COST ALLOCATION AND SERVICES AGREEMENT

This AGREEMENT is entered into as of the 1st day of January, 2006 by and among Pennichuck Corporation ("PNNW"), Pennichuck Water Works, Inc. ("PWW"), Pennichuck East Utility, Inc. ("PEU"), Pittsfield Aqueduct Company, Inc. ("PAC"), Pennichuck Water Service Corporation ("PWSC") and The Southwood Corporation ("TSC").

WHEREAS, PNNW is a holding company and owns all of the issued and outstanding stock of PWW, PEU, PAC, PWSC and TSC (the "Subsidiaries"); and

WHEREAS, to the extent practicable PNNW operates the Subsidiaries as a single economic unit in order to take advantage of available economies of scale through common staffing and a common asset base; and

WHEREAS, PNNW exists and operates for the exclusive benefit of the Subsidiaries and does not conduct any separate operations for its own benefit; and

WHEREAS, in order to further the efficient and cost-effective operation of PNNW and all of its Subsidiaries, PEU, PAC, PWSC and TSC (the "Other Subsidiaries") and PNNW have no employees of their own, but rather rely upon and utilize personnel employed by PWW; and

WHEREAS, PWW leases a portion of an office building located at 25 Manchester Street, Merrimack, New Hampshire where its executive and administrative offices are located; and

WHEREAS, PWW owns certain equipment and other assets that it makes available to the Other Subsidiaries and PNNW for use by them; and

WHEREAS, PNNW and the Other Subsidiaries have no office facilities or office equipment of their own and rely exclusively on PWW to supply these items on an as-needed basis; and

WHEREAS, the services, facilities, and equipment of PWW that are provided to the Other Subsidiaries and PNNW are substantially the same as PWW would be required to provide for itself, individually, if the Other Subsidiaries and PNNW did not exist; and

WHEREAS, as a result of economies of scale there is an economic benefit to be derived by the parties hereto in using and sharing with each other the same officers, staff, office facilities and equipment, which would be more costly to each of them if they were obtained on an individual basis; and

WHEREAS, in particular, such economies of scale result in reduced operating and capital costs for each of the Subsidiaries and result in lower rates for customers of PEU, PAC and PWW (the "Regulated Subsidiaries") than could be achieved if the Regulated Subsidiaries operated on a stand-alone basis;

WHEREAS, based on the expectation and the representation by PWW that, because PWW and the Other Subsidiaries are under common control, the foregoing assets and services will continue to be available to them on an ongoing basis, the Other Subsidiaries and PNNW have not themselves acquired the assets or employed the individuals necessary to provide the services contemplated by this Agreement;

WHEREAS, the "Regulated Subsidiaries, in response to recommendations from the staff of the New Hampshire Public Utilities Commission, wish to amend the cost allocation methodology set forth in the Cost Allocation and Services Agreement among PNNW and the Subsidiaries that is currently on file with the Commission; and

WHEREAS, PNNW and the Subsidiaries wish to enter into this Agreement to reflect the unity of use of the employees of PWW and certain assets of PWW that are owned and operated by PWW for the benefit of all of the Subsidiaries and PNNW;

NOW THEREFORE, in consideration of the foregoing and the mutual agreements set forth below, the parties hereto agree as follows:

I. SERVICES

PWW shall furnish to PNNW and the Other Subsidiaries, and PNNW and the Other Subsidiaries shall utilize, all of the following services upon the terms and conditions hereinafter set forth:

A. Administrative. PWW shall provide the corporate administrative services required by the Other Subsidiaries and PNNW, including the formulation of recommendations to their respective Boards of Directors, the implementation of the decisions of their respective Boards of Directors, the responsibility for executive decisions, as appropriate, the preparation of contracts, the maintenance of all corporate records and documents, the filing with governmental authorities of all documents required by law or otherwise necessary for the continuance of the corporate existence of the Other Subsidiaries and PNNW, public relations, corporate communications and community affairs, and, in the case of PNNW, responsibility for shareholder relations.

B. Accounting and Financial. PWW shall provide such accounting and financial services to the Other Subsidiaries and PNNW as they may require. Such services shall include maintaining the general books of account of, and

preparing periodic financial statements and related reports for, the Other Subsidiaries and, on a consolidated basis, PNNW, advising and assisting in the preparation of budgets and planning for the Other Subsidiaries and PNNW, and preparing and filing, or assisting in the preparation and filing of, Federal, State and local tax returns and other reports required by regulatory agencies for the Other Subsidiaries and PNNW. Additionally, PWW shall be responsible for assisting the Other Subsidiaries and PNNW in their acquisition of capital and operating funds, through borrowing and, in the case of PNNW, through the issuance of equity securities. PWW shall prepare and monitor annual budgets for, and shall be responsible for data processing services to the Other Subsidiaries and PNNW, be responsible for securities compliance functions under both state and federal law, providing or procuring internal and external auditing and accounting services, rate and regulatory support, risk management (including procuring insurance coverage) financial planning and all treasury and finance functions.

C. Information Technology. PWW shall provide the Other Subsidiaries and PNNW with such information technology resources as they may require, including all hardware and software and related support, telecommunications, and customer billing and information services.

D. Customer Services. PWW shall provide the Other Subsidiaries such services and systems as they shall require for customer servicing, including meter reading and billing, payment remittance, credit, collections, customer relations, customer communications, customer offices and field operations.

E. Operating Services. PWW shall provide the Other Subsidiaries and PNNW with operating services, including materials management and purchasing, engineering, and facilities and system operation and maintenance.

II. OFFICE SPACE AND FACILITIES

PWW will utilize its premises at 25 Manchester Street, Merrimack, New Hampshire in order to conduct the administrative functions and perform the accounting and financial services required by this Agreement, and will utilize its office equipment on an as-needed basis in connection therewith and as otherwise required by the Other Subsidiaries and PNNW in connection with their operations.

III. FEE

A. The parties hereto agree that the activities undertaken, and costs and expenses incurred, by PNNW are undertaken or incurred for the benefit of the Subsidiaries and shall be allocated to the Subsidiaries in accordance with Section I of Appendix A. The parties agree that PNNW may from time to time, in its sole and absolute discretion, choose not to allocate certain expenses to the Subsidiaries and to bear such expenses itself.

B. In consideration for the services to be rendered, and the office space and facilities to be utilized by PWW as provided in this Agreement, the Other Subsidiaries and PNNW each agree to pay PWW a fee based on actual costs and expenses incurred by PWW which are appropriately allocable to their respective operations, in accordance with the allocation formulas set forth in Section II of Appendix A. In applying the allocation formulas, the parties will utilize data from the then-current fiscal year, except as

otherwise provided on Appendix A. The fee payable for such services will be charged periodically by PWW to PNNW and/or the Other Subsidiaries, as appropriate.

C. Notwithstanding the allocation formulas set forth in Appendix A, PWW shall endeavor, in those instances where it is practical to do so, to direct charge the Other Subsidiaries for expenses that are clearly identifiable as being for a single entity and for which the costs can be clearly and readily separated from other more general costs incurred by PWW. In addition, notwithstanding the allocation formulas set forth in Appendix A, in those cases where PWW incurs an outside expense, such as professional or consulting fees, that are incurred for the benefit of less than all of the Subsidiaries, such expense shall be allocated equally among the Subsidiaries for whose benefit the expense was incurred.

IV. TERMINATION

The term of this agreement shall be seven (7) years (the "Initial Term") beginning on January 1, 2006 and shall continue for an indefinite number of additional one (1) year terms thereafter (each of which is referred to as a "Renewal Term"), except that any party may terminate its participation in this Agreement by giving written notice at least one (1) year prior to the expiration of the Initial Term or any Renewal Term or such lesser notice as may be agreed upon by all of the parties hereto.

V. MISCELLANEOUS

This Agreement supersedes all prior agreements concerning the subject matter hereof between or among the parties hereto, or any of them. This Agreement shall inure to the benefit of and shall be binding upon the parties hereto and their successors and assigns. This Agreement shall be governed by and construed under the laws of the State of New Hampshire.

IN WITNESS WHEREOF, each of the parties hereto has caused this Agreement to be executed as of the date written above.

PENNICHUCK CORPORATION

BY: _____
William D. Patterson, Vice President

PENNICHUCK WATER WORKS, INC.

BY: _____
William D. Patterson, Vice President

PENNICHUCK EAST UTILITY, INC.

BY: _____
William D. Patterson, Vice President

PITTSFIELD AQUEDUCT COMPANY, INC.

BY: _____
William D. Patterson, Vice President

PENNICHUCK WATER SERVICE CORPORATION

BY: _____

William D. Patterson, Vice President

THE SOUTHWOOD CORPORATION

BY: William D. Patterson

William D. Patterson, Vice President

I. PNNW Expenses

All overhead expenses incurred by PNNW that are allocated to the Subsidiaries shall be allocated in accordance with the following formula:

$$\text{PNNW Expense} \times \frac{\left[\dfrac{\text{Revenue of Subsidiary}}{\text{Combined Revenue of All Subsidiaries}} + \dfrac{\text{Assets of Subsidiary}}{\text{Combined Assets of All Subsidiaries}}\right]}{2}$$

Such expenses may be allocated monthly based on estimated or projected data, but shall be adjusted quarterly based on actual data to the extent reasonably available.

II. Allocable Expenses Not Incurred By PNNW Or Directly Charged To A Subsidiary Other Than PWW

Expenses that are neither incurred by PNNW nor directly charged to one of the Other Subsidiaries (i.e., a Subsidiary other than PWW) and which, if charged to PWW, are not incurred for the exclusive benefit of PWW and its customers shall be allocated among the Subsidiaries in accordance with the following two step process.

(a) First, such expenses will be allocated to PWSC, TSC and the Regulated Subsidiaries (taken as a whole) in accordance with the following formulas:

$$\text{\% Allocated to PWSC} = \frac{\dfrac{\text{Revenue of PWSC}}{\text{Combined Revenue of All Subsidiaries}} + \dfrac{\text{PWW Employees Dedicated to PWSC}}{\text{Total PWW Employees}} + \dfrac{\text{Square Footage of Headquarters Office Used by PWSC}}{\text{Total Square Footage of Headquarters Office}} + \dfrac{\text{PWSC Assets}}{\text{Combined Assets of All Subsidiaries}}}{4}$$

APPENDIX A

$$\% \text{ Allocated to TSC} = \frac{\dfrac{\text{Revenue of TSC}}{\text{Combined Revenue of All Subsidiaries}} + \dfrac{\text{Square Footage of Headquarter Office Used by TSC}}{\text{Total Square Footage of Headquarters Office}} + \dfrac{\text{TSC Assets}}{\text{Combined Assets of All Subsidiaries}}}{4}$$

(Note: PSC employees are directly allocated and, therefore, are not included in the numerator of the above formula.)

$$\% \text{ Allocated to Regulated Subsidiaries} = \frac{\dfrac{\text{Combined Revenues of Regulated Subsidiaries}}{\text{Revenues of All Subsidiaries}} + \dfrac{\text{(PWW Employees - PWSC Dedicated Employees)}}{\text{Total PWW Employees}} + \dfrac{\text{Square Footage of Headquarters Office Used by Regulated Subsidiaries}}{\text{Total Square Footage of Headquarters Office}} + \dfrac{\text{Regulated Subsidiaries' Assets}}{\text{Combined Assets of All Subsidiaries}}}{4}$$

(b) Second, the portion of such expenses that is allocated to the Regulated Subsidiaries in accordance with the foregoing shall in turn be allocated to each of the Regulated Subsidiaries in accordance with the following formula:

$$\frac{\text{Revenue of Subsidiary}}{\text{Combined Revenue of All Regulated Subsidiaries}} + \frac{\text{Average Rate Base of Subsidiary}}{\text{Combined Average Rate Base of All Regulated Subsidiaries}} + \frac{\text{Subsidiary's Number of Customers}}{\text{Combined Number of Customers of All Regulated Subsidiaries}}$$

MONEY POOL AGREEMENT

This Money Pool Agreement (the "Agreement") is made and entered into effective as of January 1, 2006 by and among Pennichuck Corporation ("Parent"), Pennichuck Water Service Corporation ("PWSC"), Pennichuck East Utility, Inc. ("PEU"), Pittsfield Aqueduct Company, Inc. ("PAC"), Pennichuck Water Works, Inc. ("PWW") and The Southwood Corporation ("Southwood"), each of which is a New Hampshire corporation (each a "Party" and, collectively, the "Parties").

