

Exhibit 02 – Presentation to City of Nashua - 2002

Protection of Pennichuck Watershed as Drinking Water Supply
For the Citizens Today and 50 Years from Now
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Humans can go without food for 15 days, but they can only go without water for 3 days.

Abundant, healthy drinking water is critical for the future growth and health of this area.

I recommend strongly that an independent study be commissioned to determine the capacity and health of the watershed today and at least 50 years out. I further recommend that this study analyze the pros and cons of the sale of Pennichuck Water Works, Inc. to any company such as Philadelphia Suburban versus acquisition by the City of Nashua or some form of metropolitan water district made up of area towns. This study will provide very important information for formulating the necessary rules and restrictions that must be included as conditions for the sale to ensure that this sale is **“in the public good”**.

Let me address a few points about the capacity and health of the watershed and the future costs to the rate payers.

Watershed Capacity:

The Pennichuck Ponds provide water for Nashua and must be supplemented by drawing water from the Merrimack River. I have included a supporting letter written by Vice President, Stephen J. Densberger of Pennichuck Water Works, Inc written April 28, 1999 to NH-Department of Environmental Resources. I will quote from that letter, **“In 1984, Pennichuck constructed a supplemental connection from the Merrimack River to Pennichuck Brook to help meet summertime demand, which had outstripped the safe yield of the Pennichuck Brook system.”**

What happens if the draw from the Merrimack River is reduced or eliminated do to in stream flow rules or drought?

The Naticook Aquifer is on the north side of the Pennichuck Watershed. It provides water for more that the Town of Merrimack’s drinking water supply through a town owned Merrimack Village District (MVD) water company. I will quote from a study report done in 1999 and 2000 and is attached. **“At the current rate of rise in the peak demand, MVD will not be able to supply the Town through its growth phase to buildout, when growth slows or stops.”** The report locates the aquifer to be adjacent to the Pennichuck Watershed as part of the fault line running from Silver Lake to Greens Pond. This is a real flag that maybe our watershed is experiencing the same problems of

declining recharge year after year. This impacts the water capacity from the ponds and the wells in the Pennichuck Watershed.

An independent study is necessary to determine the quantity of drinking water for Nashua and the region.

Health of the Water Supply:

The Center for Watershed Protection (www.cwp.org) is a very well respected organization that works with communities in the protection of watersheds. The key indicator of watershed health is the percentage of impervious surface, i.e. paved and building surface in the watershed. The water quality goes to fair from good when the impervious cover grows to the 11-25%. The water quality goes to poor when the percent of impervious cover goes to beyond 25%. The closer impervious cover is to the water supply draw the more critical. The buildout on Amherst St is very obvious and over 30%. It is even more obvious from the air. The buildout from PC Connections through Wal-Mat is becoming more obvious from 101A. From the air, is it pretty frightening? Photos are attached.

It probably would not be so bad if the watershed were large. The Pennichuck Watershed is only 27.5 square miles and 87% of the size of Nashua.

The health of the watershed is being threatened. This threat is in the critical stage and needs to be studied by an independent group whether Pennichuck Water Work, Inc. is sold or not. This threat needs to be studied with the help of someone like the Center for Watershed Protection.

What is the Financial Impact of Pennichuck Being Sold:

A study of the financial impact of the sale of Pennichuck Water Works, Inc. needs to be done. If the sale goes through, the valuation or basis value of the Water Works will increase over the current company evaluation significantly. Does this mean that the PUC is required to raise rate to the consumer so that Philadelphia Suburban can get their 8 to 9% return on investment? The potential decay in the quality of the water may require a more expensive water treatment plant. The general overhead of the new parent may be higher and that may impact the water rates that Nashua residents and those in surrounding towns may pay. A study needs to be made to determine if and how much the water rates will go up?

