

A special meeting of the Board of Aldermen was held Monday, May 9, 2005 at 7:00 p.m. in the Aldermanic Chamber.

President Brian S. McCarthy presided; City Clerk Paul R. Bergeron recorded.

Prayer was offered by City Clerk Paul R. Bergeron; Alderman Dion leading in the Pledge to the Flag.

The roll call was taken with 10 members of the Board of Aldermen present; Alderman Tollner, Alderman Shaw, Alderman Gage, and Alderman MacLaughlin were not in attendance.

His Honor Bernard A. Streeter and Corporation Counsel David R. Connell were also in attendance.

COMMUNICATIONS

**MOTION BY ALDERMAN VITALE THAT ALL COMMUNICATIONS BE READ BY TITLE ONLY
MOTION CARRIED**

From: Brian S. McCarthy, President, Board of Aldermen
Re: Special Board of Aldermen Meeting

**MOTION BY ALDERMAN PLAMONDON TO ACCEPT AND PLACE ON FILE
MOTION CARRIED**

From: Brian S. McCarthy, President, Board of Aldermen
Re: Amended Purpose of Special Board of Aldermen Meeting

**MOTION BY ALDERMAN LAROSE TO ACCEPT AND PLACE ON FILE
MOTION CARRIED**

COMMITTEE OF THE WHOLE

**MOTION BY ALDERMAN VITALE THAT THE BOARD OF ALDERMEN RESOLVE ITSELF
INTO A COMMITTEE OF THE WHOLE TO DISCUSS THE PENNICHUCK EMINENT DOMAIN
PROCEEDINGS
MOTION CARRIED**

President McCarthy

Tonight we have Mr. Munck from Sansoucy Associates with us to discuss our progress to date and the upcoming process before the Public Utilities Commission.

Phil Munck

Thank you, Mr. McCarthy. I'm going to talk to...

Alderman Deane

There is an available seat. Why don't you come sit down with us instead of standing up there. Thank you.

Phil Munck

I'm going to go through the briefing handout that I brought along this evening and expand on some of these things and hopefully answer any questions that the Board is going to want to do.

To put the proceedings in perspective, all the resolutions, and votes, and things that needed to be done by the City to get this thing started were, as you know, done a long time ago. All the appropriate notices have been given. The court cases have been fought and won. We are now actually seeing some more motion start to take place in what is still going to be a very long process. The regional water district has been fluent. It meets on a regular basis. They are spending, as I can tell from their minutes, a good bit of time really getting themselves focused on the tasks that are ahead. As I said, all the cases in the State and Federal courts have been resolved in the City's favor. It's not to say that some of them can't come back and Pennichuck try for another bite of the apple. But at the moment, there are no impediments in the courts to anything that the City is trying to do.

The Public Utilities Commission has said that we would not be able to pursue the taking of all three of the Pennichuck Utility Companies. They based that decision on their reading of the law and not on any finding of merit one way or the other. They've also said that in response to a petition from Pennichuck, that the City is free to make its case for taking all the facilities of Pennichuck Water Works. That means all of the satellite systems that are not hydraulically connected, not served out of the water treatment plant.

We have prepared proposals, requests for proposals for contractors to operate and maintain the water system and to provide some oversight and management services to the City. Those proposals are out now and contractors are reviewing them and preparing their responses. The responses are due June 15th.

Alderman Lozeau

Excuse me Mr. Munck. Could you just elaborate? You said that the PUC ruled that we can't take all three of the Pennichuck's – could you just elaborate what the three are?

Phil Munck

The other two, well the main system, the system here in the City is the Pennichuck Water Works, Inc. Pennichuck East Utilities is a utility that was formed around the systems that Pennichuck purchased from Hudson when Hudson took the Consumers NH Water Company. The last utility is

the Pittsfield Aqueduct Company. The Town of Pittsfield has taken their votes and filed their letter with Pennichuck to acquire Pittsfield all by itself. Those are the three utilities that were involved. Was the feeling in going into the process that it would be better all around for all of the parties if we took all of the systems. I would say that in some ways it is going to be simpler going forward on just Pennichuck Water Works because there were some issues about having multiple tariffs for different parts of the system had we acquired all three. That would have taken some resolution at the PUC on how that would affect whether or not the system was regulated. As it stands, the system that we are now pursuing has one tariff, one set of rates, and once it was acquire it would be a municipal utility would not be subject to the PUC regulation any more.

Alderman Lozeau

Thank you.

Phil Munck

There has been, even though the schedule has just started, there has been a lot work that's been done since we were first engaged by the City of Nashua. We have, for example, at least the textural outline of the appraisal report. For those of you who have ever been involved with any kind of technical writing, those are grimly difficult things to craft. It takes you days to do a few pages. So having that is a big step forward in being able to complete what we've got in front of us. We have done a number of financial models. One of which is what is called a "cost of service study". Basically in setting the water rates there is a two-step process. You start off first by determining in gross how much money you need, and then you decide how to allocate those costs through the different customer classes, and the different meter sizes and thing by determining what the costs of providing the service are. So the cost of service study is a vehicle to validate the rate schedule that ultimately is chosen. That's an important thing to have.

