

FOR BOARD ACTION

Agenda Item # 5

Meeting Date:

6/28/11

SUBJECT:

Amendment to the Master Services Agreement with HCL/Axon Solutions Inc.

PREPARED BY:

Susan Parker, Director of Corporate Services

ITEM DESCRIPTION:

The amendment to the Master Services is the on-going support for SAP applications including the Customer Care System (CCS). The original support agreement was for three years (through December 2010) with the option to extend it for years 4 and 5. The agreement was structured with an estimated baseline with regards to the level of support needed for RPU and with an escalating rate scale that aligned with the industry rates at that time. After executing the support agreement for a period of 3 years, HCL AXON and RPU mutually agreed that the Year 4 and 5 rates were out of line with then-current market rates and the number of baseline hours of support for RPU needed to be adjusted. Change Request CR001 was executed in February 2010 to adjust the rate card, adjust the baseline hours of support, and extend the agreement through Years 4-10. Since the execution of CR001, HCL AXON and RPU have mutually determined that further refinement is necessary to the baseline hours.

The baseline of hours has been re-established at 135 hours per month, which is consistent with the actual hours that have been used over the past year. In addition to the base hours the roll-over will be pro-rated over the remaining years of the contract providing for an additional 78 hours per month. A total of 213 hours of support will be available each month and additional hours can be purchased at the negotiated rates.

The change request reduces our monthly obligation from \$35,559 to \$18,585. Total savings over the life of the agreement is \$1,419,418. The agreement continues to allow for early termination with proper notice.

The agreement is attached and has been reviewed by the City Attorney.

FOR CAPITAL PURCHASES/BIDS/MAJOR PROJECTS:

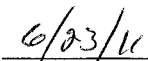
The 2011 budget contains funding for the existing contract and has been forecasted into the remaining years.

UTILITY BOARD ACTION REQUESTED:

Management recommends that the Board approve the amendment to the Master Services Agreement for a total of \$1,554,028 for the six year and six month period and request the Common Council to approve and authorize the Mayor and the City Clerk to execute the Amendment subject to the approval of future budgets by the Board and Council for the future portion of the agreement costs.



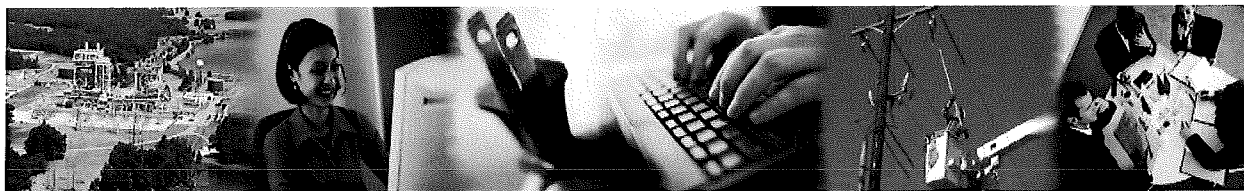
General Manager



Date

SAP IS-U/CCS
Application Management Support
Change Request 002:

Modified Hours, Rates, and Terms



Version 0.4

June 8, 2011

Document Control

Owner:	Sandip Bhattacharya	Status:	Draft
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Version	Description of Change	Date	Author
0.1	Initial Draft	May 8, 2011	David Butts
0.2	Rates, Price and Billing revision	May 15, 2011	Vishnu M
0.3	Revised resource allocation and pricing. Minor changes to terms	June 7, 2011	David Butts
0.4	All changes accepted. Final draft to RPU.	June 8, 2011	David Butts

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1 Governing Agreement

This change request is governed by the SAP IS-U/CCS Applications Management Support Statement of Work – v 1.0, dated December 20th, 2007.

It refers to the Application Management Support Change Request 001 (Year 4-10 Extension and Rate Alignment) dated February 26, 2010.

2 Executive Summary

The original Statement of Work was structured as an Applications Management Support Agreement between RPU and HCL AXON for a period of 3 years with the option to extend for years 4 and 5. The agreement was structured with an estimated baseline with regards to the level of support needed for RPU and with an escalating rate scale that aligned with the industry rates at that time. After executing the support agreement for a period of 3 years, HCL AXON and RPU mutually agreed that the Year 4 and 5 rates were out of line with then-current market rates and the number of baseline hours of support for RPU needed to be adjusted. Change Request CR001 was executed in February 2010 to adjust the rate card, adjust the baseline hours of support, and extend the agreement through Years 4-10.

Since the execution of CR001, HCL AXON and RPU have mutually determined that further refinement is necessary to the baseline hours. In addition, HCL AXON will engage Onshore “Landed” resources in the support of RPU’s SAP Landscape, which are not accounted for in the current Rate Card. “Landed” is defined as resources sourced from a Global Delivery Center (e.g. India) but residing in the United States under proper visa. Finally, HCL AXON and RPU agree that the allowance within the original SOW for unlimited “Roll-over” hours has resulted in an amount of accrued hours that is not sustainable without a mechanism to drive a controlled drawdown of said hours. This Change Request defines this mechanism, which includes the revision of Section 2.1 of the Statement of Work to eliminate the provision for the Roll-over of hours.

