

PENNICHUCK CORPORATION

AUDIT, FINANCE AND RISK COMMITTEE  
MINUTES OF FEBRUARY 25, 2020 MEETING

A meeting of the Audit, Finance and Risk Committee (“Committee”) of the Board of Directors of Pennichuck Corporation (“Company”) was held on Tuesday, February 25, 2020 at 4:30 p.m. at the Company’s offices at 25 Manchester Street, Merrimack, New Hampshire.

Written materials relating to items listed in the Agenda were provided to the Committee members for their review prior to the meeting.

The following persons were in attendance for the meeting:

Committee Members:	James P. Dore, Chairman C. George Bower Thomas J. Leonard
Pennichuck Corporation:	Larry D. Goodhue, Chief Executive Officer Suzanne L. Ansara, Corporate Secretary George Torres, Corporate Controller Carol Ann Howe, Assistant Treasurer

S. Ansara recorded the minutes of the meeting.

Approval of Minutes

There being no comments on the draft minutes of the November 19, 2019 Committee meeting, on motion duly made by T. Leonard and seconded by G. Bower, all of the Committee members present then voting, it was unanimously

Resolved: that the minutes of the November 19, 2019 meeting of the Audit, Finance and Risk Committee are hereby approved.

Pennichuck Water Works, Inc. - Bond Financing – 2019 Capital Expenditures

L. Goodhue reported that documents for the annual bond financing have been drafted and are being reviewed by the Company’s attorneys. He referred the Committee to copies of the draft documents included in the written materials. The aggregate principal amount of the taxable or tax-exempt bonds to be issued is \$8.1 million, which includes up to \$7.5 million to finance Pennichuck Water Works’ 2019 capital projects, and \$0.6 million to finance the costs of issuance. L. Goodhue indicated that this financing is a component of the 2017-2020 Financing Plan approved in 2018 and will be the last round of issuances under that plan.

After discussion, on motion duly made by T. Leonard and seconded by G. Bower, all of the Committee members present then voting, it was unanimously

Resolved: that the issuance of bonds needed to finance the 2019 capital expenditures of Pennichuck Water Works, Inc. (“PWW”), initially funded by the Fixed Asset Line of Credit or from working capital sources, and as described to the Audit, Finance and Risk Committee as a component of the 2017-2020 Financing Plan approved by the Board of Directors of Pennichuck Corporation and PWW on February 23, 2018, and to consist of the entering into of the following credit facilities:

Taxable or Tax-exempt Bonds in one or more Series in the aggregate amount of up to:	\$ 7,500,000
Taxable or Tax-exempt Bonds in one or more Series OR Bank Credit Facility to fund Bond Issuance Costs – up to:	\$ <u>600,000</u>
Total usage of the amount approved under the 2017-2020 Financing Plan:	\$ 8,100,000

the “2020 Bond Issuance Plan” be and it is hereby favorably recommended for consideration and approval by the Board of Directors of Pennichuck Corporation and PWW.

Further

Resolved: that the officers of Pennichuck Corporation and PWW are severally authorized, empowered and directed to take such actions necessary to present the 2020 Bond Issuance Plan to the Board of Directors of Pennichuck and PWW, and to report the favorable recommendation of this Committee to each such Board.

#### Pennichuck Water Works, Inc. - Bond Financing – 2020-2024 Capital Expenditures

L. Goodhue stated that he is looking for authority to begin the process of obtaining the necessary approvals to complete the application for issuance of taxable and tax-exempt bonds for the 2020-2024 capital expenditure needs of Pennichuck Water Works. Approvals for the financing are required from the Public Utilities Commission, the City of Nashua, and the Governor and Executive Council. L. Goodhue indicated that he will be looking to finance approximately \$50 million for PWW’s 5-year capital expenditure needs and approximately \$4 million to cover the cost of issuance. L. Goodhue answered several questions regarding the financing plan from the Committee members.

