Summary of Stakeholder Team Alternatives
Prepared August 19, 2009

GOVERNANCE MANAGEMENT STRUCTURE

What is the role of participants in overseeing and managing the ADD Water Program?

ALTERNATIVES

1. **Existing Stakeholder Process**

- **Existing CAP Board policy regarding stakeholder input to CAP Board Committee:**
  - **Collaborative stakeholder process with goal of achieving consensus**
  - **CAP staff makes recommendations to Board Committee**
  - **Possible new Board committee for ADD Water**

2. **Advisory Council Approach**

- **ADD water advisory committee, comprised of participants in ADD water; rotating membership; various interest groups represented.**

3. **Participant's Council**

…there would be a Participants Council whose duties and rights would be defined in a contract with the CAWCD Board. The Participants Council would work with CAWCD staff on oversight and management of the planning and budgeting of ADD Water and the financial contributions of the participants.

OTHER CONSIDERATIONS

- **Each ADD Water Participant should have a vote on adoption of the Master Plan, Annual Budget, and Operations Plan. An appropriate weighting mechanism to balance the financial commitment of the Participants and other key considerations should be addressed.**
- **A Participants' Council would be formed for each phase of ADD Water.**
- **Representation on Participant's Council (Alternatives)**

1. **Representatives of participants**
   - **Once a Participant has entered into a contract with CAWCD to participate in the ADD Water Program, the Participant is then eligible for representation on a "Participants Council". Representatives on the Participants Council are selected by the Participants.**
2. **Participant represents his or her self**
   - **A Participants Committee would be established, and would be comprised of those participants who wish to obtain ADD water services.**

GOVERNANCE MANAGEMENT STRUCTURE

What is the governance structure?

ALTERNATIVES

1. **All decisions made by CAP limited only by contract**

- **CAWCD Board of Directors, elected by popular vote, as under current statutes.**
- **Decisions by Board of Directors subject to terms of contract between CAWCD and participants.**

2. **CAP Board and Participants Council through Participation Agreement**

- **ADD Water would be governed by the CAWCD Board of Directors and the Participants Council through Participation Agreements between the CAWCD and members of the Participants Council. The relationship between CAWCD and the Participants Council is based on the Participation Agreements specifying the rights and obligations of all parties.**

3. **Decisions made by Participant's Council**

- **…certain important decisions regarding ADD Water must be made by a Participants Council.**

4. **Balance between decision making roles of all parties**

- **…there will be a relationship between the role of the CAWCD Board and the strength of the protections for the participants contained in the contracts. To the extent that the CAWCD Board has greater responsibility for final decision making, some members of the team believe that the contracts must contain strong protections for the participants. However, there was no consensus on the nature and extent of the protections necessary. To the extent that the participant's themselves are responsible for final decision making, contractual protections become less important.**

OTHER CONSIDERATIONS

- **CAWCD Board and Participants' Council (in a contractual relationship) with Technical Advisory Committee to the Council appointed by the Council.**
- **ADD Water Participants should have input to the ADD Water program by having a role in the development and adoption of a long-range Master Plan, Annual Budget and Annual Operations Plan for ADD Water that is separate and distinct from CAWCD budget and operations.**
- **If there is no Participants Council, then ADD Water contracts will need to be much more detailed and structured.**

PARTICIPATION ELIGIBILITY

Who is eligible to obtain a contract to use the supply?

ALTERNATIVES

1. **Three county area only**
   - **…ADD Water should be available to any municipal, industrial or agricultural and Indian users within the existing 3-County CAWCD service area, and to the CAGRD and CAGRD members.**
   - **… water authority…**

2. **Outside three county area**
   - **Grandfather in water planning areas of existing users that extend beyond the three county area (Peoria exception)**
   - **Any user who can access the water from existing or new turn-outs along the CAP (including those outside the three county service area) and any existing or new diversion point along the Colorado River**

3. **Remarketers (speculators) in or outside three county service area**

OTHER CONSIDERATIONS

- **Water user who makes the requirement financial commitment to participate.**
- **Any…water user…including municipal water providers and individual subdivisions that need replenishment services**

PARTICIPATION ELIGIBILITY

What are different classes of ADD Water contracts?

ALTERNATIVES

1. **Two or more classes of water**

- **Firm *(also known as* Long-term, Firm Annual, Primary Contract*)***
  - **Contracts offered of sufficient reliability such as to ensure satisfaction of existing assured water supply requirements.**
- **Non-firm, excess, back-up, reserved, unused, interruptible, secondary contract *(may or may not be the same classes of water)***
  - **Contracts offered for users who want a water supply on demand to make up shortages or as a drought/emergency supply and/or for users willing to accept an interruptible supply.**

2. **One class of water**

- **One type of contract**
- **Can use for any legal purpose**
- **Supply is 100 year firm**

OTHER CONSIDERATIONS

- **Drought supply program *(references bullets below)***
- **Drought supply program for existing long-term CAP customers**
  - **Long-term municipal CAP subcontracts (M&I and Off-Res Indian contracts) are kept whole in all conditions (shortage or not)**
  - **Determine value of 1.5 to 1.8 MAF canal capacity and compare to the value of an independently acquired drought supply for CAP subcontractors**
  - **Distribute cost accordingly**
- **Drought supply program for ADD Water program**

PARTICIPATION ELIGIBILITY

How can entities opt-in of the supply option?

