

AGENDA
SPECIAL BOARD MEETING
OF THE SANTA FE IRRIGATION DISTRICT
BOARD OF DIRECTORS

September 7, 2007 at 9:00 a.m.

CALL MEETING TO ORDER

PLEDGE OF ALLEGIANCE

ITEMS TO BE ADDED TO THE AGENDA

(Government Code Section 54956.5)

ORAL COMMUNICATIONS

Opportunity for members of the public to address the Board (Government Code Section 54954.3)

ACTION AGENDA

The following items on the Action Agenda call for discussion and action by the Board of Directors. All items are placed on the Agenda so that the Board may discuss and take action on the item if the Board is so inclined.

1. Consider Approval of a Desalinated Water Purchase Agreement with Poseidon Resources Inc. (pages 2-5)

DIRECTORS' COMMENTS

Director's comments are comments by Directors concerning District business, which may be of interest to the Board. They are placed on the Agenda to enable the individual Board members to convey information to the Board and the public. No action is to be taken on comments made by the Board members.

2. Directors' Comments (oral)

ADJOURNMENT

Assistance for the disabled: If you are disabled in any way and need accommodation to participate in the Board meeting, please call the Board Secretary at (858) 756-2424 for assistance at least three (3) working days prior to the meeting so the necessary arrangements can be made.

DATE: September 7, 2007
TO: Board of Directors
FROM: General Manager
SUBJECT: **Consider Approval of a Desalinated Water Purchase Agreement with Poseidon Resources Inc.**

RECOMMENDATION:

It is the Staff recommendation that the Board of Directors:

1. Approve a water purchase agreement for 2,000 acre feet per year of desalinated water from Poseidon Resources, Inc.; and
2. Take other action as appropriate.

BACKGROUND:

As you are aware, the District has been engaged over the past six months in an effort to assess the feasibility and economic viability of purchasing desalinated water from Poseidon Resources, Inc. (Poseidon). This effort has included the following activities:

1. Review of draft water purchase agreement by staff and legal counsel
2. Analysis of the fiscal impact of desalinated water purchase
3. Participation in the SDCWA Water Exchange Work Group
4. Participation in the San Diego Desal Partners Coalition and Technical Work Group
5. Identification of alternative water delivery regimes
6. Technical input into and review of Boyle Engineering's Hydraulic Analysis of Poseidon Desalinated Seawater (Hydraulic Analysis)

In addition, staff and political leadership of the District have been actively supportive of the Poseidon project as it moves through the regulatory permitting process.

DISCUSSION:

The District's recently completed Integrated Water Resource Plan identified participation in local desalination projects as a recommended water supply option. Consequently, staff has been working to finalize a water purchase agreement with Poseidon Resources to secure a portion of the water supply capacity that will be produced at the proposed Carlsbad desalination plant.

At this time, staff proposes the District enter into a water purchase agreement with Poseidon for desalinated water. The draft water purchase agreement would include the following key deal points:

1. Proposed water purchase quantity of 2,000 AF/Y
2. Term of Agreement shall be thirty (30) years, with two (2) consecutive additional thirty (30) year extensions
3. Purchase price shall not exceed the avoided cost the District would otherwise pay for treated water from the SDCWA
4. District and Poseidon shall develop, within twenty-four (24) months of the effective date of the agreement, mutually acceptable delivery points and a delivery regime

The specific details of the delivery regime and point are unknown at this time; however, there are two primary alternatives that have been considered. The first is a water exchange agreement with another SDCWA member agency and use of the SDCWA aqueduct for an exchange of water. The second alternative is the delivery of water through the Olivenhain Municipal Water District's (OMWD) distribution system to the District's 520 pressure zone. This second alternative has been evaluated by Boyle Engineering in the Hydraulic Analysis, which has preliminarily concluded that it is feasible to deliver water to SFID through the OMWD system.

While the delivery regime and connection point details remain to be finalized, staff has determined it is acceptable to enter the water purchase agreement at this time because the agreement provides that the District's obligation to purchase water from Poseidon is subject to certain conditions being satisfied prior to the operation of the facility. Among others, these conditions include the following:

1. SFID shall have entered into an exchange agreement with a contracting partner
2. SFID shall have entered into an agreement to receive the MWD subsidy
3. The parties shall have mutually agreed upon the delivery point and regime

COMMITTEE ACTION:

This matter has been the subject of discussion at previous Board meetings and at the Water Resource Committee (WRC). At its August 27, 2007 meeting, the WRC considered the staff proposal to proceed with presenting the water purchase agreement to the Board of Directors and concurs with the staff recommendation.

