

Water pipeline no pipe dream

Negotiations on the deal are heating up

By Scott Huddleston STAFF WRITER

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As the San Antonio Water System steps up negotiations over one of the largest deals in its history, the man leading the talks envisions a contract that “looks like a Bible” to guide the development of a major water supply pipeline.

SAWS Chairman Berto Guerra, a professed man of faith and an accomplished businessman, is in a familiar role at the head of a long negotiating table, sitting with leaders of the global corporation that would build and maintain the 140-mile pipeline, the first of its kind in Central Texas.

SAWS’ would-be partner in the deal is Vista Ridge Consortium, led by the Spain-based Abengoa Water, a major player in water development and desalination with projects reaching into India, China and several African countries.

If the negotiations prove successful, SAWS would get 50,000 acre-feet of water delivered from Burleson County, east of Austin, annually for 30 years, starting as early as 2019

— a project likely to cost more than \$3 billion. It would mean a 20 percent boost in its supply, easing pressure on its main source, the drought-strapped Edwards Aquifer.

By 2050, SAWS also could assume ownership of the pipeline and perhaps rights to keep pumping and piping the water to the Alamo City.

As chairman and CEO of Avanzar Interior Technologies, a local Toyota parts supplier, Guerra is accustomed to conferring in high-level meetings with Japanese businessmen who call him “Berto-san.” Now he’s sweet-talking and cajoling professionals in the public and private sectors to work together to enter “new territory” in water development.

“In order for this to work, it can’t be a ‘you win, I lose’ or ‘we win, you lose.’ We’ve got to do it as a team, and it’s got to be a ‘we all win together,’ ” Guerra told an assembly last week of lawyers, engineers and others with SAWS and Vista Ridge.

His goal is a contract so thick it resembles a Bible, with a multitude of terms and definitions and “pages and pages of what ifs,” but that seldom has to be pulled out of storage, “because you worked such a good agreement as partners,” he said.

Officials of Abengoa believe the project will enable the city to sustain its economic vitality in a semiarid climate.

“I think that San Antonio is making a good decision to combine with these conservation policies to bring new resources of water, to assure the water for future generations,” Carlos Cosín Fernández, chairman and CEO of Abengoa Water, said during a visit last week to negotiate with SAWS and discuss the project with the San Antonio Express-News Editorial Board.

SAWS hopes to have an agreement in place for board approval in September and City Council consideration in October.

Details of the project are slowly emerging in sparsely attended early-morning public meetings at SAWS headquarters. One key issue to be discussed at the next meeting, set for 7 a.m. Wednesday, will be Abengoa’s finance plan.

Abengoa’s financial prowess, experience in public-private partnerships and willingness to accept risks have kept the project from dying before it reached the negotiation table. The SAWS

board voted July 1 to begin formal talks after Vista Ridge waived reservation fees and price escalations.

“We were able to assume that risk and share it among our partner members and our lenders, and put something on the table that is still attractive and basically provides something that in Texas is virtually unheard of . . . a good, potable groundwater supply without any risk,” said Michael Irlbeck , business development director for Abengoa Water USA, based in Austin.

The deal could cost \$3.4 billion, a reduction of \$725 million since first made public, and require a 16 percent rate increase in five years.

But many details have changed, or remain pending, that could alter the total cost, from Abengoa’s financing plan to chemical treatment of the water and the location where the transported water would enter the local system.

SAWS officials have said an attorney general’s opinion may be sought to determine if tax-exempt bonds could be sold for the project.

SAWS Chief Financial Officer Doug Evanson said the parties also need to discuss a plan to deal with market changes in interest rates.

“In order to sell it to the community and talk to the community about the impact, we need to understand what the ultimate price is going to be,” Evanson said at last week’s meeting of the Water Supply Agreement Negotiating Committee.

‘New territory’

Water law expert Amy Hardberger is among those who have questioned how the project stacks up against brackish water desalination to secure more water for San Antonio.

The pipeline could turn out to be too costly to ratepayers vs. desalination of water in South Bexar County or more intense efforts at conservation.

