

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

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

Date Request Received: February 7, 2006

Date of Response: February 16, 2006

Request No. 3-6

Respondent: George E. Sansoucy, P.E.

Request: Reference testimony page 13: Item #5 states that "Nashua has no interest in continuing to subsidize Pennichuck's acquisition of water systems outside PWW, such as Central and Consolidated water systems". Please a) indicate specifically how Nashua is subsidizing acquisitions of Central and Consolidated; b) indicate generally how Nashua has subsidized past acquisitions.

Response:

1. The City of Nashua is the primary cash flow entity behind PWW. The City of Nashua provides the customer base to support the construction, operation, and maintenance of the treatment plant. The treatment plant treats additional water for sale to customers outside of the City of Nashua and those sales have been during the expansion of the treatment plant. The City of Nashua provides substantial contribution to fixed costs, including revenue from the fire protection system. Fire protection services have subsidized the balance of PWW as evidenced by the most recent rate case, whereby the services were not increased at all. PWW provides 69% of the total revenue of Pennichuck Corp. As pointed out in the data requests, Mr. Correll has indicated that the credit worthiness of Pennichuck Corp. is directly related to its 100% ownership of PWW, and without PWW Mr. Correll indicates that the remaining companies have diminished or no credit on their own. Pennichuck Corp. has set up a business structure whereby PWW subsidizes the remaining companies through its credit ratings and cash flow ability.
2. Pennichuck Corp. maintains an infrastructure that is unnecessary for the operation of Nashua and PWW. More importantly, for example, the company had maintained buildings in the City of Nashua which were adequate for PWW. The company has recently moved, at a cost of hundreds of thousands of dollars to the rate payers of PWW, to buildings outside of Nashua. These buildings are owned by Southwood Corp. Pennichuck Corp. filled office space which was vacated by others and, at this point, pays a greater rent and a greater building cost than it had. This smacks of subsidy and self dealing to save its partnerships in Southwood Corp. at the expense of the rate payers of Nashua. Furthermore, for example, there was no need for PWW to write off the furnishings and fixtures that it did for the move. The only purpose of the move to the new

facilities was to aid Southwood and to create appearances for the continued purchase of distressed systems outside of Nashua. The City of Nashua did not need nor is benefited from the move to the new office space.

3. PWW, i.e. the rate payers of City of Nashua, maintains the buildings, infrastructure, tools, trucks, IT, engineering, stock, and spare parts overhead and credit necessary for the entire operation of Pennichuck Corp. Mr. Correll and company have repeatedly indicated that the separation of PWW from Pennichuck Corp. will severely damage the other companies. If there were no subsidy, there would be no damage. Therefore, PWW has long subsidized the other companies of Pennichuck Corp.
4. Pennichuck Corp., through its three regulated subsidiaries, serves 29,900 customers. Of this, 24,660 are served by PWW. PWW provides 69% of the total revenue to Pennichuck Corp. The three regulated subsidiaries provide 82% of the total revenue to Pennichuck Corp, and PWW provides 82% of the revenue of the three subsidiaries, yet the total reimbursement from the other companies appears to be only \$676,000 of total operating costs of \$8,445,000 for 12/31/2004, or 8% of the operating cost reimbursed to PWW. It appears that Nashua and PWW continue to subsidize the balance of the systems through inappropriate cost sharing and cost distribution mechanisms.
5. Nashua does not need to continue to pay for the expansion of Pennichuck Corp. It is not providing any direct benefits to the City of Nashua through PWW. The City of Nashua is not growing as a revenue base. More and more direct rate increases will be required of Nashua in order to maintain these ongoing subsidies to the whole. This is demonstrated in the Central and Consolidated case where Pennichuck Corp. is attempting to avoid passing through the synergies of the purchase to PAC, which in turn will result in PAC not passing through synergies to Pennichuck Corp. and PWW. This is demonstrated by the fact that there is no reduction in the administrative fees in PAC for the addition of the Central and Consolidated systems. If this has been the pattern in past acquisitions and continues to be a pattern in future acquisitions, PWW and the City of Nashua have been and will continue to subsidize acquisitions throughout the State. As it is, the City and PWW maintain all the plant, property, and equipment necessary for Pennichuck to acquire other systems, such as Fryeburg or Central and Consolidated.
6. PWW and the City of Nashua have demonstrated through market based development of operating contracts that Pennichuck Corp. expends too much money for its water services in PWW. This can be clearly observed by review of Section F-58, Distribution of Salaries and Wages, in the annual report of PWW where officers' salaries, accounting, customer

service, data processing, and engineering account for approximately \$2,205,000 of \$4,984,000 in total salaries and wages distributed for PWW. This is in addition to \$2.3 million in operations and maintenance costs charged to PWW. The company has not demonstrated by any market or a cost of service study measure, why this level of administrative overhead is necessary to be charged to the customers of PWW and specifically Nashua. Nashua subsidizes nearly all of the overhead expended by Pennichuck Corp., but, through the contracting process, it is clear that this level of overhead is unnecessary and a subsidy from Nashua and PWW to Pennichuck Corp. and its subsidiaries. Additional areas of subsidy by Nashua relate to increased office supplies and other expenses by the company, increased property insurances as a result, increased temporary employment as a result, increased public utility tax assessment by the State, increased computer equipment cost and maintenance, increased trucks and rolling stock, tools, and supplies, increased office furnishings, unnecessary office retirements, increased IT expenses, unnecessary reconstruction of IT and T-1 from Nashua to Merrimack, unnecessary SCADA revisions, unnecessary network construction, unnecessary updates to billings, work order, and inventory management systems, and unnecessary overhead staff with which to maintain these systems for the companies expansion and growth outside of Nashua.

7. I can only conclude that the expansion of overheads, moving offices, excess information and IT costs related to multiple locations, and expansion into more space is designed to provide for the continued purchase of distressed systems throughout the region and not directly benefiting the City of Nashua. Uncontrolled growth of Pennichuck Corp. through the continued purchase of far-flung systems which are subsidized by Nashua is the same business model that sunk Southern New Hampshire Water Company and Consumers Water in New Hampshire. The Town of Hudson acted as the cash cow for Consumers, while far-flung, unmitigated growth and purchases of small satellite systems buried Consumers. The pattern used by Pennichuck is exactly the same at this time. At the end of the day, in the Hudson taking, Hudson subsidized the sale of these satellites to Pennichuck and washed out the Consumers debt. Nashua believes Pennichuck will fail in this business model, as the costs become too great to sustain continued rate increases subsidized by Nashua.