



November 18, 2008

Spokane County Board of County Commissioners
Spokane County Courthouse
1116 West Broadway
Spokane, Washington 99260

**Subject: Public Comment -
Service Contract for the Design-Build & Operation of the
Spokane County Regional Water Reclamation Facility –
Project No. P5451-4**

To the County Commissioners:

Veolia Water North America Operating Services, LLC (Veolia Water) is pleased to submit this letter for your consideration as you ponder the public's best interest in this project.

As part of a company that traces its history back more than 155 years, Veolia Water is the global leader for water and wastewater infrastructure development. Our company provides water related services to more than 108 million people under 7,000+ contracts across the globe. The company employs more than 77,000 dedicated employees and is considered the industry's benchmark in delivering innovative solutions to complex projects. In Spokane County, Veolia Water was one of two short-listed firms deemed qualified to compete for this significant public infrastructure and services contract.

We would like to begin by acknowledging that despite our disappointment with the selection decision, we felt that your staff and their team of consultants conducted a fair procurement, and we congratulate them on their professionalism and diligence in that regard. We also congratulate CH2MHILL Constructors, Inc. for their success in proposing what was considered the best solution for this extremely complex and demanding project. This firm clearly enjoys local support as evident by their recent selection of a \$30 million digester contract for the City of Spokane.

The key challenge of this project has been, and remains, the effluent discharge quality levels established for the proposed new plant. Faced with the realities of the Spokane River, the Washington Department of Ecology (DOE) established a limit of 10 micrograms per liter (ug/L) of phosphorus (P) for Spokane County as a new discharger — a limit that is believed to push the confines of existing technologies. In turn, your Request For Proposal (RFP) established 50 ug/L of P as the discharge limit, with the intent of receiving an offset credit for the remaining P through the County's ongoing Septic Tank Elimination Program — a controversial plan that is expected to face scrutiny and will likely face legal challenges along the way.

Indeed, the County is all too familiar with the challenges and uncertainties associated with this project as evidenced by the first permit set back in 2002 which delayed the project for several years, and again in September of this year when the U.S. Environmental Protection Agency (EPA) announced that all permits were on hold pending the re-evaluation of the established water quality standards — standards that could become even more stringent when ultimately issued.

Veolia Water recognizes that setbacks such as the recent permit delay could continue to postpone this critical project, further impacting the health of the Spokane River and the region's future growth and prosperity due to

the lack of wastewater treatment capacity. The County is, therefore, at a crossroads in terms of environmental needs, State mandates, public opinion, costs and technological realities, as you contemplate committing to build this new facility without a discharge permit.

Recognizing these challenges and their potential impact on the project, Veolia Water established the objective of proposing a cost-effective solution that would improve the region's water quality while providing Spokane County with the greatest control over an uncertain future. We believed from the onset, that as a new wastewater purveyor in an environmentally sensitive watershed, this project will continue to face challenges, regardless of whether you discharge to the river or "pull out" in favor of water reclamation.

With these and other "ownership" related risks in mind, Veolia Water began the process of evaluating cost-effective solutions that offered exceptional reliability and water quality. The Membrane Bioreactor (MBR) technology was the first alternative evaluated, because it appeared to enjoy a higher level of acceptance by the County's staff and consultants, given that it formed the basis of the Facilities Plan. Moreover, DOE's approval of the Facilities Plan made this process even more attractive as it minimized the risk of obtaining their approval. Finally, a third advantage identified was a lower capital cost due to its smaller footprint; as it required fewer buildings and less concrete. These advantages were compelling considerations in favor of selecting the MBR as our preferred technology.

Our evaluation, however, also revealed that the MBR process would not provide the reliability and redundancies necessary to consistently meet the established 50 ug/L of P limit, not to mention the even lower levels that may be required to meet the regulators' current re-assessment of the region's water quality requirements. As such, we eliminated this alternative from further consideration.

Through in-depth analysis of the MBR and several other potential alternatives, Veolia Water ultimately selected proven and existing technologies (not "cutting edge") that allowed us to guarantee a discharge of 25 ug/L of P — a limit that many didn't think would be possible. Our proposed process is comprised of seven barriers, which provide for the exceptional level of reliability necessary for ongoing compliance. Multi-stage removal is widely accepted as critical to reliably reducing P to extremely low limits.

The following is an overview of why Veolia Water believes that our proposal is in the public's best interest:

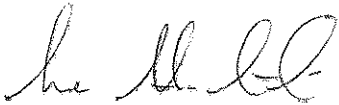
- We offer a cost-effective plant with the lowest known "guaranteed" P discharge limit anywhere in the world. Our proposed 25 ug/L of P discharge will not only help improve the region's water quality, it will also establish Spokane County as a pioneer in water quality management by creating a new benchmark for other dischargers to follow.
- Our proposal minimizes the extent of your Delta Elimination effort by 60% which will save you and your rate-payers significant sums of money if the legality of relying on the STEP program for P credit is successfully challenged. Without such a reduction, the implementation of other offset projects for meeting your permit limits will be difficult to quantify and extremely costly.
- Our low P guarantee minimizes the uncertainty and risk of meeting a more stringent discharge limit if so imposed by the regulators. This is particularly important in light of the desire to proceed with the construction of the contemplated facility without a permit.
- Our proposal addresses the rate payer's desire to clean the river. According to a survey conducted, 81% of the voters in Spokane and Kootenai counties favor decisive action to improve the quality of the Spokane River. This desire is also evident by the County residents' willingness to embrace the ban on dishwashing detergents containing P, even when it means that their dishes are not as clean.

- Finally, while Veolia Water's overall DBO price appears to be evenly matched with the proposed MBR solution, our O&M price is significantly lower. As such, the efficiencies of our proposed plant will continue to deliver savings to the public long after the 20-year term of the contract which was the basis for the cost evaluations in the RFP.

Given the significant uncertainties associated with this project, ***Veolia Water believes that our cost competitive proposal extends substantial environmental, technical, financial and risk mitigating advantages to the County, and remains, in the public's best interest.***

In any event, we want to thank you for your consideration of this letter and our previous proposal submittal, and wish you success in your continued implementation of this project. We remain committed to the County and your rate-payers and stand ready to assist with this project should circumstances warrant our continued involvement in the future.

Sincerely Yours,



Sean Haghghi
Vice President – Business Development
Veolia Water North America