00 /acre-ft	n/a
Water Supply and Storage Co.	\$ 3,200.00 /share	n/a
	<u>RWR Not Satisfied</u>	<u>RWR Satisfied</u>
<i>Limited Rental Market (2)</i>		
Arthur Irrigation Co.	\$ 60.00 /share	\$ 12.00 /share
Larimer County Canal No. 2	\$ 500.00 /share	\$ 420.00 /share
New Mercer Ditch Co.	\$ 500.00 /share	\$ 360.00 /share
Pleasant Valley & Lake Canal Co.	\$ 500.00 /share	\$ 180.00 /share
Warren Lake Reservoir Co.	\$ 360.00 /share	\$ 360.00 /share
Sherwood Res. Co.	\$ 10.00 /share	\$ 8.40 /share
Sherwood Irrigation Co.	\$ 900.00 /share	\$ 900.00 /share
Reusable Sources	\$ 400.00 /acre-ft	\$ 100.00 /acre-ft

Notes:

- (1) Rental rates may be adjusted to reflect the remaining yield or the prevalent market price of the water stock being rented.
- (2) Rental rates are based on approximately \$20/acre-ft for those who have not satisfied the City’s raw water requirements. Charges for those who have satisfied the City’s raw water requirements are set at approximately 120% of the assessments charged by that company.

ATTACHMENTS

- 1. Water Assessments Table
- 2. Water Rental Rates/Charges Table
- 3. Excerpt from February 23, 2006 Water Board Meeting Minutes

Table 1
Water Assessments

<u>Source</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
<i>Active Rental Market</i>				
CBT (NCWCD, \$/unit)	20.30	20.70	21.00	21.80
North Poudre Irrigation Co. (\$/sh)	85.00	20.00	95.00	95.00
Water Supply & Storage Co. (\$/sh)	950.00	950.00	1,750.00	1,750.00
<i>Limited Rental Market</i>				
Arthur Irrigation Co. (\$/sh)	26.00	8.00	10.00	10.00
Larimer County Canal #2 (\$/sh)	200.00	300.00	330.00	350.00
New Mercer (\$/sh)	200.00	300.00	300.00	300.00
Pleasant Valley & Lake Canal (\$/sh)	150.00	150.00	150.00	150.00
Warren Lake (\$/sh)	300.00	150.00	300.00	300.00
Sherwood Reservoir (\$/sh)	7.00	7.00	7.00	7.00
Sherwood Irrigation (\$/sh)	400.00	400.00	855.00	855.00
Reusable Sources (\$/ac-ft)	n/a	n/a	n/a	n/a

Table 2
Water Rental Rates/Charges

Source	2003	2004	2005	2006
<i>Active Rental Market</i>				
CBT Agriculture (\$/ac-ft)	400.00	30.00	35.00	28.00
CBT Municipal/Industrial (\$/ac-ft)	400.00	45.00	50.00	50.00
NPIC Early Ag (\$/ac-ft)	n/a	15.00	15.00	12.00
NPIC Agriculture (\$/ac-ft)	n/a	27.00	28.00	28.00
NPIC Multiple Use (\$/ac-ft)	n/a	32.00	35.00	28.00
Water Supply & Storage Co. (\$/sh)	2,900.00	3,000.00	3,200.00	3,200.00
<i>Limited Rental Market (RWR Not Satisfied)</i>				
Arthur Irrigation Co. (\$/sh)	35.00	60.00	60.00	60.00
Larimer County Canal #2 (\$/sh)	300.00	450.00	500.00	500.00
New Mercer (\$/sh)	250.00	450.00	500.00	500.00
Pleasant Valley & Lake Canal (\$/sh)	250.00	500.00	500.00	500.00
Warren Lake (\$/sh)	350.00	300.00	360.00	360.00
Sherwood Reservoir (\$/sh)	10.00	10.00	10.00	10.00
Sherwood Irrigation (\$/sh)	450.00	480.00	900.00	900.00
Reusable Sources (\$/ac-ft)	750.00	400.00	400.00	400.00
<i>Limited Rental Market (RWR Satisfied)</i>				
Arthur Irrigation Co. (\$/sh)	n/a	9.60	12.00	12.00
Larimer County Canal #2 (\$/sh)	n/a	360.00	400.00	420.00
New Mercer (\$/sh)	n/a	360.00	360.00	360.00
Pleasant Valley & Lake Canal (\$/sh)	n/a	180.00	180.00	180.00
Warren Lake (\$/sh)	n/a	180.00	360.00	360.00
Sherwood Reservoir (\$/sh)	n/a	8.40	8.40	8.40
Sherwood Irrigation (\$/sh)	n/a	480.00	900.00	900.00
Reusable Sources (\$/ac-ft)	n/a	n/a	n/a	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) Rental rates are based on approximately \$20/ac-ft for those who have not satisfied the City's raw water requirements. Charges for those who have satisfied the City's raw water requirements are set at approximately 120% of the assessments charged by that company.

