

**DW 13-130
PENNICHUCK WATER WORKS, INC.
RATE BASE TREATMENT OF
RATE STABILIZATION FUND (RSF)**

	RSF before Interco Loans	Interco Loans	RSF
01/31/12	\$ 5,000,000	\$ -	\$ 5,000,000
02/29/12	5,044,842	-	5,044,842
03/31/12	4,972,025	-	4,972,025
04/30/12	4,870,000	-	4,870,000
05/31/12	4,947,728	-	4,947,728
06/30/12	4,998,751	-	4,998,751
07/31/12	5,323,642	-	5,323,642
08/31/12	5,710,318	-	5,710,318
09/30/12	5,692,880	-	5,692,880
10/31/12	5,689,568	-	5,689,568
11/30/12	5,568,968	-	5,568,968
12/31/12	5,448,317	(4,996)	5,443,321
Average	<u>\$ 5,272,253</u>	<u>\$ (416)</u>	<u>\$ 5,271,837</u>

Deferred Credit - Rate Stabilization Fund:

Month 1	\$ 448,317
Month 2	435,864
Month 3	423,411
Month 4	410,957
Month 5	398,504
Month 6	386,051
Month 7	373,598
Month 8	361,144
Month 9	348,691
Month 10	336,238
Month 11	323,785
Month 12	311,331
Month 13	298,878
Average	<u>\$ 373,598</u>

STATE OF NEW HAMPSHIRE

Inter-Department Communication

DATE: October 1, 2013
AT (OFFICE): NHPUC

FROM: Karen Moran, Chief Auditor

SUBJECT: City of Nashua Eminent Domain Costs
 DW 11-026 – Compliance Review- Settlement Agreement
FINAL Audit Report

TO: Mark Naylor, Director Gas-Water Division, NHPUC

Introduction

The Settlement Agreement in docket DW 11-026 approved by Commission Order 25,292 on 11/23/2011 specified, among other things, (see Settlement Agreement page 2) that on 11/26/2002 the City of Nashua's Board of Aldermen voted to establish a municipal water system and to acquire all the assets of the Pennichuck utilities. The resolution to proceed was approved by a city vote on 1/14/2003. On 3/25/2004, the City commenced an Eminent Domain proceeding against Pennichuck by filing a Petition for Valuation with the Commission pursuant to RSA 38:9.

The Settlement Agreement (pages 16-17) specifies that the City may be reimbursed "for costs incurred by the City relating to its efforts to pursue the eminent domain proceeding from January 1, 2002 until August 2009 (the Eminent Domain Amount), provided however, that the distribution in respect of such Eminent Domain Amount with respect to any fiscal year shall not exceed \$500,000 and provided further that the aggregate of all distributions in respect of such Eminent Domain Amount shall not exceed \$5,000,000.

For purposes of this provision, the parties acknowledge that the Eminent Domain Amount shall only include costs incurred by the City, and shall not include any eminent domain expenses and costs incurred by the District or PWW which PWW sought to recover in its last distribution rate case (DW10-091). For avoidance of doubt, the Settling Parties agree that such eminent domain expenses and costs shall not be recovered from PWW, PEU, or PAC customers. The final Eminent Domain Amount shall be subject to audit by the Commission in the first rate cases filed by the utilities in accordance with...this Agreement."

The PUC Audit Staff has conducted a review, in compliance with the settlement agreement in the instant docket, of eminent domain related costs incurred by the city of Nashua.

Docket DW 04-048 dealt with the valuation and eminent domain between Nashua and Pennichuck. See RSA 38:9.

The Eminent Domain recovery mechanism approved in the settlement is a dividend paid with limitations established for the regulated subsidiaries of Pennichuck Corporation, which are:

Pennichuck Water Works (PWW)
 Pittsfield Aqueduct (PAC)
 Pennichuck East Utilities (PEU)

Pennichuck Corporation also owns the following unregulated subsidiaries
 Pennichuck Water Service Company (PWSC)
 The Southwood Corporation (TSC)

Reported Costs to Recover

Audit contacted Pennichuck Water and requested a detailed listing of the expenses Nashua considered eminent domain related. The list was provided as follows:

<u>Vendor</u>	<u>Amount</u>	<u>Service Description</u>
Upton & Hatfield	\$2,332,442	Legal services
Rizzo Associates	\$ 194,249	Consulting services
Sancoucy	\$1,055,941	Valuation services
Devine, Millimet & Branch	\$ 63,010	Legal services
Palmer & Dodge	\$ 42,202	Legal services
Veolia Water	\$ 163,763	Consulting services
RW Beck, Inc.	\$ 245,992	Consulting services
Sheehan, Phinney, Bass & Green	\$ 573,139	Legal services
Pennichuck Corporation	\$ 250,000	Contractual fee
Vitale Caturano & Co, Ltd.	\$ 22,856	Tax advisory services
Steven Patnaude	\$ 2,400	Transcript services
Hartman Associates	<u>\$ 2,328</u>	Consulting services
Reported Total	<u>\$4,948,322</u>	

Audit reviewed the detailed listing, and selected the following invoice totals by year by vendor. The % column indicates the percentage of the vendor total.

