



Serving Central Indiana

July 7, 2003

Chris Williams
 Executive Director
 Citizens Action Coalition
 First Floor, 5420 North College Avenue
 Indianapolis, Indiana 46220

Dear Mr. Williams:

In recent months, certain quotes have been attributed to Citizens Action Coalition ("CAC") representatives by the media concerning the possibility that the water rates of the Department of Waterworks are determined by a number of factors related to the acquisition of the former assets of the Indianapolis Water Company ("IWC") and the operation of waterworks by USFilter. The quotes are the following:

- "I'd assume if they (USFilter) are in a situation where they are operating with an annual loss, there'd be a pressure of rate relief"-Chris Williams in June 3, 2003 article in *The Indianapolis Star*.
- "There may be contractual agreements between the city and USFilter regarding annual losses and at what point seeking rate relief would be an option. I don't know but we'll look at the stuff to get a clearer picture"- Chris Williams in June 3, 2003 article in *The Indianapolis Star*.
- A June 30, 2003 article in *The Indianapolis Business Journal* states CAC will join a coalition to investigate and recommend solutions to problems surrounding USFilter's management. It further states: "The problems relate to customer service and water rates" and attributes those words to Dave Menzer, utility campaign organizer for CAC; and
- The June 30, 2003 article in *The Indianapolis Business Journal* further states "Other issues, such as employee cutbacks, could spell problems for water customers" and attributes the statement to Dave Menzer. It then quotes Menzer stating, "We're concerned that rates could be impacted, along with water quality".

Permit me to address the matters discussed in the above statements. First, on June 20, 2003, *The Star* printed a detailed list of corrections (which is attached to this letter) concerning its June 3rd article. One correction states: "*There are no contractual agreements between the city and USFilter allowing for rate increases based on USFilter's profit margin*" (emphasis added). USFilter's fee is based on performance under the management agreement, not rates. As a matter of fact, it comes as no surprise that USFilter Indianapolis Water LLC lost money last year given that the Department expected the new operator to implement organizational improvements to meet the increased performance standards required by the Department under the management agreement. Nevertheless, USFIW's profit margin does not determine rates. It is worth noting that the Department's revenues actually increased by over 2.5% last year under

Department of Waterworks

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city ownership and USFilter operation as compared to the same time period in which the privately owned Indianapolis Water Company operated the utility in 2001.

Second, per municipal ordinance, any matter concerning rates of the waterworks district are determined solely by the Department's Board of Directors with the approval of the Indiana Utility Regulatory Commission where required by law. USFilter does not determine the rates of the Department's customers. As has been previously stated publicly, the Board does not intend to seek a rate increase in the first five years of city ownership of the utility.

Third, a key reason for purchasing the water company's assets was to address chronic taste and odor problems that afflicted the water company's customers. Last year, taste and odor complaints fell to 30 from 501 in 2001. Pursuant to permits issued by the Indiana Department of Natural Resources, USFilter has applied proactive treatments to the reservoirs where needed to address taste and odor concerns. The management agreement requires USFilter to spend \$17,000,000 over the term of the agreement to remedy taste and odor issues. The agreement also requires that USFilter continue to implement effective taste and odor control programs implemented by IWC. These requirements are above and beyond any capital improvements that would be allocated by the Department from its revenues. All of these contractual requirements are required by the fixed fee the Department pays to USFilter. In addition to USFilter investments required under its fixed fee, twenty-five percent (25%) of the prospective incentive payments to USFilter directly addresses water quality.

Fourth, the management agreement requires USFilter to maintain a competent workforce at a skill level sufficient to meet all operational needs of the waterworks system. Since USFilter began its management of daily operations of the waterworks, it has added employees to the call center and billing arm of the utility. This, along with other improvements, has resulted in a call center in which no one who called the utility in April 2003 failed to get through. Furthermore, the rate of callers who abandoned their efforts to reach the utility by phone beat the industry standard in April 2003.

The Board welcomes your review of the utility's operations. It is proud of the management achievements of USFilter while recognizing that improvements can be made and that many challenges lay ahead. As a matter of written Board policy, the Board invites the public to not only offer public comments at Board meetings but also to submit written comments to the Board in between meetings. If you have any further questions, please do not hesitate to contact me at the address set forth on the first page.

Sincerely,



Samuel L. Odle

Chairman of the Board of Directors

Enclosure