



**Pennichuck Corporation**

**Quarterly Report to the**

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

**Quarter Ended March 31, 2018**

**Executive Summary**

- Revenues for the first quarter of 2018 were 5.3% greater than the prior year (\$9.34 million versus \$8.87 million).
- Operating Income for the first quarter of 2018 was 3.8% below the prior year (\$0.25 million versus \$0.26 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 2018 was 0.8% lower than the prior year loss (\$2.38 million versus \$2.40 million).
- Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA) for the first quarter of 2018 were 2.3% higher than the prior year (\$2.25 million versus \$2.20 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 2018 were \$0.53 million compared to \$1.13 million in the first quarter of 2017, as the construction season has started a little later in 2018 than it did in the prior year.
- The Annual Meeting of Sole Shareholder was held at the Crowne Plaza in Nashua on Saturday, May 5, 2018.

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 2018 as compared to the first quarter of 2017 are as follows:

|   | (000’s)                                       |   |
|---|---|---|
|   | <u>Quarter Ended</u><br><u>March 31, 2018</u> | <u>Quarter Ended</u><br><u>March 31, 2017</u> |
|   | (Unaudited)                                   | (Unaudited)                                   |
| Revenues  |   |   |
| Regulated Utilities   | \$ 8,396                                      | \$ 8,053                                      |
| Other   | <u>941</u>                                    | <u>820</u>                                    |
| Total   | \$ 9,337                                      | \$ 8,873                                      |
| Operating Expenses  |   |   |
| Regulated Utilities   | \$ 8,161                                      | \$ 7,763                                      |
| Other   | <u>927</u>                                    | <u>847</u>                                    |
| Total   | \$ 9,088                                      | \$ 8,610                                      |
| Operating Income  | \$ 249  | \$ 263  |
| Non-Operational Expense   | (1)   | (1)   |
| Other Income  | 9   | 0   |
| Net Interest Expense  | <u>(2,637)</u>                                | <u>(2,660)</u>                                |
| Pre-Tax (Loss)  | \$ (2,380)                                    | \$ (2,398)                                    |
| Income Tax Benefit  | <u>(866)</u>                                  | <u>(997)</u>                                  |
| Net (Loss)  | \$ <u>(1,514)</u>                             | \$ <u>(1,401)</u>                             |
| Earnings Before Interest, Taxes,<br>Depreciation and Amortization | \$ <u>2,250</u>                               | \$ <u>2,196</u>                               |

Revenues from the water utility operations increased approximately 4.2%. The increase is mainly attributable to the permanent and step rate increases granted to Pennichuck Water Works, Inc. by the New Hampshire Public Utilities Commission in Order No. 26,070 and became effective at the very end of 2017. Revenues from the unregulated water service business increased 13.4% over the prior year, due to an increase in business gained during the prior year, increases in unplanned revenue activities and increases in contract rates for certain existing accounts.

Operating Expenses have increased approximately 5.6% year-over-year. The increase is primarily attributable to higher production and water treatment costs due to inflationary pressures on water utility operations.

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

Interest Expense decreased 0.8% year-over-year due in large part to the overall reduction in the principal amounts outstanding, as they decrease over time on our fully amortizing 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 the value of 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 36.4% versus the statutory rate benefit of 27.24%.

The first quarter pre-tax loss for 2018 is lower than the pre-tax loss for 2017. 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 2.3% higher than EBITDA for the same period last year, due to increased revenues year-over-year, offset by operating expense increases, excluding depreciation and interest expenses.