	TOTAL INVOICE SELECTION MADE BY PUC AUDIT										% of Total
	2002	2003	2004	2005	2006	2007	2008	2009	2010	TOTAL	
Upton & Hatfield	\$ 5,870	\$ 7,667	\$ 96,868	\$ 280,256	\$ 539,164	\$ 330,542	\$ 66,695	\$ 30,905	\$ 6,090	\$ 1,364,056	58.5%
Rizzo Associates	\$ 41,919	\$ 125,748	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 167,666	86.3%
Sancoucy	\$ 47,759	\$ -	\$ 240,531	\$ 239,187	\$ 326,083	\$ 196,205	\$ 6,176	\$ -	\$ -	\$ 1,055,941	100.0%
Devine, Millement & Branch	\$ -	\$ 63,010	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 63,010	100.0%
Palmer & Dodge	\$ -	\$ -	\$ 9,002	\$ -	\$ 11,958	\$ 4,653	\$ -	\$ -	\$ -	\$ 25,613	60.7%
Veolia Water	\$ -	\$ -	\$ -	\$ -	\$ 32,561	\$ 97,011	\$ -	\$ -	\$ -	\$ 129,572	79.1%
RW Beck	\$ -	\$ -	\$ -	\$ -	\$ 37,384	\$ 68,603	\$ 27,913	\$ 52,031	\$ -	\$ 185,931	75.6%
Sheehan, Phinny, Bass & Green	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 289,651	\$ 6,599	\$ 4,810	\$ -	\$ 301,060	52.5%
Pennichuck Corporation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 250,000	\$ -	\$ -	\$ -	\$ 250,000	100.0%
Vitale Caturano & Co Ltd	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 22,857	\$ -	\$ -	\$ -	\$ 22,857	100.0%
Steven Patnaude	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,400	\$ -	\$ -	\$ -	\$ 2,400	100.0%
Hartman Associates	\$ 2,328	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,328	100.0%
	\$ 97,877	\$ 196,425	\$ 346,401	\$ 519,443	\$ 947,150	\$ 1,261,921	\$ 107,383	\$ 87,746	\$ 6,090	\$ 3,570,434	72.2%

Upton & Hatfield \$2,332,442 less \$194,169 = \$2,138,273

Of the 87 invoices identified by Nashua, Audit requested a total of 34 from the years 2002 through 2010. At least one invoice from each year was selected. The activity in the years 2002 and 2003 appear to relate to docket DW 02-126, the costs of which were not contemplated for recovery in the RSA 38:9 Eminent Domain docket DW 04-048.

Four invoices for service provided in 2010 are outside of the timeline authorized for recovery (settlement agreement specified costs incurred through August 2009).

The adjusted recovery cost relating to Upton & Hatfield is:

Original total	\$2,332,442
2002	\$ (13,632) relating to DW 02-126
2003	\$ (13,297) relating to DW 02-126
04/2004	\$ (75) handwritten on invoice- unsubstantiated
04/2005	\$ (19,258) on summary listing twice
04/2005	\$ (383) handwritten on invoice- unsubstantiated
4-5/2006	\$ 546 typographical error on summary listing
09/2007	\$ (76,766) on summary listing twice
10/2007	\$ (45,565) on summary listing twice
11/2007	\$ (9,495) on summary listing twice
08/2009	\$ 6,851 summary listing under-stated
10/2009	\$ (13,365) outside of allowed recovery time
2010	\$ (9,730) outside of allowed recovery time
Adjusted total	\$2,138,273

Nashua comment regarding the Audit recommended adjustments of Upton & Hatfield:

The City respectfully disagrees on the 2002 and 2003 invoices. The services rendered by Upton & Hatfield occurred during the period "January 1, 2002 until August 2009" referenced in the Settlement Agreement (page 16) relate to the City's efforts to pursue

Eminent Domain. Therefore the City respectfully requests that the above amounts be included in the Eminent Domain recoverable costs.

