

CITY OF NASHUA
Petition for Valuation Pursuant to RSA 38:9
DW 04-048

City of Nashua's Responses to Staff's
Data Requests – Set 3 Round 1

Date Request Received: February 7, 2006
Request No. 3-23

Date of Response: February 16, 2006
Respondent: George E. Sansoucy, P.E.

Request: It appears that the City of Nashua, oversight contractors RW Beck and Tetra Tech, and ops contractor Veolia with primary subcontractor Dufresne-Henry, would all be involved in the current water system, with significant amounts of assessing, recording, reporting, etc., between and among those various entities. Please explain how this would be more efficient than Pennichuck's existing streamlined operations with a single entity performing all of these functions with its own on-site personnel.

Response: The assumption in the question of 3-23 is that Pennichuck's existing operations are streamlined and that it is a single entity performing all of these functions with its own on-site personnel. Nashua does not believe this to be the case. Pennichuck is not and has not been a streamlined operation for some time. At this point, it employs approximately 88 people, of whom approximately 40 people are dedicated to the day to day operation and maintenance of the plant, pipes in the street, pump stations, tanks, etc., and approximately 48 people are salaried and/or overhead. Pennichuck is required to maintain an operation to manage as a publicly held company. This operation includes SEC management and reporting, investigations from time to time, stockholders and public relations, a Board of Directors, and management of its Sarbanes-Oxley requirements. Compared to municipal water operations such as the City of Manchester or what Nashua will be, this is not streamlined. The company maintains expensive upper management and overhead who are skilled and knowledgeable in managing a public company but not necessarily providing any value added to the management and streamlining of the day to day operations of Pennichuck in the streets of Nashua. The company also maintains an operation that is actively looking to purchase additional satellites and systems within the State. This acquisition effort is an overhead function that is imbedded in the day to day operations of the company and detracts from the streamlining of its water operations.

The company maintains a less than streamlined package of buildings and offices. It has rented office space from its subsidiary, Southwood, and has

increased its rent. It has spread its people across a number of different buildings, and appears to have required multiple levels of overhead for IT, communications, and other such items for the purpose of communicating between building locations. Its office systems are spread from Will Street to the Treatment Plant to Manchester Street, and to Pittsfield, New Hampshire. The company is proposing more distant development in other parts of the State which will stretch its operations and overhead further.

The company is required to maintain Federal reporting requirements and State reporting requirements. As a regulated public utility, it has a regulatory reporting overhead that a municipal entity would not have. It also has a federal reporting overhead for its annual reports, 10-K's, and other forms of reporting to the SEC, which a municipal entity would not otherwise have. For the size of the company this does not offer a streamlined operation.

The company's operations are far flung in the State of New Hampshire for a very small contribution to fixed cost and overhead. With the limited number of customers scattered over tens and tens of miles away from Nashua, the management operation, driving to and from, meter reading, etc., of this operation, for the size and number of customers, does not lend itself to a streamlined operation.

The company maintains a significant engineering overhead, which apparently operates as a management group, spending significant time and effort in managing subcontract engineering and vendors outside of the company. It is questionable how streamlined its engineering and engineering management functions are.

The company maintains an extensive employee benefits package that is primarily centered on a defined benefits system. Streamlining of today's operations center on a defined contribution system which limits the long-term liability to the company and the long-term liability to the rate payers. The company's continued insistence on operating a defined benefits program, post retirement health benefits and other types of benefits are not indicative of a streamlined operation in the 21st century.

Many day to day functions are performed through subcontracts as evidenced in the reported payments to individuals in PWW's annual report to the NH PUC. This level of activity generally requires management oversight, legal, bookkeeping, and record keeping, etc. and is not streamlined.

On the other hand, the City of Nashua and its oversight contractors present a public and private partnership which is streamlined. Veolia and its subcontractor, Dufresne & Henry, will provide all of the operations under

one roof with one management team and one engineering team. It will have no more assessing, recording, and reporting to perform than the existing Pennichuck operating employees do, and will have far less than Pennichuck's overhead currently carries because of no requirement to report to the SEC, the investment bankers, the NH PUC, stockholders, Board of Directors, and upper management. The City of Nashua has and continues to operate a streamlined city government system with its finance department, insurance department, legal department, etc. and will continue to do so. Oversight contractors RW Beck and Tetra Tech will not be duplicating efforts of Veolia, but will be assuring the City that those efforts are being performed by Veolia. Beck and Tetra Tech will perform the overall financial management necessary to maintain the bond compliance of the City, ordinance compliance, and operational compliance of the Veolia contract. Based on the firm bids by Veolia and RW Beck, in comparison to the overhead load of Pennichuck, it is apparent that the Veolia-Beck team with the City of Nashua is far more streamlined than Pennichuck Corporation, PWW, and the existing Pennichuck Corp. management.