

Deliberative Document

The following draft position statement is provided to stimulate discussion. The Water Authority is considering this position statement as potential direction to our staff and consultants in preparing PUC testimony due February 22nd, 2013. This position is being proposed now, in advance of a completed EIR and in recognition that more information will be forthcoming, because the PUC decision process is underway and the Water Authority seeks to have a voice in that process.

Proposed Position Statement:

Reiterate our support for a portfolio approach. This includes GWR, ASR, and PG small projects, all of which have public ownership, in addition to a desal project described here.

Reference our previously adopted policy points regarding public contribution.

Any project must meet four basic criteria:

1. Project economics must be competitive.
2. Project must have suitable public governance, public accountability and public transparency.
3. Project must have clear path to permitting and constructing the facility as near to the CDO deadline as feasible.
4. Project must have contingency plans to address significant technical, permitting and legal risks.

None of the three projects (Cal-Am, Deepwater Desal or DWD, or People's Moss Landing or PML) as proposed meet these criteria. Therefore, none of the three projects as proposed warrant Water Authority support. However, at this time Cal-Am's proposed project appears to be closest to meeting these four criteria. Cal-Am's Project would earn our support if Cal-Am makes certain modifications.

Consequently, the Authority's support for the Cal-Am Project is subject to the following conditions:

1. Cal-Am must accept a significant contribution of public funds. Without the interest rate advantages afforded by such approach, the costs of water from the Cal-Am Project will be materially higher, and likely substantially in excess of the cost of water from the alternative projects. A significant contribution of public funds will avoid such an unwarranted expense to Cal-Am's rate payers;
2. Cal-Am must agree, upon mutually-acceptable terms, to form a Governance Committee to provide publicly-accountable oversight of the project;
3. Cal-Am must diligently seek to secure lower electricity rates for the project (e.g., \$0.08-\$0.09 cents/kWh as most recently estimated by Cal-Am) including agreement to purchasing power through a municipal electrical utility, generation of on-site power if necessary, other public entity or other source of low-cost power;
4. Cal-Am must agree to limit the use of revenue from Cal-Am's Surcharge 2 to reduce risk to Cal-Am ratepayers in the event the Cal-Am project does not

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- move forward. For example, Cal-Am could agree only to use Surcharge 2 to fund lower risk parts and phases of the project (such as only the construction phase after the issuance of a Coastal Development Permit from the Coastal Commission) or could provide other mechanisms of reducing the risk to Cal-Am ratepayers.
5. To promptly address concerns pertaining to Cal-Am's proposed intake wells, Cal-Am must:
 - Address or cause to be address all issues raised in the December 2012 Tim Durbin testimony;
 - proceed with the planned test wells and any other advanced geotechnical work to support the proposed intake wells as soon as practically feasible;
 - collaborate with local public agencies to advance permitting efforts with other responsible agencies, including the California Coastal Commission;
 - seek to clarify whether the installation of Cal-Am's intake wells will require approval from any federal agency, which would, in turn, require NEPA compliance; and
 6. Continue to explore and advance alternative intake strategies as a contingency if Cal-Am's proposed intake wells prove legally or technically infeasible.
 - Cal-Am must fully develop a contingency plan or plans and implement that plan or those plans for source water that do not involve wells in the Salinas Basin. This must be done concurrently along with Cal-Am planning and testing of slant wells.
 7. Cal-Am must show something in writing from the State demonstrating its ability to secure SRF financing. Absent such a document, the Water Authority will work with the Water Management District to secure SRF financing as public agencies. Cal-Am must accept a public agency partner for SRF purposes if necessary, even if doing so results in a reduction in Cal-Am's equity position.
 8. Cal-Am must address questions about sea level rise and coastal erosion with respect to the placement and longevity of their proposed slant wells. Coastal sands are also prone to liquefaction in seismic events and coastal facilities are susceptible to damage from tsunami events as well.

