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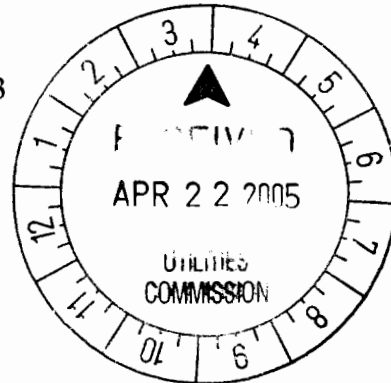
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January 17, 2003

HAND DELIVERED

Deborah A. Howland, Executive Director
New Hampshire Public Utilities Commission
8 Old Suncook Road
Concord, New Hampshire 03301



**RE: IN THE MATTER OF THE DETERMINATION OF THE FAIR MARKET VALUE
OF THE PLANT AND PROPERTY OF PENNICHUCK WATER WORKS, INC.,
PENNICHUCK EAST UTILITY, INC., AND PITTSFIELD AQUEDUCT
COMPANY, INC., DW 04-048**

Dear Ms. Howland:

Enclosed please find an original and eight copies of the testimony of Michael J. Scanlon on behalf of the Town of Bedford in the above captioned matter.

Thank you for your attention to this matter, if you have any questions or concerns please contact me

Very truly yours,

A handwritten signature in black ink, appearing to be 'EFS', followed by a long horizontal flourish.

Eugene F Sullivan III

EFS/com

STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

DOCKET NO. DW 04-048

IN THE MATTER OF:

**THE DETERMINATION OF THE
FAIR MARKET VALUE OF
THE PLANT AND PROPERTY
OF PENNICHUCK WATER
WORKS, INC., PENNICHUCK
EAST UTILITY, INC., AND
PITTSFIELD AQUEDUCT
COMPANY, INC.**

TESTIMONY
OF
MICHAEL J. SCANLON
Town of Bedford

April 22, 2005

TESTIMONY OF MICHAEL J. SCANLON

Q. Please state your name, and business address.

A. My name is Michael J. Scanlon, I am a Town Councilor for the Town of Bedford, New Hampshire. My business address in that capacity is 24 North Amherst Road, Bedford, New Hampshire 03110. I am also a member of the New Hampshire House of Representatives and serve as the Town of Bedford's representative to the Merrimack Valley Water District. I was appointed by Bedford Town Council as Bedford Director to the Merrimack Valley Regional Water District in 2004. In addition, I was elected by the Board of Directors of the Merrimack Valley Regional Water District as Chairman of Merrimack Valley Regional Water District in June, 2004.

Q. In what capacity are you testifying here today?

A. Officially, in my capacity as a Bedford Town Councilor presenting its position on the Petition of the City of Nashua to purchase the water systems commonly referred to as the Pennichuck Systems in south central New Hampshire, including those located in the Town of Bedford. But I am obviously able to respond to any inquiries from the perspective of those other positions I currently hold.

Q. Please describe your educational and professional background?

A. I am currently employed as a Lumber Trader and the Sales Manager for Empire Wholesale Lumber Company. I also served as a volunteer firefighter for the Town of Bedford for eleven years.

1 **Q. How long have you served as a Town Councilor for the Town of Bedford, New**
2 **Hampshire?**

3 A I have been a Town Councilor in Bedford since 2001.

4
5 **Q. Would you generally describe the Town of Bedford?**

6 A. The Town of Bedford is strategically located just southwest of Manchester and
7 northwest of Nashua in one of the fastest growing regions of the United States.

8 From 1990 to 2000, Bedford's population grew by 45.5 percent to a total population of
9 approximately 18,000. In that period of time, Bedford experienced the third highest
10 numeric increase in population in the State. The total number of households as of 2000
11 was 6,250; of those, 5,124 are family households, with an average size of 3.17 persons.
12 As of April 1, 2000, there were 6,401 total housing units.

