

**Update by Denton Zubke, Western Area Water Supply Authority
ND Legislative Management – Water Topics Overview Committee
Williston State College, Williston, ND
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Introduction:

Good morning Chairman Hofstad and Committee members. My name is Denton Zubke and as Chairman of the Western Area Water Supply Authority (WAWSA), I appreciate having this time today to update the committee on the progress of the Western Area Water Supply Project.

To fully understand where the project stands today and the progress still needed, I would like to briefly discuss the background of the project.

Each of the WAWSA founding members, including the City of Williston, the McKenzie County Water Resource District, the Williams Rural Water District, the R&T Water Supply Commerce Authority, and the Burke-Divide-Williams Rural Water System Association, had existing water issues ranging from water quality challenges to aging infrastructure to capacity limitations before oil production ramped up three years ago.

These pre-existing issues combined with growing water demands due to the population growth and the need for large volumes of water for oil production created a water supply problem that needed to be solved quickly. The large industrial water demand also created opportunity to help pay for a large regional water supply project.

The WAWSA members have worked diligently to develop the opportunity to solve the water supply problem together. The signing of House Bill 1206 last May officially created the Western Area Water Supply Authority. The bill paved the way for the Bank of North Dakota to issue \$110 million in loans to get the WAWSP project started.

The WAWSA fully understands that the funding provided is a loan and has been coordinating with oil companies, trucking companies, and other stakeholders in the region to supply them with industrial water to generate the revenue necessary to repay the loans.

Current Status of the Project:

Since receiving the \$110 million in loans, the WAWSA has made great progress on the project in just one year. All Phase I projects have been bid and awarded. Phase I of the WAWSP began with the construction of the interim Williston By-Pass Transmission Line. It is now completely installed, with 10.5 miles of pipe in the ground. It extends north and west from Williston to the new industrial growth areas.

A five million gallon reservoir is currently under construction. It will connect to the interim bypass line that will serve all of the growing areas of Williston with fire flow protection and improved reliability. The final bypass line is scheduled for construction in 2013-2014. System 4 of the McKenzie County Water Resource District water system as well as the pipeline between the cities of Wildrose and Crosby are near final completion.

In addition to Phase I project progress, the Authority has also advertised and awarded portions of Phase II. The transmission lines, pump stations, and reservoirs that will deliver water from Williston to the cities of Watford City and Ray (which will make additional water available for the cities of Ray, Tioga, Stanley, Ross, Wildrose, Crosby, Columbus, Fortuna, and Ambrose) are under construction. Phase II transmission bids came in at a total cost just shy of \$40,000,000, which was a little less than anticipated, despite increasing the pipe sizes to accommodate population growth. Water service to all of these communities will be in place by the end of 2012.

In general, bids on underground, pumping and storage infrastructure have been reasonable and on target. The WAWSA did, however, face some difficulty with the bids for the Williston Regional Water Treatment Plant Phase III Improvements Project. Only one General contractor, two Mechanical contractors, and three Electrical contractors submitted bids last month. Due to the lack of competition for the General Contract and the high cost of the combined bids as compared to the current available funding, the WAWSA Board voted to reject all bids.

Currently, the project team is developing four options for repackaging and rebidding the water treatment facility expansion that range from optimizing current capacity to adding long-term capacity immediately. The WAWSA board will vote on the appropriate option and bids announcements are expected to go public by the middle of August, with bid openings in the middle of September.

We are pursuing a creative way to finance the additional Water Treatment Plant (WTP) costs. This may be through a cash flow strategy, assistance through one of our member entities or a combination of several options. All of these strategies may take the total expenditures for the current biennium above the \$110,000,000. The increased water demands on the WTP have rapidly increased which has accelerated our need to make improvements and increase output. We have tried to be as conservative as possible and presently project we could save \$3,000,000 on the WTP improvements if we were not constrained by the funds we have available prior to additional legislative action.

Impact of Oil Production and Population Growth:

Oil production continues to climb in northwest North Dakota, and impacts will continue to be felt as the population grows to meet demands to staff the oil industry and peripheral businesses. The populations of the WAWSP service area are difficult to predict, but are expected to peak by the year 2032 or slightly sooner. The WAWSA continually watches the growth patterns and has been making adjustments to respond to the trends.

The original business plan envisioned serving a population of approximately 30-35,000 with a maximum of 48,000. The WAWSP service area may now eventually serve as many as 75,000 people throughout the

five county region. NDSU is developing a population study which will provide projections but the estimates in Western North Dakota have usually been substantially superseded by the actual numbers. The increased need for the project from population growth was felt immediately when rural water system sign-ups doubled, and even tripled in some of the project area. As an example, the McKenzie System IV Rural Water System in western McKenzie County was planned to have 120 users but ballooned to nearly 300 within the first few months of the project starting. While the increase in users was welcome, it also tripled the cost of service for this area.

