



**Pennichuck Corporation**

**Quarterly Report to the  
Sole Shareholder  
(City of Nashua Board of Aldermen)**

**Quarter Ended September 30, 2020**

### **Executive Summary**

- Revenues for the third quarter of 2020 were 14.4% higher than the prior year (\$15.9 million for 2020 versus \$13.9 million for 2019). Revenues on a year-to-date basis were 10.9% higher than last year (\$37.6 million for the nine months in 2020 versus \$33.9 million in 2019). Quarterly and year-to-date revenues were higher to prior year results as the Company benefited from increased consumption levels at the regulated utilities due to the dry weather patterns experienced during the Spring and mid-Summer months, versus the comparative year. The Pennichuck Water Service Company revenues were below 2019 comparative results, due to reductions in their Unplanned Revenues and Backflow sales as these activities were negatively impacted by the ongoing COVID-19 pandemic, versus prior year results.
- Operating Income for the third quarter of 2020 was 42.5% higher than the prior year (\$5.7 million for 2020 versus \$4.0 million for 2019). Operating Income on a year-to-date basis was 68.6% higher than the prior year (\$8.6 million for 2020 versus \$5.1 million for 2019). Both of these variances are almost exclusively attributable to the quarter and year-to-date revenue variations as previously discussed.
- Pre-tax Income for the third quarter of 2020 was \$3.0 million versus \$1.3 million for 2019. On a year-to-date basis, pre-tax income was \$0.3 million for 2020 versus pre-tax loss of \$3.1 million for 2019.
- Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA) for the third quarter of 2020 was 27.4% higher than the prior year (\$7.9 million in 2020 versus \$6.2 million for 2019). On a year-to-date basis, EBITDA was \$15.1 million for 2020 versus \$11.5 million for 2019.
- During the quarter, the Company paid approximately \$2.1 million to the City in principal, interest and dividends to fund the City Acquisition Debt. Year-to-date, the Company has paid approximately \$6.4 million to the City in principal, interest and dividends to fund the City Acquisition Debt.
- Capital expenditures for the third quarter of 2020 were \$2.9 million compared to \$6.9 million in the third quarter of 2019. On a year-to-date basis, capital expenditures for 2020 were \$5.8 million compared to \$9.4 million in 2019. The decrease in activity for the quarter and year-over-year can be attributed mainly to the Pennichuck Water Works, Inc. deferment of the Kessler Farm Tank replacement project in Nashua to 2021, due to the ongoing COVID-19 pandemic.

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 third quarter of 2020 as compared to the third quarter of 2019, and the nine months of 2020 as compared to the nine months of 2019, are as follows:

	(000's)			
	<u>Quarter Ended</u>		<u>Year-to-Date</u>	
	<u>September 30, 2020</u>	<u>September 30, 2019</u>	<u>September 30, 2020</u>	<u>September 30, 2019</u>
Revenues				
Regulated Utilities	\$ 15,285	\$ 13,201	\$ 35,595	\$ 31,748
Other	<u>608</u>	<u>689</u>	<u>2,008</u>	<u>2,176</u>
Total	\$ 15,893	\$ 13,890	\$ 37,603	\$ 33,924
Operating Expenses				
Regulated Utilities	\$ 9,584	\$ 9,287	\$ 27,138	\$ 26,787
Other	<u>632</u>	<u>639</u>	<u>1,905</u>	<u>2,026</u>
Total	\$ 10,216	\$ 9,926	\$ 29,043	\$ 28,813
Operating Income	\$ 5,677	\$ 3,964	\$ 8,560	\$ 5,111
Non-Operational Income (Expense)	83	143	89	159
Net Interest Expense	<u>(2,728)</u>	<u>(2,847)</u>	<u>(8,333)</u>	<u>(8,344)</u>
Pre-Tax Income (Loss)	\$ 3,032	\$ 1,260	\$ 316	\$ (3,074)
Income Tax Benefit (Expense)	<u>1,026</u>	<u>(437)</u>	<u>277</u>	<u>(253)</u>
Net Income (Loss)	\$ 4,058	\$ 823	\$ 593	\$ (3,327)
Earnings Before Interest, Taxes, Depreciation and Amortization	\$ <u>7,897</u>	\$ <u>6,153</u>	\$ <u>15,062</u>	\$ <u>11,512</u>

Revenues from the water utility operations increased 15.9% in the quarter and increased 12.3% on an annual basis versus last year. Revenues include actual billed amounts through and including the September billing cycles, plus an accrual of unbilled amounts through the end of that month (based upon trailing consumption patterns). Revenues from the unregulated water service business have decreased 14.3% in the quarter and 9.1% on an annual basis, respectively. This is primarily due to the revenue variations previously discussed.

