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**Sent:** Tuesday, March 21, 2017 8:59 AM  
**To:** David M. Moore;Scott Maloni;Andrew Kingman  
**Cc:** Kennedy, John  
**Subject:** RE: HB Desal - Water Unit Pricing Model

Thank you David, we have begun our review.

Regards,  
Graham

**Graham Beatty**  
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**From:** David M. Moore [mailto:[dmoore@cleanenergycap.com](mailto:dmoore@cleanenergycap.com)]  
**Sent:** Monday, March 20, 2017 11:43 AM  
**To:** Scott Maloni <[smaloni@poseidonwater.com](mailto:smaloni@poseidonwater.com)>; Andrew Kingman <[akingman@poseidonwater.com](mailto:akingman@poseidonwater.com)>; Graham Beatty <[gbeatty@poseidonwater.com](mailto:gbeatty@poseidonwater.com)>  
**Cc:** Kennedy, John <[JKennedy@ocwd.com](mailto:JKennedy@ocwd.com)>  
**Subject:** HB Desal - Water Unit Pricing Model

Gentlemen,

**In follow-up to the District's ad hoc committee meeting and our conversation last week,** attached please find a water unit pricing model setting forth certain potential adjustments to the cost-based model provided by Poseidon for the Huntington Beach Desalination Project. These adjustments are not intended as negotiations between Poseidon and the District, but are rather provided as an example of a cost structure that the ad hoc committee could be comfortable recommending to the full OCWD Board.

Some comments:

1. Base Case

The base case reflects the following key features:

- Poseidon's cost-based financial model from December
- 30-year term
- Fixed interest rates (i.e. no variable rate exposure)
- Level debt service / equity return
- \$200/AF assumed for water conveyance
- First-year payments to Poseidon of \$2,275/AF
- Net first-year cost to the District (adding conveyance, subtracting LRP) of \$2,000/AF

## 2. Revised Case

The revised case reflects the following adjustments:

- Capital budget reductions as shown in the attached model
- Reduced borrowing cost through inclusion of a \$300 million WIFIA loan
- Reduced equity cash return at 6% (nominal return)
- Upward-sloping capital charge at 2.5%
- Receipt of LRP

Of these adjustments, the capital budget reductions and reduced equity cash return are seen by the District as potential Poseidon concessions that may be provided in order to secure District support for the project. The reduced equity cash return is informed in part by the attached JPM Infrastructure Investing report which shows average cash yields in the 4-5% range for social infrastructure/PPPs/PFIs and in the 5-8% range for contracted power generation.

The District understands that the adjustments reflecting inclusions of a WIFIA loan and receipt of the LRP are dependent on third parties and beyond Poseidon's control. These adjustments are seen by the District as potential conditions-precident to finalizing a water purchase agreement. As I mentioned on the phone, incorporation of the WIFIA loan is the least impactful of the modeled adjustments, with an impact on the first-year water unit price of \$80-90/AF. The LRP, on the other hand, is the most impactful at \$475/AF.

The upward-sloping capital charge is seen by the District as a provisional assumption that helps match the cost-of-water to the avoided cost of water from MWD. The District regards the capital charge slope as a decision to be made by the District's Board at a later date.

The cumulative results of these changes are as follows. These numbers are slightly different from the numbers I reported verbally in our phone conversation last week, reflecting our finalization of the attached "Poseidon Release" model to incorporate the ad hoc committee's comments from our internal meeting last week.

- First-year payments to Poseidon of \$1,472/AF
- Net first-year cost to the District (adding conveyance, subtracting LRP) of \$1,197/AF
- First-year savings versus Base Case of \$802/AF

As I described on the phone, the District is flexible about how to achieve savings on this magnitude. For example, a larger reduction in equity return could support an increase in up-front fees to Poseidon/Brookfield with a neutral impact on pricing. The District expects that any combination of adjustments will reflect a transparent cost-based structure with 30-year term and will support investment-grade credit ratings for senior debt and construction of the high-quality and reliable desalination facility.

The District also expects that Poseidon will provide an end-of-term purchase option at \$1, and a ten-year early buyout provision with comparable terms to the Carlsbad project.

I'd be pleased to get on the phone to walk through these materials.

Best regards, David

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