



United States Department of the Interior

BUREAU OF RECLAMATION

Phoenix Area Office
6150 West Thunderbird Road
Glendale, Arizona 85306-4001



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Green Valley

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PXAO-1500
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DEC 5 2008

MEMORANDUM

To: Bruce D. Ellis
Chief, Environmental Resource Management Division

From: Sandra Eto *Sandra Eto*
Environmental Protection Specialist

Subject: Community Water Company of Green Valley (CWC) Central Arizona Project (CAP)
Environmental Assessment (EA)

This memorandum documents Reclamation's determination whether or not to include the proposed FICO/American Nevada Corporation Water Delivery System (FICO/ANC WDS) in the subject EA as a reasonable alternative.

Background

The proposed FICO/ANC WDS was the subject of a press release issued on August 25, 2008, one day prior to Reclamation's scoping meeting on August 26, 2008, in Green Valley, Arizona, on the subject EA. Several comments received during the scoping period indicated Reclamation should include the proposed FICO/ANC WDS as an alternative in the EA. In order to determine whether or not the proposal should be included as a reasonable alternative¹ in the draft EA, we sent a letter to FICO on September 30, 2008, requesting information on the proposed water delivery system. After receiving FICO's response on November 10, 2008, we sent a follow-up letter on November 14, 2008, requesting additional and/or clarifying information to further assist us in determining whether or not the FICO/ANC WDS satisfies the purpose and need of the proposed project, and if it is a reasonable alternative that should be considered in the draft EA. We received a response to that request on December 1, 2008. Copies of our requests and FICO's response letters are attached.

Findings

As described in the information provided by FICO to Reclamation, the proposed FICO/ANC WDS consists of three phases, as follows:

1. Phase I would include construction of a 36-inch-diameter pipeline from the CAP terminus (or existing CAP water delivery pipeline serving the Pima Mine Road CAP Recharge

¹ See 43 CFR §46.420(b), Reasonable alternatives, which states in part, "...this term includes alternatives that are technically and economically practical or feasible and meet the purpose and need of the proposed action."

alignment. Here, a turnout would interconnect with FICO's ground-water savings facility (GSF) (irrigation system) with a capacity of 5,000 acre-feet per year (AFY) during the irrigation season (roughly March 15th through November 15th).

2. Phase II would include extension of the 36-inch-diameter pipeline further south to Continental Road, with several turnouts to interconnect with additional sections of FICO's GSF, and potentially with other recharge projects or water users, potentially including CWC.
3. Phase III would include extension of the 36-inch-diameter pipeline to the Canoa recharge basins, about 4.7 miles south of the end of Phase II.

The FICO/ANC WDS proposal anticipates various sources of water being delivered through the system, including but not limited to the following: FICO's non-Indian agricultural pool CAP water (3,600 AFY, which would decline to zero around Year 2030); Central Arizona Ground-water Replenishment District water supplies (1,500 AFY, which would likely increase over time); CWC and Green Valley Domestic Water Improvement District CAP entitlements (together totaling 4,858 AFY); and Arizona State Land Department CAP entitlements associated with developments on State land.

According to the information provided by FICO, funding for Phase I would be provided by FICO and an affiliate of ANC, which would be around \$5.8 million plus a contingency of 25 percent (for a total estimate of \$7.25 million). Construction would occur between 2011 and 2016, subject to housing market conditions. FICO indicated the cost, funding, and timing of Phases II and III are unknown at this time; funding mechanisms are being explored with various entities and potential participants.

Determination

Based upon our review of the information provided by FICO, we conclude the proposed FICO/ANC WDS should not be included as an action alternative in the subject EA. Although construction of Phase I is estimated to be completed some time between 2011 and 2016, it is subject to housing market conditions, which are especially speculative at the present time. The FICO/ANC WDS would not be able to deliver CAP water to the CWC water service area, which is the purpose and need for CWC's proposed project, until Phase II is implemented. As noted above, there are no estimates regarding the cost, funding, and timing of Phases II or III. Given the uncertainty and lack of information available, it cannot be determined that this alternative is technically and economically practical or feasible.

