

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

EXECUTION COPY

EXHIBIT A

Documentation Regarding Satisfied Conditions to Closing

[See Attached Documentation]



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

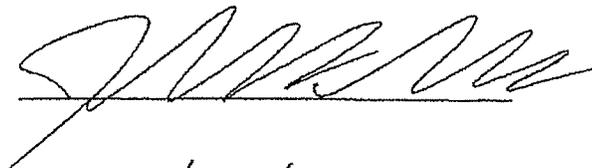
COMMITTEE
ASSIGNMENT:

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: Cayle Bergeron City Clerk

Bill McChesney President

Approved Yvonne Lopez Mayor's Signature

1/11/11 Date

Endorsed by

<u>Yvonne Lopez</u>	MAYOR
_____	MCCARTHY
_____	CLEMONS
<u>Katherine Vitale</u>	VITALE
<u>Barbara G. Pressly</u>	PRESSLY
<u>Richard LaRose</u>	LAROSE
<u>Michael J. Tabackso</u>	TABACKSO
<u>Marylou Melizzi-Golja</u>	MELIZZI-GOLJA
_____	COX
<u>Deanne Sheehan</u>	SHEEHAN
<u>Dani Wilshire</u>	WILSHIRE
<u>Richard Flynn</u>	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.

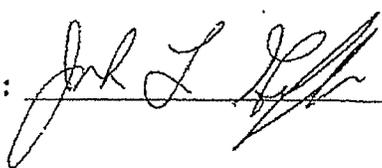
ANALYSIS

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 (\$220,000,000,000). 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.

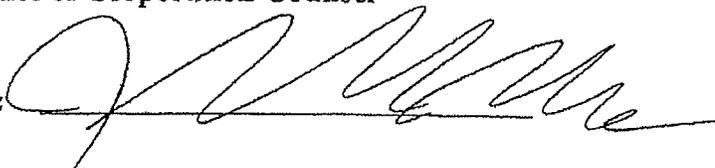
Approved as to content,
account structure,
numbers and amount:

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: [Signature] City Clerk

[Signature] President

Approved [Signature] Mayor's Signature

1/11/11
 Date

Endorsed by

[Signature] MAYOR

_____ MCGARTHY

_____ CLEMONS

[Signature] VITALE

[Signature] PRESSLY

_____ LAROSE

[Signature] TABACSKO

[Signature] MELIZZI-GOLJA

_____ COX

[Signature] SHEEHAN

[Signature] WILSHIRE

[Signature] 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)

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

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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

PRO FORMA TEST YEAR	DW10-091	DW10-091, OCA 3-1		DW10-091, STAFF 3-13			WITHOUT EMINENT DOMAIN COSTS RECOVERY	COMBINED PRO FORMA & STEP INCREASE FORMA TEST YEAR	Final Adjustment DW 10-091	Final Rate Order DW 10-091	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	COMBINED PRO FORMA & STEP INCREASE FORMA TEST YEAR	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		(49,775,965)	\$ 42,444,028
RATE of Return	7.86%	0.09%	7.95%		7.95%		7.95%	0.03%	7.98%		-1.95%	6.04%
Income Required	\$ 7,677,233	\$ -	\$ 7,733,642	\$ -	\$ 7,996,562	\$ -	\$ 7,613,064	\$ -	\$ 7,362,859		\$ -	\$ 2,563,619
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		(\$4,222,628)	\$ 1,400,354
Deficiency	\$ 2,364,374	\$ -	\$ 2,473,376	\$ -	\$ 2,863,940	\$ -	\$ 2,156,691	\$ -	\$ 1,739,677		\$ -	\$ 1,163,265
Tax Factor	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		\$ -	\$ 1,926,254
Water Revenues	\$ 24,116,426	\$ -	\$ 24,116,426	\$ -	\$ 24,116,426	\$ -	\$ 24,116,426	\$ -	\$ 24,116,426		\$ -	\$ 14,279,803
Proposed Revenue Inc	18.23%		16.98%	2.68%	19.66%	-4.86%	14.81%	-2.86%	11.95%			7.99%
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>			\$ 16,206,057

