



March 30, 2017

Michael E. Lamb, City Controller
Controller's Office, City of Pittsburgh
414 Grant Street
Pittsburgh, PA 15219

Re: PWSA Performance Audit

Dear Controller Lamb:

On behalf of Veolia Water North America -- Northeast, LLC (Veolia), I write in response to your February, 2017 Performance Audit ("Audit") of the Pittsburgh Water and Sewer Authority ("PWSA").

Veolia certainly appreciates the important role that the Controller's office plays in maintaining the financial integrity of the City's resources; however, the Audit released by your office contains several significant errors that only have served to mislead, rather than inform, the general public. Those errors should be corrected.

The Audit Process Was Flawed

First of all, the process undertaken to create the Audit was flawed, which made errors virtually inevitable. For an Audit to make declarative statements about what Veolia did or did not do *without any effort to contact Veolia, seek its comment, or interview its employees*, is indefensible and patently unfair. Further, we understand that the Controller's office did not even attempt to contact James Good, who while employed by Veolia served as the Interim Executive Director of the PWSA. Mr. Good later left Veolia employment when the PWSA hired him as Executive Director. The Audit instead appears to rely exclusively on other PWSA and City sources. The people interviewed — current and former PWSA employees, Steering Committee members, and Board members — are hardly disinterested sources. As likely participants in a pending arbitration involving Veolia, these individuals were incented to deflect the blame away from themselves and towards others.

The Audit surprisingly makes no reference to an independent third-party audit review that was conducted as a feature of the agreement between the PWSA and Veolia. The



audit performed by Maher Duessel was based on input from both the PWSA and Veolia, and draws starkly different conclusions on the substance of Veolia's work on behalf of the PWSA.

Veolia Did Not Change Corrosion Chemicals

If the Controller's office had included Veolia in its fact-gathering, it would have had the chance to review clearly relevant documents before leveling the most serious of its allegations – that the change in corrosion control chemicals was a “Veolia recommendation to save PWSA money.” That is simply not true. Email correspondence from PWSA water treatment plant staff indicates that *without consulting Veolia* the staff explored and implemented the chemical switch in April 2014 to save money. PWSA operations staff described the switch as an internal PWSA decision in an October 16, 2015 e-mail to a Veolia project staff member:

[W]e here at the treatment plant, accomplished tremendous savings, via in house treatment changes. We are now using caustic soda for final pH adjustment versus soda ash. Traditionally soda ash was the preferred method because of cost. Caustic soda was always more expensive. But we noticed that while soda ash prices were rising the cost of Caustic was dropping. So we, internally, started to use Caustic in place of Soda Ash whenever possible, and to obtain a base line in usage versus cost. We found that we can significantly save money using Caustic, and feeding a chemical that is delivered in liquid form is always easier and safer to use.

The savings that the PWSA operator mentions benefitted the PWSA alone. The switch from soda ash to caustic soda was not part of any Veolia initiative. Any suggestion that Veolia directed, was aware of, or benefitted from the chemical switch is simply false.

Your erroneous conclusion supported a false narrative that the PWSA has been advancing to the press. Veolia, the PWSA's scapegoat, continues to battle those libelous statements, which has caused considerable harm to its reputation.

The Audit Contains Unsubstantiated Speculation regarding the Effect of a Change in Chemicals

Even more, the Audit also speculates that the change in chemicals “may be a cause of” elevated lead levels. That also is not true. There is no evidence that the change in chemicals had any impact on lead levels. In fact, both chemicals were approved by the DEP for corrosion control. To offer utterly unsubstantiated speculation on an issue of this magnitude is reckless and irresponsible.

The Audit Fails to Properly Address the Meter Interface Issue

The Audit reaches another erroneous conclusion regarding the meter interface issue. The finding that “[Veolia] did not thoroughly investigate for compatible equipment in the



Request for Proposal (RFP) that resulted in awarding Sensus the contact” for the meter reading technology is false. The PWSA and Veolia jointly drafted the RFP, which specifically requested that all vendors certify that their technology was “universally compatible with all meters.” The RFP required vendors to deliver a complete and fully functioning system, including all necessary software. After receipt of bids, the PWSA, not Veolia, controlled the evaluation of the bids and the award to Sensus.