On motion duly made by T. Leonard and seconded by G. Bower, all of the Committee Members present then voting, it was unanimously

Resolved: that the Audit, Finance and Risk Committee hereby recommends to the Board of Directors of Pennichuck Corporation and Pennichuck Water Works, Inc. that management be authorized to proceed with obtaining the necessary approvals to complete the application for issuance of taxable or tax-exempt bonds for the 2020-2024 capital needs of Pennichuck Water Works, Inc.

Rate Case – Pennichuck Water Works, Inc.

L. Goodhue updated the Committee on the status of Pennichuck Water Works' rate case filed with the NHPUC in July 2019, which includes a request for modifications to its ratemaking structure. He reported that management has brought Attorney William Ardinger of Rath, Young & Pignatelli on board to assist with discussions with the Public Utilities Commission.

Pennichuck Water Works, Inc. – Debt Restructuring Plan

L. Goodhue reported that management is recommending that Pennichuck Water Works issue taxable or tax-exempt bonds of up to \$75 million to fund: (a) the refinancing of the currently outstanding balances of the 2014 Series A and 2015 Series A&B bonds; (b) the refinancing of the \$2.4 million note payable to American United Life Insurance which has a current interest rate of 7.4%; (c) the financing of \$5.5 million to refill the Rate Stabilization Fund; and (d) the cost of issuance for the bonds. This financing would eliminate the current bullet maturity obligation of the AULI note and replace with a lower interest rate, refill the Rate Stabilization Fund to its imprest level, and provide necessary cash flow savings to establish the proposed Material Operating Expense Supplement (MOES) in the current rate case. L. Goodhue answered several questions regarding the debt restructuring plan from the Committee members.

On motion duly made by G. Bower and seconded by T. Leonard, all of the Committee members present then voting, it was unanimously

Resolved: that the Audit, Finance and Risk Committee hereby recommends to the Board of Directors of Pennichuck Corporation and Pennichuck Water Works, Inc. that management be authorized to proceed with obtaining the necessary approvals to complete the application for issuance of taxable or tax-exempt bonds for the refinance of the 2014 Series A and 2015 Series A&B bonded debt, the refill of the rate stabilization fund, and the refinance of the AULI Note Payable.

Pennichuck East Utility, Inc. – CoBank Term Loan / Repay Fixed Asset Line of Credit (FALOC)

L. Goodhue stated that management is seeking approval for Pennichuck East Utility, Inc. (PEU) to enter into a term loan with CoBank in an amount up to \$805,000, to refinance and repay up to approximately \$805,000 of Fixed Asset Line of Credit borrowings by PEU under its \$3 Million FALOC with CoBank. The loan will be secured by an unconditional guarantee of PEU's obligations by Pennichuck Corporation. The interest rate will be determined based on market conditions. He referred the Committee to the term sheet included in the written materials. There will be no substantive changes to the Master Loan Agreement, which was amended last year to revise language regarding covenants. L. Goodhue also reported that the FALOC with CoBank expires on September 30, 2020, and discussions have already taken place with CoBank regarding renewal. CoBank is preparing a term sheet regarding the FALOC.

After discussion, on motion duly made by T. Leonard and seconded by G. Bower, all of the Committee members present then voting, it was unanimously

Resolved: that the Audit, Finance and Risk Committee hereby recommends to the Board of Directors of Pennichuck Corporation and Pennichuck East Utility, Inc. that Pennichuck East Utility, Inc. be authorized to enter into a term loan with CoBank, ACB in an amount up to \$805,000 with a 20-25 year amortization schedule, to refinance and repay fixed asset line of credit borrowings by PEU under its \$3 Million FALOC with CoBank.

On motion duly made by T. Leonard and seconded by G. Bower, all of the Committee members present then voting, it was unanimously

Resolved: that the Audit, Finance and Risk Committee hereby recommends to the Board of Directors of Pennichuck Corporation that management be authorized to negotiate and renew the Fixed Asset Line of Credit with CoBank, ACB.

