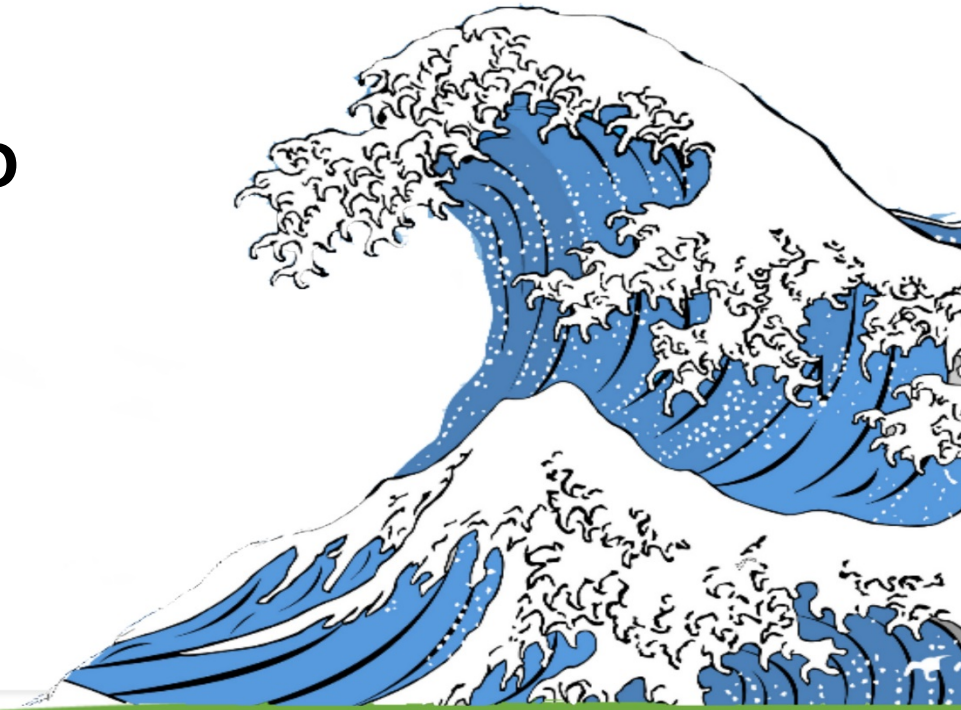


Vista Ridge Pipeline Project

The Wrong Alternative for San Antonio
& other lessons learned



Beer Summit at Blue Star Brewery
April 6, 2017

Vista Ridge Pipeline Project

NOTE

Not all of the amounts, costs and projections cited here are current, as of the date of this presentation. However, they were “current” when the Vista Ridge pipeline project was being considered by SAWS Board and City of San Antonio; i.e., this was the information available to decision-makers at the time when key decisions were taken to move forward on the project.

Some Facts

- SA does need to diversify its water supply & reduce reliance on the Edwards Aquifer
- SA's population is growing & new water supplies will be necessary over the long term
- Current & planned water supply (w/o Vista Ridge) *“enough water to accommodate population growth for 10 – 15 years”*

(Chuck Ahrens, SAWS VP Water Resources & Conservation in 2014)


A Few More Facts

In February of 2014, SAWS technical staff & President/CEO rejected the Vista Ridge Pipeline project for expanded brackish water desalination

- ***...satisfies demand thru at least 2040*** (C. Ahrens, 2014)
- ***Brackish groundwater is plentiful & unused in our region, and available for centuries...***
- ***...costs can be spread over time as water is needed***
- ***...can be planned for the mid-2020s, instead of the 2018 date planned [Vista Ridge].*** (R. Puente, 2014)

But...

SAWS reverses position on VR after 3 weeks

- SAWS Board orders discussions/negotiations to continue with VR proponent (Abengoa).
 - Some five months later, SAWS Board approves VR pipeline
 - In October 2014 City Council approves VR pipeline
 - In November 2016. SAWS signs Financial Close, locking SAWS into the project
- 

Why the Reversal?

Business leaders claim clout in water debate

Local business leaders believe pressure forced the about-face.

“My sense is he got such a unanimous pushback,” said District 9 Councilman Joe Krier, a former president of the Greater San Antonio Chamber of Commerce...[from] business leadership.

