

**CENTRAL ARIZONA PROJECT
PRELIMINARY 2011/2012 RATE SCHEDULE**

DELIVERY RATES FOR VARIOUS CLASSES OF WATER SERVICE

Units = \$/ acre-foot

(The Letter Designations in the Formulas Refer to the Rate Components Shown Below)

	2010	Firm 2011	Provi- sional 2012	Advisory			
				2013	2014	2015	2016
<u>Municipal and Industrial</u>							
Long Term Subcontract (B+C) ¹	\$ 118	\$ 122	\$ 122	\$ 126	\$ 129	\$ 137	\$ 141
Non-Subcontract (A+B+C)	133	137	137	141	139	142	141
Recharge (A+B+C starting 2011) ²	133	137	137	141	139	142	141
AWBA Interstate Recharge (A+B+C+F starting 2011) ³	236	167	163	164	162	166	167
Federal (B+C)	\$ 118	\$ 122	\$ 122	\$ 126	\$ 129	\$ 137	\$ 141
<u>Agricultural</u>							
Settlement Pool (D) ⁴	\$ 49	\$ 53	\$ 49	\$ 50	\$ 51	\$ 56	\$ 58
<u>Agricultural Incentives</u> ⁴							
Meet Settlement Pool Goals	(6)	(8)	(4)	tbd	tbd	tbd	tbd
Meet AWBA/CAGR D GSF Goals	(2)	(2)	(1)	tbd	tbd	tbd	tbd
Meet Recovery Goals	(2)	(2)	(1)	tbd	tbd	tbd	tbd

RATE COMPONENTS

Units = \$/acre-foot

	2010	Firm 2011	Provi- sional 2012	Advisory			
				2013	2014	2015	2016
<u>Capital Charges</u>							
(A) Municipal and Industrial - Long Term Subcontract ⁵	\$ 15	\$ 15	\$ 15	\$ 15	\$ 10	\$ 5	\$ -
<u>Delivery Charges</u>							
(B) Fixed OM&R ⁶	\$ 69	\$ 69	\$ 73	\$ 76	\$ 78	\$ 81	\$ 83
(C) Pumping Energy Rate 1 ⁷	49	53	49	50	51	56	58
(D) Pumping Energy Rate 2 ⁸	85	n/a	n/a	n/a	n/a	n/a	n/a
(E) Pumping Energy Rate 3 ⁹	122	n/a	n/a	n/a	n/a	n/a	n/a
(F) Property Tax Equivalency ¹⁰	30	30	26	23	23	24	26

Qualifications for Various Classes of Water Service

Long-Term Municipal and Industrial (M&I) Subcontract: M&I subcontractors.

Non-Subcontract: M&I users who are not subcontractors and the CAGR D.

Recharge (AWBA/CAGR D and M&I Underground Water Storage): The Arizona Water Banking Authority and M&I subcontractors and other Arizona entities who have valid Arizona Department of Water Resources permits and accrue long-term recharge/storage credits from this activity.

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DIRECT UNDERGROUND WATER STORAGE

Units = \$/acre-foot

	2010	Firm 2011	Provi- sional 2012	Advisory			
				2013	2014	2015	2016
<u>Underground Water Storage O&M</u> ¹¹							
Phoenix AMA	\$ 8	\$ 8	\$ 8	\$ 8	\$ 8	\$ 8	\$ 8
Tucson AMA	15	15	15	15	15	15	15
<u>Underground Water Storage Capital Charge</u> ¹²							
Phoenix AMA	\$ 15	\$ 15	\$ 15	\$ 15	\$ 15	\$ 15	\$ 15
Tucson AMA	9	9	9	9	9	9	9

