



**City of Nashua**  
New Hampshire

Ex. 1.5

# **Proposal**

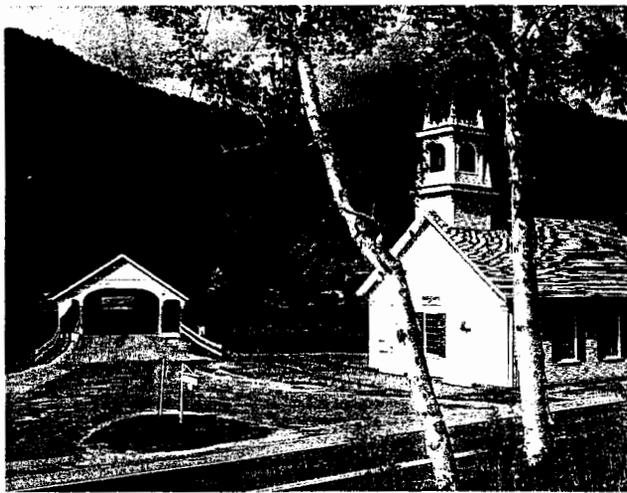
## **Volume II – Price Proposal**

### **RFP1305-061505**

# **Operation and Maintenance of the Water Utility**

**July 14, 2005**

**(Revised: September 6, 2005)**





September 6, 2005

Ms. Katherine Hersh  
Community Development Division  
City of Nashua  
Central Purchasing Office  
229 Main Street  
Nashua, NH 03060

Subject:     **Volume II – Price Proposal (Revised)**  
                  RFP1305-061505 -  
                  Operations and Maintenance of the Water Utility

Dear Ms. Hersh:

In response to the clarifications requested by Mr. George Sansoucy in the letter of August 31, 2005, **Veolia Water North America – Northeast, LLC (Veolia Water)** has prepared a revised Price Proposal volume that reflects the requested changes. Specifically, we have separated non-recurring costs from the annual costs. Additionally, as reflected in the changes to Volume One of our submittal, we have provided a core group of Veolia Water staff with expertise and experience in the areas of regulatory oversight to assist in regulatory and municipal rate-making and analysis. These staff are indicative of the types of professionals that we can make available to assist the City with this process, and we will be glad to discuss the specific supplemental services we can provide, according to your needs.

Our original Proposal submittal of July 14 and this revision have both been prepared in specific response to your Request for Proposals (RFP), and serve to demonstrate our firm's commitment to delivering the best value to the City of Nashua for this proposed long-term water system operations and management contract.

The Pricing approach that we have defined in this Volume of our Proposal is based on our understanding of the City's specific needs and goals for this project, and our experience in the transition and long-term management of similar water systems. This experience includes our current work with the City of Indianapolis, Indiana, where we operate and manage a water treatment and supply system that serves more than 1.2 million people in and around the City. Like this proposed project with the City of Nashua, our relationship with Indianapolis began in 2002 when the City acquired the water assets from an investor-owned utility and then transitioned the O&M responsibility for the system to Veolia Water under a 20-year agreement. This base of experience will be applied to the benefit of the City of Nashua's project through the involvement of many of the key technical and management staff from that project.

The water system in Indianapolis is one of the more than 100 municipal water systems that Veolia Water operates and manages throughout the U.S., and is among the thousands of water systems that Veolia Water companies operate and manage for communities throughout the world. What this means to the City of Nashua is that we will bring to bear the national and international experience of our firm to provide you with a first-class water utility.

This Price Proposal, as presented complete in this volume, is based on our separate Technical Proposal for the management and operation of the water systems that will be acquired from the Pennichuck Corporation. We understand that this project will involve providing operation, maintenance and management (O&M) services for what is collectively referred to as the Water Utility, which includes the water utility assets of the Pennichuck Corporation, namely, those of Pennichuck Water Works.

In preparing our original Proposal and this revised submittal, we have reviewed all of the data available for the Water Utility and made assumptions based on our experience in operating and managing similar water systems under long term agreements. Based on this, Veolia Water has crafted a plan and approach to forming a long-term contractual relationship with the City of Nashua. Our commitment to the City and those served by the Water Utility centers on:

- Supporting you throughout the asset acquisition process. **We will be at the table supporting your efforts in the eminent domain proceedings.**
- Delivering enhanced value through our Base Proposal offers and expanded Innovative Proposal offering. In the true spirit of what our company is all about, **we exceed the scope of this RFP by offering a significant watershed program** that will transform public transparency and safeguard the community's interests - **establishing a citizens advisory group**, and, importantly, **conducting a two-year study that will offer comprehensive solutions for protecting the community's water source.** Our community involvement will include the development of programs to educate and increase the awareness of water resources management, water operations and treatment, and water education.
- Implementing a project management and operations approach that ensures you maintain control of the system. **We will help you in establishing direct control over the system,** present and future operating and capital costs, water rates and the path and required programs for your fellow citizens' future.

It is Veolia Water's desire to enter into a performance-based contract that creates a contractual relationship between the City and our company—an approach that transfers environmental compliance and water quality responsibility to us while local government owns the asset and controls present and future destiny of the system. To facilitate this, we have responded to the Base Proposal requirements, as defined in your RFP, and provided a highly advantageous Innovative (Alternative) Proposal, one that expands on the value and overall cost savings that can be delivered under this long-term contract.

As stated at the start of this letter, our revised Price Proposal submittal has been prepared to be responsive to your RFP of March 25, 2005, the addenda and clarifications issued to date as well as the referenced letter from Mr. Sansoucy, and is presented in three volumes, this Price Proposal Volume (revised), which is based on the information presented in our separate Technical Proposal Volume (as revised) and the Appendix Volume (as revised).

As the President for Veolia Water's Northeast LLC, I will be the Project Principal and primary point of contact, and I have executed this Proposal transmittal letter.

Ms. Katherine Hersh, Community Development Division Director  
City of Nashua, New Hampshire  
September 6, 2005

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Veolia Water's contact person for the procurement process will be:

Ms. Sandra Sullivan  
Vice President Municipal Business Development  
Veolia Water North America- Northeast, LLC  
140 Pettaconsett Avenue, Cranston, RI 02920

Telephone: 401-467-7210, ext. 110

Cell Phone: 401-965-8922

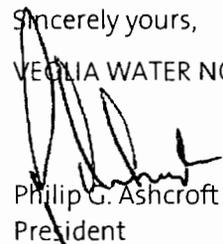
Fax: 401-781-5260

E-Mail: sandra.sullivan@veoliawaterna.com

I invite you to contact Ms. Sullivan, or me, if you need any additional information or have any questions regarding this Proposal. We look forward to the opportunity of working with the City of Nashua through this public-private partnership.

Sincerely yours,

VEOLIA WATER NORTH AMERICA – NORTHEAST, LLC



Philip G. Ashcroft  
President

# Volume II Price Proposal

Submitted to:



**City of Nashua**  
New Hampshire

**RFP1305-061505**

## **Operation and Maintenance of the Water Utility**

**July 14, 2005**

**(Revised: September 6, 2005)**

The information contained on each page of this document which has been stamped with the legend "Company Confidential - Trade Secret and Proprietary Information - Veolia Water" is confidential and proprietary information which constitutes a trade secret of Veolia Water North America Operating Services, LLC and Veolia Water North America - Northeast, LLC (Veolia Water). Veolia Water asserts a business confidentiality claim covering all data and information contained on each page of this document bearing this legend. No such data and information shall be disclosed outside of the agency to which this document has been submitted or be duplicated, used or disclosed, in whole or in part, for any purpose other than to evaluate this document.



# Executive Summary



Executive Summary

# THE BEST OF BOTH WORLDS: LOCAL CONTROL AND PUBLIC OWNERSHIP WITH A PERFORMANCE-BASED CONTRACT

## VEOLIA WATER'S COMMITMENT TO NASHUA INCLUDES COST SAVINGS, WATER-QUALITY AND WATERSHED PROTECTION WITH AN EXPERIENCED TEAM



In Volume One of this Proposal, Veolia Water North America – Northeast, LLC (Veolia Water) discussed in detail our plan and approach for addressing the Base project, as defined by the City of Nashua, New Hampshire, in your Request for Proposal (RFP) for providing operation and day-to-day management of the water supply facilities for your community.