We've also drafted a water ordinance, which you have now spent, I think, a fair amount of time discussing. So that is ready to go and that took a considerable amount of time. So these things have been ongoing and will continue to go on.

Alderman Plamondon

Yes. I just wanted to ask. To my understanding, the appraisal report and the cost of service and rate design study, they are not completed to date. Do we have a timetable for an expected completion for those? (inaudible) correctly?

Phil Munck

Yes. Those will be due in October as a matter of fact. As we look at the schedule, we'll go through where some of these things will come into play. So there is a proceedings schedule here, which are really the major milestones. The actual schedule has two pages for steps with some extremely confusing dates in them. What it boils down to is that we have begun a data gathering

base. We get to ask questions of Pennichuck. We've asked them a number of questions. They get to ask us questions. They've asked us 173 questions with multiple parts. It's almost a record. The staff both us and the water district some questions.

There are two rounds of questions that go on. All these questions get asked. They all have to be answered by June 10th. Then we get to look over all of the answers and see if they were responsive or not, or if something was left out, then there is another round of questions that get asked and answered. With all that data, we put together all of our testimony. That's what the reports are called. On October 28th, Nashua has to file testimony on what our final estimate of the value of the assets that are to be taken are. We get to update our public interest testimony based on the factual information that we have. When we originally filed what was call pre-filed testimony, we in essence made the public interest case. But it was somewhat speculative because it was based on external data that we were guessing at. I think the guesses are pretty close, but they weren't based on the most up-to-date data.

At the same time, Pennichuck files its testimony on what it feels the value of the assets are, and it also files testimony on what it thinks is wrong with the public interest argument that the public should take this water utility. We all get these documents. We look at them, and we get to ask another round of questions on both sides. In the meantime, the staff and Office of Consumer Advocate have been asking questions and on January 13th, OCA and the staff file their testimony. We are now up to February. Nashua and Pennichuck get to file testimony rebutting each other. Then in May of 2006, - this schedule was not really our idea. We thought it could be done considerably quicker than this. Pennichuck was able to convince the Public Utilities Commission that there should be more opportunity. Frankly, the Commission has said in their orders that they want to be absolutely sure that they have all of the information they need to make the correct decision. They have said that they weren't going to countless, tactics that were designed to prevent information that is needed from being obtained from either side.

Something that the PUC has added in this proceeding that none of us have seen before is what they call "capstones testimony". I've got it on the schedule as summary testimony. Having initial testimony, rebuttal testimony, all the parties then get to put together a final position. A lot of law suits – you have your testimony, then the lawyers sum things up in their briefs. In this case, it's going to be like the experts get to write a brief. We file those; rebuttals get filed to those; and then in August of 2006, the lawyers compile their briefs. In September, hearings start. The Commission set aside the whole month of September for hearings. Hopefully they would reach a decision some time before the end of 2006. So that in broad is what the schedule is.

To do that, we have to follow all this schedule. These data requests are going to be brutal frankly. They are asking for a small mountain of information, and we've asked for a good deal of information ourselves. It's particularly necessary to get information on the physical system that is in place. There is a lot of financial information out on Pennichuck, but not a great deal about how many feet of pipe are where and how old they are for example. So we are going to charge ahead and follow the procedure as scheduled. With the data that we have, we're going to prepare an appraisal, which will be the foundation of our testimony on valuation. We are also going to update all of the information on public interest – the filing that we've made to show what the impact of the

taking is going to be on the public, which is all going to be favorable.

We have the proposals coming back to us for the ONM contractor and the oversight contractor on June 15th. At that time, we'll be helping start the process or do the process of evaluating proposals, making recommendations, doing whatever interviewing the Board decides is appropriate in this case to select a contractor and start negotiating a contract. What we are doing with these two contracts departs a little bit from procedure that is often found in that we don't have a complete contract ready to go. What we are intending to do is to use the information that we've got to develop a contract that is specifically tailored to the needs of Nashua and to the Water District. The intention of the ultimate contract, and all the vendors know this, is that the contract that is executed should be able to be transferred without change to the water district so that there would be an absolutely seamless transition from the ownership by the City to the ownership by the water district. That is going to require some creative language and creative thinking both on our part and on the part of the contractors.

After we have finished with all the procedural schedule, the hearings, and the rest of it after the PUC has set the value on the water company in order to transfer the assets, there will be a closing that is required. It is pretty much like a real estate closing. There has to be a listing of what all the assets are, who gets what, and what happens when. You have things like accounts receivable that have to be split; final adjustments have to be made. The bonding for the purchase will have to be actually formally done. Fortunately, Nashua is very, very accustomed to doing these kinds of things. You guys do it all the time. There is nothing really exotic about it. It's just jumping through the various hoops, preparing the documentation, probably going to Fitches or Moody's and talking about making sure that we have the best possible rating for it. Then after the closing, the mechanics of transferring the assets to the water district would have to be taken care of.

So those are really the major things that have to be done in the next year and a half. I would not have thought it would take that long. There it is. It is well and truly started. I think some of the key things that you have to keep ...

