

**Customer Support Consolidation**

Proposal to December 3, 1999 RFP

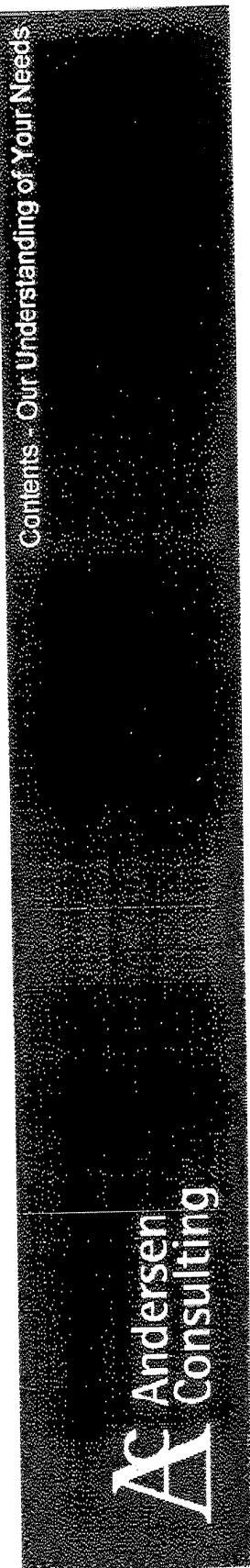
January 3, 2000



Contents

We have organized our proposal to specifically address each of your RFP requirements.

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Our Understanding of Your Needs



This proposal describes how American Water Works and Andersen Consulting can team to deliver a vision of customer service at top quartile cost and performance levels.

Based on our understanding of your business and customer service experience, we believe that the following objectives of the effort are attainable:

- **Realize Economic Benefits:** You could potentially achieve \$50 million dollars in net tangible benefits over five years (6 cents/share accretive impact)<sup>1</sup> through productivity improvements, use of best practices and technology, and improved scale
- **Improve Service:** Customers and others (e.g. contractors, etc.) would benefit from longer service hours, lower average queue times, fewer call backs, fewer errors, and ultimately, improved service channels (e.g. internet)<sup>2</sup>
- **Streamline Acquisitions:** Position the services function to accommodate the increase in business volume anticipated from future acquisitions. For every million customers added using the consolidated approach, there is an additional \$5 million dollar cost savings

<sup>1</sup> Assumes consistent outstanding share volume with Nov. 1993 levels  
<sup>2</sup> On average, as some AWW centers today are staffed to provide excellent queue times, etc

Our Understanding of Your Needs

**AC** Andersen  
Consulting

Based on your Request for Proposal, we understand that you have the following objectives.

- Design a consolidated customer service operations center by no later than July, 2001
- Perform phased implementation of customer service center operations
- Build the concepts and tools for creating efficient and effective call center services within American Water Works
- Further energize the culture of the company and create momentum for improvement



Andersen Consulting has a unique perspective on your needs, having recently worked with you to conduct a high-level review and develop a business case. In addition to our deep customer service center experience, we now have a keen understanding of your needs and concerns and therefore have a head start.

### Business Imperatives

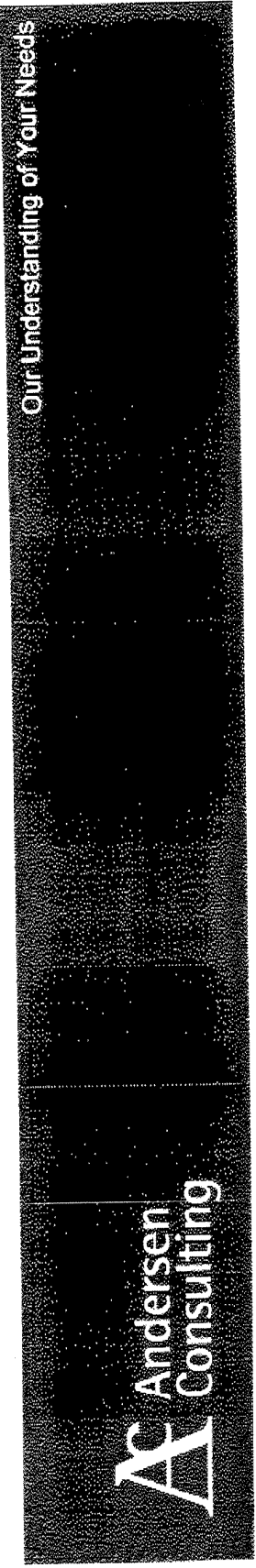
- Provide a customer service operations capability which provides a competitive cost advantage in an industry which is very cost competitive
- Provide a customer service operational infrastructure which can support the longer-term growth intentions of American Water Works
- Provide the customer support capabilities necessary to meet both customer expectations and service requirements
- Provide a customer support capability which can support long-term product and service growth and expansion

Our Understanding of Your Needs



Your needs are specific, unique, and important. We have tailored our proposal response to specifically address the unique needs of this important project.

American Water Works Needs/ Situation	Andersen Consulting Response & Experience
Delivery of significant financial and other benefits	<ul style="list-style-type: none"> <li>Heavy emphasis on net benefits</li> <li>Fees tied to benefits achieved</li> <li>Strong example of benefits success</li> </ul>
Speed of implementation	<ul style="list-style-type: none"> <li>Resource backing by Andersen Consulting</li> <li>Well-estimated project plans</li> <li>Tools for jump-start and speed</li> </ul>
Cost focus	<ul style="list-style-type: none"> <li>Use of Andersen Consulting's software and hardware purchasing power for AWW (BIP)</li> <li>Use of proven tools and approaches</li> </ul>
National operations	<ul style="list-style-type: none"> <li>Team members and tools from other clients with national operations</li> </ul>
Rural operations	<ul style="list-style-type: none"> <li>Team members (e.g., Hawn, Rhodes) and tools from other clients with rural operations (e.g., CP&amp;L)</li> </ul>
Urban operations	<ul style="list-style-type: none"> <li>Team members (e.g., Hawn, Hamandez, Dely) and tools from other clients (e.g., CP&amp;L, ConEd) who have urban operations</li> </ul>
Water business processing	<ul style="list-style-type: none"> <li>Andersen Consulting's water industry knowledge</li> <li>Leverage of similar industries such as electric and gas (many have water ops)</li> <li>Heavy leverage of AWW expertise</li> </ul>
American Water Works Needs/ Situation	Andersen Consulting Response & Experience
Company-by-company business processes in place today	<ul style="list-style-type: none"> <li>Normalize processes where possible early in project</li> <li>Support CSRs with technology as second strategy</li> <li>Segment calls based on area</li> <li>Leverage other experiences (e.g., CP&amp;L)</li> </ul>
Workforce that is unionized in part	<ul style="list-style-type: none"> <li>Discuss early with union</li> <li>Explain long-term trade-offs</li> <li>Use attrition and severance as tools</li> </ul>
Jurisdictional requirements	<ul style="list-style-type: none"> <li>Normalize, even to a least common denominator, in some cases leverage other experiences (e.g., CP&amp;L)</li> <li>Support CSRs with technology/segment</li> </ul>
Regulatory relationships	<ul style="list-style-type: none"> <li>Discuss early with regulators, particularly those with "change-in-employment" stipulations</li> <li>Address "walk-ins" proactively</li> <li>Emphasize cost/service level improvements</li> </ul>
CIS implementation	<ul style="list-style-type: none"> <li>Put ORCOM project under consolidation program umbrella</li> <li>Identify ORCOM system changes early</li> <li>Leverage Andersen Consulting's 20+ successful implementations of CIS</li> </ul>
Trust in consultant and chemistry	<ul style="list-style-type: none"> <li>Utilize a team AWW already knows</li> <li>Check Andersen Consulting's references</li> <li>Tie Andersen Consulting's fees to benefits achieved</li> </ul>



Last month, we worked together to develop a point of view regarding expected benefits of a consolidation effort. This proposal development process solidified our confidence in the answers to the questions you posed.

1. What is the high-level business case for consolidation:
  - What are the tangible financial benefits likely to be with consolidation?
  - What are the intangible financial benefits likely to be with consolidation?
  - What are the investment costs and risks likely with consolidation?
2. What should our high-level consolidation customer service "blue print", which documents a potential high-level design of the customer service center and serves as a basis for the business case be? It will provide going-in assumptions to the following questions:
  - What will be the key service level and other (cost) objectives for servicing the customer?
  - How many service centers will ultimately exist?
  - Will the service centers exist in a high, medium or low cost geography?
  - What will be the expected size (physical and headcount) and scope of business processes in the centers?
  - How will the service center be staffed (incumbent retention)?
  - What key technology elements will be involved?
  - What telecommunications infrastructure will be required?
  - What implementation approach will be utilized?



Contents - The Business Case & Vision



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**There is a significant business case for consolidating customer service operations for American Water Works. There are significant strategic benefits, a payback of approximately 13 months on the investment, and a potential EPS impact of 6 cents accretive<sup>1</sup>.**

- Successful and speedy implementation of the vision outlined in this proposal is estimated to generate cumulative net benefits of approximately \$50 million over five years
- A one-time investment of approximately \$12-15 million will be required

<sup>1</sup> Assumes consistent outstanding share volume with Nov. 1999 levels

The Business Case and Vision



With a reasonably quick and well run implementation, one-time costs should be between \$12-15 million and an annual benefits stream of \$25 million.