Pennichuck East Utility, Inc. – Intercompany Refinance

L. Goodhue indicated that he is recommending that the outstanding balance of short-term advances between Pennichuck Corporation and Pennichuck East Utility, Inc. in the amount of \$5 million be refinanced for a term of 30 years at an approximate interest rate of 3.5%.

After discussion, on motion duly made by T. Leonard and seconded by G. Bower, all of the Committee members present then voting, it was unanimously

Resolved: that the Audit, Finance and Risk Committee hereby recommends to the Board of Directors of Pennichuck Corporation (PCP) and Pennichuck East Utility, Inc. (PEU), that the outstanding balance of short term advances of \$5.0 million between PCP and PEU as existed on December 31, 2019, be refinanced for a term of 30 years at an interest rate of approximately 3.5% on a fully amortizing basis, converting short term obligations from PEU to PCP to long term notes payable.

### Working Capital LOC (TD Bank) – Extension of Expiration Date

L. Goodhue stated that management is seeking approval to extend the expiration date of the \$4 million line of credit with TD Bank for another 60-90 days. He indicated that management is working with TD Bank to renew the LOC. A number of issues have been raised and since the LOC will expire on March 31, 2020, an extension is needed until the issues have been resolved. A discussion occurred relative to the Company's other options if the issues are not resolved with TD Bank, including investigating an option to work with the Nashua Business Industrial Development Authority (BIDA).

On motion duly made by T. Leonard and seconded by G. Bower, all of the Committee members present then voting, it was unanimously

Resolved: that the Audit, Finance and Risk Committee hereby recommends to the Pennichuck Corporation Board of Directors that the expiration date of the \$4 million line of credit with TD Bank, N.A. be extended from March 31, 2020 to 60-90 days thereafter, pending a renewal of the line of credit.

### Pennichuck Water Works, Inc. – Fixed Asset Line of Credit with TD Bank (FALOC) Renewal

L. Goodhue reported that he is also looking to renew the FALOC with TD Bank which is due to expire in August. The FALOC is used to fund PWW's immediate cash flow needs for capital projects each year. He indicated that he has spoken with the Bank regarding extending the amount of the FALOC from \$10 million to \$12 million. He does not anticipate any problems with renewing the FALOC. He is waiting to receive a term sheet from the Bank.

### Insurance Coverage Review

C. Howe presented a review of the Company's Property and Casualty insurance coverages and premiums for 2020. She reported that the Company's Insurance Representative worked with five carriers to obtain pricing for the Company's insurance portfolio, some of whom declined to quote for various reasons. Travelers continued to provide the most competitive pricing. Premiums increased by 5.09% over 2019. The largest increases in premiums was in the Commercial Auto and General Liability areas. The Workers' Compensation premium increased slightly. The Company's 1/1/20 experience modification rate is 0.67 compared to a 0.63 rating in 2019. T. Leonard asked that management investigate what the general liability premium would be if it was based on revenues instead of payroll.

### Annual Review of Committee Charter

There was a review of the Committee's Charter. The Committee agreed that the Charter was adequate for its purposes and no changes were necessary.

### Emergency Plans

The Committee noted the chart showing the tasks completed in 2019, in accordance with the Standard Operating Procedures to the Company's Emergency Plans. S. Ansara reported that all duties were completed. She indicated that a 2020 review of the plans and appendices has begun and will be completed by March 30.

The Chairman inquired about the status of the Company's risk & resiliency assessment which is required under the America's Water Infrastructure Act. L. Goodhue reported that the Company is on track, that a 2-day workshop was held in January, and a risk and resiliency assessment certification will be filed by March 31 with the EPA.

### Management Presentations

The Committee reviewed the list of management presentations for 2020. S. Ansara indicated that SWOT analysis presentations by each department and a review of the Company's strategic plan will be given this year at meetings of the Pennichuck Board. A table top exercise of an emergency situation is scheduled to be given at a meeting of the Pennichuck Board in October.

There being no further business to come before the Committee, the Chairman adjourned the meeting at 5:52 p.m.

/s/ Suzanne L. Ansara  
Suzanne L. Ansara  
Corporate Secretary