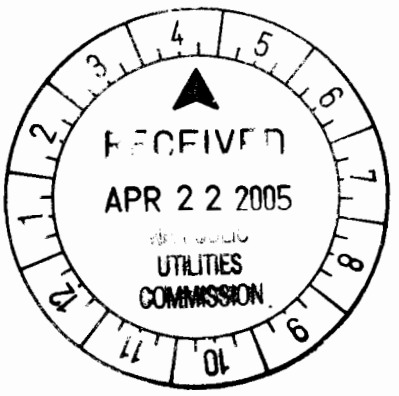
61 Dublin Avenue
Nashua, NH 03063-2045
April 22, 2005

Deborah A. Howland
Executive Director & Secretary
NHPUC
21 S. Fruit Street, Suite 10
Concord, NH 03301-2429



Re: DW04-048

Dear Ms. Howland,

Enclosed please find the original and eight copies of my testimony in the above referenced matter. Kindly file it in the above referenced docket. I am providing a copy of my testimony with attachments to all the PUC Service List. Thank you for your attention to this matter.

Very truly yours,

Claire B. McHugh

Claire B. McHugh
Intervener

State of New Hampshire
New Hampshire Public Utilities Commission

Testimony of Claire B McHugh, Intervener
Docket Number 04-048

Throughout my testimony I ask rhetorical questions. They may be areas for future discovery.

I. The City of Nashua/Merrimack Valley Water District is best suited to serve the public interest of the community.

A. Lower capital and operating costs into the future

The cost of doing business to city/regional district ownership in operating the water company will be less than the cost to investor-owned Pennichuck: a. The city enjoys an exemption from paying federal income tax. By contrast, it is estimated that Pennichuck will pay $5,000,000 in income tax in 2005. This would represent a sizeable savings for ratepayers. b. Capital improvements to the water system under city control would be financed less expensively than private ownership. The city would pay 2% less in interest on borrowed money in an industry that relies heavily on borrowed money. c. City ownership would eliminate the pressure to generate profits and pay dividends to shareholders. By contrast, Pennichuck *must* produce profits for its shareholders. This amounts to 9% of assets annually saving tens of millions of dollars annually in the future. d. The city would not pay overhead to a corporate holding company.

Public ownership will lead to lower consumer rates. By implication the city could invest in improvements without raising rates. Pennichuck continues to push the PUC for additional rate increases. It's somewhat bazaar because they have millions for their legal expenses, media campaigns and surveys. Nashua consultants project that by the year 2015 Pennichuck will request and receive a 77% increase in rates. However, the cost for the city to operate the water company, approximately a 36% increase.

B. Control of our water

Pennichuck is for sale – maybe not this very moment but it was for sale and is positioning itself now for the future. A few years ago Pennichuck entered an agreement with Philadelphia Suburban. At that time a French conglomerate, Vivendi, owned 17-18% of Philadelphia Suburban's outstanding shares. Citizens feared that Vivendi was positioning itself for a hostile takeover of Philadelphia Suburban resulting in a foreign water investment company managing our water. Many citizens felt violated that Pennichuck would put us in such a predicament.

Pennichuck didn't tell the city in advance nor did they give the city first offer of refusal. What would happen if the new foreign investment company developed an enormous debt load? …Which they did. Vivendi soon afterwards was forced to divest itself of many of many investments and the price of its shares fell enormously. In a different situation, RWE, a German water investment company paid three times the American Water Company's book value. It would be like you paying $1,000,000 for a house that is only worth $333,333. RWE's debt in 2002 was $28,000,000,000 and in 2003 Vivendi went bust. These are Enron-type situations! We own the water, as you know. Pennichuck is merely a service provider by treating and delivering our water to us. We want to control it locally and publicly. 85% of US Water Systems are owned by the communities they serve. Many who had been bought out are now trying to buy themselves back. A couple of years ago the Town of Nottingham, New Hampshire was unsuccessful in the fight of its life hoping to prevent a water bottling plant from draining its supply of drinking water. We already have Anheuser-Busch in Merrimack consuming 15%

of the daily flow of water. Suppose another bottling company would come in and want to tap into our water. I would trust the city/regional water district – not Pennichuck – to handle such situations.

Nashua citizens have spoken by voting to keep control of our water locally forever. Public ownership of Pennichuck Water Works is the only way to achieve that result to prevent any future foreign company from controlling it. On January 14, 2003, city voters overwhelmingly endorsed the city's attempt to purchase Pennichuck.

C. The uniqueness of water

Providing water is at the core of what most municipalities engage in, much like providing protection, i.e. Police and Fire. Water is as important to life as the air we breathe. It is very disturbing that water rights and ownership are becoming global assets. I was self-employed and I believe in the free enterprise system. However, there are perils intrinsic to capitalism in relation to the distribution and control of water. This is not like manufacturing of widgets. Water is essential to life. The earth's fresh water supply is finite and water reserves are disappearing. California is a case in point. They are now mining the underground water reserves faster than nature can replace them. The National Geographic magazine reported in a recent article that they expect 2.7 billion people will face serious water shortages in the next two decades.

D. Protection of what is left of the wetlands

Pennichuck has not been dealing in the public's best interests. It appears to have tunnel vision towards benefiting its officers, directors and shareholders. It neglected the public need to protect its watershed in its pursuit of profit. It amassed 3,500 acres of irreplaceable mostly watershed land from 1920 to 1965 only to sell off vast acreage of open-spaced land in the very community it serves during the last 25 years. Ratepayers and citizens be damned! At the time of the sell off there was a storm of public opposition. This plan – selling the precious land - returned huge profits to the utility officers, directors and shareholders. The community had wrongly assumed that the water company land would remain open space. Pennichuck did not offer the city first chance to buy the property as far as I know. Pennichuck viewed the land as a source of capital to feed the greed of officers, directors and shareholders. The community was concerned with protecting water quality and open space. I doubt that Pennichuck's original charter included the selling and developing of buffer land. Pennichuck claimed it had surplus land and they had the right and need to dispose of the land they declared surplus because of new mechanical filtration methods. It is much better and safer to prevent pollutants from entering the drinking water supply in the first place rather than clean up the water after it becomes contaminated! Consultants have said that undisturbed watershed soil performs this valuable function of natural water filtration. However, we have lost the benefit of this precious land by Pennichuck destroying the watershed and its natural filtration.

I believe that the NH Court was wrong to allow Pennichuck to sell off our precious heritage. It was more than just shortsighted of Pennichuck to sell land in order to obtain a one-time financial gain. In hindsight the city should have then been more aggressive in efforts to purchase the water company and prevent the mass ravaging of our watershed. We need to salvage now what we can. It's too late to save the land that is now developed but its not too late to prevent Pennichuck from selling to potential owners outside of New Hampshire and forever losing control.

After the sell off of the wetlands then, the issue became who should benefit from water company land sales: ratepayers or shareholders? The State Courts of Connecticut had it right. They held that the appreciated land values surrounding the New Haven Water Company was to inure to the benefit of the ratepayers. They could see that the unmistakable motivation for the land sales was to profit the officers, directors and shareholders in a very short-term view. The State of New Hampshire got it wrong. Pennichuck strategized and accomplished a land sale through an affiliated real estate company at book value. To make matters worse they gave the benefit to the officers, directors and shareholders

as opposed to the ratepayers. It is more likely than not that if the New Hampshire Court held that the benefit was to go to the ratepayers, we would still have our precious buffer land as Pennichuck's incentive for selling would have been greatly diminished or removed.

E. The city operates in good faith

Before the city referendum in early 2003, the city held a series of informational sessions on the proposed purchase. There were presentations by the city leadership, Pennichuck officers and directors. They asked pointed questions regarding the merger with Philadelphia Suburban. The issues were explored and fully debated. It finally became clear that a municipal acquisition made sense.

City officials estimated that the price of Pennichuck Water Works and the other two subsidiaries at $81,000,000. Its consultants did a comparable market analysis with similar water utilities in New England. The result was that the value of water companies in this area are based on a market rate of $2700/customer and Pennichuck at the time had ~30,000 more or less customers. Acting in good faith and with great generosity, Nashua offered to buy these three regulated companies for $121,000,000. Even though Pennichuck had accepted a prior offer from Philadelphia Suburban for $106,000,000, which also included the additional two unregulated companies. Instead Pennichuck rejected the offer answering with lawsuits to stop the acquisition. They also requested that the PUC throw out Nashua's petition and freeze the proceedings until after they receive a Court judgment.

F. City oversight management and their long term view

Although there will be no PUC oversight under city/regional ownership, every other city in NH controls its own water system. They have no PUC oversight either but there are EPA rules and regulations regarding safe drinking water and they are required to follow them. Manchester offers its citizens safe, clean and plentiful water at a much lower rate than Pennichuck provides. Manchester does not have PUC oversight and Nashua can do it just as well as Manchester by offering equally great service at lower rates than Pennichuck.

Meanwhile our reservoirs and ponds are filling with sediment. When was the last time Pennichuck conducted a study to determine the source of this sediment filling our ponds and reducing the amount of water they contain? What were the test results from such study? Pennichuck is now forced to build storage tanks to keep an adequate supply of water for daily use and for emergencies. Are conventional mechanical water filtration plants and chlorine reliable in removing all pollutants? ...Killing all bacteria? ...Killing all viruses? ...Destroying all new chemical pollutants in the last ten years? If not, it would certainly affect our water supply and we are certainly at risk of the threats of chemical and biological attacks. Pennichuck abandoned much of its watershed land in the pursuit of the almighty dollar.

Now Pennichuck faces an uncertain financial future of escalating expenditures that will need to be made to replace and expand existing facilities and to construct treatment plants, possibly even dredging our ponds. Any corporation that seeks a buy out will develop a short term view to solving problems, making decisions and managing its affairs when considering its options. The city/regional water district will have a long-term view in its management decisions because they will have an expectation to deliver safe water forever. They will have to live with their decisions. Their children and grand children will be affected by their decisions. By contrast Pennichuck has frequently made decisions with a short-term view.

G. Legacy

The purchase by Nashua and later Nashua and the regional district, would be financed by tax-exempt revenue bonds. These won't affect the local tax rate and they will be paid off with revenues received from ratepayers over a number of years. Eventually the water company will be paid off and future generations will enjoy the security of public ownership. Based on the Aldermanic Pennichuck Water

Committee findings: "Ultimately, under public ownership, the ratepayers of Pennichuck Water Works become the owners of Pennichuck Corp, and are offered the benefit of purchasing an asset that will have equity in excess of $250,000,000.00 in thirty years."

II Pennichuck has broken faith with the public and violated its trust – they have been delivering clean, safe water but their management is sadly unethical.

A. They sold off the buffer land for profit. (See above)

B. They conduct themselves with deception, exploitation and lack of integrity. See recent examples:

1. The Black Lagoons of Merrimack

Pennichuck built two lagoons in Merrimack in 2002 and uses them to spread concentrated discharge from its water treatment plant. They applied and received a temporary permit for a sludge management facility from DES. Did Pennichuck apply for and receive the permit before building the two lagoons? They continued to fill the lagoons for months. When the permit was about to expire, Pennichuck applied for a permanent permit but it was DES who then notified the Town of Merrimack. This is how the town heard about the lagoons for the first time. Was Pennichuck required to notify the town before applying for a temporary permit? ...Before building the lagoons? ...Before requesting a permanent permit? What we do know is that: a. Pennichuck failed to request a public hearing before building the lagoons as required by law. What are the consequences to Pennichuck for this failure? b. Pennichuck also failed to request a non-residential site plan review as required by law. What are the consequences to Pennichuck for this failure? c. Throughout all of this time Pennichuck failed to notify the Town of Merrimack. Did DES have the authority to issue a temporary permit without a public hearing? d. Pennichuck continued dumping sludge, which they called *residue* even though their DES permit application was for "sludge". The discharge was so vile that the concentration and makeup of the discharge had an adverse effect on Nashua's Wastewater Plant's anaerobic digestion process where Pennichuck had been discharging their sludge prior to building their black lagoons. Are there economic consequences to Pennichuck for the damage they caused Nashua?

Pennichuck claimed they built the lagoons in an emergency, but even so they deliberately did not even contact the Town of Merrimack for approximately nine months. It appears that the lagoons were a closely held secret and they continued to spread the sludge for months. Finally on February 3, 2003 Pennichuck applied for their permits to build the two lagoons that were already constructed and in use for nearly an entire year!

I am concerned about the proximity to our water supply of these black lagoons being filled with sludge. I'm also concerned about its effect of the safety of our water and the possibilities of contamination, especially in the future as the sludge may filter into our drinking water over time. I don't understand why Pennichuck was allowed to dump sludge within the 500-foot buffer from our drinking water supply in violation of state law. Has anyone determined the composition of this sludge by test? Has anyone evaluated probable detrimental impacts to our water?

2. Pennichuck under the leadership of Maurice Arel, CEO

The following occurrences are a sad commentary on a man who has otherwise achieved much in his career.

a. He made materially false and misleading statements and omissions regarding Pennichuck's real estate operations in its periodic SEC Filings and in company filings to shareholders, i.e. annual reports during the period 1998-2002.

b. He knowingly made false statements regarding the purchase price of his home, stating that he received no favorable terms and that the terms of the purchase of his home in 1998 were the same terms given to any third party. Actually Arel got a significant discount (between $50,000-$75,000) on his home

c. He failed to disclose that Pennichuck hired his son's landscaping company for work charged at $800,000.00.

d. He knowingly made inaccurate and incomplete disclosures regarding the extent of his real estate transactions with one particular developer, John Stabile, on six joint ventures. It isn't coincidence that John Stabile successfully ran for State Senate and with all of his political connections and influence he affected a new exit off the main highway, which led to much of the Pennichuck land, which he later developed in a 50:50 deal with Pennichuck. Southwood Corp, Pennichuck's real estate arm, had built a huge complex of industrial, corporate and residential buildings off Exit 8 giving them all easy accessibility. This also increased the value of the land and enriched the officers and directors.

e. He violated SEC Laws of 1934: 10(b), 13(b)(5) and 14(a). He violated SEC Rules: 10b-5, 13b2-2, and 14a-9.

f. He aided and abetted violations of SEC Laws: 13(a) and 14(a). He aided and abetted SEC Rules: 13a-1, 13a-13, and 12b-20.

g. He used his position as CEO to obtain valuable personal benefits.

h. He made use of the US Mail to propagate his deceptions, violating interstate commerce regulations.

i. Pennichuck failed to exercise adequate oversight over Arel's activities, failed to keep adequate financial records, contracts, correspondence and other materials.

j. The SEC concluded that unless enjoined or restrained Arel, the CEO was likely to engage in further violations. The SEC then sought cooperation from Pennichuck's Officers and Directors to bar him from further violations.

k. The SEC sought a permanent injunction to prevent him from continuing these practices. Arel retired the same day that the annual report revealed that he bought his home at 6 Fireside Circle in 1998 for $339,600.00 from Bower Pond LLC yet he says the decision to leave Pennichuck had nothing to do with the investigation.