Brian Chasnoff, Express-News (Feb. 28, 2014)



Why the Reversal?

San Antonio's Water Future: Who is Running SAWS?

...only a handful of senior SAWS executives, board trustees, city officials and business leaders.

Business and civic leaders are definitely making themselves heard in favor of the pipeline project, lobbying hard...

...has left the public in the dark, wondering who is in charge and what facts and projections are driving the decision-making process

Robert Rivard, The Rivard Report (March 2, 2014)

Why the Reversal?

September 2014
Volume 296

The Journal of Record
for public-private partner-
ships since 1988

PUBLIC WORKS FINANCING™

**SAN ANTONIO WATER BOARD UNANIMOUSLY APPROVES
\$3.4-BILLION WATER SUPPLY P3 WITH ABENGOA**

City Council approval is not assured...[though] one close observer is optimistic: “Proponents have won the p.r. battle and any anti’s on the council are boxed,” he says.

OK, but is VR a good idea?

Advice from Carlos Cosín, President/CEO of Abengoa Water*:

P3 projects in water can be low-hanging fruit if the proper due diligence is done by the public entity

* 8 February 2016 (www.theenergyofchange.com/public-private-partnerships-water-projects)

What is “proper due diligence”?

The care a reasonable person should take before entering into an agreement or a financial transaction with another party.



Was “proper due diligence” done?

Not by SAWS or its Board

- Analysis of VR was a “cost-effectiveness analysis” **Can SAWS ‘afford’ to buy VR water?**
- Never established the VR business case... **“Is this the best alternative for San Antonio to meet its future water needs?”**
- **Board approves 500-page contract one week after it was finalized.**

Was “proper due diligence” done?

Not by City Manager’s Office

- No independent assessment of contract or proposed project...on a \$3.4 billion commitment
- No rigorous comparison with originally proposed alternative
- CFO: "*professional recommendation to approve*" VR in absence of any evaluation of private partner (Abengoa) and, pros/cons, costs, risks, alternatives or tradeoffs

Was “proper due diligence” done?

Not by City Council

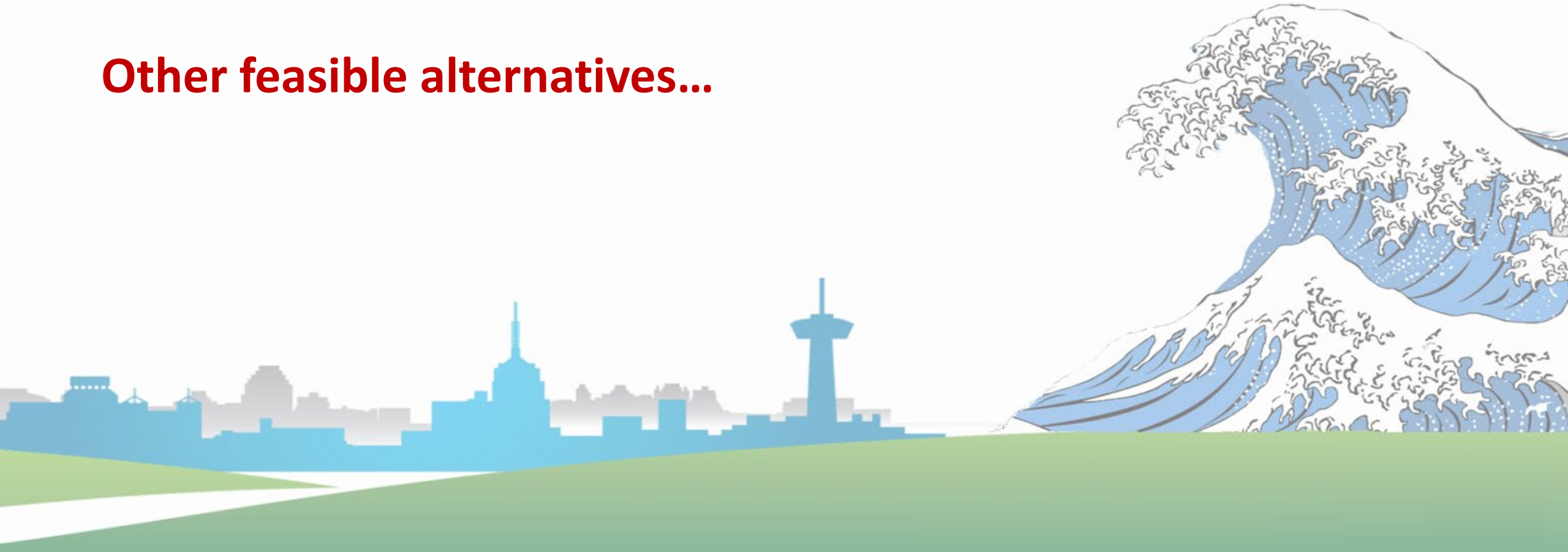
- **Overlooked major water supply policy change**
- **Neither required nor requested independent, 3rd party evaluation of contract or costs, benefits, risks, tradeoffs vs other feasible alternatives**
- **Did not question “Why signing contract with insolvent company?”**