Audit appreciates the input from the City, and agrees that the Settlement Agreement outlines those dates as inclusive. Audit however, reviewed the Settlement Agreement and the DW 04-048 docket relating to the City taking the assets of Pennichuck, rather than the City's attempts to buy the Company as docketed in DW 02-126.

Rizzo Associates \$194,249 less \$194,249 = \$0

The total requested for Rizzo Associates was comprised of four invoices, two in 2002 and two in 2003. Audit selected one invoice from each year for detailed review. Both related to a valuation of the Pennichuck Water System, but this work was completed for the Philadelphia Suburban docket DW 02-126. Based on the tasks outlined, and the timeframe of the total four invoices, it does not appear that any of the Rizzo Associates \$194,249 should be recovered as contemplated in docket DW 11- 026 as they were not part of DW 04-048.

Nashua comment regarding the Audit recommended adjustments of Rizzo Associates:

The City respectfully disagrees. The services rendered by Upton & Hatfield occurred during the period "January 1, 2002 until August 2009" referenced in the Settlement Agreement (page 16) relate to the City's efforts to pursue Eminent Domain. Please see attached report from Rizzo Associates that recommends the taking of Pennichuck by the City. Therefore the City respectfully requests that the above amounts be included in the Eminent Domain recoverable costs.

Audit appreciates the input from the City, and agrees that the Settlement Agreement outlines those dates as inclusive. Audit however, reviewed the Settlement Agreement and the DW 04-048 docket relating to the City taking the assets of Pennichuck, rather than the City's attempts to buy the Company as docketed in DW 02-126.

Audit also reviewed the report from Rizzo that the City attached to its draft comments. The report concluded "[g]iven the financial advantages of municipal ownership and advantages vis-à-vis fiduciary responsibility to ratepayers rather than shareholders it appears that it is in the best interest of the City to **purchase the system.**" (Emphasis added by Audit).

Sancoucy \$1,055,941 less \$34,037 = \$1,021,904

A contract dated April 14, 2004 outlined the scope and duties that would be performed by Mr. Sansoucy for the city of Nashua. A portion of the contract was a fixed fee. The signature of the Mayor, as well as witnesses for the Mayor and Mr. Sansoucy were also noted on the copy of the contract provided.

An amendment to the contract was verified to the listing of expenses incurred by the City. The date of the amendment is unknown, although the footer indicates May 2005. The actual date of the amendment is unknown, and the Mayor did not sign the amendment.

A second contract amendment for time and materials was also reviewed. The footer indicates the amendment occurred in October 2006. However, the amendment is signed only by Mr. Sansoucy, not by the Mayor of Nashua, nor is it dated.

Audit reviewed five specific line items on the summary listing provided by the City, which reflected \$80,000, \$25,000, \$44,778, \$21,132 and \$52,231. The \$80,000 was noted to be two partial payments on past due balances, in equal payments of \$40,000. The \$25,000 was a partial payment on a past due balance. The \$44,778 was verified to one specific invoice without exception. The \$21,132 on the summary listing appears to be a typographical error, as the invoice is \$23,132. The \$52,231 represents the total running balance due as of 12/13/2007. The City appears to have included \$36,037 on the summary listing twice, as the amount is part of the running balance \$52,231.

The expenses paid to Sansoucy should be adjusted as follows, for recovery purposes:

Original request	\$1,055,941
11/2006	\$ 2,000 typographical error-invoice \$23,132, list 21,132
12/2007	<u>\$ (36,037)</u>
Adjusted total	\$1,021,904

Audit requested the annual statements for the years 2002, 2004, 2005, 2006, and 2007 in an effort to summarize the expenses paid to Mr. Sansoucy. The summary listing was found to contain errors. Due to the manner of payments (partial payments on invoices past due), and the summary listing, Audit cannot conclude that the summary list is accurate. **Audit was informed that the statements are not available.**

Devine, Millimet & Branch \$63,010

Audit reviewed the six invoices provided, which sum to \$63,010. Audit noted that the handwritten Nashua general ledger accounts on the invoices indicate that only \$12,756.24 should have been included in the eminent domain recovery total. Audit requested clarification of the disparity, and was informed that the account to which the \$50,254 had been booked was the accurate municipal treatment of escrowed funds carried forward from the prior fiscal year.

Palmer & Dodge \$42,202

The company provided the city of Nashua with tax advice relative to the eminent domain process. Invoices provided supported the total noted on the recovery sheet without exception.