Who paid for the SEC fines for Arel's false and misleading disclosures to the shareholders and how much? Who paid to establish a fund that benefits shareholders as required by the SEC and how much? Who paid to defray SEC expenses and how much? Were there any penalties charged by the SEC and how much? How much did Pennichuck Corp pay? Who ultimately paid for the burden as stated above, the ratepayer or the shareholders and in what combination? Was Pennichuck Corp insured against such occurrences? How much money if any did Arel pay out of his pocket and for what to whom? Was any of the money paid out of Arel's pocket reimbursed? ...By whom and how much?

3. Pennichuck under the leadership of Don Correll, CEO

Pennichuck continues to disregard the will of the people and to influence some with smooth talk biased toward their point of view and their interests. However, the people they garner favor with

don't have a clue of the history of this company especially within the last 25 years. They have organized a major media campaign with about forty large newspaper ads, and ongoing TV commercials as well as telephone surveys to residents. It's actually an insult to the ratepayers and citizens that Pennichuck is now trying to subvert and undermine the will of the people and negate our vote. Pennichuck has recently demeaned our Nashua officials by portraying them in a negative manner. They mischaracterize them as "hostile", "wasteful spenders" and "reckless" with taxpayer money. We have to suffer by listening and seeing this barrage of untruths, when actually our elected city leaders are defending, protecting and pursuing our common interests. Pennichuck also accused our Nashua leaders of "stalling" during the negotiations and their filings with the PUC, yet during the elections Pennichuck was guilty of the same. Pennichuck used stall tactics to see results of the elections in hope of getting candidates more to their liking. Pennichuck continues to push for additional rate increases from the PUC, yet they have spent millions for legal fees, for large newspaper ads, for TV commercials and telephone surveys. Who is shouldering these expenses? Which division of Pennichuck is charged with paying these bills? Ultimately is it the ratepayer or shareholder who is carrying this financial burden? With city ownership it is very clear.

Pennichuck has been on a roll lately to increase its source of available financing. It continues to request rate increases from the PUC. It intends to sell 500,000 new shares of its stock to bring in $12,000,000. It has acquired a $16,000,000 line of credit with Bank of America. It plans on selling $50,000,000 of tax-exempt bonds. Eventually it will reach a limit in its borrowing power if it hasn't already thereby diluting its equity. Pennichuck says its financial strategies are for improvements. But what are we to think about these pursuits? It appears to be another of Pennichuck's strategies to fight off the city's efforts to acquire Pennichuck. The large acquisition of more debt can easily be perceived by the most reasonable as suspicious and manipulative.

Pennichuck says they are creating a special account to track their expenses for eminent domain. What is the purpose of this account? It must be to request some type of future reimbursement for these unnecessary expenditures since they could have worked amicably with Nashua in the first instance. Pennichuck rejected a very generous offer from the City of Nashua for the acquisition of the water company. Meanwhile Pennichuck has enjoyed complete control and use of its company throughout this procedure and their stock price has rebounded. City leaders have a statutory right to pursue its interests for the benefit of its citizens without penalty or reimbursements. Pennichuck on the other hand has legitimate expenses and risks associated with the water company ownership. Nashua shouldn't pay for Pennichuck's expense in the exercise of its rights and obligations under the laws of eminent domain. In refusing Nashua's generous offer, Pennichuck knew full well the consequences that eminent domain would follow. Pennichuck enjoys the benefit of being a monopoly and as such has special privileges. The city has sovereign rights of eminent domain. Both Pennichuck and the city should be responsible only for their own respective expenses based on their decisions and under their control.

Don Correll has a $5,000,000 agreement with Pennichuck Corp as evidenced in a filing with the SEC. I would like to know what services he needs to perform to receive this windfall? Will this $5,000,000 bonus to Correll be paid out of the pockets of the ratepayers? What benefit does this have for ratepayers? The city of Nashua has a solid basis to pursue eminent domain and the citizens overwhelmingly endorsed the takeover of Pennichuck in 2003 by referendum.

In conclusion:

The Telegraph reported an intervener as saying, "Pennichuck is well managed." In my opinion we can do much, much better in view of the a) vast wetlands sell off, b) profit grab for officers, directors and shareholders from the land sale, c) Arel's false, inaccurate and incomplete statements to the SEC, d) deceptions in the annual report about the purchase of his home and a variety of real estate issues, e) failure to disclose material information to the SEC and in company filings, f) Pennichuck Officers and Directors allowing Arel to perform his duties deceptively under their watch, g) Pennichuck failing to disclose the construction of lagoons to the Town of Merrimack. If Pennichuck had not destroyed the wetlands we would enjoy natural filtration today that a) did not require the construction and continuous maintenance, repairs and replacement of costly mechanical systems that include 6 enormous water tanks and b) are not easy targets for terrorists. I feel raped!

When I grew up in Nashua, Pennichuck land was viewed as "sacred". As a matter of fact in 1939 two generous and far-sighted persons bequeathed large sums of land to Pennichuck thinking it would be held for the public good. They could have easily bequeathed it to their families but it was commonly believed that the buffer land was to be kept undisturbed and pristine for the benefit of all. Combined, these two philanthropists, Arthur Cotton and Annie Currier, bestowed 173 acres to Pennichuck, expecting them to be good stewards of the land. I shudder to think of their reaction if they could witness the unscrupulous sell off, development and profiteering that has taken place on their land! Pennichuck's deeds were legal because they won that court battle. I wonder what story Maurice Arel gave to the judge to win the court case in view of the recent SEC findings. This land was entrusted to Pennichuck's stewardship for the purpose of protecting our water. What Pennichuck did was unfair, immoral and shortsighted.

Whom can I trust? It's certainly not Pennichuck. I believe that the city/regional water district is 25 years late but there is still time for damage control! I highly recommend that the PUC award the eminent domain procedure on the behalf of the City of Nashua. It is in the public best interest to do so.

Claire B McHugh

April 22, 2005

Claire B. McHugh, Intervener
61 Dublin Avenue
Nashua, NH 03063-2045

The Source of the First 15 Attachments is the Telegraph:

1. 06/09/02 "From small utility to major player: a timeline of Pennichuck's history" 2 pages
2. 06/09/02 "Cleaner water came at a cost"
3. 06/09/02 "Landmark ruling gave birth to Southwood Corp"
4. 06/09/02 "Sale marks end of era"
5. 06/09/02 "Pennichuck: Companies revenues have nearly tripled since 10 years ago"
6. 06/10/02 "City's growth built on watershed"
7. 06/10/02 "Building: After 20 years of building, not much of Pennichuck's land is left"
8. 06/10/02 "Report's findings resulted in Southwood's creation"
9. 08/15/02 "Vivendi reports $12 billion dollar first half loss"
10. 08/26/02 "Water scarcity may be next time bomb on political scheme"
11. 11/08/02 "Vivendi to sell half its stake in utilities unit"
12. 11/08/02 "Setting record straight on dredging"
13. 11/27/02 "Text of study committee's report on buying Pennichuck"
14. 11/28/02 "Local control was key to decision supporting utility purchase"
15. 11/29/02 "Watershed land still up for sale"
16. NH Dept of State Bureau of Securities Regulations announce settlement dated 12/16/04
17. US Securities and Exchange Commission v. Maurice Arel – 12/16/04

From small utility to major player

Nashua pop.		
		Formative years
8,000	1850	
	1852	**Nashville Aqueduct Co. is formed** on June 19 to provide clean water to Nashua residents and businesses. The company's first president was U.S. Sen. Charles Gordon Atherton.
	1853	**Company directors hold first shareholders meeting** on May 7. The purpose is to acquire a drainage area to obtain water. They settle on the Pennichuck Brook watershed and rename the company Pennichuck Water Works.
	1854	Supply Pond Dam built
	1866	Holt Dam built
	1872	**Pennichuck hires first full-time employee** in September.
	1883	Bowers Dam built
	1884	**Pennichuck buys first steam-powered pump** on Jan. 25.
23,898	1900	
26,005	1910	
	1919	**Pennichuck has first rate case** before Public Service Commission, predecessor of Public Utilities Commission.
		Era of acquisition
28,379	1920	**Pennichuck acquires 55.7 acres** from Addie Harris for "$1 and other considerations." The sales price is not available, but the real estate tax stamp on the property was $5.50. William F. Sullivan becomes president of Pennichuck. Also serves as Nashua mayor during tenure at Pennichuck.
	1922	**Pennichuck acquires 62 acres** off Merrimack Road from Samuel Kessler for "$1 and other considerations."
	1927	**Pennichuck acquires 108 acres** off Tinker Road on June 13 from Charles Berube
31,463	1930	for "$1 and other considerations." **The company owns about 933.4 acres** with 247.1 acres under water.
	1935	**Pennichuck acquires 591 acres** on July 1 from Amoskeag Savings Bank after paying three-quarters of the taxes owed on the property. The land, parts of it off Concord Road, was obtained by the bank through the foreclosure on Proctor Brothers Co. property.
	1939	**Arthur Cotton wills 150 acres** in south Merrimack near Thornton's Ferry Road to Pennichuck on April 1. **Annie Currier wills 22.9 acres** off Tinker Road, and four lots in Merrimack – Merrill Lot, Harris Lot, Goodrich Lot and Cicero Meadow – to
32,927	1940	Pennichuck – on Oct. 30.
	1942	**Pennichuck buys several lots** on June 26 from the city of Nashua for $300. The land was obtained by the city through tax seizures.
	1944	**Pennichuck buys 30 acres** in three separate lots on Jan. 19 from the town of Merrimack for $142.80. The town acquired the property through tax seizures.
34,669	1950	
	1952	**The company holds a peak of 2,400 acres**, with about 287 acres under water.
	1953	Pennichuck becomes unionized.
29,096	1960	
	1963	For the first time in 65 years, the company sells additional common stock, issuing 9,800 shares.
	1965	**Pennichuck acquires 2.67 acres** on Will Street in December from the Nashua New Hampshire Foundation for $14,600. The company later builds its new operations center on the lot.
		Seeds of change
	1969	**Pennichuck supplies water to Merrimack for the first time**, connecting the new Anheuser-Busch brewery on Daniel Webster Highway. The availability of water
55,820	1970	prompts Nashua Corp. to build a facility there as well, which leads to more development in Merrimack. Pennichuck extends a similar water main along Amherst Street in Nashua to supply the Coca-Cola bottling plant there. That prompts more development of Route 101A.
	1973	Hired consultants Weston & Sampson Engineers of Boston tell Pennichuck officials that the only viable option to meeting Nashua's growing water demands is to draw water from the Merrimack River. They also say a high-volume water treatment plant would be required.
	1974	**Congress passes the Safe Drinking Water Act** in December.
	1977	John Collins named Pennichuck president; Maurice Arel elected Nashua mayor.
	1979	**New $6.6 million water treatment plant opens.**
		Land transfer plan goes to court
67,865	1980	Pennichuck Water Works asks for a 76 percent rate increase to pay for the plant, but does not mention a companion request to the Public Utilities Commission to take land out of the utility's rate base.
		After input from the company, city counsel and PUC staff over the summer, PUC grants approval for Pennichuck to transfer from its rate base 1,495 acres no longer "used and useful" for utility at book value of $26,158. The commission also approves a 50-percent rate increase, as well as removing 1,495 acres. In September, the **city appeals PUC's treatment of Pennichuck land.**
	1981	The state attorney general's office decides April 28 not to file brief in Nashua's appeal of land case.
		State Supreme Court denies city's appeal on Oct. 7. Chief Justice John King – a former Democratic governor – writes that Pennichuck should be able to withdraw 1,490 acres at historical cost, or book, rather than market value.
		Pennichuck proposes development
	1983	On March 29, Pennichuck requests PUC approval of corporate reorganization that includes **creation of Southwood Corp.**, its real estate development arm. Pennichuck Water Works transfers to Pennichuck Water Co. Inc., a newly formed corporation, its utility franchise. PWW would get all 300 shares of no-par common stock from PWCI.
		Southwood gets all non-utility property in exchange for all of its stock. The creation of Southwood is believed to have spurred at least one merger proposal, but Collins declares "the company is not for sale."
		The two new corporations would become wholly owned subsidiaries of Pennichuck Water Works. PWCI, a new public utility, would acquire all of PWW.
		PUC approves reorganization on April 29 but with "concerns" over past treatment of non-utility land. Book value of non-utility land is now listed at $34,238. Company agrees to restrictions on the 1,490 acres of non-utility land based on recommendations from consultant's report.
	1984	After completing his second term as mayor, **Arel becomes the president of Pennichuck.** Collins serves on company's board of directors until he dies in January 2002.

June 9, 2002 p2

Pennichuck: Water business

1985 Pennichuck begins a rapid expansion with an agreement with the town of Milford to supply water there. The company soon acquires town water systems in Derry and Plaistow.

1986 **Pennichuck sells 21 acres** to the Nashua Board of Education for $500,000 on

79,662 1990 Sept. 5. The school system later builds Pennichuck Junior High School on the land.

1995 Pennichuck establishes Pennichuck Water Service Corp., which concentrates on service contracts with small water systems.

1996 New computer system automates meter reading, allowing a day's worth of meter readings to be completed within an hour.

1998 **Pennichuck acquires Pittsfield Aqueduct Co.** in January. In April, Pennichuck buys $7.5 million in assets from Consumers New Hampshire in Atkinson, Derry, Hooksett, Litchfield, Londonderry, Pelham, Plaistow, Raymond, Sandown and Windham. The utility creates Pennichuck East to manage these new properties. Pennichuck Water Service Co. reaches an agreement with Hudson to operate and manage that town's water system.

Pennichuck undergoes 3-for-2 stock split in September.

Pennichuck sells 483,000 common shares in November, generating $9.4 million in new equity. Southwood sells one-half interest in a land parcel off Manchester Street to Stabile for $72,000. They form HECOP I and build a 39,000-square-foot office building on the lot. They lease and manage the building together.

2000 Pennichuck Corp. an-

86,605 nounces a 4-for-3 stock split on Oct. 10.

2002 Pennichuck completes a 10-year plan that calls for Southwood to continue to acquire and develop land holdings.

The sale

April 29: Pennichuck and Philadelphia Suburban Corp. announce a $106 million stock-for-stock merger agreement Pennichuck stockholders are offered a 20 percent premium. Mayor Bernie Streeter responds to the announcement by asking the Board of Aldermen for $200,000 for a study to look into the possibility of acquiring Pennichuck's Nashua assets.

After the Philadelphia Suburban merger is completed, the role of Southwood will be "re-evaluated," Arel says.

Southwood: Breaking ground

1985 Southwood begins obtaining city approvals for Southwood Corporate Park. The company breaks ground on the park in 1987.

Southwood transfers about 31 acres to Roy Street Associates on Sept. 23, a 50/50 partnership between Southwood and John Stabile of the Stabile Cos. The land is mortgaged to Indian Head National Bank for $750,000. Roy Street Associates builds a small single-family home development.