**Business Case Summary**  
(in Thousands)

	To Be	As Is
<b>Ongoing Costs</b>		
Staffing	\$9,800	\$19,400
Other	\$3,100	\$5,300
<b>Total Ongoing Costs</b>	<b>\$12,900</b>	<b>\$24,700</b>
<b>One Time Capital Costs</b>		
Facilities	\$800	\$0
Systems Hardware	\$2,300	\$0
Software Applications	\$650	\$0
Telecommunications	\$10	\$0
<b>Total One Time Capital</b>	<b>\$3,760</b>	<b>\$0</b>
<b>Design &amp; Implementation Staff Redeployment</b>	<b>\$8,000</b>	<b>\$0</b>
<b>Total One Time Costs</b>	<b>\$12,700</b>	<b>\$0</b>

**Financial Analysis**  
Payback Period 13 months  
EPS Impact \$0.06

Note: For one time capital costs the 'As Is' assumes no benefit of asset/salvage write off



Under a "5 million customers by 2004" scenario, the business case could be even more dramatic.

*AS of 10/1/99*

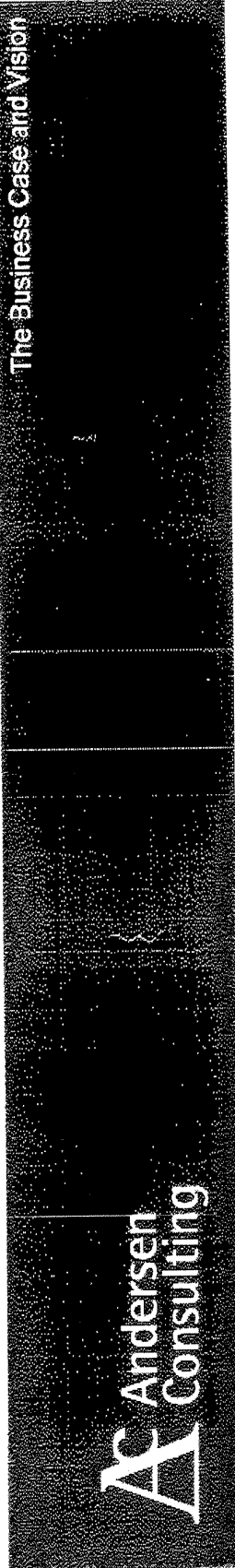
- Additional cumulative net benefits of \$42 million over 5 years
- Incremental cost to service a customer of \$4.45 versus today's cost of \$8.48
- Additional Earnings Per Share impact of \$0.05 accretive



In addition to the financial value of consolidation, the strategic benefits could be significant:

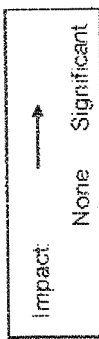
- Tangible Benefits: Approximately \$45 - 55 million dollars in net tangible benefits through productivity improvements, use of best practices and technology, and improved scale
- Improved Service: Customers and others (e.g. contractors, etc.) will benefit from longer service hours, lower average queue times, fewer call backs, fewer errors, and ultimately, improved service channels (e.g. internet)
- Acquisition competitiveness: Positions the services function to accommodate the increase in business volume anticipated from future acquisitions. For every million customers added using the consolidated approach, there is an approximate \$20 million potential impact over five years

*[Handwritten signature]*



By consolidating to one customer service operations center, American Water Works can improve costs, improve service levels, and be well positioned for future growth in customers, products and services.

	Front-Office				Back-Office			Field Services			
	Service Requests	Billing Inq. & Payment	Emergency Services/Handling	General Call	Pre-Billing	Billing	Remittance Processing?	Credit & Collecting	Field Services	Service Order Dispatch	Other Field Services
In Scope of CSC Consolidation Effort	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	No	No	No
Cost/Benefit Impact							---			---	---
Service Level Impact							---			---	---
Ability to Support Growth							---			---	---



Notes:  
 1 Bill Print not in scope of the CSC consolidation analysis  
 2 Remittance Processing not in scope of the CSC consolidation analysis



**While challenging, consolidation is clearly a trend in other cost-driven industries and should provide a first-mover advantage for AWW over other water company competitors based on our analysis.**

Virtually all industries that have experienced consolidation (M&A) have invested in consolidating key customer service operations.

Industry	% with Consolidated Operation <sup>1</sup>
Electric Utilities	80%
Gas Utilities	60%
Telecommunications	90%
Financial Services	85%

Additionally, consolidating operations should provide an advantage over other competitors in your industry.

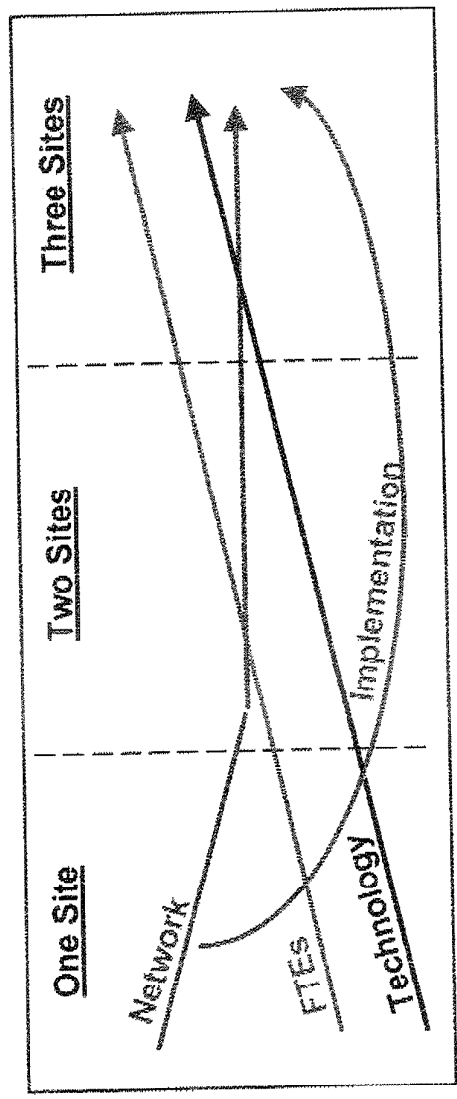
Company	Customer Service Operation	Number of CSCs	Hours of Operation
United Water	Not Consolidated - Planned ('00)	9	8:00a - 4:30p for each time zone
Philadelphia Suburban Aquarion	Consolidated	1	7:30a - 5:00p EST
Cal Water/Dominique	Not Consolidated	2	8:00a - 6:00p EST
NIPSCO/IWC	Not Consolidated	23	8:00a - 4:30p PST
	Not Consolidated	2	24 hours x 7 days

<sup>1</sup> For firms over \$1 Billion. 1996 CCI Study



**Consolidation of operations into several (versus one) operating centers was considered as part of the business case, however, the impact to the business case is significant and dilutive.**

For every incremental site considered, the business case payback extends by approximately 6 months. At current business volumes, adding a site increases the one time capital cost by about \$2 million, and ongoing costs by \$1 million per year.



- FTEs increase as sites are added due to reduced economies of scale as call volume is distributed across additional sites
- As additional sites are added, more calls remain local, thereby reducing network costs
- Technology costs increase with the number of implementation sites
- Implementation costs decrease with three sites due to utilization of existing capacity. However, equipment and facilities beyond current capacity are required for the fourth site





**By using standard practices and technology available today, the operational risks of going to one center versus several are manageable.**

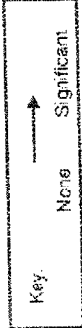
Of eight utility (gas and electric) customer service centers reviewed, seventy-five percent had one service center site:

Company	Customers (mm)	Service Centers	Contingency Approach
Combination utility	2.5	One	Unknown
Combination utility	1.0	Two-one per state	Back-up one another
Electric utility	5.0	Two	Back up one another – process 12 million calls per year in two languages
Electric utility	2.0	One	Redundancy in center – contract for contingency
Electric utility	1.0	One	Redundancy in center – contract for contingency
Electric utility	1.5	One	Redundancy in center – contract for contingency
Electric utility	2.0	One	Contract for contingency
Electric utility	.8	One	Contract for contingency

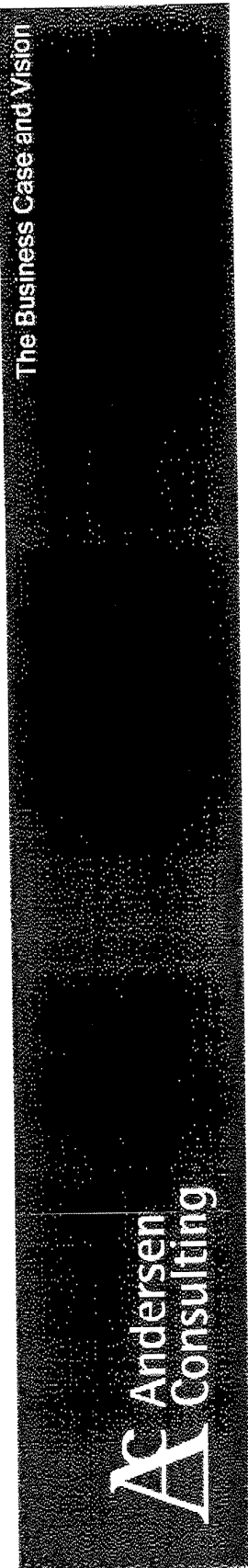


**Even with a positive financial impact, consolidation will present significant challenges that must be managed. Based on our experiential data, and several with AWW management and review of your operational data, and several site visits, we believe several key issues, while manageable, will exist.**

