

EXHIBIT C

MEMORANDUM

December 21, 2005

To: Jean-Michel Seillier, Vice President
Veolia Water Indianapolis, LLC

CC: Kathy Humphrey, Vice President of Customer & Government Relations
Veolia Water Indianapolis, LLC

From: Bob Hurd, Ph.D., President
Hurd & Associates, Inc.

RE: **Final Survey Results – VWI Customer Satisfaction Measurements for 2005**

We are pleased to present the final survey results from the “2005 Veolia Water Indianapolis Customer Feedback Survey” conducted by Hurd & Associates, Inc. for Veolia Water Indianapolis, LLC. This is the fourth in a series of annual reports based on survey research designed by our firm to measure customer satisfaction and support the development of effective strategies for improvement.

This memo focuses specifically on the research methods and results for measuring customer satisfaction and assessing the water utility's progress toward performance targets – as outlined and required in your company's agreement with the City of Indianapolis.

This memo describes *how we calculated* the customer *satisfaction measurements* from the 2005 customer survey data, and presents those results as they pertain to the performance targets in your agreement with the city. These calculations are consistent with the methodology we developed in 2002 and have used each year since then.

This also includes a narrative summary as well as detailed tables (1.1 through 1.3) that show *the total percent “satisfied”* by the various types of samples and subgroups of interest – including *customers who have contacted the water utility sometime in the past year*.

The documentation of the survey methods and results here should be sufficient to meet the company's initial reporting needs and all of the city's requirements – as per our earlier discussions and our experience in previous years. We would be glad to provide additional information or clarification, if needed, and to address any questions or concerns that might be raised.

Please note that we are also preparing an “*annotated questionnaire*” that shows the percentages for each response to every survey question based on the total weighted sample of customers, plus breakdowns for customer service “contacts” on key questions.

Our plans also include further analysis, reporting and discussion in January, 2006 as well as research improvements and enhancements proposed for 2006 and subsequent years. We look forward to working with you and your colleagues at VWI to develop effective strategies for increasing customer satisfaction and translating these results into actual improvements.

I. Calculating Customer “Satisfaction” and Performance

Overview of Sampling and Measurement

The agreement between Veolia Water (formerly “USFilter”) and the City of Indianapolis provides financial incentives for meeting certain performance targets, including customer satisfaction as measured by an annual survey of Indianapolis Water customers.

The survey was originally designed by Hurd & Associates in 2002 to meet and exceed the requirements of this agreement with the city. The survey plan and instrument were developed in consultation with representatives from the City and Veolia Water, and approved by each party before it was implemented full-scale in November-December, 2002.

A similar process was used to review and update the survey plan and questionnaire in 2003, 2004 and 2005. This year's survey used the same sampling and survey methodology, and many of the same questions, from 2002 through 2004 to ensure comparability of results and to track changes over time.

One important and significant improvement over previous years, however, was the implementation in 2005 of a monthly interviewing regimen in which the survey interviews for the year were distributed roughly equally across three quarters (Q2, Q3 and Q4) of 2005. “Interim” results from these interviews were shared internally each quarter for management purposes only, and then aggregated and weighted statistically at the year’s end to provide the same type of reporting based on the full weighted sample as in previous years.

This new research plan for 2005 was discussed with the city and approved by Veolia Water, along with the survey instrument, prior to implementation beginning in May, 2005.

Sampling Methods

The 2005 survey is based on a statistically-valid, random sample of Indianapolis Water residential customers (n = 1,000) that also includes a random and representative subsample of customers who have contacted the water utility in the past year (n = 403).

The total sample was developed using a combination of Random Digit Dialing (RDD) samples (n = 501 total; n = 367 in Marion County plus n = 134 in other surrounding counties) to establish important population parameters, and some additional random sampling (n = 499) from lists of customer service contacts compiled by VWI in order to “oversample” customer service contacts and reach our quotas for a separate analysis of that group (n = 400 or more in the past year).

Screening questions were then used to confirm that each respondent was qualified to participate in the customer survey, regardless of whether the sample source was RDD or customer list. Each person was asked if they were: 1) an adult age 18 or older; 2) a resident living in a community and/or county served by Indianapolis Water; and 3) in a household that receives its tap water from a local water utility and not from a private well. This method was used successfully in each of the past four years to systematically exclude non-customers without necessarily requiring each and every respondent to identify their water utility by the correct name.

Sample Size and Margins of Error

Survey results for the ***total sample*** are accurate within plus or minus 3.1 percentage points, the margin of error for samples of this size (n = 1,000) at the 95% confidence level. This means we can be 95% confident that the survey results are within +/- 3.1 percentage points of the true percentages in the total population of Indianapolis Water customers if each and every customer were actually interviewed.

