Business

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City Council should postpone pipeline vote

By Greg Jefferson

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SAN ANTONIO — On Thursday, the City Council is expected to take one of the biggest, costliest votes to expand San Antonio's water supply in the city's history — despite all the questions that remain about the $3.4 billion Vista Ridge water pipeline deal.

Under the proposed agreement, the partnership of Spanish conglomerate Abengoa and Austin-based BlueWater would begin selling up to 50,000 acre-feet of Carrizo-Wilcox Aquifer water to SAWS, beginning most likely in 2020.

SAWS has said it only has to pay for water delivered, not for some fixed volume of water, whether or not it's delivered.

Another way of saying that is, SAWS *must* pay for all of the water delivered — even though in the early years of the 30-year agreement, the city won't need all of it. The utility has said it could sell the excess to thirstier communities, but hasn't said how likely those deals would be.

For the ratepayer, that's a big consideration.

The anticipated rate boost tied to the pipeline would be 16 percent. That doesn't account for SAWS' other needs, such as sewer upgrades.

Here's what would happen, as told by a city briefing memo for the council's Oct. 30 meeting, if SAWS doesn't wind up selling its extra water:

"Under an assumption where the full 50,000 acre-feet of water is delivered to SAWS and no water produced under the contract is sold to other parties, SAWS would require a system-wide increase of approximately 18 percent to 19 percent."

Never fear, though.

"SAWS has already held preliminary discussions with several elected officials and utility representatives regarding this possibility" of buying the extra water, city staffers wrote. "SAWS anticipates structuring any wholesale agreements so that the termination dates match the anticipated time period that SAWS will need the water to serve its customers."

Feel reassured?

Another question turns on debt financing.

In February, CEO Robert Puente attempted to pull the rug out from under the Vista Ridge deal, saying it would be better for SAWS to expand its planned desalination plant in South Bexar County. While desal water also is expensive, the utility could scale up its production to better match demand in SAWS' service territory.

Seems more reasonable than having to buy water you don't need for which you now have to find a buyer.

However, as I noted last week, business leaders — including Councilman Joe Krier, who was the face of the San Antonio Chamber of Commerce for two decades — pressured Puente to reconsider. It worked.

SAWS returned to the bargaining table with the Vista Ridge Consortium and extracted better terms for the utility in a series of public sessions over the summer.

But what will investors think when Abengoa goes to the debt markets to sell bonds for the project? Will they think of the prowess of SAWS negotiators? If they think it put too much risk on Abengoa, they'll either take a pass or jack up the interest rate.

The debt probably would be anything but cheap to begin with. Moody's Investors Service has a B2 bond rating on Abengoa, which is five notches below investment-grade — "subject to high credit risk,"

according to the credit-ratings agency's key. So, barring major upgrades to the company's rating, this would be high-interest debt even before potential investors peruse the contract with SAWS.

These are a just a couple of questions. There are many others.

One of the basic ones is this: Why is the Vista Ridge deal better than expanding the scope of the desal plant, which had its groundbreaking last summer?

To state the obvious, the City Council should postpone its vote until at least the big questions, such as the one due north, are answered.

Clarification

The "all-in" cost for the proposed Vista Ridge project — for construction, interconnections, payments for water delivery, etc. — is $3.4 billion. Because of miscommunication with SAWS staff, I mistakenly separated the estimated $844 million for pipeline building in my column a week ago.

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