

# ***Columbia-Snake River Irrigators Association Cover Page Memorandum-with Attachments***

DATE: March 20, 2015

TO: U.S. Rep. Cathy McMorris Rodgers (WA), House Leadership; and U.S. Rep. Dan Newhouse (WA), Natural Resources Committee  
U.S. Rep. Rob Bishop, Chairman, Natural Resources Committee  
U.S. Rep. Louie Gohmert (TX), Subcommittee on Oversight and Investigations, Natural Resources Committee

cc: Mr. Estevan Lopez, Commissioner, USBR; Ms. Lorri Lee, Dir. PNRO-USBR

FROM: Ron Reimann, CSRIA President  
Darryll Olsen, Ph.D., CSRIA Board Representative

SUBJECT: U.S. Bureau of Reclamation Non-Issuance of Water Service Contract Fails Fundamental Standards for Effective Water Resource Management.

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Per the recent advice from Mr. Jack Hockberger, legal counsel-Pacific NW Region Office-USBR, to CSRIA legal counsel Mr. James Buchal, we are contacting you to bring to your attention the de facto denial of a new water service contract (WSC) from the Pacific NW Region Office, USBR, to Odessa Subarea Irrigators (Columbia Basin Project, Eastern Washington).

Normally, this kind of matter should never reach your desk, but the distorted nature of the agency review is unacceptable, and the certainty that the USBR will be justifiably tarnished by pursuing incompetent and wasteful water resources management is imminent.

The water service contract should be provided to Irrigators in the Odessa Subarea, who would develop one or more water delivery systems using direct private sector capital, applying high efficiency water duties to crops, and relieving more irrigated acres from a declining groundwater source than any belabored process conceived by the PNRO-USBR and its associated irrigation district (East Columbia Basin Irrigation District).

At best, the present situation reflects an entrenched 20<sup>th</sup> Century agency culture that cannot transition to the 21<sup>st</sup> Century, real world conditions—working meaningfully with private sector Irrigators to protect irrigated agriculture and dependent communities. At worst, this is basic agency incompetence tinged with self-serving motives on the part of the District.

Attached is the most recent round of correspondence between CSRIA and the PNRO-USBR/District management (more information is at [CSRIA.org](http://CSRIA.org)). CSRIA representatives are available to brief you in full, and will contact you to review the tortured details underlying this correspondence to you.

3030 W. Clearwater, Suite 205-A, Kennewick, WA, 99336  
509-783-1623, FAX 509-735-3140 [DOlsenEcon@AOL.com](mailto:DOlsenEcon@AOL.com)

# ***Columbia-Snake River Irrigators Association Policy Memorandum***

DATE: March 19, 2015

TO: Mr. Estevan Lopez, Commissioner, USBR; Ms. Lorri Lee, Regional Director, PNRO-USBR; Mr. Robert Quint, Chief of Staff, USBR; Mr. Craig Simpson, and Board of Directors, ECBID

FROM: Ron Reimann, CSRIA President  
Darryll Olsen, Ph.D., CSRIA Board Representative

SUBJECT: Reply to PNRO-USBR and ECBID Letter, March 5, 2015:  
Standard for Effective Water Resource Management, Odessa Subarea

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Over the course of years, as OCR-Ecology Director Derek Sandison can confirm, the CSRIA has relentlessly told various water managers, legislators, and agency heads that the fundamental standard for effective water resources management is competence and honesty. Competence depends on comprehending sound technical and economic information; and honesty means not deceiving others, or worse, deceiving yourself. Neither the Pacific Northwest Region Office, USBR nor the East Columbia Basin Irrigation District have embraced this standard in “reviewing” the System 1 Water Service Contract (WSC), as requested by Irrigators and CSRIA.

First, relative to the use of state authorized (RCW 90.03.380) water spreading for system(s) development, the USBR-Ecology-ECBID have repeatedly played “dodge ball” with this management tool, and there is no written directive from OCR-Ecology prohibiting its use (Dir. Sandison’s July 2<sup>nd</sup> E-Mail “kicks the ball” to the USBR) . As you know, it was included in the draft WSC as a result of multiple consultations with OCR-Ecology. Moreover, the remarks in the March 5, 2015, letter are very odd, given that Craig Simpson has publically told some irrigators that water spreading would be allowed under the District’s yet-to-be-construed proposal.