ALTERNATIVES

1. Join Anytime Program

- Entities can join the ADD Water Program at any time by executing a contract and paying the charges due

2. Block Party Approach

- Initial participants will be asked to answer a "call" for a water supply subscription
- Participants will participate in the block methodology until the subscription is exhausted
- Participants will be given x amount of time to raise the capital needed to invest in the subscription and for CAP to make the supply "delivery ready"

3. Participant Agreement Approach

- CAP will draft a standard Participation Agreement for review by and negotiation with potential Participants. This agreement will address initial decision-making, start-up costs, and the size of Participants' initial shares of ADD Water. This initial group will develop long-term Participation Agreements prior to any capital expenditures being made.
- Anticipated phases for upfront payments, off-ramps and changes to commitment levels:
  - Start-up.
  - Initial investigation and due diligence for water acquisition. Design of increased capacity sufficient to develop cost estimates.
  - Commitment to construct improvements.
  - Commitment to acquire water. There may be separate requirements as different blocks of water become available over time.

4. Multi-Contract Approach

- By taking a planning contract for a particular phase, participants can participate in the planning for that phase.
- Capacity contracts for a particular phase would be issued to participants with planning contracts who choose to pursue a capacity contract.
- Contracts for water supply acquisition within a phase would be issued separately from capacity contracts; e.g., water could potentially be acquired prior to the time that delivery capacity is constructed.

OTHER CONSIDERATIONS

- Entities must make the required financial and contractual commitments to opt-in to the ADD water program.

PARTICIPATION ELIGIBILITY

How can entities opt-out of the supply option?

ALTERNATIVES

1. Assignment

- An entity wishing to opt out of the program may assign its contract to another entity.
- Assignments will require CAP's approval (based only on operational considerations) and must not have adverse impacts on the other participants.
- The assigning entity may not receive more money for the water being transferred than the current amount that the assignee would have paid CAP to obtain an ADD Water contract of equal volume.
- Other participants will have the first right of refusal to assume a withdrawing Participant's position.

2. Relinquish contract and water to CAP

- Initial participants can transfer their ADD Water contracts according to transfer procedures similar to transfer policies for existing CAP subcontracts which limits the return on investment (profit)
- CAP acts as the clearinghouse for re-assignments; water will be reassigned to interested parties, and shared pro-rata if oversubscribed.

3. Participant Agreement Approach

- Anticipated phases for upfront payments, off-ramps and changes to commitment levels:
  - Start-up.
  - Initial investigation and due diligence for water acquisition. Design of increased capacity sufficient to develop cost estimates.
  - Commitment to construct improvements.
  - Commitment to acquire water. There may be separate requirements as different blocks of water become available over time.

4. Multi-Contract Approach

- Opt-out requires either: (1) a decision not to enter into contracts when they are made available, or (2) transfer of the contract to another entity.

OTHER CONSIDERATIONS

- No financial relief until contract is assumed by others.
- …discourage use of ADD water as a 'bridge supply'.
- A Participant may opt out…as long as there are no adverse impacts on other Participants.

PARTICIPATION ELIGIBILITY

How to accommodate future participants in terms of sharing water?

ALTERNATIVES

1. Join Anytime Program

- Entities can join the ADD Water Program at any time by executing a contract and paying the charges due
- Future Participants may join the ADD Water program at any time, subject to availability, by executing an ADD Water Participation Agreement and making the required financial commitment**.**

2. Assume an ADD Water contract from an initial participant

- Future participants can participate in subsequent ADD Water phases, or may acquire ADD Water contracts from existing participants.
- Future participants can assume an ADD Water contract from a participant in an earlier subscription according to the following:
  - Assignment of existing ADD Water contracts managed by CAP according to policies established by CAP board similar to existing ADWR/CAP transfer policies
  - If the transfer criteria are exhausted, then relinquished ADD Water contracts are incorporated into the next subscription

3. Reserve portion of supply/capacity for future users

- Portion of ADD water capacity/supply reserved for future needs
- Reserve 100,000 acre-feet per year of ADD Water Canal Capacity.
- Acquire water supplies for future Participants at a later date.

4. Block Party or Phasing Approaches

- Future participants can wait until CAP opens a new subscription
- By taking a planning contract for a particular phase, participants can participate in the planning for that phase.

5. Rolling 10 Year Process

- Participants can join at any time, so long as they have an estimated need for ADD water within next 10-year period.

6. Addressed in Master Plan

- Access to ADD Water for future participants shall be addressed in the Master Plan and reviewed periodically in the Plan of Operation. Current needs and available ADD Water supplies and projected future demand shall form the basis of the analysis.

PARTICIPATION ELIGIBILITY

How to financially accommodate future participants?

ALTERNATIVES

1. Keeping initial participants whole

- …new participants compensate existing participants
- If a future subscriber assumes an existing contract, then they are required to pay all the previously paid costs associated with the contract according to the transfer and relinquishment policy administered by CAP
- The addition of future participants must have no adverse financial impacts on existing participants. The financial structure must keep initial participants whole.

