

From: Ward, Dave
Sent: Monday, June 30, 2003 12:01 PM
To: All USFIW
Cc: Firsching, Frank; Davis, Ron (USFOS); Gordon, Chuck; Lucey, John; Wirtel, Steve; Millen, Joe; Spyker, Dave; Smith Richard; LeChateletier, Aymeric; Stanczak, Stephen; Dierker, Jim;
Subject: FW: New Orleans and USFilter
Importance: High

The attached is sent on behalf of Mike Stark.

-----Original Message-----

From: Ward, Dave
Sent: Monday, June 30, 2003 12:50 PM
To: USFOS Complete; USF E&C Complete; Newell, Sharron; T. Michael O'Brien; Chisholm, Chris; Clarke, Brian; Harrison, Brian (Strategic Sourcing); Mike Stark; Mike Welch; Reese, Richard; Ridgley, Mark; Scott Edwards; Trant, Kevin; Brent Hillier; Charles Wells; Chuck Gordon; Gary Shushnar; Hershel Meadows; Joe Foley; Mary Welle; Matt Preusse; Mike Skurauskis; Peter Sasing; Robert Hense; Sandra Clarke; Tim Crowley; Zink Sanders; Berry, Melissa L.; Brian Hasson; Brooke Goode; Carolyn Markow; Dianna Adams; Donald Ellis; Gabbo Leo; Karen Conroy; Melinda Kowalczyk; Michael Schnack; Panico, John; Rosario Borromeo; Sallas, Lisa; Sandy Thompson; Starr, Debbie; Sullivan, Rhonda; Yeh, Connie; Barber, Tanya; Beatley, Belinda; Blackmon, Edolia (Dola); Kleist Jennifer; Land, Carol J.; Larson, Krista; Liszewski, Connie; Newbold, Tammy; Spece, Charlotte; Thelin, Lissi; Thompson, Linda; Wire, Judy
Cc: Firsching, Frank; Davis, Ron (USFOS); Gordon, Chuck; Lucey, John; Wirtel, Steve; Millen, Joe; Spyker, Dave; Smith Richard; LeChateletier, Aymeric; Stanczak, Stephen; Dierker, Jim; Force, Jim
Subject: New Orleans and USFilter
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The attached is sent on behalf of Mike Stark.



Faha.doc

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Folks,

I was tremendously moved by Andy's note. How does US Filter compare to the industry? Are we the industry leader and do we have the right to discount our competitors as a measure of our own success. Andy's comments would indicate that we do.

Friday, I attended a one year anniversary luncheon with the management of our Indianapolis Team, the City's political leaders from both sides of the aisle, the Water Board and the Staff of the Water Board. We discussed our accomplishments for the first year, our challenges and our partnerships mutual goals. While we have much to do before we call Indy a success, there is no doubt that USFilter is a respected and important partner of the City. We are fast becoming an important member of their planning mechanism and a member of the local community.

Several days before that event, I attended a Zimpro training program for the Conroe Branch and became particularly enthusiastic about the complimentary service opportunities and aftermarket sales which could belong to US Filter if we communicate well between silos. The synergies and energy which existed in this meeting spoke to the power of Filter. It is obvious that Zimpro and S&P are not the exception but could rather be the rule.

A few weeks ago I met with the Mayor of Atlanta who recognizes us as a long term partner at the Atlanta-Fulton County Water Plant and a new partner in their BioSolids management projects. She took time while Slew McKenzie and I visited with her to sing our praises to the New Orleans Sewage and Water Board who were visiting her staff to understand what happened with the Linked Water contract. We too have issues with Atlanta but we are performing and working with the City to solve those issues as true partners.

My point is we are a very good company, leading a very fragmented industry with municipal and industrial customers who are just beginning to discover the value we bring and overcome their own imbedded prejudices regarding partnerships and the leveraging of core competences. Do we need to improve the way we execute projects? Particularly those comprised of new technologies or the complex application of existing multiple technologies? Yes! Do we need to do a better job of leveraging our market presence? Yes! Do we need to perfect central business systems which will enable us to better measure our performance, improve value brought to our customers and shareholders and which will better allow our fellow workers to be self directed and efficient? Yes! There is much we must do to go from "Good to Great". There is much we must yet improve on and perfect to cement our leadership role in this industry and drive the growth in our company's markets and thus ensure a safe, reliable and fun working environment for us all. We are in tough times and are faced with exacting decisions but never lose sight of what we have attained and the great opportunity which lies in front of us.

Your comments helped, Andy. Thank you.