CENTRAL ARIZONA GROUNDWATER REPLENISHMENT DISTRICT ASSESSMENT RATES

Units = \$/acre-foot

	2009/10	Firm 2010/11	Provi- sional 2011/12	Advisory			
				2012/13	2013/14	2014/15	2015/16
<u>Phoenix Active Management Area</u>							
Water & Replenishment Component ¹³	\$ 143	\$ 140	\$ 140	\$ 140	\$ 144	\$ 157	\$ 156
Administrative Component ¹⁴	33	38	42	44	44	44	44
Infrastructure & Water Rights Component ¹⁵	101	131	170	204	245	294	353
Replenishment Reserve Charge ¹⁶	41	47	51	54	54	55	55
Total Assessment Rate (\$/AF)	\$ 318	\$ 356	\$ 403	\$ 442	\$ 487	\$ 550	\$ 608
<u>Pinal Active Management Area</u>							
Water & Replenishment Component ¹³	\$ 107	\$ 110	\$ 116	\$ 120	\$ 121	\$ 133	\$ 128
Administrative Component ¹⁴	33	38	42	44	44	44	44
Infrastructure & Water Rights Component ¹⁵	101	131	170	204	245	294	353
Replenishment Reserve Charge ¹⁶	38	45	53	61	60	61	61
Total Assessment Rate (\$/AF)	\$ 279	\$ 324	\$ 381	\$ 429	\$ 470	\$ 532	\$ 586
<u>Tucson Active Management Area</u>							
Water & Replenishment Component ¹³	\$ 153	\$ 155	\$ 155	\$ 161	\$ 164	\$ 166	\$ 163
Administrative Component ¹⁴	33	38	42	44	44	44	44
Infrastructure & Water Rights Component ¹⁵	101	131	170	204	245	294	353
Replenishment Reserve Charge ¹⁶	46	53	60	65	61	59	57
Total Assessment Rate (\$/AF)	\$ 333	\$ 377	\$ 427	\$ 474	\$ 514	\$ 563	\$ 617
<u>Contract Replenishment Tax - Scottsdale</u> ¹⁷							
Cost of Water	\$ 126	\$ 133	\$ 137	\$ 137	\$ 141	\$ 139	\$ 142
Cost of Transportation	0	0	0	0	0	0	0
Cost of Replenishment	0	0	0	0	0	0	0
Administrative Component ¹⁴	33	38	42	44	44	44	44
Total Tax Rate (\$/AF)	\$ 159	\$ 171	\$ 179	\$ 181	\$ 185	\$ 183	\$ 186

ENROLLMENT & ACTIVATION FEES

Units = \$/Housing Unit

Enrollment Fee ¹⁸	\$ 83	\$ 107	\$ 138	\$ 165	\$ 198	\$ 237	\$ 284
Activation Fee ¹⁸	\$ 81	\$ 105	\$ 136	\$ 163	\$ 196	\$ 235	\$ 282

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NOTES:

- 1 Does not include the Capital Charge.
- 2 Rate is equal to M&I rate starting in 2011. This rate applies to all recharge customers. Rules regarding the eligibility for and use of this class are shown on page 1. For 2010, the recharge rate consists of Energy Rate 2 and a contribution toward covering a portion of the Fixed OM&R Rate.
- 3 The 2010 rate is obtained by adding the Fixed OM&R component, the Pumping Energy Rate 3 component, the M&I Capital Charge and an equivalency tax component. Starting in 2011 Pumping Energy Rate 1 replaces Pumping Energy Rate 3 as a rate component.
- 4 Rate is the Pumping Energy Rate 1 component. Incentives may be earned for meeting delivery goals in three areas. Any incentives earned can be applied to Settlement Pool deliveries.
- 5 Capital Charge is paid on full allocation regardless of amount delivered; not included in delivery rates.
- 6 Fixed O&M costs divided by projected total water volumes plus a component to fund capital replacements. This amount is collected on all ordered water whether delivered or not.
- 7 Applies to all water deliveries starting in 2011. For 2010, water volumes were excluded for Recharge, AWBA Interstate and SRP bring-your-own power acre-feet. The calculation is pumping energy costs divided by projected volumes. This amount is collected only for water actually delivered as opposed to scheduled.
- 8 Energy Rate 2 is eliminated starting in 2011 due to new power agreements.
- 9 Energy Rate 3 is eliminated starting in 2011 due to new power agreements.
- 10 The rate is based upon the tax levy for the previous elapsed tax year divided by the average water deliveries (excluding Federal deliveries and water storage credits) for the three previous completed delivery years (e.g., for 2010, the tax equivalency is the levy for the 2008-2009 tax year divided by the average water deliveries for 2006, 2007 and 2008). The Advisory Rates are estimates. Note the 2010 rate has been revised.
- 11 Underground Water Storage O&M is paid by all direct recharge customers using CAP recharge sites.
- 12 Underground Water Storage Capital Charge is paid by all direct recharge customers except AWBA for M&I firming, the CAGRDR, municipal providers within the CAP service area and co-owners of CAWCD recharge facilities using no more than their share of capacity.
- 13 The Water & Replenishment Component is designed to cover the projected annual costs of satisfying replenishment obligations, including the purchase of long-term storage credits (LTSC) and the purchase and replenishment of water and effluent. The total volume of water to be purchased and replenished includes a sufficient volume to offset losses incurred during the replenishment process (generally 1% to 2.5%). For the Phoenix Active Management Area (AMA), replenishment will be accomplished at direct underground storage facilities (USFs) and groundwater savings facilities (GSFs) as well as through the use of LTSCs purchased from others. For the Pinal AMA, replenishment will be accomplished at GSFs. For the Tucson AMA, replenishment will be accomplished at USFs as well as through the use of LTSCs purchased from others.
- 14 The Administrative Component is designed to cover all CAGRDR administrative costs. A \$2/AF has been added to this component to help fund the CAGRDR conservation program.
- 15 The Infrastructure & Water Rights Component is designed to generate funds to purchase long-term rights to water, and construct additional infrastructure facilities as the need arises in the future.
- 16 The Replenishment Reserve Charge is designed to cover costs associated with establishing a replenishment reserve of LTSCs as required by statutes. Water will be stored at a combination of USFs and GSFs in the Phoenix and Tucson AMAs. LTSCs purchased from CAP and others will also be used to help establish the replenishment reserve in the Phoenix and Tucson AMAs. In the Pinal AMA, LTSCs will be purchased from CAP in accordance with Board policy adopted on October 6, 2005. This charge will be levied as provided in ARS Sections 48-3774.01 and 48-3780.01.
- 17 The components of the Contract Replenishment Tax - Scottsdale reflect the provisions in the Water Availability Status Contract to Replenish Groundwater between CAWCD and Scottsdale. The rates reflect the assumption that Non-Subcontract CAP water will be available to meet the associated contract replenishment obligations.
- 18 The Enrollment Fee and Activation Fee reflect the fees established pursuant to the CAGRDR Enrollment Fee and Activation Fee Policy adopted by the Board on May 1, 2008. A \$2 per housing unit is included in the Enrollment Fee to help fund CAGRDR's conservation program.

