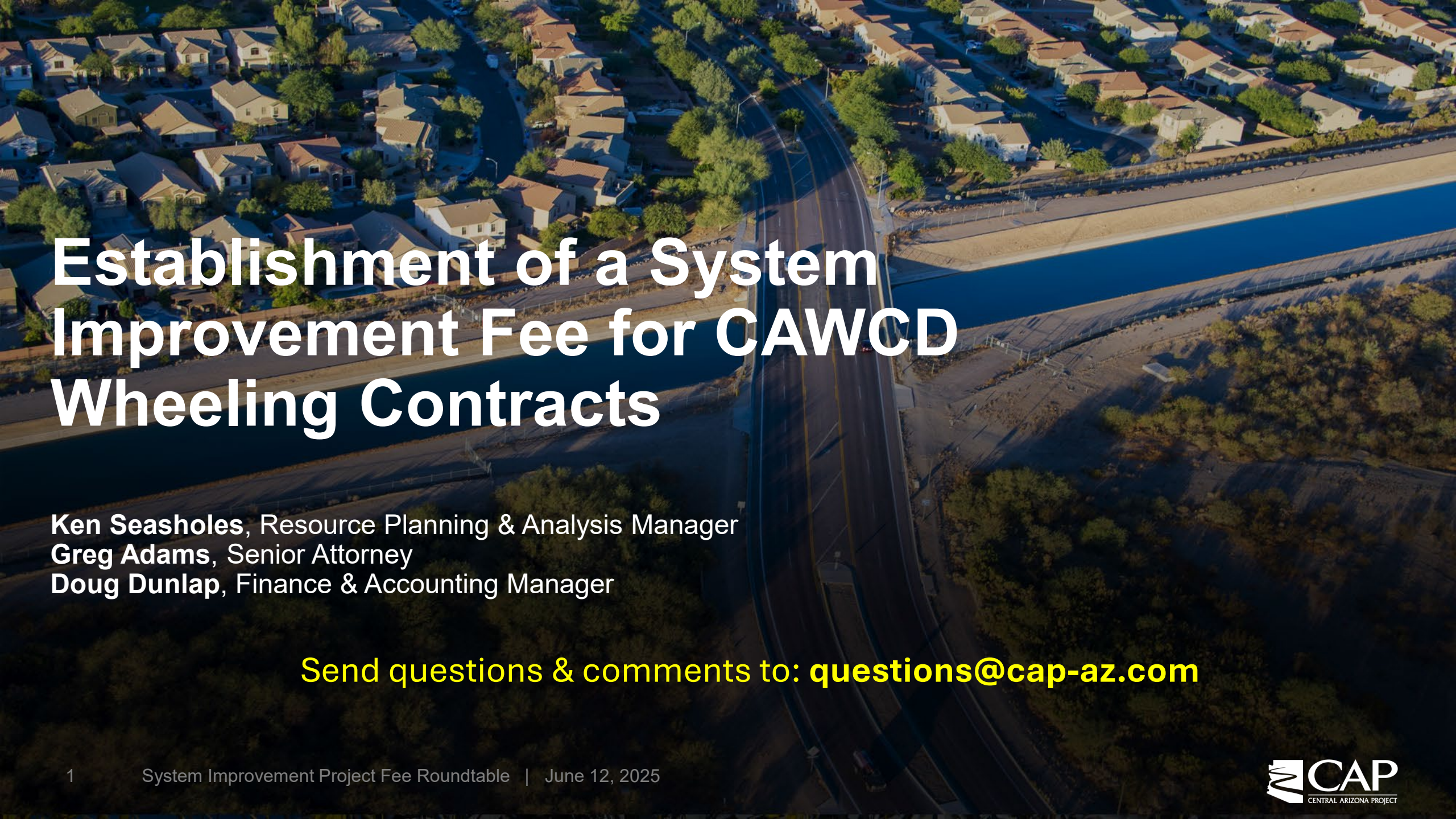


Establishment of a System Improvement Fee for CAWCD Wheeling Contracts

Ken Seasholes, Resource Planning & Analysis Manager
Greg Adams, Senior Attorney
Doug Dunlap, Finance & Accounting Manager

