



CAP Rate Structure

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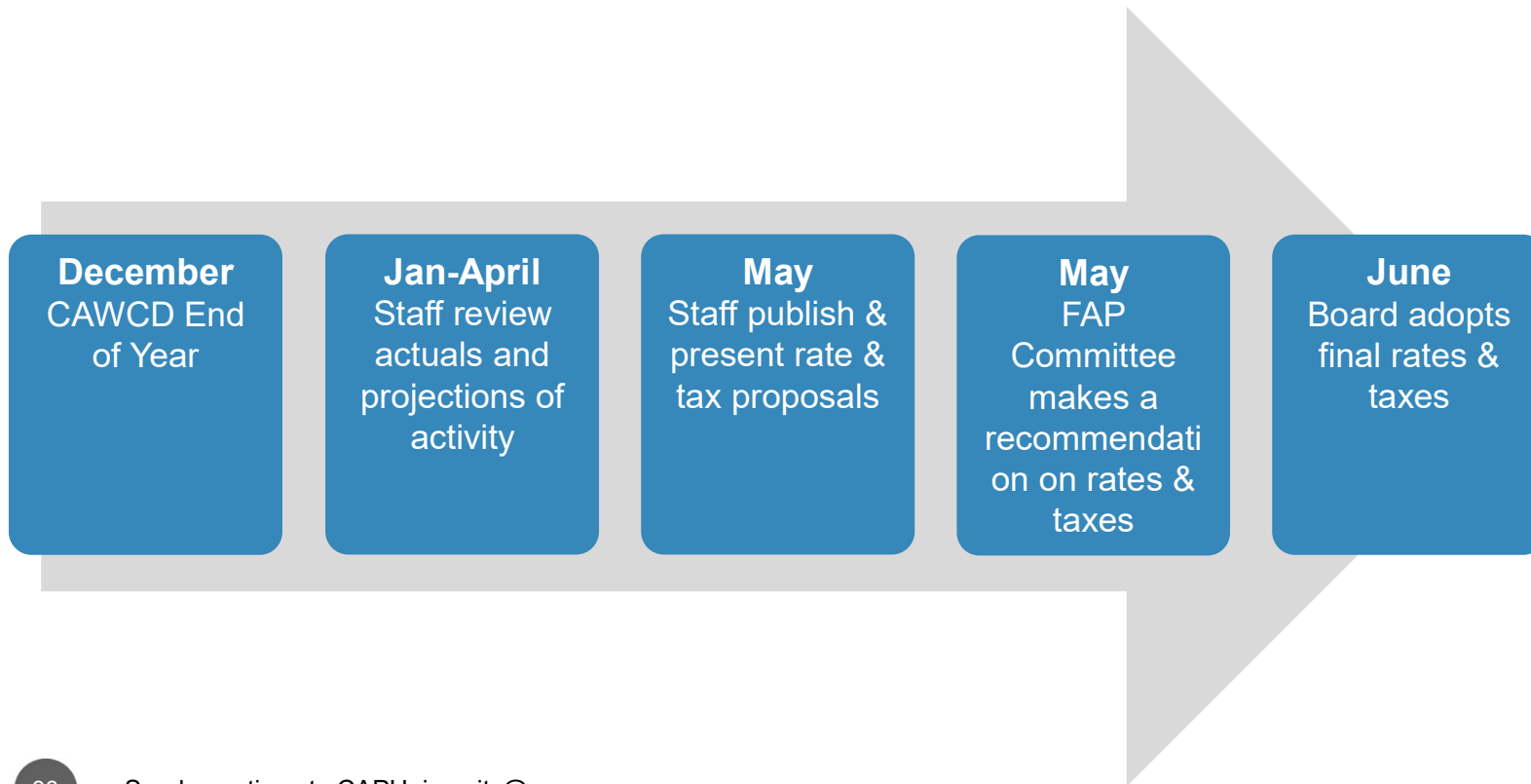
CAWCD Board Rate Setting Policy