Survey results from the random subsample of customers who had ***contacted*** the water utility during the past year (n = 403) are accurate within plus or minus 4.9 percentage points, the margin of error for a sample of this size at the 95% confidence level.

Sample Demographics and Statistical Weighting

Please note that the total survey samples were also statistically “weighted” each year (2002 through 2004, and in 2005) to correct certain demographic imbalances created by our use of customer lists for part of the sample, and our need to “oversample” customers who had contacted the water utility in the past year.

Standard industry procedures were used to develop and apply these statistical weights, and a fairly conservative approach was taken – making corrections only for the two variables most directly affected by customer list sampling and oversampling of customer service contacts. These variables were the percentage of: 1) homeowners, renters who get a water bill, and renters who do not get a water bill because it is included in their rent; and 2) customers who said they or someone else in their household contacted the water utility either sometime in the past year, longer ago, or never.

Additional steps were taken in 2005 to ensure that the final weighted sample equalized the sample size each quarter and the proportions of owners vs. renters, callers vs. non-callers, and Marion County vs. “other county” residents across the three quarters for comparison purposes and the analysis of seasonal differences.

Please note this statistical weighting changes the apparent sample sizes (by design) for some important subgroups including the groups listed above. For example, the total unweighted sample included 403 customers (40%) from households that had contacted the water utility in the past year. After the statistical weights were applied, this group was reduced to n = 110, or 11% of the total weighted sample.

These weighted percentages represent our best estimates of the actual proportions of customer service contacts (and other groups) in the total population of all residential customers at Indianapolis Water. These estimates and targets for weighting are based on the results from the Random Digit Dialing (RDD) sample in Marion County and other counties (n = 367 + 134 = 501) as well as our previous experience here in Indianapolis and for water utilities nationwide.

Once the data were weighted, the total survey samples in 2002 through 2004 and in 2005 compared favorably with known population parameters for Indianapolis Water customers, including demographics from the most recent US Census. No further weighting was warranted.

Questions for Measuring Satisfaction

The customer survey includes several questions that provide meaningful and relevant measures of customer satisfaction. In our opinion, the single ***best measure of overall satisfaction*** -- other than a multiple-item index -- is Question #8. This is designed specifically to measure "overall satisfaction as a customer." By asking respondents to indicate how satisfied they are overall as customers with their water utility, using a 5-point scale from totally satisfied to not at all satisfied.

We have also indicated that our preferred standard for this type of question is to combine the "totally" and "mostly" satisfied categories to determine the percent who are clearly ***satisfied***. We also assume that customers who say they are "not very" or "not at all" satisfied are clearly ***not satisfied***. And those who say they are only "somewhat" satisfied represent a middle category of customers who are ***neither satisfied nor dissatisfied***, in our view.

The results from this question are presented in Table 1.1, which shows the total percent "satisfied" (totally plus mostly) for the total weighted sample of all residential customers, and for the subsample of customers who had contacted the water utility sometime in the past year ("past year callers"). It also provides a comparison of these results from 2005 with previous surveys in 2002 through 2004.

Other relevant measures include two questions that focus specifically on satisfaction with customer service. Q13 asks ***all customers*** (regardless of whether they have had recent or personal experience with the customer service staff) to indicate how satisfied they are with ***customer service overall***, using the same 5-point scale from totally satisfied to not at all satisfied. These results are shown in Table 1.2.

Later in the survey interview, customers who had ***actually contacted the water utility*** in the past were asked a similar question (Q29) that focuses specifically on their satisfaction with ***how their most recent contact*** with customer service was handled. These results are shown in Table 1.3.

Calculating the Total Percent "Satisfied"

As noted above, we have recommended that the percent responding to the top two categories be added together ("totally satisfied" plus "mostly satisfied") as a meaningful and effective measure of overall satisfaction using these particular questions.

For the purpose of calculating means, or average scores, on the satisfaction questions, the responses on these 5-point scales have been re-calibrated to create a new 0 to 1,000 scale -- totally satisfied (1,000), mostly satisfied (750), somewhat satisfied (500), not very satisfied (250), and not at all satisfied (0).

These measures of customer "satisfaction" have been calculated for each of the various samples and subgroups of interest here, and are presented in Tables 1.1 through 1.3 (see pages 7-9) and summarized in the discussion below.

Key Findings from Customer Satisfaction Measures

Overall Satisfaction as a Customer (Q8 – Table 1.1)

- **80% of all customers** in the total weighted sample (n = 1,000) said they were either “totally” or “mostly” satisfied overall as customers in 2005 (shown in column no. 7 in Table 1.1).

In our view, this is the **best single measure of overall satisfaction** in the survey – other than a multi-item index. We feel it is important to assess overall satisfaction (across all functions) and to measure across all types of customers (whether or not they have had recent, personal experience with customer service).

