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Tuesday, January 7, 2025

MEMORANDUM

To: John Leach – CBS Administrator
From: Garry White, Director
Subject: Global Hydration, LLC Water Purchase Agreement

Introduction

Global Hydration LLC (GH), Florida Corporation, is requesting to establish a water purchase agreement with the CBS to export raw water in bulk.

The GPIIP Board met on July 18th, 2024, and approved the following motion:

Motion: M/S Goeden/Mitchell motion to bring the bulk water agreement to the assembly for consideration as written for Global Hydration, LLC.
Action: Passed (4/0) on a roll call vote.

The proposed terms of the water purchase agreement are outlined under the GH Proposed Water Purchase Agreement section of the memo below and are incorporated in the attached Water Purchase Agreement.

Additional Information

The CBS is currently in a water purchase agreement with Arctic Blue Waters Alaska, LLC (Arctic). The agreement has a provision that allows Arctic the first right of refusal to acquire an additional 20,869 Acre-feet (~6.8 billion gallons) of water annually, which would exhaust Sitka permitted water allocations. Arctic stated at the recent December 17th, 2024, GPIIP meeting that it intends to execute its first right. The Arctic agreement contains the following terms:

- The term of the contract is 20 years with four 5-year extensions with consent of both parties.
- The contract was executed April 13, 2021 with a requirement that Arctic must take delivery of at least 50 million gallons of water within 60 months or the agreement can be terminated.
 - To date Arctic has not exported any water.
- Arctic has 48 months to submit a design and construction documents for loading of water.
- Arctic is allocated 6,138 Acre-feet (~2 billion gallons) annually

- Arctic has the first right of refusal to acquire an additional 20,869 Acre-feet (~6.8 billion gallons) of water annually.
 - Arctic must execute a Bulk Water Sales Agreement with a creditable purchaser for a minimum of 100 million gallons of water.
 - Arctic must pay a \$100,000 non-refundable fee to acquire additional rights.
 - Arctic must pay an additional \$250,000 non-refundable fee at intervals of \$50,000 per year to be prorated based on when first right of refusal is executed.
 - Arctic has 60 months to execute its first right of refusal from execution of the agreement.
 - The CBS is free to enter into multiple water purchase agreements at any time during the contract. Per the contract, water allocations after the 60-month period are at the Administrator’s sole discretion.
- The price for water from the CBS powerhouse after bay will be \$1,629.26/Acre-feet or \$0.005/US gallon.

Bulk Water Export Background

The City and Borough of Sitka (CBS) has permits to export 29,235 Acre-feet (~9.5 billion gallons) of raw water annually. *(This volume represents just under 9% of the average annual rain fall into the Blue Lake Watershed)*

The CBS has entered into multiple water purchase agreements with multiple entities for bulk export since 1996.

Besides the Arctic agreement, the CBS currently has one raw water export agreements:

The CBS entered into a 20 year water purchase agreement with Eckert Fine Beverages in the October of 2017 for 100 million gallons of water annually. The price of water is set at \$0.01/gallon. The point of delivery for the water is from the Blue Lake penstock. Eckert is required to make a non-refundable payment of \$1,250 annual to the CBS to keep the agreement in good standing.

<u>Permit</u>	<u>Acre Feet</u>	<u>Gallons</u>
LAS 19669	14,000	4,561,914,000
<u>ADL 43826</u>	<u>15,235</u>	<u>4,964,339,985</u>
Total Available	29,235	9,526,253,985

Current Agreements

<u>Eckert Agreement</u>	<u>0.31</u>	<u>100,000,000</u>
<u>Phase 1 Arctic Agreement</u>	<u>6.138</u>	<u>2,000,073,438</u>
<u>Phase 2 Arctic Agreement (if executed)</u>	<u>20,869</u>	<u>6,800,257,957*</u>

Available for water bottling Contracts	2,227.69	725,895,0142
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Proposed Agreements

*Assumes Arctic does not execute first right of refusal

<u>Eckert Agreement</u>	<u>0.31</u>	<u>100,000,000</u>
<u>Arctic Agreement</u>	<u>6,138</u>	<u>2,000,073,438</u>
<u>GH Proposal Phase 1</u>	<u>6,138</u>	<u>2,000,073,438</u>
<u>GH Proposal Phase 2</u>	<u>15,000</u>	<u>4,887,765,000</u>
Available water for contracts	<u>1,958.69</u>	<u>638,241,095</u>

GH Proposed Water Purchase Agreement

Below are the terms requested by GH.

The standard Purchase Agreement for Raw Water in Bulk for Export has been developed over many years. The agreement has been reviewed and modified by multiple CBS Attorneys and outside council to ensure that the CBS water assets are protected and to allow private entities the ability to market and sell Sitka’s water.