Operating Expenses have increased approximately 3.0% in the third quarter and 0.7% on a year-to-year basis. The increase is mainly attributable to increased direct operating costs associated with the increase in water consumption levels, as well as increases in labor and benefit costs.

Operating Income has increased year-over-year as a result of the variation in revenue and operating expense levels recognized for the quarter and year-to-date.

Interest Expense decreased in the third quarter by 3.6%, as compared to the third quarter of last year; however, year-to-date versus last year has remained virtually unchanged as the results from the September 2<sup>nd</sup> Pennichuck Water's issuance of approximately \$73.6 million of taxable bonds will not be fully impactful until the 4<sup>th</sup> quarter of 2020. The taxable bond refinancing was completed in order to: (1) advance refund and refinance Pennichuck Water's series 2014A, 2015A, and 2015B bonds; (2) early retire an AULI bank loan set to mature on March 1, 2021; (3) replenish the MOERR RSF account to its original imprest level; and (4) provide for repayment of Pennichuck Corporation's Working Capital Line of Credit (WCLOC) for monies borrowed to maintain the Company's RSF funds awaiting the completion of this refinancing and the implementation of new water rates for Pennichuck Water Works, in conformity with the Company's key mission objectives.

The third quarter pre-tax income and year-to-date pre-tax income for 2020 versus pre-tax levels for 2019 are due to the revenue and expense variations discussed above.

The year-to-date income tax benefit in the current year reflects the treatment for the Municipal Acquisition Regulatory Asset as well as the inclusion of contributions-in-aid-of-construction ("CIAC"), which are not deductible for tax purposes. Therefore, the tax benefit is -87.7% versus the statutory rate benefit of 27.08% on a year-to-date basis.

Earnings before interest, taxes, depreciation and amortization (EBITDA) are higher than EBITDA for the same periods last year due to increased revenues, which more than offset increased operating expenses and relatively flat interest expense levels in comparison to 2019.

	(000's)	
<b><u>Balance Sheet</u></b>	As of <u>September 30, 2020</u> (Unaudited)	As of <u>December 31, 2019</u> (Audited)
<b><u>Assets</u></b>		
Property, Plant & Equipment, Net	\$ <u>237,995</u>	\$ <u>237,182</u>
Current Assets:		
Cash	1,826	4,885
Restricted Cash <sup>Note 1</sup>	10,289	1,963
Restricted Cash – Bond Project Funds	24	3,426
Accounts Receivable <sup>Note 2</sup>	7,821	5,631
Inventory	626	648
Other Current Assets <sup>Note 3</sup>	<u>1,057</u>	<u>1,418</u>
Total Current Assets	<u>21,643</u>	<u>17,971</u>
Other Assets:		
Acquisition Premium	67,718	69,263
Other Assets	<u>13,398</u>	<u>13,727</u>
Total Other Assets	<u>81,116</u>	<u>82,990</u>
TOTAL ASSETS	\$ <u>340,754</u>	\$ <u>338,143</u>
<b><u>Shareholder's Equity and Liabilities</u></b>		
Shareholder's Equity	\$ <u>3,036</u>	\$ <u>2,739</u>
Bonds, Notes and Mortgages	<u>223,830</u>	<u>212,296</u>
Current Liabilities:		
Lines of Credit <sup>Note 4</sup>	5,262	9,283
Current Portion of Long-Term Debt	7,167	6,582
Other Current Liabilities <sup>Note 5</sup>	<u>4,552</u>	<u>6,722</u>
Total Current Liabilities	<u>16,981</u>	<u>22,587</u>
Other Long-Term Liabilities:		
CIAC, net	54,753	54,770
Deferred Income Taxes	14,122	14,427
Accrued Pension Liability <sup>Note 6</sup>	12,627	12,971
Other Long-Term Liabilities	<u>15,405</u>	<u>18,353</u>
Total Other Long-Term Liabilities	<u>96,907</u>	<u>100,521</u>
TOTAL SHAREHOLDER'S EQUITY AND LIABILITIES	\$ <u>340,754</u>	\$ <u>338,143</u>

### Notes to Balance Sheet

Note 1 (Restricted Cash) – At September 30, 2020, the balance of \$10.3 million represents an increase of \$8.3 million from the end of 2019, mainly due to (1) the cash generated from the increased revenue levels year-over-year; and (2) the additional proceeds received from Pennichuck Water’s September 2<sup>nd</sup> bonding event as a one-time replenishment of the existing MOERR Rate Stabilization Fund.

