ATTACHMENT No. 1

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Teeboom: The closer you look at the Pennichuck deal ...

By FRED S. TEEBOOM

I was always against the eminent domain/hostile takeover of Pennichuck Corp. and in favor of the city of Nashua purchasing the entire company.

But the agreed-upon acquisition for $220 million has troubling aspects:

- The original plan was to make the acquired waterworks a tax-exempt division within the city. Now an independent taxable corporation is set up under Nashua ownership. Aside from issues of governance, the difference is highly significant to the ratepayers.

  A tax-exempt $220 million bond at the city's current rate of 3 percent would cost $11.22 million in equal annual payments for 30 years, whereas at the assumed taxable bond rate of 6.5 percent, the equal annual payments would come to $16.85 million for 30 years. The added cost is $5.63 million in annual payments and $169 million in total payments.

- Pennichuck now carries a debt of $60 million, which must be absorbed with the acquisition. Included in the $220 million bond is $160 million in new debt not carried by Pennichuck that must be carried for 30 years by the ratepayers. Payments on $160 million at 6.5 percent are $12.25 million annually.

  These payments are partially offset by efficiencies such as eliminating high executive salaries and not requiring exhaustive reporting of a stock-traded company (about $2 million) and not having to pay $3.6 million dividends to shareholders (4.662 million shares at 78 cents per share), for a total of $5.6 million in recurring operational savings.

- The additional $6.65 million for the annual $12.25 debt payments not offset by operational savings must be paid by the ratepayers, assuming the current $60 million Pennichuck tax-exempt debt is not refinanced. Current revenues are $37 million, **so rates must increase by 18 percent above Pennichuck's** after the purchase is consummated.

- If tax-exempt, the $160 million new debt carried at 3 percent would cost $8.16 million in annual payments, which is $2.56 million higher than the $5.6 million operational savings**, representing an immediate 7 percent rate increase** – much less than an 18 percent rate hike under a taxable debt.

Nashua's consultants claim that required revenues under Nashua ownership always fall below Pennichuck ownership, thus rates would always be lower. The model behind this claim was never shared with the public or even shared with the aldermen. The mayor published the printed pages, but these do not show the formulas used in the model.[1]

Examination of the printout of the model raises more questions:

- The new company runs at a loss for the first 19 years, deferring corporate taxes, after which it begins to pay nearly $1 million in corporate taxes annually, rising to $4.7 million annually after 30 years. None of these taxes would need to be paid if the entity were a tax-exempt division within the city.
- The new company pays $3.3 million in property taxes in 2011, not required if it were a division within the city.
- Some $7.75 million for capital expenses for maintenance and upgrades is taken out each and every year and placed on a 30-year interest payment schedule of 5.5 percent, resulting in constantly escalating debt. In fact, when the $220 million acquisition debt is finally paid off after 30 years, a new debt of $149 million has accumulated.

The model is obviously contrived to force a favorable outcome, surely the reason the formulas for the model are not made public.

Is $220 million for this acquisition a reasonable price to pay?

- In December 2009, the mayor announced the fair market price to pay for a share was $25, based on a thorough evaluation by the city's consultants. Why now pay $29, an additional $18.6 million for 4.662 million outstanding shares?
- Why pay "closing" costs of $24.8 million, the difference between $160 million additional debt and the price paid for the stock of $135.2 million? Buried here is the cost of golden parachutes for the executives, employee termination costs, consultant fees of $3 million, and $5 million to pay for Nashua's eminent domain costs.

Is this the best deal?

That depends how eager Nashua wants to own a water company. No question, there are upsides.

- After 30 years of paying off the $220 million debt, the city can begin to pay down the $149 million debt incurred by bonding all capital expense costs.

[1] On Friday 22 January 2011, following my RSA91-A Right-to-Know request after this article appeared in The Telegraph on 16 January, the model was posted on the city's website in both .PDF printable form and in Excel programmable form with formulas.