WITNESSETH:

WHEREAS, the Parties desire to establish a money pool (the "Money Pool") to coordinate and provide for certain of their short-term cash and working capital requirements; and

WHEREAS, each of the Parties may from time to time have a need to borrow funds on a short-term basis, and each of the Parties may from time to time have funds available to loan on a short-term basis.

NOW, THEREFORE, in consideration of the premises and the mutual agreements, covenants and provisions contained herein, the Parties agree as follows:

Article 1
CONTRIBUTIONS AND BORROWINGS

1.1 Contributions to Money Pool.

Subject to applicable regulatory restrictions, if any, each Party will determine each day, on the basis of cash flow projections and other relevant factors, in such Party's sole discretion, the amount of funds it has available for contribution to the Money Pool, and will contribute such funds to the Money Pool. The determination of whether a Party at any time has surplus funds to lend to the Money Pool or shall lend funds to the Money Pool will be made by such Party's chief financial officer or treasurer, or by a designee thereof, on the basis of cash flow projections and other relevant factors, in such Party's sole discretion.

Each Party may withdraw any of its funds at any time upon notice to the Parent as administrative agent of the Money Pool.

1.2 Rights to Borrow.

Subject to the provisions of Section 1.04(c) of this Agreement, short-term borrowing needs of the Parties will be met by funds in the Money Pool to the extent such funds are available. Each Party shall have the right to borrow funds on a short-term basis from the Money Pool from time to time, subject to the availability of funds and the limitations and conditions set forth herein and in any applicable regulations or orders of the New Hampshire Public Utilities Commission ("PUC"). Each Party may request loans from the Money Pool from time to time during the period from the date hereof until this Agreement is terminated by written agreement

of the Parties; provided, however, that the aggregate amount of all loans requested by any Party hereunder shall not exceed any borrowing limit set forth by applicable regulatory authorities, resolutions of such Party's Board of Directors, such Party's governing corporate documents, and agreements binding upon such Party.

1.3 Source of Funds.

1.3.1 Funds will be available through the Money Pool from the surplus funds in the treasuries of the Parties regardless of their source other than External Funds ("Internal Funds") and (2) proceeds from revolving loan or other short term bank borrowings by Parties ("External Funds"), in each case to the extent permitted by applicable laws and regulatory orders. Funds will be made available from each Party in such other order as the Parent, as administrator of the Money Pool, may determine will result in a lower cost of borrowing to companies borrowing from the Money Pool, consistent with the individual borrowing needs and financial standing of the Parties providing funds to the Money Pool.

1.3.2 Parties borrowing funds under this Agreement will be deemed to have borrowed pro rata from each Party lending funds under this Agreement in the proportion that the total amount loaned by such lending Party bears to the total amount then loaned through the Money Pool. On any day when more than one fund source (e.g., Internal Funds or External Funds), with different rates of interest, is used to fund loans through the Money Pool, each borrowing Party will borrow pro rata from each fund source in the same proportion that the amount of funds provided by that fund source bears to the total amount of short-term funds available to the Money Pool.

1.4 Authorization.

1.4.1 Each loan shall be authorized in writing by the lending Party's chief financial officer, treasurer, controller or comptroller or by a designee thereof.

1.4.2 The Parent, as administrator of the Money Pool, will provide, upon the request of any Party, periodic activity and cash accounting reports that include, among other things, reports of cash activity, the daily balance of loans outstanding and the calculation of interest charged.

1.4.3 All borrowings from the Money Pool shall be authorized by the borrowing Party's chief financial officer, treasurer, controller or comptroller or by a designee thereof. If the person providing such authorization is also authorized to provide the authorization referred to in Section 1.04(a), a single document providing such authorization shall be sufficient, unless otherwise required by law. No Party shall be required to effect a borrowing through the Money Pool if such Party determines that it can (and is authorized to) effect such borrowing at lower cost directly from banks or otherwise.

1.5 Interest.

The daily outstanding balance of all loans to any Party shall accrue Interest as follows:

1.5.1 If only Internal Funds comprise the daily outstanding balance of all loans outstanding during a calendar month, the interest rate applicable to such daily balances shall be equal to the average of the interest rate applicable under the Parent's revolving loan or other short term credit facility during the month in which such balance was outstanding (the "Average Composite").

1.5.2 If only External Funds comprise the daily outstanding balance of all loans outstanding during a calendar month, the interest rate applicable to such daily outstanding balance shall be the lender's cost for such External Funds or, if more than one Party has made available External Funds during the period such loan is outstanding, the applicable interest rate shall be a composite rate, equal to the weighted average of the costs incurred by the respective Parties providing such External Funds.

1.5.3 In cases where the daily outstanding balances of all loans outstanding at include both Internal Funds and External Funds, the interest rate applicable to the daily outstanding balances for the month shall be equal to the weighted average of the (i) cost of all Internal Funds contributed by Parties, as determined pursuant to Section 1.05(a) of this Agreement, and (ii) the cost of all such External Funds, as determined pursuant to Section 1.05(b) of this Agreement.

1.5.4 The interest rate applicable to loans made by a Party to the Money Pool under Section 1.01 of this Agreement shall be the Average Composite as determined pursuant to Section 1.05(a) of this Agreement.

1.6 Certain Costs.

The cost of compensating balances and fees paid to banks to maintain credit lines and accounts by Parties lending External Funds to the Money Pool as well as the interest expense incurred by the Parent for any External Funds that it is holding for the benefit of, but has not yet advanced to, any Party shall initially be paid by the Party maintaining such credit line or account. Such costs shall be charged to the Parties in accordance with the Cost Allocation and Services Agreement dated January 1, 2006, as it may be amended from time to time, except that any interest expense incurred by the Parent for any External Funds that it is holding for the benefit of an individual Party shall be charged entirely to that Party.

1.7 Repayment.

Each Party receiving a loan from the Money Pool hereunder shall repay the principal amount of such loan, together with all interest accrued thereon, on demand or on a date agreed by the Parties to the transaction, but in any event not later than one year after the date of the applicable borrowing. All loans made through the Money Pool may be prepaid by the borrower without premium or penalty.

1.8 Form of Loans.

Loans from the Money Pool shall be made as open-account advances, pursuant to the terms of this Agreement. A separate promissory note will not be required for each individual transaction. Instead, a promissory note evidencing the terms of the transactions shall be signed by the Parties to the transaction. Any such note shall: (a) be dated as of the date of the initial borrowing; (b) mature on demand or on a date agreed by the Parties to the transaction, but in any event not later than one year after the date of the applicable borrowing if a maturity date is specified; and (c) be repayable in whole at any time or in part from time to time, without premium or penalty.

Article 2
OPERATION OF MONEY POOL

2.1 Operation.

Operation of the Money Pool, including record keeping and coordination of loans, shall be carried out by the Parent under the authority of the appropriate officers of the Parties. The Parent shall be responsible for the determination of all applicable interest rates and charges to be applied to advances outstanding at any time hereunder, shall maintain records of all advances, interest charges and accruals and interest and principal payments for purposes hereof, and shall prepare periodic reports thereof for the Parties. The Parent will administer the Money Pool on an "at cost" basis.

2.2 Investment of Surplus Funds in the Money Pool.

Funds not required for Money Pool loans (with the exception of funds required to satisfy any liquidity requirements of the Money Pool) shall be invested in accordance with the Parent's Short-Term Investment Policy Statement, as it may be amended from time to time.

2.3 Allocation of Interest Income and Investment Earnings.

The interest income and other investment income earned by the Money Pool on loans and investment of surplus funds will be allocated among the Parties in accordance with the proportion each Party's contribution of funds in the Money Pool bears to the total amount of funds in the Money Pool. Interest and other investment earnings will be computed on a daily basis and settled once per month.

2.4 Event of Default.

If any Party shall generally not pay its debts as such debts become due, or shall admit in writing its inability to pay its debts generally, or shall make a general assignment for the benefit of creditors, or any proceeding shall be instituted by or against any Party seeking to adjudicate it bankrupt or insolvent, then the Parent, on behalf of the Money Pool and any other Party (if the Party failing to pay its debts is the Parent), may, by notice to the Party failing to pay its debts, terminate the Money Pool's commitment to such Party and/or declare the principal amount then outstanding of, and the accrued interest on, the loans and all other amounts payable to the Money Pool by the Party hereunder to be forthwith due and payable, whereupon such amounts

shall be immediately due and payable without presentment, demand, protest or other formalities of any kind, all of which are hereby expressly waived by each Party.

Article 3
MISCELLANEOUS

3.1 Term.

This Agreement shall be effective upon execution by all of the Parties and shall continue indefinitely unless and until terminated by any Party, in which event this Agreement shall terminate only with regard to the Party or Parties giving notice of termination.

3.2 Amendments.

This Agreement may be amended by the Parties at any time by execution of an instrument in writing signed on behalf of all Parties.

3.3 Legal Responsibility.

Nothing herein contained shall render any Party liable for the obligations of any other Party hereunder and the rights, obligations and liabilities of the Parties are several in accordance with their respective obligations, and not joint.

3.4 Rules for Implementation.

The Parties may develop a set of guidelines for implementing the provisions of this Agreement, provided that the guidelines are consistent with all of the provisions of this Agreement.

3.5 Governing Law.

This Agreement shall be governed by and construed in accordance with the laws of the State of New Hampshire.

IN WITNESS WHEREOF, this Agreement has been duly executed and delivered by the duly authorized officer of each Party hereto as of the date first above written.

PENNICHUCK CORPORATION

By: William D. Patterson
Name: William D. Patterson
Title: VP

PENNICHUCK WATER SERVICE CORPORATION

By: William D. Patterson
Name: William D. Patterson
Title: VP

PENNICHUCK EAST UTILITY, INC.

By: William D. Patterson
Name: William D. Patterson
Title: VP

PITTSFIELD AQUEDUCT COMPANY, INC.

By: William D. Patterson
Name: William D. Patterson
Title: VP

PENNICHUCK WATER WORKS, INC.

By: William D. Patterson
Name: William D. Patterson
Title: VP

THE SOUTHWOOD CORPORATION

By: William D. Patterson
Name: William D. Patterson
Title: VP

Donald L. Correll
DLC-3
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STATE OF NEW HAMPSHIRE
PETITION FOR VALUATION PURSUANT TO RSA 38:9

CITY OF NASHUA Docket No. DW-04-048

DEPOSITION of BERNARD A. STREETER

Taken by Notice at the offices of the Nashua City Hall, 229 Main Street, Nashua, New Hampshire, on Tuesday, July 26, 2005, commencing at 2:31 in the afternoon.