Note 2 (Accounts Receivable) – During the nine months of 2020, the balance in Accounts Receivable increased approximately \$2.2 million from the year-end total at December 31, 2019 of \$5.6 million. This is mainly attributed to revenue increases generated by the regulated utilities due to the increased consumption levels year-over-year, as previously discussed, and the fact that September 30 represents the balance of accounts receivable at the end of the high summer consumption months, whereas December 31 represents the balance of accounts receivables at the end of a “base consumption” month.

Note 3 (Other Current Assets) – At September 30, 2020, the balance of \$1.1 million represents a decrease of \$0.3 million from the end of 2019, mainly due to the expensing of prepaid property taxes in the first quarter of 2020.

Note 4 (Lines of Credit) – At September 30, 2020, approximately \$1.8 million of this balance was comprised of the corporate Working Capital Line of Credit which is periodically drawn upon in support of our operations. The remaining \$3.4 million balance relates to Pennichuck Water Works, Inc. and Pennichuck East Utility, Inc. Fixed Asset Lines of Credit (FALOC), which are used to fund Construction Work in Progress on capital projects which will be refinanced into long-term debt obligations or tax-exempt or taxable bond indebtedness annually.

Note 5 (Other Current Liabilities) – At September 30, 2020, approximately \$2.7 million of this balance is comprised of accounts payable which relates to activities that were performed in the third quarter of 2020.

Note 6 (Accrued Pension Liability) – During the nine months of 2020, \$1.2 million was contributed into the Pension Plan, while approximately \$583,000 in benefit payments were made to participants and approximately \$86,000 of investment income and appreciation was earned in the plan.

**Unaudited Cash Flow Statement**

Cash Flow on a GAAP basis for the third quarter of 2020 as compared to the third quarter of 2019, and the year-to-date 2020 versus 2019, are as follows:

	(000's)			
	Quarter Ended		Year-to-Date	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Operating Activities:				
Net Income (Loss)	\$ <u>4,058</u>	\$ <u>823</u>	\$ <u>593</u>	\$ <u>(3,327)</u>
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:				
Depreciation and Amortization	2,138	2,105	6,414	6,299
Provision for Deferred Taxes	(1,019)	444	(256)	274
Other	(8)	(227)	(25)	(269)
Changes in Assets and Liabilities:				
(Increase) Decrease in Accounts Receivable	(709)	72	(2,190)	(554)
(Increase) Decrease in Inventory	26	8	22	19
(Increase) Decrease in Other Assets	863	1,201	1,245	820
Increase (Decrease) in Accounts Payable	1,195	2,197	(837)	1,571
Increase (Decrease) in Other Liabilities	<u>374</u>	<u>653</u>	<u>(1,655)</u>	<u>(598)</u>
Net Cash Provided by (Used in) Operating Activities	<u>6,918</u>	<u>7,276</u>	<u>3,311</u>	<u>4,235</u>
Investing Activities:				
Purchases of Property, Plant & Equipment, including the Debt Component of AFUDC	(2,920)	(6,746)	(5,746)	(9,340)
Proceeds from Sale of Property, Plant & Equipment	-	198	-	221
(Increase) Decrease in Restricted Cash	-	-	-	-
Sale of Investment Securities	-	-	-	-
Change in Deferred Land Costs	<u>-</u>	<u>109</u>	<u>-</u>	<u>80</u>
Net Cash Provided by (Used in) Investing Activities	<u>(2,920)</u>	<u>(6,439)</u>	<u>(5,746)</u>	<u>(9,039)</u>
Financing Activities:				
Borrowings (Repayments) on Lines of Credit	582	(881)	(4,021)	(1,208)
Payments on Long-term Debt	(71,641)	(932)	(76,524)	(5,066)
Contributions in Aid of Construction	1	5	20	24
Proceeds from Long-term Borrowings	73,883	3,008	85,035	12,098
Debt Issuance Costs	-	34	-	327
Dividends Paid	<u>(70)</u>	<u>(70)</u>	<u>(210)</u>	<u>(210)</u>
Net Cash Provided by (Used in) Financing Activities	<u>2,755</u>	<u>1,164</u>	<u>4,300</u>	<u>5,965</u>
Increase (Decrease) in Cash and Cash Equivalents	6,753	2,001	1,865	1,161
Cash and Cash Equivalents at Beginning of Period	<u>5,386</u>	<u>7,500</u>	<u>10,274</u>	<u>8,340</u>
Cash and Cash Equivalents at End of Period	<u>\$ 12,139</u>	<u>\$ 9,501</u>	<u>\$ 12,139</u>	<u>\$ 9,501</u>

