



TO: BOARD OF DIRECTORS

FROM: EXECUTIVE COMMITTEE

SUBJECT: SAWS 2015 PROPOSED RATE ADJUSTMENT

STATUS: ADOPTED

DATE: October 22, 2015

The adequacy and availability of safe water is critical for San Antonio’s growth and the well-being of our city’s residents. The efficient and effective management and distribution of this essential resource is necessary to sustain the economic vitality of our city and the quality of life for all inhabitants. As consumers of this scarce public resource, it is incumbent upon businesses and households to sufficiently fund the effective and efficient management and distribution of water as well as the development of new sources for the well-being of residents and businesses alike. To continue operations as efficiently as possible, expand operations for alternative water sources, fund compliance upgrades due to an EPA mandate, and to continue the expansion of water facilities, the San Antonio Water System (SAWS) is proposing adoption of rate increases of 7.5 percent and 7.9 percent for 2016 and 2017, respectively. These rates consist of the Water Supply fee as well as Water and Wastewater Delivery fees. For 2018-2020, SAWS also proposes increases of only the Water Supply Fee component since these funds are designated toward infrastructure projects which are underway.

STATEMENT:

In 2014, the Chamber adopted a position in strong support of the 142-mile Vista Ridge Water Pipeline project, which will be used to transport groundwater from Bureson County. In doing so, the chamber also implicitly supported future rate increases necessary to fund the project. The proposed SAWS rate adjustments are intended to fund this project as well as all necessary capital and operational needs for the utility. Due to the impending need for additional water supply projects, the corresponding requirement for effective and efficient utility operations for expanding water distribution, the required implementation of EPA-compliant upgrades to the wastewater system, and the need to fund the related costs of these activities, **the San Antonio Chamber of Commerce supports the proposed rate adjustments for these stated purposes.** The Chamber’s support for this rate increase is contingent upon SAWS demonstrating its progress through regular reporting of performance and accountability measures. The Chamber urges the Mayor and City Council to maintain accountability by developing and enforcing a system for effective oversight.

Water Rates and Vista Ridge Pipeline Project

With regard to the relationship between the proposed rate adjustment and the Vista Ridge Water Pipeline project, the Chamber is aware of concerns raised regarding the financial viability of the parent company of the selected contractor, Abengoa. The Chamber remains committed to the project for several reasons. First, the subsidiary contractor, Abengoa – Vista Ridge, is a stand-alone subsidiary that was established specifically for this project. It has been established as a non-recourse

company which would not allow any unresolved debt by the parent company (Abengoa) to be satisfied with the assets of the subsidiary (Abengoa – Vista Ridge). The Chamber understands that financial risk for the project will be further mitigated upon the financial closing. At that point, an equity contribution of an estimated \$81 million will be required by the parent, Abengoa, in order to attract the estimated \$750 million in debt proceeds necessary to construct the pipeline. Potential lenders will require the equity contribution be made prior to advancing any loan proceeds to Abengoa – Vista Ridge. After that point, the lenders will look to the delivery of water through the pipeline, and SAWS payment, to satisfy the debt. Sufficient rates to pay for the delivery of this water, as discussed in this position statement, will be necessary to pay this debt. As previously explained, the debt will be satisfied and the price of the water will be significantly reduced at the end of the 30-year contract period when the pipeline’s ownership reverts to SAWS.

Second, financial closing requires a rigorous financial review that must assure lenders that:

- the project can be completed;
- there is sufficient water to deliver over the life of the 30-year contract; and
- the water delivered by Abengoa – Vista Ridge can be paid for by rate commitments from SAWS customers.

Third, SAWS contract with Abengoa – Vista Ridge is drafted in such a way as to not require any significant financial commitments by SAWS until financial closing has been achieved. After financial closing, should the construction not commence or fail to be completed, the lenders will be highly motivated to select another entity to complete the project since the only source of repayment of the outstanding debt obligations is water sales to SAWS. There is no other financial responsibility by SAWS for the completion of the project.