2. Block Party or Phasing Approaches

- If a future subscriber is part of a future subscription, they pay like everyone else in the subscription
- Future participants will have the opportunity to buy in to future phases under the same process…

3. Join Anytime Approaches

- Costs are determined at the time of contracting, based on the class of ADD Water contract
- Initial fee to join ADD Water is adjusted each year to take into account time value of money
- CAWCD Board has the option each year to adjust the initial fee, based on changes in the estimated costs of acquiring water and installing infrastructure
- All participants pay the same postage stamp rate on capital needed to build total ADD capacity up to 2.2. MAF (or whatever master plan indicates is cost effective max capacity)

4. Rolling 10 Year Process

- Later participants pay some make-up charge to account for loss in value of money from date ADD water opens for business.
- Participants may increase contract year-to-year automatically

OTHER CONSIDERATIONS

- The distribution of capacity contracts would be periodically revisited after the initial issuance. Any capacity contract that becomes associated with an actual water supply contract prior to the reassessment becomes vested and cannot be redistributed without consent. Otherwise, capacity contracts can be redistributed to other users with vested contracts in the same phase (carrying costs would be repaid).
- Relinquishing subscribers are reimbursed when CAP collects funds from the new subscriber also consistent with the policy
- …parties that sign on later could be required to make payments that could be used to reimburse earlier Participants for any higher upfront costs that they contributed earlier in the program.
- Assuming up to 700 KAF of ADD Water contracts, all ADD Water participants pay capital charges:
  - Water rights and related infrastructure if needed
  - Expansion of main stem CAP system
  - Timing of program entry (charge amount increases over time)

NEED DETERMINATION

How does "need" play a role in sharing the supply?

ALTERNATIVES

1. Participant-defined need backed by financial buy-in

- Participants projected needs and ability to pay are used as basis for supply sharing
- Each participant's share is determined by that participant based on its financial buy-in
- Contract amount is limited based upon demonstrated 10-year growth

2. Block Party Approach

- Determine the volume of subscription one
- Could determine based on requests from a "call"
  - Could determine based on volume acquired by CAP
  - If the "call" is oversubscribed, then proceed to the "block party" method:
- "Block Party" methodology
  - Divide the subscription volume by the number of requestors to determine first round offers (e.g. 100,000 acre-foot subscription volume with 10 requestors equals 10,000 acre-foot first round offer)
  - Each requestor may accept up to the round one offer volume
  - At the close of round one, if the sum volume not accepted under contract then:
  - Divide the volume not accepted in round one by the number of participants left after round one to determine round two offer volume (e.g. 20,000 acre-feet left in subscription with 5 requestors left equals a 4,000 acre-foot round two offer)
  - Each requestor may accept up to the round two volume
- Continue until subscription one is exhausted

3. Rolling Ten Year Need Projection Process

- Participation in ADD water grows over time as need for ADD water grows.
- Participant determines 10-year projection for ADD water needs. No second guessing by CAWCD.
- On replenishment side, CAWCD may estimate needs for service for existing members, as they currently do.
- Each year, contract is extended by one year to accommodate increased ADD water demands for next year (i.e. 11th year, 12th year, etc.). This can occur automatically by participant submitting an estimate of their ADD water demand for the extension year, plus the initial fee for the extension year, based on the incremental increase for that year.
- Sidebars needed in contract to prevent over-estimating water demands. Possible choices:
  - Holding fee
  - Take or pay provisions.
  - Possible forfeiture or reset of contract if consistently take less water than projected over period of time.

4. Primary User Category Program:

For each new phase, planning contracts would be made available within three primary user categories: municipal, CAGRD, and “Other” (including industrial, non-firm, and agricultural) based on a formula to be agreed upon by the ADD Water stakeholders. The formula would divide capacity within each phase among the primary user categories based on projected growth in water use within those categories over 10 years (e.g. 50% GRD, 30% municipal, 20% other). Contracts would be available within each category for a specific “open contracting period.” In the event of conflicting applications within a category, reductions would be unanimously agreed upon by all the participants in that category.

The formula is intended to ensure that ADD Water will be made available to CAGRD, municipalities, and other users to meet growth demands. If a planned phase will not address these needs, another phase should be opened to address them.

NEED DETERMINATION

How does "need" play a role in sharing the supply?

Note that the redistribution process, together with the separation of capacity and supply contracts, would prevent "hoarding" of capacity/supply beyond that which can actually be used.

OTHER CONSIDERATIONS

- If initial requests exceed potential supply, requests will be reduced pro rata. Consideration should be given to allowing a *de minimus* participation that will not be subject to proration.
- The Participants Council will determine the availability of ADD Water for future Participants.
- Need should NOT be determined by ADWR, CAP or any other agency.
- "Need" is not a factor used to determine who gets ADD Water.

NEED DETERMINATION

Who determines the need?

ALTERNATIVES

1. Participants/users determine need

- ...participants should determine their own need and report the number to CAWCD for planning purposes.
- Each participant determines its own need.
- Need should not be determined by ADWR, CAP or any other agency.