1987 **Southwood and Stabile create Brinton's Landing Associates**, another 50/50 partnership. They complete 52 single-family homes off Concord Street in Nashua.

Southwood and Stabile begin developing Bennington Woods, a 16 single-family home development. The last of the homes would not be sold until 1991.

Southwood sells 8 acres to Marriott Corp. in Southwood Corporate Park on Dec. 10.

1988 **Southwood transfers 23 acres** off Tinker Road on March 9 to Monza Road Associates, a 50/50 partnership between Southwood and Stabile. The land is mortgaged to New Hampshire Savings Bank for $1.7 million. The partners build a housing development.

1989 **Southwood completes Harris Preserve**, a housing development with 32 homes off Manchester Street in Nashua.

1990 In mid-recession, Southwood puts 393 acres in "alternate use" status, saving it about $165,000 in annual property tax. The company spends $800,000 to replace Bowers Dam.

1996 In December, **the state buys Southwood Corporate Park land** off Exit 8 for a "Park and Ride" facility and boosts the company's land sales that year to $1.3 million.

1997 Southwood enters into agreement with Winstanley Enterprises to develop Westwood Park off Amherst Street. The company also enters into a 50/50 agreement with the Stabile Cos. to develop Heron Cove, an 87 single-family detached condominium project.

1998 In September, Westwood LLC, a 60/40 partnership between Southwood and Massachusetts-based Winstanley, sells its first lot in Westwood Park off Amherst Street to Corporate Realty Investment Co. of Boston. CRIC enters into a $8.4 million deal with Delta Education in which CRIC buys the land, finances construction of a 250,000-square-foot building and leases the site back to Delta. Delta moves into the building in February 1999.

In November, Southwood sells one-half interest in a parcel off Manchester Street to Stabile for $72,000. They form HECOP I and build a 39,000-square-foot office building. Together, they lease and manage the building.

2000 **Southwood sells 55 acres** to Corning Lasertron for $5 million. Southwood also sells one-half interest in a 6.3-acre parcel in north Nashua to Stabile and forms HECOP II with the developer. Together they build a 42,000-square-foot office building, which they lease and manage together, off Manchester Street near Al Paul Lane. **Southwood sells a lot at 85 Northwest Blvd.** on July 20 for $750,000 to SAT SR Limited Partnership, which is owned by members of the Tamposi and Nash families. SAT SR builds a 50,000-square-foot, one-story building, which is leased by Octave Communications.

On Sept. 24, WE/SC I LLC, a partnership involving Southwood, sells 4 acres in Southwood Park to Public Storage Inc. for $2.2 million.

2001 Southwood sells one-half interest in a 4.9-acre parcel to Stabile on Feb. 2. Together they form HECOP III LLC. The 50/50 partnership builds a two-story office building off Manchester Street near Heron Cove Drive in Merrimack.

On May 14, Metrobility Optical Systems moves into the 64,000-square-foot building owned and managed by HECOP III.

On Nov. 1, Westwood LLC, a 60/40 partnership between Southwood and Winstanley, **sells 253.2 acres off Northwest Boulevard to the city of Nashua for $2 million.** Southwood receives $1.2 million from the sale.

2002 Southwood sells the remaining 40 acres in Southwood Corporate Park for $2.7 million in January, leaving the company 36 acres of developable land in Nashua.

June 9, 2002

Cleaner water came at a cost in 1980

By KEVIN LANDRIGAN
Telegraph Staff

Pennichuck Water Works customers found in 1980 that it got pretty expensive to get taste, odor and color problems out of their water.

How expensive?

The customers faced a 50 percent increase in rates, which company officials said was needed to pay for construction of a $7.5 million treatment plant mandated by the federal Clean Water Act.

"We weren't yet a company that could go to Wall Street and borrow the money, so the capital needed to build the plant had to come from the ratepayers," says Executive Vice President Steve Densberger.

Since 1980, Pennichuck has requested and been granted six rate increases from the state Public Utilities Commission, including one for 19.4 percent last year. The PUC granted about 62 percent of what Pennichuck had requested in those rate cases combined.

Prior to its request for a 75.8 percent rate increase in 1980, the average residential water bill was about $109 a year, according to company figures. Today, the average bill is about $309, representing an increase of 183 percent over the past 22 years, or about $9 a year.

The process to approve water rates is time-consuming and often adversarial.

It's in marked contrast to what occurs in cities and towns with municipally owned companies.

For example, customers in Manchester generally get a notice that their next month's bill

RATES | PAGE A-7

RATE HIKES SMALLER THAN REQUESTED

Here is a summary of the rate increases awarded to Pennichuck Water Works by the state Public Utilities Commission since 1980, the year Pennichuck was given authority to take land for development out of the company's water utility rate base.

Year	Requested	Granted
1980	75.8 percent	50 percent
1988	16 percent	9.1 percent
1991	15 percent	7.4 percent
1994	21 percent	13 percent
1998	27 percent	16.8 percent
2001	32 percent	19.4 percent

Source: Public Utilities Commission

CONTINUED FROM | PAGE A-1

will contain an increase and have no choice but to pay it.

"A lot of time is taken up, and both sides want to make sure it's done right or the company has to come back asking for more a year or 18 months later," says Pennichuck Corp. President Maurice Arel, reflecting on Pennichuck's rate-hike history with the PUC.

Generally, the consumer does not have a representative at the table before the Public Utilities Commission.

Consumer Advocate Michael Holmes says his office typically doesn't get involved with water cases unless there's been some obvious injustice done to customers.

"Water cases tend to be pretty straightforward. We might not like the increases the commission gives out, but they are pretty well governed by the numbers," Holmes says.

"I've noticed over the years that Pennichuck has never been shy about asking for more revenue."

PUC Chairman Doug Patch has praised Pennichuck for agreeing to take over troubled water companies.

"We've asked you to take on some financial burden and appreciate that you've stepped in on many occasions to do that," Patch told Pennichuck when its last rate case began in June 2001.

Most of the increases have been to deal with federal requirements, replace aging infrastructure or cope with declining water use during a recession or seasons with plenty of rainfall, according to company officials.

"We've got a $68 million capital improvement program for the next 10 years," Arel says. "That's more than three times our entire rate base."

In the last proceeding, PUC economist Mark Naylor said the company was asking for too much and accused Pennichuck officials of constantly crying poor mouth.

"Yet the fact of the matter is, Pennichuck is a highly successful utility and Pennichuck Corp. is a highly successful business," Naylor wrote in a staff report last January.

"PC has been able to increase its dividend to stockholders by 51 percent from 1993 to 2000.

Consolidated revenues have risen from $12.4 million in 1996 to $23.7 million in 2000. Earnings per share have increased from $1.09 in 1996 to $2.08 in 2000.

"And all of these achievements, all of this success, has been realized during a time when the company's rate filings have presented a picture of a company under siege, a company heavily burdened by governmental requirements, environmental concerns and the need for capital."

Those earnings per share have since been restated by the company to account for stock splits in 1998 and 2001, as well as the acquisition of Pittsfield Aqueduct Co. in 1998.

The restated numbers are 82 cents per share in 1996 and $1.56 in 2000.

Ultimately, the PUC gave Pennichuck slightly less than two-thirds of its 32 percent rate hike request, for an average 19.4 percent increase.

The commission discounted some Pennichuck expenses from being included as a base for future rates, such as $11,700 to celebrate its 150th anniversary in June and part of a 20 percent pay raise given to Arel in 2001.

Naylor argued, and PUC staff agreed, that the raise was given for Arel's "outstanding effort" to sell the land for a 335,000-square-foot office building to Corning Laserton.

The problem was that the profit from the $5 million sale went to Southwood Corp., the wholly owned real estate subsidiary of Pennichuck that is not regulated by the PUC.

"While I think it is fine to reward someone for a job well done, that land sale benefited Pennichuck Corp.'s shareholders, not the ratepayers of Pennichuck Water Works," Naylor said.

Former Nashua Alderman-at-Large Fred Teeboom had tried without success in the most recent rate case to lower the annual $1.6 million cost the company charges customers to maintain fire hydrants.

Teeboom also believes state regulators rolled over and gave the utility much of what it wanted in settlement talks behind closed doors.

PUC staff members say Teeboom never showed up for negotiating meetings of the parties.

Arel wasn't surprised.

"I told my people when this started that Fred would complain at the beginning and the end," he says, "but not do anything to be involved in between."

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Landmark ruling gave birth to Southwood Corp.

By KEVIN LANDRIGAN
Telegraph Staff

CONCORD – Nashua city officials and consumer advocates made strong, moral arguments 22 years ago for forcing Pennichuck Water Works to share with ratepayers the soaring value of land taken off the water utility books.

But the state Public Utilities Commission and the state's highest court pointed to pro-utility language in state law and an arcane 1939 accounting manual in concluding there was no choice but to give Pennichuck the millions in profit for stockholders that it desired.

The so called "Classification of Accounts" proved to be Pennichuck's legal ace in the hole, concluding the land could be taken out of the company's rate base at a cost of about $20 an acre – about the price paid at the time of its acquisition.

"Under the system of accounts prescribed by the commission as well as a matter of general equity, the net profit belonged to the stockholders," the New Hampshire Supreme Court ruled in its landmark finding for Pennichuck.

Ironically, then-Nashua Mayor Maurice Arel had fought for Nashua water users against Pennichuck, the company he would leave City Hall to run four years later.

In 1980, Pennichuck executives and their lawyers were somewhat sketchy about what would be done with watershed land that was no longer needed, thanks to construction of a $7.5 million water treatment plant.

Today there is no mystery, as the watershed landscape is now a smorgasbord of development from luxury homes to first-class hotels, such as the Nashua Marriott, to state-of-the-art industrial park complexes, such as Southwood Park.

The sale of land from Pennichuck to Corning Lasertron for a still-vacant manufacturing facility in 2000 was the most recent illustration of what this real estate has meant for the bottom line of the Nashua water utility.

Company officials said the Corning deal was a major reason to give Chief Executive Officer Maurice Arel a 20 percent pay raise to $216,000 a year, nearly twice the salary paid to New Hampshire's governor.

In 1980, regulators had misgivings about what they readily admitted was a big bonus to stockholders as the land was taken off the books for only $20 an acre.

But the unanimous decision of the state Supreme Court in October 1980, written by Chief Justice John King, a former Democratic governor, eliminated all doubt.

"It would be manifestly unfair and unjust to reduce the utility's rate base by the current market value of the land withdrawn from the rate base when it has been included only at its historical cost," King wrote.

'It is our opinion that this time period should be no more than five years except under unusual circumstances.'

EUGENE SULLIVAN,
PUC finance director, talking about the ruling that let land be taken off Pennichuck's books. Five years later, Southwood made its first real-estate deal.

"Inclusion at the lower cost figure has resulted in a benefit to consumers, because using the current market value of the land could have required an increase in rates in order to yield a 'reasonable' return on investment."

Today, few may recall the regulatory circumstances that secured all the profits from the land sale for Pennichuck investors.

Indeed, a review of PUC records at state archives in Concord confirmed Pennichuck never mentioned the land value treatment in a company press release announcing the companion rate increase.

Nashua city attorney H. Philip Howorth, now a Nashua District Court judge, tried to introduce fair market value of the property and alluded to a pair of city appraisals.

"We think because the ratepayers are paying for the plant, which makes the availability of the land possible, that they should be the ones who should benefit in whole or at least in part from the increased value which they are permitting the company to withdraw from the rate base and ultimately dispose of as the company sees fit," Howorth argued to the PUC.

Pennichuck lawyer John Pendleton said the inquiry was premature and irrelevant.

"Any effort to reach value at this time would be premature anyway and conjectural since there is no evidence as to any time that anything might be sold and, therefore, it is impossible to discern what the value might be when it is sold," Pendleton responded.

In an unusual move, the PUC's staff sided with the city and the Legislative Utility Consumer Council against Pennichuck.

"Once sold we feel the profits on the sale should be divided between stockholders and ratepayers in proportion to the stockholders' historical investment in the company as opposed to the total capital structure," wrote PUC Finance Director Eugene Sullivan.

"This recognizes their long-term investment in the company but doesn't allow them a windfall profit on funds provided by others, i.e. banks whose interest requirements were and are paid for by ratepayers through tariff rates."

But the commission gave Pennichuck investors all they were looking for with a two-paragraph ruling that let the land be taken off the books at face value – $26,158 for the 1,490 acres, or about $17.55 an acre.

Pennichuck waited through a real estate recession before taking the next step, seeking PUC support for a corporate reorganization that included the spinoff of Southwood Corp.

As designed and approved, all of Southwood's activity would be unregulated by the PUC, and the land value was adjusted upward to $34,238.

In a final irony, PUC Finance Director Sullivan said the company should not be allowed to hold onto this property longer than five years.

"It is our opinion that this time period should be no more than five years except under unusual circumstances," he said.

Southwood got its real estate feet wet in 1985 with a small, residential lot subdivision off Roy Street in Nashua that it developed in a 50/50 partnership with the Stabile Cos.

This coincided with the five-year anniversary of its first pursuit of the land value deal with the PUC.

Kevin Landrigan can be reached at 224-8804 or landrigank@telegraph-nh.com.

Sale marks end of era

After 150 years of growth, Pennichuck will be part of nation's second-largest public water utility

By BRAD LEIGHTON
Telegraph Staff

NASHUA – The directors of Pennichuck Corp. wanted to control their own destiny.

The 150-year-old water company had always maintained its independence, even when bigger water companies were being gobbled up before its eyes.

But when the nation's largest water company, American Water Works, announced that it was being acquired by Germany-based RWE AG last year, Pennichuck started to prepare for the inevitable.

"There has never been a hostile takeover in the (American) water utility business before," says Maurice Arel, the president and chief executive officer of the company. "But there's always a first time."

A desire to decide for themselves who their corporate suitor would be led Pennichuck officials to a $106 million stock-for-stock merger agreement with Philadelphia Suburban Corp., Arel says.

After the American Water/RWE AG merger is completed and American Water Works is delisted from the American stock exchanges, Philadelphia Suburban will be the nation's largest publicly traded water utility, with $307.3 million in 2001 revenues.