Alderman Bolton

What is the best estimate of a date for when the system will transfer from Pennichuck Corporation to the water district?

Phil Munck

I would guess the end of 2006 or possibly January or February of 2007. The Public Utilities Commission is not going to make a snap decision. So the hearing will end in September. They will debate it. They'll cogitate on it. They probably aren't going to issue a decision much before October or November. Three months is not an unreasonable time to put a closing together, or for that matter, to get the bonding. The bonding will go very fast, I think. I think realistically that's what you are talking about.

Alderman Bolton

So you think from the time the hearings end till the time of decision you are expecting about a month?

Phil Munck

About two months maybe.

Alderman Bolton

If the hearings then end at the end of September...

Phil Munck

...October, November...

Alderman Bolton

Then it's the end of November for the decision. Then another three months gets us to about March 1st.

Phil Munck

Something like that, yes. That's assuming that Pennichuck is not able to find any ways to stretch the schedule. I certainly wouldn't bet on that.

Alderman Bolton

So then figuring that in, what is your best estimate of the date that we can expect to be the turnover date?

Phil Munck

I think given all the – I have no idea how much it might be scheduled. We certainly aren't going to do anything that is going to encourage this delay. We really do think it's gone on entirely too long.

Alderman Bolton

I understand that some of what has gone on has pushed it out at some acceptance of Pennichuck's urging that things go slow and deliberate. About a year ago we were here and we were told January 1, 2006 that was it. Think of all possible contingencies, January 1, 2006. Obviously, our best estimate now has that slipping for 14 months.

Phil Munck

Yes, that's true.

Alderman Bolton

Okay.

Alderman Johnson

Thank you. With this being slipped out even further, who knows how much further it's going to go. Does anybody have an estimate of costs now? How much more it is going to be? Because I know the Mayor put \$100,000 in the budget. Now he's asked for \$300,000 for the Pennichuck. What is the total estimated cost it's going to be between now and 2007? Worst scenario?

Phil Munck

Well, the worst scenario is that I really can't tell you that. I'm one of the heavy lifters and one of the workers, but I am not one of the business people of Mr. Sansoucy. I know that he is working with Mr. McCarthy and the Mayor. They are trying to define this thing as best we can. Anything you spend on this we are going to get back. This is not really in the nature of just sunk costs on the City's part. The financial plan fully provides for repaying the general fund for every dime that has gone into this acquisition. It has to be carried for a while. There is no question about that.

Alderman Johnson

May I respond? Thank you. I understand that. But right now we are in a little bit of a crisis. We are trying to find money to be able to keep the budget going this year. Next year we were just told it was worse. So I must request of Alderman McCarthy, and I'm saddened that the Mayor is not here tonight to answer any questions on this, I'd like to get a full blown estimate from where we are right now, to what the worst case scenario is going to be, and how much money we are going to have to be putting out on Pennichuck until we actually take the company. I think as a Board of Aldermen we need to know. We can't go into with blinders anymore when we are in a financial situation here. We need to know how much money we're figuring we are going to appropriate this year in the upcoming budget, and the next year after - and who knows, if Pennichuck really pushes it, it could be the year after that. So I think it's about time that the Board of Aldermen knows how much money we are laying out until we get our money back. Thank you.

President McCarthy

Let the record show that Alderman Tollner has arrived.

Phil Munck

Just to repeat. The intention is that this acquisition should not be accomplished with a permanent expenditure of general fund money. The property tax portion of that. The plan is also that the acquisition is not going to harm the general fund because there is going to be a provision for

payment in lieu of taxes. It keeps everything whole. Just the way it is now.

Another thing to keep firmly in mind is the fact that this will result in lower rates for water utility ratepayers in the long run. Depending on how things come off, possibly in the short run. If you take the settlement that Pennichuck made with the PUC on this latest set of rates, if you assume that the City or the District was the owner instead of investor owned utility, Pennichuck is charging between 18 and 20 percent more in the water rates than the City or the water district would have to offer. The same set of circumstances. Keep in mind this is a moving target. We are kind of leading the duck. The rates are going to change because there are going to be capital expenditures. There is no way to avoid that. But all other things being equal, it's going to cost the ratepayer less to have the City own or the water district own than it will to have an investor owned utility owned.

Alderman Vitale

Right now we have \$750,000 that has been approved. The Mayor is looking for another \$300,000 in the upcoming budget, which will take us just over a \$1 million. When we go to recoup those monies from the new organization, is that done with interest? What timeline are we looking for to be, in the sense, paid back the monies that we're fronting?

Phil Munck

Well, you'll decide. I mean that is for you to say. If you want to do it with interest or not do it with interest. The money should be available out of the bond issue. That should all be part of the initial funding for the system. As we had structured it in the pre-filed testimony, we had provisions for initial round of short-term capital improvements that would need to be made on taking over this system, plus the payment in lieu of taxes, plus the recoupment for the expenditures in the general fund. Remember, it is going to be yours and/or the districts. You can decide whether you want to repay the general fund with interest or not. There will be capital improvements involved. Pennichuck has already said that they intend to spend \$50 million on top of what amounts to a \$45 million investment that they have, or \$45 million is the investment that the PUC recognizes when they set their rates. Part of that is to make up for some work on water mains and things that hasn't been done for a long time. Part of that is to upgrade the water treatment plant. That is a big part of it. The upgrade to the water treatment plant is because of new requirements of the Safe Drinking Water Act and other regulations.