Court Reporter: Marcia G. Patrisso,
Certified Shorthand Reporter
NH CSR No. 83 (RSA 331-B)
Registered Professional Reporter
Certified Realtime Reporter

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1 Q. What is the reason that Nashua wants
2 to condemn the Pennichuck Water Works' assets?
3 MR. UPTON: I object. Motivation is
4 not an issue in this case.
5 MR. DONOVAN: Public interest is,
6 so...
7 MR. UPTON: It has nothing to do with
8 the public interest, what their reasons for doing it
9 are.
10 MR. DONOVAN: All right. Let me say
11 it a different way.
12 Q. (BY MR. DONOVAN) What is the public
13 interest reasons why Nashua wants to condemn the
14 Pennichuck assets?
15 A. That answer would have to start from
16 the minute I became aware that Pennichuck Water
17 Works was in the process of being sold to an
18 out-of-state company. And there's a long history
19 including a referendum where 77 percent of the
20 people voted to instruct the city officials to
21 acquire the company, et cetera.
22 Q. Do you have any knowledge of how well
23 or how poorly Pennichuck has managed the water

1 systems outside of the Nashua system?
2 A. Outside of the Nashua system?
3 Q. Correct.
4 A. No.
5 Q. So you may or may not be aware that
6 Pennichuck, for instance, has owned systems as far
7 flung as Epping or Newmarket?
8 A. I've heard that. I've heard that.
9 I'm not concerned with Epping or Newmarket. I am
10 concerned, though, with the history of this company
11 and the lack of protection of the watershed property
12 that they owned at one point.
13 Q. You mean the Pennichuck watershed
14 property?
15 A. The Pennichuck watershed, which was
16 over a period of time sold off for private
17 development purposes. I'm very concerned about
18 that.
19 Q. And you're concerned about it because?
20 A. Because the company was not good
21 stewards of their properties. In this day and age
22 water companies are buying watershed property, land
23 surrounding it, not selling it off, nor are they

1 why we have -- as I say, that is why we have engaged
2 topnotch consultants.
3 Q. Has Nashua given thought to, assuming
4 it obtains the Pennichuck Water Works assets,
5 whether it would then be willing to acquire
6 additional satellite water systems in Southern New
7 Hampshire?
8 A. If the PUC ordered us to do that or
9 recommended that we do it, again, I would assume
10 that we would do that.
11 Q. Would you go actively look for such
12 systems in towns like Gilford or Tilton or other
13 places?
14 A. As mayor of the city?
15 Q. Yes.
16 A. No.
17 Q. And that's because you're mayor of
18 Nashua?
19 A. Right.
20 Q. Let's talk about the -- who this team
21 is we've talked about, the working group within the
22 city.
23 A. Internal working group.

1 CERTIFICATE OF OFFICER

2

3 I, MARCIA G. PATRISSO, a Certified
4 Shorthand Reporter and a Notary Public of the State
5 of New Hampshire, do hereby certify that the
6 foregoing is a true and accurate transcript of my
7 stenographic notes of the deposition of BERNARD A.
8 STREETER, who was first duly sworn, taken at the
9 place and on the date hereinbefore set forth.
10 I DO FURTHER CERTIFY that I am neither a
11 relative nor employee, nor attorney or counsel to
12 any parties involved; that I am neither related to
13 nor employed by any such attorney or counsel, and
14 that I am not financially interested in the action.
15 THE FOREGOING CERTIFICATION OF THIS
16 TRANSCRIPT DOES NOT APPLY TO ANY REPRODUCTION OF THE
17 SAME BY ANY MEANS UNLESS UNDER THE DIRECT CONTROL
18 AND/OR DIRECTION OF THE CERTIFYING REPORTER.

19

20

21 MARCIA G. PATRISSO, CSR, RPR, CRR
Certificate No. 83
22 Notary Public of New Hampshire
23 My Commission Expires: June 2, 2009 certificate

STATE OF NEW HAMPSHIRE
PETITION FOR VALUATION PURSUANT TO RSA 38:9

CITY OF NASHUA Docket No. DW-04-048

DEPOSITION of MICHAEL J. SCANLON

Taken by Notice at the law offices of WADLEIGH, STARR & PETERS, PLLC, 95 Market Street, Manchester, New Hampshire, on Tuesday, July 19, 2005, commencing at 3:41 in the afternoon.

Court Reporter: Marcia G. Patrisso,
Certified Shorthand Reporter
NH CSR No. 83 (RSA 331-B)
Registered Professional Reporter
Certified Realtime Reporter

1 A. Yes. Absolutely.
2 Q. So you have no philosophical problem
3 with Bedford residents paying more if the cost to
4 serve them is more?
5 A. No.
6 Q. Do you know whether that view is held
7 by the other towns that are members of the district?
8 A. Again, I would have no idea as to what
9 they're thinking.
10 Q. You don't discuss that sort of thing
11 at meetings?
12 A. There have been discussions
13 potentially that could have, you know, been about
14 rates. But again, to sit here today to tell you
15 what they're thinking, I have no idea.
16 Q. So Nashua's not obligated to turn over
17 the assets of Pennichuck that it acquires to the
18 district, correct?
19 A. My understanding is that in all of
20 their filings, that they have stated that if they're
21 successful, that all those assets would be turned
22 over to the district. So however binding those
23 statements are in their PUC hearings, that would

1 be...

2 Q. If they did not, but they acquired all

3 of the assets of Pennichuck Water Works and operated

4 it on some basis through the city, would you still

5 support Nashua's acquisition of the assets through

6 this process?

7 A. No.

8 Q. And why is that?

9 A. Because I do not want to -- I do not

10 believe Bedford is well served by being a customer

11 of the City of Nashua.

12 Q. What if in its wisdom, the Public

13 Utilities Commission determines that the public

14 interest would permit Nashua only to acquire assets

15 within the city of Nashua and not including the

16 assets in Bedford; would you still support the

17 condemnation under those circumstances?

18 A. For Nashua?

19 Q. Yes.

20 A. Would I still support Nashua's?

21 Q. Yes.

22 A. Yes, I would.

23 Q. And why is that?

1 CERTIFICATE OF OFFICER

2

3 I, MARCIA G. PATRISSO, a Certified
4 Shorthand Reporter and a Notary Public of the State
5 of New Hampshire, do hereby certify that the
6 foregoing is a true and accurate transcript of my
7 stenographic notes of the deposition of MICHAEL J.
8 SCANLON, who was first duly sworn, taken at the
9 place and on the date hereinbefore set forth.
10 I DO FURTHER CERTIFY that I am neither a
11 relative nor employee, nor attorney or counsel to
12 any parties involved; that I am neither related to
13 nor employed by any such attorney or counsel, and
14 that I am not financially interested in the action.
15 THE FOREGOING CERTIFICATION OF THIS
16 TRANSCRIPT DOES NOT APPLY TO ANY REPRODUCTION OF THE
17 SAME BY ANY MEANS UNLESS UNDER THE DIRECT CONTROL
18 AND/OR DIRECTION OF THE CERTIFYING REPORTER.

19

20

21 MARCIA G. PATRISSO, CSR, RPR, CRR
Certificate No. 83
22 Notary Public of New Hampshire

23 My Commission Expires: June 2, 2009

PENNICHUCK WATER WORKS, INC.

LOAN AGREEMENT

DATED MARCH 4, 2005

RE:

$5,000,000 5.00% SENIOR NOTES

DUE MARCH 4, 2010

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premium, and (f) the accrued interest applicable to the prepayment. Such notice of prepayment shall also certify all facts, if any, which are conditions precedent to any such prepayment. Notice of prepayment having been so given, the aggregate principal amount of the Notes specified in such notice, together with accrued interest thereon and the premium, if any, payable with respect thereto shall become due and payable on the prepayment date specified in said notice. Two business days prior to the prepayment date specified in such notice, the Company shall provide each holder of the Notes written notice of the premium, if any, payable in connection with such prepayment and, whether or not any premium is payable, a reasonably detailed computation of the premium.

Section 2.4. Prepayment in Connection with a Government Taking. The Company will provide not less than 15 or more than 30 days advance written notice of any Governmental Taking. Upon the occurrence of a Government Taking while any Note is outstanding, the Company shall concurrently with such Governmental Taking, prepay all of the outstanding Notes in an amount equal to 101% of the outstanding principal amount of such Notes, *plus* all accrued and unpaid interest thereon to the date of such prepayment, *plus* all other amounts due and owing to the holders of the Notes under this Loan Agreement and the Notes (but without the Make-Whole Amount or premium).

Section 2.5. Application of Prepayments. All partial prepayments made pursuant to Section 2.2 or 2.4 shall be applied on all outstanding Notes ratably in accordance with the unpaid principal amounts thereof.

SECTION 3. CONDITIONS PRECEDENT.

The purchase and sale of the Notes are subject to the following conditions precedent:

Section 3.1. The closing date shall be March 4, 2005 at 10:00 a.m. unless some other date (the *"Closing Date"*) shall be agreed upon in writing by the Company and Purchaser. The place of closing shall be the office of Chapman and Cutler LLP, 111 West Monroe Street, Chicago, Illinois 60603 unless the parties agree upon another place.

Section 3.2. The representations and warranties contained in this Loan Agreement shall not be false, misleading or erroneous or omit to state a material fact and the Company, from September 30, 2004, shall have duly observed all the covenants and agreements set forth in this Loan Agreement, including those in Section 4.18 and Section 5 hereof which, for this purpose, shall be applicable before the Notes become outstanding.

Section 3.3. No material adverse change in the financial condition or in the condition of the property or operations of the Company shall have occurred since September 30, 2004.

Section 3.4. All necessary approvals of the New Hampshire Public Utilities Commission or any other commission or governmental body or regulatory authority having jurisdiction over the issue, execution and delivery of the Notes shall have been obtained without conditions deemed by the Company and Purchaser to be impracticable or unduly burdensome and any such

NEW ISSUE

Book-Entry-Only

In the opinion of Kutak Rock LLP, Bond Counsel, under existing laws, regulations, rulings and judicial decisions and assuming the accuracy of certain representations and continuing compliance with certain covenants, interest on the Bonds (including any original issue discount properly allocable to an owner thereof) is excluded from the gross income of the owners thereof for federal income tax purposes, except for interest on any Bond for any period during which such Bond is held by a person who is a "substantial user" or a "related person," within the meaning of Section 147(a) of the Internal Revenue Code of 1986, as amended. Bond Counsel is further of the opinion that interest on the Bonds is a specific tax preference item for purposes of the federal alternative minimum tax imposed on individuals and corporations. Bond Counsel also is of the opinion that, under existing laws of the State of New Hampshire, such interest is exempt from the State of New Hampshire personal income tax on interest and dividends. See "TAX EXEMPTION" herein.

Business Finance Authority of the State of New Hampshire

$12,125,000	$17,865,000	$19,495,000
Water Facility Revenue Bonds	**Water Facility Revenue Bonds**	**Water Facility Revenue Bonds**
(Pennichuck Water Works, Inc., Project)	**(Pennichuck Water Works, Inc., Project)**	**(Pennichuck Water Works, Inc., Project)**
2005 Series A	**2005 Series B**	**2005 Series C**
Price: 97.000%	**Price: 101.622%**	**Price: 103.007%**
Yield 4.892%	**Yield 3.250%**	**Yield 3.390%**

Dated: Date of Delivery **Due: October 1, 2035**

The Bonds will be issued pursuant to a Master Loan and Trust Agreement dated as of October 1, 2005 (the "Agreement") among the Business Finance Authority of the State of New Hampshire (the "Authority"), Pennichuck Water Works, Inc. (the "Borrower") and The Bank of New York Trust Company, N.A., as trustee (the "Trustee"). The proceeds of the Series A Bonds will be loaned to the Borrower to provide funds to finance the costs of upgrades of certain water facilities owned and operated by the Borrower, as more fully described in "PLAN OF FINANCING—The Bonds and the Project" (the "Project"). The proceeds of the Series B Bonds and the Series C Bonds will be deposited in escrow under an Escrow Agreement (the "Escrow Agreement") dated as of October 1, 2005 among the Authority, the Trustee, the Borrower and The Bank of New York Trust Company, N.A., as escrow agent. On October 2, 2006 with respect to the Series B Bonds and on October 1, 2007 with respect to the Series C Bonds or such later dates as may be requested by the Borrower under the Agreement (each such date, an "Escrow Mandatory Purchase Date"), the proceeds on deposit under the Escrow Agreement with respect to each series of bonds will either (a) upon request by the Borrower, be loaned to the Borrower to finance the Project or (b) if the Borrower does not request the proceeds of either the Series B Bonds or the Series C Bonds, each such subseries, as applicable, will be subject to mandatory purchase on a mandatory purchase date from the Bondowners as more fully described herein.

The Series A Bonds will be payable solely from revenues received by the Trustee under the Agreement in repayment of such loan. The Series B Bonds and the Series C Bonds will be payable solely from (a) the proceeds of each such series and, in the event of the designation of a new Escrow Mandatory Purchase Date, from such proceeds and the contribution, if any, of the Borrower on deposit under the Escrow Agreement and the investment earnings thereon and (b) from and after the date of the loan of the proceeds of each such series to the Borrower, revenues received by the Trustee under the Agreement in repayment of such loan.

Payment of the principal of and interest on the Bonds when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation simultaneously with the delivery of the Bonds.