Veolia Water \$163,763 less \$16,691 = \$147,072

Audit requested support for an October 2006 amount, on the summary listing with no invoice number, in the amount of \$16,691. The request has not been answered as of the date of this report.

Nashua -003 invoice for the timeframe November 2006-February 2007 in the amount of \$47,011 was supported for all labor expenses. The travel expenses supported \$6,716 or \$220 less than the total invoice. The reference on the invoice represents costs and services associated with the NHPUC, in accordance with the MOU 4/26/2006.

An invoice from September 2007 reflected March through July labor and expenses which sum to \$121,603. However, \$50,000 was paid in October with \$71,603 noted as a balance due to be paid "at a future date". The subsequent invoice in October reflected labor and expense in the amount of \$25,765.

A cap in the amount of \$130,000 referenced a Memorandum of Understanding signed 4/26/2006 by (PUC) in Mayor, City of Nashua NH. Audit requested a copy of the MOU, which was provided. A clause within section 8 indicates that Veolia would "*seek written authorization from Nashua if the PUC Services exceed \$100,000...*" Additional invoices indicate a cap of \$130,000. Audit requested clarification of the caps, and was informed that the caps were the amounts over which the Company would have to seek the City's permission prior to performing the service.

RW Beck, Inc. \$245,992 less \$50,945 = \$195,047

RW Beck was hired by Nashua to oversee the Nashua municipal water system, once the eminent domain process concluded. They provided engineering and oversight expertise during the process (according to the Memorandum between Beck and Sheehan, Phinney, Bass & Green) and offered direct testimony in the Eminent Domain docket DW 04-048 (refer to exhibit #181)

Audit reviewed five specific invoices from December 2006 through September 2009. There are specific tasks outlined on each invoice, and on the 2/2009, a "billing limit of \$150,000". As noted with the Veolia invoices, the "limit" is a threshold over which additional requests had to be made.

The following invoices were for services provided outside of the timeframe noted in the Settlement Agreement:

The original cost recovery total	\$245,992
	\$ (22,092) #113067 09/2009
	\$ (10,284) #113876 10/2009
	\$ (9,185) #114229 11/2009
	<u>\$ (9,384) #115141 12/2009</u>
Adjusted total	\$195,047

Sheehan, Phinney, Bass & Green \$573,139

Included among the documents requested was an engagement letter between Sheehan, Phinney, Bass & Green and the City of Nashua dated 8/14/2006. Also included was a contract between Sheehan, Phinney, Bass & Green and George E. Sansoucy, PE LLC relating to Nashua's eminent domain taking of Pennichuck Water. Services contracted include a financial feasibility analysis; support for Public Utilities Commission; testimony and approval; valuation services related to the disposition of various non-qualifying properties owned by Pennichuck Corp; due diligence support where required; various meetings; analysis and assistance where necessary and where requested by the City and its Attorneys. The time and materials estimate was \$100,000.

Audit requested and was provided with five specific invoices noted on the summary list. Each of the invoices included past due balances, and the amount noted on the summary list represented the cash amount that was paid. Audit requested a reconciliation from the City which would compile the invoice amounts with the cash amount paid. The reconciliation was provided which indicated that the \$573,139 paid to the law firm 27 times over the course of February 2007 through April 2009, held back \$26,179 and had an unused retainer paid of \$23,420.

Pennichuck Corporation \$250,000

The payment made via wire transfer on 1/16/2007, as the result of Nashua and Pennichuck Corporation agreeing to postpone the eminent domain proceeding and conduct settlement discussions.

Vitale Caturano & Co \$22,856

The invoice provided was addressed to Sheehan, Phinney, Bass & Green and included a "fourth progress billing for services rendered in connection with the proposed acquisition of Pennichuck Corporation in the amount of \$15,456 and a balance remaining from the third progress billing, in the amount of \$7,401. A copy of the engagement letter from Vitale, Caturano & Company to Sheehan, Phinney, Bass & Green, dated February 2007 was provided. Specifically outlined were two services: review and prepare a written report with respect to the income tax considerations in the proposed acquisition of Pennichuck Corporation by the City, among other duties; prepare final federal and state tax returns following the liquidation.

Audit questioned the first and second progress billings and requested clarification of the accuracy of the summary listing. Pennichuck indicated that the other costs had been included in the billings of other service providers.

Steven Patnaude \$2,400

An invoice for transcription services relating to a hearing in DW 04-048, held on 1/10/2007, 1/11/2007, and 1/16/2007 amounted to \$3,131. Nashua paid \$2,400 and in an agreement with Pennichuck, the Company paid \$731. Transcription dates were verified by Audit to the PUC Casefile without exception.