Terms (Section 1)

The term of the contract is 20 years with four 5-year extensions with consent of both parties.

GH is asking for a 20-year term to allow it to have an opportunity to receive a return on the major capital investment to complete the water export venture. GH will need to complete the necessary infrastructure it will need to load water to a ship from the Blue Lake Power House after bay, acquire ships to transporting the water, and to off-load and storage the water at final destination.

The agreement includes performance bench marks at 48 months and 60 months after contract execution that allow the CBS to terminate the contract for non-performance.

- 48 months – submittal of design and construction documents for loading of water
- 60 month – requirement for GH to export 50 million gallons.

Water Volume and nonrefundable fees

GH is asking for an initial volume of water to market and then an increased amount of water if/when it enters into a guaranteed third party contract.

Phase 1

- 6,138 Acre-feet (~2 billion gallons) annually (Section 1)
 - GH must pay a non-refundable fee of \$10,000 to execute agreement within 30 days of Sitka Administrator signature.

- GH must purchase and export a total of 50 million gallons of water within a 60-month period or Sitka can terminate agreement. (Section 3)

Phase 2

- GH has the first right of refusal acquire an additional 15,000 Acre-feet (~4.9 billion gallons) of water annually. (Section 1)
 - GH must pay a \$100,000 non-refundable fee to acquire additional rights.
 - GH must pay an additional \$250,000 non-refundable fee at intervals of \$50,000 per year to be prorated based on when first right of refusal is executed.
 - GH has 60 months to execute its first right of refusal from execution of the agreement. (Section 3)

Post 60 months (Section 3)

After 60 months, GH no longer has a guaranteed volume of water. The agreement defines Stages of water volume export to retain water allocation amounts. GH gains more allocations by exporting more water and can lose allocation amounts by failing to export specified amounts.

Example: If GH exports 150 million gallons of water in the 12 month period following 60 months from contract execution. GH's available water allocation would be 4,000-acre feet or ~1.3 billion gallons of water (Stage 4).

The CBS is free to enter into multiple water purchase agreements at any time during the contract, but has much more latitude after 60 months. Per the contract water allocations after the 60 month period are at the Administrator's sole discretion.

Water Export Limitations (Section 3.5)

GH is only allowed to remove 33.6 million gallons of water per day from the CBS Power House After Bay.

CBS Rights and Protections (Section 4)

Different sections of the agreement contains language to ensure that the CBS water asset is protected for municipal uses and other environmental factors.

- Ensures municipal drinking and hydroelectric water uses retain first right and priority to the water. (Section 4.1 (a))
- Allows for hydroelectric dam and water system maintenance. (Section 4.1 (c))
- Ensure water levels do not drop below critical levels to support the local biological environment. (Sections 4.1 (b) (e) (f)) *(These sections would protect the CBS if climate change affects historic rainfall amounts.)*
- Protection to the CBS against water quality issues due to routine hydroelectric alternations and environmental events. (Section 4.1 (f), Section 6.2 & 6.3)
- GH is responsible to follow all regulations in regards to ballast water discharge. (Section 11)

Water Pricing (Section 7)

- The price for water from the CBS power house after bay will be \$977.55/Acre-feet or \$0.003/US Gallon for the first 9 months after the initial water delivery in order to offset initial startup costs required to maximize delivery efficiency
- After 9 months, the price of water will be \$1,629.26/Acre-feet or \$0.005/US gallon.
- GH will receive 50,000 gallons of water free of charge for wash-down, washout, or other non-export applications per each loading event. After the first 50,000 gallons per loading event, the price is \$.001/gallon.
- After 60 month, the price will be adjusted by a CPI Adjustment, not to exceed 3%.
- GH is allocated water credits for non-refundable fees paid during the 60-month period.

Point of Water Delivery (Section 10.1)

The point of delivery for water delivered by Sitka will be water in the Blue Lake Power House After Bay. The after bay is the preferred point of delivery for water as the CBS has already produce electricity from the water.

Water Loading and Transportation (Section 10)

The CBS currently **cannot** deliver raw water in bulk from Blue Lake. Investigations into the CBS raw water pipeline post the Blue Lake Expansion project has determined that the system no longer operates due to new water pressures on the system.

- GH is solely responsible for designing and construction of any infrastructure it deems necessary to load and transport water for export. GH is required to acquire bonding to perform work.
 - GH has 48 months from the execution of the agreement to submit documentation for loading and transportation or the agreement can be terminated. GH has stated that it expects it will take 8-12 months to construct the water loading infrastructure.
- GH is solely responsible for arranging transportation of water for export at its own expense, including installing a water based water-loading station.

Action

- Assembly approval of proposed water purchase agreement between the CBS and Global Hydration LLC.