2. Participant's Council determines need:

- Participant presents need to Participants Committee
- Participants Committee conducts peer review of Participant's stated need
- Contract amount is determined by Participants Committee based upon demonstrated need

3. Plans of organizations determine need

- CAGRD plan of operation, municipal water plans, and other user-submitted demand growth information (e.g., planned industrial uses) would be used to establish the distribution formula for planning contracts [presumes CAP would prepare projections based on this information]

OTHER CONSIDERATIONS

- Contract should identify a set of estimating criteria that all parties will use in estimating demand (i.e., gpcd)
- Should be sidebars that discourage over-ordering, over-subscription, or hoarding

PRIORITIES/CONDITIONS

What conditions are placed on the use of the supply?

ALTERNATIVES

1. Authorized uses

- Use only for legal purposes under applicable state and federal law.
- ADD Water would be eligible to create long-term storage credits under the same terms and conditions as other sources of water. Minor statute changes may be needed.

2. Three county area only

- …ADD water may only be used in the 3-county service area.

3. Outside three county area

- ADD Water may only be used within the three-county CAWCD service area; provided, however, that service outside of the three-county service area will be allowed only if all of the following conditions are met:
  - The service is provided by a municipal provider;
  - The majority of the municipal provider's service area is within the three-county service area;
  - The area outside of the three county service area to be served is contiguous to the municipal provider's service area within the
  - three-county service area; and
  - The area being served was within the municipal provider's boundaries as of January 1, 2009.

4. Remarketing of credits okay

- Storage of ADD Water is permissible, as well as remarketing of stored water.
- Can be recharged and recovered in accordance with applicable regulations.
- Any resale or remarketing of ADD Water, either on an annual basis or on a permanent entitlement basis, should be subject to a process overseen by CAWCD
- A Participant may transfer or resell any ADD Water or storage credits developed by ADD Water, provided that any "profit" from such transfer shall be returned and used to reduce the costs of the other Participants.

5. Remarketing of ADD Water or credits prohibited beyond ADD Water participants

- …ADD Water should not be a commodity for profit; that there should be no remarketing of ADD Water, contracts, or entitlements other than through the relinquishment procedure set forth below.
- …ADD Water, contracts, or entitlements may be relinquished to other participants on a right of first refusal basis or back to CAWCD for disposition. Any use of the right of first refusal must be done pro-rata to all participants who wish to participate in proportion to their current committed ADD Water volume.
- …there should be no sale of any long-term storage credits derived from ADD Water but long-term storage credits could be transferred at cost to an ADD Water participant or to CAWCD for ADD Water purposes.
- …any gain made by CAWCD on the sale or transfer of ADD Water (through a program for sales of unscheduled ADD Water) be returned for the benefit of the ADD Water.

OTHER CONSIDERATIONS

- ADD Water will be subject to delivery conditions developed in the ADD Water Master Plan
- Water delivery timing must be consistent with existing CAP contracts/subcontracts and ADD Water contracts

PRIORITIES/CONDITIONS

What are the priorities during shortages?

ALTERNATIVES

1. Pro-rata reductions by one or more water class

- Shortages shared pro rata within class based upon amount of contract in relation to magnitude of shortage to ADD Water supplies
- If only one class, then whole supply is shared pro-rata

2. Priorities on water classes and/or phases

- Long-term ADD Water contracts have priority to excess ADD Water contracts
- The following priority system will be followed within ADD Water
  - Long-term Firm ADD Water contracts have highest priority
  - Long-term Non-Firm ADD Water contracts are next
  - Short term (spot market) ADD Water contracts have lowest priority
- Shortages would be allocated within…each phase based on the actual availability of the water supplies that are the source of water for that class.

3. Priorities based on water deliveries

- Fill direct use orders first
- Fill annual recharge and recovery (put & take) second
- Fill long term storage credit recharge and recovery third

OTHER CONSIDERATIONS

- Drought supply program for existing long-term CAP customers
  - Long-term municipal CAP subcontracts (M&I and Off-Res Indian contracts) are kept whole in all conditions (shortage or not)
  - Determine value of 1.5 to 1.8 MAF canal capacity and compare to the value of an independently acquired drought supply for CAP subcontractors
  - Distribute cost accordingly
- Drought supply program for ADD Water program
- Some believe there may be instances where ADD Water used for replenishment must continue without a proportional reduction due to current statutory requirements for completion of replenishment within three years. Others feel immediate use is a higher need, but that statutory changes may be necessary to accomplish this.
- Consider extending time for conducting replenishment services; consider extending time for replenishment in advance.

OWNERSHIP INTEREST

Who owns the water right?

ALTERNATIVES

1. **CAWCD owns**

- **CAP owns water right**
- **CAWCD would either own or have the contractual right to control the water delivered**

2. **CAWCD holds on behalf of Participants**

- **CAWCD holds the ADD Water water rights on behalf of the Participants**
- **…CAWCD will own the water rights, leases, and other contracts that result in ADD Water on behalf of the participants**

OTHER CONSIDERATIONS

- **CAWCD may use Project Water for ADD water purposes, if available considering deliveries under long-term CAP contracts and subcontracts.**
- **To the extent that ADD Water funds purchase of water rights that results in delivery of "Project Water" into canal, that water is used for ADD water purposes**
- **Do not tie a particular participant to a particular supply.**

OWNERSHIP INTEREST

What does end user hold?