Hartman Associates \$2,328

An invoice dated 9/11/2002 in the amount of \$2,328 referenced technical services provided to Rizzo Associates, not the city of Nashua, relating to the Pennichuck Water Co Utility Acquisition. Audit requested clarification of the entity to which the invoice was sent, and was told that *“per the City, the invoice was included in its listing of expense as the invoice was paid directly by the City vs. paid through Rizzo & Associates. The reason it was addressed to Rizzo & Associates vs. the City is not currently known but, at the time, there may have been a misunderstanding on Hartman’s part as to whom the invoice should be sent.”*

SUMMARY of AUDITED COSTS to RECOVER

After review of the invoices and contracts requested for recovery through the mechanism outlined in docket DW 11-026 and the related Settlement Agreement and Order, the following adjustments should be made to the overall requested cost recovery:

<u>Vendor</u>	<u>Requested Amount</u>	<u>Amount to Disallow</u>	<u>Audited Recoverable \$</u>
Upton & Hatfield	\$2,332,442	\$(194,169)	\$2,138,273
Rizzo Associates	\$ 194,249	\$(194,249)	\$ -0-
Sancoucy	\$1,055,941	\$ (34,037)	\$1,021,904
Devine, Millimet & Branch	\$ 63,010	\$ -0-	\$ 63,010
Sheehan, Phinney, Bass & Green	\$ 573,139	\$ -0-	\$ 573,139
Palmer & Dodge	\$ 42,202	\$ -0-	\$ 42,202
Veolia Water	\$ 163,763	\$ (16,691)	\$ 147,072
RW Beck, Inc.	\$ 245,992	\$ (50,944)	\$ 195,047
Pennichuck Corporation	\$ 250,000	\$ -0-	\$ 250,000
Vitale Caturano	\$ 22,856	\$ -0-	\$ 22,856
Steven Patnaude	\$ 2,400	\$ -0-	\$ 2,400
Hartman Associates	<u>\$ 2,328</u>	<u>\$ -0-</u>	<u>\$ 2,328</u>
Total	\$4,948,322	\$(540,344)	\$4,507,978

DIVIDENDS PAID to the CITY of NASHUA

For informational purposes, Audit requested and was provided with the Dividend general ledger accounts of all Pennichuck companies for 2011 and 2012.

The following dividends were paid from the subsidiaries to Pennichuck Corporation in 2011:

PWW	\$3,275,879
PEU	\$ 59,803
PAC	\$ -0-
PWSC	\$ 130,790
TSC	\$ -0-

The five subsidiary companies paid no dividends to Pennichuck Corporation during the calendar year 2012. In 2012 Pennichuck Corporation paid the City of Nashua a total of **\$209,933.67**.

STATE OF NEW HAMPSHIRE

Inter-Department Communication

DATE: November 19, 2013

AT (OFFICE): NHPUC

FROM: James Schuler, Examiner

SUBJECT: City of Nashua/Pennichuck Water Works Inc.
DW 11-026
Municipal Acquisition Regulatory Asset
Final Audit Report

TO: Mark Naylor, Director of Water and Gas Division
Jayson Laflamme, Utility Analyst
Robyn Descoteau, Utility Analyst

Municipal Acquisition Regulatory Asset Review (MARA) and Scope of Review

The City of Nashua raised funds to accomplish the merger transaction of Pennichuck Water Company through issuance of general obligation bonds, the proceeds funding costs related to the City's acquisition.

Pennichuck Water Works (PWW), Pennichuck East Utility (PEU) and Pittsfield Aqueduct (PAC) recorded their respective share of the MARA on its books as a regulatory asset which will be amortized at the same rate as is the principle paid on the City of Nashua's Acquisition Bonds.

The MARA total is calculated starting with the total adjusted equity of each utility as of January 25, 2012 totaling \$64,049,091. The equity amounts were achieved through "Fresh Start" accounting entries which increased their respective paid-in-capital accounts and decreased their respective retained earnings accounts. The final amount of the City of Nashua Financing acquisition costs was \$150,570,000. This amount is allocated to each utility based on the equity of each utility on December 31, 2011.

The Rate Stabilization Fund (RSF) amount of \$5,000,000 is a cash contribution to PWW only and is a reduction of the PWW regulatory asset total. This fund will be used to ensure stable City Bond Fixed Revenue Requirement (CBFRR) revenues in the event of adverse revenue developments.

The sum of the equity, allocation costs and liabilities is reduced by the book value of each utility's assets to determine each utility's MARA amount. The total MARA as of January 25, 2012 was \$89,191,456.

