



RESOLUTION

FINDING THAT THE ACQUISITION OF STOCK, RATHER THAN THE DIRECT ACQUISITION OF THE PLANT AND PROPERTY OF PENNICHUCK CORPORATION WILL PROVIDE A MORE ORDERLY METHOD FOR THE CITY TO ESTABLISH, OWN, AND OPERATE A MUNICIPAL WATER UTILITY CONSISTENT WITH THE PURPOSES OF RSA 38 AND WILL BE FINANCIALLY BENEFICIAL TO THE CITY AND ITS CUSTOMERS AND WILL, THEREFORE, BE IN THE BEST INTERESTS OF THE CITY AND PROVIDE A PUBLIC BENEFIT

CITY OF NASHUA

In the Year Two Thousand and Ten

RESOLVED by the Board of Aldermen of the City of Nashua that in accordance with RSA 38:3 the Board of Aldermen, by a two-thirds vote of all of its members and the Mayor have determined that it is in the best interests of the City to establish a municipal water company, through the purchase of the stock and/or assets of the Pennichuck Corporation, as authorized by Chapter 347 of the Acts of 2007, as amended and supplemented to the date hereof, which vote has been confirmed by a majority of the qualified voters of the City of Nashua at a regular election duly called and held for such purpose.

RESOLVED That the Board of Aldermen confirm that acquisition of stock is within the policy and purpose of RSA 38 by making the following findings required by Chapter 347 of the Acts of 2007:

1. That the acquisition of stock, rather than the direct acquisition of plant and property, will provide a more orderly method for the city to establish, own, and operate a municipal water utility consistent with the purposes of RSA 38; and
2. That the acquisition of stock, rather than the direct acquisition of plant and property will be financially beneficial to the city and its customers and will, therefore, be in the best interests of the city and provide a public benefit.

LEGISLATIVE YEAR 2010

RESOLUTION: R-10-81

PURPOSE: Finding that the acquisition of stock, rather than the direct acquisition of the plant and property of Pennichuck Corporation will provide a more orderly method for the city to establish, own, and operate a municipal water utility consistent with the purposes of RSA 38 and will be financially beneficial to the city and its customers and will, therefore, be in the best interests of the city and provide a public benefit

ENDORSER(S): Mayor Donnalee Lozeau
Alderman-at-Large Brian S. McCarthy

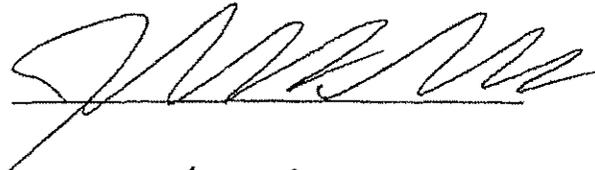
COMMITTEE
ASSIGNMENT:

FISCAL NOTE: The fiscal impact related to these findings is found in the companion resolution authorizing bonds to acquire Pennichuck Corporation.

ANALYSIS

This resolution makes special findings that the acquisition of Pennichuck Corporation stock is a more orderly method to acquire the utility, financially beneficial and in the best interests of the city and the public. The resolution follows the specific form prescribed for those findings in Chapter 347 of the Acts of 2007. Upon making those findings, the acquisition of the Pennichuck Corporation stock will be deemed to be within the policy and purposes of RSA 38.

Approved as to form: Office of Corporation Counsel

By: 

Date: 12/10/10

RESOLUTION R-10-81
Finding that the acquisition of stock, rather than the direct acquisition of the plant and property of Pennichuck Corporation will provide a more orderly method for the city to establish, own, and operate a municipal water utility consistent with the purposes of RSA 38 and will be financially beneficial to the city and its customers and will, therefore, be in the best interests of the city and provide a public benefit

IN THE BOARD OF ALDERMEN

1ST READING DECEMBER 14, 2010

Referred to:

PENNICHUCK WATER SPECIAL COMMITTEE

2nd Reading JANUARY 11, 2011

3rd Reading _____

4th Reading _____

Other Action _____

Passed JANUARY 11, 2011

Indefinitely Postponed _____

Defeated _____

Attest: Carol Bergeron
 City Clerk

Ben J. McLean
 President

Approved Jessie Logan
 Mayor's Signature

1/11/11
 Date

Endorsed by

Jessie Logan MAYOR
 _____ MCCARTHY
 _____ CLEMONS
Katherine Vitale VITALE
Barbara G. Pressly PRESSLY
Richard LaRose LAROSE
Michael J. Tabackso TABACKSO
Melizza Golja MELIZZI-GOLJA
 _____ COX
Walter Sheehan SHEEHAN
Jari Wilshire WILSHIRE
Richard Flynn FLYNN

Vetoed: _____

Veto Sustained: _____

Veto Overridden: _____

Attest: _____
 City Clerk

 President

R-10-82



RESOLUTION

AUTHORIZING THE MAYOR AND CITY TREASURER TO ISSUE BONDS OR NOTES NOT IN EXCESS OF TWO HUNDRED TWENTY MILLION DOLLARS (\$220,000,000.00) TO PAY ALL COSTS OF ACQUIRING THE STOCK AND/OR ASSETS OF THE PENNICHUCK CORPORATION

CITY OF NASHUA

In the Year Two Thousand and Ten

RESOLVED by the Board of Aldermen of the City of Nashua that in accordance with RSA 38:3 the Board of Aldermen, by a two-thirds vote of all of its members and the Mayor have determined that it is in the best interests of the City to establish a municipal water company, through the purchase of the stock and/or assets of the Pennichuck Corporation, as authorized by Chapter 347 of the Acts of 2007, as amended and supplemented by Section 118 of Chapter 1 of the Special Session of the Acts of 2010, which vote has been confirmed by a majority of the qualified voters of the City of Nashua at a regular election duly called and held for such purpose.

RESOLVED That the Mayor of the City of Nashua and the City Treasurer of the City of Nashua are hereby authorized to issue and sell general obligation bonds of the City, in an aggregate principal not to exceed Two Hundred Twenty Million Dollars (\$220,000,000.00). The proceeds of said bonds shall be used to pay all costs of purchasing the stock and/or assets of the Pennichuck Corporation, which purchase shall be upon such terms and conditions as shall be set forth in a Merger Agreement to be entered into by the City and the Pennichuck Corporation. The life span of this project is at least 30 years.

The bonds shall be general obligations of the City of Nashua, payable as to principal and interest from ad valorem taxes, which will be levied without limitation as to rate or amount on all taxable property within the territorial limits of the City of Nashua.

The bonds shall bear the manual and facsimile signature of the City Treasurer and the Mayor. None of said bonds shall be obligatory without the authenticating certificate signed by an authorized officer of a bank or trust company doing business in the State of New Hampshire or The Commonwealth of Massachusetts, or the Commissioner of Revenue Administration.

RESOLUTION

R-10-82

The bonds are to be issued in fully-registered form by means of a book-entry system or otherwise and shall have such terms and conditions and be in such form, subject to the provisions of this resolution and applicable law, as such shall be determined by the Mayor and the City Treasurer. The Mayor is authorized to enter into the required contracts therefore as well as any amendments to be made thereto or any other documentation necessary for the receipt of said funds.

RESOLVED that in accordance with RSA 38:13, as supplemented by Chapter 347 of the Acts of 2007, as amended and supplemented by Section 118 of Chapter 1 of the Special Session of the Acts of 2010, this resolution shall constitute the City's ratification of the purchase price to be paid by the City for the stock and/or assets of the Pennichuck Water Corporation. The Mayor and any other appropriate officer of the City are authorized to take any and all actions necessary to carry out the purposes of this resolution and to execute and deliver the Merger Agreement between the City and the Pennichuck Corporation and any other documents or agreements necessary or convenient to the carrying out of the purposes of this resolution.

RESOLVED FURTHER, that the Mayor is authorized to enter into the required contracts therefore as well as any amendments to be made thereto or any other documentation necessary for the receipt of said funds.

LEGISLATIVE YEAR 2010

RESOLUTION:

R-10-82

PURPOSE:

Authorizing the Mayor and City Treasurer to issue bonds or notes not in excess of Two Hundred Twenty Million Dollars (\$220,000,000.00) to pay all costs of acquiring the stock and/or assets of the Pennichuck Corporation

ENDORSER(S):

Mayor Donnalee Lozeau
Alderman-at-Large Brian S. McCarthy

COMMITTEE
ASSIGNMENT:

FISCAL NOTE:

Debt in the amount not to exceed \$220,000,000 will be sold with a thirty year term. Pursuant to the definitive merger agreement, a bond in the amount of \$160,000,000 at an interest rate of 6.5% assuming level payments results in a total cost of approximately \$364,000,000. The remainder of the \$220,000,000 bond authorization may be necessary for other acquisition related costs, including possible payoff of existing Pennichuck debt of approximately \$50,000,000.

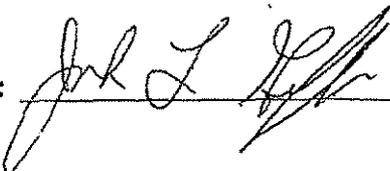
ANALYSIS

This resolution authorizes the Mayor and the City Treasurer of the City of Nashua to issue and sell general obligation bonds of the City in an aggregate principal amount not to exceed two hundred twenty million dollars (\$220,000,000.00). The proceeds of said bonds shall be used for the acquisition of the stock and/or assets of the Pennichuck Corporation..

Pursuant to Nashua City Charter §54-a, this resolution requires a "duly advertised public hearing". Also see NH RSA 33:9, which requires a 2/3 vote for passage of this resolution.

Approved as to content,
account structure,
numbers and amount:

Financial Services Division

By: 

Approved as to form:

Office of Corporation Counsel

By: 

Date: 12/10/10

RESOLUTION R-10-82
Authorizing the Mayor and City
Treasurer to issue bonds or notes
not in excess of Two Hundred Twenty
Million Dollars (\$220,000,000.00) to
pay all costs of acquiring the stock
and/or assets of the Pennichuck
Corporation

IN THE BOARD OF ALDERMEN

1ST READING DECEMBER 14, 2010

Referred to:

BUDGET REVIEW COMMITTEE AND

PUBLIC HEARING ON THURSDAY,

JANUARY 6, 2011 AT 7:00 PM IN
ALDERMANIC CHAMBERS

2nd Reading JANUARY 11, 2011

3rd Reading _____

4th Reading _____

Other Action _____

Passed JANUARY 11, 2011

Indefinitely Postponed _____

Defeated _____

Attest: Paul Bergeron
City Clerk

Ben Wilshire
President

Approved Jessie Lopez
Mayor's Signature

1/11/11
Date

Endorsed by

Jessie Lopez MAYOR

MCCARTHY

CLEMONS

Kathleen Vitale VITALE

Barbara B. Pressly PRESSLY

LAROSE

Michael J. Tabacsko TABACSKO

Marybeth Melizzi-Golja MELIZZI-
GOLJA

David Cox COX

Diane Sheehan SHEEHAN

Ben Wilshire WILSHIRE

Richard Flynn FLYNN

Vetoed: _____

Veto Sustained: _____

Veto Overridden: _____

Attest: _____
City Clerk

President

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): June 15, 2011

Pennichuck Corporation

(Exact name of registrant as specified in its charter)

| | | |
|--|--------------------------|-----------------------------------|
| New Hampshire | 0-18552 | 02-0177370 |
| (State or other Jurisdiction of Incorporation) | (Commission File Number) | (IRS Employer Identification No.) |
| 25 Manchester Street, Merrimack, New Hampshire | 03054 | |
| (Address of Principal Executive Offices) | (Zip Code) | |

Registrant's telephone number, including area code: (603) 882-5191

Not Applicable

(Former name or former address if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 5.07. Submission of Matters to a Vote of Security Holders.

The Company held its Special Meeting of Shareholders on June 15, 2011. Of the 4,681,427 shares of the Company's common stock outstanding and entitled to vote at the Special Meeting, 3,809,704 shares (representing 81.38%) were present either in person or by proxy. The certified results of the matters voted upon at the meeting, which are more fully described in our proxy statement filed with the Securities and Exchange Commission on April 22, 2011, are as follows:

Description of Matters Submitted

| | <u>Votes For</u> | <u>Votes Against</u> | <u>Non-Votes</u> |
|---|----------------------|--------------------------|------------------|
| 1. To consider and vote on a proposal to approve the Agreement and Plan of Merger effective as of November 11, 2010 (the "Merger Agreement") between the Company and the City of Nashua, New Hampshire (the "City"), whereby the City has agreed to acquire all of the outstanding shares of Pennichuck Corporation common stock for \$29.00 per share in cash. | 3,307,005 | 495,818 | 6,881 |
| 2. To consider and vote on a proposal to adjourn the Special Meeting, if necessary, for the purpose of soliciting additional proxies to vote in favor of approving the Merger Agreement | 3,215,249 | 574,478 | 19,977 |

Based upon these results, the required affirmative vote was obtained on both proposals.

A copy of the press release announcing the results of the Special Meeting is attached as Exhibit 99.1 to this Current Report on Form 8-K.

Item 9.01. Financial Statements and Exhibits.

(d) **Exhibits.** The following is filed as an exhibit to this Current Report on Form 8-K

Exhibit 99.1 Press release of Pennichuck Corporation dated June 15, 2011.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

PENNICHUCK CORPORATION
(Registrant)

Date: June 15, 2011

By: /s/ Thomas C. Leonard
Thomas C. Leonard
Senior Vice President and Chief Financial Officer

-2-

EXHIBIT INDEX

| <u>Exhibit No.</u> | <u>Description</u> |
|--------------------|--|
| 99.1 | Press release of Pennichuck Corporation dated June 15, 2011. |

-3-

City of Nashua Acquisition of Pennichuck Corporation
DW 11-026
Settlement Agreement

EXECUTION COPY

EXHIBIT B

Illustration of Application of the Ratemaking Structure

[See Attached Documentation]

PENNICHUCK WATER WORKS, INC.
COMPUTATION OF REVENUE DEFICIENCY
For The Twelve Months Ended December 31, 2009

Proposed Settlement
COMBINED INCREASE
Schedule A
9/15/2011

| DW10-091 | DW10-091, OCA 3-1 | | DW10-091, STAFF 3-13 | | | | | | | | City Bond Fixed Revenue Requirement (CBFRR) | | |
|------------------------|----------------------|--|--|---|---|---------------------------------------|---|---|----------------------------|------------------|---|---|------------------------------------|
| | PRO FORMA TEST YEAR | PROPOSED DATA REQUESTS ADJUSTMENTS (1) | 12 MONTHS WITH PROPOSED ADJUSTMENTS 12/31/09 | STEP INCREASE PRO FORMA ADJUSTMENTS (1) | COMBINED PRO FORMA & STEP INCREASE FORM TEST YEAR | WITHOUT EMINENT DOMAIN COSTS RECOVERY | COMBINED PRO FORMA & STEP INCREASE FORM TEST YEAR | ¹ Final Adjustment DW 10-091 | Final Rate Order DW 10-091 | Southwood Assets | Final Rate Order DW 10-091 & Southwood | CITY OF NASHUA ADJUSTMENTS FOR CBFRR APPROACH | CITY OF NASHUA REVENUE REQUIREMENT |
| Consolidated Rate Base | \$ 97,733,490 | \$ (433,999) | \$ 97,299,491 | \$ 3,307,877 | \$ 100,607,368 | \$ (4,824,907) | \$ 95,782,461 | \$ (3,562,467) | \$ 92,219,994 | \$ 2,524,971 | \$ 94,744,965 | (51,833,420) | \$ 42,911,544 |
| RATE of Return | 7.86% | 0.09% | 7.95% | | 7.95% | | 7.95% | 0.03% | 7.98% | | 7.98% | -1.95% | 6.04% |
| Income Required | \$ 7,677,233 | \$ - | \$ 7,733,642 | | \$ 7,996,562 | | \$ 7,613,064 | | \$ 7,362,859 | | \$ 7,564,453 | | \$ 2,591,857 |
| Adjusted NOI | \$ 5,312,859 | \$ (52,593) | \$ 5,260,266 | \$ (127,644) | \$ 5,132,622 | \$ 323,751 | \$ 5,456,373 | \$ 166,809 | \$ 5,623,182 | \$ - | \$ 5,623,182 | (54,230,733) | \$ 1,392,449 |
| Deficiency | \$ 2,364,374 | \$ - | \$ 2,473,376 | | \$ 2,853,940 | | \$ 2,156,691 | | \$ 1,739,677 | | \$ 1,941,271 | | \$ 1,199,408 |
| Tax Factor | 60.39% | | 60.39% | | 60.39% | | 60.39% | | 60.39% | | 60.39% | | 60.39% |
| Revenue Deficiency | \$ 3,915,175 | \$ - | \$ 4,095,672 | \$ 646,736 | \$ 4,742,408 | \$ (1,171,136) | \$ 3,571,272 | \$ (690,535) | \$ 2,880,737 | \$ 333,820 | \$ 3,214,557 | | \$ 1,986,104 |
| Water Revenues | \$ 24,116,426 | \$ - | \$ 24,116,426 | \$ - | \$ 24,116,426 | | \$ 24,116,426 | | \$ 24,116,426 | | \$ 24,116,426 | | \$ 14,279,803 |
| Proposed Revenue Inc | 16.23% | | 16.98% | 2.68% | 19.66% | -4.86% | 14.81% | -2.86% | 11.95% | 1.38% | 13.33% | | 8.24% |
| Total Revenue | <u>\$ 28,031,601</u> | | <u>\$ 28,212,098</u> | | <u>\$ 28,858,834</u> | | <u>\$ 27,687,698</u> | | <u>\$ 26,997,163</u> | | <u>\$ 27,330,983</u> | | \$ 16,265,907 |

ADD: City Bond Fixed Revenue Requirement (Schedule A, Attachment A)

\$9,836,623

Total City Revenue:

\$ 26,102,530

1. Adjustments shown are those required to adjust PWW's rate base and NOI to those approved in the DW10-091 Rate Order

Pennichuck Water Works Inc
 Pro Forma Adjustments to Revenue Requirement
 For The Twelve Months Ended December 31, 2009

Proposed Settlement
 Schedule A
 Attachment A
 Nashua Acquisition
 9/15/2011

Pro Forma
 Adjustments

Revenue

1 To recognize adjustment of fixed annual revenue requirement to meet City Bond obligation

| | |
|--------------------|---------------|
| Total City Bond | \$152,098,885 |
| Bond Interest Rate | 6.50% |
| Bond Period | 30 yrs |

Calculated pro rata for City Bond based on a constant payment and a constant bond rate

Calculated as follows:

| | | |
|--|--------------------|-----|
| PWW Pro Rata Share | \$133,453,268 | (1) |
| Less: Rate Stabilization Reserve | \$5,000,000 | |
| PWW Pro Rata Share (See 3A) | 100.00% | |
| Less: PWW Pro Rata Share of Rate Stabilization Reserve | \$5,000,000 | |
| Less: City Eminent Domain Cost Recovery | \$0 | |
| Total PWW Pro Rata Share for CBFRR/MARA | \$128,453,268 | |
| Bond Interest Rate | 6.50% | |
| Bond Period | 30 yrs | |
| | <u>\$9,636,623</u> | (2) |

Notes:

(1) Pro Rata Calculation as follows

| | | |
|------------------------------------|----------------------|---------|
| PWW & Southwood Equity (8/31/2011) | \$ 58,677,987 | 87.74% |
| PEU Equity (8/31/2011) | \$ 8,847,854 | 10.60% |
| PAC Equity (8/31/2011) | \$ 1,071,318 | 1.66% |
| | <u>\$ 64,597,159</u> | 100.00% |

| | | |
|--|---------|----------------------|
| PWW & Southwood % CBFRR based on pro rata equity | 87.74% | \$133,453,268 |
| PEU % CBFRR based on pro rata equity | 10.60% | \$18,124,105 |
| PAC % CBFRR based on pro rata equity | 1.66% | \$2,522,512 |
| Total City Bond | 100.00% | <u>\$152,099,885</u> |