Hardberger, an advocate for water conservation, has called on SAWS to “have a public conversation about this pipeline project” and provide “due diligence to let people know what this project will look like.”

To satisfy that concern, SAWS trustees and staff and Vista Ridge leaders have huddled at a long table that seats 14 people in the SAWS board conference room, in meetings that are open to the public, with seating around the room for about 25 spectators.

Fernández, Abengoa Water CEO, said the company has not participated in such an open negotiation process but is “going to respect the transparency” that SAWS desires, and will “demonstrate to San Antonio our flexibility.”

Francesca McCann, CEO of Abengoa Water USA, said the more-than-three-year competitive process leading to selection of Vista Ridge is likely to end in a deal that benefits everyone.

“The energy is positive, and it’s with real intention of getting to a signing of a water purchase agreement,” McCann said.

One only has to consider the current drought as proof of a need for more water.

Under current Stage III Edwards Aquifer Authority pumping restrictions, SAWS must reduce use of Edwards water by 35 percent. The EAA could declare Stage IV this summer, forcing a 40 percent reduction, enforceable with fines.

SAWS officials said they are hopeful that, with customers conserving, the San Antonio area will get through the year without tighter outdoor watering restrictions, which now limit use of sprinklers to once a week.

But with SAWS’ service area projected to grow from 1.6 million people now to nearly 2.8 million in 2070, according to its 2012 water management plan, the utility is under pressure to find new, diverse water sources.

Although SAWS is building a brackish water desalination plant, desalination has its own regulatory issues, including a five-year limit on permits for brackish groundwater.

Irlbeck, with Abengoa, said the consortium's pipeline project doesn't require a legislative fix and is supported by a well field that includes "excess acreage leased." Austin-based supplier BlueWater Systems holds permits to pump and export water from the Carrizo and Simsboro formations of the Carrizo-Wilcox Aquifer, which has a plentiful supply, Irlbeck said.

"We can activate additional acres and still support the full permitted amount" if the Post Oak Savannah Groundwater Conservation District ever mandates a reduction in permits, he said.

Curtis Chubb, a landowner in adjacent Milam County and coordinator with Central Texas Aquifers Coalition, an environmental advocacy group, said the district is reviewing its "desired future conditions"

— aquifer conditions that are updated every five years.

If district directors, who are appointed by commissioners of Milam and Burleson counties, ever decide to reduce aquifer pumping, Vista Ridge could apply for and would likely obtain more permits, Chubb said.

Water beyond 2050

Other issues still pending include a possibility of other cities buying water or using the pipeline, which would vary from 54 to 66 inches in diameter. SAWS CEO Robert Puente said the utility has had fruitful talks with two water providers seeking to pipe Carrizo-Wilcox water to areas along Interstate 35.

Guerra said SAWS "will have the ability . . . to exclusively control those discussions and be able to add partners onto the pipeline at our own cost if a commercial opportunity arises."

SAWS also is considering adding calcium to the water, at an added cost of about \$50 per acre-foot, to make it compatible with Edwards water, and extending the pipeline to Loop 1604 and U.S. 281, rather than its Nacogdoches Pump Station at Nacogdoches and O'Connor roads, so the new water can flow downhill, reducing pumping costs, along the 281 corridor.

SAWS also has asked whether it can count on higher flow rates in the summer, when Edwards restrictions and seasonal use is likely to increase reliance on Carrizo water.

Gene Dawson, president of Pape-Dawson Engineers, which is handling engineering and environmental services for the project, said even just a 10 percent increase above the average flow of 40 million gallons daily could raise the permit fees.

Another key issue is pipeline operation and maintenance. SAWS Trustee Reed Williams, a member of the negotiation committee with a background in oil and gas pipelines, suggested the formation of a "technical resolution group" composed of experts from SAWS and Vista Ridge, to sort out issues of "reasonable disagreement."

"If one of the two sides starts trying to game this in some way, it's not going to work. We won't be taking over a good pipeline, and you won't run an efficient operation," Williams said.