Alderman Lozeau

Yes. Could I request that Mrs. Anderson comes up? The numbers that Alderman Vitale came up with aren't the numbers that I've been hearing. I just think we should have the right numbers thrown around the horseshoe please.

Carol Anderson

Yes. The \$750,000 that Alderman Vitale stated that is correct. We need some further

appropriation this year to cover invoices that we have currently through the end of June. That is not included in the Mayor's budgeted amount for FY06. In FY06, he originally proposed \$100,000, and then we since have added \$300,000. So the total for '06 is proposed at \$400,000 to date.

Alderman Lozeau

Yes. You said we needed more to get us through '05. Do you have a number there?

Carol Anderson

I know we have invoices in excess of \$50,000. I'm still waiting for more invoices from Mr. Sansoucy and Mr. Upton. I'm not sure where the amounts are going to be at this point.

Alderman Lozeau

So I just quickly added up \$1.2 million. Thank you.

Alderman Deane

I had a question to the Chief Financial Officer – Mrs. Anderson. Mrs. Anderson, I find this rather ironic because this is another case in point where we are given a budget by the Administration – there was \$100,000 set aside in the budget for the acquisition process. Then it went up to \$300,000. Now it's up to \$400,000? Or was it \$300,000 plus the \$100,000? Is that where I am confused?

Carol Anderson

Originally it was \$100,000 because we did not have any numbers at that time – any figures from Mr. Sansoucy. Then he has since given us what he anticipated from his firm, and Mr. Upton also gave us an estimate. Each one was, I think, Mr. Sansoucy was in total about \$250; and Mr. Upton was about \$150. That's for the '06 year. There would still be some costs to be anticipated. That will take us through till June 30, 2006. We haven't received any type of an estimate yet on what that would be in '07.

Alderman Deane

I had another question. When was the phone call made to ask for the information pertaining to what they felt was their best estimate of funds that were needed for '06?

Carol Anderson

I don't know exactly when it was made, but we were waiting for PUC to come through with its schedule at that time. I know it took some time for Mr. Sansoucy. He had information he had to put together. So it took him some time to get that to us.

Alderman Deane

When was the PUC schedule released?

Carol Anderson

Mr. Munck, maybe you could help with that.

Phil Munck

Three weeks ago.

President McCarthy

Your request to Mr. Sansoucy was originally made well before the budget was submitted to the Board.

Alderman Deane

It was made to Mr. Sansoucy well before?

Carol Anderson

Yes.

President McCarthy

Yes. But it has taken some time to get an estimate because the PUC schedule wasn't finalized.

Alderman Deane

What about to Attorney Upton?

President McCarthy

That same time.

Alderman Bolton

But the schedule that we got stretches things out into the '07 fiscal year. The schedule that Mr. Sansoucy and Mr. Upton must have been asking for and anticipating must have been to compress the work all into the '06 fiscal year. If anything, the estimate should be reduced as a result of the extended schedule not increased as a result of the extended schedule.

President McCarthy

But it's possible. That's also possible because there is more time to do work, we will be asked for more data and more work will be done.

Alderman Bolton

But it is apparent that that \$100,000 that was initially put in could not have been based on any thought as to what would be done. If at that point people truly believed that everything was going to happen by January 1, 2006, that \$100,000 would not have covered it under any circumstances.

Alderman Dion

Thank you, Mr. Chairman. My question, through the Chair if I may to Attorney Munck, assuming let's use the worst scenario. Let's say for instance that the City is not able to take the Pennichuck Water Works under eminent domain. Let's say that for instance. Let's say there could be different reasons. One of them possibly is the PUC setting a price that is out of the City's price range – it could happen. I estimate that before we are through, the cost to the City will be somewhere close to \$1.3 million. What happens to the money that the City has spent then? Assuming the City is not successful?

Phil Munck

That won't be recovered by the City.

Alderman Dion

So in other words that will be lost?

President McCarthy

Mr. Munck is not an attorney.

Phil Munck

I am not an attorney. Definitely not an attorney. Although we have an excellent attorney in the back here who can talk about these things. I do know that Pennichuck has put \$1.7 million in what they call a deferred asset account for money they claim that they have spent already on – well defending themselves and attacking everybody else, but they are certainly going to try and get some or all of that in rates if they prevail. You definitely can count on that, just like the sun coming up. Yes, there is the element of risk.

Alderman Dion

Meanwhile the surrounding towns are involved have not risk because they didn't put up any

money. Am I correct?

Phil Munck

I don't know what the arrangements are with the surrounding towns. I'm not aware of it.

President McCarthy

They have not put any money towards our proceedings. They have, in fact, put money towards the formation of the original water district.

Alderman Dion

To the extent of...