Issues/Risks	Significance	Mitigation Approach <sup>1</sup>
<ul style="list-style-type: none"> <li>■ Labor Consolidation will result in displacement of approximately 400 people, of which approximately 100 are represented employees</li> </ul>	<ul style="list-style-type: none"> <li>■ Discuss with unions early, develop transition game plan with management early, and budget for severance pay (budgeted in business case)</li> </ul>	
<ul style="list-style-type: none"> <li>■ Jurisdictions may view consolidation as negative to service levels. Several jurisdictions have regulations mandating (typically 90-day) notification of intent to move operations out of jurisdiction</li> </ul>	<ul style="list-style-type: none"> <li>■ Develop schedule early and present plan and anticipated service levels to jurisdiction with significant lead time. Work with operating company personnel in first phase to inform target service levels</li> </ul>	
<ul style="list-style-type: none"> <li>■ Ability to support the various jurisdictional requirements with one operations group</li> </ul>	<ul style="list-style-type: none"> <li>■ Improve automated user support, route calls based on 'similar rules' model. During design, normalize jurisdictional rules where feasible</li> </ul>	
<ul style="list-style-type: none"> <li>■ Ability of Orcom solution to support consolidated operation</li> </ul>	<ul style="list-style-type: none"> <li>■ Put ORCOM team under consolidation program and develop more detailed plans for issues                             <ol style="list-style-type: none"> <li>1) Performance at scale.</li> <li>2) Faster pace of implementation, and</li> <li>3) Cross platform customer data access</li> </ol> </li> </ul>	
<ul style="list-style-type: none"> <li>■ Consistency of business practices in each jurisdiction</li> </ul>	<ul style="list-style-type: none"> <li>■ Gain buy-in to the need for consistency at all levels, build into system and process designs, and identify "least common denominator" process opportunities</li> </ul>	



<sup>1</sup> See workplan for key steps



Risks (continued)

Issues/Risks	Significance	Mitigation Approach <sup>1</sup>
<ul style="list-style-type: none"> <li>■ Providing high quality communications between centralized call handling and field operations, particularly for rural area operations</li> </ul>		<ul style="list-style-type: none"> <li>■ Develop detailed understanding of work initiation, customer handling, work closure, and communications processes. Route calls based on jurisdictional understanding and knowledge. Leverage or build automated tools to help</li> </ul>
<ul style="list-style-type: none"> <li>■ Gaining agreement on key decisions in a quick timeframe</li> </ul>		<ul style="list-style-type: none"> <li>■ Initiate working group forum early in project for critical decisions. Appoint single sponsor for key issues. If feasible, align executive incentive compensation with achievement of project outcomes</li> </ul>



<sup>1</sup> See workplan for key steps



In order to support AWW's cost objectives, we recommend location of a consolidated center in a low cost area. Additionally, we recommend locating the facility in an existing AWW territory for further cost, access, visibility and labor reasons.

- There are several cities that could potentially support a center, in terms of labor cost, targets, availability of resources, and location in AWW territory
- It appears there are no current facilities that will support build out. The two facilities which potentially could accommodate space requirements are high-cost labor locations
- Key evaluation criteria that must be considered for this site include labor, real estate, telecommunications, taxes, regulatory, and quality of life
- A study must be conducted to evaluate sites against the criteria as the specific situation of a market can change with a year or two



**Andersen Consulting**

**The Business Case and Vision**

**Our proposed AWW Customer Service Center Conceptual Design and Business Case have been built assuming a vision of top quartile performance (cross industry where applicable). A critical first step of the project will be to define and gain agreement on target service and cost levels.**

Category	Performance Metrics	Current Performance	To Be Performance <sup>1</sup>
1 Costs	■ Cost per call	■ N/A	■ \$2.50
	■ Calls per FTE per hour	■ N/A	■ 17-20
	■ Back office costs/customer served	■ N/A (@\$4.50)	■ TBD (@\$9.00)
2. Service quality	■ Average speed to answer	■ 49: significant variance	■ 30 seconds
	■ % of calls abandoned	■ 5.78% (sample)	■ 5.5%
	■ Maximum queue time	■ N/A	■ 108 seconds
3 Productivity	■ Total calls offered	■ 2,497,403	■ TBD < current
	■ % of handled calls to total CSR calls offered	■ N/A	■ 95%
	■ Average talk (handle) time	■ 4.5 min	■ 2.5 - 3.0 min
	■ Agent turnover rate	■ N/A	■ 15%
	■ Agent absenteeism rate	■ N/A	■ 2%
	■ % of calls answered in 30 seconds	■ N/A - some area very high	■ 85%
	■ FT/PT agent mix	■ N/A	■ 42%/58%
	■ Days from read to bill	■ 4 days	■ 1 day
	■ Bad debt write off percentage	■ .10%	■ .10%
	■ Exception investigation and processing	■ 10% - 15%	■ 5% - 10%

<sup>1</sup> Specific targets to be determined during design, based on cross-inventory performance



Consolidation of the 23 call centers would enable better leveraging of fewer FTEs to provide excellent service at lower costs to existing and new customers.

Staffing Level/ Existing skills	Current Staffing (Average)	Current Salary <sup>1</sup> (Average)	To Be Staffing (Average)	To Be Salary <sup>1</sup> (Average)
Director	8	\$ 102,580	1	\$ 210,000
Superintendent	12	\$ 75,220	2	\$ 112,000
Supervisor/ Team Leader	26	\$ 61,580	12	\$ 63,000
Customer Service Representative (Front Office)	269	\$ 37,620	145	\$ 32,000
Customer Service Representative (Back Office)	121	\$ 43,380	90	\$ 38,000
Secretary/Receptionist/Clerk	17	\$ 37,150	4	\$ 31,000
Technical	1	\$ 49,400	4	\$ 63,000
Training			4	\$ 38,000

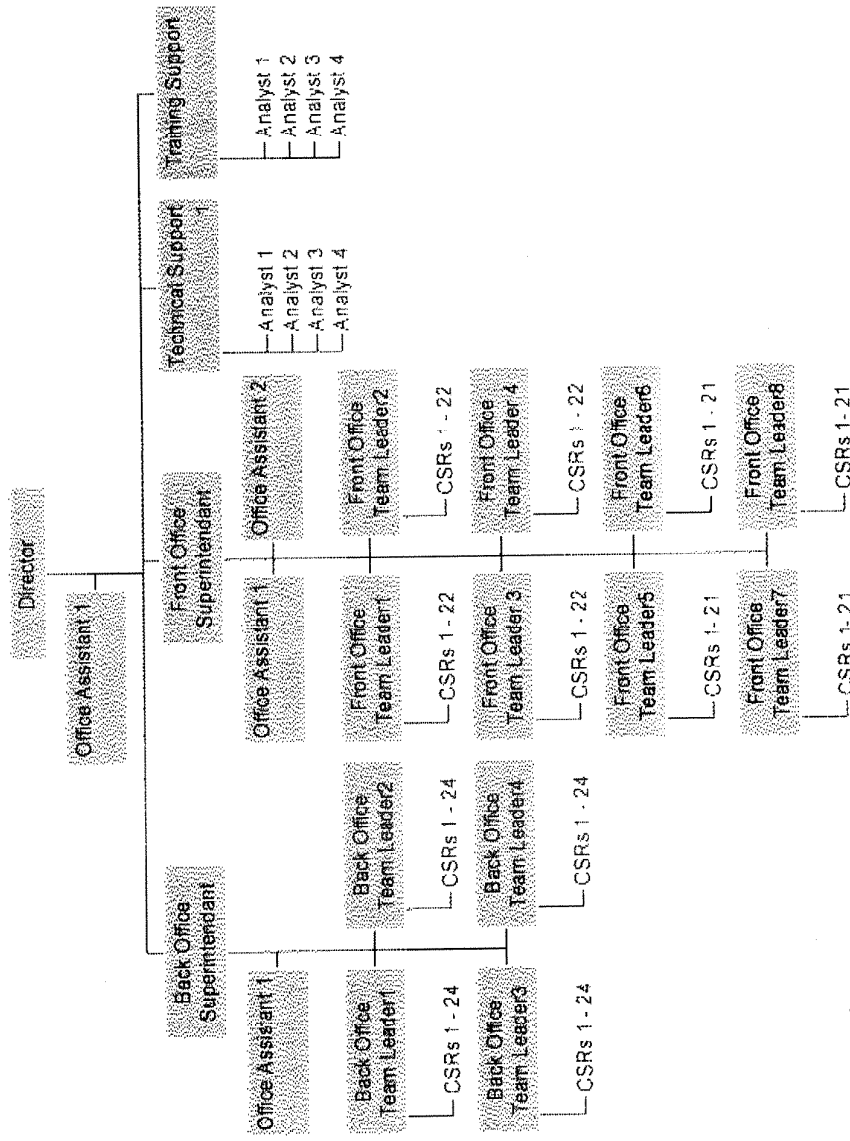
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<sup>1</sup> Fully loaded salary averages provided



The recommended organization design emphasizes best practice spans of control, and infrastructure support.

