

REPORT OF THE PENNICHUCK WATER SPECIAL COMMITTEE

September 7, 2005

A meeting of the Pennichuck Water Special Committee was held on Wednesday, September 7, 2005, at 7:05 p.m. in the Aldermanic Chamber.

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Alderman Brian S. McCarthy presided

Members of the Committee present: Alderman-at-Large Steven A. Bolton
Alderman-at-Large David W. Deane
Alderman David D. Lozeau
Alderman Robert G. Shaw, Jr.

Members not in Attendance:

Also in Attendance: Alderman-at-Large Steven Bolton
Alderman-at-Large David Rootovich
Alderman Lori Cardin
Alderman Robert Dion
Alderman David MacLaughlin
Alderman Kathryn Vitale
Mark Sousa, Legislative Business Liaison
Jean Guy Bergeron, Selectman, Town of Pelham
Karen White, Planning Director, Town of Bedford
George Sansoucy
Michael Scanlon, Bedford Representative to
District Bob Weimar, Senior V.P., Camp

Dresser & McKee

William Pauk, Camp Dresser & McKee
Joseph Ridge, Camp Dresser & McKee
James Taylor, Operations, Camp Dresser & McKee
Jeff Diercks, Water Sys. Planner/Eng., Camp Dresser &

McKee

Robert Markowitch, Business Development Manager,

Earth Tech

Dennis Tulenson, Technical Spt./Startup Services, Earth

Tech

Frederick Costanzo, Earth Tech

Dennis Messler, Newington WW Treatment Mgr., Earth

Tech

Robert Bell, Earth Tech

Marguerite Block, Human Relations Director, Earth Tech

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DISCUSSION

Chairman McCarthy

Tonight we are going to continue the interviews with the respondees to the request for a proposal for operation and oversight of the water system. I'll ask Mr. Sansoucy to introduce the firms. Let the record show that Alderman Bolton and Alderman McLaughlin have arrived.

George Sansoucy

Thank you Brian. Before we get started tonight, I'd like to review first a couple of things left over from last night. Also, I'd like to go through the procedure for tonight to see if we are in agreement on what the procedure is going to be to get through the night. The first thing that I would like to review is the roles of the oversight and the O&M contractors. There seem to be some confusion I detected possibly in some of the questions that the distinction in what we are trying to prepare for you – the distinction between an oversight contractor and the operations contractors.

The oversight contractor acts as your owner's representative and is the entity answering directly to you the City, and the Board of Aldermen, and the Regional Water District board in a seamless transition to the Regional Water Board. They are your managers. You direct them to direct the operations contractor. They will be deeply involved in the development of the contracts for the O&M contractor and they'll be involved to the extent requested by the Public Utilities Commission in that process also. They are distinctly different from the operations manager.

The operations manager is the company operating the system in the street. The pipes in the street operating the satellite systems throughout the Pennichuck Water Works system like Bedford, for example, New Market, etc. They will be operating the treatment plant, the dams, the out pump stations, the fleet of trucks for example, and the labor to manage the system. They will be operating the scatter system for example that produces all of the telecommunications to you. The operator's role is to perfect and maximize the efficiency of operations not to an oversight. They would be managed by the oversight contract. So that is the distinction.

Some communities will actually have a department of supervisors. A superintendent and 2 or 3 assistants that do the oversight for the City who are city employees. Your request to us has been that we have no new departments and no new city employees. So the oversight contractor is your ad hoc department that you are contracting for. The operator is the people actually with the labor force, the trucks, the backhoes, and everything in the streets to operate the water systems for you in accordance with the contracts that you have negotiated with them. Are there any questions on that at the moment? At any time during the evening we can – feel free to ask me about that if there is any confusion in that distinction. Do you have any questions Kathy? No. You're all set.

Alderman Lozeau

If the operation company reports to the oversight company wouldn't it be more proper for the oversight company to pick the operation company?

George Sansoucy

That's a very valid question. The way we've structured the bids and the way we've structured the contracts is that the oversight contractor will be working with us to develop a contract based on the bids, but they have not been part of the bidding process. The bidding process has been collective where we've bid oversight and operations. The oversight contractor could have bid the operations out also. In this particular process it is very important that we control it at this stage, not the oversight contractor because at this stage, it is critical that it is developed properly for the Public Utilities Commission in the taking, which is foreign to everyone. If all of the operations contractors, all of the

over oversight contractors had not actually done a taking in the State of New Hampshire. That's why we are controlling that process, but we want them involved in it. To answer your question, it would be logical if it wasn't a taking. Where it is a taking, we need to control it with the City and the attorneys for the City.

Alderman Lozeau

With the oversight company who the operation company reports to have jurisdiction over the contract for the operation company if in fact, that the operation company doesn't function to the ability that the oversight company feels they should?

George Sansoucy

If the operations contractor does not perform and fulfill the contract, it is the oversight contractor's responsibility to detect it, attempt to correct it, and report it to you. It is your contract. They report it to you. They may make a recommendation, for example, to terminate the contract. Ultimately the aldermen or the directors of the district when and if it is transferred to the district, the executive branch of government will make the decision to terminate but that decision would likely be a recommendation from the oversight contractor on how you would terminate, how you would switch vendors. It is only a 6-year contract. It is a short-term contract in that regard.

Alderman Lozeau

Both the oversight and the operations?

George Sansoucy

Yes. Yes. Because we believe the transition phase is going to be very difficult. When we are done the transition phase, you may feel compelled that you may ask your oversight contractor to re-bid the operations contract at a later date once things are moving much more smoothly for example. The real horse that leads the race is the transition phase of this job. We are transitioning a 150-year-old regulated corporation public utility to a municipal entity, and the two are patently different.

Alderman Bolton

Mr. Sansoucy, am I wrong to understand that – let me try and introduce it this way – analogizing from something I am much more familiar with, and I think many of the people on the Board of Aldermen are more familiar with, is construction contracts. Typically you might hire a design professional, an oversight firm, an architect, or an engineer, and you'd hire a construction company and the engineering firm or the architectural firm would be the owner's representative making sure that the construction company adhered to the design, adhered to the specifications, did the job correctly, report back to the owner and say yes you should accept this work as being done correctly and so forth. Obviously it's not the same and it's more of an ongoing process. As a point of analogy, would I be correct in saying that the oversight contractor would be like the owner's representative, the architectural firm, and a construction contract, and the operations and maintenance firm would be like the contractor, the building firm.

George Sansoucy

You would be correct to a point and that is this Alderman Bolton, every aspect of your analogy is correct and it represents one piece of what this oversight contractor has to do. In addition to those correct analogies about being a clerk of the works and an owner's rep., this oversight contractor has a much broader responsibility to manager. At the very, very top of the responsibility heap is the management of the financial records and the rate structure so that the disclosure to the bond agents per year through Carol Anderson's office is made properly to Carol Anderson and her financial advisors. That's number one in the process. That level of activity is what keeps your bond rates strong and your Wall Street space in Nashua strong. Secondly, if we came down in the pecking order sort to speak, the ability to prepare, operate, and manage and understand when problems arise with the rate structure so that the revenue stream is flowing correctly for the budget that you've set and for the bond repayment.

Now that is twofold in this instance for the operations contractor. The first is the regulated rates, which are being transitioned from Pennichuck's regulated rates to municipal rate design and rate structure. We have outlined that rate design for our testimony. We expect the operations oversight contractor to work with us in the final preparation of a proposed rate that is attached to your ordinance that you would vote on in the future. If for whatever reason in the future the district elect to have rates different from Nashua to other parts of the district if they were to take over a troubled for example, if those rates are 15 percent or more than Nashua's rates, the oversight contractor has to be ready to manage regulated rates because those rates will be

regulated by the PUC if they are 15 percent or more.

The third thing down in the priority sort to speak is the ability to manage and assist the City in the conservation and management plans for the water resources, the watershed, and land protection management plans, the capital plans necessary that they then would work with the aldermen and the district in developing the long-term capital plan. Then they get down to the their management of the actual operator, which is not necessarily the same as a contractor building a large new pipeline, but nevertheless, working in the streets as a clerk of the works. So your analysis is exactly correct, but we have to layer a new layer of management on top of that also. Namely the ownership and operation of a water company that also has to maintain a very strong bond rating. It should. I mean that's your goal as a City to maintain great bond ratings. I have no doubt that you will. You will maintain good ratings. I have no doubt about that in my mind. Does that answer your question Alderman Bolton?

Alderman Bolton

Yes.

George Sansoucy

Thank you.

Alderman Bolton

It more than does.

George Sansoucy

That is an excellent question. A very important question. Thank you for asking it.

Chairman McCarthy

Any more questions?

George Sansoucy

We have a procedure tonight that goes back a year to what we represented to the bidders. We bided a procedure for choosing sort to speak an oversight and an operations contract. As you know, we short-listed four from seven. We've heard from two. We're going to hear from two more tonight. We'll do the same with the introductions and the presentations as we did last night. Tonight's introductees are Camp, Dresser, McKee as an oversight contractor who has provided a responsive bid to our RFP and Earth Tech, a company that has provided a responsive bid for the operation and maintenance of the entire system. At that the end of that process and at the end of the Q & A, I will then prepare for you and make a public recommendation on who I would recommend to you as the water committee for consideration of

your vote to the full Board of Aldermen. It will be your decision if you wish to vote tonight on a recommendation. I will be available, obviously, at the end of my recommendation for any questions that come up. No questions should be left unanswered because this is the most important decision we will be making in this phase of the taking in the next 3 to 5 months.

Once I've made my recommendation and once you've either considered to vote or not vote, we will be voting on qualifications. That will be our request. We have told the bidders that the choice is going to be made on qualifications in this process. We have a short contract, 6 years. The transition phase of this contract through the PUC taking is critical. The qualifications of the contractor are absolutely critical to the City's ability to tell the Public Utilities Commission through us as your experts through Rob Upton as your attorney that you, in fact, have contracted for the managerial, financial, and technical capability to take over this water company.

At the end of that voting phase, if you elect to vote, we will then open the 2 price proposals of the recommended and/or voted on bidders. We will verify with you that those prices are acceptable and meet the pro forma that has been submitted to the Public Utilities Commission for the municipal operation of the water facility for the entire PWW either through the City or the district – either or seamless. At that point, we would suggest that the water committee adjourn and that the Special Board of the Aldermen convene, and that the aldermen vote to direct negotiations, direct us on your behalf to prepare and negotiate draft contracts for your consideration as a full Board of Aldermen in the future. Then at that point we would adjourn. That is the basic process that I would recommend that we have set up over the course of a year. If that is acceptable, we should procedure. If it is not, I think we should either what debate it Brian?

Chairman McCarthy

We'll handle it the way we normally handle questions before the Board.

George Sansoucy

It would be my recommended nature of the process. Do you have any questions? Further questions before we start?

Alderman Deane

I don't have a question. I just would like to recognize that Alderman LaRose joined us at 7:12 p. m. Also in attendance Mayor Streeter, Chief Financial Officer Carol Anderson, Community Development Director Katherine Hersh, Attorney Connell, Attorney Upton, and I believe Mark Sousa is here as well.

George Sansoucy

How many vacant seats do we have tonight Brian?

Chairman McCarthy

It looks like 3.

George Sansoucy

We have the Mayor's chariot.

Alderman LaRose

I will go sit in the audience.

George Sansoucy

Oh no please, please, please Alderman LaRose. They can use this mike.

It pleases me tonight to introduce to you Camp Dresser & McKee. They have prepared a team of people some of which I don't know if you've seen before or met before in your years of working with Camp that have responded credible and in a great way to the management portion of this contract. I'd like to introduce tonight Robert Weimar, who is the office in charge for Camp Dresser McKee who has put the together. With Robert is James Taylor. Jim is in charge of operations, the management on operating side of Camp Dresser McKee for the operations of water and sewer systems not the day-to-day business operations. Sitting beside James is Bill Pauk. Bill is a retired superintendent or manager, whatever he wants to call himself, of the Haverhill Water District. Thirty years with Haverhill? He ran the water system for the City of Haverhill for some 30 years. He has joined CDM and he is the recommended guy on the street for CDM. He's the person you would be interfacing with routinely in their proposal. Beside him is Jeffrey Diercks. Jeff I don't know if your face has been shown in these aldermanic chambers before. Jeff is an engineer and he's a water engineer. He's designed many water treatment systems throughout the United States possibly from elsewhere? New England primarily. He's familiar with the Pennichuck plant and is the engineer in charge sort to speak. He's the water guy, the water engineer, and he will be the go to guy on the water engineering side.

A couple of additional people – Joe Ridge. Joe is in finance rate design. Camp has done a lot of municipal rate design. Some regulatory – a little bit – public and private muni stuff. He is here tonight representing Camp in the financial management side for rates, rate design, bond, bond management, etc. Additional people with him – I'd like to introduce Bill Shaheen from the Law Office of Shaheen and Gordon. He is with Mr. William Hounsell. Bill is on the public relations side for Camp Dresser & McKee with Bill Shaheen and available for any questions related to that. Bill is from Conway – Bill's counsel; and Bill Shaheen attorney in Dover, husband of our ex-governor Jeanne Shaheen. With that, we need your 4 main speakers in their seat which will be Mr. Diercks, Mr. Pauk, Mr. Taylor, and...

Phil is passing out the handout for you. Thank you Phil. Mr. Weimar will take the stand up mike. We're going to make him stand. Mr. Weimar will make all the introductions for you.

Robert Weimar

Good evening. As Mr. Sansoucy said, my name is Bob Weimar. I am senior vice president with Camp Dresser & McKee. I am a client officer or office in charge for the City of Nashua project. I think what I would like to do this evening is just give you a general understanding of the team we've assembled and put together here and let them speak for themselves. I think it is fair to say that we've attempted to cover all of the various activities that might be required; but recognize that not all of these individuals may be necessary for the ultimate work that is to be implemented. As Mr. Sansoucy pointed out, some of the staff are here in recognition of their issues or concerns that may arise during the process. We wanted to show you that we have the complete resources to provide those services that may become necessary. In your packet this evening I believe you have a handout which includes the staffing chart that we presented in the original proposal as well as a map which shows you the location of those staff. I think it is most important to say that all of the members of the staff before you and all of the members with rare exception, the most senior people only, live in the immediate proximity of Nashua. As a result, we will be readily available for the purposes of this particular project.

When we developed the team, we were blessed with the concept to provide a director of services – someone like Bill Pauk was available to us. Bill had been, as pointed out, a member of the City of Nashua staff and then a manager of the water and wastewater facilities for 30 years. In that capacity, he also ultimately reported directly to a board of mayor and aldermen. In fact, he was an assistant to the Mayor in his most recent activity with the City. So he is a unique experience that he can bring to this particular project. In affect, he has managed a water system of similar size and intent as is going to be acquired by the City. So he knows the intimate responsibilities. He knows what City council would expect to hear, and he's going to be able to make sure that you are aware of the issues as they arise and help you solve them.

In addition, we've provided here a whole litany of staff to support Mr. Pauk. Rather than going through every one of the names, I think I'd just like to give some basic pointers about the individuals that are here, and also point out some of the other consultants that are not here that would be part of the ultimate team in responding to this proposal or project. First of all, we have an economist Joe Ridge. CDM has always been known for its engineering prowess. One of the areas that we perhaps don't get well known for is our management consulting skills. In fact, Joe has worked all over the country developing and assisting in the bonding and financing of facilities for public and private utilities. I think I'm going to let Joe speak to the specific facilities that he's worked on, but it is clear that he's had a number of opportunities to work in a situation of this type assisting municipalities, evaluate, operations, and contracts in addition to the bonding for capital improvement.