President McCarthy

No.

Alderman Johnson

Thank you. How much money have they put up so far? Cause I remember at the beginning there was \$5,000 from every community that was involved for legal fees. We gave \$5,000 because we were the big white elephant. We wanted to make sure that we were getting along with everybody just to show that we were serious. So we put up \$5,000 on that. What has been the extent of the all the costs for all of the other towns?

President McCarthy

Mr. Scanlon do you know offhand?

Michael Scanlon

I'm Michael Scanlon. We are asking every community to put up \$5,000 per year. I can speak specifically to the Town of Bedford. We've put up \$15,000 to the district, plus I believe we have close to another \$15 - 20,000 worth of staff time that we've invested in our town staff, copying, postage, and things like that we've been keeping track. So we're in about the \$30 - 35,000 range. I would say all the other communities to this point are between \$5 - 10 - 15,000.

President McCarthy

Each or total?

Michael Scanlon

Each. As I said, we've asked each town every year to give us \$5,000 to help pay. Now also the district we are being represented by Wadleigh, Starr. At this point, we paid all the legal bills for the writing of the charter itself. They are currently representing us; I want to say pro bono, because there is no guarantee that they are going to be reimbursed. If the district isn't formed and the bonds aren't floated, they've agreed that they will waive all of their fees to the district for the work they are currently doing for us. So that would be another expense borne by the district.

Alderman Bolton

It's your position that administrative time is properly included in what each community investment is?

Michael Scanlon

I'm sorry. I didn't...

Alderman Bolton

The time spent by municipal employees, and staff, and so forth is properly included in what each community's investment is? That would be your position?

Michael Scanlon

I just said that the Town of Bedford. No other town other than Nashua has had their staff included in the cost associated. By we've had our town planner and other people that have worked on behalf of the water district. At this point, I don't know that we honestly believe we are going to get that reimbursement. But I think it is fair to say that should be calculated in part of the investment that the town has made.

Alderman Bolton

I agree with you. I think we should try and make an estimate of what the dollar value of all the time spent by Nashua City employees has been as well. Thank you.

President McCarthy

Any questions on anything?

Phil Munck

Well among some of the other things though that I think you need to keep in mind is that I've seen a lot of comments about operating a water system and the City's ability to operate the water system. Frankly, the City of Nashua is a very large very complex operation. You do things every day that are as complicated or more complicated than water. Water is not one of the blindingly difficult things to operate. There are aspects of the sewerage treatment system that are much

more complex because in that instance you are trying to make a bunch of microbes do your work for you. Clogging this little critters and making sure that they work right is definitely an art form. The police, fire, any number of things that you do, and you do them quite well. Well enough for Money Magazine to have called you the best City in the country in '97. You've been around for 150 years or more. You've been around for 150 years or more, and there has been controversy ranging, I would guess, every single one of those years over something. Controversy is not bad. Controversy is how you make difficult, political choices in the very sense of the word. Politics, in my mind, is allocating scarce resources to the best benefit of the community. It's a hard thing to do. If you're not arguing about it, you're probably not doing it well. So controversy does not equal incompetence.

President McCarthy

We must be exceptional.

Phil Munck

You're not exceptional. It happens in all communities. On a greater or lesser level, I think you're doing well. I think its worth keeping in mind that the City of Manchester is possibly the best water utility in the State. Maybe one of the best water utilities in New England. Manchester got that way because for years and years and years they had made small constant reinvestment in their systems. There is not a year that goes by in Manchester that I can remember in the 35 years I've lived here, they don't scrap out some old pipe and put new cement lining in it, or replace things, or do things. It's that constant maintenance that gets you to where you need to be. That's why Manchester's rates are as low as they are and will continue to be low.

Alderman Johnson

Thank you. May I ask Mr. Munck a question too?

Phil Munck

Certainly.

Alderman Johnson

Mr. Munck, how long has Manchester water utility been in business for?

Phil Munck

I really don't know, but it's been a long time.

Alderman Johnson

Yes. So they've been around for a long time. Isn't it true that last year they took out a bond to upgrade all their pipes in the City?

Phil Munck

No. It was for the water treatment plant. It's the same issue that all the water treatment plants virtually in the United States are facing. A number of years ago congress passed the latest version of the Safe Drinking Water Act, and they had a shopping list as long your arm of possible chemicals that they should be regulated. The told EPA to go out and find 25 new chemicals to regulate every year and rights and new regulation forum. So we are now down to looking for parts per billion. That's like a teaspoon in a swimming pool or even less than that of things. There's been an increased awareness of the fact that the chlorine that we use to keep from getting Typhoid and Cholera and some of those other nasty diseases that can be carried in water, can react with some compounds to form what they call precursors or carcinogenic precursors. So now there is a balancing that's being required to take place to shift the – kill the bad things in the water, and then take the stuff that kills them out, but don't take too much of it out because you need to have some in the tap when it actually gets to us.

Manchester is completely rebuilding its water treatment plant to comply with the safe drinking water regulations. There probably is some work being done on pipes, but the main thing that is driving it is the treatment system.

