



Pacific Environmental Resources Corp.

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July 23, 2007

Mr. Bert Rapp, P.E.
Public Works Director
City of Fillmore
Fillmore, California 93015

Subject: Fillmore Water Recycling Facility

Dear Mr. Rapp:

We are in receipt of Mayor Conaway's letter dated July 6, 2007 containing questions regarding our firm and recommended solution for the City of Fillmore's water recycling facility. In addition, we are in receipt of a letter and enclosures from Mr. Glen Hille, P.E. of Boyle Engineering Corporation dated July 18, 2007 requesting a detailed cost comparison for the water recycling facility. To clarify the status of PERC's involvement with the City of Fillmore, our firm has not submitted a formal proposal to the City of Fillmore (or American Water) for the water recycling facility.

Our firm respects the existing contractual obligations the City has with American Water therefore we have no desire to actively solicit the design, construction or operations of the City's water recycling facility. Our involvement with this project has been limited to questions asked by certain citizens of Fillmore regarding possible cost savings to the City and American Water. However, if the City and American Water are interested in discussing how our firm can reduce the capital and operating costs for the City by utilizing the PERC Total Solution we are open to meeting with the City, its consultants and American Water.

On July 19, 2007 we received a request for cost comparison of the PERC ASP® design from Mr. Hille of Boyle Engineering Corporation. Mr. Hille contacted me directly to discuss the request for cost comparison, and together we identified over \$9 million of potential capital cost savings specific to the Fixed Design/Build Price of the water recycling facility compared to PERC's not-to-exceed estimated cost of \$27 million. We are confident there are additional savings to be realized in this project, including the deferral and phasing of membrane equipment similar to the approach the City is currently taking. We did not address the potential cost savings relative to the relocation of the facility or potential O&M cost savings.

In order for us to provide responses to Mayor Conaway's questions and to provide a detailed breakdown of a cost comparison as requested by Mr. Hille, PERC needs to prepare a Conceptual Design Report which would include conceptual drawings, basis of design, outline specifications, critical path schedules, performance guarantees, guaranteed capital costs and guaranteed O&M costs.

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Our fixed fee to prepare a Conceptual Design Report is \$95,000. If the City or American Water is prepared to authorize our firm to prepare a Conceptual Design Report, we would be interested in meeting on July 27, 2007 at the City of Fillmore. Without authorization of a Conceptual Design Report, a meeting would be of minimal value to achieving the goal of reduced capital and O&M costs.

Please advise if the City or American Water is prepared to authorize our firm to prepare a Conceptual Design Report.

Sincerely,

PERC



Brian D. Cullen
President

Cc: Mr. Steven D. Owen, PERC
Mr. Glen Hille, PE, Boyle Engineering Corporation