He is supported by Jim Taylor. Jim as was introduced earlier is an operations specialist. In fact,

Jim has been an operator. I think it's probably not well known that he, in fact, was an employee of a predecessor organization to Veolia. In that capacity actually ran contracts for Veolia before he came to CDM more than 10 years ago. In his current role, he basically reviews and assists municipalities, negotiate contracts with, solves problems associated with the operations of water and wastewater systems. So, again, he has a specific unique characteristic that we need – we will not need continuously, but would need for the purposes of supporting Mr. Pauk in the management of this project.

In addition we introduced Mr. Diercks earlier. Jeff's experience is actually quite broad. He's done a lot of work in the actual oversight and strategic planning for water systems. So he's particularly able to help in the issues that may result from the district formation. He's also been most recently responsible for the development of a strategic plan for the City of Portland's water system. So he understands the broader issues that are necessary for water supply planning and distribution planning and can bring that kind of oversight expertise to any plans or proposals that might be brought by the operations contract.

In addition to that staff, it's clear that we have a number of significant support organizations as shown on our proposal. The key here is that with respect to small systems, we felt that someone who in fact operated these systems would be beneficial to have on our team. We've introduced TF Moran, who is an engineering firm, a survey firm, a long time New Hampshire firm. Robert Cruess is the owner of that firm has brought a small group together for the purpose of managing these small water systems. In that role, Mr. Duffield who was actually a former CDM employee oddly enough would be the person responsible for assisting us in developing and reviewing any small system issues that may come up in the future. We understand that may be an issue ultimately with respect to the PUC decision-making.

In addition, we've brought Mr. Hounsell and Mr. Shaheen with us. They both bring skills related to funding. Mr. Hounsell has been working with CDM for almost 10 years. In fact, he's been instrumental in getting water supply funding for a number of communities. We originally started on a project for Greenville, which was in fact an operation that the State was proposing to give to Pennichuck as part of their desire to get some third party to manage that system. Mr. Hounsell and CDM developed a financing strategy and funding strategy that allowed the town to take over that facility on its own. In effect, you can say we municipalized the system that was going to go private. In addition, Mr. Shaheen has a great deal of expertise in strategic planning for municipalities. In fact, his prime purpose for being on this team is to assist us in those – if you want to call it – political strategic issues that are always important to understand as you implement a project of this type.

We have a number of other staff that are shown, but I want to point out on individual Chris Woodcock. Chris Woodcock actually worked with CDM for its first 20 years of professional life and decided he wanted to live at home and work at home. He started his own firm. In his capacity at CDM he actually managed all of the utility work for the Manchester Water Works and has continued that role since he left CDM and started his own firm. So he in fact has been represented Manchester Water Works before the PUC for over 20 years. In that capacity he has

ultimately been traveling around the country providing similar services for municipalities elsewhere. Clearly, he's one of the keen rather well known, well-regarded rate specialists here in the United States.

In addition we have Dan Lanning a CDM employee who used to be a PUC employee. At one time he worked for the PUC and joined our management consulting division and he too would be available again to understand and assist in any PUC related matter.

If we look at the various skills, we recognize that often times it's good to have somebody overseeing the staff. What we've done is put together a strategic planning board. The purpose of that board is when and if necessary we can bring some of the most senior people in the country to this particular project by virtue of their current and past affiliations with CDM. We have Fred Elwell who was formally the director and manager of the Manchester Water Works for over 25 years. He's been with CDM now since 1990. Clearly his expertise and his knowledge of the NH seen is an incredible factor in any strategic planning effort.

We brought Mr. Cruess as we said as part of our strategic team. He was formally with the New Hampshire DES and clearly has a very close understanding of the New Hampshire DES issues. Mr. Kellogg is a former owner of wastewater treatment facilities and is now one of CDM's competitive optimization specialists. Clearly he has a great deal – over 20 years experience doing those kinds of things. I want to point out Mr. Joyner with IMG, which is an infrastructure management group. He brings a wealth of knowledge in private utility management. Infrastructure management group is working with municipalities primarily to manage private utility contracts and assist them in making the operations competitive. So we think that that panel will provide a great deal of resource should the project require it. I've gone a little bit longer than I intended, so I'd like to turn it over to Mr. Pauk.

William Pauk

Thank you Bob, ladies and gentlemen. As Bob indicated, my life changed about 2 years I went from a public sector to the private sector. I was the engineer in charge of the City's water and wastewater division in Haverhill. I also stamped the plans in engineering. The last couple of years acted pretty much as an operations officer for the mayor because of the crisis in Haverhill dealing with a municipal hostile going under. See if Haverhill is somewhat to what we are looking at in Nashua. It was a treatment plant of about 12 mgd up to maybe 15. You had about 200 miles of mains - three main storage tanks. I worked from the standpoint of the managerial, the finances, the engineering. I dealt with utility billing problems. We actually went through a couple of changes in computerizing our billing and collection processes. I dealt heavily with water meter readers and new systems that are ongoing. As a municipal employee, public relations, contracts, municipal budgets, concurrent grants and loans, etc. Those were my day-to-day operations. I reported directly to the mayor. I also prepared budgets and (inaudible) sometimes more than an annual basis. There isn't really much that I didn't get involved with from the standpoint of running a utility. I think the aspect of the team that CDM has put together is a great blend. It takes somebody like myself who's been in the public sector for so long and

knows how a water treatment plant and a water distribution system is supposed to operate how that fits in with this private public relationship that is going to happen dealing with contract ops, dealing with oversight. I think it is a great blend. I have a hard sometimes in the last couple years of taking my consultant hat off and putting my client hat on because I've been a client for so many years. From my perspective, this is like going back to my regular job.

My approach to the operating plan is to basically to act as a superintendent engineer, act as your individual on the streets, and pretty much do the exact same things I did in Haverhill only with a support staff that is much greater than I had in Haverhill. A water department is run – it has many different sections to it. You have your billing and collection; you have your meter section; you have your distribution section; you have a water treatment plant. The regulations in the industry have changed drastically. The staffing needs have changed drastically because most of the people now have to be certified. It's a very, very enormous task and if you don't have the right people in the right places, it's very, very difficult to do. I think that's what we bring to the table. We bring people that have actually done oversight, done O&M as in Mr. Taylor. Joe Ridge and I actually worked together dealing with some of the rate studies in Haverhill for many years. Some times we saw eye to eye. Some times we didn't see eye to eye. Jeff Diercks I've got to know very well in the last couple of years of being a very capable engineer.

I think really what it comes down to is the individual that is in the position of a director role aside has to have the confidence of this Board. He has to have the confidence of the Mayor. They have to truly trust the individual that that individual is doing what is best for the City of Nashua. That's what it is really about. That is where I have come from. For the past 30 years I said I worked in the municipal sector. I used to say to the individuals that worked for me that if they were going to buy a piece of equipment, a pump, or something I said don't buy it unless you buy it with your own money. Meaning that if you didn't think it was cost effective to spend your own money to buy it, you didn't buy it. In Haverhill I went through optimization over the last 10 years of bringing the staff up to a standard, which I felt was better than any private sector standards. I saw people grow, and I saw people really take a lot of pride in their job. That's who I'm going to be here. I'm going to be somebody who is going to be working for you. Yes I'm going to have a great staff. I'm going to have the people behind me, but it is still all about the comfort level that you are going to have in me. If you trust me if I come to this Board and say there's something that has to be done. Someone is ruining a line and that line should be tied in because we've had some water problems and some discoloration. Or I come to you and say there is something else a landowner for instance. The operations contractor may come in and say well I tied in the service but the person calls you people and says I had sod there. I don't want loom and seed. I want sod. Those people are still going to be knocking on your doors calling you. You're going to need to have the faith to call me any time you need to call me. As I said, I live 30 miles away and I intend to be here pretty much all the time the first couple of years. You need to have that confidence.

With that, I could go through some of these recurring tasks and really what they mean and I will do that very briefly. You're talking about negotiations. You're talking about initial contract. You're talking about changes and conditions. You're talking about collective bargaining. You're

talking about re-openers. There is going to be a lot of ordinances that have to be brought into this Board of Aldermen dealing with new ordinances because of the water department. It may be operated outside, but you are still going to need the legal aspect to do those things. There are a lot of audits that have to be done, from daily records, to checking work orders, to dealing (inaudible) water. There's a whole list of inventory things that you have to deal with. You have to review requests for unplanned maintenance. Those are little things like when you have a street dug up, do you put that inline gate on then or do you wait. It's cost effective to do it then. There's a lot of project as you all know in Nashua like in the other cities and towns there's a lot of development goes on. So other things should be piggybacked upon that development. In other words, if you can get an outside individual to do some offsite work to improve the system you ought to do it.

I think there's a review of valuable operation data that deals with daily logs, month logs, from lab reports. There's a whole litany. One of things we've talked about one of the aldermen brought up construction. Now construction – if the O&M contractor is going to deal with some type of construction with the City, there's got to be communication. You've got to deal with City department heads; you've got to deal with the local business; you've got to deal with their curb cuts; you deal with the other utilities; you deal with State agencies; you deal with the highway department, other governmental units, the political concerns, the neighborhood concerns, the general citizens, newspapers, local people. That's what I'm going to be. I'm going to be an oversight director that is here working for the City of Nashua. With that, I think I'll just turn it over to our next speaker, which I believe is Mr. Ridge or Mr. Taylor.

Joseph Ridge

What I would like to do is spend a couple of minutes and in turn describe CDM's collective experience and my experience specifically in dealing with financial matters. Based on some of the issues (inaudible). As Bob Weimar mentioned, CDM has been providing financial services for more than 40 years. Currently we have a staff of 50 people who are full time doing financial and (inaudible) studies primarily for public utilities but not exclusively public utility. By my account over the last 10 years we've prepared more than 120 cost of service and rate studies for water and wastewater utility mostly in New England but throughout the country. With the experience of Chris Woodcock and Dan Lanning, we have testified and participated in New Hampshire PUC proceedings at least 15 to 20 times. Chris specifically has testified before the PUC in court proceedings in more than 40 different locations. So we bring a wealth of experience in that regard. My particular expertise is in the bond financing and capital financing. Over the last 10 years we have participated with our clients in the issues of more than \$7 billion in bonds for water and wastewater utilities. What I think is most important in this setting is that we have participated with 5 utilities who are issuing bonds for the first time. The most recent is Manchester Water Works, which issued revenue bonds 2 years ago. What I think is important in what you need to understand is there is a process by which you will negotiate with the financial community the terms for those bonds. Essentially what are you going to provide them as security over time. While it is important to get a high bond rating, it is also important to understand that those security provisions have a cost to you. You need to weigh the costs of

meeting their security concerns with the interest savings that you might get from a bond rating. I think we are unique in having been participates in the drafting of the new bond resolutions for the 5 utilities in New England. I am reasonable confident that we have participated in bond official offering statements for more utilities than for a larger amount of utilities in New England than any other firm. Part of this process, and I think what is important in something that Mr. Sansoucy alluded to, is to have credibility with the PUC and have credibility with the ratings agencies and others you deal with will require a solid financial plan. The experience that we have between Chris, Dan, and I we have more than 120 years of doing financial planning for water and wastewater utilities. So we understand the kinds of questions that come up and the kinds of issues that you are going to need to justify. There is critical things that you need to think about and be able to articulate as you move forward. They will be (inaudible) some of the operations, but they have financial implications. What is the proper inflation rate? How are you really going to finance your capital improvements? What are reasonable allowances for repair and replacement over time to the extent that the system hasn't been maintained at the level it might, how is that going to affect your rates over time?

The final thing that I would just touch upon is the first contact Nashua's and owner of a public utility is going to have with most of its clients is when the bills go out for the first time. That interaction will color how your residents and your businesses view this venture going forward. One of the things that we provide is that the staff that works for me includes 2 finance former CFOs of regulated utilities and unregulated utilities; and the chief operating officer of the utility who have gone through the creation of new billing systems and the integration of a new billing system. So we understand those issues that can help work with your contractor to make sure that the bills go out in a timely manner. Being timely is important for you because that is your cash register to pay the bills that are going to be coming due. Also, so that your customers get accurate bills and they understand their bills to lessen the kinds of complaints and issues that you have to deal with.

James Taylor

Thank you. I'd also like to just touch a minute on my background and then get into some of the issues and occurrences that I've run across in my years of wearing actually different hats. I started similar to Bill then I was in the public sector. I spent 15 years there and achieved a level of utility director and made a career decision and change and go into the private sector when there were contract operations in business. So I've actually lived in the contract operator's world. Bill alluded to treating every dollar like it's like your own. When you are in the contract operations business, you do treat every dollar like your own because it is. You're under generally a fixed fee contract. So I understand their business model. I understand what is important to them. I also understand the public sector and how their business models work.

The first key issue I identified as professional relationship with services providers. Most of my career has been in New England. I know many of the people who will be providing service under the contract operations. I already have established relationships with them. I am currently involved in overseeing some contracts around the country. It is important to remember

as you go through this process that the business models are different, but at the end of the day the two the outcomes have to be aligned to match both business models. You can't have a win lose. It's got to be built around a win-win understanding. In order to make everybody happy whether it is the initial contract or working through interpretation of differences in contracts as time goes by and circumstances change. You need to understand what the other person is thinking and make sure you can steer them so they ultimately reach a uniform point of view.

The second bullet I have is needs assessment. Systems have needs, but there are a couple difference ones. There are several ways of meeting them. So when I talk about needs assessment, I'm looking at resource management, criticality assessments. What if a major pump fails at 2 o'clock in the morning? If it is critical to (inaudible) to getting water to your customers do you have that motor or that pump in inventory? Do you have a supplier that has it readily available to you? How do you deal with those situations? No entity can be completely self-sufficient. So what point do you draw the line of what internal capabilities you want and what type of support resources you need to compliment your internal capabilities? The different service providers approach that in different ways. In the end, you have to get there but one may want to it to have more in house capabilities and contract out less; or this may perform to contract out. At the end of the day, you have to have the resource one way or the other.

Transition and implementation planning. This is the checklist that starts long before the process of turning over or taking on responsibility for the system begins. That is all the details and you need a schedule and a time line that you can make sure things are done on a critical path method to get you there whether it be creating position descriptions and recruitment and hiring of people; whether it is developing help and safety policies that are required for regulatory and worker safety. You need sampling, monitoring, and reporting plans. Ultimately you have to take over and be accountable for the quality of water. There are always labor relation issues. Ultimately you have to have a training plan where you can take the new people that you hire and on day one have them at a certain level competency where they can go out there and operate the system safely and reliably.

In terms of staffing plan. The key there is getting not just the number of people – a lot of contracts will say we're going to provide X number of staff, but it doesn't go to the next level. You need certain skill sets. You have electrical equipment that has to be maintained; you have instrumentation that needs to be maintained. You need to make sure that your staffing organization has balance who gives you the capabilities that you need to do that specialty work within the system.

In terms of establishing a base line. Probably the (inaudible) issue in any contract that, I think that CDM has been involved in I know Joe was shaking his head, is who is responsible for maintenance? How do you define the pre-existing condition? And how do you assess ownership liability and responsibility for repair? It is very important that equipment be properly categorized. Most of it has a history before your contract operator will come in. They are going to make certain assumptions about the condition. They are going to predicate their decision. They typically would have a very rosie scenario and if it fails, then it is not their fault. On the

other hand unless you have documented history of how that equipment was maintained, you really can't substantiate it. So establishing what a realistic estimate of the condition of the equipment at day one is critical to both sides being able to move forward.