Noted:

Bruce D. Ellis

Bruce D. Ellis
Chief, Environmental Resource Management Division

Date:

12/5/08

Attachments – 4

cc: Mr. Arturo Gabaldon, President, Community Water Company of Green Valley,
1501 South LaCañada Drive, Green Valley, Arizona 85614
Mr. Robert Welch, P.E., Stantec Consulting, 201 North Bonita Ave., Suite 101,
Tucson, Arizona 85745-2999
Mr. Craig Sommers, President, ERO Resources Corporation, 1842 Clarkson Street,
Denver, Colorado 80218
(w/att to ea)

SEP 30 2003

PXAO-1500
ENV-6.00

Mr. Richard S. Walden
President and Chairman
Farmers Investment Company
P.O. Box 7
Sahuarita, Arizona 85629-0007

Subject: Community Water Company of Green Valley Central Arizona Project (CAP)
Environmental Assessment (EA)

Dear Mr. Walden:

We received several comments during the scoping process for the above-referenced project regarding inclusion of Farmers Investment Company (FICO) and American Nevada Company's (ANC) proposed CAP water delivery system (WDS) as an alternative in the EA.

In order to determine whether or not it should be included as a reasonable alternative in the draft EA, we would appreciate your providing us with the following information, if it is available.

1. Major components of the FICO/ANC WDS (including pipeline size(s) and alignment(s), recharge areas and volumes, pump station(s), etc.);
2. Source(s) and amount(s) of water to be transported through the FICO/ANC WDS and to what location(s);
3. Ultimate use(s) of the water (direct use or recharge);
4. Schedule for the construction of the FICO/ANC WDS; and,
5. Participants and funding arrangement(s).

If the requested information is unavailable at this time, please indicate the current status of your project and the approximate timeframe when the information would likely be available. If you would prefer that your project not be considered in our EA, we would appreciate a written response as well. We would appreciate a response to this request within 2 weeks, even if it is only an interim response.

Thank you for your assistance and cooperation in this matter. Should you have any questions, please contact Ms. Sandra Eto at 623-773-6254.

Sincerely,

Jon S. Czaplicki

Acting For

Bruce D. Ellis
Chief, Environmental Resource
Management Division

cc: Mr. Craig Sommers, President, ERO Resources 1842 Clarkson Street,
Denver, CO 80218
Mr. Arturo R. Gabaldon, President, Community Water Company of Green Valley,
1501 South La Cañada Drive, Green Valley, Arizona 85614-1600

FARMERS INVESTMENT CO.

P.O. BOX 7 SAHUARITA, ARIZONA 85629-0007 U.S.A.

FARMING AND FARM MANAGEMENT:
SANTA CRUZ VALLEY FARM,
SAN SIMON FARM, ARIZONA
BLUE THREE GROVES, GEORGIA

RICHARD S. WALDEN
PRESIDENT & CEO



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PROCESSING AND MARKETING:
THE GREEN VALLEY PECAN COMPANY
GREEN VALLEY PECANS
THE PECAN STORE

NAN STOCKHOLM WALDEN
VICE PRESIDENT & COUNSEL

November 10, 2008

Bruce Ellis
Chief, Environmental Resource Management Division
United States Department of the Interior
Bureau of Reclamation
6150 W. Thunderbird Road
Glendale, AZ 85306-4001

Dear Bruce,

This description of the Farmers Investment Co./American Nevada Corporation ("FICO/ANC") Water Delivery System has been prepared in response to your letter of September 30th.

1. Major components of the FICO/ANC Water Delivery System:

Our system includes three (3) phases. Phase I is a 36" line beginning at the east point of the Pima Mine Road Recharge Line; then south under Pima Mine Road and the Union Pacific Spur onto FICO land; then east toward Nogales Highway, then upon reaching Nogales Highway south approximately three (3) miles to Sahuarita Road. (See map attached.) Phase I provides for access to approximately 50% of the capacity in FICO's permitted Groundwater Savings Facility ("GSF").

Phases II and III, as depicted on the map, are logical extensions and can be implemented as soon as Pima County completes its study on the best locations for recharge in the aquifer, and as other partners and funders are identified. Pima County has already publicly expressed interest in seeing water recharged at the historic Canoa Ranch, whose southern boundary is Elephant Head Road

From the above described terminus (Phase I), the water will be delivered to three (3) concrete lined irrigation distribution canals on FICO land east and west of Nogales Highway/Union Pacific Railroad Tucson-Nogales mainline.

