ATTACHMENTS TO TESTIMONY

Exhibit 1 What Is In The Requested Bonding Amount?

Exhibit 2 30-Year Financial Analysis Charts.

Exhibit 3 3-Year Cash Flow Analysis.

Exhibit 4 Finance Baseline Figures

Exhibit 5 Southwood Conservation Land Sales.

Exhibit 6 Tax Liability Calculation for Non-Profit Conversion.

Exhibit 7 Response to Teeboom 12 July Tech Session Data Requests.

REFERENCES

1. An Evaluation of Pennichuck Water Works Land Holdings as they Relate to Water Quality and Supply, prepared by Sasaki Associates, 1 June 1980.

    This report, prepared for Pennichuck Water Works, examines maintaining 2,000 acres of watershed protection lands in view of pending completion of the water treatment plant to meet the federal 1974 Safe Drinking Water Act and its 1977 amendments. Five hundred (500) acres were considered critical for water protection, 505 acres were considered buffer zones, **and 985 acres were considered convertible to "alternative use."**

2. Summary Report – Comprehensive Review Pennichuck Water System, Nashua, New Hampshire, prepared by Rizzo Associates, 1 November 2002.

    This report, prepared for the City of Nashua, evaluates the benefit of public ownership, in view of the proposed merger of Pennichuck Corporation with Philadelphia Suburban Corporation. The report highlights the advantages under public ownership of not paying taxes and obtaining capital at much lower rates than under investor owned utilities, **none of which apply to the proposed merger agreement.**

Exhibit 1

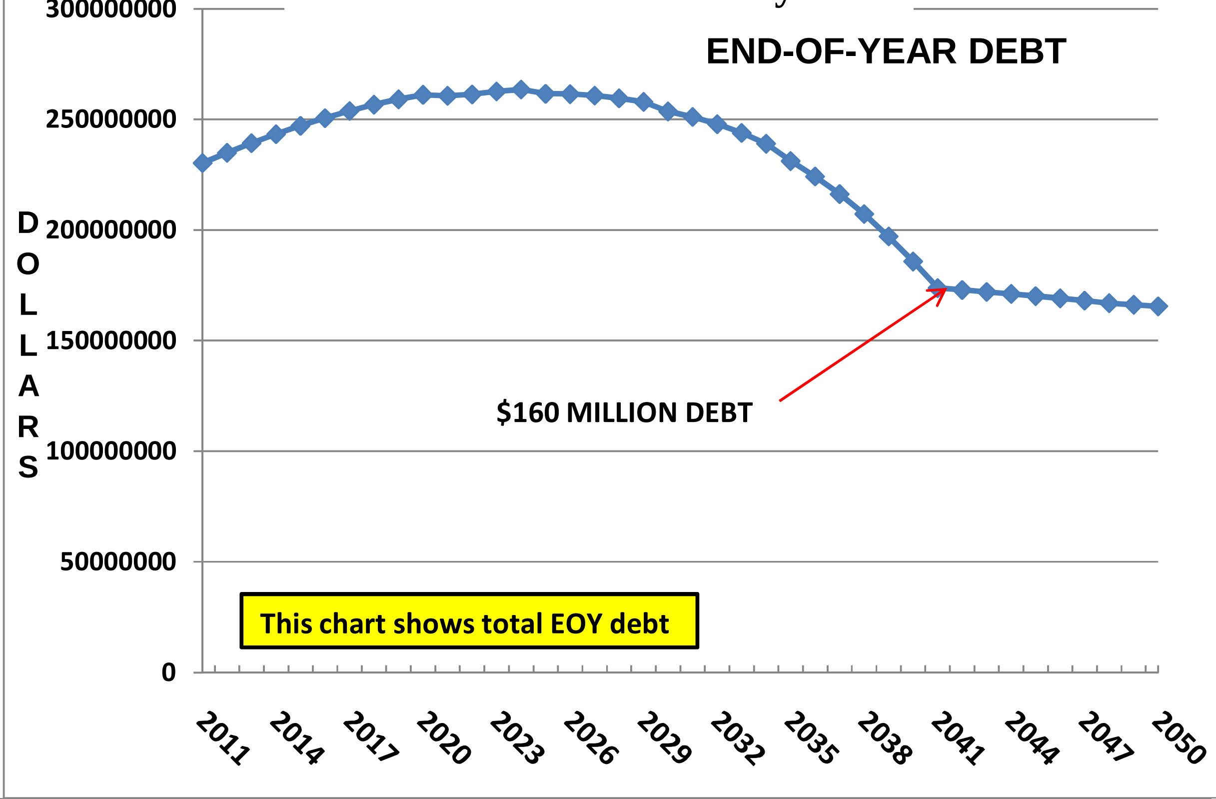
WHAT IS IN THE REQUESTED BONDING AMOUNT?