Part and partial to that then is developing an effective maintenance management plan. Vendors tell you what equipment needs to be maintained properly. It also talks about the expected service life. So that maintenance plan is really your insurance that you're going to achieve the maximum life you expect.

Performance auditing capability. Because I've worn both hats you know everybody who's been through an audit hates the auditor who came out of their profession. There's two parts to an audit: number is knowing what to ask for, and then the second part is knowing how to interpret it. Fortunately or unfortunately depending upon how you look at it since I've lived in both sides of it, I understand the business models, I understand the practices, and I know where potential vulnerabilities are.

As I said before, communication and consensus building ultimately you've got to get to a yes agreement with everybody involved towards any process forward. Bill talked about the need to make sure you're informed so you can make good decisions. We need to do our job to give Bill the information to make that happen.

The last but probably the most important aspect of any utility is that you can never forget and respect the fact that it is a 24/7 operation. Customers – their needs don't stop or don't fall within the 8 to 5 window. You need a system of responsiveness and that's where the criticality planning and some of those other things really come to play. You can't stop things from happening, but the citizens and the consumers will measure the success of this by how responsive you are to their needs at the end of the day when a crisis hits them. With that, Jeff.

Jeffrey Diercks

My name is Jeff Diercks. I'm a water system planner and engineer with CDM and had been such since 1978 when I first joined the firm. I have worked only on water system work in that time. I have never done a single wastewater project, so it is 100 percent on water work. I'd like to make a few brief remarks about 4 keys issues that you will be facing as you move forward.

The first one is public health. As the City assumes ownership of the water system you will also assume the responsibility for protecting public health through the drinking water. A key way of doing that is dealing with the Safe Drinking Water Act and its implementing regulations at the State level. The next 2 to 3 years is going to be an extremely active time for all water suppliers because of all the regulations that are coming out. At the end of this year, we will be seeing 2 new regulations that will affect all service water suppliers dealing with filtration and disinfection. The end of next year we will be seeing 2 additional major regulations, which will affect all ground water suppliers dealing again with disinfection and also other forms of treatment. Ground water supply regulations may be of particular interest to some of your colleagues in the Regional

Water District because some of the small systems are ground water based. It is going to be very important for a team to assemble. The team being the City, the contract operator, and the oversight contractor to pool all of its knowledge to figure out the best way to respond to these new regulations and to make sure that you're well informed about what the implications of those are for your system. CDM has been doing that nationally and particularly here in New England since the Safe Drinking Water Act was passed in 1976. I've been doing it since 1978. We look forward to helping you with that as you move forward through the regulatory maze, which is always changing; it's always a moving target.

The second key issue is how does the City make sure that you identify and get the improvements that you need to ensure the long-term integrity of your water system. One of the key ways that you are going to do that, according to your RFP, is by obtaining the hydraulic model that already exists and using it to identify deficiencies and projects that are needed to move your system forward and to keep it improving. That hydraulic model is a critical component of short term and long term water system planning. It is something that is not used only for that, it is also something that could be used on a month-to-month basis as you consider proposed commercial developments, proposed residential developments, and what their impacts might be on the water system. CDM is particularly in a good position to help you on this because the way technology is going these days is toward an integration of these models and geographic information systems. In addition to our expertise on the modeling side, we also as you probably know, had a major role in the development of your GIS. We also helped out Pennichuck in some aspects of their GIS and past projects as well.

A third key issue is the question of how do we make sure that we are going to have enough water to meet our demands during droughts? How do we make sure that there is enough supply to meet all demands? Along that line moving forward, the key issue is the in stream flow rule, which is being developed by the New Hampshire DES. We've been talking about this rule and its implementation now for over a decade. It is getting closer to reality. As you may know, DES is doing a pilot program on the Souhegan River, and the Lamprey River right now which will determine the allocation procedures that will be used to say how much water can everybody get during a drought. How much does everybody have to cut back to ensure that there is a particular minimum flow in the river. Clearly a key issue for those who withdraw water from regulated rivers such as the lower Merrimack, which is on the list. Therefore, you will be dealing with this with your Merrimack River diversion. CDM was engaged by Manchester Water Works about 4 years ago to do the hydrologic evaluation and the effects of the in stream flow rule. In their operation they asked us to include consideration of the Pennichuck withdrawal. We actually did that back then. Under the rules of their expecting at that time, it looked as though the rules might be something you could live with. However, nothing has been finalized. There are still rules coming out of the pilot program, which will determine those allocation procedures. This is definitely something that the City will want to keep an eye on moving forward to monitor its effects on your long term water system planning.

The fourth and last but by no means least, CDM is mindful of the fact that your RFP includes not only the core water system that serves Nashua, but also all these other communities, smaller

water systems that serve a number of places in the area that are being operated by Pennichuck Water Works. As Bob mentioned, we included a small systems emphasis in our proposal to make sure that those issues got addressed. This will be a particular concern to some of your colleagues in the Regional Water District. We'll be looking at issues such as cost effective treatment modifications for very small systems. Issues such as interconnections to ensure reliability, and we do have, as Bob mentioned, staff who are well versed in doing that for very small systems as well as our own expertise in that area. With that I will turn it back over to Bob for a wrap up of our formal presentation.

Robert Weimar

Thank you Jeff. I know that I am always impressed when I hear these gentlemen speak before audiences. I know that I don't know as much as they do, and that makes me feel good. I think it is fair to say though that we feel that there are really five points that we would like to make in closing.

First, there is no question. We are a local team, well versed in New England. We know how do these projects come together, and we've executed a lot of them. This team has worked together for more than 10 years. I personally worked with Jeff since he began with the firm because I hired him. Bill Pauk clearly has only been with us a couple of years, but I've known Bill for 20 years. I think the feeling here is that you've got a close working team. We know when to call on each other, and we know what to call each other for. That is going to make it a very, very competitive presentation of our skills to you. We know the oversight process. Clearly we deal with this often. We have a group, as we've mentioned, that provide these services for municipal entities. We also do competitive utility optimization for municipal entities assisting them in developing that keen sense of being competitive so they won't find the private sector trying to take them over.

We also have, as we've mentioned, more New England bond experience than any other firm. I think it is fair to say that Joe's comments about the new issuances for new entities is a very key factor that is going to be important for your purposes here. Our team certainly has focused New Hampshire experience not only the gentlemen here before you but those who are not here have specific key New Hampshire experience that will be available should it become necessary.

Last, I just want to say that right now we are providing oversight services. There's more than a dozen municipal...**end of Tape 1, Side a...** in serving those clients. So you've got the team and we certainly would welcome the opportunity to working with you on this.

Chairman McCarthy

Questions from the committee?

Alderman Shaw

To whoever can answer. What if some of those 10 other oversight current experiences or even previous experiences if so do you see as either relevant to directly to Nashua and the Pennichuck Water Works taking or just generally aspects that will benefit us in this oversight effort?

James Taylor

There are several that are relevant. One example is the City of Houston water system. They have a jointly developed facility. CDM has been providing oversight and audit support to them since 1999 when they realized that they had some issues that were not clear in their service agreement. They asked us to come in and help them understand it and work through those issues. Also when the time came to help them prepare a new proposal for selecting a new contractor, we did that. One of the things that come out as very significant as you make a transition, it is critical that you make sure that all the parties involved understand and agree on the expectations. You have a contract. It's a legal document. It's got lots of words but behind those words there is an expectation of service. An expectation of performance. An expectation of communications. It is very, very important at the outset that everybody understands the unwritten terms of the contract just as much as they understand the written terms so that everybody at the end of the day is pulling their oars in the appropriate direction. Another example is Smithfield, Rhode Island where it was a long-term capital investment program by a contract operator. We were asked to come in to develop the initial asset registry, do the condition assessment, and then set up a program going forward, and how do you monitor the condition on an ongoing basis rather than just baseline but how would you over retain your period? Track that and make sure that equipment is being maintained along the way so you don't wake up at the last day of the contract and say oh boy they didn't do the job and now we've got these capital costs that we hadn't anticipated facing us. So that is another example I think is very relevant.

Alderman Bolton

Maybe Mr. Diercks can help me with this. Nashua along with other municipalities in southern New Hampshire but I think particularly Nashua has for decades faced growth pressure and has tried to deal with growth pressure and understand what problems that might entail. Our ordinances and regulations have required developers and landowners who wish to get various City approvals before the Zoning Board and Planning Board. To seek input from the water utility as well as others as to the effect that their proposal might have and recognizing really that that's an issue that ought to be taken into consideration. Really for decades, the response from the existing privately held water utility has been the same standard form letter which says under current conditions there will be adequate water supply, but we sometimes temporarily experience drought conditions where there won't be adequate supply. That has not provided a lot of enlightenment and help to us as we've struggled with these issues. What do you see that could be done differently?

Jeffrey Diercks

CDM has worked with a number of utilities, towns, and cities where this is an issue. We have, in fact, a number of arrangements where we do on behalf of the City reviews of proposed commercial developments, proposed industrial developments, proposed residential developments. There are actually a lot of issues that need to look at whenever you do that regarding a water system. It's not only a question of will you have enough water in the future during a drought, it is also a question of are the pressures adequate today in those areas? How much worse will the pressures get because of the water being consumed by this new entity? What will this new entity require for fire flow service? Is that available? If not, what do we need to do in order to make it available and what will that cost? So issues related to normal service pressures, supply availability, fire flows, effects upon water quality if there are problems in that part of the distribution system. Actually, all should be looked at every time that there is at least a major, and perhaps even some minor developments, depending on where they are located. We have done that sort of thing many times where we prepare analysis. That is where this hydraulic model comes in. That's where working with the contractor operator who knows the details about what's actually out there in the field. What are the conditions of those pipes? What are the problems in terms of leaks, breaks, or poor condition pipes in the given area and will that get worse? We normally do an analysis and typically it is set up where the developer pays for that through the municipality to cover those costs but you keep control of the person and entity doing the work so that you can have some confidence in the results and that they are working for you.

In the Portland Water District they use over and over again the slogan "growth must pay for growth". If somebody is going to come in and have certain effects, what they want to do is make sure all those issues are identified and costed, and then an arrangement can be made for the entity causing the growth to at least contribute toward resolution of those problems. Those are some of the issues that deal with and encourage be looked at and have looked at ourselves in those sorts of situations.

William Pauk

Just a follow up. Actually in Haverhill we brought to the city council, actually an ordinance that allowed when a person came into the planning board or a development came in, that they would have to pay for us to run a model to determine what those roles were, and what the demands were, what effects they would have not just in the existing neighborhood, but maybe a neighborhood 3 or 4 streets away, or what would happen if some other project was going to go in 2 years from now. So those are the things that should be brought to the aldermen. Ordinances should be passed, and the developer should be made to pay that fair share.

Alderman Bolton

So you didn't just give everyone the same standard letter?

William Pauk

No, we did not.

Alderman Bolton

Thank you.

Unidentified Male Speaker

Just a comment on that and it goes back to what Mr. Sansoucy said at the beginning. You are moving from a regulated utility model to a potential municipal utility. Under a regulated utility model, it is in the regulated utility's interest to allow those connections because they essentially generate their money based on their rate base. A new connection is more rate based. It increases the amount that they can generate, and it also helps them justify their rate increases. In this system where you have much more control, you don't need the same (inaudible).

Alderman Shaw

I'm wondering if either through experience that CDM has had or Mr. Pauk perhaps specifically through experience you've had in Haverhill, is there something you can sight that you might pretty much classify as negative or a learning experience something that really didn't go as planned, as expected, that you've used to learn to better the rest of the customers that you are providing and servicing. Something that is essentially one of those things that maybe a business practice that has changed or something of that nature that essentially is what the experience and the benefit of the various either other contracts that you can sight as something that you offer to us?

Unidentified Male Speaker

I think in Haverhill, kind of through the whole spectrum with changes and culture from the aspect of how you manage things to actually contract negotiations and dealing with people and communications is somewhat of a buzzword. It is something that you can't live without. Haverhill was a little bit different because I had a staff of probably in the water department about 35 people. We ran as a team. It was all the cogs had to mesh so that your communication between your parties – and we touched upon that a little bit dealing with an oversight contractor, you have city department heads, you have a board of aldermen, you have citizens, you have the O&M contractor. That all has to mesh. Sometimes it is a change in culture as I said. Sometimes it takes time to change that culture. I find that if you stick with it and you give the individual tools and experience and the know how to do it; you can get through a lot of those different changes in culture. I don't know if I'm answering your question in the manner you asked it or not?

Alderman Shaw

I think that is helpful, but I guess I'm really looking for one of those things that you would cite as basically I realized or we realized as an organization that we were approaching this the wrong way. We truly had what I call a negative experience that we need to change the way we are doing things. I guess I'm looking for one of those kinds of examples. I certainly do appreciate the communication aspect of it. Clearly, you can't emphasize that typically enough.

Unidentified Male Speaker

The only thing I can do – we went through a couple of water billing changes in other words to go to a different computerized system. One of the failings that we found out was that we tried to put every single thing within the bill that we could possibly think of. It actually made it almost unmanageable so that one of the emphasis that came out of that is try to keep things real, real simple. I hope that is a better analogy.

Alderman Shaw

Thank you.

Unidentified Male Speaker

Fortunately, I had the opportunity to go through the initiation of 2 public utilities – one was in the public sector. One was a creation of a new city department. A new city utility. The second one was actually the reorganization of multiple communities into a regional utility. When we did the regional integration and transition, I was a lot smarter from having done it the first time. There are so many details that get lost. One of the things that I think struck me the most were people's expectations. I came up with the analogy of a football team and every time I interview people I ask them what position they liked playing whether they would be willing to substitute and play a different position if necessary and made sure that they understood at the end of the game the team walk off the field either as a winner or a loser. It really helped people get focused and understand as they came into a new environment that you couldn't predict everything. You couldn't guarantee everything, but they had a sense of belonging and a sense that what they did individually had an importance to the overall success, which was something that I totally missed the first time I went through it.

Alderman Shaw

Thank you.

Chairman McCarthy

Other questions?

Karen White

I'm not sure who I should address this to, but I have some questions about the team you've put together. Was there a requirement in the City request for proposals that each of the oversight company's include a civil engineering firm?

Unidentified Male Speaker

Yes alderman. My understanding is that the engineering elements of this were really tangential. That is to say the principle responsibility was a managerial one, an operations focus, and a financial focus to be able to assist in the oversight of the operation's firm. In our case, we believe that there were 2 areas where engineering elements, assisting, and overseeing were to be done by the actual operations contractor required some civil engineer expertise. CDM has all of those resources within its abilities. Jeff represents a team of people that do that kind of work all the time. However, we've been advised that the role here is that of an oversight contractor and not actually the engineer sort to speak. When Jeff spoke about the various issues and raised issues, we would be seeing those as an overseer if you want to call it a reviewer of work that would be likely provided by the operations contractor and the consultants that worked with them.

It is possible with respect to some issues relative to the PUC and that process that they would want to understand and see that the oversight contractor had all of the various skills even though they may not be applied, but had all the various skills necessary. That's how we tried to represent our overall firm.

Karen White

I'm puzzled. Is Mr. Duffield here?

Unidentified Male Speaker

Mr. Duffield is not here.

