ADMINISTRATOR'S MEMORANDUM

To: Regional Offices
Water Allocation Bureau

App. Processing No. 18
Licensing No. 1

From: Jeff Peppersack

Re: **PROCESSING APPLICATIONS AND AMENDMENTS AND DETERMINING BENEFICIAL USE FOR NON-RAFN MUNICIPAL WATER RIGHTS**

Date: October 19, 2009

This memorandum supersedes Application Processing Memo No. 18 dated November 5, 1979 and Licensing Memo No. 1 dated April 7, 1975.

The 1996 Municipal Water Rights Act recognized common law practices (case law) for growing communities to provide for a municipal water supply for reasonably anticipated future needs (RAFN). There are times when a municipal provider will choose to file an application to appropriate water solely for water needed in the short-term without the burden of demonstrating future needs over an established planning horizon. This memorandum provides guidance to Department staff when permitting and determining the extent of beneficial use for licensing purposes for non-RAFN municipal water right permits.

This guidance provided in this memo pertains to the review and processing of permits to be issued after the date of this memorandum. Existing permits issued prior to the date of this memorandum should be handled on a case-by-case basis when determining beneficial use for licensing purposes. Determination of beneficial use for permits pre-dating this memorandum may depend on the date the permit was issued in relation to the 1996 Municipal Water Rights Act and/or any specific intent to limit the beneficial use that could be developed under the permit at the time it was issued.

PAST DEPARTMENT POLICY AND PRACTICE

Prior to the 1996 Municipal Water Rights Act, the Department acknowledged the need for some flexibility in licensing water rights due to the growth of municipalities and other small communities under two concepts as described below.

Installed Capacity for Municipalities

An incorporated city or a municipal provider serving an incorporated city could perfect a water right based on the maximum instantaneous diversion rate for the pumping system that was installed and operational during the development period of the permit (limited by the permitted amount), even if the city did not beneficially use the entire capacity during the development period of the permit. Note that even though a municipal system may have included multiple wells and pumps, the Department typically licensed a water right based on the diversion capacity of an individual well and pump listed as a single point of diversion on the water right. The Department typically did not review the overall

system capacity and evaluate the new well as an additional increment of diversion capacity or beneficial use under the entire system due to that point of diversion.

When licensing a municipal water right, the Department did not include an annual volume limit on the license. In addition, the place of use was described as the city limits and was allowed to change as the city limits expanded. A city's water use under a license could expand over time as demand for water increased by pumping the maximum rate over longer periods that may have included storage tanks to provide for higher peak demands.

Stub-in Practice for Subdivisions

For unincorporated cities and other small communities that did not qualify as municipalities, and therefore could not obtain a municipal water right, the Department could only license water rights for domestic and associated irrigation, commercial and other uses based on actual diversion and application of the water to beneficial use accomplished during the authorized development period of the permit. The Department provided some flexibility in determining beneficial use for domestic purposes in subdivision developments under the "stub-in" practice. Under the "stub-in" practice, the Department issued water right licenses for domestic purposes in subdivisions if the water diversion and distribution systems were in place, including a service line to each lot, even if water had not yet been put to beneficial use on all the buildable lots. The Department's stub-in practice recognized that the full build out of a subdivision can take longer than the number of years the Department could authorize for completion of a water appropriation project. By issuing a water right license for domestic uses that were yet to be completed, the Department avoided a parade of individual water right filings as each lot was sold. The stub-in practice also helped subdivision developers obtain financing by providing some assurance to lending institutions that a development project would not fail due to water right availability issues that may have arisen as the individual lots were built out over time. The Department's stub-in practice was applied to each home that would individually qualify as a domestic use as defined in Section 42-111(1)(a), Idaho Code.

The stub-in practice was not applied in all subdivision development situations. For example, suppose the Department issued a permit for development of 100 homes in a subdivision and proof was submitted for 100 homes based on the stub-in practice. Many years later, the Department completes an exam and finds only 20 homes were built and using water. The remaining lots remained vacant and undeveloped except for the stubbed-in service line. The Department would only issue a license based on the actual diversion and use of water because sufficient time would have passed to complete development of the subdivision.