13 **Q. How does the provision of water services affect the Town?**

14 A. Growing population, pollution of aquifers, and periodic droughts have awakened New
15 Englanders to the fact that a dependable source of water at a reasonable price will dictate
16 the future economic viability of each community. Attracting and retaining businesses --
17 as well as maintaining residential property values and ensuring the availability of potable
18 water to residents-- will increasingly depend on the availability and price of water.

19
20 Bedford has experienced approximately a 50% growth rate for each of the last three
21 decades. This growth has placed tremendous pressures on the groundwater supply.
22 According to the Pembroke division of the U.S. Geological Survey, the communities of
23 Bedford and Windham have the highest number of individual bedrock wells per square
24 mile in the State of New Hampshire. These two communities have been selected for a

1 long-term study of the sustainability of groundwater yield in bedrock. Recent summer
2 droughts severely impacted private wells in certain areas of the community. The Town
3 Office Building has been forced to provide bottled water due to salt contamination of its
4 well, and the site of a new elementary school was discovered to have an inadequate
5 supply of groundwater to serve the new facility. Provision of additional water supply and
6 distribution services, including the management philosophy and investment practices of
7 the water utility serving Bedford, will be critical to the ability of our local government to
8 sustain the demands created by new residential and commercial growth.

9 **Q. Please describe the water supply and distribution services that are currently**
10 **provided to the Town?**

11 Today, Pennichuck Water Works holds a franchise for $\frac{3}{4}$ of Bedford, while Manchester
12 Water Works holds the franchise for the remaining $\frac{1}{4}$ of the town. The 2000 U.S. Census
13 shows that Bedford ranks third in New Hampshire for population growth during the last
14 decade. Only the cities of Manchester and Nashua experienced higher population
15 growth, with Bedford adding 5,700 new people – only 200 persons less than the City of
16 Nashua.

17 During the last decade, Manchester Water Works has provided connections to more than
18 1 million square feet of new commercial development and 700 new multi-family
19 residential units within its franchise area of Bedford. Pennichuck has expanded to serve
20 more than 700 residential customers, the Riddle Brook Elementary School, and the
21 McKelvie Middle School. Plans are in progress for connection to several hundred
22 additional residences and a new Bedford high school. Pennichuck's service was
23 accomplished initially through community wells and later through pipeline
24 interconnections with Manchester Water Works and the Merrimack Village Water

District.

Q. What plans has Bedford made for the future of water service in the Town?

A. In 1995, Bedford department heads working with engineers from Manchester Water Works and Pennichuck, developed a rough plan for future water service throughout the community. The plan projected the location and size of future water mains and identified high and low-pressure zones.

By 2002, there was a renewed interest on the part of the Town Council in aggressively expanding water service throughout Bedford. Two years of summer drought had caused well yield problems for homeowners in certain areas of the community. The Bedford Town Office Building was forced to provide bottled drinking water due to salt contamination of its well. Construction of a new library and conversion of the historic town hall for use as a theater created a demand for fire sprinklers that could not be met with current sources of supply. The School Board was confronted with a crisis wherein a new elementary school under construction was unable to find adequate well yield on its property to meet State requirements. Planning for a new high school revealed that a major water line extension and pressure upgrades would be necessary to provide water service to the school. In addition, the Town Council voted to launch a major capital improvements program to reconstruct many of its collector streets throughout the town. The Town Council has decided to make a commitment to provide municipal investment in an aggressive expansion of water service to residential neighborhoods, to schools, and to the Route 101 business district.

In June of 2002, the engineering firm of Camp, Dresser, and McKee was hired to prepare a study of Bedford's long-range water supply needs and a distribution plan to identify a sequence of water main installations to coincide with the collector street reconstruction

1 plan. Thereafter, a water and sewer Advisory Committee has been created by the
2 Bedford Town Council to research and recommend water policies for the Town.

