

Montana's Water -- Where is it? Who can use it? Who decides? House Joint Resolution No. 4

"A river is more than an amenity, it is a treasure."

Justice Oliver Wendell Holmes (quoted by the Supreme Court in its decision in U.S. v. Republic Steel, 1960)

Report to the 59th Legislature of the State of Montana

Legislative Environmental Quality Council

April 27, 2004

Montana's Water -- Where is it? Who can use it? Who decides? House Joint Resolution No. 4

September 2004

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House Joint Resolution No. 4 Study Staff

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Introduction -- Environmental Quality Council Study -- A Review of the Interim

The Environmental Quality Council (EQC) is a 17-member, bipartisan interim committee of the Montana Legislature. The 2003 Legislature, through House Joint Resolution No. 4 (HJR 4) (see Appendix 1), asked the appropriate interim committee to investigate options for improving the supply and distribution of water in Montana and to evaluate the water storage policy of the state.

More specifically, HJR 4 requested that the appropriate interim committee address the following issues.

- (1) evaluate the efficiency of water distribution systems;
- (2) evaluate measures that promote the efficient use of water;
- (3) evaluate return flow impacts;
- (4) study water banking as a means to alleviate water shortages;
- (5) investigate options for improving the supply and distribution of water in Montana, including the development of offstream storage facilities;
- (6) evaluate the water storage policy established in section 85-1-703, MCA; and
- (7) evaluate the effects of excessive fuel levels on federal and state timbered lands to determine the impacts of the use of available water by timber versus the amount of water release by a watershed into Montana watercourses.

HJR 4 also requested that the EQC prepare a report of its findings and conclusions and identify options and make recommendations, including legislation if appropriate, to the 59th Legislature.

To carry out the responsibilities assigned to them by House Joint Resolution No. 4 (2003), the EQC adopted a study work plan that outlined their tasks. The work plan provided direction to the EQC throughout the interim. The EQC assigned .75 FTE of the EQC's staff time to the study.

Nature and Scope of the EQC Water Quantity Study

HJR 4 was extremely broad with respect to the number of issues that it asked the EQC to evaluate. Because of this large scope and in an effort to prioritize its workload, at its September 2003 meeting, the EQC heard from a panel of professionals involved in Montana's water resources. The panel was charged with identifying the primary water policy issues that they felt were facing Montana. The panel members were attorneys and staff who historically represent state government, hydro-power, agricultural water users, fish and wildlife, recreation, and watershed groups. The panel members all felt that the one issue that needed to be addressed before the issues identified in HJR 4 could be adequately addressed is Montana's water adjudication. Therefore, the EQC chose to study the water adjudication program in addition to a few of the items that were requested to be studied in HJR 4. Because of the time limitations of the interim, the EQC spent a majority of its water policy study on the adjudication program with informational updates on other water policy topics.

Review of the Interim

To carry out the work plan that the Council adopted, the Council outlined the goals and tasks

necessary to complete the study by September 15, 2004. The Council made an effort to include an opportunity for public comment regarding the adjudication program in addition to any other issues that were not covered on each meeting's agenda. The Council's study process throughout the interim is outlined below.

Environmental Quality Council Interim Study Process for Water Policy Issues

June, 2003

- Identify Water Policy Priorities
- Generate Draft Study Work Plan Tasks
- Drought Update

October, 2003

HJR 4: Water Management Study

- Review and discuss bibliography of water policy information.
- Identify areas where more information is needed.
Discuss public input needs and methods for obtaining public input.
- Discuss when and where public input would be obtained.
- Identify primary water policy issues facing the state.
- Montana water law and the impacts on water policy issues identified in HJ 4.
- Identify specific issues for further study.

Total Maximum Daily Loads

- Review and discuss history of TMDL development in Montana.
- Identify areas where more information is needed.
- Review primary issues in court cases related to TMDLs.
- Discuss 303(d) list, how it is established, the 1996 list vs. subsequent lists, sufficient/credible data requirements.
- Update on TMDL progress for 2003.
- Review the TMDL schedule developed as a result of the court imposed deadline.

January, 2004

HJR 4: Water Management Study

- Review statutes and water policies from states in region regarding supply and distribution of water.
- Status of supply and distribution of water in Montana.
- Supply and distribution of water and the relationship with federal policies and programs.
- Review and evaluate the water storage policy contained in 85-1-703, MCA.
- Accuracy in the water adjudication process.
- Enforcement of water rights.
- Federal Reserved water rights and their relationship with the adjudication process
- Review DNRC/EQC water rights handbook.

- Review website feedback form and discuss information received to date

Coal Bed Methane Issues

- Review primary issues in litigation related to CBM development.
- Review and discuss water policy report from 2001-2002 interim regarding CBM issues.
- Discuss correlation between TMDLs and CBM water management.
- Update from Board of Oil and Gas on number of wells permitted and current CBM activity.
- Panel discussion regarding Montana/Wyoming issues.

Total Maximum Daily Loads

- Update on TMDL progress for 2004.
- Discussion regarding computer modeling as an approach to completing TMDLs.

March, 2004

HJR 4: Water Management Study

- Review of progress related to specific issues identified in the work plan.
- Review work plan. Make changes if necessary.
- Discussion of feedback from web site form.
- Water banking as a means to alleviate water shortages in Montana.
- Institutional objectors in water adjudication.
- Paying for water adjudication.
- Surface water and ground water connectivity

TMDLs

- Update on TMDL progress for 2004.

May, 2004

HJR 4: Water Management Study

- Review of progress related to specific issues identified in the work plan.
- Review work plan. Make changes if necessary.
- Discussion of feedback from web site form.
- Discussion on the capture and use of flood waters.
- Water right permit and change process.
- Preliminary discussion on findings and conclusions.
- Identify specific areas of water policy statutes that need to be changed or modified (if any).
- Develop options (if any) for proposed legislation for decision at July meeting.

July, 2004

HJR 4: Water Management Study

- Decision on whether or not to recommend changes or additions to water policy statutes.
- Discussion and preliminary decision on findings and recommendations
- Review of draft report
- Receive update from DNRC on Renewable Resource Grant and Loan Program

Coal Bed Methane Issues

- Decision on whether or not to recommend changes or additions to CBM statutes.
- Discussion and preliminary decision on findings and recommendations regarding CBM.
- Review of draft report

Total Maximum Daily Loads

- Decision on whether or not to recommend changes or additions to TMDL statutes.
- Discussion and preliminary decision on findings and recommendations regarding TMDLs.
- Review of draft report

July 24 - August 22 , 2004

- Last dates to revise and distribute draft reports and concepts for proposed legislation for public review and comment

August 29, 2004

- Compile and distribute comments on draft documents to subcommittee members

September, 2004

- Final decision on content of proposed legislation, if any.
- Selection of bill sponsors. Development of strategy.
- Approval of report on water policy issues and HJ4.
- Approval of report on CBM activities during the interim.
- Approval of report on TMDL activities during the interim.

Chapter II. Findings and Recommendations

The EQC reviewed numerous in-depth papers throughout the interim related to the information described in their interim work plan. The detailed information is provided in more detail at the end of this report. In an effort to make it easier for readers to find the answers to their specific questions about the Council's work, the chapter that addresses each finding and recommendation is cited.

- Is there existing information that will help the EQC and the Legislature understand water quantity issues in Montana? (Chapter III)**

Finding:

(1) There is an extensive amount of information available regarding water quantity and quality. However, the information seems to be housed by different entities - Federal, State, and Private. There appears to be a lack of coordination on what information exists and where existing information is located.

Recommendation:

(1) State agencies and others should make every effort to keep each others informed regarding the types of information that is available including research, data, studies, papers, funding sources, and other pertinent information.

(2) Support the development and use of a web based clearing house for water information.

Montana Water Law and the Impacts on Water Policy Issues Identified

Findings:

(1) The Montana Water Court plays a critical role in the facilitation of the water adjudication in a timely fashion.

(2) There is extensive case law that exists in Montana and surrounding Western states regarding water resources and their allocation. The case law and the statutory interpretation by the judiciary plays a critical role in how water policy is developed and implemented in Montana.

Recommendations:

(1) Request that the Chief Water Judge complete development of the Water Court Rules of Procedure including rules regarding to the use of the Court's On Motion authority for submission to the Supreme Court by ???????.

(2) Amend the Montana Code Annotated so that the Chief Water Judge position is an elected position similar to existing District Court Judges rather than the existing format that relies solely on the Chief Justice of the Supreme Court to appoint the Chief Water Judge

Adjudication process and time lines (Chapter IV)

Findings:

(1) Montana's adjudication program has been operating for over 25 years. The purpose of the adjudication is to provide an accurate adjudication of all water rights that existed prior to 1973. A process that takes this long is unfair to the people of Montana and may adversely impact the accuracy of the end product. It is critical that the speed of the adjudication be increased.

Recommendations:

(1) Obtain a commitment from the DNRC, the Water Court, and the Compact Commission that they will improve elements of the adjudication program that can be addressed and remedied in their respective part of the program.

(2) Implement a variable beneficial use fee mechanism for the purpose of adequately funding Montana's water adjudication program.

Supply and distribution of water in Montana (Chapter V)

Findings:

(1) Montana's water supply is primarily the result of snowpack and inflows.

(2) Montana is facing its 7th year of drought

- (3) Montana has historically been active in the development of water storage facilities
- (4) Federal policies are changing with regard to water storage facilities and the Federal government's willingness to help fund these types of programs
- (5) The Governor is required by statute to report to each Legislature on the status of water storage in Montana.
- (6) DNRC has an ongoing effort to identify opportunities and limitations for water storage in Montana.
- (7) Efficiency of water use has pros and cons associated with it. For example, in some instances, more efficient use of irrigation water means less return flows and aquifer recharge.

Recommendations:

- (1) Continue biannual reporting by the Governor
- (2) Continue DNRC effort of evaluating alternatives for additional storage in Montana

Water Banking (Chapter VI)

Findings:

- (1) Water banking is an alternative that works in some Western States
- (2) Montana does not appear to have the physical structures available that would be needed for water banking to work well in Montana
- (3) There are existing water marketing alternatives currently available under Montana law therefore there is not a need for adding more.

Recommendation:

- (1) Do not pursue water banking in Montana at this time

Surface water - Ground Water Connectivity (Chapter VII)

Findings:

- (1) The surface water - ground water connectivity issue is complex and site specific
- (2) There are programs that exist to map Montana's groundwater resource so that it will be easier to determine the level of connectivity, if any, in a given area.

Recommendations:

- (1) None

Federal and Tribal Reserved Water Rights (Chapter VIII)

Findings:

- (1) The Montana Reserved Water Rights Compact Commission negotiates compacts with holders of reserved water rights on behalf of the State of Montana.
- (2) Montana is faced with two options
 - (a) Continue to negotiate reserved rights
 - (b) Enter into litigation for the settlement of the reserved rights

Recommendations:

(1) Continue to negotiate reserved water rights through the Montana Reserved Water Rights Compact Commission

Water adjudication (Chapter IX)

Findings:

(1) To complete the adjudication in a timely manner, by 2021, funding must be increased to the DNRC for the purpose of expediting claims examination and to the Water Court for the purpose of handling the increased case load.

(2) DNRC's water rights database . . . ????????

(3) The Chief Water Judge position would be more accountable to the people of Montana if it was an elected position rather than an appointed position.

(4) The Supreme Court Claims Examination rules are working well for the purpose of identifying issues associated with claims

(5) Accuracy of the current adjudication program can not be easily determined at this time.

(6) The Water Court needs to operate under rules that all clients of the Water Court understand and know exist.

(7) The enforcement process seems to be working well. There are a limited number of basins currently being enforced. As this tool is used more in subsequent years it will be easier to gauge whether the enforcement procedures work well.

(8) Basins that were review by DNRC using the verification process prior to the development of the Supreme Court examination rules are in need of reexamination.

Recommendations:

(1) Obtain a commitment from the DNRC, the Water Court, and the Compact Commission regarding elements of the adjudication program that can be addressed and remedied by each part of the program.

(2) Implement a variable beneficial use fee mechanism for the purpose of adequately funding Montana's water adjudication program. ??????????????

(3) Request that the Chief Water Judge complete development of the Water Court Rules of Procedure including rules regarding to the use of the Court's On Motion authority for submission to the Supreme Court by ????????

(4) Amend the Montana Code Annotated so that the Chief Water Judge position is an elected position similar to existing District Court Judges rather than the existing format that relies solely on the Chief Justice of the Supreme Court to appoint the Chief Water Judge ??????????

(5) Direct DNRC to place the water adjudication program as a top priority. ??????????

(6) Direct DNRC to make the water rights database fully functional by ????????????

Chapter III: Existing Water Policy Information Available

Document	Date	Contact Information	Web Link
MT Nonpoint Source Management Plan	5/01	Carole Mackin 444-7425	http://www.deq.state.mt.us/ppa/nonpoint/NonpointPlan.asp
Water Pollution Control State Revolving Fund Intended Use Plan and Project Priority List	1/22/03	Todd Teegarden 444-5324	http://www.deq.state.mt.us/ppa/tfa/srf/wtr_pol_cntrl/lup-ppl/pastiupppl.asp
Introduction to TMDLs	2001	Carole Mackin	http://www.deq.state.mt.us/ppa/mdm/TMDL/pdf/TMDLbrochure.pdf
Final Reports for Completed TMDL's	2003	Carole Mackin	http://www.deq.state.mt.us/ppa/mdm/TMDL/finalReports.asp
MT 303d list	2002	Bob Barry 444-5342	http://nris.state.mt.us/wis/envirnet/2002_303dhome.html
MT Stream Management Guide	1998	Bob Bukantis 444-5320	Not online but copies are available through DNRC or DEQ

Water Policy Information Available from DEQ, DNRC, and FWP

Document	Print or Update Date	Contact Information	Web Link
State Water Plan Development: A revised Approach	January 1987	Mt DNRC	None
Montana State Water Plan Handbook	January 1993	MT DNRC	None
State Water Plan Implementation Update	Sept. 1993	MT DNRC	None
State Water Plan Evaluation – Decision Summary	Nov. 1994	Mt DNRC	None
Evaluation of the State Water Planning Process	Developed August 22003	Rich Moy, Chief, Water Mgmt Mt DNRC	None

and Implementation			
<i>Issues In Water Management: An Evaluation of Montana's Water Policy</i>	January 1981	DNRC	None
Liquid Assets: A Report to the 46 th Legislature	March 1979	DNRC	None
Report of the Select Committee on Water Marketing, 49 th Legislature	January 1985	EQC	None
Agricultural Water Use Efficiency, State Water Plan Subsection	1989	DNRC	None
Agricultural Water Use Efficiency, State Water Plan Issue Paper No. 3	May 20, 1988	DNRC	None
Instream Flow Protection – State Water Plan Subsection	1989	DNRC	None
Instream Flow Protection – State Water Plan Issue Paper No. 2	April, 1988	DNRC	None
Federal Hydropower Licensing and state Water Rights – State Water Plan Subsection	1989	DNRC	None
Federal Hydropower Licensing and State Water Rights – State Water Plan Issue Paper No. 4	April 1988	DNRC	
Water Information System – State Water Plan Subsection	1989	DNRC	None
Montana Information System – Issue Paper No. 1	April 15, 1988,	DNRC	None
Water Storage –	1990	DNRC	None

State Water Plan Subsection			
Water Storage Regulations – Background paper, State Water Plan	Feb 1990	DNRC	None
Water Storage In Montana, A report to the 57 th Montana Legislature	2001	DNRC (Rich Moy or Jesse Aber)	None
Water Storage In Montana, A report to the 56 th Montana Legislature	1999	DNRC (Rich Moy or Jesse Aber)	None
Water Storage In Montana, A report to the 55 th Montana Legislature	1997	DNRC (Rich Moy or Jesse Aber)	None
Water Storage In Montana, A report to the 54 th Montana Legislature	1995	DNRC (Rich Moy or Jesse Aber)	None
Water Storage In Montana, A report to the 53 rd Montana Legislature	1993	DNRC (Rich Moy or Jesse Aber)	None
Water Storage In Montana, A report to the 52 nd Montana Legislature	1991	DNRC (Rich Moy or Jesse Aber)	None
Montana Water Storage Status Report	Jan. 1989	DNRC (Rich Moy)	None
State Water Conservation Projects	March 1977	DNRC (Moy or Kevin Smith)	None
The Use of Water user Fees to Repay the Cost of Rehabilitating State Water Projects (required by SB 313 in 1991)	June 1992	DNRC	None
A Study: The Feasibility of Assessing Recreational User Fees to Repay Water Storage	July 13, 1992	MT DFWP	None