As repeatedly discussed with you, the “eligible” surface water allocation is tied to the base groundwater rights; state authorized water spreading is necessary to make the project economics viable, to secure as many surface water participants as possible, to relieve as much groundwater demand from the aquifer as possible—all within the water/acreage limitations of the Odessa Subarea EIS.

But the CSRIA does have one critical perspective toward this misguided agency concern: it would take an extraordinary level of incompetence to not optimize, via state authorized water spreading, the new surface water allocation for the Odessa Subarea, given that Western water resources are under great physical constraints and public demands, and that the USBR has been loudly criticized for inefficient water use and supporting uneconomical projects. The lack of USBR sensitivity to these factors is, indeed, mind-numbing.

3030 W. Clearwater, Suite 205-A, Kennewick, WA, 99336  
509-783-1623, FAX 509-735-3140 [DOlsenEcon@AOL.com](mailto:DOlsenEcon@AOL.com)



Second, there have been repeated verbal and written communications to you surrounding the context of System 1 relative to the overall East Low Canal systems, including the multiple technical reports prepared by CSRIA. System 1 is one of several systems that can be built and, as carefully explained to you, falls within the EIS limitations and state water law. Your letter reference to System 1 as somehow being a discrete entity without substantive connection to the other system configurations or overall project capacity is squarely disingenuous.

Third, while we disagree on the specific legal context and applicability of the 1968 contract provision to new private sector systems, the PNRO-USBR/District's depiction of its "normative process" is a product of considerable self-deception. The process will increase costs and reduce the amount of participating acres—as the District is now discovering. The attached Statement of "No Acceptance" for the District's normative process has been signed by major Irrigators within System 1, 2, and 4 and CSRIA; other Irrigators have rejected the process, and the Irrigators' financial lenders seriously question the entire normative process.

The District's information on the "normative process" yields that there is no cost advantage to this ephemeral and fiscally insecure concept: there is no cost advantage to having the District build the systems (see attachment; CSRIA.org); more acres would be subjected to higher costs, discouraging participation; the annualized systems' costs would be higher than the direct private irrigators' costs; the total 30-year debt service costs would be substantially higher than the privates; and there is no tangible public sector revenue bonding package even on the table.

The District also appears to be spurning CSRIA's efforts to secure additional state funding (\$20 million) to finish East Low Canal modifications below Lind Coulee, to allow for access to water for all South of I-90 systems. Allocation of this additional funding is contingent upon the USBR releasing the System 1 WSC, but this would effectively eliminate any justification for even pondering a "normative process." Thus, the District prefers to increase costs to Irrigators rather than allow the Irrigators to proceed with system(s) construction. How does this action represent the Irrigators' best interests or leverage their direct financing?

The legislators get it. The Irrigators have fully secured \$42 million of private sector financing to initiate System 1 construction; and up to about \$100 million is available to proceed with a systems package. The District is still stumbling along, and even the progress on East Low Canal modifications is moving slowly (no siphons/gate at Lind Coulee)—but this may be intentional given the District's disorientation surrounding system development and financing.

Finally, it is readily apparent to observers, that the PNRO-USBR/ECBID are disregarding an effective standard for water resources management. This carries with it a patronizing disservice to the Irrigators, the broader Irrigated Agriculture Industry, and their dependent communities. The wells are going dry, farmers and communities suffer as the folly continues.

You have encouraged us to collaborate with you to promote the District's inefficient water use, financially flawed, high-cost "project." We find little competence or honesty underlying this invitation.

Attachments.

cc: State Sen. Mark Schoelser, Senate Majority Leader  
State Rep. Hans Dunshee, House Capital Budget Chairman, WA,  
and Committee Members  
Sen. Judy Warnick, House of Representatives, WA.  
State Rep. Tom Dent, House of Representatives, WA.  
Mr. David Reeplog, TC-WA, Office of U.S. Senator Maria Cantwell (WA).  
Mr. Derek Sandison, OCR-Ecology, WA.  
Ms. Stephanie Utter, USBR, Ephrata, WA.  
Mr. John Hockberger, Solicitor, USBR-DOI, Boise, WA.  
Interested Parties

United States Department of the Interior



East Columbia Basin Irrigation District  
55 North 8<sup>th</sup>  
P.O. Box E  
Othello, Washington 99344

