



**Pennichuck Corporation**

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

**Quarter Ended June 30, 2021**

### **Executive Summary**

- Revenues for the second quarter of 2021 were 10.0% higher than the prior year (\$13.2 million for 2021 versus \$12.0 million for 2020). Revenues on a year-to-date basis were also 7.8% higher when compared to the prior year (\$23.4 million for the six months in 2021 versus \$21.7 million in 2020). Both are primarily due to increased consumption in 2021 versus 2020, as the regulated utilities were positively impacted by (1) weather related factors as the dry weather from late Spring had continued throughout the month of June; (2) an approved overall rate increase of 11.85% for the Company's Pennichuck Water Works subsidiary, which was granted by the NHPUC on November 24, 2020 for services rendered back to April 14, 2020; and (3) increased revenues from the unregulated water service business, led by increases in their Unplanned and Backflow Sales which had previously been negatively impacted by COVID-19 pandemic limitations.
- Operating Income for the second quarter of 2021 was 4.2% higher than the prior year (\$2.5 million for 2021 versus \$2.4 million for 2020). Operating Income on a year-to-date basis remained flat in comparison to the prior year (\$2.9 million for 2021 versus \$2.9 million for 2020). Both of which are attributed to the increased revenue levels offset by increased operating expenses, at the regulated entities. The overall operating income increases were slightly mitigated by the Service Company, as its operating income lagged prior year levels.
- Pre-Tax Loss for the second quarter of 2021 was \$0.7 million versus the pre-tax loss of \$0.5 million for 2020. On a year-to-date basis, the pre-tax loss was \$3.9 million for 2021 versus \$2.7 million for 2020.
- Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA) for the second quarter of 2021 was 8.9% higher than the prior year (\$4.9 million in 2021 versus \$4.5 million for 2020). On a year-to-date basis, EBITDA was 2.8% higher than the prior year (\$7.4 million for 2021 versus \$7.2 million for 2020).
- During the quarter, the Company paid \$2.1 million to the City in principal, interest and dividends to fund the City Acquisition Debt. Year-to-date, the Company has paid \$4.2 million to the City in principal, interest and dividends to fund the City Acquisition Debt.
- Capital expenditures for the second quarter of 2021 were \$3.0 million compared to \$2.2 million in the second quarter of 2020. On a year-to-date basis, capital expenditures for 2021 were \$4.5 million compared to \$3.0 million in 2020.

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 second quarter of 2021 as compared to the second quarter of 2020, and the six months of 2021 as compared to the six months of 2020, are as follows:

|  | (000’s)              |                      |                      |                      |
|--|----------------------|----------------------|----------------------|----------------------|
|  | <u>Quarter Ended</u> |                      | <u>Year-to-Date</u>  |                      |
|  | <u>June 30, 2021</u> | <u>June 30, 2020</u> | <u>June 30, 2021</u> | <u>June 30, 2020</u> |
| Revenues   |                      |                      |                      |                      |
| Regulated Utilities  | \$ 12,290            | \$ 11,275            | \$ 21,840            | \$ 20,310            |
| Other  | <u>906</u>           | <u>683</u>           | <u>1,569</u>         | <u>1,400</u>         |
| Total  | \$ 13,196            | \$ 11,958            | \$ 23,409            | \$ 21,710            |
| Operating Expenses   |                      |                      |                      |                      |
| Regulated Utilities  | \$ 9,866             | \$ 8,982             | \$ 19,109            | \$ 17,554            |
| Other  | <u>859</u>           | <u>589</u>           | <u>1,450</u>         | <u>1,273</u>         |
| Total  | \$ 10,725            | \$ 9,571             | \$ 20,559            | \$ 18,827            |
| Operating Income   | \$ 2,471             | \$ 2,387             | \$ 2,850             | \$ 2,883             |
| Non-Operational Income<br>(Expense)                                  | 251                  | (3)                  | 243                  | 6                    |
| Net Interest Expense   | <u>(3,459)</u>       | <u>(2,883)</u>       | <u>(7,003)</u>       | <u>(5,605)</u>       |
| Pre-Tax Income (Loss)  | \$ (737)             | \$ (499)             | \$ (3,910)           | \$ (2,716)           |
| Income Tax Benefit (Expense)   | (190)                | <u>(140)</u>         | <u>278</u>           | <u>(749)</u>         |
| Net Income (Loss)  | \$ <u>(927)</u>      | \$ <u>(639)</u>      | \$ <u>(3,632)</u>    | \$ <u>(3,465)</u>    |
| Earnings Before Interest,<br>Taxes, Depreciation<br>and Amortization | \$ <u>4,862</u>      | \$ <u>4,527</u>      | \$ <u>7,430</u>      | \$ <u>7,165</u>      |