Karen White

I work and represent the Town of Bedford. We are one of the small systems. I'm familiar with CDM's work; in fact, CDM did a long-range water extension and management plan for the Town of Bedford. I'm very familiar with TF Moran's work. They are a fine civil engineering firm that's done a lot of projects in Bedford. When I got this package is the first time I've ever heard of them holding themselves out as having any expertise in water or small systems operation. One of the top project listed – French Outward Marketplace, is 4 little commercial buildings with a well with 225-foot well radius. I usually think of small water systems as a well system that would serve 50 or more single family houses up to maybe 250. I guess – (inaudible) what Mr. Duffield had to offer.

Unidentified Male Speaker

Actually we did provide, I believe, his resume in the documents we initially submitted so you can see his personal experience. In fact, we were surprised when we went to look for someone that could assist us in the small system area. Jeff and I both have designed and built small systems over the years. In fact, one of the first ones we worked on was Woodstock, New Hampshire. At that time in the 1970's, it was only one well and no storage tank, and just one water main serving about 200 people. So Jeff and I have had that experience in fact that has been our personal technical specialty that we hold dear for our careers. When we looked at the specific conditions and the specific systems that Pennichuck currently manages, we felt we needed somebody who was closer to the regulatory and the general operation maintenance management of those systems so that whatever decisions were made would, in fact, be made with the knowledge. Mr. Duffield has that experience. Some of the systems that he has participated in are other community systems for small housing subdivisions of over 50 houses. It is similar to the types of systems that Pennichuck has acquired and operated. So we believe that his experience is in fact directly analogous, and it was particularly because of his personal experience that we sought him to be part of our team. Jeff do you have anything to add?

Jeffrey Diercks

Just that we of course I did work on the Bedford Water System master plan as well as being the technical reviewer on that project for CDM. I am aware of some of the smaller systems that Pennichuck runs there. There is a range of systems that Pennichuck operates in terms of size. As Bob mentioned, we have worked with systems in New Hampshire as small as the Bartlett Village water precinct, which has 200 customers. We did their master plan on up through Conway Village, Fire District North Conway Water Precinct and others of larger size. But we did want to cover the entire range of type of systems that might be seen and might need service under this agreement. We felt that Tom Duffield in particular added that dimension with the very small systems, which will be needed for some of the work under this contract. Together CDM with PF Moran and Tom Duffield on our team will do that small system emphasis to make sure that all those services that are needed on that size system won't be delayed.

Karen White

Thank you.

Chairman McCarthy

Any questions? If not, I'd like to thank you all for your presentations. We'll take a short – 5-minute recess before we hear from the next round.

Meeting of the water committee back to order at 8:35 p.m. and ask Mr. Sansoucy to introduce the next presenter.

George Sansoucy

Yes ladies and gentlemen, aldermanic committee it gives me great pleasure tonight to introduce to you a national company, actually an international company Earth Tech has responsively bid the operations of the proposed Nashua and/or regional system. Earth Tech is an international company. A wholly owned subsidiary of Tyco Corporation. Tonight they have with them Bob Markowitch is the Business Development Manager. Bob you're hailing from Michigan?

Robert Markowitch

New Jersey.

George Sansoucy

New Jersey. Okay. He is the team leader for Earth Tech for the proposal. With Bob, he'll take the mike. With Bob is Peggy Block. Peggy is the Human Relations Director. She'll be fielding any questions related to employee issues and would be directly responsible for employee transitions during the transition phase. Included is Jim Columbo. Jim is a Vice President on the eastern region for contract operations and will be one of the management teams here in Nashua. With Jim is Denny Tulenson. Right Den? Did I get it right?

Dennis Tulenson

Yes, that's right.

George Sansoucy

Den's from Menna. Do you know where Menna is? It's Menna, Ohio. It is this side of Cleveland. It's one door next to the last county where we took the Ashtabula Water Company and you didn't bid that one did you?

Dennis Tulenson

No we didn't.

George Sansoucy

No, you missed the bid on that. We took the water company beside it. We didn't take yours. Denny is technical support and start up services. Right Den? Fred Costanzo. Is that right Fred?

Frederick Costanzo

That's right.

George Sansoucy

Fred is the gentleman on the streets. He is here in Nashua. He is the person you will be dealing directly with day to day. So welcome here Fred. Dennis Messier is with them. Dennis is actually – we know Dennis from years. Dennis operates the Newington Wastewater Treatment System on contract to the Town of Newington for Earth Tech. Earth Tech has the contract and it is the original contracts that went to Whitman & Howorth. Whitman & Howorth were absorbed into Earth Tech. An engineering firm in Boston. Dennis came through those ranks. He's local here. He is an alderman or a council in the City of Somersworth?

Dennis Messier

A councilor.

George Sansoucy

He's also the Chief of Operations in Newington. So welcome Earth Tech. You have the mike.

Robert Bell

Thanks for having us. We appreciate the opportunity to present our proposal and touch on some of the highlights. We hope not to keep you too long. I'll keep it limited and get into the questions and answers. I guess I'd like to start with for those of you who are unfamiliar with Earth Tech, and I know you heard Mr. Sansoucy talk about who we are, but just a little bit of who we are. Earth Tech is a global company as they said. We are currently doing a little over a billion dollars a year in revenue. Actually close to 1.5 at this point. When you hire a contract operation firm, you don't just hire the people that work in your community or the people you see sitting here. You hire a service organization. Earth Tech is made up of 8,500 people. So while all 8,500 won't work in Nashua or on Nashua, you have the ability to draw upon the services of those 8,500 people through Mr. Costanzo as the project manager. He would have the ability to tap into those folks to help here in Nashua. We have a little over 180 closer to 200 facilities under operation and have, in fact, done 3 facilities of very similar measures as you are going through – takeovers. Hubert Heights, Ohio, which is actually not too far from Menter. We did the exact same thing that you are going through. It was a community that used condemnation to take back their water facility. We've been operating for about 10 years now. We went through the transition phases there. The same thing you're going to experience here. Wixham, Michigan was another one. Did the same thing. Took back their privately owned system, made it a public system and Earth Tech has been working with them.

As he alluded to, we are also an engineering and environmental firm. We've been here in New England, and I say here in New England, since the early 1900's as the former Whitman & Howorth. As Whitman & Howorth, Earth Tech designed closed to 45 water treatment facilities in New England and probably 75 wastewater if not more. I won't spend any time on a global. I included a global map for you just to show you we are everywhere. In China we built a 50 mgd

water treatment facility that will be operating for the next 30 years. Down in South America we've got water facilities in I won't belabor the issue.

Transitioning experience. I just talked about Wixham and Hubert Heights, and another one is South Huron Valley. We've been transitioning from public to private or in this case, from private to private for the last 25 years and have a successful model established to make sure that nothing falls between the cracks. Jeff was talking about from CDM some of the issues there are with transitioning, having a matrix, having a laid out plan, making sure that you have a – everything down to the smallest item tracked, accounted for, and measured. It's the only way to make sure it is a smooth transition and that nothing gets missed.

The team we have here, I tried to be nice by saying that we have more than 40 years, but we probably add up to 40 years with just 2 of us and it's more like 140 if we talk about all of us that have been through it. Smooth and effective communications. Peggy is going to talk a little more about this. The items we have down here for the completion of new hirer process, transitioning employees over, recognition of the employees concerns, and we are flexible. We want to work as a partner with you and obvious with your overseer or firm, whomever you chose to do that. We do have experience in this type of transition. We've been through it. Every facility has been a transition. Other than a couple of design builds that we did where they were designed build operates, we actually built a facility and brought in a new staff and took over the operation right from day one. Other than that, every facility has been a transition.

Acquisition assistance. I think is one of the things I heard as a key point I heard from CDM, and I know I read it in your RFP, and I've heard it from some of the other folks concerned with making sure this gets through the PUC and end up having assistance in getting that. The four bullets I put there are what we are here to stand up for. We're going to participate; we're going to be dedicated to helping you achieve your goal; we'll make the commitment right here tonight that we'll have somebody there with you at all the meetings to go through what needs to be done and make this happen. I believe we have the experienced personnel. Some personnel aren't here tonight. One of the resume I included for you is Mr. John Daniels out of our Concord, Massachusetts office. John helped write a lot of the regulations, not here in New Hampshire, but in Massachusetts and has a lot of experience in dealing with the regulatory agencies and going through this type of process. John is on board to help you through that.

Project startup. Mr. Costanzo will be serving as the startup manager as well as your project manager. You're sitting at the water facility and having all of the departments report up to him. Fred's got over 16 years of experience in water treatment facilities in varying sizes from 35 mgd or larger all the way down to the little tiny ones of a couple thousand gallons a day. So I think Fred will bring excellent experience and just what you are looking for to get the job done. He'll be supported as it says by support personnel. Mr. Tulenson is one of them as well as a host of others in the resumes I've included for you. As I said, you are hiring a service organization not just a couple of employees. We've ensured adequate funding to make sure that the startup is a success. While I can't talk about the dollar figures, I will tell you that we've dedicated close to 22,000 man-hours of start up personnel to make sure that all the jobs are accomplished.

Everything is done within the first couple of weeks so that the project just runs smoothly from day one. If there is some things in our plan, which we will be glad to sit down and discuss and present to you that aren't to your liking. Again, I want to say we are flexible and we want to work in partnership with the City to make sure that the plan is acceptable to all.

Jeff from CDM who sat right over there covered some of the things, which I thought were great. I wanted to get up and say Jeff just covered everything we want to talk about and maybe I won't have to belabor the issue and bore you and we could just move on to something else. Just quickly. Vulnerable assessment. If you are not familiar with that after 911, the federal government decided that water plants and wastewater plants have vulnerabilities that can affect the citizens of the country. As such, each plant is required to do a vulnerability assessment. Mr. Costanzo happens to be certified in providing those vulnerability assessments and would provide that here in Nashua.

Initial inventories. He talked about is there pumps on the shelf? Are there adequate chemicals? Do we have the valves to replace a valve in the street? During the startup, we would do an assessment of all the inventories. Come up with a plan. Line up the subcontractors. Line up the vendors. Make sure we had everything in stock to handle any emergencies that came down the road and put a report together for you on that.

He also talked about condition assessment. The minute we can get into the facility that condition assessment would start. A maintenance plan. We are committed to a computerized preventative maintenance plan so that you can track all of the maintenance in the facilities and make sure that all of the equipment is operating up to spec. Make sure that it is within manufacturer's standards and warranties. A meter conversion program. I think this one is particularly important. We look to do a meter conversion over to an automated system and do meter change outs where they are older than 10 years and necessary. This is particularly important to you. I was listening to bonding. You want to be sure that you are bringing in all the revenue you can possibly bring in. If the meters are faulty or providing inadequate readings, you are either producing water you're not getting paid for or you are losing revenue. So I think that is one of the things that we would like to attack right away.

Routine operations and maintenance. The operations program some of the things we do initially and the startup people would do would be to come in and write what we call SOP – Standard Operating Procedures. I heard a little talk about training and which we would provide to our people. This assists new folks off the street. Hopefully they'll have water experience. You always look to hire certified operators. If they didn't, this will provide them with a tool to quickly acclimate to the job they have to do and a step-by-step instruction is what it boils down to.

Computerized process control. We heard about the hydraulic models. This is a model that gives us optimum efficiency in operating the facility. It is a pewter model. We sit down. We put in parameter as necessary. We look at all the chemical feeds. We look at all the pieces that go into it. This model is out what chemical feed should be at, or pump speed should be running, those types of things. It is a very good tool.

Safety programs. As you see it, there is a little bullet that says they are unique in distribution systems. Most folks, I'm sure, have some type of safety program in place. When you are out there digging in the street and you've got traffic. You've got the possibility of a wall caving in. You're using trench boxes. You need police officers. There's a whole other set of safety programs that need to be put in place. We will provide site specific for each one of those.

Unplanned maintenance. Another issue I heard him talk about. When you're digging up the pipeline that is broke, it makes a whole lot more sense to change that valve that is 5 feet away right now than fix the pipe, cover the road up, pave it, take care of everything, and 10 days later that valve failed because of the stress that you did on the line before it. We'll develop a plan, a procedure I guess that we would present to the City on how to deal with those unplanned activities.

Rapid response to minimize impact. We would expect Mr. Costanzo. We were looking at real estate today to live here in the community or very close to the community as well as most of our folks so that if there's an accident, a car hits a fire hydrant – you need it fixed right now. It can't wait until tomorrow. It can't wait for 2 hours from now. You need staff rapid response - 10, 15 minutes on the scene, close the valve, and then start the job. We plan on keeping the City informed through monthly, weekly, and quarterly reports as well as annual reports.

Engineering services. This was one of the things I heard a question about a civil engineer. We were asked to address this. Earth Tech's major engineering office for the northeast is located in Concord, Massachusetts. We have close to 300 engineers as well as scientists in environmental folks on site. They would be available and willing to provide services here as necessary. WE would also plan on having a full time PE on staff to deal with the hydraulic models to make sure that everything we are doing in operating the plant as well as your distribution system has a PE looking over our shoulder to make sure we are compliant with all the rules and regs.

Nashua specific experience. I just wanted to mention that as Whitman & Howorth and Earth Tech we've done probably 10 projects here within the community. A few of those happen to be for Pennichuck Water. We did the upgrade from the 20 to 30 million. We did the line system upgrade. We did chlorine to hypo chlorine change out. We did quite a bit for them. We've done some work here in town for your housing authority and some of the other stuff from our engineering side.

Staffing plan. When we looked at your RFP and the limited access we had to the facilities, we tried to develop an operating plan that would be cost effective, efficient, and provide you with secure safe water. We think we did that. As I said the startup has close to 22,000 hours. I think we have adequate staffing. I've included an updated org chart where you can see we have a total of 40 staff to operate the facility's distribution system, satellite facility, and treatment plant.

In capital repairs. As an engineering company, we've been doing capital repairs, design

construction activity for over 100 years. We'll bring that here to the town. Maintenance with program will be provided. Obviously system reliability is paramount. People want fresh drinking water and they want it when they open the tap.

Asset protection. Asset protection goes hand in hand with the system reliability. We'll develop a long-term asset management plan. That is projecting out over the UL. It is a 6 year contract so over the life of 6 years how we see each piece of equipment when replacement would be necessary, what it takes to maintain that equipment, and what your billings will be, and recommend that through a capital improvement asset management program.

Some things in our proposal I think will serve innovative. The booster and well automation. Increase reliability and lower cost of operation to you folks in the long run. You chose to choose to take the utility payments yourself. The City will pay all the electricity and all of that. Earth Tech would be willing to assume that after a short time of operation so that we can get a handle on what it is if you'd like to roll that in. I think that is one of the innovations we've provided within our proposal. That is shifting the risk for the consumption. Right now you pay the bill. Not that we don't plan on operating efficiently, but one of the ways you can shift a little more risk on to your operator is to have them pick up those utility costs. So it is something to think about. We're going to provide you with a performance bond guaranteeing our performance within the parameters designated by the contract that will ultimately be negotiated. We're providing that bond at no additional cost to you folks.

The hydraulic modeling, as I said, will have a full time engineer on staff. Who will take care of that? Then we've recently become involved with the reliability based maintenance management system. Mr. Tulenson will speak a little more about that. It is a new system. We've just started integrating it to some of our projects. With that, I'll sit down and be quiet and hope that you folks have looked at our proposal and have lots of questions for these folks. I think Peggy will start and talk a little bit about transition of employees and what we offer there.

