

RESOLUTION OF THE BOARD OF DIRECTORS  
OF THE CENTRAL ARIZONA WATER CONSERVATION DISTRICT  
Strategic Reserves and Water Rates  
Approved May 2, 2013

WHEREAS, unexpected declines in the energy market and increases in the cost of electricity at Navajo Generating Station in 2012 and 2013 have resulted in reduced revenues and increased costs to the District;

WHEREAS, reduced revenues and increased costs in 2012 and 2013 have placed demands on the District's Strategic Reserves that bring the balance below an acceptable level of \$180 million and a preferred level of \$205 million;

WHEREAS, the Board of Directors believes that it is prudent to take steps to restore Strategic Reserves to an acceptable level and maintain them at a preferred level;

WHEREAS, the District's water delivery contract with the United States and the District's water delivery subcontracts with the Municipal and Industrial (M&I) customers provide for annual rate reconciliations and a refund or surcharge to customers based on those reconciliations;

WHEREAS, since 2002, the District has used the proceeds from sales of sulfur dioxide (SO<sub>2</sub>) credits to fund annual rate reconciliations;

WHEREAS, the SO<sub>2</sub> credit proceeds are exhausted except for approximately \$7.5 million that the District desires to preserve for future needs; and

WHEREAS, the Finance, Audit & Power Committee adopted resolutions recommending that the Board of Directors approve actions to (i) address replenishment of the deficit in the District's Strategic Reserves, and (ii) adopt a preliminary revised rate schedule, consistent with the resolution set forth below; it is

**RESOLVED**, that the Board of Directors hereby approves the following actions to address the deficit in the District's Strategic Reserves and establish revised water rates for 2014-2015:

- a) replenish the District's Strategic Reserves with \$45 million drawn from the Water Storage (4-Cent Tax) Reserves;
- b) waive, for 2012 and 2013 only, the collection of amounts calculated and projected as part of the rate reconciliation for federal and M&I customers for those years;
- c) adopt the Preliminary Revised 2014-2015 Rate Schedule that incorporates the following provisions:
  - i. reflects full cost in the CAP Energy Rate for federal and M&I customers beginning in 2014, which will include annual rate reconciliation and refunds or surcharges to customers as appropriate;
  - ii. modifies the Ag Incentive Program to limit the annual net increase in cost to eligible Ag Pool participants to no more than \$4/acre-foot per year beginning in 2014;
  - iii. increases the M&I Capital Charges by \$4/acre-foot each year above the previously published advisory rates beginning in 2014; and
  - iv. makes no change to the published advisory rates for Fixed OM&R beginning in 2014.