- **The 80% who were “satisfied” in 2005** is about the same as the 83% who said they were either “totally” or “mostly” satisfied in 2004 (see columns 7 and 5). This is also reflected in the average scores for the past two years (770 on the 0-1,000 scale in 2005 vs. 781 in 2004). This difference was not statistically significant.
- However, statistical tests showed that the level of overall satisfaction among the total sample of all residential customers in 2004 and 2005 was significantly higher than the level of satisfaction in 2002 (73% “satisfied” and an average score of 738 on the 0-1,000 scale as shown in column 1). **This shows that the significant improvements made in overall satisfaction from 2002 to 2004 were maintained in 2005.**
- **71% of the customers who contacted the water utility in the past year** (n = 403 unweighted; n = 110 weighted) said they were either “totally” or “mostly” satisfied **overall as customers** (see column 8 in Table 1.1). Please note this question takes into consideration all aspects of customer satisfaction, including water quality and safety, reliability, information, and value or price – not just customer service.
- **The 71% of all past year callers who were “satisfied” overall in 2005** is considerably higher than the 61% of past year callers who said they were either “totally” or “mostly” satisfied in 2004 (see columns 8 and 6). This is also reflected in the average scores for the past two years (725 on the 0-1,000 scale in 2005 vs. 660 in 2004). The average scores in 2002 and 2003 were considerably lower (615 and 616 on the 0-1,000 scale, as shown in columns 2 and 4).
- Statistical tests showed that the 725 average score among past year callers in 2005 was greater than the 615 and 616 averages in 2002 and 2003, and these differences were statistically significant. **This means past year callers in 2005 were significantly more satisfied overall than in previous years.**

Satisfaction with Customer Service -- Among All Customers (Q13 -- Table 1.2)

- Table 1.2 shows the results for Q13 which measures satisfaction with customer service specifically -- among all customers whether or not they have had recent, personal experience with the customer service staff, and with the subgroup of customers who contacted the water utility in the past year.
- **67% of all customers in 2005** said they were “totally” or “mostly” satisfied with the **customer service** provided by the water utility (see column 7 of Table 1.2), for an average rating of 799 on the 0-1,000 scale of satisfaction.
- This 67% (and the 799 average rating) in 2005 were about the same as in 2004 (68% and an average of 797 on the 0-1,000 scale as shown in column 5). Statistical tests showed that the combined levels of satisfaction in 2004 and 2005 were higher than in 2002, and this difference was statistically significant. Both scores are higher than in 2002 and 2003 (768 and 772 on the 0-1,000 scale)
- **Among customers who had actually contacted the utility in the past year, 68%** said they were either “totally” or “mostly” satisfied in 2005 – compared with 61% of past year callers in 2004 (see columns 8 and 6). This difference was also reflected in the average scores – 735 on the 0-1,000 scale in 2005 vs. 647 among past year callers in 2004. The 735 average in 2005 was higher than in 2002 and 2003 (604 and 597 on the 0-1,000 scale), and these differences were statistically significant.
- Using these measures, it is clear that satisfaction with customer service is about the same in 2005 as it was in 2004 among the total sample of all residential customers. And among those customers who have had actual contact with customer service in the past year, **satisfaction with that service is considerably higher now in 2005 than it was in previous years.**

Satisfaction with Recent Contact Among Customers with Actual Experience (Q29 -- Table 1.3)

- Table 1.3 shows the results for Q29 which measures customer satisfaction with how their most recent contact was handled by the customer service staff at the water utility. Among customers who had contacted or called the water utility in the past year, 77% said they were either “totally” or “mostly” satisfied with how their contact was handled in 2005 (see column 7).
- **This 77% who were “satisfied” with their call during the past year** is considerably higher than the 72% who said in 2005 that they were either “totally” or “mostly” satisfied with their calls “longer ago” (see column 8) and considerably higher than the 65% of past year callers in 2004 who said they were “satisfied” (see column 5) or the 54% of past year callers in 2002 and 2003 who said they were “satisfied” with how their calls were handled (see columns 1 and 3).
- These differences are also reflected in the average scores – 796 on the 0-1,000 scale among past year callers in 2005; 753 among those in 2005 who said they had called more than one year ago; 667 among past year callers in 2004; and 607 and 622 among past year callers in 2002 and 2003.
- Statistical tests showed that the 796 average among past year callers in 2005 was greater than the 607 and 622 scores in 2002 and 2003, and these differences were statistically significant. In other words, callers in 2005 were significantly more satisfied than in previous years with how their calls were handled.