Goals of Rate Setting

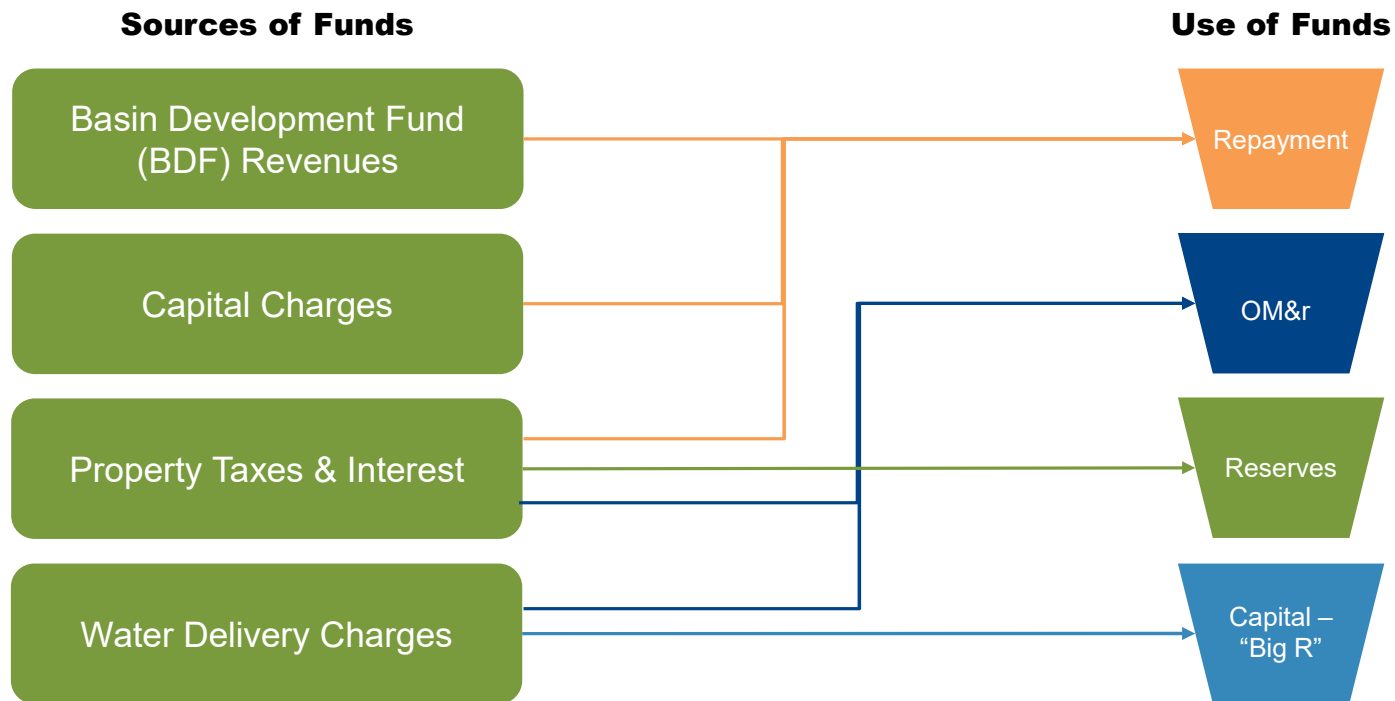
- 1.1. Cost Recovery - water rates are set in order to recover costs.
- 1.2. Financial Stability - endeavor to accurately measure cost and charge this amount to users.
- 1.3. Price Stability and Predictability - endeavor to maintain relatively stable and predictable rates.
- 1.4. Operational Efficiency - operate efficiently, maintaining costs as low as possible without compromising service reliability.
- 1.5. Accountability - rates should be considered as a package, and not in a piecemeal fashion and rates should be established in a highly public process after due consideration and analysis of economic and financial impacts and inviting comment from all affected parties.
- 1.6 Legal Compliance - rate making processes and policies must be accomplished in accordance with statutory and contractual requirements.