Project Costs			
Reconnaissance Investigation of Damsites – Upper Clark Drainage Basin, for Headwaters RC&D, by Aquoneering	June 1990	Headwaters RC&D	None
Drought Management – State Water Plan Subsection	1990	DNRC	None
The Montana Drought Response Plan	1995	DNRC	http://nris.state.mt.us/drought/committee/DroughtP.pdf
Integrated Water Quality and Quantity Management – State Water Plan Subsection	1992	DNRC	None
Upper Clark Fork Basin Water Management Plan – State Water Plan Subsection	1994	DNRC	None
Montana Groundwater Plan – State Water Plan Subsection	1999	DNRC	http://www.dnrc.state.mt.us/wrd/gw_plan.htm
<i>Issues in Ground Water Management</i> By Governors Ground Water Advisory Council	January 1985	DNRC	None
<i>Musselshell River Basin Water Management Study</i>	June 1998	US BOR, DNRC, Upper Musselshell Water Users and Deadmans Basin Water Users (Rich Moy DNRC)	None
<i>Clark Fork Basin Project: Status Report and Action Plan, Office of Governor, Howard Johnson & Carole Schmidt</i>	December 1988	DNRC (Moy)	None

<i>Boundaries Carved In Water: An Analysis of River and Water Management in the Upper Missouri Basin,</i>		Northern Lights Institute.	None
<i>A Water Protection Strategy for Montana,</i> by Wright Water Engineers, Frank J. Trelease, ESA & DNRC	Sept 1982	DNRC, (Rich Moy)	None
Order of Board of Natural Resources Establishing Water Reservation (Yellowstone River)	December 1978	DNRC	None
Yellowstone River Basin Water Reservation Applications EIS, Vol I & II	Dec. 1976	DNRC	None
<i>Water Reservations and Water Availability in the Yellowstone River Basin</i>	May 1982	DNRC	None
<i>Lower Missouri River Basin – Final Order, Est. Water Reservations on the Lower Missouri River</i>	Dec. 1994	DNRC (Moy / Larry Dolan)	None
<i>Lower Missouri River Basin – Final EIS, Est. Water Reservations on the Lower Missouri River</i>	Aug 1994	DNRC (Moy / Larry Dolan)	None
<i>Missouri River Basin – Final Order for Water Reservation above Fort Peck Dam</i>	July 1992	DNRC (Moy / Larry Dolan)	None
<i>Missouri River Basin – Final EIS for Water Reservation</i>	January 1992	DNRC (Moy / Larry Dolan)	None

<i>above Fort Peck Dam</i>			
<i>Upper Clark Fork Basin Water Reservation Applications – Final Environmental Impact Statement</i>	January 1991	DNRC (Moy)	None
<i>Water Right Claims Examination Rules Adopted by the Montana Supreme Court</i>	Jan 1991	Mt Water Court or Mt DNRC (Jim Gilman)	None
<i>Proposed Water Right Claim Examination Rules, State Law Library</i>	April 2002	Mt Water Court	http://www.dnrc.state.mt.us/wrd/home.htm
<i>Adjudication Claims Examination Manual</i>	May 1995 editions	DNRC (Jim Gilman)	http://www.dnrc.state.mt.us/wrd/home.htm
<i>Adjudication Status Report (web based)</i>	January 2003	DNRC (Jim Gilman)	http://www.dnrc.state.mt.us/wrd/home.htm
<i>Report of the Montana Water Adjudication Advisory Committee to the Montana Supreme Court & 55th Legislature</i>	October 1996	Mt Water Court	None
<i>Evaluation of Montana's Water Rights Adjudication Process, Sanders, Snyder, Ross and Dickson, P.C.</i>	Sept 30, 1988	DNRC (Tim Hall)	None
<i>State ex rel. Greely V Confederated Salish and Kootenai Tribes of Flathead Reservation, Mont 7122.d 754</i>	1985	Mt Law Library	?
<i>In The Matter of Water Court Procedures Addressing Factual and Legal issues Raised "On Motion" of the Water Court, Case No. WC-92-3</i>	1993	MT Water Court	None

<i>Joint Amicus Brief of DNRC and Attorney General on Water Court Procedures: In The Matter of Water Court Procedures Addressing Factual and Legal issues Raised "On Motion" of the Water Court, Case No. WC-92-3</i>	March 23, 1993	DNRC or Ag Office	None
<i>Proposed Water Court "On Motion" Procedures, Office of Montana Attorney General</i>	Sept. 10, 2003	AG's office Ms Candace West	None
<i>Montana Water Rights</i>	December 2001	DNRC – Curt Martin	http://www.dnrc.state.mt.us/wrd/home.htm
<i>Water Use In Montana – 1980</i>	1982	DNRC	
<i>The Framework Report: A Comprehensive Water and Related Land Resources Plan for the State of Montana</i>	Oct 1976	DNRC	None
<i>Upper Missouri River Basin Level B Study Report and Environmental Impact Statement</i>	March 1981	Missouri River Basin Commission	None
<i>Report on the Yellowstone Basin and Adjacent Coal Area, Level B Study</i>	May 1978	Missouri River Basin Commission	None
<i>Clark Fork of the Columbia River Basin Cooperative Study</i>	1977	USDA SCS & DNRC	None
<i>Clark Fork of the Columbia River Basin Cooperative Study – Watershed Investigation Reports</i>	1977	USDA SCS & DNRC	None
<i>Flint Creek Return</i>	Dec. 1997	DNRC, US BOR, MBMG	None

<i>Flow Study, MBMG Open File Report 364</i>		& USGS	
<i>North Fork Blackfoot River Hydrologic Study</i>	March 2001	DNRC	None

Chapter IV: CHRONOLOGY OF MONTANA'S WATER ADJUDICATION PROCESS

The adjudication of water in Montana has been a topic of discussion and work for 25 years in varying forms and applications. The process has continued to evolve with input from individuals and entities who have experience with the system as water users, attorneys, tribes, judges, water masters, department personnel, and legislators. This document is an attempt to provide a chronology of how the adjudication process has evolved and to document where we've been in an effort to determine where we want to go with adjudication in the future. The chronology is fairly lengthy but will provide a good overview of how the process has progressed and some of the challenges it has faced over the years.

CHRONOLOGY OF MONTANA'S WATER ADJUDICATION PROCESS

1972	<p>1972 Montana Constitution. Article IX, section 3. Water rights. (1) All existing rights to the use of any waters for any useful or beneficial purpose are hereby recognized and confirmed.</p> <p>(2) The use of all water that is now or may hereafter be appropriated for sale, rent, distribution, or other beneficial use, the right of way over the lands of others for all ditches, drains, flumes, canals, and aqueducts necessarily used in connection therewith, and the sites for reservoirs necessary for collecting and storing water shall be held to be a public use.</p> <p>(3) All surface, underground, flood, and atmospheric waters within the boundaries of the state are the property of the state for the use of its people and are subject to appropriation for beneficial uses as provided by law.</p> <p>(4) The legislature shall provide for the administration, control, and regulation of water rights and shall establish a system of centralized records, in addition to the present system of local records.</p> <p>Convention Notes: (1) New provision guaranteeing all existing rights to the use of water. (2) No change except in grammar. (3) New provision recognizing state ownership of all water subject to use and appropriation by its people. (4) New provision requiring Legislature to pass laws establishing a central records system so that records of water rights may be found in a single location as well as locally.</p>
Pre-July 1973	<p>A person could gain a right to use water simply by putting the water to beneficial use. Some efforts were made to document water use through filings in government offices or through District Court decrees, but no one knew for sure how many water rights were claimed or how much water was appropriated from Montana streams. Water rights put to beneficial use prior to July 1, 1973, are called "existing water rights".</p>

July 1, 1973	Water Use Act became effective. After the effective date of this act, any person seeking to appropriate water or to change an existing right was required to obtain a permit from the Department of Natural Resources and Conservation (DNRC). DNRC was also directed to establish a centralized record system of existing rights and to begin proceedings to determine existing rights through the appropriate District Court. The first effort to accomplish this daunting task was in the Powder River Basin. After 6 years, completion of the first basin was not in sight.
1975	Northern Cheyenne Tribe files lawsuit. The Northern Cheyenne Tribe filed a lawsuit in the United States District Court to adjudicate water rights in the Tongue River and Rosebud Creek. The United States filed two more lawsuits in the United States District Court for the same purpose, in its own right and as fiduciary on behalf of the Northern Cheyenne and other reservation tribes. [<i>United States v. Adsit</i> was consolidated with <i>Northern Cheyenne v. Tongue River Water Users Assn.</i> , CV-75-20BLG (D.C. Mont.)] [<i>Northern Cheyenne v. Adsit</i> , 668 F. 2d 1080, 1082 (CA 9th 1982)]
1977	House Bill 809 and HJR 81. In 1977, HB 809, calling for a General Revision of Laws Relating to Water Rights Adjudication, passed the House and was tabled in the Senate. HJR 81 was then passed to perform an interim study on determining existing water rights. [<i>House Joint Resolution 81, Laws of 1977</i>]
1978	Subcommittee on Water Rights submitted its Determination of Existing Water Rights Report to the Legislature and recommended a comprehensive statewide adjudication of water rights be processed through a state water court system.
1979	The United States filed four more lawsuits in United States District Court seeking a declaration of water rights on behalf of the United States and four additional tribes. [<i>United States v. Aageson</i> , CV-79-21GF (D.C. Mont. 1979); <i>United States v. Aasheim</i> , CV-79-40BLG (D.C. Mont. 1979); <i>United States v. AMS Ranch</i> , CV-79-22GF (D.C. Mont. 1979); <i>United States v. Abell</i> , CV-79-33M (D.C. Mont. 1979)]
May 11, 1979	Senate Bill 76 became effective. SB76 set up the current process for adjudicating existing water rights. It divided Montana into four water divisions and called for four judges, commonly known as the Water Court, to adjudicate all existing water rights in a statewide proceeding. At the same time, the Reserved Water Rights Compact Commission was created to negotiate federal and Indian reserved water rights. [<i>Chapter 697, Laws of 1979</i>]
June 8, 1979	Montana Supreme Court issued an Order requiring every person claiming ownership of an existing water right to file a claim with DNRC. Claims not timely filed will be lost as the statutory conclusive presumption is that the water right is abandoned. [<i>Supreme Court Order No. 14833, dated June 8, 1979</i>]

November 29, 1979	United States District Court dismisses all seven federal lawsuits. Appeal is taken. [<i>Northern Cheyenne Tribe v. Tongue River Water Users Association; United States v. Tongue River Water Users Association; United States v. Big Horn Low Line Canal; United States v. Aageson; United States v. Aasheim; United States v. AMS Ranch; United States v. Abell</i> , 484 F. Supp. 31 (D.C. Mont. 1979)]
May 11, 1979 - April 30, 1982	Claim filing period. The original filing deadline was January 1, 1982. The Montana Supreme Court extended the deadline to April 30, 1982.
April 30, 1982	Filing deadline. 200,000+ claims were submitted. Timely filed statements of claims, by statute, are prima facie proof of their content. Prima facie proof means "a fact presumed to be true unless disproved by some evidence to the contrary".
February 22, 1982	Ninth Circuit reversed the dismissal of the federal lawsuits. [<i>Northern Cheyenne v. Adsit</i> , 668 F. 2d 1080 (CA 9th 1982)]
July 1, 1983	U.S. Supreme Court reversed the Ninth Circuit and remanded the cases for further proceedings. The U. S. Supreme Court left open for determination on remand whether the proper course in such cases is a stay of the federal suit or dismissal without prejudice. The Supreme Court stated that resort to the federal forum should remain available if warranted by a significant change of circumstances. [<i>Arizona v. San Carlos Apache Tribe of Arizona</i> , 463 U.S. 545 (1983)]
December 9, 1983	On remand, the Ninth Circuit held that the question of jurisdiction under state law is one to be resolved by the state courts and that the question of adequacy of the state proceedings is to be decided by the state courts. The federal proceedings were stayed until the state court proceedings were concluded. [<i>Northern Cheyenne v. Adsit</i> , 721 F.2d 1187, 1188-1189 (CA 9th 1982)]
April 30, 1982 - November 11, 1985	Claims verified, decrees issued. DNRC verified claims by using their field office employees to review claims and compare them against aerial photos and the water resources survey published from 1943 through 1972 for the pertinent county. If DNRC found a problem with a claim, such as a problem with the amount of water that was claimed as historically used in comparison to a standard flow rate of 17 gallons per minute per acre or a point of diversion that was incorrectly described when compared to the claimant's map, they could change the claimed information before the decree was issued by the Water Court. The claimant would then have to object if the claimant disagreed with the change. Approximately the first 20 basins were decreed this way.
June 18, 1985	Pettibone decision The Montana Supreme Court ruled that the state of Montana is the owner of water rights appurtenant to school trust lands, not the lessee. [<i>Department of State Lands v. Pettibone</i> , 216 M 361, 702 P.2d 948]

July 17, 1985	<p>Department of Fish, Wildlife, and Parks filed a writ of supervisory control against the Water Courts with the Montana Supreme Court based on the following factors:</p> <ul style="list-style-type: none"> • substantive errors in decreed water rights • procedural law errors in the Water Court adjudication process • accuracy and validity of decrees <p><i>[Montana Supreme Court Cause No. 85-345]</i></p>
December 18, 1985	<p>Montana Supreme Court ruled that the Water Court has the authority to adjudicate water right claims on all Indian reservations. The Supreme Court further concluded that the Water Use Act is adequate on its face to adjudicate both Indian and federal reserved rights. A challenge could later be brought as to how the statutes were applied. <i>[State ex rel. Greely v. Confederated Salish and Kootenai Tribes, 219 Mont. 76, 95, 712 P.2d 754 (1985)]</i></p>
1985	<p>Fort Peck Indian Reservation Compact. Negotiations between the Compact Commission and the Assiniboine and Sioux Tribes of the Fort Peck Indian Reservation were successfully concluded in 1985. The Compact was approved by the Water Court. Portions of the Compact are still awaiting Congressional approval. <i>[85-20-201, MCA]</i></p>
February 19, 1986	<p>Stipulation was signed by 22 attorneys as a result of the FWP challenge to the adjudication. This stipulation helped separate the role of DNRC and the role of the Water Court. It provided that "the verification that was performed by DNRC shall be limited to a factual analysis of water right claims for accuracy and completeness and the identification of issues." Since DNRC could rarely change any water rights before they were decreed, it started filing thousands of objections to allegedly inaccurate water right claims as a general objector. <i>[Montana Supreme Court Cause Nos. 85-345, 85-468, 85-493]</i></p>
March 12, 1986	<p>Chief Water Judge sent a letter to DNRC stating that "the conception of the accurate and legally defensive adjudication is with this Court." The DNRC withdrew thousands of objections in 1987 based on this representation. <i>[Letter from Water Court to DNRC, dated March 12, 1986, p. 2, and letter from DNRC to Water Court dated July 7, 1987]</i></p>
April 8, 1986	<p>Montana Supreme Court ruled that no matter how the water right is expressed in the decrees of the Water Court, either in flow rate or in acre feet or a combination thereof, such expression of amount is not the final determining factor. Beneficial use shall be the basis, the measure and the limit of all rights to the use of water. <i>[McDonald v. State, 220 Mont. 519, 530 (1986)]</i></p>
Spring 1986	<p>DNRC drafted a set of rules for claim examination. DNRC intended to adopt the rules pursuant to the Montana Administrative Procedure Act (MAPA).</p>

Summer 1986	Water Court Orders were issued that directed DNRC to reexamine certain groups of claims (mostly commercial, mining, power generation, fish and wildlife) in 5 basins. The basins were 43B, 76G, 41K, 41E, and 41H. <i>[Basin 43B File, Basin 76G File, Basin 41K File, Basin 41E File, Basin 41H File]</i>
July 23, 1986	Water Court Order was issued prohibiting DNRC from adopting claim examination rules under MAPA. <i>[Water Court MAPA File]</i>
August 7, 1986	DNRC issued rules informally for public comment.
August 8, 1986	Water Court Order was issued that DNRC take no further action on the examination rules without express authorization of the Water Court. <i>[Water Court MAPA File]</i>
August 20, 1986	DNRC appealed the Water Court Orders to the Montana Supreme Court.
September 26, 1986	Based on a September 25, 1986, motion by DNRC, the Water Court ordered that the reexamination of 4 of the 5 basins it had initially ordered DNRC to reexamine be stopped. The stay was requested on the grounds that: <ul style="list-style-type: none"> • the Orders are premature as no new verification or examination procedures have been adopted • the Orders are contrary to the Stipulation • the United State of America has not asked for reexamination by any procedure other than that set out in the Stipulation • the Orders to reexamine the basins pending the outcome of the MAPA litigation in the Supreme Court will result in the waste of judicial and administrative functions. The Water Court issued its stay Order "without conceding any of the allegations of this motion". <i>[76G Basin File, 41K Basin File, 41E Basin File, 41H Basin File]</i>
February 3, 1987	Legislative Joint Appropriations Subcommittee on Natural Resources cut \$500,000 per year from the adjudication program budget.
March 31, 1987	Decision issued by the Montana Supreme Court in <u><i>In re Department of Natural Resources & Conservation, 226 Mont. 221, 236, 740 P.2d 1096 (1987)</i></u>. The decision: <ul style="list-style-type: none"> • affirmed the Water Court's Orders • declared that the Supreme Court itself would promulgate rules to cover water right claim examination • directed the Water Court and DNRC to submit draft rules
July 1, 1987	Effective date of reduced adjudication program budget. Staff was reduced from 37.72 FTE to 20 FTE for FY88 and FY89 with 13 FTE in regional offices.

