Today's Status Report on Carlsbad Desalination Project

1. Status of WPA Negotiations
2. Status of Due Diligence Activities
3. Status of Water Authority Distribution Improvements
4. Other Key Project Issues
5. Review of Milestone Dates Leading to Consideration of WPA
Status of Negotiations for a Water Purchase Agreement

- **Water Authority is the drafter of the WPA**
  - Provided two draft agreements to Poseidon since Nov 2011
  - Discussed issues with Board Advisory Group prior to transmission of draft agreement to Poseidon

- **Negotiating session held w/Poseidon on Feb 14th**
  - Addressed issues raised by Poseidon in first two drafts
  - Further defined Water Authority relationship with plant operator
  - Provided more specificity on data collection and recordkeeping requirements
  - Detailed methodology for tracking deliveries
    - Assigning responsibility for shortfalls
    - Tracking excused shortfalls subject to future make-up (consistent with Term Sheet)
Status of Negotiations for a Water Purchase Agreement

- Provide third Draft to Poseidon on March 9th
  - Reflect responses to Poseidon issues lists
  - More specificity on Water Authority role during operations
  - Include key technical appendices
    - Design and construction standards
    - Project Commissioning and Commercial Operations requirements
    - Operation and Maintenance Standards
  - Continued alignment between WPA and project construction and operation agreements

- Next Negotiating session to be held March 20-21
  - Begin finalizing terms and conditions
  - Expect to provide Poseidon fourth draft in early April
Status of Due Diligence Activities: Technical

- Poseidon addressing final issues regarding Plant Design and Construction
- Water Authority consultant completed review of Pipeline design and construction agreement
  - Held technical workshop for Water Authority staff on pipeline agreement
  - Provided Poseidon issues list
  - Incorporate Water Authority comments and requirements in final design and construction agreement and WPA
- Complete due diligence on O&M agreement
  - Feb 22nd Technical Workshop with IDE-Poseidon on O&M agreement
  - Provide Poseidon issues list
  - Align O&M agreement with WPA
Status of Due Diligence Activities: Financial

- Managing energy price risk
- Confirming Poseidon’s pro-forma assumptions
- Developing Plan of Finance
- Term Sheet option to purchase pipeline
  - Need to “Transfer Pipeline To Nowhere” risk to Poseidon
  - Exercise option after plant proved capable of producing water over time
  - Water Authority financing would result in significant savings
    - lower interest rate by 2-2\(1/2\)%
    - significantly lower unit cost of desal water

Financial Summit Held Feb 1st
Status of Due Diligence Activities: Financial

- Financial Due Diligence identified financing approach that transfers “pipeline to nowhere risk” and lowers interest rate
  - Governmental purpose bonds -0.5 to 0.7% lower interest rate
  - Issuer is Calif Pollution Control Authority (CPCFA)
  - Not subject to franchise fees or property tax
  - Reduce desal water cost by $116/AF or more

- Water Authority would be owner of the pipeline
  - Water Authority pays debt service only if water is delivered
  - If Poseidon does not deliver water or is in default:
    - Water Authority is not legally responsible for debt payments
    - Bond holders have recourse only to Poseidon
Status of Due Diligence Activities: Financial

- Consistent with Project Financing approach in Term Sheet
  - BBB- rating, non-recourse to Water Authority

- In a force majeure event (pipeline break) Water Authority responsible for pipeline debt payment
  - Similar to ownership of any Water Authority pipeline

- Consider refunding after 2 years of operation
  - Further reduce cost on strength of Water Authority credit
  - Timing dependent on future interest rates

- Board Advisory Group endorsed at February 15th meeting
  - Preparing documentation for Board consideration w/ WPA
Water Authority Distribution System Improvements
Pipeline 3 Rehab/Relining

- Field investigation complete (MFL, excavations)
  - Minimal corrosion (localized wall loss in select locations)
  - Pipe in relatively good condition for its age
  - Joints intact
- P3 segment flow to be restored by 2/24
- AECOM report due on 2/23
- CEQA compliance work initiated
- Return to Board in March with analysis of long term use of P3
TOVWTP Improvements