The focus of this work will be on delivering the City's water customers drinking water of high quality and in full compliance with all applicable standards, laws, rules and regulations. In tandem with these goals is the mandate to provide uninterrupted water service, with no affects on the quality of water or the level of service delivered.

Veolia Water also understands that one of the keys to our success in working with clients similar to Nashua is the ability to deliver innovative approaches that provide cost savings and performance guarantees. It is in this spirit that we have developed and presented in Section Six of Volume I our Innovative (Alternative) Proposal. That section defines the key elements and advantages of our proposed alternative approach.

Our Price Proposal, as presented in this volume, provides a pricing method based on both the Base and the Alternative plans, and documents the savings and clear benefits that are offered by this approach.

### How We Can Help You

We applaud the City of Nashua for your efforts to take control of the water system and assets serving your community, the area's watershed, as well as rates affecting local citizens. The eminent domain process creates a complex and demanding set of circumstances. We at Veolia Water are ready to support you in that process with an experienced team.

Not only are we America's most experienced water contract services provider, we are the company that, in Indianapolis, Indiana, supported the nation's most significant effort to transform an investor-owned utility into an efficient water system controlled by the community.

And we believe we can help Nashua *now*, during the eminent domain process, and *later*, as you establish the most efficient system for producing quality water at an affordable price.

We will be at the table supporting your efforts in the eminent domain proceedings. Specifically, Veolia Water will support you in several ways, including:

- **Credibility** - We can **strengthen your position in this fight** through our proposed plan and approach, as defined in this Proposal. Our transition plan and in-depth experience bring enormous credibility forward on your behalf.
- **Lower Costs** - We will **dramatically lower your costs** through our proposed programs, practices and technologies. Our economies-of-scale will allow us to seek the lowest life-cycle costs for both capital and operating cost considerations, supporting your economic model for the asset acquisition.
- **Experience** - More than any other company, we have **in-depth experience in transitioning water systems from one party to another party** and have transformed the investor-owned utility serving the nation's 12<sup>th</sup> largest city into what is now the nation's most significant water services contract.

**Veolia Water is committed to forming a contractual relationship centered on:**

- **Significant Cost Reductions**
- **Priority Given to Hiring Existing Employees**
- **Watershed Protection Recommendations**
- **A Clear Plan for Communication and Information Distribution to the City and the Region**
- **Customer Satisfaction Expansion**
- **Performance-based Fee for Monitoring and Improved Service Delivery**
- **Local Community Commitments**
- **Value Engineering Savings**
- **Support to Assist Local Employees for a Transition Period**
- **Best Practices in Asset Management and Security Assessment**

We will help you establish direct control over the system, from operating and capital costs to rates, in order to establish a path of success and savings for generations to come.

The acquisition of the Water Works will result in an entirely new structure for the operation of the water system with ownership and control by the City of Nashua. All staff under the performance-based contract will be focused strictly on the delivery of quality water with a capital improvement program and watershed protection activities. The administrative organization for this concept will change dramatically from the present investor-owned utility. The change in structure will eliminate stockholder returns and redirect all surplus funds to the infrastructure of the system and rate stability.

### **Our Base Proposal Approach**

Veolia Water has developed the Base Pricing Proposal, as presented in Section One of this Volume, to provide the City of Nashua with a responsive Proposal to your RFP for the O&M of the Nashua Water Works. Some key items to note with regard to our Base Proposal include:

- We meet, or exceed, the City's requirements set forth in the RFP and Addenda.
- As a reflection of Veolia Water's community spirit, exceeds the scope of the RFP by offering a significant watershed protection program that will safeguard the community's interests and transform any public concerns or doubts into confidence.

Our program establishes a Citizen's Advisory Group, and, more importantly, conducts a two-year study that will offer comprehensive solutions for protecting the community's water source and buffer zones. The cost of this program is \$200,000 and is included in our Fixed Fee.

- Our **community commitment** will include the development of programs to educate and increase the awareness of water resources management, water operations and treatment, and water education.
- Providing for a **comprehensive asset management program** to include an initial fixed asset Condition Study and Maintenance Plan based on condition of assets taken by the City of Nashua.
- Providing for a **Vulnerability Assessment & an Emergency Response Plan**.
- Providing a **Conservation Plan**.
- Providing a **Meter Conversion Plan**.
- Providing the customers of the Nashua Water Works with **reliable delivery of high quality drinking water** and a high level of customer service with open access to the service provider.
- Ensures that the newly-acquired City assets are preserved through professional operations, maintenance and capital planning.
- Using our **experience gained in Indianapolis**, where we are the company that supported the nation's most significant effort to transform an investor-owned utility into an efficient water system controlled by the community.
- **Provides the City with an Annual Capital Plan**, funded by Veolia Water for \$50,000 as part of our Fixed Service Fee, **exceeding RFP requirement**.
- Provides a **comprehensive Asset Management program**, to include an Initial Condition Study funded by Veolia Water for \$35,000 in the first year of the Services Contract.
- Complies with all **regulatory requirements**.

Veolia Water's overriding objectives in our Base Proposal is to demonstrate to the City of Nashua that you can be confident you will realize significant benefits through our plan and approach to the transition of services and the day-to-day management of the water system.

### **Our Alternative Proposal Approach**

Veolia Water will provide for all of the services requested in the RFP, and all of the services as outlined in our Base Proposal, plus the additional scope of work as outlined in our Innovative (Alternative) Proposal in Volume I, Section Six.

Veolia Water's Alternative proposal includes the following enhancements over our Base Proposal:

- Reduced maintenance costs and capital replacement dollars by using reliability centered maintenance (RCM) and life cycle costing.
- Improved reliability of critical plant processes and equipment.

- A fixed O&M fee for the City that incorporates the Fixed Price Component and the Unplanned Maintenance Component in the Base proposal.
- A reduced O&M fee over the Base proposal.
- Reduced City Capital investment by having Veolia Water manage the City Capital Program.
- Expanded and improved customer service at a reduced overall cost.

Veolia Water provides a detailed discussion of the approach to this Alternative Proposal in Volume One, Section Six, of this proposal. The Price Proposal for the Alternative is included in Section Two of this Volume.

### **Benefits and Potential Cost Savings Provided by Alternative Proposal**

By choosing Veolia Water's Alternative Proposal, which includes our RCM and CPM programs and our enhanced customer service approach, the savings realized to the City of Nashua are substantial. The potential savings resulting from the Alternative Proposal include:

- **RCM Savings** - It is estimated that the savings to the City would be approximately \$1,800,000 over the life of the contract. These savings are a result of reduced labor, materials and supplies.
- **CPM Savings** - It is estimated that the savings to the City, based on an aggregate of \$80 million for the 20-year period (annual capital expenditure averaging \$4,000,000), would be between \$12 and \$16 million.
- **Cost Avoidance During the Asset Purchase** – The estimated benefit of cost avoidance during the eminent domain process will be approximately \$1 to \$3 million. The City of Nashua can avoid the purchase of Pennichuck's utility billing software system.
- **Startup Costs** – Veolia Water estimates that startup costs of approximately \$100,000 related to setting-up telephones service and system infrastructure could be avoided.

Veolia Water's Alternative Proposal is designed to save the City of Nashua – and your ratepayers – an estimated \$15 – 20 million over a 20-year contract term.

### **Delivering the Best Value to the City of Nashua**

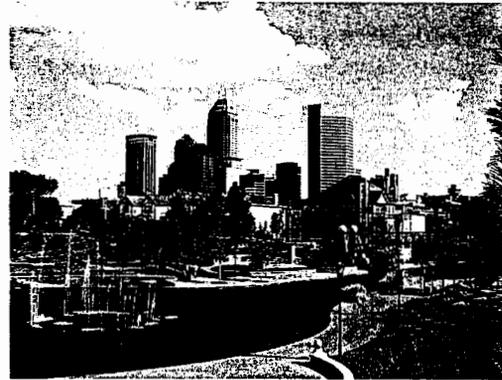
Veolia Water is unique in our ability to ensure your objectives are met. We will be your local neighborhood operator with access to the resources of world's most experienced water company. Our company has transitioned more employees (public and private) than any other water services provider. Veolia Water's record of success is evident from maritime New England to the desert Southwest, from large cities to smaller communities – 600 in all, from coast to coast.

