



## **CAP Recharge Rate Setting Policy**

### **A. GOALS OF RATE SETTING**

1. **Cost recovery** – CAWCD will establish recharge rates to recover costs associated with operating and maintaining CAWCD recharge facilities over a reasonable period of time. The established recharge rates will also recover an appropriate amount of recharge facility capital costs from those customers that are required to pay a capital recovery rate component.
2. **Price Stability and Predictability** – CAWCD will endeavor to maintain relatively stable and predictable recharge rates. If unforeseen changes are required, the changes should be announced well in advance and, if possible, phased in over a period of time.
3. **Operational Efficiency** – CAWCD recognizes its duty to operate facilities efficiently to keep rates as low as possible without compromising reliability. CAWCD commits to a goal of operating its recharge facilities at the lowest possible cost consistent with maintaining a highly reliable service capability.
4. **Accountability** – Recharge rates shall be established in a public process only after due consideration and analysis of economic and financial impacts, and inviting comment from all affected parties.
5. **Legal Compliance** – Rate setting processes and policies shall be accomplished in accordance with statutory, regulatory and contractual requirements.

### **B. ESTABLISHING ANNUAL RECHARGE RATES**

1. **Process** – The 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. 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:
  - a. March – Staff develops proposed recharge rate schedule and delivers it to the Board and customers for study. Interested parties are invited to submit written comments.
  - b. April – Staff holds customer workshop.
  - c. April – Public comments are analyzed and reviewed by staff and preliminary rate schedule is sent to the Finance, Audit and Power Committee for a recommendation to the Board.
  - d. May – Board adopts preliminary rate schedule.
  - e. June – Board adopts final recharge rate schedule.

2. **Methodology** –The annual recharge rate shall consist of an operation and maintenance (O&M) component. For certain classes of customers, the annual recharge rate will also include a capital recovery component. The annual recharge rate shall be calculated annually based on the following.
- a. O&M Component – CAWCD will establish an O&M component rate for each Active Management Area (AMA) in which CAWCD operates one or more recharge facilities as follows:
    - i. CAWCD will establish a Recharge O&M Rate Stabilization Fund (the “Fund”) for the purpose of maintaining relatively stable and predictable recharge rates. The fund serves to eliminate annual rate reconciliation by recovering O&M costs over a rolling 10-year average. For years in which the total O&M component revenues are less than the total O&M costs for that AMA, CAWCD will debit the Fund by the difference in these two amounts. For years in which the total O&M component revenues are greater than the total O&M costs for the AMA, CAWCD will credit the Fund by the difference in these two amounts;
    - ii. CAWCD will determine, in consultation with its recharge customers, the volume of water projected to be stored at all CAWCD recharge facilities in that AMA during the subsequent ten-year period;
    - iii. CAWCD will estimate the total annual operating costs for all CAWCD recharge facilities in that AMA during the subsequent ten-year period;
    - iv. CAWCD will estimate interest rates to be charged to or credited to the Fund for each AMA during the subsequent ten-year period;
    - v. CAWCD will establish the O&M component rate and manage the Fund to ensure that CAWCD recovers recharge facility operating costs for each AMA, over the subsequent ten-year period.
    - vi. For co-owned facilities, each partnership agreement will specifically address the co owners’ responsibility for the actual O&M costs for the specific facility and their obligation to pay the O&M component rate when they utilize that specific site.
  - b. Capital Recovery Component - CAWCD will establish a capital recovery component rate for each AMA in which CAWCD operates one or more recharge facilities as follows:
    - i. CAWCD will calculate a capital recovery component rate with the goal of recovering a portion of the costs to develop the facilities constructed as well as any projected capital expenses required at the facilities in that AMA;
    - ii. The capital recovery component rate will be based on CAWCD’s depreciable development costs for all existing and proposed recharge facilities in that AMA and the total volume of water projected to be stored during the projected life of those facilities;
    - iii. The capital recovery component rate will not change significantly from year to year unless there is a significant change in CAWCD’s depreciable development costs for recharge facilities in that AMA;
    - iv. The capital recovery component rate shall be charged to all customers except for the following:
      1. The Arizona Water Banking Authority when it is storing for CAP M&I subcontractor firming purposes;
      2. The Central Arizona Groundwater Replenishment District.

3. A co-owner of a recharge facility that is using no more than its share of recharge capacity under the provisions of an Intergovernmental Agreement.
  4. M&I water providers located within CAWCD's three county service area.
3. **Forward Announcement of Rates** – Rates will be announced 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. 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.