

Suggested edits with copy taken out of August 2016 District letter to regional board

Scott Maloni
Vice President

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From: Kennedy, John [<mailto:JKennedy@ocwd.com>]
Sent: Thursday, May 25, 2017 2:14 PM
To: Scott Maloni <smaloni@poseidonwater.com>
Subject: RE: Desal update, questions - deadline Thursday

I sent him the Term sheet and Regional Board letter yesterday.

This "Summary" is going to be provided to anyone calling about the project in the future and I plan to send it to Ry also.

John Kennedy

Executive Director of Engineering and Water Resources



Orange County Water District

18700 Ward Street Fountain Valley, 92708

tel: (714) 378-3304

fax:

email: JKennedy@ocwd.com



From: Scott Maloni [<mailto:smaloni@poseidonwater.com>]
Sent: Thursday, May 25, 2017 1:43 PM
To: Ry Rivard; Scott Lewis
Subject: RE: Desal update, questions - deadline Thursday

Ry – Thank you for the opportunity to comment on your story. Below is our response to your inquiry. There are a number of documents attached to this email that are referenced in the statement below.

Finally, I forwarded your email to John Kennedy at OCWD. Your characterization of John Kennedy's comment does not accurately reflect our relationship with OCWD and the agreements between the parties.

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The Huntington Beach Project will be the state's first large-scale water infrastructure project to be 100% carbon neutral and fully comply with the State Water Board's new desalination regulations. The Project will advance the state-of-the-art in large scale seawater desalination plants by using new technology to minimize impacts on marine life. Decades of studies confirm that Huntington Beach is an ideal location for a desalination plant in California. The area offshore of Huntington Beach has a flat, sandy habitat with low marine life productivity. Using existing infrastructure at a site that is already zoned for industrial use allows Poseidon to minimize impact in the coastal zone.

The primary water supplies for 20 million Southern California residents are transported hundreds of miles in aqueduct systems that cross major earthquake faults and from locations with highly variable hydrogeologic conditions. These supplies are subject to intense competition and are under enormous environmental, regulatory and legal constraints. Climate change, population growth, the threat of drought and ever increasing restrictions on drinking water supplies are expected to further reduce the reliability of these already vulnerable supplies.

The Huntington Beach Desalination Project has bipartisan support at the local, county, state and national levels. Public opinion surveys – include a recent statewide survey - on desalination and the Project indicate super majority public support. Seawater desalination is identified specifically in the CA State Water Plan, the Governor's Water Action Plan and Orange County planning documents as a water supply source that can reduce dependence on imported water and enhance regional water supply self-reliance. Attached are letters supporting the Huntington Beach Desalination Project from water resource agencies – CA Resource Agency, CA Department of Water Resources, Metropolitan Water District of Southern California, Orange County Water District, Municipal Water District of Orange County - at every level of CA government. These letters, dated over several years, illustrate the need and benefit of the project, and its importance as a critical component of long-term water supply is not a function of rain or drought. Rather, seawater desalination is a strategic piece of the state's overall water resources planning. The Huntington Beach Project enjoys bi-partisan support because it meets California's stated needs for a diversified water supply that is compliant with all local, state and federal regulations.

Carlsbad, and now Huntington Beach, use a pay-for-performance public private partnership structure. Poseidon is paid for delivering water, plain and simple; no profit is guaranteed. Ratepayers and water agencies bear no risk if the project is not able to deliver. Further, the financing is not guaranteed or secured by the water agencies.

Former Senator Barbara Boxer, a long term ardent supporter of seawater desalination, and, specifically, the Huntington Beach Project, is a consultant to Poseidon. She articulates her strong support of the project in a recent Editorial in the Sacramento Bee (attached).

Scott Maloni

Vice President

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From: Ry Rivard [<mailto:Ry.Rivard@voiceofsandiego.org>]

Sent: Tuesday, May 23, 2017 11:17 AM

To: Scott Maloni <smaloni@poseidonwater.com>; Scott Lewis <Scott.Lewis@voiceofsandiego.org>

Subject: RE: Desal update, questions - deadline Thursday

Scott,

I appreciate it.