Just down the road in Leominster, Massachusetts, we have effectively and efficiently managed the community's water and wastewater system for almost 20 years, working through service and system improvements and helping them to meet the challenges every city faces. On a larger scale, we manage the nation's largest public-private partnership. By acquiring assets from a regulated utility company, **Indianapolis has witnessed the tremendous benefits of local control, rate stability, customer service improvements, and enhanced performance on water quality such as taste-and-odor improvements.**

We have direct, relevant experience in New England that will ensure Nashua's Water Works system is smoothly transitioned and that ongoing operations are efficient, yielding the highest-quality water the facilities are capable of producing. We also bring world-class industry experience in current security practices to assist you in protecting your water system.

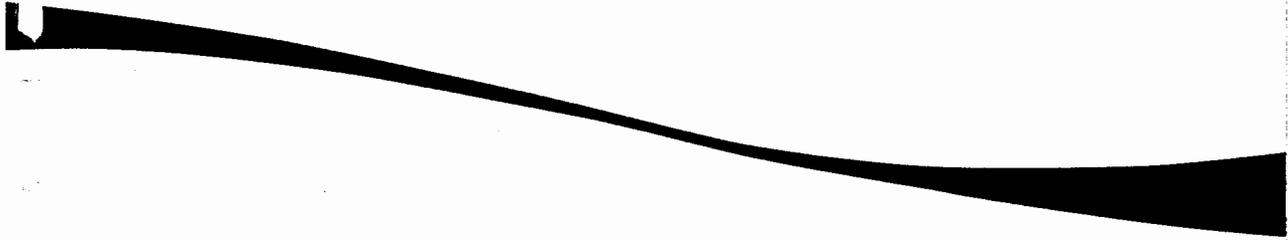
Our core competencies will be put to good use when coupled with the skills of Pennichuck employees. The management and operations plan we have created is empathetic to employees, **who will be given preference for all positions** needed to effectively operate the water system. We recognize that throughout the years, these individuals have formed the backbone of the water system.

In the remainder of this Price Proposal we demonstrate how we will deliver value through a well-defined approach to addressing the Base project, as documented in Section One of this Proposal, and the Innovative (Alternative) approach, Section Two of this Proposal.



In 2002, Indianapolis took back control of its water system and selected us to manage their system. Benefits to date include a five-year rate freeze, customer satisfaction that greatly exceeds the national utility average, and a sharp decrease in water quality complaints.

# Section One



Section One

# SECTION ONE

## Base Proposal

### VEOLIA WATER'S COMMITMENT TO THE CITY OF NASHUA Delivering the Best Value Through Innovative Approaches



In Volume One of this Proposal, Veolia Water North America – Northeast, LLC (Veolia Water) discussed in detail our plan and approach for addressing the Base project defined by the City of Nashua, New Hampshire, in your Request for Proposal (RFP) for providing operation and day-to-day management of the water supply facilities for your community. The focus of this work is on delivering the City's water customers' drinking water of high quality and in full compliance with all applicable standards, laws, rules and regulations. In tandem with these goals is the mandate to provide uninterrupted water service, with no affects on the quality of water or the level of service delivered.

Veolia Water has developed the Pricing Proposal presented in this section to provide the City of Nashua with a responsive Proposal to your RFP for the O&M of the Nashua Water Works. Our Proposal:

- Meets or exceeds the requirements set forth in the RFP and Addendums.
- As a reflection of Veolia Water's community spirit, **we exceed the scope of the RFP by offering a significant watershed protection program** that will safeguard the community's interests and transform any public concerns or doubts into confidence. Our program establishes a citizen's advisory group, and, more importantly, conducts a two-year study that will offer comprehensive solutions for protecting the community's water source and buffer zones. **The cost of this program is \$200,000 and is included in our Fixed Fee.**
- Our community commitment will include the development of programs to educate and increase the awareness of water resources management, water operations and treatment, and water education.
- Provides a comprehensive Asset Management program to include an initial fixed asset Condition Study and Maintenance Plan based on condition of assets taken by the City of Nashua.
- Provides a Vulnerability Assessment and an Emergency Response Plan.
- Provides a Conservation Plan.
- Provides a Meter Conversion Plan.
- Provides the customers of the Nashua Water Works with reliable delivery of high quality drinking water and a high level of customer service with open access to the service provider.
- Ensures that the newly acquired City assets are preserved through professional operations, maintenance and capital planning.

- Uses our experiences gained in Indianapolis, where we are the company that supported the nation's most significant effort to transform an investor-owned utility into an efficient water system controlled by the community.
- Provides the City with an Annual Capital Plan, funded by Veolia Water for \$50,000 as part of our Fixed Service Fee exceeding RFP requirement.
- Provides a comprehensive asset management program, to include an Initial Condition Study funded by Veolia Water for \$35,000 in the first year of the Services Contract.
- Complies with all regulatory requirements.

## Methodology

Veolia Water's plan and approach to deliver on these objectives is focused on providing the day-to-day operations and management of the water system assets and has as its overriding goal the commitment to provide Nashua's customers with the highest quality service. The ways in which we will deliver on these commitments are discussed in the paragraphs that follow.

Veolia Water's Proposal and Service Fee are based on a careful review of the specifications in your RFP and also on the contractual concepts under which we normally conduct our business.

Where appropriate, we have included assumptions and clarifications that we believe are reasonable and necessary to bring them in line with our experience in the industry, with normal industry standards and our company policies.

Although the City was not able to provide the level of information typically available during a due diligence process, Veolia Water was able to use the information provided as a part of the RFP, PUC documents from the last three years, and various other engineering reports that are available to the general public in the development of this price proposal. In addition, we have been able to use our experiences and nationally recognized benchmarks to ensure that our cost estimates were as accurate as possible with the limited information available.

Veolia Water's Proposal achieves the City's objectives of providing services in a safe, secure, effective and efficient manner and in accordance with all applicable laws, rules and regulations by: (1) ensuring the long-term reliability and regulatory compliance of its Water Works through our operations plans developed over 33 years in the operations and management of municipal utilities; (2) ensuring future rate stability by providing liability protections, performance guarantees, incentive-based compensation and budgetary guarantees; and (3) ensuring long-term protection of City assets by implementing a comprehensive Asset Management program and proposing to provide for short- and long-term capital planning for the Water Works.

Veolia Water's proposed Service Fee provides for the full operation and management of the City of Nashua Water Works.

Table II.1-1, which follows, outlines the key elements of the scope that will be covered under this proposed Service Fee.

**Table II.1-1. Veolia Water –  
Proposed Service Fee – Elements of Work Scope**

<b>Service Fee Element</b>	<b>Key Cost Factors</b>
Fixed Price Component	<p>All costs needed to meet the requirements of the RFP, including staff, chemicals, materials and supplies, telephone and telemetering, vehicle fuel, operational engineering, and planned maintenance costs such as preventive and predictive maintenance. Other services included are as follows:</p> <ul style="list-style-type: none"> <li>• Capital planning with an annual value of \$50,000</li> <li>• A comprehensive water shed evaluation with a value of \$200,000</li> <li>• Initial Condition assessment of \$35,000</li> </ul>
Unplanned Maintenance	<p>Unplanned maintenance events are those tasks that are non-routine or corrective in nature. Some examples would be water main breaks or leaks, valve or hydrant replacements, water meter replacements, pump and motor failures and extensive water well maintenance. Our approach to unplanned maintenance is explained in Appendix F, Volume III. Veolia Water proposed to pay for any unplanned maintenance event, under \$500, as a part of our fixed fee.</p>
Supplemental Services	<p>Veolia Water's approach to Supplemental Services is explained in detail in Appendix F, Volume III.</p>

## Pricing Assumptions

Veolia Water has provided for a comprehensive Technical Proposal, Volume One, in response to the City's RFP. Because of limited available information, we have made some assumptions relative to the cost of O&M of the Water Works. Table II.1-2, which follows, provides a listing of some of the key assumptions that we made in developing our Proposal.

