



# Colorado River District

**75 Years**

**Protecting Western Colorado Water**



## MEMORANDUM

JANUARY 4, 2012

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**TO: BOARD OF DIRECTORS**

**FROM: CHRIS TREESE**

**SUBJECT: RUEDI DEBT NEGOTIATIONS**

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**No action is required or requested in this memo.** Directors may, however, choose to provide direction or comment on alternative approaches regarding our negotiations.

As discussed at the October meeting, East Slope and West Slope interests in the Fry-Ark Project are working earnestly to develop a consensus strategy regarding the accumulating debt on Ruedi Reservoir and its attendant impact on water contract pricing and ultimately availability. To illustrate the current situation: current outstanding debt on Ruedi is \$31.3MM and water can be contracted for \$162/AF. By 2016 the debt balloons to \$46.7MM and water will cost \$450/AF. By 2019 it's much worse.

The marketable pool in Ruedi is the "compensatory storage" for the west slope in fulfillment of Colorado's Water Conservancy District Act. Water at \$162/AF is still affordable and therefore compliant with the compensatory requirements of the WCD Act. Water at \$450/AF in four years (or more than \$2000/AF in 2019!), however, does not fulfill the Act's requirements as water would no longer be affordable and therefore no longer available for "present appropriations . . . and prospective uses of water."

The state, through the Colorado Water Conservation Board, is also an active party to these negotiations. As also reported in October, collectively the parties hired Bill McDonald, recently retired from senior executive service at Reclamation. Bill's insights have already proven very valuable.

Reclamation provided a spreadsheet demonstrating how it tracks the accumulating debt and calculates the annual contract cost of water. The non-federal parties are using Reclamation's spreadsheet to determine the efficacy of alternative approaches to addressing the debt issue.

Our overall goals are to develop a consensus that we can take to Reclamation to address the exponentially increasing cost of Ruedi water and the unknown federal actions in 2019 when Ruedi is required to be paid off, but will not be. Ideally, we will develop an approach that

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Reclamation can accept and one which is entirely within its authority and thereby avoid any Congressional involvement, but requesting Congressional action has not been discounted entirely. We are keeping the delegation apprised of our approach and progress.

Because of the dramatic effects of compounding, reducing Reclamation's charges in the early years' calculations is most meaningful. We are exploring the effects of a reduction in the interest rate historically charged on unpaid principal, interest and O&M. We are also examining reductions associated with removing from Reclamation's calculations unpaid (and compounding interest on) fees during the years when Ruedi water was not available for contracting because of unilateral federal actions that prevented contracting. We are examining not having unpaid O&M and interest added to unpaid principal. Additionally, the River District has a goal of resolving the uncertainties associated with contract renewals inherent in both Round I and Round II contracts.

None of the alternatives currently on the table completely eliminates the debt, but all dramatically or meaningfully reduce the amount. Dan has pointed out that any final proposal to Reclamation (or Congress) must show a plan for full payment of the remaining debt no later than the 2019 due date. This may involve the River District's Capital or Enterprise accounts to accomplish at least a portion of the goal of depicting a zero balance for Ruedi by year-end 2019.

At least one telephonic meeting is scheduled between this writing and the Board meeting. Therefore, we may have additional updates to offer at the meeting.