July 7, 1987	<p>Supreme Court issued the Claim Examination Rules. The effective date of the rules was July 15, 1987. Public comment was allowed to be submitted until March 15, 1988. Comments were received from:</p> <ul style="list-style-type: none"> • Confederated Salish and Kootenai Tribes • Department of Fish, Wildlife, and Parks • Department of Natural Resources and Conservation • Montana Power Company • United States of America • Washington Water & Power • Montana Water Court <p><u><i>[Order Adopting Water Right Claim Examination Rules, Matter of Activities of the Department of Natural Resources & Conservation, Supreme Court Order No. 86-397, dated July 7, 1987]</i></u></p> <p>As a result of the Supreme Court rules, DNRC puts "issue remarks" on any claim that they feel isn't accurate based on their research into the specific claim. Through the verification process that was used prior to the examination process, DNRC could put "gray area remarks" on claim abstracts. Gray area remarks did not cover the range of issues that the current issue remarks cover.</p>
August 19, 1987	<p>Water Court ordered DNRC to report any substantial differences between the claim examination procedures and the verification manual for 5 basins (43Q, 41G, 40K, 40C, and 41C) . DNRC and the Water Court were trying to make the change from the "verification" process, which happened before the Supreme Court MAPA decision, and the "examination" process, which is the current process for DNRC when reviewing claims.</p>
Fall 1987	<p>Water Right Claim Examination Manual was drafted to provide step-by-step procedures for DNRC staff to follow in implementing the Supreme Court Claim Examination Rules.</p>
October 14, 1987	<p>Water Policy Committee of the Legislature hired a Denver law firm as consultants to study the adjudication in Montana and submit a report. This report is often referred to as the "Ross Report" and is approximately 85 pages long with 180 pages of Appendices. The Water Policy Committee was part of the EQC.</p>
December 1987	<p>Claim examination was started in 6 basins using the Claim Examination Rules.</p>
October 1987 - December 1987	<p>Water Court issued Orders denying the reexamination of Basin 40C, 41G, and 40K. In the absence of a show of necessity and in view of the recent reduction in DNRC funding, the Court concluded that it could not justify the costs, in terms of time and money, that would be required to reexamine these basins. <i>[40C Basin File, 40K Basin File]</i></p>

January 4, 1988	<p>U.S. Government filed a Motion before the Water Court to have reexamination comparison reports prepared on all basins in all temporary preliminary and preliminary decrees and have reexamination conducted in those basins on which comparison reports had been written -- 40C, 40K, 41C, 41G, and 43A. Comparison reports addressed the difference between the verification and examination procedures. [<i>Water Court Order No. WC-88-1</i>]</p>
May 10, 1988	<p>Water Court issued an Order and Memorandum denying the U.S. Government motion for reexamination and took the motion for comparison reports under advisement. [<i>Water Court Order No. WC-88-1</i>]</p>
September 30, 1988	<p>Consultant's report was submitted to the Water Policy Committee. The report affirmed Montana's adjudication process and suggested legislative "fine-tuning". The report stated that a process of limiting changes to water rights to their historical use would be a way to catch inaccurate claims in the future. In defense of the accuracy of the adjudication, the report also stated that the Water Court would continue to call in flagged claims (those with gray area remarks) on its own motion. [<i>"Ross Report", pages 56-57, 60-61</i>]</p>
October 19, 1988	<p>Montana Supreme Court's first "Bean Lake" decision. <u><i>In Re Water Rights in Dearborn Drainage Area, 234 Mont. 331, 766 P.2d 228 (1988)</i></u>. The Supreme Court ruled "It is clear therefore that under Montana law before 1973, no appropriation right was recognized for recreation, fish and wildlife, except through a Murphy right statute. The prevailing legal theory was that some form of diversion or capture was necessary for an appropriation even though some forms of nondiversionary water rights were given appropriation status. in this case the Water Court denied the appropriation water right claim ' because of the lack of diversion, intent, and notice.' Whatever the merits of the lack of diversion argument, the DFWP and the public could not have intended an appropriation where none was recognized by law, and for the same reason, adverse appropriators could not have had notice of such a claim. We therefore uphold the Water Court's decision that DFWP, for itself or for the public, had no appropriation right in Bean Lake, and no 'existing right' therein which is protected by Art. IX, Section 3(1) of the Montana Constitution." [See September 24, 2002 -- Supreme Court overruled this decision]</p>
May 10, 1989	<p>Water Court and DNRC jointly submitted proposed revisions to the Claim Examination Rules to the Montana Supreme Court.</p>
Spring 1989	<p>1989 Legislature increased the adjudication program budget by \$150,000 per year for FY90 and FY91. Staff was increased from 20 FTE to 27 FTE with 20 FTE in the regional offices.</p>
July 13, 1989	<p>Montana Supreme Court issued the first Order amending the Claim Examination Rules. The amended rules had an effective date of September 1, 1989. [<i>Montana Supreme Court Cause No. 86-397</i>]</p>

July 17, 1989	Water Court ruled that any claims for existing pre-1973 water rights not filed on or before the April 30, 1982, deadline were forfeited. <i>[Order, Findings, Conclusions, and Memorandum, Water Court Case No. 43B-LC-1]</i>
September 1, 1989	Department of Fish, Wildlife, and Parks was the only party to submit comments and objections to the September 1, 1989, version of the Claim Examination Rules. DFWP's comments were overruled by the Montana Supreme Court on November 2, 1989.
March 29, 1990	Judge W.W. Lessley dies after serving close to 11 years as the first Chief Water Judge of the Montana Water Court.
May 14, 1990	C. Bruce Loble is appointed Chief Water Judge by the Montana Supreme Court.
December 18, 1990	Montana Supreme Court issued the second Order amending the Claim Examination Rules. The amended rules had an effective date of January 15, 1991. <i>[Second Order Amending Water Right Claim Examination Rules, Matter of Activities of the Department of Natural Resources & Conservation, Supreme Court Cause No. 86-397]</i>
May 6, 1992	Montana Supreme Court affirms the July 17, 1989, decision by the Water Court that claims filed after the April 30, 1982, deadline are forfeited. <i>In re Adjudication of Existing Yellowstone River Water Rights, 253 Mont. 167, 832 P.2d 1210 (1992)]</i>
September 1992	Northern Cheyenne Indian Reservation Compact. Negotiations between the Compact Commission and the Northern Cheyenne Tribe were successfully concluded and ratified by the Montana Legislature in 1991. The Water Court approved the Compact. The Northern Cheyenne Compact was ratified by Congress and signed into law in September 1992. <i>[85-20-301, MCA; Public Law 102-374]</i>
1993	National Park Service Compacts for Yellowstone and Glacier Parks and the Big Hole Battlefield. A reserved water rights compact with the National Park Service for Yellowstone and Glacier Parks and the Big Hole Battlefield was finalized and ratified by the Montana Legislature in 1993. The Compact is awaiting Water Court approval. The Compact does not require congressional approval. <i>[85-20-401, MCA]</i>
July 1, 1993	Senate Bill 310 becomes effective. SB310 provided for the conditional remission of the forfeiture of existing water rights caused by the failure to comply with the April 30, 1982, deadline. Water right claimants were given one more opportunity to file a water right claim in the general adjudication. The deadline for filing claims was July 1, 1996. <i>[Chapter 629, Laws of 1993]</i>
July 1, 1993	1993 Legislature reduced adjudication staff from 27 to 23 FTE. The regional office staff was reduced from 20 to 17 FTE, and the Helena central office staff decreased from 7 to 6 FTE.

November 1993	Special legislative session reduced the adjudication budget and eliminated four regional office FTE. There were now 13 FTE in the regional offices. The total program staff was reduced from 23 to 19 FTE.
1995	Little Bighorn Battlefield National Monument and Bighorn Canyon National Recreation Area Compact. The 1995 Legislature ratified a compact for the remaining two Park Service units, Little Bighorn Battlefield National Monument and Bighorn Canyon National Recreation Areas, completing Park Service negotiations for Montana. The Compact is awaiting Water Court approval. The Compact does not require congressional approval. <i>[85-20-401, MCA]</i>
February 8, 1995	Water Court ruled that it has the right to call in claims. This decision is often referred to as the "on motion" decision that was written by Judge Loble. The "on motion" decision provided that the Water Court had the authority to call in claims on its own motion and that there didn't have to be an objector to the claim for the Water Court to call it in. The Water Court did not say when or if it would call claims in "on motion", ruling it was the Water Court's discretion to do so. <i>[In the Matter of the Water Court Procedures In Addressing Factual and Legal Issues Called In "On Motion of the Water Court", Water Court Case No. WC-92-3]</i>
April 13, 1995	1995 Legislature formed an advisory committee. The Legislature required the Chief Water Judge to appoint a committee to provide recommendations on methods to improve and expedite the water adjudication process. The work of this advisory committee resulted in legislation aimed at improving the process. <i>[3-7-103, MCA]</i>
April 13, 1995	1995 Legislature removed DNRC's ability to serve as an "institutional objector" from statute. In order to object to a claim, the objector must have "good cause shown", which means a written statement showing that a person has an <u>ownership interest</u> in water or its use that has been affected by the decree. <i>[Chapter 421, Laws of 1995]</i>
July 13, 1995	Rules for collecting processing fees for late claims were adopted. For claims filed after April 30, 1982, and prior to July 1, 1993, a \$150 processing fee was assessed. The Department was to send a billing invoice to the current late claim owner. The Department was to complete this mailing by June 30, 1996. A state agency filing a late claim had until July 30, 1997, to pay the processing fee to the Department.
October 6, 1995	First late claim processing fee invoice notice was mailed. DNRC received payment on 829 out of a total of 2,050 claims requiring a processing fee. 130 claims were withdrawn or it was determined that they had been filed in a timely manner and were not subject to the late claim status.

April 16, 1996	Second late claim processing fee invoice was mailed. DNRC received payment on 261 out of 1,091 claims that required a processing fee. 51 claims were withdrawn or it was determined that they had been filed in a timely manner and were not subject to the late claim status.
July 1, 1996	Deadline for filing late claims. Approximately 1,950 late claims were received by DNRC, bringing the total late claims filed between April 30, 1982, and July 1, 1996, to 4,986.
September 20, 1996	Judge Loble appointed the members of the Water Adjudication Advisory Committee. The members were: John Bloomquist, Wm. Russell McElyea, and R. Mark Josephson as attorney members and Barry Hedrich, Eugene Manley, and Vernon Westlake as water user members. Ex officio members included: James Dubois, Department of Justice; Harley Harris, Assistant Attorney General; Don MacIntyre, DNRC; and Albert Stone, Professor of Law Emeritus.
October 1, 1996	Report of the Montana Water Adjudication Advisory Committee was presented to the Montana Supreme Court, the 55th Montana Legislature, the Governor of Montana, the Montana Water Court, and the Department of Natural Resources and Conservation. The Committee recommended: <ul style="list-style-type: none"> • amendments to several statutes • that DNRC make greater use of direct claimant contact in its examination process; and • further study of: <ul style="list-style-type: none"> • how exempt claims should be treated in the adjudication; • how to tabulate all existing water rights, permits and change authorizations in a final decree to serve as guidance to water commissioners; • whether there should be an institutional objector in the adjudication process; and • the impact subdivisions may be having on the adjudication process.
March 17, 1997	DNRC began the process of revising the Supreme Court Claim Examination Rules.

<p>March 25, 1997</p>	<p>Benton Lake and Black Coulee National Wildlife Refuges (NWR) Compact. In 1996, a compact between the State and the USFWS was reached for both the Benton Lake and Black Coulee National Wildlife Refuges (NWR). The Compact was ratified by the 1997 Montana Legislature and was signed by Governor Marc Racicot on March 25, 1997. The Compact is in the Water Court process. <i>[85-20-701, MCA]</i></p> <p>Red Rock Lakes NWR Compact A compact for Red Rock Lakes NWR was ratified by the Legislature and signed by the Governor. The Compact has gone through the final federal approval process and is awaiting Water Court approval. It does not require ratification by Congress. <i>[85-20-801, MCA]</i></p> <p>Negotiations concerning the three remaining USFWS units are in progress:</p> <p style="padding-left: 40px;">Bowdoin NWR Charles M. Russell/UL Bend NWR National Bison Range</p>
<p>April 14, 1997</p>	<p>Rocky Boy Indian Reservation Compact A Compact between the State and the Chippewa Cree Tribe of the Rocky Boy Indian Reservation was reached in early 1997. The Compact was ratified by the 1997 Montana Legislature and was signed by Governor Marc Racicot on April 14, 1997. The Compact was approved by the Water Court. The Compact has been ratified by the U.S. Congress. <i>[85-20-601, MCA; Public Law 106-163]</i></p>
<p>April 15, 1997</p>	<p>A list of suggested modifications to the Supreme Court Claim Examination Rules was sent to Judge Loble.</p>
<p>August 29, 1997</p>	<p>The Water Court issued an Order directing DNRC to reexamine 1,122 irrigation claims in the Judith River Basin. The Order came as a result of DNRC's proposal to reexamine the irrigation claims so that the verification process is consistent within the basin. <i>[Basin 41S File]</i></p>
<p>1997</p>	<p>The reserved water rights compact with the Bureau of Land Management for both the Upper Missouri Wild and Scenic River and Bear Trap Canyon Public Recreation Site on the Madison River was finalized in 1997. It does not require ratification by Congress. The Compact must be filed with the Water Court. <i>[85-20-501, MCA]</i></p>
<p>1999</p>	<p>Red Rock Lakes NWR Compact and amendments. The U.S. Fish & Wildlife Service Compact for Red Rock Lakes, which was passed by the 1999 Legislature, required some amendments. The amendments correct errors found in a consumptive use chart within the Compact. The amendments were passed by the 2001 Legislature. They do not change the meaning of the original Compact agreed to by the U.S. Fish & Wildlife Service and the Compact Commission.</p>

1999	<p>Crow Indian Reservation Compact. A compact settlement between the Crow Tribe, the United States, and the Compact Commission passed a special session of the Legislature in 1999. One year later, a Streamflow Management Plan for the Bighorn River was approved by the parties. The Compact must go to Congress. <i>[85-20-901, MCA]</i></p>
1999	<p>House Bill 407 was introduced in the Legislature. HB 407 did not pass the Legislature. The bill sought to require the Water Court to develop rules relating to:</p> <ul style="list-style-type: none"> • the Water Court's "on motion" policy • the Water Court's review of water right settlements • the Water Court's use of DNRC personnel. <p>The legislation was seen as not necessary when the Chief Water Judge committed to adopting rules to address the issues. <i>[Rep. Cindy Younkin, HB407 sponsor]</i></p>
September 22, 2000	<p>Judge Loble requested interested Water Court observers to submit comments on:</p> <ul style="list-style-type: none"> • the Court's review of claims on its own motion; • the Court's review of settlement documents; and • the Court's use of the DNRC in post decree assistance.
November 21, 2000	<p>Water Court rules meeting was held in Bozeman. Questions were raised with regard to how the "on motion" decision would be used by the Water Court and the success of "neighbors keeping neighbors honest" through the objection process. The Chief Water Judge stated in this meeting that "as a practical matter, people are not objecting to their neighbor's water rights". The Judge also stated the following with regard to the Water Court's use of its "on motion" ability. "Frankly, when we went to the On Motion decision, we pulled back from all those on motions. We have taken the position that by and large, that's not our problem." <i>[Meeting on Water Court Rules Transcript, dated November 21, 2000, pages 23-24.]</i></p>
2001	<p>Fort Belknap Indian Reservation Compact. A Compact between the State and the Gros Ventre and Assiniboine Tribes of the Fort Belknap Indian Reservation was ratified by the 2001 Montana Legislature and signed by Governor Judy Martz. Negotiations continue on a federal bill that must go to Congress. <i>[85-20-1001, MCA]</i></p>
July 18, 2002	<p>Water Court held a public meeting in Bozeman to consider the comments received regarding proposed Water Right Adjudication Rules.</p>

September 24, 2002	Montana Supreme Court overruled its 1988 Bean Lake decision. In its decision, the Court stated that the doctrine of prior appropriation does not require a physical diversion of water where no diversion is necessary to put the water to a beneficial use. Further, the Court held that fish, wildlife, and recreation uses are beneficial and that valid instream and in-lake appropriations existed prior to 1973 when the facts and circumstances indicate that notice of the appropriators intent had been given. [<i>In re Adjudication of Existing Water Rights</i> , 311 Mont. 327, 55 P.3d 396 (2002)]
November 14, 2002	Chief Water Judge reconvened the Water Adjudication Advisory Committee. The issues that were outlined were: <ul style="list-style-type: none"> • how to make the adjudication process more efficient; • consideration of post-1973 changes in the adjudication; • accuracy of the adjudication; • establish procedures for enforcement of Water Court decrees and the Court's "on motion" authority; • status and treatment of nonfiled exempt claims; • increase use of the Internet to disseminate adjudication information; and • revision of the claim examination rules to address the 2002 Supreme Court decision on recreation, fish, and wildlife claims.
December 2003	Helena Central DNRC Office -- 2.7 FTE Regional DNRC Offices -- 9.8 FTE 2003 General Fund Budget for Adjudication -- \$644,009

STATUS OF STATE ADJUDICATION AS OF MAY 1, 2004

Final Decrees	6 basins	16,354 total claims
Preliminary Decrees	11 basins/1 subbasin	23,262 total claims
Temporary Preliminary Decrees	36 basins/2 subbasins	89,809 total claims
Active examination by DNRC	4 basins completed	3,774 total claims
Active examination by DNRC	13 basins/29,477 claims done	39,840 total claims
To be examined by DNRC	15 basins	46,379 total claims
TOTALS	85 basins/3 subbasins	219,417 total claims

Chapter V. Supply and Distribution of Water in Montana

Water supply can be depicted a number of different ways. Chapter V summarizes a power point presentation that was given to the EQC regarding supply and distribution in Montana.

