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February 12, 2018

Ms. Beth Redmond
Capital Program Planning and Analysis Unit Manager
Water Utility Division
Water Utility Enterprise
Santa Clara Valley Water District
5750 Almaden Expressway, San Jose, California 95118

Re: Expedited Purified Water Program – P3 Procurement Options and Request for Qualifications Recommendations; Potential for Significant Capital Cost Reductions

Dear Ms. Redmond:

On behalf of the Silicon Valley Water LLC team, PERC Water is pleased to provide comments in response to your request of February 8, 2018 regarding the P3 Procurement Options for the Expedited Purified Water Program. In addition, we are providing suggested concepts for the future Request for Qualifications of P3 Entities, including concepts for significant reduction in capital costs.

P3 Procurement Hybrid Option (of Options B and C)

PERC Water has reviewed Item 5.2 of the Recycled Water Committee Meeting dated February 8, 2018, specifically with respect to Option B (Progressive P3) and Option C (Development-Oriented P3). While we generally agree with the pros and cons described in the presentation, we are providing these comments for a suggested “hybrid option” of Procurement Options B and C, summarized as follows with benefits for the District:

1. Issue a RFQ for the selection of a P3 Entity (including the financier and operator) requesting qualifications of financing and operations of past P3 projects with an emphasis of greenfield, water reuse P3 projects, estimated project costs, financing alternatives and creative solutions to expedite the project to reduce risk and cost for the District; and
2. The selected P3 Entity and the District collaborate to issue a subsequent RFQ/RFP for an Engineering-Procurement-Construction Contractor (EPC) whereby the P3 Entity will contract with and be responsible for the EPC. The District will participate in the ranking and final selection of the EPC.

The main advantage and benefit to the District of the “hybrid option” is the District is able to select its preferred P3 Entity **and** its preferred EPC, whereas under the current Options B and C, the District may arrive at a preferred P3 Entity, but a less desirable EPC, and vice-versa. Therefore, selecting the P3 Entity first followed by a collaborate process between the District and the P3 Entity for selection of the EPC gives the District the best opportunity to select its most preferred overall team and most competitive EPC entity for the construction of the facilities. The P3 Entity would be responsible for the EPC and operations.

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Description	Pros	Cons
<p>3-4 Month RFQ / RFP Process</p> <p>P3 Entity selected based on:</p> <ul style="list-style-type: none"> • Qualifications • Creativity • Experience with Regulators <p>Non-Binding Costs of Capital</p> <p>Non-Binding Costs of EPC and O&M</p> <p>Non-Binding Costs of Water (e.g. price per acre-foot)</p> <p>Proposed P3 Contract with P3 Entity</p> <p>District/P3 Entity completes SJ Agreement negotiations and CEQA/RWQCB work</p> <p>District/P3 Entity procure separate EPC Entities, either relying on the previously qualified EPC entities from the 2016 procurement or issuing a new RFQ for EPCs entities.</p> <p>District ensures the P3 Entity will select an EPC that complies with PLA and local-workforce requirements.</p>	<p>District selects the P3 Entity <u>and</u> Operator it prefers and deems most qualified</p> <p>District and P3 Entity selects the EPC that both the District and P3 Entity prefers and deems most qualified</p> <p>District has better control over selection of EPC Entities, PLA and local-workforce requirements.</p> <p>P3 Entities incur lowest costs for RFQ / RFP, resulting in better competition and pricing for the District</p> <p>P3 Entity to provide preliminary estimated costs of EPC and O&M as part of the selection process</p> <p>P3 Entity and District can collaborate on creative project concepts, including the reduction and elimination of costly pipeline infrastructure.</p> <p>Can incorporate District experience and preferences</p> <p>Leverage P3 Entity experience to accelerate key agency requirements</p> <p>A competitive bidding process for the EPC will result in better certainty for the District</p>	<p>EPC Entity not selected at the same time as P3 Entity selection (this could also be considered a pro given the more control afforded to the District)</p> <p>Deferred cost certainty at time of selection of P3 Entity</p> <p>Risk allocation can be complicated by District participation in selection of the EPC Entity</p> <p>Potential loss of competitive pricing and risk transfer (this con would only apply to the P3 Entity procurement as the EPC procurement would be a competitive process)</p> <p>Potential loss of life-cycle cost efficiently due to separation of EPC and O&M contracts (this would not be a con if the EPC was procured under a competitive process)</p>

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Request for Qualifications Comments and Suggestions

The P3 RFQ issued in 2016 was well written and effectively described the needs of the District and the requirements of the P3 Entities. Following a review of the 2016 P3 RFQ, there are some opportunities for improvement for the next RFQ for the P3 Entities, summarized as follows:

- Issue the P3 RFQ based on a hybrid option as described above
- Encourage P3 Entities to include concepts of creativity for cost reduction, schedule acceleration and alternative project concepts to the District. In addition to scoring P3 Entities based on qualifications, a scoring mechanism should be considered for creativity and alternative project concepts that benefits the District, it's customers and the environment (for example the reduction or elimination of the costly and disruptive pipeline infrastructure).
- Given the type of project being procured by the District, consider scoring and credit for P3 Entities that have prior experience with P3 projects in California, and specifically with regards to greenfield water recycling projects. In addition, scoring of P3 Entities that have prior working experience with the State Water Resources Control Board and the Regional Water Quality Control Board should be considered.
- Encourage P3 Entities to provide projects concepts for local, decentralized water recycling facilities to treat and recycle wastewater locally, thereby reducing or eliminating the extensive pipeline infrastructure described in the 2016 P3 RFQ. PERC Water submitted such a concept in its 2016 P3 RFQ, which was estimated to reduce the pipeline capital cost by approximately \$200 million.

We appreciate the opportunity to submit our comments and are available to answer any questions you have or to provide further clarification of the content of this letter.

Kind regards,

PERC Water Corporation



Brian D. Cullen
President

Cc: Members of the Recycled Water Committee