Send questions & comments to: **questions@cap-az.com**

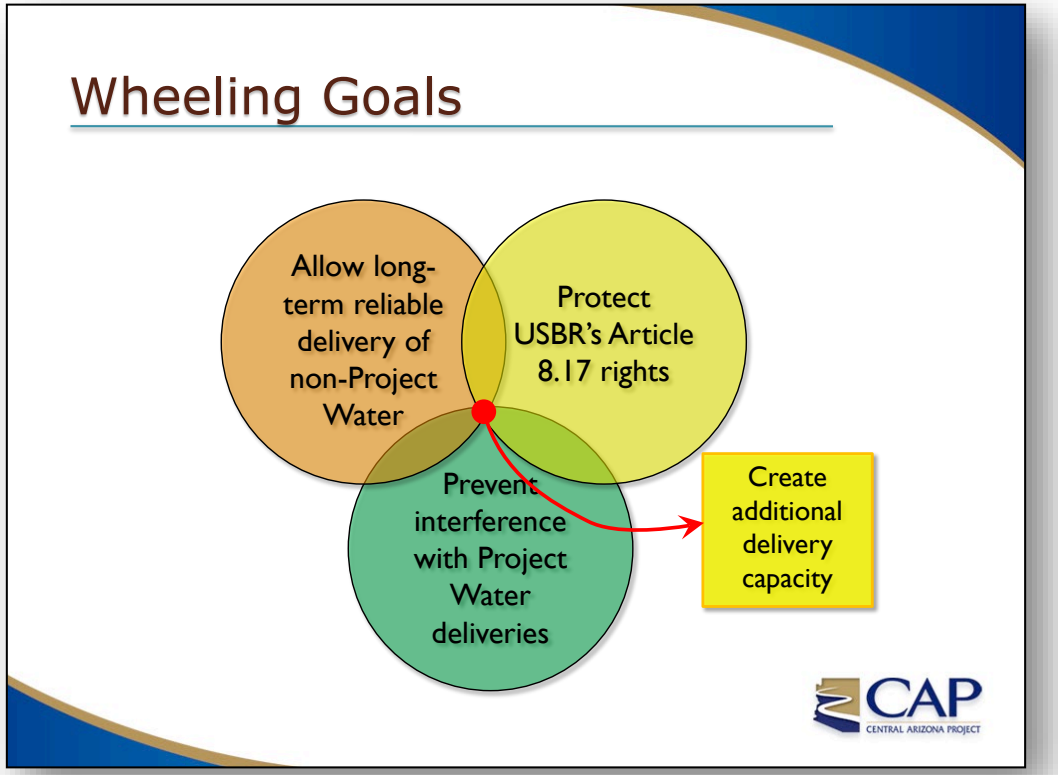
CAP
CENTRAL ARIZONA PROJECT

Wheeling Non-Project Water

- The CAP System Use Agreement resolved long-standing interpretation issues regarding two provisions in the 1988 Master Repayment Contract
  - **Article 8.17 –**"Rights Reserved to the United States to Have Water Carried by Project Facilities" = Reclamation Wheeling
  - **Article 8.18 –**"Wheeling Non-Project Water" = CAWCD Wheeling
- Reclamation 8.17 wheeling is on an 'as available' basis, and Reclamation has indicated that non-federal parties should seek CAWCD Wheeling Contracts

Wheeling Non-Project Water

- A key part of the issue resolution was agreement that physical improvements to the CAP system would be made to increase the delivery capability for CAWCD wheeling—"System Improvement Projects"
  - Once projects are completed, CAWCD Wheeling Contracts can be delivered with high reliability (i.e., can satisfy AWS Continuous Availability)
  - The approach protects Project Water users and Reclamation's 8.17 rights



