

# Report of the Ad-hoc Water Study Committee

The following was unanimously adopted by the ad-hoc water study committee as its findings and recommendations at the meeting of the committee held on 25-Nov-2002.

The Pennichuck water study committee makes the following findings:

## General

That providing an adequate supply of high quality water is critical to the existence of the community (both Nashua and the Region).

That acquisition of the water supply system can be achieved with revenue bonds, and not impact the general obligations or the tax rate of the city or the surrounding towns.

## Watershed protection

The transfer of over 1000 acres of land within the watershed from Pennichuck Water Works to Southwood Corporation was not in the best interests of the water system or of the ratepayers. The trend in water supply management is to acquire additional protection lands rather than to divest protection lands already held. Philadelphia suburban has stated that they do not believe source protection to be necessary.

Over time since the original divestiture, recommendations around protection have become more stringent, rather than less.

Pennichuck Corporation's unstated policy, and Philadelphia Suburban's stated policy, is that source protection is not necessary because treatment is available. Ultimately, the committee believes that source protection backed by, but not entirely dependent upon treatment is in the public interest.

Ratepayers have long felt a sense of security, albeit possibly false, due to the fact that they were dealing with "Our local water company", who implicitly has the best interests of the community at heart. However, the sale of the utility to out of state or international interests, calls into question the protection of watershed.

Significant investment should be made in the handling, retention, and infiltration of stormwater in the watershed. This has been done to date using grant monies. Even if this essential improvement were to be done by grant only, a public entity has a significantly higher chance of receiving grant monies. (Hartman Associates claims that 5 dollars are granted to public entities for every 1 dollar to private entities.)

## Water Rates

Ultimately, water rates must be significantly higher under private ownership than under public

ownership. We believe this for the following reasons:

- The publicly owned utility is not obligated to the payment of dividends to its shareholders. This accounts for about 9 percent of the value of the assets annually, which begins at about \$1.6 million in savings and grows to tens of millions of dollars annually as the value of the assets increases.
- The publicly owned utility is not obligated to find other ways to maximize return to shareholders such as transfers of assets out of the regulated public utility.
- The publicly owned utility may issue debt at a rate which is historically at least 2 percent lower than that available to the private utility.
- The publicly owned utility is exempt from significant tax burdens which the private utility must pay.
- The publicly owned utility does not pay overhead to a corporate holding company. This results in a current savings of about \$198,000 annually under Pennichuck ownership, and \$482,000 annually under Philadelphia Suburban ownership.

Pennichuck Corporation has, through recent peaks in its capital spending, and rate increases approved by the PUC, been positioning itself for sale to a larger company for a significant period of time.

Pennichuck Corporation has, through development and sale of land, positioned itself to allow Pennichuck Water works to significantly increase its rate base and to increase water rates and return to shareholders.

We believe that it is in the public interest to have enhanced protection of our water supply, regardless of ownership, even though the cost of such protections will ultimately result in higher water rates than if such protection is not secured.

## **Quantity and Quality of water**

The ability of the Pennichuck Ponds System to produce needed quantities of high quality water has been negatively impacted by development of protection lands.

Pennichuck's concern has been primarily with the quantity of supply needed to keep up with expansion of the system. Improvements in quality of the supply have been driven principally by regulatory changes alone.

A comprehensive plan to manage the quality and quantity of water is needed, rather than point solutions such as limitations on irrigation.

Clearly the first priority of a privately owned utility is return to shareholders. As a result, the resources of such a company will be invested in expansion of the revenue base of the utility, rather than enhancements of quality or protection of the existing system.

As a result of this fundamental economic fact of private ownership, public ownership is necessary to protect the interests of the ratepayers and the public in general.

### **Local control and authority**

Ultimately, under public ownership the ratepayers of Pennichuck Water Works become the owners of Pennichuck Corporation, and are offered the benefit of purchasing an asset which will have equity in excess of 250 million dollars in thirty years.

The authority of the local government as a governing body is subject to significant limitations on its influence of private property matters. As a result public ownership of the utility is necessary to protect the supply.

It is possible that a premium must be paid for such local control, particularly in light of the fact that Nashua and the region were not invited to make an offer on the utility when the solicitation of such offers was made. If this is so, then the payment of such a premium to gain control of the system is in the public interest.

### **Safety and security**

Safety measures taken to protect the water supply have been, at best, marginally adequate in the past.

Public ownership of the supply would insure that adequate measures could be taken to provide safety and security of the water system.

While there may be additional steps that local governments can take to increase safety and security, ultimately this responsibility must be assumed by the owner of the utility.

In light of the events on and after September 11, 2001, prudence demands that facilities as critical as a public water supply receive greatly increased attention with regards to safety and security.

Pennichuck Corporation and Philadelphia Suburban have not demonstrated a willingness to make significant improvements in this area of the utility's operation.

Ultimately, this water system is not prepared to deal with a major catastrophe. The system has a single source of supply which could be compromised by a single motor vehicle accident. The system has only one day's capacity beyond the treatment plant if the single supply were compromised.

## **Growth**

Management of growth and development of the water supply system is critical to the public interest in ensuring an adequate supply to the ratepayers. Expansion of the system into new geographic areas must be subservient to meeting the needs of the current ratepayers of the utility.

Philadelphia Suburban's avowed strategy is one of expansion. Clearly PSC is purchasing the company to expand their portfolio, and their corporate interest will be in the expansion of the system, not in the protection of the existing ratepayer.

## **Recommendations**

The city of Nashua should pursue public ownership of the water supply.

The city of Nashua should pursue the creation of a mutually agreeable regional authority. This must be pursued regardless of the length of time required to make it work.

Although the quick formation of a regional authority would be the best possible outcome, the City should be prepared to enter into ownership of the utility in the interim if necessary.

Recognizing that formation of a regional authority will take time, the management structure of the utility, reporting to the Mayor and the Board of Aldermen, be kept in place until the transfer of the utility into ownership by the regional authority.