FISCAL IMPACT:

Staff has performed an analysis of the fiscal implications of purchasing 2,000 AF of desalinated water. Attachment A provides a summary of this analysis. The analysis examines the net effect of such a purchase on the allocation of treatment expenses at the RE Badger Plant on both SFID and SDWD, and the incrementally higher cost to purchase

desalinated water in lieu of untreated imported water. The overall effect is that SFID's annual costs increase approximately \$313k (\$501k increase in water purchase cost, offset by reduced Badger expense of \$188k). The reduced utilization of Badger by SFID would result in SDWD's proportionate share of the plant costs increasing by \$52k.

Attachment A - Analysis of Fiscal Impact of Desalinated Water Purchase

Prepared by: Michael Bardin, General Manager

ATTACHMENT A
Analysis of Fiscal Impact of Desalinated Water Purchase
FY2007 Preliminary Operating Results

	Total Plant	SFID Portion		SDWD Portion	
<u>Plant Influent (AF):</u>					
Imported Raw	15,774.7	10,119.0	64.1%	5,655.7	35.9%
Imported Treated	731.4	559.1	76.4%	172.3	23.6%
Total Imported	16,506.1	10,678.1	64.7%	5,828.0	35.3%
Local Raw	5,590.2	3,204.9	57.3%	2,385.3	42.7%
Total Influent	22,096.3	13,883.0	62.8%	8,213.3	37.2%
<u>Plant Effluent (AF)</u>					
	21,276.6	13,412.0	63.0%	7,864.6	37.0%
<u>Variable Treatment Costs:</u>					
Pumping	\$ 537,653				
Chemicals	954,954				
Total Variable Costs	\$ 1,492,607				
Variable Cost/AF	\$ 70.15				
<u>Total Costs less Local Water</u>					
	\$ 3,778,233	\$ 2,349,297	62.2%	\$ 1,428,936	37.8%
Less: Variable Costs	(1,492,607)				
<u>Fixed Costs</u>					
	\$ 2,285,626	\$ 1,421,197	62.2%	\$ 864,429	37.8%
<u>Operating Results:</u>					
Variable Treatment Costs	\$ 1,492,607				
Fixed Costs	2,285,626				
Total Production Costs	\$ 3,778,233	\$ 2,349,297	62.2%	\$ 1,428,936	37.8%
Local Water Costs	173,274	99,338	57.3%	73,936	42.7%
Total Plant Costs	\$ 3,951,507	\$ 2,448,635	62.0%	\$ 1,502,872	38.0%

FY2007 With 2,000 AF Less Imported Raw Water

	Total Plant	SFID Portion		SDWD Portion	
<u>Plant Influent (AF):</u>					
Imported Raw	13,774.7	8,119.0	58.9%	5,655.7	41.1%
Imported Treated	731.4	559.1	76.4%	172.3	23.6%
Total Imported	14,506.1	8,678.1	59.8%	5,828.0	40.2%
Local Raw	5,590.2	3,204.9	57.3%	2,385.3	42.7%
Total Influent	20,096.3	11,883.0	59.1%	8,213.3	40.9%
<u>Plant Effluent (AF)</u>					
	19,344.5	11,479.9	59.3%	7,864.6	40.7%
<u>Operating Results:</u>					
Variable Treatment Costs	\$ 1,357,062				
Fixed Costs	2,285,626				
Total Production Costs	\$ 3,642,688	\$ 2,161,732	59.3%	\$ 1,480,956	40.7%
Local Water Costs	173,274	99,338	57.3%	73,936	42.7%
Total Plant Costs	\$ 3,815,962	\$ 2,261,070	59.3%	\$ 1,554,892	40.7%
<u>Savings (Loss) from Reduction of Water</u>					
	\$ 135,545	\$ 187,565	138.4%	\$ (52,020)	-38.4%
Add: 2,000 AF Imported Raw not purchased		845,000			
Less: 2,000 AF Desalinated purchased		(1,346,000)			
<u>Net Additional Cost</u>		<u>\$ (313,435)</u>			