



**Pennichuck Corporation**

**Quarterly Report to the**

**Sole Shareholder**

**(City of Nashua Board of Aldermen)**

**Quarter Ended March 31, 2017**

**Executive Summary**

- Revenues for the first quarter of 2017 were 2.1% greater than the prior year (\$8.87 million versus \$8.69 million).
- Operating Income for the first quarter of 2017 was 52.4% below the prior year (\$0.26 million versus \$0.55 million) due to increased operating costs, in excess of the additional revenues earned on a comparative basis.
- Pre-Tax Loss for the first quarter of 2017 was 9.9% greater than the prior year loss (\$2.39 million versus \$2.18 million).
- Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA) for the first quarter of 2017 were 2.4% lower than the prior year (\$2.19 million versus \$2.25 million).
- As expected, during the quarter, the Company paid approximately \$2.1 million to the City in principal, interest and dividends to fund the City Acquisition Debt.
- Capital expenditures for the first quarter of 2017 were \$1.1 million compared to \$1.8 million in the first quarter of 2016, as the construction season started a little later in 2017 than it did in the prior year.
- The Annual Meeting of Sole Shareholder was held at the Crowne Plaza in Nashua on Saturday, May 6, 2017.

We remain focused on the Company’s primary mission, in that we continue to provide clean water and excellent service to our customers and operate within the confines of the budgeted and planned levels of operating and capital expenditures.

**Unaudited Financial Highlights**

Financial highlights on a Generally Accepted Accounting Principles (“GAAP”) basis for the first quarter of 2017 as compared to the first quarter of 2016 are as follows:

	(000’s)	
	<u>Quarter Ended</u> <u>March 31, 2017</u> (Unaudited)	<u>Quarter Ended</u> <u>March 31, 2016</u> (Unaudited)
Revenues		
Regulated Utilities	\$ 8,053	\$ 7,801
Other	<u>820</u>	<u>888</u>
Total	\$ 8,873	\$ 8,689
Operating Expenses		
Regulated Utilities	\$ 7,763	\$ 7,224
Other	<u>847</u>	<u>912</u>
Total	\$ 8,610	\$ 8,136
Operating Income	\$ 263	\$ 553
Non-Operational Expense	(1)	(1)
Other Income	0	43
Net Interest Expense	<u>(2,660)</u>	<u>(2,776)</u>
Pre-Tax (Loss)	\$ (2,398)	\$ (2,181)
Income Tax Benefit	<u>(997)</u>	<u>(601)</u>
Net (Loss)	\$ <u>(1,401)</u>	\$ <u>(1,580)</u>
Earnings Before Interest, Taxes Depreciation and Amortization	\$ <u>2,196</u>	\$ <u>2,251</u>

Revenues from the water utility operations increased approximately 3.2%. The increase is mainly attributable to higher consumption levels in the latter part of the quarter, which are included in the unbilled water sales accrual. Revenues from the unregulated water service business decreased 7.9% over the prior year, due to decreases in unplanned revenue activities and backflow sales, respectively.

Operating Expenses have increased approximately 5.8% year-over-year. The increase is primarily attributable to increases in property taxes greater than inflationary rates, as well as increases in pension and health insurance costs.

Operating Income has decreased year-over-year as a result of the increased operating costs, offset by the revenue gains.

Interest Expense decreased 4.2% year-over-year due in large part to the overall reduction in the principal amounts outstanding, as they decrease over time on our amortizable debt.

The income tax benefit in the current year reflects the tax treatment for the Municipal Acquisition Regulatory Asset (MARA), which is not deductible for tax purposes. Depending on year-to-date profitability levels, compared to that non-deductible amount, this can impact the actual rate on earned amounts in a positive or negative manner, throughout the year. As of the end of the first quarter, the tax benefit rate is 41.6% versus the statutory rate benefit of 39.41%.

The first quarter pre-tax loss for 2017 is lower than the pre-tax loss for 2016. Typically, the first quarter is the lowest quarter from a profitability perspective, as water usage is at the lowest level for the year.

Earnings before interest, taxes, depreciation and amortization (EBITDA) is 2.4% lower than EBITDA for the same period last year, due to increased operating costs, coupled with only slightly higher revenue levels.