- Consultant effort kicked-off
  - TOVWTP Service Contract revisions
  - Coordinate with CH2MHiIl to develop DB package for required improvements
  - Secure Guaranteed Max. price from CH2MHiIl prior to Board consideration of WPA
  - Water Authority will oversee all elements of design and construction
Other Key Project Issues
Incorporating Carlsbad Desalination Project into Water Authority Rates and Charges

- WPA Represents Long Term financial Commitment by Water Authority and its member agencies for a higher cost supply
  - Improves regional water supply reliability
  - 30 year term and >$100 M annually
  - Water Authority required to “take and pay if delivered”

- All member agencies benefit from access to a more reliable supply
  - Base load users receiving regular deliveries
  - Intermittent users receiving standby benefit of a new supply being available if needed
Incorporating Carlsbad Desalination Project into Water Authority Rates and Charges

- Key question - how to allocate cost of Carlsbad desalination to ensure long-term fiscal sustainability for Water Authority and ratepayer equity for member agencies
  - What are the benefits of this new supply
  - Who benefits from the new supply and how do they benefit

- What are the options to collect revenue from beneficiaries?

- Staff is developing alternatives for incorporating Carlsbad Desalination expenses into rate and charge structure
  - Analyzing various approaches and methodologies
Incorporating Carlsbad Desalination Project into Water Authority Rates and Charges

Next Steps

- Board Desalination Advisory Group will discuss and provide input to Board on alternatives
- Present Alternatives at March Member Agency Managers Meeting
- Return to Water Planning Committee in March
  - Seek Board input on alternatives
- Request Board consideration of preferred alternative
  - Prior to consideration of a final WPA with Poseidon
## Key Milestones

### Carlsbad Desal Project
**WPA Approval/Financial Close Activity Schedule**

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<th>Task Name</th>
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<td>Implementation Packages for Conveyance and Connection Facilities</td>
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<tr>
<td>Environmental/CEQA Review for P3/Twin Oaks Improvements</td>
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<td>Align Plant / Pipeline EPC Contracts with WPA</td>
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<td>Align Plant Operations / O&amp;M Agreement with WPA</td>
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<td>Develop Energy Charge Component</td>
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<td>Develop Alternatives to Integrate into Rates and Charges</td>
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<td>Bond Issuance / Financial Closing</td>
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San Diego County Water Authority
NCCP/HCP Implementation

Water Planning Committee
February 23, 2012
Permits

- Issued December 2011
  - CDFG: Fish & Game Code Section 2835
  - USFWS: Endangered Species Act Section 10
- Executed Implementing Agreement
- Duration of 55-years
- Cover 3 main categories
  - Geographic Area
  - Types of Activities
  - Listed and Unlisted Species
Covered Area
Covered Activities

- **CIP**
  - Planned & future construction and expansion
- **O&M (including ROW management)**
  - Existing facilities
  - Planned & future projects
- **Preserve Areas**
  - Monitoring, maintenance and adaptive management
- **Exceptions**
  - Emergency actions
Covered Species

26 plants

Thread-leaved brodaiea

California gnatcatcher

Loggerhead shrike

San Diego thorn-mint

37 animals

5 invertebrates

2 amphibians

9 reptiles

13 birds

8 mammals
Commitments

- **Planning**
  - Avoid, minimize, then mitigate hierarchy for siting facilities
  - Maintain two-year look ahead for mitigation
- **Design**
  - Incorporate specific measures for habitats and species
- **Construction and O&M**
  - Monitor compliance with required measures
  - On-site worker training
  - Pre-activity verification surveys
- **Respond to changed/unforeseen circumstances**
- **Provide implementation funding**
Benefits

• Mitigation Certainty
  • Comprehensive approach
  • Pre-approved on-site measures
  • Pre-approved off-site ratios

• Project Certainty
  • Concurrent permit compliance
  • Reduced risk for schedule delays
  • Reduced risk for cost increases
Current Efforts