A Standard and Poor's report (attached) about on acquisition of water companies states that acquiring companies can buy small water companies at a premium and pass the cost on to the ratepayers. I will quote from the report:

"These utilities will frequently approach state regulators or local representatives and offer to integrate a smaller system into their own, relieving the municipal system from future

environmental and capital concerns. In return, the acquiring utility requests, and usually receives, some assurance that future expenditures will be incorporated into rates. Sometimes, such assurance even includes any premium paid to acquire the system. In 1997, California passed a law (SB 1268) allowing investor-owned utilities to account for purchases of water systems using fair market value. Previously, acquired water systems were added to the purchaser's rate base at the original cost paid to build the system, essentially lowering the value of the purchase. As a result, the acquiring company was unable to earn a return on the full purchase price. Naturally, the ability to incorporate the acquisition premium in the rate base can be a strong incentive for additional industry consolidation. Pennsylvania, Arizona, Idaho, and Texas also have allowed this practice. "

Another consideration is local control. Water is owned by State of NH. What happens to local control since Philadelphia Suburban is from outside of NH. What happens if Philadelphia Suburban is acquired by a foreign company? For example, what if a German company acquires Philadelphia Suburban and then a Saudi company acquires the German company? What safe guards should be there to protect local control and protection of the water supply? While these considerations are probably remote they must be considered.

Pennichuck Corporation has executed an excellent Harvard Business School type business plan to maximize profits. They have done it by rate increases, increased valuation of the company by acquiring smaller water companies financed by the Nashua water users, and selling off and developing the so called not essential land in the watershed. The reality is that they have pretty much built out or sold off all the non-essential land and that income will stop. Some people think that Pennichuck Corporation has maximized their profits at the expense of the future health of the watershed. While assigning blame may be psychologically gratifying, it accomplishes nothing. It is important to analyze the current situation and figure out how to move forward providing sufficient and quality drinking water for future generation.

In summation, I recommend that the City of Nashua do a significant independent study of the capacity and health of the watershed for the next 50 years. Further, it is imperative to study the acquisition of Pennichuck Corporation to determine the financial impact on the ratepayers and what restrictions are required necessary to protect the watershed and the ratepayers. It is necessary to insure that this acquisition "**in the public good**".

Attached are a few aerial photographs.

Thank you for your time.

Allan Fuller

Additional Information

Per the City of Nashua's Master Plan, the Pennichuck Brook watershed has an area of 17,984 acres. The Pennichuck Brook watershed comprises 3,702 acres in Nashua, which is 20.6% of the total watershed area. Pennichuck watershed supplies drinking water for the towns of Nashua (ponds with about 15 million gallons per day and supplemental supply from the Merrimack River to a total of 20 million plus gallons per day depending on demand), Merrimack (35 foot deep well head behind PC Depot with 1 million gallons per day), Amherst (35 foot deep well behind Wal-Mart with 1 million gallons per day), Hollis (wells at each home).

Pennichuck Water Company was incorporated in 1853. It has been split into a water company and a development company in 1983. At that time they owned or maintained about 2000 acres of watershed protection lands. The result of this is that some water company lands have been considered not essential to the watershed and are being developed. The water company does not own all the land in the watershed. The local planning and conservation commissions approve each individual development using the guidelines outlined by the regulations. The commissions are not allowed to consider the

summation of the effects of all the developments on the watershed. The result is the gradual destruction of our drinking water supply for future generations.

NH DES with the help of Pennichuck Water Company rewrote the regulations for protecting the Pennichuck Watershed. There was an informational meeting January 10, 2002. The proposed regulations were less restrictive than the current regulations by PUC on Pennichuck Water Company, Nashua watershed protect ordinances, conservation control in the town of Hollis. I have talked to Mayor Streeter about working with the towns of Hollis, Amherst, and Merrimack in proposing new DES watershed protection regulations that are in the best interest of protecting the drink water quality, recharge capacity for today's citizens and future generations. The goal is to make it a win for everyone if possible without compromising our water supply. We are currently working on developing a working committee of concerned citizens, conservation commission members, and planners from each town to develop and set of regulations and cooperation between to towns to protect the watershed. This will not be easy. Education will be very important as well as everyone working towards a common goal.

