



# CITY OF BROCKTON

MASSACHUSETTS

FINANCE DEPARTMENT

John A. Condon  
Chief Financial Officer

City Hall  
45 School St.  
Brockton, MA 02301  
508-580-7165  
FAX # 508-580-7853

August 22, 2000

John T. Yunits, Jr., Mayor  
Members of the City Council  
45 School Street  
Brockton, MA 02401

Ladies and Gentlemen:

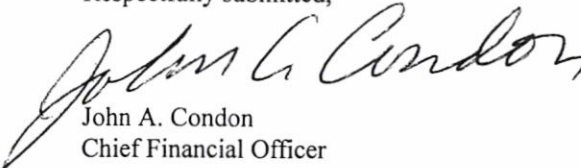
In accordance with Section 5 of Chapter 324 of the Acts of 1990, I hereby certify that it is my professional opinion, after an evaluation of all pertinent financial information reasonably available, that the financial resources and revenues of the City of Brockton are and will continue to be adequate to support the approval and acceptance of the proposed contract with Bluestone/Aquasource for water purchase without a detrimental impact on the continuous provision of the existing level of municipal services.

However, this certification is not to imply that this water purchase agreement will not require an adjustment in the city's water revenue structure. In fact, the agreement almost certainly will require increasing the city's water revenues in order to pay for the contractual minimum purchase commitment of 1.5 million gallons per day per year. The exact mechanism by which this revenue increase will be achieved will depend upon several variables:

1. How much of the desalinated water will result in new water sales or usage, as opposed to the replacement of current water usage above the city's aggregate safe yield; the state currently allows ten percent (10%) while the city seeks new sources of supply.
2. The mix of the new usage between residential, commercial, and industrial purchasers.
3. The specific block rate structure adopted by City Council to bill for water usage.

Moreover, it is my recommendation that the City Council defer a final decision on this contract until specific clarification can be obtained from Secretary Durand regarding conditions to be imposed on the city in purchasing water as a condition of the desalination permit. My rationale follows the argument set forth by the mayor in his letter of August 22, 2000 on this topic.

Respectfully submitted,

  
John A. Condon  
Chief Financial Officer

JAC/amw

[Bluestone-AquasourceKAccpt]

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FINANCE DEPARTMENT

John A. Condon  
Chief Financial Officer

City Hall  
45 School St.  
Brockton, MA 02301  
508-580-7165  
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March 19, 2002

John T. Yunits, Jr., Mayor  
Members of the City Council  
45 School Street  
Brockton, MA 02401

Ladies and Gentlemen:

In accordance with Section 5 of Chapter 324 of the Acts of 1990, I hereby certify that it is my professional opinion, after an evaluation of all pertinent financial information reasonably available, that the financial resources and revenues of the City of Brockton are and will continue to be adequate to support the approval and acceptance of the proposed contract jointly with Bluestone Energy Services, Inc. and Inima, Servicios Europeus Demedio Aiente S.A. for water purchase without a detrimental impact on the continuous provision of the existing level of municipal services.

However, this certification is not to imply that this water purchase agreement will not require an adjustment in the city's water revenue structure. In fact, the agreement certainly will require increasing the city's water revenues in order to pay for the contractual minimum purchase commitment, which grows from 1.9 million gallons per day in the first year to 4.07 million gallons per day in year 11, and maintains at that level through year 20. The exact mechanism by which this revenue increase must be achieved will depend upon several variables:

1. How much of the desalinated water will result in new water sales or usage, as opposed to the replacement of current water usage above the city's aggregate safe yield; the state currently allows ten percent (10%) while the city seeks new sources of supply.
2. When this demand growth actually occurs, especially in reference to the fixed commitment.
3. How many additional water purchasers Bluestone/Inima or the city are able to secure for the plant, what amount of water these purchasers contract for, and whether the city opts to offset these purchased amounts against its contractually committed volumes, or to reduce its contracted price.
4. The mix of the new usage between residential, commercial, and industrial purchasers.
5. The specific block rate structure adopted by City Council to bill for water usage.

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The amendment to the contract approved last year was required because Bluestone/Inima was unable to obtain project financing for that contract within the 180 day period during which failure to obtain project financing allowed either party to "walk away" without penalty. Last Fall, both parties agreed to extend that 180 day period in order to address the original contract's defects in securing financing.

The primary defect was the lack of committed contracts for the plant's minimum economically feasible capacity, other than Brockton's commitment. A number of alternatives were explored to remedy this, but in the end the parties agreed that Brockton would commit to more of the plant's capacity. The schedule by which Brockton agreed to increase its contracted commitment in a sense resembles the projected growth in water demand for the city. However, the schedule for contracted commitment to the plant somewhat exceeds this curve, especially in years three to eight. In exchange for agreeing to this increased volume commitment, the city obtained several concessions:

1. The city can offset its fixed commitment with the volume commitment of other long-term purchasers.
2. The city may sell to third parties in order to reduce the impact of its volume commitment.
3. The city may opt to reduce, on a gallon for gallon basis, its fixed price for its fixed volume commitment in the event that other water purchase contracts are executed. The prior contract would have resulted in a reduction of the fixed price for such gallons of about one-third. The new contract reduces that fixed price by more than 50 percent.
4. The city obtained a concession in the mechanics for measurement of achievement of its fixed volume commitment for purposes of determining whether the city is entitled to a reduced variable price for certain water purchases. The effect of this is to ensure that the city will be able to achieve the lowest possible overall contract price, especially for water purchases made during the summer months, when demand is highest.

Notwithstanding these concessions, the amended contract will quite likely prove somewhat more expensive to the water enterprise fund than its predecessor. However, that comparison is somewhat meaningless in that the predecessor contract did not result in the construction of the plant, and we are confident that this contract will result in construction. The contract also continues to provide the significant benefit that all of the risk of financing the permitting process, plant construction, and operation, rests with a third party and not with the city's rate payers. For this reason, I recommend your approval.

Respectfully submitted,

  
John A. Condon  
Chief Financial Officer

JAC/amw

[Bluestone-Inima2]

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