Table 1.1 Overall Satisfaction as a Customer (Q8) by Year
For Total Weighted Sample of All Customers and Past Year Callers Only

	2002 Survey		2003 Survey		2004 Survey		2005 Survey	
	<i>column no. 1</i>	<i>column no. 2</i>	<i>column no. 3</i>	<i>column no. 4</i>	<i>column no. 5</i>	<i>column no. 6</i>	<i>column no. 7</i>	<i>column no. 8</i>
	All Customers	Past Year Callers Only						
Customer Rating:	(n = 1,017) %	(n = 364) %	(n = 1,081) %	(n = 400) %	(n = 749) %	(n = 203) %	(n = 1,000) %	(n = 403) %
Totally Satisfied (1000)	31	16	34	16	35	21.2	34.5	30.6
Mostly Satisfied (750)	42	38	42	39	48	39.4	45.4	40.5
Total % "Satisfied"	73%	54%	76%	55%	83%	61%	80%	71%
Somewhat Satisfied (500)	20	30	17	29	13	26	15	21
Not Very Satisfied (250)	5	10	5	9	3	9	3	5
Not At All Satisfied (0)	2	7	2	7	2	5	2	4
Not Sure	1	0	<1	0	<1	0	<1	0
Average Rating (0-1000)	738*	615	755	616	781*	660	770*	725*

* Denotes statistically significant difference between two subgroups at the 95% confidence level

Question (Q8): "Overall, how SATISFIED are you as a customer with your local water utility? Would you say you are TOTALLY satisfied, MOSTLY satisfied, SOMEWHAT satisfied, NOT VERY SATISFIED, or NOT AT ALL satisfied?"

Table 1.2 Satisfaction with Customer Service (Q13) by Year
For Total Weighted Sample of All Customers and Past Year Callers Only

	2002 Survey		2003 Survey		2004 Survey		2005 Survey	
	<i>column no. 1</i>	<i>column no. 2</i>	<i>column no. 3</i>	<i>column no. 4</i>	<i>column no. 5</i>	<i>column no. 6</i>	<i>column no. 7</i>	<i>column no. 8</i>
	All Customers	Past Year Callers Only						
Customer Rating:	(n = 1,017) %	(n = 364) %	(n = 1,081) %	(n = 400) %	(n = 749) %	(n = 203) %	(n = 1,000) %	(n = 403) %
Totally Satisfied (1000)	34	21	34	21.4	35	24.2	34	33
Mostly Satisfied (750)	36	33	33	30.6	33	36.4	33	35
Total % "Satisfied"	70%	54%	67%	51%	68%	61%	67%	68%
Somewhat Satisfied (500)	13	20	14	26	9	20	9	14
Not Very Satisfied (250)	3	11	3	10	2	8	3	5
Not At All Satisfied (0)	3	12	2	11	2	11	1	5
Not Sure	12	3	15	1	19	1	21	7
Average Rating (0-1000)	768	604	772	597	797*	647	799*	735*

* Denotes statistically significant difference between two subgroups at the 95% confidence level

Question (Q13): "How satisfied are you with the CUSTOMER SERVICE provided by your water utility? Would you say you are TOTALLY satisfied, MOSTLY satisfied, SOMEWHAT satisfied, NOT VERY satisfied, or NOT AT ALL satisfied?"

**Table 1.3 Satisfaction with How Customer Contact was Handled (Q29) by Year
For Total Weighted Sample of Customers who have Called in the Past Year vs. Longer Ago**

	2002 Survey		2003 Survey		2004 Survey		2005 Survey	
	<i>column no. 1</i>	<i>column no. 2</i>	<i>column no. 3</i>	<i>column no. 4</i>	<i>column no. 5</i>	<i>column no. 6</i>	<i>column no. 7</i>	<i>column no. 8</i>
	Past Year Callers Only	Called Longer Ago	Past Year Callers Only	Called Longer Ago	Past Year Callers Only	Called Longer Ago	Past Year Callers Only	Called Longer Ago
Customer Rating:	(n = 364) %	(87) %	(n = 400) %	(70) %	(n = 203) %	(67) %	(n = 403) %	(67) %
Totally Satisfied (1000)	30.7	47	33.3	40	39.4	34	51	39
Mostly Satisfied (750)	23.5	34	20.2	19	25.8	27	26	33
Total % "Satisfied"	54%	81%	54%	59%	65%	61%	77%	72%
Somewhat Satisfied (500)	17	13	18	8	11	11	8	11
Not Very Satisfied (250)	10	2	10	15	8	6	6	5
Not At All Satisfied (0)	17	5	15	9	15	2	5	6
Not Sure	2	0	3	10	2	20	5	7
Average Rating (0-1000)	607	786	622	685	667	758	796*	753

* Denotes statistically significant difference between two subgroups at the 95% confidence level

Question (Q29): "Overall, how satisfied were you with the way your CALL or contact was handled by the customer service staff? Were you: **TOTALLY** satisfied, **MOSTLY** satisfied, **SOMEWHAT** satisfied, **NOT VERY** satisfied, or **NOT AT ALL** satisfied