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

### **Capital Expenditures**

Capital Expenditures in the third quarter of 2020 were \$5.2 million as compared to \$6.9 million in the third quarter of 2019. Capital Expenditures for the year-to-date were \$5.8 million as compared to \$9.4 million in 2019.

Major expenditures in the nine months of 2020 included:

Locke Lake New Water Source	\$800,000
Peacham Road Pipeline – Locke Lake	576,000
Carbon Filter Media Changeout – 5 & 6	495,000
Merrimack River Intake	355,000
25 Walnut St. Office Building	350,000
North Barnstead Rd. Main Replacement – Locke Lake	244,000
Workorder System Replacement – CMMS	231,000

### **Financing**

On April 23, 2020, the Company’s Pennichuck Water Works, Inc. subsidiary issued approximately \$7.5 million of tax-exempt and taxable bonds through the NH Business Finance Authority as reimbursement for its 2019 capital improvements in Pennichuck Water Works’ water supply, distribution and support systems. The bond issuance was approved by the Pennichuck Board of Directors and the Sole Shareholder. This issuance had previously received NHPUC approval on Order No. 26,101, dated February 2, 2018, which authorized up to \$32.5 million in bonds via multiple issuances for the years 2018-2021.

On May 6, 2020, the NHPUC issued Order No. 26,354 which permitted Pennichuck Water Works, Inc. to borrow up to \$2,563,662 from the federal Small Business Administration Paycheck Protection Program. This loan includes a 2-year maturity at an interest rate of 1 percent, which includes a provision in which a portion or all of the loan can be forgiven if all employees are kept on the payroll for eight weeks upon disbursement of the loan proceeds. The loan proceeds were disbursed by TD Bank, Inc., on behalf of the Small Business Administration on May 8, 2020.

On August 26, 2020, the Company’s Pennichuck Water Works, Inc. (PWW) subsidiary issued approximately \$73.6 million of taxable bonds through the NH Business Finance Authority to: (1) advance refund and refinance PWW’s series 2014A, 2015A, and 2015B bonds, (2) early retire an AULI bank loan set to mature on March 1, 2021 with a “bullet” maturity due at that date, (3) complete the replenishment of the MOERR RSF for PWW back to its authorized imprest value, and (4) to repay the Pennichuck Corporation Working Capital Line-of-Credit for monies borrowed to bolster the MOERR RSF at PWW while awaiting rate relief from this bonding event and the current PWW Rate Case. The bond issuance was approved by the Pennichuck Board of Directors and the Sole Shareholder. This issuance had previously received NHPUC approval on Order No. 26,383 dated July 24, 2020, which authorized up to \$75.0 million in bonds.



**Subsequent Events**

**Pennichuck Water Works, Inc.**

On November 24, 2020, the NHPUC issued Order No. 26,425 approving an overall permanent rate increase of 11.85%, becoming effective with services rendered back to April 14, 2020. The permanent rate increase is inclusive of QCPAC surcharges of 4.06% previously approved by NHPUC Order No. 26,298 on October 19, 2019 for 2018 capital expenditures, resulting in a net increase of billed rates to customers over and above the QCPAC surcharge already in place, of 7.79%.

**Pennichuck East Utility, Inc.**

On November 24, 2020, Pennichuck East Utility, Inc. filed a request with the NHPUC for a rate increase of 21.05% over its current rates for the test year 2019, effective December 24, 2020, for which 15.0% of this increase is related to a request for a temporary rate increase effective for services rendered on or after December 24, 2020. The 15.0% temporary rate increase would be inclusive of a 2.98% QCPAC surcharge which was approved on December 6, 2019 in Order No. 26,313 and a 1.97% QCPAC surcharge which is currently pending in DW 20-019.

**Pittsfield Aqueduct Company, Inc.**

On November 16, 2020, Pittsfield Aqueduct Company, Inc. filed a request with the NHPUC for a rate increase of 11.18% over its current rates for the test year 2019, effective December 17, 2020. 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, with final approval by the NHPUC in the Fall of 2021.