**Table II.1-2. Veolia Water –  
Proposed Service Fee – Assumptions and Comments**

<b>Assumption</b>	<b>Assumption Detail</b>
Production Flow	The water treatment facility has a rated maximum capacity of 35-MGD. Our price is based upon an average daily production of 14.1-MGD.
SCADA	The water treatment and distribution system has a fully functional SCADA system.
Operating Costs	<p>Veolia Water's price is based upon information gathered from the PUC reports from 2002 through 2004.</p> <p>All costs associated with this Proposal are based upon the system as it existed at the issuance of the RFP.</p>
Laboratory Cost	Veolia Water's fixed price component assumes all in-house testing and

**Table II.1-2. Veolia Water –  
Proposed Service Fee – Assumptions and Comments**

Assumption	Assumption Detail
	outside testing as required by current law.
<b>Chemical Cost</b>	All process chemicals are provided for in Veolia Water's fixed price component, which are based upon the current treatment processes in use, as identified in engineering reports of public record, and comparisons to prices in the 2002 through 2004 PUC reports.
<b>Planned Maintenance</b>	Veolia Water's fixed price component covers all predictive and preventive maintenance.
<b>Fixed Price Component Escalation</b>	<p>Veolia Water proposes that the fixed price component will be adjusted annually according to the CPI for Nashua. Because of the volatility of the cost of employee medical insurance, Veolia Water proposes that the fee is escalated by a blended rate of the CPI-U and a mutually agreed upon Employment Cost Index (ECI) as published by the U.S. Department of Labor, Bureau of Labor Statistics.</p> <p>Veolia Water further proposes that certain costs such as chemicals, maintenance, and other variable items, be tied to increases in production rates and number of customers.</p>
<b>Records and Reports</b>	Veolia Water will provide and maintain well-documented records of operation, maintenance, laboratory analysis, training, safety, process control, materials, alarms and other significant operational events. All records and reports will be made available to the City in accordance with the Services Agreement.
<b>GIS and Hydraulic Model</b>	Veolia Water assumes that the City will provide a fully functional GIS system compatible with the computerized management systems and a fully functional calibrated hydraulic model.
<b>Water Quality and Water Treatment Facilities</b>	Veolia Water has assumed that all of the Water Works production facilities will be capable of reliably treating the raw water at the current average and peak demand while meeting current regulations. In addition, we assumed that all production equipment has been provided preventive and predictive maintenance and is in industry standard operating condition.
<b>Condition Study</b>	A Condition Study will be performed within 180 days of the commencement of the work under this contract. This will provide the City with documentation on the fixed asset condition, as this relates to the capital replacement recommendations.
<b>Watershed Management</b>	Veolia Water has assumed that annual testing will be required on the watershed to develop operational controls and to make capital plan recommendations. We have included the cost of watershed management and watershed education programs. Veolia Water will perform a comprehensive watershed study in years one and two of the Contract, at a cost of \$200,000.
<b>Residual Disposal</b>	Veolia Water has provided for a cost to dispose of residuals to the City

**Table II.1-2. Veolia Water –  
Proposed Service Fee – Assumptions and Comments**

Assumption	Assumption Detail
	sewer system, as is current practice.
<b>Utilities</b>	Veolia Water did not include the cost of electricity, heating fuel or natural gas. Veolia Water would be willing to cap power use per MG treated and pumped upon further and appropriate due diligence.
<b>Water Meters</b>	Veolia Water has assumed 20% of the meters will have AMR. Normal meter testing and repair has been included in our Fixed Price Component.
<b>Vacation Buyouts</b>	No vacation accruals were provided, so no value of accrued vacation leave for employees who elect to roll over their vacation balance has been considered. This liability should remain with the current owner.
<b>Sick Leave Buyouts</b>	No sick leave accruals were provided, so no value of accrued sick leave has been considered. This liability should remain with the current owner.
<b>Severance Pay</b>	We have assumed no liability for severance pay for existing employees that are severed from employment with Pennichuck Water Works.
<b>Permitting</b>	Veolia Water proposes to assume responsibility for timely application for permits but not for the cost or assuming the risk that the permits are actually issued by the permitting authority.
<b>Computers and IT Equipment</b>	Veolia Water has assumed that sufficient computers, IT and telephone equipment will be provided by the City at the time of transition to manage all the functions of the Water Works. This includes personal computers (PCs) and a telephone system adequate for the operation of customer service. Replacement of PCs is included in our fee at a rate of five units per year.
<b>Vehicles</b>	City will provide Veolia Water with all vehicles required to meet the obligations of the management contract, and Veolia Water is responsible for maintenance and insurance for such vehicles. We have also assumed that any City-owned vehicles will be replaced by the City on a mutually agreed upon replacement schedule.
<b>Capital Repairs and Replacement</b>	Major repairs and replacements, as defined in this section and in Appendix F, Volume III.
<b>Street Openings</b>	City will provide permits necessary for public right-of-way construction at no cost to the vendor.
<b>Police Details</b>	When required, the City will provide police details at no cost to the vendor.
<b>Taste and Odor</b>	No information on taste and odor problems was provided in the RFP. Therefore, Veolia Water has assumed that taste and odor is not a chronic or acute problem and can adequately be controlled with currently proposed chemical quantities. Chemical treatments within the watershed and pond system have not been included in our Fixed Fee

**Table II.1-2. Veolia Water –  
Proposed Service Fee – Assumptions and Comments**

Assumption	Assumption Detail
	and are assumed to be a supplemental service.
<b>Emergency Response</b>	Veolia Water will dispatch personnel to Water Works emergencies within 30 minutes of notification and in a reasonable manner, and provide a 24-hour access telephone number to ensure prompt response.
<b>Transition Services</b>	Veolia Water has included over \$250,000 in transition costs to smoothly assume the operation and maintenance of the Water Works. During the transition, we will complete an inventory of equipment, supplies and materials that are on hand at commencement and will leave the Water Works with the same equivalent value at the end of the term.
<b>Water Facilities Security System</b>	Veolia Water understands that an electronic surveillance system is installed in the water facilities. We have assumed that the electronic system as well as other security considerations comply with Homeland Security recommendations and meet the requirements of the City without the use of security guards.
<b>Insurance</b>	The Veolia Water's cost includes industry standard insurance structure for Workers Compensation, General Liability, and Business Automobile Insurance.
<b>Annual Capital Plan</b>	Veolia Water has budgeted \$50,000 to provide an annual Capital Plan to the City of Nashua.

## Financial Terms and Cost Detail

Veolia Water's proposed annual price for service, under the scope of services defined in your RFP for the Base Proposal, will be: **\$4,996,203**.

This annual price for service is based upon receiving upfront payments totaling **\$1,380,000** to cover mobilization and transition costs.

At the City's option, the mobilization and transition costs can be paid over time, versus an upfront payment, which will make the annual price for services under the scope of services defined in your RFP for the Base Proposal - \$5,150,234.

It should be noted that this cost is expressed in 2005 dollars. This annual lump sum fee is inclusive of the requirements of the RFP, and the items shown in Table II.1.1 (presented earlier) and the assumptions discussed in Table II.1-2 (above).

## Scalability

The pricing has been developed based on the total PWW assets being acquired by the City. Based on the 2004 NHPUC report, this would serve a total of 24,576 customers.

As required by the RFP, Veolia Water has developed a detailed methodology for pricing in the event the City was only able to acquire the "Core System." The "Core System" would include

the Nashua Treatment Facility with its ponds and dams and the other facilities within the corporate limits of Nashua.

Of the 24,576 customers in the PWW, 21,383 customers are located in the City of Nashua. In the event the City was only able to acquire the 21,383 customers located in Nashua, a price adjustment would be made. The price adjustment would be a revised Fixed Price Component. The Unplanned Maintenance Unit Pricing and the Supplemental Services Unit Pricing would not change.

The Fixed Price Component to serve only the “Core System” of 21,383 customers was developed by evaluating each cost item to manage the assets of PWW and adjusting them to reflect the cost of only serving the “Core System.”

The Fixed Price Component to serve only the “Core System” is not a direct ratio of customers as there are a number of price components that will not vary, based on elimination of the satellite systems. Examples of fixed price components that would not change would be the project manager, staffing at the WTP, and the field operations manager. The Fixed Price Component to manage the assets and serve only the 21,383 customers located in the “core system” are in our pricing proposal.

Veolia Water will offer the City a reduction of \$65 per customer in the Fixed Price Component for total customers less than 24,576 and more than 21,383.

### **Additional Legal Qualifiers/General Qualifier**

As requested by the Request for Proposal (RFP), Veolia Water is attaching a draft form of an Operations, Management and Maintenance Service Agreement (“Service Agreement”).

