

DATE: September 10, 2008

TO: Jim App, City of Paso Robles

FROM: Christine Halley, TJCross Engineers

**SUBJECT: Response to Public Inquiry
Allocation of Nacimiento Project Costs Among Participants**

The Nacimiento Water Project is a regional project budgeted at \$176 million, of which \$124 million directly pertains to construction. Paso Robles, San Luis Obispo, Atascadero, and Templeton are the four principal communities receiving water and paying for the Project.

A question was posed by a citizen at the August 19th City Council meeting:

Is Paso Robles subsidizing other community's costs of the Nacimiento Water project? In other words, is Paso Robles paying a disproportionate share of project costs?

There are two primary ways that pipeline costs are shared among partners. One is to pay a proportional share of costs to a specific turnout only. Downstream partners then pick up all costs below that turnout. The other cost sharing approach is to add costs for a group of facilities and divvy them up proportionally to one's entitlement.

In the case of the Nacimiento Water Project, a combination of both approaches was used.

Cost sharing is addressed in detail in the Nacimiento Water Project Delivery Entitlement Contracts. At 4,000 acre-feet per year entitlement, Paso Robles is entitled to 4,000/9,655 share, or 41.429% of all water currently contracted. This is known as Paso's "delivery entitlement share".

In summary, during the construction of the Project, Paso Robles is responsible for:

1. 41.429% of environmental mitigation costs associated with the entire project.
2. 41.429% of the reserved capacity. The SLO County Flood Control & Water Conservation District required that the Nacimiento Water Project be built to deliver the full 15,750 AFY even though only 9,655 AFY are currently contracted. The incremental cost to size the pipeline system to carry the larger amount (i.e. the "reserved capacity") is shared among Participants in proportion to their percent allocation. In the case of Paso Robles, that share is 41.429%.
3. A portion of all other construction costs. Such costs are tracked by reach or "unit" along the pipeline from the Lake to the southernmost turnout at San Luis Obispo. Rather than each Participant only paying for costs upstream of their turnout as is one of the primary approaches mentioned above, Nacimiento costs are shared differently. Each Participant is responsible for paying a portion representing the average between the unit percentage share and the delivery entitlement share.

For Paso, this is:

Unit Description		Paso Robles' Share of All Other Construction Costs (%)
A	Lake Intake to Camp Roberts West Property Line	41.429
A1	Camp Roberts West Property Line to Camp Roberts Tank	41.429
B	Santa Ysabel Pump Station	20.715
C	Camp Roberts Tank Outlet to Monterey Rd/Wellsona	41.429
C1	Monterey Rd/Wellsona to Paso Robles Turnout	41.429
D	Paso Robles Turnout to Templeton CSD Turnout	20.715
E	Templeton CSD Turnout to Atascadero MWC Turnout	20.715
F	Atascadero MWC Turnout to Rocky Canyon Tank	20.715
F1	Rocky Canyon Tank	20.715
F2	Rocky Canyon Pump Station	20.715
G	Rocky Canyon Pump Station to Rte 58/Maria Ave	20.715
G1	Rte 58/Maria Ave to Cuesta Tunnel Tank	20.715
G2	Cuesta Tunnel Tank	20.715
H	Cuesta Tunnel	20.715
H1	Cuesta Tunnel to San Luis Obispo Turnout	20.715
T2	Paso Robles Turnout	100.00

Each time that a New Participant comes on board, costs are redistributed and Paso's share in the costs goes down.

Calculated another way, based on the Project costs as stated in the August 2007 "Project Cost Summary Report", estimated delivered water costs are:

<u>Participant</u>	<u>Estimated Cost per Acre-Foot</u>
Paso Robles	\$1,380
Templeton CSD	\$2,560
Atascadero MWC	\$1,814
San Luis Obispo	\$1,910

So, is Paso Robles paying a disproportionate share of project costs? No. All Participants are sharing in Project costs according to the terms set forth in the delivery entitlement contracts.

Had the contract not been set up for cost sharing in this fashion, costs for downstream customers would have been so high as to cause them to drop altogether from the Project. The result would have been higher and higher costs to northernmost Participants such as Paso Robles. As it is, the contract terms stand as a model of regional water planning cooperation for the Western U.S.A.