3 Reason for Change

3.1 Adjusted Baseline Support Hours

- HCL AXON and RPU have adjusted the baseline support hours that are required to meet their AMS needs. These baseline support hours will be charged at Fixed Price, as described in Section 4.1 of this Change Order. AMS work above the baseline support hours will be invoiced as Time and Materials according to the Rate Card included in Section 4.2 of this Change Order. All expenses will be billed as incurred.

3.2 Rate Card Revision for Landed Resources

As neither the original SOW nor CR001 defined rates for Landed Resources, the Rate Card including in Section 4.2 has been modified to include this consideration. These rates have been used to build up the Fixed Price services described in Section 4.1. For execution of the support services under this Statement of work, HCL AXON will leverage Landed Resources. If RPU would like to use Local resources then Functional SME rates will be applicable.

3.3 Planned Expiration of Accrued “Roll-over” Hours

Section 2.1 of the SOW allows for the Roll-over of hours under certain conditions. As of June 30, 2011, RPU has accrued 4,665 Roll-over Hours, which presents liability and risk for both parties over the remainder of the contract term. RPU and HCL AXON, through much discussion, have agreed that a contractual mechanism is needed to eliminate the balance of accrued hours over the next five years. This mechanism is defined in Section 4.4 and includes revisions to Section 2.1 of the SOW.

4 Resource Levels, Baseline Hours and Pricing

4.1 Fixed Price Support¹

The monthly baseline hours depicted in the tables below will be invoiced on a Fixed Price basis.

Role	Monthly Hours	Year 4		Year 5		Year 6		Year 7		Year 8		Year 9		Year 10	
		Daily Rate	Extended Rate	Daily Rate	Extended Rate	Daily Rate	Extended Rate	Daily Rate	Extended Rate	Daily Rate	Extended Rate	Daily Rate	Extended Rate	Daily Rate	Extended Rate
SDM	8	\$ 1,440	\$ 1,440	\$ 1,440	\$ 1,440	\$ 1,483	\$ 1,483	\$ 1,528	\$ 1,528	\$ 1,574	\$ 1,574	\$ 1,621	\$ 1,621	\$ 1,669	\$ 1,669
General Functional	63.5	\$ 1,200	\$ 9,525	\$ 1,200	\$ 9,525	\$ 1,236	\$ 9,811	\$ 1,273	\$ 10,104	\$ 1,311	\$ 10,406	\$ 1,351	\$ 10,724	\$ 1,391	\$ 11,041
BASIS/ABAP	63.5	\$ 960	\$ 7,620	\$ 960	\$ 7,620	\$ 989	\$ 7,850	\$ 1,018	\$ 8,080	\$ 1,049	\$ 8,326	\$ 1,080	\$ 8,573	\$ 1,113	\$ 8,834
Monthly Total	135		\$ 18,585		\$ 18,585		\$ 19,144		\$ 19,713		\$ 20,307		\$ 20,917		\$ 21,545
Annual Total	1620		\$ 111,510		\$ 223,020		\$ 229,727		\$ 236,554		\$ 243,678		\$ 251,005		\$ 258,534



¹ HCL AXON will engage onshore landed resources for servicing RPU. The Fixed price has been arrived taking into consideration the rates of Onshore Landed Rates

4.2 Revised Rate Card

If any Applications Management Support work exceeding the number of "Total Hours of Support" (as defined in Section 4.4 below) is requested by RPU and delivered by HCL AXON, the consulting fees listed in the table below will be used to compute the costs.

Consultant Role	YEAR 4		YEAR 5		YEAR 6		YEAR 7		YEAR 8		YEAR 9		YEAR 10	
	Daily	Hourly	Daily	Hourly	Daily	Hourly	Daily	Hourly	Daily	Hourly	Daily	Hourly	Daily	Hourly
Service Delivery Manager (Onshore Landed)	\$1,440	\$180	\$1,440	\$180	\$1,483	\$185	\$1,528	\$191	\$1,574	\$197	\$1,621	\$203	\$1,669	\$209
Project Manager	\$1,800	\$225	\$1,800	\$225	\$1,854	\$232	\$1,910	\$239	\$1,967	\$246	\$2,026	\$253	\$2,087	\$261
Functional Consultant (Onshore Landed)	\$1,200	\$150	\$1,200	\$150	\$1,236	\$155	\$1,273	\$159	\$1,311	\$164	\$1,351	\$169	\$1,391	\$174
Functional SME	\$1,618	\$202	\$1,618	\$202	\$1,667	\$208	\$1,717	\$215	\$1,768	\$221	\$1,821	\$228	\$1,876	\$234
BI / BW Consultant (Onshore Landed)	\$1,200	\$150	\$1,200	\$150	\$1,236	\$155	\$1,273	\$159	\$1,311	\$164	\$1,351	\$169	\$1,391	\$174
ABAP Lead (onshore)	\$1,387	\$173	\$1,387	\$173	\$1,429	\$179	\$1,471	\$184	\$1,516	\$189	\$1,561	\$195	\$1,608	\$201
ABAP Developer (Onshore Landed)	\$960	\$120	\$960	\$120	\$989	\$124	\$1,018	\$127	\$1,049	\$131	\$1,080	\$135	\$1,113	\$139
ABAP Lead (offshore)	\$462	\$58	\$462	\$58	\$476	\$59	\$490	\$61	\$505	\$63	\$520	\$65	\$536	\$67
ABAP Developer (offshore)	\$347	\$43	\$347	\$43	\$357	\$45	\$368	\$46	\$379	\$47	\$391	\$49	\$402	\$50
BASIS Lead (onshore)	\$1,387	\$173	\$1,387	\$173	\$1,429	\$179	\$1,471	\$184	\$1,516	\$189	\$1,561	\$195	\$1,608	\$201
BASIS Developer (offshore)	\$1,041	\$130	\$1,041	\$130	\$1,072	\$134	\$1,104	\$138	\$1,138	\$142	\$1,172	\$146	\$1,207	\$151
BASIS Lead (offshore)	\$462	\$58	\$462	\$58	\$476	\$59	\$490	\$61	\$505	\$63	\$520	\$65	\$536	\$67
BASIS Developer (offshore)	\$347	\$43	\$347	\$43	\$357	\$45	\$368	\$46	\$379	\$47	\$391	\$49	\$402	\$50