3
4 **Q. Does the Town of Bedford support the Petition of the City of Nashua in this matter?**

5 A. Yes.

6
7 **Q. Please explain the basis of your support.**

8
9 A. Ownership of water sources, water supply and distribution systems, and watershed lands
10 has become "big business" during the past few decades. The cost and complexity of
11 operating individual municipal water utilities in the face of growing populations, coupled
12 with a myriad of new federal and state regulations and water quality standards under the
13 federal Safe Drinking Water Act as administered by the State, have increasingly caused
14 small utilities and municipalities to allow their assets to be acquired by private, investor-
15 owned utility companies in exchange for ease of management. This trend has gained
16 such momentum that today the United States has a number of "mega-corporations" --
17 many linked to foreign corporations -- acquiring water utilities throughout the United
18 States.

19 In 2000, E'Town Corporation of Elizabethtown, New Jersey (the seventh-largest water
20 company in the United States, serving over 1 million people) became a wholly-owned
21 subsidiary of Thames Water Plc (a subsidiary of German RWE).

22
23 In 2000, United Water Company, (the United States second-largest investor-owned water
24 services company) became a wholly owned subsidiary of Suez Lyonnaise Des Eaux.

25
26 In 2001, five American Water Works companies in Connecticut, Massachusetts, New
27 Hampshire (Hampton and Rye), and New York were acquired by Aquarion, a subsidiary

1 of the Kelda Group of England.

2
3 In 2002, American Water Works, the largest American-owned water company, serving
4 about 10 million people in 20 states, was itself sold to the German utility giant RWE.

5
6 Moreover, the ability to acquire, develop, and re-sell prime waterfront real estate is also
7 extremely lucrative; and the popularity of bottled water as a portable commercial product
8 is creating new international markets for water, which had previously been considered as
9 a fixed asset.

10 Because private investor-owned utilities must generate profits for their stockholders, the
11 trend of growing asset value through acquisition and merger has risen at an alarming rate.
12 Private companies have also discovered that one lucrative method of generating revenue
13 is the sale of watershed lands around reservoirs, aquifers, and ponds for real estate
14 development. This is one of the primary complaints raised concerning the Southwood
15 Corporation, an unregulated subsidiary of the Pennichuck Corporation.

16 **Q. How does that explain your support for Nashua?**

17 A. Bedford believes that the current world-wide trend of merger of small water companies
18 into a few mega-corporations will inevitably result in loss of control of local water resources,
19 degradation of customer service, and escalation of consumer fees for water services that are
20 unrelated to the actual cost of service.

21 In 2002, the Pennichuck Corporation filed a petition for merger with Philadelphia
22 Suburban Corporation of Pennsylvania. The Town of Bedford filed as an Intervenor to
23 oppose this merger. Now, Bedford believes that the Pennichuck Corp. Board of Directors is
24 positioning the company for sale once again. After the resignation of Maurice Arel, the

1 Pennichuck Board of Directors hired Don Correll as CEO of the Pennichuck Corporation.
2 Mr. Correll was formerly the CEO of United Water Company and was instrumental in the
3 merger of United Water with Suez Lyonnaise. Bedford is very concerned because not only
4 have all the Directors of Pennichuck that opposed the Philadelphia Suburban merger been
5 removed from the Board of Directors, but the current employment contract provided by the
6 Board to Mr. Correll guarantees large bonuses if he is able to negotiate the sale of the
7 corporation to another investor-owned utility. In the environment of a large multi-national
8 corporation, investments are more likely to be made in larger, more profitable service areas
9 than in towns such as Bedford. Moreover, it would be extremely naive to believe that any of
10 the current Pennichuck management team that have helped with Bedford's water expansion
11 strategy will remain in place in the long-run or the short-run. In fact, New Hampshire's
12 experience with out-of-state takeovers of its State based utilities has been the loss of locally
13 based managers which are incrementally replaced with individuals from the "home office".
14