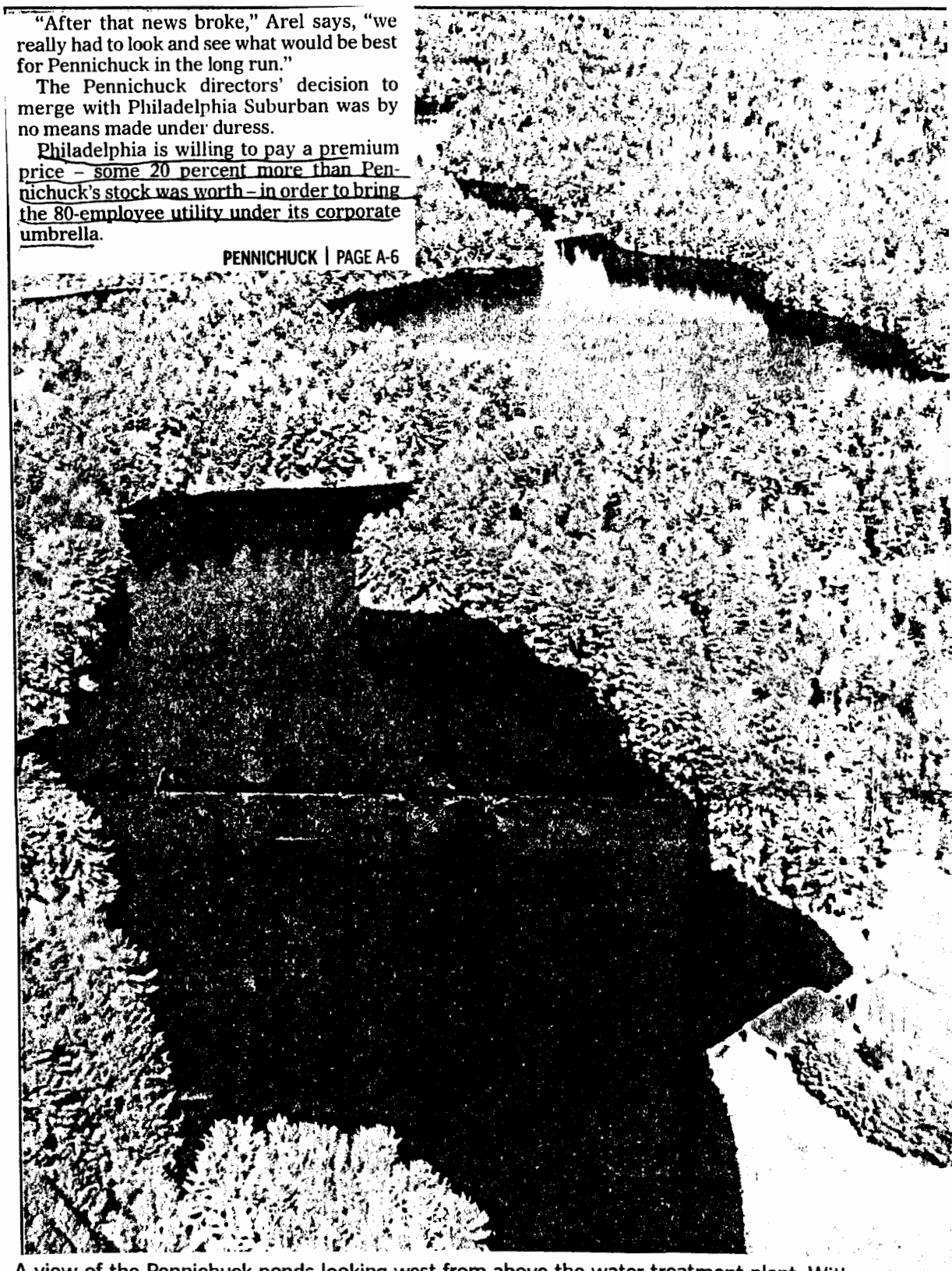
"The American Water acquisition was a legitimate shock throughout the water utility industry," says Nick DeBenedictis, the chairman of Philadelphia Suburban.

"After that news broke," Arel says, "we really had to look and see what would be best for Pennichuck in the long run."

The Pennichuck directors' decision to merge with Philadelphia Suburban was by no means made under duress.

Philadelphia is willing to pay a premium price – some 20 percent more than Pennichuck's stock was worth – in order to bring the 80-employee utility under its corporate umbrella.

PENNICHUCK | PAGE A-6



A view of the Pennichuck ponds looking west from above the water treatment plant. With water fro these ponds and the Merrimack River, Pennichuck supplies much of the region.

WATER, PROFITS & POLITICS

Today is the first day of a three-part series in which The Telegraph examines the growth and development of Pennichuck Corp. and how it has affected the region.

TODAY:

- Why Pennichuck is merging with Philadelphia Suburban, A-1
- Cleaner water came at a cost in 1980, A-1
- Landmark 1980 ruling gave birth to Southwood, A-6
- Water up to, above standards, A-7
- City should support Pennichuck study, F-2

MONDAY: The growth of Southwood Corp.

TUESDAY: A profile of Maurice Arel and biographies of the Pennichuck board of directors.

Pennichuck: Company's revenues have nearly tripled since 10 years ago

CONTINUED FROM | PAGE A-1

Why $106 million for a little New Hampshire water company?

The simple answer is that Pennichuck isn't that little anymore.

Pennichuck has been able to find new revenue streams, including a successful real estate business and a growing water service business.

Both of these unregulated ventures have boosted earnings and profits.

At the same time, Pennichuck has successfully lobbied the Public Utilities Commission for rate hikes as well as more access to the Merrimack River for its additional water needs.

Pennichuck got permission to start drawing some 20 million gallons a day from the Merrimack in the late 1970s, but in 1990 the company received permission to draw an additional 10 million gallons a day.

In addition to the water it draws directly from the Pennichuck watershed, the company also has established several wells and has set aside land for more wells.

And, on a smaller scale, it has done what Philadelphia Suburban has done: acquire other companies and assets.

Steady growth

Pennichuck has grown steadily. Ten years ago, Pennichuck had revenues of $8.3 million, but by 2001 its revenues had nearly tripled to $22.7 million.

More telling is Pennichuck's bottom line. Profits at the company have risen from $1.1 million in 1995 to $3.6 million in 2001.

'We wanted to get to the point where people could pick up the paper and read the price of Pennichuck shares.'

STEPHEN DENSBERGER,
Pennichuck's executive vice president

All the while, Pennichuck's earnings per share have steadily increased. Even with three stock splits in 1987, 1998 and 2001, a stock dividend reinvestment plan and the acquisition of Pittsfield Aqueduct in 1998 – all of which have diluted earnings per share by adding more shares – Pennichuck has seen its earnings per share inch up.

The earnings per share increased from 76 cents a share five years ago to $1.52 in 2001.

The stock splits and dividend reinvestments – not to mention a 483,000-share public offering with Edward Jones in 1998 – helped the company increase its liquidity. More Pennichuck stock on the market made it easier to buy and sell Pennichuck shares.

Five years ago, Pennichuck had about 759,000 shares available to be purchased. In 2001, it had about 2.4 million. It has come a long way.

In the late 1980s, Pennichuck was still selling its shares on "pink sheets" through a local broker, Tucker Anthony.

"We were traded on the over-the-counter market," says Stephen Densberger, Pennichuck's executive vice president.

"It evolved into a broker to broker type of buying and selling, but when I joined the company in 1974 it still wasn't uncommon for people to buy and sell Pennichuck stock right through the treasurer of the company.

"We wanted to get to the point where people could pick up the paper and see the market price of Pennichuck shares," Densberger said.

The Philadelphia Suburban merger will make the buying and selling of the utility stock even easier, says Charles Staab, Pennichuck's chief financial officer.

Philadelphia Suburban had 68.4 million outstanding shares in 2001.

Increased liquidity is one of the major benefits to the proposed merger, Staab says.

Part of that success relied on what Staab calls "hedging."

"Hedging is not unusual. Philadelphia Suburban is hedging through acquiring water companies in multiple states and geographic locations. That way when the water company in North Carolina might be suffering from a drought and revenues drop there, New Hampshire might be doing better," he says. "On the corporate level it kind of evens everything out."

Pennichuck's real estate business, Southwood Corp., plays off its three regulated utilities and its unregulated water service business in much the same way, Staab says.

'Our three main assets have been our water, our real estate and our people. We've done pretty well with all three.'

CHARLES STAAB,
Pennichuck's chief financial officer

The real estate business, Southwood Corp., has been particularly successful. Southwood has accounted for 12 percent of Pennichuck's revenues and 26 percent of its profits over the last 20 years.

But Southwood's business has been up and down with the real estate market, Staab says. In the early 1980s and early 1990s, Southwood lost money.

"Our business plan for the next 10 years focuses more on water-related activities as opposed to the real estate," Staab says. "Part of that is dictated by the mere fact that we don't have as much real estate as we had in the past."

New revenue stream

The water service business, called Pennichuck Water Service Co., is just starting to take off, generating revenues of $1.18 million in 2001. The subsidiary was launched in 1998 to run Hudson's municipal water system.

Pennichuck runs Hudson's water system just as it does Nashua's system, but Hudson owns the water, pumps, filters, and the rest of the capital. In Nashua, Pennichuck owns those assets.

As a municipally owned system, Hudson does not need to go before the Public Utilities Commission to institute a rate hike.

In 2001, Pennichuck got the service contract to run the Salisbury, Mass., water system in much the same way.

The company also picked up 16 other water system operating contracts for condominium associations, mobile home parks, office buildings and the like.

"We're very optimistic about the service business," Staab says. "There's very little upside capital required. We've already got the people and the expertise. It's a way of getting more out of what we've got."

The service contracts also benefit the ratepayers because some of the cost of the employees' time is taken out of the rate base and applied to the non-regulated service business, Staab says.

The company has been helped by federal regulations that require these small water systems be monitored by a certified water quality expert, Arel says.

Similarly, Pennichuck has been successful securing rate increases.

Since 1980, the company has gotten six rate increases, including a 19.4 percent rate increase effective March 1.

Much of the rate increases can be attributed to recovering capital costs, such as the cost of installing new pipes or improvements in the water treatment plant, but the rate increases also allow for a fair rate of return to the utility.

Pennichuck has garnered goodwill with the state Public Utilities Commission, which may have helped with its successful rate history.

Pennichuck has established this goodwill by taking over failing water utilities and turning them around.

In 1998 alone, Pennichuck acquired Pittsfield Aqueduct Co. and the former Consumers New Hampshire Co. assets in Atkinson, Derry, Hooksett, Litchfield, Londonderry, Pelham, Plaistow, Raymond, Sandown and Windham.

The company also often connects to troubled community well systems, ridding the PUC of regulatory hassles.

At the same time, these acquisitions have increased Pennichuck's customer base and have helped it boost revenues.

"Our three main assets have been our water, our real estate, and our people. We've done pretty well with all three," Staab says.

"You couldn't really say that we showed up on Philadelphia Suburban's radar screen because of our success. The water utility industry is so small, there really isn't any place to hide," he says.

"But could you say that they were willing to pay a premium price for the company because of our success? That might be true."

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June 10, 2002 - p1

City's growth built on watershed

WATER, PROFITS & POLITICS – THE PENNICHUCK LEGACY

BY BRAD LEIGHTON
Telegraph Staff

NASHUA – A tour of Nashua 20 years ago would be far different than today.

Much of the change in the local landscape can be summed up in two words: Southwood Corp.

Without Southwood, the real estate arm of Pennichuck Corp., there would be no Marriott Hotel off Exit 8, not to mention the Public Storage building or Cornerstone Software's high-tech hideaway. The Sun Microsystems building in Southwood Corporate Park would have never seen the sun.

A little ways west off Amherst Street, there would be no Westwood Corporate Park with its Delta Education or Octave Communications, or the empty 389,400-square-foot Corning Lasertron plant.

The land where Pennichuck Junior High School now stands would still be trees and underbrush.

Entire neighborhoods have popped up on Southwood land.

Working mostly with developer John Stabile, Southwood has helped build more than 180 homes as well as some 87 detached condominiums in Nashua and Merrimack.

Neighborhoods with rustic names such as Brinton's Landing, Harris Preserve and Bowers Pond have appeared on watershed land that was once forest or farmland.

So how did Pennichuck, whose main business is supplying water to homes and businesses, get involved in real estate development?

Throughout Pennichuck's history, especially between 1920 and 1965, it has acquired watershed land where it could. In some cases, it bought the land outright. In other cases, it was willed to the company. In still others, the company took advantage of bank foreclosures or tax sales.

Pennichuck paid little for the

BUILDING | PAGE 4

WATER, PROFITS & POLITICS

Today is the second day of a three-part series in which The Telegraph examines the growth and development of Pennichuck Corp.

SUNDAY: Why Pennichuck is merging with Philadelphia Suburban and the birth of Southwood Corp.

TODAY:

- **How a large chunk of Nashua's growth was built on Pennichuck land, 1**
- **Report's findings resulted in Southwood's creation, 4**
- **Southwood money a key part of Pennichuck profit, 5**

TUESDAY: A profile of Maurice Arel and biographies of the Pennichuck board of directors.

For the first day of Water, Profits & Politics, go to www.nashuatelegraph.com.

Staff photo by KEVIN JACOBUS

A Pennichuck utility van pulls into the driveway of a home in the Waterview at Bowers Pond development in the final stages of construction. The project is being built on watershed land.

Building: After 20 years of building, not much of Pennichuck's land is left

CONTINUED FROM | PAGE 1

land.

For example, in 1920 Pennichuck acquired 55.7 acres of land off Tinker Road from Addie Harris for "$1 and other considerations." While the actual sales price is not available, the real estate tax stamp on the property was $5.50.

In 1944, Pennichuck bought 30 acres in three separate lots from Merrimack for $142.80. The town had acquired the property through tax seizures. In 1935, Pennichuck acquired 591 acres, parts of it off Concord Street, by paying two-thirds of the taxes owed on the property to Amoskeag Savings Bank. Amoskeag acquired the property by foreclosing on Proctor Brothers Co.

"Back then, the land wasn't worth as much as it is today," says Maurice Arel, the president and chief executive officer of Pennichuck and its real estate subsidiary.

"Often the company would offer to buy a portion of the land and the farmer would insist that it buy the rest of his land as well."

Sometimes the water company acquired land by paying back taxes, Hillsborough County Registry of Deeds records show. In other transactions, it allowed the former owners to hay or log the land for a time.

The idea behind the land acquisitions was to protect the environment around the Pennichuck Brook and therefore protect Nashua's water supply.

Pennichuck's land acquisitions accumulated over time, but the heyday for the water company's growth in real estate was from the late 1920s to the late 1940s. Between the company's 75th anniversary in 1927 and its 100th birthday in 1952, its land holdings more than doubled from 933 acres to 2,400 acres.

By the 1980s, the utility's land within the 26-square-mile Pennichuck Brook watershed was about 2,000 acres, or a little bit more than three square miles.

After building a water treatment plant in the late 1970s, Pennichuck commissioned a study from Sasaki Associates Inc. of Watertown, Mass.

The study found Pennichuck didn't need all that land to protect the water supply of Nashua and the surrounding towns. Some 1,500 acres could be developed without any impact on the quality of water that runs out of the faucets of Pennichuck customers, according to the report.

So, with the Public Utilities Commission's permission, Pennichuck created a non-regulated land development subsidiary in 1983, which it named Southwood Corp.

The PUC ruled that Pennichuck could take the 1,500 acres out of the utility's regulated holdings at the prices it paid for the land and transfer it to Southwood. All told, that added up to about $34,000.

Nashua wanted Pennichuck to take the land out of its "rate base" at market prices, which were obviously much higher than what the company paid for it.