(2) Any income taxes on revenues will be offset by deductions for interest expense on City Bonds calculated below and depreciation expense associated with equity related assets per Schedule 1, Attachment A, page 2

| | |
|---|-------------|
| Total Interest Payment on City Bond over ones | \$9,886,493 |
| PWW Pro Rata Share | 87.74% |
| PWW Pro Rata Interest Benefit | \$8,674,462 |

PENNICHUCK WATER WORKS, INC.
OPERATING INCOME STATEMENT
For The Twelve Months Ended December 31, 2009

Proposed Settlement
Schedule 1
Nashua Acquisition
Pro Forma Adjustments
9/15/2011

| | DW10-091, OCA 3-1 | | DW10-091, STAFF 3-13 | | LESS EMINENT DOMAIN | | CBFRR APPROACH W/MARA | | | | | |
|--------------------------------------|------------------------------|------------------------------------|--|-------------------------------------|---|---------------------------------------|--|----------------------------|----------------------------|--|---|---|
| | PRO FORMA 12 MONTHS 12/31/09 | PROPOSED DATA REQUESTS ADJUSTMENTS | 12 MONTHS WITH PROPOSED ADJUSTMENTS 12/31/09 | STEP INCREASE PRO FORMA ADJUSTMENTS | COMBINED TEST YEAR & STEP PRO FORMA TEST YEAR | WITHOUT EMINENT DOMAIN COSTS RECOVERY | COMBINED PRO FORMA & STEP INCREASE PRO FORMA TEST YEAR | Final Adjustment DW 10-091 | Final Rate Order DW 10-091 | CITY OF NASHUA MARA ADJUSTMENT PER BOOKS | CITY OF NASHUA ADJUSTMENTS FOR CBFRR APPROACH | CITY OF NASHUA CBFRR APPROACH REVENUE REQUIREMENT |
| Water Sales | \$ 24,116,426 | \$ - | \$ 24,116,426 | \$ - | \$ 24,116,426 | \$ - | \$ 24,116,426 | | 24,116,426 | | (\$9,836,623) | \$ 14,279,803 |
| Water Sales for Resale | 698 | - | 698 | - | 698 | - | 698 | | 698 | | | 698 |
| Other Operating Revenue | 365,266 | (1,330) | 363,936 | - | 363,936 | - | 363,936 | | 363,936 | | | 363,936 |
| Total Revenues | 24,482,389 | (1,330) | 24,481,060 | - | 24,481,060 | - | 24,481,060 | | 24,481,060 | | (\$9,836,623) | 14,644,437 |
| Production Expenses | 3,337,933 | (36,485) | 3,301,448 | 55,750 | 3,357,199 | - | 3,357,199 | | 3,357,199 | | | 3,357,199 |
| Transmission & Distribution Expenses | 1,379,179 | (3,214) | 1,375,965 | - | 1,375,965 | - | 1,375,965 | | 1,375,965 | | | 1,375,965 |
| Engineering Expense | 574,394 | - | 574,394 | - | 574,394 | - | 574,394 | | 574,394 | | | 574,394 |
| Customer Acct & Collection Exp | 434,974 | - | 434,974 | - | 434,974 | - | 434,974 | | 434,974 | | | 434,974 |
| Administrative & General Expense | 6,142,486 | (42,904) | 6,099,583 | - | 6,099,583 | - | 6,099,583 | | 6,099,583 | | (1,125,625) | 4,973,958 |
| Final Rate Order Adjustments | | | | | | | | (166,809) | (166,809) | | | (166,809) |
| Inter Div Management Fee | (1,476,315) | 7,961 | (1,468,354) | - | (1,468,354) | - | (1,468,354) | | (1,468,354) | | (134,985) | (1,603,339) |
| Total Operating Expense | 10,392,652 | (74,642) | 10,318,010 | 55,750 | 10,373,760 | - | 10,373,760 | (166,809) | 10,206,951 | - | (1,260,610) | 8,946,342 |
| Dep Exp/Acq Adj Expense | 4,070,540 | (7,888) | 4,062,652 | 80,768 | 4,143,420 | - | 4,143,420 | | 4,143,420 | | (1,516,284) ⁽³⁾ | 2,627,136 |
| Amortization Expense: CIAC | (480,385) | - | (480,385) | - | (480,385) | - | (480,385) | | (480,385) | | | (480,385) |
| Amortization Expense: MARA | - | - | - | - | - | - | - | | - | 630,974 | (830,974) ⁽⁴⁾ | - |
| Amortization Expense | 485,885 | (1,696) | 494,189 | - | 494,189 | (536,100) | (41,911) | | (41,911) | | - ⁽²⁾ | (41,911) |
| Gain on Disp/Utility Property | - | - | - | - | - | - | - | | - | | | - |
| Property Taxes | 2,674,109 | 169,984 | 2,844,093 | 74,847 | 2,918,940 | - | 2,918,940 | | 2,918,940 | | | 2,918,940 |
| Payroll Taxes | 520,118 | - | 520,118 | - | 520,118 | - | 520,118 | | 520,118 | | (54,044) | 466,074 |
| Income Tax | 1,496,612 | (34,495) | 1,462,117 | (83,722) | 1,378,395 | 212,349 | 1,590,744 | | 1,590,744 | | (2,774,952) ⁽¹⁾ | (1,184,207) |
| Total Operating Deductions | 8,776,879 | 125,905 | 8,902,784 | 71,893 | 8,974,678 | (323,751) | 8,650,927 | - | 8,650,927 | 630,974 | (5,176,254) | 4,305,647 |
| Net Operating Income | 5,312,859 | (52,593) | 5,260,266 | (127,644) | 5,132,622 | 323,751 | 5,456,373 | 166,809 | 5,623,182 | (830,974) | (\$3,399,759) | 1,392,449 |

Notes:

(1) Pro Forma Income Taxes calculated as follows:
Total pro forma reduction in operating expenses 2,830,938
Total Proforma Revenue decrease \$9,836,623
Total Proforma NOI before income tax (7,005,685)

39.61% (2,774,952) *

*Negative Income Taxes will be offset by taxes on additional revenues from revenue deficiency per Schedule A.

(2) Amortization Expense associated with City Eminent Domain Cost Recovery over 30 years

(3) Eliminate Depreciation Expenses for Equity related assets bought by City

(4) Eliminate Entire MARA Amortization Expense Attributable to Equity-Related Assets Acquired by City

Permitted, Mutual Works, Inc.
 Pro Forma Adjustment to Net of Interest Income
 For The Twelve Months Ended December 31, 2009

Processed Statement
 Schedule T
 Absorption
 Nashua Acquisition
 9/16/2011

CBFR
 Pro Forma
 Adjustments

Revenue
 To recognize adjustment of fixed annual revenue
 requirement to meet City Bond obligation
 Total City Bond
 Bond Interest Rate
 Bond Period

Calculated pro rata for City Bond based on a
 constant payment and a constant bond rate
 Calculated as follows:

Revenue
 Total City Bond \$152,099,885
 Bond Interest Rate 6.50%
 Bond Period 30 yrs

CBFR
 Pro Forma
 Adjustments

Revenue
 Total City Bond \$152,099,885
 Bond Interest Rate 6.50%
 Bond Period 30 yrs

Revenue
 Total City Bond \$152,099,885
 Bond Interest Rate 6.50%
 Bond Period 30 yrs

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 Bond Period 30 yrs

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Revenue
 Total City Bond \$152,099,885
 Bond Interest Rate 6.50%
 Bond Period 30 yrs

Pennichuck Water Works Inc
Pro Forma Adjustments to Net Operating Income
For The Twelve Months Ended December 31, 2009

Proposed Settlement
Schedule 1
Attachment A
Page 2
Nashua Acquisition
9/15/2011

Pro Forma
Adjustments

| | | | |
|---|------------------------------------|---------------------|-----------------------|
| Management Fee | | | |
| Allocation from Corporate | | | |
| Professional Fees & Services | | (132,339) | |
| D&O Insurance | | (86,479) | |
| Annual Report Cost | | (24,965) | |
| Auditors/SEC Legal Expense | | (210,888) | |
| Corp Governance Legal/AST | | (32,053) | |
| Directors Fees & Mlgs/Corp Secy | | (25,052) | |
| EDGAR Filing/NASDAQ & Other | | (74,427) | |
| % to PWW | 74.90% * | <u>\$ (586,203)</u> | \$ (439,066) |
| Allocation to Affiliates | | | |
| Salaries | | (771,596) | |
| Bonus | | (28,500) | |
| Benefits | | (336,507) | |
| Meetings & Conventions | | (19,600) | |
| Senior Management Vehicle | | (1,000) | |
| % to Affiliates | 26.30% * | <u>(1,156,203)</u> | \$ 304,081 |
| Total Management Fee | | | <u>\$ (134,985)</u> |
| Note: | | | |
| *Management fee allocation based on current percentage allocation. | | | |
| Depreciation Expense | | | |
| To eliminate depreciation expense for equity related assets purchased with City Bond as part of the closing transaction at a composite depreciation rate of 2.8%. | | 54,153,016 (1) | |
| | | <u>2.80%</u> | <u>\$ (1,516,284)</u> |
| Amortization Expense | | | |
| To provide for amortization expense on City Eminent Domain Costs as follows: | | | |
| City Eminent Domain Costs | | <u>\$0</u> | |
| Amortization Period years | | <u>30</u> | <u>\$ -</u> |
| Amortization Expense | | | |
| To provide for amortization expense attributable to MARA based on rate and principal payment | \$128,453,268 (Sch 1, Ath A, Pg 1) | \$71,775,281 | |
| Year One Amortization Expense | <u>56,677,987 (Sch 4)</u> | <u>30</u> | |
| | \$71,775,281 | <u>6.50%</u> | <u>\$830,974</u> |
| Income Taxes | | | |
| To record income taxes as a result of pro forma adjustments to income statement. | | | <u>\$ (2,774,952)</u> |
| FINAL RATE ORDER NOI ADJUSTMENTS | | | |
| To record final adjustments to Net Operating Income as approved in Rate Order DW10-091 | | | <u>\$ (166,809)</u> |

PENNICHUCK WATER WORKS, INC.
COMPUTATION OF RATE BASE
For The Thirteen Months Ended December 31, 2009

Proposed Settlement
Schedule 3
Nashua Acquisition
Pro Forma Adjustments
9/15/2011

| Description | DW10-091, OCA 3-1 | | DW10-091, STAFF 3-13 | | LESS EMINENT DOMAIN | | CBFRR APPROACH W/MARA | | | | | |
|---|------------------------|--|---|---|---|--|--|----------------------------------|---------------------|---|---|--|
| | Pro Forma Test Year | PROPOSED DATA REQUESTS ADJUSTMENTS | 12 MONTHS WITH PROPOSED ADJUSTMENTS 12/31/09 | STEP INCREASE PRO FORMA ADJUSTMENTS | COMBINED TEST YEAR & STEP PRO FORMA TEST YEAR | WITHOUT EMINENT DOMAIN COSTS RECOVERY | COMBINED PRO FORMA & STEP INCREASE FORMA TEST YEAR | Final Adjustment DW 10-091 | Southwood Assets | Final Rate Order DW 10-091 & Southwood | CITY ADJUSTMENTS FOR PWW'S PRO RATA SHARE OF MARA | PRO FORMA NASHUA ACQUISITION ADJUSTMENTS |
| Plant in Service | 153,687,293 | (421,246) | 153,266,047 | 3,904,456 | 157,170,503 | | 157,170,503 | | | | | 157,170,503 |
| Adjustment to Rate Base per Final Rate Order | | | | | | | (3,562,467) | 2,524,971 | (1,037,496) | | | (1,037,496) |
| Accum Deprec | 38,250,317 | (7,888) | 38,252,429 | (36,477) | 38,215,952 | | 38,215,952 | | 38,215,952 | | | 38,215,952 |
| Accum Deprec: Loss | 4,050,376 | - | 4,050,376 | 2,277 | 4,052,653 | | 4,052,653 | | 4,052,653 | | | 4,052,653 |
| Accum Deprec: COR | 1,708,176 | - | 1,708,176 | 185,793 | 1,893,969 | | 1,893,969 | | 1,893,969 | | | 1,893,969 |
| Theoretical Reserve | 882,900 | - | 882,900 | - | 882,900 | | 882,900 | | 882,900 | | | 882,900 |
| Acquisition Adjustment | 844,905 | - | 844,905 | - | 844,905 | | 844,905 | | 844,905 | | | 844,905 |
| Accum Amort Acq Adj | 296,522 | - | 296,522 | - | 296,522 | | 296,522 | | 296,522 | | | 296,522 |
| Municipal Acquisition Regulatory Asset (MARA) | - | - | - | - | - | | - | | - | 71,775,281 | | 71,775,281 |
| Accum Amort MARA Adj | - | - | - | - | - | | - | | - | - | | - |
| CIAC | 26,898,154 | - | 26,898,154 | - | 26,898,154 | | 26,898,154 | | 26,898,154 | | | 26,898,154 |
| Amort of CIAC | 4,037,526 | - | 4,037,526 | - | 4,037,526 | | 4,037,526 | | 4,037,526 | | | 4,037,526 |
| | 98,659,417 | (413,358) | 98,246,059 | 4,129,003 | 102,375,062 | | 102,375,062 | (3,562,467) | 2,524,971 | 101,337,566 | 71,775,281 | 173,112,847 |
| ADD: | | | | | | | | | | | | |
| Working Cap | 1,296,371 | (9,203) | 1,287,168 | 6,874 | 1,294,042 | | 1,294,042 | | 1,294,042 | | (155,433) | 1,138,608 |
| Materials & Supplies | 825,124 | - | 825,124 | - | 825,124 | | 825,124 | | 825,124 | | | 825,124 |
| Prepaid Expenses | 391,159 | - | 391,159 | - | 391,159 | | 391,159 | | 391,159 | | | 391,159 |
| Prepaid Property Taxes | 55,545 | - | 55,545 | - | 55,545 | | 55,545 | | 55,545 | | | 55,545 |
| Prepaid Income Taxes | - | - | - | - | - | | - | | - | | | - |
| Other & Deferred Charges | 12,529,973 | (11,438) | 12,518,535 | - | 12,518,535 | (4,824,907) | 7,693,628 | | 7,693,628 | | | 7,693,628 |
| | 15,098,172 | (20,641) | 15,077,531 | 6,874 | 15,084,405 | (4,824,907) | 10,259,497 | | 10,259,497 | | (155,433) | 10,104,064 |
| DEDUCT: | | | | | | | | | | | | |
| Customer Advances | 84,000 | - | 84,000 | - | 84,000 | | 84,000 | | 84,000 | | | 84,000 |
| Customer deposits & other | 138,756 | - | 138,756 | - | 138,756 | | 138,756 | | 138,756 | | | 138,756 |
| Deferred Income Tax | 12,920,917 | - | 12,920,917 | - | 12,920,917 | | 12,920,917 | | 12,920,917 | | | 12,920,917 |
| Deferred Tax Liability | 855,191 | - | 855,191 | - | 855,191 | | 855,191 | | 855,191 | | | 855,191 |
| Unamort ITC | 784,440 | - | 784,440 | - | 784,440 | | 784,440 | | 784,440 | | | 784,440 |
| Deferred Rental Credits | 105,550 | - | 105,550 | 828,000 | 933,550 | | 933,550 | | 933,550 | | | 933,550 |
| Unfunded FAS 106 and 158 Costs | 1,135,245 | - | 1,135,245 | - | 1,135,245 | | 1,135,245 | | 1,135,245 | | | 1,135,245 |
| | 16,024,099 | - | 16,024,099 | 828,000 | 16,852,099 | | 16,852,099 | | 16,852,099 | | | 16,852,099 |
| TOTAL Rate Base | 97,733,490 | (433,999) | 97,299,491 | 3,307,877 | 100,607,368 | (4,824,907) | 95,782,461 | (3,562,467) | 2,524,971 | 94,744,965 | 71,775,281 | 166,364,812 |
| DEDUCT: Equity Related Assets - MARA | | | | | | | | | | | (128,453,268) | 1 |
| ADD: City Eminent Domain Cost Recovery | | | | | | | | | | | | |
| ADD: Rate Stabilization Cash Reserve | | | | | | | | | | | 5,000,000 | 5,000,000 |
| Total Rate Base | 97,733,490 | (433,999) | 97,299,491 | 3,307,877 | 100,607,368 | (4,824,907) | 95,782,461 | (3,562,467) | 2,524,971 | 94,744,965 | (123,608,701) | 42,911,544 |

1. Includes the elimination of MARA

Pennichuck Water Works Inc
Pro Forma Adjustments to Rate Base
For The Twelve Months Ended December 31, 2009

Proposed Settlement
Schedule 3
Attachment A
Nashua Acquisition
9/15/2011

| | |
|-------------------------------|--|
| Final Adjustment DW 10-091 | CBFRR w/ MARA Pro Forma Adjustments |
|-------------------------------|--|

CASH WORKING CAPITAL

| | |
|---|---------------|
| To reduce working capital as a result of O&M Expenses | (1,260,610) |
| Pro Forma Adjustments (Schedule 1). | <u>12.33%</u> |

\$ (155,433)

EQUITY DEDUCTION

To deduct pro rata share of assets associated with common equity to be purchased by City Bonds at closing.

\$ (56,677,987)

To deduct all equity value associated with MARA

\$ (71,775,281)

Total Equity Deduction

\$ (128,453,268)

RATE STABILIZATION CASH RESERVE

To establish a rate stabilization reserve for the three (3) regulated utilities at closing.

| | |
|---|-----------------|
| Less: Rate Stabilization Reserve (Schedule 4) | \$5,000,000 (1) |
|---|-----------------|

| | |
|--------------------|----------------|
| PWW Pro Rata Share | <u>100.00%</u> |
|--------------------|----------------|

Total PWW Pro Rata Share for City Bond

\$ 5,000,000

(1) Pro Rata Calculation as follows:

Rate Base

| | | |
|---------------------------------|---------------------|----------------|
| PWW (DW10-091, Per Final Order) | \$ 56,677,987 | 100.00% |
| PEU (As of 12/31/2009) | \$ 6,847,954 | 0.00% |
| PAC (DW10-091, Per Final Order) | \$ 1,071,318 | 0.00% |
| | <u>\$64,597,259</u> | <u>100.00%</u> |

DEFERRED DEBITS

To provide for City Eminent Domain Costs that will be amortized over 30 years

\$ -

FINAL RATE ORDER NOI ADJUSTMENTS

To record final adjustments to Rate Base as approved in Rate Order DW10-091

\$ (3,562,467)

Pennichuck Water Works, Inc.
Overall Rate of Return

For the Twelve Months Ended December 31, 2009

| Capital Component | Filed Amount | DW10-091, OCA 3-1 | | NASHUA ACQUISITION - CBFRR | | | Adjusted Amount | Component Ratio | Component Cost Rate | Weighted Average Cost Rate |
|------------------------|----------------|-------------------|------------------|----------------------------|----------------|-------------------------------|-----------------|-----------------|-----------------------------|----------------------------|
| | | Adjustment | Final Rate Order | MARA Adjustment | RSF Adjustment | CBFRR Adjustment | | | | |
| Long-term Debt | \$ 51,855,007 | \$ (2,301,100) | \$ 49,553,907 | | | | \$ 49,553,907 | 100.00% | 6.04% | 6.04% |
| Short-term Debt | - | | - | | | | - | 0.00% | 0.00% | 0.00% |
| Preferred Stock | - | | - | | | | - | 0.00% | 0.00% | 0.00% |
| Common Equity | 56,677,987 | | \$ 56,677,987 | \$ 71,775,281 | \$ - | \$ (128,453,268) ¹ | \$ - | 0.00% | 7.19% ² | 0.00% |
| Overall Rate of Return | \$ 108,532,994 | \$ (2,301,100) | \$ 106,231,894 | \$ 71,775,281 | \$ - | \$ (128,453,268) | \$ 49,553,907 | 100.00% | | 6.04% |
| | | | | | | | | | Final Rate Order - DW10-091 | 7.98% |
| | | | | | | | | | CBFRR Pro Forma Adjustment | -1.95% |

Notes:

- 1 To eliminate common and MARA equity purchased by City Bond as part of the closing transaction.
- 2 The component cost rate (allowed ROE) with respect to any Common Equity in any future rate case shall be equal to (i) the most recent 12-month average of thirty-year United States Treasury bond interest rates as derived from the Federal Reserve Statistical Release, H.15(519). "Selected Interest Rates", or a successor or equivalent publication, including the interest rate published on, or as close as possible after, a date four months following the proposed effective date of proposed changes in the utility's rates as set forth in the rate filing, plus (ii) 3.0%. As an example, the 12-month average including September 2011 was 4.19%, so the formula allowed ROE would be 7.19%.

