

STAFF REPORT



ITEM NO. 12
CITY OF OCEANSIDE

DATE: November 7, 2012
TO: Honorable Mayor and City Councilmembers
FROM: Water Utilities Department
SUBJECT: **WATER PURCHASE AGREEMENT WITH POSEIDON RESOURCES LLC FOR THE PURCHASE OF DESALINATED WATER**

SYNOPSIS

Staff recommends that the City Council not enter into a direct water purchase agreement with Poseidon Resources (Channelside) LLC (Poseidon) of San Diego for the purchase of desalinated water.

BACKGROUND

In December of 2007, Council approved a long-term Water Purchase Agreement with Poseidon Resources, LLC, for the direct purchase of desalinated water. The purchase agreement assumed that the City's cost of the water would not exceed the cost of purchasing the same amount of water supplied by the San Diego County Water Authority (Authority). This cost basis of the water assumed a per-acre-foot offset from the Metropolitan Water District.

In September of 2010, Council terminated its agreement to allow for the San Diego County Water Authority to directly negotiate with Poseidon Resources, LLC. Recently, the Authority concluded negotiations and, prior to execution of their Water Purchase Agreement with Poseidon, asked individual water agencies if they would be interested in directly purchasing up to 49 percent of the water from Poseidon under similar terms negotiated by the Authority. The draft water purchase agreement was released to the public on September 27, 2012; regional water agencies have 60 days from the release of the contract to notify the Authority of their intent to enter into a direct Water Purchase Agreement.

ANALYSIS

The City of Oceanside's daily imported water demand is approximately 30 Million Gallons per Day (MGD). The Robert A. Weese Filtration Plant treats approximately 25 MGD. A small portion of the Tri-City area of Oceanside receives approximately 5 MGD of treated water from the San Diego County Water Authority.

Council has set a goal to produce 50 percent of Oceanside's water supplies locally by 2030. The Mission Basin Groundwater Facility currently produces 15 percent of Oceanside's supplies; the completion of the 511 Pump Station in the Spring of 2013, will increase Oceanside's local supplies to approximately 24 percent. The completion of future projects such as the Oceanside Desalination Facility and the expansion of recycled water will meet the 50 percent goal by the target date.

The benefits received by directly purchasing from Poseidon are; direct enhanced local supplies, direct increased reliability during regional water cutbacks and direct local supply diversification. These benefits will also be achieved to a greater extent by full implementation of Oceanside's own local water supply projects.

FISCAL IMPACT

Staff hired a financial consultant to model overall costs associated with the direct purchase of 1,500 acre-feet of desalinated water/year from Poseidon as well as the overall cost impact to forego the direct purchase of desalinated water. The analysis concluded that the City would realize immediate increased costs of \$1.5 million starting in 2016, the first year that the plant would produce water. The per acre foot cost to purchase directly from Poseidon would be \$2,377, starting in 2016, compared to \$1,777 per acre-foot if purchased through the San Diego County Water Authority. The increased cost would necessitate that Council approve further rate increases or significantly reduce operating expenses to pay for the cost of water. The increased cost of water would decline over the following 15 years and the city would realize a savings for the duration of the contract which would terminate in 2045.

CITY ATTORNEY'S ANALYSIS

City Attorney analysis does not apply.

COMMISSION OR COMMITTEE REPORT

This item was reviewed by the Budget Subcommittee of the Water Utilities Commission on October 23, 2012, and they unanimously recommended to not enter into a direct water purchase agreement with Poseidon Resources, LLC.

RECOMMENDATIONS

Staff recommends that the City Council not enter into a direct water purchase agreement with Poseidon Resources (Channelside) LLC (Poseidon) of San Diego for the purchase of desalinated water.

PREPARED BY:



Cari Dale
Water Utilities Director

SUBMITTED BY:

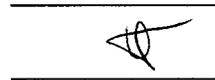


Peter A. Weiss
City Manager

REVIEWED BY:

Michelle Skaggs Lawrence, Deputy City Manager

Teri Ferro, Financial Services Director



STAFF REPORT



ITEM NO. 16
CITY OF OCEANSIDE

DATE: December 19, 2007

TO: Honorable Mayor and City Councilmembers

FROM: Water Utilities Department

SUBJECT: **APPROVAL OF A WATER PURCHASE AGREEMENT WITH POSEIDON RESOURCES LLC IN AN AMOUNT NOT TO EXCEED THE CITY'S COST OF WATER SUPPLIED BY THE SAN DIEGO COUNTY WATER AUTHORITY AND THE SUBSIDY RECEIVED BY THE CITY FROM THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA FOR THE PURCHASE OF DESALINATED WATER**