For the first phase, no pump station would be required; however, it is expected that the design would provide for pump stations and expanded pipeline capacity for Phase II & III to deliver CAP water further south.

The recharge area is the north half of FICO's Groundwater Savings Facility to irrigate FICO pecans now being irrigated by pumping groundwater. Phase I will entail a gravity fed pipeline capable of receiving at least 7,500 a.f. per year on a 12 month

basis or about 5,000 acre feet on an eight (8) month irrigation schedule basis being approximately March 15th to November 15th.

The advantage of the FICO/ANC system is that no new recharge areas have to be built for direct delivery of the water, and therefore the high quality groundwater will remain in the ground to benefit the aquifer and reduce drawdown. Because the GSF is so close to the CAP terminus, a shorter, gravity fed pipeline is feasible, which will be more economical and quicker to construct.

Moreover, Phase II and III of the system will utilize the entire 22,000 a.f. per year capacity of the FICO GSF. An additional 6,000 a.f. per year capacity is available at FICO's Continental Farm to the south, which officials have verified can qualify as a GSF as well.

2. Source and amounts of water anticipated to be transported through the FICO/ANC Water Delivery System to the above described locations would be:
 - a) Non-Indian agricultural pool water which currently is available to FICO in the amount of approximately 3,600 acre feet per year. This will decline yearly to zero in \pm 2030.
 - b) CAGR D replenishment obligation water currently understood to be approximately 1,500 acre feet per year. This obligation will increase as new residences are built in this area.
 - c) Other potential participants who might store water at FICO's GSF include:
 - i. Ongoing recharge by the Green Valley Domestic Water Improvement District being paid for by Canoa Ranch Golf Club in the amount of 500 acre feet annually.
 - ii. The remainder of the Green Valley Domestic Water Improved District CAP allocation of 1,900 a.f. per year..
 - iii. The Community Water Co. CAP allocation of 2,858 a.f. per year.
 - iv. A portion of the Arizona State Land Department (ASLD) CAP allocation dedicated for use in Pima County. The Town of Sahuarita has recently amended its General Plan to permit annexation of 16 sections of ASLD land immediately east of FICO's permitted GSF.
 - v. Water leased from Tribal sources.
3. The ultimate use of the water will be direct use to irrigate pecans, with a wide variety of alternative uses being made more feasible, including direct recharge and even direct use. Since the water delivered to FICO's GSF will be CAP water, the entities that choose to enter into contracts with FICO for the storage of CAP water at the GFS will be entitled to storage credits. In accordance with Arizona law, these credits can then be used to reduce the reportable "excess" groundwater reported by each party.

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Bruce Ellis
Bureau of Reclamation

4. Schedule for construction:

The construction of the line will be coordinated with the development schedule of the ANC Master Plan.

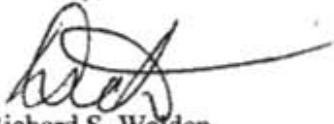
5. Initial Participants and Funding:

Funding for Phase I will come from FICO, from an affiliate of the American Nevada Corporation and from such other beneficiaries who elect to take advantage of this opportunity. Additional participants will be welcomed with appropriate funding arrangements, provided that such participants have legal status as current water providers, users or government entities.

We believe that it is evident that this plan has compelling advantages, including:

- This proposal is easy to implement, is expedient and involves little additional permitting.
- The requisite GSF permit and facility are already in place.
- The use of water for in lieu recharge relieves the aquifer of the pressures of agricultural water use.
- This proposal requires a minimum of capital improvements and provides significant flexibility.