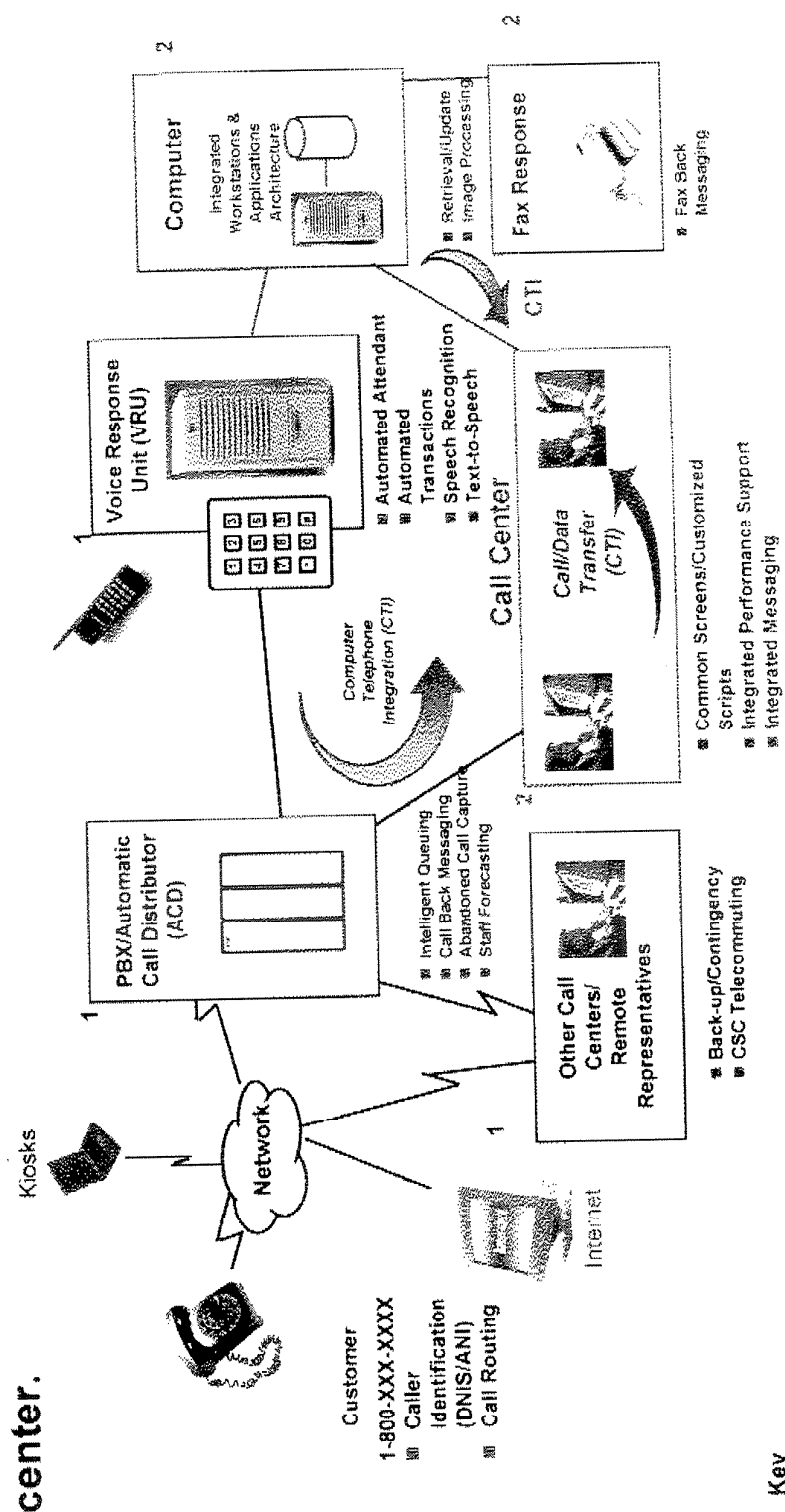


\* Technical Support as documented here does not include application support maintenance

The Business Case and Vision



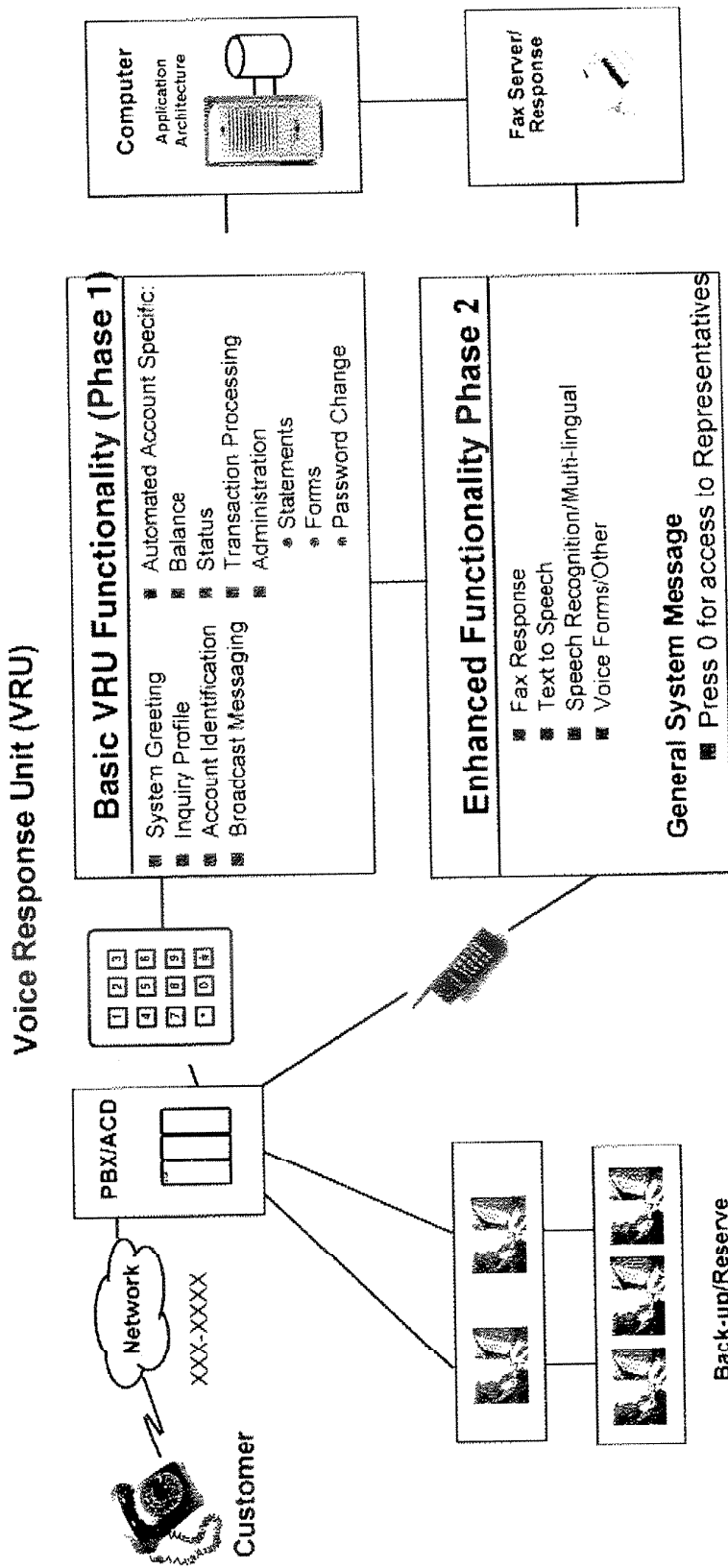
The future technology architecture of the AWW call center should leverage a common standard technical infrastructure which will require fewer FTE's and allow AWW to benefit from the large economies of scale of a single call center.