**Pennichuck Water Works Inc
Proposed Adjustments to Rate of Return
For The Twelve Months Ended December 31, 2009**

**Schedule 4
Attachment A
Pro Forma Adjustments**

| | | | | <u>Outstanding Debt</u> | <u>All In Annual</u> | <u>Funded</u> |
|---------------------------|-----------------------------|-----------------|----------------|-------------------------|----------------------|-----------------------|
| | | | | <u>Funded</u> | <u>Cost</u> | <u>Effective Rate</u> |
| Original Filing | | | | \$ 51,855,007 | \$ 3,077,604 | 5.94% |
| Reference | | <u>Original</u> | <u>Revised</u> | | | |
| Staff 2-22 | SRF Step Additions Debt | 2,424,100 | 123,000 | (2,301,100) | | |
| | SRF Step Additions Interest | 3.728% | 90,370 | 4,585 | (85,785) | |
| Revised Debt and Interest | | | | \$ 49,553,907 | \$ 2,991,819 | <u>6.04%</u> |
| Proposed Adjustment | | | | <u>\$ (2,301,100)</u> | | |

PENNICHUCK EAST UTILITY, INC.
COMPUTATION OF REVENUE DEFICIENCY
For The Twelve Months Ended December 31, 2009

Proposed Settlement
Schedule A

City Bond Fixed Revenue Requirement
(CBFRR)

| | TEST YEAR | PRO FORMA ADJUSTMENTS (1) (2) | PRO FORMA TEST YEAR | COMBINED PRO FORMA TEST YEAR | CITY OF NASHUA ADJUSTMENTS FOR CBFRR APPROACH | CITY OF NASHUA REVENUE REQUIREMENT |
|---|---------------|-------------------------------------|------------------------|------------------------------------|--|--|
| Consolidated Rate Base | \$ 18,937,424 | \$ (4,646,514) | \$ 14,290,910 | \$ 14,290,910 | \$ (6,879,610) | \$ 7,411,300 |
| RATE of Return | 7.60% | | 7.60% | 7.60% | -2.93% | 4.67% |
| Income Required | \$ 1,439,244 | | \$ 1,086,109 | \$ 1,086,109 | | \$ 346,108 |
| Adjusted NOI | \$ 911,114 | \$ (177,830) | \$ 733,284 | \$ 733,284 | \$ (500,051) | \$ 233,233 |
| Deficiency | \$ 528,130 | | \$ 352,825 | \$ 352,825 | | \$ 112,875 |
| Tax Factor | 60.39% | | 60.39% | 60.39% | | 60.39% |
| Revenue Deficiency | \$ 874,532 | | \$ 584,244 | \$ 584,244 | | \$ 186,911 |
| Water Revenues (2) | \$ 5,944,734 | \$ (295,242) | \$ 5,649,492 | \$ 5,649,492 | | \$ 4,414,749 |
| Proposed Revenue Inc | 14.71% | | 10.34% | 10.34% | | 3.31% |
| Total Revenue | | | <u>\$ 6,233,736</u> | <u>\$ 6,233,736</u> | | <u>\$ 4,601,660</u> |
| ADD: City Bond Fixed Revenue Requirement (Schedule A, Attach A) | | | | | | \$1,234,743 |
| ADD: NC Capital Surcharge Revenue | | | | \$ 295,242 | | \$ 295,242 |
| Total Revenue: | | | | <u>\$ 6,528,978</u> | | <u>\$ 6,131,645</u> |

Notes:

- (1) Eliminate Capital Recovery Surcharge Assets and related revenues and depreciation expense.
(2) Water Revenues are reflected without Capital Surcharge Revenues

PENNICHUCK EAST UTILITY, INC.
Pro Forma Adjustments to Revenue Requirement
For The Twelve Months Ended December 31, 2009

Proposed Settlement
Schedule A
Attachment A
Nashua Acquisition

Pro Forma
Adjustments

1 Revenue

To recognize adjustment of fixed annual revenue requirement to meet City Bond obligation.

| | |
|--------------------|----------------|
| Total City Bond | \$ 152,099,885 |
| Bond Interest Rate | 6.50% |
| Bond Period | \$ 30 yrs |

Calculated pro rata for City Bond based on a constant payment and a constant bond rate.

Calculated as follows:

| | | |
|--|-------------------|------------------------|
| PEU Pro Rata Share | \$ 16,124,105 (1) | |
| Less: Rate Stabilization Reserve | \$ 5,000,000 | |
| PEU Pro Rata Share (Sch 3, Attach A) | <u>0.00%</u> | |
| | \$ - | |
| Total PEU Pro Rata Share for City Bond | \$ 16,124,105 | |
| Bond Interest Rate | 6.50% | |
| Bond Period | 30 yrs | |
| | | <u>\$1,234,743 (2)</u> |

Notes:

(1) Pro Rata Calculation as follows:

| | | |
|------------------------------------|----------------------|----------------|
| PWW & Southwood Equity (8/31/2011) | \$ 56,677,987 | 87.74% |
| PEU Equity (8/31/2011) | \$ 6,847,954 | 10.60% |
| PAC Equity (8/31/2011) | \$ 1,071,318 | 1.66% |
| | <u>\$ 64,597,259</u> | <u>100.00%</u> |

| | | |
|--|----------------|-----------------------|
| PWW & Southwood % CBFRR based on pro rata equity | 87.74% | \$ 133,453,268 |
| PEU % CBFRR based on pro rata equity | 10.60% | \$ 16,124,105 |
| PAC % CBFRR based on pro rata equity | 1.66% | \$ 2,522,512 |
| | <u>100.00%</u> | <u>\$ 152,099,885</u> |

(2) Any income taxes on revenues will be offset by deductions for interest expense on City Bonds calculated below and depreciation expense associated with equity related assets per Schedule 1, Attachment A, page 2.

| | |
|--|--------------|
| Total Interest Payment on City Bond (year one) | \$9,886,493 |
| PEU Pro Rata Share | 10.60% |
| PEU Pro Rata Interest Benefit | \$ 1,048,067 |

PEU @ 6.5%

PENNICHUCK EAST UTILITY, INC.
OPERATING INCOME STATEMENT
For The Twelve Months Ended December 31, 2009

Proposed Settlement
Schedule 1
Nashua Acquisition
Pro Forma Adjustments

| Account Number | PENNICHUCK EAST UTILITY, INC. | North Country | Pro Forma Adjustments (1) | COMBINED TEST YEAR | CBFRR APPROACH W/MARA | | |
|-------------------------------------|-------------------------------|---------------------|---------------------------|---------------------|--|---|---|
| | | | | | CITY OF NASHUA MARA ADJUSTMENT PER BOOKS | CITY OF NASHUA ADJUSTMENTS FOR CBFRR APPROACH | CITY OF NASHUA CBFRR APPROACH REVENUE REQUIREMENT |
| Water Sales | 461 & 462 | \$ 5,005,656 | \$ 939,078 | \$ (295,242) | \$ 5,649,492 | (\$1,234,743) | \$ 4,414,749 |
| Other Operating Revenue | 471 | 32,269 | 8,691 | | 40,960 | | 40,960 |
| Total Revenues | | 5,037,925 | 947,769 | (295,242) | 5,690,452 | \$ (1,234,743) | 4,455,709 |
| Production Expenses | 601 to 652 660 to 678 & | 1,137,272 | 221,083 | | 1,358,356 | | 1,358,356 |
| Transmission & Distribution Expense | 926.1 | 329,977 | 160,100 | | 490,077 | | 490,077 |
| Customer Acct & Collection Exp | 902 to 904 | 140,501 | 41,563 | | 182,064 | | 182,064 |
| Administrative & General Expense | 920 to 950 | 96,772 | 26,749 | | 123,521 | | 123,521 |
| Inter Div Management Fee | 930 | 1,261,843 | 292,644 | | 1,554,487 | (256,736) | 1,297,751 |
| Total Operating Expense | | 2,966,366 | 742,139 | - | 3,708,505 | (256,736) | 3,451,769 |
| Depreciation Exp/Acq Adj (Credit) | 403/406 | 579,015 | 122,593 | (111,791) | 589,817 | (149,970) (3) | 439,847 |
| Amortization Expense: CIAC | 405 | (157,454) | (11,864) | 382 | (168,936) | | (168,936) |
| Amortization Expense: MARA | | | | | | \$107,394 | - |
| Amortization Expense | 407 | 58,728 | 6,776 | (6,003) | 59,501 | (107,394) (4) | 59,501 |
| Amort Utility Plant Adj | 406 | - | - | | - | | - |
| Taxes Other Than Income Tax | 408.1 | 467,122 | 76,384 | | 543,506 | | 543,506 |
| Income Tax | 409 to 410 | 305,688 | (80,913) | | 224,775 | (327,985) (2) | (103,210) |
| Total Operating Deductions | | \$ 1,253,099 | \$ 112,976 | \$ (117,412) | \$ 1,248,663 | \$ 107,394 | \$ (585,350) |
| Net Operating Income | | \$ 818,460 | \$ 92,654 | \$ (177,830) | \$ 733,284 | \$ (107,394) | \$ (392,657) |

Notes:

(1) Eliminates the depreciation and amortization expense associated with North Country Capital Recovery Surcharge.

(2) Pro Forma Income Taxes calculated as follows:

| | |
|--|-----------------------|
| City Bond Revenue Requirement | \$ (1,234,743) |
| Reduced operating expenses and deductions | \$ 406,706 |
| NOI proforma adjustments before income taxes | \$ (828,036) |
| Income Taxes | 39.61% \$ (327,985) * |

*Negative Income Taxes will be offset by taxes on additional revenues from revenue deficiency per Schedule A

(3) Eliminate Depreciation Expenses for Equity related assets bought out by City

(4) Eliminate Entire MARA Amortization Expense Attributable to Equity-Related Assets Acquired by City

PENNICHUCK EAST UTILITY, INC.
Pro Forma Adjustments to Net Operating Income
For The Twelve Months Ended December 31, 2009

Proposed Settlement
Schedule 1
Attachment A
Nashua Acquisition

Pro Forma
Adjustments

1 Revenue

To recognize adjustment of fixed annual revenue requirement to meet City Bond obligation

| | | |
|--------------------|----------------|--|
| Total City Bond | \$ 152,099,885 | |
| Bond Interest Rate | 6.50% | |
| Bond Period | 30 yrs | |

Calculated pro rata for City Bond based on a constant payment and a constant bond rate.

Calculated as follows:

| | | |
|--|--------------|---------------|
| PEU Pro Rata Share | \$ 5,000,000 | \$ 16,124,105 |
| Less: Rate Stabilization Reserve | 0.00% | |
| PEU Pro Rata Share (Sch 3, Attach A) | | \$ - |
| Total PEU Pro Rata Share for City Bond | | \$ 16,124,105 |
| Bond Interest Rate | 6.50% | |
| Bond Period | 30 yrs. | |

\$ 1,234,743

Pro Rata Calculation as follows:

| | | |
|------------------------------------|---------------|---------|
| PWW & Southwood Equity (8/31/2011) | \$ 56,677,987 | 87.74% |
| PEU Equity (8/31/2011) | \$ 6,847,954 | 10.60% |
| PAC Equity (8/31/2011) | \$ 1,071,318 | 1.66% |
| | \$ 64,597,259 | 100.00% |

| | | |
|--|---------|----------------|
| PWW & Southwood % CBFRR based on pro rata equity | 87.74% | \$ 133,453,268 |
| PEU % CBFRR based on pro rata equity | 10.60% | \$ 16,124,105 |
| PAC % CBFRR based on pro rata equity | 1.66% | \$ 2,522,512 |
| | 100.00% | \$ 152,099,885 |

2 Management Fee

Allocation from Corporate

| | |
|---------------------------------|-----------------------|
| Professional Fees & Services | (132,339) |
| D&O Insurance | (86,479) |
| Annual Report Cost | (24,965) |
| Auditors/SEC Legal Expense | (210,888) |
| Corp Governance Legal/AST | (32,053) |
| Directors Fees & Mtgs/Corp Secy | (25,052) |
| EDGAR Filing/NASDAQ & Other | (74,427) |
| % Allocation to PEU | 15.00% * \$ (586,203) |

\$ (87,930)

Allocation from PWW

| | |
|---------------------------|----------------------|
| Salaries | (771,598) |
| Bonus | (28,500) |
| Benefits | (336,507) |
| Meetings & Conventions | (19,600) |
| Senior Management Vehicle | (1,000) |
| % Allocation to PEU | 14.60% * (1,156,203) |

\$ (168,806)

\$ (256,736)

3 Amortization Expense

To provide for amortization expense attributable to

| | | |
|--|------------------------------|--------------|
| MARA based on rate and principal payment | \$ 16,124,105 (Sch 1, Ath A) | \$ 9,276,151 |
| Year One Amortization Expense | \$ 6,847,954 (Sch 4) | 30 |
| | \$ 9,276,151 | 6.50% |

\$ 107,394

4 Depreciation Expense

To eliminate depreciation expense for equity related assets purchased with City bond as part of the closing transaction at a composite depreciation rates of 2.19%.

| | |
|--|----------------------|
| | \$ 6,847,954 (Sch 4) |
| | 2.19% |

\$ 149,970

5 Income Taxes

To record income taxes as a result of pro forma adjustments to income statement (Sch 1)

| | |
|--|--------------|
| | \$ (828,036) |
| | 39.81% |

\$ (327,985)

Note:

*Management fee allocation based on current percentage allocation.

PENNICHUCK EAST UTILITY, INC.
COMPUTATION OF RATE BASE
For The Twelve Months Ended December 31, 200

Proposed Settlement
Schedule 3
Nashua Acquisition
Pro Forma Adjustments

| Description | CBFRR APPROACH W/MARA | | | | | | |
|---|-------------------------------------|---------------------|---------------------------------|-----------------------|---|---|---------------------------------------|
| | PENNICHUCK EAST UTILITY, INC. | North Country | Pro Forma Adjustments (1) | COMBINED TEST YEAR | CITY ADJUSTMENTS FOR PEU'S PRO RATA SHARE OF MARA | PRO FORMA NASHUA ACQUISITION ADJUSTMENTS | PRO FORMA NASHUA RATE BASE FOR PEU |
| Plant in Service | \$ 38,774,582 | \$ 5,705,899 | \$ (4,550,906) | \$ 39,929,575 | | | \$ 39,929,575 |
| Accum Deprec | 7,781,193 | 294,504 | (271,782) | 7,803,915 | | | 7,803,915 |
| Accum Deprec: Loss | 927,493 | 192,960 | (272,509) | 847,944 | | | 847,944 |
| Accum Deprec: COR | 30,401 | 87,138 | | 117,539 | | | 117,539 |
| Acquisition Adjustment | 10,468,179 | | | 10,468,179 | | | 10,468,179 |
| Accum Amort Acq Adj | 2,487,151 | | | 2,487,151 | | | 2,487,151 |
| Municipal Acquisition Regulatory Asset (MARA) | | | | | 9,276,151 | | 9,276,151 |
| Accum Amort MARA Adj | | | | | | | - |
| CIAC | 8,807,342 | 32,770 | (14,096) | 8,826,016 | | | 8,826,016 |
| Amort of CIAC | 875,827 | 12,193 | (423) | 887,597 | | | 887,597 |
| | 16,038,740 | 5,670,916 | (4,537,960) | 17,171,696 | 9,276,151 | - | 26,447,848 |
| ADD: | | | | | | | |
| Working Cap | 365,753 | 91,506 | | 457,259 | | (31,656) | 425,603 |
| Materials & Supplies | - | 925 | | 925 | | | 925 |
| Prepayments | 90,684 | 10,403 | | 101,087 | | | 101,087 |
| Other & Deferred Charges | 512,492 | 117,688 | (108,554) | 521,626 | | | 521,626 |
| | 968,929 | 220,522 | (108,554) | 1,080,896 | | (31,656) | 1,049,241 |
| DEDUCT: | | | | | | | |
| Customer Advances | - | | | - | | | - |
| Customer Deposits | 2,063 | 2 | | 2,065 | | | 2,065 |
| Deferred Income Tax | 3,288,402 | 585,642 | | 3,874,044 | | | 3,874,044 |
| Deferred Gain on Loans | 85,574 | - | | 85,574 | | | 85,574 |
| | 3,376,039 | 585,644 | | 3,961,683 | | | 3,961,683 |
| TOTAL Rate Base | \$ 13,631,630 | \$ 5,305,794 | \$ (4,646,514) | \$ 14,290,910 | \$ 9,276,151 | \$ (31,656) | \$ 23,535,405 |
| DEDUCT: Equity Related Assets | | | | | | \$ (16,124,105) ² | \$ (16,124,105) |
| ADD: Rate Stabilization Cash Reserve | | | | | | \$ - | \$ - |
| TOTAL Rate Base | \$ 13,631,630 | \$ 5,305,794 | \$ (4,646,514) | \$ 14,290,910 | \$ 9,276,151 | \$ (16,155,761) | \$ 7,411,300 |

(1) Eliminate Capital Recovery Surcharge Assets and related revenues and depreciation expense.

(2) Includes Elimination of MARA

PENNICHUCK EAST UTILITY, INC.
Pro Forma Adjustments to Rate Base
For the Twelve Months Ended December 31, 2009

Proposed Settlement
Schedule 3
Attachment A
Nashua Acquisition

Pro Forma
Adjustments

1 CASH WORKING CAPITAL

To reduce working capital as a result of O&M
pro forma adjustments. (Schedule 1) (256,736)
12.33%

\$ (31,656)

2 EQUITY DEDUCTION

To deduct pro rata share of assets associated with
common equity to be purchased by City Bonds at
closing.

\$ (6,847,954)

To deduct all equity associated with MARA

\$ (9,276,151)

Total Equity Deduction

\$ (16,124,105)

3 RATE STABILIZATION CASH RESERVE

To establish a rate stabilization reserve for the three (3)
regulated utilities at closing.