H. Philip Howorth, the city attorney, argued that the PUC should reduce a proposed rate increase for Pennichuck by the difference between the $7.5 million treatment plant and the market value of land that would be transferred to Southwood.

Ironically, the mayor who was fighting to have the land taken out of the rate base at market value was Arel, who served in the city's corner office from 1977 to 1984.

The city appealed to the state Supreme Court, but lost.

Starting in 1985, with former Mayor Arel now at Pennichuck's helm, Southwood started selling off much of the land it acquired over the utility's 150-year history.

But in most cases, the company didn't directly sell the land. Instead, it sold land to partnerships, with Southwood as one of the partners. In a sense, Pennichuck sold it to itself.

"We could've just sold off the land and washed our hands of it," says Charles Staab, the chief financial officer of Pennichuck and Southwood. "But we wanted to have a say on how it was developed."

Since Pennichuck's main business is water, it wanted to make sure the development of the watershed lands was responsible, Arel says.

Southwood has more stringent requirements for the land it develops than the law allows.

Staff photo by KEVIN JACOBUS

Octave Communications moved its headquarters from Salem to the Westwood Corporate Park in Nashua in July 2001. The company makes and sells audio conferencing equipment.

State regulations control construction, paving and other development within 75 feet of waterways. Southwood has required a "buffer zone" of at least 200 feet and also adds other restrictions to the land it has developed.

"I don't have any regrets (about developing the watershed land) because I know we did it right," Arel says.

He points to much of the non-Pennichuck owned watershed land along Route 101A as examples of poorly managed watershed land development.

"Some of the development there is right on the banks," he says.

"The company's business relies on taking care of the watershed," says Bonalyn Hartley, the company's vice president of administration. "Who better to develop land on the watershed than Pennichuck?"

Instead of allowing the land it owned to fall completely out of its control, Southwood forged the partnerships with area developers – especially Stabile.

Of the six residential developments on former Pennichuck land, Stabile and Southwood partnered on four of them.

Southwood built the infrastructure for Harris Preserve itself and then sold off the lots to individual developments. Southwood also coupled up with Bedford developer Richard Chiocca on a small development of custom-made homes on Columbia Avenue.

Other than those two exceptions, the residential developments were 50/50 agreements between Southwood and Stabile. They also paired together on three office buildings on Manchester Street in Merrimack, which they now own and lease together.

Stabile brought experience in building and marketing residential housing to the partnership, and Southwood brought the land, company officials say.

"We aren't a land development company," says Arel, who also serves as president of Southwood. "John (Stabile) is a good builder who does a good job and offers long guarantees on the properties he develops."

But those who know state politics find Arel and Stabile to be somewhat of an odd couple.

Arel was one of Nashua's most prominent Democrats, serving as a two-term mayor until he took the helm at Pennichuck. Stabile is a staunch Republican who once led the state Republican Party.

"We don't talk politics," Arel says. "It is totally a business relationship. I've been to his lake house twice, once to celebrate his 50th birthday. Other than that, we really don't socialize outside of work. I've never been to his home in Nashua."

Southwood also coupled up with Massachusetts-based Winstanley Enterprises to develop Westwood Park off Amherst Street, but unlike Stabile, the Winstanley relationship was 60/40 in favor of Southwood.

"We felt that, with the value of the land, we brought more to that partnership," Staab says.

After the property was developed, Southwood and its development partners fetched premium prices in the free market.

In 2000, Corning Lasertron paid $5 million for its 56-acre lot in Westwood Corporate Park off Amherst Street. The Delta Education site sold for $1.38 million in 1998.

The Marriott Hotel paid $1.5 million in 1988 for the land where its hotel now stands in Southwood Corporate Park off Exit 8. The new Public Storage facility there was sold for $2.2 million last September.

Southwood sold off the remainder of its Southwood Park property in January to Winstanley, which had an option to buy the remaining Southwood land as part of a 1995 agreement where the developer agreed to pay the taxes and other carrying costs of the land.

The remaining 40 acres spread across four lots sold for $2.4 million.

Southwood also made thousands from the residential developments. The company and Stabile split all costs and profits from the sale of the homes. The amount paid to Southwood was often preset, Staab says.

For example, Southwood received $11,500 every time a house sold in Heron Cove in Merrimack.

Pennichuck is now exploring ways that it can make the real estate revenues more like the utility revenues, Staab says. Concentrating on leasing property is a possibility, he says.

There isn't much more land for Southwood to sell. Practically all of the acreage in Nashua has been sold. The company still has two lots in Merrimack that could be developed.

But of the 1,500 acres that Sasaki Associates said could be developed, some 943 already have been sold.

Another 40 acres in Westwood Park are not for sale because the company would like to establish water wells there, Staab says.

The Southwood development over the past 20 years isn't the first time Pennichuck has spurred growth in and around Nashua.

The company was created by a group of businessmen 150 years ago as a way to supply water to Nashua's budding industry and as a way of supplying potable water to the homes of thousands of mill workers.

That relationship stretches as far back as the Industrial Revolution, but Pennichuck also played a major part in the development in Merrimack and Nashua through the 1970s.

In 1969, Pennichuck supplied water to Merrimack for the first time, connecting the new Anheuser-Busch brewery on Daniel Webster Highway. That prompted a swell of development there.

Not long after, it extended a similar water main along Amherst Street in Nashua to supply the Coca-Cola bottling plant there. Again, a rash of development followed.

But the Southwood land deals represented the first time Pennichuck actually got directly involved in building.

The result has been a windfall, not only in jobs, but in the coffers of Nashua and the area towns, Staab says.

"We pay $850,000 to $900,000 in property taxes a year to Nashua and the towns and another $400,000 to the state for its education tax," he says.

Several of the businesses on former Pennichuck lands are also pouring money into Nashua's tax base. The Marriott paid $228,000 in property taxes last year.

Delta Education added another $290,000. Corning, which has never used its plant on Northwest Boulevard, paid $125,000 in taxes last year.

Most of the new homes on former Pennichuck lands are fetching the city between $3,000 and $4,000 a year in taxes.

"We've definitely had an impact on the city," Staab says.

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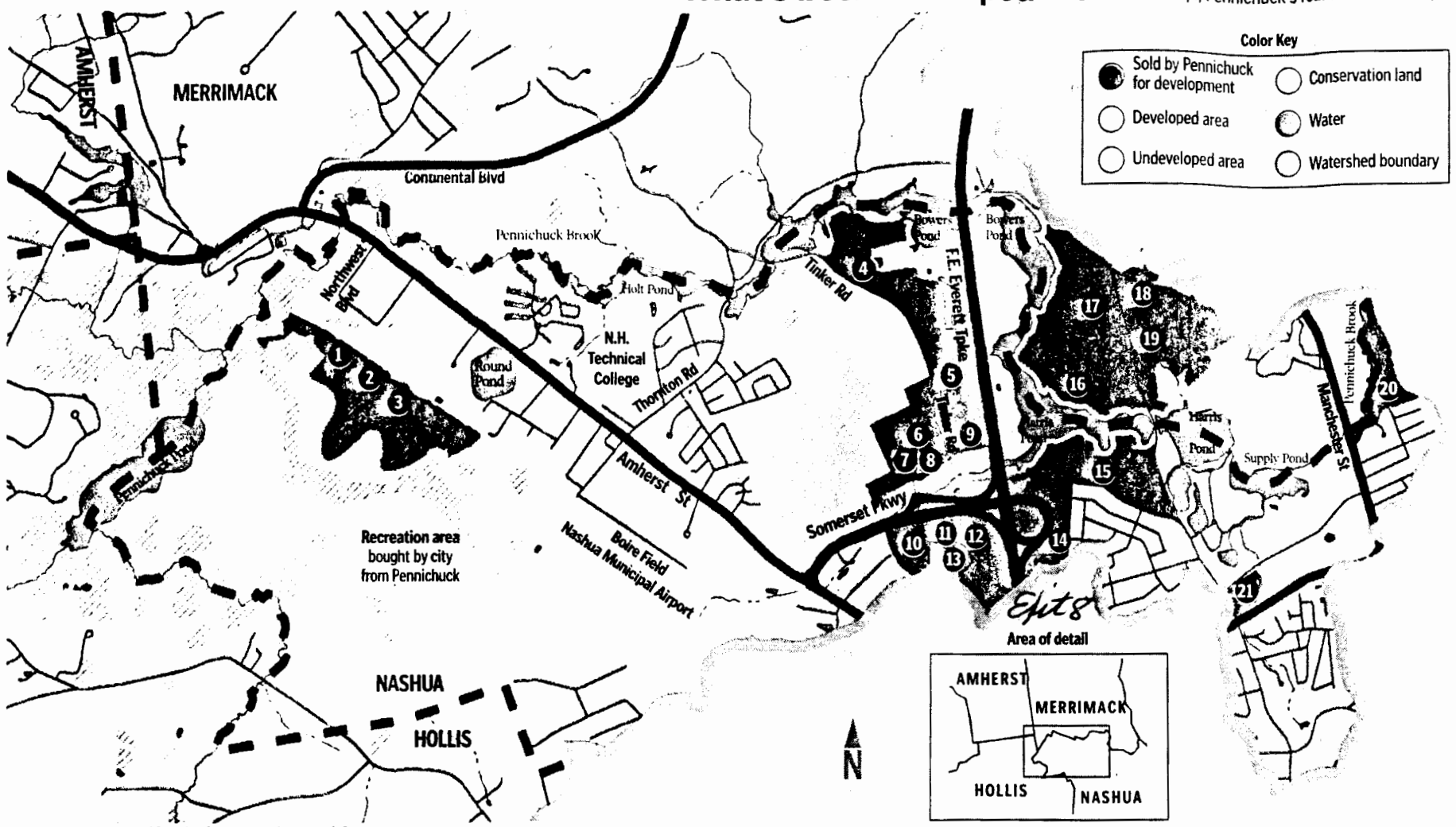
June 10, 2002 p 3

What's been developed

This map shows what has become of land Pennichuck Corp. sold for development. In most cases, Southwood Corp., Pennichuck's real estate division, entered into a partnership with the developer.



1. Octave Communications
2. Delta Education
3. Corning Lasertron
4. Ayer's Crossing (7 homes)
5. Bower's Landing (104 apartments)
6. U.S. Postal Service distribution center
7. Nashua Regional Cancer Center
8. Cornerstone Software
9. N.H. Park and Ride
10. Public Storage
11. Marriott Hotel
12. Extended Stay hotel
13. Sun Microsystems
14. Bennington Woods (16 homes)
15. Harris Preserve (32 homes)
16. Heron Cove (87 condominiums)
17. HECOP I & II office buildings
18. HECOP III office building
19. Bower's Landing II
20. Brinton's Landing (52 homes)
21. Pennichuck Junior High School

SOURCES: Nashua Regional Planning Commission, Pennichuck Corp.

ALASDAIR STEWART/Telegraph Graphic

Report's findings resulted in Southwood's creation

By DAVID BROOKS
Telegraph Staff

The heart of the maneuver that turned undeveloped watershed land into prime real estate property is looking a little tattered these days.

But then again, 22 years is a long time for a spiral-bound paper report to hang around.

Despite its age, however, and signs of life from the pre-PC era – it was typewritten, not computer-printed – this inch-thick document is still the best guide for how Pennichuck Water Works went from a company owning 2,000 acres of fenced-off woodlands to one that owned 1,500 acres of development land in north Nashua and neighboring towns.

In fact, if you ask Pennichuck officials for a map showing what they used to own and what they now own, a map from this June 1, 1980, report is what you will get.

Its official name is "An Evaluation of Pennichuck Water Works Land Holdings as They Relate to Water Quality and Supply," but it is usually known by its nickname: the Sasaki Report.

Sasaki Associates Inc. – from, appropriately enough, Watertown, Mass. – is an engineering firm that was hired by Pennichuck to analyze the company's 2,000 acres of holdings and see which could be developed with the least harm to water quality.

The report was an important part of Pennichuck's preparations to enter the new world of public water supplies created by the federal Safe Drinking Water Acts of 1974, 1977 and 1979.

These required the company, which had been doing little more than filtering out debris and chlorinating water to kill microbes, to build a $7.5 million treatment plant.

In order to raise that much money, the company decided to take some of the wooded land it owned to protect the water supply and turn it into commercial real estate.

The question was: Which land had to be kept and which could be developed?

The Sasaki Report was designed to answer that question and in the process help convince the state to allow the development.

Through 1980, Sasaki Associates took infrared aerial pictures, toured the string of ponds and brooks that forms the heart of Pennichuck Water Works' water supply, analyzed the water, studied details of the under-construction treatment plant and looked at data from the U.S. Geological Survey.

Among the report's many conclusions was that while all 2,000 acres of Pennichuck land were fenced and closed to the public, "the unauthorized use of some of the lands and associated water bodies for fishing, swimming, hiking and 'partying' is common."

It also included statements that look eerily prescient, including this warning: "Some protective measures to safeguard the quality of a water supply must be provided even though adequate treatment facilities are available. ... The possibility of contamination by a compound that cannot be removed through treatment is real."

Two decades later, New Hampshire and other states are wrestling with MTBE, a cancer-causing gasoline additive that hadn't even been invented in 1980, but which has shown up in groundwater supplies over the past five years, resisting cleanup efforts.

After all its studies, the Sasaki Report came to this conclusion: "1,500 acres (75 percent) of the Pennichuck Water Works land holdings have been identified as lands which, upon completion of the water treatment facility, will become non-critical areas that can be put to alternative land uses other than reservoir protection."

Most of the 500 acres that the Sasaki Report said should be kept undeveloped were "buffer zones" around water supplies, ranging in size from 100 feet around Pennichuck Pond to 300 feet for most of the brook to 500 feet for the main supply pond on the Nashua-Merrimack border.

How influential was that conclusion?

The final spinoff of lands approved by the state was just what the Sasaki Report said it should be.

And two decades later, the maps in the report can still be used as a guide – even if they weren't generated by a computer.

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August 15, 2002

Vivendi reports $12b first-half loss

By JOHN LEICESTER
The Associated Press

PARIS – Vivendi Universal, the teetering French media conglomerate, reported a massive loss of $12 billion for its first half and said it will sell $10 billion in assets as it seeks to pare debt, including the U.S. publisher Houghton Mifflin. Adding insult to injury, a ratings agency downgraded the company's debt to junk.

Investors punished Vivendi's shares Wednesday on the Paris exchange, sending them down 25 percent to the lowest level since at least June 1994.

The sale of Houghton Mifflin, which the company only bought last year for $1.7 billion, appeared to mark a first step toward breaking up the entertainment and media empire built up by Vivendi's former chairman, Jean-Marie Messier, in a whirlwind of costly acquisitions.

In all, Vivendi said it hopes to dispose of at least $9.8 billion worth of assets – half of them within nine months, the rest within two years.