Revenues from water utility operations increased 10.0% in the quarter and 7.8% on a year-to-date basis, versus last year, as discussed in the “Executive Summary.” Revenues include actual billed amounts through and including the June billing cycles, plus an accrual of unbilled amounts through the end of the month (based upon trailing consumption patterns). Revenues from the unregulated water service business have also increased 28.6% in the quarter and 14.3% on a year-to-date basis, as Unplanned and Backflow sales have rebounded over 2020, as previously discussed in the “Executive Summary.”

Operating Expenses have increased approximately 11.5% in the second quarter and 9.6% on a year-to-year basis. The increase is mainly attributable to property tax increases and general administrative costs which include wage, health and retirement benefits at the regulated entities. Increased Planned Maintenance expenses in the Service Company, related to activities that were impacted by the COVID-19 pandemic last year, have also contributed to the quarter and year-to-year increases over 2020.

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

Interest Expense increased in the second quarter by approximately 20.7% over the second quarter of last year; and, year-to-date versus last year by approximately 25.0%, resulting from the interest costs associated with (1) the additional financed amounts for capital projects which have been incurred for ongoing infrastructure replacement, in conformity with the Company's key mission objectives, and (2) increased debt amortization costs associated with the write-off to maturity of the 2014 and 2015 escrow deposits required to facilitate the advanced refunding of existing debt, which resulted from the issuance of \$73.6 million of taxable bonds by Pennichuck Water Works on August 26, 2020.

The second quarter pre-tax loss and year-to-date pre-tax loss for 2021 are both higher than the pre-tax levels for 2020 due to the revenue and expense variations discussed above.

The income tax expense in the current year reflects the tax treatment for the Municipal Acquisition Regulatory Asset (MARA), which is not deductible for tax purposes, and the inclusion of CIAC taxable income, due to the elimination of an exemption in the Tax Cuts and Jobs Act. 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 second quarter, the tax expense rate is 7.1% versus the statutory rate benefit of 27.08%.

Earnings before interest, taxes, depreciation and amortization (EBITDA) are higher than EBITDA for the same periods last year despite flat year-over-year operating results, due to additional net revenues of \$272,000 related to a sale of unutilized land recorded in June 2021.

**Balance Sheet**

|  | (000's)                               |   |
|--|---------------------------------------|---|
|  | As of<br>June 30, 2021<br>(Unaudited) | As of<br>December 31, 2020<br>(Audited) |
| <b><u>Assets</u></b>                               |                                       |   |
| Property, Plant & Equipment, Net                   | \$ <u>244,144</u>                     | \$ <u>242,469</u>                       |
| Current Assets:                                    |                                       |   |
| Cash   | (195)                                 | 310                                     |
| Restricted Cash                                    | 9,893                                 | 8,885                                   |
| Restricted Cash – Bond Project Funds               | 38                                    | 237                                     |
| Accounts Receivable                                | 8,906                                 | 8,785                                   |
| Inventory  | 673                                   | 598                                     |
| Other Current Assets <sup>Note 1</sup>             | <u>2,279</u>                          | <u>1,797</u>                            |
| Total Current Assets                               | <u>21,594</u>                         | <u>20,612</u>                           |
| Other Assets:                                      |                                       |   |
| Acquisition Premium                                | 66,145                                | 67,202                                  |
| Other Assets                                       | <u>16,546</u>                         | <u>17,014</u>                           |
| Total Other Assets                                 | <u>82,691</u>                         | <u>84,216</u>                           |
| TOTAL ASSETS                                       | \$ <u>348,429</u>                     | \$ <u>347,297</u>                       |
| <b><u>Shareholders' Equity and Liabilities</u></b> |                                       |   |
| Shareholders' Equity                               | \$ <u>(3,300)</u>                     | \$ <u>412</u>                           |
| Bonds, Notes and Mortgages                         | <u>231,797</u>                        | <u>226,912</u>                          |
| Current Liabilities:                               |                                       |   |
| Lines of Credit <sup>Note 2</sup>                  | 3,914                                 | 5,480                                   |
| Current Portion of Long-Term Debt                  | 6,384                                 | 6,020                                   |
| Other Current Liabilities <sup>Notes 3 and 4</sup> | <u>6,443</u>                          | <u>5,474</u>                            |
| Total Current Liabilities                          | <u>16,741</u>                         | <u>16,974</u>                           |
| Other Long-Term Liabilities:                       |                                       |   |
| CIAC, net  | 56,934                                | 56,536                                  |
| Deferred Income Taxes                              | 14,713                                | 14,931                                  |
| Accrued Pension Liability <sup>Note 5</sup>        | 15,441                                | 15,424                                  |
| Other Long-Term Liabilities                        | <u>16,103</u>                         | <u>16,108</u>                           |
| Total Other Long-Term Liabilities                  | <u>103,191</u>                        | <u>102,999</u>                          |
| TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES         | \$ <u>348,429</u>                     | \$ <u>347,297</u>                       |