1996 MUNICIPAL WATER RIGHTS ACT

The 1996 Municipal Water Rights Act allows municipal providers to obtain water rights for RAFN. Full completion of diversion works and beneficial use is not required during the development period of the permit, under specific conditions (see Application Processing Memo No. 63). The Municipal Water Rights Act also expanded the types of entities that can qualify for municipal water rights and defined expanding service areas for those entities. See Section 42-202B, Idaho Code for definitions.

To appropriate water for RAFN, the municipal provider carries an extra evidentiary burden to establish a planning horizon and to submit population and other planning data in support of the anticipated needs within the planning horizon. If a municipal provider seeks a water right for RAFN, the planning horizon and supporting data cannot be inconsistent with its comprehensive land use plans.

Furthermore, water rights for RAFN cannot be granted to a municipal provider in areas overlapped by conflicting comprehensive land use plans.

Municipal providers can receive the full benefit of the 1996 Municipal Water Rights Act if they file an application for RAFN and demonstrate future needs over an established planning horizon consistent with requirements in Chapter 2, Title 42, Idaho Code. The intent of a municipal provider to seek water for RAFN must be documented with the application for municipal use.

There are times when a municipal provider will choose to file an application to appropriate water solely for use to meet needs in the short-term (limited up to 5 years with possible extension up to an additional 5 years pursuant to Section 42-204, Idaho Code) without the burden of demonstrating future needs over an established planning horizon. The Department considers the definitions for "municipality," "municipal provider," "municipal purposes," and "service area" from the 1996 Municipal Water Rights Act to apply to non-RAFN permits. The following sections provide guidance to Department staff when permitting and determining the extent of beneficial use for licensing purposes for non-RAFN municipal water right permits. Note that some small community water systems (less than 10 homes) do not qualify as municipal providers and would still be subject to licensing under the past stub-in practices described above as a domestic use.

INCORPORATED CITIES AND MUNICIPAL PROVIDERS SERVING INCORPORATED CITIES

Incorporated cities, or municipal providers serving incorporated cities ("city" or "cities") have historically benefitted from common law practices allowing for appropriation of water and acquisition of water rights for long-term growth. Municipal providers in this category may include a city incorporated under Section 50-102, Idaho Code, an entity regulated by the Public Utilities Commission serving water to an incorporated city, or a Water District or Water and Sewer District established pursuant to Chapter 32, Title 42, Idaho Code serving an incorporated city. The 1996 Municipal Water Rights Act does not prohibit the Department from issuing a non-RAFN permit or license to a city without a volume limitation. Issuing a permit and license without a volume limitation would provide for some limited growth, consistent with pre-existing common law practices for municipalities.

Application for Permit

An applicant for a non-RAFN municipal application must demonstrate short-term needs to justify the amount of water required for appropriation. This information should be requested pursuant to the additional information requirements provided under Water Appropriation Rule 40.05.d.i:

> Information shall be submitted on the water requirements of the proposed project, including, but not limited to, the required diversion rate during the peak use period and the average use period, the volume to be diverted per year, the period of year that water is required, and the volume of water that will be consumptively used per year.

The applicant must also demonstrate that the new appropriation is not intended for RAFN by providing total system capacity and existing demand within the municipal service area and comparing that capacity and demand to the entire municipal portfolio of water rights. If existing municipal water rights exceed existing demand and short-term needs, then an application for RAFN would be necessary for an additional appropriation of water. If the applicant desires additional points of diversion without

the need for a new appropriation of water, then an application for transfer to change existing rights would be appropriate.

An applicant for a permit not proposing municipal use for RAFN cannot later amend the application to gain the benefits of a RAFN permit without first demonstrating future needs over an established planning horizon consistent with requirements in Chapter 2, Title 42, Idaho Code. Pursuant to Section 42-211, Idaho Code, an amendment to an application to gain the benefits of a RAFN permit shall be republished and the priority date shall be changed to the date of the application for amendment.