Ambac

The Series A Bonds will bear interest at a Fixed Rate of 4.70% per annum from their date of issuance to, but not including, October 1, 2035 and are payable semiannually on April 1 and October 1 of each year, commencing on April 1, 2006.

The Series B Bonds will initially bear interest at a Term Rate of 5.00% per annum from their date of issuance to, but not including, October 2, 2006. The Series C Bonds will initially bear interest at a Term Rate of 5.00% per annum from their date of issuance to, but not including, October 1, 2007. The Series B Bonds are payable semiannually commencing on April 2, 2006 and thereafter on April 1 and October 1 of each year, provided that the second interest payment date for the Series B Bonds shall be October 2, 2006. The Series C Bonds are payable semiannually on April 1 and October 1 of each year, commencing on April 1, 2006. On or after the applicable Escrow Mandatory Purchase Date for each of the Series B Bonds and the Series C Bonds, if the proceeds of the Series B Bonds or Series C Bonds have been loaned to the Borrower, the rate of interest on either series of may be adjusted from time to time to Auction, Daily, Weekly, Term, Fixed or Commercial Paper Rates as described herein.

The Bonds will be subject to redemption and mandatory tender for purchase prior to maturity as described herein.

The Bonds will be issued only as fully registered bonds and will be registered initially in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which initially will act as securities depository for the Bonds as described herein. Beneficial ownership interests in the Bonds may be acquired initially in denominations of $5,000 and any integral multiple thereof. Beneficial owners of the Bonds will not receive physical delivery of the bond certificates except as described herein. For so long as Cede & Co., as nominee of DTC, is the exclusive registered owner of the Bonds, payments of principal, interest and, if provided, redemption premium payments will be made by the Trustee to DTC on each applicable payment date. Disbursement of such payments to DTC's participants will be the responsibility of DTC, and disbursement of such payments to beneficial owners of the Bonds will be the responsibility of such participants. See "THE BONDS—Book-Entry-Only System" herein.

The Bonds are limited obligations of the Authority payable solely from the sources herein described. The Bonds will not constitute an indebtedness or other liability of the State of New Hampshire or of any other political subdivision thereof. Neither the faith and credit of the Authority or the State of New Hampshire or any other political subdivision is pledged to the payment of the Bonds or the interest thereon, and the issuance of the Bonds shall not directly, indirectly or contingently obligate the State of New Hampshire or any political subdivision or agency thereof to levy or pledge any form of taxation whatsoever to the payment of the principal or purchase prices of, or premium, if any, or interest on, the Bonds. The Bonds do not constitute an indebtedness of the Authority or of the State of New Hampshire or any political subdivision thereof except to the extent permitted by New Hampshire RSA Chapter 162-I. No public funds may be used to pay the principal or purchase prices of, premium, if any, or interest on the Bonds, which shall be payable solely from the revenues and funds pledged for their payment under the Agreement and Escrow Agreement. The Authority has no taxing power. Neither any director, officer, employee or agent of the Authority nor any person executing the Bonds shall be personally liable, either jointly or severally, thereon or be subject to any personal liability or accountability by reason of the issuance thereof.

The Bonds are offered, subject to prior sale, when, as and if issued by the Authority and accepted by the Underwriters named below, subject to the approval of legality by Kutak Rock LLP, Omaha, Nebraska, as Bond Counsel, and to certain other conditions. Certain legal matters will be passed upon for the Borrower by Nutter, McClennen & Fish, LLP, Boston, Massachusetts; for the Authority by Palmer & Dodge LLP, Boston, Massachusetts; and for the Underwriters by Ballard Spahr Andrews & Ingersoll, LLP, Philadelphia, Pennsylvania. It is expected that delivery of the Bonds will be made through the facilities of DTC in New York, New York, or its custodial agent, on or about October 20, 2005.

Lehman Brothers

A.G. Edwards
Janney Montgomery Scott LLC

Edward Jones
Sovereign Securities Corporation, LLC

The date of this Official Statement is October 13, 2005

thereof, which in the Borrower's judgment renders the Project impractical or uneconomic or if, in each case, as a result the Project is rendered unusable by the Borrower or is abandoned by the Borrower.

Mandatory Redemption Upon Condemnation of Principal Assets. The Bonds (except for Escrow Bonds, if any, which shall not be subject to this redemption) are subject to redemption as a whole, or in part in Authorized Denominations, within 15 days following receipt by the Trustee of written notice from the Borrower that title to, or the temporary use of, all or substantially all of the Project, or any substantial part of the Capital Properties (as such term is defined under "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - The Agreement") of the Borrower, has been taken under the exercise of the power of eminent domain by any governmental body or by any person, acting under governmental authority (or a bona fide sale in lieu of such taking has occurred). In such event, the Bonds will be redeemed (a) if redeemed during any period during which the Bonds are not subject to optional redemption, at a redemption price equal to 101% of the principal amount of the Bonds plus accrued interest to the redemption date and (b) if redeemed during any period during which the Bonds are subject to optional redemption, at the optional redemption price then applicable to the Bonds plus accrued interest to the redemption date.

Mandatory Redemption Upon Determination of Taxability. The Bonds shall be redeemed as a whole within 15 days following receipt by the Trustee of written notice of the occurrence of a Determination of Taxability, at a redemption price equal to 100% of their principal amounts plus accrued interest to the redemption date. "Determination of Taxability" means a determination that the interest income on any Bond does not qualify for exclusion from the gross income of a holder thereof for federal tax purposes ("exempt interest") under IRC Section 103(a), for any reason other than that such holder is a "substantial user" of the facility being financed with the Bond proceeds or a "related person" under IRC Section 147(a), which determination shall be deemed to have been made upon the occurrence of the first to occur of the following:

(a) the date on which the Borrower determines that the interest income on any Bond does not qualify as exempt interest, if such determination is supported by a written opinion to that effect of Bond Counsel satisfactory to the Trustee; or

(b) the date on which any change in law or regulation becomes effective or on which the Internal Revenue Service has issued any private ruling, technical advice or any other written communication to the effect that the interest income on any Bond does not qualify as exempt interest; or

(c) the date on which the Borrower shall receive written notice from the Trustee that the Trustee has been advised by any Bondowner that the Internal Revenue Service has issued a 30-day letter or other notice which asserts that the interest on such Bond does not qualify as exempt interest; or

(d) the date on which the Trustee receives written notice that the Borrower or the Authority has taken any action inconsistent with, or has failed to act consistently with, the tax exempt status of the Bonds (unless the Trustee receives an opinion of Bond Counsel satisfactory to it to the effect that, notwithstanding such action or failure to act, the interest on the Bonds continues to qualify as exempt interest).

Redemption Upon Certain Deposits into Bond Fund. If moneys are transferred to the Bond Fund upon completion of the Project, the same shall be used to the maximum extent possible to redeem Bonds in Authorized Denominations on the earliest date permitted by the notice requirements of the Agreement at their principal amounts, without premium, plus accrued interest to the redemption date; provided, however, that if the aggregate amount of such moneys to be so applied at any one time is less than the applicable Authorized Denomination, such moneys (as well as amounts in excess of such minimum) shall be applied on the next interest payment date to the payment of principal or interest on the Bonds then coming due.

LOAN AGREEMENT

LOAN AGREEMENT (the "Agreement") dated as of this 22nd day of March, 2005 by and among PENNICHUCK CORPORATION, a New Hampshire corporation with a principal place of business at 25 Manchester Street, Merrimack, New Hampshire 03054 (the "Borrower") and FLEET NATIONAL BANK, a Bank of America company and a national bank organized under the laws of the United States with a place of business at 1155 Elm Street, Manchester, New Hampshire 03101 (the "Bank").

WITNESSETH:

WHEREAS, the Borrower has requested and the Bank has agreed to make a certain new loan to the Borrower; and

WHEREAS, the parties wish to set forth in writing the terms and conditions upon which the Bank will make, and the Borrower is willing to take the aforesaid new loan; and

NOW, THEREFORE, in consideration of the foregoing, the receipt and adequacy of which is hereby acknowledged, and the mutual covenants and agreements herein contained, the parties covenant, stipulate and agree as follows:

ARTICLE I. DESCRIPTION OF LOAN Subject to and upon the following terms and conditions, the Bank agrees to make a certain revolving line of credit loan up to the maximum principal amount of Sixteen Million Dollars ($16,000,000) to the Borrower (the "Loan" or the "Line of Credit").

ARTICLE II. THE LINE OF CREDIT The Bank agrees to make, and Borrower agrees to take, the Line of Credit subject to and upon the following terms and conditions:

2.1 Borrower. The Borrower under the Line of Credit shall be PENNICHUCK CORPORATION and the Borrower shall sign a certain promissory note (the "Line of Credit Note" or the "Note") evidencing its obligation to pay and perform the Line of Credit.

2.2 Amount. Under the Line of Credit, the Bank agrees to loan the Borrower an amount up to Sixteen Million Dollars ($16,000,000); provided, however, the availability under the Line of Credit for direct borrowings shall be reduced by the aggregate face amount of all outstanding letters of credit issued by the Bank or any affiliate thereof on the account of the Borrower. At no time shall any such letters of credit have expiration dates beyond the maturity date of the Line of Credit.

2.3 Use of Proceeds. The proceeds of the Line of Credit shall be used by the Borrower to refinance existing indebtedness owed by the Borrower to the Bank and for working capital and general corporate purposes, including, but not limited to, direct borrowings and letters of credit.

transfers. Advances under the Line of Credit shall (1) be made in accordance with the disbursement procedures set forth in the Line of Credit Note; (2) shall not cause the Debit Balance, as defined in the Line of Credit Note, to exceed Sixteen Million Dollars ($16,000,000); provided, however, the availability under the Line of Credit for direct borrowings shall be reduced by the aggregate face amount of all outstanding Letters of Credit issued by the Bank or its affiliate for the account of the Borrower; and (3) shall be for a purpose defined in Article II herein.

ARTICLE VIII. EVENTS OF DEFAULT; ACCELERATION; REMEDIES

8.1 The occurrence of any one or more of the following events shall constitute an event of default (an "Event of Default") after the expiration of applicable notice and cure periods, if any, under this Agreement:

(a) If any statement, representation or warranty made by the Borrower or any of the Guarantors herein or in the Loan Documents shall prove to have been false or misleading when made, or subsequently becomes false or misleading, in any materially adverse respect.

(b) Default by any Borrower in payment within ten (10) business days of the due date of any principal or interest called for under its payment obligations with respect to any Loan, the Swap Agreement and/or any of the other Loan Documents within any applicable grace period, if any.

(c) Default by the Borrower, any of its Subsidiaries or the Guarantor, in any material respect, in the performance or observance of any of the other provisions, terms, conditions, warranties or covenants of the Loan Documents.

(d) Default by the Borrower or any of its Subsidiaries, not cured within any applicable cure period, in the payment or performance of any other obligations due the Bank or any affiliate thereof, whether created prior to, concurrent with, or subsequent to obligations arising out of the Loan Documents (including without limitation, the Swap Agreement).

(e) Default by the Borrower or any of its Subsidiaries, not cured within any applicable cure period, of any other obligation for borrowed monies or any lease in an aggregate amount of One Hundred Thousand Dollars ($100,000) or more.

(f) The dissolution, termination of existence, merger or consolidation of the Borrower, any Subsidiary or the Guarantor or a sale or taking by eminent domain of all or a material portion of the assets of the Borrower or any of its Subsidiaries or the Guarantor out of the ordinary course of business without the prior written consent of the Bank.

(g) The transfer of the majority voting capital stock of the Borrower or any of its Subsidiaries.