"We are facing a liquidity problem," said Chairman Jean-Rene Fourtou, who took over July 3 after Messier's ouster. Fourtou said he would "try to avoid any fire sale, but we have negotiations that could be concluded very soon if the price was lowered."

Despite the announced sell-off, analysts remained concerned about Vivendi's debts of $18.6

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billion. If water and waste utilities unit Vivendi Environnement is included, company debts stood at $34.3 billion, Vivendi said.

Vivendi Environnement plans to divest its 11.1 million shares of Philadelphia Suburban, which is in merger talks with Pennichuck Corp., through a secondary public offering.

Debt-rating agency Standard & Poor's slashed Vivendi's long-term corporate credit rating to junk status, after the company reported net losses Wednesday of $12 billion for the first six months of 2002.

Joseph D'Virgilio, telecommunications analyst for French banking giant Societe Generale, called the downgrade "a very serious development" that could "inhibit the company's ability to successfully sort out its liquidity crisis and avoid bankruptcy."

S&P warned of a further downgrade if Vivendi does not get new funding within a month.

Fourtou said Vivendi has "reached a framework for agreement" with seven banks for a new $2.94 billion credit facility and expects it to be signed by the end of August. The credit line will include $980 million banks agreed to last month that has still not been used, Fourtou said.

"This will allow Vivendi to buy the time necessary to implement the best conditions for the necessary sale of businesses," he said.

Vivendi's first-half losses were widened by a $10.8 billion charge to reflect a writedown in the value of its assets and another financial provision of $3.3 billion.

Analysts were expecting better. They had anticipated writedowns of between $4.9 billion and $9.8 billion to reflect the drop in value of media assets and holdings.

Vivendi has come under increasing pressure from its board and shareholders to sell assets to reduce debts and boost its shares, which were sharply down this year even before Wednesday's beating.

It was not immediately clear whether Houghton Mifflin, which supplies textbooks and published J.R.R. Tolkien's "The Lord of the Rings" in the United States, was among assets earmarked for sale within nine months. But Fourtou said "we have numerous potential buyers."

Vivendi directors approved the sale at a board meeting Tuesday, the company said in a statement.

Last month, Vivendi announced a sweeping restructuring of its pay-television division Canal Plus. Other assets to be sold include Italian digital TV platform Telepiu.

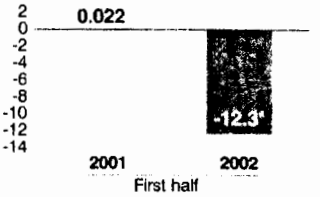
More information on Fourtou's disposal plans is expected when the board meets Sept. 25 to "review in detail the company's strategy to optimize all of its assets," Vivendi said.

In another move away from Messier's era, Fourtou announced the appointment of Jean-Bernard Levy as chief operating officer.

Vivendi loses big, will sell assets

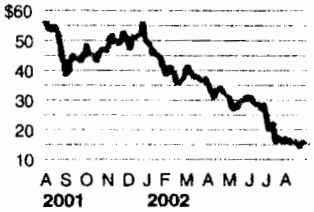
Vivendi Universal, the French media conglomerate, reported a big first-half loss of $12 billion and said it will sell $10 billion in assets to reduce debt.

Net income/loss
In billions of euros

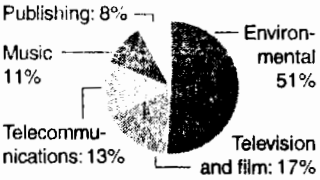


*Equivalent to $12 billion

Stock performance on the New York Stock Exchange



Total 2001 sales by product/ operation



SOURCE: Hoover's Online; Associated Press; Yahoo.com AP

August 26, 2002

Water scarcity may be next time bomb on political scene

If I were a presidential adviser, the topic that would keep me awake at night would not be Iraq or a baseball strike. It would be water.

Notwithstanding the devastating floods in Texas and Europe, it is the nasty drought of 2002 that will soon bring about nasty economic repercussions. And with both parties fighting for control of Congress in November, the economy will be a major issue for many voters.

True, droughts are cyclical and inevitable. But this 2002 season of frightening desiccation in large parts of the country may not be a short-lived phenomenon. It may not be just one growing season of woefully stunted crops, dead lawns and dried-up riverbeds. Water envy may be with us for a long while.

The U.S. Drought Monitor (yes, it's real) last winter forecasted correctly that the entire East Coast would be in extreme drought conditions this summer. Even heavy rains this autumn, if they arrive, won't be enough.

In the West, the mighty Colorado River, siphoned off by desperate farmers and growing suburbs, almost fails to reach its destination, the Gulf of California.

The bitter fight between Washington and Mexico City over precious water from the disappearing Rio Grande may have been solved for the short-term by a new agreement, but not in the long-term. Nearly 6 million acres of forests have been burned by wildfires. Electricity generated from dams is down.

ANN MCFEATTERS

In the East, the Potomac River is at near-historic lows. Water rationing is common. Parched birds and deer come ever closer to civilization in search of water. The National Oceanic and Atmospheric Administration says that the past three months were the warmest on record for the entire United States.

A government report – the U.S. Climate Action Report 2002 – suggests that Earth is at the point where the climate is irretrievably being changed by man's actions.

If true, it says, one result will be ever-hotter summers and less snow trapped in mountain crevices – meaning less water in summer, more fires and more dust bowls.

The report's warnings are dire. "A few ecosystems, such as alpine meadows in the Rocky Mountains and some barrier islands, are likely to disappear entirely in some areas," it notes. Another passage reads, "Other ecosystems, such as Southeastern forests, are likely to experience major species shifts or break up into a mosaic of grasslands, woodlands and forests."

Environmentalists say that the federal government has been lax in not calling for more water conservation. They say that if the public were told the extent of the drought, education and voluntary efforts to preserve water would have cut water needs by as much as 20 percent.

Some argue for higher local rates to encourage more efficient use of water, and the redesign of appliances, including those odious low-water-use toilets.

Others insist on eliminating federal subsidies for crops that use a lot of water, and employing better farming methods.

But there's been no national debate about all this, and no presidential input.

As usual, in crisis, voices cry out for help.

In South Dakota, President Bush is resisting calls from Democrats and Republicans for federal aid as the drought wilts farmers' hope for relief – and makes them rage that when Texas has flooding, disaster relief flows, but not for Dakota farmers battling a scorched earth.

Against his better judgment, Bush signed a 10-year $190 billion farm aid package. Many parched farmers said they need help now.

Agriculture and irrigation, of course, are major reasons why we're in this slough of dried mud. Watering the desert inefficiently to grow plants is causing problems around the globe, as detailed in a sobering article in the September issue of National Geographic.

It reports that 1.2 billion people don't have access to clean drinking water and that 2.7 billion people will face serious water shortages in two decades.

Yet the United Nations says the contributions of industrialized nations to helping poor nations improve water resources is down 20 percent from a decade ago.

The problem with politicians is that they don't think long-term. If a problem isn't smacking them in the face, it's swept aside.

This summer's drought is a scary harbinger. But don't count on the message being heard.

Once it rains, we'll probably forget – until the next season of drought.

Ann McFeatters is Washington bureau chief for the Pittsburgh Post-Gazette and The Toledo Blade. E-mail: amcfeatters@ nationalpress.com.

November 8, 2002

FRI. NOV 8

Vivendi to sell half its stake in utilities unit

PARIS (Dow Jones/AP) – Vivendi Universal plans to sell half its 40.4 percent stake in utilities unit Vivendi Environnement to raise badly needed cash, the parent company said Thursday.

Vivendi Universal said its board has signaled approval of the transaction, which could lead to the complete disposal of Vivendi Environnement shares.

Buyers of Vivendi Environnement shares will have the chance to buy the other half of Vivendi Universal's stake by Dec. 21, 2004, the company added.

Vivendi Environnement divested its 11.1 million shares in a Philadelphia Suburban-directed secondary offering in late September. Philadelphia Suburban is awaiting approval to purchase Pennichuck Corp., based in Nashua.

The potential sale would be part of Vivendi's plan to chip away at its massive debt by selling off $16 billion by the end of 2004.

Meanwhile, Vivendi Universal said it has sealed a final agreement to sell its U.S. publishing unit Houghton Mifflin to a consortium led by Thomas H. Lee and Bain Capital for $1.7 billion.

Houghton Mifflin is what remains of Vivendi Universal Publishing, after Vivendi sold the non-U.S. assets of the company to French media company Lagardere SCA for $1.25 billion.

Vivendi said that including the disposal of Vivendi Environnement, it expects to bring the tally of asset disposals to around $7 billion by the end of 2002.

Since the beginning of July, Vivendi has sold assets totaling $5.01 billion, including Italian digital television arm Telepiu, European publishing assets Vivendi Universal Publishing, encryption software editor Canal Plus Technologies, and Internet portal Vizzavi.

Vivendi Chairman Jean-Rene Fourtou has been selling assets to restore confidence in the indebted media company.

Fourtou took over from Jean-Marie Messier after a frenetic acquisition binge left the French media company facing a serious shortage.

November 8, 2002

Setting record straight on dredging

KATHRYN NELSON
Nashua

Maurice Arel's recent comment regarding the Nashua Conservation Commission not allowing Pennichuck to dredge one of the Pennichuck ponds is not correct.

Several years ago, Pennichuck gave a presentation before the commission describing a visual assessment that a pond had accumulated a lot of sediment.

The commission responded with a request for more detailed environmental information regarding how removal of sediment would be conducted as well as a plan for preventing future sediments to enter into the pond.

Pennichuck chose to not respond to this request and has not since discussed this issue with the commission. In no way did the commission ever deny the request and it would seem like a convenient excuse on the part of Pennichuck to not accept responsibility.

Kathryn Nelson is chairman of the Nashua Conservation Commission.

Text of study committee's report on buying Pennichuck

Here is the text of the aldermanic Pennichuck water study committee's findings. The findings reflect the committee's opinions about Pennichuck Corp., the watershed and other topics.

General

Providing an adequate supply of high quality water is critical to the existence of the community (both Nashua and the region).

Acquisition of the water supply system can be achieved with revenue bonds, and not impact the general obligations or the tax rate of the city or the surrounding towns.

Watershed protection

The transferal of more than 1,000 acres of land within the watershed from Pennichuck Water Works to Southwood Corp. was not in the best interests of the water system or of the ratepayers. The trend in water supply management is to acquire additional protection lands rather than to divest protection lands already held. Philadelphia Suburban has stated that they do not believe source protection to be necessary.

Over time since the original divestiture, recommendations around protection have become more stringent, rather than less.

Pennichuck Corp.'s unstated policy, and Philadelphia Suburban's stated policy, is that source protection is not necessary because treatment is available. Ultimately, the committee believes that source protection backed by, but not entirely dependent upon, treatment is in the public interest.

Ratepayers have long felt a sense of security, albeit possibly false, due to the fact that they were dealing with "Our local water company," who implicitly has the best interests of the community at heart. However, the sale of the utility to out-of-state or international interests, calls into question the protection of watershed.

Significant investment should be made in the handling, retention and infiltration of storm water in the watershed. This has been done to date using grant monies. Even if this essential improvement were to be done by grant only, a public entity has a significantly higher chance of receiving grant monies.

Water rates

Ultimately, water rates must be significantly higher under private ownership than under public ownership. We believe this, for the following reasons:

- The publicly owned utility is not obligated to the payment of dividends to its shareholders. This accounts for about 9 percent of the value of the assets annually, which begins at about $1.6 million in savings and grows to tens of millions of dollars annually as the value of the assets increases.
- The publicly owned utility is not obligated to find other ways to maximize return to shareholders such as transfers of assets out of the regulated public utility. The publicly owned utility may issue debt at a rate which is historically at least 2 percent lower than that available to the private utility. The publicly owned utility is exempt from significant tax burdens, which the private utility must pay.
- The publicly owned utility does not pay overhead to a corporate holding company. This results in a current savings of about $200,000 annually under Pennichuck ownership, and $800,000 annually under Philadelphia suburban ownership.

Pennichuck Corp. has, through recent peaks in its capital spending, and rate increases approved by the PUC, been positioning itself for sale to a larger company for a significant period of time.

Pennichuck Corp. has, through development and sale of land, positioned itself to allow Pennichuck Water Works to significantly increase its rate base and to increase water rates and return to shareholders.

We believe that it is in the public interest to have enhanced protection of our water supply, regardless of ownership, even though the cost of such protections will ultimately result in higher water rates than if such protection is not secured.

Quantity and quality of water

The ability of the Pennichuck Ponds System to produce needed quantities of high quality water has been negatively impacted by development of protection lands.

Pennichuck's concern has been primarily with the quantity of supply needed to keep up with expansion of the system. Improvements in quality of the supply have been driven principally by regulatory changes alone.

A comprehensive plan to manage the quality and quantity of water is needed, rather than point solutions such as limitations on irrigation.

Clearly the first priority of a privately owned utility is return to shareholders. As a result, the resources of such a company will be invested in expansion of the revenue base of the utility, rather than enhancements of quality or protection of the existing system.

As a result of this fundamental economic fact of private ownership, public ownership is necessary to protect the interests of the ratepayers and the public in general.

Local control and authority

Ultimately, under public ownership, the ratepayers of Pennichuck Water Works become the owners of Pennichuck Corp., and are offered the benefit of purchasing an asset that will have equity in excess of $250 million in 30 years.

The authority of the local government as a governing body is subject to significant limitations on its influence of private property matter. As a result, public ownership of the utility is necessary to protect the supply.

It is possible that a premium must be paid for such local control, particularly in light of the fact that Nashua and the region were not invited to make an offer on the utility when the solicitation of such offers were made. If this is so, then the payment of such a premium to gain control of the system is in the public interest.

Safety and security

Safety measures taken to protect the water supply have been, at best, marginally adequate in the past.

Public ownership of the supply would ensure that adequate measures could be taken to provide safety and security of the water system.

While there may be additional steps that local government can take to increase safety and security, ultimately this responsibility must be assumed by the owner of the utility.

In light of the events on and after Sept. 11, 2001, prudence demands that facilities as critical as a public water supply receive greatly increased attention with regards to safety and security.

Pennichuck Corp. and Philadelphia Suburban have not demonstrated a willingness to make significant improvements in this area of the utilities operation.

Ultimately, this water system is not prepared to deal with a major catastrophe. The system has a single source of supply that could be compromised by a single motor vehicle accident. The system has only one day's capacity beyond the treatment plant if the single supply were compromised.

Growth

Management of growth and development of the water supply system is critical to the public interest in ensuring an adequate supply to the ratepayers. Expansion of the system into new geographic areas must be subservient to meeting the needs of the current ratepayers of the utility.

Philadelphia Suburban's avowed strategy is one of expansion. Clearly PSC is purchasing the company to expand their portfolio, and their corporate interest will be in the expansion of the system, not in the protection of the existing ratepayer.

Recommendations

The city of Nashua should pursue public ownership of the water supply.

The city of Nashua should pursue the creation of a mutually agreeable regional authority. This must be pursued regardless of the length of time required to make it work.