-Ry

From: Scott Maloni [<mailto:smaloni@poseidonwater.com>]

Sent: Tuesday, May 23, 2017 11:15 AM

To: Ry Rivard <Ry.Rivard@voiceofsandiego.org>; Scott Lewis <Scott.Lewis@voiceofsandiego.org>

Subject: Re: Desal update, questions - deadline Thursday

Ry - I'll get you a response tomorrow to your inquiry that you can attribute to us.

Scott Maloni
858-xxx-xxxx-Cell

From: Ry Rivard <Ry.Rivard@voiceofsandiego.org>

Sent: Monday, May 22, 2017 8:12:56 PM

To: Scott Maloni; Scott Lewis

Subject: RE: Desal update, questions - deadline Thursday

Here's a quick recap of my conversations with potential business partners, one from Orange County Water District, another from an OCWD member agency, Irvine Ranch Water District:

OCWD Executive Director of Engineering and Water Resources John Kennedy said that while they had a terms sheet with you, you have no certain buyers, including OCWD.

He said the district might be willing for pay for reliability, especially given what has happened along the Colorado and in the Delta, but said the district is taking a wait-and-see attitude as the company goes through the permit gauntlet (a term he used). He said the appetite for the project has probably

dampened because of the rain. But, as you suggested, the groundwater basin is overdrafted and, of course, the Delta is fickle.

Some of the uses for the desal water, he said, are injecting it into the ground – which is “institutionally the simplest option” – or injecting it along the coastline to keep saltwater back. But, he said, OCWD might be able to do a lot of groundwater recharging with the cheaper Met water that is out there right now.

He alluded to other circumstances that could decrease the appetite for the project as proposed, like state regulations that could put cities on a water budget. That “could mean we maybe don’t need as much water.” Perhaps, he said, the plant could be smaller than proposed.

Environmentalists say the project should be put out for bid. But Kennedy rejected that. He said if they do desal, it would be with you, because you’ve been there for the long-haul and it’s only fair: he estimated you’ve spent \$50 million over the past 15 years. He also said it might a now-or-never time for desal, given changing regulations.

Current, regulations, though, create their own obstacles, which is why the district has paused the environmental review of its side of the project, the pipelines, etc:

He also said, “If we’re going to do the Poseidon project, we’re going to want a really good deal.” That means a better deal than the Water Authority got in terms of how much the company would get in profits (10-13%, according to the San Diego Water Purchase Agreement). He said that’s because Orange County doesn’t need it quite as badly.

Kennedy ended our conversation by saying, “I’m sure Maureen is looking 15, 20 years out also and it’s a great insurance policy, and what’s the value of that, to pay an extra \$5 a month for an insurance policy?”

So, yes, there’s pros and cons there. No certain buyers, some various options, but some of the same interest as SDCWA had.

The second conversation was less balance:

Paul Cook, general manager of Irvine Ranch Water District, would, as an OCWD member, be paying for this water. As I’m sure you’re aware, he has long expressed concerns about water quality (because of TDS in the water that would hurt citrus and avocados groves and golf courses). Now he considers the plan to take desal water “even crazier” following the rain “because you’re offsetting very clean groundwater” with water that is of lesser quality, in his opinion.

He is also quite skeptical about the need for the water. He said OCWD’s plans to dump desal water into the ground are “comical” but it seems to be the company’s last hope because other OC agencies weren’t lining up outside the door for your water: “They came up with idea of dumping this perfectly good drinking water into the ground...It’s just amazing.” There were many quotes like these in the course of our conversation. He said why the cities that have expressed some interest in your project is a “headscratcher.”

-Ry

From: Scott Maloni [<mailto:smaloni@poseidonwater.com>]
Sent: Monday, May 22, 2017 7:17 PM
To: Scott Lewis <Scott.Lewis@voiceofsandiego.org>; Ry Rivard <Ry.Rivard@voiceofsandiego.org>
Subject: Re: Desal update, questions - deadline Thursday

Wrong, your questions come from project opponents. Which "business partner" in Orange County is questioning the need for the project?