15 In contrast, Bedford officials believe that acquisition of the Pennichuck utilities by a public
16 non-profit entity such as the City of Nashua would result in lower and/or more stable water
17 rates and would ensure that customer service functions remain in southern New Hampshire.
18 After the Town of Hudson acquired its water system through eminent domain from Southern
19 New Hampshire Water Company, a division of Consumers Water, Selectmen of Hudson
20 report that they were able to reduce water rates by 10 percent, and that water rates have
21 remained stable for more than 5 years. By eliminating the profit motive, the water utility
22 would not be under pressure to either merge or be subject to a hostile takeover by larger, out-
23 of-state investor-owned utilities. Ownership of the utility by a local, non-profit entity would
24 also ensure that revenues of the utility would not be used for expensive multi-media

1 campaigns or out-of-scale compensation and benefits packages for management. In addition,
2 it is possible that if the City of Nashua were to acquire the utility, the key management
3 personnel and staff that are intimately familiar with the utility and the needs of the
4 communities could be hired to maintain a continuity of service.

5 Finally, past experience, as shown through the recent SEC report of Pennichuck's operations
6 or mis-operations in developing watershed lands and granting no-bid contracts, leads to the
7 conclusion that public ownership would be in the overall best interest of the communities
8 involved.

9
10 **Q. What does Bedford believe would be in the public interest of its citizenry and the**
11 **citizenry of its neighboring municipalities served by Pennichuck?**

12 A. Bedford believes the ownership of the utility assets by the Merrimack Valley Regional
13 Water District would be in the public's best interest, and, therefore, supports the eminent
14 domain filing by the City of Nashua to acquire all or a portion of the Pennichuck
15 Corporation for its ultimate conveyance to the District because:

- 16 • Acquisition by a municipality or a regional water district would significantly
17 lower and/or stabilize water rates to customers, as evidenced by the Town of
18 Hudson's acquisition of Southern NH Water Company;
- 19 • The City of Nashua has agreed to turn over the water utility to governance by the
20 Merrimack Valley Regional Water District, of which Bedford is a member;
- 21 • Acquisition by a NH public entity could ensure that customer service functions
22 remain in New Hampshire;

23 The Regional Water District is composed of all of the communities that it serves, or at
24 least membership is available to all of those communities, i.e., no community would

1 be forced to join the district. Thus, each community would then have a voice over the
2 amount and type of investments that are made in its community, thereby ensuring
3 local control, input and sensitivity.

4 Public ownership of a water utility that is structured to operate as a business, but with
5 governmental oversight of key issues, can be both financially feasible and of benefit
6 to the public interest, as follows:

7 **Q. How would Bedford would benefit from the public regionalization of all or a**
8 **portion of the Pennichuck.**

9 **A** Bedford would benefit from the public regionalization of all or a portion of the
10 Pennichuck Corporation:

- 11 • Bedford has joined with Nashua and 14 other communities to write a Charter and
12 formed a regional water district thereby affording Bedford a voice in management
13 decisions;
- 14 • Local control over water resources ensures that local concerns and issues are
15 efficiently addressed;
- 16 • Customer service functions would be located in southern New Hampshire where
17 service is actually provided within easy access of the customers being served;
- 18 • Contributions to management decisions regarding the water utility provides some
19 level of assurance that local concerns are addressed;
- 20 • Bedford believes that regional water districts could facilitate the goals outlined in
21 the report Regulatory Barriers to Water Supply Regional Cooperation and
22 Conservation in New Hampshire, A Report to the New Hampshire Legislature As
23 Required by Chapter 64, Laws of 2000, prepared by New Hampshire Department
24 of Environmental Services and prospect Hampshire Public Utilities Commission.

1 **Q. In light of your testimony in support of the petition of Nashua herein, why did**
2 **the Town recently vote to acquire the assets of Pennichuck within Bedford?**

3 **A.** The Town took that action to prepare for the potential ruling by the Commission that
4 Nashua could not acquire the assets of Pennichuck physically located outside its
5 municipal boundaries. That is, the action was taken to ensure the acquisition of all of
6 the utility assets, and Bedford would have joined with Nashua in an eminent domain
7 proceeding with the intent to transfer the assets to the Merrimack Valley Regional
8 Water District.

9 **Q. Does this conclude your testimony?**

10 **A.** Yes.