Although the quick formation of a regional authority would be the best possible outcome, the city should be prepared to enter into ownership of the utility in the interim if necessary.

Local control was key to decision supporting utility purchase

By ANDREW NELSON
Telegraph Staff

ANALYSIS

NASHUA – People may want their wine from France and prize sports cars from Germany, but when it comes to water, don't mess with the company on the corner.

"Local control" are two words that steered the Board of Aldermen's debate over the future of Pennichuck Corp., along with a perception of mistrust by its leaders and those of Philadelphia Suburban Corp.

Alderman-at-Large Jim Tollner called the possible city purchase of Pennichuck as "controlling our own destiny."

Tuesday night, the board approved a citywide vote on whether the community should buy Pennichuck. The vote is scheduled for Jan. 14.

When the planned marriage between Pennichuck Corp. and Philadelphia Suburban Corp. hit the headlines in April, "local control" came to mean knowing the decision-makers on Water Street, where Pennichuck's corporate offices are located.

"Pennichuck's reputation in the community is good," said Mayor Bernie Streeter.

Yet over the years, environmentalists and city leaders have questioned whether the reputation is still deserved.

In 2000, the city bought nearly $2 million of watershed land from development firm Westwood Park LLC. Westwood is a partnership between Southwood, the real estate arm of Pennichuck Corp., and Winstanley, a Massachusetts development firm.

Pennichuck had presented plans for a golf course on the land.

While aldermen Scott Cote and Brian McCarthy mainly focused on number crunching, talking about how the city could borrow money at lower rates or the depreciation rates of assets, many others on the board thought of the deal on an emotional level.

Indeed, Alderman-at-Large Steve Bolton, an opponent of the actions of the Board of Aldermen, told his colleagues they were acting on the basis of "faith," not facts.

For many in the city, Pennichuck has long been considered a good corporate citizen. And despite making a profit of $3.6 million in 2001, people look at it differently than other big businesses.

Its two most public leaders are respected community leaders. Its president is Maurice Arel, a well-known police commissioner and former mayor.

Steve Densberger, its executive vice president, served as an alderman before stepping down a year ago.

And as Arel spoke against the city's actions before the aldermen these past weeks, a younger version of the city native watched from the walls of the aldermanic chamber. Arel's picture hangs in a wall of fame with all the other mayors in the city's history.

It was run by people one could see buying groceries or at civic events, not a faceless out-of-towner.

As David Deane, an at-large alderman, said, "This is something you can't replace. It's like an old Ma-and-Pa business."

And its history in the city gives residents a unique feeling about the company, he said.

Truly, the company grew up with the city. It is 150 years old. The city of Nashua celebrates its 150th birthday starting in January.

So with the perception of a local company looking out for city residents, city leaders took it personally when they felt company officials weren't up front with them.

Some felt the city should have had prior notice that the company was looking for a friendly buyer, although Pennichuck's doing so would have been illegal. And making the perceived slight worse was that Arel ran the city as mayor before moving into the corner office of Pennichuck as its president.

Instead, city leaders learned about the deal the day it hit the headlines.

November 29, 2002

Watershed lands still up for sale

Anyone wondering why Nashua aldermen have decided to allow a vote on public acquisition of the Pennichuck Corp. water utility need look no further than the town of Merrimack, where a 256-unit condominium project is being proposed on 67 acres near Pennichuck Brook despite concerns about contamination from oil and gasoline runoff.

The Merrimack Conservation Commission on Monday forwarded a proposal from Bowers Landing of Merrimack to the Planning Board for further review, after recommending that gasoline collectors be installed in catch basins.

Developers want to buy the land, some of which falls within the watershed protection district, from Southwood Corp., the real estate subsidiary of Pennichuck Corp. Because of concerns about potential impact on the watershed, the Pennichuck Water Works, another Pennichuck Corp. subsidiary, is going to conduct a detailed review of the project to advise the Planning Board on whether the sale should go forward, and if so, with what restrictions.

As the Merrimack Conservation Commission reviewed the project Monday night, one member could not help but wonder if there was a conflict of interest in such an arrangement. The average person might think so. After all, one Pennichuck Corp. subsidiary stands to make a handsome profit, based on the recommendation of another wholly owned Pennichuck subsidiary. No conflict there?

Perhaps not in the legal sense, but what about common sense? It's a safe bet that the Pennichuck Water Works review will conclude that the Southwood sale can go forward with no impact on water quality. After all, Pennichuck has fought aggressively in court when other developments on Southwood land have been blocked. The 144-unit Harris Pond development, which was the first phase of the development now under review, is a case in point.

The 256 new units are just another phase of development that began with Harris Pond Phase One, so excuse us for being skeptical about the outcome of a Pennichuck Water Works environmental impact statement. An independent review would have far more credibility.

KEY POINTS

BACKGROUND: Another piece of land in the Pennichuck watershed is up for sale to condo developers by the water company's real estate division.

CONCLUSION: Pennichuck engineers are in a conflict of interest when their analysis of impact on water quality is used to issue permits in such cases.

It would be a remarkable demonstration of concern for protection of the Pennichuck watershed if the Water Works engineers returned a recommendation that the land be kept undeveloped. But don't hold your breath. Pennichuck engineers also reviewed plans for Heron Cove, an 87-unit condo development, parts of which sit on the aquifer protection district in the southeastern part of town. We are now assured by the same engineers who want to build near Pennichuck Brook that the wetlands areas by Heron Cove have not been affected.

There is much bitterness in the Greater Nashua community about the development of the watershed lands once held by Pennichuck Corp., and that bitterness is one of the underlying factors propelling the movement toward public acquisition of the utility. In the midst of such tension, it's surprising that Southwood could still be moving forward with controversial development in the water protection areas.

On the other hand, there is probably greater urgency about the sale of the remaining Southwood lands, since the clock may be ticking on their availability for sale to developers. Unfortunately, so much of the land has already been sold that it barely matters.

12-16-04

The State of New Hampshire

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FOR IMMEDIATE RELEASE

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SECURITIES EXCHANGE COMMISSION AND NH SECURITIES REGULATORS ANNOUNCE SETTLEMENT WITH PENNICHUCK CORPORATION

Concord, NH (December 16, 2004) - The New Hampshire Bureau of Securities Regulation and the U.S. Securities and Exchange Commission held a press conference today in Concord to announce details of a securities settlement with Pennichuck Corporation and former company CEO, Maurice Arel. SEC District Administrator Walter Ricciardi and Senior Council Sandra Bailey joined NH Securities Director Mark Connolly and Deputy Director Jeffrey Spill to announce results of their collaborative effort. "I'm pleased to bring this case to a conclusion, and appreciate Mr. Ricciardi and Ms. Bailey taking the time to be in New Hampshire today to discuss this settlement," said Connolly. "We have worked closely with the SEC on this important case and it's an excellent example of State and Federal regulators working together to provide the best possible result for investors and shareholders."

As a result of the agreement, Pennichuck and Arel agree to pay an administrative fine in the amount of $50,000 to the State of New Hampshire, along with a $60,000 fee to the State to cover the costs of the investigation. In addition, the company agrees to distribute a specially declared payment to Pennichuck stockholders in the amount of $280,000. Connolly indicated he was particularly pleased with the $280,000 stockholder

-MORE-

reimbursement component of the settlement, as it is a novel approach by regulators to pass settlement monies directly into the pockets of shareholders.

As a result of the SEC's agreement, Arel is also prohibited from serving as an officer or director of any publicly traded company.

The case against Pennichuck and Arel centered on the company's efforts over the years to develop land in the company's watershed. During this time, CEO Arel negotiated the terms of 10 partnership agreements with a local developer under the name Southwood Corporation for the purpose of developing hundreds of house lots and constructing accompanying homes. The Developer, John Stabile, was Pennichuck's partner in all ten joint ventures and Pennichuck never disclosed to investors its ongoing relationship with the Developer. Instead it referred to him as a "local developer," "local builder," or "major regional builder." Stabile was never referred to by name.

"The Pennichuck board of directors had a duty to implement controls, policies and audit procedures to avoid the abuse of corporate assets and other improprieties," said Mark Connolly. "The Pennichuck board of directors failed to adequately do so. As a result of this oversight, Southwood land was sold as a one-half interest to the Developer without formal appraisal of the land value."

In a related issue, CEO Arel's son, Matthew Arel, controlled a company (MGM Plus Grounds Maintenance, Inc.) which from 1996-2002 received 1.2 million dollars worth of ground maintenance contracts from Southwood and the Stabile Companies. The transactions with the Southwood Joint Ventures should have been disclosed to investors as material transactions, and Arel and Pennichuck failed to do so. The NH Bureau made inquiry with Pennichuck and Arel about this relationship and they asserted that the relationship was "from time to time" and that Matthew Arel acted only as an employee of MGM. In fact, Mathew Arel was directing MGM, and responsible for obtaining all of the

contracts with Southwood. In 1999 alone, MGM received over $258,000 in business from the Southwood Joint Ventures.

In addition, in 1998, the Stabile Company and Arel entered into an agreement in which Stabile agreed to build a custom home for Arel on land owned by one of the Southwood developments. The public disclosure required to be made by Pennichuck appeared as follows in its 1998 annual report to share Shareholders.

"During 1998, one of the residential joint venture partnerships sold land and a home to an executive officer of the company. The terms of that sale were the same as the terms which would be given to any independent third party purchaser."

This public disclosure statement was material, false and misleading in a number of respects. The home purchase was not made on the same terms as available to a third party purchaser. In fact, the home was built for Arel by the Developer at cost, minus a $10,000 discount. In addition, Arel did not pay a 6% real estate fee and a lot premium of approximately $12,000 for one of the largest lots in the subdivision. As a result, Arel received an estimated $70,000 benefit relative to what would be paid by an independent third party purchaser.

Connolly said the $110,000 to be paid to the State of New Hampshire and the $280,000 reimbursement to Pennichuck stockholders will be shared by the Pennichuck Corporation and Arel.

-END-

12-16-04

UNITED STATES DISTRICT COURT
DISTRICT OF NEW HAMPSHIRE

SECURITIES AND EXCHANGE COMMISSION, Plaintiff, v. MAURICE L. AREL, Defendant.	)	Case No. Civil-04-475

COMPLAINT

Plaintiff Securities and Exchange Commission ("Commission") alleges:

SUMMARY

1. Between at least 1998 and 2002 (the "relevant period"), Defendant Maurice L. Arel ("Arel" or "Defendant"), then the president, chief executive officer, and a director of Pennichuck Corporation ("Pennichuck" or the "Company"), a publicly-traded water company based in Merrimack, New Hampshire, caused Pennichuck to make materially false and misleading statements and omissions concerning the Company's real estate operations in its periodic filings with the Securities and Exchange Commission ("Commission").

2. During the relevant period, Arel oversaw Pennichuck's participation, through a wholly-owned subsidiary, in six separate real estate joint ventures with a New Hampshire real estate developer (hereinafter referred to as "the Developer"). These joint ventures generated revenue to Pennichuck by, among other things, developing, leasing, and selling land owned by Pennichuck.

3. Arel caused Pennichuck to falsely state in a Commission filing that an executive

officer of the company purchased a home from one of the Company's joint ventures on the same terms that were available to any independent third party. In fact, Arel, the Pennichuck officer referred to in the filing, obtained favorable terms on his home purchase from the joint venture that were worth approximately $70,000 and that were not available to other purchasers.

4. Arel also caused Pennichuck's failure to disclose in its Commission filings that the Company's real estate joint ventures repeatedly hired a company controlled by Arel's son to perform landscaping work, and paid a total of approximately $800,000 to that company during the relevant period.

4. In addition, during the relevant period, Arel caused Pennichuck's inaccurate and incomplete disclosures in public filings concerning the extent of its real estate transactions with the Developer because Pennichuck's public filings failed to disclose that the Developer was its partner on six joint ventures, obtained multiple contracts and loans from Pennichuck, and provided Arel with favorable terms on his home purchase and Arel's son with landscaping contracts worth approximately $800,000. Based on Pennichuck's Commission filings, investors would not have been able to determine the extent of the Company's relationship with the Developer, or whether Pennichuck's numerous dealings with the Developer were arms-length transactions.

5. Through the conduct alleged in this Complaint, Arel violated Sections 10(b), 13(b)(5), and 14(a) of the Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C. §§78j(b), 78m(b)(5), and 78n(a)] and Rules 10b-5, 13b2-2, and 14a-9 thereunder [17 C.F.R. §§240.10b-5, 240.13b2-2, and 240.14a-9], and aided and abetted violations of Sections 13(a) and 14(a) of the Exchange Act [78m(a) and 78n(a)], and Rules 13a-1, 13a-13, and 12b-20 thereunder

[17 C.F.R. §§240.13a-1, 240.13a-13, and 240.12b-20].

6. Unless enjoined and restrained, there is a reasonable likelihood defendant Arel will engage in further violations of the federal securities laws. Accordingly, the Commission seeks the entry of a permanent injunction prohibiting further violations of the relevant provisions of the federal securities laws. The Commission also seeks an officer and director bar against Arel because Arel used his position as chief executive officer to obtain valuable personal benefits from a joint venture of the Company and knowingly provided false and misleading information about the transaction to Pennichuck's shareholders through the Company's public filings.

JURISDICTION

7. This Court has jurisdiction over this action pursuant to Sections 21(d), 21(e) and 27 of the Exchange Act [15 U.S.C. §§78u(d), 78u(e), 78aa]. Many of the acts and practices complained of herein occurred within the District of New Hampshire.

8. The Commission seeks a permanent injunction pursuant to Section 21(d)(1) of the Exchange Act [15 U.S.C. §78u(d)(1)]. The Commission also seeks imposition of an officer and director bar pursuant to Section 21(d)(2) of the Exchange Act [15 U.S.C. §78u(d)(2)].

9. In connection with the conduct alleged in this Complaint, defendant directly or indirectly made use of the mails or the means or instruments of transportation or communication in interstate commerce.

DEFENDANT AND RELATED PARTY

Defendant

10. **Maurice L. Arel**, age 67, is a resident of Nashua, New Hampshire, and was president, CEO, and a director of Pennichuck from October 1984 until April 2, 2003, when he was forced to terminate his employment with the Company, effective May 2, 2003.

Related Party

11. **Pennichuck Corporation** is a New Hampshire corporation based in Merrimack, New Hampshire, with approximately $97 million in total assets as of December 31, 2003. Pennichuck's principal operating subsidiaries are regulated public utilities that provide drinking water to customers in southern and central New Hampshire. During the relevant period, Pennichuck's wholly-owned subsidiary, The Southwood Corporation ("Southwood"), directly or through joint ventures with real estate developers, developed, leased, and sold land holdings that Pennichuck formerly owned. During the relevant period, Pennichuck's stock was registered with the Commission pursuant to Section 12(g) of the Exchange Act and traded on the NASDAQ National Market System.