Someone with your background writing on the topic should know better than to suggest there is "no immediate need for the water." The fact you need me to address such a misinformed perspective suggests you haven't listened to a thing we've told you over the years.

Did you bother to read the water purchase agreement term sheet between poseidon and ocwd ? How about the OCWD groundwater management plan?

Scott Maloni
858-xxx-xxxx-Cell

From: Ry Rivard <ry.rivard@voiceofsandiego.org>
Sent: Monday, May 22, 2017 7:03 PM
Subject: Re: Desal update, questions - deadline Thursday
To: Scott Lewis <scott.lewis@voiceofsandiego.org>, Scott Maloni <smaloni@poseidonwater.com>

I'd suggest we can post this whole exchange as the company's reply. All of these questions come either from multiple interviews with the company's own prospective business partners or the company's own regulatory filings. Hope the company reconsiders.

Ry Rivard
Reporter
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On May 22, 2017, at 6:48 PM, Scott Lewis <Scott.Lewis@voiceofsandiego.org> wrote:

FYI.

Sent from my iPhone.
Follow me on twitter twitter.com/vosdscott

Begin forwarded message:

From: Scott Maloni <smaloni@poseidonwater.com>
Date: May 22, 2017 at 6:51:32 PM PDT

To: Scott Lewis <scott.lewis@voiceofsandiego.org>
Subject: Fwd: Desal update, questions - deadline Thursday

Is this guy serious ? Apparently you have not taught him much about the art of the interview request. Usually you save the "when did you stop beating your wife questions" until after you secure the interview.

I know you pride yourself in being an alternative voice of "news" but this guy has turned out to be nothing more than a mouth piece for the anti-desal folks. I'm still waiting for his first objective piece. You'll understand if we pass on the invitation.

Scott Maloni
858-xxx-xxxx-Cell

From: Ry Rivard <Ry.Rivard@voiceofsandiego.org>
Sent: Monday, May 22, 2017 5:37:46 PM
To: Scott Maloni
Subject: Desal update, questions - deadline Thursday

Scott,

Hope all is well.

After you guys hired Senator Boxer, we thought it would be a good time to check in on how desal is doing. I've been talking to a few people – the usual suspects in Orange County, for instance, as well as some others who don't get quoted a bunch, like Paul Cook – and am trying to wrap up a story this week. I have a couple of questions for Poseidon.

My sense is that the Huntington Beach project is an uphill climb – you don't have a firm buyer, there is no immediate or near-term need for the water (except perhaps injecting into the ground), and the regulatory gauntlet remains, particularly the review by the Regional Board that could consider whether other sites or sizes may be better. Help me understand what keeps you guys going at this thing?

Second, looking back at your recent financial statement for the Carlsbad project, I was confused by something: The company reported a net loss of \$4,318,690 for CY 2016 but paid its partners \$12,872,327 on January 6, 2017. Is that because the Water Authority guarantees a 10-13% profit that comes in after the CY?

The company also reported nearly 3,000 AF in outages and excused and unexcused shortfalls, including some unexcused shortfalls that prompted a \$104,715 payment to the Water Authority. Are these first-year kinks, a typical downtime for a plant (about 6% of the plant's 48,000 AF minimum contract was down for some reason or another), or is there a potential flaw in the notion that desal is entirely reliable, which is after all why we made this investment in the first place?

I talked with the folks up in San Jose on the P3 project you bid on. Is Poseidon looking beyond ocean water desal right now or is this something the company has always been doing?

Has this rain effected decision-making, if not at the company, then among potential partners? My sense from Orange County folks and from the Central Coast (on their separate desal project in Santa Barbara) is that the rain has given people a bit of breathing room?

Also, a few people said they've seen Senator Boxer making the rounds in Sacramento. Is there a bill she is pushing or just trying to help lawmakers understand the long-term possibilities of desal?

My deadline to file is on Thursday, I hope this isn't too much.

-Ry

Ry Rivard

Reporter

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