**CENTRAL ARIZONA PROJECT
PRELIMINARY 2011-2016 RATE SCHEDULE
ASSUMPTIONS**

1. The Board is expected to approve a modification to the rate-setting policies that will provide for a mid-cycle (i.e., odd year) update to the second year rates, if necessary. Consequently, the rate schedule includes a "firm" rate for the next calendar year, a "provisional" rate for the second year (which will become firm unless the Board invokes the mid-cycle update) and four "advisory" years.
2. No water shortage is declared on the Colorado River during the rate-setting period.
3. Water deliveries are assumed to be in the 1.6 million acre-foot range each year.
4. For planning purposes, the general ad valorem property tax rate and the water storage property tax rate are assumed to remain at 6 cents and 4 cents per \$100 of assessed valuation, respectively. Property tax rates will be set after preliminary water rates are set in May.
5. The Incentive Recharge rate is eliminated beginning in 2011. The price for full cost Recharge water is equal to the M&I subcontract rate plus the M&I Sub-contract Capital Charge.
6. M&I capital charges remain at \$15/af 2011 through 2013 and then phase down to zero by 2016.
7. Beginning in 2011 there will be a single rate for energy. The Energy Rate in 2011 and beyond are based on the following assumptions:
 - Sufficient power from Hoover and NGS will be reserved for pumping operations.
 - Any net cost or net revenue from shaping the use of power reserved for pumping will be incorporated in the Energy Rate.
 - Any net revenue from displacing the point of use of power will be applied to the Energy Rate.
 - The proceeds from any SO₂ credits sold after October 11, 2011 will be deposited in the Basin Development Fund and applied to the cost of Navajo power
8. No Hoover C power is available during the rate-setting period.
9. Beginning in 2011, no SO₂ Credit proceeds are used in the set rates. After the 2010 rate reconciliation, it is anticipated that the SO₂ Credit proceeds account balance will be approximately \$6 million, and remaining credits will be sold in 2011 for an additional \$10 million. All remaining SO₂ Credit proceeds will be conserved for rate reconciliation (including shortages) beginning in 2011.
10. The Ag Settlement Pool Incentive Program will continue through the rate period in order to keep overall energy cost increases at no more than \$2/acre-foot per year as requested by the agricultural community during the last rate-setting cycle. The incentive amount will increase from \$10/af in 2010 to \$12/af in 2011 and down to \$6/af in 2012 to help smooth the transition to post-2011 Navajo costs. Limiting the increase to \$2/af in 2011 will require the use of \$0.8 million of property tax revenue. The alternatives to this approach are to keep the Ag incentive flat and pass the increase on to the Ag customers, or use \$3.2 million in SO₂ Credit proceeds to reduce the 2011 energy rate for all Energy Rate 1 customers.
11. No CAGR bonding or membership dues are assumed during this rate-setting period. The CAGR Infrastructure & Water Rights Rate component is assumed to increase by 30% per year for 2010/2011 and 2011/2012 and 20% per year through 2015/2016. The total assessment rate increases are between 11.9% to 16.1% for 2010/2011.
12. Recharge O&M rates will remain flat through the rate-setting period.