Marguerite Block

Thank you. I guess I'd like to start by just telling you I have the absolute job of any of these folks here because I get to work with the people and help the people. That to me is the best part of going to work every day. I've had the privilege of leading the human resources function for a private contract operations for in excess of 20 years we'll just say just so that you don't try to add that up with that 40 that you suffered through there. This experience has taught us through the years and taught me that one of the most important portions of this is the process by which you bring people from other companies, public utilities, public entities into the world of private contract operations. Doing this, we have learned through experience and I heard a question I believe it was Mr. Shaw had asked about what has gone wrong in the past. We have learned our lessons as we've gone through the years of how to effectively assist those employees through this rather traumatic process for them. I understand why this is an important piece of your issues and your concerns here. The people are an important part of it. We want to make sure that their process is as seamless and as painless is as absolutely possible. Obviously I

don't do this by myself. I have the privilege of working with some excellent teams in various areas. The human resources areas that involve everything from helping the people understand who and what we are, getting them enrolled, understanding the benefits, talking to the employees individually, in groups, with their families so that they have an opportunity way in advance to have all of those communications that we were talking about earlier so that they know what is to be expected and what kind of information they even want to know. Sometimes they don't even know what questions to ask. We are there and we work with them. We work with them – the transition period for us from the people's side will start traditionally 30, 60, 90 days or more depending on how soon we have access to start talking with these people. It continues well after the actual startup. We don't just come in and say how do you do and shake their hands, and walk away and kind of leave them on their own and not know where to go. We are there. We have a team that will be there to support them. I will be here a good portion of the time. Like I say I get to do all the fun stuff so I get to spend time in these beautiful communities. We will be there for them.

Part of my job is also the labor relations side. The union negotiations. That is a process that, again, through the years of working with many, many different unions and negotiating a lot of contracts have found that when you work with a union in a partnership, you have much better results and the employees come out better for it as opposed to having war infarctions. WE don't want that kind of thing to happen.

Health and safety is another marvelous team that we work with. They come in, again, very early on even before startup. Start working with the employees and making sure they have the proper PPE, have the training all the way through the early days that continues on for the entire life of the project with the employees for the entire time they are with us. Training and development for these employees, which is a key function. Many employees are happy where they are and they want to stay where they are. We will encourage them to continue developing whatever technical expertise they have. That is wonderful. But others really want to be able to move ahead. That is something that we can offer them to work with them, to give them opportunities for development and training, learning new roles, and expanding on the existing roles that they have. I think regardless of whether the startup is 100 employees or 1 employee, the process has to be the same. Each individual is critically and equally important. We treat them that way. That's been our proven method and a very successful process for doing that.

Dennis Tulenson

I'll just talk real quickly about the one aspect of our innovative proposal, reliability based maintenance. I'll give you a little background on that. We run a very large hazardous waste incinerator up in Swan Hills Alberta. It is about a 2 hour 2 ½ hour drive north of Edmonton. It's I think the world's largest hazardous waste incinerator. It takes anything you can imagine and is properly handled. Because of that, they have very large stuff there. Large blowers, large boilers, a lot of conveyors, container movement equipment, and all that stuff had to just be kept running. We installed a very comprehensive maintenance package that looked at every piece of information gathered there. Every plant collects a lot of data, and a lot of people don't do

anything with any of that data. What this system does is records all those pieces of information, compares them to each other, and starts looking for trends towards failure so you can catch those failures well before they occur. It could be drops in flows, increases in pressure, losses in heat that simply get unnoticed as they are jotted down, put in into a log book but when this program starts trending those things and comparing inter-relational information even catch those failures well before it occurs. With this system that you are purchasing, and it's going to be a valuable and expensive assets here in this City, at your desire we can install this kind of system here to extend the life, predict those system failures out in the streets and onto the streets, and also inside the plant itself.

Unidentified Male Speaker

I know a lot of you are thinking how can we do this? How does this get done? That's basically why we are here. It is a very large task. It takes a lot of planning. It takes a lot of people. I've been fortunate enough to work with a lot of people sitting here tonight. Once you worked with these people and find out the assets of Earth Tech and working with Earth Tech, the transition starts to become very easy and very smooth. The planning obviously as soon as we find out what we are going in, there is a tremendous amount of planning that has to be done. In the situation that we have here, obviously it's a little bit different because we don't have a lot of detail as to what we need. There's going to have to be a lot of ground work done prior to us getting here, finding contractors in the area, setting up labs to do the testing that needs to be done on a daily basis, finding out from the State and federal government exactly what those tests are, and how often they have to done, how many vehicles we need, what kind of equipment we need to work in the street, right down to pens, pencils and paper clips that we are going to need in the office besides the desks, and people. People – again working with Peggy it comes a lot simpler. She has an understanding. I know Peggy's worked on a lot more transitions than I have. I have been involved in about 4 or 5 different ones. I've worked both in the public sector going one way, and the private sector going the other way. The main concerns are the people in making sure their concerns are met, that their questions are answered, that they know that the job that they are doing today is going to be the same job they are doing tomorrow, and hopefully we can work with these people. Like Peggy said, the people that want to progress who want to make movements through the system that we can work with those people, and develop the other people that want to stay doing what they are doing just making more efficient at what they have.

Listening to CDM here was very interesting. I've worked on numerous projects, and working with I call them contract administrators. Some administrators that weren't as progressive as CDM sounds tonight. Hopefully the City will move in that direction to pick someone who is progressive and is thinking forward to get things done. To keep the system, number one probably where it is at today, and keep the system moving forward with the things like automated meter reading, skadda systems if they haven't been installed. There is so much technology out there for the system today, to make the system better, to make it more efficient and more reliable for your customers. Again, like I say listening to CDM and taking their lead of whoever that is would be great. That's about all I have to say right now.

Unidentified Male Speaker

I guess I don't have a lot to add to that except that my role in this type of a project is to ensure that Fred has all of the resources that he needs to get the job done, and that means bringing together all of the various systems that we use as an organization from human resources, from accounting, from health and safety, from operations, from maintenance, the reliability based maintenance system to make sure that we have the right people here at the time that we need them. That's my kind of behind the scenes obligation and role in this. I think we probably talked for long enough and would be pleased to try to answer any questions that anybody has.

Alderman Lozeau

To Peg, I'm sorry I don't know your last name. Peg, you mentioned union. I wasn't aware that Pennichuck was unionized?

Marguerite Block

It is my understanding that they are.

Alderman Lozeau

Have you been able to look at the benefits package that the Pennichuck is offering to its employees at this time, and would you propose a more Tyco oriented benefits package, or would you order the existing labor union, or would you even honor the existing labor union that is in place today?

Marguerite Block

Multipart question. Yes. It is my understanding that the steel workers are the union that is in place. No, we have not been given any of the information regarding what Pennichuck has in place. We have a very comprehensive benefit package, and that would be the subject of bargaining with the union. Yes, we would be recognizing the union because they would be representing the bulk of the employees that would be joining us.

Alderman Lozeau

If I could continue. You would give absolute bias towards present employees of the Pennichuck preference to those employees?

Marguerite Block

We would definitely give preference to those employees, yes.

Alderman Lozeau

Thank you.

Chairman McCarthy

Any other questions?

Michael Scanlon

Mine is based on that same question. I asked this of the other operator as well. Are you in the position to bring in your own employees? Since Pennichuck is still going to exist in some form or it appears it may, many of the employees may chose to stay with the current company. Is your company in the position to bring in employees to keep this system operating in the case that you don't enough Pennichuck employees to continue?

Marguerite Block

If that were the case, yes. We would be able to staff – obviously we would know that fairly early on and we would make sure that we are staffed at the level with the appropriate certifications.

Michael Scanlon

Thank you.

Alderman Deane

I have a question for whoever wants to answer it. What other entities does Tyco currently operate?

Marguerite Block

Well, Bob I know most of them, but I'm going to forget somebody.

Robert Bell

The list is ADT, Simplex Grinnell, several valve companies, - Peggy, help me out.

Marguerite Block

Almost everybody in the health industry has something related to Tyco.

Robert Bell

Tyco health care, which is plastics and adhesives, sprinklers.

Unidentified Male Speaker

Tyco owns over 2,000 separate companies.

Unidentified Male Speaker

We'd be glad to supply you with a list.

Unidentified Male Speaker

We could provide an annual report if you would like to look at that.

Alderman Deane

No. I was just...

Marguerite Block

Was that what you were looking for or something in a smaller world?

Alderman Deane

No. This is a good world to be living in. How long has Tyco been involved in the maintenance of water utilities?

Unidentified Male Speaker

They acquired Earth Tech in 1995. They also have Tyco Engineer Product and Services, which in fact provides different levels of water treatment type operational aspects in different parts of the world. We also have a sister company called WPT, which is actually part of our group. They provide RO units and onsite operations for small skid mounted type pure water systems for the pharmaceutical industries. That type of stuff. Actually Dasani and Aquafina are products of our sister company.

Marguerite Block

They are also involved in refineries in the Gulf Coast and are in there right now getting them back up and running.

Alderman Deane

So they supply a lot of the product that would be used below the streets is what you are telling me – the valves...

Unidentified Male Speaker

Yes they do. Valves and pipes, absolutely. There are synergies between us and our sister companies and Tyco as far as acquiring products.

Alderman Deane

Could you repeat that please?

Unidentified Male Speaker

I said there are synergies between Earth Tech and our Tyco sister companies in acquiring valves, or pipes, when we need to buy equipment we can utilize our sister companies as well.

Alderman Deane

So the cost savings and efficiencies are passed along to the customer?

Unidentified Male Speaker

Yes.

Unidentified Male Speaker

To an extent. The extent we get a good break from them. Yes.

Unidentified Male Speaker

Besides staying within our own company, the buying power that Tyco has like the project I'm working on right now will save them almost \$350,000 in the cost of meters over a 5 year period in the replacement program. Besides getting what Tyco has because Tyco and Earth Tech are so large in the mind power, they were able to negotiate contracts with larger suppliers of the products that use to be able to save you 10, 15, or 20 percent on different things.

Alderman Deane

Is that guaranteed?

Unidentified Male Speaker

On certain products it is yes.

Alderman Deane

Thank you.

Alderman Bolton

Following up on the question Alderman Deane asked. Are any of you familiar with previous experience that your sister Tyco Company may have had with the City of Nashua and prepared to discuss any of that?

Unidentified Male Speaker

I'm not familiar with it. If I were, I'd be glad to comment for you. I don't know if anybody else is? Unfortunately not.

Alderman Bolton

Do you think that would have been a good thing...?

Unidentified Male Speaker

Now that you've asked that questions, yes I do.

Alderman Bolton

Thank you.

Alderman Shaw

What would you say Earth Tech's most relevant experience in similar O&M contracts is and how that would benefit to Nashua? Whoever can answer that.

Unidentified Male Speaker

I can answer that. I suspect that would be our Hubert Heights operation, which has been ongoing for 10 years now. Very similar in the takeover of a privately held water utility to the City. They realized up front that they didn't have the resources, the assets, the knowledge, experience to run it themselves. So as part of the pre-takeover, and I don't recall if it was condemnation or – Bob is shaking his head so it was condemnation. They started selecting their operator 6 or 7 months ahead of time. Selected Earth Tech and we worked with them prior to the takeover. On day one when the system transferred at midnight we were there with our people, had to operate the water systems, get the meter reads, continue to get the bills still sent

out. It was a very smooth transition. Very few complaints. Water wasn't lost. People paid their bills. I think it went very smoothly.

Alderman Shaw

Similar question as I have asked others. What are the 2 or 3 things that basically stand out for Earth Tech over all in terms of benefit to Nashua the things that make Earth Tech the appropriate choice?

Unidentified Male Speaker

I think one of them is regional support. We're a New England company. WE have operations not too many here in New Hampshire itself, but more than 25 in Massachusetts. We're in Maine. We're all around you. From that aspect I think that is one of them. I think the commitment of the company to the long term; to stay in this game, to provide contract operation and engineering services for both the water and wastewater industry, commitment by Tyco to keep Earth Tech strong, provide us with a financial backing to guarantee our performance on these types of jobs.

Unidentified Male Speaker

I think there might be some parallels between some of the other projects we offer and the configuration of Nashua. It is very common in a contract operations business for companies to operate plants. It is less common for companies to operate entire water systems. Fred at the present time is managing our New London, Connecticut project where we operate the entire water system, including managing, billing, and collection, which wouldn't be here. The distribution system, and the fire hydrant flushing, and the fieldwork is critical as well as the customer interface. All of our employees clearly understand the need to be respectful and to deal with the public in a professional manner. So that's a large part of our training efforts go into that. It's places like that...**end of Tape 1, Side B**...deal with an integrated system rather than just pumping water to the edge of the fence line and it goes off some where.

Alderman Deane

Mr. Costanzo I had a question on field notes. You know when you are working in the field – I don't know whether that would be yours or whomever, if there was a project going on and field notes were kept which are they?

Frederick Costanzo

Yes.

Alderman Deane

They are kept...and something went terribly wrong and the district requested those field notes for review, would you turn those over to the district from that point of where the project had stopped so that they could be reviewed or would you wait until the project was completed?

Frederick Costanzo

I would view them as a legal document that if we wrote it down in a book and it was pertaining to the project, it is a legal document. You are entitled.

Alderman Deane

Thank you.

Chairman McCarthy

Other questions?

Karen White

Have any of the operations that you've been HR director for have you have had any union strikes or any major complaints to the Labor Relations Board? Have you negotiated any defined benefits, pension packages as opposed to just 401K?

Unidentified Female Speaker

I love these multi-part questions. I can remember all the parts. I've got the 401K piece your first question was?

Karen White

Any labor strikes

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Unidentified Female Speaker

Any labor strikes – absolutely no. Never had a labor strike. We've never had any major disruption. We do have the occasional grievance or arbitration, but we've never had any major labor disruption or threat of one.

As far as negotiation defined benefit programs, our company does not have that type of thing. What we do is we will provide a combination of programs to get the people to where they would have been if they had been in the defined program before. So we have creative ways of making sure that the retirement program will be comparable to what they would have had had they not been transferred to us.

Chairman McCarthy

Other questions? If not, I want to thank you for your presentation.

Unidentified Male Speaker

We appreciate the opportunity and thank you for your time.

George Sansoucy

Thank you. I want to thank our two proposals that have come tonight. I believe we have representatives from the two last night and thank them. I'm going to do about a 5 minute recap if I could. We've brought 4 people to you. Any 4 combinations could do the job for you. It is a compliment to the City of Nashua; it's a compliment to the Board of Aldermen, the water committee, and this endeavor that these national companies are willing to put their money, their time, their effort on the line to show you that there is a different way that water systems are operated elsewhere in the United States. The taking of Pennichuck is not a foolish endeavor by any means. It is the transition of a regulated water company to a municipal model. These 4 companies are active in those transitions, some in different ways; the different attitudes on how to do this but it can and will be done. As we've seen from all of our proposes Hubarheights, Ohio, the 2 Ashtabula takings. R.W. Beck did the City of Geneva with in Ashtubula and we did the county around them so that the county in the City, for example, each had a different independent engineer because we had to negotiate throughput contracts. It is done routinely. Whatever I say tonight, whatever we do tonight there will be press releases; it will not be satisfactory; it will be wrong. That is what we have to expect from a company that you're asking to essentially take 65 percent of its business and turn it over to you because the laws for which it operates under no longer serve the public interests.