The Chamber also understands the need to balance these necessary activities with fair, and reasonable, rates. In August 2015, the Chamber’s board of directors considered and adopted a position in support of a revised rate structure which more accurately aligns costs to revenue generation. This rate structure would encourage conservation through pricing and incorporate a low-cost lifeline rate for small households with fixed incomes and those interested in rigorous conservation. The San Antonio city council will consider both policies at the same time with the understanding that both policies would become effective on January 1, 2016. If both are adopted, the proposed rate adjustments would be incorporated within the modified rate structure.

BACKGROUND:

The San Antonio Water System currently manages nearly 7,000 miles of water mains which pump 77.4 billion gallons of water per year. SAWS also manages over 5,300 miles of sewer mains which carry 50.7 billion gallons of treated flow per year. The proposed rate adjustments are intended to accomplish the following objectives:

- **Increase operational efficiency and savings**
 - \$57 million saved in debt refinancing over next 5 years
 - Reduced staffing has resulted in \$20 million in annual savings
 - Most efficient ratio of water connections to employees among large Texas cities
- **Develop alternative water supplies**
 - Continue water conservation initiatives with investments in education/awareness; conservation serves as additional supply.
 - Continue development of the Vista Ridge Pipeline which will provide 50,000 acre-ft. by 2020.

- Complete the capital intensive investment for Vista Ridge system integration development/upgrades.
 - Continue development of Brackish Desalination project which will provide 13,440 acre-ft. by 2017.
 - Complete water integration upgrades and begin operations as water distribution begins.
- **Improve water and sewer infrastructure**
 - Comply with EPA Consent Decree requirements, which are estimated to require an estimated \$850 million in capital investments over 10-12 years.
 - Assess and repair the aging wastewater and water distribution systems.
 - Over 40 percent of the wastewater system and nearly 40 percent of the water distribution system are at least 30 years old. Each system has a significant percentage of lines over 50 years old.
- **Preserve strong credit profile**
 - Retain strong bond ratings to reduce borrowing costs.
 - Current ratings are at: AA+, Aa1, AA+
 - Mitigate risk as rain volatility and reduced use result in reduced revenue.
- **Maintain affordable rates**
 - Maintain among the lowest rates in the country and the lowest rates in Texas, including rate adjustments.
 - Continue investments in affordability and discount programs for low and moderate income households.

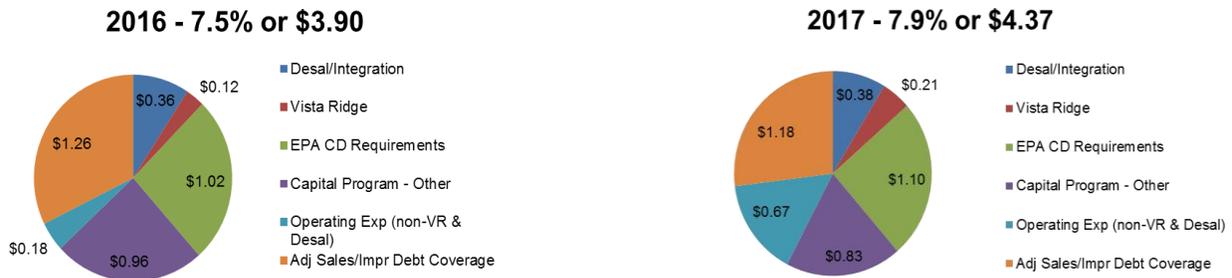
Rate Adjustment Summary

	2016	2017	2018	2019	2020
Water Supply Fee	1.8%	3.2%	1.3%	4.5%	9.9%
Wastewater & Water Delivery	5.7%	4.7%	TBD	TBD	TBD
Total	7.5%	7.9%	TBD	TBD	TBD