(h) The Borrower or any of its Subsidiaries shall (i) apply for or consent to the appointment of a receiver, trustee or liquidator of it or any of its property, (ii) admit in writing its

NEW ISSUE
Book-Entry Only

RATINGS: Moody's: "Aaa"
S&P: "AAA"
See "BOND RATINGS"

In the opinion of Palmer & Dodge LLP, Bond Counsel, based upon an analysis of existing law and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under the Internal Revenue Code of 1954, as amended, and Title XIII of the Tax Reform Act of 1986 with respect to the Series 2005B Bonds and the Internal Revenue Code of 1986 with respect to the Series 2005A Bonds and Series 2005C Bonds, except that no opinion is expressed as to the status of interest on any Bond for any period that such Bond is held by a "substantial user" of the facilities financed or refinanced by the Bonds or by a "related person" within the meaning of Section 103(b)(13) of the Internal Revenue Code of 1954, as amended, with respect to the Series 2005B Bonds, or Section 147(a) of the Internal Revenue Code of 1986, with respect to the Series 2005A Bonds and Series 2005C Bonds. Interest on the Series 2005B Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Interest on the Series 2005A Bonds and the Series 2005C Bonds is a specific preference item for purposes of the federal individual and corporate alternative minimum taxes. Under existing law, interest on the Bonds is exempt from the New Hampshire personal income tax on interest and dividends. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See **"TAX EXEMPTION"** herein.

Business Finance Authority of the State of New Hampshire

$1,830,000	$2,345,000	$1,285,000
Water Facility Revenue Bonds	**Water Facility Revenue Bonds**	**Water Facility Revenue Bonds**
(Pennichuck Water Works, Inc. Project)	**(Pennichuck Water Works, Inc. Project)**	**(Pennichuck Water Works, Inc. Project)**
Series 2005A	**Series 2005B (Non-AMT)**	**Series 2005C**

Dated: January 1, 2005 **Price: 100%** **Due: January 1, as described below**

The Bonds are special obligations of the Business Finance Authority of the State of New Hampshire (the "Authority") and are secured solely by a pledge of the revenues paid to the Authority by Pennichuck Water Works, Inc., a New Hampshire public utility corporation (the "Borrower"), pursuant to a Loan and Trust Agreement (the "Agreement") among the Borrower, the Authority and Banknorth, National Association, as trustee (the "Trustee").

The Bonds are issuable only as fully-registered bonds and, when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. Principal of the Bonds will be payable at maturity. Interest on the Bonds will be payable on each January 1 and July 1, beginning on July 1, 2005.

The Bonds are subject to optional and mandatory redemption or purchase prior to maturity as described herein.

Payment of the principal of and interest on the Bonds when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation simultaneously with the delivery of the Bonds.

Ambac

The Bonds will not be general obligations of the Authority and will not constitute an indebtedness of or a charge against the general credit of the Authority or give rise to any pecuniary liability of the Authority. The Bonds are not a debt of the State of New Hampshire, and the State of New Hampshire will not be liable thereon. The liability of the Authority under the Bonds will be enforceable only to the extent provided in the Agreement. The Bonds will be payable (except to the extent paid out of Bond proceeds and investment income) solely out of the revenues and other receipts, funds or moneys available pursuant to the Agreement.

Series 2005A Bonds Due January 1, 2035, Interest Rate: 4.70%
Series 2005B Bonds Due January 1, 2030, Interest Rate: 4.60%
Series 2005C Bonds Due January 1, 2025, Interest Rate: 4.50%

The Bonds are offered, subject to prior sale, when, as and if issued by the Authority and accepted by the Underwriters named below, subject to the approval of legality by Palmer & Dodge LLP, as Bond Counsel, and to certain other conditions. Certain legal matters will be passed upon for the Borrower by McLane, Graf, Raulerson & Middleton, Professional Association, Manchester, New Hampshire; and for the Underwriters by Gilmore & Bell, P.C., St. Louis, Missouri. It is expected that delivery of the Bonds will be made through the facilities of DTC in New York, New York or its custodial agent, on or about January 20, 2005.

Edward Jones Investors Capital Corporation

The date of this Official Statement is January 11, 2005

Optional Redemption. The Bonds of each series are subject to redemption and payment prior to maturity, at the option of the Borrower, in whole or in part at any time at a redemption price of 100% of their principal amount, plus accrued interest thereon to the redemption date, as follows:

Series	First Optional Redemption Date
2005A	January 1, 2012
2005B	January 1, 2011
2005C	January 1, 2010

Special Redemption. The Bonds are subject to special redemption at the direction of the Borrower as a whole at any time at their principal amounts plus accrued interest to the redemption date on the next redemption date permitted by the Agreement following the occurrence of any of the following events:

(i) the Project shall have been damaged or destroyed to such extent that, in the Borrower's judgment, (A) it cannot be reasonably restored within a period of twelve months to substantially the same condition existing immediately preceding such damage or destruction, (B) the normal operations of the Project will thereby be prevented for a period of twelve months or more, or (C) the cost of restoration thereof would exceed by $100,000 the net proceeds of insurance carried thereon, plus amounts deductible under such insurance; or

(ii) any Federal, state or local body exercising governmental or judicial authority shall have taken any action which results in unreasonable burdens or excessive liabilities, including without limitation taxes not presently levied, with respect to the Project or the ownership or operation thereof, which in the Borrower's judgment renders the Project impractical or uneconomic; if, in each case, as a result the Project is rendered unusable by the Borrower or is abandoned by the Borrower.

Mandatory Redemption Upon Condemnation of Principal Assets. The Bonds are subject to redemption as a whole at any time when title to, or the temporary use of, all or substantially all of the Project, or any substantial part of the Capital Properties (as defined under the caption **"SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – The Agreement"**) has been taken under the exercise of the power of eminent domain by any governmental body or by any person, acting under governmental authority (or a bona fide sale in lieu of such taking has occurred). The Bonds shall be redeemed at a redemption price equal to 101% of their principal amount plus accrued interest to the redemption date if redeemed prior to January 1, 2010, and thereafter at the price of 100% of their principal amount plus accrued interest to the redemption date.

Mandatory Redemption on Determination of Taxability. The Bonds shall be redeemed as a whole within fifteen days following receipt by the Trustee of written notice of the occurrence of a Determination of Taxability, at a redemption price equal to 100% of their principal amounts plus accrued interest to the redemption date. "Determination of Taxability" means a determination that the interest income on any Bond does not qualify for exclusion from the gross income of a holder thereof for federal tax purposes ("exempt interest") under IRC Section 103(a), for any reason other than that such holder is a "substantial user" of the facility being financed with the Bond proceeds or a "related person" under IRC Section 147(a), which determination shall be deemed to have been made upon the occurrence of the first to occur of the following:

(i) the date on which the Borrower determines that the interest income on any Bond does not qualify as exempt interest, if such determination is supported by a written opinion to that effect of Bond Counsel satisfactory to the Trustee; or

(ii) the date on which any change in law or regulation becomes effective or on which the Internal Revenue Service has issued any private ruling, technical advice or any other written

AMENDMENT AGREEMENT

This AMENDMENT AGREEMENT (the "Agreement") dated as of this 8th day of April, 2005, by and among PENNICHUCK CORPORATION, a New Hampshire corporation with a principal place of business at 25 Manchester Street, Merrimack, New Hampshire 03054 ("PC") and PENNICHUCK EAST UTILITY, INC., a New Hampshire corporation with a principal place of business at 4 Water Street, P.O. Box 488, Nashua, New Hampshire 03061-0448 ("PEU") (PC and PEU are on occasion referred to individually and collectively as the "Borrower") and FLEET NATIONAL BANK (successor by merger to Fleet Bank-NH), a Bank of America company and a national bank organized under the laws of the United States with a place of business at 1155 Elm Street, Manchester, New Hampshire 03101 (the "Bank").

WITNESSETH

WHEREAS, pursuant to the terms of a certain Loan Agreement between the Borrower, The Southwood Corporation ("Southwood"), Pennichuck Water Service Corporation ("PWSC") (Southwood and PWSC are on occasion referred to individually and collectively referred to as the "Guarantor") and the Bank dated April 8, 1998, as amended (the "Loan Agreement") and certain loan documents referenced therein or contemplated thereby (collectively the "Loan Documents"), the Bank has made certain loans, including, without limitation, a $4,500,000 acquisition line of credit loan to the Borrower (the "Acquisition Line of Credit") and a $4,500,000 line of credit loan to PC (the "Line of Credit"), both of which loans are guaranteed by the Guarantor (the Acquisition Line of Credit is on occasion also referred to as a "Loan"); and

WHEREAS, the Borrower has requested and the Bank has agreed to, among other things, (i) extend the maturity date of the Acquisition Line of Credit; (ii) modify the interest rate options under the Acquisition Line of Credit; (iii) modify the Acquisition Line of Credit to be unsecured and with no guarantors; (iv) reflect that the Line of Credit has been paid in full; and (v) amend the Loan Documents in certain other respects.

NOW, THEREFORE, in consideration of the foregoing and mutual covenants and agreements therein contained, the receipt and adequacy of which are hereby acknowledged, the parties covenant, stipulate, and agree as follows:

1. Representations and Warranties of the Borrower. Each Borrower represents and warrants to the Bank as follows:

(a) The representations, warranties and covenants of each Borrower made in the Loan Documents, as each may hereinafter be amended or modified, remain true and accurate and are hereby reaffirmed as of the date hereof.

(b) Each Borrower has performed, in all material respects, all obligations to be performed by it to date under the Loan Documents, as each may

equal to the Prime Rate (as hereinafter defined) plus the Prime Applicable Margin (as hereinafter defined), or (b) the per annum rate equal to the one (1), two (2), three (3) or six (6) month LIBOR (as hereinafter defined) plus the LIBOR Applicable Margin (as hereinafter defined). The Borrower may have LIBOR Loans (as hereinafter defined) and Prime Loans (as hereinafter defined) outstanding at the same time under the Acquisition Line of Credit subject to the terms and conditions of Article II hereof. Interest shall be calculated and charged on the basis of actual days elapsed over a banking year of three hundred sixty (360) days. Notwithstanding the foregoing, at any time prior to maturity of the Acquisition Line of Credit, the Borrower shall have the option to "swap" the above mentioned LIBOR based interest rate on the Acquisition Line of Credit pursuant to an interest rate swap agreement (in the form of an International Swap Dealers Association Master Agreement and Confirmation Agreement between the Borrower and the Bank (or any affiliate thereof), both of which agreements are hereinafter referred to collectively as a "Swap Agreement") for a fixed rate of interest and term acceptable to the Bank.

1.6 Repayment. The Acquisition Line of Credit shall mature on December 31, 2009. Until maturity, the Borrower shall make payments of interest only to the Bank in arrears (a) on a monthly basis for Prime Loans (as hereinafter defined), with the first such payment being made on that date thirty (30) days from the date hereof, and (b) on the last day of the applicable Interest Period (as hereinafter defined) for LIBOR Loans (as hereinafter defined); provided, however, said payments of interest for any LIBOR Loan shall be no less frequently than every three (3) months. All payments shall be in lawful money of the United States in immediately available funds.

1.7 Security and Guaranty. The Borrower's payment and performance of the Acquisition Line of Credit shall be unsecured and shall not be guaranteed by any parties.

1.8 Fees and Expenses. In connection with the Acquisition Line of Credit, the Borrower agrees to pay the Bank a Commitment Fee in the amount of Twenty Five Thousand Dollars ($25,000) at or before closing.

1.9 Cross Default. The Borrower's obligations to the Bank with respect to the Acquisition Line of Credit shall be and hereby are cross defaulted with all loans or obligations, now existing or hereafter arising, of either Borrower owed to the Bank, or any affiliate of the Bank, as the same may have been and may hereafter be modified, amended or restated, and any now existing or hereafter arising foreign exchange contracts, interest rate swap, cap, floor or hedging agreement, and all obligations of either Borrower arising out of or in connection with any Automated

FORM REG-1

STATE OF NEW HAMPSHIRE
DEPARTMENT OF ENVIRONMENTAL SERVICES
STATE DRINKING WATER REVOLVING LOAN FUND

Loan Agreement

THIS LOAN AGREEMENT (the "Agreement"), dated May 9, 2005, has two parties:

(1) the State of New Hampshire (the "State"), whose address is c/o Department of Environmental Services, 29 Hazen Drive, P.O. Box 95, Concord, New Hampshire 03302-0095, and

(2) the following person which is borrowing funds from the State:

Pennichuck East Utility, Inc.
25 Manchester Street
P.O. Box 1947
Merrimack NH 03054-1947
(the "Borrower")

FUNDAMENTAL PREMISES FOR THIS AGREEMENT

A. Pursuant to New Hampshire Revised Statute Annotated ("RSA") 486:14 the State has established a revolving loan fund for financing water pollution control and drinking water improvement projects within the State.