1. The amount of impervious cover in our drinking watershed is an important measure of present and future watershed quality and health. Currently the Pennichuck Watershed is over 20% and rising.
 - a. Tom Schueler, Center for Watershed Protection, has evaluated about 350 watersheds and says that
 - i. 0 – 10% Impervious cover - data is fuzzy
 - ii. 10- 20% Impervious cover - Moderate Impact
 - iii. > 30% Impervious cover – High Impact
2. The effect of impervious cover is:
 - a. Increased volume and velocity of runoff
 - b. Increased frequency and severity of flooding
 - c. Peak storm flows many times greater than in natural basins
 - d. Loss of natural runoff storage capacity in vegetation, wetland and soil
 - e. Reduced groundwater recharge (watershed capacity)
 - f. Decreased base flow
3. Town officials need to consider:
 - a. Preventing such impacts in the first place
 - b. Strategy of natural resource based planning
 - c. Appropriate site design
 - d. Storm water treatment
4. The commissions are obligated to approve development requests and following current regulations. They are threatened that they will be taken to court if the plan is not approved. The problem these commissions have is:
 - a. Regulations are no written to effectively protect the drinking water supply

- b. There is now way to determine if the developer's plan to protect and treat the water run off is scientifically valid
 - c. There is no enforcement mechanism to insure that the plans submitted are followed or that the storm water treatment designs are maintained
 - d. The regulations do not consider the impact of all the development on the health of the watershed.
5. One major impact that is planned for the future is Exit 9 for the Circumferential Highway. This intercept to the Everett Turnpike is planned to cross the Merrimack River from Londonderry, up Pennichuck Brook to Concord Street and then over the north shore of Harris Pond with an interchange less than 1 mile south of Exit 10. The effect will be to increase the impervious area close to the ponds. The Exit 10 interchange already goes to Continental Boulevard and would divert traffic off of Amherst Street section that runs through the watershed.

Some related links:

<http://www.cwp.org/> - Center for Watershed Protection

Founded in 1992, the Center for Watershed Protection is a non-profit 501(c)3 corporation providing the tools to help communities protect some of the nation's most precious natural resources: our streams, lakes and rivers. Joining forces with local watershed groups, federal and local governments, as well as nationally respected experts and professionals, the Center has developed and disseminated a multi-disciplinary strategy to watershed protection that encompasses watershed planning, watershed restoration, stormwater management, watershed research, better site design, education and outreach, and watershed training.

<http://www.epa.gov/safewater/topics.html> - EPA Ground Water and Surface Water

Excellent site with all types of information from analytical techniques to watershed protection, and regulations

<http://nemo.uconn.edu/> - University of Connecticut: the Cooperative Extension System – Non Point Education of Municipal Officials (NEMO)

NEMO's Reason for Being: A one sentence description of the NEMO Project appears at the top of each page of this web site: an educational program for local land use officials that addresses the relationship of land use to natural resource protection. That pretty much says it all. However, never having learned to leave well enough alone, we will elaborate just a bit on the key elements in that definition, in the reverse order that they appear:

Natural Resource Protection is the Goal: (even we feel that no further elaboration is needed on this point)

Land Use is the Issue: We believe that better land use decisions are the key to protecting the natural resources, community character, and long-term economic health of our communities.

Local Officials are the Target Audience: Because land use is the issue, the people making land use decisions are our key target audience. In the United States, this mean local officials serving on land use boards at the county and municipal levels. (Quick - name 5 groups or organizations devoted to assisting these critical decision makers! Can't do it, can you? Chalk up yet another good reason for NEMO...)

Education is the Method: Given that the local land use decision making process is complex, political, and widely varying, state and federal regulation can only go so far in dictating better land use policies and practices. We believe that education - particularly research-based, non-advocacy professional outreach education - is the best way to foster better land use decisions.

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