Less: Rate Stabilization Reserve \$ 5,000,000
PEU Pro Rata Share 0.00%

Total PEU Pro Rata Share for City Bond

\$ -

(1) Pro Rata Calculation as follows:

| Rate Base | | |
|------------------------------------|----------------------|----------------|
| PWW & Southwood Equity (8/31/2011) | \$ 56,677,987 | 100% |
| PEU Equity (8/31/2011) | \$ 6,847,954 | 0% |
| PAC Equity (8/31/2011) | \$ 1,071,318 | 0% |
| | <u>\$ 64,597,259</u> | <u>100.00%</u> |

PEU @ 6.5%

PENNICHUCK EAST UTILITY, INC.
Overall Rate of Return
For the Twelve Months Ended December 31, 2009

Proposed Settlement
Schedule 4
Nashua Acquisition
Proposed Adjustments

NASHUA ACQUISITION - CBFRR

| <u>Capital Component</u> | <u>Pro Forma Test</u> <u>Year</u> | <u>MARA</u> <u>Adjustment</u> | <u>RSF</u> <u>Adjustment</u> | <u>CBFRR</u> <u>Adjustment</u> | <u>Adjusted</u> <u>Amount</u> | <u>Component</u> <u>Ratio</u> | <u>Component</u> <u>Cost Rate</u> | <u>Weighted</u> <u>Average</u> <u>Cost Rate</u> |
|--------------------------|--------------------------------------|----------------------------------|---------------------------------|-----------------------------------|----------------------------------|----------------------------------|--------------------------------------|---|
| Long-term Debt | \$7,856,291 | | | | \$7,856,291 | 100.00% | 4.67% | 4.67% |
| Short-term Debt | - | | | | \$0 | 0.00% | 0.00% | 0.00% |
| Preferred Stock | - | | | | \$0 | 0.00% | 0.00% | 0.00% |
| Common Equity | 6,847,954 | \$ 9,276,151 | \$ - | \$ (16,124,105) ¹ | - | 0.00% | 7.19% ² | 0.00% |
| Overall Rate of Return | \$ 14,704,245 | \$ 9,276,151 | \$ - | \$ (16,124,105) | \$ 7,856,291 | 100.00% | | 4.67% |
| | | | | | | | Authorized ROR | 7.60% |
| | | | | | | | Proposed Adjustment | <u><u>-2.93%</u></u> |

Notes:

- 1 To eliminate common and MARA equity purchased by City Bond as part of closing transaction.
- 2 The component cost rate (allowed ROE) with respect to any Common Equity in any future rate case shall be equal to (i) the most recent 12-month average of thirty-year United States Treasury bond interest rates as derived from the Federal Reserve Statistical Release, H.15(519). "Selected Interest Rates", or a successor or equivalent publication, including the interest rate published on, or as close as possible after, a date four months following the proposed effective date of proposed changes in the utility's rates as set forth in the rate filing, plus (ii) 3.0%. As an example, the 12-month average including September 2011 was 4.19%, so the formula allowed ROE would be 7.19%.

PITTSFIELD AQUEDUCT COMPANY, INC.
COMPUTATION OF REVENUE DEFICIENCY
For The Twelve Months Ended December 31, 2009

Proposed Settlement
COMBINED INCREASE
Schedule A

| PRO FORMA TEST YEAR | DW10-090, OCA 3-1 | | DW10-090, STAFF 3-5 | | City Bond Fixed Revenue Requirement (CBFRR) | | | | |
|---|--|--|---|--|---|----------------------------|---|------------------------------------|-------------------|
| | PROPOSED DATA REQUESTS ADJUSTMENTS (1) | 12 MONTHS WITH PROPOSED ADJUSTMENTS 12/31/09 | STEP INCREASE PRO FORMA ADJUSTMENTS (1) | COMBINED PRO FORMA & STEP INCREASE FORMATA TEST YEAR | ¹ Final Adjustment DW 10-090 | Final Rate Order DW 10-090 | CITY OF NASHUA ADJUSTMENTS FOR CBFRR APPROACH | CITY OF NASHUA REVENUE REQUIREMENT | |
| Consolidated Rate Base | \$ 1,962,038 | \$ (61,125) | \$ 1,900,913 | \$ 112,476 | \$ 2,013,389 | \$ (7) | \$ 2,013,382 | (\$1,075,185) | \$938,196 |
| RATE of Return | 7.60% | | 7.60% | | 7.60% | | 7.60% | -2.20% | 5.39% |
| Income Required | \$ 149,023 | | \$ 144,380 | | \$ 152,923 | | \$ 152,922 | | \$ 50,601 |
| Adjusted NOI | \$ 75,753 | \$ 3,595 | \$ 79,348 | \$ (3,632) | \$ 75,716 | \$ 1,524 | \$ 77,240 | (\$81,086) | (\$3,846) |
| Deficiency | \$ 73,270 | | \$ 65,032 | | \$ 77,207 | | \$ 75,682 | | \$ 54,447 |
| Tax Factor | 60.39% | | 60.39% | | 60.39% | | 60.39% | | 60.39% |
| Revenue Deficiency | \$ 121,328 | | \$ 107,666 | \$ 20,161 | \$ 127,847 | \$ (2,525) | \$ 125,322 | | \$ 90,158 |
| Water Revenues | \$ 607,133 | \$ 126 | \$ 607,259 | - | \$ 607,259 | | \$ 607,259 | | \$ 414,092 |
| Proposed Revenue Inc | 19.98% | | 17.73% | 3.32% | 21.05% | -0.42% | 20.63% | | 14.85% |
| Total Revenue | <u>\$ 728,461</u> | | <u>\$ 714,945</u> | | <u>\$ 735,106</u> | | <u>\$ 732,581</u> | | <u>\$ 504,250</u> |
| ADD: City Bond Fixed Revenue Requirement (Schedule A, Attach A) | | | | | | | | | \$193,167 |
| Total Revenue: | | | | | | | | | <u>\$ 697,417</u> |

1. Adjustments shown are those required to adjust PAC's rate base and NOI to that which was approved in the DW10-090 order

PITTSFIELD AQUEDUCT COMPANY
Pro Forma Adjustments to Net Operating Income
For The Twelve Months Ended December 31, 2009

Proposed Settlement
Schedule A
Attachment A
Nashua Acquisition

Pro Forma
Adjustments

Revenue

1 To recognize adjustment of fixed annual revenue requirement to meet City Bond obligation.

| | |
|--------------------|--------------------|
| Total City Bond | \$ 152,099,885 (1) |
| Bond Interest Rate | 6.50% |
| Bond Period | 30 yrs |

Calculated pro rata for City Bond based on a constant payment and a constant bond rate.

Calculated as follows:

| | | |
|--|--------------|----------------------|
| PAC Pro Rata Share | \$ 2,522,512 | |
| Less: Rate Stabilization Reserve | \$ 5,000,000 | |
| PAC Pro Rata Share (Sch 3, Attach A) | <u>0.00%</u> | |
| | | \$0 |
| Total PAC Pro Rata Share for City Bond | \$ 2,522,512 | |
| Bond Interest Rate | 6.50% | |
| Bond Period | 30 yrs | <u>\$193,167 (2)</u> |

Notes:

(1) Pro Rata Calculation as follows:

| | | |
|------------------------------------|----------------------|----------------|
| PWW & Southwood Equity (8/31/2011) | \$ 56,677,987 | 87.74% |
| PEU Equity (8/31/2011) | \$ 6,847,954 | 10.60% |
| PAC Equity (8/31/2011) | \$ 1,071,318 | 1.66% |
| | <u>\$ 64,597,259</u> | <u>100.00%</u> |

| | | |
|--|----------------|-----------------------|
| PWW & Southwood % CBFRR based on pro rata equity | 87.74% | \$ 133,453,268 |
| PEU % CBFRR based on pro rata equity | 10.60% | \$ 16,124,105 |
| PAC % CBFRR based on pro rata equity | 1.66% | \$ 2,522,512 |
| | <u>100.00%</u> | <u>\$ 152,099,885</u> |

(2) Any income taxes on revenues will be offset by deductions for interest expense on City Bonds calculated below and depreciation expense associated with equity related assets per Schedule 1, Attachment A, page 2.

| | |
|--|-------------|
| Total Interest Payment on City Bond (year one) | \$9,886,493 |
| PAC Pro Rata Share | 1.66% |
| PAC Pro Rata Interest Benefit | \$163,963 |

PITTSFIELD AQUEDUCT COMPANY
 OPERATING INCOME STATEMENT
 For The Twelve Months Ended December 31, 2009

Proposed Settlement
 Schedule 1
 Nashua Acquisition
 Pro Forma Adjustments

| | DW10-090, OCA 3-1 | | DW10-090, OCA 3-1 | | CBFRR APPROACH W/MARA | | | | | |
|--------------------------------------|------------------------------------|--|--|---|--|-------------------------------|-------------------------------|---|---|--|
| | PRO FORMA 12 MONTHS 12/31/09 | PROPOSED DATA REQUESTS ADJUSTMENTS | 12 MONTHS WITH PROPOSED ADJUSTMENTS 12/31/09 | STEP INCREASE PRO FORMA ADJUSTMENTS | COMBINED PRO FORMA & STEP INCREASE FORMA TEST YEAR | Final Adjustment DW 10-090 | Final Rate Order DW 10-090 | CITY OF NASHUA MARA ADJUSTMENT PER BOOKS | CITY OF NASHUA ADJUSTMENTS FOR CBFRR APPROACH | CITY OF NASHUA CBFRR APPROACH REVENUE REQUIREMENT |
| Water Sales | \$ 607,133 | \$ 126 | \$ 607,259 | \$ - | \$ 607,259 | | \$ 607,259 | | (\$193,167) | \$ 414,092 |
| Other Operating Revenue | 5,429 | - | 5,429 | - | 5,429 | | 5,429 | | | 5,429 |
| Total Revenues | 612,562 | 126 | 612,688 | - | 612,688 | | 612,688 | - | (193,167) | 419,521 |
| Production Expenses | 86,392 | - | 86,392 | - | 86,392 | | 86,392 | | | 86,392 |
| Transmission & Distribution Expenses | 52,376 | - | 52,376 | - | 52,376 | | 52,376 | | | 52,376 |
| Customer Acct & Collection Exp | 19,953 | - | 19,953 | - | 19,953 | | 19,953 | | | 19,953 |
| Administrative & General Expense | 61,371 | (1,364) | 60,007 | - | 60,007 | | 60,007 | | | 60,007 |
| Final Rate Order Adjustments | | | | | | (1,524) | (1,524) | | | |
| Inter Div Management Fee | 160,026 | (238) | 159,788 | - | 159,788 | | 159,788 | | (31,364) | 128,424 |
| Total Operating Expense | 380,118 | (1,602) | 378,516 | - | 378,516 | (1,524) | 376,992 | - | (31,364) | 345,628 |
| Dep Exp/Acq Adj Expense | 86,086 | - | 86,086 | 2,050 | 88,136 | | 88,136 | | (27,533) (2) | 60,603 |
| Amortization Expense: CIAC | (24,146) | - | (24,146) | - | (24,146) | | (24,146) | | | (24,146) |
| Amortization Expense: MARA | | | | | | | | 16,801 | (16,801) (3) | - |
| Amortization Expense | 4,458 | - | 4,458 | - | 4,458 | | 4,458 | | | 4,458 |
| Property Taxes | 81,437 | (4,225) | 77,212 | 3,964 | 81,176 | | 81,176 | | | 81,176 |
| Income Tax | 8,857 | 2,358 | 11,215 | (2,382) | 8,833 | | 8,833 | | (53,185) (1) | (44,351) |
| Total Operating Deductions | 156,691 | (1,867) | 154,824 | 3,632 | 158,456 | - | 158,456 | 16,801 | (97,519) | 77,739 |
| Net Operating Income | \$ 75,753 | \$ 3,595 | \$ 79,348 | \$ (3,632) | \$ 75,716 | \$ 1,524 | \$ 77,240 | \$ (16,801) | (\$64,285) | (\$3,846) |

Notes:

(1) Pro Forma Income Taxes calculated as follows:

| | |
|--|----------------------|
| City Bond Revenue Requirement | \$ (193,167) |
| Reduced operating expenses and deductions | 558,897 |
| NOI proforma adjustments before income taxes | \$ (134,271) |
| Income Taxes | 39.61% \$ (53,185) * |

* Negative Income Taxes will be offset by taxes on additional revenues from revenue deficiency per Schedule A.

(2) Eliminate Depreciation Expenses for Equity related assets bought out by City

(3) Eliminate Entire MARA Amortization Expense Attributable to Equity-Related Assets Acquired by City

PITTSFIELD AQUEDUCT COMPANY
Pro Forma Adjustments to Net Operating Income
For The Twelve Months Ended December 31, 2009

Proposed Settlement
Schedule 1
Attachment A
Nashua Acquisition

Pro Forma
Adjustments

Revenue

- 1 To recognize adjustment of fixed annual revenue requirement to meet City Bond obligation.

| | | |
|--|----------------|--------------|
| Total City Bond | \$ 152,099,885 | |
| Bond Interest Rate | 6.50% | |
| Bond Period | 30 yrs | |
| <i>Calculated pro rata for City Bond based on a constant payment and a constant bond rate.</i> | | |
| <i>Calculated as follows:</i> | | |
| PAC Pro Rata Share | \$ 2,522,512 | |
| Less: Rate Stabilization Reserve | \$ 5,000,000 | |
| PAC Pro Rata Share (Sch 3,A) | 0.00% | |
| | \$0 | |
| Total PAC Pro Rata Share for City Bond | \$ 2,522,512 | |
| Bond Interest Rate | 6.50% | |
| Bond Period | 30 yrs | |
| | | \$193,167.50 |

Pro Rata Calculation as follows:

| | | |
|--|---------------|----------------|
| PWW & Southwood Equity (8/31/2011) | \$ 56,677,987 | 87.74% |
| PEU Equity (8/31/2011) | \$ 6,847,954 | 10.60% |
| PAC Equity (8/31/2011) | \$ 1,071,318 | 1.66% |
| | \$ 64,597,259 | 100% |
| PWW & Southwood % CBFRR based on pro rata equity | 87.74% | \$ 133,453,268 |
| PEU % CBFRR based on pro rata equity | 10.60% | \$ 16,124,105 |
| PAC % CBFRR based on pro rata equity | 1.66% | \$ 2,522,512 |
| | 100.00% | \$ 152,099,885 |

2 Management Fee

| | | |
|----------------------------------|-------|----------------------------|
| <i>Allocation from Corporate</i> | | |
| Professional Fees & Services | | \$ (132,339) |
| D&O Insurance | | (86,479) |
| Annual Report Cost | | (24,965) |
| Auditors/SEC Legal Expense | | (210,888) |
| Corp Governance Legal/AST | | (32,053) |
| Directors Fees & Mtgs/Corp Secy | | (25,052) |
| EDGAR Filing/NASDAQ & Other | | (74,427) |
| % Allocation to PAC | 1.80% | \$ (586,203) \$ (10,552) |
| <i>Allocation from PWW</i> | | |
| Salaries | | \$ (771,596) |
| Bonus | | (28,500) |
| Benefits | | (336,507) |
| Meetings & Conventions | | (19,600) |
| Senior Management Vehicle | | (1,000) |
| % Allocation to Pac | 1.80% | \$ (1,156,203) \$ (20,812) |
| Total Management Fee | | \$ (31,364) |

3 Depreciation Expense

| | | |
|--|----------------|-------------|
| To eliminate depreciation expense for equity related assets purchased with City Bond as part of closing transaction at a composite depreciation rate of 2.57%. | \$ (1,071,318) | |
| | 2.57% | \$ (27,533) |

4 Amortization Expense

| | | |
|--|----------------------------------|--------------|
| To provide for amortization expense attributable to MARA based on rate and principal payment | \$ 2,522,512 (Sch 1 Ath A, Pg 1) | \$ 1,451,194 |
| Year One Amortization Expense | 1,071,318 (Sch 4) | 30 |
| | \$ 1,451,194 | 6.50% |
| | | \$ 16,801 |

5 Income Taxes

| | | |
|--|--------------|-------------|
| To record income taxes as a result of pro forma adjustments to income statement. | \$ (134,271) | |
| | 39.61% | \$ (53,185) |

Note: *Management fee allocation based on current percentage allocation.

PITTSFIELD AQUEDUCT COMPANY
COMPUTATION OF RATE BASE
For The Thirteen Months Ended December 31, 2009

Proposed Settlement
Schedule 3
Nashua Acquisition
Pro Forma Adjustments

| Description | DW10-090, OCA 3-1 | | DW10-090, OCA 3-1 | | CBFRR APPROACH W/MARA | | | | | |
|---|------------------------|--|---|---|---|-------------------------------|-------------------------------|---|---|--|
| | Pro Forma Test Year | PROPOSED DATA REQUESTS ADJUSTMENTS | 12 MONTHS WITH PROPOSED ADJUSTMENTS 12/31/09 | STEP INCREASE PRO FORMA ADJUSTMENTS | COMBINED PRO FORMA & STEP INCREASE FORMA TEST YEAR | Final Adjustment DW 10-090 | Final Rate Order DW 10-090 | CITY ADJUSTMENTS FOR PWW'S PRO RATA SHARE OF MARA | PRO FORMA NASHUA ACQUISITION ADJUSTMENTS | PRO FORMA NASHUA RATE BASE FOR PWW |
| Plant in Service | \$ 3,846,825 | \$ - | \$ 3,846,825 | \$ 114,526 | \$ 3,961,351 | \$ - | \$ 3,961,351 | | | \$ 3,961,351 |
| Adjustment to Rate Base per Final Rate Order | | | | | | (7) | (7) | | | (7) |
| Accum Deprec | 1,036,132 | | 1,036,132 | 2,050 | 1,038,182 | | 1,038,182 | | | 1,038,182 |
| Accum Deprec: Loss | 114,504 | | 114,504 | - | 114,504 | | 114,504 | | | 114,504 |
| Accum Deprec: COR | 406 | | 406 | - | 406 | | 406 | | | 406 |
| Municipal Acquisition Regulatory Asset (MARA) | | | | | | | | 1,451,194 | | 1,451,194 |
| Accum Amort MARA Adj | | | | | | | | | | - |
| CIAC | 1,148,636 | | 1,148,636 | - | 1,148,636 | | 1,148,636 | | | 1,148,636 |
| Amort of CIAC | 256,418 | | 256,418 | - | 256,418 | | 256,418 | | | 256,418 |
| | \$ 2,033,385 | \$ - | \$ 2,033,385 | \$ 112,476 | \$ 2,145,861 | \$ (7) | \$ 2,145,854 | \$ 1,451,194 | \$ - | \$ 3,597,054 |
| ADD: | | | | | | | | | | |
| Working Cap | 111,754 | (61,125) | 50,629 | - | 50,629 | | 50,629 | | (3,867) | 46,762 |
| Materials & Supplies | 588 | | 588 | - | 588 | | 588 | | | 588 |
| Prepayments | 7,797 | | 7,797 | - | 7,797 | | 7,797 | | | 7,797 |
| Other & Deferred Charges | 3,505 | | 3,505 | - | 3,505 | | 3,505 | | | 3,505 |
| | \$ 123,644 | \$ (61,125) | \$ 62,519 | \$ - | \$ 62,519 | \$ - | \$ 62,519 | \$ - | \$ (3,867) | \$ 58,652 |
| DEDUCT: | | | | | | | | | | |
| Customer Advances | | | | | | | | | | \$0 |
| Customer Deposits | | | | | | | | | | \$0 |
| Deferred Income Tax | 194,991 | | 194,991 | | 194,991 | | 194,991 | | | \$194,991 |
| | \$ 194,991 | \$ - | \$ 194,991 | \$ - | \$ 194,991 | \$ - | \$ 194,991 | \$ - | \$ - | \$ 194,991 |
| TOTAL Rate Base | \$ 1,962,038 | \$ (61,125) | \$ 1,900,913 | \$ 112,476 | \$ 2,013,389 | \$ (7) | \$ 2,013,382 | \$ 1,451,194 | \$ (3,867) | \$ 3,460,715 |
| DEDUCT: Equity Related Assets | | | | | | | | | (2,522,512) 1 | (2,522,512) |
| ADD: Rate Stabilization Cash Reserve | | | | | | | | | | |
| Total Rate Base: | \$ 1,962,038 | \$ (61,125) | \$ 1,900,913 | \$ 112,476 | \$ 2,013,389 | \$ (7) | \$ 2,013,382 | \$ 1,451,194 | \$ (2,526,379) | \$ 938,203 |

1. Includes the elimination of MARA

PITTSFIELD AQUEDUCT COMPANY
Pro Forma Adjustments to Rate Base
For The Twelve Months Ended December 31, 2009