The Draft Service Agreement, as presented in Appendix E, Part 1, details the risk sharing allocation under which Veolia Water conducts business. The Service Agreement is intended to be for illustrative purposes only, but should serve as the basis for future negotiation. Veolia Water’s Proposal is conditioned on the parties negotiating a final agreement that carries forth the general partnering aspects contained within the Service Agreement.

### **Additional Note to Draft Service Agreement**

The Draft Service Agreement, as presented in Appendix E, Part 1, contains several required clarifications. Veolia Water has provided a revised page 5 of the Draft Service Agreement to replace the existing page 5 (see Attachment II.1-1 at the end of this section), as well as a revised page 11 of the Draft Service Agreement to replace the existing page 11 (see Attachment II.1-2, at the end of this section).

The revision on page 5 occurs under Section 4.3; and the revision on page 11 occurs under Section 10.1.3.

Furthermore, Veolia Water expects to use as a basis for contract negotiations the Definitions and Examples provided in Appendix F, Volume III for “City Capital,” “Planned” and “Unplanned Maintenance” and “Supplemental Services.”

Veolia Water still puts forth this Draft Service Agreement for illustrative purposes, however, the above clarifications represent the intent of our proposal in these areas.

## Key Cost Areas

### Water Production

Limited information was available to evaluate the existing water production facilities for the Water Works. However, through the use of information available from the system's 2002 - 2004 PUC Annual Reports and various publicly available engineering reports, Veolia Water was able to make a best-efforts estimate of the capabilities and cost of O&M of the system.

In developing water production operational and maintenance goals and controls, Veolia Water will use established, proven management systems such as our Process Control Management Plan, Standard Operating Procedures, Computerized Maintenance Management, and Triple I safety and environment database for comprehensive management of water treatment systems. (Please refer to Section One, the Technical Approach of this Proposal, for more detailed information on our plan and approach in this area.)

Of particular note, Veolia Water will provide for:

- A comprehensive Watershed Study in years one and two of the services contract, funded by Veolia Water for \$200,000.
- Annual water quality testing with the watershed.
- Annual commitment to watershed, water quality education and community outreach.

### Field Services

As with Production, limited information was available to evaluate the existing field services for PWW. However, through the use of information from the system's 2002 - 2004 PUC Annual Reports and various publicly available engineering reports, Veolia Water was able to make a best-efforts estimate of the capabilities and cost of O&M of the system.

In developing field services operational and maintenance goals and controls, Veolia Water will use established, proven management systems such as our Field Services Management Plan, Standard Operating Procedures, and Computerized Maintenance Management to provide the required field services. (Please refer to Section One, the Technical Approach of this Proposal, for more detailed information on our plan and approach in this area.)

The major Field Services to be provided are as follows:

- Repair of water main breaks and leaks
- Repair of service line breaks and leaks
- O&M of fire hydrants
- O&M of distribution system valves
- Meter reading
- Meter testing and repair
- Field customer services including turn-ons, shut-offs, special meter reads
- Investigation and resolution of field customer complaints
- O&M of storage tanks

- Water distribution system flushing
- O&M of booster stations.

**Annual Performance Metrics Fee – Base Proposal**

In this discussion, Veolia Water outlines our proposed Annual Performance Metrics Fee Program, an important feature of both the Base and Alternative Proposals. This section provides explanatory information so that performance incentives being offered as a part of our Base Proposal may easily be understood. Section Two of this Price (Cost) volume provides a discussion of the performance metrics for the Alternative Proposal.

Performance metrics are an important tool to focus the City of Nashua, stakeholders and regulators, Veolia Water and its soon-to-be-employees on the **most important key drivers of the business**. Performance metrics are an important tool that Veolia Water proposes to objectively measure the performance to be rewarded. Veolia Water’s experience has shown that performance metrics improve results, with higher client satisfaction and a higher level of overall performance. Public openness about performance appears to be a particularly important issue to Nashua stakeholders.

The performance metrics presented in this section are specific to Veolia Water’s Base Proposal, which offers customer services related to utility operations, except items related to customer billing and collections and the supporting activities. In the Base Proposal, the City will provide all the administrative support required for handling customer inquiries, bill generation, payment processing and collection. Veolia Water assumes that the City will also maintain the accounting systems to track billing, payment and collection activities.

**Performance Metrics – Base Proposal**

The performance metrics that Veolia Water is recommending under the Base Proposal are presented for five key areas, and are as follows:

- **Emergency Responsiveness (20%)** -- *Dispatching personnel to emergency distribution and customer service problems within 30 minutes.* This is an important measure to address system emergencies such as a water main break or a significant hydrant damage to limit the damage and disruption to surrounding residents and property. The response time will be measured from the time of notification to the time a knowledgeable person is dispatched to the site to assess the problem in the field:

Performance Measure	2007	2008	2009	2010	2011
Dispatching personnel to emergency distribution and customer service problems within 30 minutes of notification	95%	96%	97%	97%	97%

- **Employee Safety (20%)** -- *Improving employee safety.* It is important to provide a safe working environment to deliver quality service to the customers and maintain the assets. The OSHA Injury Frequency and the OSHA Lost-Time Frequency will be measured and managed:

Performance Measure	2007	2008	2009	2010	2011
Employee Safety	Establish a baseline with 3 years' data	3% less than the 2007	3% less than the 2008	3% less than the 2009	3% less than the 2010

- **Meter Misreads (20%)** -- *Decreasing the rate of meter misreads.* Meter misreads cause customer dissatisfaction and impact revenues:

Performance Measure	2007	2008	2009	2010	2011
Meter Misreads	Establish a baseline with 3 years' data	3% less than the 2007	3% less than the 2008	3% less than the 2009	3% less than the 2010

- **Fire Hydrant Repairs/Replacements (20%)** – Inoperable fire hydrants will be repaired or replaced using City capital within 15 days. This is important for fire protection:

Performance Measure	2007	2008	2009	2010	2011
Fire Hydrants Repairs/Replacements	95%	95%	96%	96%	97%

- **Turn-Ons and Shut-Offs (20%)**-Responding to requests for turn-ons and shut-offs within 24 hours. – This measure is responding within 24 hours of the scheduled date/time for turn-on or shut-off for customers in good standing. None emergency turn-ons and shut-offs will only be scheduled during normal working hours.

Performance Measure	2007	2008	2009	2010	2011
Responding to customer requests for turn-ons and shut-offs within 24 hours	90%	91%	92%	93%	94%

### **Future Improvements Beyond Five Years**

Veolia Water recognizes that the Incentive Fee factors cannot be static over the term of the Management Agreement. We want to continuously improve in all areas. We prefer to be measured and compensated for our performance in areas that are important to our key constituents -- the City of Nashua, our customers, regulators, legislators, developers, suppliers and team members. We believe that the measures of success should be developed on a forward-looking basis. Our performance measures will drive excellence in O&M activities in the early years of our relationship, as measured by the areas outlined below above.

### **Benefits to the City**

Veolia Water singularly has the experience and knowledge to successfully use performance incentives in its contract with the City of Nashua. Our experience includes developing the management reporting and tools to track and thoroughly document incentive performance. It also includes knowledge of how to communicate performance to the community in a

positive, open way, resulting in increased public knowledge and awareness. Selection of Veolia Water as the contract provider for the O&M of the Nashua Water Works system will bring to bear Veolia Water's expertise and solid performance record to the benefit of the Nashua community.

## Capital Replacements Definition

Veolia Water offers the following definition for City capital:

- City Capital Project means: (i) item(s) that will be of a long-term nature having a useful life in excess of three years, as defined by manufacturers' specifications; and (ii) those items that require a modification, alteration, addition to, and/or improvement to an existing facility with a construction, installation (including materials) or purchase value in excess of \$5,000; and (iii) repair or replacement of equipment that has met or exceeded its useful life with a construction, installation (including materials) or purchase value in excess of \$5,000; and (iv) items for construction, placement of new facilities (e.g., piping, hydrants, valves, equipment, wells, etc., including material costs) and capital purchases that significantly improve operations and or maintenance, aesthetics, long-term capital conditions or other aspects not generally associated with ongoing operations and maintenance.

Capital project cost shall include field work, engineering, and inspection services. A detailed listing of projects that would be included as city capital is Appendix F, Volume III, of this Proposal submittal.

## Unplanned Maintenance

Veolia Water provides a detailed definition of both planned and unplanned maintenance in Appendix F, Volume III of this Proposal submittal. Table II.1-3, below, provides the fee schedule for the unplanned maintenance activities anticipated for this project.

