

City of Nashua

November 20, 2003

Via Hand Delivery

Donald Correll, **President and CEO**
Pennichuck Corporation
4 Water Street
Nashua, NH 03060

Dear President Correll:

As you know, the City of Nashua has begun the process of taking by eminent domain all the water system assets of Pennichuck Corporation and its subsidiaries ("Pennichuck") pursuant to RSA Chapter 38. The Mayor and Board of Aldermen and Nashua voters have overwhelmingly adopted votes to establish a municipal water system as prescribed by RSA38:3. The City of Nashua has given Pennichuck notice pursuant to RSA 38:6, and Pennichuck has replied pursuant to RSA 38:7 that it has elected not to sell the plant and property that the City of Nashua proposed to purchase. The matter is now ripe for proceedings before the New Hampshire Public Utilities Commission pursuant to RSA 38:9, et seq. We all understand that such a process is likely to be lengthy and expensive for both parties.

Despite the unwillingness of Pennichuck to reach an amicable agreement on the transfer of the assets of the corporation, the City of Nashua continues to believe that such an agreement is in the best interests of the parties, the shareholders of Pennichuck, and the citizens of Nashua and the region. An acquisition on agreeable terms would allow the City of Nashua to pay a premium for expedience.

Therefore, the City of Nashua is proposing a purchase price of \$121 million (the "Offer") for the purchase of all the assets of Pennichuck by the City of Nashua and appropriate third parties. The City of Nashua believes that the price is full and fair, and at the same time allows the City of Nashua to maintain reasonable rates for its water customers.

The \$121 million offer is meant to put shareholders of Pennichuck in the same position as if its transaction with Philadelphia Suburban had been completed. It includes (1) \$106 million, the approximate amount of the Philadelphia Suburban offer, and (2) \$15 million, the approximate amount of the corporate tax that would be imposed on Pennichuck because of the cash nature of the Offer. Shareholders of Pennichuck will incur a capital gain tax as a result of the Offer but they would also have incurred such a tax, albeit deferred, as a result of the Philadelphia Suburban transaction.

The Offer is, of course, contingent on the negotiation and execution of a mutually agreeable, definitive Purchase and Sale Agreement with customary terms and conditions for comparable transactions and the satisfactory due diligence review of Pennichuck's assets by the City of Nashua and the participating third parties. It is also contingent on the requisite regulatory approvals of the transaction, including the approval of the New Hampshire Public Utilities Commission, and the approvals of the Board of Directors and Shareholders of Pennichuck and the Mayor and Board of Aldermen of the City of Nashua.

The City of Nashua believes that it is in the best interests of the parties, the employees and shareholders of Pennichuck and the citizens of the City of Nashua to move forward as rapidly as possible to complete this transaction. The City of Nashua, and its representatives, stand ready to meet with Pennichuck, and its representatives, to begin negotiating a definitive Purchase and Sale Agreement at Pennichuck's earliest convenience.

Sincerely,

Bernard A. Streeter,
Mayor