The business plan for the WAWSP was completed in 2010, and since then, the population projections have continually been revised to account for the influx of people in the region. Please note the attached graphics that show the overall service area map as well as the latest reported numbers for user/service requests. When we began this project in 2010, we had requests for 400 rural users. These numbers do not include any requests for residential developments, commercial lots, or crew camp and RV parks at that time.

Although our original service users were mostly rural, the additional population bases are important to serve. The critical drinking water infrastructure needed to support the industry workers and residences ensures that the economic engine of oil production in North Dakota continues uninterrupted.

Creating a Win-Win Situation for the Region and the State:

Such unprecedented population growth has been and will be a continuous challenge for the WAWSP and the region it serves. But the impacts of oil production do have some advantages as well. The oil industry is in need of water for the hydraulic fracturing, or fracking process and also for long term maintenance of the wells. Oil companies will be able to purchase water from the project that homeowners and businesses aren't using.

Traditionally, a project is constructed to serve a projected population for 20 to 50 years and also has to account for capacity to serve peak day demands. Therefore, a project that is constructed to serve a growing population will have significant latent capacity to serve industry. The sale of the extra water is projected to pay for approximately 80% of the WAWSP's original price tag. This is public water paying for a public water system. The money that is brought in through industrial water sales will pay off loans from the state of North Dakota.

As per HB1206, WAWSA has strategically located water depots along the service lines to create sales to meet our financial obligations to the State of North Dakota. Currently, WAWSA has a total of twelve depots planned – down from the original 17 planned for in the 2010 Business Plan. These depots have been sited in coordination with the NDDOT and the local entities to reduce damage to roads, and to make them convenient to the industry.

Over the past two years, WAWSA has met with the Independent Water Producers or otherwise known as the IWP on numerous occasions. WAWSA has repeatedly considered the location of the IWP depots when siting the locations for WAWSA depots, and curtailed the number of water depots it intended to

build originally, based in part on the IWP water sales potential in certain areas. When you consider arguments from the IWP, please keep in mind that public water systems have always been funded by public funds.

To date, the WAWSA member water systems have tried to co-exist with IWP members and have not taken action to curtail the private water developers that existed within their jurisdiction. Certain WAWSA member water systems are protected under U.S.C.A. 1926b – a federal law that protects rural water systems with outstanding USDA Rural Development loans from encroachment of other public and private water sellers that may threaten their loan repayment. Up until this point, WAWSA member systems were committed to allowing the private water developers to continue their existing operations. McKenzie County Water Resource District directly lost close to \$100,000 due to a letter the IWP sent to the Corp of Engineers protesting an easement the Corp had granted. This was after the comment period had ended. This also set the depot on the south side of Williston back 4-6 weeks causing lost revenue.

The IWP is now calling for WAWSA to delay the development of future water depots and limit water sales of currently planned depots to only two ports. This is, simply put, financially not feasible. A reduction of all WAWSA depots to only two ports would jeopardize the ability of WAWSA to repay its debts, which would not only jeopardize the system's ability to function, but it would also put the State coffers at risk.

Between the IWP member demands and the most recent intentions by private parties who intend to divert water from the Missouri River and create massive pipeline systems to sell significant amounts of water to the oil industry in the WAWSA service area, we have serious financial concerns for our system and for our State.

The success of this public water system and the communities it serves is heavily dependent on water sales to the oil companies. We take our commitment to provide drinking water to our member system service areas very seriously, and we take the repayment of our loan obligations equally seriously. WAWSA will continue to try to find common ground with the IWP on certain issues, but we are unwilling to sacrifice the financial future of our region and our State.

Looking Towards the Future:

As stated earlier, explosive population growth continues to impact demands for drinking water in the region. The importance of this project cannot be overstated. It is simply one of the most critical elements of infrastructure for northwest North Dakota.

Expansions to elements of the system currently under construction as well as design and construction for Phases III and IV will need continued support from North Dakota legislators. The impacts from oil production in the area have now forced us to expand the system beyond what was originally conceptualized. WAWSA is currently completing a preliminary engineering effort to further define the total rural water need in the region, and as new population projections become available the project will continue to be revised. This expansion, of course, also affects the bottom line. The Authority has

determined that the project will need approximately \$80 million of funding in the next biennium to meet the water demands of the region. Of this \$80 million, approximately \$60 million is estimated to complete the expanded original project (an increase from the \$40 million estimated in 2010). An additional \$20 million is needed to build initial rural expansion to meet part of the large increase in rural demands.

Every day brings new opportunities and challenges in the oil patch. The Authority is determined to do our part in providing good quality drinking water to the citizens of the region in order to minimize impacts and provide opportunities for the region to flourish during this historic time in our State.

On behalf of the Western Area Water Supply Authority and its Board of Directors, we want to express our appreciation for the time we were given today and look forward to the continued support and successful completion of the WAWSP over the next three years.