



SUA – 2016 Board Activity

- February 1, 2016 - Workshop on Firming, Wheeling and Exchanges
- *Board Meeting*, February 4, 2016 - Development of CAP System Use Agreement and Update on Firming/Wheeling Activities
- *Board Meeting*, May 5, 2016 - Update on CAP System Use Agreement
- *Board Meeting*, August 4, 2016 - Report on and Discussion of the Status of the CAP System Use Agreement
- *Board Meeting*, October 6, 2016 - Update on Draft System Use Agreement
- *Send Draft SUA to Board*, November 2, 2016
- *Board Meeting*, November 3, 2016 - Update on Draft System Use Agreement
- *Send SUA Exhibits to Board*, November 10, 2016
- November 22, 2016 - Stakeholder Discussion about Draft CAP System Use Agreement

System Flexibility

- There has been long-standing interest in using the CAP system in “non-traditional” ways
 - Wheeling additional supplies
 - Firming existing supplies
 - Exchanges of existing supplies
- What has been missing is an overall legal/contractual framework
- The prospect of shortage, and the DCP, adds extra relevance and urgency

CAP/Reclamation Issues

- The CAP is a federal project, so any new system flexibility requires consideration of both Arizona and Reclamation law, plus a number of key agreements
 - Basin Project Act (1968)
 - Master Repayment Contract (1988)
 - Operating Agreement (2000)
 - Arizona Water Settlements Act (2004)
 - Repayment Stipulation (2007)
 - Tribal contracts and M&I subcontracts (various)

CAP System Use Agreement

- CAWCD and Reclamation staff have been developing a framework — the “CAP System Use Agreement” — that reconciles the various legal authorities
 - Looks at CAP system as a whole
 - Protects existing CAP contractors and subcontractors
 - Adopts priorities for CAP system use
 - Addresses firming, wheeling and exchanges

Wheeling

- Wheeling is the transportation of “Non-Project Water” through the CAP System
- Non-Project Water means all water, other than Project Water, e.g.
 - AZ Colorado River water that is not part of the CAP water supply
 - Groundwater
 - Recovered Long-term Storage Credits
- The SUA authorizes two kinds of wheeling:
 - Reclamation Wheeling, aka “8.17 wheeling”
 - CAWCD Wheeling, aka “8.18 wheeling”

Reclamation Wheeling

- Based on existing capacity, on a year-to-year, as-available basis
- Tribes and federal agencies have priority
- Contracting is administered by Reclamation
 - Pursuant to a Reclamation Wheeling Contract or "Federal Arrangement"
 - Standard terms and conditions for the Reclamation Wheeling Contract attached as Exhibit C to the SUA
- CAWCD, as the operator, delivers non-project water under Reclamation wheeling contracts

CAWCD Wheeling

- Based on modifications of the existing CAP System to increase operational capability, developed over time
- High reliability, suitable for long-term purposes
- Pursuant to CAWCD Wheeling Contracts
- Contracts can be issued based on planned "System Improvement Projects"

System Improvement Projects

- System Improvement Projects are modifications to the CAP System that increase operational capability
 - e.g., pump improvements, raising the lining of the canal
- SUA establishes a process for CAWCD to submit, and Reclamation to review, proposed projects
- Reclamation makes a determination of "Projected Additional Operational Capability", quantified in acre-feet per year
 - Authorizes CAWCD to proceed with the project
 - Authorizes CAWCD to enter into CAWCD Wheeling Contracts, up to the Projected Additional Operational Capability

System Improvement Projects

- Upon completion of a System Improvement Project, Reclamation evaluates the project to determine the actual increase in Operational Capability of the CAP System
- Reclamation issues a final determination of "Verified Additional Operational Capability", quantified in acre-feet per year
- Once Reclamation issues its determination, CAWCD Wheeling Contracts enjoy a higher priority to scheduling system capacity
 - From eighth (last) priority to third priority

CAWCD Wheeling Contracts

- The standard form of CAWCD Wheeling Contract is approved by the United States in the SUA, and attached as Exhibit B
- CAWCD may enter into CAWCD Wheeling Contracts with any federal, state, local, tribal or private entity desiring to transport a Non-Project Water supply
- Individual CAWCD Wheeling Contracts must be approved by CAWCD and Reclamation
- The term of a CAWCD Wheeling Contract is coterminous with the term of the underlying right to Non-Project Water

CAWCD Wheeling Contracts

- A "Capital Equivalency Charge", equal to the Capital Charge for CAP M&I subcontracts, is assessed on the full volume of Non-Project Water specified in the CAWCD Wheeling Contract, regardless of delivery
- CAP's Fixed OM&R and Pumping Energy Rates are applied to the volume of Non-Project Water that is delivered