- Educating staff and consultants
- Developing procedures for Facility Planning
- Drafting revisions to the existing Engineering Design and General Construction manuals
- Developing addenda for existing O&M and ROW management manuals
- Integrating requirements in all new projects
Water Supply Conditions

Water Planning Committee
February 23, 2012
State Water Project Supply Conditions

- Initial SWP Table A allocation lowered from 60% to 50% on February 22, 2012

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Snow Water Equivalents Feb 21, 2012

Data provided by the California Cooperative Snow Surveys
Northern Sierra Precipitation: 8-Station Index

February 21, 2012
Percent of Average: 49%
Average Water Year Statewide Runoff

*WY 2012 runoff from October 1, 2011 - January 31, 2012
Colorado River Basin Snow Water Equivalents
February 21, 2012

Water Year 2012: 73% Average
Lake Mead Storage
2002 – 2012, August 2011 EOY Projection

x 1000 acre-feet

- Mead
- Surplus
- Shortage
- Projected
Local Supply Conditions

### Precipitation in San Diego

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- Local reservoir storage currently 110% of average
Summary

- Hydrologic conditions are dry on SWP and Colorado River
- Statewide reservoir storage levels still close to average
- Storage levels are decreasing at a time when they typically are increasing

**Seasonal Drought Outlook**
Valid Feb. 16 - May 31

**KEY**
- Red: Drought to persist or intensify
- Orange: Drought ongoing, some improvement
- Yellow: Drought likely to improve, impacts ease
- Green: Drought development likely
Update on MWD’s Proposed Biennial Budget & Water Rates and Charges
Fiscal Years 2012/13 and 2013/14

Imported Water Committee
February 23, 2012
Recap of MWD’s Recommendation

- Two-Year (Biennial) Budget
- Corresponding two years of rates
  - CY 2013 – 7.5% Average Rate Increase
  - CY 2014 – 5% Average Rate Increase
- Lower total water sales and exchanges assumption
  - Water demand at 1.70 MAF
- Reduced PAYGo in 2013
- Initiated limited OPEB funding
- Modified accrual basis instead of cash basis
Historical and Projected Rates & Other Indicators

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Water Authority Comment Letter

“Right-Size” MWD
- Strategic initiatives, programs, operations and staffing to reflect reduced demands
- Revenues to cover costs

Proper allocation of cost burdens among current and future ratepayers

Proper account and allocation of costs
- Supply & transportation
- Storage
- Hydrologic peaking
Water Authority’s Comment Letter (Cont.)

- Continue Delta Supply Surcharge
- Transparency on rate components
  - Provide more information
  - Track rate component revenues and expenditures
- Ensure compliance with Proposition 26
- Prepare a contingency plan
MWD’s Board Workshop #2

- Follow-up from Board Workshop #1
  - Rates/Costs
  - Capital Financing
  - Staffing

- Alternate Rate Scenarios
  - Alternative 1 – 10% / 5%
  - Alternative 2 – 5% / 5%
## Cost Allocation

### Key Strategic Priorities by Rate Element

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<tr>
<th>Key Priority</th>
<th>Service Function</th>
<th>Rate Element</th>
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<td>Financial Policy Goals</td>
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Capital Financing

PAYGO

- Actual PAYGO
- Estimated
- Budgeted PAYGO

Fiscal Year Ending

Million Dollars


Board Budget Workshop

February 13, 2012
Staffing

Biennial Budget Regular Position Count
By Payroll Period

- Positions
- Authorized
- Budgeted
- Actual

Board Budget Workshop
February 13, 2012
Alternative 1: 10% / 5%

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Million Dollars

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* Includes Water Stewardship Fund and SDCWA litigation account
FY2013 and beyond are based on modified accrual

Board Budget Workshop

February 13, 2012
**Alternative 2: 5% / 5%**

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Next Steps

- **February 28 – Executive Meeting**
  - Follow-up questions
  - Discussion on accelerating of budget and rates & charges adoption schedule

- **March 12 – Public Hearing**

- **Adoption of budget and rates**
  - Pending outcome of February 28 meeting
    - March 13 or April 10
Disbursement of Potential Proceeds Resulting from Metropolitan Water District Rate Litigation
Introduction

- Water Authority staff making community presentations about MWD lawsuit and illegal overcharges.