Presented during Public Hearing on Bond Resolution
To authorize funding the acquisition of Pennichuck Corporation
Adopted by Nashua Board of Alderman on 6 January 2011

Funding the Acquisition	**$-Millions**
Transaction Costs	
Acquisition of shares and options ($29/share)	$ 138
City transaction cost	2
Pennichuck transaction cost	3
Severance	2
Bond issuance cost	2
Transaction Subtotal	**$147 million**
Desirable Additions	
Rate stabilization fund	5
City eminent domain cost reimbursement	5
Subtotal Additions	**$10 million**
Total Acquisition Cost	**$157 million**
Contingencies	
Potential debt refinancing	53
Miscellaneous (???)	10
Subtotal Contingencies	**$63 million**
Authorized GO Bond Resolution (R-10-82)	**$220 million**

Exhibit 2

30-Year Financial Analysis



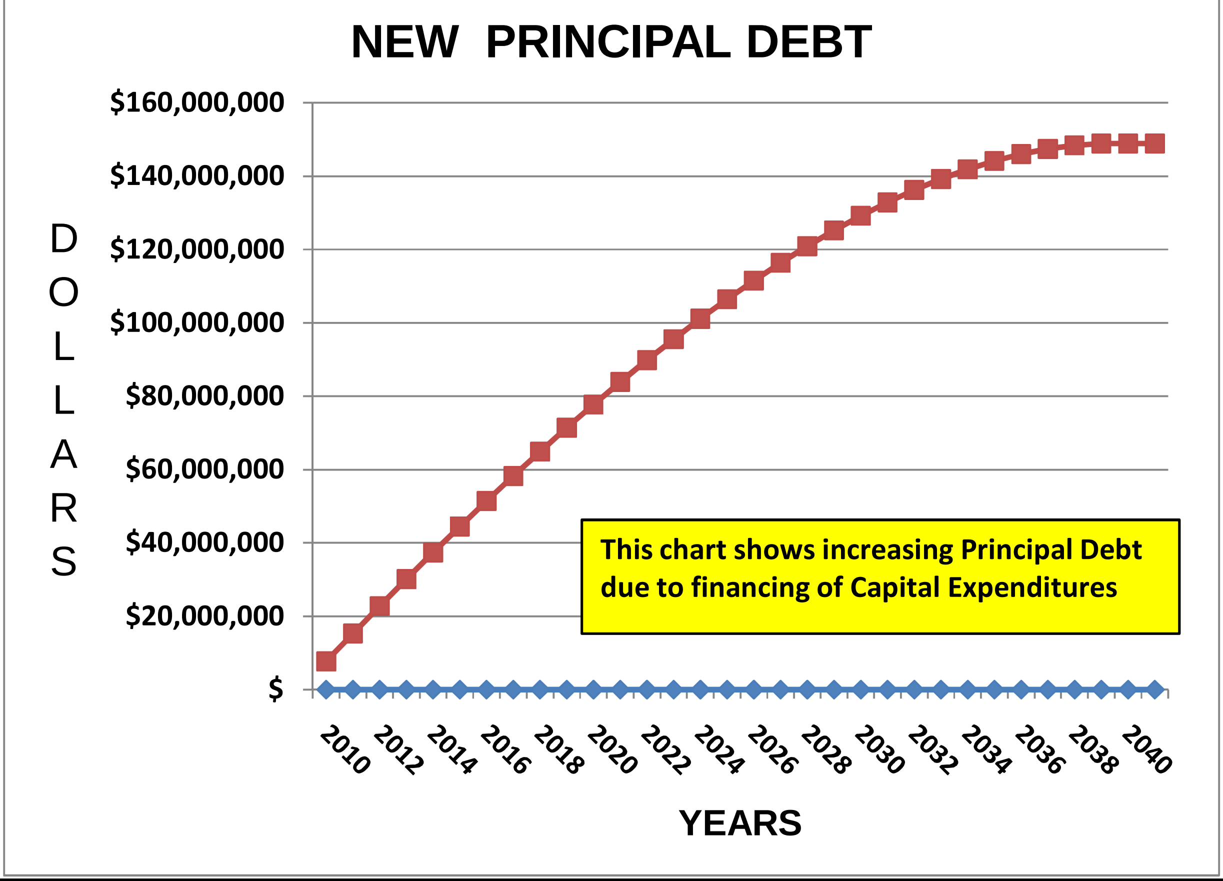
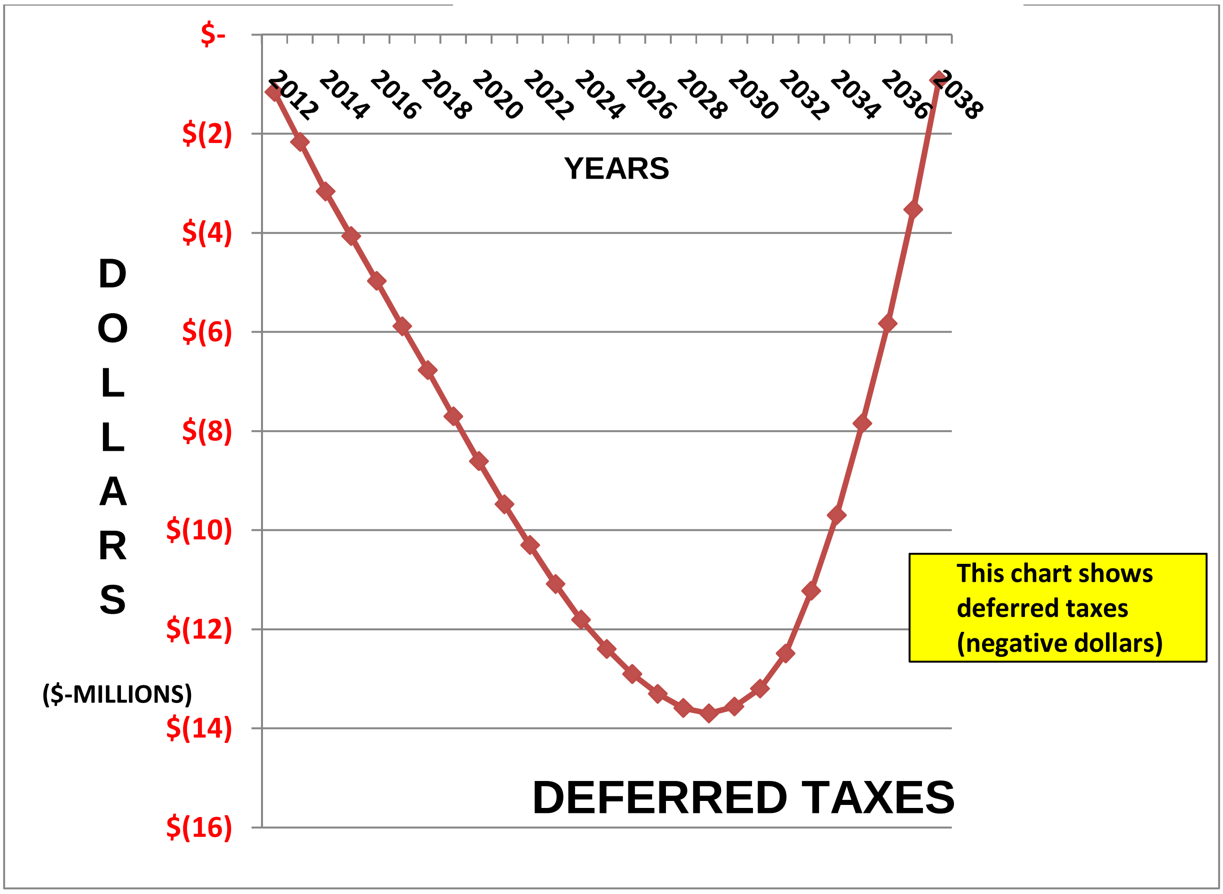


Exhibit 2

30-Year Financial Analysis



<u>Source for Exhibit 2 Charts</u>:

C.W. Downer 30-year financial analysis presented to the Nashua Board of Aldermen, January 2011. (posted on the Nashua Home Page, www.gonashua.com)

Exhibit 3

3-YEAR CASH FLOW ANALYSIS

(Source: Summarized from Staff 1-11 and OCA 1-6)

	Year 2012		Year 2013		Year 2014	
Revenues	**$ 37,756,295**		**$ 38,435,490**		**$ 39,945,000**	
Operating Expenses *		$ 21,747,374		$ 22,355,762		$ 22,977,360
Interest Expenses		$ 13,517,221		$ 13,779,728		$ 14,028,602
Principal payments		$ 3,258,516		$ 3,458,027		$ 3,681,443
Total Expenses	**$ 38,523,111**	**$ 38,523,111**	**$ 39,593,517**	**$ 39,593,517**	**$ 40,687,405**	**$ 40,687,405**
Net cash flow **	**$ (766,816)**		**$ (1,158,027)**		**$ (742,405)**	

* Includes taxes other than income taxes

**The negative cash flow is drawn against $5 million borrowed "rate stabilization fund' and expected cash "on-hand"

Exhibit 4

Finance Baseline Figures

(Source: Notes with Attachment to OCA 2-4(a))

1. Debt is assumed to comprise	50%	Of the capital for future Capex under private ownership
2. Equity is assumed to comprise	50%	Of the capital for future Capex under private ownership
Future City Capex is expected to be	100%	Debt Financed.
Estimated Cost of Debt	**5.50%**	
Estimated Return on Equity	**9.75%**	
Tax Factor	60.39%	
PWW ROI under private Ownership (From Hartley Exhibit BJH1-1)	**7.95%**	To be applied to 2010/2011 rate base additions not in any current rate case
PWW ROI under City Ownership (From Hartley Exhibit BJH1-2)	**6.33%**	To be applied to 2010/2011 rate base additions not in any current rate case

Exhibit 5

Southwood Conservation Land Sales

(Source: Rizzo Report, Reference 2)

Land Holdings Summary

	Area within Nashua (Acres)	Area within Merrimack (Acres)	Total Area (Acres)
Critical Areas	395	105	500
Buffer Zone	335	170	505
Alternative Use Area	600	385	985
Total	**1330**	**660**	**1990**

Source: "An Evaluation of Pennichuck Water Works Land Holdings as They Relate to Water Quality and Supply," June 1980

In 1983 Pennichuck Corporation transferred 1,088 acres of Buffer Zone and Alternative Use Areas to Southwood Corporation at a cost of $39,000

Southwood Corporation sold and/or developed 796 of those acres between 1984 and 2001

Based on 1990 dollars, the value of the 796 acres of land is estimated to be $15.9 million

Transfer Cost: $ 36 per acre

Sold: $19,975 per acre

Profit $15,861,000
55,500%

Windfall profits on water buffer/conservation land for Pennichuck Corporation; none of these profits were used to offset water rates.

Source: Rizzo Associates Comprehensive Review of Pennichuck Corporation, 6 Nov 2002 (Reference 2).

Exhibit 6

Tax Liability Calculation for Non-Profit Conversion

(Response to Teeboom Tech 2.2)

Docket No. DW 11-026
City of Nashua Acquisition of Pennichuck Corporation Teeboom Tech 2-2
Built In Gain - June 2010

		As of June 30, 2010	
		Federal	State ~ NH
Proceeds from Sale of shares and Option		**$ 137,638**	
Professional Fees Pennichuck		2,500	
Assumed Debt as of 6/30/10			
Long term Debt	$ 58,607		
Current Liabilities	4,947		
Deferred Credits and Reserves	8,998		
Contributions in aid of construction (CIAC)	31,455		
Total Assumed debt (I thought that was $60 million)		**104,007**	
Adjusted Purchase Price		$ 244,145	$ 244,145
Less: Total Assets (from where?)		**177,324**	**177,324**
Book -Tax differences		(51,962)	(37,970)
Total Tax Basis of Assets Acquired		**$ 125,362**	**$ 139,354**
Gain on deemed sale of assets		118,783	104,791
Taxes ~ BPT @ 8.5%			8,907
BET Credits			(344)
Taxes ~ BPT, Net		(8,563)	$ 8,563
Net Gain before NOL carryforward		110,220	
NOL utilitized		(4,152)	
Taxable Federal Gain		**$ 106,068**	
Tax @ 35%		37,124	
AMT Credit		(374)	
Federal Tax, Net		$ 36,750	
Total Federal and State Tax Impact - with NOL		**$ 45,313**	
Total Federal and State Tax Impact - Without NOL		**$ 46,766**	