Permit

The permit should not be limited by volume except under circumstances where a volume limitation is necessary to protect the water source or, in the case of an amendment of permit, when the original permit was issued or intended for a use other than municipal. The rate of flow must be reasonable when considered against the water flows available from the source (e.g., it may not be in the public interest to dewater a stream to satisfy the municipal needs). The place of use can be described generally for the service area as defined under Section 42-202B, Idaho Code.

A non-RAFN application for municipal use that includes additional rate justified for fire protection purposes should not be permitted for that additional rate under a municipal use, particularly where the applicant has not sought water for RAFN and offered no evidence to support the future appropriation and use of additional water. Doing so would allow the additional rate to be used for flows that may be required for future long-term growth of the municipality. Additional rate solely for fire protection should be listed as a separate use on the water right or permit to ensure that the rate, if approved, does not create a de facto water right for RAFN.[1]

As an example, suppose an application for permit is submitted by a municipality for a non-RAFN municipal use and the application indicates that 3 cfs is required for the regular and continuous needs of the city and an additional 7 cfs is required to provide water for fire protection on an as-needed basis. The Department should not issue a permit for municipal use for 10 cfs, which would allow for additional rate to be used by the city in the future to meet the regular and continuous needs of the city. Instead, if the application is otherwise approvable, the Department should issue a permit for municipal use in the amount of 3 cfs and for fire protection in the amount of 7 cfs.

The complexity of some municipal systems makes it difficult to ascertain, at the time of a field exam, if an additional increment of beneficial use has been developed pursuant to a permit. To facilitate future licensing, the permit should include a condition requiring the permit holder to submit a report in connection with proof of beneficial use that describes how the water diverted under the permit provides an additional increment of capacity for the municipal water system as opposed to an alternate point of diversion for existing municipal water rights. In addition, the report should describe how the beneficial use intended under the permit (i.e. the reason used to justify the new appropriation of water) was accomplished.

[1] Permits and licenses issued for fire protection purposes to fight an existing fire do not require a volume limitation since the volume would be variable and unpredictable for firefighting purposes. A volume limitation is required for fire protection storage where water is stored to fight a future fire.

A permit issued to a municipal provider that does not provide for RAFN cannot be later amended to gain the benefits of an RAFN permit.

License

When licensing a permit for municipal use for an entity serving an incorporated city, the extent of beneficial use established under a non-RAFN permit should be determined based on the installed capacity developed and operational during the development period of the permit and cannot exceed the amount permitted. However, beneficial use may be further limited if the intended use described in the application as justification for the permit was not accomplished. The license should not be limited by volume except under circumstances where the permit was limited for reasons described above. The place of use listed on the license can be described generally for the service area as defined under Section 42-202B, Idaho Code.

When determining the installed capacity for licensing purposes, the entire municipal portfolio of water rights must be considered to determine the actual increase in installed capacity provided by the permit for the municipal use. Note that the installed capacity of the system is not necessarily the sum of the individual capacities for each pump or diversion into the system.

In situations where a new point of diversion authorized under the permit is developed, but an additional increment of capacity or beneficial use is not developed for the municipal system, a license may be issued limiting the diversion rate in combination with other rights in the municipal system to the existing capacity of the municipal system.

OTHER MUNICIPAL PROVIDERS

Municipal providers that do not serve incorporated cities can receive the full benefit of the 1996 Municipal Water Rights Act if they file an application for RAFN, provide qualifications as a municipal provider, and demonstrate future needs over an established planning horizon consistent with requirements in Chapter 2, Title 42, Idaho Code. For such municipal providers, if they choose not to file an application for an RAFN permit, the ability of the municipal provider to acquire a water right for municipal purposes is limited to the amount that can be diverted and beneficially used based on development during the period authorized under a non-RAFN permit, as described below.