STATEMENT OF FACTS

Background

12. During the relevant period, Pennichuck conducted its real estate operations through its wholly-owned subsidiary, Southwood. Beginning in the 1980s, Pennichuck transferred to Southwood approximately 1,088 acres of undeveloped land in southern New Hampshire that Pennichuck had owned for decades, and which had a very low cost basis. Arel had primary responsibility for Pennichuck's real estate operations, and he devoted the majority of

his time to the real estate portion of Pennichuck's business.

13. From 1996 to 2002, Arel recommended to Pennichuck's board of directors, and the board approved, formation of six separate real estate joint ventures between Pennichuck and the Developer. Southwood was a 50% owner in each of the joint ventures with the Developer (the "Joint Ventures"). The Joint Ventures produced significant revenue for Southwood and the Developer. Between 1996 and 2002, Southwood obtained revenue of approximately $3.6 million from three residential Joint Ventures involving the Developer. Since 1999, Southwood and the Developer also have developed three commercial office buildings which have provided revenues to Southwood totaling approximately $370,000.

Arel's False Representations Caused Pennichuck to Make False Disclosures in its Form 10-KSB and a Proxy Statement

14. In 1998, Arel purchased land and a custom-built home in Nashua, New Hampshire from one of Pennichuck's Joint Ventures for $339,600. In connection with the purchase, Arel knowingly obtained from the Joint Venture at least $70,000 worth of benefits that were not available to others who purchased homes in the same real estate development from the same Joint Venture.

15. First, Arel obtained his home at cost, meaning that he did not pay the Joint Venture the standard mark-up on construction costs of approximately 10% paid by other purchasers in the same development. That benefit was worth approximately $30,000. Second, Arel obtained a $10,000 discount off the cost of the home, resulting in a $10,000 benefit to Arel. Third, Arel did not pay the standard real estate commission of 6% that other purchasers paid. That benefit was worth approximately $20,000. Fourth, Arel did not pay a lot premium for one of the largest and most desirable lots in the development. Other purchasers paid lot premiums of

between $7,000 and $12,000. Fifth, unlike other purchasers, Arel reserved that lot without providing any down payment. Sixth, Arel was allowed to select a custom design for his home and negotiate multiple change orders during the construction while other purchasers chose from a few pre-selected home designs. Finally, unlike other purchasers, Arel was allowed to contract directly with his son for landscaping work on the property, rather than paying the Joint Venture a mark-up for landscaping. In total, those benefits to Arel were worth at least $70,000.

16. Despite the special benefits Arel obtained in connection with his home purchase, the notes to the financial statements reported in Pennichuck 's Form 10-KSB for the fiscal year ended December 31, 1998, which was filed on March 26, 1999, contained the following statement:

> During 1998, one of the residential joint venture partnerships sold land and a home to an executive officer of the Company. The terms of that sale were the same as the terms which would be given to any independent third party purchaser.

That statement was false because the special terms obtained by Arel, described above, were not available to other purchasers. The Company's filing contained this false statement because, as described below, Arel made false representations concerning his home purchase to the Company's chief financial officer ("CFO"), who prepared the filing.

17. Arel knew he received special benefits in connection with his purchase of a home from the joint venture. Nonetheless, in late 1998, Arel falsely informed Pennichuck 's CFO that he obtained no special deal in connection with his home purchase from the Company's Joint Venture. In addition, when the CFO was preparing the Company's Form 10-KSB for 1998, the CFO informed Arel that his home purchase would have to be disclosed, and that the CFO planned to state in the public filing that it was an arms-length transaction. Arel failed to correct

the CFO's misunderstanding. Prior to filing, Arel reviewed and approved the proposed disclosure about his home purchase without making any correction. As a result, the Company's Form 10-KSB for 1998, filed with the Commission on March 26, 1999, contained the false statement that Arel's home purchase from the Company's Joint Venture was on the same terms given other purchasers.

18. Pennichuck's false statement concerning Arel's home purchase remained uncorrected until Pennichuck filed its Form 10-K for the fiscal year ended December 31, 2002, on March 31, 2003, disclosing that, "The Audit Committee has obtained information indicating that Mr. Arel's 1998 home purchase in fact was not on terms that would have been available then to any independent third-party purchaser."

19. Arel also misled the Company's independent auditors regarding his home purchase. Arel signed a January 26, 1999 management representation letter to the Company's independent auditor in connection with the audit of the consolidated financial statements of Pennichuck as of December 31, 1998, stating, among other things, that as of December 31, 1998 and for the three years ending December 31, 1998, "There has been no: a) fraud involving management or employees who have significant roles in internal control," and "[t]he following have been properly recorded or disclosed in the financial statements: a) Related-party transactions, including sales, purchases, loans, transfers, leasing arrangements and guarantees (written or oral), and amounts received from or payable to related parties." Arel failed to disclose in that letter to Pennichuck's independent auditor that he obtained undisclosed benefits from his home purchase transaction with Pennichuck's Joint Venture.

20. In addition, Pennichuck's proxy statement, filed with the Commission on March

18, 1999, set forth a materially incomplete and inaccurate statement concerning Arel's compensation for 1998. The proxy statement contained a chart of Arel's compensation during 1998 that included Arel's salary of $159,327, a bonus of $50,000, and identified $42,293 under the category "all other compensation." A footnote explained that the amount of "all other compensation" included: (1) the cost to Pennichuck for Arel's life insurance policy; (2) contributions to Arel's elective savings plan; and (3) contributions made pursuant to a deferred compensation agreement with Arel. The proxy statement's chart of Arel's compensation omitted the benefits totaling at least $70,000 that Arel obtained in 1998 in connection with his home purchase from one of the Company's Joint Ventures.

Arel Caused Pennichuck's Failure to Disclose Transactions Involving Arel's Son

21. Between at least 1998 and 2002, Pennichuck's Joint Ventures repeatedly hired a company controlled by Arel's son to perform landscaping work for the Joint Ventures. The Joint Ventures paid approximately $800,000 for the work during the relevant period. However, Pennichuck's public filings during that period, signed by Arel, contain no reference to transactions between its Joint Ventures and Arel's son.

22. Arel knew that Pennichuck's Joint Ventures hired his son to perform a significant amount of landscaping work. On at least one occasion since 1998, the Developer discussed with Arel problems with the quality of Arel's son's work at the largest of the Company's residential Joint Venture projects. In addition, Arel attended a meeting of homeowners of that residential Joint Venture at which the quality of his son's landscaping work was discussed. Nonetheless, between 1998 and 2002, Pennichuck failed to disclose in any public filing that its Joint Venture partner repeatedly hired the CEO's son.

23. During the relevant period, as the Company's president and chief executive officer, Arel signed Pennichuck's quarterly and annual filings with the Commission, knowing or with reckless disregard that the filings contained materially false statements and omitted to make statements necessary to make the statements made in the filings not misleading.

Arel Participated in Pennichuck's Failure to Adequately Disclose the Extent of Its Relationship with the Developer

24. Under Arel's supervision, between 1996 and 2002, Pennichuck engaged in multiple transactions with the Developer relating to the Joint Ventures. Pennichuck awarded the Developer at least $23 million in construction contracts for the Joint Venture projects without using a competitive bidding process. Pennichuck also financed construction and development loans to the Joint Ventures totaling approximately $3.3 million between 1996 and 1999, consisting of approximately $1.25 million in interest-free loans and an additional $2.05 million in loans with interest. Pennichuck also conveyed land to the Joint Ventures without obtaining independent appraisals of the value of the land.

25. During the relevant period, the Company's quarterly and annual public filings, all signed by Arel, repeatedly failed to inform shareholders that multiple real estate transactions disclosed in the same filing involved a single developer. For example, in its Form 10-KSB for the fiscal year ended December 31, 1999, filed with the Commission on March 22, 2000, and signed by Arel, Pennichuck failed to disclose that a single developer (the Developer) was involved in each of the following: a) two residential joint ventures from which it earned $714,000 from its 50% interest; b) the sale of one-half interest in a land parcel to a local developer, from which the Company recorded a pretax gain of $72,000; and c) the company's 50%-owned venture, HECOP I, owned a 39,000 square-foot office building which was partially

occupied by a local developer.

26. In addition, the Company's Form 10-KSB for the fiscal year ended December 31, 2000, filed with the Commission on March 28, 2001, and signed by Arel, reported that Southwood was: a) a 50% partner in two joint ventures that built and owned separate office buildings; b) a 50% partner in an 87-unit residential condominium joint venture; and c) a 50% partner in another smaller residential development. Pennichuck failed to disclose that the same developer (the Developer) was its partner in each transaction.

27. Further, Pennichuck reported in its Form 10-K for the fiscal year ended December 31, 2001, filed with the Commission on March 29, 2002, and signed by Arel, that commercial properties owned by its Joint Ventures were subject to mortgage notes totaling $9.6 million, and that Pennichuck and its Joint Venture partner had each provided the bank with guarantees of the notes. Again, Pennichuck failed to disclose that the Developer was its partner in those commercial ventures.

28. Throughout the relevant period, Pennichuck's quarterly and annual filings failed to disclose that a single developer, the Developer, was its partner in the Joint Ventures that provided material benefits to both Arel and Arel 's son.

FIRST CLAIM FOR RELIEF
Violation of Section 10(b) of the Exchange Act and Rule 10b-5 Thereunder

29. The Commission repeats and incorporates by reference the allegations in paragraphs 1-28 of this Complaint as if set forth fully herein.

30. By reason of the foregoing, between at least January 1998 and December 2002, Defendant directly or indirectly, acting intentionally, knowingly or recklessly, by the use of means or instrumentalities of interstate commerce or of the mails, in connection with the purchase or sale

of securities: (a) employed devices, schemes or artifices to defraud; (b) made untrue statements of material fact or omitted to state a material fact necessary to make the statements made, in light of the circumstances under which they were made, not misleading; or (c) engaged in acts, practices or courses of business which operated as a fraud or deceit upon certain persons, in violation of .Section 10(b) of the Exchange Act [15 U.S.C. §78j(b)] and Rule 10b-5 thereunder [17 C.F.R. §240.10b-5].

SECOND CLAIM FOR RELIEF
Violation of Section 13(b)(5) of the Exchange Act and Rule 13b2-2 Thereunder

31. The Commission repeats and incorporates by reference the allegations in paragraphs 1-30 of this Complaint as if set forth fully herein.

32. By reason of the foregoing, between at least 1998 and 2002, Defendant, while serving as an officer and director of Pennichuck, knowingly circumvented or knowingly failed to implement a system of internal accounting controls or knowingly falsified a book, record, or account made and kept by Pennichuck pursuant to Section 13(b)(2) of the Exchange Act in violation of Section 13(b)(5) of the Exchange Act [15 U.S.C. §78m(b)(5)].

33. By reason of the foregoing, between at least 1998 and 2002, Defendant, while serving as an officer and director of Pennichuck, directly or indirectly, made or caused to be made a materially false or misleading statement, or omitted to state or caused another person to omit to state a material fact necessary in order to make statements made, in light of the circumstances under which such statements were made, not misleading to an accountant in connection with: (a) an audit or examination of the financial statements of the issuer required to be made pursuant to Section 13 of the Exchange Act; or (b) the preparation or filing of any document or report required to be filed with the Commission pursuant to Section 13 of the Exchange Act or otherwise

in violation of Rule 13b2-2 [17 C.F.R. §240.13b2-2], promulgated pursuant to Section 13(b) of the Exchange Act [15 U.S.C. §78m(b)(5)].

THIRD CLAIM FOR RELIEF
Violation of Section 14(a) of the Exchange Act and Rule 14a-9 Thereunder

34. The Commission repeats and incorporates by reference the allegations in paragraphs 1-33 of this Complaint as if set forth fully herein.

35. By reason of the foregoing, between at least December 1998 and April 1999, Defendant directly or indirectly, acting intentionally, knowingly or recklessly, by the use of the means or instrumentalities of interstate commerce or of the mails solicited or permitted use of his name to solicit a proxy or consent or authorization in respect of a non-exempt security registered pursuant to Section 12 of the Securities Exchange Act of 1934 from which a material statement was omitted, or which contained a statement that, at the time and in the light of the circumstances in which it was made, was false and misleading with respect to a material fact, and there was a likelihood that such omission or representation would influence stockholder votes in violation of Section 14(a) of the Exchange Act [15 U.S.C. §78n(a)] and Rule 14a-9 thereunder [17 C.F.R. §240.14a-9].

FOURTH CLAIM FOR RELIEF
Aiding and Abetting Pennichuck's Violations of Section 13(a) of the Exchange Act and Rules 13a-1, 13a-13, and 12b-20 Thereunder

36. The Commission repeats and incorporates by reference the allegations in paragraphs 1-35 of the Complaint as if set forth fully herein.

37. Between at least 1998 and 2002, Pennichuck filed with the Commission materially false and misleading periodic reports, and periodic reports that failed to include such further information as was necessary to make the required statements in those reports, in the light of the

circumstances under which they were made, not misleading.

38. Between at least 1998 and 2002, Defendant knowingly or recklessly provided substantial assistance to Pennichuck's filing with the Commission of materially false and misleading periodic reports, and periodic reports that failed to include such further information as was necessary to make the required statements in those reports, in the light of the circumstances under which they were made, not misleading.

39. By reason of the foregoing, Defendant aided and abetted Pennichuck's violation of Section 13(a) of the Exchange Act [15 U.S.C. §§78m(a) and 78(t)(e)] and Rules 12b-20, 13a-1, and 13a-13 thereunder [17 C.F.R. §240.12b-20, §240.13a-1, and §240.13a-13].

PRAYER FOR RELIEF

WHEREFORE, the Commission respectfully requests that this Court issue a Final Judgment:

A. Permanently restraining and enjoining Defendant and each of his agents, servants, employees and attorneys, and those persons in active concert or participation with them and each of them from violating, directly or indirectly:

1. Section 10(b) of the Exchange Act [15 U.S.C. §78j(b)] and Rule 10b-5 [17 C.F.R. §220.10b-5];

2. Section 13(b)(5) of the Exchange Act [15 U.S.C. §78m(b)(5)] and Rule 13b2-2 thereunder [17 C.F.R. §240.13b2-2];

3. Section 14(a) of the Exchange Act [15 U.S.C. §78n(a)] and Rule 14a-9 thereunder [17 C.F.R. §240.14a-9];

4. Section 13(a) of the Exchange Act [15 U.S.C. §§ 78m(a) and Rules 12b-20, 13a-1, and 13a-13 thereunder [17 C.F.R. §240.12b-20, §240.13a-1, and §240.13a-13];

B. Prohibiting Defendant from acting as an officer or director of any issuer that has a

class of securities registered pursuant to Section 12 of the Exchange Act or that is required to file reports pursuant to Section 15(d) of the Exchange Act; and

C. Retaining jurisdiction over this action to implement and carry out the terms of all orders and decrees that may be entered; and

D. Awarding such other and further relief as the Court deems just and proper.

Respectfully submitted,

_____

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Dated: December 16, 2004