BUREAU OF RECLAMATION  
Pacific Northwest Regional Office  
1150 N. Curtis Road, Suite 100  
Boise, ID 83706-1234

MAR 05 2015

EPH-2000  
PRJ-15.00

Dr. Darryl Olsen, Ph.D  
Board Representative  
Columbia-Snake River Irrigators Association  
3030 W. Clearwater, Suite 205-A  
Kennewick, WA 99336

Subject: January 28, 2015 Meeting between Columbia Snake River Irrigators Association, East Columbia Basin Irrigation District, Washington State Department of Ecology and the Bureau of Reclamation – CSRIA System 1 Proposal, Columbia Basin Project, Washington

Dear Dr. Olsen:

During our discussion on January 28, 2015, it was apparent that we all have a common fundamental interest in the extension of Columbia Basin Project (Project) irrigation water service to land located within the Odessa Subarea. We view such water service as an important component of the Bureau of Reclamation's continued phased development of the Project.

The joint objectives for the Odessa Subarea center on addressing impacts of the declining aquifer by taking as much demand from wells with permitted or certificated ground water rights as possible off line and providing those landowners with a substitute supply of Project surface water for irrigation use. With these objectives in mind, the Odessa Subarea Special Study, which culminated with the August 2012 Final Environmental Impact Statement, envisioned a comprehensive groundwater replacement program (Program) to address the impacts of the aquifer's decline.

Additionally, these objectives underlie the Program being implemented by Reclamation, the Washington State Department of Ecology (Ecology), and the East Columbia Basin Irrigation District (District). All parties must cooperate and do their part for the Program to be successful. With that, development of the Program has rendered a series of requirements from each agency to determine the eligible beneficiaries for Program implementation.



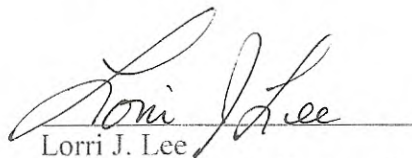
Ecology has provided a review of groundwater rights held by participants in the CSRIA System 1 Proposal in order to verify eligibility of the participants to receive replacement surface water. Ecology has informed us that it has determined that, under Washington state law relating to the Odessa Subarea, irrigated acreage cannot be expanded in the manner proposed by CSRIA because water can only be supplied to places of use specified under currently effective water right documents. Further, Reclamation policy does not support applying water outside of a defined area of use. Only land that has an eligible groundwater right will be included in the Program. Ecology has also informed us that it must avoid the appearance of gifting of public resources by allowing land to be served by the Program that does not have such a right.

Another component critical to the Program implementation is the construction work on the Federally-owned main conveyance facilities necessary for the delivery of Project surface water. Reclamation and the District have a long standing contractual relationship governing matters relating to such work on Project facilities. Pursuant to Amendatory, Supplemental, and Replacement Repayment Contract between the United States of America and the District, Contract No. 14-06-100-6419 dated December 18, 1968, the District is responsible for the operation and maintenance of transferred Project water supply conveyance and delivery facilities within the service area of the District, including those central to Program implementation. Without the support, coordination and consent of the District, the Program cannot proceed.

The CSRIA presents that the viability of its System 1 Project requires the authorization of Project surface water service to certain participating acres that do not possess eligible permitted or certificated groundwater rights but which have been previously irrigated pursuant to the State of Washington's groundwater acreage expansion program. The proposed System 1 is only a small part of the overall delivery portfolio to be developed for the implementation of the Program. Program implementation is in alignment with the build out approach, which maximizes the number of acres served at a normalized cost, as opposed to the System 1 approach of inexpensive water for a select few which results in fewer acres being served than projected.

As we have communicated, a large portion of the land participating in CSRIA's System 1 Project does not meet Program eligibility criteria. If you desire to continue in your efforts we encourage you to adhere to the eligibility criteria established by all agencies for program implementation. To that end, we encourage you to work in collaboration with the ECBID, to provide your infrastructure suggestions so they can be coordinated with District efforts and operation and maintenance of transferred Project works which will require ECBID's and Reclamation's acceptance.