Rate Planning Timeline



Sources and Uses of Funds (General Fund)



CAWCD Rates

Rates covered in this segment:

- Fixed Operations Maintenance & repair (Fixed OM&r or Fixed O&M)
- Energy Rate
- 'Big R'
- Capital Charges

Other CAWCD rates not covered in this segment:

- Underground Water Storage O&M and Capital Charge
- CAGRDRates, Fees and Dues



Fixed Operations & Maintenance (O&M) Rate Component



- Sometimes referred to as OM&r for Operations, Maintenance and repair
- Contractual restrictions from Master Repayment, federal contracts and M&I subcontracts
- Master Repayment defines “OM&R shall mean the care, operation, maintenance and replacement of project works” - ‘Big R’ or Replacement is discussed separately
- O&M rate requires reconciliation of actuals costs and a settlement of the difference
- Audited by the Bureau of Reclamation periodically for appropriate charges
- Appropriate for direct and administrative expenses directly related to CAP operations
- Non-CAP operational expenses are excluded, such as underground storage, recovery, system use

Fixed O&M Rate Calculation



Start	General Fund Expenses
Subtract	Power & power-related transmission
Subtract	Depreciation & amortization
Subtract	Costs funded by sources other than Fixed O&M
Subtract	Reimbursements for costs
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Total	O&M expense
Divide by	Water delivery volume + CAGRD LTSC purchases + scheduled but not taken deliveries (aka Take-or-Pay)
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Equals	Fixed O&M rate

Energy Rate Calculation



Start	Power costs
Add	Hoover capacity rates
Add	Power-related transmission
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Total	Pumping energy costs
Divide by	Water delivery volume + CAGRD LTSC purchases
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Equals	Energy rate

'Big R' Rate Component

- Collected to replace existing CAP infrastructure through:
 - Capital Improvement Projects
 - Capital equipment costing over \$25,000
 - Extraordinary Maintenance Projects, which are projects over \$2 million
- Due to the potential for significant year-to-year variation on spending, 'Big R' is smoothed over time (~10 years) and adjusted gradually to smooth the rate
- Working capital reserve 'absorbs' the difference between collection and spending and will subsequently cause reserve variances
- Starting in 2025, 'Big R' will be reconciled annually to ensure necessary funding
 - Compares the amount that was anticipated to be collected and the actual amount collected for that year to address water delivery volume differences



'Big R' Calculation



Start	Capital spending for the year
Add	Extraordinary Maintenance costs for the year
Add	Bond debt service
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Total	Ending 'Big R' costs
Divide	Water delivery volume + CAGR LTSC purchases + scheduled but not taken deliveries (aka Take-or-Pay)
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Equals	Annual 'Big R' rate

Add balance from prior year to evaluate cumulative 'Big R' balance and trend increases or decreases in smaller increments over time

'Big R' Projection Example

<u>\$ K</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
Capital Spending	\$ 28,303	\$ 38,520	\$ 41,987	\$ 27,993	\$ 23,473
Extraordinary Maintenance	86	3,178	1,927	2,503	2,525
Bond Debt Service	3,623	3,623	3,620	3,623	3,621
Total 'Big R' Costs	\$ 32,012	\$ 45,322	\$ 47,534	\$ 34,119	\$ 29,620
Water Volume (acre-foot)	1,405,212	1,092,427	805,592	902,071	900,000
'Big R' annual rate/acre-foot	\$ 22.78	\$ 41.49	\$ 59.01	\$ 37.82	\$ 32.91
"Big R" set rate/acre-foot	\$ 26	\$ 33	\$ 37	\$ 47	\$ 40
'Big R' Collection	\$ 36,536	\$ 36,050	\$ 29,807	\$ 42,397	\$ 36,000
Annual Difference	\$ 4,524	\$ (9,272)	\$ (17,728)	\$ 8,278	\$ 6,380