### **Notes to Balance Sheet**

Note 1 (Other Current Assets) – At December 31, 2020, approximately \$1.3 million of this balance was comprised of prepaid property taxes, which were expensed in the first quarter of 2021, relating to taxes paid in November and December of 2020 for the second half of the property tax year ended March 31, 2021. The balance of prepaid property taxes as of June 30, 2021 is \$1.2 million.

Note 2 (Lines of Credit) – At June 30, 2021, approximately \$0.7 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 \$3.2 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 bond indebtedness annually.

Note 3 (Other Current Liabilities) – At June 30, 2021, approximately \$3.2 million of this balance is comprised of accounts payable which relates to activities that were performed in the second quarter of 2021.

Note 4 (Other Current Liabilities) – At June 30, 2021, approximately \$1.2 million of this balance was comprised of accrued interest. These interest costs are associated with the financed amounts for support of corporate operations and 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 six months of 2021, \$636,000 was contributed into the Pension Plan, while approximately \$433,000 in benefit payments were made to participants and approximately \$59,000 of investment income and appreciation was earned in the plan.

**Unaudited Cash Flow Statement**

Cash Flow on a GAAP basis for the second quarter of 2021 as compared to the second quarter of 2020, and the year-to-date 2021 versus 2020, are as follows:

|   | (000's)              |                      |                      |                      |
|---|----------------------|----------------------|----------------------|----------------------|
|   | Quarter Ended        |                      | Year-to-Date         |                      |
|   | <u>June 30, 2021</u> | <u>June 30, 2020</u> | <u>June 30, 2021</u> | <u>June 30, 2020</u> |
| Operating Activities:   |                      |                      |                      |                      |
| Net Income (Loss)   | \$ <u>(927)</u>      | \$ <u>(639)</u>      | \$ <u>(3,632)</u>    | \$ <u>(3,465)</u>    |
| Adjustments to Reconcile Net Income (Loss)<br>to Net Cash Provided by Operating Activities: |                      |                      |                      |                      |
| Depreciation and Amortization   | 2,203                | 2,142                | 4,399                | 4,276                |
| Provision for Deferred Taxes  | 196                  | 147                  | (265)                | 763                  |
| Other   | (9)                  | (9)                  | (17)                 | (17)                 |
| Changes in Assets and Liabilities:  |                      |                      |                      |                      |
| (Increase) Decrease in Accounts Receivable  | (1,363)              | (2,039)              | (121)                | (1,481)              |
| (Increase) Decrease in Inventory  | (17)                 | (13)                 | (75)                 | (4)                  |
| (Increase) Decrease in Other Assets   | 707                  | (458)                | 2,666                | 382                  |
| Increase (Decrease) in Accounts Payable   | 1,196                | 219                  | 301                  | (2,032)              |
| Increase (Decrease) in Other Liabilities  | <u>540</u>           | <u>(1,630)</u>       | <u>322</u>           | <u>2,029</u>         |
| Net Cash Provided by (Used in) Operating Activities   | <u>2,526</u>         | <u>(2,280)</u>       | <u>3,578</u>         | <u>(3,607)</u>       |
| Investing Activities:   |                      |                      |                      |                      |
| Purchases of Property, Plant & Equipment,<br>including the Debt Component of AFUDC          | (3,231)              | (2,134)              | (4,637)              | (2,826)              |
| Proceeds from Sale of Property, Plant & Equipment   | -                    | -                    | -                    | -                    |