Alderman Johnson

Thank you. Maybe I'm wrong, but I sat down with them last year and I thought they were going to be doing a lot of upgrading of their pipes. They had said that the first time in many years, but they were going to be giving rate increases now on the water. Am I correct?

Phil Munck

That's correct. That's right.

Alderman Johnson

For how many years is the rate increase 1, 2, 3?

Phil Munck

Probably permanently.

Alderman Johnson

A rate increase to pay off the bond?

Phil Munck

Yes.

Alderman Johnson

Okay. Thank you.

President McCarthy

Any other questions, comments? Mr. Munck, anything else?

Phil Munck

No Sir. I mean it seems to me that it's the inescapable conclusion that the PUC is going to be Nashua should take the system; the price is going to be one that you can afford, and I don't see how it can really work out any other way. It is extremely frustrating to see how long this is taking. We wish it weren't. We're pretty much convinced that the PUC is looking at this as something unprecedented in size, and the implications of the taking, and they want to be perfectly sure that they are doing the right thing. I think its just staying the course. It's going to work out for you.

President McCarthy

Could you talk about the last rate increase that Pennichuck just received within the last month or so?

Phil Munck

Well has happened to Pennichuck and what's going to continue to happen, is that what investments Pennichuck is making for the most part – these are investments in Pennichuck Water Works – Pennichuck East Utilities is off buying small water systems, but Pennichuck Water Works is not. So in growing utility system, as new customers are brought in and as pipes, poles, wires and things are extended to connect up new customers, you get an increasing amount of revenue that goes along with your investment. It's called revenue-producing investment as a matter of fact. In a utility that is in that situation can keep its rates, or it can keep its rate increases low for a long, long time. But Pennichuck is built out. Nashua is pretty much built out in terms of what the utility infrastructure is. So when they replace a pipe, they don't get a new customer to go along with it. So the amount of investment they have goes up, but the revenue doesn't go along with it, and their return on their investment – the money they are able to give back to their investors shrinks unless they get rate increases. So they may, I believe, it was something like \$6 million in non-revenue producing rate increases between this rate increase and the one two years before that. They are looking to make another big step in basically rebuilding the water treatment plant. They are prohibited by PUC rules from going for a rate increase more often than every two years. I think you are going to see over the next 10 years or so; you're going to see every two years they

are going to have to come back. They have to spend that money. They have no choice, and they have to get it back.

Alderman Lozeau

I'm not sure who to direct the question to, but do we have any idea of what the condition of the Pennichuck's infrastructure is? Have we ever been able to get in and actually inspect what our intention of taking over is? Do we know that?

Phil Munck

No we don't. We are asking for information that is going to give us some indicators of what that is. By taking a look at basically the capacity of the pipes to pass water actually as opposed to theoretically will tell us something about that. We do know that the lion's share of pipe is what is called a cast iron pipe. Cast iron pipe hasn't really been widely used for the last 40 years or so. The pipe of choice now is what's called ductaliron pipe. It's a little bit different than cast iron. One of the things about ductaliron is it's almost always has a lining of cement on it that keeps chemicals from depositing on the walls of the pipe and taking their capacity down. So when you look at the amount of case iron pipe that Pennichuck has is an indicator that some of it is very, very old.

Alderman Bolton

I understand that the dynamic is completely opposite. One would like of when going to buy a car that is in good condition versus bad condition. In this case, the worst the condition of those pipes, the more expensive it will be for Pennichuck to continue to own them, and therefore the more savings municipal ownership provides over time?

Phil Munck

Some, but you're going to have the same problems that they have. The thing that you're going to have the ability to do is to instead of having to balance how much money that you've gone to the stock market for, how much stock have you sold, what are the investors getting back? You're going to be able to look at this and say what do we want to do on a long-range basis. In fact, the water district requires like a 20-year plan. That was one of the features of the charter that was adopted – that there should be a really long-range plan about what's needed to be done to bring the system back up and keep it the way it should be.

Alderman Bolton

Let me tell you my thinking, and you can tell me if I'm right or wrong. The basic sort of savings results from the cost of getting money whether we borrow money or whether its investment by shareholders. We can borrow. Pennichuck either borrows or gets a capital investment from shareholders. In either case, the cost to get money is less in municipal ownership than Pennichuck would bear. The cost to borrow or the return on the capital investment by

shareholders. Therefore, the more capital intensive the operation has to be, the more that differential is going to be reflected in lower rates in governmental ownership.

Phil Munck

That's absolutely correct.

Alderman Bolton

So I'm correct in thinking that if the system needs infusion of capital to replace old pipe and so forth, that's all the more reason why it's going to be less expensive over time in governmental as opposed to private ownership.

Phil Munck

That's correct.

Alderman Bolton

Thank you.

President McCarthy

Just to follow up on that, I'd also like to ask about contributed capital. Because there is some substantial section of the pipe that isn't actually carried in the rating, while it is netted out of the rate base when profit is determined because its pipe that was installed by developers and contributed when development was finished, and we accepted streets, etc. As that contributed capital ages and is replaced, once that is replaced, then it actually becomes a part of the rate base and is entitled to the statutory return, isn't it?

