



CAWCD BOARD POLICY

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CAP Rate Setting Policy

1. GOALS OF RATE SETTING

- 1.1. **Cost Recovery.** CAP is a governmental entity that manages a water resource for the benefit of its rate and taxpayers. Water rates are set in order to recover costs, on a long-term basis, net of other revenue sources.
- 1.2. **Financial Stability.** To reliably perform its services, CAP must maintain a strong financial position and long-term balanced cash flows. Setting rates at levels which, on a long-term stabilized basis, are above cost is inconsistent with CAP's service responsibility. However, setting rates which on an overall basis are below cost would jeopardize the financial stability of the project. Setting rates at cost also encourages economic efficiency in water use. Measurement of cost is subject to uncertainty and relies on estimates. CAP will endeavor to accurately measure its cost and charge this amount to its users. CAP must also maintain reasonable levels of cash reserves as a financial buffer to avoid undue fluctuations in rates and to ensure its ability to meet its financial obligations in the event of unexpected costs.
- 1.3. **Price Stability and Predictability.** CAP will endeavor to maintain relatively stable and predictable rates. CAP will endeavor to avoid "rate shock" and release updates or known uncertainties timely. If changes are required, the changes should be announced well in advance and, if possible, phased in over a period of time. Alternative scenarios should be presented to provide potential rate impacts if known uncertainties exist.
- 1.4. **Operational Efficiency.** CAP owes a duty to its tax and rate payers to operate its facilities efficiently, maintaining costs as low as possible without compromising service reliability. CAP is not subject to competition or regulation which in other forms of enterprise would provide an independently imposed constraint or discipline for cost containment. CAP nevertheless commits itself to a goal of operating its facilities at the lowest possible cost consistent with maintaining a highly reliable service capability.
- 1.5. **Accountability.** CAP is responsible for the delivery of a portion of Arizona's Colorado River allocation, the state's largest single source of renewable water, and therefore controls an asset of enormous importance to the state. The establishment of policies concerning availability and rates for this water is an important responsibility of the CAP Board of Directors. Rates should be considered as a package, and not in a piecemeal fashion. Water delivery policies and rates should be established in a highly public process only after due consideration and analysis of economic and financial impacts and inviting comment from all affected parties.
- 1.6. **Legal Compliance.** Any rate making processes and policies must be accomplished in accordance with statutory and contractual requirements.

2. COST MEASUREMENT

- 2.1. CAP will periodically conduct cost studies to determine long-term cost structure of the operation and maintenance of its facilities.
- 2.2. Such studies will analyze the operating components of the system and estimate annual costs in the future for operations, repair and replacement, and convert those costs to an “equivalent annual” amount. This amount will be calculated so as to be sufficient to cover the estimated annual costs taking into account time value of money and the establishment and maintenance of reasonable financial reserves for operational contingencies and self-insurance.
- 2.3. Cost studies will be conducted on a biennial basis.

3. SUBCONTRACT WATER DELIVERY CHARGES

- 3.1. Water deliveries pursuant to subcontracts will be charged in accordance with subcontract requirements.

4. CAPITAL CHARGES

- 4.1. Capital charges under the long-term M&I subcontracts will be set in accordance with contract requirements taking into account additional revenue sources for repayment, including property taxes.
- 4.2. Any Basin Development Fund credits will be applied to repayment.
- 4.3. The general rate setting policy of the Board is to set capital charges to go toward the recovery of the cash make-up payment on an annual basis. During the annual rate setting process the Board may choose to use other available funds to reduce M & I capital charges.

5. AG SETTLEMENT POOL

- 5.1 Pursuant to the Arizona Water Settlements Act, CAP will cover the Fixed OM&R on Ag Settlement Pool deliveries through 2030.
- 5.2 The Agriculture energy rate will be set at the full energy rate.
- 5.3 The Board is committed to maintaining affordable rates for agricultural use of the agriculture pool through 2030 and will consider financial support if Agricultural users demonstrate that the full energy rate is not affordable.
- 5.4 The Board will consider if any financial incentives may be offered to attain mutually beneficial goals.

6. FORWARD ANNOUNCEMENT OF RATES AND RATE STABILITY

- 6.1. CAP's rate-setting process will be biennial, with the primary rate-setting activity taking place in even years and an update, if required, in odd years. CAP will announce rates during each primary or update rate-setting process. Primary rate schedules will be for the following six years, and updated rate schedules, if required, will be for the following five years.

- 6.2. The first year of the primary rate schedule will be considered “firm” pricing, subject to change only in emergency circumstances and if a change would be permitted under applicable contracts. The second year of the primary rate schedule will be considered “provisional,” and will become firm unless updated by the Board prior to the commencement of the second year during the rate update process. The remaining years in the rate schedule are “advisory” for customer planning purposes, but subject to change in subsequent primary rate-setting or rate update processes. Rate updates affecting provisional or advisory rates may be made if there are material changes in assumptions made when these rates were originally published.

7. RATE SETTING PROCESS

- 7.1. The rate-setting process will define customer groups and rates to be charged to each group.
- 7.2. Rates will be set only after being publicly announced and providing adequate time for public comment. The suggested calendar for the rate setting process is shown below, and is applicable to both the primary rate-setting process in even years and any rate updates that may occur in odd years:
 - 7.2.1. May 1 – Staff delivers Proposed Rate Schedule to Board and customers for study; interested parties are invited to submit written comments.
 - 7.2.2. May – Staff holds a rate briefing to solicit public comments.
 - 7.2.3. May – Public comments are analyzed and reviewed by staff and the Proposed Rate Schedule is sent to the Finance, Audit and Power Committee for a Recommended Rate Schedule to the Board.
 - 7.2.4. June – Board adopts the Final Rate Schedule.
- 7.3. Following adoption of rates, the following procedure will be followed:
 - 7.3.1. August – Expected receipt of notice from Bureau of Reclamation of water availability for following year.
 - 7.3.2. September – CAP notifies customers of availability and price for following year.
 - 7.3.3. October 1 – Customers submit in writing a schedule showing desired monthly deliveries for following year and preliminary estimates for succeeding two years.
 - 7.3.4. November 15 – CAP furnishes customers a monthly delivery schedule for following year.
 - 7.3.5. November 20 – First billing for following year’s deliveries is sent to customers.
- 7.4. In general, rates will be considered as a package, and not individually. In an exceptional circumstance (such as a “declaration of surplus” by the Secretary of the Interior), the Board may establish a new rate or user category in an interim rate action. In any such action, the Board shall consider the financial impacts to the project and effects on other customers.
- 7.5. The Board retains its authority permitted under water delivery contracts to adjust rates during the year if rates prove inadequate to cover cost, and the Board determines that an interim adjustment of rates is in the best interest of the project.