

EXHIBIT F



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## Utility's cost depends on many issues

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NASHUA – Typically, when someone considers buying something, the first question is: "What will it cost?"

The same is true for the proposed city acquisition of Pennichuck Corp., the local water company.

Since Philadelphia Suburban Corp.'s stock-for-stock offer is between \$95 million and \$106 million, then \$100 million might seem like a reasonable number.

But a municipal purchase would be an outright buyout and that carries additional costs, said Maurice Arel, the company's president and chief executive officer.

To accept any city offer, Pennichuck would first have to dissolve its agreement with Philadelphia Suburban, which carries a \$2.5 million fee written into that agreement. Pennichuck would ask that the fee be included in the price for a municipal takeover, Arel said.

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Pennichuck would also ask that its shareholders be reimbursed for capital gains taxes, he said. Since the Philadelphia Suburban offer is a stock-for-stock trade, Pennichuck shareholders would not be subject to a capital gains tax in that deal.

In a public purchase, however, the stock would be bought and dissolved. That, in effect, would force a capital gains tax on shareholders.

Pennichuck would have to reimburse its financial adviser, SG Barr Devlin, some \$1.5 million based on the finance company's contract with the utility. Company officials would ask that cost be passed onto the city, Arel said.

The company could also ask that its stockholders be compensated for future earnings on the Pennichuck stock, since those earnings would not be realized because of the eminent domain taking of their property, said Stephen Densberger, the company's executive vice president.

Ward 5 Alderman Brian McCarthy, who chairs the aldermanic committee on the proposed purchase, said the city would dispute these costs. If the purchase goes to eminent domain and the state Public Utilities Commission decides it is in the public interest, then the PUC would determine the purchase price and whether these additional costs are included.

A quick survey of some other public takeovers of private water companies show that the final settlement price is often between two to four times the "net book value" of the company. The book value in this case is the shareholders' investment in the company – the equity – plus the debt.

For example, an individual's home mortgage includes the amount paid off – the equity – and the amount still owed the bank in principal. Add them together and it gives you what was paid for the house. It's different than "market value," which is the price the property would fetch if it was put

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on the market today.

Looking at previous sales of water utilities gives an idea of how much Pennichuck might sell for in a municipal takeover.

For example:

n Last year, the city of Indianapolis bought its water utility from the Indiana-based energy company NiSource for \$522.5 million, or about three times the book value recorded in federal Securities and Exchange Commission filings.

n Last year, Fernandina Beach, Fla., bought its water system from the Florida Public Utilities Co. for \$24.6 million, or 4½ times book value.

n In 2001, Salisbury, Mass., bought its utility from the American Water Works Co. for \$11.5 million, a little less than twice the book value, said Jerry Klima, a retired lawyer who sat on the town's water committee.

n In 1986, the Massachusetts towns of Dedham and Westwood bought their utility for \$8.5 million, which was a little less than twice the book value, said Nan Crossland, executive director of the Dedham-Westwood Water District.

Pennichuck's book value is about \$58 million – \$27 million in debt and \$31 million in equity. So, using the book value rule of thumb, the utility could cost anywhere between \$116 million to \$232 million.

Klima said the ratio of book value to final purchase price can vary greatly from utility to utility and from state to state.

"I'd caution against directly comparing book value versus purchase price," he said. "All you are trying to get at is a fair market value for the utility. What the final purchase price is often determined by state laws on the public purchase of a utility as well as previous cases that have gone before the state's PUC."

The New Hampshire Public Utilities Commission already has indicated that it wouldn't necessarily include any damages to Philadelphia Suburban. There is little legal precedent in New Hampshire that would guide the PUC as to what is a reimbursable expense and what isn't, said Gary Epler, the PUC's general counsel.

"The commission would need to hear arguments on both sides and then make a ruling," he said.

It is impossible to say now what the PUC would or wouldn't consider legitimate compensation to Pennichuck stockholders in a public taking of the company, said Mark Naylor, director of the commission's gas and water divisions.

"In my 12 years with the commission, we really haven't had any eminent domain takings of utilities. We have one right now with the city of Berlin taking the hydroelectric plant there," he said.

"Hudson did file a Chapter 38 (eminent domain taking) when they were taking their water utility from Consumers New Hampshire. But then Pennichuck stepped in and they worked out a deal that worked for all three. It never got to the point of us determining a price or what costs would be included."

Hudson bought its water utility from Consumers Water Co. for \$34.5 million in 1998 and then sold off the non-Hudson assets to Pennichuck for \$7.5 million.