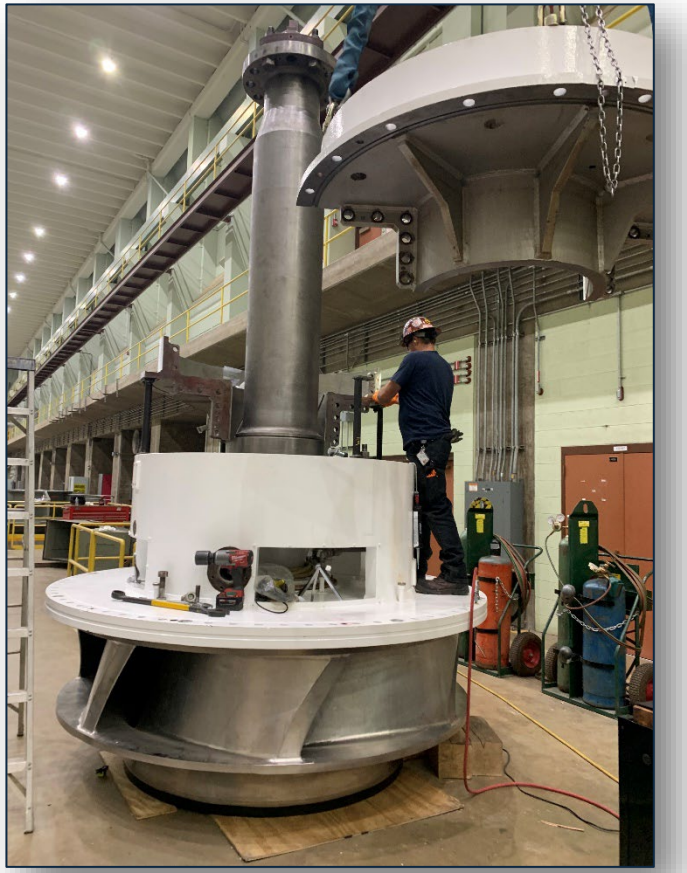
From 2014 Wheeling Stakeholder Process

System Improvement Project (SIP)

- System Use Agreement provisions:
  - 3.47 “System Improvement Project” means a material modification of the Transferred Works that creates Verified Additional Operational Capability in accordance with Section 13 of this Agreement.”
  - 3.51 “Verified Additional Operational Capability” means the additional Operational Capability attributable to a completed System Improvement Project, measured in acre-feet per annum, as determined by Reclamation in accordance with Section 13 of this Agreement.”

System Improvement Project (SIP)

- Last year CAWCD submitted the “Western Impeller CAP System Improvement Project,” and on February 21, 2025, Reclamation approved 41,000 AFY of Projected Additional Operational Capability.
  - Upgrading the impellers allows greater flow during summer outages, when half-plant operations are in effect
  - Wheeling contracts can be issued against this projected volume



Send Questions & Comments to: questions@cap-az.com

CAP CENTRAL ARIZONA PROJECT

Contractual Cost Provisions

- Master Repayment Contract 8.1
  - [CAWCD] shall be entitled to retain revenues from wheeling charges sufficient to cover all OM&R costs associate with wheeling non-project water, plus an administrative charge to be jointly determined by [CAWCD and Reclamation]. All revenues from wheeling charges in excess of the OM&R costs and administrative charges shall be remitted by [CAWCD] to [Reclamation] and deposited into the Development Fund."

- System Use Agreement
  - 14.2 "Parties taking delivery of Non-Project Water … shall pay the same Fixed OM&R and Pumping Energy Charged established annually by CAWCD for Project Water."

  - 14.5 "Fixed OM&R Charges shall not be used to pay the costs to complete a System Improvement Project"

System Improvement Project Fee

- Statement in CAWCD's Western Impeller submission:
  - "In conjunction with issuance of CAWCD Wheeling Contracts, CAWCD will collect funds from wheeling parties and retain those funds in a separate account for the sole and exclusive use for System Improvement Project construction costs. Any funds collected from wheeling parties in excess of the final construction costs shall be refunded or subject to remittance to the Lower Colorado River Basin Development Fund (LCRBDF) pursuant to Article 8.18 of the Master Repayment Contract."

Relationship with Firming Water

- 3.24 "Firming" means satisfying all or a portion of a Long-Term Contract entitlement that has been reduced due to a Water Shortage.
- 3.25 "Firming Water" means water available for Firming a Long-Term Contract, as identified in Section 8 of this Agreement.