**Balance Sheet**

|   | (000's)                                |   |
|---|--|---|
|   | As of<br>March 31, 2018<br>(Unaudited) | As of<br>December 31, 2017<br>(Audited) |
| <b><u>Assets</u></b>                                    |  |   |
| Property, Plant & Equipment, Net                        | \$ <u>209,391</u>                      | \$ <u>201,466</u>                       |
| Current Assets:   |  |   |
| Cash  | 1,788                                  | 1,601                                   |
| Restricted Cash   | 4,236                                  | 6,341                                   |
| Restricted Cash–2014 and 2015 Bond Project Funds        | -                                      | 2,811                                   |
| Investments–2014 and 2015 Bond Project Funds            | -                                      | -                                       |
| Accounts Receivable                                     | 5,216                                  | 4,258                                   |
| Inventory   | 658                                    | 708                                     |
| Other Current Assets <sup>Note 1</sup>                  | <u>1,174</u>                           | <u>975</u>                              |
| Total Current Assets                                    | <u>13,072</u>                          | <u>16,694</u>                           |
| Other Assets:   |  |   |
| Acquisition Premium                                     | 72,740                                 | 74,667                                  |
| Other Assets  | <u>13,228</u>                          | <u>12,346</u>                           |
| Total Other Assets                                      | <u>85,968</u>                          | <u>87,013</u>                           |
| TOTAL ASSETS  | \$ <u>308,431</u>                      | \$ <u>305,173</u>                       |
| <b><u>Shareholders' Equity and Liabilities</u></b>      |  |   |
| Shareholders' Equity                                    | \$ <u>12,377</u>                       | \$ <u>19,122</u>                        |
| Bonds, Notes and Mortgages                              | <u>194,844</u>                         | <u>198,902</u>                          |
| Current Liabilities:                                    |  |   |
| Current Portion of Long-Term Debt                       | 5,730                                  | 5,289                                   |
| Other Current Liabilities <sup>Notes 2, 3 &amp; 4</sup> | <u>8,943</u>                           | <u>4,697</u>                            |
| Total Current Liabilities                               | <u>14,673</u>                          | <u>9,986</u>                            |
| Other Long-Term Liabilities:                            |  |   |
| CIAC, net   | 47,387                                 | 40,238                                  |
| Deferred Income Taxes                                   | 12,030                                 | 19,896                                  |
| Accrued Pension Liability <sup>Note 5</sup>             | 9,802                                  | 9,042                                   |
| Other Long-Term Liabilities                             | <u>17,318</u>                          | <u>7,987</u>                            |
| Total Other Long-Term Liabilities                       | <u>86,537</u>                          | <u>77,163</u>                           |
| TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES              | \$ <u>308,431</u>                      | \$ <u>305,173</u>                       |

Notes to Balance Sheet

Note 1 (Other Current Assets) – At December 31, 2017, approximately \$1,143,000 of this balance was comprised of prepaid property taxes, which were expensed in the first quarter of 2018, relating to taxes paid in November and December of 2017 for the second half of the property tax year ended March 31, 2018. The balance of prepaid property taxes as of March 31, 2018 is \$0.

Note 2 (Other Current Liabilities) – At March 31, 2018, approximately \$5,745,000 of this balance was comprised of the borrowed balance against the corporate Line of Credit, which currently has a balance of \$0, as a result of the proceeds brought into the Company by the April 4, 2018 issuance of bonds by Pennichuck Water Works, Inc., as a reimbursement of capital expenditures funded during 2017.

Note 3 (Other Current Liabilities) – At March 31, 2018, approximately \$1,134,000 of this balance is comprised of accounts payable which relates to activities that were performed in the first quarter of 2018.

Note 4 (Other Current Liabilities) – At March 31, 2018, approximately \$774,000 of this balance is comprised of accrued interest. These interest costs are associated with the financed amounts for capital projects which have been incurred for ongoing infrastructure replacement, in conformity with the Company's key mission objectives.

Note 5 (Accrued Pension Liability) – During the first quarter of 2018, \$266,000 was contributed into the Pension Plan, while approximately \$159,000 in benefit payments were made to participants and approximately \$20,600 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 2018 as compared to the first quarter of 2017 is as follows:

|   | (000's)                              |                                      |
|---|--------------------------------------|--------------------------------------|
|   | <u>March 31, 2018</u><br>(Unaudited) | <u>March 31, 2017</u><br>(Unaudited) |
| Operating Activities:   |                                      |                                      |
| Net Income (Loss)   | \$ <u>(1,514)</u>                    | \$ <u>(1,401)</u>                    |
| Adjustments to Reconcile Net Income (Loss)<br>to Net Cash Provided by Operating Activities: |                                      |                                      |
| Depreciation and Amortization   | 2,002                                | 1,933                                |
| Provision for Deferred Taxes  | (858)                                | (984)                                |
| Other   | (11)                                 | (39)                                 |
| Changes in Assets and Liabilities:  |                                      |                                      |
| (Increase) Decrease in Accounts Receivable  | 483                                  | 1,827                                |
| (Increase) Decrease in Inventory  | (54)                                 | (42)                                 |
| (Increase) Decrease in Other Assets   | 1,198                                | 1,197                                |
| Increase (Decrease) in Accounts Payable   | (409)                                | (4,369)                              |
| Increase (Decrease) in Other Liabilities  | <u>(664)</u>                         | <u>(704)</u>                         |
| Net Cash Provided by (Used in) Operating Activities   | <u>173</u>                           | <u>(2,582)</u>                       |
| Investing Activities:   |                                      |                                      |
| Purchases of Property, Plant & Equipment, including<br>the Debt Component of AFUDC          | (493)                                | (1,363)                              |
| (Increase) Decrease in Restricted Cash  | -                                    | -                                    |
| Purchase of Marketable Securities   | -                                    | -                                    |
| Proceeds from Sale of Property  | -                                    | 37                                   |
| Change in Deferred Land Costs and Interest<br>in Real Estate Partnerships                   | <u>(11)</u>                          | <u>-</u>                             |
| Net Cash Provided by (Used in) Investing Activities   | <u>(504)</u>                         | <u>(1,326)</u>                       |
| Financing Activities:   |                                      |                                      |
| Borrowings (Repayments) on Line of Credit   | 171                                  | -                                    |
| Payments on Long-term Debt  | (2,995)                              | (2,860)                              |
| Contributions in Aid of Construction  | 1                                    | 1                                    |
| Proceeds from Long-term Borrowings  | 12                                   | 1,046                                |
| Debt Issuance Costs   | -                                    | -                                    |
| Dividends Paid  | <u>(70)</u>                          | <u>(70)</u>                          |
| Net Cash Provided by (Used in) Financing Activities   | <u>(2,881)</u>                       | <u>(1,883)</u>                       |
| Increase (Decrease) in Cash and Cash Equivalents  | (3,212)                              | (5,791)                              |
| Cash and Cash Equivalents at Beginning of Period  | <u>9,236</u>                         | <u>16,544</u>                        |
| Cash and Cash Equivalents at End of Period  | \$ <u><u>6,024</u></u>               | \$ <u><u>10,753</u></u>              |

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

**Capital Expenditures**

Capital Expenditures in the first quarter of 2018 were \$0.5 million as compared to \$1.1 million in the first quarter of 2017. Major expenditures in the first quarter of 2018 included:

|   |           |
|---|-----------|
| Meter Replacements                          | \$123,000 |
| Asset Management and GIS System             | \$ 79,000 |
| PWW-PEU Interconnection Design Evaluation   | \$ 45,000 |
| Merrimack River Intake                      | \$ 42,000 |
| Water Treatment Plant Building Improvements | \$ 20,000 |
| Booster/Well/Pump Replacements              | \$ 19,000 |
| Manchester St. – Northwest Main Improvement | \$ 15,000 |

**Rate Case - Pennichuck East Utility, Inc.**

On October 18, 2017, Pennichuck East Utility, Inc. (PEU) filed a request with the New Hampshire Public Utilities Commission (NHPUC) for a rate increase of 20.78% over its current rates for the test year 2016, for which 19.36% of this increase is related to a permanent rate increase and 1.42% 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, PEU entered into a settlement agreement with the NHPUC staff and the OCA staff, requesting a temporary rate increase of 12.24% be granted as a subset of the final permanent rate increase, with the intention that this temporary rate increase would be approved in early 2018, and with permanent rates being set in the summer or fall of 2018. As of the current date, the order granting the temporary rate increase is still in pendency.

