POSEIDON WATER PURCHASE AGREEMENT WILL RAISE WATER RATES

Environmental Community Asserts San Diego County Water Authority contract opens ratepayers to unlimited financial liability

San Diego County, Calif; Sept. 10, 2012 – The San Diego County Water Authority (SDCWA) is poised to sign a 30-year “take or pay” contract with the private company Poseidon Resources for at least 48,000 (and up to 56,000) acre-feet of water per year from the proposed Carlsbad desalination plant. This amounts to payment of $115 million per year, or $3.5 billion of ratepayer funds to Poseidon for the initial 30-year term of the contract. While SDCWA has not yet translated this multi-billion dollar price tag into end-user costs, ratepayers can expect water bills to increase by at least 8 – 11 percent. Without a contract cap on the cost for SDCWA to purchase the water, or the price the consumer will be required to pay, water bills are expected to hit unforeseen heights. Numerous additional expenses and liabilities, highlighted below, may also be passed onto SDCWA and its member agencies’ ratepayers.

Latest estimates released by Poseidon and SDCWA reveal the true cost for desalinated water has almost tripled since originally proposed, from about $900 per acre-foot to almost $2400 per acre-foot (with no cost cap). Analysts speculate the $2400 estimate is still low. Poseidon initially promised the cost of desalinated water from the Carlsbad facility would not exceed the cost of imported water, a claim environmentalists correctly called economically infeasible.

The Water Purchase Agreement (WPA) will pave the way for private investors to buy bonds to finance construction and operation of the project. First described as having a $250 million price tag, project costs soared to $530 million in 2010, increased another 47% percent to $780 million in 2012, and are now rumored to be in the range of $970 million. With additional required pipeline construction, ratepayers can expect costs to exceed $1 billion.

In addition to building costs, under the agreement ratepayers will be saddled with unknown liabilities related to high energy costs associated with removal of salt from seawater. Compounding the financial
uncertainty is the possible shutdown of the San Onofre Nuclear Generating Station. Further, Poseidon’s Coastal Development Permit (CDP) requires development of a Green House Gas Reduction Plan (GHG Plan) to achieve full carbon neutrality. After original CDP approval, environmentalists proved Poseidon intentionally misled the California Coastal Commission by contending its desalinated water would replace an equivalent amount of imported water; thus the offsets it claimed as part of its GHG Plan were no longer valid, and new, unknown costs of implementing a revised GHG Plan will be shifted to the SDCWA ratepayers. To date, Poseidon refuses to include such costs in its stated price per acre-foot of desalinated water.

This WPA will require purchase of water at all times, under all circumstances, whether needed or not, guaranteeing Poseidon and its investors a strong profit. However, this places ratepayers at substantial financial risk. Elsewhere, such as Tampa Bay and Sydney, water agencies have decided to let expensive desalination plants sit idle due to extremely high operational costs. Under the WPA, the desalination plant will never be shut down, even in the wettest of years.

“At some point, the public needs to step up and educate itself on the potential long term financial implications this project. Poseidon is known for promising a lot, and then coming up with excuses when it fails to deliver. I cannot fathom how anyone thinks it makes sense to take this sort of risk with public funds,” states Marco Gonzalez, Legal Director of the Coastal Environmental Rights Foundation (CERF). “At the very least, the fact that the cost of this project has tripled since it was first proposed should cause red lights and sirens to go off.”

Once the agreement is made available to the public, there will be a 60 day comment period. The agreement will be available for viewing on the CERF.org website and through the SDCWA. Environmental groups urge ratepayers to voice their concerns over the costs associated with Poseidon’s agreement with SDCWA, as there are alternative, more cost-effective options for water supply reliability in San Diego County and throughout the region, including a publicly owned desalination plant, water recycling, and conservation.

There will be two public meetings hosted by SDCWA on Sept. 20 and Oct. 2. To learn more about the public meetings, read the SDCWA press release. For more information about the WPA, please read the full briefing on the Poseidon Water Purchase Agreement.