“Proper due diligence” would have shown...

All of the water in our area already taken...False

SAWS president/CEO to City Council, 10/8/14

Other feasible alternatives...



“Proper due diligence” would have shown...

Tomorrow's water at today's prices... Misleading

Then-estimate of VR water ~\$2,240/ac-ft.

- Expanded brackish water desal — VR 23% higher (vs \$1,816)
- SAWS Water Management Plan, 2012 — Supply expansions to 2039 (w/o VR water), avg. all sources \$960/ac-ft.
- Texas State Water Plan, 2012 — recommended water plan for Region L (San Antonio's region) avg. cost \$1,082/ac-ft

“Proper due diligence” would have shown...

20 percent more water for San Antonio... True, but..

According to SAWS' demand projections, that is almost **double** what San Antonio actually needs before 2050



“Proper due diligence” would have shown...

“Will not impact SAWS commitment to conservation” ...Unclear

In wet years, when no VR water is unneeded, still have to take and pay for all of the water....

High risk that financial pressure from purchasing large quantities of unneeded water at a high cost will erode SAWS commitment to conservation.

“Proper due diligence” would have shown...

“VR water source is ‘drought proof’...a lot of water...12 times more than all the lakes in Texas combined...”

SAWS president/CEO to City Council, 10/8/14

Misleading...assumes unsustainable pumping of aquifer

“Vista Ridge Consortium....[Maximum available groundwater] can provide an additional 19,442 ac-ft in 2020, increasing to 34,894 ac-ft/yr by 2070”

(South Central Texas Regional Water Planning Group – 2016 Initially Prepared Plan)

“Proper due diligence” would have shown...

VR water is to avoid Stage III and IV drought restrictions while providing for new development

SAWS CFO: “[t]o economically justify the acquisition of new supplies for the sole purpose of ‘eliminating’ drought restrictions, the marginal cost of these supplies needs to be ~\$1,000 per [acre-foot].”



“Proper due diligence” would have shown...

- In wet years, **ratepayers may pay over \$80 million** more VR water instead of using available Edwards Aquifer water
- SAWS paying **very high risk premium** for VR...on order of \$700 million over life of contract...and gets what in return?
- **VR is not the least cost alternative...**



Lessons Learned for Future City Councils

- **A more rigorous & transparent process was called for before SAWS Board, City Manager's Office and City Council approved this deal.**
- Such processes **protect all involved from conflicts of interest & poor decisions driven vested interests...**CPS with nuclear power plant, SAWS with Vista Ridge, and whatever the next one will be...
- **To avoid future repetitions, City Council should pass an ordinance that spells out the standards and processes to ensure proper due diligence and transparency in development and approval of all significant public investment projects, especially P3s**

Vista Ridge & Conflicts of Interest... a final opinion

SAWS wants VR so badly, it is bending over backwards to make it happen:

- **Paying \$100s of millions extra in risk premiums to cover long term risk however, all current partners are short term so will receive as windfall profits**
- **Accepted that ratepayers will absorb cost of vanished \$120 million “bridge loan” that Abengoa took “to buy pipe” ...and no pipe bought.**
- **Repeated revisions to the contract (3rd approved this week)...nature of agreement changing so frequently, cannot trust what is in it ...may be different tomorrow.**
- **Now looking at selling 15,000 ac-ft of excess VR water...public scrutiny required to ensure that not below cost sales that leave SAWS ratepayers on the hook for the difference**