

March 3, 2009

**Re: Veolia Water Class Action Lawsuit  
Marion County Superior Court No. 7  
Cause No. 49D07-0804-CC-018081**

To All Concerned Veolia Water Customers:

You are receiving this correspondence because you have indicated an interest in knowing more about the class action lawsuit against Veolia Water Indianapolis, LLC (“Veolia Water”). This is my fourth update on the status of the lawsuit which was filed in April, 2008.

#### Status of the Lawsuit

In my last update of December 5, 2008, I informed you that Veolia Water filed a motion to dismiss this lawsuit in October, 2008. On December 15, 2008, a hearing was held in which the Court heard arguments on Veolia Water’s motion. Unfortunately, on January 13, 2009, the Court granted Veolia Water’s Motion to Dismiss. Although Veolia Water made several different legal arguments in support of its motion, it is difficult for me to explain the legal basis for the Court’s Order. The Court did not (nor must it) pinpoint the rationale for its dismissal. I have posted a copy of the January 13, 2009 Order on the website located at [www.silegal.com](http://www.silegal.com). Look for the Veolia Class Action Update link. A copy of the Order is located under Complaint and Court filings.

Although the dismissal Order is unfortunate, it does not end this litigation. Once the Court granted Veolia Water’s Motion to Dismiss, we had two options; appeal or re-file an Amended Complaint. Ultimately, the Plaintiffs chose to re-file an Amended Complaint, which was filed on January 23, 2009. A copy of the Second Amended Complaint is also posted on our website.

It is important not to misconstrue the meaning of the Court’s dismissal Order. The motion to dismiss filed by Veolia Water challenged the legal theories of the Complaint, not the facts which supported them. Therefore, the Court’s dismissal Order did not, in my opinion, determine the viability of the facts which underpin the claims made by the Plaintiffs, only the legal theories and claims which spring from those facts. For this reason substantially the same factual allegations are included within the new Amended

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Complaint. I have changed some of the legal theories, hopefully to remedy the legal deficiencies of the first Complaint.

The most significant change to the new Complaint is the addition of one new Defendant, The City of Indianapolis, Department of Waterworks, in addition to Veolia Water. The Department of Waterworks owns the plant which constitutes Indianapolis Water Company and contracts with Veolia Water for its operation. Incredibly, Veolia Water argued in its motion to dismiss that even though its employees read your meters, generates the bills, takes your calls when you complain, it is not responsible for the claims described in the Complaint. It argued that the Plaintiffs should have instead sued the Department of Waterworks. Although we currently do not have any reason to believe that The City of Indianapolis, Department of Public Works directly caused or contributed to the meter reading and estimating problems which give rise to the Complaint, we nonetheless added them as a Defendant to, hopefully, cure the legal defect which caused the original Complaint to be dismissed.

Currently, both Defendants must respond to the Amended Complaint by April 1, 2009.

#### Other Recent Developments

As many of you are aware, the Department of Waterworks announced last month that it would be seeking a rate increase. The last rate increase occurred in April, 2007 and was for 28.91%. The emergency rate increase which the Department of Waterworks filed on February 24, 2009 with the Indiana Utility Regulatory Commission ("IURC") requests not only an emergency increase of 17.5 %, but also an additional unspecified non-emergency rate increase.

The official comment on the reason for this rate increase is that the "Waterworks' interest rates rose from 3.5 percent to 9.5 percent, forcing Waterworks to make \$20 million more in interest payments in 2008 than in 2007." (Press Release, February 19, 2009). What is interesting is that the largest line item in the Waterworks' budget is not interest expense, but the fees paid to Veolia Water to operate your water utility. The total fee paid to Veolia Water in 2006 was \$43,683,074. In 2008, the budgeted payments to Veolia Water by the Department of Waterworks totaled \$53,208,248 representing an increase of \$9,525,174 or 22% in only two years. The rate increase sought also seeks to automatically impose future yearly increases in the fees paid to Veolia Water directly on you, the rate payer, without further review by the IURC.

The increase in the fees paid to Veolia Water should not come as a surprise because in June, 2007 Veolia Water managed to renegotiate the Management Agreement

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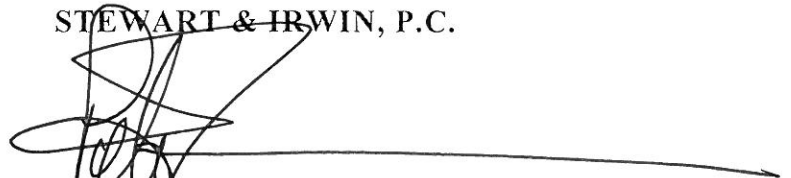
between it and the Department of Waterworks a few months after the last rate increase in 2007 was imposed. The renegotiated agreement resulted in substantial increases in the yearly fixed fee payable to Veolia Water, a \$5,000,000 payment to Veolia Water for previous "unexpected expenses" it incurred, and the virtual elimination of any prospects for competitive bidding on future capital projects. A copy of this amended agreement can also be found at our website, along with other documents relevant to the rate increase proceeding at the IURC. Although the rate increase does not bear directly on this lawsuit, I believe it is important that you have access to this information.

Finally, Dan Spehler of WRTV-6 News is doing an investigative report on many of the issues involved in this lawsuit. The report will air at 11:00 pm on Thursday, March 5, 2009.

I hope this update has been informative. Please contact me by e-mail if you have any questions. If you do not wish to receive future updates, please let me know.

Very truly yours,

~~STEWART & IRWIN, P.C.~~



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