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

\$9,836,623

Total City Revenue:

\$ 26,042,680

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
 5/15/2011

Pro Forma
 Adjustments

Revenue

† To recognize adjustment of fixed annual revenue requirement to meet City Bond obligations:

Total City Bond	\$152,000,000
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	\$133,453,288	(1)
Less: Rate Stabilization Reserve	\$5,000,000	
PWW Pro Rata Share (see 3.A)	100.00%	
Less: PWW Pro Rata Share of Rate Stabilization Reserve	\$5,000,000	
Less: City Eminent Domain Cost Recovery	\$20	
Total PWW Pro Rata Share for CBFR/AFRA	\$128,453,288	
Bond Interest Rate	6.50%	
Bond Period	30 yrs	
	<u>\$9,546,712</u>	(2)

Notes:

(1) Pro Rata Calculation as follows:

PWW & Southwood Equity (8/31/2011) (3)	\$ 54,020,532	87.74%
PEU Equity (8/31/2011)	6,847,954	10.60%
PAC Equity (8/31/2011)	1,877,218	1.66%
	<u>\$ 64,597,259</u>	100.00%

PWW & Southwood % CBFR based on pro rata equity	87.74%	\$133,453,288
PEU % CBFR based on pro rata equity	10.60%	\$16,124,105
PAC % CBFR based on pro rata equity	1.66%	\$2,572,512
Total City Bond	100.00%	<u>\$152,000,000</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 2.A)	\$9,588,492
PWW Pro Rata Share	87.74%
PWW Pro Rata Interest Benefit	<u>\$8,674,462</u>

(3) Consists of Equity as of 8/31/2011 as follows:

PWW	\$ 54,020,532
Southwood	2,057,455
Total	<u>\$ 56,077,987</u>

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		(\$9,836,623)	\$ 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	80,708	4,143,420		4,143,420		4,143,420		(1,529,375) (3)	2,614,045
Amortization Expense:CIAC	(480,385)	-	(480,385)	-	(480,385)		(480,385)		(480,385)			(480,385)
Amortization Expense: MARA	-	-	-	-	-		-		-	854,794	(854,794) (4)	-
Amortization Expense	495,885	(1,898)	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	(63,722)	1,378,395	212,349	1,590,744		1,590,744		(2,769,767) (1)	(1,178,022)
Total Operating Deductions	8,776,879	125,905	8,902,784	71,893	8,974,678	(323,751)	8,650,927	-	8,650,927	854,794	(5,207,980)	4,297,741
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	(854,794)	(\$3,368,033)	1,400,354

Notes:

(1) Pro Forma Income Taxes calculated as follows:
Total pro forma reduction in operating expenses 2,844,029
Total Proforma Revenue decrease \$9,836,623
Total Proforma NOI before income tax (\$6,992,594)

39.61% (2,769,767) *

*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

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 1
 Nashua Acquisition
 8/19/2011

	CBFRR Pro Forma Adjustments	CBFRR Pro Forma Adjustments
Revenue		
To recognize adjustment of fixed annual revenue requirement to meet City Bond obligations:		
Total City Bond	\$152,009,888	
Bond Interest Rate	6.50%	
Bond Period	30 yr	
Calculated pro rata for City Bond based on a constant payment and a constant bond rate.		
Calculated as follows:		
PWW Pro Rata Share	\$133,453,288	
Less: Rate Stabilization Reserve	\$5,000,000	
PWW Pro Rata Share (less RSR)	128,453,288	
Less: PWW Pro Rata Share of Rate Stabilization Reserve	\$5,000,000	
Less: City Emergent Domain Debt Recovery	\$0	
Total PWW Pro Rata Share for CBFRR	\$128,453,288	
Bond Interest Rate	6.50%	
Bond Period	30 yr	
		\$9,556,623

Pro Rata Calculation as follows:

PWW & Southwood Equity (8/31/2011)	\$ 58,871,007	87.74%
PEU Equity (8/31/2011)	\$ 6,847,854	10.60%
PAC Equity (8/31/2011)	\$ 7,271,318	1.65%
	<u>\$64,989,259</u>	<u>100.00%</u>