Sincerely,



Lorri J. Lee  
Pacific Northwest Regional Director  
Bureau of Reclamation



Craig Simpson  
Secretary/Manager  
East Columbia Basin Irrigation District

Statement of “No Acceptance”  
For the ECBID-USBR Normative Financing  
Proposal-Surface Water Delivery



**STATEMENT OF NO ACCEPTANCE**  
**For The ECBID-USBR “Normative” Financing Proposal**  
**For the Delivery of Surface Water to the Odessa Subarea**

TO: Mr. Estevan Lopez, Commissioner, USBR; Ms. Lorri Lee, PNWO Regional Director, USBR;  
 Board of Directors, East Columbia Basin Irrigation District

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As major land owners, along with our financial/technical representatives, working to build surface water distribution systems from the East Low Canal, for Systems North/South of I-90, we convey to the USBR and ECBID managers a Statement of No Acceptance for the District’s “normative” financial proposal for surface water delivery from the Canal.

The financial strategy proposed by the District will lead to overall development time delays and increased costs, thus eroding the objective of transferring as much irrigated acreage as possible from groundwater to surface water; and diminishing the financial resources already allocated by Ecology-WA and the USBR to expedite source water conversions.

The District’s financial strategy retains several flaws:

1. The District’s financial proposal does not “add acres,” but distributes costs across all acres regardless of location to the ELC; increasing system(s) costs across more acres. The end effect is to discourage participating acres.
2. Without accepting legally authorized state water spreading, total system costs cannot be overcome by “normative cost zoning” (everyone pays for everything). The configuration and normative cost scheme affects irrigators’ willingness-to-pay and an ability to aggregate individual farm acreages at a sufficient level to pay for system(s) costs.
3. The District’s LID revenue bonding strategy, where the District is not obligated for the new system(s) debt, is: 1) unproven and speculative; 2) does not offer any annualized cost advantage, if attainable; and 3) does substantially increase total debt service.
4. For System 1, the Participants’ direct, private sector financing agreement is a proven tool to build large-scale irrigation systems; the pre-construction engineering is completed, and financing is secured. This is a turn-key project, where operational control is transferred to the District with construction completion; this model may be applied to all systems.
5. By using the System 1 Participants’ (and other systems) private capital as leverage, the Washington State legislative leadership is poised to allocate an additional \$20 million to complete Canal modifications below Lind Coulee. This funding will allow surface water access to be obtained by the System 5-6 Participants. But the legislators will not act without the USBR execution of the water service contract for System 1.

The System 1 Participants’ economic model stands in stark contrast to the District’s approach, where system configuration is determined by individual irrigators paying for their own marginal system costs; and where the System 1 Participants have **already secured \$40 million of financing** to initiate project construction, with USBR water service contract approval. Every effort should be made by the USBR-District-Ecology to allow the private sector to move forward with system(s) development, while the District focuses on direct canal modifications.



FROM: Odessa Subarea, System Participants and Representatives:

System Nos.	Printed Name:	Signature
1	Stahl Hutterian	[Signature]
2	"	[Signature]
4	"	[Signature]
1	"	[Signature]
2	"	[Signature]
4	"	[Signature]
1	MHB	[Signature]
1	Stanley Meyer	[Signature]
1	Stahl Hutterian	[Signature]
2	" "	[Signature]
4	" "	[Signature]

System Nos.	Printed Name:	Signature
4	Blake Higley	[Signature]

FROM: Odessa Subarea, System Participants and Representatives:

System Nos.	Printed Name:	Signature
1	Eugene C Claassen	[Signature]
1	Triple C Lead Co. by	[Signature]
	Eugene C Claassen partner	[Signature]

FROM: Odessa Subarea, System Participants and Representatives:

<u>System Nos.</u>	<u>Printed Name:</u>	<u>Signature</u>
<u>1</u>	<u>DJR Stucky Properties LLC</u>	<u>Richard P. Stucky, manager/owner</u>
<u>1</u>	<u>RP Stucky Properties LLC</u>	<u>Richard P. Stucky, manager/owner</u>
<u>1</u>	<u>D. J. Stucky Properties LLC</u>	<u>by Richard P. Stucky</u>

FROM: Odessa Subarea, System Participants and Representatives:

<u>System Nos.</u>	<u>Printed Name:</u>	<u>Signature</u>
<u>2</u>	<u>DARREL A. KULM</u>	<u>Darrel A. Kulm</u>
<u>124</u>	<u>Fang Olsen</u>	<u>Fang Olsen</u>
	<u>System 1-4</u>	
	<u>Inspector Representative</u>	
	<u>Columbia-Drake River</u>	
	<u>Inspection Assoc.</u>	