With that we have a national presence here of people. We have new ideas. I think we've heard a lot of ideas that we are not really aware of. We don't live with them every day in Nashua because we've lived with the Pennichuck model. We've seen faces of people that have worked all over the country. I'm going to make 2 recommendations to you tonight with the hardest recommendations I've made I think in probably my entire career because we have some good people that have done a lot of hard work. My recommendations are based on what I believe we need to go forward in the short term. I want to stress IN THE SHORT TERM. The short term is from today forward through the taking process, through the political upheaval that that brings, through the criticism and critique that we must go through. WE have to stand up to that critique in your behalf to prove to the New Hampshire Public Utilities Commission that this taking is in the public interest and that we deliver the people of Nashua into the district, which I firmly believe in the district. The managerial, financial, and technical capability to take over this water company.

To that extent, I'd like to start by saying that we'll discuss the oversight contractor and my

recommendation for the oversight contract and let me just finish with the short term. I lost one train of thought. The reason we put a 6-year contract together is knowing that the transition part of this is going to be very, very difficult. It is inevitable even all of you have received tremendous amount of political pressure, tremendous amount of lobbying individually, and you'll continue to receive more to try and stop this taking. The short term is the upheaval period, then the adjustment, then settling down. At that time, you're going to get another full crack at the operations and oversight bidding process. Your oversight contractor will provide you with the opportunity to re-look at the ops. contractor and vice versa. WE have engineered this or we have been the architects of this for you recognizing that what may be some of our short-term strengths might also not necessarily have great long term – in other words, short term strengths are necessary today. Then there may be ways to optimize those strengths in the future very quickly. Many of these contracts are 20 years. We feel that is not what we are trying to do here. So, I'm just trying to put that in perspective.

My first recommendation is for oversight contractor. This particular contractor has been my number one competitor for 15 years, and it is with great pleasure that I recommend R.W. Beck and the Tetra Tech team. It is interesting the reversal because Tetra Tech put them together and then backed into a backward position in this recognizing through a significant amount of query of us that the management side of this and the financial management side of this is the most important part of the oversight contractor. The information and the transition period, public utility commission period, and the development of the district, which is ultimately inevitable in this process is the most important factor in that there is less need for substantial day-to-day engineering in the next 6 years. R.W. Beck has a national presence, extremely strong. We've heard that. Your financial advisor for southwest is fully cognizant of R.W. Beck. They have indicated to Carol Anderson a strong thumbs up on this particular contract and they're aware of them and would welcome them on the team. They are only owner's reps. They are the only ones that we can bring to you that we are aware of that are pure in that regard where they don't have some form of other contract relationship amongst the various parties. I would never want to see that discouraged. Those relationships. In this instance, in the short term, the cleanliness of the business model of R.W. Beck, I personally believe, is very, very important. They have very strong rate design capability. That is rate design as a regulated rates or rate design as non-regulated through their experiences. We do not know today if the Public Utilities Commission will give us an approval that may have strings attached to it that might look to manage, monitor, or observe, or somehow keep their hands in the rate process for a short period of time upon the ownership of either the district or the City and then relinquish that one they see that that is going well sort to speak. The ability to speak both languages fluently, and the ability to design rates and/or operate and split rates because we may we are asking for systems outside of Nashua. We may have split rates, some which may be regulated while rates in Nashua may not. I'm not presupposing what our Public Utilities Commission will do. There are combinations that we as a City and a district could live with if required.

They do have a strong engineering model with the Tetra Tech model. The important aspect of that model in my view is their oversight and capability of watershed management and security. Capital improvements, yes, but those of the watershed management and security issues for the

short term will be as needed and as strong as the sticks and bricks and conventional engineering needs in the next 5 years.

They have strong experience with government agencies of all kinds. They bring a large presence, much larger than we are accustomed to but with that comes an economy of scale. If they are making mistakes in the operations and the oversight business, they are making it for much larger places around the country. They are learning from those places, and we benefit here in Nashua from that economist scale. They have been active before many different public utility commissions and representing both regulated and unregulated companies. I believe that should our public utility commission request their presence to independently say what we are saying about them, that they will be articulate, strong, and forthright, and very capable of standing up to any criticism that Pennichuck may try to level on them in their operation.

They bring the best management capabilities in my view because it is a pure owner's representative management situation. You will be working with them, in partnership with them, and they will be translating that as operating systems and operating directives to your operations contract and managing it through the contract. They have experience in the negotiation of operating contracts and will be providing that assistance as we go forward in the near short term phase, in the transition phase.

There's one thing that I've noticed about R.W. Beck that impresses me that is very important in the next 3 years. As I've met with them and talked to them in their team they listen. They listen to you; they've listened to us; they've listened to some of the things we've requested. Their ability to listen will be very important going forward because there are still things we don't exactly know. There are things the PUC may ask that we don't know yet, and we all have to continue to listen to make this process work.

They have strong security oversight. I think security is a broader issue. I don't believe that any less or equal security attention that is currently being paid to the Nashua system is satisfactory in the next 3 years. They have been a very strong national security presence with Tetra Tech, and they have significant strengths in takings. Significant strength in actually starting the transition from a municipal water system, rather a regulated water system to a municipal water system.

Lastly, the one and the most significant statement made by Beck, in my view in this recommendation, is Steve Gates telling us that we want to exploit and capture the entrepreneurial spirit of the operations contractor. The public private partnership. That indicates to me that they are willing to operate as a team player exploiting the benefits of the public private partnership to the benefit of the City of Nashua to the best of their ability. I think they understand that model the best.

With that, my recommendation is R.W. Beck for the oversight. Brian, what is your pleasure at this moment?

Chairman McCarthy

What is the pleasure of the committee?

Alderman Bolton

Keep hearing.

Chairman McCarthy

Let's hear your other recommendations.

George Sansoucy

This is a tough one. This is hard and it is tough. We've had 2 great bids from 2 great contractors for operations – Veolia and Earth Tech. I want to thank both parties. In all competitions there is a winner and a loser. My recommendation is Veolia Water for the operations contractor. This comes because of the total cumulative strengths combined between the two contactors.

First and foremost, I believe Veolia offers a certain scale in the industry that is unequal to the United States. It is a scale that brings tremendous amount of strength to the team, credence. With that scale, they have been and will continue to be scuffs here and there. That just goes with the turf. This is a relatively new business that is about 30 years old in the United States - the operations business. But with scale will come a lot of benefits, I believe, to the City of Nashua and a lot of strengths in the transition. They have offered us what I believe to be the best transition team, strongest, and deepest transition team going forward in the next short term period of this transition. They have a strong employee base that can absorb many issues. Many issues that will come up. They are capable of manning the facilities if necessary with staff throughout the country, including certified operators should there be any reason to have to man this facility in the interim.

They have offered a strong educational program. They have immediately indicated in their view that there will be a continuing shortage of good solid people working in the water industry. That is a common knowledge and they look to establish education programs, training programs in the region immediately to help build a strong team of good people to operate this system over the years and for the district's use over the years.

I believe they have significant and possibly the strongest experience in the initial regulatory phase of the transition. I have worked with and testified with members of their team in the past, especially in the Hudson case for example. I found them to be extremely successful, positive, and competent in the regulatory area which may have to be required in the transition phase.

Their asset management system. I believe in the interviews and we interviewed a great length

with all 4 parties. Their asset management system, their predictive maintenance system is the strongest that I have found so far in the industry. It is a proprietary system that will be afforded to the City of Nashua, and it is only proprietary in the extent that they load in the history of different types of equipment throughout the country to help the predictive maintenance and preventative maintenance systems here for the City of Nashua. That goes to scale. They have a large number of water plants that they operate with which to draw expertise from. Their strong management oversight. I think we saw from their proposal from their staff loading that they do have a solid management oversight of their people that they draw from very well defined management system.

Their engineering support I think is very strong within the organization and with outside the organization. Within they bring us a series of engineering talent and engineers that will be in Nashua operating in Nashua. They bring the Dufresne-Henry team, which has significant depth in New England and presence in New England to the team for the City of Nashua.

They have a deep customer service support base. They pride themselves on their customer service while we have not asked them to actually do the billing in the RFP at this time. They have continued to make that presence known because they are quite proud of that. They have provided a satisfactory to excellent local super – David Ford – a City of Rochester Public Works Director. A great local presence. And a local supervisor Roy Wood from Leominster, MA. I'm not overly concerned about the distances. But a supervisor of 15 oversight systems to assist with David.

The asset management system is actually an actuarial based system. It is the only one of the systems that we saw in our interviews that was actuarial based. Based on the actual model and manufacturing type of equipment. This could save even though they downplayed the potential savings and just mentioned it. It has the potential of saving hundreds of thousands of dollars a year for the City over the long term.

They work in both the municipal and the regulated fields. They actually have the Indianapolis package; the Indianapolis system elected to remain regulated for its rates but municipalize for its ownership. This is very important because they are offering the method of reporting that they are offering in their work order system on a day-to-day basis. It would be cross coded so that if our PUC requires us to document rate systems in and outside of Nashua for the district, their record keeping systems allow that to occur. They have a strong distribution and transmission manager in the form of Paul Noran who was with consumers and did help build a number of the systems in New Hampshire for consumers. Some of which are being taken over in this taking. They have small systems experience through Dave Noran and well as large systems. They have provided us with a marginal costing as part of their proposal. A very clearly defined amount of cost that is taken off for every system that is added or deleted by the New Hampshire Public Utilities Commission. So we don't have to go back and renegotiate if the PUC says what if we don't give you New Market but you do have Bedford, and what if we don't do this, or what if we give you Litchfield because it's close and you take the outer lying ones and put them in PEU where the defined dollar per customer, amount of money that gets transacted that makes it very

clear and very simple to work with the PUC in that.

We think they provide the greatest level of depth in the support in the PUC process over the next 2 years in the transition. They appear to respond very well to us and respond to the Beck model. If you noticed the Veolia model is very strong willed model at both the engineering and operator level. The Beck model, for example, is an oversight model. I see the minimum level of clash between the two models as we go forward getting this water system started up – this model. It's most important that we all continue to realize that we are transitioning from private model to a public model. That has its bumps, and we can add bumps to it by putting together teams of people who from a cultural perspective will clash in the development of that model.

Lastly, their work in Indianapolis cannot be ignored. It is a large-scale true transitional model equal to Pennichuck and equal to Nashua. Nipsco, the local Indiana utility, was required through purchases and both started to buy into utilities. At one point, the regulators required them to divest of some of their holdings. They elected to divest through negotiation their regulated water business in the city and surrounding Indianapolis. Indianapolis bought that and transitioned it directly without building a department. They transitioned it directly to a contract operator. In this case Veolia. Their experience is learned in the transition from regulated bookkeeping, regulated rates, to municipal model, and municipal accounting. It can't be ignored in their strengths.

When we discuss the money side of this, the operations is only one area that we expect savings in the Nashua model that we will be presenting to the PUC. There will be savings that we will realize in costs for insurances. We have met with your insurance people and are continuing to meet with them. Taxes – income taxes, depreciation will be a major cost savings in the operations. Now these are operating expenses. Depreciation is actually built into your operating rates for the utility. Dividends, which is the profit sector. Interest rates and the actual operating costs. We're dealing with the one component of the operating cost in this savings picture tonight. I just want to point that out. We're dealing with just this one component.

That concludes my recommendations. Again, I want to thank the people who have worked so hard to bring their proposals, and I would like to add that the recommendation is to consider contract negotiation. Don't necessarily put your files away in the event that contract negotiations with the prime proponents, whoever they chose is not successful. Thank you gentlemen.

Alderman Bolton

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If you stopped just when I thought you were going to avoid the need for this question. One of the things we are telling the PUC, or I presume we will be telling the PUC, is that we can operate the system as well as better at an efficient price.

George Sansoucy

That's correct.

Alderman Bolton

So before we actually see what the price tag is for the two firms that you recommend, presumably there's a price beyond which we can't with a straight face tell the PUC what we would like to tell them. What is your recommendation as to what maximum level we should be looking at so that when we actually look at the price proposals in each case, we can know whether they are below that level or not?

Unidentified Male Speaker

We presented a plan for you for the PUC in our first round of testimony, which we are building on in our second round of testimony. That plan relied upon a 20 percent savings of operating costs for the operations, just this portion that we are talking about tonight, based on a perma for 2006 for Pennichuck and 2006 for our contractors. My recommendation delivers tonight a 20 percent savings to the people of Nashua. We can pick hairs off of this and we can negotiate the contract, it delivers to you at least a 20 percent savings as we perform for the PUC.

Alderman Bolton

You know the price proposal?

George Sansoucy

Yes I do. Yes I do because I've had to work with them. We have met with all of these people and because this is such a complex process with the PUC, we've had a second round of information that we've had to request and we've worked with those. Yes we have. This is a...

Alderman Bolton

The price proposals fall under what that upper ceiling would be.

George Sansoucy

The upper ceiling, of course, for the PUC would be dollar for dollar. You have equal Pennichuck dollar for dollar. Pennichuck will take issue with this. We fully expect them to. Count this being here and that being over there. Bottom line is that we projected 20 percent. This package tonight delivers that 20 percent projection.

Alderman Lozeau

Skip if I may just elaborate about your recommendation and decision.

George Sansoucy

Certainly.

Alderman Lozeau

Last night at the Veolia presentation the Veolia company spent a considerable amount of time talking how they would be an outstanding member of this community. As a matter of fact, I think they even went into the classroom with water box. To me that was a significant part of their presentation that they expanded on that they would be an outstanding member of the community. I concur with your recommendations.

George Sansoucy

Thank you David.

Alderman Deane

Thank you. I don't concur with your recommendations. The first one, the oversight contractor, I thorough agree. I thought they give a very strong presentation. They seem very well – they justified all the people they brought in. I thought their presentation was really well done. I don't know what process you use to filter out the others who had submitted to the RFP that was put out. The Veolia presentation, although they brought in an army of people, whereas the presentation we saw tonight did not, the one concern I had was Vivendi owns a portion Veolia, correct?

George Sansoucy

Yes – 5.3 percent. That is correct.

Alderman Deane

You know when this whole process started, the biggest concern was what was going to happen to our water, and how was going to own it. Here we are now calmly looking at contracting or contemplating on contracting with a company that is tied in with the very people that we took issue with some time ago. No offense to the presentation we saw tonight, but I would like to have known who else didn't make the cut and why.

George Sansoucy

Nothing else to speak badly of anyone, but I will tell you quality basis. Only 2 oversight contactors, the 2 largest in the United States bid – Veotech and Veolia. There were no other bids on operations for 2 ops. There were 5 bids on oversight – Camp Dresser McKee and R.W. Beck did make the cut. The 3 who did not was the Barrington Wellesley Group out of New London, New Hampshire. Barrington Wellesley is a pure management firm. They have been

routinely hired by public utility commissions to go in and do independent management audits of public utilities. The package they presented did not provide the oversight day-to-day operation. They provided 500 hours a year total to the City of Nashua in their proposal to oversee the operation and critique the management. The assumption being that the operations contractor had all of the management needed and interfaced directly with the City. While they are very strong in management and while at the end of this process I wish to give their credential to the City because they could be a very good down the road – you know have we put the right total team together looksey. They could be very good at that. I don't believe that they met the intent of the proposal to manage the system on a day-to-day basis for the City.

The second proposal was Connecticut Water Company. It is an interesting proposal because Connecticut Water is twice the size of Pennichuck. They don't have any single core system as the City of Nashua, but in aggregate collectively they run a number of systems throughout Connecticut. They are very capable of coming in here and running this treatment plant and the pipes in Nashua without a problem. Connecticut Water is a very capable company. They are highly entrenched in the regulatory model and demonstrated to us very little true understanding of the municipal transitional model. Also, surprisingly, they too are now selling their watershed land for development as a business model. I don't believe that that is the philosophical direction that we would be going in the City of Nashua, although they are very capable of coming in and running pipes and wires. So I did not short-list them primarily on the lack, philosophical center to where we are with the district and the City of Nashua.