Proposed Settlement
Schedule 3
Attachment A
Nashua Acquisition

| | | <u>Pro Forma</u> <u>Adjustments</u> |
|--|-----------------------------|--|
| 1 CASH WORKING CAPITAL | | |
| To reduce working capital as a result of O&M Expense pro forma adjustments (Schedule 1). | (\$31,364) <u>12.33%</u> | <u>\$ (3,867)</u> |
| 2 EQUITY DEDUCTION | | |
| To deduct pro rata share of assets associated with common equity to be purchased by City Bonds at closing. | | \$ (1,071,318) |
| To deduct all equity value associated with MARA | | \$ (1,451,194) |
| Total Equity Deduction | | <u>\$ (2,522,512)</u> |
| 3 RATE STABILIZATION CASH RESERVE | | |
| To establish a rate stabilization reserve for the three (3) regulated utilities at closing. | | |
| Less: Rate Stabilization reserve (Sch A, Attach A) | \$5,000,000 | |
| PAC Pro Rata Share | <u>0.00% (1)</u> | <u>\$ -</u> |

(1) Pro Rata Calculation as follows:

| Rate Base | | |
|--|----------------------|----------------|
| PWW Rate Base (DW10-091, Per Final Order) | \$ 56,677,987 | 100.00% |
| PEU Rate Base (12/31/2009) | \$ 6,847,954 | 0.00% |
| PAC Rate Base (DW10-090), Per Final Order) | \$ 1,071,318 | 0.00% |
| | <u>\$ 64,597,259</u> | <u>100.00%</u> |

Pittsfield Aqueduct Company, Inc.
Overall Rate of Return
For the Twelve Months Ended December 31, 2009

Proposed Settlement
Schedule 4
Nashua Acquisition
Pro Forma Adjustments

| Capital Component | DW10-090 | | NASHUA ACQUISITION - CBFRR | | | | | | | |
|------------------------|---------------------|------------|----------------------------|-----------------|----------------|-----------------------------|-----------------|-----------------|---------------------|----------------------------|
| | Pro Forma Test Year | Adjustment | Final Rate Order | MARA Adjustment | RSF Adjustment | CBFRR Adjustment | Adjusted Amount | Component Ratio | Component Cost Rate | Weighted Average Cost Rate |
| Long-term Debt | 776,850 | | 776,850 | | | | \$ 776,850 | 75.28% | 7.00% | 5.27% |
| Short-term Debt | 255,038 | | 255,038 | | | | \$ 255,038 | 24.72% | 0.50% | 0.12% |
| Preferred Stock | - | | - | | | | \$ - | 0.00% | 0.00% | 0.00% |
| Common Equity | 1,071,318 | | 1,071,318 | \$ 1,451,194 | \$ 0 | \$ (2,522,512) ¹ | \$ - | 0.00% | 7.19% ² | 0.00% |
| Overall Rate of Return | \$ 2,103,206 | | \$ 2,103,206 | \$ 1,451,194 | \$ - | \$ (2,522,512) | \$ 1,031,888 | 100.00% | | 5.39% |
| | | | | | | | | | Original Filing | 7.60% |
| | | | | | | | | | Proposed Adjustment | 7.60% -2.20% |

Notes:

- 1 To eliminate common and MARA equity purchased by City Bond as part of the closing transaction.
- 2 The component cost rate (allowed ROE) with respect to any Common Equity in any future rate case shall be equal to (i) the most recent 12-month average of thirty-year United States Treasury bond interest rates as derived from the Federal Reserve Statistical Release, H.15(519), "Selected Interest Rates", or a successor or equivalent publication, including the interest rate published on, or as close as possible after, a date four months following the proposed effective date of proposed changes in the utility's rates as set forth in the rate filing, plus (ii) 3.0%. As an example, the 12-month average including September 2011 was 4.19%, so the formula allowed ROE would be 7.19%.

PENNICHUCK WATER WORKS, INC.
COMPUTATION OF REVENUE DEFICIENCY
For The Twelve Months Ended December 31, 2009

Proposed Settlement
COMBINED INCREASE
Schedule A
9/15/2011

| DW10-091 | DW10-091, OCA 3-1 | | DW10-091, STAFF 3-13 | | City Bond Fixed Revenue Requirement (CBFRR) | | | | | | | | |
|------------------------|----------------------|--|--|---|---|---------------------------------------|---|----------------------------|----------------------------|------------------|--|---|------------------------------------|
| | PRO FORMA TEST YEAR | PROPOSED DATA REQUESTS ADJUSTMENTS (1) | 12 MONTHS WITH PROPOSED ADJUSTMENTS 12/31/09 | STEP INCREASE PRO FORMA ADJUSTMENTS (1) | COMBINED PRO FORMA & STEP INCREASE FORM TEST YEAR | WITHOUT EMINENT DOMAIN COSTS RECOVERY | COMBINED PRO FORMA & STEP INCREASE FORM TEST YEAR | Final Adjustment DW 10-091 | Final Rate Order DW 10-091 | Southwood Assets | Final Rate Order DW 10-091 & Southwood | CITY OF NASHUA ADJUSTMENTS FOR CBFRR APPROACH | CITY OF NASHUA REVENUE REQUIREMENT |
| Consolidated Rate Base | \$ 97,733,490 | \$ (433,999) | \$ 97,299,491 | \$ 3,307,877 | \$ 100,607,368 | \$ (4,824,907) | \$ 95,782,461 | \$ (3,562,467) | \$ 92,219,994 | \$ 2,524,971 | \$ 94,744,965 | (\$1,833,420) | \$ 42,911,544 |
| RATE of Return | 7.85% | 0.09% | 7.95% | | 7.95% | | 7.95% | 0.03% | 7.98% | | 7.98% | -1.95% | 6.04% |
| Income Required | \$ 7,677,233 | \$ - | \$ 7,733,642 | \$ - | \$ 7,996,562 | \$ - | \$ 7,613,064 | \$ - | \$ 7,362,859 | \$ - | \$ 7,564,453 | \$ - | \$ 2,591,857 |
| Adjusted NOI | \$ 5,312,859 | \$ (52,593) | \$ 5,260,266 | \$ (127,644) | \$ 5,132,622 | \$ 323,751 | \$ 5,456,373 | \$ 166,809 | \$ 5,623,182 | \$ - | \$ 5,623,182 | (\$3,746,279) | \$ 1,876,903 |
| Deficiency | \$ 2,364,374 | \$ - | \$ 2,473,376 | \$ - | \$ 2,863,940 | \$ - | \$ 2,156,591 | \$ - | \$ 1,739,677 | \$ - | \$ 1,941,271 | \$ - | \$ 714,954 |
| Tax Factor | 60.39% | | 60.39% | | 60.39% | | 60.39% | | 60.39% | | 60.39% | | 60.39% |
| Revenue Deficiency | \$ 3,915,175 | \$ - | \$ 4,095,672 | \$ 646,736 | \$ 4,742,408 | \$ (1,171,136) | \$ 3,571,272 | \$ (690,535) | \$ 2,880,737 | \$ 333,820 | \$ 3,214,557 | \$ - | \$ 1,183,895 |
| Water Revenues | \$ 24,116,426 | \$ - | \$ 24,116,426 | \$ - | \$ 24,116,426 | \$ - | \$ 24,116,426 | \$ - | \$ 24,116,426 | \$ - | \$ 24,116,426 | \$ - | \$ 15,082,011 |
| Proposed Revenue Inc | 16.23% | | 16.98% | 2.68% | 19.66% | -4.86% | 14.81% | -2.86% | 11.95% | 1.38% | 13.33% | | 4.91% |
| Total Revenue | <u>\$ 28,031,601</u> | | <u>\$ 28,212,098</u> | | <u>\$ 28,858,834</u> | | <u>\$ 27,687,698</u> | | <u>\$ 26,997,163</u> | | <u>\$ 27,330,983</u> | | \$ 16,265,906 |

ADD: City Bond Fixed Revenue Requirement (Schedule A, Attachment A)

\$9,034,414

Total City Revenue:

\$ 25,300,321

1. Adjustments shown are those required to adjust PWW's rate base and NOI to those approved in the DW10-091 Rate Order

Pennepack Water Works Inc
Pro Forma Adjustments to Revenue Requirement
For The Twelve Months Ended December 31, 2009

Proposed Settlement
Schedule A
Attachment A
Nashua Acquisition
9/15/2011

Pro Forma
Adjustments

Revenue
1 To recognize adjustment of fixed annual revenue
requirement to meet City Bond obligation

| | |
|--------------------|---------------|
| Total City Bond | \$152,099,895 |
| Bond Interest Rate | 5.70% |
| Bond Period | 30 yrs |

Calculated pro rata for City Bond based on a
constant payment and a constant bond rate.

| | | |
|--|---------------|------------------------|
| Calculated as follows: | | |
| Less: Rate Stabilization Reserve | \$5,000,000 | \$133,453,268 (1) |
| PMW Pro Rate Share (see 2A) | 100.00% | |
| Less: PMW Pro Rate Share of Rate Stabilization Reserve | \$5,000,000 | |
| Less: City Eminent Domain Cost Recovery | \$0 | |
| Total PMW Pro Rate Share for CEFRR/MARA | \$128,453,268 | |
| Bond Interest Rate | 5.70% | |
| Bond Period | 30 yrs. | |
| | | <u>\$9,034,414 (2)</u> |

Notes:

(1) Pro Rata Calculation as follows:

| | | |
|--|----------------------|----------------------|
| PMW & Southwood Equity (6/31/2011) | \$ 58,617,987 | 87.74% |
| PEU Equity (6/31/2011) | \$ 1,847,656 | 10.90% |
| PAC Equity (6/31/2011) | \$ 1,071,318 | 1.88% |
| | <u>\$ 61,537,259</u> | <u>100.00%</u> |
| PMW & Southwood % CEFRR based on pro rata equity | 87.74% | \$133,453,268 |
| PEU % CEFRR based on pro rata equity | 10.60% | \$16,124,105 |
| PAC % CEFRR based on pro rata equity | 1.68% | \$2,822,512 |
| Total City Bond | 100.00% | <u>\$152,099,895</u> |

(2) Any income taxes on revenues will be offset by deductions for interest expense on City Bonds calculated below and depreciation expense associated with equity related assets per Schedule 1, Attachment A, page 2

| | |
|---|-------------|
| Total Interest Payment on City Bond (see one) | \$8,669,693 |
| PMW Pro Rate Share | 87.74% |
| PMW Pro Rate Interest Benefit | \$7,606,036 |

PENNICHUCK WATER WORKS, INC.
OPERATING INCOME STATEMENT
For The Twelve Months Ended December 31, 2009

Proposed Settlement
Schedule 1
Nashua Acquisition
Pro Forma Adjustments
9/16/2011

| | DW10-091, OCA 3-1 | | DW10-091, STAFF 3-13 | | LESS EMINENT DOMAIN | | CBFRR APPROACH W/MARA | | | | | |
|--------------------------------------|------------------------------|------------------------------------|--|-------------------------------------|---|---------------------------------------|--|----------------------------|----------------------------|--|---|---|
| | PRO FORMA 12 MONTHS 12/31/09 | PROPOSED DATA REQUESTS ADJUSTMENTS | 12 MONTHS WITH PROPOSED ADJUSTMENTS 12/31/09 | STEP INCREASE PRO FORMA ADJUSTMENTS | COMBINED TEST YEAR & STEP PRO FORMA TEST YEAR | WITHOUT EMINENT DOMAIN COSTS RECOVERY | COMBINED PRO FORMA & STEP INCREASE PRO FORMA TEST YEAR | Final Adjustment DW 10-091 | Final Rate Order DW 10-091 | CITY OF NASHUA MARA ADJUSTMENT PER BOOKS | CITY OF NASHUA ADJUSTMENTS FOR CBFRR APPROACH | CITY OF NASHUA CBFRR APPROACH REVENUE REQUIREMENT |
| Water Sales | \$ 24,116,426 | \$ - | \$ 24,116,426 | \$ - | \$ 24,116,426 | \$ - | \$ 24,116,426 | | 24,116,426 | | (\$9,034,414) | \$ 15,082,011 |
| Water Sales for Resale | 698 | - | 698 | - | 698 | - | 698 | | 698 | | | 698 |
| Other Operating Revenue | 365,266 | (1,330) | 363,936 | - | 363,936 | - | 363,936 | | 363,936 | | | 363,936 |
| Total Revenues | 24,482,389 | (1,330) | 24,481,060 | - | 24,481,060 | - | 24,481,060 | | 24,481,060 | | (\$9,034,414) | 15,446,645 |
| Production Expenses | 3,337,933 | (36,485) | 3,301,448 | 55,750 | 3,357,199 | - | 3,357,199 | | 3,357,199 | | | 3,357,199 |
| Transmission & Distribution Expenses | 1,379,179 | (3,214) | 1,375,965 | - | 1,375,965 | - | 1,375,965 | | 1,375,965 | | | 1,375,965 |
| Engineering Expense | 574,394 | - | 574,394 | - | 574,394 | - | 574,394 | | 574,394 | | | 574,394 |
| Customer Acct & Collection Exp | 434,974 | - | 434,974 | - | 434,974 | - | 434,974 | | 434,974 | | | 434,974 |
| Administrative & General Expense | 6,142,486 | (42,904) | 6,099,583 | - | 6,099,583 | - | 6,099,583 | | 6,099,583 | | (1,125,625) | 4,973,958 |
| Final Rate Order Adjustments | | | | | | | | (166,809) | (166,809) | | | (166,809) |
| Inter Div Management Fee | (1,476,315) | 7,951 | (1,468,354) | - | (1,468,354) | - | (1,468,354) | | (1,468,354) | | (134,985) | (1,603,339) |
| Total Operating Expense | 10,392,652 | (74,642) | 10,318,010 | 55,750 | 10,373,760 | - | 10,373,760 | (166,809) | 10,206,951 | - | (1,260,610) | 8,946,342 |
| Dep Exp/Acq Adj Expense | 4,070,540 | (7,888) | 4,062,652 | 80,768 | 4,143,420 | - | 4,143,420 | | 4,143,420 | | (1,516,284) ⁽³⁾ | 2,627,136 |
| Amortization Expense: CIAC | (480,385) | - | (480,385) | - | (480,385) | - | (480,385) | | (480,385) | | | (480,385) |
| Amortization Expense: MARA | - | - | - | - | - | - | - | | - | 956,930 | (956,930) ⁽⁴⁾ | - |
| Amortization Expense | 495,885 | (1,696) | 494,189 | - | 494,189 | (536,100) | (41,911) | | (41,911) | | - ⁽²⁾ | (41,911) |
| Gain on Disp/Utility Property | - | - | - | - | - | - | - | | - | | | - |
| Property Taxes | 2,674,109 | 169,984 | 2,844,093 | 74,847 | 2,918,940 | - | 2,918,940 | | 2,918,940 | | | 2,918,940 |
| Payroll Taxes | 520,118 | - | 520,118 | - | 520,118 | - | 520,118 | | 520,118 | | (54,044) | 466,074 |
| Income Tax | 1,496,612 | (34,495) | 1,462,117 | (83,722) | 1,378,395 | 212,349 | 1,590,744 | | 1,590,744 | | (2,457,197) ⁽¹⁾ | (866,452) |
| Total Operating Deductions | 8,776,879 | 125,905 | 8,902,784 | 71,893 | 8,974,678 | (323,751) | 8,650,927 | - | 8,650,927 | 956,930 | (4,984,455) | 4,623,401 |
| Net Operating Income | 5,312,859 | (52,593) | 5,260,266 | (127,644) | 5,132,622 | 323,751 | 5,456,373 | 166,809 | 5,623,182 | (956,930) | (\$2,789,349) | 1,876,902 |

Notes:

(1) Pro Forma Income Taxes calculated as follows.

| | |
|---|---------------|
| Total pro forma reduction in operating expenses | 2,830,938 |
| Total Proforma Revenue decrease | \$9,034,414 |
| Total Proforma NOI before income tax | (6,203,476) |
| | 39.61% |
| | (7,457,197) * |

*Negative Income Taxes will be offset by taxes on additional revenues from revenue delinquency per Schedule A.

(2) Amortization Expense associated with City Eminent Domain Cost Recovery over 30 years

(3) Eliminate Depreciation Expenses for Equity related assets bought by City

(4) Eliminate Entire MARA Amortization Expense Attributable to Equity-Related Assets Acquired by City

Pennobuck Water Works Inc
 Pro Forma Adjustments to Net Operating Income
 For The Twelve Months Ended December 31, 2009

Proposed Settlement:
 Schedule 1
 Attachment A
 Page 1
 Nashua Acquisition
 3/16/2011

CBFRR
 Pro Forma
 Adjustments

Revenue
 To receive adjustment of fixed annual revenue
 requirement to meet City Bond obligation
 Total City Bond \$152,098,885
 Bond Interest Rate 5.70%
 Bond Period 30 yrs

Calculated pro rata for City Bond based on a
 constant payment and a constant bond rate

Calculated as follows:
 PWW Pro Rata Share \$133,453,268
 Less: Rate Stabilization Reserve \$5,000,000
 PWW Pro Rata Share less 1st 100.00% \$5,000,000
 Less: PWW Pro Rata Share of Rate Stabilization Reserve
 Less: City Eminent Domain Cost Recovery \$0
 Total PWW Pro Rata Share for CBFRR/MARK \$128,453,268
 Bond Interest Rate 5.70%
 Bond Period 30 yrs

Pro Rata Calculation as follows:
 PWW & Southwood Equity (8/31/2011) \$58,677,987 67.74%
 P&U Equity (8/31/2011) \$5,847,954 10.00%
 PAC Equity (8/31/2011) \$1,071,518 1.69%
 \$64,597,259 100.00%

PWW & Southwood % CBFRR based on pro rata equity 87.74% \$133,453,268
 P&U % CBFRR based on pro rata equity 10.00% \$10,724,105
 PAC % CBFRR based on pro rata equity 1.69% \$1,722,512
 Total City Bond 100.00% \$152,098,885

Administrative and General
 Admin Officers \$ (238,596)
 City Appointed CEO \$ (723,000)
 \$ (961,596)

Bonuses
 Admin Officers \$ (7,000)
 City Appointed CEO \$ (386,500)
 \$ (393,500)

Benefits
 Pension \$ (153,000) \$ 6,175 \$ (146,825)
 401 K \$ (24,694) \$ 6,000 \$ (18,694)
 Medical \$ (82,522) \$ 5,487 \$ (77,035)
 Dental \$ (6,322) \$ 381 \$ (5,941)
 Group Life/Disability \$ (2,899) \$ 381 \$ (2,518)
 Officers Life \$ (1,891) \$ 1,480 \$ (411)
 Payroll Taxes \$ (6,387) \$ 1,480 \$ (4,907)
 Travel/Educational Seminars \$ (45,000) \$ 1,586 \$ (43,414)
 \$ (17,570) \$ (17,570) \$ (36,507)

Miscellaneous & Contingencies
 Service Management Vehicle \$ (19,600)
 \$ (19,600)

Marketplace
 Total Administrative and General \$ (1,179,699)
 Less Payroll Taxes \$ (52,024)
 Total Administrative and General \$ (1,231,723)

Pro Forma
 Total Administrative and General \$ (1,231,723)

Pennichuck Water Works Inc
Pro Forma Adjustments to Net Operating Income
For The Twelve Months Ended December 31, 2009