Sincerely,



Richard S. Walden
President

RSW/las

Enclosures

cc: American Nevada Corporation

AMERICAN NEVADA COMPANY (ANC)

AND

FARMERS INVESTMENT CO. (FICO)

**PRESENTATION TO THE
USC/PUG STEERING COMMITTEE**

OCTOBER 10, 2008

PROPOSAL FOR A COMMUNITY-WIDE EFFORT LED BY ANC AND FICO TO DEVELOP A PIPELINE TO DELIVER CENTRAL ARIZONA PROJECT (CAP) WATER TO THE UPPER SANTA CRUZ AQUIFER

THE ANC-FICO PIPELINE PROPOSAL IS BASED ON THE USC/PUG STUDIES INDICATING:

- ❖ **USC basin has an annual over-draft of groundwater of >30,000 AF/Y**
- ❖ **A 36 inch pipeline could deliver approximately 30,000 AF/Y of CAP water**
- ❖ **There is approximately 40,000 AF/Y excess capacity in the CAP system at the Pima Mine Road CAP terminus**
- ❖ **The pipeline project would be planned to incorporate multiple phases, to be completed in cooperation with additional project partners (Pima County, ASLD, etc.)**

KEY FEATURES AND ADVANTAGES OF THE ANC-FICO PROPOSAL:

- ❖ **FICO's 3,000 acre Sahuarita Farm is a permitted Groundwater Savings Facility (GSF) which can accept up to 22,000 AF/Y**
- ❖ **FICO's GSF is in close proximity to the CAP terminus. This results in a shorter pipeline with no pumping required for Phase 1.**
- ❖ **ANC-FICO project would have immediate access to 3,600 AF/Y of Non-Indian Agricultural Pool CAP water, which would be purchased by FICO**
- ❖ **ANC-FICO project would have immediate access to 1,500 AF/Y of current CAGRDR obligation CAP water**
- ❖ **ANC-FICO project would be available to transport current CAP sub-contracts of CWC (2,858 AF/Y) and GVDWID (1,900 AF/Y)**



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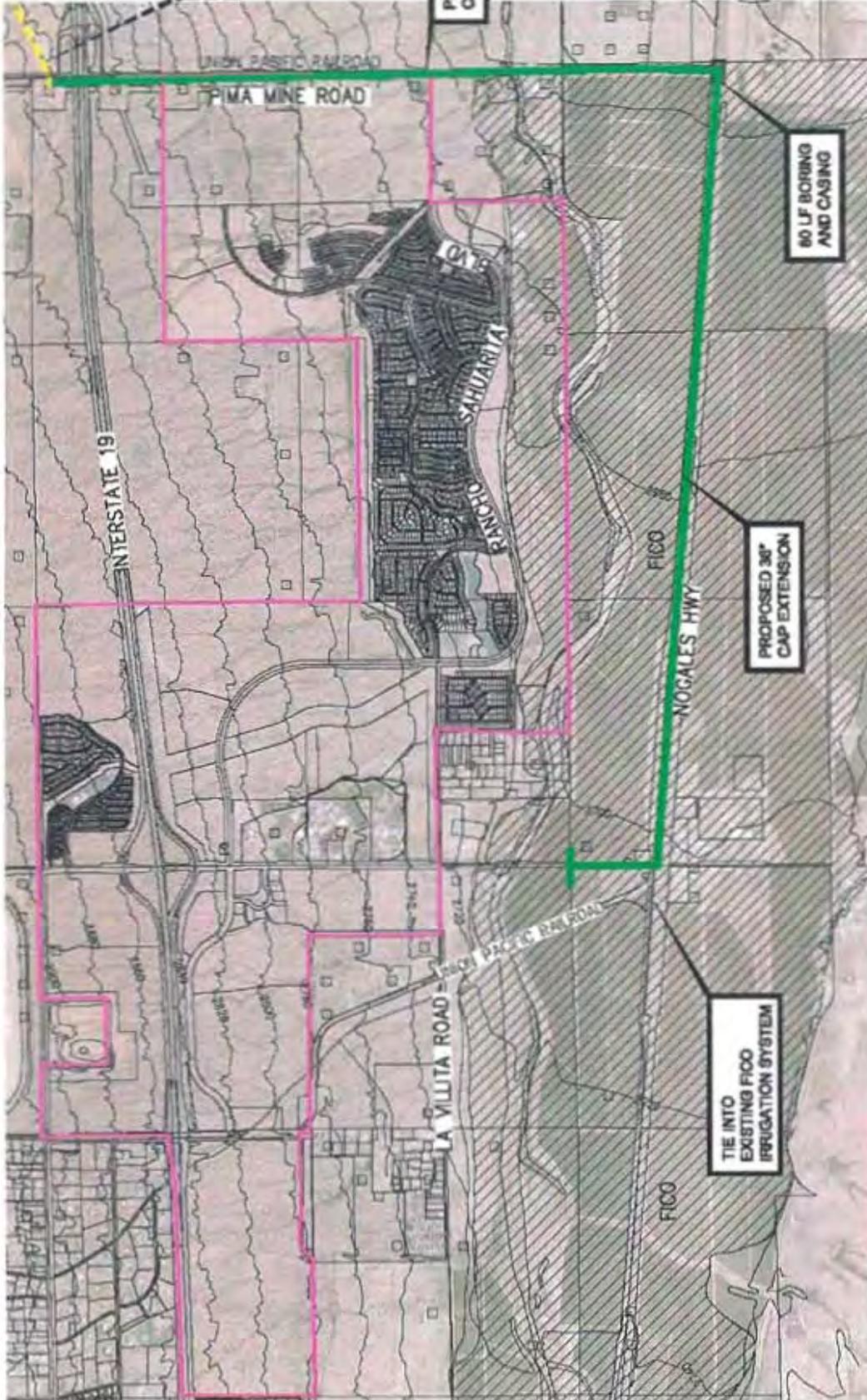