| (Increase) Decrease in Restricted Cash  | -                    | -                    | -                    | -                    |
| Sale of Investment Securities   | -                    | -                    | -                    | -                    |
| Change in Deferred Land Costs   | <u>-</u>             | <u>-</u>             | <u>-</u>             | <u>-</u>             |
| Net Cash Provided by (Used in) Investing Activities   | (3,231)              | (2,134)              | (4,637)              | (2,826)              |
| Financing Activities:   |                      |                      |                      |                      |
| Borrowings (Repayments) on Lines of Credit  | (2,862)              | (6,179)              | (1,566)              | (4,603)              |
| Payments on Long-term Debt  | (1,773)              | (1,297)              | (3,316)              | (4,883)              |
| Contributions in Aid of Construction  | 15                   | 17                   | 15                   | 19                   |
| Proceeds from Long-term Borrowings  | 5,738                | 10,794               | 6,370                | 11,152               |
| Debt Issuance Costs   | -                    | -                    | -                    | -                    |
| Dividends Paid  | <u>(70)</u>          | <u>(70)</u>          | <u>(140)</u>         | <u>(140)</u>         |
| Net Cash Provided by (Used in) Financing Activities   | <u>1,048</u>         | <u>3,265</u>         | <u>1,363</u>         | <u>1,545</u>         |
| Increase (Decrease) in Cash and Cash Equivalents  | 343                  | (1,149)              | 304                  | (4,888)              |
| Cash and Cash Equivalents at Beginning of Period  | <u>9,393</u>         | <u>6,535</u>         | <u>9,432</u>         | <u>10,274</u>        |
| Cash and Cash Equivalents at End of Period  | <u>\$ 9,736</u>      | <u>\$ 5,386</u>      | <u>\$ 9,736</u>      | <u>\$ 5,386</u>      |

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

### **Capital Expenditures**

Capital Expenditures in the second quarter of 2021 were \$3.0 million as compared to \$2.2 million in the second quarter of 2020. Capital Expenditures for the year-to-date were \$4.5 million as compared to \$3.0 million in 2020.

Major expenditures in the first half of 2021 included:

|  |             |
|--|-------------|
| Kessler Farm Tank Replacement                  | \$1,814,000 |
| Coburn Woods (Carryover)                       | \$450,228   |
| Locke Lake Surface Water Treatment (Carryover) | \$238,000   |

### **Rate Case – Pittsfield Aqueduct Company, Inc. (PAC)**

On November 16, 2020, PAC 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. On April 8, 2021, the NHPUC issued Order No. 26,466 approving temporary rates at current rates for services-rendered on December 17, 2020. PAC and the Dept. of Energy (DOE) Staff (on behalf of the NHPUC) are in Settlement discussions at this time, relating to the finalization of this case anticipated to occur in late 2021, at a rate significantly lower than the requested rate increase, based upon the finalization of the includable actual amounts relating to the allowed permanent rate increase.

### **Rate Case – Pennichuck East Utility, Inc. (PEU)**

On November 24, 2020, PEU 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. This case is proceeding with involvement by PEU, the DOE Staff, the Office of Consumer Advocate, and multiple intervenors to the process. It is not yet determined if this case will result in a Settlement Agreement or will require a litigation activity, in order to arrive at agreed upon new final rates. Final approval by the NHPUC on permanent rates for PEU is expected in early 2022.

### **Financing**

On April 2, 2021, the Company's Pennichuck Water Works, Inc. subsidiary issued approximately \$5.2 million of tax-exempt and taxable bonds through the NH Business Finance Authority as reimbursement for its 2020 capital improvements in Pennichuck Water Work's 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.

### **Subsequent Events**

There are no material reportable significant events at this time.