- Entities that wish to wheel water *exclusively* for Firming may choose to enter into a Firming Agreement instead of a CAWCD Wheeling Contract, thus avoiding the System Improvement Fee
  - In years when the CAP long-term contract is being fully satisfied, the wheeled water supply would not be able to be transported

Staff Considerations for Determining SIP Fee

1. Collect sufficient funds from wheeling parties to cover design & construction costs for impeller modifications
2. Consider how those costs compare to the next potential SIP
3. Consider contribution to existing CAP system, including equity with the costs incurred by NIA reallocation parties (“Pool B”)

Consideration 1: Impeller Project Cost Estimate

- Internal analysis of project cost is $20.5M for 41 KAF of capacity (**$499/AF**) without a project contingency factor

Table 6-3. HSY & LHQ Large Impeller Upgrade estimated cost (2024 Dollars)

Impeller Upgrade	Unit	Unit Price (2014)	Unit Price (2024)*	Summary	
				Quantity	Amount
Impeller Replacement w/ design (Hassayampa)	EA	$ 775,000	$ 1,038,500	4	$ 4,154,000
Impeller Replacement w/ desgin (Little Harquahala)	EA	$ 825,000	$ 1,105,500	4	$ 4,422,000
Computational Fluid Dynamics (CFD) Modeling, Impeller Manufacturer	LS	$ 30,000	$ 40,200	1	$ 40,200
Construction Cost		$ 855,900	$ 1,146,980	8	$ 9,175,838
Subtotal - Construction					$ 17,792,038
Design					$ 889,602
CAP Labor Cost	10%				$ 1,779,204
Subtotal - Design, CAP Labor, Construction					$ 20,460,843

Notes:

* U.S. Bureau of Labor Statistics. (n.d.). CPI inflation calculator. U.S. Bureau of Labor Statistics. https://data.bls.gov/cgi-bin/cpicalc.pl?cost1=1&year1=201401&year2=202403

Consideration 2: Subsequent SIP Costs

- The next potential SIPs involve raising the canal lining, either to increase flow in the West, or to restore design freeboard in Segment 3b
- CAP has previous experience with raising the canal lining, and has commissioned several studies to refine engineering and cost estimates
- Lining project cost estimates vary, but are within the $400-$1,000/AF range

- CAP Staff do not anticipate a significant overall cost differential between the approved SIP and subsequent projects
- *Note, Wheeling Contracts can only be issued if a supply is identified and available to the wheeling party*

Consideration 3: Existing System & NIA Equity

- In 2021, NIA parties paid Back Capital ($1,335/AF) and 9(d) debt ($665/AF) = **$2,000/AF**
  - Updated to 2024, back capital = $1,541/AF; 9(d) = $716/AF; Total = **$2,257/AF**
- NIA subcontractors also pay the Capital Charge ($54/AF in 2025) on their full entitlement
- Going forward, a primary value of the NIA subcontracts is the ability to transport water as Firming Water (i.e., value in the capacity, not the water)
- Since NIA parties paid Back Capital, there is an argument that wheeling parties should make a similar contribution to the existing CAP system