The Year 3 rates are held constant through Year 4 and 5. Beginning in Year 6, a 3% year-over-year COLA adjustment is included.

4.3 Expenses

Expenses will be billed as incurred. All travel will be pre-approved by RPU before expenses are incurred.

4.4 Expiration of Accrued "Roll-over" Hours

As of June 30, 2011, RPU has accrued 4,665 Roll-over Hours based on the conditions defined in Section 2.1 of the SOW. In order to drive a controlled drawdown of these hours, they will expire at a rate of 78 hours per month, effective July 1, 2011 through June 30, 2016. On July 1, 2016, the balance of accrued hours will, by definition, be zero (0).

The new Baseline Hours were developed based on a thorough analysis of historical and pipeline data, and factor in the above drawdown of accrued hours.

In effect, this Change Order provides RPU with 213 hours of Support per Month under the Fixed Price services:

- Baseline Fixed Price Hours per Month = 135
- Use of Accrued "Roll-over" Hours per Month = 78

Effective July 1, 2011, the sixth paragraph of Section 2.1 of the SOW is replaced with the following:

If, during the Monthly Service Review Meeting, the support resource requirements agreed are less than those shown in section 3 then RPU acknowledges that it is not entitled to any reduction in fees from HCL AXON. All Roll-over hours are lost upon the earliest of the Agreement Completion Date or the Termination Date (per section 4.4), where applicable.

For the avoidance of any doubt, this means that RPU will no longer have the ability to accrue unused hours for future use.

5 Total Cost

This Change Request is to document HCL AXON's and RPU's agreement to the SOW changes overall cost impacts.

Table 1 - Fixed Price

Period	Monthly Fixed Price	Annual Fixed Price
July 1 - Dec 31, 2011	\$ 18,585	\$ 111,510
Year 5 (2012)	\$ 18,585	\$ 223,020
Year 6 (2013)	\$ 19,144	\$ 229,727
Year 7 (2014)	\$ 19,713	\$ 236,554
Year 8 (2015)	\$ 20,307	\$ 243,678
Year 9 (2016)	\$ 20,917	\$ 251,005
Year 10 (2017)	\$ 21,545	\$ 258,534
Contract Total		\$ 1,554,028

6 Assumptions and Dependencies

- Unless specified by RPU, HCL AXON will engage Onshore Landed Resources for servicing RPU under this SoW. If RPU request for US Functional resources, Functional SME rates will be applicable as defined in the Section 4.2.

7 Signatures

Submitted By:

XXXXXX

Date

Accepted for RPU by:

Susan Parker, Director of Corporate Services

Date

Larry Koshire, General Manager

Date

City of Rochester:

Mayor: _____

Attest: _____

City Clerk: _____

Reviewed By: _____

City Attorney: _____

By signing above, you are authorizing the work to be done in accordance with the information in this document.

This Change Order is governed by the Master Services Agreement dated February 23, 2007 and SAP IS-U/CCS Application Management Support Statement of Work V1.0 dated Dec. 20, 2007 between HCL AXON and RPU.



RESOLUTION

BE IT RESOLVED by the Public Utility Board of the City of Rochester, Minnesota, that the Common Council of the said City is requested to approve a contract amendment with HCL Axon Solutions Inc., and that the Common Council authorize the Mayor and the City Clerk to execute the agreement for

Amendment to the Master Services Agreement for ongoing support
of the SAP system for a six year and six month period
subject to approval of future budgets by the Board and Council

The amount of the contract amendment to be ONE MILLION FIVE HUNDRED FIFTY FOUR THOUSAND TWENTY EIGHT AND 00/100 DOLLARS (\$1,554,028.00) for a six year and six month period.

Passed by the Public Utility Board of the City of Rochester, Minnesota, this 28th day of June, 2011.

President

Secretary