Application for Permit

For an application for permit seeking to divert water for domestic use or some combination of domestic and other uses for a subdivision or other multiple ownership service area, the use would be more properly described as municipal use within the service area if the uses fall under the definition of municipal purposes and the applicant would also qualify as a municipal provider pursuant to Section 42-202B, Idaho Code. An exception would be the use of water for fire protection. Additional rate for fire protection should be listed as a separate use to ensure that the rate, if approved, does not become part of the flows under the permit that may be required for future use of the municipal provider (see fire protection discussion above for permits under Incorporated Cities).

An applicant for a non-RAFN municipal application must demonstrate short-term needs to justify the amount of water required for appropriation. This information should be requested pursuant to the additional information requirements provided under Water Appropriation Rule 40.05.d.i:

> Information shall be submitted on the water requirements of the proposed project, including, but not limited to, the required diversion rate during the peak use period and the average use period, the volume to be diverted per year, the period of year that water is required, and the volume of water that will be consumptively used per year.

The applicant must also demonstrate that the new appropriation is not intended for RAFN by providing total system capacity and existing demand within the municipal service area and comparing to the entire municipal portfolio of water rights. If existing municipal water rights exceed existing demand and short-term needs, then an application for RAFN would be necessary for an additional appropriation of water. If the applicant desires additional points of diversion without the need for a new appropriation of water, then an application for transfer to change existing rights would be appropriate.

An applicant for a permit not proposing municipal use for RAFN cannot later amend the application to gain the benefits of a RAFN permit without first providing qualifications as a municipal provider and demonstrating future needs over an established planning horizon consistent with requirements in Chapter 2, Title 42, Idaho Code. Pursuant to Section 42-211, Idaho Code, an amendment to an application to gain the benefits of a RAFN permit shall be republished and the priority date shall be changed to the date of the application for amendment.

Permit

The permit, if approved, shall include both a rate of flow and an annual volume limitation for the municipal use based on the amount justified. As described above, additional rate justified solely for fire protection should be listed as a separate use on the permit to ensure that the rate, if approved, does not create a de facto water right for RAFN.[1] The place of use can be described generally for the service area as defined under Section 42-202B, Idaho Code.

A permit issued to a municipal provider that does not provide for RAFN cannot be later amended to gain the benefits of an RAFN permit.

License

When licensing a permit for municipal use for a municipal provider that does not serve an incorporated city, the extent of beneficial use established under a non-RAFN permit should be described with both a rate of flow and a volume limitation.[2] Beneficial use shall be based on development within the service area during the authorized development period of the permit and shall include stubbed-in lots for domestic purposes (i.e. a service line is available for each lot to hook up to the municipal delivery system). The rate should be determined based on the installed capacity if reasonable to serve the needs

[2] Beneficial Use Rule 35.01.j indicates that "[t]he field examiner does not need to show total volume of water for municipal and fire protection uses on the field report unless the project works provide for storage of water." Although not required on the field exam, any license issued to a municipal provider that does not serve an incorporated city for a non-RAFN municipal use shall include an annual volume limitation based on the amount justified and approved under the permit and beneficially used as described in this memorandum.

within the established service area.[3] The annual volume limitation should be determined based on the water requirements for the established service area (including stub-ins). The place of use listed on the license can be described generally for the service area as defined under Section 42-202B, Idaho Code.

As described above for municipal providers serving incorporated cities, when determining the installed capacity for licensing purposes, the entire municipal portfolio of water rights must be considered to determine the actual increase in installed capacity provided by the permit for the municipal use.

In situations where a new point of diversion authorized under the permit is developed, but an additional increment of capacity or beneficial use is not developed for the municipal system, a license may be issued limiting the diversion rate in combination with other rights in the municipal system to the existing capacity of the municipal system.

[3] The installed capacity may not represent beneficial use if significantly greater than the diversion required to meet the needs of the developed service area (including stub-ins), even if it does not exceed the amount permitted. For example, if fewer lots are stubbed-in than permitted, the required diversion rate would likely be smaller than the permitted rate.