PWW & Southwood % CBFRR based on pro rata equity	87.74%	\$133,453,288
PEU % CBFRR based on pro rata equity	10.60%	\$16,124,105
PAC % CBFRR based on pro rata equity	1.65%	\$2,528,512
Total City Bond	100.00%	<u>\$152,009,888</u>

Administrative and General		
Admin	\$ (238,595)	
Officers	\$ (733,000)	
City Appointed CEO	\$ 299,000	\$ (771,595)

Bonus:		
Admin	\$ (7,000)	
Officers	\$ (39,500)	
City Appointed CEO	\$ 15,000	\$ (28,500)

	City Appointed CEO		
	Recession	CEO	
Pension	\$ (153,900)	\$ 8,175	\$ (145,825)
401 K	\$ (26,894)	\$ 8,000	\$ (18,894)
Medical	\$ (89,532)	\$ 5,487	\$ (77,945)
Dental	\$ (8,232)	\$ 581	\$ (7,651)
Group Life/Disability	\$ (3,889)	\$ 581	\$ (3,288)
Officer's Life	\$ (10,281)	\$ 3,760	\$ (6,521)
Long Term Care	\$ (8,367)	\$ 1,498	\$ (6,869)
Payroll Taxes	\$ (65,830)	\$ 1,536	\$ (64,294)
Training/Educational Seminars	\$ (17,570)	\$ -	\$ (17,570)
			\$ (326,507)

Meetings & Conventions:		\$ (19,800)
-------------------------	--	-------------

Senior Management Vehicle:		\$ (1,000)
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Memberships:		\$ (22,469)
Total Administrative and General		<u>\$ (1,178,880)</u>
Less Payroll Taxes		\$ 54,044
Total Administrative and General		<u>\$ (1,124,836)</u>

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		(66,479)		
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		(26,500)		
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%.		<u>54,620,532</u>		
		2.80%	\$	<u>(1,529,376)</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		30	\$	<u>-</u>

Amortization Expense

To provide for amortization expense attributable to MARA based on rate and principal payment	\$128,453,268 (Sch 1, Afn A, Pg 1)	\$73,832,736		
Year One Amortization Expense	<u>54,620,532 (Sch 4)</u>	30		
	\$73,832,736	6.50%		<u>\$854,784</u>

Income Taxes

To record income taxes as a result of pro forma adjustments to income statement.			\$	<u>(2,789,767)</u>
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FINAL RATE ORDER NOI ADJUSTMENTS

To record final adjustments to Net Operating Income as approved in Rate Order DW10-091			\$	<u>(166,809)</u>
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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
9/16/2011

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 12/31/08	STEP INCREASE PRO FORMA ADJUSTMENTS	COMBINED TEST YEAR & STEP PRO FORMA TEST YEAR	WITHOUT EMINENT DOMAIN COSTS RECOVERY	COMBINED PRO FORMA & STEP INCREASE TEST YEAR	Final Adjustment DW 10-091	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	153,887,293	(421,246)	153,466,047	3,904,456	157,370,503	157,370,503		157,370,503		157,370,503
Adjustment to Rate Base per Final Rate Order							(3,562,467)	(3,562,467)		(3,562,467)
Accum Deprec	38,280,317	(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)	-	-	-	-	-	-		-	73,832,736	73,832,736
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)	98,812,595	73,832,736	172,645,331
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	-	12,519,535	(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)	92,219,994	165,897,296
DEDUCT: Equity Related Assets + MARA									(128,453,268)	(128,453,268)
ADD: City Eminent Domain Cost Recovery									5,000,000	5,000,000
ADD: Rate Stabilization Cash Reserve										
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)	92,219,994	170,897,296

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>\$ (54,620,532)</u>
To deduct all equity value associated with MARA		<u>\$ (73,832,736)</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