Proposed Settlement
Schedule 1
Attachment A
Page 2
Nashua Acquisition
9/15/2011

Pro Forma
Adjustments

| | | | | |
|---|------------------------------------|---------------------|-----------|-----------------------|
| Management Fee | | | | |
| Allocation from Corporate | | | | |
| Professional Fees & Services | | (132,339) | | |
| D&O Insurance | | (86,479) | | |
| Annual Report Cost | | (24,965) | | |
| Auditors/SEC Legal Expense | | (210,888) | | |
| Corp Governance Legal/AST | | (32,053) | | |
| Directors Fees & Mtgs/Corp Secy | | (25,052) | | |
| EDGAR Filing/NASDAQ & Other | | (74,427) | | |
| % to PWW | 74.90% * | <u>\$ (586,203)</u> | \$ | (439,066) |
| Allocation to Affiliates | | | | |
| Salaries | | (771,596) | | |
| Bonus | | (28,500) | | |
| Benefits | | (336,507) | | |
| Meetings & Conventions | | (19,600) | | |
| Senior Management Vehicle | | (1,000) | | |
| % to Affiliates | 26.30% * | <u>(1,156,203)</u> | \$ | 304,081 |
| Total Management Fee | | | <u>\$</u> | <u>(134,985)</u> |
| Note: | | | | |
| *Management fee allocation based on current percentage allocation. | | | | |
| Depreciation Expense | | | | |
| To eliminate depreciation expense for equity related assets purchased with City Bond as part of the closing transaction at a composite depreciation rate of 2.8%. | | 54,153,016 (1) | 2.80% | <u>\$ (1,516,284)</u> |
| Amortization Expense | | | | |
| To provide for amortization expense on City Eminent Domain Costs as follows: | | | | |
| City Eminent Domain Costs | | \$0 | | |
| Amortization Period years | | 30 | \$ | - |
| Amortization Expense | | | | |
| To provide for amortization expense attributable to MARA based on rate and principal payment | \$128,453,268 (Sch 1, Ath A, Pg 1) | \$71,775,281 | | |
| Year One Amortization Expense | 56,677,987 (Sch 4) | 30 | | |
| | <u>\$71,775,281</u> | <u>5.70%</u> | | <u>\$956,930</u> |
| Income Taxes | | | | |
| To record income taxes as a result of pro forma adjustments to income statement. | | | | <u>\$ (2,457,197)</u> |
| FINAL RATE ORDER NOI ADJUSTMENTS | | | | |
| To record final adjustments to Net Operating Income as approved in Rate Order DW10-091 | | | | <u>\$ (166,809)</u> |

PENNICHUCK WATER WORKS, INC.
COMPUTATION OF RATE BASE
For The Thirteen Months Ended December 31, 2009

Proposed Settlement
Schedule 3
Nashua Acquisition
Pro Forma Adjustments
9/15/2011

| Description | DW10-091, OCA 3-1 | | DW10-091, STAFF 3-13 | | LESS EMINENT DOMAIN | | CBFRR APPROACH W/MARA | | | | | |
|---|------------------------------------|--|-------------------------------------|---|---------------------------------------|--|----------------------------|------------------|--|--|--|-------------------------------------|
| | PROPOSED DATA REQUESTS ADJUSTMENTS | 12 MONTHS WITH PROPOSED ADJUSTMENTS 12/31/09 | STEP INCREASE PRO FORMA ADJUSTMENTS | COMBINED TEST YEAR & STEP PRO FORMA TEST YEAR | WITHOUT EMINENT DOMAIN COSTS RECOVERY | COMBINED PRO FORMA & STEP INCREASE FORMULA TEST YEAR | Final Adjustment DW 10-091 | Southwood Assets | Final Rate Order DW 10-091 & Southwood | CITY ADJUSTMENTS FOR PWWS PRO RATA SHARE OF MARA | PRO FORMA NASHUA ACQUISITION ADJUSTMENTS | PRO FORMA NASHUA RATE BASE FOR PWWS |
| Plant in Service | 153,687,293 | (421,246) | 153,266,047 | 3,904,456 | 157,170,503 | | | | | | | 157,170,503 |
| Adjustment to Rate Base per Final Rate Order | | | | | | | (3,562,467) | 2,524,971 | 157,170,503 | | | (1,037,496) |
| Accum Deprec | 38,260,317 | (7,888) | 38,252,429 | (36,477) | 38,215,952 | | | | 38,215,952 | | | 38,215,952 |
| Accum Deprec: Loss | 4,050,376 | - | 4,050,376 | 2,277 | 4,052,653 | | | | 4,052,653 | | | 4,052,653 |
| Accum Deprec: COR | 1,708,176 | - | 1,708,176 | 185,793 | 1,893,969 | | | | 1,893,969 | | | 1,893,969 |
| Theoretical Reserve | 882,900 | - | 882,900 | - | 882,900 | | | | 882,900 | | | 882,900 |
| Acquisition Adjustment | 844,905 | - | 844,905 | - | 844,905 | | | | 844,905 | | | 844,905 |
| Accum Amort Acq Adj | 296,522 | - | 296,522 | - | 296,522 | | | | 296,522 | | | 296,522 |
| Municipal Acquisition Regulatory Asset (MARA) | - | - | - | - | - | | | | - | 71,775,281 | | 71,775,281 |
| Accum Amort MARA Adj | - | - | - | - | - | | | | - | - | | - |
| CIAC | 26,898,154 | - | 26,898,154 | - | 26,898,154 | | | | 26,898,154 | | | 26,898,154 |
| Amort of CIAC | 4,037,526 | - | 4,037,526 | - | 4,037,526 | | | | 4,037,526 | | | 4,037,526 |
| | 98,659,417 | (413,358) | 98,246,059 | 4,129,003 | 102,375,062 | | | | 101,337,566 | 71,775,281 | - | 173,112,847 |
| ADD: | | | | | | | | | | | | |
| Working Cap | 1,296,371 | (9,203) | 1,287,168 | 6,874 | 1,294,042 | | | | 1,294,042 | (155,433) | | 1,138,608 |
| Materials & Supplies | 825,124 | - | 825,124 | - | 825,124 | | | | 825,124 | | | 825,124 |
| Prepaid Expenses | 391,159 | - | 391,159 | - | 391,159 | | | | 391,159 | | | 391,159 |
| Prepaid Property Taxes | 55,545 | - | 55,545 | - | 55,545 | | | | 55,545 | | | 55,545 |
| Prepaid Income Taxes | - | - | - | - | - | | | | - | | | - |
| Other & Deferred Charges | 12,529,973 | (11,438) | 12,518,535 | - | 12,518,535 | (4,824,907) | | | 7,693,628 | | | 7,693,628 |
| | 15,098,172 | (20,641) | 15,077,531 | 6,874 | 15,084,405 | (4,824,907) | | | 10,259,497 | | (155,433) | 10,104,064 |
| DEDUCT: | | | | | | | | | | | | |
| Customer Advances | 84,000 | - | 84,000 | - | 84,000 | | | | 84,000 | | | 84,000 |
| Customer deposits & other | 138,756 | - | 138,756 | - | 138,756 | | | | 138,756 | | | 138,756 |
| Deferred Income Tax | 12,920,917 | - | 12,920,917 | - | 12,920,917 | | | | 12,920,917 | | | 12,920,917 |
| Deferred Tax Liability | 855,191 | - | 855,191 | - | 855,191 | | | | 855,191 | | | 855,191 |
| Unamort ITC | 784,440 | - | 784,440 | - | 784,440 | | | | 784,440 | | | 784,440 |
| Deferred Rental Credits | 105,550 | - | 105,550 | 828,000 | 933,550 | | | | 933,550 | | | 933,550 |
| Unfunded FAS 106 and 158 Costs | 1,135,245 | - | 1,135,245 | - | 1,135,245 | | | | 1,135,245 | | | 1,135,245 |
| | 16,024,099 | - | 16,024,099 | 828,000 | 16,852,099 | | | | 16,852,099 | | | 16,852,099 |
| TOTAL Rate Base | 97,733,490 | (433,999) | 97,299,491 | 3,307,877 | 100,607,368 | (4,824,907) | | | 94,744,965 | 71,775,281 | (155,433) | 166,364,812 |
| DEDUCT: Equity Related Assets + MARA | | | | | | | | | | | (128,453,268) | 1 |
| ADD: City Eminent Domain Cost Recovery | | | | | | | | | | | 5,000,000 | |
| ADD: Rate Stabilization Cash Reserve | | | | | | | | | | | | 5,000,000 |
| Total Rate Base | 97,733,490 | (433,999) | 97,299,491 | 3,307,877 | 100,607,368 | (4,824,907) | | | 94,744,965 | 71,775,281 | (123,608,701) | 42,911,544 |

1. Includes the elimination of MARA

Pennichuck Water Works Inc
Pro Forma Adjustments to Rate Base
For The Twelve Months Ended December 31, 2009

Proposed Settlement
Schedule 3
Attachment A
Nashua Acquisition
9/15/2011

| | <u>Final Adjustment DW 10-091</u> | <u>CBFRR w/ MARA Pro Forma Adjustments</u> |
|--|---------------------------------------|--|
| CASH WORKING CAPITAL | | |
| To reduce working capital as a result of O&M Expenses Pro Forma Adjustments (Schedule 1). | (1,260,610) <u>12.33%</u> | <u>\$ (155,433)</u> |
| EQUITY DEDUCTION | | |
| To deduct pro rata share of assets associated with common equity to be purchased by City Bonds at closing. | | <u>\$ (56,677,987)</u> |
| To deduct all equity value associated with MARA | | <u>\$ (71,775,281)</u> |
| Total Equity Deduction | | <u>\$ (128,453,268)</u> |
| RATE STABILIZATION CASH RESERVE | | |
| To establish a rate stabilization reserve for the three (3) regulated utilities at closing. | | |
| Less: Rate Stabilization Reserve (Schedule 4) | \$5,000,000 (1) | |
| PWW Pro Rata Share | <u>100.00%</u> | |
| Total PWW Pro Rata Share for City Bond | | <u>\$ 5,000,000</u> |
| <i>(1) Pro Rata Calculation as follows:</i> | | |
| Rate Base | | |
| PWW (DW10-091, Per Final Order) | \$ 56,677,987 100.00% | |
| PEU (As of 12/31/2009) | \$ 6,847,954 0.00% | |
| PAC (DW10-091, Per Final Order) | \$ 1,071,318 0.00% | |
| | <u>\$64,597,259 100.00%</u> | |
| DEFERRED DEBITS | | |
| To provide for City Eminent Domain Costs that will be amortized over 30 years | | <u>\$ -</u> |
| FINAL RATE ORDER NOI ADJUSTMENTS | | |
| To record final adjustments to Rate Base as approved in Rate Order DW10-091 | <u>\$ (3,562,467)</u> | |

Pennichuck Water Works, Inc.
Overall Rate of Return

For the Twelve Months Ended December 31, 2009

NASHUA ACQUISITION - CBFRR

| Capital Component | Filed Amount | DW10-091, OCA 3-1 | | MARA Adjustment | RSF Adjustment | CBFRR Adjustment | Adjusted Amount | Component Ratio | Component Cost Rate | Weighted Average Cost Rate |
|-------------------------------|-----------------------|-----------------------|-----------------------|----------------------|----------------|-------------------------------|----------------------|-----------------|---------------------|----------------------------|
| | | Adjustment | Final Rate Order | | | | | | | |
| Long-term Debt | \$ 51,855,007 | \$ (2,301,100) | \$ 49,553,907 | | | | \$ 49,553,907 | 100.00% | 6.04% | 6.04% |
| Short-term Debt | - | | - | | | | - | 0.00% | 0.00% | 0.00% |
| Preferred Stock | - | | - | | | | - | 0.00% | 0.00% | 0.00% |
| Common Equity | 56,677,987 | | \$ 56,677,987 | \$ 71,775,281 | \$ - | \$ (128,453,268) ¹ | \$ - | 0.00% | 7.19% ² | 0.00% |
| Overall Rate of Return | \$ 108,532,994 | \$ (2,301,100) | \$ 106,231,894 | \$ 71,775,281 | \$ - | \$ (128,453,268) | \$ 49,553,907 | 100.00% | | 6.04% |

Final Rate Order - DW10-091 7.98%
CBFRR Pro Forma Adjustment -1.95%

Notes:

- 1 To eliminate common and MARA equity purchased by City Bond as part of the closing transaction.
- 2 The component cost rate (allowed ROE) with respect to any Common Equity in any future rate case shall be equal to (i) the most recent 12-month average of thirty-year United States Treasury bond interest rates as derived from the Federal Reserve Statistical Release, H.15(519). "Selected Interest Rates", or a successor or equivalent publication, including the interest rate published on, or as close as possible after, a date four months following the proposed effective date of proposed changes in the utility's rates as set forth in the rate filing, plus (ii) 3.0%. As an example, the 12-month average including September 2011 was 4.19%, so the formula allowed ROE would be 7.19%.

**Pennichuck Water Works Inc
Proposed Adjustments to Rate of Return
For The Twelve Months Ended December 31, 2009**

**Schedule 4
Attachment A
Pro Forma Adjustments**

| | | | | <u>Outstanding Debt</u> | <u>All In Annual</u> | <u>Funded</u> |
|------------------------|-----------------------------|-----------------|----------------|-------------------------|----------------------|-----------------------|
| | | | | <u>Funded</u> | <u>Cost</u> | <u>Effective Rate</u> |
| Original Filing | | | | \$ 51,855,007 | \$ 3,077,604 | 5.94% |
| Reference | | <u>Original</u> | <u>Revised</u> | | | |
| Staff 2-22 | SRF Step Additions Debt | 2,424,100 | 123,000 | (2,301,100) | | |
| | SRF Step Additions Interest | 3.728% 90,370 | 4,585 | | (85,785) | |
| | Revised Debt and Interest | | | \$ 49,553,907 | \$ 2,991,819 | <u>6.04%</u> |
| | Proposed Adjustment | | | <u>\$ (2,301,100)</u> | | |

PWW @ 5.7%

PENNICHUCK EAST UTILITY, INC.
COMPUTATION OF REVENUE DEFICIENCY
For The Twelve Months Ended December 31, 2009

Proposed Settlement
Schedule A
9/15/2011

City Bond Fixed Revenue Requirement
(CBFRR)

| TEST YEAR | PRO FORMA ADJUSTMENTS (1) (2) | PRO FORMA TEST YEAR | COMBINED PRO FORMA TEST YEAR | CITY OF NASHUA ADJUSTMENTS FOR CBFRR APPROACH | CITY OF NASHUA REVENUE REQUIREMENT | |
|---|-------------------------------------|------------------------|------------------------------------|--|--|---------------------|
| Consolidated Rate Base | \$ 18,937,424 | \$ (4,646,514) | \$ 14,290,910 | \$ 14,290,910 | \$ (6,879,610) | \$ 7,411,300 |
| RATE of Return | 7.60% | | 7.60% | 7.60% | -2.93% | 4.67% |
| Income Required | \$ 1,439,244 | | \$ 1,086,109 | \$ 1,086,109 | | \$ 346,108 |
| Adjusted NOI | \$ 911,114 | \$ (177,830) | \$ 733,284 | \$ 733,284 | \$ (439,240) | \$ 294,044 |
| Deficiency | \$ 528,130 | | \$ 352,825 | \$ 352,825 | | \$ 52,064 |
| Tax Factor | 60.39% | | 60.39% | 60.39% | | 60.39% |
| Revenue Deficiency | \$ 874,532 | | \$ 584,244 | \$ 584,244 | | \$ 86,213 |
| Water Revenues (2) | \$ 5,944,734 | \$ (295,242) | \$ 5,649,492 | \$ 5,649,492 | | \$ 4,515,447 |
| Proposed Revenue Inc | 14.71% | | 10.34% | 10.34% | | 1.53% |
| Total Revenue | | | <u>\$ 6,233,736</u> | <u>\$ 6,233,736</u> | | <u>\$ 4,601,660</u> |
| ADD: City Bond Fixed Revenue Requirement (Schedule A, Attach A) | | | | | | \$1,134,045 |
| ADD: NC Capital Surcharge Revenue | | | | \$ 295,242 | | \$ 295,242 |
| Total Revenue: | | | <u>\$ 6,528,978</u> | <u>\$ 6,528,978</u> | | <u>\$ 6,030,947</u> |

Notes:

- (1) Eliminate Capital Recovery Surcharge Assets and related revenues and depreciation expense.
(2) Water Revenues are reflected without Capital Surcharge Revenues

PENNICHUCK EAST UTILITY, INC.
Pro Forma Adjustments to Revenue Requirement
For The Twelve Months Ended December 31, 2009

Proposed Settlement
Schedule A
Attachment A
Nashua Acquisition
9/15/2011

Pro Forma
Adjustments

1 Revenue

To recognize adjustment of fixed annual revenue requirement to meet City Bond obligation.

| | |
|--------------------|----------------|
| Total City Bond | \$ 152,099,885 |
| Bond Interest Rate | 5.70% |
| Bond Period | \$ 30 yrs |

Calculated pro rata for City Bond based on a constant payment and a constant bond rate.

Calculated as follows:

| | | | |
|--|--------------|-------------------|------------------------|
| PEU Pro Rata Share | | \$ 16,124,105 (1) | |
| Less: Rate Stabilization Reserve | \$ 5,000,000 | | |
| PEU Pro Rata Share (Sch 3, Attach A) | <u>0.00%</u> | | |
| | | \$ - | |
| Total PEU Pro Rata Share for City Bond | | \$ 16,124,105 | |
| Bond Interest Rate | | 5.70% | |
| Bond Period | | 30 yrs | |
| | | | <u>\$1,134,045 (2)</u> |

Notes:

(1) Pro Rata Calculation as follows:

| | | |
|------------------------------------|----------------------|----------------|
| PWW & Southwood Equity (8/31/2011) | \$ 56,677,987 | 87.74% |
| PEU Equity (8/31/2011) | \$ 6,847,954 | 10.60% |
| PAC Equity (8/31/2011) | \$ 1,071,318 | 1.66% |
| | <u>\$ 64,597,259</u> | <u>100.00%</u> |

| | | |
|--|----------------|-----------------------|
| PWW & Southwood % CBFRR based on pro rata equity | 87.74% | \$ 133,453,268 |
| PEU % CBFRR based on pro rata equity | 10.60% | \$ 16,124,105 |
| PAC % CBFRR based on pro rata equity | 1.66% | \$ 2,522,512 |
| | <u>100.00%</u> | <u>\$ 152,099,885</u> |

(2) Any income taxes on revenues will be offset by deductions for interest expense on City Bonds calculated below and depreciation expense associated with equity related assets per Schedule 1, Attachment A, page 2.

| | |
|--|-------------|
| Total Interest Payment on City Bond (year one) | \$8,669,693 |
| PEU Pro Rata Share | 10.60% |
| PEU Pro Rata Interest Benefit | \$ 919,074 |

PEU @ 5.7%

PENNICHUCK EAST UTILITY, INC.
OPERATING INCOME STATEMENT
For The Twelve Months Ended December 31, 2009

Proposed Settlement
Schedule 1
Nashua Acquisition
Pro Forma Adjustments
9/15/2011

| Account Number | PENNICHUCK EAST UTILITY, INC. | North Country | Pro Forma Adjustments (1) | COMBINED TEST YEAR | CBFRR APPROACH W/MARA | | | |
|-------------------------------------|-------------------------------|---------------------|---------------------------|---------------------|--|---|---|-------------------|
| | | | | | CITY OF NASHUA MARA ADJUSTMENT PER BOOKS | CITY OF NASHUA ADJUSTMENTS FOR CBFRR APPROACH | CITY OF NASHUA CBFRR APPROACH REVENUE REQUIREMENT | |
| Water Sales | 461 & 462 | \$ 5,005,656 | \$ 939,078 | \$ (295,242) | \$ 5,649,492 | | (\$1,134,045) | \$ 4,515,447 |
| Other Operating Revenue | 471 | 32,269 | 8,691 | | 40,960 | | | 40,960 |
| Total Revenues | | 5,037,925 | 947,769 | (295,242) | 5,690,452 | \$ | (1,134,045) | 4,556,407 |
| Production Expenses | 601 to 652 | 1,137,272 | 221,083 | | 1,358,356 | | | 1,358,356 |
| Transmission & Distribution Expense | 660 to 678 & 926.1 | 329,977 | 160,100 | | 490,077 | | | 490,077 |
| Customer Acct & Collection Exp | 902 to 904 | 140,501 | 41,563 | | 182,064 | | | 182,064 |
| Administrative & General Expense | 920 to 950 | 96,772 | 26,749 | | 123,521 | | | 123,521 |
| Inter Div Management Fee | 930 | 1,261,843 | 292,644 | | 1,554,487 | | (256,736) | 1,297,751 |
| Total Operating Expense | | 2,966,366 | 742,139 | - | 3,708,505 | - | (256,736) | 3,451,769 |
| Depreciation Exp/Acq Adj (Credit) | 403/406 | 579,015 | 122,593 | (111,791) | 589,817 | | (149,970) (3) | 439,847 |
| Amortization Expense: CIAC | 405 | (157,454) | (11,864) | 382 | (168,936) | | | (168,936) |
| Amortization Expense: MARA | | | | | | \$123,672 | (123,672) (4) | - |
| Amortization Expense | 407 | 58,728 | 6,776 | (6,003) | 59,501 | | | 59,501 |
| Amort Utility Plant Adj | 406 | - | | | - | | | - |
| Taxes Other Than Income Tax | 408.1 | 467,122 | 76,384 | | 543,506 | | | 543,506 |
| Income Tax | 409 to 410 | 305,668 | (80,913) | | 224,775 | | (288,099) (2) | (63,324) |
| Total Operating Deductions | | \$ 1,253,099 | \$ 112,976 | \$ (117,412) | \$ 1,248,663 | \$ 123,672 | \$ (561,742) | \$ 810,594 |
| Net Operating Income | | \$ 818,460 | \$ 92,654 | \$ (177,830) | \$ 733,284 | \$ (123,672) | \$ (315,568) | \$ 294,044 |

Notes:

(1) Eliminates the depreciation and amortization expense associated with North Country Capital Recovery Surcharge

(2) Pro Forma Income Taxes calculated as follows:

| | |
|--|---------------------|
| City Bond Revenue Requirement | \$ (1,134,045) |
| Reduced operating expenses and deductions | \$ 406,706 |
| NOI proforma adjustments before income taxes | \$ (727,339) |
| Income Taxes | 39.61% \$ (288,099) |

*Negative Income Taxes will be offset by taxes on additional revenues from revenue deficiency per Schedule A.

