



MEMORANDUM

January 3, 2018

TO: BOARD OF DIRECTORS
ERIC KUHN, GENERAL MANAGER

FROM: IAN PHILIPS, CHIEF ACCOUNTANT

SUBJECT: WATER MARKETING

ACTION: Every January the Board reviews and makes changes in pricing to our water marketing contracts. Traditionally we also review with the Board any proposed changes in our water marketing policies.

Staff requests Board action to set 2018 Water Contract Pricing and recommends an increase of 3.00 %. For contracts entered into prior to 2006 which are subject to a 5-year Operations and Maintenance (O&M) adjustment, staff recommends a 12.5% increase.

STRATEGIC INITIATIVE(S): **6. Agricultural Water Use**
 7. Water Needs/Project Development
 12. Financial Sustainability

BACKGROUND

In 2006, the Board changed the District's water marketing policy to allow annual price increases up to the Denver-Boulder-Greeley Consumer Price Index (CPI) and New Growth Index (NGI), a measure of annual property value growth stemming from new growth. Contracts entered into subsequent to the change allow for this annual increase. Prior contracts were limited to increases based on CPI every five years and only for the operation and maintenance (O&M) component of the fee. These prices were last updated in 2013 and are due for update in 2018.

Last year the CPI and NGI were 2.90% and 1.32% respectively, totaling 4.22% and the Board approved a 2.9% increase. This year the CPI and NGI are 3.00% and 1.31% respectively for a total of 4.31%. Staff recommendation is an increase of 3.00%.

The O&M charge was increased 11% in 2013. The cumulative CPI increase between 2013 and 2018 is a 12.62% increase. Staff's recommendation is to increase the O&M charge for pre-2006 contracts by 12.5%.

We remain concerned about the cost-impact of increases to our customers. Economic recovery is occurring, however, in significant areas of our service area recovery is slow, mostly because of

201 Centennial Street / PO Box 1120 • Glenwood Springs, CO 81602

(970) 945-8522 • (970) 945-8799 Fax

www.ColoradoRiverDistrict.org

reduced energy development activity. While energy development is projected to increase in 2018, it remains well below levels 5 – 10 years ago.

The long-term financial health of the Enterprise remains a concern and weighs heavily in our thinking about an increase. Currently 75% of available supplies are uncontracted, and there are no pending contracts. The big questions we keep asking ourselves are: When will energy development increase? Will the new administration have an impact? Do we need to search out alternative customers?

CURRENT AND RECOMMENDED PRICING

Current and 2018 recommended pricing are shown in the following table:

Post-2006 Contract Pricing			
	Current	Recommended Increase	Proposed 2018
Blue River	\$ 1,057.75	3.00%	\$ 1,089.50
Colorado River above Roaring Fork – Ag	\$ 140.00	3.00%	\$ 144.25
Colorado River above Roaring Fork	\$ 352.00	3.00%	\$ 362.50
Colorado River below Roaring Fork – Ag	\$ 42.25	3.00%	\$ 43.50
Colorado River below Roaring Fork	\$ 183.00	3.00%	\$ 188.50
Eagle River	\$ 1,410.00	3.00%	\$ 1,452.25
Eagle River – Ag	\$ 422.00	3.00%	\$ 434.75
Elkhead Reservoir	\$ 180.00	3.00%	\$ 185.50
Elkhead Reservoir – Ag	\$ 30.00	3.00%	\$ 31.00
<i>Identified Source</i> Colorado River above Roaring Fork – M&I	\$ 528.00	3.00%	\$ 544.00
<i>Identified Source</i> Colorado River above Roaring Fork - Ag	\$ 210.00	3.00%	\$ 216.25
<i>Identified Source</i> Colorado River below Roaring Fork – M&I	\$ 274.75	3.00%	\$ 283.00
<i>Identified Source</i> Colorado River below Roaring Fork - Ag	\$ 63.25	3.00%	\$ 65.25
Older Existing Contracts with 5-year Adjustable O&M			
	Current Updated in 2013	5 Year CPI	Proposed 2018
Colorado Full Agriculture	\$ 123.00	12.50%	\$ 138.50
Colorado Interim Agriculture	\$ 31.00	12.50%	\$ 35.00
Colorado Interim M&I Water 91-10Yrs)	\$ 68.00	12.50%	\$ 76.50
Colorado Interim M&I Water (1-5Yrs)	\$ 92.00	12.50%	\$ 103.50
Colorado Wholesale M&I Water	\$ 111.00		\$ 111.00
Colorado O&M	\$ 31.00	12.50%	\$ 35.00
Eagle Wholesale M&I	Variable		

Eagle O&M	\$	59.00	12.50%	\$	66.50
Eagle River Agriculture	\$	347.00	12.50%	\$	390.75
Eagle Interim M&I	\$	493.00	12.50%	\$	555.25

AVAILABLE SUPPLIES

Current available and remaining supplies in acre-feet for contracting are shown below. These amounts reflect the additional amount of Ruedi water supplies for which we contracted in 2013.

Source	Available	Contracted	Pending	Remaining	Right of Refusals	Remaining w/ ROR & Pending
Wolford	8100	2999	0	5101		5101
Ruedi	11,413	2814	0	8599	900	7699
Eagle Park	432	260	0	172		172
Elkhead*	4457	2	0	4455		4455
TOTAL	24,402	6075	0	18,327	900	17,427

* No yield determination has been made for Elkhead Reservoir

HISTORICAL CONTRACTING

The following graph shows the amount of water contracted over time. The graph and table show a significant reduction in overall contracted supplies in 2016 and 2017, including reduced contracts for Ruedi and Wolford supplies totaling 1172 acre feet. Reduction in Wolford contracted supply in 2017 included termination of a Saddle Ridge Metropolitan District contract for 280 af and SCC Partners Group LLC contract for 74 af. The lion's share of reduction in Ruedi contracts was Encana's 625 af reduced contract in 2016 and the termination of a Grand Junction Concrete and Pipe contract for 155 af in 2017. Elkhead contracted supplies were reduced when SWN Productions terminated its 55 af contract in 2017 (assigned from Axia Energy). Eagle Park contracted supplies increased slightly.

Elkhead	Eagle Park	Ruedi	Wolford	
0	2.30	695.00	-5.50	2016
55	-5.00	142.70	339.90	2017
55	-2.70	837.70	334.40	Total