Using the general ledgers for the three utilities as of March 15, 2012, Audit was able to tie the general ledger balances to the MARA account balances as of January 25, 2012. Audit recalculated and summed the invoices that comprise the total City of Nashua financing of \$150,570,000 with no exceptions (See invoice review section).

Verified Equity Figures for PWW shown on the General Ledger as of January 25, 2012.

Utility	Account	General Ledger \$
PWW	2201-100-001 - Common Stock	\$ 30,000
PWW	2211-000-001 - Additional Paid In Capital	127,658,435
PWW Per General Ledger		\$127,688,435
Total Per Filing Schedule 1(c)		\$127,688,435

Verified Liability Figures for PWW shown on the General Ledger as of January 25, 2012.

Utility	Account	General Ledger \$
PWW	2221-xxx-xxx - Long Term Debt	51,198,509
PWW	2221-100-001 - Current Portion of Long Term Debt	757,465
PWW	2231-xxx-xxx - Accounts Payable	207,894
PWW	2236-xxx-xxx - Taxes Payable	79,387
PWW	2237-xxx-xxx - Accrued Interest LTD	814,224
PWW	2241-xxx-xxx - Accrued Expenses	708,341
PWW	2241-304-001 - Early Retire Liability	31,200
PWW	2235-xxx-xxx - Customer Deposits	108,201
PWW	2241-305-001 - Post Retiree Liability-Health	806,361
PWW	2241-315-001 - Post 65 Health Liability	3,159,500
PWW	2186-440-001 - Veba Trust Union	(500,779)
PWW	2186-445-001 - Veba Trust Non-Union	(225,785)
PWW	2241-308-001 - Acc. Liability Sup Exec Retire Plan	881,966
PWW	2241-231-001 - Accrued Liability: Pension	7,368,273
PWW	2251-000-001 - Unamortized Debt Premium	497,879
PWW	2255-100-001 - Unamortized Investment Credit	699,097
PWW	2283-xxx-xxx - Deferred Tax Liability	866,073
PWW	2283-xxx-xxx - Deferred Tax Asset	18,831,928
PWW	2252-001-001 - Customer Advances for Const.	84,000
PWW	2271-xxx-xxx - CIAC	29,119,924
PWW	2272-101-001 - Reserve for Amort. of CIAC: PWW	(5,321,042)
Total Per General Ledger		\$110,172,616
Total Per Filing Schedule 1(c)		\$110,172,616

Verified Book Value of Assets Figures for PWW shown on the General Ledger as of January 25, 2012.

Utility	Account	General Ledger
PWW	2301-000-001 - Intangible Plant	\$ 250,635
PWW	2303-xxx-xxx - Land	1,866,052
PWW	23xx-xxx-xxx - Buildings/Structures	39,762,455
PWW	23xx-xxx-xxx - Equipment & Software	122,125,153
PWW	2108-xxx-xxx - Accumulated Depreciation	(37,560,983)
PWW	2105-xxx-xxx - CWIP	534,716
PWW	2131-xxx-xxx - Cash	6,000
PWW	2141-000-001 - Accounts Receivable, Billed	2,179,449
PWW	2141-000-001 - Accounts Receivable, Unbilled	2,023,851
PWW	2151-xxx-xxx - Inventory & Supplies	807,653
PWW	2162-xxx-xxx - Prepaid Expenses	665,859
PWW	2184-100-001 - Clearing Account	(27,473)
PWW	2163-xxx-xxx - Prepaid Property Taxes	443,389
PWW	2233-xxx-xxx - Inter Company Pay/Rec	9,339,442
PWW	2222-000-001 - Inter Company Advance – Non-Current	3,502,066
PWW	2186-xxx-xxx - Other Deferred Charges	9,512,347
PWW	2181-000-001 - Unamortized Debt Expense	3,647,055
Total Per General Ledger		\$159,077,666
Total Per Filing Schedule 1(c)		\$159,077,666

Verified Equity Figures for PEU shown on the General Ledger as of January 25, 2012.

Utility	Account	General Ledger
PEU	7201-100-001 - Common Stock	\$ 100
PEU	7211-000-001 - Additional Paid In Capital	15,904,329
PEU	7219-000-001 - Other Comprehensive Income	(529,702)
PWW Per General Ledger		\$15,374,727
Total Per Filing Schedule 1(c)		\$15,374,727

Verified Liability Figures for PEU shown on the General Ledger as of January 25, 2012.