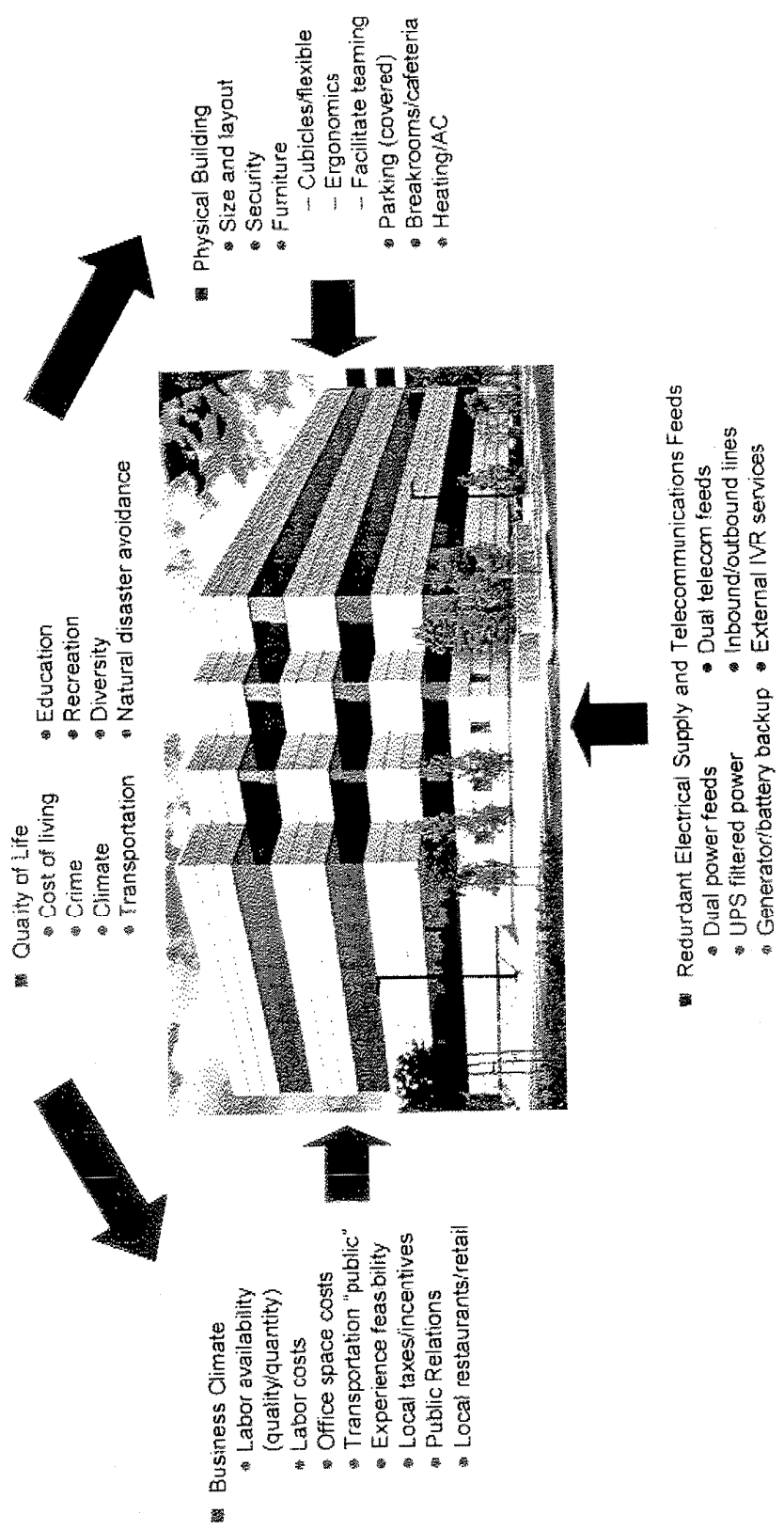


**Integrated Voice Response Unit integration with the CIS and other systems will greatly benefit the call center.**





### Site selection is a balance between site criteria and facility availability and requirements.





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  - Project Methodology
  - Project Team
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### Seven Key Principles Drive the Methodology

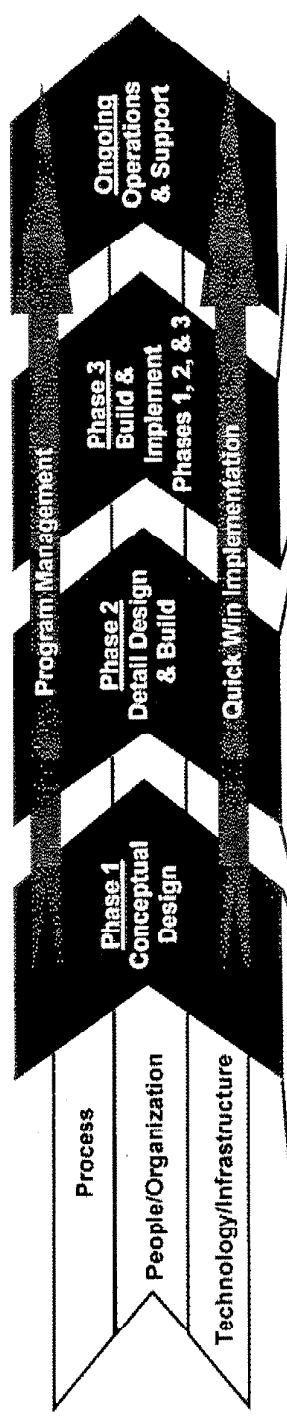
Incorporated in approach for AWW

- Always do a business diagnosis - understand the situation ✓
- Focus on value: Build and maintain a business case ✓
- Define implementable strategies and solutions ✓
- Focus on delivering a business architecture ✓
- Create business capability ✓
- Commit to work in stages ✓
- Use leadership and management to build vision, sponsorship and ownership ✓

Project Approach & Team



Our approach is simple, phased, and proven.