Common questions
  ◦ What happens if Water Authority wins?
  ◦ Will escrowed funds be returned to Water Authority?
  ◦ What would the Water Authority do with those funds?

Recommended action addresses the policy question of what to do with the funds.
Guiding Principles

- Member Agencies who contributed to overcharges should share proportionately in any refund
- Water Authority should be reimbursed for cost of litigation
- Member Agencies should have discretion in how they choose to utilize any refund
Recommendation

- Allocate the net refund proceeds directly to Water Authority Member Agencies
  - Refunded escrow monies
  - Less legal costs of the Water Authority
- Allocate distributions to Member Agencies in proportion to each agency’s share of M&I Melded Supply water deliveries for each year during the period of the litigation.
San Vicente Dam Raise Construction Update

Engineering & Operations Committee Meeting
February 23, 2012
Agenda

- Conveyor Repair
- RCC Placement
- Outlet Tower
- Downstream Control Facility
- Contractor’s Recovery Plan
Repaired Conveyor
Dam Raise RCC Placement
February 2012
Downstream Control Facility

High Level Outlet

To Streambed
(Dam Safety Requirement)
Contractor’s Recovery Plan

- Continuous preventative maintenance
- Concurrent work
- Shortened durations with more manpower
- Start up and testing
- DSOD acceptance to fill reservoir
Agenda

- Update since last meeting (November 2011)
- Unit 1
- Unit 2
- Budget Assessment and mid-year adjustment
Unit Status

- Unit 1 –
  - Repaired connection – spring/summer 2011
  - Finished testing August 2011
  - Began operating September 2011
  - Established processes and relationships with SDG&E and CAISO

- Unit 2 –
  - Repaired connection summer/fall 2011
  - Commissioning Testing – In process
Lake Hodges Subcommittee Meets Monthly

- Director Knutson (Chair)
- Director Bailey
- Director McIntosh
- Director Smith
- Director K. Williams
- Director Wilson
Next Steps

- Complete paperwork on Unit 1 – Reinitiate operations
- Finish Unit 2 Commissioning
- Coordinate warranty issues
- Close out Archer Western
- Complete post-construction facility improvements
- Support litigation efforts
Post Construction Facility Improvements

- Electrical Improvements - $150k (Award June Board)
- Structural Improvements - $100k (June 2012)
- Noise Mitigation - $20k - $27k contract awarded, complete May 2012
- Deck Waterproofing - $20k - Advertise Feb/March 2012
- 69kV instrument transformer - $15k (Procure June 2012)
- Site protective bollards - $7k - $3k (Apparent Low Bid)
- Storage containers - $6k (Procure June 2012)
- Surge shaft assessment - $20k (ongoing)
- Control room card readers - $10k (finished)
Current Budget

- Mid-year budget assessment
- Support issue resolution, closeout, warranty, and litigation support
E&O Committee
SDG&E Power Purchase Agreement Possible Amendment

February 23, 2012
Background

- Power Purchase Agreement – January 2004
- Amendment 1 - December 2008
- Ancillary Services Component
- Navigant Study
Navigant Scope

- Define Ancillary Services Markets
- Estimate potential revenues
- Identify associated operating costs
- Determine potential profitability
- Incorporate into economic model
Ancillary Services Markets

- **Regulation Up**
  - 10 minute response time
  - Receive direct signal from CAISO

- **Regulation Down**
  - 10 minute response time
  - Receive direct signal from CAISO

- **Spinning Reserve**
  - 10 minutes to reach output request
  - Less than one minute adjustment time

- **Non-spinning Reserve**
  - 10 minute response time
Proposed Amendment to SDG&E Power Purchase Agreement

- Better define ancillary services
- Adjust maintenance restrictions
- Timing