Description

$ (53,484,988)	Net Plant and equipment
(636,438)	Net Deferred Charges
47,095	Bad Debt
(945,303)	Prepaid Expenses
(418,864)	Deferred Land Costs
50,000	Vacation accrual
48,422	Charitable Contribution Carryover
(12,818)	Bonus accrual
4,174,639	Pension liability
(3,714,433)	Pension (other assets)
1,539,745	post 65 Health liability (LT)
854,827	pre 65 Health liabilty (LT)
(448,763)	VEBA Union
(202,268)	VEBA Non-Union
40,800	pre 65 Health liability (ST)
(105,313)	Pre 65 Health - Asset
48,344	Post 65 Health - Asset
779,285	SERP
424,217	NQ stock
$ (51,961,814)	**Total Book-Tax Differences**

Questionable Accounting

The total federal and state tax impact of $46.766 million is questionable, for example:

- Source of total assets of $177.324 million?
- Total assumed debt of $104 million, when C. W. Downer presented $63 million in cost projections? (see Exhibit 1).
- Total Book – Tax Differences of $51.962 million subtracted from Total Assets?

Exhibit 7

Response to Teeboom Data Requests
July 12, 2011 Tech Session

TEEBOOM DATA REQUESTS TO JOINT PETITIONERS
JULY 12, 2011 TECH SESSION

Date Request Received: July 23, 2011 | Date of Response: August 3, 2011
Request No. Teeboom Tech 2-1 | Witnesses: John Patenaude

REQUEST:

The Joint Petitioners mentioned that the City of Nashua is unable to obtain the city's Bond Counsel's "Opinion" that the general obligation (GO) bonds to purchase Pennichuck Corporation are tax exempt.

1. Please provide the written Opinion from the Bond Counsel.

2. Has a second Opinion been obtained, given that the stock purchase with City of Nashua GO bonds are authorized under the 2010 Special Session of the NH Legislature?

RESPONSE:

(1) There is no written Opinion from Bond Counsel because the transaction documents for the loan have not yet been prepared and the terms of the financing have not been finalized. However, the City has been informed by its advisors that general obligation bonds issued to finance the acquisition of investment property, such as the stock of Pennichuck Corporation, would be treated as "arbitrage bonds" within the meaning of section 148(a) of the United States Internal Revenue Code of 1986 (the "Code"). Interest paid on bonds that are treated as "arbitrage bonds" is not eligible for tax-exempt treatment pursuant to section 103(b)(2) of the Code. (See Mr. Patenaude's original testimony at page 15, lines 11 to 20.)

(2) The City has discussed the issue with more than one advisor in order to confirm the conclusion that general obligation bonds issued to finance the acquisition of investment property, such as the stock of Pennichuck Corporation, would not be eligible for tax-exempt treatment.

Date Request Received: July 23, 2011	Date of Response: August 3, 2011
Request No. Teeboom Tech 2-2	Witnesses: John Patenaude

REQUEST:

Mr. Patenaude in Testimony dated 18 February on page 11 lines 7-9 cites a "$45 million tax liability" to convert the current taxable corporation to tax-exempt, but no calculation has been provided to back this up.

(1) Please provide the calculation to derive the $45 million "tax liability."

(2) Please explain why this penalty must be incurred by the buyer in this stock purchase.

RESPONSE:

(1) Attachment Teeboom Tech 2-2 provides a summary calculation of the potential approximate $45 million federal and state income tax liability

(2) Upon the purchase of the stock, any potential triggering of tax liability by the acquired companies would become the responsibility of the buyer. However, under the transaction structure proposed by the Joint Petitioners, the potential federal and state tax liability discussed in Mr. Patenaude's testimony would not be incurred because the built-in gain inherent in the Pennichuck Corporation assets would not be recognized for federal or state income tax purposes. (See Mr. Patenaude's original testimony at page 10, lines 6 to 23, page 11, and page 12, lines 1 to 2.)