(3) Eliminate Depreciation Expenses for Equity related assets bought out by City

(4) Eliminate Entire MARA Amortization Expense Attributable to Equity-Related Assets Acquired by City

PENNICHUCK EAST UTILITY, INC.
Pro Forma Adjustments to Net Operating Income
For The Twelve Months Ended December 31, 2009

Proposed Settlement
Schedule 1
Attachment A
Nashua Acquisition
9/15/2011

Pro Forma
Adjustments

1 Revenue

To recognize adjustment of fixed annual revenue requirement to meet City Bond obligation

| | |
|--------------------|----------------|
| Total City Bond | \$ 152,099,885 |
| Bond Interest Rate | 5.70% |
| Bond Period | 30 yrs |

Calculated pro rata for City Bond based on a constant payment and a constant bond rate
Calculated as follows:

| | |
|--|---------------|
| PEU Pro Rata Share | \$ 16,124,105 |
| Less: Rate Stabilization Reserve | \$ 5,000,000 |
| PEU Pro Rata Share (Sch 3, Attach A) | 0.00% |
| | \$ - |
| Total PEU Pro Rata Share for City Bond | \$ 16,124,105 |
| Bond Interest Rate | 5.70% |
| Bond Period | 30 yrs |

\$ 1,134,045

Pro Rate Calculation as follows:

| | | |
|------------------------------------|---------------|---------|
| PWW & Southwood Equity (8/31/2011) | \$ 56,677,987 | 87.74% |
| PEU Equity (8/31/2011) | \$ 5,847,954 | 10.60% |
| PAC Equity (8/31/2011) | \$ 1,071,318 | 1.66% |
| | \$ 64,597,259 | 100.00% |

| | | |
|--|---------|----------------|
| PWW & Southwood % CBFRR based on pro rata equity | 87.74% | \$ 133,453,268 |
| PEU % CBFRR based on pro rata equity | 10.60% | \$ 16,124,105 |
| PAC % CBFRR based on pro rata equity | 1.66% | \$ 2,522,512 |
| | 100.00% | \$ 152,099,885 |

2 Management Fee

Allocation from Corporate

| | |
|---------------------------------|-----------------------|
| Professional Fees & Services | (132,339) |
| D&O Insurance | (80,479) |
| Annual Report Cost | (24,965) |
| Auditors/SEC Legal Expense | (210,888) |
| Corp Governance Legal/AST | (32,053) |
| Directors Fees & Mtgs/Corp Secy | (25,052) |
| EDGAR Filing/NASDAQ & Other | (74,427) |
| % Allocation to PEU | 15.00% * \$ (586,203) |

\$ (87,930)

Allocation from PWW

| | |
|---------------------------|----------------------|
| Salaries | (771,596) |
| Bonus | (28,500) |
| Benefits | (336,507) |
| Meetings & Conventions | (19,600) |
| Senior Management Vehicle | (1,000) |
| % Allocation to PEU | 14.60% * (1,156,203) |

\$ (168,806)

\$ (256,736)

3 Amortization Expense

To provide for amortization expense attributable to MARA based on rate and principal payment
Year One Amortization Expense

| | |
|------------------------------|--------------|
| \$ 16,124,105 (Sch 1, Att A) | \$ 9,276,151 |
| 6,847,954 (Sch 4) | 30 |
| <u>\$ 9,278,151</u> | <u>5.70%</u> |

\$ 123,672

4 Depreciation Expense

To eliminate depreciation expense for equity related assets purchased with City bond as part of the closing transaction at a composite depreciation rates of 2.19%.

| | |
|----------------------|--|
| \$ 6,847,954 (Sch 4) | |
| <u>2.19%</u> | |

\$ 149,970

5 Income Taxes

To record income taxes as a result of pro forma adjustments to income statement. (Sch 1)

| | |
|---------------|--|
| \$ (727,339) | |
| <u>39.61%</u> | |

\$ (286,099)

Note:

*Management fee allocation based on current percentage allocation.

PENNICHUCK EAST UTILITY, INC.
COMPUTATION OF RATE BASE
For The Twelve Months Ended December 31, 200

Proposed Settlement
Schedule 3
Nashua Acquisition
Pro Forma Adjustments
9/15/2011

| Description | CBFRR APPROACH W/MARA | | | | | | |
|---|-------------------------------------|---------------------|---------------------------------|-----------------------|---|---|---------------------------------------|
| | PENNICHUCK EAST UTILITY, INC. | North Country | Pro Forma Adjustments (1) | COMBINED TEST YEAR | CITY ADJUSTMENTS FOR PEU'S PRO RATA SHARE OF MARA | PRO FORMA NASHUA ACQUISITION ADJUSTMENTS | PRO FORMA NASHUA RATE BASE FOR PEU |
| Plant in Service | \$ 38,774,582 | \$ 5,705,899 | \$ (4,550,906) | \$ 39,929,575 | | | \$ 39,929,575 |
| Accum Deprec | 7,781,193 | 294,504 | (271,782) | 7,803,915 | | | 7,803,915 |
| Accum Deprec: Loss | 927,493 | 192,960 | (272,509) | 847,944 | | | 847,944 |
| Accum Deprec: COR | 30,401 | 87,136 | | 117,539 | | | 117,539 |
| Acquisition Adjustment | 10,468,179 | | | 10,468,179 | | | 10,468,179 |
| Accum Amort Acq Adj | 2,487,151 | | | 2,487,151 | | | 2,487,151 |
| Municipal Acquisition Regulatory Asset (MARA) | | | | | 9,276,151 | | 9,276,151 |
| Accum Amort MARA Adj | | | | | | | - |
| CIAC | 8,807,342 | 32,770 | (14,096) | 8,826,016 | | | 8,826,016 |
| Amort of CIAC | 875,827 | 12,193 | (423) | 887,597 | | | 887,597 |
| | 16,038,740 | 5,670,916 | (4,537,960) | 17,171,696 | 9,276,151 | - | 26,447,848 |
| ADD: | | | | | | | |
| Working Cap | 365,753 | 91,506 | | 457,259 | | (31,656) | 425,603 |
| Materials & Supplies | - | 925 | | 925 | | | 925 |
| Prepayments | 90,684 | 10,403 | | 101,087 | | | 101,087 |
| Other & Deferred Charges | 512,492 | 117,688 | (108,554) | 521,626 | | | 521,626 |
| | 968,929 | 220,522 | (108,554) | 1,080,896 | | (31,656) | 1,049,241 |
| DEDUCT: | | | | | | | |
| Customer Advances | - | | | - | | | - |
| Customer Deposits | 2,063 | 2 | | 2,065 | | | 2,065 |
| Deferred Income Tax | 3,288,402 | 585,642 | | 3,874,044 | | | 3,874,044 |
| Deferred Gain on Loans | 85,574 | - | | 85,574 | | | 85,574 |
| | 3,376,039 | 585,644 | | 3,961,683 | | | 3,961,683 |
| TOTAL Rate Base | \$ 13,631,630 | \$ 5,305,794 | \$ (4,646,514) | \$ 14,290,910 | \$ 9,276,151 | \$ (31,656) | \$ 23,535,405 |
| DEDUCT: Equity Related Assets | | | | | | \$ (16,124,105) ² | \$ (16,124,105) |
| ADD: Rate Stabilization Cash Reserve | | | | | | \$ - | \$ - |
| TOTAL Rate Base | \$ 13,631,630 | \$ 5,305,794 | \$ (4,646,514) | \$ 14,290,910 | \$ 9,276,151 | \$ (16,155,761) | \$ 7,411,300 |

(1) Eliminate Capital Recovery Surcharge Assets and related revenues and depreciation expense.

(2) Includes Elimination of MARA

PENNICHUCK EAST UTILITY, INC.
Pro Forma Adjustments to Rate Base
For the Twelve Months Ended December 31, 2009

Proposed Settlement
Schedule 3
Attachment A
Nashua Acquisition
9/15/2011

Pro Forma
Adjustments

| | | |
|--|---------------------|-----------------|
| 1 CASH WORKING CAPITAL | | |
| To reduce working capital as a result of O&M pro forma adjustments. (Schedule 1) | (256,736) 12.33% | \$ (31,656) |
| 2 EQUITY DEDUCTION | | |
| To deduct pro rata share of assets associated with common equity to be purchased by City Bonds at closing. | | \$ (6,847,954) |
| To deduct all equity associated with MARA | | \$ (9,276,151) |
| Total Equity Deduction | | \$ (16,124,105) |
| 3 RATE STABILIZATION CASH RESERVE | | |
| To establish a rate stabilization reserve for the three (3) regulated utilities at closing. | | |
| Less: Rate Stabilization Reserve | \$ 5,000,000 | |
| PEU Pro Rata Share | 0.00% | |
| Total PEU Pro Rata Share for City Bond | | \$ - |

(1) Pro Rata Calculation as follows:

| | | |
|------------------------------------|---------------|---------|
| Rate Base | | |
| PWW & Southwood Equity (8/31/2011) | \$ 56,677,987 | 100% |
| PEU Equity (8/31/2011) | \$ 6,847,954 | 0% |
| PAC Equity (8/31/2011) | \$ 1,071,318 | 0% |
| | \$ 64,597,259 | 100.00% |

PENNICHUCK EAST UTILITY, INC.
Overall Rate of Return
For the Twelve Months Ended December 31, 2009

Proposed Settlement
Schedule 4
Nashua Acquisition
Proposed Adjustments
9/15/2011

NASHUA ACQUISITION - CBFRR

| <u>Capital Component</u> | <u>Pro Forma Test</u> <u>Year</u> | <u>MARA</u> <u>Adjustment</u> | <u>RSF</u> <u>Adjustment</u> | <u>CBFRR</u> <u>Adjustment</u> | <u>Adjusted</u> <u>Amount</u> | <u>Component</u> <u>Ratio</u> | <u>Component</u> <u>Cost Rate</u> | <u>Weighted</u> <u>Average</u> <u>Cost Rate</u> |
|-------------------------------|--------------------------------------|----------------------------------|---------------------------------|-----------------------------------|----------------------------------|----------------------------------|--------------------------------------|---|
| Long-term Debt | \$7,856,291 | | | | \$7,856,291 | 100.00% | 4.67% | 4.67% |
| Short-term Debt | - | | | | \$0 | 0.00% | 0.00% | 0.00% |
| Preferred Stock | - | | | | \$0 | 0.00% | 0.00% | 0.00% |
| Common Equity | 6,847,954 | \$ 9,276,151 | \$ - | \$ (16,124,105) ¹ | - | 0.00% | 7.19% ² | 0.00% |
| Overall Rate of Return | \$ 14,704,245 | \$ 9,276,151 | \$ - | \$ (16,124,105) | \$ 7,856,291 | 100.00% | | 4.67% |
| | | | | | | | Authorized ROR | 7.60% |
| | | | | | | | Proposed Adjustment | <u>-2.93%</u> |

Notes:

- 1 To eliminate common and MARA equity purchased by City Bond as part of closing transaction.
- 2 The component cost rate (allowed ROE) with respect to any Common Equity in any future rate case shall be equal to (i) the most recent 12-month average of thirty-year United States Treasury bond interest rates as derived from the Federal Reserve Statistical Release, H.15(519). "Selected Interest Rates", or a successor or equivalent publication, including the interest rate published on, or as close as possible after, a date four months following the proposed effective date of proposed changes in the utility's rates as set forth in the rate filing, plus (ii) 3.0%. As an example, the 12-month average including September 2011 was 4.19%, so the formula allowed ROE would be 7.19%.

PITTSFIELD AQUEDUCT COMPANY, INC.
COMPUTATION OF REVENUE DEFICIENCY
For The Twelve Months Ended December 31, 2009

Proposed Settlement
COMBINED INCREASE
Schedule A
9/15/2011

| PRO FORMA TEST YEAR | DW10-090, OCA 3-1 | | DW10-090, STAFF 3-5 | | City Bond Fixed Revenue Requirement (CBFRR) | | | | |
|---|--|--|---|--|---|----------------------------|---|------------------------------------|-------------------|
| | PROPOSED DATA REQUESTS ADJUSTMENTS (1) | 12 MONTHS WITH PROPOSED ADJUSTMENTS 12/31/09 | STEP INCREASE PRO FORMA ADJUSTMENTS (1) | COMBINED PRO FORMA & STEP INCREASE FORMA TEST YEAR | ¹ Final Adjustment DW 10-090 | Final Rate Order DW 10-090 | CITY OF NASHUA ADJUSTMENTS FOR CBFRR APPROACH | CITY OF NASHUA REVENUE REQUIREMENT | |
| Consolidated Rate Base | \$ 1,962,038 | \$ (61,125) | \$ 1,900,913 | \$ 112,476 | \$ 2,013,389 | \$ (7) | \$ 2,013,382 | (\$1,075,185) | \$938,196 |
| RATE of Return | 7.60% | | 7.60% | | 7.60% | | 7.60% | -2.20% | 5.39% |
| Income Required | \$ 149,023 | | \$ 144,380 | | \$ 152,923 | | \$ 152,922 | \$ | 50,601 |
| Adjusted NOI | \$ 75,753 | \$ 3,595 | \$ 79,348 | \$ (3,632) | \$ 75,716 | \$ 1,524 | \$ 77,240 | (\$71,573) | \$5,668 |
| Deficiency | \$ 73,270 | | \$ 65,032 | | \$ 77,207 | | \$ 75,682 | \$ | 44,933 |
| Tax Factor | 60.39% | | 60.39% | | 60.39% | | 60.39% | | 60.39% |
| Revenue Deficiency | \$ 121,328 | | \$ 107,686 | \$ 20,161 | \$ 127,847 | \$ (2,525) | \$ 125,322 | \$ | 74,405 |
| Water Revenues | \$ 607,133 | \$ 126 | \$ 607,259 | - | \$ 607,259 | | \$ 607,259 | \$ | 429,845 |
| Proposed Revenue Inc | 19.98% | | 17.73% | 3.32% | 21.05% | -0.42% | 20.63% | | 12.25% |
| Total Revenue | <u>\$ 728,461</u> | | <u>\$ 714,945</u> | | <u>\$ 735,106</u> | | <u>\$ 732,581</u> | | <u>\$ 504,250</u> |
| ADD: City Bond Fixed Revenue Requirement (Schedule A, Attach A) | | | | | | | | | \$177,414 |
| Total Revenue: | | | | | | | | | <u>\$ 681,664</u> |

1. Adjustments shown are those required to adjust PAC's rate base and NOI to that which was approved in the DW10-090 order

PITTSFIELD AQUEDUCT COMPANY
Pro Forma Adjustments to Net Operating Income
For The Twelve Months Ended December 31, 2009

Proposed Settlement
Schedule A
Attachment A
Nashua Acquisition
9/15/2011

Pro Forma
Adjustments

Revenue

1 To recognize adjustment of fixed annual revenue requirement to meet City Bond obligation.

| | |
|--------------------|--------------------|
| Total City Bond | \$ 152,099,885 (1) |
| Bond Interest Rate | 5.70% |
| Bond Period | 30 yrs |

Calculated pro rata for City Bond based on a constant payment and a constant bond rate.

Calculated as follows:

| | | |
|--|--------------|---------------|
| PAC Pro Rata Share | \$ 2,522,512 | |
| Less: Rate Stabilization Reserve | \$ 5,000,000 | |
| PAC Pro Rata Share (Sch 3, Attach A) | 0.00% | |
| | \$0 | |
| Total PAC Pro Rata Share for City Bond | \$ 2,522,512 | |
| Bond Interest Rate | 5.70% | |
| Bond Period | 30 yrs | \$177,414 (2) |

Notes:

(1) Pro Rata Calculation as follows:

| | | |
|------------------------------------|---------------|---------|
| PWW & Southwood Equity (8/31/2011) | \$ 56,677,987 | 87.74% |
| PEU Equity (8/31/2011) | \$ 6,847,954 | 10.60% |
| PAC Equity (8/31/2011) | \$ 1,071,318 | 1.66% |
| | \$ 64,597,259 | 100.00% |

| | | |
|--|---------|----------------|
| PWW & Southwood % CBFRR based on pro rata equity | 87.74% | \$ 133,453,268 |
| PEU % CBFRR based on pro rata equity | 10.60% | \$ 16,124,105 |
| PAC % CBFRR based on pro rata equity | 1.66% | \$ 2,522,512 |
| | 100.00% | \$ 152,099,885 |

(2) Any income taxes on revenues will be offset by deductions for interest expense on City Bonds calculated below and depreciation expense associated with equity related assets per Schedule 1, Attachment A, page 2.

| | |
|--|-------------|
| Total Interest Payment on City Bond (year one) | \$8,669,693 |
| PAC Pro Rata Share | 1.66% |
| PAC Pro Rata Interest Benefit | \$143,783 |

PITTSFIELD AQUEDUCT COMPANY
OPERATING INCOME STATEMENT
For The Twelve Months Ended December 31, 2009

Proposed Settlement
Schedule 1
Nashua Acquisition
Pro Forma Adjustments
9/15/2011

| | DW10-090, OCA 3-1 | | DW10-090, OCA 3-1 | | CBFRR APPROACH W/MARA | | CITY OF NASHUA MARA ADJUSTMENT PER BOOKS | CITY OF NASHUA ADJUSTMENTS FOR CBFRR APPROACH | CITY OF NASHUA CBFRR APPROACH REVENUE REQUIREMENT |
|--------------------------------------|------------------------------------|--|--|---|--|-------------------------------|---|---|--|
| | PRO FORMA 12 MONTHS 12/31/09 | PROPOSED DATA REQUESTS ADJUSTMENTS | 12 MONTHS WITH PROPOSED ADJUSTMENTS 12/31/09 | STEP INCREASE PRO FORMA ADJUSTMENTS | COMBINED PRO FORMA & STEP INCREASE FORMA TEST YEAR | Final Adjustment DW 10-090 | | | |
| Water Sales | \$ 607,133 | \$ 126 | \$ 607,259 | \$ - | \$ 607,259 | | \$ 607,259 | | \$ 429,845 |
| Other Operating Revenue | 5,429 | - | 5,429 | - | 5,429 | | | (\$177,414) | 5,429 |
| Total Revenues | 612,562 | 126 | 612,688 | - | 612,688 | | 612,688 | (177,414) | 435,274 |
| Production Expenses | 86,392 | - | 86,392 | - | 86,392 | | 86,392 | | 86,392 |
| Transmission & Distribution Expenses | 52,376 | - | 52,376 | - | 52,376 | | 52,376 | | 52,376 |
| Customer Acct & Collection Exp | 19,953 | - | 19,953 | - | 19,953 | | 19,953 | | 19,953 |
| Administrative & General Expense | 61,371 | (1,364) | 60,007 | - | 60,007 | | 60,007 | | 60,007 |
| Final Rate Order Adjustments | | | | | | (1,524) | (1,524) | | |
| Inter Div Management Fee | 160,026 | (238) | 159,788 | - | 159,788 | | 159,788 | (31,364) | 128,424 |
| Total Operating Expense | 380,118 | (1,602) | 378,516 | - | 378,516 | (1,524) | 376,992 | (31,364) | 345,628 |
| Dep Exp/Acq Adj Expense | 86,086 | - | 86,086 | 2,050 | 88,136 | | 88,136 | (27,533) (2) | 60,603 |
| Amortization Expense:CIAC | (24,146) | - | (24,146) | - | (24,146) | | (24,146) | | (24,146) |
| Amortization Expense: MARA | | | | | | | | 19,348 | - |
| Amortization Expense | 4,458 | - | 4,458 | - | 4,458 | | 4,458 | (19,348) (3) | 4,458 |
| Property Taxes | 81,437 | (4,225) | 77,212 | 3,964 | 81,176 | | 81,176 | | 81,176 |
| Income Tax | 8,857 | 2,358 | 11,215 | (2,382) | 8,833 | | 8,833 | (46,945) (1) | (38,111) |
| Total Operating Deductions | 156,691 | (1,867) | 154,824 | 3,632 | 158,456 | - | 158,456 | 19,348 | 83,979 |
| Net Operating Income | \$ 75,753 | \$ 3,595 | \$ 79,348 | \$ (3,632) | \$ 75,716 | \$ 1,524 | \$ 77,240 | \$ (19,348) | \$ 55,668 |

Notes:

(1) Pro Forma Income Taxes calculated as follows:

| | |
|--|---------------|
| City Bond Revenue Requirement | \$ (177,414) |
| Reduced operating expenses and deductions | \$ 58,897 |
| NOI proforma adjustments before income taxes | \$ (118,517) |
| Income Taxes | \$ (46,945) * |

* Negative Income Taxes will be offset by taxes on additional revenues from revenue deficiency per Schedule A.