Excerpt from Water Board Meeting Minutes of February 23, 2006

Raw Water Rental Rates and Delivery Charges – Dennis Bode

Dennis Bode, Water Resources Division Manager, provided information to the Board regarding proposed rental rates and delivery charges, and the rationale for them. Each year prior to the irrigation season, the City sets water rental rates and delivery charges for use of its raw water. The Utilities 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 use by other City departments.

Consistent with the last few years, staff is again proposing two separate categories for raw water rates and charges. The first category includes only those sources for which an active rental market exists. The second category includes sources with a limited rental market or which are used primarily to irrigate City facilities (parks, golf courses, etc.). The Board was provided with tables showing actual and proposed figures for assessments, rental rates, and delivery charges for the years 2003-2006.

Dennis shared that the early snow pack is encouraging and that the City will continue to monitor its supply when making surplus raw water available for rental this year. The first priority will be to insure that adequate supplies will be carried over into 2007, although current projections indicate that the City will have ample surplus supplies available for rental this year.

Board member John Bartholow made a motion, seconded by Reagan Waskom to recommend to City Council the staff's proposed raw water rental rates and delivery charges for the 2006 season. The motion passed unanimously.

RESOLUTION 2006-035
 OF THE COUNCIL OF THE CITY OF FORT COLLINS
 ESTABLISHING RENTAL RATES AND DELIVERY CHARGES FOR THE
 CITY'S RAW WATER FOR THE 2006 SEASON

WHEREAS, each year prior to the irrigation season, the City staff and the Water Board (the "Board") make a recommendation to the 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 to cover the City's costs of administering and delivering the raw water; and

WHEREAS, on February 23, 2006, the Board discussed the rental program and the use of raw water and recommended the following rates for the 2006 irrigation season:

Type of Water	Proposed 2006 Rental Rates/Charges (1)	
	<u>RWR Not Satisfied</u>	<u>RWR Satisfied</u>
<i>Active Rental Market</i>		
NCWCD Water (CBT) - Ag	\$ 28.00 /ac-ft	n/a
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	<u>RWR Not Satisfied</u>	<u>RWR Satisfied</u>
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Sherwood Irrigation Co.	\$ 900.00 /share	\$ 900.00 /share
Reusable Sources	\$ 400.00 /ac-ft	\$ 100.00 /ac-ft

Notes:

- (1) Rates may be adjusted to reflect the remaining yield or the prevalent market price of the water stock being rented.

NOW THEREFORE, BE IT RESOLVED BY THE COUNCIL OF THE CITY OF FORT COLLINS that the rental rates and charges as set forth above are hereby approved for the City's raw water for 2006 and the Utilities General Manager, or his representative, is authorized to rent or deliver such raw water at said rates.

Passed and adopted at a regular meeting of the Council of the City of Fort Collins this 21st day of March, A.D. 2006.

Mayor

ATTEST:

City Clerk