- An acre foot of water is the amount of water that would cover 1 acre to a depth of 1 foot or a football field to a depth of one foot.

- 15.5 million acre feet of water enter Montana
- 27.6 million acre feet of water originate in Montana
- 43.1 million acre feet of water leave Montana

Average Annual Flow by Basin			
Basin	InFlow into MT	Originating in MT	Outflow from MT
Missouri River	1.0 Million ac ft/year	6.4 Million ac ft/year	7.4 Million ac ft/year
Yellowstone River	6.2 Million ac ft/year	3.0 Million ac ft/year	9.2 Million ac ft/year
Kootenai River	8.1 Million ac ft/year	2.1 Million ac ft/year	10.3 Million ac ft/year
Clark Fork River	.9 Million ac ft/year	14.3 Million ac ft/year	15.2 Million ac ft/year

Montana is water rich and water poor. Precipitation varies from 8 to 14 inches per year in semi-arid Eastern Montana. Precipitation varies from 14 to 22 inches in the valleys, but can exceed 75 inches per year in the high mountains of Western Montana. According to national climatologists, the West appears to be warming, especially in the fall and winter seasons.

	Water Use (Diverted)		Water Use (Depletion - 1980 Numbers)	
Irrigation	15.4 Million ac ft/year	97.6%	3.2 Million ac ft/year	96.4%
Municipal	157,000 ac ft/year	1.0%	58,000 ac ft/year	1.7%
Thermoelectric	106,000 ac ft/year	.7%	9,000 ac ft/year	.3 %
Industry	63,000 ac ft/year	.4%	9,000 ac ft/year	.3 %
Livestock	28,000 ac ft/year	.2%	28,000 ac ft/year	.8 %
Rural Domestic	17,000 ac ft/year	.1%	17,000 ac ft/year	.5 %
Reservoir Evaporation			3.9 Million ac ft/year	

Instream water uses in the Missouri River Basin

Hydropower Water Rights

- Morony Dam 7.3 Million ac ft/year
- Fort Peck Dam 11.7 Million ac ft/year (20,000 cfs for power generation)

Federal Bureau of Land Management Federally Reserved Water Rights

- Wild and Scenic River Stretch 5.42 Million ac ft/year

Instream Reservations - Department of Fish, Wildlife, and Parks

- Downstream of Fort Peck Dam 3.75 Million ac ft/year

Other Water Facts

- Montana has 67 reservoirs that store more than 5,000 acre feet, totaling 38,533,000 Million ac ft/year.
- Montana's largest reservoir is Fort Peck at 19 Million ac ft
- Water from Triple Divide Peak in Glacier National Park sends water into three oceans: Atlantic, Pacific, and Arctic.

Water Development Era

- The first irrigation and hydropower projects in Montana were private. They were the Big Ditch in Billings in 1883 and Black Eagle Dam in 1890.
- Many of Montana Power Company's hydropower dams on the Missouri were built between 1883 and 1928 with large instream water rights for generating electricity.
- Over half of the privately owned projects were constructed before 1900.

Bureau of Reclamation

- The U.S. Congress realized that to settle the semi-arid West, water had to be stored in the spring and diverted to the land.
- Reclamation Services was created in 1902, which was the predecessor to the U.S. Bureau of Reclamation
- Reclamation built numerous projects in Montana from 1907-1939 (e.g. Nelsen, 1915; Shurburne, 1921; Gibson, 1929; Fresno, 1939)
- These projects were vital for irrigated crop and cattle production.

Montana Water Conservation Board

- The MWCB was created in 1933 to build water storage projects
- MWCB built 181 projects with 141 of these with storage of 438,014 acre feet (the larger reservoirs include Tongue, Painted Rocks, Deadman Basin, Hylite, Nevada Creek, Cooney, and East Fork of Rock Creek)
- The projects were funded:
 - 47% state appropriations
 - 33% federal grants
 - 20% federal loans that were reduced
- The MWCB was dissolved in 1972 and became the State Water Projects Bureau of DNRC.

U.S. Soil Conservation Service (Natural Resources Conservation Service)

- SCS was created in 1935 to provide technical and financial assistance in the management of soil and water
- SCS helped construct over 3,000 stock ponds and small irrigation reservoirs
- Projects funded under P.L. 566 were limited to 25,000 acre feet (examples include Newlon Dam in the Smith River Basin and Willow Creek Dam in the Flint Creek drainage)
- The last storage project funded under this law was in 1980.
- Today, the NRCS' primary focus is on improving local and basin wide water management

Era of Large Federal Storage Projects

- 1944 Flood Control Act (Missouri River Basin Pick-Sloan Program)
 - Projects built under this program include: Canyon Ferry Reservoir (1949), Tiber Dam (1952), Helena Valley Dam (1957), Clark Canyon Dam (1961), and Yellowtail Dam (1969)
 - Montana was entitled to 936,000 acres of new irrigation under the Pick-Sloan program, but was only able to develop 45,000 acres.
 - All other Pick-Sloan irrigation projects have been deauthorized.

- Columbia Basin Projects include Hungry Horse (1948) and Libby Dam (1968)

Changin Federal Policy on Storage

- In the late 1960's, strong perception in the U.S. Congress that hte West has been reclaimed and there was no further need for more large federal water projects.
- Few new large federal projects have been built after 1970 in the West and none in Montana
- By 1970, the federal focus was on implementing water conservation, improving water management, and addressing the deteriorating condition of existing federal facilities, water quality, and the environment.
- The Bureau of R3eclamation initiated a new strategy in the summer of 2003 entitle "Water 2025"

Water 2025 -- Preventing Crisis and Conflict in the West

- The Bureau has based the strategy on five realities in the West
 - There is explosive population growth
 - Water shortages exist
 - Water shortages result in conflicts
 - Aging water facilities limit options
 - Crisis management is not effective
- \$11 million has been allocated to implement this strategy
- According to Water 2025, the Bureau of Reclamation will:
 - Focus on water starved areas of the country (i.e. especially population centers);
 - Stretch or increase water supplies to satisfy the demands of growing populations and protecting the environment and strengthening regional, tribal, and local economies;
 - Provide added environmen6tal benefits to many watersheds, rivers, and streams;
 - Minimize water crises in critical watersheds by improving the environment, and addressing the effects of drought; and
 - Provide a balanced, practical approach to water management for the next century.

Task Force Recommendations

- Montana will need to:
 - Develop criteria for analyzing and comparing which water storage projects should receive funding;
 - Create ways to finance new water storage projects;
 - Establish a long-term commitment to the operation and maintenance of existing storage projects;
 - Address the need to repair and rehabilitate existing water storage facilities;
 - Consider expanding existing water storage projects;
 - Consider reallocating storage uses; and
 - Improve the accuracy, completeness, and accessibility of water storage data.

State Water Plan on Water Storage (1991)

- Water storage ws broken down into three areas: policy, financing, and regulations
- Each area was addressed by a committee consisting of 14-16 me4mbers representing elected officials, governments, and beneficiaries.
- Each committee worked for 12 months to understand the issues and to develop recommendations
- There were a number of opportunities for public involvement
- Based on their recommendations, a Water Storage Policy Act was introduced by Governor Stephens and passed in 1991.

Water Storage Act

- One comprehensive bill was introduced at the request of Governor Stephens
- In determining the best solution for a particular water management problem, the state shall:
 - define the problem;
 - identify all options to solve the problem;
 - determine whether water is physically and legally available; and
 - select the option that is most technically, financially, economically, politically, legally, and environmentally feasible.
- Submit the Governor's Report on Water Storage to each legislative session. The report must contain:
 - a list of water storage project priorities;
 - an implementation strategy for each priority project that identifies the actions needed to develop the project;
 - a progress report on the development of the prioritized projects;
 - DNRC is required to use 10 different criteria to prioritize projects;
 - DNRC has submitted storage reports since 1993.
- Created a Water Storage Account (85-1-631, MCA)
 - provides loans and grants for water storage (\$500,000)
 - Priority to use the account:
 - First: Existing high hazard dams that are unsafe;
 - Second: Projects that improve or expand existing water storage; and
 - Third: Planning and construction of new water storage projects.

2001 Water Storage Report

- Prioritized 11 projects for funding under the Renewable Resource Grant and Loan Program (RRGL). Ten of the projects are for rehabilitation.
- One new storage project is being studied in the Big Hole.
- Funding for these projects comes primarily from: RRGL, Toston hydropower earnings for state-owned projects, local water users, and NRCS.
- Examples of projects that are funded:
 - Lower Willow Creek in the Flint Creek Drainage obtained a \$100,000 RRGL grant and \$1,350,000 loan and \$3 Million from NRCS for construction.
 - State owned Bair Dam obtained a \$100,000 RRGL grant, \$988,772 loan and \$1,300,000 from hydropower earnings

Rehabilitation of the St. Mary Federal Facilities

- The St. Mary system includes the diversion dam on the River, large gravity siphons and 35 miles of canal to the Milk River
- This federal system is the life blood of the hi-line and provides irrigation, municipal, and recreational water to the entire Milk River Basin.
- The state has determined that the rehabilitation fo the dam is a high priority as the system is almost 100 years old and is in dire need of repair
- St. Mary water provides 90% of the flows in the Milk River during dry years and about 70% in average years
- The cost to rehabilitate the system to its designed capacity of 850 cubic feet per second could be as high as \$100 Million.
- The US Bureau of Reclamation has said it does not have th funds, but is willing to assist the state.

Broadwater Hydropower Project

- The irrigation project was constructed by the MWCB in 1940
- DNRC added hydropower to the project in 1989 with a rated capacity of 10 MegaWatts
- Federal law (PURPA) requires that the power rate be set at the avoided costs -- the cost to bring a new power facility on line in 1989.
- A power purchase agreement went to Montana Power Company and extends to 2024. It is now held by Northwestern.
- Average annual revenues -- assuming average annual runoff is \$3.5 Million
- Allocation of Revenues:
 - Operation and maintenance costs -- \$316,000 (9%)
 - Set aside for major repairs -- \$84,000 (2%)
 - Repay annual debt (P&I) on \$26 Million bond -- \$1,880,000 (54%)
 - Fund to earmarked account to rehabilitate state owned projects -- \$1,220,000 (35%)

Use of Toston Power Revenues

- Past use of revenues:
 - Rehabilitate and enlarge Tongue River Dam (unsafe & high hazard) -- \$47 Million
 - Emergency repairs on East Fork of Rock Creek Dam -- \$1.9 Million
 - Rehabilitate Bair Dam spillway and outlet structure -- \$2.4 Million
 - Rehabilitate Nevada Creek Dam -- \$2.6 Million
- Proposed future uses of revenues:
 - Continue to rehabilitate state owned projects including:
 - Willow Creek Dam
 - Flint Creek siphon
 - Ruby Dam
 - Painted Rocks
 - Cataract Dam
 - North Fork of the Smith Dam
 - Frenchman Dam
 - Remaining Balance on Tongue River Bond (\$10 Million)

Opportunities for New Storage

- Most good storage sites have already been built
- Remaining sites will cost more to build
- Biggest limitation is who pays the costs
- USBR has water reservations for new off stream storage reservoirs in the Yellowstone Basin
 - Cedar Ridge, 121,800 acre feet, located near Forsyth
 - Sunday Creek, 539,000 acre feet, located north of Miles City
 - Buffalo Creek, 65,700 acre feet, located in Yellowstone County
- Stored water is available under contract from USBR in Yellowtail, Tiber, and Canyon Ferry Reservoirs and from Corps of Engineers at Fort Peck, but may not be available in Hungry Horse.
- Upper Clark Fork, Bitterroot, Blackfoot, and Upper Missouri Rivers are closed to new appropriation, but not for storage of high spring flows
- Biggest limitation to new storage projects is the senior hydropower water rights, especially on the Clark Fork basin (including Flathead), and Missouri River above Great Falls.
 - Avista's 50,000 cfs hydropower right at Noxon Dam on the Lower Clark Fork River with a 1950 and 1976 priority date

- PP&L Montana's 7,100 cfs hydropower water right at Holter Dam with a 1918 priority date.

The Balancing Act

- Over the past 100 years, Montana agriculture has done an excellent job of finding ways to develop available water supplies for irrigation
- Today, many new basins are over appropriated and dewatered, especially during drought periods.
- The value of keeping water instream for hydroelectric generation, recreation, fish and wildlife protection, and water quality dilution was not recognized until the 1970s.
- Providing this balance on preserving minimum instream flows and meeting existing water rights has become a challenge and will only get worse.

Promoting Water Use Efficiency

- To improve efficiencies the state must look at ways to reduce evapo-transpiration rates while still protecting existing water users from adverse affects.
- Before implementing a change or new use to improve efficiency, it is important to understand the effects of the use on the surface and ground water hydrology and the effects on existing water users.

Water Banking

- Water banking can work in some Montana River Basins and should be tried
- DNRC and USBR would like to try it in the Milk River Basin associated with the USBR irrigation project
 - USBR holds most of the water rights and issues water contracts to the irrigation districts
 - An irrigation district or district water users can leave contract water in Fresno Reservoir that can be purchased by another irrigation district or water users.

Summary

- Most good storage sites have projects
- The cost of new storage is high because of geotechnical, water availability, and/or environmental issues and higher construction costs
- Many existing storage projects are old and need rehabilitation
- Who pays? The federal government has not been in the business to pay for new storage for many years, in fact, it is having difficult time rehabilitating its own projects.
- Improving water efficiencies can happen, but you should understand the effects on the surface and groundwater hydrology and on existing uses.
- Two new irrigation projects are in the planning stages:
 - West Crane: 8,100 acres of sugar beets, malting barley, and corn
 - New irrigation project of 20,000 to 40,000 acres from Tiber Reservoir.

Chapter VI: Water Banking -- A General Description and Policy Issues

The term water banking is a term that is most often used when discussing water quantity, water availability, and water marketing. Often those discussing water banking have different thoughts about what a water bank is and how it would or should work. Montana does not have a law addressing water banks in Montana and how they work here. In fact, the state of Washington did a survey in 2003 and at that time only 9 of the 18 states west of the Mississippi River had water banking laws. A majority of these laws were implemented in the late 1990's and early in the 2000's.

Some of the states who have implemented water banking laws, such as Colorado, Kansas, and New Mexico are just getting to the point where the water bank(s) is up and running. Each of these states has set up their water banking program differently and are having varying results on the amount of use they are experiencing. But, before we get too far into the discussion, let's talk about what water banking means. Since Montana doesn't have a specific water banking law, defining what water banking means in Montana would be one of the firsts tasks that would need to be addressed.

What is water banking?

Lawrence J. MacDonnell summed it up well in his book "Water Banks: Untangling the Gordian Knot of Western Water". He stated that a water bank in its most generalized sense is "an institutional process specifically designed to facilitate the transfer of developed water to new uses. The primary objective of a water bank is to bring together those holding legally valid water use entitlements interested in making the water available to those needing to obtain additional supplies of water for their uses. Broadly speaking, a water bank is an intermediary. Like a broker, it seeks to bring together buyers and sellers. Unlike a broker, however, it is an institutionalized process with known procedures and with some kind of public sanction for its activities."