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

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	54,620,532		\$ 54,620,532	\$ 73,832,736	\$ -	\$ (128,453,268) ¹	\$ -	0.00%	7.19% ²	0.00%
Overall Rate of Return	\$ 106,475,539	\$ (2,301,100)	\$ 104,174,439	\$ 73,832,736	\$ -	\$ (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				<u>\$ 49,553,907</u>	<u>\$ 2,991,819</u>	<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>\$ 6,528,978</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	1,137,272	221,083		1,358,356			1,358,356
	660 to 678 & 926.1							
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	(107,394) (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	305,688	(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)	\$ 770,708
Net Operating Income		\$ 818,460	\$ 92,654	\$ (177,830)	\$ 733,284	\$ (107,394)	\$ (392,657)	\$ 233,233

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 Requirements	\$ (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		
<i>Calculated pro rata for City Bond based on a constant payment and a constant bond rate. Calculated as follows.</i>			
PEU Pro Rata Share		\$ 16,124,105	
Less: Rate Stabilization Reserve	\$ 5,000,000		
PEU Pro Rata Share (Sch 3, Attach A)	\$ 11,124,105		
		\$ -	
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)	\$ 96,677,997	87.74%
PEU Equity (8/31/2011)	\$ 6,847,954	10.60%
PAC Equity (8/31/2011)	\$ 1,071,318	1.66%
	\$ 104,597,269	100.00%
PWW & Southwood % CBFRR based on pro rata equity	87.74%	\$ 133,453,288
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 & Mlgs/Corp Secy		(25,052)	
EDGAR Filing/NASDAQ & Other		(74,427)	
% Allocation to PEU	15.03%	\$ (886,203)	\$ (87,930)
<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 PEU	14.60%	(1,156,203)	\$ (168,806)
			\$ (256,736)

3 Amortization Expense

To provide for amortization expense attributable to	\$ 16,124,105 (Sch 1, Attch A)	\$ 9,276,151	
MARA based on rate and principal payment	6,847,954 (Sch 4)	30	
Year One Amortization Expense	\$ 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 2.13%	\$ 6,847,954 (Sch 4)		
	2.13%		\$ 149,370

5 Income Taxes

To record income taxes as a result of pro forma adjustments to income statement. (Sch 1)	\$ (828,036)		
	39.61%		\$ (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	PENNICHUCK EAST UTILITY, INC.	North Country	Pro Forma Adjustments (1)	COMBINED TEST YEAR	CBFRR APPROACH W/MARA		
					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

		<u>Pro Forma Adjustments</u>
1 CASH WORKING CAPITAL		
To reduce working capital as a result of O&M pro forma adjustments. (Schedule 1)	(256,736) <u>12.33%</u>	<u>\$ (31,656)</u>
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		<u>\$ (16,124,105)</u>
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	<u>0.00%</u>	
Total PEU Pro Rata Share for City Bond		<u>\$ -</u>

(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	-2.93%

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		Final Rate Order DW 10-090		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	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%	7.60%	7.60%	-2.20%	5.39%	
Income Required	\$ 149,023	\$ 144,380	\$ 152,923	\$ 152,922	\$ 152,922	\$ 152,922	\$ 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	\$ 77,207	\$ 77,207	\$ 75,682	\$ 75,682	\$ 54,447	
Tax Factor	60.39%	60.39%	60.39%	60.39%	60.39%	60.39%	60.39%	60.39%	
Revenue Deficiency	\$ 121,328	\$ 107,686	\$ 20,161	\$ 127,847	\$ (2,525)	\$ 125,322	\$ 125,322	\$ 90,158	
Water Revenues	\$ 607,133	\$ 126	\$ 607,259	\$ -	\$ 607,259	\$ 607,259	\$ 607,259	\$ 414,092	
Proposed Revenue Inc	19.98%	17.73%	3.32%	21.05%	-0.42%	20.63%	20.63%	14.85%	
Total Revenue	<u>\$ 728,461</u>	<u>\$ 714,945</u>	<u>\$ 735,106</u>	<u>\$ 735,106</u>	<u>\$ 735,106</u>	<u>\$ 732,581</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)	0.00%
	\$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	39.81% \$ (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)	<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>\$193,167.50</u>

Pro Rata Calculation as follows:

PWW & Southwood Equity (8/31/2011)	\$ 56,877,997	87.74%
PEU Equity (8/31/2011)	\$ 6,341,954	10.60%
PAC Equity (8/31/2011)	\$ 1,071,318	1.66%
	<u>\$ 64,597,259</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 & Mgt/Corp Secy		(25,032)
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		<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, Atn A, Pg 1)	\$ 1,451,194
Year One Amortization Expense	<u>1,071,318 (Sch 4)</u>	<u>30</u>
	\$ 1,451,194	6.50%
		<u>\$ 16,801</u>

- 5 Income Taxes

To record income taxes as a result of pro forma adjustments to income statement.	\$ (134,271)	
	<u>38.61%</u>	<u>\$ (53,185)</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

Description	DW10-090, OCA 3-1		DW10-090, OCA 3-1		CBFRR APPROACH W/MARA				
	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
Pro Forma Test Year									
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			1,038,182
Accum Deprec: Loss	114,504	114,504	-	114,504	114,504	114,504			114,504
Accum Deprec: COR	406	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			1,148,636
Amort of CIAC	256,418	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	\$ 3,460,715
DEDUCT: Equity Related Assets								(2,522,512)	(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	\$ (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) 12.33%	<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	<u>\$ 2,103,206</u>		<u>\$ 2,103,206</u>	<u>\$ 1,451,194</u>	<u>\$ -</u>	<u>\$ (2,522,512)</u>	<u>\$ 1,031,888</u>	<u>100.00%</u>		<u>5.39%</u>
									Original Filing	7.60%
									Proposed Adjustment	<u>-2.20%</u>

Notes:

- To eliminate common and MARA equity purchased by City Bond as part of the closing transaction.
- 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 FORMA TEST YEAR	WITHOUT EMINENT DOMAIN COSTS RECOVERY	COMBINED PRO FORMA & STEP INCREASE FORMA TEST YEAR	¹ Final Adjustment DW 10-091	Final Rate Order DW 10-091	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	(49,775,965)	\$ 42,444,028	
RATE of Return	7.86%	0.09%	7.95%		7.95%		7.95%	0.03%	7.98%	-1.95%	6.04%	
Income Required	\$ 7,677,233	\$ -	\$ 7,733,642		\$ 7,996,562		\$ 7,613,064		\$ 7,362,859		\$ 2,563,619	
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	(\$3,738,374)	\$ 1,884,808	
Deficiency	\$ 2,364,374	\$ -	\$ 2,473,376		\$ 2,863,940		\$ 2,156,691		\$ 1,739,677		\$ 678,811	
Tax Factor	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		\$ 1,124,045	
Water Revenues	\$ 24,116,426	\$ -	\$ 24,116,426	\$ -	\$ 24,116,426		\$ 24,116,426		\$ 24,116,426		\$ 15,082,011	
Proposed Revenue Inc	16.23%		16.99%	2.68%	19.66%	-4.86%	14.81%	-2.86%	11.95%		4.66%	
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>\$ 16,206,056</u>	

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

\$9,034,414

Total City Revenue:

\$ 25,240,471

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
 8/19/2011

Pro Forma
 Adjustments

Revenue

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

Total City Bond	\$162,099,885
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:

PWW Pro Rata Share	\$133,453,268 (1)
Less: Rate Stabilization Reserve	\$5,000,000
PWW Pro Rata Share (66.3%)	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	5.70%
Bond Period	30 yrs
	<u>\$9,034,414 (2)</u>

Notes:

(1) Pro Rata Calculation as follows:

PWW & Southwood Equity (8/31/2011) (3)	\$6,877,987	87.74%
PEU Equity (8/31/2011)	\$ 8,847,954	10.50%
PAC Equity (8/31/2011)	1,071,318	1.68%
	<u>\$ 64,897,259</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	10.00%	\$16,124,105
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 Payments on City Bond (year one)	\$8,889,603
PWW Pro Rata Share	87.74%
PWW Pro Rata Interest Benefit	\$7,606,826

(3) Consists of Equity as of 8/31/2011 as follows:

PWW	\$ 54,620,532
Southwood	\$ 2,057,455
Total	<u>\$ 56,677,987</u>

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

	DW10-081, OCA 3-1		DW10-091, STAFF 3-13		LESS EMINENT DOMAIN		CBFRR APPROACH WMARA					
	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	355,256	(1,330)	353,936	-	353,936	-	353,936		353,936			353,936
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		(1,126,625)	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		(1,280,610)	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		(1,529,375) (3)	2,614,045
Amortization Expense: CIAC	(480,385)	-	(480,385)	-	(480,385)	-	(480,385)		(480,385)			(480,385)
Amortization Expense: MARA	-	-	-	-	-	-	-		-	984,361	(984,361) (4)	-
Amortization Expense	495,885	(1,895)	494,189	-	494,189	(538,100)	(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		(2,452,012) (1)	(861,267)
Total Operating Deductions	8,776,879	125,905	8,902,784	71,893	8,974,678	(323,751)	8,650,927	-	8,650,927	984,361	(5,019,791)	4,615,496
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	(984,361)	(\$2,754,019)	1,884,808

Notes:

(1) Pro Forma Income Taxes calculated as follows:
Total pro forma reduction in operating expenses 2,844,029
Total Proforma Revenue decrease \$9,034,414
Total Proforma NOI before income tax (6,190,386)

39.61% (2,452,012) *

*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 Equally-Related Assets Acquired by City

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 1
Nashua Acquisition
3/15/2011

	<u>CBFRR</u>	<u>CBFRR</u>
	<u>Pro Forma</u>	<u>Pro Forma</u>
	<u>Adjustments</u>	<u>Adjustments</u>

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:

PWW Pro Rata Share	\$133,453,268	
Less: Rate Stabilization Reserve	\$5,000,000	
PWW Pro Rata Share (less RSR)	<u>128,453,268</u>	
Less: PWW Pro Rata Share of Rate Stabilization Reserve	\$5,920,000	
Less: City Eminent Domain Cost Recovery	<u>2,000,000</u>	
Total PWW Pro Rata Share by CBFRR/MARA	\$126,453,268	
Bond Interest Rate	5.70%	
Bond Period	<u>30 yrs</u>	
		<u>\$9,034,414</u>

Pro Rata Calculation as follows:

PWW & Southwood Equity (8/31/2011)	\$ 59,677,087	87.74%
PEU Equity (8/31/2011)	\$ 6,817,954	10.60%
PAC Equity (8/31/2011)	\$ 1,072,319	1.66%
	<u>\$64,567,360</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%	\$16,124,165
PAC % CBFRR based on pro rata equity	1.66%	\$2,522,512
Total City Bond	<u>100.00%</u>	<u>\$152,099,885</u>

Administrative and General		
Admin	\$ (238,596)	
Officers	\$ (793,000)	
City Appointed CEO	\$ 200,000	\$ (771,596)

Retreat		
Admin	\$ (7,000)	
Officers	\$ (39,500)	
City Appointed CEO	\$ 16,000	\$ (26,500)

Benefits		<u>City Appointed</u>	
	<u>Reductions</u>	<u>CEO</u>	
Pension	\$ (193,000)	\$ 8,175	\$ (145,825)
401 K	\$ (24,644)	\$ 0,000	\$ (18,644)
Medical	\$ (82,532)	\$ 5,487	\$ (77,045)
Dental	\$ (8,232)	\$ 551	\$ (7,681)
Group Life/Disability	\$ (3,669)	\$ 551	\$ (3,289)
Officer's Life	\$ (10,281)	\$ 3,700	\$ (6,581)
Long Term Care	\$ (8,287)	\$ 1,488	\$ (6,869)
Payroll Taxes	\$ (65,630)	\$ 1,586	\$ (64,044)
Training/Educational Reimburse	\$ (17,570)	\$ -	\$ (17,570)
			\$ (336,507)

Meals & Conventions		\$ (19,600)
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Senior Management Vehicle		\$ (1,000)
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Memberships		\$ (22,460)
Total Administrative and General		<u>\$ (1,179,029)</u>
Less Payroll Taxes		<u>\$ 54,044</u>
Total Administrative and General		<u>\$ (1,125,626)</u>

