

SUMMARY DESCRIPTION OF THE CWR CAPITAL PROGRAM

The CWR Capital Program provides a unique and significant alternative to current I/I reduction approaches because it guarantees cost-effectiveness.

The most simple and fundamental challenge of I/I reduction initiatives lies in the fact that the actual cost-effectiveness of any I/I reduction project is only known after the project has been completed. Under virtually all current approaches, an I/I project is pursued because it is initially believed that it should be cost-effective at its conclusion. However, the asset owner then must spend significant “risk capital” in the hopes of reducing sufficient I/I (relative to the dollars spent) so that the project is actually cost-effective. This has always been, and will always be a difficult task because underground rehab work is inherently risky. There will always be volatility of results for the party who is spending the risk capital. Risk capital will always be required for I/I work, but the asset owner is not the optimal party to assume this risk.

The unpredictability and ultimate variability of I/I cost-effectiveness does not provide the asset owner with a real “investment” alternative on par with plant expansions, storage, or increased conveyance capacity; those alternatives all provide a high level of “certainty” and significantly less risk to the asset owner. By contrast, all I/I reduction projects involve significant risk and uncertainty for the asset owner. Importantly, the risk and uncertainty increase significantly when too little money is spent, in turn limiting incentive to spend more.

The CWR Capital Program provides an alternative solution/framework that deals with I/I problems at the source while also providing certainty of cost-effectiveness to the asset owner and the ability to provide a scalable solution. The CWR Capital Program puts the asset owner in a position to simply “buy the result” of others I/I work at a pre-negotiated, cost-effective price instead of “buying the process” and trying to create the result.

In simple terms, the CWR Capital Program is a “pay-for-performance” structure whereby the asset owner only pays for the measured results. The asset owner’s “guaranteed cost-effectiveness” threshold (e.g., \$3.50 per gallon of reduced flow measured on a 20-year peak flow event) is established at the outset. Since payment is due after the fact and based only on actual reduction the asset owner now has a true alternative for its investment dollars.

Under this scenario, a third party (i.e., not the asset owner) is responsible for assembling the team of contractors, engineers and risk capital. This team will undertake and financially underwrite the renewal initiatives within the collection system and be the party that bears the “performance risk” of reduction and achieving cost-effectiveness. The asset owner would work cooperatively with the third party, including that all products, processes, contractors, and scheduling would be approved by the asset owner as part of the process. The “performance contractor” has significant incentive to renew with the best available products and contracting techniques, as it is compensated solely on the basis of independently measured results. Ownership, at all times, remains with the asset owner.

This model provides the asset owner with a compelling alternative to address significant I/I projects and provides a better way to pay for them. The guaranteed cost-effective results, along with shorter project times, scalability and standard measurement protocols, allows the asset owner to deal with new connections and growth opportunities on an incremental and risk-managed basis by optimizing its existing assets first. Further, with this alternative “market structure” whereby asset owners only “buy results” and do so at a pre-determined unit price, there are some profound positive effects on related financial and regulatory

activities — allowing the entire sewer system to be managed as a utility. Collection systems (the real source of flow-related problems) can now be subject to common performance standards and measurement. City managers and asset owners now have certainty and a business case around which to plan significant investment (vs. spending) in the collection system. Justifying and raising the money to fund this investment is much more clear and simple, regardless of the source of funds. Collection system investment is now on par with Treatment and Storage. For example, if sustainable development is important, there is now a mechanism to use incremental connection fees to pay for the capital improvements that created the capacity that allowed for the new connections. Asset owners and environmental/regulatory agencies alike can now more aggressively expect real and relevant results when targeting problem areas, and do so with less risk.

<u>Simplified Illustration</u>	
<p>X = \$ spent on I/I rehab initiative Y = Actual measured reduction achieved from I/I rehab initiative Z = Unit Price of reduction</p>	
<u>Current I/I Approaches</u>	<u>CWR Capital Program</u>
$X \div Y = Z$ 	$Z * Y = X$ 
<ul style="list-style-type: none"> • Start with X, end with Z • Z is the target and the reason for moving forward with the project, but it is a variable and an unknown, not a constant 	<ul style="list-style-type: none"> • Start with Z, end with X • Here, Z is the starting point because it is made a constant by the contract and is no longer a variable to the asset owner (although it remains a variable and risk for the performance contractor)

We believe that asset owners have, for the first time, the opportunity to truly take control of their I/I situation. In simple terms, asset owners should demand more from the private market — more innovation, more capital and a greater appetite for risk. We believe the market will respond to that demand and will demonstrate, among other advantages, a true scalable solution for the asset owner and satellite cities.

It is fairly easy and risk-free to demonstrate this powerful new “design, build, finance, maintain” project delivery method. A pilot program would establish the basis for a process that allows for the asset owner to “buy capacity” at the lowest unit price offered from the market. The pilot and related process would require team pre-qualifications and firm proposals on unit price (quoted as a \$ price per gallon of peak flow reduction) subject to stated measurement and modeling protocols, sign-off rights and any other key terms and contingencies.

CWR is prepared to (i) assist the asset owner in developing the process as part of a pilot program and/or (ii) respond to such an RFP as the performance contractor and provider of risk capital.