Table II.1-3. Veolia Water Cost Proposal –  
Fee Schedule for Unplanned Maintenance  
Labor and Equipment Rates for Unplanned Maintenance

Labor Costs	Rates per Hour		
	Regular	Premium	Other
Plant Maintenance Foreman	\$51.21	\$76.81	--
Plant Maintenance Technician	\$43.33	\$65.00	--
CWS/WQ Systems Technician	\$38.95	\$58.43	--
I&C Technician	\$50.33	\$75.50	--
T&D Working Foreman	\$45.96	\$68.94	--
T&D Field Ser. Tech 1	\$38.95	\$58.43	--
T&D Field Ser. Tech 2	\$43.33	\$65.00	--
Dispatcher	\$43.33	\$65.00	--

**Table II.1-3. Veolia Water Cost Proposal –  
Fee Schedule for Unplanned Maintenance  
Labor and Equipment Rates for Unplanned Maintenance**

Planner	\$45.96	\$68.94	–
<b>Equipment</b>			
Backhoe	--	--	\$27.00
Dump Truck	--	--	\$27.00
Compressor	--	--	\$14.00
Service Truck	--	--	\$17.00
Small Equipment (generator, trailer, etc.)	--	--	\$5.00

- Regular hours are normal working hours, Monday through Friday, for non-holiday periods, and are fully burdened.
- Premium Pay is the rate for time and one half paid for Saturday, Sunday and holiday periods, as well as for Monday through Friday after normal working hours, and are fully burdened.
- Materials and Supplies -Materials and supplies used by Veolia Water will be invoiced as part of the charges for work performed by Veolia Water at a price equal to the actual cost plus 12%.
- Outside Services/Contractors - The use of contractors by Veolia Water for unplanned maintenance will be invoiced as part of the charges for work performed by Veolia Water at a price equal to the actual cost plus 12%.
- Annual Adjustment to Fee Schedule -The fee schedule for unplanned maintenance shall be adjusted on each anniversary date of the Agreement, using the same adjustments as is set forth for adjusting the Fixed Fee. On each adjustment, the fees set forth above will be increased by the required amount, and then rounded to the nearest dollar amount.

### Unplanned Maintenance Risk Sharing Proposal

It is our mutual goal to reduce unplanned maintenance expenses in future years. Veolia Water is proposing an innovative approach that shares the risk going forward while providing performance metrics for both parties to reduce unplanned maintenance.

Veolia Water proposes that after the second year of the contract, both parties mutually agree to fix the unplanned maintenance cost for year three based on the average costs of years one and two. The unplanned maintenance cost for years one and two will be paid by the City of Nashua. The unplanned maintenance cost for year three will be fixed and will be paid by the City. Any over spend of costs at the end of year three will be split between both parties in equal amounts. Any under spend of costs in the third year will also be shared. This process will be repeated through the term of the contract. Veolia Water is confident that a properly implemented planned maintenance approach will help control and manage the cost of unplanned maintenance, and we are willing to share that risk.

### Supplemental Services

Water systems are constantly expanded and affected by changing conditions and customer demands. As requested in the City’s RFP, Veolia Water has proposed a list of Supplemental Services that can be requested by the City of Nashua.

As discussed in our Technical Proposal (Volume 1), Veolia Water will, using our in-house resources as well as those of our proposed engineering/construction services subcontractor, Dufrense-Henry, provide engineering and construction management services required for meeting the Supplemental Service requirements for the Water Works system, for which we will be compensated as Supplemental Services, according to the fee schedule defined in Appendix F, Volume III.

### **Scope of Work and Unit Pricing**

Appendix F contains a detailed outline and a schedule of unit prices for the Supplemental Services offered by Veolia Water.

In addition to the schedule included in Appendix F, Veolia Water offers to provide support in regulatory and municipal rate making and analysis as a Supplemental Service. Veolia Water has experience in both regulatory and municipal oversight. The cost of this service will be based upon the desired scope of work and will be priced for both internal and external resources as required and upon the request of the City.

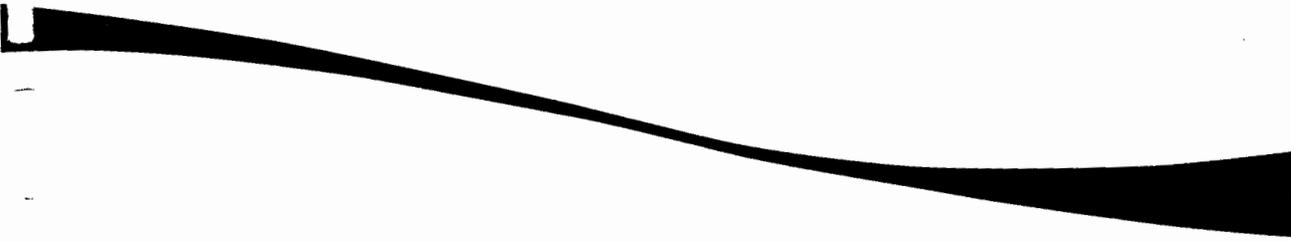
### **Innovative Approaches**

Veolia Water proposed and discussed in detail a number of innovative approaches in our Operations Plan in Section One, Volume I, and examples of these include:

- Comprehensive watershed evaluation/study
- Minimizing City Capital investment and improving reliability
- Real-Time scheduling and routing of field activities and crews
- Computerized maintenance management system (CMMS)
- Energy savings evaluation
- Process Control Management Plans
- Performance metrics

Veolia Water, as discussed in detail in our Technical Proposal, Volume I, has developed an Alternative Proposal to offer the City enhanced values and services approaches. The project approach for the Alternative is defined in Section Six, Volume I, and the Fee (Cost) approach for the Alternative is presented in Section Two, Volume II.

# Section Two



## SECTION TWO

# Innovative (Alternative) Proposal

### VEOLIA WATER'S COMMITMENT TO THE CITY OF NASHUA

#### Delivering the Best Value Through Innovative Approaches



In Volume I, Section Six, of our Technical Proposal, **Veolia Water North America – Northeast LLC (Veolia Water)** discussed in detail our Alternative plan and approach that exceeds the requirements of the Request for Proposal (RFP) and includes all of the items in the Base Proposal for the **City of Nashua, New Hampshire**, for the operation and management of the water supply facilities for your community.

Our Innovative (Alternative) Proposal as outlined in Volume I, Section Six, with pricing in this section, includes all of the components of the Base Proposal and is enhanced as follows:

- Reduced maintenance costs and capital replacement dollars by using Reliability Centered Maintenance (RCM) and Life Cycle Costing.
- Improved Reliability of Critical Plant and Equipment.
- A fixed O&M fee for the City that incorporates the Fixed Price Component and the Unplanned Maintenance Component in the Base proposal.
- A reduced O&M fee over the Base proposal.
- Reduced City Capital Investment by having Veolia Water manage the City Capital Program.
- Expanded and improved customer service at a reduced overall cost.

### Costing Approach

The Alternative Proposal includes the provisions offered by Veolia Water in the base operations and maintenance contract, plus customer service (billing, call center, payment processing), City capital program management, and provides for enhanced asset management to include RCM and Life Cycle Costing. The Alternative Proposal makes Veolia Water the one-stop shop for all water-related customer concerns and Water Works management and oversight, all while the City retains ownership of the Water Works assets and is responsible for setting rates and determining the future of the system.

The Alternative Proposal will enable the City of Nashua to provide the highest level of service and increased performance at the lowest overall risk.



In 2002, Veolia Water began a \$1.5 billion, 20-year contract with the City of Indianapolis for O&M, capital project management, and customer service facets of the City's waterworks system, a system that currently serves more than 1.2 million people.

Section One of our separate Technical Proposal (Volume I), provides a thorough explanation of the benefits and features of performance metrics. It also shows Veolia Water's excellent record in utilizing performance metrics to increase overall customer satisfaction annually.

## Alternative Proposal - Pricing Approach

Veolia Water will provide all of the services requested in the RFP, and all of the services as outlined in our Base Proposal (Volume I, Section One), plus the additional scope of work as outlined in this section and in our Innovative (Alternative) Proposal (Volume I, Section Six).

Table II.2-1, which follows, outlines the key elements of the scope that will be covered under this proposed Service Fee.