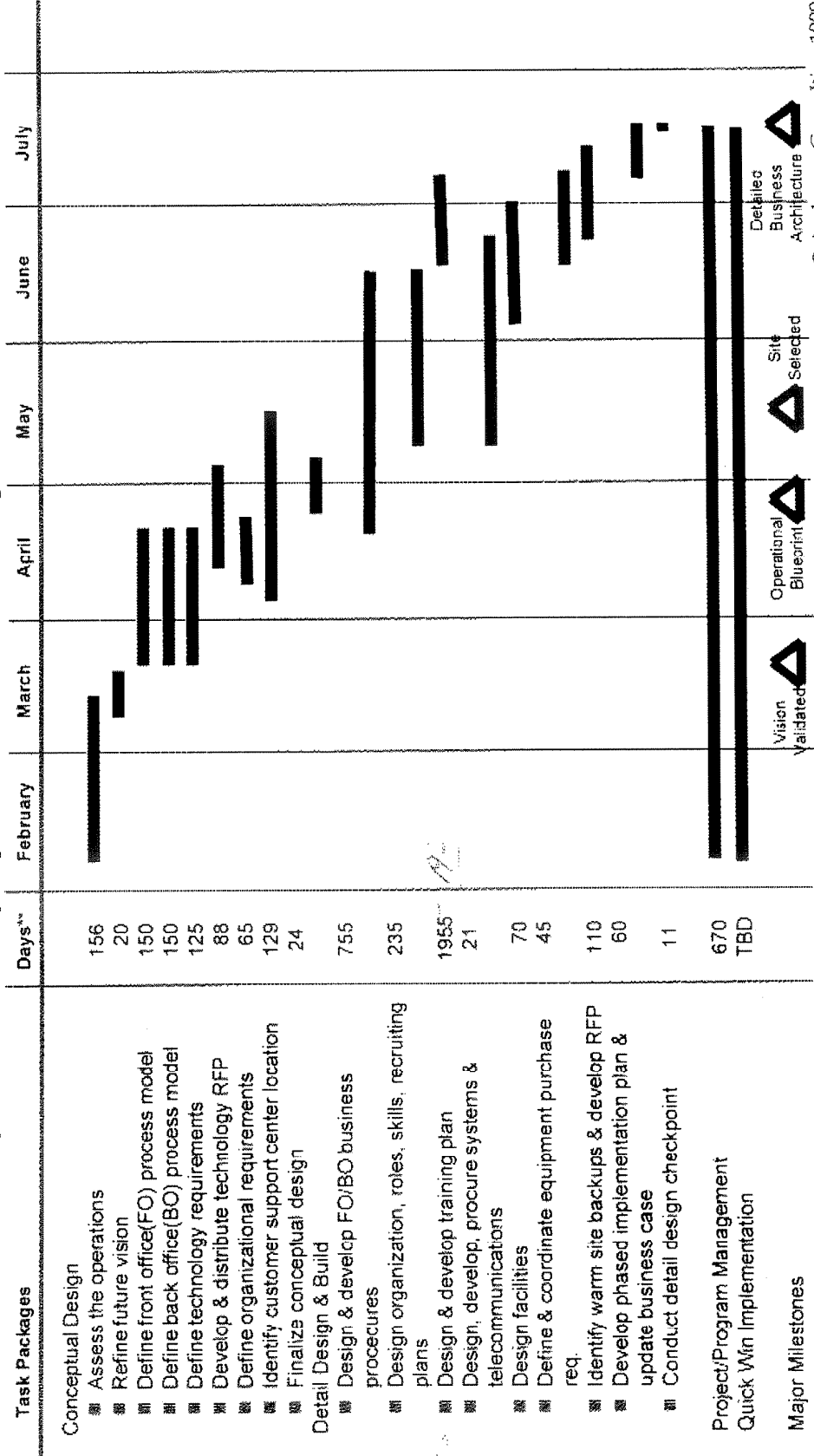


Phase 1	Phase 2	Phase 3
<ul style="list-style-type: none"> <li>■ Assess current operations</li> <li>■ Refine future vision</li> <li>■ Define front office(FO) process model</li> <li>■ Define back office(BO) process model</li> <li>■ Define technology requirements</li> <li>■ Develop &amp; distribute technology RFP</li> <li>■ Define organizational requirements</li> <li>■ Identify customer support center location</li> <li>■ Project/Program Management</li> </ul> <p>Quick Win Implementation</p>	<ul style="list-style-type: none"> <li>■ Design &amp; develop FO/BO business procedures</li> <li>■ Design organization, roles, skills, recruiting plans</li> <li>■ Design &amp; develop training plan</li> <li>■ Design, develop, procure systems &amp; telecommunications</li> <li>■ Design facilities</li> <li>■ Define &amp; coordinate equipment purchase requirements.</li> <li>■ Identify warm site backups &amp; develop RfP</li> <li>■ Develop phased implementation plan &amp; update business case</li> <li>■ Project/Program Management</li> </ul> <p>Quick Win Implementation</p>	<ul style="list-style-type: none"> <li>■ Facility Build Out</li> <li>■ Install, configure, test technical infrastructure &amp; systems</li> <li>■ Deploy technology</li> <li>■ Test systems &amp; telecommunications</li> <li>■ Develop Training Material</li> <li>■ Review human performance</li> <li>■ Recruit &amp; hire</li> <li>■ Train</li> <li>■ Target site</li> <li>■ Consolidate &amp; Pos: Consolidation</li> <li>■ Implementation Phases 1, 2, &amp; 3</li> <li>■ Project/Program Management</li> </ul>
2.5 Months	3.5 Months	3.5 & 2.5 & 2 Months
5 Months Duration - February 2000 to July 2000		
9 Months Duration July 2000 to May 2001		

Project Approach & Team



This chart depicts overall project schedule and high level critical path\*.

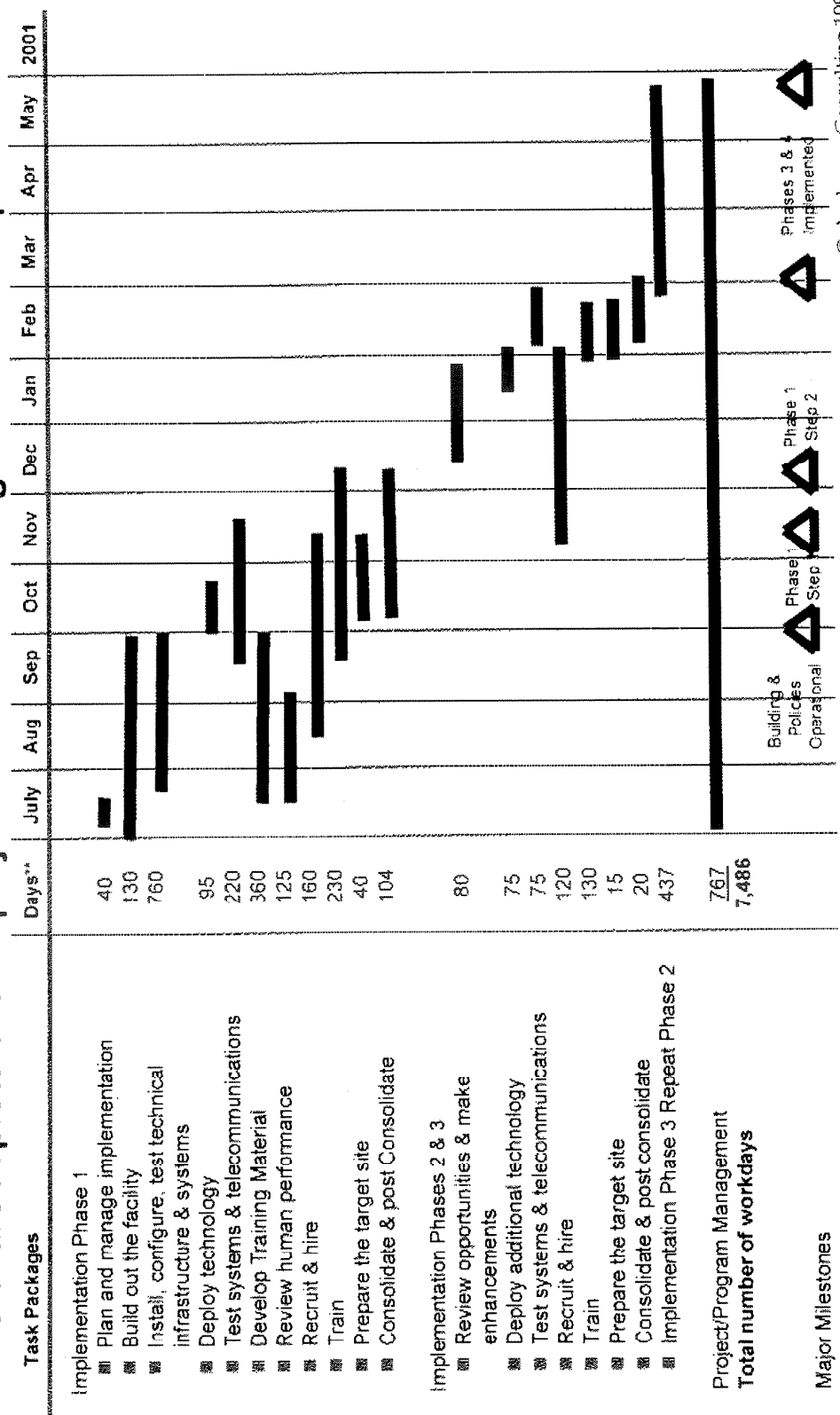


\* Detailed critical path is in the appendix under detailed work plan

Project Approach & Team



This chart depicts overall project schedule and high level critical path\*.

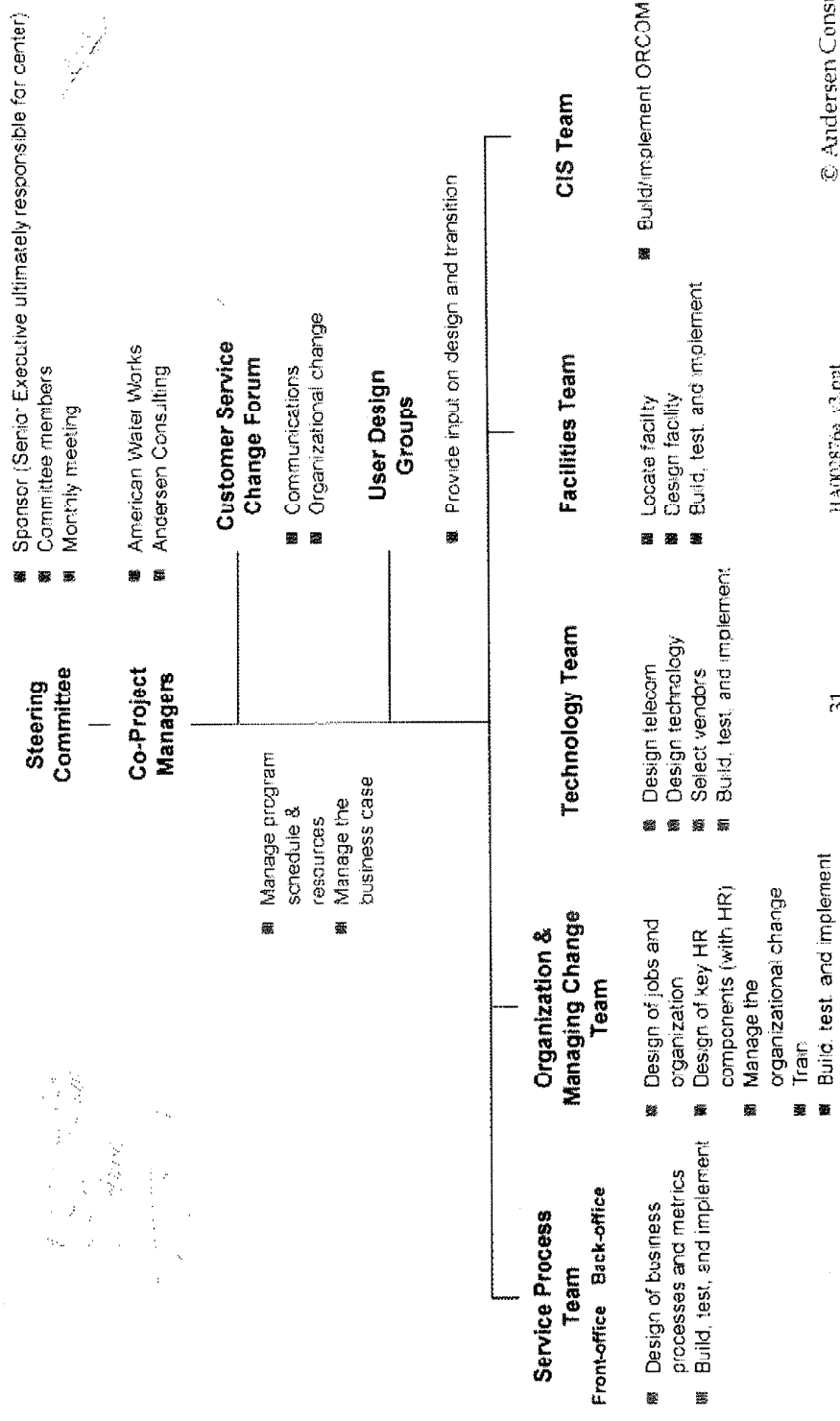


\* Detailed critical path is in the appendix under detailed work plan

Project Approach & Team



The project team structure is built around major sets of activities that will last the majority of the project.