Rate Reconciliation

- Contracts require that CAWCD reconciles the delivery volumes and published rate to the actual delivery volumes and actual rate at end the year and settle that difference
- To accomplish this task, there are 2 reconciliations that are performed:
 - **Volume reconciliation** - reconciles the scheduled water volume and the actual delivered amount per contract
 - Customers are billed at the published rate during the year and this reconciliation is at the published rate also
 - 'Take or Pay' is also done in this reconciliation.
 - **Rate reconciliation** -starts with the Volume reconciliation and calculates the difference of the published rates and what the actual rates are

Fixed O&M, Energy and 'Big R' rates calculated separately



Capital Charges

- Can only be used for Repayment, which is reimbursement for part of the cost to build the CAP system allocated to the non-federal water supply and commercial power
- Limited to no more than the cumulative repayment amount associated with municipal & industrial, which is 68% of repayment with interest
- Through the end of 2023, 46% of repayment is projected to be paid by M&I inclusive of current NIA back capital charges and dedicated taxes for repayment



Capital Charge Calculation



Start	Annual repayment amount
Subtract	Projected Basin Development Fund net revenues
Total	Net cash payment
Subtract	Taxes or reserves directed to repayment
Total	Cash needed from capital charges
Divide	M&I subcontract allocations + CAGRD LTSC purchases + excess water deliveries
Equals	Capital charge rate

Federal Repayment & Capital Charges

(\$K) Capital Charge Sensitivity Analysis – Levels	2022	2023	2024	2025	2026
Federal Repayment	\$58,145	\$56,813	\$57,833	\$56,417	\$55,002
Total Basin Development Fund Credit	(8,285)	(8,352)	(7,437)	(8,901)	(8,889)
Net Cash Payment	\$49,860	\$48,461	\$50,396	\$47,516	\$46,113
<u>Taxes Applied:</u>					
General Ad Valorem	(14,500)	(9,000)	(12,240)	(10,500)	(7,200)
Cash Needed from Capital Charges	\$35,360	\$39,461	\$38,156	\$37,016	\$38,913
Allocation (acre feet) (Includes CAGR Credits & Wheeled Water)	697,267	701,317	724,835	686,476	686,886
Capital Charge (\$ acre foot)	\$50	\$53	\$53	\$54	\$56

Sources and Uses of Funds (General Fund)

		USES				
		Repayment	Federal OM&R	M&I OM&R	Ag Pool OM&R	Reserves
SOURCES	Power & Basin Fund Revenues	✓	✗	✗	✗	✗
	M&I Capital Charges	✓	✗	✗	✗	✗
	Water Delivery Charges - Federal	✗	✓	✗	✗	✗
	Water Delivery Charges - M&I	✗	✗	✓	✗	✗
	Water Delivery Charges - Ag Pool	✗	✗	✗	✓	✗
	Property Taxes & Interest	✓	✓	✓	✓	✓
	Reserves	✓	✓	✓	✓	



✓ Must Do - Primary Source
 ✗ Cannot do
 ✓ Can do - discretionary
 ✓ Can do - some is committed

CAP Rate Structure: Key Take-Aways

- The CAP Board has six policies that govern rates, including cost recovery, financial stability and transparent accountability to our rate-payers
- CAP's rate-setting process occurs over a six-month and includes significant public awareness and involvement activities
- Rates are designed to recover fixed operational and maintenance costs, repair or replacement of assets and the energy required to deliver water to subcontractors
- Each year, CAP reconciles the rate revenues with actual costs and settles the difference with subcontractors
- CAP collects a capital charge based on sub-contractor allocations rather than actual deliveries
 - These funds may only be used for repayment to the Federal government





Thank you!

Email Questions to:
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