Phil Munck

Correct.

President McCarthy

So some of the pipe but basically is not costing the ratepayer a penny in terms of either that service or profit to the corporation will, in fact, be interest bearing once it is replaced?

Phil Munck

Yes. Well yes. And it won't be generating any more revenue than it's generating right now.

President McCarthy

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Do you know off hand what the average residential ratepayer in Nashua saw as an increase as a result of this last rate increase?

Phil Munck

I want to say, and I'm not 100 percent sure on that, I thought that the average ratepayer was around \$380. The rate increase was a little bit over 15 percent. The grand total, but between the interim. So that would be \$30, \$40, \$42 and \$48. Something like that. I know it has all been calculated in detail. I just don't remember. But that's the order of magnitude.

Alderman Deane

That sounds low. I know my water bill up about \$30 - \$35 for a quarter.

Phil Munck

It could be. My wife can't stand a brown blade of grass or a dirty sock. I know that I pay more than a typical water user does in my community. As I say, I can check that for you.

President McCarthy

You'll have to convince her to go wring the socks out on the lawn.

Phil Munck

If I would I could.

Alderman Deane

Just buy some sandals and pave the front yard you're all set.

President McCarthy

Just a follow up on that. Mrs. Anderson, if I own a \$300,000 house, what increase in the budget causes my taxes to go up by \$48?

Carol Anderson

It would be .001. If it's about \$4,500 on a \$300,000 home – it would be 1/100 of 1 percent.

President McCarthy

Which is about how much? About \$200,000?

Carol Anderson

Yes.

President McCarthy

Mr. Scanlon, did you want to ask any questions on behalf of the water district?

Michael Scanlon

Not really. But I did want to go back to the question that Alderman Bolton asked. I misspoke. The Town of Bedford kicked in an extra \$5,000 in last year to the water district because the finances were getting low, and I forgot to add that in. It weren't for \$20,000 including this year's payment.

The only thing I'd like to say on behalf of the district is, obviously, the City of Nashua is contributing the lion's share of the money as they are the ones that are moving forward with the PUC. I know for myself and for some of the communities we do understand that, and we do appreciate that. I think ultimately we all believe we are going to get this money back to our communities, to the taxpayers, and let the ratepayers will be the ones that will bear the costs of buying the resource. That was it. Thank you.

President McCarthy

I think if I understood Alderman Bolton's point is getting to the fact that we ought to estimate how much we have spent in staff time and when we are reimbursing ourselves, the number is currently not \$750,000, but somewhat more than that. Is that fair to say?

Alderman Bolton

Yes. I think Mr. Scanlon made a good point about the Town of Bedford. I think we should take that to heart and apply it to ourselves as well.

Michael Scanlon

Sir, we'd be happy to follow your lead.

President McCarthy

Any other questions, comments from members of the Board?

Alderman Tollner

Yes. Just general comments on the Pennichuck situation?

President McCarthy

Sure.

Alderman Tollner

The letter was in The Telegraph; I just want to be clear to my colleagues on the Board. The fact that I did not put my name on the letter does not in any way, shape, or form convey that I do not think that we should go forward. Yes, I do think that we should go forward with it. When they finished that most recent survey that was done by the company itself, of course some people have stated that questions are phrased in a way to get a response that the company is looking for. I have a concern when while we are getting battered around a bit because of the advertisement, which I will say they are advertisements from Pennichuck, I'm a little concerned when we respond in the newspaper for two reasons.

One, you are telling – in this case – for the time being your opponent that what they are doing is bothering you and that you are concerned about it, and don't want to get into that situation where it is a back and forth, back and forth. I think that they have a lot more flexibility as far as spending money in the paper. As we all know, they've spent quite a bit.

The other concern I do have now, because I think some of us got an e-mail this afternoon from one or two constituents, I think it is very important that this Board stays unified at least in our pursuit to see this to the end if that is what the majority of the Board so chooses as we move forward with this. Now that that letter has gone in the paper with some alderman's name on it and some others that may provide some barter for Pennichuck that certain people on the Board are no longer in favor of it. I just wanted to state for the record. I will only speak for myself that I am still in favor of pursuing this endeavor. Thank you.

Alderman Dion

Thank you Mr. Chairman. I'd just like to go over what Alderman Deane said a little while ago. ... **end of Tape 1, Side A** ... he said \$100,000 towards the acquisition cost of Pennichuck. Then it changed to \$300,000 – from \$100,000 to \$300,000. Tonight for the first time I hear it's not \$300,000 its \$400,000. So that's how inconsistent the information we've been getting. It's not till tonight that I realize that it's now \$400,000 instead of \$300,000. Then they started out with \$100,000. I just thought I'd bring that out Mr. Chairman because it bothers me to see these figures change. These aren't the only figures that have changed. Every time we turn around the figures are changing insurance, health insurance, you name it. I just though it was a good point Alderman Deane brought out and it should sink in that we should get the information correct the first time. Thank you.