Types of water banks

- Trust water bank -- A trust water bank generally means that a state entity is authorized by the legislature to hold water rights in trust for entities that want to lease, sell, or donate their water rights. Depending on how the authorizing legislation is crafted, some of the uses that water rights could be held by the bank for are instream flow purposes to benefit such things as fisheries, water quality, recreation, or aesthetics. Water rights could be held for out of stream purposes as well. The options are endless, depending on the ingenuity of those crafting and enacting the legislation. The water leasing ability that is provided to Montana's Department of Fish, Wildlife, and Parks in 85-2-436, MCA might qualify as a type of "trust water bank". The difference would be that FWP and the private property right holder negotiate the lease and there is no intermediary that actually serves as a "bank". The 2003 FWP Annual Progress Report -- Water Leasing Study is attached for your review. This report details the work that FWP is doing with regards to leasing and gives a status of the program.
- Storage water bank -- A "storage" water bank usually requires a facility that can hold additional water at certain times of the year. For example, Idaho has a storage water bank where water is stored in reservoirs and can be released as it is purchased. Idaho has a statewide bank and in addition, there are three separate rental pools that essentially operate as separate banks. The Idaho Water Resource Board determines the rental rate for the bank and pools to lease water. In Washington, the Bureau of Reclamation (BOR) has operated a "water bank" in the Yakima basin since 1905. In this example, the BOR operates the physical system and the accounting system as a unified whole."Deposits" into storage water banks are usually foregone deliveries that are allowed to stay behind the dam and are accounted for and released when a user purchases or leases the water for their use.¹
- Surface flow water bank -- The surface flow water bank does not require a storage facility, the flow remains in the stream or river. An example of using surface flow is the what the Montana

¹Clifford, Peggy. "Water Banking in Other States", Washington Department of Ecology, 2003, <http://www.roundtableassociates.com/ywe/meetings.htm>

Water Trust has done.² The Montana legislature provided for surface flow water marketing when it enacted section 85-2-408, MCA in 1995. This statutory provision allows for a temporary change authorization of a water right for instream flow purposes. Water right owners voluntarily agree to a temporary change in their right. A surface flow water bank could work with entities that have upgraded their irrigation works to a type of system that requires less water to irrigate the defined acreage. Therefore, there is extra water that they then lease or sell to another user who is interested in the water. The entities still have to apply for a "change" in their water right, in this case a temporary change since that is all that is allowed by law, and must meet the change criteria. However, if they go through the permitting requirements and the "extra" water is leased or sold, the water right is enforceable, with the same priority date as the historic use, down to the point of diversion. Obviously, it would be more advantageous to lease water from an entity that is further down the drainage with an early priority date. Again, Montana doesn't have the intermediary "bank" that holds the water on paper rather than in a physical structure. The way it is working in Montana right now, it is a contractual agreement between two entities. The way it is being done right now may be the best option, however, the statute terminates in 2005. It would be up to the legislature to make a policy choice between the following 4 alternatives.

- Allow the statute to terminate in June 2005, removing the opportunity for this type of water marketing with entities other than FWP.
 - Remove the termination date and allow this marketing process to continue like it operates today.
 - Remove the limitation of only allowing a "temporary change" in the water right and allow it to be temporary.
 - Examine the feasibility of implementing a water banking structure and compare the risks and benefits associated with each approach.
- Groundwater bank -- Groundwater banks are set up to protect or enhance the groundwater aquifer. The Southern Nevada Water Authority maintains their groundwater source through "artificial recharge". Water in the principal groundwater aquifer normally originates from mountain snowpack. In the case of the Southern Nevada Groundwater Bank, treated water from Lake Mead is injected directly into the aquifer by wells.³ The Arizona Water Banking Agreement was approved in July 2001. It allows Nevada and other states to store unused and surplus Colorado River water in Arizona's groundwater aquifer for future use.
 - Others -- the types of banks are very numerous. A few examples beyond what I have provided here include Nevada's bank. They use surface water for groundwater recharge to be withdrawn at a future date. The possibilities are endless. The most important element is setting up the bank with clear cut guidelines so that entities that would like to use the bank can easily understand the process and procedures involved.

Effect on water rights

The effect on water rights is a policy decision that must be made by the legislature. In Idaho, putting a water right or a portion of a water right into a bank provides a "safe haven" for the right. Therefore, the water right can not be forfeited or considered abandoned. If the goal of a water banking program is to promote water marketing and to address water from a supply and demand approach, it would

²<http://www.montanawatertrust.org/>

³http://www.snwa.com/html/wr_groundwtr_bank.html

probably be necessary to provide some sort of a protection for the water right. If no protection was afforded then water users may not be as willing to enter into the agreements and participation in the program may be limited. The other option would be for the state to actually purchase the water right and store the water for some future use. The problem or challenge associated with this is how and where the water would be stored.

Use of water banking in negotiating federal and tribal reserved rights

Various forms of water banks have been used throughout the nation when settling tribal reserved rights, including Montana. A brief description of these are included below.

- **Fort Belknap Compact - Montana⁴**

The Fort Belknap-Montana Compact provides for the Milk River Watershed Improvement Trusts - Establishment of Water Bank. The purpose of the section is to establish a water bank for implementation in years of significant short term water shortage -- extreme drought periods. The provision provides for the establishment of the bank and what is required of the Bureau of Reclamation in estimating a potential shortage in the upcoming year, publication of notice of the availability of grants to purchase water for the purpose of alleviating shortage, pricing alternatives and requirements, how the banked water can be allocated, and a clause providing that the water bank established in the compact is not intended to preclude a more comprehensive water marketing system within the Milk River Basin.

- **Fallon Paiute Shoshone Indian Tribes Water Rights Settlement Act of 1990 -- Nevada⁵**

In this settlement, the Secretary of the Interior, in consultation with the state of Nevada and the operator of the Newlands Project, is authorized to use and enter into agreements to allow water right holders to use Newlands Project facilities in Nevada, where the facilities are not otherwise committed or required to fulfill project purposes or other Federal obligations, for supplying carryover storage of irrigation and other water for drought protection and other purposes, consistent with the expansion of authorized purposes and the Truckee River diversions that are addressed earlier in the settlement. The use of the banked water has to be consistent with and subject to applicable state laws.

- **1990 Fort Hall Indian Water Rights Agreement -- Shoshone -Bannock Water Bank -- Idaho**

This agreement allows the tribes the right to create a water bank pursuant to Idaho law in order to rent as, prescribed in the agreement, all or any part of the water accruing to the federal contract storage rights for any beneficial use outside the Reservation that is not used on Indian lands or exchanged pursuant to the agreement. There are requirements that storage water from certain reservoirs have to be rented and delivered to certain basins.

Other issues associated with water banking

- **Geographic location**

In developing a water banking program, one of the primary issues to decide is what geographic area the bank will apply to. Other state's laws vary from banks covering the entire state to banks operating on a basin and sub-basin level.

- **Time frame**

⁴85-20-1001, MCA, Fort Belknap-Montana Compact, Article IV, C, 8.

⁵Public Law 101-618 [S.3084], November 16, 1990, Section 209, (d) Water Bank

A policy that would also need to be decided is when a water bank can be activated. Is it a water bank that lasts year around, during the growing season, or only during times of extreme drought? The use of water banks in drought times is reflected above in the tribal reserved rights agreements. California also has a bank that is specific to drought times. Other states have banks that are active all of the time.

- **Management of the banked water**

How will the bank be managed? The first year that the bank operated in California it purchased water based on early estimates of demand. However, after the bank made commitments to purchase the water, the weather changed and more rain fell than was estimated. Therefore, demand for the banked water was reduced. The bank was unable to resell all the water it had purchased and as a result changed its procedures. Upfront deposits and contractual commitments from buyers are required prior to contracting to purchase water on their behalf. Water that is acquired by the bank from voluntary sellers is allocated to buyers based on a supply and demand relationship. Leases are usually purchased from the bank in bulk packages by large water purveyors.⁶ The risks associated with different management schemes would need to be assessed prior to deciding on one particular approach. It would be up to the legislature to determine who makes the decision regarding how a bank operates, how it is managed, who can take part, etc.

- **Market based philosophy**

Is the market based philosophy appropriate to addressing Montana's water resource? The market approach is based primarily on the belief that the water will go to the highest and best use of the water because based on the supply and demand scenario the highest and best use will be willing to pay the most for the water. There are examples throughout the United States and the World of using the market based philosophy when addressing a finite resource such as water.

Summary

It is easy to see from the limited amount of information provided above that water banking can become quite complex. An important question to ask yourself when looking at how water marketing works in Montana is whether or not Montana needs water banking. Are the current processes that have been established for marketing water adequate? Is an intermediary such as a water bank necessary or are there other approaches to water marketing that might work as well or better? The water banking philosophy might work on certain basins or sub-basins but who decides which basins and how do they decide? Are entities that are involved in water marketing asking for water banking in a certain area? All of these issues have to enter into any discussion about water banking in Montana.

Chapter VII. Surface Water - Ground Water Connectivity

The statutory guidance related to surface water/ground water connectivity is contained in Title 85, chapter 2, Surface Water and Ground Water. The issue has emerged recently with regards to closed basins. However, the discussion of whether or not ground water and surface water are connected and to what extent apply to all areas of Montana, whether the basin is closed or not. One reason that it may be in the forefront in closed basins is because of the fact that sections 85-2-336, 85-2-341, and 85-2-343, MCA provide exemptions to the basin closure requirements for the particular basin or basins that the statutes address. In a closed basin, DNRC is not allowed to process or grant an application for a permit to appropriate water or for a reservation to reserve water within the basin until the final decrees have been issued in accordance with Montana law. However, this

⁶Clifford, Peggy. "Water Banking in Other States", Washington Department of Ecology, 2003, <http://www.roundtableassociates.com/ywe/meetings.htm>

restriction does not apply to an application for a permit to appropriate ground water. Ground water is defined for these sections as meaning " water that is beneath the land surface or beneath the bed of a stream, lake, reservoir, or other body of surface water and that is not immediately or directly connected to surface water" (emphasis added). You can tell by reading the definition that the determination of whether or not the ground water is connected to the surface water has a direct impact on whether or not the permit can even be processed by DNRC. It is imperative that DNRC accurately determine if ground water and surface water are directly and immediately connected. The Smith River lawsuit addresses this very issue. The Smith River lawsuit is discussed at more length later.

"The meaning of 'immediately or directly connected to surface water' is interpreted by DNRC to imply a physical capture of surface water by inducing streambed infiltration. To assess whether the source of water for a proposed appropriation is ground water, an applicant must determine whether the source aquifer is hydraulically connected to surface water and whether the proposed well creates sufficient draw down beneath a stream to induce infiltration through the streambed."⁷

Relationship with water rights and burden of proof

The connectivity or lack thereof is of significant importance when discussing potential impacts on surface water rights. Pursuant to section 85-2-311, MCA, it is up to the applicant for a new water right permit to prove that if a new water right is granted, there will be no adverse impacts on other existing water right holders. Section 85-2-402(2)(a), MCA applies the same requirement before a change in a water right can be approved. If there is an impact, then the permit or change cannot be granted by DNRC.

Based on the above information, the DNRC has to evaluate any change application or new water right application based on the potential for adverse affect on other water right holders. If the application for a new permit is for a well, DNRC has to determine that this new well wouldn't have an adverse impact -- not only on other wells but also on surface water rights. If the determination regarding the interaction between surface water and ground water is not adequate, a new ground water right can be issued for a well that may adversely affect existing surface water rights. If this does in fact happen, the burden would then shift to the existing right holder to prove that the new water right is affecting their preexisting right. There are of course costs associated with being the party responsible for the burden of proof.

Administrative cases

There are 2 administrative cases that are pertinent to this discussion. I will briefly outline each case and where they are at in the process and the potential future actions. Administrative cases are those cases that are being addressed through the DNRC hearing process and are not in the judicial arena at this point.

⁷Department of Natural Resources and Conservation Proposal for Decision in the matter of the application for beneficial water use permit number 41H-30003523 and the application for change number 41H-30000806 by Montana Golf Enterprises, LLC, page 16, November 19, 2003.

- **In the matter of the application for beneficial water use permit number 41H-30003523 and the application for change number 41H-30000806 by Montana Golf Enterprises, LLC (Montana Golf)**

The Montana Golf case involves a property owner that submitted a permit application for the appropriation of ground water through a well. The property owner and DNRC both agreed that there was to some extent an immediate and direct effect to surface water. However, the property owner offered to mitigate this impact by "augmentation". To augment the water that would be lost to the surface water, the property owner submitted a change of water right permit. The property owner planned to remove a certain number of acres from irrigation, leaving the water in the stream, thus offsetting any loss of water caused by the ground water well. My interpretation of this decision by the DNRC hearing examiner wasn't whether or not the surface water and ground water were connected but whether or not the amount of acreage to be taken out of irrigation was enough to offset the impacts caused by the well. The DNRC hearing examiner therefore recommended in the proposal for decision that the water use permit be denied.

This case was terminated when Montana Golf withdrew its application.

- **In the matter of application for beneficial water use permit No. 41H-11548700 by PC Development (PC Development)**

In the PC Development case DNRC denied the application because the applicant failed to prove by a preponderance of evidence that water is legally available and no adverse effect would occur to prior appropriators. The applicant raised a procedural exception to the hearings process and also asserted the adequacy of the applicant's aquifer testing, methodology, and analysis and presented some additional legal arguments that the hearings officer was failing to follow previous hearings orders in his interpretation of the law. This case did not specifically address surface water/ground water connectivity. The primary issue argued in this case was whether the aquifer tests that were done were sufficient to prove legal availability and no adverse effect to other water right holders. This case has not been appealed.

Court cases

- **Montana Trout Unlimited v. Montana Department of Natural Resources and Conservation 2003 ML 3725 (2003)**

This case is the "Smith River case" that has been in the newspapers and leading the charge with regard to the interpretation of what "direct and immediate" connection of surface water and ground water means. In this discussion I will refer only to the issues that are directly related to surface water/ground water connectivity. The petitioners also addressed other issues relating to rule development and due process in their complaint.

In this case, Trout Unlimited (TU) filed a petition for Writ of Mandate. Writ of Mandate means an order issued from a court requiring the performance of a specified act for which legal duty exists or where the law gives authority to have the act done.⁸ In addressing the legal standard that must be followed, the district court provided the following information. The Montana Supreme Court scrutinizes the relevant statutory wording to find a clear legal duty. Where a statute is sufficiently

⁸Black's Law Dictionary, 5th Edition and section 27-26-102, MCA.

specific, a clear legal duty will be found to exist. Huttinga v. Pringle, 205 Mont. 482, 668 P.2d 1068 (1983) An additional requirement for mandamus relief is that there is no speedy or adequate remedy in the ordinary course of law. State ex rel. Konen v. City of Butte, 144 Mont. 95, 394 P.2d 753 (1964).

TU asked the court to order the DNRC to cease processing ground water applications until it first determines whether or not the water is immediately or directly connected to surface water. The first step that the district court had to do was to identify a clear legal duty on the part of DNRC with respect to the determination of ground water/surface water connectivity. TU asserted that DNRC has a clear legal duty to determine specifically that the subject water in the applications is groundwater before processing the applications. Since the Smith River is within a closed basin, only ground water claims can be processed by DNRC. If DNRC determined that the proposed wells were immediately or directly connected to the surface water, DNRC couldn't process the claims.

According to the court, there is no question that DNRC has a clear legal duty to comply with the statutes that place a limit on DNRC's actions if there is a connection between the surface water and ground water. The legislature did not say how ground water connectivity is to be determined, nor did it place the burden of proof on anyone. These procedures were left to the agency to promulgate. It appears that DNRC requires applicants for water rights in the Upper Smith River Basin to prove that the ground water they intend to pump is not "immediately or directly" connected to surface water. DNRC has required the applicant to make that showing through a "cone of depression" test. There was evidence presented in the case regarding whether or not DNRC follows this procedure at all times or if it is not addressed until after a permit has been issued and the concern is raised through the objection process.

The court stated, "If DNRC in fact does not make a finding that the requested ground water use satisfies section 85-2-342, MCA, mandamus would lie to compel the agency to make that determination before issuing a permit. However, the Court does not have enough evidence at this time to determine if DNRC in fact circumvents its duty to determine if the applicant's water use is ground water under the statute." (emphasis added)

Therefore, this case doesn't do a lot with regard to answering whether or not surface water and ground water are connected in this particular area. It simply found that there wasn't enough evidence to determine if DNRC was following the law or not. At this time, TU has petitioned the court for additional relief. It is not clear where the case is going or what action the court may take.

Appendix B provides a copy of the detailed ground water surface water power point presentation that was made to the Council by the Montana Bureau of Mines and Geology.

Chapter VIII: Federal and Tribal Reserved Water Rights

The Compact Commission was created in 1979 by SB76, which also created the Water Court. At the time the federal government was involved in litigating on behalf of the seven reservations for their federal reserved water rights. The Commission was created in response to uncertainty about how, and in what court, the adjudication would proceed. The Commission is a division of DNRC and is administratively attached to the Department for budget purposes. The Compact Commission's only mandate is to negotiate an equitable apportionment and division of the waters of the state between the tribes that are claiming those waters (as well as non-tribal federal users) and non-tribal state water users. The Commission is not separate from the adjudication process but is integral to it and the outcome of the entire statewide adjudication process is critical to the work of the Commission. Montana is the only state with a Compact Commission. Some other western states are involved in

negotiation with the tribes and the federal government through their attorney general or natural resources departments. Montana's process has been successful because negotiations are conducted in the context of litigation--if a tribe or federal entity chooses not to negotiate then their reserved water rights will be litigated by the Attorney General, on behalf of the state, in Montana's Water Court. The procedures the Commission follows are clearly spelled out in statute. The first step is to negotiate an initial settlement between the three involved parties--the state, the claimant of the reserved water right, and, if the claimant is an Indian tribe, the federal government as trustee for the tribe. Once the initial settlement is reached, and it can take many years, the compact is then ratified by the Legislature and becomes a part of the Montana statutes. Water compacts involving tribal settlements then go to Congress because of necessary authorizations and appropriations for projects or improvements. The final step in the process occurs when the compact is filed with the Water Court and is published as a decree in that water basin and the 6-month objection period begins.