MIKE STARK

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-----Original Message-----

From: Seidel, Andy

Sent: Friday, June 27, 2003 1:39 PM

To: Firsching, Frank; Stark, Mike; Davis, Ron (USFOS); Gourton, Chuck; Lucey, John; Wirtel, Steve; Millen, Joe; Soyker, Dave; Smith, Richard; LeChabeller, Aymeric; Stanczak,

Stephen: Dierker, Jim: Fone, Jim
Subject: New Orleans

Attached is a pretty interesting article (middle -- where the mayor of New Orleans basically gets into a "pissing" contest with United Water's VP -- absolutely precious) on where the New Orleans projects sits. Since the project has received so much attention in past years -- you might get questions -- here are some thoughts that might help you with answers.

- 1) USFilter continues to work the project hard to try to find a way to (a) deliver savings to the city and help them meet their EPA consent decree (b) meet the peculiar governmental barriers -- such as a public referendum approving the final project after an award is made (c) meet the need for the City to have a set of competitive choices (after United declared they were out)
- 2) USFilter reduced the "burn rate" of the development efforts in New Orleans as it became clear that the process would grind on longer than budgeted for USFOG -- they made the right decision here -- things move at their own pace in New Orleans.
- 3) United Water has now established a serious record for non-compliance and project failure in the North American market: Milwaukee -- compliance issues and recent admissions that they are losing money on the project; Atlanta -- asked to leave project on own or be terminated; Halifax, Canada -- unable to finalize contract with City, pulling out of negotiations on the largest Canadian USD 250 million privatization award. Not that Puerto Rico is North America, but I suspect that project will be the source of bad news within the next year. United's failures should always be characterized as the failures of a particular vendor -- not the failure of an industry. Remember -- we have 600 communities that we serve (over 13 million people) and we have a contract renewal rate of over 90% -- the vast majority of clients know we do a great job of saving them money and keeping them in compliance. Unfortunately, the press only looks for bad news and we never get coverage on the successes in the business -- we need Fox TV to take over those crappy little newspapers that usually only can report on last night's house fire, the weekend's Rotary bake sale or the local homeless man that ended up in a windshield.

I'm assuming that some of United Water's recent failures will become fodder for the left-wing-hate-groups like Public Citizen as they continue to unfairly bash public-private partnerships -- and find a willing audience of pulp-rag news papers who have no interest or time in researching their stories (hey, if the New York Times won't even fact check, why should they?).

You should know and emphasize to anyone who asks that USFilter Operating Services has saved and continues to save America hundreds of millions of dollars a year as well as continuing to operate plants more safely and in a compliant manner than anyone in the business. We continue to offer our deep and vast expertise to any municipality who would like to save their rate payers money and improve their operating/environmental performance. Details available anytime from Scott Edwards or Christie Kaluza.

Company balls out of N.O. sewer bid

Few left to compete for water contract

Times-Picayune

Friday June 27, 2003

By Martha Carr

One of two private companies that submitted bids last year to run New Orleans' water and sewer systems has said it likely won't bid a second time, casting a cloud over a process that has been dogged by controversy since it was inflated by Councilman Eddie Sapir four years ago.

United Water said this week that it has lost interest in the contract, which could run 20 years and total \$1.5 billion, mostly because of new laws that ensure a public vote before the system is turned over to private management.

"We are very concerned about the structure of the deal, especially the referendum vote," said Troy Henry, president of United Water's southern region. "It just sets the wrong precedent for our industry. If we now have to run an election every time we want to get a job, it makes public-private partnerships cost-prohibitive."

United Water, USFilter and OMI/Thames are the only private companies qualified to bid on the operations contract, according to the terms of a draft bid request released for public comment last week.

USFilter fully anticipates bidding, company officials said. OMI and Thames Water, separate companies that proposed teaming up for the job, will decide whether to submit proposals after a final bid request is released, company officials said.

Last year, United Water, USFilter and an employees group submitted proposals to run the water and sewer systems. All bids were rejected, however, after a power play by privatization opponents on the Sewerage & Water Board resulted in a 6-5 vote to kill the deal.

Mayor Ray Nagin, who is president of the board, said Thursday he's still confident that "multiple" companies will vie for the job. He's known of United Water's disinterest for several months, he said, but has pushed ahead with the process.

"This process has been going on for four years, it ended really bad, it was unfinished business," Nagin said. "We dusted it off, cleaned it up as best we could and now we are trying to fast-track it to see if there is a legitimate company and if the public is comfortable with the process we put in place."

But some observers, many of whom have long been uneasy with the privatization process, say United Water's departure adds to their misgivings.

"We took the position a long time ago that if there were fewer than three private bidders, the process should be aborted," said Janet Howard, executive director of the nonpartisan Bureau of Governmental Research.