March 10, 2015

Lorri Lee  
Pacific NW Regional Director  
U.S. Bureau of Reclamation  
1150 N. Curtis Road, Suite 100  
Boise, ID 83706-1234

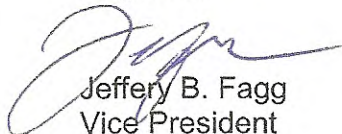
Dear Ms. Lee,

This letter is to confirm Northwest Farm Credit Service's support for the private-funded approach represented by C.S.R.I.A. to replace ground water with surface water in the Odessa Special Study Area. Our support is evidenced by our commitment to finance the needs of the largest participant in the project. We have been involved with the C.S.R.I.A. irrigator group for over three years dating back to the initial discussions with Derek Sanderson. The concept of private sector funding to support system infrastructure, ultimately managed by the E.C.B.I.D., appears to be an appropriate approach given our government's fiscal climate.

The ultimate per acre all-in water cost is critical in today's highly competitive agricultural sector marketplace and I can say with conviction that C.S.R.I.A. economics are very competitive for many irrigators.

Ultimately, we are hopeful for a timely resolution as it would be a tragedy to miss this window of opportunity to bring much needed surface water to our aquifer.

Regards,



Jeffery B. Fagg  
Vice President



## **COST SAVINGS PRIVATE VERSUS PUBLIC CONSTRUCTION ODESSA GROUNDWATER REPLACEMENT PROJECT**

### **Background**

IRZ Consulting has provided the feasibility level engineering and cost estimates associated with privately funded projects to replace groundwater irrigation for a portion of the Odessa Sub-area. The Columbia Basin Project East Low Canal would be the source of the replacement water. The costs estimates on a per acre basis that have been determined for these projects are significantly lower than the estimates that have been developed by the Bureau of Reclamation and the East Columbia Basin Irrigation District. The purpose of this briefing paper is to point out the main reasons for these cost savings.

### **Experience**

IRZ Consulting is an irrigation engineering company based in Hermiston, Oregon. The company has been designing and overseeing the construction of large irrigation projects for 30 years. These projects have been located throughout the United States, and more recently around the world. The experience of the key engineers and staff at IRZ totals well in excess of 100 years, and includes the design of projects in both the private and public sectors. With that experience comes a knowledge of the costs associated with constructing large irrigation projects in both sectors. Given that knowledge it is clear that projects can be constructed in the private sector significantly less expensively than in the public sector, and the following is a list of some of the factors providing those cost savings:

### **Cost Savings**

1. Streamlined Design and Review Saving Significant Time
2. Fewer Legal Restraints ( ie. Paying prevailing wages, certain costly bonding and insurance are not required.)
3. Projects Are Designed To Serve Only The Area That Is Economical
4. Contracting Requirements Are Much Less Stringent
5. Direct Selection Of Contractors And Suppliers Can Be Made
6. Partial Design Build Is An Option
7. Direct Payment For Materials Is Possible
8. Working As A Team Making Construction More Timely
9. Accurate Estimates Based Upon Costs Of Recent Projects
10. Private Funding Is More Flexible And Straightforward

### **Conclusion**

Based upon these factors the costs associated with developing a project utilizing private funding is significantly less than utilizing public funding. This has proved to be true based upon personal experience of IRZ Consulting, and staff. Private funding where viable should be considered in order to utilize limited capital most effectively.

Thomas R Buchholtz PE  
IRZ Consulting

500 N. 1st Street | Hermiston, Oregon 97838 | 541.567.0252 | [www.irz.com](http://www.irz.com)  
2815 St. Andrews Loop, Suite A | Pasco, Washington 99301 | 509.544.2295



Odessa Subarea Capital Budget Budget Proviso for Future East Low Canal Modifications (\$20,000,000):

Allocation of this funding for the Odessa Subarea--East Low Canal modifications is contingent upon and shall not be dispersed until the execution of a new water system contract to private sector irrigators directly financing the N-I-90 System 1 Project, with direct private sector financing. The water system contract may be solely issued by the U.S. Bureau of Reclamation or jointly with the East Columbia Basin Irrigation District, with System operational control conveyed to the District after Project completion. No funding may be used by Ecology or the District for purposes other than direct modifications to the East Low Canal.