 Westland Resources Inc.
 10000 Westland Blvd.
 Suite 200
 Westland, MI 48186



- LEGEND**
- PHASE I CAP EXTENSION
 - PHASE II CAP EXTENSION
 - PHASE III CAP EXTENSION
 - CAP BOOSTER STATION
 - RECHARGE BASINS (APPROXIMATE LOCATION)

PRELIMINARY CAP WATER DELIVERY SYSTEM

10/20/06 PL 000



MISSION FEAS
 EXTENSION TO EXISTING CAP SYSTEM
 SEPTEMBER 30, 2008

- LEGEND**
- SAHUARITA WATER CO.
 - PROPOSED 36" CAP EXTENSION
 - FEMA FLOOD PLAIN
 - EXISTING 64" CAP

Wood Land Resources, Inc.
 1000 N. 10th Street, Suite 100
 Phoenix, AZ 85006
 Phone: 602.955.1000
 Fax: 602.955.1001

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PXAO-1500
ENV-6.00

Mr. Richard S. Walden
President and Chairman
Farmers Investment Company
P.O. Box 7
Sahuarita, Arizona 85629-0007

Subject: Farmers Investment Company/American Nevada Corporation Water Delivery System
(FICO/ANC WDS)

Dear Mr. Walden:

Thank you for your letter dated November 10, 2008. We have reviewed the information you provided regarding your proposal. We have identified additional and/or clarifying information below. This information will assist us in determining whether or not the FICO/ANC WDS satisfies the purpose and need of the proposed project, and if it is a reasonable alternative that should be considered in the draft Community Water Company of Green Valley (CWC) Central Arizona Project (CAP) Environmental Assessment (EA). Paragraph numberings of the requested information follows those used in both our September 30th request and your November 10th response.

4. Schedule for the construction of the FICO/ANC WDS. Your response indicates construction of the project will be coordinated with the development schedule of the ANC Master Plan. We could find only one reference to timing of the development which can be found at <http://www.missionpeaks.com/FAQ.html>. This indicated the first house could be occupied "a few years from now." It also included the following disclaimer:

DISCLAIMER: This writing expresses the current general intentions of the Developer based on certain conditions and assumptions. Those intentions may change at any time and from time to time without prior notice.

The foregoing statements and proposed land use plan do not constitute representations or warranties, and no reliance should be placed thereon. Whether, when, and how Mission Peaks will be developed will be determined by the Developer in its sole and absolute discretion and will be subject to various governmental approvals.

Is the development schedule of the ANC Master Plan available? Are there any major milestones in the Master Plan that have been completed to date? Are you aware of any permits or actions that have been taken that would indicate the certainty of this pipeline being constructed and within what timeframe?

Also, do you know Pima County's schedule for completing its study on the best locations for recharge in the aquifer which would trigger implementation of Phases II and III of the FICO/ANC WDS? Do you know whether or not the County has allocated funding and staff to conduct this study?