The third company was a tough company. It was ARI, Alternative Resources, Inc. They are one of the early companies in developing public private partnerships. Paul Doran, the gentleman who has gone to work for Beck, most of the references that were presented to us were actually operations that were managed or which Paul Doran himself did for ARI while he worked for ARI. ARI is very capable of coming in here and doing the oversight job. The reason they were not short-listed is that at a company they did not demonstrate to me that they had enough deep-benched talent to handle this transition especially when it gets rough around transition time. Their proposal did not offer an onsite manager in Nashua or close to Nashua full time. It offered percentages of different people's time over the course of the year that you could pick and choose from. So while they are very capable and understand the oversight business, we felt that the proposal was not responsive as far as its depth to the City of Nashua. That is where we are with the 4 that we have proposed Alderman Deane. Does that answer your questions sir on that account?

Alderman Deane

Yes it does.

George Sansoucy

Might I comment with you on your disagreement with me on – you said you disagreed with the Veolia recommendation?

Alderman Deane

Yes, I did.

George Sansoucy

I'm not going to argue with you at all on it because Earth Tech is a very good company. I'm packaging up the total package of qualities and depths in this. I would fully expect where you've gotten 2 dynamite proposals that it would be very easy to have half of you think one and half maybe think another. We struggled with this right through to midday today. Listening to the proposals we had our contingent recommendation because we have 2 great contractors that have offered to you. It is a compliment to the City of Nashua. You're certainly welcome and both parties could do a great job. It's just that's my personal recommendation for the next few years. Keeping in mind that I step out of this process at the end of the taking. I have no involvement whatsoever at the end of the taking because I would not be independent for the Public Utilities Commission in evaluation. If I had any financial involvement whatsoever at the day of crossover I'm gone. I want you to have a team. The best team that I could possibly give to the City of Nashua.

Alderman Cardin

I have to agree with Alderman Deane. I think part of the reason we are sitting here tonight even discussing this is that people of this City voted to not have their water company operated out of another country. Even though it is only 5 percent, I don't know what the perception is going to be my constituents when I go back and say we've Veolia to operate and maintain our water company. By the way, they are actually owned by a foreign country. I guess I have a hard time with that. I was impressed with their presentation I think probably more so than the other O&M. I really have a hard time with that.

George Sansoucy

I want to comment on that. Your people voted to not allow the ownership of your resource to go into foreign hands. That was a valid and legitimate vote. It also voted based on the concept of developing a regional, which is a valid reason. I've been a proponent of regional for 30 years in my career. The operations are controlled by contract. We are not going to get away from foreign ownership of many parts and pieces of any contract for any contractor. If we went to their government relations, for example, we could probably find a tremendous number of foreign owners and investors in type of stock. We could argue that they are 45 percent foreign or – the reason I brought up the Vivendi issue is because you and I know that you are to consume to others that this is a foreign company. You're controlling this in the contract. They are foreign to the extent that they are incorporated in France; they trade on the Paris Stock Exchange; and the trade in the New York Stock Exchange. They are a fully diffused company worldwide company

with a division operating here in the United States. The foreign owners are such small pieces of the company that they have no management control of the company whatsoever. WE asked the president of the U.S. division, Joe Burgess, to come up to Newington, New Hampshire and meet with us to see his face. What are you? What's your motto? How much control have you had from outside the United States? It was very clear that he wanted the American division; the American division is run out of America. It's like Toyota of America.

So your question is very valid. We are not going to get away from it as we continue into the 21st Century. But I completely agree that if they were to buy the water company, buy Pennichuck, we don't want Pennichuck owned by any of the foreign companies for any reason. I think that our fears about foreign ownership of the contractor will be adequately satisfied in the construction of the contract and the oversight contract is really the key here. The oversight contract is really the key link that runs the contract. I mean the oversight contract – you can walk into this Board of Aldermen and say these guys are really screwing up let's fire them and get somebody else in here. They are an American employee only company. They are well known to your financial advisors for Southwest. That to me is part of the key. My recommendation is putting two pieces together that fit very, very well. But your concerns are I think are clearly well noted and should be.

Alderman Rootovich

Yes. My comments are parallel to Mr. Sansoucy that there are being hired as an operation and maintenance group, and they have no ownership in the water company.

Karen White

I disagree with Mr. Sansoucy here. I don't believe that the only thing that represents (inaudible) the people of Nashua, the people of the towns forming the water district was that we didn't want a foreign company to own our water resource. I believe the example that was used a number of times – do you want to have to call Paris to get a repair on your meter or your water bill. Do you want to have to call Arabia and get someone in a foreign language? It's service too. Veolia is the direct descendent of Vivendi. They are not a new company that just sprang up. They were Vivendi Environment. The fact is that there is only 5 percent of the stock originally left when Vivendi Universal sold off. This is the company that was Vivendi Environmental. Since they've been Veolia, they have their own bad track record. I realize big companies become big targets, but I've got over 112 citations here and examples of problems they've had in New England – Rockland, Massachusetts; Lynn, Massachusetts, Angleton, Texas. One of the things that we asked at the very beginning of this process was that please all references to be carefully checked for companies that were applying.

I have to agree with Alderman Deane and Alderman Cardin on this. It's not only because they are a multinational corporation, but I believe that there is some grave concerns that haven't been answered about their business practices since they have been Veolia.

Alderman Shaw

Actually, I don't think we can get away from internationally owned and it's actually somewhat at the point that Mr. Sansoucy was making. Tyco is now based in Bermuda. They are not a U.S. conglomerate. They are an international conglomerate based outside of the U.S. It's no longer a U.S. company. Either way we look, we're looking at the same kinds of issues.

George Sansoucy

It's a mirror.

Alderman Shaw

I think it's really something we are not going to get away from. I think it probably is at least a model right now.

George Sansoucy

You're absolutely right Alderman Shaw.

Mike Scanlon

I'll agree that I don't have a problem with the Beck selection. I thought they did a very good job. I think I would also side on the side of Earth Tech as far as the operator for all the reasons I've heard tonight. The reason we are all sitting here tonight is because of their parent company originally and our fears. I do know that Tyco is now based out of Bermuda primarily for tax purposes. I don't believe it's a Bermudian company that was started there. We can all disagree whether the right thing to do.

One of the other things that concerned me about Veolia is their selection of Dufresne-Henry as their engineering. Just my limited experience with them over a project that the Town of Bedford at Joppa Hill Farm we had them do a study there. They've done some work through the PUC from some electrical issues in town. I wasn't really excited about it and just some other comments I've heard. I'm not very comfortable with them as the engineering arm. So that would be my biggest concern. I have others, but I think you've probably heard most of them.

George Sansoucy

Mr. McCarthy, I'd like to point one thing out in what you are saying Mr. Scanlon. I'm not arguing with you because I've told you you're 2 great companies. If you feel compelled to argue for Earth Tech, I will request and argue that we need to add components to the proposal and components to the team to bring it up to the total threshold of capability that I would feel comfortable presenting to the Public Utilities Commission. I just wanted to point that out. There

are still elements with the transition management team of Earth Tech that I am not comfortable with in that regard.

Chairman McCarthy

Are those things we can deal with in negotiations? Understanding that you would fundamentally change the scope.

George Sansoucy

Yes. It would fundamentally change the scope. But yes, I'm sure between Beck and Earth Tech you could deal with those issues. But I just want to point out that it is not a done deal to the extent that they can find and produce the capabilities that I feel would need to be supplemented to make it a package that is satisfactory to me to go to the PUC with.

Mike Scanlon

Just as a follow up to that, I would have been working under the assumption that as you finalize the contracts that both these contracts would probably have to be tweaked to some degree during the final negotiations with this company.

George Sansoucy

Yes, absolutely.

Mike Scanlon

Obviously if Earth Tech couldn't satisfy the requirements that we would impose upon them and require of them, then certainly that would change my decision but Earth Tech seemed to be a company that could respond to the requirements that we would impose upon them. I would certainly as you said earlier; we could always go to number two if you found during negotiations Earth Tech couldn't satisfy your requirements.

George Sansoucy

That's right.

MOTION BY ALDERMAN DEANE TO ENTER INTO CONTRACT NEGOTIATIONS WITH R.W. BECK FOR THE WATER UTILITY OVERSIGHT SERVICES

ON THE QUESTION

Alderman Lozeau

Yes if I may direct to Mr. Sansoucy. Would you go forward to the PUC with only an oversight management rather than an operating company also?

George Sansoucy

We cannot. We must choose to...

Alderman Lozeau

Is there a cost associated with going forward to the PUC with either company that the City of Nashua would have to incur prior to any ruling on the takeover?

George Sansoucy

No, there is not.

Alderman Lozeau

Thank you.

Chairman McCarthy

Is there any further discussion on that motion? If not, I'm sure this is the vote of the committee.

MOTION CARRIED

MOTION BY ALDERMAN DEANE TO RECOMMEND TO THE FULL BOARD THAT A CONTRACT BE NEGOTIATED AND PRESENTED TO THE FINANCE COMMITTEE WITH EARTHTECH FOR THE OPERATION OF THE WATER SYSTEM

ON THE QUESTION

Alderman Bolton

I always disagree with people hire experts and then ignore the experts. We've heard from the person that we are trusting. Our trust may be well placed; it may not. But we've got to decide whether we are in the boat or out of the boat. Not to follow Mr. Sansoucy's advice on this I think is the wrong way to go. Particularly for the reasons I've heard. We don't know who owns Tyco. We don't have a list of all of the shareholders of Veolia. We don't know every person who has an interest in Beck. It just isn't relevant to their ability to perform under the contract whether someone was born in France, or the United Kingdom, or in Canada, or in Puerto Rico, or anywhere else. They either perform the contract and have the capability of performing the contract or they don't. If the City of Nashua makes it a practice and if after turnover if the

regional water district makes it a practice of not getting the best people because of where they were born, or who their parents are they will not be doing the best job possible. We ought not to start out that way. It just boggles my mind that we're not talking about turning over the ability to take a resource and do away with it. We're talking about who will follow the requirements put in the contract and who is best able to do it. Even before that, who is best able to present or to help present our case to the Public Utilities Commission? We ought not to be tying any hands behind our back when we go into this.

Alderman MacLaughlin

Thank you Mr. President. On the same vain if we are as a committee, and I'm not on the committee so therefore if we are as Board, unsure as to the percentage of foreign ownership of Earth Tech who tonight indicated that they are intimately familiar with the Nashua based water system having assisted Pennichuck on several projects, and having read through the resumes I see a very regional leaning of Earth Tech in terms of their persons of expertise including some communities that I have looked in. If we are unsure as to how much of Tyco is foreign owned or who their investors are. Then perhaps it is premature to make the vote this evening on that point until we've had a chance to do some research there. I'm sure Mr. Sansoucy with his arm of research is very capable of clearing that question up before we obligate the citizens of this City or the City itself to contracting with a company that may be equally subject to foreign influence. I can say that the people who I have spoken with who are in support of a public acquisition of this utility are passionate about local control. Yes, I hear Alderman Bolton's statement that of course the question is who will be the agent to exercise the operation on behalf of the City, but why would want to affiliate ourselves with a company or an entity that may bring the same level of concern that we all looked at when we voted on the whole Philly Suburban question. So my thought, and again I'm not a member of the committee, but I just offer this up, perhaps we don't need to vote on this particular question this evening until Mr. Sansoucy and his team are able to clear that matter up. Because I know if I were to vote during our next meeting when we convene as a full board how I'm going to vote on this question based on what I've heard tonight. I really feel that I need to make a completely informed decision before I obligate the City in this matter. Thank you.

Alderman Vitale

I'd have to concur with Alderman Bolton's statement that we should give great weight to our consultant's recommendation. It has been mentioned a couple of times that the reason that we are here is because there would be a foreign company that might own Pennichuck. The reason that I voted to move forward with this process is not because of that, it is because the local company would sell it to a foreign company and therefore we would lose local control. Not because a foreign company is going to run it, but because we would lose the control of it locally. That is why I move forward with this process. If we are going to be in charge of this contract for the 6-year period that is being presented, we are in control. The other part doesn't matter whether the company is foreign, if they are 50 percent, or 43 percent, or 10 percent, whatever. We are in control of that contract. If the recommendation stands that this combination of

companies will be represent us moving forward, I think we should give weight to that. Having foreign companies financially you are told to invest across the board not just locally but you're supposed to have a broad spectrum of where you invest. I don't have any problem with a foreign company part. I think we should go forward with the recommendations as presented.

Alderman Shaw

I agree. It is about local control. All this sprang from the whole issue of us not having ownership or control of the resource. The operation by a local company, a State company, a U.S. company, or a foreign company really is independent. We have control over the contract. We have responsibilities. Actually, I think if everybody stops for a minute I think this whole discussion, quite frankly, is perhaps a great insult to the largest employer in this City. BAE systems is a foreign owned company who does wonderful things for this community and has great interest in this community. If we don't want them here because they are foreign owned, that's a pretty bad thing. I think we have to be real careful about the kind of arguments that are being made in that regard. The issue has been about who owns the water? Who owns the resource? Who has control over it? The issue was having that go outside of Nashua. We're talking about control over that resource with the contractors that we will hire.

Alderman Bolton

And that you can fire.

Alderman LaRose

I think what happened was how we got to this point was that Pennichuck was for sale. It just so happened ...**end of Tape 2, Side a**...if say a large water company for the west coast that was totally owned American, I think we'd still be in the same position. What we want is we want to protect our water. We want to keep the system local. Alderman Shaw touched on one of things that I was going say was that if I was looking for a job and BAE was offering me employment, would I say I'm not working there because it's foreign owned? I doubt it very much.

Alderman Lozeau

Just to explain about what Alderman Shaw said that's why I was going to start with BAE Systems. I'd like to ask the committee what kind of message does this send to people that are going to bid on any RFP or any contract for the City of Nashua if because they are 5 or 6 percent foreign owned are we going to make that part of our RFP process that if you are foreign owned don't bid to the City of Nashua. We have a hard enough time finding people to bid on projects that this City does now. More than one project has gotten down to one or two bidders. That's not healthy for the City of Nashua. It's not healthy for anybody. The issue is ownership. The City of Nashua may or may not eventually own the Pennichuck. These companies come forward – both companies were great and I already touched all it sold me with the Veolia company was their relationships with the community and how they responded about that. I'd

hate to send a message out here that if you're foreign owned or have any foreign stockholder that don't bother doing business with the City of Nashua. I just don't think that's right. Thank you.

Chairman McCarthy

Before I recognize Mr. Scanlon, I'd like to weigh in with my opinion and I will state again as I have numerous times most recently when I was deposed by Pennichuck's attorneys that my concern has always been about foreign ownership of the resources. In fact I'm not worried about ownership in places as far away as France; I'm just worried about ownership in Philadelphia. If that were a 100 percent United States owned company, I still would have had the same issue. When you talk about the ownership of the resources that provide our water, our water, if they are going to be owned by somebody other than the municipality that depends on them, to be owned by somebody out on in and through the supermarket who has to answer to me on the street if they screw up. I've met Mr. DeBenedictis once. I predict I will never meet him again in my life.