Firming

- “Firming Water” is available to satisfy reductions to CAP contract orders due to shortage or unplanned outage
 - Includes tribal contracts and non-tribal subcontracts
- Sources of firming water are identified
 - Methods include both direct recovery into the canal, and exchanges
- CAWCD can deliver firming water without a separate wheeling agreement
 - Non-Federal contractors enter into Firming Agreements with CAWCD for delivery/receipt of Firming Water
 - Federal contractors enter into agreements with Reclamation for delivery/receipt of Firming Water

Firming

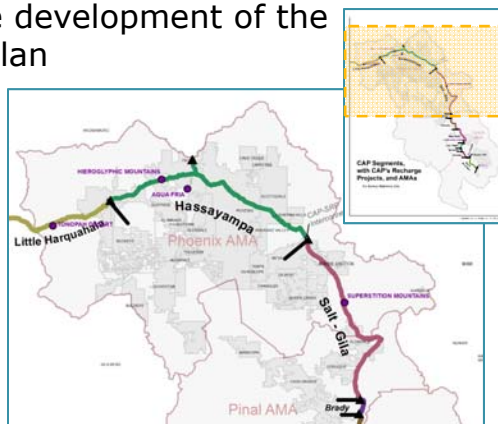
- Firming Water carries same scheduling priority as the CAP supply it replaces
- Project Power, at project rates, may be used to develop and deliver Firming Water

Exchanges

- The SUA contemplates new exchanges, including M&I subcontractors exchanging with a separate party
- Exchanges, between...
 - Long-Term Contractors and CAWCD
 - e.g., recovery & exchange for AWBA firming
 - Non-Federal Contractors and separate parties
 - e.g., Tucson/Metro recovery & exchange for Phoenix
 - Federal Contractors and separate parties
 - e.g., GRIC—APS recovery & exchange

Priorities

- Conflicts over monthly delivery capacity, if any, are resolved through a priority system, implemented in the development of the Annual Operating Plan
- Eight priorities established, based on contract type, whether delivery is to a segment that is upstream or downstream of the service area/reservation, and whether system improvement projects have been completed



Priorities

- **First**, Long-Term Contracts, delivered directly or by exchange for use within the Long-Term Contractor's service area or reservation, OR for leases, exchanges, and underground storage delivered within the same Segment as the Long-Term Contractor's service area or reservation, or an upstream Segment
- **Second**, through 2030, the Agricultural Settlement Pool
- **Third**, CAWCD Wheeling Contracts (8.18) after project completion & verification.
- **Fourth**, Long-Term Contracts delivered for leases, exchanges and underground storage in downstream Segments
- **Fifth**, other excess water
- **Sixth**, federal wheeling (8.17) for Indian and federal agency purposes.
- **Seventh**, federal wheeling (8.17) for other purposes.
- **Eighth**, CAWCD Wheeling Contracts (8.18) before system improvement project completion

Water Quality

- The SUA establishes that there will be uniform water quality standards for transportation of Non-Project Water, but does not define them
- CAWCD and Reclamation will jointly develop standards, with stakeholder involvement
 - Initial Step in early 2017 - Potentially a Board study session on water quality to obtain direction from the Board
 - Plan to develop uniform water quality standards with Reclamation and stakeholders in 2017

Funding System Improvements

- Previous references in the SUA to a "System Improvement Fee" for CAWCD Wheeling Contracts have been removed
- CAWCD will initiate a separate stakeholder process to discuss funding and financing options
 - Costs of System Improvement Projects will be borne by CAWCD Wheeling contractors
 - Execution of CAWCD Wheeling Contracts will be conditioned on an approved funding agreement
- CAWCD will perform further technical work to identify and refine potential System Improvement Projects



The CAP System Use Agreement

Protects the rights of existing users
Establishes a framework for wheeling
Facilitates the expanded use of exchanges
Clarifies methods for recovery of stored water
Defines priorities for delivery capacity
Leverages existing infrastructure investments
Benefits all CAP customers

Next Steps

- Today – Consideration of Action to delegate authority to Executive Committee to approve SUA before January 5, 2017, (if United States is prepared to sign)
- December 5, 2016 – Tribal comments due
- December 7, 2016 – Meeting with BOR to review comments and finalize SUA

ASSUMING SUA FINALIZED -

- *December 9, 2016, – Transmit to CAP Board, post final SUA on CAP website,*
- *After December 9, but before CRWUA – CAP Executive Committee meeting to consider action approving SUA*
- *CRWUA – Execution of SUA on behalf of the United States and CAP*
- *January 5, 2017 – CAP Board ratification of Executive Committee action*