Project Approach & Team



Based on our experience<sup>1</sup> and detailed estimates<sup>2</sup>, the following resources are required to achieve the business case<sup>3</sup>.

Resource Type	Total	Project Management	Service Process	Organization & Managing Change	Technology	Facilities
AWW - Functional	9	1	5	2	---	1
AWW - Technical	5	1	1	---	2	1
Andersen Consulting	16	2	7	3	3	1
<b>Total</b>	<b>30</b>	<b>4</b>	<b>13</b>	<b>5</b>	<b>5</b>	<b>3</b>

<sup>1</sup> Comparable actual efforts from various industries we completed were each within 20% of our estimates

<sup>2</sup> See detailed estimates in workplan

<sup>3</sup> Average headcount requirements Specific month-by-month requirements are available

Project Approach & Team



Our commitment of a high quality team that you already know is an example of the importance of this project to us.

Team Member <sup>1</sup>	Role	Experience <sup>2</sup>
Mark Hawr	Project Lead	Developed AWWW Business Case; Leads Andersen Consulting's U.S. Call Center Practice. CP&L, Bank of America
Ross Rhodes	Project Manager	Developed AWWW Business Case; CP&L, Niagara Mohawk, Call Center Operations Model Development
Hector Hernandez	Technology Lead	Developed AWWW Business Case; Developed multiple call center technical infrastructures, processes and workflow
Michael Joseph	Front-office Lead	Bank of America call center consolidation, build-out and improvements
Christa Dell	Front-office Consultant	Supported AWWW Business Case development, three major utility CIS/customer service projects
Scott Yager	Managing Change Lead	CP&L Call Center consolidation; Commonwealth Edison Call Center build-out
Katie Brown	Managing Change Consultant	Bank of America Call Center consolidation, build-out and improvements
Dawn Dickey	Back-office Lead	Developed AWWW Business Case, Shell back-office design, Siebel's Call Center build-out
Brian Hursi	Technology Advisor	Supported AWWW Business Case development; developed business cases, conceptual designs and strategic plans for 4 call center consolidations
Peter Effler	Facilities Advisor	Supported AWWW Business Case development, Ford Motor Call Center development lead

<sup>1</sup> We anticipate using Andersen Consulting resources only. Use of third party contractors is not expected and will be cleared with AWWW beforehand if needed. Names and resumes of other team members will be provided at your request.

<sup>2</sup> Detailed resumes are provided in the Appendix



- Your Stated Objectives
- Our Understanding of Your Needs
- The Business Case & Vision
- Project Approach & Team
- **Pricing to Achieve Benefits Realization**
- Why Andersen Consulting?
- Appendix



In order to maximize the earning per share and customer service impact, we propose no fees and only a percentage of savings achieved.

Rationale

- We understand that American Water Works has had recent consulting/systems efforts which you believe likely would have benefited from an incentive model, where there is alignment between desired business outcomes and consulting compensation versus a "time and materials" or milestone model
- This model incents both organizations to optimize net benefits and other desired outcomes. On projects like this, benefits are frequently left "on the table" with other contractual arrangements, as the benefits are considered "out of scope" or are not even considered. With "time & materials" or "fixed fee" arrangements, the project objective can become "consolidate". With this type of arrangement, the project objective is "deliver sustainable net business benefits"
- Andersen Consulting views this type of incentive model as unique and differentiating, as other firms either:
  - Will not due to risk, lack of capability, and lack of confidence and experience
  - Cannot do this due to audit relationships and SEC prohibitions

Pricing to Achieve Benefits Realization



We are happy to utilize other models, but an approach that is simple, protects you on the downside, and gives you significant upside potential is a benefits sharing model of \$.20 per \$1.00 delivered.

*Handwritten note:*  $100 \times .20 = 20$

AC

Net Savings to AWW <sup>1</sup>	Receives
■ \$10 million net benefits	■ \$2 million
■ \$30 million net benefits	■ \$6 million
■ \$50 million net benefits	■ \$10 million
■ \$70 million net benefits	■ \$14 million

<sup>1</sup> Net of Andersen Consulting fees



**Our proposed incentive model will require several simple steps in order to achieve maximum benefit for both companies.**

- Detailed business case built and maintained throughout life of project
- Business case run throughout initial years operations
- Agreement on key metrics: proposed to be cost/customer served for key "front office" and customer back-office functions<sup>1</sup>
- Compensate Andersen Consulting for out-of-pocket expenses incurred along the way

<sup>1</sup> To be completed during first month of the project



We are pleased to propose a more traditional pricing model if you believe the net benefits of this project are more “fixed” than “variable” or are uncomfortable with our proposed approach. Our experience, and the basis for us proposing the value-based model, is that both costs and benefit streams can vary dramatically on these projects.

- Time and materials fee estimate of \$5,530,000, with expenses of 10 - 15%
- Alternatively, we would be happy to consider a hybrid model, whereby a portion of our fees are collected along the way and a portion are contingent upon the delivery of net benefits

Pricing to Achieve Benefits Realization



Our time and materials estimate, based on Andersen Consulting staffing of twelve and American Water Works staffing of eighteen, assumes certain

rates:

*What is the...  
...  
...*

■ Average Daily \$1,800/day

■ Rate Ranges<sup>1</sup>

- Analyst: \$480 - \$1,000/day
- Consultant: \$1,100 - \$2,000/day
- Manager: \$1,600 - \$3,500/day
- Assoc. Partner/Partner: \$2,500 - \$4,000/day

*5-4*

<sup>1</sup> FY00 rates (excluding expenses). We are pleased to provide specific rates on an individual basis as rates can vary by individual





- Your Stated Objectives
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Why Andersen Consulting?



In a business where proposals often look similar, there are four unique reasons Andersen Consulting is best able to help you deliver a successful call center and realize the business case.

- We are the only firm able to deliver the net benefits and we're willing to put our compensation at risk to prove it
- You already know the quality of our team
- Our teaming partner is the best example that this works
- Our experience is second to none

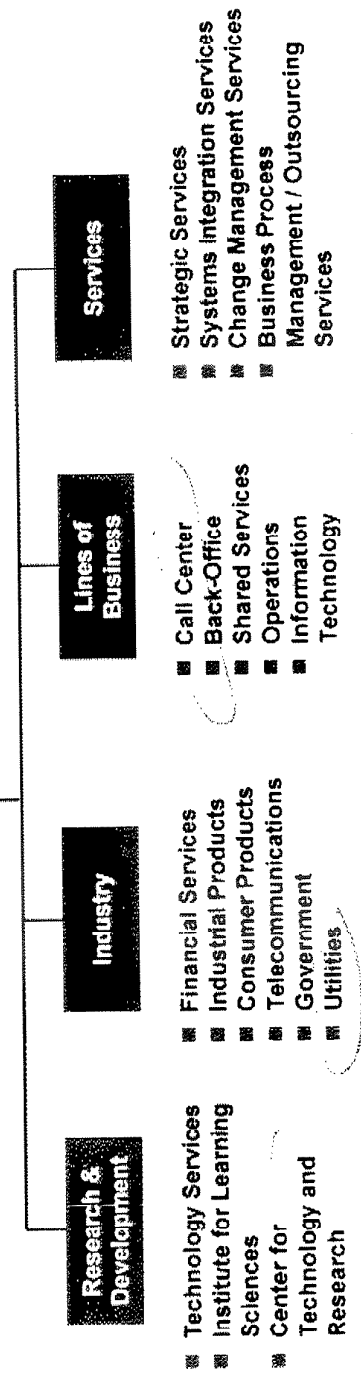
Why Andersen Consulting?



Andersen Consulting's project, business, technology, and change management experience, coupled with an understanding of American Water Works' business, uniquely allows us to put our fees "on the line". We have many deeply skilled people in our organization standing behind the realization of American Water Works' vision and benefits.

- \$9.0 billion in revenue in 1998
- 60,000 Professionals/Staff
- Largest consulting organization worldwide
- Offices near majority of AWW locations

**Andersen Consulting**





Ultimately, the success of this project comes down to the team that is working with you. You already know key players on our team, our chemistry, our integrity, and our access to resources when needed.

- Mark Hawn, Ross Rhodes, Dawn Dickey, Hector Hernandez, and Christa Dell, Brian Hurst, Peter Effler, all members of the business case team, will be the core of your team
- Our business case effort speaks for itself in terms of the quality, focus on results, energy, access to resources, and honesty that you will receive
- We have demonstrated that we have the chemistry to work well together

Why Andersen Consulting?



We have a partner, Carolina Power & Light Company, that can be utilized by the team, is a leader in the call center industry and is an excellent model for both an operating call center and a call center project. As we believe that visiting such a call center prior to starting the project or selecting a consultant would be useful, we invite you to visit the center as an example of our capability.

