



Judith Pearce
Lead Operations Officer
External Outreach & Partners Group
Multilateral Investment Guarantee Agency
World Bank Group
1818 H Street, NW
Washington, DC 20433 USA

December 21, 2007

Dear Ms. Pearce:

Thank you very much for contacting us to discuss the performance of Interagua as the concessionaire for the potable water, wastewater, and rain water services in Guayaquil, Ecuador.

As you know, at the time the concession was awarded in 2001, water services in Guayaquil faced major challenges resulting from a range of causes, including years of under-investment in maintenance and modernization of the system and the rapid and informal growth of residential settlements in the city. Utilities in general have struggled to effectively deal with the growth and geographic spread of service demand.

As we discussed briefly over the phone, we are proud to report on Interagua's progress in serving Guayaquil, and the many positive impacts that result from Interagua's investment programs, particularly rehabilitation and expansion of the potable water network to serve a larger number of the residents of Guayaquil.

Interagua's activities are conducted in coordination with and with approval from ECAPAG, the official Ecuadorian government agency overseeing water services in Guayaquil. To meet the government objectives and fulfill a basic social imperative, ECAPAG and Interagua's plans to expand the water networks focus specifically on initiating service for residents of the poorest neighborhoods in the city.

The concession's achievements to date include the following:

- Prior to the concession in 2001, 1.2 million people in Guayaquil (62% of the population) were connected to the municipal water supply – and roughly half of those serviced suffered daily service outages due to lack of pressure in the system.
- At present, over 2.1 million residents of Guayaquil (84% of the population) are connected to the municipal potable water system, and more than 90% of the customers have 24-hour per day, uninterrupted service with a pressure of at least five meter head.

- The near doubling in the population served and 24-hour service in the coverage area are the result of over 64,000 new household connections plus 70,000 new accounts. Furthermore, the rehabilitation of the system has increased pressure and service continuity; reduced health risks from contaminants entering the system; and improved the core infrastructure to allow expansion into the new areas.
- To ensure water quality, Interagua's testing laboratories, which have attained ISO 17025 accreditation, conduct nearly 20,000 analyses of water quality throughout the system on a monthly basis – well in excess of public health requirements. These analyses consistently demonstrate that water delivered by Interagua meets or exceeds national public health standards. Regarding water quality, some have claimed that Interagua was responsible for a Hepatitis A outbreak in June 2005. This claim is false: Independent investigation and testing by governmental authorities confirmed that the outbreak was the result of contamination of stored water by sewage effluent within the premises of a school.
- By reaching previously unconnected areas of Guayaquil, Interagua's efforts have lowered the unit cost of water from US\$ 3.5 per cubic meter to US\$ 0.322¹ per cubic meter for the city's poorest residents, who previously relied on tanker-supplied water to meet their potable water requirements.
- With regard to consumer payment issues, Interagua has procedures in place to identify sharp increases in consumption. When customers have higher than expected water bills, Interagua charges only at the historic billing level during two months, during which period it sends technicians to advise on usage and inspect for leaks on the customer property that may have caused the higher meter reading. Once the cause is identified, Interagua allows customers 28 days to develop appropriate usage habits or make repairs to stop leaks. As a last resort in the event of no payment, following procedures approved by ECAPAG, Interagua will suspend water service to a customer only after giving the required notifications.
- Interagua has established over 48,000 new household wastewater connections, though the coverage percentage has risen only from 56% to 62%, due primarily to the large population influx over the same period. ECAPAG's strategic priorities for the 30-year concession have been (1) increasing the number of residents with access to potable water, (2) increasing the number of residents who have wastewater service, and (3) adequate treatment of wastewater. Wastewater connections in areas not currently served are a major focus for Interagua, ECAPAG, and the Municipality in this the second five-year period of the concession.

¹ Based on consumption of 15m³/month and including the fixed charge.

The aforementioned accomplishments and process improvements demonstrate the positive impacts to Guayaquil's water and wastewater systems from Interagua's management of the concession.

These efforts have not been conducted without inconvenience to the residents of Guayaquil. Service interruptions have occurred as the company has made necessary improvements to the system's infrastructure. Unfortunately, the system Interagua inherited lacked the valves and routing schemes that make it possible to conduct repairs with only limited service interruptions. Interagua has remedied this situation and will be able to conduct regular maintenance interrupting much smaller geographic areas within the city.

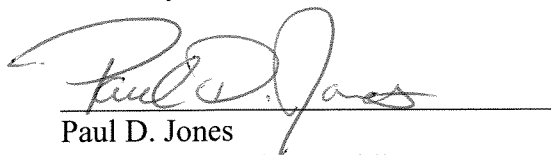
In addition, the construction of around 10,400 wastewater connections was deferred because certain public sector agencies had accumulated unpaid invoices totaling more than US\$ 8.7 million. Most simply, the government's failure to pay resulted in the delay of these connections because the unpaid amounts are the source of funds to pay for the new connections. As the government has paid these past due amounts, Interagua has constructed the connections.

The progress Interagua has made will continue as it works toward its goals of 95% water and 85% sanitation coverage by 2011. Its planned construction of network expansions in the second five-year period calls for a capital expenditure of approximately US\$ 350 million.

These investment programs; Interagua's proven ability to control costs through efficiencies; and its programs to help Guayaquil residents best manage their water usage and thus save money, are all serving to make the concession a valued part of the city's public service infrastructure.

We appreciated the opportunity to share some of our successes with Mr. Jason Lu last year, and would welcome a similar opportunity with any member of the MIGA staff at any time you deem appropriate. If you have any questions or would like any additional information about our work, please do not hesitate to contact us.

Sincerely,



Paul D. Jones
Bechtel Enterprises Holdings, Inc.
P.O. Box 193965
San Francisco, California 94119-3965