B. The Borrower is a for-profit company incorporated in the State of New Hampshire and subject to regulation by the Public Utilities Commission ("PUC"). The Borrower owns and operates a public water system, Williamsburg/Stonegate, that serves 161 homes, two schools, and several municipal and commercial businesses in Pelham, New Hampshire. The Borrower intends to borrow up to $750,000 to construct a new water storage tank and associated pump station modifications ("Project").

C. The State has determined that the Borrower's request for a loan financing the cost of the Project and made in accordance with this Agreement is eligible for funding from the Drinking Water State Revolving Fund in accordance with guidelines adopted pursuant to RSA 486:14.

(c) Project Costs. A certificate by the Borrower, in form and substance satisfactory to the State, listing all categories of project costs and expenses in connection with the construction and completion of the Improvements and the amount paid by the Borrower with respect to each; and

(d) Permits. A copy of the applicable certificates, licenses, consents and approvals issued by governmental authorities with respect to the Improvements.

8. Events of Default. The occurrence of any of the following events shall constitute an Event of Default under this Agreement:

(a) [Intentionally left blank];

(b) Assignment. The Borrower attempts to assign its rights under this Agreement or any advance made or to be made hereunder or any interest therein, or if the Premises are conveyed or encumbered in any way except as permitted by this Agreement, in each case without the written consent of the State;

(c) Encroachment or Violation. Any survey, report or examination discloses that the Improvements or any portion thereof encroach upon or project over a street or upon or over adjoining property or violate any setback or other restriction, however created, or any zoning regulations or any building restriction of any governmental authority having jurisdiction with respect to the Improvements;

(d) Casualty. The Improvements or the Premises are materially damaged or destroyed by fire or other casualty or cause and the insurance proceeds therefrom are inadequate to rebuild or restore the Improvements or the Premises to their condition immediately prior to such casualty;

(e) Failure to Construct. The Borrower or the Contractor does not construct the Improvements in accordance with the Plans;

(f) Misrepresentation. Any representation or warranty made herein or in any report, certificate, financial statement or other instrument furnished in connection with this Agreement or any advances made hereunder, by or in behalf of the Borrower, shall prove to be false or misleading in any material respect;

(g) Mechanics' Liens. Any mechanics', laborers', materialmen's or similar statutory liens, or any notice thereof, shall be filed against the Premises and/or the Improvements in an amount in excess of $200,000 and shall not be discharged within forty-five (45) days of such filing;

(h) Other Defaults. The Borrower shall default in the due observance or performance of any covenant, condition or agreement to be observed or performed by the Borrower under this Agreement not otherwise specifically referred to in this Section 8;

(i) Other Loan Documents. Any event of default as defined in the Note or the Guaranty, or any event which with the giving of notice or passage of time, or both, would become an event of default under such instruments shall occur;

(j) Cessation of Work. Any substantial cessation occurs at any time in construction of the Improvements except for strikes, riots, or other causes beyond the Borrower's control, or if any substantial change is made in the schedule for the construction of the Improvements from that provided in the Plans or this Agreement without the approval of the State;

(k) Voluntary Bankruptcy. The Borrower or the Guarantor shall (i) apply for or consent to the appointment of a receiver, trustee or liquidator of it or any of its property, (ii) admit in writing its inability to pay its debts as they mature, (iii) make a general assignment for the benefit of creditors, (iv) be adjudicated as bankrupt or insolvent or (v) file a voluntary petition in bankruptcy, or a petition or an answer seeking reorganization or an arrangement with creditors or to take advantage of any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law or statute, or an answer admitting the material allegations of a petition filed against it in any proceeding under any such law;

(l) Involuntary Bankruptcy. A petition, order, judgment or decree shall be entered, without the application, approval or consent of the Borrower or the Guarantor by any court of competent jurisdiction, approving a petition seeking reorganization or approving the appointment of a receiver, trustee or liquidator of the Borrower or the Guarantor of all or a substantial part of its assets, and such order, judgment or decree shall continue unstayed and in effect for any period of sixty (60) days;

(m) Dissolution, Etc. The death, dissolution, termination of existence, merger or consolidation (as applicable) of the Borrower or the Guarantor, a change of control of the Borrower or the Guarantor, or a sale of assets of the Borrower or the Guarantor out of the ordinary course of business without the prior written consent of the State;

(n) Other Obligations to the State. Default by the Borrower or the Guarantor in the payment or performance of any other obligations of the Borrower or the Guarantor owed to the State, whether created prior to, concurrent with, or subsequent to the obligations arising out of this Agreement, the Note or the Guaranty, as the case may be, provided such default continues after any applicable notice and expiration of any applicable grace period;

(o) Other Obligations. Default by the Borrower or the Guarantor in any other obligation for borrowed money in excess of One Hundred Thousand Dollars ($100,000.00); and

(p) Judgment. Final judgment for the payment of money of more that Two Hundred Thousand Dollars ($200,000.00) in excess of any insurance proceeds shall be rendered against the Borrower or the Guarantor and shall remain undischarged for a period of thirty (30) days during which execution shall not be effectively stayed.

9. State's Rights and Remedies Upon Default.

9.1 General State Rights. Upon the occurrence of any Event of Default, all obligations on the part of the State to make disbursements under this Agreement shall, if the State so elects, cease, and, at the option of the State (but subject to the terms and conditions set forth in the Note

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– if we do this we are taking their operational companies, their regulated operational companies. They will be concerned about price. They will be concerned about trying to delay the process. They will be concerned about trying to preserve their assets.

After the price is finally set, RSA:38-13, which is a great and important provision permits you to decide within 90 days whether or not to acquire the property at that price. This is I think an extremely important right and it was built into the Statute in 1997 during that time that I was representing those towns that were seeking to acquire the PSNH hydros. Under eminent domain procedure, which was in effect at the time, a municipality when it took property – any kind of property, took a title to it immediately and then it would go fight about the value. Whatever price was set by the court the municipality was stuck with it. I thought especially having dealt with utility value for a fair bit of time that these were pretty enormous values for a municipality to get simply stuck with so I encouraged the legislature and they did it to give municipalities a second look at the acquisition after the price was set so that if it was too high, if everybody thought it was too high, that there was a procedure for an out. The city or town could say this is just too much money we don't want to do it at this price. I thought that was very important to have just because of the enormous values that you are dealing with when you are dealing with utility values.

Just as an example say the PUC sets a price of $200 million for these assets and after they set that price and Mr. SanSoucy and the financial people conclude that in order to pay that you would have to raise rates enormously you probably aren't going to want to do this. There is that opportunity for you to then get out. I know immediately what you are thinking because it is the first thing that always comes to my mind is if we go all the way through this and they set a price of $200 million or anything that is above where we want to do it we are going to have spent a lot of money on guys like me and SanSoucy and the other experts in this thing and we will not get it back because the only way you get it back is if you actually go forward with the purchase you can bond all of that – you can put all of that into your revenue bonds and then that gets paid for instead of by taxpayers it gets paid for by the ratepayers. While that is true if you get to the end of the day and decide not to go forward that money has been spent and you don't get it back remember why you are getting out – you are getting out because that value has been set too high. You can now use that value, that too high value that was too high for you to buy it – that is a determination of fair market value that you can use for setting your assessment level.

What I tried to do was give you an example – your current assessment of property in Nashua is about $54 million at a 75% ratio. I didn't know what your tax rate was – it used to be around $23 so I used $23 as that tax rate. The tax on $54 million is $1.2 million. If the PUC set the value of the Nashua property for example at $100 million essentially doubling so that you didn't want to get out that tax would be $2,300,000 for an increase of about $1.1 million. I think what I am saying is the increased tax that you might get – that you would get from that increased value is one method that you might use to make sure you get yourself paid back for what you spent on acquisition costs. It is a interesting double sword. The company is in the position where it wants to get the absolute most that it can get from the PUC, but if it gets too much and you back out that upper level is then going to be the level of taxation and they will get hammered with taxes so it is a double-edged sword.

Assuming you vote to acquire the property following the setting of the price by the PUC you then have to move forward and issue revenue bonds and close the purchase and that always

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takes longer than you think. In a nutshell that is really sort of what you would have to do going forward from here. I haven't referred to this point the lawsuit against the city, but that obviously is going to have to be defended as you go along too. I don't see a huge amount of risk in that lawsuit right now and I am guessing that its purpose was primarily to try to keep the city from moving ahead. Dave Connell and I think we should aggressively defend it if you go forward at the PUC and try to get it concluded as soon as we can. If we don't go forward I am again guessing that if the company prevail it will be dismissed or that we can reasonably settle it. I think its primary purpose was to get you not to go forward. There is always, however, the possibility that the company will see a failure to go forward as all of this was done to obstruct their legitimate attempt to merge with Philadelphia Suburban. They have alleged that in this lawsuit and that they will convert the suit to one for money damages. They currently aren't seeking money damages in that lawsuit, but they can convert it over pretty easily if that is what they were attempting to do and try to get the city to pay for the losses that hey feel occurred as a result of the failed merger. If that happened that would be a considerable risk in exposure. Whenever there is that large an exposure the risk is considerable.

To give you a likelihood of an unfavorable outcome I will say as I say when I respond to auditors always it is neither probable nor remote. It is very hard to tell you what that could be, but I think it could be settled. My judgment now is that it could be settled if you walked away from it probably with very little consequence to the city. It is only if the company decides that they want a pound of flesh from you that that would happen.

Alderman LaRose

I have a parliamentary question – Mr. Upton stated something about a 2/3 vote – I thought we were doing a transfer so that is really a majority vote – am I correct?

Chairman Bolton

I think Attorney Upton was referring to a previous vote we had to take to put this matter on the ballot.

Robert Upton, Esq.

In order to get this thing off the ground, this Board of Aldermen had to vote by 2/3 majority to consider acquisition of the company.

Chairman Bolton

The vote we are considering now is by majority.

Alderman Deane

Could I ask Attorney Upton a question – I want to go back in time a little bit to when you first came to us and were sitting over there. You had stated that if the City was going to move forward they should start the eminent domain proceedings immediately.

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Donald L. Correll
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Friday, January 6, 2006

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Telegraph, The (Nashua, NH)

July 19, 2005
Section: Amherst

Mayor vetoes **cap increase**

MICHAEL BRINDLEY and ANDREW NELSON
Telegraph Staff

NASHUA - For the second time in less than two weeks, Mayor Bernie Streeter has vetoed legislation to increase the cap on the salary for the superintendent of schools. Streeter issued his veto Monday, after meeting earlier that morning with Julia Earl, the board of education's finalist for the position. The school board introduced Earl, a former associate superintendent of instruction and student services in Klein, Texas, at a press conference Sunday. She has signed a letter of intent to take the Nashua position.

Streeter also met Monday morning with board of education President Kim Shaw and Mark Sousa, his administrative aide, in a separate meeting.

Last Monday evening, the board of aldermen voted 7-6 to change the salary cap to $140,000, after Streeter vetoed an aldermen vote to cap it at $150,000. But Streeter's veto puts into question the status of Earl's employment with the district, Shaw said Monday afternoon.

"I'm disappointed, of course," said Shaw. "I feel badly for Dr. Earl. She's caught in a set of circumstances beyond her control," she said, referring to the city's financial situation.

Shaw said she left Monday morning's meeting with the feeling that Streeter would veto the legislation, but was crossing her fingers that he would let it become law without his signature.

"He said this morning he was going to do it," Shaw said. "But I was hoping he would just not sign it into legislation, then the board of education could take the heat."

Shaw said she wants Streeter to give the board of education an exact figure he would let pass, but Streeter said it is not his place to set the salary structure for the superintendent.

"Where he's got the veto power, it would be nice to know what his upper limit is," Shaw said. "This is really dragging now."

In his veto letter to city clerk Paul Bergeron, Streeter referenced that the city's merit employees will not receive salary increases next year.