ALTERNATIVES

1. ADD Water contract

- **The ADD Water participant has a contract with CAWCD that details the Participant's right to the delivery of a specified amount of water for a specified period of time**
- **End user holds a permanent service contract for water**
- **Contract includes a volume and a term**

2. Right to delivery capacity

- **The ADD Water participant has a contract with CAWCD that details the Participant's right…to delivery capacity, contingent upon making the required financial commitment.**

OTHER CONSIDERATIONS

- **An equity interest or use right in the infrastructure not owned by the U.S.**
- **A seat on the Participant's Council**
- **A participation agreement**
- **A water source that qualifies for 100 year AWS**

OWNERSHIP INTEREST

Who owns the infrastructure?

ALTERNATIVES

1. **CAWCD owns infrastructure**

- **Ancillary facilities constructed to develop ADD Water supplies or transport those supplies to the CAP or to a CAP delivery point would be owned by CAWCD.**
- **CAWCD, with the Participants having an equity interest or use right in the infrastructure not owned by U.S.**

2. **U.S. owns infrastructure**

- **… United States owns the CAP Canal, including the increased capacity in the Canal resulting from ADD Water.**

OTHER CONSIDERATIONS

- **Title to main CAP facilities remains with the United States.**
- **Ancillary facilities for the delivery of ADD Water beyond the CAP delivery point would be the responsibility of the end user and would be owned by the end user**
- **If necessary, a wheeling agreement will be negotiated with the United States for the ADD Water Canal Capacity.**

USE OF UNSCHEDULED SUPPLIES

How are unused supplies shared?

ALTERNATIVES

1. **CAWCD markets unused supply independently**
   - **Unscheduled supplies would be marketed on an annual basis by CAWCD in a manner similar to CAP excess water.**
   - **CAWCD may offer unused supplies on an annual basis to any municipal, industrial or agricultural user.**

2. **CAWCD markets unused supply according to Master Plan**
   - **Unused supplies are available for sale by CAP pursuant to the Master Plan, Annual Budget and Operations Plan approved by the Participants Council**

3. **Participant markets its unused supply**
   - **To be determined from time to time by the participant who is not using the water and the Participant Council in accordance with the provisions of the Participation Agreement**

OTHER CONSIDERATIONS

- **Proceeds from the sale of unused supplies to eligible entities will be used, first, to make non-using participants whole and, second, to reduce the costs to other participants**
- **Unused ADD Water shall not be sold for less than the cost CAP/ADD water**
- **Unused supplies should be defined as "ADD Water that is not scheduled by the participants in any given year".**
- **ADD Water participants (both firm and non-firm) have first right of refusal to unused supplies on an annual basis. CAWCD may offer, on an annual basis, any remaining unused supplies to any municipal, industrial or agricultural user**
- **Unused ADD Water supplies within a particular category in any given year are remarketed within that category**
- **Groundwater supplies not used to meet scheduled deliveries in any year should be left in place for future use**
- **Surface water supplies not used to meet scheduled deliveries in any year may be stored underground for future use**

CAPITAL COSTS – SUPPLY

How is up-front capital funding generated?	How are capital costs associated with acquiring the supply repaid?

ALTERNATIVES

1. **Participants pay up-front**

- **ADD Water Participants are responsible for generating their own funding to pay the upfront capital charge for the requested volume at the time the contract is executed.**
- **Each participant generates its own capital.**
- **…a portion of capital costs of ADD Water supplies must be paid for in advance (i.e., a kind of down payment)**
- **Capital required for water supply acquisition would be generated via the water supply contract component.**
- **Payment must be made before water deliveries begin**
- **Capital funding is required upfront…therefore, no repayment of capital costs is needed.**

2. **Lay Away Program**

- **Paid up-front over x period of time; x period might be 10 years from "call"**
- **Consideration should be given to allowing a Participant to make the upfront payment into an interest bearing escrow account over a five-year period.**
- **Seed money may be desirable.**
- **Capital costs can be repaid by:**
  - **Periodic lump sum payments; to be determined from time to time by the Participants Council.**

3. **Financing through CAP**

- **Bulk of up-front capital generated through bonding program by CAWCD.**
- **Contract costs would include payment of up-front capital costs and/or payments to underwrite bonds issued by CAWCD at the contractor's option.**

4. **Use of other revenues generated by CAP**

- **Other sources of capital funding for water supply:**
  - **ad valorem taxes;**
  - **initial fee to join ADD water based on amount of projected ADD water supply in 10th year.**
  - **annual holding fee for future water supplies (similar to membership fee). Apply to both augmentation and replenishment water. Holding fee may decrease as water deliveries to participant increase.**
  - **connection fee payable upon pulling building permit within ADD water city or participant.**
  - **rates for delivered water include component to retire bonds.**
- **Capital costs can be repaid by:**
  - **Separate component in water rates**

5. **Master Plan approach**

- **Master plan used as basis to determine estimated total costs of supply**
- **Capital costs can be repaid by…periodic lump sum payments to be determined from time to time by the Participants Council.**