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>(1,166,203)</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%.		54,520,532 2.80%	<u>\$ (1,529,375)</u>
 Amortization Expense			
To provide for amortization expense on City Eminent Domain Costs as follows:			
City Eminent Domain Costs		\$0	
Amortization Period years		<u>30</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) <u>54,520,532 (Sch 4)</u>	\$73,832,736 30
Year One Amortization Expense		<u>\$73,832,736</u>	<u>6.70%</u> \$984,361
 Income Taxes			
To record income taxes as a result of pro forma adjustments to income statement.			<u>\$ (2,452,012)</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>

PWW @ 5.7%

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
9/16/2011

Description	DW10-091, OCA 3-1		DW10-091, STAFF 3-13		LESS EMINENT DOMAIN		CBFRR APPROACH WIMARA		CITY ADJUSTMENTS FOR PWV'S PRO RATA SHARE OF MARA	PRO FORMA NASHUA ACQUISITION ADJUSTMENTS	PRO FORMA NASHUA RATE BASE FOR PWV
	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 TEST YEAR	Final Adjustment DW 10-091	Final Rate Order DW 10-091 & Southwood			
Plant in Service	153,687,293	(421,348)	153,265,947	3,804,458	157,170,503	157,170,503		157,170,503			157,170,503
Adjustment to Rate Base per Final Rate Order							(3,562,467)	(3,562,467)			(3,562,467)
Accum Deprec	38,260,317	(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)	-	-	-	-	-	-		-	73,832,736		73,832,736
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)	98,812,595	73,832,736		172,645,331
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	12,518,535	(4,824,907)	7,693,628			7,693,628
	15,098,172	(20,841)	15,077,331	6,874	15,084,405	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			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
	18,024,099	-	16,024,099	828,000	18,852,099	18,852,099		16,652,099			16,652,099
TOTAL Rate Base	97,733,490	(433,999)	97,299,491	3,307,877	100,607,368	100,607,368	(4,824,907)	95,782,461	73,832,736	(155,433)	165,897,296
DEDUCT: Equity Related Assets + MARA										(128,453,268)	(128,453,268)
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	100,607,368	(4,824,907)	95,782,461	73,832,736	(123,453,268)	42,444,828

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>	<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.		\$ (54,620,532)
To deduct all equity value associated with MARA		\$ (73,832,736)
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</u>	<u>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>

PWW @ 5.7%

Pennichuck Water Works, Inc.
Overall Rate of Return

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

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	54,620,532		\$ 54,620,532	\$ 73,832,736	\$ -	\$ (128,453,268) ¹	\$ -	0.00%	7.19% ²	0.00%
Overall Rate of Return	\$ 106,475,539	\$ (2,301,100)	\$ 104,174,439	\$ 73,832,736	\$ -	\$ (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

	TEST YEAR	PRO FORMA ADJUSTMENTS (1) (2)	PRO FORMA TEST YEAR	COMBINED PRO FORMA TEST YEAR	City Bond Fixed Revenue Requirement (CBFRR)	
					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			
Other Operating Revenue	471	32,269	8,691		40,960		(\$1,134,045)	\$ 4,515,447
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	650 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	1,251,843	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	305,688	(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)	\$ 11,124,105
	\$ -
Total PEU Pro Rata Share for City Bond	\$ 16,124,105
Bond Interest Rate	5.70%
Bond Period	30 yrs

\$ 1,134,045

Pro Rata Calculation as follows:

PWW & Southwood Equity (8/31/2011)	\$ 56,577,887	87.74%
PEU Equity (8/31/2011)	\$ 6,847,954	10.80%
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	10.80%	\$ 16,124,105
PAC % CBFRR based on pro rata equity	1.66%	\$ 2,322,512
	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 & Mgt/Corp Secy	(25,052)
EDGAR Filing/NASDAQ & Other	(74,427)
% Allocation to PEU	15.00% - \$ (886,203)

\$ (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	\$ 16,124,105 (Sch 1, Attch A)	\$ 9,276,151
Year One Amortization Expense	6,847,954 (Sch A)	30
	\$ 9,276,151	5.70%