Source: SAWS

The rate adjustments consist of combined Water Supply fees as well as Water and Wastewater Delivery fees. The Water Supply Fee is used to develop and provide new water supplies for ratepayers. The Water Supply Fee has been previously used to fund projects such as the Aquifer Storage and Recovery facility (ASR), the recycled water system, and the Desalination Plant construction. The Water and Wastewater Delivery Fee represents the cost of delivering water and moving wastewater through their respective systems. As illustrated, SAWS is requesting approval for 7.5 percent in 2016 and 7.9 percent in 2017, respectively. Since many costs for EPA consent decree upgrades and repairs are still unknown, Delivery Fees for 2018-2020 have yet to be determined. However, the Water Supply fees attributed to alternative water sources, including the Vista Ridge Pipeline project are known. For this reason, SAWS further requests approval of Water Supply Fee increases over this period. It is an important consideration that the rate adjustment in 2017 is a maximum amount, which may be adjusted downward depending on actual costs.

The rate adjustment for each year is expected to be allocated as demonstrated below. The predominant cost drivers are related to the EPA consent decree, capital investments and upgrades, and debt coverage and revenue stability. The Vista Ridge and Desalination water delivery improvements are secondary drivers.



Source: SAWS

The projected average monthly residential bill is expected to increase by \$3.90 in 2016 and by \$4.37 in 2017, as illustrated below. The additional request for Water Supply Fee adjustments in 2018 through 2020 would remain unchanged with the expectation that Water and Wastewater delivery costs will be confirmed by that time.

Projected Average Monthly Residential Bill

	2015	Proposed		Proposed Projected		
		2016	2017	2018	2019	2020
Water Supply	9.82	10.73	12.49	13.30	16.15	23.00
Water Delivery	16.51	18.15	19.56	20.60	21.20	22.02
Wastewater	25.42	26.77	27.97	29.82	31.93	33.76
Total SAWS	\$51.75	\$55.65	\$60.02	\$63.72	\$69.28	\$78.78
Increase \$		\$3.90	\$4.37	\$3.70	\$5.56	\$9.50
Increase %		7.5%	7.9%	6.2%	8.7%	13.7%
EAA Fee						
EAA Fee	2.35	2.71	2.71	2.71	2.71	2.71
TCEQ Fee						
TCEQ Fee	0.24	0.24	0.24	0.24	0.24	0.24
Total with Fees	\$54.34	\$58.60	\$62.97	\$66.67	\$72.23	\$81.73
Increase % with Fees		7.8%	7.5%	5.9%	8.3%	13.2%

*Assumes water usage = 7,092 gallons & wastewater usage = 5,668 gallons, ICL, Restructured rates
Source: SAWS

REASONS FOR SUPPORT:

1. The Chamber has supported the Vista Ridge project and corresponding rate increases necessary to fund the project.
2. City and SAWS commitment to the rates is critical for Vista Ridge financing.
3. Rates remain among the lowest in Texas and across the country.
4. The proposed rate adjustment includes continued commitment to honor conservation awareness and education.
5. Addresses water and wastewater system compatibility as the utility prepares for new water source distribution.
6. Any excess water San Antonio receives in the early years allows us to commit to our military installations that they would no longer be mandated to operate under Stage 4 water restrictions and allows them to have a consistent, defensible source of water in the event of military emergencies.

OTHER CONSIDERATIONS:

1. Addressing repairs and upgrades as required by the EPA consent decree is the result of deferred maintenance. SAWS should ensure that there are no other system vulnerabilities that will require unanticipated fee adjustments.
2. To mitigate rate adjustment risk, SAWS should continue to focus on operational effectiveness and efficiency. Procedural and system anomalies should be reduced to a minimum so as to ensure continued transparency and accountability.
3. SAWS should incorporate contingencies for supply should the Vista Ridge project not come to fruition.
4. With the understanding that the proposed rate adjustments represent maximum amounts in future years, SAWS should incorporate general operational efficiencies in a manner that may result in reduced rate impacts.

IMPLEMENTATION: The Chamber will communicate this position to the SAWS Board of Trustees, the Mayor and members of the City Council, the media and The San Antonio Chamber membership through public testimony, letters, media releases and publication on the Chamber's website and through distribution of *The Chamber Today*.