



Baja Norte Water Resources, LLC

Marketing Desalinated Seawater from Rosarito Beach to U.S. Water Users

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Background

- Baja Infrastructure Resources S. de R.L. di C.V. (“BIR”), Mexican-based affiliated entity of BNWR, has entered into an MOU with the State of Baja to acquire up to 50,000 AF per year from a 100,000 AF per year desalinated seawater plant at Rosarito Beach
- State of Baja consents to assignment of rights from BIR to BNWR for the purpose of transferring water to U.S. water users
- The State of Baja seeks commitments from U.S. water users as it develops its business plan with its desalination consortium for the design, construction, operations and financing of its desalinated seawater plant at Rosarito Beach

Outline of Presentation

- History of the Rosarito Beach Project
- Current Rosarito Beach Project
- Baja's Desalination Consortium
- Structure of Transaction
- Potential water delivery mechanisms for U.S. water users
- Coordination with Minute 32x
- The Bi-National Opportunity
- Final Thoughts

History of the Rosarito Beach Project

- Conceptual proposals for a desalinated seawater plant at Rosarito Beach date back to early 1990s (if not earlier)
- Lower Basin State water agencies have funded feasibility studies
- CILA study of potential methods of conveying water from plant to U.S. border
- Rosarito Beach Project identified as a potential source of new water in Minute 319
- Bureau of Reclamation Colorado River Basin Study identifies seawater desalination at Rosarito Beach to meet the water demand/supply imbalance in the Colorado River Basin
- Consolidated Water Company (CWCO) has acquired project land and entered into a LOI with the Otay Water District for 20,000 AF per year of desalinated seawater

