CITY OF OCEANSIDE

CITY COUNCIL
REGULAR MEETING
3:00 P.M.*
June 23, 2010

COUNCIL CHAMBERS
300 N. Coast Hwy.

AGENDA
ADDENDUM

ITEM 38 – CITY MANAGER ITEM

Approval for staff to respond to the San Diego County Water Authority (SDCWA) General Manager in support of the SDCWA directly negotiating a Water Purchase Agreement with Poseidon Resources (Channelside) LLC, in lieu of executing an Amended and Restated Water Purchase Agreement with the City of Oceanside

A) Report by Cari Dale, Water Utilities Director
B) Discussion
C) Recommendation -- approval of staff recommendation

*The addendum item is generally heard in numerical order but will be heard any time after 4:00 p.m.

ITEM NO. 38

City of Oceanside

MEMORANDUM

DATE: June 17, 2010

TO: Honorable Mayor and City Councilmembers

FROM: Peter A. Weiss, City Manager

SUBJECT: **Poseidon Water Purchase Agreement**

In 2007, the City of Oceanside entered into a Water Purchase Agreement (WPA) with Poseidon Resources, to purchase desalinated ocean water. Besides the City of Oceanside, eight other agencies also entered into WPAs to purchase the water produced by Poseidon. Since that time, the Desal Partners Committee has been negotiating with Poseidon on various points related to the final cost and other points in the agreement.

In the last few months it has become apparent that Poseidon's cost of water is going to be greater than originally proposed. To make the project viable, Poseidon needs subsidies from the San Diego County Water Authority (CWA) and Metropolitan Water District (MWD). The various agencies, including Oceanside, entered into agreements with MWD for a $250 per acre foot subsidy that would go to Poseidon to help offset capital costs.

One of the conditions of the subsidy from MWD is that if the CWA should challenge their rate structure then MWD would cancel the subsidy. Last week CWA filed a law suit challenging the way MWD sets its rates and charges. The Desal Partners asked the CWA to backstop the MWD subsidy should MWD withdraw it. CWA estimates it would cost 25 million per year and raise CWA rates over $50 per acre foot to subsidize Poseidon, making the project even more costly.

In discussions with CWA it is apparent the Poseidon project is not going to work as originally structured. CWA has indicated that they would be willing to negotiate with Poseidon to take over the project if the Desal Partners agreed. If CWA were to pursue negotiations and be successful, it would require all Desal Partners to cancel their existing WPAs.

At this time it appears that the only option for the region to receive 56,000 acre feet of desalinated ocean water is to have CWA take over the project and make the water available to all agencies within its system.

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The San Diego County Water Authority General Manager has asked for a unified action from the Desal Partners in support of the San Diego County Water Authority directly negotiating a Water Purchase Agreement with Poseidon Resources, no later than Thursday, June 24, 2010.

This item will be on the Council's June 23, 2010 agenda. Staff is recommending the Council support the County Water Authority in negotiating with Poseidon to develop a cost effective plan for the desal plant.