5. Participants and Funding. Is there an estimated total cost for constructing the entire system, as well as for each Phase? Also, are there any signed letters of intent with potential participants, and has a funding mechanism been identified? Is it possible, at this time, for potential participants to determine how much it would cost to utilize the system and how the Phase I conveyance and storage capacity would be allocated among participants? If it is not possible at this time, is there an estimate of when this information would be available?

Receipt of this clarifying information within the next 2 weeks would assist us in making a decision regarding inclusion of this proposal in the EA. Should you have any questions, please contact Ms. Sandra Eto at 623-773-6254.

Sincerely,

Bruce D. Ellis

Bruce D. Ellis
Chief, Environmental Resource
Management Division

cc: Mr. Norris West, Community Water Company of Green Valley, 1501 South LaCañada Drive, Green Valley, Arizona 85614
Mr. Robert Welch, P.E., Stantec Consulting, 201 North Bonita Avenue, Suite 101, Tucson, Arizona 85745-2999
Mr. Craig Sommers, President, ERO Resources, 1842 Clarkson Street, Denver, Colorado 80218

FARMERS INVESTMENT CO.

P.O. BOX 7 SAHUARITA, ARIZONA 85629-0007 U.S.A.

FARMING AND FARM MANAGEMENT:
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PROCESSING AND MARKETING:
THE GREEN VALLEY PECAN COMPANY
THE PECAN STORE
GREEN VALLEY PECANS

RICHARD S. WALDEN
PRESIDENT & CEO

December 1, 2008

Bruce Ellis
Chief, Environmental Resource Management Division
United States Department of the Interior
Bureau of Reclamation
6150 W. Thunderbird Road
Glendale, AZ 85306-4001

Dear Bruce,

I am in receipt of your letter dated November 14, 2008 and by way of this writing, I will address your questions.

Several significant milestones have occurred pertaining to the FICO/ANC pipeline project.

- First, Mission Peaks 4000, an affiliate of American Nevada Co (ANC), and Farmers Investment Co. (FICO) have executed a Memorandum of Agreement (MOA) that establishes the framework for the construction and funding of this pipeline project.
- Secondly, on October 27, 2008, Mission Peaks 4000 received approval from the Town of Sahuarita to amend the Town's General Plan, which allows the Mission Peaks project to move forward with the annexation and zoning process.
- Also, on November 12, 2008, Sahuarita Water Company received approval from the Arizona Corporation Commission to extend the water company's boundary to provide water service to Mission Peaks project.

The completion of the first phase of the FICO/ANC water line was originally scheduled to be done in conjunction with the 1000th home occupancy within the Mission Peaks project, which would be approximately 2016. Recently, this schedule was accelerated so that it would be completed by the first home occupancy within the Mission Peaks project, which could be as early as 2011. Both the original and accelerated schedules are subject to market forces outside of our control, so the above dates are subject to change. By accelerating the completion date, the pipeline will be built several years earlier.

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Bruce Ellis
Bureau of Reclamation

Pima County is in the process of completing its study on the best locations for recharge in the aquifer. This study should be completed during December 2008.

The FICO/ANC pipeline will be built in phases as previously indicated. Since the FICO Groundwater Savings Facility is an approved facility and currently in place, it will be utilized in the first phase. The approximate cost of the first phase is \$5.8 million, plus a 25% contingency. FICO and ANC plan to pursue commercially available financing for the first phase of the FICO/ANC pipeline. This mechanism is the preferred alternative. However, FICO and ANC both have the financial resources to directly fund this project from the companies' treasuries should commercial financing not be available.

The second and third phase construction cost estimates have not been completed, as participants and funding mechanisms are being explored with various entities. As funding mechanisms are vetted and participants are solidified, answers to construction costs, funding mechanisms and participants will be clear.

In summary, the ANC-FICO pipeline project provides for the most effective, quickest, least cost (both capital and operation/maintenance) and efficient proposal to bring renewable CAP water to this region's aquifer. Our process is transparent and open to participation by community partners. We would be pleased to share any further information with the Bureau of Reclamation.

Sincerely,



Richard S. Walden
President

RSW/ch

cc: Sandy Eto
American Nevada Corporation