OTHER CONSIDERATIONS

- **Anticipated phases for up-front payments, off-ramps and changes to commitment levels:**
  - **Start-up.**
  - **Initial investigation and due diligence for water acquisition. Design of increased capacity sufficient to**

CAPITAL COSTS – SUPPLY	
How is up-front capital funding generated?	**How are capital costs associated with acquiring the supply repaid?**
develop cost estimates. - **Commitment to construct improvements.** - **Commitment to acquire water. There may be separate requirements as different blocks of water become available over time.** • **Payment includes water rights and related infrastructure (other than CAP canal) components** • **The amount of up-front payments may be established to differentiate between the classes of product. Non-firm Water may not need an up-front payment.** • **Water acquisition capital fee based on blended costs of total supply** • **If initial participants have paid for ADD Water that will be used by future Participants, future Participants must pay their proportional share of capital costs for such ADD Water to reduce the costs to initial Participants.** • **Determine the per unit rate (unit is an acre-foot)** - **Convert the costs of the water rights and off-site improvements into net present value** - **Divide the sum of the volumes offered in the subscription by the net present value of the water rights and off-site improvements (i.e. infrastructure to develop and transport the supply to the canal) for the subscription**	

CAPITAL COSTS – SUPPLY

How are costs associated with replacement paid?

ALTERNATIVES

1. **No replacement costs for supply**

- **Replacement costs are not applicable to the acquisition of water supplies.**
- **…there will not be a charge for replacement of water supplies that are for permanent use.**
- **No replacement costs associated with water supply acquisition are anticipated.**

2. **Collect from participants directly**

- **Additional Participant capital contributions**

3. **Pay through OM&R rates**

- **Unforeseen replacement costs are paid through OM&R rates**
- **As expenses under OM&R**

4. **CAWCD debt**

- **CAWCD incurred debt; to be determined from time to time by the Participants Council.**

5. **Same process as initial supply**

- **Finite supplies acquired for a subscription include a component for replacement cost**
- **To the extent that any short-term supplies must be replaced, the funding process would be the same as that for the initial supplies.**
- **Same program as for initial water supplies. CAWCD would periodically have to replace or increase water supplies as contracts expire or ADD water demand increases.**

OTHER CONSIDERATIONS

- **"Replacements" could include water treatment.**

CAPITAL COSTS – INFRASTRUCTURE

How is up-front capital funding generated?	How are capital costs associated with infrastructure repaid?

ALTERNATIVES

1. **Participants pay up-front**

- **ADD Water Participants are responsible for generating their own funding to pay the up-front capital charge for the requested volume at the time the contract is executed.**
- **Infrastructure costs are paid up-front by the Participants to assure that CAWCD is not put at risk by using its own funds for the infrastructure…**
- **No repayment is involved, since all costs are paid upfront.**
- **No need for repayment, except that future Participants must pay proportional share of capital costs to reduce costs to the initial Participants**

2. **Lay-away program**

- **Consideration should be given to allowing a Participant to make the upfront payment into an interest bearing escrow account over a five year period.**
- **100% is paid up-front over x period of time (x period might be 10 years from "call")**
- **Canal capacity infrastructure is separate component paid upfront; One-time payment or five-year payment schedule**
- **Capital costs can be repaid by:**
  - **Periodic lump sum payments; to be determined from time to time by the Participants Council.**

3. **Financing through CAP**

- **…a substantial portion of the up-front capital costs for infrastructure must be financed: either by CAWCD, the participants themselves, or some combination thereof.**
- **Bulk of up-front capital generated through bonding program by CAWCD.**

4. **Use other revenues generated by CAP**

- **Other sources of capital funding for infrastructure:**
  - **ad valorem taxes;**
  - **initial fee to join ADD water based on amount of projected ADD water supply in 10th year.**
  - **annual holding fee for future water supplies (similar to membership fee). Apply to both augmentation and replenishment water. Holding fee may decrease as water deliveries to participant increase.**
  - **connection fee payable upon pulling building permit within ADD water city or participant.**
  - **rates for delivered water include component to retire bonds.**
- **Capital costs can be repaid by:**
  - **Separate component in water rates**
  - **As part of OM&R costs**

OTHER CONSIDERATIONS

- **…those who desire to participate in ADD Water should pay for infrastructure capital cost in proportion to their participation.**
- **Initial buy-in requirement. The participant is required to pay CAP's water acquisition capital charge multiplied by its desired entitlement to ADD water as of 2020.**

CAPITAL COSTS – INFRASTRUCTURE

How is up-front capital funding generated?	How are capital costs associated with infrastructure repaid?