Alderman Johnson

Thank you. I'm going to reiterate that I'm hoping that we will get some type of an estimate fee schedule that will take us from where we are right now or what the Mayor's estimating, right on out to the end of the PUC, even if we have to go into 2007. I think this is – we're talking about we

have to prioritize in our budget. How can we prioritize and look programs and what has to be reduced when we don't even know what we are going to need for Pennichuck. So I think we better start looking at what the estimated cost is going to be. That is going to be a big sticking point in budgetary actions. Thank you.

Alderman Vitale

Probably when I get phone calls the only information that they have really have read is the ads that have been in the paper. Many people do go on to the City website and read the minutes. The minutes tend to get complicated. I have asked in the past and I honestly haven't looked to see if it has been done yet, if we could have a concise timeline put in. Maybe even similar to this put on the City website so when people go to look at it, they can see it and understand what is going on in a more concise manner. So if we can follow through on that if it hasn't been done. Thank you.

President McCarthy

I think we can do that. Maybe a concise recording of a not so concise timeline. I want to comment on the letter in the paper. I think the problem we are facing is we haven't spent three quarters of a million dollars on advertising. We haven't spent a nickel of the taxpayer/ratepayer's money on advertising. Unfortunately when people see the same message over, and over, and over again be it correct or be it incorrect, if it stands unrefuted, it eventually becomes reality. I think it is necessary for us to occasionally remind the public that we did this for what was a very good reason then, and what is a very good reason now. This is in the long term the best interest for our community. The constant comments that we will never be able to manage it. Frankly, I'm convinced if we wanted to we could manage it. That is not the plan. The plan is to hire one of a dozen excellent water companies. One of the respondents of whom is the current owner to manage that water system for us. So the assertion that there is no way we could manage it calls into question how it is being managed now if that was what we intended to continue. The rate information speaks for itself. WE are looking at rate increase after rate increase over the upcoming years. We've had a model for the three years that we've been at this that showed when we would see rate increases, and that model has been accurate to date. Pennichuck has asked for the rate increases we predicted at the times we predicted, and has not gone with the no rate increases for years and years. But Mr. Arel promised us when he first came here to talk about the merger to us. I want to make clear to the public the logic that got us to this point. The logic that got us to go out and ask the public should we do this still stands true. There have been some delays in the schedule. That is true. Those delays may result in some additional costs in the acquisition itself. In the long run, this community will be much better served by ownership of that water supply. I am convinced of that. I will remain convinced of that.

Alderman Bolton

I agree with you Mr. Chairman, but I would say we have not taken advantage of the resources that we have that cost us comparatively little. I think we do a horrible job, frankly, on the website in trying to just state our position in a way that makes sense to the average reader or viewer of the site. There was a time when that site went un-updated for over a year during the course of these

proceedings. I don't know what the administration was thinking during that procedure. I know that we have meeting after meeting either of the full Board, committee as the whole, of our special water committee with no participation from Mayor Streeter. He's absent again tonight. I don't think it sends a message to the citizens of this community that this is something that is being taken seriously when the Mayor continually absents himself from these important discussions. I think the citizen gets the message that the Mayor does not regard these issues as important or worthy of his participation. This is far from the first time that that has been the case. It is almost without exception that he absents himself from these proceedings. I think we could do a better job when we do rebroadcast meetings such as this if we had more demonstrative material, which would show what it is we expect to happen, when we expect it to happen. I think it would be better if some of our predictions that were accurate were illustrated. Frankly, I think people have understood perhaps wrongfully that this process was not going to take as long as it is now clear that it will take. I think there were some people who were surprised a year ago when told that the process would take until January 1, 2006. Now the most optimistic estimate we have is another 14 months out. Those things that people remember give credibility to those who would say we don't know what we are doing. We don't know how to estimate the time. If we don't know how to estimate the time, what makes us think we know how to estimate the money? I think more has to be done to show that this is well thought out, is being worked on, is taken seriously in every office of city government. Did we hear anything from the Mayor as to why he is not here tonight?

President McCarthy

I think the intent of the meeting was to have Mr. Munck update the Board on the information that the Mayor already possesses. His feeling was that this was a discussion between the Board and the consultant.

Alderman Bolton

I think it has come up before that when we have these, the Mayor ought to be here. If that's his position, I think it is a wrong position. He ought to take part in these discussions, and that would demonstrate the seriousness which the City as a whole regards from that. If you are in a position to convey that to him, I hope you will. Again, it will not be the first time that he's heard that. Thank you.

Alderman Deane

Mayor Bernard A. Streeter, Jr., is presiding over the Board of Public Works this evening. He was earlier from 5 o'clock on with non-public sessions and things of that nature. That much I know. Thank you.

**MOTION BY ALDERMAN TOLLNER THAT THE COMMITTEE RISE AND REPORT
MOTION CARRIED**

ADJOURNMENT

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**MOTION BY ALDERMAN DEANE THAT THE MAY 9, 2005 SPECIAL MEETING OF THE BOARD OF ALDERMEN BE ADJOURNED
MOTION CARRIED**

The meeting was declared adjourned at 8:10 p.m.

Attest:

Paul R. Bergeron, City Clerk