Staff System Improvement Fee Proposal

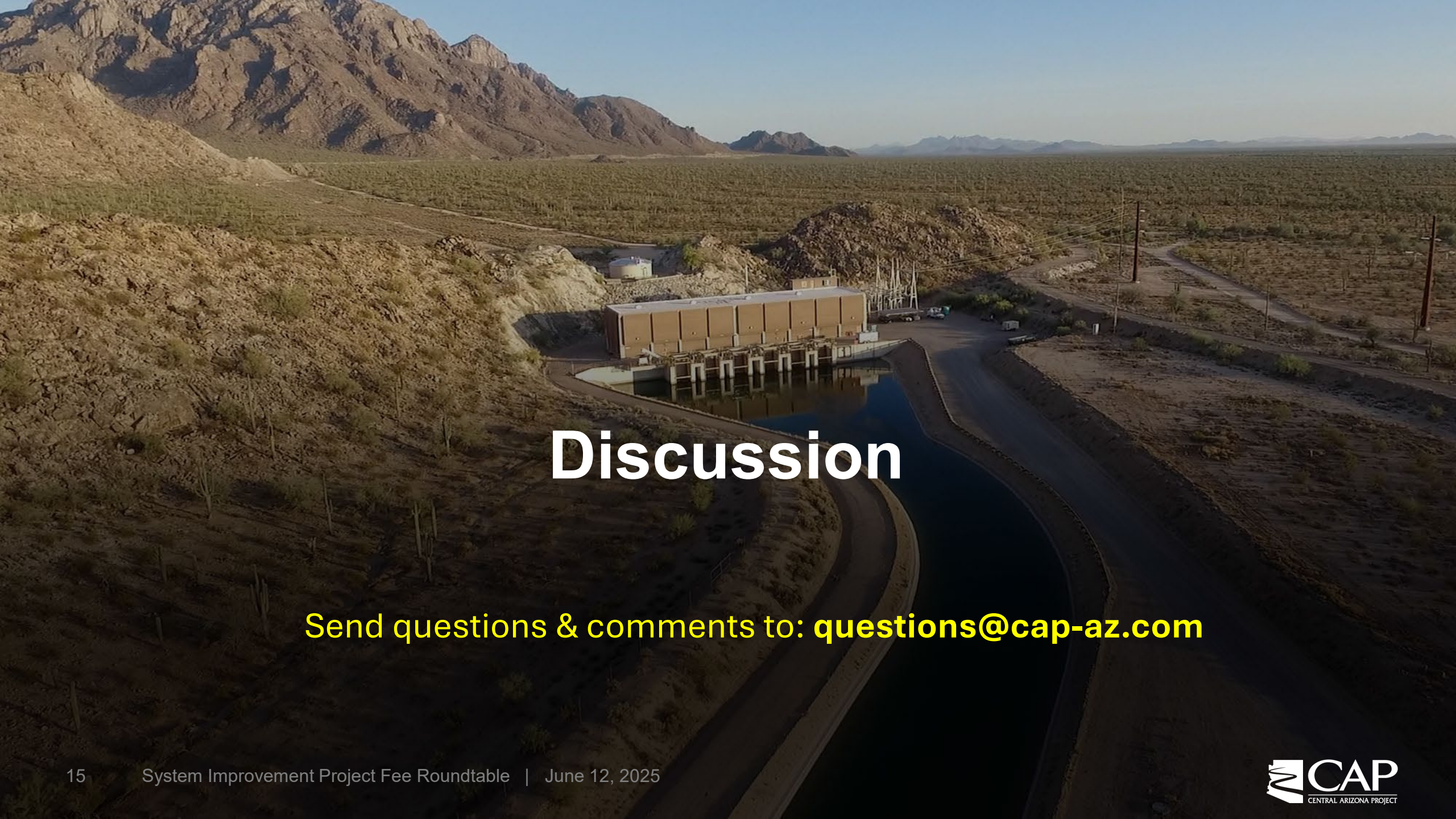
DRAFT

- **$749/AF** for SIP project design and construction, to be held in dedicated reserve
  - Staff estimated cost, but with 50% contingency
  - Updated annually based on inflation
- **$1,541/AF** Back Capital Equivalency Charge (2024 estimate), to flow to the Development Fund
  - Updated annually to include each year's Capital Charge, and interest
  - Helps with repayment, which benefits all non-Federal Project Water users
- Staff proposed System Improvement Fee = **$2,290/AF** (2024 estimate)
  - Applied to total wheeling contract volume

Send Questions & Comments to: questions@cap-az.com

Additional Issues

- Wheeling contracts are tied to specific supplies held by the wheeling party, so “capacity” is not transferrable
- However, if a wheeling contract terminates, the Additional Operational Capability associated with that contract would be available to be issued to another wheeling contract
- CAP Staff are open to proposals that avoid double-collection of the System Improvement Fee, without incurring financial risk/burden to CAWCD



Discussion

Send questions & comments to: **questions@cap-az.com**

CAP CENTRAL ARIZONA PROJECT

Next Steps

- Staff anticipate bringing a proposal to the Board in August (step 1), with possible consideration of action in September (step 2)
- After this meeting, send questions and comments to Tony Staffaroni (astaffaroni@cap-az.com)


CAP
CENTRAL ARIZONA PROJECT
Thank You
YOUR WATER. YOUR FUTURE.