The Water Court has statutory authority to approve or disapprove a compact but not to amend one, and approval is based on a consent decree standard. A consent decree standard is one where all parties consent to the decree and the decree conforms to applicable law. To date, the Legislature has approved five tribal and several federal water compacts. The Northern Cheyenne and the Rocky Boy Compacts have gone through the entire process and the Fort Peck Compact is in front of Congress because of concerns of downstream states over water marketing provisions, although other provisions are operational and have been approved by the Interior and Justice Departments. The Crow and Fort Belknap Compacts have been approved by the Legislature but are still waiting for federal approval and necessary legislation. The Blackfeet Compact, which is still under negotiation, will be of critical importance because of the St. Mary's Project located at the headwaters of the Milk River. The water moving through the St. Mary's Project is so crucial to the entire Milk River basin that there is language included in the Fort Belknap Compact that if the St. Mary's Project is not maintained to current standards then the entire Fort Belknap Compact is void. The Confederated Salish/Kootenai Compact is also still under negotiation and is of a high priority because of the permitting freeze in place on the Flathead Reservation. The Tribes brought water rights cases before the Montana Supreme Court and won, and the Supreme Court placed a moratorium on new water rights permits until the water rights are quantified. Because of this pressure the Compact Commission has put a great deal of work into the development of interim plans, which the tribes have agreed to discuss, and is ready to enter into a contract with a mediator to aid the negotiations. The mediator will conduct a case assessment by discussing issues and concerns with the parties involved and will provide an honest assessment of the possibility of settlement.

Negotiations are still underway for various Fish & Wildlife compacts, as well as a compact with the Forest Service, which the Compact Commission hopes to bring to the 2005 Legislature for ratification.

Compact Commission staff to the Council that the Commission would not make a decision regarding litigation rather than negotiation without a thorough discussion among many different people because the litigation process is long and expensive, although the Commission had reached that decision once before. In 1990 the Blackfeet Tribe passed a resolution stating that water right negotiations were not in the tribe's best interests and the Compact Commission held a special meeting and decided to certify the case to the Water Court, at which time the federal entity (Justice) had 6 months to file the tribal claims in the Water Court. Just before the expiration of the 6-month period the tribe changed its mind and decided to negotiate. That case is still before the Water Court and the Commission files a yearly extension with the Water Court as long as negotiations are continuing.

The yearly budget of the Commission is about \$650,000 and approximately \$7.5 to \$8 million had been spent over the 20 year life of the Commission.

A federal reserved water right is created when federal government reserves land for an Indian tribe, thereby impliedly reserving enough water to fulfill the purposes of the reservation. The federal reserved water rights doctrine was decided in 1908, but it wasn't until the 1960s that questions arose as to what that means in terms of quantity. A federal reserved water right does not lapse from lack of utilization.

Litigation vs. Negotiation

The Attorney General's Office has not prepared a budget for any proposed litigation and this summary of potential costs of undertaking litigation is not prepared with any particular water right, any federal enclave, or any tribal water rights as its focus. This is prepared at the request of the legislative interim committee solely for the purpose of reviewing and comparing approximate litigation costs to the costs that may be associated with negotiating reserved water rights in Montana.

In reviewing the numerous costs the state may face if it became necessary to pursue litigation to resolve claims of reserved water rights in Montana, the Attorney General's Office reviewed some historic costs associated with other comprehensive resource litigation including the Natural Resource Damage Litigation, Montana v. ARCO, and historic expenditures related to litigation In Re the Adjudication of the Blackfeet Tribe Reserved Water Rights, WC-91-1. The remaining projections of possible costs to undertake litigation relative to reserved water rights are based upon the expenditures that were made in adjacent states to litigate the reserved water rights belonging to the United States Forest Service.

Historic costs that have been associated with natural resource/water resource litigation, include the following expenditures:

Montana v. ARCO

Between 1989 and 1994, the State of Montana expended **\$8,157,036** for pursuing damages for injuries to natural resources in the Clark Fork River Basin from Atlantic Richfield Corporation. Of that amount, \$5,392,800 was expended for consultants (experts) on the scientific assessment along with the legal fees to support the analysis of injuries and damages. The Department of Fish Wildlife and Parks expended an additional \$242,504 in direct support of the assessment of damages to those resources. In addition, since the Natural Resource Damage Program needed to borrow the funds to pursue the litigation from the Board of Investments, it also accrued and paid \$1,118,135 in interest.

Since the time of the partial settlement when all of the above costs were recovered from ARCO as a part of that agreement, the State of Montana has incurred additional annual expenses pursuing the remaining three claims against ARCO that were left unresolved in the settlement in 1996.

1995 Supplemental	\$ 675,000
1997 Biennium:	\$2,359,857
1999 Biennium:	\$1,492,000
2001 Biennium:	\$1,650,000
2003 Biennium:	\$ 523,816

When the 1995 through 2003 expenditures of \$6,700,673 are added to the previous \$8,157,036 spent through 1994, the total cost of the ARCO litigation to date is **\$14,857,709**.

In Re Blackfoot Tribal Reserved Water Rights

A study of the historic basis of the tribal water, along with a study of potential irrigable acres on the Blackfoot Reservation was partially undertaken beginning in 1992 in preparation for litigation. While the studies were never completed, the State of Montana expended funds through the Attorney General's Office for consultants to develop the studies in the following amounts:

1992	\$107,027
1993	\$151,778
1994	\$147,070
1995	\$ 30,763
1996	\$ 3,023
1997	\$ 9,014
1998	\$ 17,243

The total expenditures of \$465,922 did not result in the completion of the studies, which are at this point in time are only partially complete, likely stale and would need further work. Nor did the expenditures and studies result in resolution of the litigation. The litigation with the Blackfeet is currently stayed pending negotiations.

Future Litigation of any Tribal or other Federal Reserved Water Claim--some projections.

In a draft analysis of some of the costs that may be associated with litigating any one of the outstanding tribal or other federal reserved water rights, one should expect to include the following categories of expenses:

- Soils studies
- Hydrology studies
- Engineering
- Fisheries
- Historical Research
- Legal Research
- State Claims Review
- Legal Defenses and Motions
- Discovery Costs
- Expert Witnesses (including studies, expert disclosures, depositions and testimony)
- Technical Support (data collection, electronic presentation, maps, charts, GIS plots)
- Travel Expenses
- Support Staff and Services
- Trial Costs
- Additional DNRC and Water Court Staff FTE's and services.

Based on a comparison of other complex natural resource litigation, the cost for litigating even one tribal or federal reserved water right will likely be in the range of **\$5,000,000 to \$8,600.00.**

By Way of Comparison With Other State's Adjudication Litigation:

Forest Service Claims

The State of **Idaho** spent approximately **\$3 million** dollars on objections and development of objections and scientific studies for the Forest Service Claims on the Snake River Adjudication. The Forest Service claims never went to trial, but were ultimately withdrawn by the USFS.

The State of **Colorado** spent approximately **\$2 million** dollars on objections and development of objections and scientific studies for the Forest Service Claims in one of their seven Water Court Districts.

Chapter IX. Montana's Water Adjudication Program

Montana Constitution

The Article IX, section 3 of the Montana Constitution provides the following:

Section 3. Water rights. (1) All existing rights to the use of any waters for any useful or beneficial purpose are hereby recognized and confirmed.

(2) The use of all water that is now or may hereafter be appropriated for sale, rent, distribution, or other beneficial use, the right of way over the lands of others for all ditches, drains, flumes, canals, and aqueducts necessarily used in connection therewith, and the sites for reservoirs necessary for collecting and storing water shall be held to be a public use.

(3) All surface, underground, flood, and atmospheric waters within the boundaries of the state are the property of the state for the use of its people and are subject to appropriation for beneficial uses as provided by law.

(4) The legislature shall provide for the administration, control, and regulation of water rights and shall establish a system of centralized records, in addition to the present system of local records.

THE MCCARRAN AMENDMENT

Because of the sovereign immunity of the United States, rights to the use of water claimed by the federal establishment under state law or federal law could not be adjudicated in state water right proceedings unless representatives of the United States waived the federal immunity to state court action and voluntarily subjected those rights to the jurisdiction of the state courts. As might be expected no representative of the United States or of tribes claiming Winters doctrine rights was ever willing to voluntarily subject the claims to a state adjudication process.⁹

Because of this issue, a state that had any federally reserved water rights was not able to have a complete adjudication because there was no way that the state process could identify and quantify federal claims.

In 1952, the McCarran Amendment was passed in Congress. The McCarran Amendment effectively told the United States representatives that if the United States was properly noticed and invited into state proceedings and if those proceedings were "for the adjudication of rights to the use of water of

⁹"Evaluation of Montana's Water Rights Adjudication Process" Saunders, Snyder, Ross & Dickson, P.C., September 30, 1988, p. 43-44.

a river system or source", the federal and tribal claims to water could be included in and addressed in state adjudication proceedings.

WATER ADJUDICATION PROCESS

The Department of Natural Resources and Conservation is responsible for all claims examination. What this means is that all of the claims that were filed pursuant to statutory direction so that they could be included in the adjudication program and quantified are examined by a DNRC staff person. The Montana Supreme Court has developed rules for this examination process which must be followed by the DNRC personnel. If the DNRC staff person finds an "issue" associated with a claim it is documented on the claim through an "issue remark". These issue remarks are governed by the Supreme Court Claims Examination Rules and the evidence necessary to overcome these issue remarks is also included in the Supreme Court Claims Examination Rules. Once the examination is complete, DNRC has additional duties that include helping the Water Court with post decree assistance, enforcement information, etc.

The Montana Water Court is the entity through which all pre-1973 water rights claims must pass before they can be adjudicated and eventually decreed. The Water Court works with DNRC and water users to identify opportunities for addressing conflicting information between the claims examination process and what the claimant actually claimed as their water right. The Court is responsible for decreeing all water rights in a basin and in Montana. They must take into account the historic beneficial use of the water which is the actual water right. In the event there are issue remarks remaining on claims and the claimant has not addressed them or the claim was not subject to an objection by another water user the Water Court can call the claim in on its own motion to address the issues identified by DNRC as worthy of closer evaluation.

On Motion of the Court

Montana's water adjudication process includes a concept known as "on motion of the Water Court" or more commonly called "on motion". In legal terms, the Court is really raising an issue "sua sponte", which according to Black's Law Dictionary means "of his or its own will or motion; voluntarily; without prompting or suggestion". Because this is an important element of the water adjudication process, it is important that the public, legislators, and water users understand what "on motion" means and how it works. This paper is an attempt to provide those answers.

"On motion" means that a court calls in some factual or legal issue on its own motion rather than addressing the issue only because it was raised by the plaintiff or defendant in a case or not addressing the issue because it was not raised by the plaintiff or defendant in a case. The more case-specific example of "on motion of the Water Court" is described below.

The authority of the Water Court to call water right claims in on its own motion is an important element in the adjudication process. A decision issued by the Chief Water Judge in 1995 that found that the Water Court does have this authority plays an important role. Prior to this decision, it was not clear whether or not the Water Court could even exercise an "on motion" policy.

Under the normal adjudication process as outlined in Montana law, a claim comes before the Water Court when an entity with an ownership interest in a water right that is affected by the claim in question objects to the claim. The objection could be based on numerous different points. However, objections are generally based on "issue remarks" or "gray area remarks" that are added to the claims by DNRC through the verification or examination process. Prior to the change to the examination process and the development of the Supreme Court Water Right Claim Examination Rules, DNRC verified claims and added "gray area remarks" to claims if there was a question. Under

current law, DNRC is responsible for examining every claim and putting issue remarks on any claim that does not seem to be accurate based on DNRC's research. The examination process and resulting issue remarks are done according to the Water Right Claim Examination Rules adopted by the Supreme Court.

If no one objects to a claim that has an issue remark on it and the Water Court does not call the claim in on its own motion, what happens to the issue remark? Is it acceptable for the issue remarks to stay on claims? If the issue remarks stay on claims does that mean that Montana's adjudication process isn't providing accurate decrees? Are the issue remarks that remain on claims going to provide an opportunity for downstream states or other interests to challenge the accuracy of Montana's water adjudication? There are players on each side of the questions outlined above. It is up to the EQC to decide if the current process is working and will result in an adjudication that is accurate enough. The most important question to ask is "what is accurate"? Until that question is answered, there is no way to determine if changes need to be made to meet an "accurate" standard.

Chief Water Judge Loble wrote a Memorandum decision to address whether or not the Water Court has the authority to call in factual and legal issues on its own motion. In *In the Matter of the Water Court Procedures in Addressing Factual and Legal Issues Called in "On Motion" of the Water Court*, Case No. WC-92-3 (1995), Judge Loble found that the Water Court does have the authority. Now, the question becomes how or if the Water Court will exercise this authority. In the "on motion" decision, Judge Loble provided the following guidance on how he views the Water Court exercising its "on motion" authority.

The Judge stated that "as a result of this 'on motion' review the Court concludes that its primary focus should be on resolving objections in an effort to prepare decrees that are enforceable by the district courts. The Court will continue to review claims and call them in on its own motion when it appears appropriate to do so. However, not every claim containing a DNRC issue remark will be called in. The Court will concentrate on calling in those claims where the probability of determining accuracy is highest, where the claimants are most willing to assist the Court and when it appears most cost effective to do so. The Court will continue to utilize DNRC regional office technical expertise."

It is clear based on the above information that the Court feels that addressing objections should take precedence over calling in claims on its own motion. However, there are currently no rules governing the implementation of an "on motion" policy, so it is not clear in what instances or if the Court will use its authority. The "Ross Report" to the Legislature in 1988 based its findings in part on the representation made to it by former Chief Water Judge W.W. Lessley that the Water Court would call all gray area remarks in on the Court's own motion. In a meeting in November of 2001, Chief Water Judge Loble said that the Water Court had pulled back from calling claims in on its own motion.

The ultimate questions in Montana's adjudication now are: If water users do not object to water right claims with issue remarks that highlight potential inaccuracies, the Water Court does not call those claims in on its own motion for resolution, and there is not some other process developed to address issue remarks, will Montana have an accurate enough adjudication for the proper enforcement of water rights according to those decrees and will Montana's adjudication be able to withstand potential challenges?

The Chief Water Judge serves at the pleasure of the Chief Justice of the Supreme Court. The Judge oversees the entire adjudication process and has the authority to direct DNRC's work areas and prioritize basins for examination. There are water masters that work with the Judge. These masters work in specific basins and develop the basic decree and submit it to the Judge for his approval and decision.

Prioritization of basins and sub-basins

In an effort to accomplish a statewide adjudication of existing water rights in a timely manner, the legislature has provided mechanisms for the legislature, DNRC, district court, and the Water Court to prioritize the adjudication work load. The certification process was referred to at the January EQC meeting with regard to getting highly contentious situations adjudicated. In reviewing these sections of law, critical questions that you might consider include:

- (1) Are these various processes being implemented?
- (2) If it not -- why not? If yes, how is it working?
- (3) Will prioritization be more important to the process if funding is not the primary limiting factor in the program?
- (4) If prioritization is important, are these options the best way to move through the basins and subbasins in a timely manner?
- (5) Does it matter if your basin or subbasin has a priority, or is it worth petitioning the district court the certify the matter to the chief water judge, if it is going to take years to get out of the water court based numerous reasons?

The full text of the statutory provisions are provided below.

85-2-218. Process and criteria for designating priority basins or subbasins. (1) The water judges and the department, in performing their functions in the adjudication process, shall give priority to basins or subbasins designated each biennium by the legislature. Basins or subbasins must be designated according to the following criteria:

(a) recurring water shortages within the basin or subbasin have resulted in urgent water rights controversies that require adjudication to determine relative rights;

(b) federal or Indian reserved rights are nearing determination, either by compact or adjudication, thus making adjudication of other rights in the basin or subbasin important for timely issuance of preliminary or final decrees;

(c) the basin or subbasin's location would help ensure efficient use of department and water court resources; and

(d) the adjudication process in the basin or subbasin is nearing the issuance of a decree.

(2) The water judge may designate a basin for priority adjudication upon petition of 100 or more persons who have filed claims within the basin, or he may designate a subbasin for priority adjudication upon petition of a majority of persons who have filed claims within the subbasin. The basin or subbasin shall receive priority, however, only if it meets one or more of the criteria in subsection (1).

(3) If adjudication work in one or more of the priority basins or subbasins has been completed or has been suspended for good cause, the water judge may select other basins or subbasins for priority adjudication, based on the criteria in subsection (1). (emphasis added)

85-2-309. Hearings on objections -- jurisdiction. (1) If the department determines that an objection to an application for a permit or change approval under 85-2-402 states a valid objection, it shall hold a contested case hearing, pursuant to Title 2, chapter 4, part 6, on the objection within 60 days from the date set by the department for the filing of objections, after serving notice of the hearing by first-class mail upon the applicant and the objector, unless the department certifies an issue to the district court for determination by a water judge under subsection (2). The department may consolidate hearings if more than one objection is filed to an application. The department shall file in its records proof of the service by affidavit of the department.