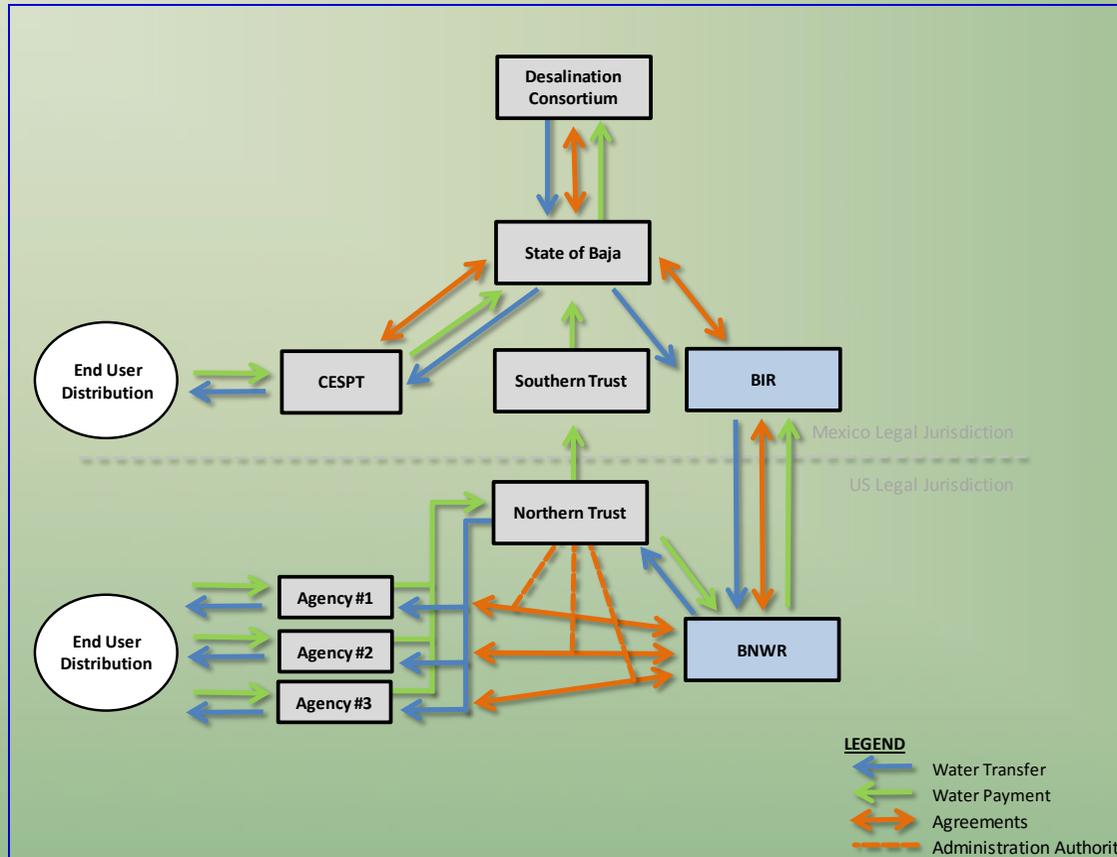
Current Rosarito Beach Project

- State of Baja has decided to make the Rosarito Beach a State-Owned Project
- Growing water demands in Baja and the need to prepare for earthquake emergencies means that Rosarito Beach Project is a key component of Baja's water supply portfolio
- As project owner, Baja can develop new natural-gas fired powerplants for its own account that significantly reduces project power costs
- Rosarito Beach plant can be developed at a scale to exceed Baja's water needs
- Baja willing to expand the project to help meet the needs of U.S. water users for new, reliable water supply sources
- Baja plans have been developed in consultation with Conagua and CILA

Baja's Desalination Consortium

- Baja has a Public-Private Contract of Association law in which a private entity may make an unsolicited project proposal to the State of Baja
- A proposed project is subject to a competitive bid process similar to a stalking horse arrangement in U.S. bankruptcy proceedings
- A party (“stalking horse”) submits a bid subject to a competitive bidding process and receives compensation if another party wins the bid
- Baja initiated the bidding process on November 6, 2015 with a December 22, 2015 deadline for submissions
- Selection of winning bid by May 2016, a definitive agreement executed by July 12, 2016 and construction commencing within six months

Structure of Transaction



Potential Water Delivery Mechanisms for U.S. Water Users

- Desalination consortium delivers project water to “Tank 3” (connection point to CESPT water distribution system)
- Direct Delivery: supplemental infrastructure project for direct delivery of project water from Tank 3 or Rosarito Beach to a designated point at border
- Indirect Delivery: via exchange of project water acquired by U.S. water users for Colorado River water available from Mexico’s Colorado River entitlement

Coordination with Minute 32x

- Minute 319 expires on December 31, 2017
- Current schedule for a follow on Minute 32x anticipates a draft by March 31, 2016 and final by June 30, 2016 for execution in the fall 2016
- A successful bi-national project will need a project implementation minute either as part of Minute 32x or Minute 32y
- Necessary Minute Principles for a successful bi-national agreement include:
 - ✓ Duration: run with project term
 - ✓ Indirect delivery puts exchanged Colorado River water into Intentionally Created Mexican Allocation which is assignable and can be used even during drought

The Bi-National Opportunity

- Rosarito Beach Project provides U.S. water users with an opportunity to secure a long-term, reliable source of new water supplies
- BNWR is working with Baja to assure that final design decisions concerning the timing of project phases are consistent with the commitments U.S. water users are willing to make to include the Rosarito Beach Project in their own water supply portfolios
- Baja will be soon making definitive and final design decisions regarding the scope of the Rosarito Beach Project

Final Thoughts

- Mexico-U.S. cooperation to improve water resource management in the Colorado River Basin has made significant strides
 - ✓ Minute 318 addressed the need for Mexico to store its Colorado River water in Lake Mead in response to an earthquake in the Mexicali Valley
 - ✓ Minute 319 addressed numerous initiatives of bi-national cooperation, including the ability of Mexico to assign water stored in Lake Mead
- Bi-national cooperation in the Rosarito Beach project can be the next step leading to long-term arrangements in the Colorado River Basin
- Personally, I see a bright future where bi-national cooperation may extend to Salton Sea Restoration and conjunctive use projects managing cross-border water flows