**Balance Sheet**

	(000's)	
	As of March 31, 2017 (Unaudited)	As of December 31, 2016 (Audited)
<b><u>Assets</u></b>		
Property, Plant & Equipment, Net	\$ <u>201,466</u>	\$ <u>201,698</u>
Current Assets:		
Cash	1,601	2,446
Restricted Cash	6,341	6,530
Restricted Cash–2014 and 2015 Bond Project Funds	2,811	7,568
Investments–2014 and 2015 Bond Project Funds	-	-
Accounts Receivable <sup>Note 1</sup>	4,258	6,086
Inventory	708	666
Other Current Assets <sup>Note 2</sup>	<u>975</u>	<u>2,047</u>
Total Current Assets	<u>16,694</u>	<u>25,343</u>
Other Assets:		
Acquisition Premium	74,667	75,144
Other Assets	<u>12,346</u>	<u>12,410</u>
Total Other Assets	<u>87,013</u>	<u>87,554</u>
TOTAL ASSETS	\$ <u>305,173</u>	\$ <u>314,595</u>
<b><u>Shareholders' Equity and Liabilities</u></b>		
Shareholders' Equity	\$ <u>19,122</u>	\$ <u>20,578</u>
Bonds, Notes and Mortgages	<u>198,902</u>	<u>200,758</u>
Current Liabilities:		
Current Portion of Long-Term Debt	5,289	5,162
Other Current Liabilities <sup>Note 3</sup>	<u>4,697</u>	<u>9,798</u>
Total Current Liabilities	<u>9,986</u>	<u>14,960</u>
Other Long-Term Liabilities:		
CIAC, net	40,238	40,364
Deferred Income Taxes	19,896	20,869
Accrued Pension Liability <sup>Note 4</sup>	9,042	9,010
Other Long-Term Liabilities	<u>7,987</u>	<u>8,056</u>
Total Other Long-Term Liabilities	<u>77,163</u>	<u>78,299</u>
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	\$ <u>305,173</u>	\$ <u>314,595</u>

Notes to Balance Sheet

Note 1 (Accounts Receivable) – At December 31, 2016, approximately \$1,250,000 of this balance was comprised of PFOA reimbursable costs from Saint-Gobain Performance Plastics Corporation, for design and expansion of public water to residents in the Town of Litchfield. The balance remaining in accounts receivable for these reimbursable costs as of March 31, 2017 is \$0.

Note 2 (Other Current Assets) – At December 31, 2016, approximately \$1,163,000 of this balance was comprised of prepaid property taxes, which were expensed in the first quarter of 2017, relating to taxes paid in November and December of 2016 for the second half of the property tax year ended March 31, 2017. The balance of prepaid property taxes as of March 31, 2017 is \$0.

Note 3 (Other Current Liabilities) – At December 31, 2016, approximately \$6,300,000 of this balance was comprised of accounts payable, as well as PFOA reimbursable costs from Saint-Gobain Performance Plastics Corporation, for design and expansion of public water to residents in the Town of Litchfield. The accounts payable balance remaining, inclusive of these reimbursable costs as of March 31, 2017 is \$1,907,000, as it relates to activities that were performed in the first quarter.

Note 4 (Accrued Pension Liability) – During the first quarter of 2017, \$216,000 was contributed into the Pension Plan, while approximately \$192,000 in benefit payments were made to participants and approximately \$17,000 of investment income and appreciation was earned in the plan.

**Unaudited Cash Flow Statement**

Cash Flow on a GAAP basis for the first quarter of 2017 as compared to the first quarter of 2016 is as follows:

	(000's)	
	<u>March 31, 2017</u>	<u>March 31, 2016</u>
	(Unaudited)	(Unaudited)
Operating Activities:		
Net Income (Loss)	\$ <u>(1,401)</u>	\$ <u>(1,580)</u>
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	1,933	1,752
Provision for Deferred Taxes	(984)	(588)
Other	(39)	(22)
Changes in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	1,827	323
(Increase) Decrease in Inventory	(42)	4
(Increase) Decrease in Other Assets	1,197	1,631
Increase (Decrease) in Accounts Payable	(4,369)	340
Increase (Decrease) in Other Liabilities	<u>(704)</u>	<u>(98)</u>
Net Cash Provided by (Used in) Operating Activities	<u>(2,582)</u>	<u>1,762</u>
Investing Activities:		
Purchases of Property, Plant & Equipment, including the Debt Component of AFUDC	(1,363)	(2,514)
(Increase) Decrease in Restricted Cash	4,946	(4,668)
Purchase of Marketable Securities	-	7,002
Proceeds from Sale of Property	37	-
Change in Deferred Land Costs and Interest in Real Estate Partnerships	<u>-</u>	<u>6</u>
Net Cash Provided by (Used in) Investing Activities	<u>3,620</u>	<u>(174)</u>
Financing Activities:		
Borrowings (Repayments) on Line of Credit	-	-
Payments on Long-term Debt	(2,860)	(2,098)
Contributions in Aid of Construction	1	3
Proceeds from Long-term Borrowings	1,046	69
Debt Issuance Costs	-	(24)
Dividends Paid	<u>(70)</u>	<u>(70)</u>
Net Cash Provided by (Used in) Financing Activities	<u>(1,883)</u>	<u>(2,120)</u>
Increase (Decrease) in Cash and Cash Equivalents	(845)	(532)
Cash and Cash Equivalents at Beginning of Period	<u>2,446</u>	<u>1,246</u>
Cash and Cash Equivalents at End of Period	\$ <u>1,601</u>	\$ <u>714</u>

Financial information is available on the Company's website ([www.Pennichuck.com](http://www.Pennichuck.com)) under the "Company Reports" caption.