If Cal-Am meets the above conditions, the Authority conditionally supports the Cal-Am Project because:

1. Cal-Am's desal project size appears to be consistent with the Water Authority's position of focusing on water for "replacement and replenishment" including lots of record and economic rebound and accommodates the policy desire to pursue a portfolio of projects to meet the needs of our communities, thereby reducing the risk associated with any project failing or being delayed. The Coastal Commission identifies proposed projects with a "defined service area with a known level of build-out" as

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- involving an “easier” review while projects with an “unknown or extensive service area” as involving a “more difficult” review. Cal-Am’s project would involve this “easier” review while DWD would involve a “more difficult” review.
2. Cal-Am’s project, DWD project and PML project are all in the planning stage although Cal-Am’s project is the most “advanced” according to both SPI and the TAC.
 3. permitting agencies will require the “least environmentally harmful feasible alternative” for source water intake. The Coastal Commission states that a subsurface intake (such as Cal-Am’s proposed slant wells) involve an “easier” review while an open-water intake involves a “more difficult” review. State Water Board staff likely will recommend that subsurface is “preferred.” If subsurface is not feasible, consider Track 2 (infiltration galleries or open water intake). It is unlikely that open water intake will be permitted unless test slant wells have shown subsurface intake to be infeasible. Any project must therefore include a test slant well. Only Cal-Am’s project proposes to do so.
 4. only Cal-Am has demonstrated ability to finance a project. Their financing plan is comprised of four different sources of capital; short-term construction financing, Surcharge 2, SRF, and equity. Neither of the other two projects have a detailed financing plan and neither would likely have access to short-term construction financing, Surcharge 2 or SRF, all advantageous forms of financing (Cal-Am offers the short-term construction financing but only for their project. Surcharge 2 is only permitted for a Cal-Am facility. SRF is unlikely to be available for open water intake.) We propose to include a significant public contribution as a fifth source of capital. Doing so would significantly lower the Net Present Value (NPV) cost of the project.
 5. Cal-Am has the capital necessary to complete the permitting of its project. Neither of the other projects have demonstrated this ability.
 6. Cal-Am has indicated the potential for securing electricity at \$0.087 per kwh and could possibly purchase electricity at a lower rate through a municipal electrical utility formed by a local public agency. DWD’s proposed municipal electrical utility involves the City of Salinas and its success is therefore outside of the direct control of the Water Authority.
 7. the ultimate unit cost of water from the Cal-Am Project in comparison to the cost of water from the DWD and PML projects are close in amount presuming a significant public contribution is made to lower the financing costs of the Cal-Am Project and that Cal-Am secures electricity in the \$0.08-0.09 per kwh range.
 - a. SPI estimates that Cal-Am’s production cost would be \$2,310/\$3,015 per acre foot for the larger/smaller desal projects respectively if the cost of financing is brought down to 4% and the cost of electricity is reduced to \$0.087 per kwh. This is within about 10% of the unit production costs of DWD (\$2,100/\$2,670) and is largely due to the increased cost of slant wells.

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- b. The range of these estimates is minus 30% to plus 50%. The TAC recommends the Water Authority focus its attention on the ranges.
 - c. For the larger plant, the range of the cost per acre foot of Cal-Am's project with Water Authority conditions is \$1617 to \$3465. The corresponding range for DWD is \$1470 to \$3150.
 - d. For the smaller plant, the range of the cost per acre foot of Cal-Am's project with Water Authority conditions is \$2110 to \$4522. The corresponding range for DWD is \$1870 to \$4005.
8. The DWD project involves a "complex" relationship of various entities, including a municipal electrical utility, a data center, the formation of a regional JPA, a water purchase agreement with Cal-Am. The Water Authority is not aware that any of these relationships have been established. This unresolved complexity leaves more room for possible delay or failure. In contrast, Cal-Am's organization structure is described as "good" by SPI.
9. Both DWD and PML will likely face questions from permitting agencies regarding the placement of the desalination plant in relationship to the 100 year flood plain and sea level rise. It is unclear how either project will respond to such questions.
10. The CEQA review for Cal-Am's project is well underway and is being handled by the Public Utility Commission as the lead agency. Any court challenge to the CPUC's EIR must be made by a petition directly to the State Supreme Court (very few petition are granted), reducing the legal risk of a challenge and also reducing the likelihood of project delay in comparison to a CEQA challenge to a project involving a local lead agency. Moreover, the Authority reiterates its request that both alternatives be reviewed at a project level such that no further environmental review would be required if the Cal-Am project fails in whole or part.
11. The draft Governance Committee agreement strikes the right balance of ensuring that the most important decisions are either made by public agencies or are fully informed by recommendations from public agencies. The draft Governance Committee agreement avoids inserting the public agencies into decisions that are judged to be better made by a private entity.

*This document was Adopted at January 31, 2013 MPRWA Special Meeting