I predict that would have been the case whether or not Pennichuck was acquired by Philadelphia Suburban. That was the issue that I had with the acquisition of Pennichuck and its resources. This contract is just that. It is a contract. We have a legal and binding document that determines what has to be provided by the successful contractor. That they are subject to by law in this country regardless of who their shareholders are and where they live. The issues about having to call Paris is an issue if the resource and the entire utility is owned by a company that does what it does to maximize its profit. When it is operated under contract, our contract can and I assume will state that there will be an office here, which is where people make their complaints to. We can enforce that. We can make sure that those things have no impact on the way that the system is maintained. I would want to see us get the company, which has the greatest expertise in doing that and the greatest ability to provide value to the ratepayers. I believe both of these companies provide great value. Even Given that situation I have to lean towards the recommendation that Mr. Sansoucy gives us because I believe him to be a fairly good expert on making these decisions. While I would not be uncomfortable with Earth Tech, I have to make the decision in the way that it has been recommended to us.

Mike Scanlon

A couple of points I'd like to clarify. First, I have no objection to a foreign company. We true live in a global economy and any major corporation is going to have a foreign presence and foreign ownership. Unfortunately, Veolia and Vivendi have a track record. One of the reasons, and I agree with you Brian it wasn't necessarily because it was a French company that was buying our resource, it wasn't a local company and they didn't want to lose that control. But also one of the reasons I opposed the sale was because of the track record of that corporation and their management of water systems. I understand that we will have a contract with them but at that same time we also have an obligation to make sure that the company that we engage with we have an absolutely comfort level that this company is going to do the best job they can not only for the people of Nashua, but for everybody else in the region that they are servicing. So it's not

for me that it's a French company. Unfortunately maybe it is guilty by association with me that Veolia and Vivendi are one in the same. As Karen had mentioned earlier, I've just heard too many negative or read too many negative comments about that company.

I'd also like to touch on Alderman Bolton's comment about your expert. I agree with you 100 percent. We hire experts; we pay them a lot of money. Again, you and I and I guess everybody but Karen are the elected officials. We're the ones that represent the people and the communities we represent. They entrust us to make these decisions. I guess my question would be if you're – what did we do the last 8 hours – 4 hours last night and 4 hours tonight listening to these presentations. If your intent was just to take your consultant's recommendation I would think that it would have been easier for me to have a presentation from your consultant saying these are the companies and these are my recommendations and then make a decision based on that. I'm not trying to slight you in any way by saying that. I understand what you are saying. I've put a lot of credit in what the expert's – because that's why we pay them. That's why they are experts in what they do. I also believe it is also okay to disagree with them when you have a philosophical difference, which I have. You can correct me if I'm wrong, but I believe what I heard tonight was that Earth Tech can do just as good of a job. We may have to renegotiate a little bit of what we asked for, but Mr. Sansoucy had the utmost in confidence in them that they would be able to perform the duties if they would be engaged. So I don't believe we are going against the recommendation. I believe I have a philosophical difference that I believe one company in my personal opinion may do a better job in the long run and I have a better comfort level with that company.

Alderman Bolton

Well Mr. Scanlon if I have the misfortune to be in your counsel chambers in Bedford I will not insult you. The fact is that I have not wasted my time for 8 hours or for the 10 hours I spent over the weekend reading every page of these proposals. For you to suggest that I did is wrong; it's demeaning, and you ought to remember that you are guest here. The fact is that I am somewhat skeptical. I have been somewhat skeptical of Mr. Sansoucy but as I said, we are in this. We have to give him all the ammunition we can possibly give him. If I thought he was leading us down the wrong road, you can be sure I would not hesitate to say that. I am not convinced that he is heading us down the wrong road. I am still willing to follow the advice he gives. One of the things is I'm not willing to do is not give him what he wants so that there is an excuse if things don't go well. The fact is that there is no reason in my mind that has been presented to us why Veolia should not be the selected in this case. Of the proposals that we listened to last night and this evening, frankly think theirs was better. But that is not the primary reason in my decision. They are not being hired to make proposals. They're not being hired to give us pretty colored pictured and loose-leaf binders. Their qualifications indicate that they are superior. I just do. The fact is experts are telling us that. Experts are saying this is the best chance we have to win and I have weighed all of that. The fact that you have some negative feelings to me does not counterbalance my own examination of the facts and the recommendation of an expert that frankly as much as I am skeptical of him, I give a lot more credence to him than I do to you. Thank you.

Chairman McCarthy

Any additional discussion?

MOTION BY ALDERMAN DEANE TO RECOMMEND TO THE FULL BOARD THAT A CONTRACT BE NEGOTIATED WITH EARTHTECH FOR THE OPERATION OF THE WATER SYSTEM

MOTION FAILED

MOTION BY ALDERMAN SHAW TO RECOMMEND TO THE FULL BOARD THAT A CONTRACT BE NEGOTIATED WITH VEOLIA AND PRESENTED TO THE FINANCE COMMITTEE FOR APPROVAL REGARDING THE OPERATION OF THE WATER SYSTEM
MOTION CARRIED

George Sansoucy

If you'd be so kind Phil, would you like to bring the bids and we'll open the two bids of the two proposals.

Alderman Deane

This process still has to go through and be approved by the Finance Committee?

Chairman McCarthy

Yes.

George Sansoucy

Oh yes.

Alderman Deane

Just as long as people understand that this is just the beginning. There is still more to the process of approval than this evening of the committee as well. Thank you.

George Sansoucy

The R.W. Beck proposal as 2 on page 1 as the 2 components that we asked for in the RFP one of them being the initial tasks. These are the initial tasks of developing the operations and maintenance manuals, inventory asset manuals, and the like that we asked for that are part of the initial taking process as soon as the PUC rules that the taking can happen. These are

actually costs that eventually become capitalized as one-time costs in the sale and end up in the bond. Their initial proposal for the technical task was \$230,000 as defined in our section 3. Then we have a task 9, which is \$35,000 and an allowance of \$230,000 for initial task described in section 3. On the recurring task, this is the annual operation and the price provided by R.W. Beck is \$315,000 per year for the complete oversight of the company of the Pennichuck Water Works. Initial tasks are a capitalized task and are budgeted in the proforma for the bonds. The recurring task is an operation and maintenance expense that is directly comparable to the Pennichuck's overhead.

Phil, do you have more copies of Veolia? Joe, what's the page is the base proposal price in? Is it 2.1-6? Yes. That is in your books in section 1. It is the 6th page in on the bottom right 2.1.6. The base proposal from Veolia is \$4,996,203 for annual operations starting in the first year. There is an annual fixed component; this is a one-time cost that would be loading into the bonds for all of the transition expenses and transition costs of \$1,380,000. Those are the two bids from Beck and Veolia.

Alderman Deane

Skip, what is that here in comparison to what is it costs today for current operations?

George Sansoucy

The proforma operating costs of Pennichuck as of 2006, Pennichuck is expected to be spending \$8,400,000 per year. There are certain deducts that go with that and capital maintenance. Drop that price to \$7,900,000. That is \$500,000 taken off for electricity and fuel, which we fixed that price from all the bidders. In other words, we gave them an exact amount that they are currently spending and fixed that for the bidders. That makes a distinction of \$7.9 million if you take that out. If you compare apples to apples, Pennichuck's total operating costs of \$8.4 and add in the fixed costs that we will be paying such as our own insurance because we will own the assets. Our own electricity, which may be in the contract if they manage the electricity. But the spread is \$6.4 million to \$8.4 million. A \$2 million savings in the Veolia proposal.

Alderman Lozeau

Yes, if I may. Did you consider the loss of tax revenues and things like that?

George Sansoucy

Taxes are fully loaded in that price in the proforma. We will be paying the taxes. They are above the \$8.4 million above. This is the taxes to the towns and to the City. Right. Not income taxes.

Alderman Lozeau

No. The real estate taxes.

George Sansoucy

The real estate taxes are above the \$8.4. So we are not even comparing them.

Alderman Lozeau

It's not in the calculations...

George Sansoucy

Right. That is correct.

Alderman Dion

But we will also be saving around \$1 million in hydrant fees.

George Sansoucy

In hydrant fees?

Chairman McCarthy

The intention that we've always had since basically if we look at when we go to regionalization, there is issues with the differences between the hydrant fees to Pennichuck and the real estate taxes back. The motto has always been to leave both of those in place, which for Nashua doesn't actually make a whole lot of difference because the hydrant fees are fairly close to what the real estate taxes are.

Alderman Dion

So then it's a wash.

Chairman McCarthy

It's very close. It's a lot cleaner to just leave it as if we were paying real estate taxes and collecting hydrant fees.

George Sansoucy

I don't want the \$6.4 million to \$8.4 million is more than 20 percent. I am sure when we get to little elements of the contract this and that we indicated to the PUC the 20 percent. There is

margin in here for the contract negotiations.

Chairman McCarthy

There is a tax difference in the fact that the federal income tax is avoided as is the statutory return on the rate base.

George Sansoucy

Federal is still above the \$8.4. This is just operation savings on federal. There's many more savings above this \$2 million. Many more. There's millions more and we're working them each piece. What is in this savings is the insurance component where we have worked with your Sue Jeffery to come up with an estimate of the City's insurance. But there are many other components above this like the income taxes and depreciation that are savings to continue to be discussed as we've developed the final costs over the next 6 weeks. We'll keep you abreast of those total savings.

Alderman Rootovich

I didn't hear what Mr. Sansoucy said. Did he say the \$1.3 million rolled into the initial bonds?

George Sansoucy

Yes it is. That's a one-time transition cost.

Alderman Tollner

Yes, a couple of things. I'd like a little detail on the performance measures and performance guarantees. As we tie down the costs, I'm looking at a...

George Sansoucy

We had not tied those down.

Alderman Tollner

Okay. I personally would like to see performance guarantees and what they are putting at risk in order to meet the service performance that is probably in place today as Pennichuck customers.

George Sansoucy

Yes.

Alderman Tollner

I'm also very interested in seeing what these two parties are willing to put at risk if they are not able to meet those. As far as the Board is concerned, tonight was the first time I ever heard that Alderman McCarthy was deposed by Pennichuck Water. Over the next few weeks I think we really do need to get clear communication as far as exactly what is going on from here on in so we are quite familiar with everything that is going on.

George Sansoucy

There's a new phase that is going to begin within the next 3 to 4 months. Mr. Upton, your attorney, if there is any energy left I believe at the end of the evening would like to go into an executive session to discussion with you all or if we are all too tired, please let's pick another night. He is ready to discuss with you the next phase, what to expect, who's being deposed, etc. So that is a very valid question at this point. This is like a phase that we have been working on for months. Now we are at this point and we're going into a new phase, and the contract development for you to begin to review as a board, etc.

Alderman Tollner

I don't have a problem that Alderman McCarthy was deposed. I'm sure he did a good job. I guess whether it be in executive session or whatever, as a Board I'd like to know what's going on. I think that at any given time every single member of this Board should be at the same place as anybody else for that matter as far as...

Chairman McCarthy

We the Board was provided with the procedural schedule, which listed when the deposition would take place.

Alderman Tollner

That's fine. I mean what took place, what questions were asked, some of our responses. I don't want every single detail, but I mean down the road if there are questions. I don't know what's so funny?

Alderman Bolton

Do you remember all of the questions?

Chairman McCarthy

They are written down.

Alderman Tollner

You know what I think I still have the floor, do I not?

Chairman McCarthy

You do Alderman Tollner.

Alderman Tollner

I'm being serious. Some people may think it is funny. I don't. I'd like to know what's going on during this process. Maybe from a high level perspective or just a general overview so 2 months down the road half the Board may know something and the other half of the Board may not. In the end, we are all going to be in this together. I want to make sure we don't miss any pieces or communications for what has transpired. Maybe Attorney Upton is going to through that at a later date, but I think that's important.

George Sansoucy

It's your pleasure.

Chairman McCarthy

I can't give you an update on the depositions. I was deposed for approximately 3 ½ hours as well Director Hersh, as was the Mayor, as was Mr. Sousa, as was several other members of the staff, Mrs. Anderson. There are transcripts of all 20 or 25 hours of that which I will get distributed to the Board if that is what you'd like. It is difficult to summarize what's in those. I do not remember what all of the questions were. There were questions about I mean they're all questions that you would have heard before. If you can describe to me exactly the level of information you want, I can work to get that. I think the best thing I can do is to provide you with a fairly substantial pile of documents. There are (inaudible) on the testimony that the City has filed, which I believe have been made available to the Board.

Alderman Tollner

I guess what I'm looking for is not 24 hours worth of information but a general update or overview whether it be an executive session. I will be interested to see what Pennichuck's attorney's hot buttons were.

Chairman McCarthy

After we have the special board meeting, Attorney Upton has requested that we meet to consult with him. So we've got that later this evening.

Alderman Tollner

Thank you.

Alderman Rootovich

I'm not going to speak for Alderman Tollner because he's more than capable to speak for himself. But I think what he is trying to say as well is that in the last 6 months I'm sure there's been various communications that have gone back and forth between Attorney Upton and the Mayor's office, and maybe some other staff members of the City. Whatever those communications are that this Board keep abreast of what's going on. I think that's a way to keep up with going on is to read those communications.

Chairman McCarthy

I will tell you that I don't think there is very much that has gone back and forth other than the formal motions and responses, which have been filed with the PUC. I think we have those all posted in one place on the website do we not Mr. Sousa?

Mark Sousa

Right.

Chairman McCarthy

So they are all in fact all available.

Alderman Rootovich

I don't think that web site has been updated in 6 months. You still have things in there from Philadelphia Suburban is all in there.

Mark Sousa

I think other than the filing we just received maybe the other day, the last filing on that website was late June. That was the last time we updated it.

Chairman McCarthy

So Mr. Sousa there is nothing we've filed with the PUC that is not on the website with the exception of the things that have happened within the last day with the Motion for Summary Judgment?

Mark Sousa

Correct. It has all been forwarded to the IT Department who then files it on the web server. Other than the last I believe filing that we just receive the other day, which have been forwarded, I think may not be on yet. I haven't checked. Everything should be up to date.

Chairman McCarthy

Mr. Sansoucy do you have anything else for us?

George Sansoucy

I am finished. Thank you very much.

Chairman McCarthy

Are there any other questions about the proposal?

Alderman MacLaughlin

Thank you Mr. President. I recognize and I hope that this figure that we've just been given reflects a regional cost.

George Sansoucy

Region. That's the full region. That's all the communities.

Alderman MacLaughlin

Thank you. I'm wondering therefore is there a way, and recognizing that Nashua has the largest amount of consumers or ratepayers, is there a way to break out what specifically is Nashua's share from that figure?

George Sansoucy

Yes. This proposal has \$65 a customer as the marginal cost for all of the regional maintenance. So that the PUC can pick and chose. There is approximately 3,000 customers outside of Nashua at \$65 a customer would be reduced from this proposal and that would Nashua's share.

Alderman MacLaughlin

Thank you.

George Sansoucy

You're very welcome.

Chairman McCarthy

Is there any other business for the committee?

Alderman Deane

I'd like to make a motion to adjourn.

Chairman McCarthy

Before we do that I would like to ask if there are members of the public that would like to address the committee?

-
PERIOD FOR PUBLIC COMMENT

**MOTION BY ALDERMAN DEANE TO ADJOURN
MOTION CARRIED**

ADJOURNMENT

-
The Pennichuck Water Special Committee meeting was adjourned at 10:50 p.m.

Alderman-at-Large David W. Deane
Committee Clerk