

Huntington Beach Desalination Project Fact vs. Fiction

Opponents of seawater desalination are distributing a campaign mailer with misleading and factually incorrect claims about the Huntington Beach Desalination Project and the cost of desalinated water. This fact sheet corrects these erroneous claims.

Claim: “\$5 billion dollars will be added to local water bills ... These bills could total \$8,500 for the average retail water customers over the next 30 years.”

Fact: This claim is factually incorrect. The cost of water from the desalination project is not additive, as the claim assumes. Drinking water produced by the desalination project will *replace* an equivalent amount of imported water into Orange County and thus eliminate the related imported water costs to the consumer. The claim above fails to take this fact into account. If the avoided imported water costs were taken into account, the \$5 billion claim would be reduced by billions, potentially even more than \$5 billion, in which case buying the desalinated water would result in *savings* to the ratepayers of Orange County. If the historical rate of imported water escalation is assumed for the next 30 years, purchasing the desalinated water would indeed result in significant savings¹. Additionally, the \$5 billion cost claim factors in an arbitrary escalation of desalination water at 3.5% annually and fails to account for available local water supply development financial incentives that will reduce the cost of desalinated water by up to \$250 per acre foot or \$14 million a year².

This claim is also factually incorrect as it pertains to ratepayers living in the City of Huntington Beach. As a condition to the permits³ issued by the City of Huntington Beach to Poseidon’s desalination project, the City, at its option, can receive up to 3,360 acre feet per year of desalinated water at the lower of a 5% discounted price off the rate the City pays the Municipal Water District of Orange County for imported water and the cost of the desalinated water. This means that when the desalination project comes online Huntington Beach residents will be paying *less* for imported water than they would without the project. This requirement will *save* the City’s ratepayers tens of millions of dollars over the 30 year term of the project.

Ultimately, the cost impact of integrating desalinated water will differ from city to city based on each city’s water supply mix and rate structure as well as the future escalation of imported water rates. However, the Huntington Beach Desalination Project will provide Orange County with a substantial supply of locally-controlled, drought-proof water. These are attractive characteristics that imported water simply cannot offer, given the current and future water demands, environmental concerns, pumping restrictions and threats on the State Water Project and Colorado River Basin.

Claim: *The mailer applies an arbitrary inflation figure of 3.5% per year to the cost of desalinated water.*

Fact: Poseidon expects the cost of desalinated water to escalate at 2.5% per year. Approximately half of the cost of desalinated water will cover capital costs and escalate at a fixed 2.5% per year. The remaining balance of the cost covers the operating and electricity costs of the Project. The portion of the desalinated water price that covers operating costs will escalate with the Consumer Price Index (CPI-U) for Orange County, which has averaged 2.4% per year over the last 20 years⁴. The portion that covers electricity costs will escalate with the applicable SoCal Edison industrial tariff rate, which has averaged 2.2% for the 20 year span from 1991-2010⁵.

¹ 6.4% = MWD’s Full Service, Treated Tier 1 Rate’s historical average annual rate of increase during 37 year period from 1978 – 2014.

² \$14 million = \$250 per acre foot financial incentive x 56,000 acre feet per year produced by the desalination plant.

³ City of Huntington Beach Entitlement and Plan Amendment 10-001, approved September 2010

⁴ 20 year period from 1993-2012 for CPI-U series identification numbers CUURA421SA0 & CUUSA421SA0 (All Items, Los Angeles-Riverside-Orange County, CA)

⁵ Average Retail Electric Utility Prices, Industrial, as published by the CA Energy Commission

Claim: “No public subsidies for private profit”

Fact: Poseidon did not request and is not receiving “public subsidies” as part of the successful financing of its Carlsbad Desalination Project, and the company is not seeking public subsidies for its Huntington Beach Desalination Project. Public water agencies in Orange County that buy desalinated water are eligible for an up-to-\$250 per acre foot financial incentive from MWD under its Seawater Desalination Program (SDP). This same financial incentive under MWD’s Local Resource Program (LRP) has been used to financially support the OCWD’s Groundwater Replenishment System (GWR). The LRP is designed to foster the development of local water supplies that initially cost more than imported water supplies, and as such they reduce, not increase, water costs for Orange County consumers. Poseidon is neither a public agency nor an MWD member and is not eligible for the funds. MWD funding is subject to strict accounting and auditing measures, and the incentive funds are only available to the purchasers of water to offset predetermined costs.

Claim: “It’s just too risky ... In Australia four of six desalination plants built since 2006 sit idle in stand-by mode.”

Fact: This reference to Australian and its desalination plants is misleading and not analogous to the Huntington Beach project. The regions in Australia where these plants are built experience up to four times the annual precipitation as Southern California and therefore do not need to import water like Orange County. As such, not all the Australian plants were built to operate on a base load capacity. Desalinated water is intended to meet a small portion of Orange County’s supply needs as part of its overall strategy to improve reliability through diversification of water sources. The Huntington Beach project’s maximum 56,000 acre feet per year capacity will be approximately 8% of Orange County’s total demand, so it’s only one component of supply designed to offset the need to import an equivalent amount of water that is subject to regulatory and environmental restrictions, making it less reliable. The Huntington Beach plant and its water reliability agreements will be structured such that the public agency customers will always need and use what the facility produces.

Furthermore, Poseidon alone bears the risk of permitting, development, financing, constructing and operating the Huntington Beach Desalination Project. The innovative public-private partnership structure that Poseidon proposes shields Orange County ratepayers from the risk of a failed financing, over-budget construction, or failure to produce water at the amounts specified in the agreements during operations. In fact, the public agencies purchasing the water would not pay for any water until the Project has been constructed and water has been received by the agencies meeting contractual specifications for quantity, quality, reliability and price.

Claim: Poseidon’s beach-front water factory will suck sea life into their intake pipes with the water, kill and puree millions of organisms, then pump out a briny stew and create a dead zone off Huntington Beach.”

Fact: The Huntington Beach Desalination Project will be located east of Pacific Coast Highway, over a quarter mile from the Pacific Ocean on industrial land behind the AES power plant. The desalination project has a certified Subsequent Environmental Impact Report and approved Coastal Development Permit from the City of Huntington Beach, an approved lease with the California State Lands Commission for use of the seawater intake and discharge facilities and a discharge permit from the Santa Ana Regional Water Quality Control Board. In issuing these permits and approvals each local and state regulatory agency determined that the project can be built and operated with no significant impacts to marine life or water quality.

In issuing its approval the Santa Ana Regional Board found that for the desalination project will impinge approximately 0.78 lbs per day of fish, a fraction (less than 25%) of the daily diet of one brown pelican⁶ and the discharge from the desalination plant will meet all federal and state receiving water quality standards.

⁶ Santa Ana Regional Water Quality Control Board Order No. RB-2012-0007, NPDES No. CA8000403; page F-33