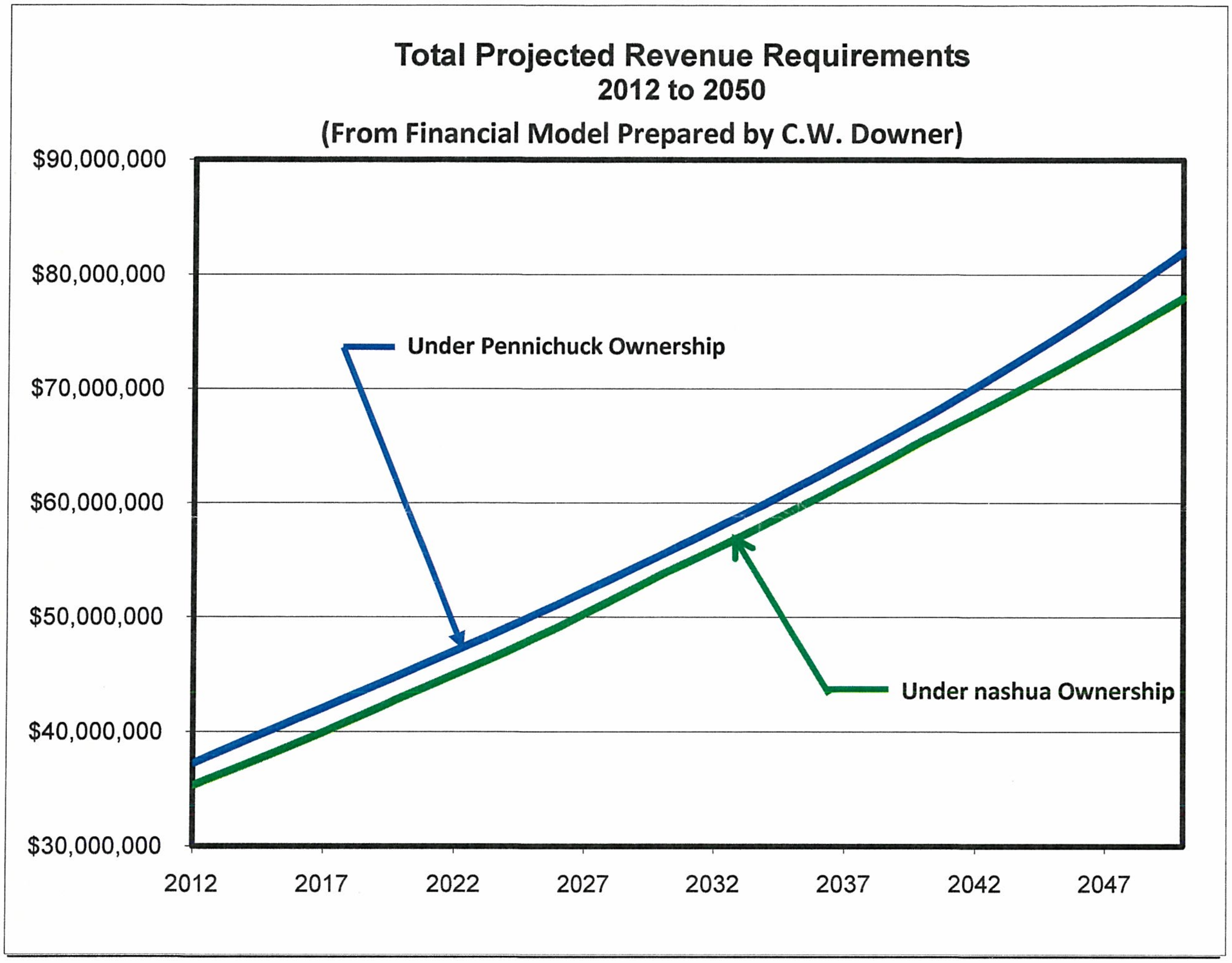
- Nashua will own the entire water company and the remaining conservation land.
- Pennichuck's stewardship has been harmful to Nashua, having sold a thousand acres of precious watershed land for enormous windfall profit. Not profit motivated, Nashua will be a far better protector of our natural resources.

After 30 years, citizens will look on this purchase as farsighted. But, meanwhile, let's be honest and admit the rates will climb under Nashua ownership higher than under Pennichuck for 30 years under the proposed arrangement. After the $220 million debt is paid, the rates should drop below Pennichuck ownership.

Next, the state Public Utilities Commission must conclude the financial terms of this acquisition are in the public interest, conditional to its approval. I plan to reserve myself a front-row seat.

Fred S. Teeboom is a former alderman-at-large and intervenor with the Public Utilities Commission.

ATTACHMENT No.2



<u>Model Overview – Prepared by the city's advisor, C. W. Downer</u>.

1. This model is used to compare total revenue requirements under current Pennichuck Corporation ownership to revenue requirements following an acquisition of Pennichuck Corporation by the City of Nashua.

2. This model reflects information available as of the time the Definitive Merger Agreement was reviewed and signed by Pennichuck and the City. However, the projected revenue requirements for Pennichuck through 2050 were derived by the City on the basis of information provided by Pennichuck.

3. Additional information will be incorporated and the model will be refined and extended as part of the filing with the New Hampshire Public Utilities Commission.

4. This model is based on the assumption that the City borrows funds to finance the acquisition at an annual interest rate of 6.5%, which is the highest rate at which the City would be obligated to proceed under the Merger Agreement.

5. This model includes the City's assumptions and projections regarding increases in water service rates and revenues through 2050 under both the current ownership and City ownership scenarios. Under this transaction, the three regulated water utilities would remain fully subject to the regulatory jurisdiction of the New Hampshire Public Utilities Commission. There would be no changes in water service rates without approval by the Commission.