

Executive Summary

The following summary provides an overview of the prefiled direct testimony submitted by Pennichuck Water Works, Inc. (PWW), Pennichuck East Utility, Inc. (PEU), Pittsfield Aqueduct Company, Inc. (PAC), Pennichuck Water Service Corporation (PWSC) and Pennichuck Corporation (PNNW) submitted February 27, 2006 in response to the January 12, 2006 filing by the City of Nashua regarding its plans to contract out the operation of the water utility.

A. Donald L. Correll

Mr. Correll's testimony summarizes the information that Pennichuck Water Works ("PWW") has been able to obtain regarding Veolia Water North America—Northeast, LLC ("VWNA") and its affiliates within Veolia Environnement, a large French company that is traded on the Paris stock exchange. Mr. Correll states that Veolia Environnement is the same company that was formerly known as Vivendi Environnement, which was part of Vivendi Universal. Mr. Correll notes that it was Vivendi's ownership of a 15% interest in Philadelphia Suburban Corporation ("PSC") that provided one of the principal bases on which Nashua objected to the proposed merger of PSC with Pennichuck Corporation in 2002 and that resulted in Nashua's undertaking its efforts to take Pennichuck's assets by eminent domain. Mr. Correll then discusses the fact that VWNA and the operation of the assets that Nashua seeks to take from PWW will constitute an extremely small part of the total operations of Veolia Environnement. Because of this fact and the fact that the individuals responsible for operation of those assets will be very low down in the corporate structure of this large multi-national corporation, it is likely that the interests of shareholders of the larger entity will take precedence over ensuring that the interests of customers are protected. Mr. Correll also notes that many of the major functions related to operation of the water system in and around Nashua will actually be performed outside New Hampshire under the proposed contract with VWNA. Mr. Correll then briefly discusses the fact that Veolia still has not made a binding commitment with regard to the services it will perform for Nashua or the cost of those services, and the entire arrangement remains subject to change.

Next, Mr. Correll discusses some of the concerns that are raised based on Veolia's track record in other communities in the United States where it has operated. He points out that the nature of Veolia's business requires it to focus significant efforts on developing close relationships with government officials whose business the company is seeking. He notes that such a situation can create serious concerns regarding improper dealings unless a company has the highest ethical standards. He then notes that Veolia has had a number of instances in which its representatives have engaged in criminal conduct with regard to the operation of water and wastewater systems or obtaining the contract for operation of such systems. In particular, he notes that Veolia personnel have been convicted of serious criminal activity in Bridgeport, Connecticut, Rockland, Massachusetts and New Orleans. Mr. Correll provides supporting materials with his testimony to provide additional details concerning these situations. Mr. Correll then discusses a number of situations in which there have been significant problems relating to

disputes between Veolia and its employees who operate municipal systems. He reviews VWNA's proposal for dealing with the employees it will need to operate PWW's water systems and explains why there is cause for concern that the same types of problems could arise there. Specifically, Veolia will not be obligated to recognize the union representing PWW employees nor will it assume their collective bargaining agreement. Labor unrest may well be the result of Veolia's plans to eliminate defined benefit pensions and retirement health benefits. Mr. Correll then briefly discusses problems Veolia has had related to lack of candor regarding quality of service and accusations that it has tried to prevent its employees from speaking about such problems. Finally, Mr. Correll notes that because of the short timeframe that PWW has had to conduct an investigation of Veolia's activities in other states, there may be more information regarding these or similar issues to be brought forward at a later date.

B. John E. Joyner

Mr. Joyner is President of Infrastructure Management Group ("IMG"), which is nationally recognized as an expert in negotiating public-private partnerships for owners and operators of public use infrastructure. Mr. Joyner notes that he was contacted on behalf of the City of Nashua in 2005 to participate on a panel to discuss such partnership arrangements with regard to the operation of municipally owned water systems. Mr. Joyner has participated directly on many occasions in the contracting process for operation of a municipal water or waste water systems by a private company, and therefore has direct experience in the process that Nashua undertook in contracting with VWNA.

Mr. Joyner first notes that Veolia has significantly more experience operating waste water systems than it does operating entire drinking water systems. In particular, he notes that Veolia has only one contract under which it operates an entire drinking water system that is comparable in size to the Nashua core system. Mr. Joyner then notes that the request for proposal ("RFP") process conducted by Nashua had serious deficiencies in that it failed to include an evaluation committee of municipal officials, impose specific evaluation criteria, rank proposals based on those criteria and document the selection process. Instead, Nashua's RFP process was apparently conducted primarily by the consultant who was himself promoting an eminent domain taking of PWW's assets in this case. Mr. Joyner then notes that, in light of the very competitive nature of the contract operations business, the lack of a substantial number of bidders in response to Nashua's RFP is an indication that other potential bidders saw problems that caused them to be reluctant to commit to entering into a contract with Nashua. He notes that these problems are reflected in VWNA's contract proposal, which shifts significant risks to Nashua and could result in the costs ultimately incurred by Nashua being far different than those currently being represented.

Mr. Joyner then reviews numerous deficiencies in the contract negotiated by Nashua with VWNA. These include the \$800,000 termination fee that Nashua would be required to pay if for any reason it fails to litigate the eminent domain case through to conclusion at the PUC, the lack of performance standards that would normally be present,

the lack of any incentive to economize on fuel and electrical costs, the failure to protect the pay and benefits of current utility employees who would be needed to ensure a smooth transition to municipal operation, numerous basic utility services that are not included in the base contract fee but are instead treated as extras for which there will be an additional charge, and numerous other items. Mr. Joyner explains that the reason that VWNA would negotiate such a contract is to ensure that it can define the expenses it will bear and shift the risk of additional costs to Nashua. This approach enabled VWNA to submit a bid with a low, fixed annual fee, enabling Nashua to support its argument that savings would be experienced under municipal ownership. Mr. Joyner then discusses some of the larger items where VWNA's proposal and Nashua's revenue requirement analysis significantly underestimate the operating costs that Nashua is likely to incur. These items substantially reduce the savings claimed by Nashua, and Mr. Joyner points out that if the purchase price assumed by Nashua turns out to be wrong then the savings projected by the City's consultant could be eliminated entirely.

C. Donald L. Ware

Mr. Ware's testimony primarily discusses the scope of VWNA's contract with Nashua and, in particular, identifies certain fundamental utility services that are insufficiently covered or are not included at all within the work covered by the basic annual fee under the VWNA contract or the fee for oversight services from R.W. Beck. Mr. Ware also discusses the fact that the VWNA contract only obligates VWNA to supply drinking water that meets safe drinking water requirements if the raw water it is required to treat meets certain standards. Mr. Ware notes that PWW is required to deliver water that meets all applicable legal requirements regardless of the quality of the raw water taken into its treatment facilities. Mr. Ware then points out that VWNA has no meaningful experience operating a regional water utility like PWW's that includes nearly two dozen unconnected community water systems. He observes that even Consumers Water Company, a large private water utility that owned a similar system in New Hampshire, was unable to operate multiple community water systems on a successful basis, but Pennichuck has a proven track record of doing so, and through Pennichuck East Utility currently operates many of the systems that Consumers previously struggled with. Finally, Mr. Ware notes that the individuals identified by Beck as being primarily responsible for overseeing the services to be provided by Veolia have no experience doing so and have been employed by Beck for only a very short time.