The Audit Misstates Context and Veolia’s Role

Veolia’s relationship with the PWSA followed what Mayor Bill Peduto has described as “20 years of insufficient investment and management” (*TribLive* March 3, 2016), including an estimated \$600 million in debt, century-old infrastructure, two years without an executive director, and poor customer service, (*Id.*, July 30, 2012). In July 2012, the PWSA retained Veolia for a one-year term to provide a limited scope of services, namely “collaboration with and assistance to Authority personnel,” executive management oversight, and a six-month fast-track diagnostic study culminating in a recommendation report. The PWSA chose to renew the agreement twice after it explicitly and publically recognized the measurable value Veolia provided. The agreements specifically provided that the PWSA would remain at all times ultimately responsible for the operation and maintenance of its facilities, oversight of its employees and subcontractors, compliance with environmental and health and safety requirements, and purchase of equipment, supplies, and chemicals.

The agreements were structured to promote collaboration, transparency, and accountability. They specified that Veolia and the PWSA would work together to develop savings and revenue initiatives through a series of workshops, and would “work jointly to evaluate opportunities for efficiencies and/or revenue enhancements.” With respect to each initiative, Veolia submitted “business case reports” – which outlined how savings were to be achieved and measured – to a Steering Committee comprised of three PWSA Board members and two Veolia employees. PWSA appointees always outnumbered Veolia employees on the Steering Committee. Upon Steering Committee approval, initiatives were presented to the full PWSA Board, which had 30 days to approve, reject, or modify them. (*Id.*) Subject matter experts from both Veolia and the PWSA were available to the Steering Committee and the Board. If the Board approved an initiative, Veolia implemented it and tracked its performance. Veolia also conducted an annual review of all implemented initiatives to confirm the savings and operational status of each, and all savings were further confirmed by the PWSA’s auditor, Maher Duessel.



The Audit Should Be Corrected

I am sure the Controller's office shares our interest in accuracy. To that end, we request an opportunity to meet with your office, after which we hope you will consider issuing an amended report.

Sincerely,

A handwritten signature in black ink that reads "Kevin Nelson".

Kevin Nelson

Veolia Water North America -- Northeast, LLC

cc: Josh Shapiro, Pennsylvania Attorney General
16th Floor, Strawberry Square
Harrisburg, PA 17120

From: [REDACTED]@pgh2o.com>
Sent: Friday, October 16, 2015 6:06 AM
To: [REDACTED]@veolia.com
Subject: Copy of Total Savings 2013 to 2016_Sourcing of Chemicals.xlsx
Attachments: Copy of Total Savings 2013 to 2016_Sourcing of Chemicals.xlsx

Good morning. I plugged the numbers into your sheet. If you see 8 prices did come down for 2016, and one stayed the same. 2016 pricing was accomplished using the sealed bidding process.

I also wanted to bring up the fact that, we here at the treatment plant, accomplished tremendous savings, via in house treatment changes. We are now using caustic soda for final pH adjustment versus soda ash. Traditionally soda ash was the preferred method because of cost. Caustic soda was always more expensive. But we noticed that while soda ash prices were rising the cost of Caustic was dropping. So we, internally, started to use Caustic in place of Soda Ash whenever possible, and to obtain a base line in usage versus cost. We found that we can significantly save money using Caustic, and feeding a chemical that is delivered in liquid form is always easier and safer to use. For the most of 2015 we were using Caustic for pH control. The bottom line, does not lie. Also, less maintenance and down time using caustic. I do not have firm numbers, but I can surely get these numbers together for a future board meeting if JG would like. I will need to go before the board next month for 3 more chemical contracts. 2 of them will be a one year option, extension, and one of them were included in the sealed bid this year, but it took longer to qualify them and we did not get firm answers in time for this board meeting. I will call you once I get to 1200 Penn this morning, but please take a look at your document. I think I have all the info you will need for this morning.