**Capital Expenditures**

Capital Expenditures in the first quarter of 2017 were \$1.1 million as compared to \$1.8 million in the first quarter of 2016. Major expenditures in the first quarter of 2017 included:

Meter Replacements	\$125,000
Vehicles, Trucks and Excavators	\$ 85,000
PWW-PEU Interconnection Design Evaluation	\$ 81,000
Asset Management and GIS System	\$ 72,000
Operations Building Landscaping and Exterior Finishes	\$ 53,000
Sweet Hill Well #3	\$ 39,000

**Rate Case – Pennichuck Water Works, Inc.**

On September 23, 2016, Pennichuck Water Works, Inc. (“PWW”) filed a request with the New Hampshire Public Utilities Commission (“NHPUC”) for a rate increase of 17.21% over its current rates for the test year 2015, for which 7.86% is related to a permanent rate increase, and 9.35% is related to a prospective step increase (associated with capital investments and other allowable expenditures in the twelve months following the test year). The overall rate increase is subject to the normal regulatory filing process with the NHPUC, as followed for all prior rate case filings, and as such, the final permanent rate increase granted will be effective retroactive back to the filing date, once approved by the NHPUC. The step increase, once approved and granted, would be earned on a forward looking basis, as of the date of the order granting such increase. In addition, PWW requested that a temporary rate increase of 6.21% be granted as a subset of the final permanent rate increase, with the intention that this temporary rate increase would be approved very early in 2017. The request for this overall increase was based upon increases in PWW’s operating costs since the last allowed rate increase in 2010/2011 (for the 2009 test year), as well as revenues needed to pay the debt service on over \$40 million of infrastructure replacements made since the last rate case, with those dollars being invested in its real property assets, distribution and treatment systems, and other necessary capital items, to ensure continued compliance with the Safe Drinking Water Act and prudent ongoing replacement of aging infrastructure to properly maintain the company’s operating systems. This overall process is in its final stages, with a number of rounds of discovery and technical sessions being completed. A final hearing date has been set for late July, after which the Company is hopeful that a final order will be issued in the early fall. The actual rate increases to be issued are not yet determined, but will be at levels below the requested levels indicated above.

**Water Infrastructure and Conservation Adjustment (WICA)**

On January 31, 2017, Pennichuck Water Works, Inc. filed a petition with the New Hampshire Public Utilities Commission (NHPUC) to approve a Water Infrastructure and Conservation Adjustment (WICA) surcharge to be effective June 1, 2017, approve proposed 2017 WICA projects, and preliminarily approve proposed 2018 WICA projects. This petition process is still underway, but currently in a “suspended” state, as the results of the filing may be merged or supplanted by the PWW Rate Case filing described above.



## **Subsequent Events**

### **Financing**

On April 3, 2017, Pennichuck East Utility, Inc. filed a petition with the NHPUC for approval to borrow \$2,400,000 for a 20-year term from the State of New Hampshire's Drinking Water Revolving Loan Fund, to be used to finance the cost of a Merrimack River crossing interconnection pipeline connecting the distribution main owned by Pennichuck Water Works, Inc. in the Town of Merrimack to the existing Pennichuck East Utility, Inc. distribution system in the Town of Litchfield. The financing has been approved by the Pennichuck Board of Directors and the Sole Shareholder. An Order was issued by the NHPUC approving the petition on April 19, 2017, and becomes effective as of May 19, 2017. Upon becoming effective, this loan is anticipated to close in early June.

On April 3, 2017, Pennichuck East Utility, Inc. filed a petition with the NHPUC for approval to borrow \$570,000 for a 30-year term from the State of New Hampshire's Drinking Water Revolving Loan Fund, to be used to replace approximately 2,400 linear feet of water main on Brady Avenue in Maple Hills in Derry, NH. The financing has been approved by the Pennichuck Board of Directors and the Sole Shareholder. An Order was issued by the NHPUC approving the petition on April 19, 2017, and becomes effective as of May 19, 2017. Upon becoming effective, this loan is anticipated to close in early June.

On April 3, 2017, Pennichuck East Utility, Inc. filed a petition with the NHPUC for approval to borrow \$245,000 for a 20-year term from the State of New Hampshire's Drinking Water Revolving Loan Fund, to be used to replace approximately 1,200 linear feet of water main on Hillcrest Road in Litchfield, NH. The financing has been approved by the Pennichuck Board of Directors and the Sole Shareholder. An Order was issued by the NHPUC approving the petition on April 19, 2017, and becomes effective as of May 19, 2017. Upon becoming effective, this loan is anticipated to close in early June.

### **Educational Programs**

The Company will be providing tours of the Water Treatment Plant to 4<sup>th</sup> grade students during Water Week in May. The Company has also provided a watershed protection program to 5<sup>th</sup> grade students in the Nashua School District and the Amherst School District.

### **Flushing of Mains**

As in prior years, we have commenced the flushing of the water mains in critical areas of our systems. The process is conducted annually to flush impurities built up in the mains during the year. The flushing program is expected to be completed by mid-June.

### **Annual Meeting**

The Annual Meeting of Sole Shareholder was held at the Crowne Plaza on Saturday, May 6, 2017. At the Annual Meeting, James P. Dore, Elizabeth A. Dunn, Paul A. Indeglia and John M. Murphy were re-elected to the Board of Directors for three-year terms.