Utility	Account	General Ledger \$
PEU	7221-xxx-xxx - Long Term Debt	\$8,207,501
PEU	7221-100-001 - Current Portion of Long Term Debt	340,919
PEU	7223-202-001 - Intercompany Adv.-Promissory Note	1,723,150
PEU	7231-000-001 - Accounts Payable	65,349
PEU	7236-115-001 - Local Taxes Payable	16,425
PEU	7237-110-001 - Accrued Interest LTD	172,966
PEU	7241-300-001 - Accrued Liability	114,142
PEU	7241-350-001 - Accrued Liability – Retainage	81,736
PEU	7235-250-001 - Hardship Cases : Credits	2,092

PEU	7224-100-001 - Other Liability: Derivative	882,836
PEU	7282-200-001 - Deferred Income Taxes	4,233,198
PEU	7282-201-001 - Deferred Income Tax - Swap	(353,134)
PEU	7271-xxx-xxx - Contributions In Aid Of Const.	9,630,371
PEU	7272-101-001 - Reserve for Amortization of CIAC	(1,240,708)
Total Per General Ledger		\$23,876,843
Total Per Filing Schedule 1(c)		\$23,876,843

Verified Book Value of Assets Figures for PEU shown on the General Ledger as of January 25, 2012.

Utility	Account	General Ledger
PEU	7219-000-001 - Property Held For Future Use	64,299
PEU	7301-000-001 - Intangible Plant	385,400
PEU	7303-203-001 - Franchise Fees: Castle Reach	48,432
PEU	7303-xxx-xxx - Land	955,261
PEU	73xx-xxx-xxx - Buildings/Structures	8,655,765
PEU	7303-xxx-xxx - Equipment & Software	29,521,201
PEU	7108-xxx-xxx - Accumulated Depreciation	(8,667,873)
PEU	7105-xxx-xxx - CWIP	45,153
PEU	7141-000-001 - Accounts Receivable, Billed	455,003
PEU	7141-000-001 - Accounts Receivable, Unbilled	284,644
PEU	7151-700-xxx - Inventory & Supplies	925
PEU	7162-xxx-xxx - Prepaid Expenses & Other	228,213
PEU	7186-xxx-xxx - Other Deferred Charges	864,529
PEU	7223-xxx-xxx - Inter Company Pay/Rec	(2,553,956)
Total Per General Ledger		\$30,286,996
Total Per Filing Schedule 1(c)		\$30,286,996

Verified Equity Figures for PAC shown on the General Ledger as of January 25, 2012.

Utility	Account	General Ledger \$
PAC	6201-100-001 - Common Stock	\$ 100
PAC	6211-000-001 - Additional Pain In Capital	2,506,739
Total Per General Ledger		\$2,506,839
Total Per Filing Schedule 1(c)		\$2,506,839

Verified Liability Figures for PAC shown on the General Ledger as of January 25, 2012.

Utility	Account	General Ledger \$
PAC	6223-202-001 - Long Term Debt	\$776,850
PAC	6231-000-001 - Accounts Payable	7,331
PAC	6236-115-001 - Local Property Taxes Payable	1,506
PAC	6241-300-001 - Misc. Current Accrued Liability	10,989
PAC	6235-250-001 - Hardship Cases: Credits	(1,711)
PAC	6282-200-001 - Deferred Income Taxes	504,653

PAC 6271-200-001 - Contributions In Aid Of Const.	750,287
PAC 6271-200-001 - CIAC, Water Filtration Grant	398,350
PAC 6272-101-001 - Reserve for Amortization of CIAC	(316,184)
Total Per General Ledger	\$2,132,071
Total Per Filing Schedule 1(c)	\$2,132,071

Verified Book Value of Assets Figures for PAC shown on the General Ledger as of January 25, 2012.

Utility	Account	General Ledger
PAC	6301-000-001 - Intangible Plant	\$ 75,551
PAC	6303-xxx-xxx - Land	44,180
PAC	6303-203-001 - Franchise Fees: Pittsfield	16,153
PAC	63xx-xxx-xxx - Buildings/Structures	1,557,622
PAC	6303-xxx-xxx - Equipment & Software	2,497,568
PAC	6108-xxx-xxx - Accumulated Depreciation	(1,088,456)
PAC	6105-xxx-xxx - CWIP	636
PAC	6131-110-001 - Cash	200
PAC	6141-000-001 - Accounts Receivable, Billed	46,320
PAC	6141-000-001 - Accounts Receivable, Unbilled	102,658
PAC	6151-700-xxx - Inventory & Supplies	1,911
PAC	6162-xxx-xxx - Prepaid Expenses & Other	27,723
PAC	6186-xxx-xxx - Other Deferred Charges	44,005
PAC	6223-xxx-xxx - Inter Company Pay/Rec	(130,659)
Total Per General Ledger		\$3,195,412
Total Per Filing Schedule 1(c)		\$3,195,412

Equity Figures for The Southwood Corporation shown on the filing Schedule 1(c) as of January 25, 2012.