"To us, that suggests there are either problems with the process or the contract. And if we're down to one private bidder, that's an absolutely inexcusable situation for a contract of this magnitude."

Councilman and board member Oliver Thomas, a longtime opponent of allowing a private company to run the system, said he hopes -- but doubts -- that United Water's departure will mean the end of the privatization rush.

"When you have international companies like United Water saying, 'We're not going to waste our time in New Orleans,' that should tell you something," he said. "But we have some people on the board that if Jesus came down and said don't privatize, they'd try to do it anyway."

Councilman and board member Marlin Gusman, who voted to reject all bids in October, called the bid process "deficient" and said the board should "carefully review this development to determine if we should spend any additional funds" pursuing private management.

The board has spent almost \$4.5 million exploring the issue.

Sapir, meanwhile, said he's not ready to give up just yet.

He said he has no way of knowing who will bid until the bids come in, adding that "what remains essential is that the board must pursue every avenue to save money for our ratepayers." To that end, Sapir said, the board should at least seek and review bids.

United Water's decision to shy away from the New Orleans contract comes just months after the company parted ways with the city of Atlanta, after four mostly turbulent years running that city's water system. Industry analysts say the deal was riddled with problems, and resulted in chronic complaints from residents about rust-colored water, periodic "boil water" orders, and leaks that went unrepaired for weeks.

Even Henry says the former contract was "a textbook example of how not to run a public-private partnership." But he denies that the company's problems in Atlanta had anything to do with its disinterest in New Orleans.

"It has nothing to do with Atlanta," Henry said. "It's just about the structure of the New Orleans opportunity."

The mayor and others, however, say they don't buy that.

"Yeah, right. Brown water, they had to spend millions of dollars, and it had nothing to do with it," Nagin said.

As for the company's concern about the referendum, the mayor said United Water knew during the last bid process that voters could approve a City Charter amendment giving them the right to have the final say on the privatization contract. Henry said the election wasn't decided until two weeks after United Water submitted its bid on Feb. 13, 2002.

Nagin also said he's heard from "very reliable sources" that United Water, a subsidiary of the French company Suez, has pulled back most of its money for new business development, and is "basically throwing in the towel at this point."

Henry said his company is in fact soliciting new business. It's just being more selective about which projects it pursues. In the past year, United Water has landed contracts with Laredo, Texas, and the Washington Suburban Sanitary Commission, which provides water and sewer service to two populous Maryland counties, he said.

"It's unfortunate that the mayor feels he can speak for our company and our business," Henry said.

Political insiders, meanwhile, have suggested that United Water is considering pulling out because of a feeling that USFilter has the inside track on winning the contract -- in part because of United Water's problems in Atlanta, and also because USFilter's 2002 bid was several million dollars lower than United Water's.

They also noted that by dropping out, United Water could cast a pall over the bid process and essentially kill the privatization drive.

On Thursday, as in the past, officials with the Bureau of Governmental Research said the board erred when it decided to limit the latest pool of bidders to the three companies that qualified to bid last year. The bureau issued a report two years ago saying that at least 14 companies around the world had the capability to run the water and sewer systems.

"This is a transaction that should attract widespread interest," Howard said. "If the U.S. government can find five companies interested in bidding to rebuild Iraq, why can't the Sewerage & Water Board find more than one company to run its operations?"

Melinda Nelson, a spokeswoman for the employees' group that is competing against the private companies, also wondered about the implications of a shrinking pool of bidders.

"The board is going to have to decide if it's really a competition if they only have one bidder," she said.

To muddy the waters even further, USFilter said this week that it's putting its local team of consultants on hold until a final bid request is released.

Company spokesman Scott Edwards offered no explanation of the move. He did say, however, that the company has spent more than \$3.5 million on the process.

"Our team is basically in a wait-and-see mode because we've already done so much due diligence to establish a price to manage the system," Edwards said. "Once the public comment period is over, we make a final determination of what our team needs to be and to do."

Edwards said the team consists of:

-- Wiley McCormick of Strategic Business Initiatives. McCormick, who provides business development and client relations services, served as State Police superintendent under Gov. Edwin Edwards and was a member of his inner circle.

-- Bill Hines of the Jones Walker law firm. Hines is chairman of MetroVision and a close associate of Nagin.

-- Public relations consultant Julie Gault of Sandle and Associates. Sandle appeared in a campaign advertisement for Sapir during his last election.

-- Malcolm and Marc Ehrhardt of The Ehrhardt Group. Malcolm Ehrhardt gave \$4,000 to Nagin's mayoral campaign, reports filed with the state show.

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