**Table II.2-1. Veolia Water –  
Proposed Alternative Service Fee – Elements of Work Scope**

Service Fee Element	Key Cost Factors
<b>O&amp;M Fee</b>	<p>Includes all of the Fixed Price Component and the Unplanned Maintenance in the Base Proposal. All costs associated with Reliability Centered Maintenance (RCM) and Life Cycle Costing. In the alternative proposal, RCM and the Capital Program Management are mutually inclusive.</p> <p>Veolia Water's fixed price includes all costs associated with preparing the Annual and 5-year Capital Project Plan to be updated and submitted each year for the City to review and approve.</p> <p>Provides for all customer service functions including billing, collections and Call Center services.</p> <p><b>In year three, the unplanned maintenance will be in the Fixed O&amp;M Fee.</b> Unplanned maintenance will be a variable supplemental fee adjusted in years one and two of the contract to set a baseline. Starting in year three, <b>unplanned maintenance is transferred to Veolia Water</b>, and contract management and oversight effort and costs by City are reduced.</p>
<b>Fixed Price Component – Unplanned Maintenance</b>	Included in the O&M Fee.
<b>Fixed Price Component – Enhanced Customer Service</b>	Included in the O&M Fee.
<b>Fixed Price Component – Capital Planning</b>	Included in the O&M Fee.
<b>Variable Price Component Capital Program Management</b>	The Capital Program will be funded by the City. The cost for administering the City's Capital program will be based on the attached hourly rate schedule. Engineering fees will not exceed 7-9% of total project costs. Construction Management Fees will not exceed 8-12%. Actual construction costs will be based on

**Table II.2-1. Veolia Water –  
Proposed Alternative Service Fee – Elements of Work Scope**

Service Fee Element	Key Cost Factors
<b>Supplemental Services</b>	<p>selection of the responsible low bidder and funded directly by the City. Contractor and material invoices recommended for payment will be submitted to the City for approval and payment.</p> <p>City will fund the actual costs of supplemental services for the Alternative Proposal. Appendix F contains a detailed schedule of Supplemental Services offered.</p> <p>In addition to the schedule included in Appendix F, Veolia Water offers to provide support in regulatory and municipal rate making and analysis as a Supplemental Service. Veolia Water has experience in both regulatory and municipal oversight. The cost of this service will be based upon the desired scope of work and will be priced for both internal and external resources as required and upon the request of the City.</p>

### Alternative Proposal - Pricing Assumptions

Table II.2-2, which follows, provides a listing of some of the key assumptions that we have made in developing our Alternative Proposal and the pricing that is presented later in this section. Section One, Volume II (the Price Proposal for our Base Proposal approach), provides a comprehensive list of the pricing assumptions that are applicable to the Alternative, unless specifically excluded.

Listed here are items that are either in addition to, or to be used in place of, those assumptions.

**Table II.2-2. Veolia Water –  
Proposed Alternative Service Fee – Assumptions and Comments**

Assumption	Comment
<b>Enhanced Customer Service</b>	Veolia Water's fixed price is based upon providing all customer service functions normally associated with a water utility such as the Nashua Water Works -- including billing and collections, customer contact, one-call customer service and a full-service lobby.
<b>Enhanced Asset Management</b>	Veolia Water's fixed price includes the costs associated with providing RCM and Life Cycle Costing.
<b>Operating Costs</b>	Veolia Water's price is based upon information gathered from the PUC reports from 2002 through 2004. All costs associated with this Proposal are based upon the system, as it existed at the issuance of the RFP.
<b>Capital Program Management: \$4 million budget</b>	Veolia Water assumes a \$4 million annual capital budget and will dedicate two full-time engineering positions to manage these projects. Cost estimates for the City's Capital Program submitted to the City for

**Table II.2-2. Veolia Water –  
Proposed Alternative Service Fee – Assumptions and Comments**

Assumption	Comment
<b>for Capital projects Annually</b>	approval annually and will include costs for engineering, construction management and construction. City will fund the actual capital program.
<b>O&amp;M Fee</b>	The Unplanned Maintenance in Veolia Water's O&M Fee will be fixed starting in year three of the contract.
<b>O&amp;M Fee Escalation</b>	Veolia Water proposes that the fixed price component be adjusted annually according to the CPI for Nashua. Because of the volatility of the cost of employee medical insurance, Veolia Water proposes that the fee be escalated by a blended rate of the CPI-U and a mutually agreed upon Employment Cost Index (ECI) as published by the U.S. Department of Labor, Bureau of Labor Statistics. Veolia Water further proposes that certain costs such as chemical costs, maintenance costs, and other variable items be tied to increases in production rates and number of customers be tied to increases in production rates and number of customers.
<b>Utilities</b>	Veolia Water did not include the cost of electricity, heating fuel or natural gas for stationary objects. Veolia Water would be willing to cap power use per MG treated and pumped upon further and appropriate due diligence.
<b>Capital Repairs and Replacement</b>	Any and all work performed or equipment repaired or replaced that does not come under our definition of City Capital.
<b>Transition Services</b>	Veolia Water has included over \$525,000 in transition costs to smoothly assume the operation and maintenance of the Water Works. During the transition, we will complete an inventory of equipment, supplies and materials that are on hand at commencement and will leave the Water Works with the same equivalent value at the end of the term.

## Scalability

The pricing has been developed based on the total PWW assets being acquired by the City. Based on the 2004 NHPUC report, this would serve a total of 24,576 customers. As required by the RFP, Veolia Water has developed a detailed methodology for pricing in the event the City was only able to acquire the "Core System." The "Core System" would include the Nashua Treatment Facility with its ponds and dams and the other facilities within the corporate limits of Nashua.

Of the 24,576 customers in the PWW, 21,383 customers are located in the City of Nashua. In the event the City was only able to acquire the 21,383 customers located in Nashua, a price adjustment would be made. The price adjustment would be a revised Fixed Price Component. The Unplanned Maintenance Unit Pricing and the Supplemental Services Unit Pricing would not change.

The Fixed Price Component to serve only the “Core System” of 21,383 customers was developed by evaluating each cost item to manage the assets of PWW and adjusting them to reflect the cost of only serving the “Core System.”

The Fixed Price Component to serve only the “Core System” is not a direct ratio of customers as there are a number of price components that will not vary, based on elimination of the satellite systems. Examples of fixed price components that would not change would be the project manager, staffing at the WTP, and the field operations manager. The Fixed Price Component to manage the assets and serve only the 21, 383 customers located in the “core system” are in our pricing proposal.

Veolia Water will offer the City a reduction of \$65 per customer in the Fixed Price Component for total customers less than 24,576 and more than 21,383.

### **Additional Legal Qualifiers/General Qualifier**

As requested by the City in your Request for Proposal (RFP), Veolia Water is attaching a draft form of an Operations, Management and Maintenance Service Agreement (“Service Agreement”).

The Draft Service Agreement, as presented in Appendix E, Part 1, details the risk sharing allocation under which Veolia Water conducts business. The Service Agreement is intended to be for illustrative purposes only, but should serve as the basis for future negotiation. Veolia Water’s Proposal is conditioned on the parties negotiating a final agreement that carries forth the general partnering aspects contained within the Service Agreement.

(Please note that there are two key changes to the Draft Service Agreement that is provided with our Appendix, Volume III, Appendix E, Part 1. These changed pages are provided as Attachment II.1-1 and Attachment II.1-2 at the end Section One of this Price Proposal volume. The changed pages provided replace, and supersedes those that are provided as a part of the Draft Service Agreement that is provided in the Appendix Volume.)

### **Annual Performance Metrics Fee – Alternative Proposal**

In this section, Veolia Water outlines its recommended performance metrics for the Alternative Proposal Offering. Performance metrics are an important tool that Veolia Water proposes to use to objectively measure performance to be rewarded. Veolia Water’s experience has shown that performance metrics improve results with higher client satisfaction and a higher level of overall performance.

#### ***Performance Metrics***

The performance metrics that we propose for the Alternative Proposal are presented for four key areas, and are as follows:

- Customer Service
- Field Services
- Technical Area
- Water Quality

The detailed metrics within these four categories as proposed for the Alternative Proposal are as follows:

- **1 - Customer Service** - Three major performance metrics will be tracked:
  - a – (10%) Annually survey a statistically representative sample of residential and commercial customers with a measurable year-to-year increase in customers rating Veolia Water responsive. – This is an essential way for customers to provide feedback and an opportunity for Veolia Water to improve customer service. It appears that has been several years since customers in the Nashua area have been surveyed on their level of satisfaction.