(2) Eliminate Depreciation Expenses for Equity related assets bought out by City

(3) Eliminate Entre MARA Amortization Expense Attributable to Equity-Related Assets Acquired by City

PITTSFIELD AQUEDUCT COMPANY
Pro Forma Adjustments to Net Operating Income
For The Twelve Months Ended December 31, 2009

**Proposed Settlement
Schedule 1
Attachment A
Nashua Acquisition
9/15/2011**

**Pro Forma
Adjustments**

Revenue

1 To recognize adjustment of fixed annual revenue requirement to meet City Bond obligation

| | | | |
|---|----------------|--------------|---------------------|
| Total City Bond | \$ 152,099,885 | | |
| Bond Interest Rate | 5.70% | | |
| Bond Period | 30 yrs | | |
| <i>Calculated pro rata for City Bond based on a constant payment and a constant bond rate. Calculated as follows:</i> | | | |
| PAC Pro Rata Share | | \$ 2,522,512 | |
| Less: Rate Stabilization Reserve | \$ 5,000,000 | | |
| PAC Pro Rata Share (Sch 3,A) | 0.00% | | |
| | | \$0 | |
| Total PAC Pro Rata Share for City Bond | | \$ 2,522,512 | |
| Bond Interest Rate | 5.70% | | |
| Bond Period | 30 yrs | | |
| | | | <u>\$177,414.06</u> |

Pro Rata Calculation as follows:

| | | |
|------------------------------------|----------------------|-------------|
| PWW & Southwood Equity (8/31/2011) | \$ 56,677,987 | 87.74% |
| PEU Equity (8/31/2011) | \$ 6,847,984 | 10.60% |
| PAC Equity (8/31/2011) | \$ 1,071,318 | 1.66% |
| | <u>\$ 64,597,289</u> | <u>100%</u> |

| | | |
|--|----------------|-----------------------|
| PWW & Southwood % CBFRR based on pro rata equity | 87.74% | \$ 133,453,268 |
| PEU % CBFRR based on pro rata equity | 10.60% | \$ 16,124,105 |
| PAC % CBFRR based on pro rata equity | 1.66% | \$ 2,522,512 |
| | <u>100.00%</u> | <u>\$ 152,099,885</u> |

2 Management Fee

| | | | |
|----------------------------------|-------|----------------|--------------------|
| <i>Allocation from Corporate</i> | | | |
| Professional Fees & Services | | \$ (132,339) | |
| D&O Insurance | | (86,479) | |
| Annual Report Cost | | (24,965) | |
| Auditors/SEC Legal Expense | | (210,888) | |
| Corp Governance Legal/AST | | (32,053) | |
| Directors Fees & Mgmt/Corp Secy | | (25,052) | |
| EDGAR Filing/NASDAQ & Other | | (74,427) | |
| % Allocation to PAC | 1.80% | \$ (585,203) | \$ (10,552) |
| <i>Allocation from PWW</i> | | | |
| Salaries | | \$ (771,596) | |
| Bonus | | (28,500) | |
| Benefits | | (336,507) | |
| Meetings & Conventions | | (19,600) | |
| Senior Management Vehicle | | (1,000) | |
| % Allocation to Pac | 1.80% | \$ (1,136,203) | \$ (20,812) |
| Total Management Fee | | | <u>\$ (31,364)</u> |

3 Depreciation Expense

| | | | |
|---|----------------|--|--------------------|
| To eliminate depreciation expense for equity related assets purchased with City Bond as part of closing transaction at a composite depreciation rate of 2.57% | \$ (1,071,318) | | |
| | <u>2.57%</u> | | <u>\$ (27,533)</u> |

4 Amortization Expense

| | | | |
|--|-----------------------------------|--------------|------------------|
| To provide for amortization expense attributable to MARA based on rate and principal payment | \$ 2,522,512 (Sch 1, Ath A, Pg 1) | \$ 1,451,194 | |
| Year One Amortization Expense | <u>1,071,318 (Sch 4)</u> | <u>30</u> | |
| | \$ 1,451,194 | 5.70% | <u>\$ 19,348</u> |

5 Income Taxes

| | | | |
|---|---------------|--|--------------------|
| To record income taxes as a result of pro forma adjustments to income statement | \$ (118,517) | | |
| | <u>39.61%</u> | | <u>\$ (46,945)</u> |

Note: *Management fee allocation based on current percentage allocation.

PITTSFIELD AQUEDUCT COMPANY
COMPUTATION OF RATE BASE
For The Thirteen Months Ended December 31, 2009

Proposed Settlement
Schedule 3
Nashua Acquisition
Pro Forma Adjustments
9/15/2011

| Description | DW10-090, OCA 3-1 | | DW10-090, OCA 3-1 | | CBFRR APPROACH W/MARA | | | | | |
|---|------------------------|--|---|---|---|-------------------------------|-------------------------------|---|---|--|
| | Pro Forma Test Year | PROPOSED DATA REQUESTS ADJUSTMENTS | 12 MONTHS WITH PROPOSED ADJUSTMENTS 12/31/09 | STEP INCREASE PRO FORMA ADJUSTMENTS | COMBINED PRO FORMA & STEP INCREASE FORMA TEST YEAR | Final Adjustment DW 10-090 | Final Rate Order DW 10-090 | CITY ADJUSTMENTS FOR PWW'S PRO RATA SHARE OF MARA | PRO FORMA NASHUA ACQUISITION ADJUSTMENTS | PRO FORMA NASHUA RATE BASE FOR PWW |
| Plant in Service | \$ 3,846,825 | \$ - | \$ 3,846,825 | \$ 114,526 | \$ 3,961,351 | \$ - | \$ 3,961,351 | | \$ - | \$ 3,961,351 |
| Adjustment to Rate Base per Final Rate Order | | | | | | (7) | (7) | | | (7) |
| Accum Deprec | 1,038,132 | | 1,038,132 | 2,050 | 1,038,182 | | 1,038,182 | | | 1,038,182 |
| Accum Deprec: Loss | 114,504 | | 114,504 | - | 114,504 | | 114,504 | | | 114,504 |
| Accum Deprec: COR | 406 | | 406 | - | 406 | | 406 | | | 406 |
| Municipal Acquisition Regulatory Asset (MARA) | | | | | | | | 1,451,194 | | 1,451,194 |
| Accum Amort MARA Adj | | | | | | | | | | - |
| CIAC | 1,148,636 | | 1,148,636 | - | 1,148,636 | | 1,148,636 | | | 1,148,636 |
| Amort of CIAC | 256,418 | | 256,418 | - | 256,418 | | 256,418 | | | 256,418 |
| | \$ 2,033,385 | \$ - | \$ 2,033,385 | \$ 112,476 | \$ 2,145,861 | \$ (7) | \$ 2,145,854 | \$ 1,451,194 | \$ - | \$ 3,597,054 |
| ADD: | | | | | | | | | | |
| Working Cap | 111,754 | (61,125) | 50,629 | - | 50,629 | | 50,629 | | (3,867) | 46,762 |
| Materials & Supplies | 588 | | 588 | - | 588 | | 588 | | | 588 |
| Prepayments | 7,797 | | 7,797 | - | 7,797 | | 7,797 | | | 7,797 |
| Other & Deferred Charges | 3,505 | | 3,505 | - | 3,505 | | 3,505 | | | 3,505 |
| | \$ 123,644 | \$ (61,125) | \$ 62,519 | \$ - | \$ 62,519 | \$ - | \$ 62,519 | \$ - | \$ (3,867) | \$ 58,652 |
| DEDUCT: | | | | | | | | | | |
| Customer Advances | - | | - | - | - | | - | | | \$0 |
| Customer Deposits | - | | - | - | - | | - | | | \$0 |
| Deferred Income Tax | 194,991 | | 194,991 | - | 194,991 | | 194,991 | | | 194,991 |
| | \$ 194,991 | \$ - | \$ 194,991 | \$ - | \$ 194,991 | \$ - | \$ 194,991 | \$ - | \$ - | \$ 194,991 |
| TOTAL Rate Base | \$ 1,962,038 | \$ (61,125) | \$ 1,900,913 | \$ 112,476 | \$ 2,013,389 | \$ (7) | \$ 2,013,382 | \$ 1,451,194 | \$ (3,867) | \$ 3,460,715 |
| DEDUCT: Equity Related Assets | | | | | | | | | (2,522,512) ¹ | (2,522,512) |
| ADD: Rate Stabilization Cash Reserve | | | | | | | | | | |
| Total Rate Base: | \$ 1,962,038 | \$ (61,125) | \$ 1,900,913 | \$ 112,476 | \$ 2,013,389 | \$ (7) | \$ 2,013,382 | \$ 1,451,194 | \$ (2,526,379) | \$ 938,203 |

¹ Includes the elimination of MARA

PITTSFIELD AQUEDUCT COMPANY
Pro Forma Adjustments to Rate Base
For The Twelve Months Ended December 31, 2009

Proposed Settlement
Schedule 3
Attachment A
Nashua Acquisition
9/15/2011

Pro Forma
Adjustments

| | | |
|--|----------------------|-----------------------|
| 1 CASH WORKING CAPITAL | | |
| To reduce working capital as a result of O&M Expense pro forma adjustments (Schedule 1). | (\$31,364) 12.33% | \$ (3,867) |
| 2 EQUITY DEDUCTION | | |
| To deduct pro rata share of assets associated with common equity to be purchased by City Bonds at closing. | | \$ (1,071,318) |
| To deduct all equity value associated with MARA | | \$ (1,451,194) |
| Total Equity Deduction | | <u>\$ (2,522,512)</u> |
| 3 RATE STABILIZATION CASH RESERVE | | |
| To establish a rate stabilization reserve for the three (3) regulated utilities at closing. | | |
| Less: Rate Stabilization reserve (Sch A, Attach A) | \$5,000,000 | |
| PAC Pro Rata Share | 0.00% (1) | <u>\$ -</u> |

(1) Pro Rata Calculation as follows:

| | | |
|--|----------------------|----------------|
| Rate Base | | |
| PWW Rate Base (DW10-091, Per Final Order) | \$ 56,677,987 | 100.00% |
| PEU Rate Base (12/31/2009) | \$ 6,847,954 | 0.00% |
| PAC Rate Base (DW10-090), Per Final Order) | \$ 1,071,318 | 0.00% |
| | <u>\$ 64,597,259</u> | <u>100.00%</u> |

Pittsfield Aqueduct Company, Inc.
Overall Rate of Return
For the Twelve Months Ended December 31, 2009

Proposed Settlement
Schedule 4
Nashua Acquisition
Pro Forma Adjustments
9/15/2011

| Capital Component | DW10-090 | | NASHUA ACQUISITION - CBFRR | | | | | | | Weighted Average Cost Rate |
|-------------------------------|---------------------|------------|----------------------------|---------------------|----------------|-----------------------------|---------------------|-----------------|---------------------|----------------------------|
| | Pro Forma Test Year | Adjustment | Final Rate Order | MARA Adjustment | RSF Adjustment | CBFRR Adjustment | Adjusted Amount | Component Ratio | Component Cost Rate | |
| Long-term Debt | 776,850 | | 776,850 | | | | \$ 776,850 | 75.28% | 7.00% | 5.27% |
| Short-term Debt | 255,038 | | 255,038 | | | | \$ 255,038 | 24.72% | 0.50% | 0.12% |
| Preferred Stock | - | | - | | | | \$ - | 0.00% | 0.00% | 0.00% |
| Common Equity | 1,071,318 | | 1,071,318 | \$ 1,451,194 | \$0 | \$ (2,522,512) ¹ | \$ - | 0.00% | 7.19% ² | 0.00% |
| Overall Rate of Return | \$ 2,103,206 | | \$ 2,103,206 | \$ 1,451,194 | \$ - | \$ (2,522,512) | \$ 1,031,888 | 100.00% | | 5.39% |
| | | | | | | | | | Original Filing | 7.60% |
| | | | | | | | | | Proposed Adjustment | <u>-2.20%</u> |

Notes:

- 1 To eliminate common and MARA equity purchased by City Bond as part of the closing transaction.
- 2 The component cost rate (allowed ROE) with respect to any Common Equity in any future rate case shall be equal to (i) the most recent 12-month average of thirty-year United States Treasury bond interest rates as derived from the Federal Reserve Statistical Release, H.15(519). "Selected Interest Rates", or a successor or equivalent publication, including the interest rate published on, or as close as possible after, a date four months following the proposed effective date of proposed changes in the utility's rates as set forth in the rate filing, plus (ii) 3.0%. As an example, the 12-month average including September 2011 was 4.19%, so the formula allowed ROE would be 7.19%.

EXHIBIT C

Methodologies and Procedures for PWW Rate Stabilization Fund

The following paragraphs present the methodologies and procedures that will apply with respect to the establishment, maintenance and ratemaking treatment of the Rate Stabilization Fund to be established at PWW.

1. Establishment of PWW RSF Account. As of the closing date of the acquisition, PWW will establish a Rate Stabilization Fund (“PWW RSF”) equal to \$5,000,000 (the “Initial RSF Amount”). This RSF amount shall be contributed to the capital of PWW upon the closing of the transaction and will be deposited into a restricted cash account (the “PWW RSF Account”). The RSF will remain in effect for 30 years or until the City Acquisition Bonds are retired or refinanced.
2. Rate of Return. The PWW RSF amounts will become part of PWW’s rate base and will be treated as working capital in addition to the normal working capital that is traditionally established as a percentage of operating expenses. PWW will be authorized to earn a rate of return on the amount of the RSF at a rate equal to PWW’s weighted average cost of capital established in PWW’s most recent rate case.
3. Establishment of a Separate Account for CBFRR Revenues. To facilitate accountability related to the PWW RSF Account, PWW shall also establish and maintain a separate general ledger account, known as the “CBFRR Account.” Each month, PWW shall accrue into its CBFRR Account a portion of its monthly water revenues. The portion shall be determined by multiplying total actual monthly water revenues by a percentage equal to (a) PWW’s current approved CBFRR amount, divided by (b) the total approved revenue requirement for PWW from its last approved rate case.
4. The RSF Account and CBFRR Restricted Account Procedures. The PWW RSF Account will be held and administered by PWW as a restricted cash account. The PWW RSF Account for PWW may only be accessed if necessary to supplement the amount recorded in the CBFRR Account for PWW to meet its monthly CBFRR obligation to the City (i.e., if the monthly amount accrued to the CBFRR Account is less than PWW’s approved monthly CBFRR amount). If the monthly amount recorded in the CBFRR Account is greater than the CBFRR amount, then the excess will be added to the RSF Account. PWW may access the PWW RSF Account to provide intercompany loans to PEU or PAC if either utility is unable to meet its respective obligation with respect to the City Acquisition Bonds. These intercompany loans will bear interest at the final interest rate of the City Acquisition Bonds. At the time of each PWW rate case, the PWW RSF Account will be subject to replenishment or reduction to an amount equal to the Initial RSF Amount less the amount of any then outstanding loan to PEU or PAC. The

replenishment or reduction amount will be reflected in PWW rates through a deferred debit or credit amortized over a three-year period.

5. Reporting and Review of the RSF Account. PWW will provide an annual reconciliation of the CBFRR Account and the PWW RSF Account as part of its Annual Report filed with the Commission on or before March 31 of each year.

EXHIBIT D

Methodologies and Procedures for Municipal Acquisition Regulatory Asset

The following paragraphs present the methodologies and procedures that will apply with respect to the establishment and treatment of the Municipal Acquisition Regulatory Asset (the "MARA").

1. Determination of the Amount of the MARA. The amount of the MARA with respect to each utility shall be determined in accordance with the following process. First, the final amount of the Acquisition Costs shall be apportioned among each utility based on the equity of each utility as of December 31, 2011 in accordance with the Ratemaking Structure set forth in Exhibit B. Then, the amount of the MARA with respect to each utility shall equal the excess of (i) the sum of the utility's allocated share of Acquisition Costs so determined plus its liabilities as of the Merger closing date, less (ii) the amount of the book value of the assets of the utility as of the Merger closing date.
2. Ratemaking Treatment. The MARA amount determined with respect to each utility will be included in the utility's respective rate base, but will be treated as an "equity-related asset" that is excluded from traditional ratemaking and recovered exclusively through the CBFRR component of the Ratemaking Structure as set forth in Exhibit B.
3. Accounting Treatment. Each utility shall record its respective share of the MARA on its books as an asset in NHPUC Chart of Account No. 186. The MARA will be amortized at the same rate at which principal is paid on the City Acquisition Bonds. In connection with the recording of the MARA as an asset, the utilities will make corresponding entries to increase their respective paid-in capital accounts and to decrease their respective retained earnings accounts.

EXHIBIT E

Summary of the Terms of the City Acquisition Bonds

The City Acquisition Bonds to be issued by the City to finance the Acquisition Costs will have terms substantially consistent with the following paragraphs:

1. Security. The bonds will be issued as general obligation bonds of the City and will not be secured by a pledge of any other assets of the City or the Pennichuck companies.
2. Principal Repayment. The principal of the City Acquisition Bonds will be paid over a term of 30 years with a level payment structure.
3. Optional Redemption. The City Acquisition Bonds may be subject to optional redemption by the City at par at a certain time after issuance.
4. Tax Status. Interest payments on the City Acquisition Bonds may be includable in gross income of the bondholder for federal income tax purposes.