Utility	Account	General Ledger
TSC	3220-100-000 - Common Stock	\$ 300
TSC	3203-100-001 - Additional Paid In Capital	2,188,165
TSC	3205-100-000 - Retained Earning Beginning	(141,415)
	Net Profit/(Loss)	1,119,434
TSC Per Filing Schedule 1(c)		\$3,166,484

INVOICE REVIEW

Merger Consideration to be Paid Under the Merger Agreement

Audit summed all invoices, checking for signed payment approval and invoice dates and recalculated several individual invoices totaling \$138,413,923 with no exceptions.

Payout of Outstanding Shares at 1/25/2012 @ \$29/share	\$136,173,038
Buyout of Outstanding Options	2,159,078
Related Payroll Taxes	81,712
Related Payroll Processing Fee	<u>95</u>
Total	\$138,413,923

Bond Issuance Costs and Fees

Bond issuance costs and fees totaled \$996,460 as of March 15, 2012. Audit summed and reviewed all invoices for accuracy with no exceptions noted.

First Southwest	\$174,922
Edward Wildman Palmer LLP	155,000
Moody's Rating	53,900
Fitch Rating	48,000
Terryberry	2,004
Murphy & Company	3,713
JP Morgan and Company - Underwriters	<u>558,921</u>
Total	\$996,460

Transaction Costs and Fees

PWW Expenses

Audit summed all invoices and recalculated several individual invoices associated with transaction costs and fees in the amount of \$1,632,390 with no exceptions. Major charges were from Boenning and Scattergood acting as the Company's financial advisor and Marsh USA for premiums associated with an insurance policy.

Boenning & Scattergood - Underwriter Broker Fee	\$1,289,785
American Stock Transfer - transfer agent termination fee	38,837
Marsh USA - Insurance Premiums	251,423
NASDAQ Termination Fee	35,000
Marketwire - press release	949
McLane, Graff, Raulerson & Middleton	3,630
Nutter, McClennen & Fish	11,496
RR Donnelly	<u>1,279</u>
Total	\$1,632,399

City of Nashua Expenses

The City of Nashua transaction costs totaled \$2,124,358 as of March 15, 2012. Audit summed and reviewed all invoices for accuracy with no exceptions noted.

C.W. Downer & Co. - City Underwriter Broker Fees	\$ 645,516
Flegal Law Office	1,280
Geoinsight Inc.	67,050
Melanson, Heath & Company PC	79,063
John L. Patenaude	149,190
Peckar & Abramson	7,047
R.W. Beck Inc.	186,631
Rath, Young & Pignatelli PC	972,857
Sheehan, Phinney, Bass & Green	7,185
Hayner Swanson	2,978
Petty Cash	45
Citizens Bank	3,674
State of NH Criminal Records	225
Telegraph Publishing Company	906
Union Leader Corporation	458
Employee Reimbursement	<u>252</u>
Total	\$2,124,358

Residual

The Contingency invoices amount of \$102,757 represents the residual amount of the funds received by PWW after payment of all acquisition costs. The Company states that the residual amount was used to fund regulator operations in 2012

Residual amount after payment of funds	<u>\$102,757</u>
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Severance Costs

Separation Agreement Payouts	\$2,263,012
Related Payroll Taxes	36,891
Related Processing Fee	<u>209</u>
Total	\$2,300,112

Rate Stabilization Fund

The rate stabilization was a cash transfer on January 25, 2012 and was tied to PWW general ledger account 2131-300-001 – Restricted Cash – RSF.

Funded 1/25/2012	5,000,000
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SUMMARY

Audit verified the components of the Municipal Acquisition Regulatory Asset for each utility shown on the General Ledger as of January 25, 2012 with no exceptions.

<u>Utility</u>	<u>Account</u>	<u>General Ledger \$</u>
PWW	2188-100-001, Acquisition Premium	\$78,783,384
PEU	7188-100-001, Acquisition Premium	8,964,574
PAC	6188-100-001, Acquisition Premium	1,443,498
Total Per General Ledger		\$89,191,456
Total Per Filing Schedule 1(c)		\$89,191,456