- **Determine target range given canal capacity constraints (400 to 700,000 acre-feet)**
- **Issues associated with determining the target canal capacity**
  - **Size of the pool? (400 to 700,000 acre-feet)**
  - **Need to understand the nature of the use of the canal**
  - **Who paid the cost to increase pump capacity to 3600 cfs?**
  - **How do we make sure existing users are not impaired?**
  - **Include infrastructure above 2.1 MAF (last 100,000 acre-feet really expensive)**
  - **Include infrastructure below 1.8 MAF (impacts on existing users)**
- **The amount of up-front payments may be established to differentiate between the classes of product. Non-firm Water may not need an upfront payment.**
- **Periodic off-ramps or changes to commitment levels for Participants will be allowed, but money previously paid will not be refunded unless another or a later Participant picks up the share. In lieu of a per acre-foot fee, a Participant's share may be calculated in terms of being a percentage of the ADD Water project.**
- **CAP will use those capital funds (i.e. infrastructure-related) to purchase water. There may be a lag time between the acquisition of water and the delivery based upon CAP's ability to purchase water, unless CAP develops a starter pool of ADD Water.**
- **Infrastructure includes: improvements to the CAP Canal to improve annual capacity and, potentially, seasonal capacity; regional connectors to allow the delivery of augmentation water and replenishment water to strategic locations in the three-County area; other capital projects, such as a Buckeye desalination project; sinking fund to reserve for next improvements to Canal system beyond current 2.2 MAF plan.**

CAPITAL COSTS – INFRASTRUCTURE

How is peaking handled in terms of costs?

ALTERNATIVES

1. **Participant manages and pays for its own peaking**

- **End users manage, to the maximum extent possible, peak demands locally**
- **CAP will not invest in peaking capacity**
- **No additional costs for peaking will be incurred**
- **Limitations on what portion of a contract is delivered each month needs to be studied before determining what the delivery limitation for ADD Water contracts will be**
- **Conditions for taking deliveries will be incorporated into contracts**

2. **Limited peaking controlled through contracts**

- **Peaking will be allowed to the extent the entire CAP system allows**
- **Limitations on what portion of a contract is delivered each month needs to be studied before determining what the delivery limitation for ADD Water contracts will be**
- **Conditions for taking deliveries will be incorporated into contracts**

3. **Incorporate into up-front infrastructure costs**

- **Canal capacity cost component is adjusted up or down based upon peaking**

4. **Peaking surcharge**

- **ADD Water contractors pay a peaking surcharge based on CAP capacity utilization during critical months.**
- **The funds generated from the surcharge would be used to address peaking issues (e.g., increasing delivery capacity or improving customers' ability to take water off peak).**

5. **Master Plan approaches**

- **Participants Committee determines as a part of development of ADD Water Plan of Operation**
- **Will be developed in the ADD Water Master Plan**
- **In general, peaking will be addressed in the Master Plan and Annual Operating Plan**

OTHER CONSIDERATIONS

- **Peaking of ADD Water should not have an impact on existing contract holders.**

CAPITAL COSTS – INFRASTRUCTURE

How are costs associated with replacement paid?

ALTERNATIVE

1. **Incorporate into up-front infrastructure costs**

- **ADD water infrastructure capital fee must be designed to cover direct up-front capital cost plus anticipated replacement costs for 100 years (to match term of supply)**
- **Additional Participant capital contributions**

2. **Incorporate into OM&R**

- **Alternately can capture replacement costs in "R" portion of OM&R**
- **As expenses under OM&R**
- **…through a "Big R'". (Same methodology as CAP uses today for CAP long-term contracts, but the cost pool is specific to ADD water infrastructure…)**

3. **Master Plan approaches**

- **As part of a per AF charge or periodic installment payments; to be determined from time to time by the Participants Council.**
- **Will be developed in the ADD Water Master Plan**

OTHER CONSIDERATIONS

- **Costs incurred by CAP or ADD that benefit the other will be shared appropriately and "appropriate share" will be determined in advance**

OPERATION MAINTENANCE AND REPAIR (OM&R)

How are fixed costs associated with OM&R paid?

ALTERNATIVES (existing CAP fixed OM&R)

1. Fixed OM&R for existing CAP spread over CAP and ADD water in a postage stamp rate

- Fixed OM&R costs for the basic CAP system are spread evenly ("postage stamp" rate) across all users of the system—i.e., both CAP contractors /subcontractors and ADD Water contractors.
- The rate is determined by dividing total CAP fixed OM&R by the total amount of water (CAP and ADD) deliveries scheduled for that year. (Same methodology as used currently for M&I subcontracts, but with costs spread over a larger denominator.)

2. Share of OM&R for existing CAP apportioned to ADD Water

- …share of other CAWCD costs equitably apportioned to ADD Water. Participants Council will have oversight of the apportioning of shared CAWCD costs.
- CAWCD would assess a reasonable allocation of total OM&R to ADD Water based on incremental cost. ADD Water uniform delivery rates would be based on a "postage stamp" rate.

ALTERNATIVES (ADD Water only fixed OM&R)

1. Separate ADD Water Fixed OM&R

- Postage stamp rate
- Total costs established for Fixed OM&R for ADD Water infrastructure separately, and divided by the total amount of ADD Water ordered for the year
- Fixed OM&R costs specific to ADD Water facilities/infrastructure—i.e., new infrastructure necessary to introduce the ADD Water supplies into the CAP system—are spread evenly across all ADD Water deliveries.