\$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)
	2.19%

\$ 149,970

5 Income Taxes

To record income taxes as a result of pro forma adjustments to income statement. (Sch 1)	\$ (727,339)
	39.61%

\$ (288,099)

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	PENNICHUCK EAST UTILITY, INC.	North Country	Pro Forma Adjustments (1)	COMBINED TEST YEAR	CBFRR APPROACH W/MARA		
					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
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%
	<u>\$ 64,597,259</u>	<u>100.00%</u>

PEU @ 5.7%

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 -2.93%

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)		CITY OF NASHUA ADJUSTMENTS FOR CBFRR APPROACH	CITY OF NASHUA REVENUE REQUIREMENT	
	PROPOSED DATA REQUESTS ADJUSTMENTS (1)	12 MONTHS WITH PROPOSED ADJUSTMENTS 12/31/09	STEP INCREASE PRO FORMA ADJUSTMENTS (1)	COMBINED PRO FORMA & STEP INCREASE PRO FORMA TEST YEAR	¹ Final Adjustment DW 10-090	Final Rate Order DW 10-090			
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>\$ 735,406</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
	<u>\$177,414 (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
PAC Pro Rata Share	1.66%
PAC Pro Rata Interest Benefit	\$143,783

PAC @ 5.7%

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 WMARA					
	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			\$ 429,845
Other Operating Revenue	5,429	-	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) (a)	60,603
Amortization Expense: CIAC	(24,146)	-	(24,146)	-	(24,146)		(24,146)			(24,146)
Amortization Expense: MARA								19,348	(19,348) (a)	-
Amortization Expense	4,458	-	4,458	-	4,458		4,458			4,458
Property Taxes	81,437	(4,225)	77,212	3,954	81,176		81,176			81,176
Income Tax	8,857	2,358	11,215	(2,382)	8,833		8,833		(46,945) (t)	(38,111)
Total Operating Deductions	156,691	(1,867)	154,824	3,632	158,456	-	158,456	19,348	(93,825)	83,979
Net Operating Income	\$ 75,753	\$ 3,595	\$ 79,348	\$ (3,632)	\$ 75,716	\$ 1,524	\$ 77,240	\$ (19,348)	(\$52,225)	\$5,668

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	39.61%	\$ (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 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
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.</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	5.70%	
Bond Period	30 yrs	
		<u>\$177,414.06</u>

Pro Rata Calculation as follows:

PWW & Southwood Equity (8/31/2011)	\$ 56,877,987	87.74%
PEU Equity (8/31/2011)	\$ 5,847,954	10.60%
PAC Equity (8/31/2011)	\$ 1,071,318	1.66%
	<u>\$ 64,597,259</u>	<u>100%</u>
PWW & Southwood % CBFR based on pro rata equity	87.74%	\$ 133,453,268
PEU % CBFR based on pro rata equity	10.60%	\$ 16,124,105
PAC % CBFR 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 & 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		(306,507)
Meetings & Conventions		(19,600)
Senior Management Vehicle		(1,000)
% Allocation to Pac	1.80%	\$ (1,156,203) \$ (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 M&PA based on rate and principal payment	\$ 2,522,512 (Sch 1, Att 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>38.61%</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				
	PROPOSED DATA REQUESTS ADJUSTMENTS	12 MONTHS WITH PROPOSED ADJUSTMENTS 12/31/09	STEP INCREASE PRO FORMA ADJUSTMENTS	COMBINED PRO FORMA & STEP INCREASE TEST YEAR	Final Adjustment DW 10-090	Final Rate Order DW 10-090	CITY ADJUSTMENTS FOR PWWS PRO RATA SHARE OF MARA	PRO FORMA NASHUA ACQUISITION ADJUSTMENTS	PRO FORMA NASHUA RATE BASE FOR PWWS
Pro Forma Test Year									
Plant in Service	\$ 3,846,825	\$ -	\$ 3,846,825	\$ 114,525	\$ 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	\$ 3,460,715
DEDUCT: Equity Related Assets								(2,522,512)	(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	\$ 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) <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.		<u>\$ (1,071,318)</u>
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
9/15/2011

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	<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 CBFR 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.