"I continue to have serious concerns about the message this resolution sends to both our merit and union employees and the taxpayers of the city," Streeter said in the letter.

That afternoon, Streeter said not much had changed since his last veto. He has continued to receive phone calls from the public, the majority asking him to veto the increase.

"When someone takes the time to call to take a position for or against something, and there are more than a dozen phone calls, there is a concern," Streeter said.

Streeter downplayed the possibility of any kind of organized campaign or vocal minority trying to influence his decision. He said that rarely does he use his veto authority, let alone twice in less than two weeks. Streeter had until Monday afternoon to veto the vote.

"I wanted to wait until the end of my time to take everything in," he said.

Streeter said that during his meeting with Earl, they talked about her supervisory experience and their differences in tax structures between New Hampshire and Texas.

Streeter said that over the weekend, he was leaning in the direction of vetoing the legislation. He expressed concern that some members of the school board were under the impression that Earl was still gainfully employed. Earl submitted her letter of resignation to her former district in December. Her resignation was effective June 30.

Streeter reiterated his concern of the secrecy with which the selection was made, the school board never having allowed the public, district faculty or himself to weigh in on the two finalists.

Streeter said he is "hoping to see a figure closer to $125,000."

"That would be acceptable," he said.

Earl was at Monday night's board of education meeting and took a few minutes at the beginning to speak to the board about her optimism for obtaining the position.

At 7:30 p.m., Earl left to go to the board of aldermen's meeting, escorted by school board members Scott Cote and Michael Clemons. Before leaving, Earl said she didn't want to comment on the situation until it's resolved. She is scheduled to stay in Nashua until Thursday.

"This really needs to come to closure for the good of the kids," she said.

Earl said she was pleased with her meeting that morning with Streeter, their first face-to-face encounter. They had spoken over the phone before.

"He said he was open to compromise," she said.

Earl said she is going forward with her schedule for the rest of the week, which she said includes meeting with central office staff, attending a meeting of school principals, and meeting with teacher's union president Jackie McKnight.

Of Earl, Shaw said, "She's a very strong individual, but I think she would like to try to figure out what that compromise is."

Earl introduced herself to the board of aldermen Monday and fielded questions as members of the board of education urged the aldermen she was the right person to take over the city's school.

However, Earl's appearance did not shake aldermen from their positions.

Alderman-at-Large David Rootovich and others praised Earl's qualifications, but questioned the maximum salary of $140,000.

"It's not what she's worth. It's what we can afford," said Rootovich, adding he would like to see clear goals she has met on the job, not just talk in broad terms about education.

Aldermanic President Brian McCarthy doubted the board had 10 votes to override the mayoral veto.

"My guess is the mayor has discarded the chance to have a person who he said is a wonderful candidate," said a disappointed McCarthy.

The veto came too late for Monday and Tuesday's special board meetings. McCarthy said it is possible the board of aldermen will consider the vetoed legislation Wednesday.

Ward 3 Alderman Kevin Gage quizzed Earl on her experience working with smaller schools and turning around troubled schools. Two of the schools in Gage's ward - Mt. Pleasant and Amherst Street elementary schools - were designated in February as "in need of improvement" to comply with the federal No Child Left Behind law.

Earl said her experience has included assisting teachers and students to do well academically and in her previous Texas school district, all the schools but one hit the achievement marks.

"You teach a curriculum that has a high expectation," she said in response to how to prepare students for standardized tests.

Clemons said Earl would be the best person to end tensions between the two boards and set the district in new and better direction.

"I feel our boards have been at odds long enough," Clemons said.

Illustration: Staff photo by Ed Wozniak

Julia Earl, the Nashua Board of Education's finalist for superintendent, meets with the board of aldermen Monday.

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Telegraph, The (Nashua, NH)

July 28, 2005
Section: Amherst

Time ticking on city budget

ANDREW NELSON
Telegraph Staff

NASHUA - Come Monday, the city will have run out of money. Aldermen plan to meet tonight yet again to consider a new city budget - or at the least a temporary spending plan that would pay city workers and keep the business of local government open through August.

The city will rely on $28,337,400 to cover expenses from July 1 to Aug. 31. It's a repeat of last summer, when the aldermen didn't approve a budget until Aug. 10 and relied on a temporary budget to keep city government functioning after the end of July.

Alderman-at-Large David Deane, the vice chairman of the budget review committee, said the resolution is an effort to keep the lights on at City Hall.

"You don't want to have services come to a screeching halt," he said, noting how suspending services would hurt residents and workers alike.

The proposal would keep spending at the same pace as the first two months of the just concluded 2005 fiscal year, he said.

Mayor Bernie Streeter said it is imperative for the measure to pass, or the city would have to shut down without any authority to spend money.

The legislation needs support from a majority of the aldermen to pass, Streeter said.

Talks on the budget for the 2006 fiscal year havetwice on the budget last week.

One vote was 6-5 to pass the budget, but the tally fell short of the two-thirds majority required. A supermajority is needed to exempt certain appropriations from spending cap calculations. If all 15 members attend, 10 affirmative votes are needed.

Aldermen have trimmed the city's operating budget since it was submitted in February by nearly $2 million, to $210 million.

However, payments for higher health insurance costs and other fixed costs have swallowed those savings, Deane said.

The city departments are getting financed in the proposed budget close to the dollars they received in the 2005 fiscal year. The exception is the school department, which is getting an increase of about 2.5 percent.

The forecasted tax rate increase is 5.9 percent. A property owner with a house assessed at $200,000 would pay some $4,200 in taxes, an increase of $230, based on that projection.

However, budget critics claim the effect on a resident's wallet is actually closer to a 10 percent tax increase when the expected increase in property assessments is considered.

The usual fiscally conservative faction of aldermen has split, with some holding fast against the budget and others supporting it.

Deane said he has spent an inordinate amount of **time** to find savings in the budget. Any other year, a level-funded budget would be a good position for the aldermen, he said.

"I'm not happy with the increase either, believe me," he said. "It hasn't been easy, that's for sure."

Ward 8 Alderman David MacLaughlin cast the swing vote last year, when nine members of the board approved the budget at an August meeting in which three others were absent. MacLaughlin called the projected tax rate increase simply unacceptable.

"Nobody is saying, 'Alderman, please increase my taxes, please spend more,'" he said.

Last year, the board hammered out an agreement as low as the board could go, but this year, there is more to cut, he said.

Aldermen in support of the budget reject ideas to cut more money, so they should suggest compromises, he said. MacLaughlin said his goal is to end at a property tax increase of no more than 4 percent.

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Telegraph, The (Nashua, NH)

August 3, 2005
Section: Amherst

Budget cuts may **force library** to close on Sundays

PATRICK McCLARY
Telegraph Staff

NASHUA - A time may come when seventh-grader Nicole Twiss has a tougher time doing her homework on Sundays - at least without some pre-planning. While the aldermen continue haggling over the new city budget, the Nashua Public **Library** is one of many city departments preparing to cope with another financial pinch.

The **library**'s circulation has never been higher, but it may have to shut down on Sundays all the same to cope with a budget cut.

In the fiscal year that ended June 30, 657,413 items were checked out of the Court Street location, the highest total since the building opened in 1971. Circulation was 18 percent higher than in the prior fiscal year, when 559,435 items were checked out.

But more popularity isn't breeding more money.

Last year, the **library** left the equivalent of three full-time positions unfilled. Now this year, with a budget that will likely be level if not reduced from last year, Director Joseph Dionne said one of the possible ways to cut costs would be to keep the **library** closed year-round on Sundays.

The **library** is already closed on Sundays during July and August, and reopens when school is in session. Normal Sunday operating hours are 1-5 p.m., and Dionne said those four hours are the busiest of the **library**'s week.

"Sunday afternoons are really a time for use of the entire facility. A lot of studying is done," he said.

Twiss sees the benefits of the **library**'s Sunday hours if her schoolwork required research using an atlas or other reference book."Some people don't have a dictionary," she said. She also mentioned that many classmates don't have computers at home, so access to computers and the Internet is another benefit of the **library** being open Sundays.

Dionne emphasized that no decisions have been made, and closing Sundays is just one thing on a list of possible solutions the **library** will consider once its budget is set. More than a month into the new fiscal year, the aldermen met for the past two nights to try to break their logjam over the budget but were unable to reach an agreement.

Closing on Sundays is something that Dionne hopes doesn't happen.

"Anything we do like that will reduce the availability of services to the public. We prefer to find additional alternatives," Dionne said.

Among the other alternatives are buying less microfilm, buying fewer DVDs and videos, not updating printers, and gambling on not having to pay for building repairs that sporadically occur throughout the year, he said.

One service that certainly won't be eliminated, but possibly would be downsized, is the popular outreach van service.

Dionne said the mobile unit that began operating last year when the **library** took its bookmobile off the roads could see a cut in staff and frequency of visits. Instead of every third week, readers could see the van every fourth week. He also said there could be fewer books to dole out from the van.

But without a budget in hand, Dionne can't be sure what steps the **library** will take if it is dealt a level or reduced budget.

"They're all just talking points until we learn what our budget is," he said, adding that the possible Sunday closing was an idea put forward by the **library**'s trustees.

After the budget is approved, the trustees would convene during their normal September meetings and discuss what to eliminate, Dionne said.

Ed Jameson, a 59-year-old Nashuan, said he thinks the **library** being open Sundays is a necessity for a lot of people. For the past three years, trading in books at the **library** has become a Sunday routine for him.

"I read a lot of books," he said. "I'd rather have it open on Sundays."

Illustration: Staff photo by Bob Hammerstrom

Maria Ivers, left, a teacher at Pennichuck Junior High, tutors Nicole Twiss in the teen room at the Nashua Public **Library** Tuesday afternoon. City budget constraints may **force** the **library** to be closed year round on Sundays.

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Telegraph, The (Nashua, NH)

August 14, 2005
Section: Amherst

City **grapples** with **time**, money restraints

ANDREW NELSON
Telegraph Staff

NASHUA - Mayor Bernie Streeter will sit down with union leaders and members of the fire, police, school and other city departments Monday to detail how the city might furlough workers and handle other contingencies in case the city can't spend money beyond this month. "We don't have the luxury of **time**," Streeter said, adding some on the board of aldermen do not appear to have the same sense of urgency. "I'm still hopeful the board of aldermen will pass a budget or pass a continuing resolution. But we can't wait."

The meeting is part of a plan to prepare City Hall in case there is no approved city spending plan by Sept. 1. The city's fiscal year started July 1.

Streeter has called a special meeting of the aldermen Tuesday to try again to pass a budget.

The board of aldermen is split about the budget. An 8-7 vote last week showed a majority of the board opposed to the fiscal year 2006 spending plan with its forecasted 5.9 percent property tax rate increase. In July, the board backed an interim budget to keep City Hall open for August.

Aldermen on opposing sides offered different reasons for the gridlock.

Alderman-at-Large Jim Tollner said he's ready to listen to suggestions for spending cuts, but ideas aren't being brought forward.

Last week's aldermanic meeting "was the **time** for them to step up," but budget opponents offered nothing, Tollner said.

On the other side, Ward 5 Alderman David Lozeau said he's opposed to a budget with the forecasted tax rate increase.

"I'm opposed to it because 5.88 (percent) is just too much. If we don't start cutting now, next year is going to be much, much worse," said

Lozeau, who had voted in favor of the budget earlier this summer.

He rejected the idea that budget opponents aren't offering ideas. Lozeau said he recently suggested cutting some $859,000 from the budget for city schools, but the idea was dismissed.

As the budget now stands, the city's fiscal year 2006 operating budget is $210 million. The budget spends another $18 million with its enterprise funds for the wastewater plant and the trash removal.

Since the spring, aldermen have trimmed millions of dollars in an effort to fund the city's operations at last year's level and restrict the school department to a 2.5 percent increase.

But spending is up about $14 million from the previous year, some 6.4 percent, according to Chief Financial Officer Carol Anderson.

The board needs a two-thirds vote of the members present to pass the budget since it's some $8 million above the spending cap limit. But a supermajority vote can exclude certain capital items and debt expenses from the spending cap calculations. It would require 10 votes in support of the budget if the full board votes.