The last general rate increase for PEU was in 2014, based upon 2012 as a test year. Since then, PEU's operating expenses have increased ratably, and for some items like local property taxes, well above the rate of inflation. Additionally, since the beginning of 2013, the Company has borrowed and invested over \$7.5 million in new capital assets to serve its customers through ongoing investments in infrastructure replacements and system improvements. The rate increase being requested will allow PEU to pay the debt service attributable to these new capital investments, pay its necessary operating costs, and continue to meet the needs of its customers

**Qualified Capital Project Adjustment Charge (QCPAC)**

On November 7, 2017, the NHPUC issued Order No. 26,070 which approved replacement of the Pennichuck Water Works, Inc. (PWW) current WICA program with an annual QCPAC, which will apply an annual surcharge between rate cases. This surcharge will be based on essentially all of the capital projects undertaken and completed by PWW each year. The QCPAC is stipulated to include the full debt service (principal and interest), as well as the incremental

property taxes, for annual additions to capital assets. At this juncture, the Company is awaiting the final order approving the QCPAC surcharge for 2017 capital improvements, with the surcharge to be implemented in mid-2018, at a rate not to exceed 1.58% of current permanent rates.

## **Subsequent Events**

### **Financing**

On April 4, 2018, the Company's Pennichuck Water Works, Inc. subsidiary issued \$5.5 million of tax-exempt and taxable bonds through the NH Business Finance Authority to fund capital improvements for PWW's water supply, distribution and support systems. The bond issuance was approved by the Pennichuck Board of Directors and the Sole Shareholder. And, on February 2, 2018, the NHPUC approved an order, allowing for the issuance of up to \$32.5 million in bonds, for multiple year issuances of bonds for the years 2018-2021. The bonds issued on April 4, 2018 represent the first series of bonds issued under this overall approval by the Company's Board and Shareholder, as well as the NHPUC and NH Governor and Council.

On April 25, 2018, the Company's Pennichuck East Utility, Inc. subsidiary completed financing transactions with CoBank, ACB of: (1) a 3-year \$3.0 million Fixed Asset Line of Credit to provide for short-term financing of capital projects, and (2) a \$350,078, 25-year fully amortizing term loan at an interest rate of 5.33% to reimburse 2017 capital projects which were not funded by SRF loans.

On April 27, 2018, Pennichuck Corporation completed a financing transaction with TD Bank, N.A. on a \$4.0 million working capital Line of Credit, which expires on August 31, 2019 (amended from an original working capital and fixed asset \$10 million Line of Credit, which was set to expire on April 30, 2018).

On May 1, 2018, the Company's Pennichuck East Utility, Inc. subsidiary also completed the refinance of its three intercompany loans with Pennichuck Corporation into two new intercompany loans: (1) a 30-year \$1,157,403 loan at an interest rate of 3.20%, and (2) a 30-year \$1,701,516 loan at an interest rate of 3.20%. The two new intercompany loans are fully amortizing, whereas the pre-existing loans were a combination of fully amortizing and balloon maturity debt obligations.

On May 1, 2018, the Company's Pittsfield Aqueduct Company, Inc. subsidiary completed the refinance of its \$776,850 balloon maturity intercompany loan with Pennichuck Corporation, which was set to expire on May 1, 2018, as well as the conversion of \$409,150 of short-term intercompany obligations from Pittsfield Aqueduct Company to Pennichuck Corporation, to a new 30-year \$1,186,000 fully amortizing loan at an interest rate of 3.20%.

On May 2, 2018, the Company's Pennichuck Water Works, Inc. subsidiary also completed a financing transaction with TD Bank, N.A. on a new \$10.0 million Fixed Asset Line of Credit which expires on August 31, 2020. As a requirement to securing this financing, on April 20, 2018, the NHPUC approved the Fixed Asset Line of Credit in order to provide for short-term financing of capital projects on an annual basis.

### **Educational Programs**

The Company provided tours of the Water Treatment Plant to 4<sup>th</sup> grade students during Water Week which was held the week of May 7<sup>th</sup>. 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 5, 2018. At the Annual Meeting, Thomas J. Leonard, David P. Bernier, and Stephen D. Genest were re-elected to the Board of Directors for three-year terms.