

Water Authority Releases Proposed Carlsbad Desalination Water Purchase Agreement

September 27, 2012 -

The San Diego County Water Authority today released a proposed Water Purchase Agreement with Poseidon Resources, the private developer of the planned seawater desalination plant in Carlsbad. The release opens a public review period that includes two special evening public meetings to share information on the agreement and to receive public comment.

The agreement specifies the proposed commercial and financial terms for the production and delivery of water from the planned desalination plant to the Water Authority's regional water delivery and treatment system. It also includes terms for the potential purchase of the plant by the Water Authority.

The Board has not approved the agreement and will set a date for voting on the proposed agreement after it has had the opportunity to receive public comment and to review and deliberate the proposed agreement's terms.

"This proposed agreement, reached after months of negotiations and careful due diligence, is being presented to the Board of Directors for its deliberation and consideration," Water Authority General Manager Maureen Stapleton said. "If this agreement is approved, the Carlsbad Desalination Project would meet our region's long-term water supply reliability goal of having 7 percent of our region's water supply needs met through seawater desalination by 2020."

The full proposed water purchase agreement and appendices are available at www.sdcwa.org/issue-desal.

The Water Authority will host two evening public meetings to hear public comments on the proposed agreement.

The schedule for those meetings is:

- **6:30 p.m. Tuesday, Oct. 2** at the Water Authority's headquarters, 4677 Overland Ave., Kearny Mesa.
- **6:30 p.m. Wednesday, Oct. 10** at the city of Carlsbad's Faraday Center, 1635 Faraday Ave., Carlsbad.

Agendas for those meetings will be posted 72 hours in advance at www.sdcwa.org/meetings-and-documents.

"Water Authority management has led a team of industry experts in project development and finance to negotiate this agreement," Water Authority Board Chair Michael T. Hogan said. "It is now time for the Board of Directors to deliberate the proposed business deal and then decide whether to move forward. I encourage the public to review the agreement and come to one of our upcoming meetings to learn more and provide us with their input."

The Water Authority has investigated seawater desalination as a new water supply since 1993. While more expensive than existing supplies, adding desalinated seawater to the region's water sources would make the

water supply more reliable by reducing the region's dependence on imported water sources that are vulnerable to droughts, disasters and regulatory restrictions. Since 2010, discussions have focused on contractual terms to transfer risk to the private sector for the design, construction and operation of the desalination plant and the design and construction of the new conveyance pipeline from the plant to the Water Authority's system.

Under the agreement, the total price for the water – including costs to make improvements to the Water Authority's pipelines and treatment plant to accommodate the new supply – is estimated at \$2,042 to \$2,290 per acre-foot in 2012 dollars, depending on how much water is purchased annually. (An acre-foot is approximately 325,900 gallons, or enough to supply two typical single-family households of four for a year.) The impact of this new supply on an individual's water bill will vary depending upon their local water agency. The average household's water bill would increase approximately \$5 to \$7 a month by 2016 to pay for the new supply.

If approved, the project will provide up to 56,000 acre-feet of desalinated seawater annually for the region starting as early as 2016. In 2020, the project would account for approximately 7 percent of the total projected regional supply and about one-third of all locally generated water in San Diego County.

Under the agreement, the Water Authority will have no responsibility or liability for the design, permitting, financing, construction and operation of the project. The Water Authority would purchase at least 48,000 acre-feet of desalinated water annually at a predetermined price for 30 years once commercial operations begin. Water in excess of 48,000 acre-feet annually would be purchased at the Water Authority's discretion at a lower rate. The term can be extended up to three additional years due to unexpected or uncontrolled events.

At the end of the term, the Water Authority will have the option – but not an obligation -- to purchase the plant for \$1. The Water Authority also has the option to buy the plant after 10 years.

Poseidon also will design and build a new 10-mile pipeline to convey desalinated water to the Water Authority's regional water delivery system. The Water Authority will own and operate the new pipeline. However, to protect the Water Authority against the risk of a stranded asset, Poseidon becomes responsible for a share of the cost of the pipeline, up to 100 percent, if the plant falls short in producing water.

The agreement contains a number of other provisions to ensure reliability and protect ratepayers. They include:

- The Water Authority will not have to begin paying for water until the desalination project passes the Water Authority's acceptance tests.
- The Water Authority can reject buying water that does not meet specific water quality requirements.
- The Water Authority will have rights to ensure the plant is operated in a safe manner in accordance with industry standards, including setting employment standards for key personnel, establishing reporting and record-keeping requirements, reviewing security and

emergency plans and conducting inspections. The agreement also includes measures to ensure effective coordination between the plant's operations staff and the Water Authority's operations staff.

- The agreement also includes default provisions under which the Water Authority would have the option to terminate the agreement and seek liquidated damages or other remedies. Default conditions include: the plant failing to pass acceptance tests by a certain date; Poseidon declaring bankruptcy or abandoning the project; the plant receives multiple notices of violation from regulators or has repeated violations of drinking water standards; the project delivers less than 75 percent of contract year water supplies; Poseidon fails to make any necessary shortfall payments on debt service for the desalination pipeline.

In addition, the Water Authority's 24 local member agencies must declare within the next 60 days whether they intend to purchase a portion of the desalinated seawater supply directly from the Water Authority as a local supply at the full cost per acre-foot. Local supplies help improve water agencies' water supply reliability, especially during times of drought or shortages in imported water supplies.

###