(2) (a) At any time prior to commencement or before the conclusion of a hearing as provided in subsection (1), the department may in its discretion certify to the district court all factual and legal issues involving the adjudication or determination of the water rights at issue in the hearing, including

but not limited to issues of abandonment, quantification, or relative priority dates. Certified controversies must be given priority by a water judge over all other adjudication matters.

(b) If the department fails to certify an issue as provided in this section after a timely request by a party to the hearing, the department shall include its denial to certify as part of the record of the hearing.

(c) Upon determination of the issues certified to it by the department, the court shall remand the matter to the department for further processing of the application under this chapter.

(3) Subsection (2) does not apply in the case of a matter considered at a hearing under this section pursuant to 85-2-316 or 85-2-322. (emphasis added)

85-2-321. Milk River basin -- suspension of action on permits -- proposal -- priority in adjudication process. (1) (a) In order to balance the need for the continued development of Montana's water and for protection of existing rights in the Milk River basin, the department may suspend action on a class of applications or may close a source in the basin and refuse to accept a class of applications, or both, for a permit under this part to appropriate from that source in the basin.

(b) Suspension or closure, or both, may only be proposed by the department.

(c) The proposal must state the source in the basin and class of applications for which suspension or closure, or both, is being proposed and any of the following allegations:

(i) that the frequency of occurrence of unappropriated waters is such that:

(A) any new appropriation from the source for the class of applications will adversely affect the rights of a prior appropriation from the source; or

(B) any new appropriation from the source for the class of applications will interfere unreasonably with another planned use or development for which a permit has been given or for which water has been reserved pursuant to this part in the source; or

(ii) that significant disputes or enforcement problems regarding priority of rights or amounts or duration of water in use by appropriators are in progress or will arise.

(2) After April 8, 1985, the chief water judge shall make issuance of a temporary preliminary decree in the Milk River basin the highest priority in the adjudication of existing water rights pursuant to Title 85, chapter 2, part 2. (emphasis added)

85-2-406. District court supervision of water distribution. (1) The district courts shall supervise the distribution of water among all appropriators. This supervisory authority includes the supervision of all water commissioners appointed prior or subsequent to July 1, 1973. The supervision must be governed by the principle that first in time is first in right.

(2) (a) A district court may order the distribution of water pursuant to a district court decree entered prior to July 1, 1973, until an enforceable decree is entered under part 2 of this chapter or the matter has been adjudicated under the procedure set forth in subsection (2)(b).

(b) When a water distribution controversy arises upon a source of water in which not all existing rights have been conclusively determined according to part 2 of this chapter, any party to the controversy may petition the district court to certify the matter to the chief water judge. If a certification request is made, the district court shall certify to the chief water judge the determination of the existing rights that are involved in the controversy according to part 2 of this chapter. The district court from which relief is sought shall retain exclusive jurisdiction to grant injunctive or other relief that is necessary and appropriate pending adjudication of the existing water rights certified to the water judge. Certified controversies must be given priority over all other adjudication matters. After determination of the matters certified, the water judge shall return the decision to the district court with a tabulation or list of the existing rights and their relative priorities.

(3) A controversy between appropriators from a source that has been the subject of a final decree under part 2 of this chapter must be settled by the district court. The order of the district court settling the controversy may not alter the existing rights and priorities established in the final decree

except to the extent the court alters rights based upon abandonment, waste, or illegal enlargement or change of right. In cases involving permits issued by the department, the court may not amend the respective rights established in the permits or alter any terms of the permits unless the permits are inconsistent or interfere with rights and priorities established in the final decree. The order settling the controversy must be appended to the final decree, and a copy must be filed with the department. The department must be served with process in any proceeding under this subsection, and the department may, in its discretion, intervene in the proceeding.

(4) A temporary preliminary decree or preliminary decree or a portion of a temporary preliminary decree or preliminary decree as modified after objections and hearings is enforceable and administrable according to its terms. If an action to enforce a temporary preliminary decree or preliminary decree is commenced, the water judge shall upon referral from the district court establish, in a form determined to be appropriate by the water judge, one or more tabulations or lists of all existing rights and their relative priorities.

(5) A person whose existing rights and priorities are determined in a temporary preliminary decree or preliminary decree or a person exercising a suspension under 85-2-217 and part 7 of this chapter may appeal a determination made pursuant to subsection (2). (emphasis added).

DECREE PHASE

Once all of the claims in a basin have (1) been examined, (2) noticed per the public notice requirements in statute, (3) had any objections addressed, and (4) had any additional information that the Judge needs provided, the basin is decreed. Once a basin reaches this point, the decree can be enforced. In Montana there are various levels of decrees.

Types of Decrees

- Temporary preliminary decree (TPD) -- issued in basins containing federal reserved water rights where a compact has not been concluded. TPDs contain all rights other than reserved rights being negotiated. In these basins, a preliminary decree will be issued as a second step in the process and will include all rights in the temporary preliminary decree along with all reserved rights in the basin.
- Preliminary decree -- this is the first decree issued in basins that do not contain any federal reserved rights.
- Final decree -- After all objections have been resolved, the Water Judge issues a final decree. On the basis of the final decree, DNRC will issue a Certificate of Water Right to each person decreed an existing water right.

Enforcement

Once a decree has been issued the basin can be enforced. Pursuant to statute, 15% of the water users must petition the District Court for enforcement of the decree or the District Court can do it on its own volition. The enforcement is handled under the District Court's purview. The Court will hire a water commissioner that is paid by the water users based on the amount of water that they use during the season. The commissioner is responsible for ensuring that, based on the decree, the water users are allocated their water fairly and in order of priority date.

FUNDING MONTANA'S WATER ADJUDICATION PROGRAM

Historical funding for Montana's Water Adjudication Program

Since Montana's statewide water adjudication effort was begun, funding has varied both in amount and source. I've attached a copy of the funding levels and their sources since 1974. In brief, the three sources for funding have been the Water Rights Account and Adjudication Account, the General Fund, and the State Special Revenue Fund (Resource Indemnity Trust, Renewable Resource Development, Renewable Resources Grants/Loans, Local Impact, Reclamation and Development).

The numbers that are provided in this summary exclude the funding for the Compact Commission, which is for adjudication of reserved rights. The EQC had asked to be informed of numbers that the DNRC and Water Court for the Water Adjudication Advisory Committee came up with as an estimated cost to complete the adjudication in 15 years. Therefore, numbers excluding the Compact Commission are more appropriate for comparison purposes. A certain portion of the Water Court's time is spent on approving negotiated compacts. However, in comparison to the number of state-based rights that the Water Court has to handle, the negotiated compacts are fairly small.

The funding provided to DNRC and the Water Court has varied from \$313,118 as a low point in 1980 to just over \$1.6 million in 1985 as the high point. The average funding for the DNRC and the Water Court from 1980-2003 is just over \$1.2 million per year. Montana has spent a total of \$37,471,120.

Comparison with adjudication in Idaho

As a comparison, the state of Idaho, which began its adjudication of the Snake River Basin in 1980, has spent a total of \$67,818,700, not quite double what Montana has spent. Idaho has funded its adjudication through the adjudication fund (SRBA account) and the general fund. Prior to 1997, the program was primarily funded by filing fees. After 1997, the adjudication program has been primarily funded by general fund appropriations. The shift was the result of a U.S. Supreme Court case, United States v. Idaho, ex rel. Director, Idaho Department of Water Resources, 508 U.S. 1 (1993). This case is very pertinent when discussing funding of an adjudication program and whether the United States can be assessed a fee. This decision provided: "While we therefore accept the proposition that the critical language of the second sentence of the McCarran Amendment submits the United States generally to state adjective law, as well as to state substantive law of water rights, we do not believe it subjects the United States to the payment of the sort of fees that Idaho sought to exact here. The cases mentioned above dealing with waivers of sovereign immunity as to monetary exactions from the United States in litigation show that we have been particularly alert to require a specific waiver of sovereign immunity before the United States may be held liable for them. We hold that the language of the second sentence making 'the State laws' applicable to the United States in comprehensive water right adjudications is not sufficiently specific to meet this requirement." The result of this decision was that Idaho could no longer collect filing fees from the United States, and therefore the funds were not available in the SRBA account to pay for the adjudication and the general fund picked up the slack. A copy of this decision is provided for your review.

The major differences between Idaho and Montana are the following:

1. Timeline
 - a. Idaho expects to be finished with the claims examination portion by 2005 and through the courts by 2010 at the latest -- total time to complete adjudication -- 25 years.

- b. Montana started in 1974, and at current funding expects to be finished with claims examination by 2033, finished with court process by ? -- total time to complete adjudication -- at least 60 years.
2. Cost (the dollar amounts have not been adjusted to take into account inflation and other factors)
 - a. Total cost for Idaho -- estimate = \$80 million
 - b. Total cost for Montana (estimated by doubling what has been spent over the last 30 years) = \$75 million
3. Conclusion
 - a. Montana will take an additional 35 years for a \$5 million savings--assuming a correlation exists between funding and timeliness of the adjudication.

Allocation of funds between DNRC and the Water Court

Historically, a majority of the funding has been directed towards DNRC. This would make sense when compared with the adjudication process. The claims examination process has to be completed before the basin can come before the Water Court for its examination. Once the claims examination process is completed, it may be wise to shift funding from the DNRC to the Water Court to be able to complete decrees and enter the enforcement stage, hopefully arriving at final decrees within a reasonable timeframe. However, when moving the emphasis of funding from the DNRC to the Water Court, it would be imperative to recognize the level and amount of assistance that DNRC provides to the Water Court through the Court process and the enforcement process. Without DNRC expertise, it may slow down the Court's ability to complete decrees. Section 85-2-243(2), MCA, provides that "Department assistance to a water judge must be without cost to the judicial districts wholly or partly within the affected water division. Expenses incurred by the department under subsection (1) must be paid from the money appropriated to it for the adjudication program by the legislature to carry out its function under subsection (1) and when that appropriation is expended then the department is no longer required to provide further assistance." (emphasis added)

The other issue to consider with staffing levels is whether or not DNRC shifts FTEs from the adjudication effort to other areas of need within DNRC. If there is concern that this might happen, it would be within the Legislature's authority to provide that FTEs that are allocated to DNRC for the purpose of the adjudication program may not be reallocated to other areas of DNRC.

Types of funding structures in other states

Idaho

I have provided a pretty detailed summary of how Idaho funds its program above. One reason I have gone into such detail on Idaho is because based on my interaction with various entities involved in adjudication in other states, it seems that Idaho is very well respected for its ability to move through the adjudication process and to have a completion date in sight. Other states, including Montana, seem to be known for the amount of time it is taking them to get the adjudication of state rights completed. Montana's Compact Commission has served as a model and example in other states for inexpensive settlement of reserved rights. Therefore, it might serve Montana well to pat ourselves on the back for being foresighted and having enough ingenuity to develop the Compact Commission to address the federal and tribal reserved rights within Montana and learn from Idaho's experiences and practices with regard to state-based rights.

As shown in the Idaho chart that I have provided, they are funded through the SRBA account and the general fund. Their statutory language is contained in section

42-1414, Idaho Code. "Fees for filing notice of claims with the director." This section contains a fee schedule for filing claims. The fees are due by a time certain and are different based on the beneficial use to which the water is applied. However, as time passes, the amount of funds available in a "filing fee" account are dwindling. Much like other states, Idaho will probably have to turn more and more to the state general fund to cover the costs of the adjudication.

Arizona

Arizona pays for its adjudication through filing fees and through the general fund. It is important when discussing Arizona that it is clear that they are not doing a statewide adjudication. They are conducting their adjudication using a basin-by-basin approach. They are working on two basins right now. One basin is funded entirely by filing fees. For the other basin, because it is extremely small and there aren't very many claimants to provide funding through the payment of fees, a general fund appropriation of \$20,000 is being used in addition to the filing fees. Arizona's staff consists of two people, one special master and one additional staff person. Arizona's fee structure is established in sections 45-254 and 45-255, Arizona Revised Statutes. The fee for filing a statement of claim by an individual is \$20. The fee for filing a claim for a corporation, a municipal corporation, the state or any political subdivision, an association, or a partnership is 2 cents for every acre-foot of water claimed or \$20, whichever is greater. A claim is not considered by the court unless all fees have been fully paid.

Oregon

Oregon relies exclusively on general fund appropriations to fund its adjudication of the Klamath River Basin. Revenue in the Water Resources Department budget only covers about one-half to two-thirds of the revenue required, however, forcing the adjudication process to seek additional WRD funds from savings in other programs. Current fiscal year revenue amounts to approximately \$700,000, leaving a shortfall of between \$550,000 to \$650,000.

Montana

Montana's adjudication program was initially funded with filing fees and general fund. However, the money from the filing fees was expended and the program now relies primarily on the general fund and on the state special revenue fund referred to above. There were four divisions outlined in Montana. The divisions were the Yellowstone, the Clark Fork, the Upper Missouri, and the Lower Missouri. The filing fee was \$40 per claim and it could not exceed more than \$480 in a division. So if a claimant had more than 12 claims within the Yellowstone Division, the claimant only had to pay \$480. The fee was a flat rate and had no correlation with the amount of water claimed.

Montana also allowed for the filing of late claims. The filing fee associated with a late claim was a bit more. The fee was still \$40 for filing but there was an additional \$150 fee for processing.

A review of the attached chart will provide a better understanding of the funding levels and sources.

Funding Alternatives for Montana

Claim Fee

Montana has approximately 220,000 claims filed that are being addressed in the adjudication. An option would be to assess a fee on a per-claim basis. Because of the U.S. v. Idaho case that I discussed earlier, any claims by the United States would probably have to be excluded from assessment. Also, a certain number of claimants aren't going to be able to be found, etc. Therefore, let's assume that there are 175,000 claims that can be assessed a fee. The amount of the fee would be a policy decision. I have outlined some rough numbers below.

Fee per claim	Amount raised per year (assuming 175,000 claims and does not include cost of administration, collection, etc.)	Amount raised per biennium (assuming 175,000 claims and does not include cost of administration, collection, etc., and also assuming that the fee is recurring)
\$10	\$1,750,000	\$3,500,000
\$20	\$3,500,000	\$7,000,000
\$30	\$5,250,000	\$10,500,000
\$40	\$7,000,000	\$14,000,000

As you can see from the chart, a fairly nominal "per-claim fee" could produce significant amounts of money for the program. However, there are always other issues to consider, such as:

1. What happens if the fee isn't paid?

There are a couple of different alternatives to addressing this issue.

- a. Collect the unpaid "fee" as delinquent. This is done in other areas of Montana law and could be set up in a similar structure. The Department of Revenue has the ability to do this, and since the structure exists, the cost to implement it should be less than giving this responsibility to a different state agency. The Department of Revenue would have to be consulted to be able to determine exact costs of implementing a collection mechanism.
- b. Forfeiture of the water right. This is a very severe result for not paying the fee and may lead to litigation. However, it is an alternative and it would probably be the best avenue for ensuring payment. The question is whether or not the state wants to take away a water user's private property for failing to pay a \$10 fee. Under current law, if a claimant never paid a filing fee the Water Court will terminate the claim when it addresses that particular basin in the adjudication process. The difference between a filing fee and a post-filing fee are significant. In the filing process a water user could choose not to file a claim or pay the fee and forfeit any associated water right. In the instance of a post-filing fee, the water user has already paid the filing fee with the assumption that they would not have to pay fees in the future.

2. Who has to pay the fee?

This question starts to get into the complications of imposing a fee after the filing has already taken place.

- a. What if a water user's basin is already adjudicated? If the water user's basin has already been adjudicated it would be very easy to make the case that this fee is in essence a tax on the right to use water. That isn't a good or bad thing, it is an element that needs to be considered when making a policy decision. Do water users located in a basin that has already been adjudicated benefit from a program with adequate funding? The answer might be yes because the Water Court would have enough staff to address all of the issue remarks that are coming to the surface as a result of decrees being enforced.
- b. If only water users in nonadjudicated streams have to pay the fee, is that fair? The water users themselves really had no control over how and when their basin was adjudicated, unless they took it upon themselves to petition the District Court to have their stream certified to the Water Court. One might make the argument that it was the state's fault for taking so long to get the adjudication done and that citizens who just happened to be further down the list shouldn't be

held responsible for paying when other users are not being held responsible. Is it their fault that their stream was further down "the list" when it came to the state getting the work done?