Performance Measure	2007	2008	2009	2010	2011
Annually surveying a statistically representative sample of the customers who contacted the Company with an annual improvement in satisfaction.	Establish baseline	Improve on prior year			

- b – (10%) Answering 75% of Calls Within 30 Seconds – This will demonstrate the responsiveness to all incoming calls by a customer.

Performance Measure	2007	2008	2009	2010	2011
Answering 80% of calls within 30 seconds.	70%	73%	75%	75%	75%

- c – (10%) Increase Collection Rate as a Ratio to Billings – This will demonstrate Veolia Water’s ability to provide and improve on the rate of collection as compared to billings.

Performance Measure	2007	2008	2009	2010	2011
Improve Collection Rate on an annual basis as compared to prior year.	Establish a baseline of 3 years data	Improve on prior year			

- **2 - Field Services** – Three major performance metrics will be tracked:
  - a – (8%) Responding to correct emergency distribution and customer service problems within 30 minutes. – This is an important measure to address system emergencies such as a water main break and significant hydrant damage to limit the damage and disruption to surrounding residents and property. The response time will be measured from the time of notification to the time a knowledgeable person is dispatched to the site to assess the problem in the field.

Performance Measure	2007	2008	2009	2010	2011
Responding to correct emergency distribution and customer service problems	95%	96%	97%	97%	97%

Performance Measure	2007	2008	2009	2010	2011
within 30 minutes of notification.					

- b – (8%) Responding to requests for turn-ons and shut-offs within 24 hours. – This measure is responding within 24 hours of the scheduled date/time for turn-on or shut-off for customers in good standing. Non-emergency turn-ons and shut-offs will only be scheduled during normal working hours.

Performance Measure	2007	2008	2009	2010	2011
Responding to customer requests for turn-ons and shut-offs within 24 hours.	90%	91%	92%	93%	94%

- c – (8%) Responding to field service problems within 48 hours of call. – This measure is responding within 48 hours of the scheduled date/time for field customer service problems. Non-emergency service problems will only be scheduled during normal working hours. This is an important measure to customer service problems such as low pressure, noisy meter, water quality problems, and high meter readings.

Performance Measure	2007	2008	2009	2010	2011
Responding to customer service problems within 48 hours of notification.	90%	91%	92%	93%	94%

- 3 - Technical Area – Five major performance metrics will be tracked:
  - a – (6%) Capital Program Adherence. – Stay within set limits of total \$ of approved capital program, inclusive of all costs, as compared to the projected capital costs. Increase to 97% over five years.

Performance Measure	2007	2008	2009	2010	2011
Capital program adherence.	95%	95%	96%	96%	97%

- b – (6%) Meter Misreads. – Meter misreads cause customer dissatisfaction and impact revenues.

Performance Measure	2007	2008	2009	2010	2011
Meter Misreads.	Establish a baseline with 3 years data	3% less than the 2007	3% less than the 2008	3% less than the 2009	3% less than the 2010

- c – (6%) Water Main Break Frequency. – Water main breaks disrupts service, traffic and increased maintenance costs. As a part of our capital program management, the water main break frequency will be reduced through the optimum investment of City Capital.

Performance Measure	2007	2008	2009	2010	2011
Water Main Break Frequency.	Establish a baseline with 3 years data	2.5% less than the 2007	2.5% less than the 2008	2.5% less than the 2009	2.5% less than the 2010

- d – (6%) Fire Hydrant Repairs/Replacements. – In operable fire hydrants will be repaired or replaced using City capital within 15 days. This is important for fire protection.

Performance Measure	2007	2008	2009	2010	2011
Fire Hydrants Repairs/Replacements.	95%	95%	96%	96%	97%

- e – (6%) Employee Safety. – It is important to provide a safe working environment in order to deliver quality service to the customers and maintain the assets. The OSHA injury frequency and the OSHA lost-time frequency will be measured and managed.

Performance Measure	2007	2008	2009	2010	2011
Employee Safety.	Establish a baseline with 3 years data	1% less than the 2007	1% less than the 2008	1% less than the 2009	1% less than the 2010

- 4. Water Quality – Two major performance metrics will be tracked:
  - (6%) Meet Primary Water Quality Standards. – Meet all of the EPA primary water quality standards on an annual basis for the core system. This is important to ensure that customers consistently receive safe, high quality drinking water. Increase to 99% over five years.

Performance Measure	2007	2008	2009	2010	2011
Meet Primary Water Quality Standards.	98%	98%	98%	99%	99%

## Financial Terms and Cost Detail

Veolia Water's proposed annual Fixed O&M Fee is \$4,907,894, as compared to the \$4,996,203 Base Proposal Fixed Price Component. The Alternate Proposal represents a savings of \$88,309 per year over the Base Proposal, related to the savings by employing Reliability Centered Maintenance. Both of these costs exclude all mobilization and transition costs paid for upfront.

The alternate annual price for service is based upon receiving upfront payments totaling \$1,875,000 to cover mobilization and transition costs.

At the City's option, the mobilization and transition costs can be paid over time, versus an upfront payment, which will make the proposed alternative annual Fixed O&M Fee \$5,062,000, as compared to the \$5,150,234 Base Proposal Fixed Price Component.

Enhanced Customer Service is an additional \$311,000, and we estimate that unplanned maintenance could range from \$850,000 to \$1,150,000 per year, before full risk transfer to Veolia Water and inclusion in the Fixed O&M Fee.

The Alternative proposal Fixed O&M Fee Build-Up is detailed in Table II.2-3, below.

Table II.2-3. Alternative Proposal O&M Fee Build-Up	
Component of Fee	\$ Alternate Proposal
Comparable Fee to the Base Proposal Fixed Price Component	\$4,907,894
Add Enhanced Customer Service	\$311,000
Estimated Range in Unplanned Maintenance*	\$850,000 to \$1,150,000
Total Fixed O&M Fee Range	\$6,068,894 to \$6,368,894
* To be established after two year base line	

In comparing the services and costs in our Base Proposal with the Alternative Proposal, the Base costing only includes the Fixed Price Component. *To compare the total cost of the Alternate Proposal to the Base Proposal, the City's cost of customer service and the cost of unplanned maintenance must be added to the Base Proposal Fee.*

*The Comparison of the proposed Alternate Fee and the Base Fee with build-up is in Table II.2-3a Below.*

Table II.2-3a. Alternative Proposal O&M Fee Build-Up Compared to the Base Fee with Build-Up		
Component of Fee	\$ Alternate Proposal	\$ Base Proposal
Comparable Fee to the Base Proposal Fixed Price Component	\$4,907,894	\$4,996,203
Add Enhanced Customer Service	\$311,000	\$311,000 <i>(estimated City Costs of Customer Service)</i>
Estimated Range in Unplanned Maintenance*	\$850,000 to \$1,150,000	\$850,000 to \$1,150,000 <i>(not part of base fee)</i>
Total Fixed O&M Fee Range	\$6,068,894 to \$6,368,894	\$6,157,203 to \$6,457,203
* To be established after two year base line		

We estimate that the Alternative will provide the City an aggregate savings for the 20-year term of \$1.8 million from the implementation of RCM.

### Potential Near- and Long-Term Savings

By choosing Veolia Water's Alternative Proposal which includes RCM and CPM programs and our enhanced customer service approach, the savings realized by the City of Nashua are substantial. The potential savings resulting from the Alternative Proposal include:

- **RCM Savings** - It is estimated that the savings to the City would be approximately \$1,800,000 over the life of the contract. These savings are a result of reduced labor, materials and supplies.
- **CPM Savings** - It is estimated that the savings to the City, based on an aggregate of \$80 million for the 20-year period (annual capital expenditure averaging \$4,000,000), would be between \$12 and \$16 million.
- **Cost Avoidance During the Asset Purchase** – The estimated benefit of cost avoidance during the eminent domain process will be approximately \$1 - 3 million. The City of Nashua can avoid the purchase of Pennichuck's utility billing software system.
- **Startup Costs** – Veolia Water estimates that startup costs of approximately \$100,000 related to setting up telephones service and system infrastructure could be avoided.

Veolia Water's Alternative Proposal is designed to save the City of Nashua – and your ratepayers – an estimated \$15 – 20 million over a 20-year contract term.