OTHER CONSIDERATIONS

- Take or pay requirement on some portion [50% to 100%, depending on how up-front funding is handled] of the contractor's ADD Water demand /entitlement to discourage hoarding and speculation.
- [Assumption : Reconciliation is a possibility]

OPERATION MAINTENANCE AND REPAIR (OM&R)

How are variable costs paid?

ALTERNATIVES

1. Spread over scheduled deliveries

- The variable costs for developing and transporting ADD Water supplies in any year will be spread evenly across all ADD Water scheduled for delivery in that year, up to a certain cost.

2. Spread over actual deliveries

- …variable OM&R costs should be paid by participants based on the annual amount of ADD Water delivered to the participant in proportion to the total amount of ADD Water delivered…

OTHER CONSIDERATIONS

- [Assumption : Reconciliation is a possibility]
- Peak deliveries would be assessed an appropriately increased portion of variable costs (e.g., to account for higher energy costs).
- May be appropriate to consider postage stamp rates for portions of OM&R
- No use of Project power
- ADD Water is not Project Water and is not entitled to use CAP "project power."
- The ADD Water pumping energy rate will be computed separately from the pumping energy rate for CAP Project Water.
- Use of Project power
- ADD Water may use Project Power, if it is available.

OPERATION MAINTENANCE AND REPAIR (OM&R)

How are costs associated with replacement paid?

ALTERNATIVES

1. Pay through fixed OM&R rates

- Incorporate into fixed OM&R and treat the same.
- Replacement costs…will be spread across all ADD Water deliveries through a "Big R" component. (Same methodology as CAP uses today for CAP long-term contracts, but the cost pool is specific to ADD Water infrastructure and increased CAP capacity, and the customer base is limited to ADD Water.)

2. Additional Participant capital contributions

3. Reserve fund

- …OM&R replacement costs (little r) will be paid through a reserve fund by those participating in ADD Water based on the amount of ADD Water delivered to the participant, with an annual reconciliation process.

4. CAWCD incurred debt

5. Master Plan approach

- Will be developed in the ADD Water Master Plan
- The Master Plan and Annual Operating Plan shall identify replacement costs associated with the ADD Water Program and factor them into the rates.
- …determined from time to time by Participants Council through the Master Plan and Annual Operating Plan shall identify replacement costs associated with the ADD Water Program and factor them into the rates.

OTHER CONSIDERATIONS

- A replacement component ("Big R") should be included in the cost for deliveries of the ADD Water supply and specified in the Participant's Contract.
- …an annual reconciliation process.

ADDITIONAL QUESTIONS

How does ADD Water qualify for an AWS?

ALTERNATIVES

1. ADD Water Assured Water Supply Eligible

- ADD water supply contracts will be AWS eligible once AWS-eligible water supplies are actually acquired by CAWCD.

2. Allocation of Assured Water Supply Eligible ADD Water amongst participants

- There should be a mechanism for dividing AWS-eligible supplies among those Participants that need to prove an AWS.
- Some portion of AWS-eligible supplies would be set aside for replenishment purposes.
- Remainder pro-rated among ADD water participants that desire AWS-available water.

OTHER CONSIDERATIONS

1. Firm water supply contracts will be AWS eligible within each phase
2. …eligibility of a particular water supply for AWS would be evaluated by ADWR under the current AWS rules but there may be a need to make changes to the regulations, as long as this does not weaken the AWS program.

ADDITIONAL QUESTIONS

How does ADD Water work with the CAGRD?

ALTERNATIVES

1. Prevent driving users to CAGRD

- ADD Water should not push additional obligations onto the CAGRD.
- To avoid driving future users into CAGRD as an alternative to participation in ADD Water, all future CAGRD enrollment beyond the current plan of operation will need to be backed by an ADD Water contract. CAGRD enrollment will need to be altered appropriately to reflect this and ensure that CAGRD doesn't become a cheaper alternative to ADD Water; CAGRD will also need to be able to bond or otherwise raise revenues necessary to fully participate in ADD Water.

2. Portion of ADD Water phase assigned to CAGRD

- The intent of this alternative is to ensure that, as part of the planning contract distribution formula, CAGRD receives an appropriate quantity of available capacity within a new ADD Water phase. Because the distribution formula allocates capacity/supply based on projected growth, this quantity would be directly related to CAGRD's projected growth within a given plan of operation period, and would thus allow CAGRD to access new supplies to meet its growing obligations in the same manner as that available to other water users/providers.

3. Replenishment becomes a function of ADD Water

- Replenishment activities would be conducted by CAWCD under ADD water mantle, rather than CAGRD.
- In most ways, ADD water participants would be treated the same. Initial fees, holding charges, connection fees and delivery charges would be the same for new members. Member lands that are already built-out and taking replenishment services simply pay the property tax for replenishment services as currently done.
- ADD water contracts for replenishment are built on same 10-year projection of demand for replenishment services as are augmentation services, with year-to-year extensions and could be subject to similar sideboards as augmentation services.
- Replenishment services are still subject to Plan of Operation approval. If there is no approval of a Plan of Operation, current contracts for ADD water remain in place, but there are no further extensions. Both types of participants 'hit the wall together'. Do not want to have one category of ADD water participant

OTHER CONSIDERATIONS

- …CAGRD and CAGRD members are eligible to obtain an ADD Water contract.