- c. Do entities of state government have to pay the fee? Both DNRC (state lands) and FWP have water rights claims. Will they be responsible for paying a portion of the adjudication costs through the fee system? If the fee system is set up to collect fees from water rights holders in order to pay for the program, wouldn't it make sense to have the state agencies pay as well since they are receiving the same benefit that a water user is from having the adjudication completed?
3. What is the cost of managing a fee program? I mentioned above the cost of collecting when fees aren't paid. However, there are other costs associated with implementing a fee program as well. For instance:
 - a. DNRC's database will have to be current and functioning well to be able to separate out the United States claims and to be able to pull names and addresses for mailing notices.
 - b. The cost of developing, printing, and mailing notices and keeping a record.
 - c. I'm sure there are other issues to consider as well.
 4. Is this a one-time fee or a recurring fee? If recurring, for how long?
 5. Who will be in charge of collecting the fee? Does the fee go to the DNRC, the Department of Revenue, or the Water Court? Who is responsible for actually taking in the money and keeping the records associated with that? Can it be done at a local level?
 6. Who will address noncompliance? This question relates to question #1. If a water user is required to forfeit his/her right if the fee isn't paid, it would be advisable to include the cost of litigation in the budget of the entity that has to follow up on claimant payments. If the fee is collected as a delinquent tax, then it would probably be advisable to have the Department of Revenue serve in this capacity. They already do this for other fees and would have the policies and framework established.
 7. Based on my understanding of committee discussions, it appears that the purpose of trying to get more funding for the adjudication program is to try to speed up the process. If there is a potential for litigation based on a new funding source, like a fee, will this simply prolong the adjudication effort even further?

8. Consumptive use

An issue that the EQC has not addressed specifically but has heard from public testimony is the issue of "consumptive use". In a wide angle lens, the easiest way to look at consumptive use is the accepted belief that some beneficial uses of water are consumptive, some aren't. As your lens begins to narrow you get to the more complicated discussion on how consumptive does a use have to be before it makes a difference. Within one type of beneficial use--let's use irrigation for an example--there are various levels of consumption of the water. This consumption is based on, to name a few:

- a. type of irrigation -- center pivot vs. wheel line vs. hand line vs. flood
- b. type of soil -- sandy vs. clay
- c. type of crop being grown -- alfalfa vs. wheat

d. time of year irrigation is occurring -- spring vs. late summer

These issues are just a few that would have to be considered when addressing consumptive use. This raises the question of whether or not a distinction should be made between consumptive and nonconsumptive uses and whether or not the Legislature believes it feasible to address it in statewide policies.

Beneficial Use Fee

An additional alternative for funding the adjudication program is to base a fee structure on the beneficial use to which the water is applied. This is how Idaho's filing fee structure is set up. There is a flat fee for domestic and/or stock water rights and a flat fee for all other rights. In addition to the flat fee there is a variable water use fee on all rights except domestic and/or stock water rights. A potential outline of fees, based on Idaho's statute, is provided below:

Beneficial Use	Fee
Domestic and/or stock water rights	\$25
Claims for all other rights	\$50 flat fee plus an additional variable water use fee based on acreage, power generating capacity, c.f.s., or equivalent volume of water
Additional variable water use fee	
Irrigation use	\$1.00 per acre (one fee irrespective of number of claims)
Power	\$3.50 per kilowatt of capacity (manufacturer's nameplate rating)
Aquaculture	\$10.00 per c.f.s.
Municipal, industrial, commercial, mining, heating, cooling	\$100.00 per c.f.s
Public instream flow, public lake level maintenance, wildlife	\$100.00 per c.f.s

Hydro Tax

SB 176 was introduced in the 2003 session. A hydro tax of this sort is also an option for funding the adjudication program. A copy of the bill and the fiscal note are attached for your review. I think it is important to remember that hydro facilities have water rights and generally speaking they are senior rights. Review the bill draft and the attached fiscal note and we can discuss any questions at the March meeting.

The revenue generated by the beneficial use fee is intended to be used to facilitate the completion of the water adjudication in 15 years.

Variable Beneficial Use Funding -- Alternative 2

The Basics

This beneficial use fee will be applied to all water rights. All water rights means both water rights that are claimed and subject to the adjudication as well as all new appropriations for ground water and surface water. In other words, every person, excluding the Federal Government, that uses water in Montana will be assessed a fee.

The Department of Revenue (DOR) is the reasonable agency to take care of collecting fees. The DNRC would provide the appropriate numbers to DOR so that bills can be sent out and fees collected.

Funding Needed

The amount of funding that will be needed to complete the adjudication in 15 years (10 years for DNRC claims examination and 5 years for the Water Court to finish up) is based on the numbers that were provided to staff by the three elements of the adjudication program in January. It is broken out in the appropriate time spans in the table below for your review. The Compact Commission expires in 2009 per statutory guidance, therefore, the numbers for subsequent years do not include the Compact Commission.

It is important to note that the amount needed for the first couple of years should be increased because of administrative costs associated with getting the billing system set up, providing the information to DOR for the billing procedures, and any appropriation that may need to go to DOR to accomplish this new requirement. I was hesitant to ask DOR to spend the time necessary to determine this administrative cost without knowing for sure if the Council will move forward with the variable beneficial use fee concept. DOR will also need to know specifically what will be required of them.

If the Council chooses to move forward with a variable beneficial use fee the bill would be drafted to set up a water adjudication account where the money would be deposited and appropriated from.

	Program Element	Current	Additional Needed	Total Per Year
2006-2009	DNRC	\$644,009	\$1,361,001	\$2,005,010
	Water Court	\$653,454	\$220,651	\$874,105
	Compact Commission	\$709,946	\$0	\$709,946
				3,589,061/yr
2010-2016	DNRC	\$644,009	\$1,361,001	\$2,005,010
	Water Court	\$653,454	\$220,651	\$874,105
				\$2,879,115/yr
2017-2021	DNRC (post decree	\$559,827	\$0	\$559,827

	assistance to the Water Court)			
	Water Court	\$653,454	\$220,651	\$874,105
				\$1,433,932/yr
Total Cost for 15 year completion				\$38,090,648
Total Estimated Cost for completion at current pace and cost*				\$51,012,522

*This estimate is reflected in 2004 dollars and was arrived at by using the current funding levels and multiplying it by 3 years for the Compact Commission, 33 years for DNRC plus 5 years at the rate that will be required for post decree assistance, and 38 years for the Water Court (assuming it will take the Water Court 5 years to finish after DNRC has completed the examination process).

Funding Source

The challenges with figuring out how a variable fee would work were many. I will outline below the decisions that were made to get the most accurate answers for the Council.

Because of the large variation in the flow rates, volumes, and acres that are claimed or that exist in water rights, it was necessary to establish a cut off point for a "flat fee" rather than the "variable fee". A flat fee would be imposed on those flow rates or volumes that are fairly minimal in comparison to other claims or rights and the money raised from imposing the variable fee would probably be less than the amount that it would cost to assess the fee.

We had to determine "categories" to place the claims and rights in because of the various ways in which they are claimed, decreed, or filed. Since not all of the basins in Montana have been examined, some of the numbers are probably inaccurate and larger than what will be determined through the examination process. Therefore, it would probably be wise to leave some cushion with regard to the amount of money raised and the amount of money needed.

Flat Fee Categories

- Any water right or claim that has a flow rate of less than 35 gpm or less than 56.35 ac ft (the equivalent of 35 gpm) is assessed a flat fee of \$5. The amount of 35 gpm was chosen because, based on statute, a person that is putting in a well that is less than or equal to 35 gpm is issued a certificate by DNRC without any DNRC review. Therefore, this seemed an appropriate number to use.
- Anything without a flow rate and without a volume is assessed a flat fee of \$5. The question arises how a water right can be decreed without a flow rate and/or a volume. In some instances, such as stock, a standard is applied. For stock the standard is 30 gallons per day per animal unit. In our evaluations, it became quite clear how important volume is for certain types of beneficial uses because it is almost always the controlling factor. I have provided an example of a water right that has flow rate and a volume and one that has a flow rate and no volume and the total amount of water that can be used (assuming that they have used this amount historically).

	Flow Rate	Volume	Period of Use	# of Days of use at 100 gpm before reaching maximum volume (gpm/226.67=ac/day)
	100 gpm	50 ac ft	Year around	113.6 days
Water Right B	Flow Rate	Volume	Period of Use	# of Days of use at 100 gpm before reaching maximum volume (gpm/226.67=ac/day)
	100 gpm	None decreed	Year around	365 days

- Anything with a flow rate of greater than 35 gpm but less than 56.35 acre feet is assessed a flat fee of \$5. This is because volume is the limiting factor.
- Anything with no flow rate and a volume less than 56.35 acre feet is assessed a flat fee of \$5. Without a flow rate you are forced to use the 56.35 acre feet cut off that we set for "flat fees".
- Anything with a flow rate of less than 35 gpm and no volume is assessed a flat fee of \$5. Without a volume you are forced to use the 35 gpm cut off that we set for "flat fees".

Variable Fee Categories

In an effort to be as fair as possible, the variable fee is calculated based on the lesser of the flow or volume. The variable fees that are assigned for the purposes of this paper are \$.016/gpm and \$.01/ac ft. These numbers were calculated so that no matter whether you used acre feet or volume you would get close to the same number. For example at 36 gpm (above the 35 gpm cut off for the flat fee) and at 57 ac ft (above the 56.35 ac ft cut off for the flat fee) the following would be the income from the fee.

$$36 \text{ gpm} \times \$0.016 = \$0.576$$

$$57 \text{ ac ft} \times \$0.01 = \$0.57$$

As you can see, there is a point where volume or the flow rate is greater than the cut off for the flat fee but the claimant ends up paying less than the flat fee. Therefore, each claimant will pay a minimum of \$5. If their fee calculation is more than \$5 they will pay that fee. These numbers can be refined even more at direction from the committee.

- Anything with a flow rate greater than 35 gpm and a volume greater than 56.35 ac ft is assessed a variable fee. The amount that this would raise is reflected in the table showing the amount of funds raised. It is up to the Council to determine whether flow rate or volume will be used for the fee assessment.
- Anything with a flow rate of less than 35 gpm and a volume greater than 56.35 ac ft is assessed a variable fee. This fee is based on the volume as that is the limiting factor.
- Anything without a flow rate and a volume greater than 56.35 ac ft is assessed a variable fee.

This fee is based on the volume as that is the limiting factor.

- Anything with a flow rate greater than 35 gpm and no volume is assessed a variable fee. This fee is based on flow rate.
- If the beneficial use is irrigation the fee is variable based on acreage. Irrigation poses a unique problem. Irrigation claims are not decreed with a volume, unless it is for water spreading, and only reflect a flow rate. By not having a volume, the period of use can not be taken into account (May 1 - Sept 15 for example vs. year around). The case also often exists where there are numerous water rights claims or water rights that are used to water the same acreage (also referred to as supplemental). Therefore, the only consistent and fair way to assess the fee was to use acreage. DNRC used GIS to determine the amount of acres irrigated in the state.

Summary of all categories (excluding irrigation) and the type of fee

Flow Rate	Volume	Fee Type
Less than 35 gpm	Less than 56.35 ac ft	Flat
Greater than 35 gpm	Greater than 56.35 ac ft	Variable (Flow or Volume)
Greater than 35 gpm	Less than 56.35 ac ft	Flat (volume is controlling)
Less than 35 gpm	Greater than 56.35 ac ft	Variable (volume is controlling)
No Flow Rate	Greater than 56.35 ac ft	Variable (volume is controlling)
No Flow Rate	Less than 56.35 ac ft	Flat
Less than 35 gpm	No Volume	Flat
Greater than 35 gpm	No Volume	Variable
No Flow	No Volume	Flat (?)

Revenue generated through the variable fee system

The charts on the following pages show the revenue generated using the fees that are provided in this paper. These charts will need to be updated if the EQC chooses to use fee rates different from that which is provided in this portion of the report ??????????????????

Example 1: Based on Flow for > 35 GPM & >56 AF

Total Revenue **\$11,245,724**



Set minimum fee:	\$5.00
Set fee for less restricted users based on flow or volume:	Flow
Set fee based on GPM:	\$0.016
Set fee based on AF:	\$0.010
Set irrigation fee based on acres:	\$0.50

Assumptions

Irrigated acres: 4,000,000

Purpose	Water Right Count	Revenue	Percent of Total Rev.
1 Agricultural Spraying	324	\$1,620	0.014%
2 Augmentation	1	5	0.000%
3 Commercial	4,320	40,628	0.361%
4 Domestic	89,982	467,655	4.159%
5 Erosion Control	53	388	0.003%
6 Fire Protection	385	3,162	0.028%
7 Fish and Wildlife	2,582	1,135,302	10.095%
8 Fish Raceways	116	9,905	0.088%
9 Fishery	591	19,404	0.173%
10 Flood Control	19	1,989	0.018%
11 Flow Through Fish Pond	2	6	0.000%
12 Geothermal	67	409	0.004%
13 Geothermal Heating	56	251	0.002%
14 Industrial	1,141	23,978	0.213%
15 Institutional	277	1,511	0.013%
16 Irrigation	60,162	2,000,000	17.785%
17 Lawn and Garden	38,924	194,372	1.728%
18 Mining	1,399	26,092	0.232%
19 Multiple Domestic	2,450	12,197	0.108%
20 Municipal	1,094	89,545	0.796%
21 Navigation	6	71,833	0.639%
22 Observation and Testing	35	328	0.003%
23 Oil Well Flooding	88	343	0.003%
24 Other Purpose	229	35,736	0.318%
25 Pollution Abatement	42	2,909	0.026%
26 Power Generation	295	3,260,654	28.995%
27 Power Generation, Nonconsumptive	0	0	0.000%
28 Recreation	806	253,662	2.256%
29 Sale	13	5,774	0.051%
30 Sediment Control	29	203	0.002%
31 Stock	137,982	2,782,087	24.739%
32 Storage	24	789,837	7.023%
33 Unknown	169	8,606	0.077%
34 Waterfowl	4	123	0.001%
35 Wildlife	261	1,296	0.012%
36 Wildlife/Waterfowl	372	3,915	0.035%
Totals	344,300	\$11,245,724	100.000%

Example 2: Based on Volume for > 35 GPM & >56 AF

Total Revenue **\$7,955,868**



Set minimum fee:
Set fee for less restricted users
based on flow or volume:
Set fee based on GPM:
Set fee based on AF:
Set irrigation fee based on acres:

\$5.00
Volume
\$0.016
\$0.010
\$0.50

Assumptions

Irrigated acres: 4,000,000

Purpose	Water Right Count	Revenue	Percent of Total Rev.
1 Agricultural Spraying	324	\$1,620	0.020%
2 Augmentation	1	5	0.000%
3 Commercial	4,320	30,920	0.389%
4 Domestic	89,982	500,833	6.295%
5 Erosion Control	53	267	0.003%
6 Fire Protection	385	2,909	0.037%
7 Fish and Wildlife	2,582	273,724	3.441%
8 Fish Raceways	116	5,303	0.067%
9 Fishery	591	18,912	0.238%
10 Flood Control	19	1,853	0.023%
11 Flow Through Fish Pond	2	6	0.000%
12 Geothermal	67	354	0.004%
13 Geothermal Heating	56	289	0.004%
14 Industrial	1,141	12,802	0.161%
15 Institutional	277	1,364	0.017%
16 Irrigation	60,162	2,000,000	25.139%
17 Lawn and Garden	38,924	194,176	2.441%
18 Mining	1,399	9,775	0.123%
19 Multiple Domestic	2,450	89,835	1.129%
20 Municipal	1,094	9,896	0.124%
21 Navigation	6	72,425	0.910%
22 Observation and Testing	35	328	0.004%
23 Oil Well Flooding	88	342	0.004%
24 Other Purpose	229	35,705	0.449%
25 Pollution Abatement	42	2,665	0.033%
26 Power Generation	295	3,032,200	38.113%
27 Power Generation, Nonconsumptive	0	0	0.000%
28 Recreation	806	125,243	1.574%
29 Sale	13	2,918	0.037%
30 Sediment Control	29	132	0.002%
31 Stock	137,982	727,522	9.144%
32 Storage	24	789,730	9.926%
33 Unknown	169	8,549	0.107%
34 Waterfowl	4	21	0.000%
35 Wildlife	261	1,296	0.016%
36 Wildlife/Waterfowl	372	1,945	0.024%
Totals	344,300	\$7,955,868	100.000%

Summary

The Montana Constitution provides the following:

Article IX. Environment and Natural Resources

Section 3. Water rights. (1) All existing rights to the use of any waters for any useful or beneficial purpose are hereby recognized and confirmed.

(2) The use of all water that is now or may hereafter be appropriated for sale, rent, distribution, or other beneficial use, the right of way over the lands of others for all ditches, drains, flumes, canals, and aqueducts necessarily used in connection therewith, and the sites for reservoirs necessary for collecting and storing water shall be held to be a public use.

(3) All surface, underground, flood, and atmospheric waters within the boundaries of the state are the property of the state for the use of its people and are subject to appropriation for beneficial uses as provided by law.

(4) The legislature shall provide for the administration, control, and regulation of water rights and shall establish a system of centralized records, in addition to the present system of local records. (emphasis added)

The important elements to look at with regard to the funding discussion are that (1) water within the boundaries of the state is property of the state and (2) all waters are subject to appropriation for beneficial uses as provided by law.

There are numerous examples of when the state assesses a fee for the use of a state-owned resource. One example is state lands. The property is owned by the state. Others are able to use those lands for specific purposes upon payment of a fee. The state also assesses administrative fees associated with the management of these state-owned resources. Therefore, the concept of fee for use is not new to Montana. It is wholly within the authority of the Legislature to assess a fee for the privilege of using the state's water for a beneficial purpose.