SYNOPSIS

Staff and the Utilities Commission recommend that the City Council approve a thirty-year water purchase agreement with Poseidon Resources (Channelside) LLC (Poseidon) of San Diego in an amount not to exceed the City's cost of water supplied by the San Diego County Water Authority (SDCWA) and the subsidy received by the City from the Metropolitan Water District (MWD) of Southern California for the purchase of desalinated water; and authorize the City Manager to execute the agreement.

BACKGROUND

On August 15, 2007, the City Council authorized staff to enter into negotiations with Poseidon for the purchase of desalinated water. Poseidon, a company that develops water projects, is developing a seawater desalination project at the Encina Power Plant in Carlsbad. They are proposing to sell the water produced at the desalination facility through long-term water sales agreements.

ANALYSIS

The City of Oceanside's daily imported water demand is approximately 30 MGD. The Robert A. Weese Filtration Plant treats approximately 25 MGD. A small portion of the Tri-City area of Oceanside receives approximately 5 MGD of treated water from the San Diego County Water Authority. The alternative water source provided by Poseidon would replace that purchased treated water.

Under the terms of the agreement Poseidon would assume the risk of development, permitting, financing, construction and operation of the project. Poseidon would provide a specified quantity and reliability of supply through a mutually acceptable delivery regime.

The City would acquire a new supply of treated water at a cost not to exceed what it would otherwise pay SDCWA plus the MWD subsidy. The City would not pay for the water unless delivered in accordance with predetermined specifications. There is no additional capital or operating expense to the City.

Poseidon will cooperate with the City of Oceanside in reasonable efforts to obtain a subsidy from the MWD under its Seawater Desalination Program in an amount not less than two hundred fifty dollars per acre foot for Oceanside's purchase of desalinated water or another form of third party financial support.

In addition, the City would control the allocation and use of its own capacity and realize reduced dependence on imported water, improved water supply reliability and improved water quality. The City would be protected by a long-term, fixed-price water purchase agreement with exclusive right to its portion of the output for a thirty-year term with renewal options for two additional periods of thirty years.

This potential alternate water supply would be a local, drought-resistant source with a guaranteed cost and the potential for savings in the future.

FISCAL IMPACT

The cost would not exceed the City's cost of water supplied by the SDCWA and the subsidy received from the MWD. The cost will be adjusted based on current increases from the SDCWA and MWD.

City of Oceanside Water Purchase Agreement Avoided Cost Calculation	
FY 2008 (\$/AF)	
\$250.00	MWD Seawater Desalination Program Financial Incentive
\$ 14.26	MWD Capacity Charge - Five year rolling average
\$ 20.54	MWD Readiness to Serve Charge - Ten year rolling average
\$ 24.81	SDCWA Customer Service Charge - Three year rolling average
\$ 39.63	SDCWA Storage Charge - Three year rolling average
\$ 60.00	SDCWA Transportation Rate
\$164.00	SDCWA and MWD Melded Municipal & Industrial Treatment Rate
\$390.00	SDCWA and MWD Melded Municipal & Industrial Supply Rate
\$963.24	Total

COMMISSION OR COMMITTEE REPORT

The Utilities Commission approved staff's recommendation during its regularly scheduled meeting on September 18, 2007.

CITY ATTORNEY'S ANALYSIS

The referenced documents have been reviewed by the City Attorney and approved as to form.

RECOMMENDATIONS

Staff and the Utilities Commission recommend that the City Council approve a thirty-year water purchase agreement with Poseidon Resources (Channelside) LLC (Poseidon) of San Diego in an amount not to exceed the City's cost of water supplied by the San Diego County Water Authority (SDCWA) and the subsidy received by the City from the Metropolitan Water District (MWD) of Southern California for the purchase of desalinated water; and authorize the City Manager to execute the agreement.

PREPARED BY:

Judith Ludlow for
Greg Blakely
Administration Manager

SUBMITTED BY:

Peter A. Weiss
Peter A. Weiss
City Manager

REVIEWED BY:

Michelle Skaggs Lawrence, Deputy City Manager

Lonnie Thibodeaux, Water Utilities Director

Teri Ferro, Financial Services Director

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