**CP&L Call Center**

- 200 person call center with front office and back office operations
- Rated in top quartile performance by JD Powers after only three years in operation
- Rated number one in performance in independent cross industry review of call centers

**Relevance to AWW**

- Comparable "as is organization" with 50+ operations centers managed as operating companies prior to consolidation
- Similar business process and regulatory roles and process (multi-state)
- Similar in size
- Utilized Andersen Consulting for comparable services


**Project Role**

- Provide "living proof" that the AWW concept and vision works
- Provide unique, client insight to lessons learned (on project and operation)
- Provide peer-to-peer perspective
- Provide tools, data, and knowledge to AWW
- Provide skills and insight
- Provide a physical site for Andersen Consulting/American Water Works team members to visit and learn

**Other Sources of Contact**

- Ford Motor's call center
- PP&L's call center
- Bank of America's call center

**Why Andersen Consulting?**



**Andersen Consulting**

**We ask that you contact our clients who will attest to the service, integrity and relationship that you will receive.**

Company	Contact	Title	Phone	How their experience applies to AWW
✓ Carolina Power & Light	R. Tucker Mann	Vice President, Customer Service	919-508-5500	Consolidated 52 operations centers into one call center. Top quartile performer. Multi-state
✓ Pennsylvania Power & Light	Frank Long	Chief Operating Officer	610-774-5792	Value-based call center improvements
✓ Ford Motor Co.	Jim Simpson	Alliance Team Manager	313-845-4970	Consolidated and improved Customer Assistance Center. National scope
Bank of America (formerly NationsBank)	Garric Brinkley	Senior Vice-President, Direct Bank Architecture Planning	704-386-7289	Integrated multi-company systems, business processes and cultures
Entergy	Tom C. Reagan	Director, Customer Service Centers and Credit	601-351-4155	Performed multi-jurisdiction call center improvements
Ontario Hydro Services Co.	Brian Mountford	Senior Manager, Customer Care Services	905-946-6354	Successfully consolidated 16 call centers into 2 while preparing for deregulation

Why Andersen Consulting?



The Gartner Group clearly positions Andersen Consulting as the industry leader in key call center capabilities<sup>(1)</sup> and other Customer Relationship Management (CRM) skill sets. Andersen Consulting is the only firm to achieve a "Strong" Customer Service-Call Centers rating in the two most recent studies.

Area	Andersen Consulting	Cap Gemini Sogefi	CSC	Deloitte & Touche	EDS	Ernst & Young	IBM	KPMG	Price Waterhouse
Customer Service-Call Centers	☺			☺	☺	☺	☺	☺	☺
Electronic Commerce	☺			☺	☺	☺	☺	☺	☺
Sales Force Automation	☺			☺	☺	☺	☺	☺	☺
Customer Service	☺			☺	☺	☺	☺	☺	☺
IT Strategy	☺			☺	☺	☺	☺	☺	☺
Change Management	☺			☺	☺	☺	☺	☺	☺
Business Process Reengineering	☺			☺	☺	☺	☺	☺	☺
IT Architecture/Infrastructure	☺			☺	☺	☺	☺	☺	☺
Client/Server Development	☺			☺	☺	☺	☺	☺	☺
Networks (Build & Design)	☺			☺	☺	☺	☺	☺	☺
Internet Services	☺			☺	☺	☺	☺	☺	☺
Data/Info Warehousing	☺			☺	☺	☺	☺	☺	☺

Legend	
☺	Needs Improvement
☺	Average
☺	Strong
☺	Not Participating Actively

<sup>1</sup> Key capabilities reflect a subset of the 1997 Gartner Group Rating of Leading Worldwide Systems Integrators which assessed 18 firms in 91 categories.

Why Andersen Consulting?



**Our CRM Line of Business combines unparalleled call center experience, knowledge capital and assets. These capabilities allow us to implement integrated solutions that are focused on value.**

**500+ CRM Jobs in Past 3 Years**

- Call center consolidations
- Call center operational improvements
- Call center Greenfield solution delivery
- Call center outsourcing
- Customer/product segmentation strategy
- Diagnostic assessment
- Vision & business case definition
- Process design/reengineering
- eMarket customer database development
- Interactive marketing solution delivery
- Customer self service solution delivery
- Organization design
- Performance support & training

**65,000+ Global Professionals**

- **700+ Dedicated to CRM**
- Process-specialists
- Strategy specialists
- Change management specialists
- Technology specialists

**Assets**

- Call center solution center
- Call center health check
- Call center practice aid
- CTI knowledge base
- Leading practices and benchmarks
- Methodologies
- Business/process architecture
- Selling diagnostic toolkit

**50+ Global Delivery Excellence Centers - 5 Dedicated to CRM**

- Internet centers of excellence
- CRM solution centers
- Business integration centers



Why Andersen Consulting?



Andersen Consulting's established track record in call center and customer interaction projects spans a variety of industries, business capabilities, projects and technologies.

Credentials for a Successful Partnership

Industry	Client Name or Description	Success Factors Addressed				Project Type				Technology Type				Web Screen	
		Strategy	Process	People	Technology	Strategy	Design	Subcontract	Implement	PBX/PABX/ISDN	Out-Contact/ACD/CTI	Response	Voice Messaging		CTI/Call
Healthcare	East Jefferson General Hospital	•			•	•			•						•
	Eastern Health Services Firm		•				•								•
	Hahnemann University		•				•								•
	Midwest Healthcare Practice			•			•								•
Professional Services	Regional HMO			•			•								•
	Regional Medical Center			•			•								•
	Engineering Consulting Firm		•				•								•
	International Law Firm		•				•								•
Telecom	US Legal Association		•				•								•
	Professional Services Firm		•				•								•
	AT&T		•				•								•
	AT&T Translight		•				•								•
Transportation	McCaw Cellular		•				•								•
	MCI		•				•								•
	Regional Bell Operating Company		•				•								•
	Regional Cellular Company		•				•								•
Utilities	Regional Telephone Company		•				•								•
	Greyhound Lines, Inc.		•				•								•
	Major Package Delivery Organization		•				•								•
	Tracking Company		•				•								•
Utilities	Asia Pacific Electric Utility			•			•								•
	Asia Pacific Water Utility			•			•								•
	European Electric Utility			•			•								•
	European Water Utility			•			•								•
Utilities	Major US Electric Utility			•			•								•
	Regional Gas Utility			•			•								•
	Southern California Gas			•			•								•
	Utilities Holding Company			•			•								•

Notes:  
 (1) This is a partial listing of our engagements.  
 (2) PBX/PABX = Private Branch Exchange/Private Automatic Branch Exchange Telephone System  
 (3) ACD = Automatic Call Distributor System  
 (4) CTI = Computer Telephone Integration

Why Andersen Consulting?



Industry	Client Name or Description	Success Factors Addressed				Project Type				Technology Type				Work Spheres
		Strategy	Process	People	Facilities	Strategy	Design	Selection	Implementation	PBX	Call Center	Voice Response	Voice Messaging	
Insurance	European Insurance Company	•	•	•	•	•	•	•	•	•	•	•	•	•
	Major Insurance Company	•	•	•	•	•	•	•	•	•	•	•	•	•
	Major Insurance & Financial Svcs. Co.	•	•	•	•	•	•	•	•	•	•	•	•	•
	USA	•	•	•	•	•	•	•	•	•	•	•	•	•
Government	US Insurance Company	•	•	•	•	•	•	•	•	•	•	•	•	•
	Worldwide Insurance Provider	•	•	•	•	•	•	•	•	•	•	•	•	•
	City Government	•	•	•	•	•	•	•	•	•	•	•	•	•
	Federal Government Agency	•	•	•	•	•	•	•	•	•	•	•	•	•
Products	Indiana State Lottery	•	•	•	•	•	•	•	•	•	•	•	•	•
	Major US State Government	•	•	•	•	•	•	•	•	•	•	•	•	•
	Australian Grocery Distributor	•	•	•	•	•	•	•	•	•	•	•	•	•
	Brazilian Chemical Manufacturer	•	•	•	•	•	•	•	•	•	•	•	•	•
	Energy Systems Manufacturer	•	•	•	•	•	•	•	•	•	•	•	•	•
	European Computer Distributor	•	•	•	•	•	•	•	•	•	•	•	•	•
	Household Products Distributor	•	•	•	•	•	•	•	•	•	•	•	•	•
	Information Services Provider	•	•	•	•	•	•	•	•	•	•	•	•	•
	Johnson & Johnson	•	•	•	•	•	•	•	•	•	•	•	•	•
	Kraft General Foods	•	•	•	•	•	•	•	•	•	•	•	•	•
	Machlett Communications	•	•	•	•	•	•	•	•	•	•	•	•	•
	Major Catalog Retailer	•	•	•	•	•	•	•	•	•	•	•	•	•
Major Jewels Retailer	•	•	•	•	•	•	•	•	•	•	•	•	•	
Major Petroleum Provider	•	•	•	•	•	•	•	•	•	•	•	•	•	
Major Security Alarm Provider	•	•	•	•	•	•	•	•	•	•	•	•	•	
Major US Retail Chain	•	•	•	•	•	•	•	•	•	•	•	•	•	
National Restaurant Franchise	•	•	•	•	•	•	•	•	•	•	•	•	•	
Pharmaceutical Manufacturer	•	•	•	•	•	•	•	•	•	•	•	•	•	

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