Abengoa, which projects water losses in the pipeline to run less than 3 percent, only will get paid for water delivered to SAWS.

Perhaps the most important issue, and hardest to grasp, is the rights to the water in Burleson County that could be transferred to SAWS in about 2050, along with the pipeline, wells, tanks and other hard assets.

Guerra said he wants Vista Ridge to "at least bring something to the table," such as a "first right of refusal" to secure those rights, or anything else that would "help but not complicate the issue."

Dawson vowed to follow up.

“Vista Ridge is prepared to have that conversation, and looks forward to coming up with some language on that. I think we have some solutions,” he told Guerra.

Irlbeck, with Abengoa, also spoke in general terms on the issue with the editorial board.

“We’re going to go back as part of our homework and come to the table with some ideas, and ensure there’s something on the end of that pipeline once they own it that’s in their interest or favor,” he said. shuddleston@express-news.net Twitter: [@shuddlestonSA](https://twitter.com/shuddlestonSA)



San Antonio Express-News / File photo

The pipeline isn’t the only project SAWS Chairman Berto Guerra (right) is involved in. Here, he and Mayor Julián Castro tour the Kay Bailey Hutchison Desalination Plant with El Paso Mayor Oscar Leeser.

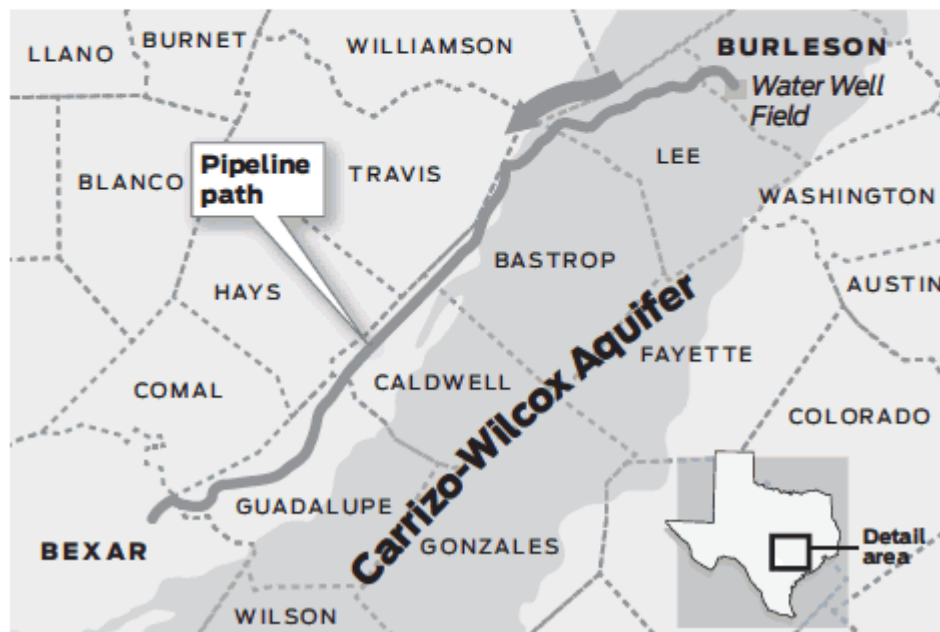


Juanito Garza / San Antonio Express-News

Carlos Cosín Fernández, chairman and CEO of Abengoa Water, and Francesca McCann, CEO of Abengoa Water USA, talk with members of the Express-News Editorial Board.

Pipeline under negotiation

A 142-mile pipeline from Burleson County to San Antonio would expand the local water supply by 20 percent and raise rates for customers at least 16 percent, if constructed through a public-private partnership of the Vista Ridge Consortium and the San Antonio Water System. Officials on both sides are holding weekly, early-morning public meetings to negotiate a contract, in hopes of presenting a deal to the City Council in the fall. SAWS could sell water to communities on the route and assume ownership of the line after 30 years, possibly with an opportunity to also secure water rights to the Central Texas wells.



Source: San Antonio Water System

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