The worst-case scenario for Streeter is the logjam that prevents passage of a second contingency budget and services are shut down.

Deputy corporation counsel Stephen Bennett said the city would appeal to Hillsborough County Superior Court to order money to be available to provide essential city services.

If the city ended up in court, it appears to be a first in the state, Bennett said.

"No municipality has failed to pass a budget and required court action," he said.

City lawyers are looking at how the state of Minnesota handled a government shutdown in July for guidance since there's no precedent here, according to a legal memo written by the corporation counsel office.

The court would be asked to issue an order to pay for "those city services which are necessary to insure the health, welfare and safety of the citizens and to maintain and preserve city property," according to the memo.

Bennett said the court in Minnesota left it to local officials to determine what positions can be unfilled and what services are needed for public safety, he said.

Municipal duties include ensuring compliance with federal and state laws regulating the dumping of raw sewage in the Merrimack River, mandated public education to city youth, and payment of city contractors and vendors, among other responsibilities, according to the memo.

"None of the obligations can you sidestep by saying we don't have the money," Bennett said.

There is no firm date when the city would turn to the court. Once it's clear no contingency budget is in place, the city would request a hearing, Bennett said.

Another issue for city administrators is the layoff notices to the members of the 16 unions that represent more than 2,500 city workers.

Human Resources Manager Jane Joyce said each contract has different timelines to notify workers about layoffs, from five days to four weeks. Those notices could start to go out this week if the aldermen aren't going to act, she said.

At the same **time**, some workers will get paid no matter whether city government shuts down. State law entitles teachers to their paychecks, according to the legal memo.

If a final budget isn't passed, the city could rely on a second contingency budget to stay open.

However, the city can't operate on a month-by-month contingency budget all year.

Anderson said the state Department of Revenue Administration needs a final budget to set the tax rate. The city can't collect taxes without the state's actions, she said.

There's no worry about the city going without money for the **time** being. City coffers were filled July 1 when residents paid the first of two tax bills in 2005.

And Anderson said there's enough money to operate the city for a few more months, but there's no way to take in more revenue once that money is gone without a tax rate. State officials usually set the rate in October, but there are weeks of preparation by city administrators before that decision, she said.

A blow to the city would be if Wall Street reduced the city's credit rating to make it more expensive to borrow money. Anderson said financial officials have told her that wouldn't happen if the aldermen pass a stopgap budget, but stopping city government might tarnish the rating.

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Friday, January 6, 2006

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Telegraph, The (Nashua, NH)

September 13, 2005
Section: Amherst

Principal deal under review

MICHAEL BRINDLEY
Telegraph Staff

NASHUA - School administrators should know by the end of the week whether Ledge Street Elementary School **Principal** Charlie Katsohis will be able to collect his retirement while maintaining a full-time position in the district. The New Hampshire Retirement System has been investigating the legality of the agreement the board of education reached with Katsohis and the Adult Learning Center, business administrator Mark Conrad said Monday.

"It's still **under** review and a decision has not been finalized on that," Conrad said. "We expect toknow by the end of the week."

Conrad said representatives from the retirement system contacted the district after becoming aware of the situation. The district was suddenly left without a **principal** at Ledge Street when Andrew Desrosiers, the school's former **principal**, resigned in the middle of August for a similar position in Windham.

On Aug. 16, Katsohis submitted a letter stating his intent to retire from his **principal** position at Bicentennial Elementary School effective Oct. 1, but the retirement was contingent upon him continuing to work full-time as a **principal**, contracted through the Adult Learning Center.

The **deal** was designed to allow Katsohis to stay on as a full-time **principal** while collecting his retirement. Katsohis said former Superintendent Joseph Giuliano proposed the idea.

Last week, Superintendent Julia Earl stood behind the agreement, saying there is precedent for **principals** retiring and continuing to work for school systems across the state.

"We thought those issues were resolved," Earl said. "And this school needs a **principal**."

Kim Shaw, president of the board of education, agreed with Earl, saying

she is unclear what makes this circumstance any different from other **principals** retiring and coming back to work.

"We're in a wait-and-see situation right now," Shaw said. "This is the same **deal** that other people have done in New Hampshire. I don't understand it."

Ledge Street, an inner-city elementary school, serves one of the district's most diverse student bodies. Katsohis had been the **principal** at Bicentennial Elementary School since it opened in 1977 for all but one year.

Kim France, public relations officer for the retirement system, declined to comment last week, only saying the retirement system looks into situations that may conflict with the law.

Conrad said the retirement system's position is that **principals** who work 30 or more hours a week and work at least 180 days a year are members of the retirement system and must contribute. The question, Conrad said, is whether Katsohis, contracted through the learning center, can be retired and collect a pension.

Katsohis is Ledge Street's permanent **principal** and there is no search going on for a replacement. The contract between the board, Katsohis and the learning center is on a year-to-year basis and could be renewed at the end of the school year. He will be evaluated by the school board at the end of each year.

The contract does not include payment for any benefits, only a salary of $80,070, paid to the Adult Learning Center.

Katsohis was not at the school Monday and did not return a phone call to his cell phone. It is unclear whether he would stay on as **principal** if the **deal** were nixed.

He has said he did not intend on retiring before this school year until the possibility of the agreement was brought up by the district.
KATSOHIS

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Friday, January 6, 2006

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Telegraph, The (Nashua, NH)

September 28, 2005
Section: Editorials
Page: 10

A **puzzling situation** at city high schools

This is a downright embarrassing **situation**. After spending $140 million for construction of a "state-of-the-art" high school and reconstruction of the old Nashua High, both schools face overcrowding problems. Class sizes have ballooned, there are students who lack desks and the cafeteria in the south high school has insufficient seating capacity.

Try getting a head count on how many students are enrolled in both schools and the school administrator says it won't have the numbers until Oct. 1.

Oct. 1? The schools have been open for nearly a month and the enrollment numbers still aren't available?

Oct. 1, though, is the date that school districts must report their enrollments to the state.

It may be that the school district is striving to pinpoint the enrollment figures as close to that date as possible because those numbers make a difference as to how the state distributes future school aid. In any large school district, there may be pupils who enroll late because of family circumstances, such as an unanticipated move because of a job transfer.

There appears to be different explanations as to why the overcrowding exists - from school budget cutbacks that prevented the hiring of additional teachers that administrators requested, to implementation of the block scheduling system or to poor planning.

Whatever the reason, some class sizes have swelled to beyond 30 and even the students recognize that's not a good **situation** for classmates who may need more attention from a teacher to get over a rough spot in their learning.

There seems to be a consensus that this **situation** needs immediate improvement. But so far no one seems to have a definite plan of action.

The administrators and the new school superintendent, Julia Earl, are putting their heads together to mitigate the **situation**.

The faster the better, we say. The present **situation** puts both teachers and students at a disadvantage. Paying millions for these huge new high schools won't do much good if overcrowding thwarts the education of the students.

KEY POINTS

BACKGROUND: Overcrowding in Nashua's new multimillion-dollar high schools has increased some class sizes to beyond 30 students.

CONCLUSION: This overcrowding **situation** defeats the purpose for spending millions on these new facilities, and the quicker the administrators can resolve the **situation** the better.

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Telegraph, The (Nashua, NH)

October 5, 2005
Section: Amherst

Board, **city spar** over contract

MICHAEL BRINDLEY
Telegraph Staff

NASHUA - An attorney hired by the board of education has given the **city** an ultimatum by threatening legal action if it does not pay all of the wages and benefits to Superintendent Julia Earl. "Unless these funds are released by October 11, 2005, the (school) board will have no choice but to take legal action to fulfill its commitment to Dr. Earl," Exeter attorney Thomas Closson wrote last week to the school board's **city** appointed lawyer, Stephen Bennett.

In an analysis of Earl's contract, Bennett had determined that some of Earl's benefits offered by the school board constitute an increase in salary. Earl is already being paid a salary of $125,000, the maximum allowed by the board of aldermen. She was hired in July.

Part of the contract calls for the **city** to compensate Earl's share of payments to the New Hampshire Retirement System. In his analysis issued last month, Bennett wrote that Earl's contribution to the retirement system must come from her salary, not the **city**.

"As structured, this benefit appears to be salary in excess of the approved range," Bennett wrote.

Board of education President Kim Shaw said the board hired outside council after Bennett issued his analysis. Shaw does not believe there is anything unusual about the benefits offered to Earl.

The Oct. 11 date was picked to allow the **city** time to analyze its position and pay the benefits, she said.

"The board of education believes the contract adheres to the spirit and the law of the salary cap," Shaw said.Bennett determined that Earl's performance bonus, based on unspecified "measurable progress of the SAU," would also be an increase in her salary and would have to be approved by the aldermen. According to **city** charter, the mayor and aldermen have the final say on all salaries and collective bargaining

agreements.

Bennett also determined that many portions of Earl's contract require clarification before the **city** payroll office can process payments. He wrote his analysis after meeting with members of the school board, district administration and the **city**'s financial services division.

Earl declined comment on the situation, saying only that she "came to the **city** on a good faith contract assuming it would be fulfilled."

Shaw said the board had worked with Closson and his law firm on developing the contract. She said the board believes that none of the benefits constitute an increase in salary.

"We believe it's a good contract. We believe it was fair and negotiated in good faith. I really hope the **city** will reconsider its position," Shaw said.

Mayor Bernie Streeter called the school board's hiring of outside council "extraordinary" and said the situation could have been avoided if the school board had run the contract through the **city**'s legal department before offering it to Earl.

Streeter vetoed aldermen-approved salary caps of $150,000 and $140,000, meaning the most the school board could offer Earl was $125,000. The school board initially requested a cap of $175,000.

"I hope it gets resolved," Streeter said. "I would hate to see the board of education go to war with the board of aldermen over this."

Monday, Corporation Counsel David Connell responded to Closson's letter, saying Closson was unclear about the exact amounts of salary and benefits the school district feels Earl is still due.

"The **city** payroll office has paid Dr. Earl's salary as well as a number of benefits contained in her contract," Connell wrote. "Payments for some benefits have not as yet been requested."

According to a letter from Carol Anderson, the **city**'s chief financial officer, the **city** has paid Earl's salary, along with her car allowance, travel reimbursement, insurance premiums and temporary housing.

Anderson wrote the only requested payment that has not been made is $761.16 for health insurance costs. That number is based on $6,594.60, the annual cost of a single person point of service plan. The payment will be made as a reimbursement upon submittal of receipts, Anderson wrote.

Closson said his office is still in the process of reviewing the response from the **city** and is considering how to respond.

According to Anderson's letter, the **city** has reimbursed Earl for $3,805.77 for three trips she made to the **city**: two during the interview process and one after she was hired. The **city** has paid $3,880 for two months of temporary housing. Earl's contract calls for six months of temporary housing.

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Manchester Union Leader, 12/27/05, p. A-2

Editorials

Reverse the takeover

Sell Nashua to Pennichuck

NASHUA and Pennichuck Water Works have been in negotiations to stop the city's eminent domain proceedings against the company. In case the negotiators haven't thought of this, we thought we'd offer an idea that should improve the situation for all involved. Instead of having the city take over the company, let the company take over the city.

Nashua has not been the best-managed city in recent years. Poor leadership has led to rising taxes and citizen dissatisfaction. This fall, the shareholders voted for new management by electing a slate of fiscally conservative aldermen and approving a petition to recall the mayor, who cannot seem to keep himself and his city-owned car out of trouble.

If Pennichuck took over the operation of the city, citizens at least could be assured of improved management. Private-sector efficiencies could cut unnecessary waste and possibly lead to tax cuts.

As an added bonus, Pennichuck CEO Don Correll has no known history of misusing company vehicles or dumping his lawn clippings in company trash bins.

If aldermen don't agree to a buyout, perhaps Pennichuck can execute a hostile takeover. Paying each taxpayer's property tax bill might seal the deal.

Of course, Pennichuck would be at a distinct disadvantage in any such attempt. State law does not give it the power, which Nashua has, to initiate a hostile takeover by decreeing that the takeover is in the public interest. Maybe if Nashua's public officials could be at the receiving end of such arrogance, they would rethink their efforts to put this private company out of business.