Date Request Received: July 23, 2011	Date of Response: August 3, 2011
Request No. Teeboom Tech 2-3	Witness: Arthur Gottlieb

REQUEST:

Please provide a direct comparison of rates between ownership under Nashua compared with current ownership, thus demonstrating that water rates under Nashua ownership are expected to be lower than under Pennichuck ownership under the following scenarios:

(1) A taxable corporation, with 6.5% and 5.7% interest on its acquisition bond, and

(2) A tax-exempt corporation, with 4.4% interest on its acquisition bond, allowing for the conversion tax penalty.

RESPONSE:

(1) A direct comparison is not possible since the petitioners cannot know the future rates the PUC might approve under current ownership. That said, our prior testimony provides the basis of our position that future rates will be lower under City ownership.

As indicated in the schedules attached to Ms. Hartley's Supplemental Testimony, the initial costs for the regulated utilities will be lower under City ownership than under current ownership assuming the transaction is financed at a 6.5% interest rate. The petitioners have also presented testimony that rates may be reasonably expected to grow more slowly under City ownership than under current ownership. This is because (i) the City will have a lower expense base than the current owners and (ii) the City will require a lower rate of return on future capital expenditures than the current owners. (See, e.g., Testimony of Mr. Gottlieb at page 4, lines 7 to 21). The combination of lower initial rates and slower growth establishes that future rates will be lower under City ownership than under current ownership.

(2) As with part (1) to this response, we cannot prove a direct comparison since we cannot know the future rates the PUC might approve under current ownership.

That said, we can compare the cost of financing $157 million at 5.7% to the cost of financing $202 million at 4.4% which are approximately today's rates. It is not reasonable to compare a 6.5% taxable interest rate to a 4.4% tax-exempt rate. In the real world, the tax-exempt interest rate would almost certainly go up if the taxable rate were to increase by 0.8%.

The debt service for $157 million of debt with level payments over 30 years at 5.7% interest is $11.04 million. The debt service for $202 million of debt with level payments over 30 years at 4.4% interest is $12.26 million. The extra $1.22 million of debt service means the tax-exempt debt would be more costly under these assumptions.

Date Request Received: July 23, 2011	Date of Response: August 3, 2011
Request No. Teeboom Tech 2-4	Witnesses: John Patenaude

REQUEST:

The spreadsheets provided in OCA Tech 1-3(b) show a cash flow from PWW, PEU, PAC and TSC to the Holding Corporation, to pay the annual debt obligation to the City of Nashua (CBFRR). The cash payments evidently include deferred taxes and depreciation paid by the subsidiaries to the holding company to generate sufficient cash. The many spread sheets responding to OCA Tech 1-3 are interlocked and difficult to track.

(1) Please provide, in a single spread sheet, the flow of cash from all subsidiaries (regulated and not) through the holding corporation to show how the CBFRR annual obligation to the City of Nashua is paid, at 5.7% and at 6.5% acquisition bond rates.

(2) Show why 6.5% is considered the highest acquisition bond rate to finance the merger.

(3) The regulated subsidiaries show a negative cash flow after distribution in the OCA Tech 1-3(b) Spread sheets. How is this negative cash made up?

RESPONSE:

(1) The attached spreadsheets (Attachment Teeboom Tech 2-4(b) and Teeboom Tech 2-4(c)) show the projected consolidated cash flow from all subsidiaries (regulated and unregulated) in both the OCA Tech 1-3(b) and OCA Tech 1-3(c) scenarios. These spreadsheets are drawn from the "cash flow check" portion of the excel workbooks that have been previously provided to the parties on July 13, 2011. This "cash flow check" is located on the worksheets labeled "Consolidated Cash Flow" in each workbook.

(2) As indicated in the Patenaude testimony (page 17 lines 5-9) the 6.5% interest rat condition in the Merger Agreement was the subject of negotiations between th Pennichuck Corporation. Also refer to the response to Staff Request 1-68 whic indicates that it is likely that if interest rates were above the 6.5% annual interest rate that water rates under city ownership would be above the levels that would exist under current city ownership.

Exhibit 6
Page 4 of 4

(3) Attachment OCA Tech 1-3(b) shows nine years of cash flows for each of the three regulated utilities, for a total of 27 annual cash flows. Only three of those 27 annual cash flows are negative. Cash is greater at the end of 2020 than it is at the end of 2011 for all three utilities. The negative cash flows for each utility may be covered with payments from the rate stabilization fund.