



Pennichuck Corporation

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

Quarter Ended September 30, 2021

Executive Summary

- Revenues for the third quarter of 2021 were 8.8% lower than the prior year (\$14.5 million for 2021 versus \$15.9 million for 2020). Revenues on a year-to-date basis were 0.8% higher than last year (\$37.9 million for the nine months in 2021 versus \$37.6 million in 2020). Quarterly and year-to-date revenues which were either lower or flat in comparison to prior year results due to weather-related decreased consumption levels at the regulated utilities, attributed to the wet weather patterns experienced during the early-to-late Summer months. The Pennichuck Water Service Company revenues were above 2020 comparative results, due to increases in their Unplanned Revenues and Backflow sales as these activities returned to their overall pre-pandemic levels.
- Operating Income for the third quarter of 2021 was 33.3% lower than the prior year (\$3.8 million for 2021 versus \$5.7 million for 2020). Operating Income on a year-to-date basis was 22.1% lower than the prior year (\$6.7 million for 2021 versus \$8.6 million for 2020). 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 2021 was \$0.2 million versus \$3.0 million for 2020. On a year-to-date basis, the pre-tax loss was \$-3.7 million for 2021 versus pre-tax income of \$0.3 million for 2020.
- Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA) for the third quarter of 2021 was 24.1% lower than the prior year (\$6.0 million in 2021 versus \$7.9 million for 2020). On a year-to-date basis, EBITDA was \$13.5 million for 2021 versus \$15.1 million for 2020.
- 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 2021 were \$1.9 million compared to \$2.9 million in the third quarter of 2020. On a year-to-date basis, capital expenditures for 2021 were \$6.5 million compared to \$5.8 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 third quarter of 2021 as compared to the third quarter of 2020, and the nine months of 2021 as compared to the nine months of 2020, are as follows:

	(000's)			
	<u>Quarter Ended</u>		<u>Year-to-Date</u>	
	<u>September 30, 2021</u>	<u>September 30, 2020</u>	<u>September 30, 2021</u>	<u>September 30, 2020</u>
Revenues				
Regulated Utilities	\$ 13,626	\$ 15,285	\$ 35,466	\$ 35,595
Other	<u>871</u>	<u>608</u>	<u>2,440</u>	<u>2,008</u>
Total	\$ 14,497	\$ 15,893	\$ 37,906	\$ 37,603
Operating Expenses				
Regulated Utilities	\$ 9,862	\$ 9,584	\$ 28,971	\$ 27,138
Other	<u>831</u>	<u>632</u>	<u>2,281</u>	<u>1,905</u>
Total	\$ 10,693	\$ 10,216	\$ 31,252	\$ 29,043
Operating Income	\$ 3,804	\$ 5,677	\$ 6,654	\$ 8,560
Non-Operational Income (Expense)	(6)	83	237	89
Net Interest Expense	<u>(3,569)</u>	<u>(2,728)</u>	<u>(10,572)</u>	<u>(8,333)</u>
Pre-Tax Income (Loss)	\$ 229	\$ 3,032	\$ (3,681)	\$ 316
Income Tax Benefit (Expense)	<u>104</u>	<u>1,026</u>	<u>382</u>	<u>277</u>
Net Income (Loss)	\$ 333	\$ 4,058	\$ (3,299)	\$ 593
Earnings Before Interest, Taxes, Depreciation and Amortization	\$ <u>6,030</u>	\$ <u>7,897</u>	\$ <u>13,460</u>	\$ <u>15,062</u>

Revenues from the water utility operations decreased 11.1% in the quarter; however, increased 0.8% on a year-to-date 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 increased 43.3% in the quarter and 20.0% on an annual basis, respectively. This is primarily due to the revenue variations previously discussed.

Operating Expenses have increased approximately 4.9% in the third quarter and 7.9% on a year-to-year basis. The increase is mainly attributable to property tax increases, as well as, general and administrative costs which include wage, health and retirement benefits at the regulated entities. Increased Planned Maintenance and Backflow Testing expenses in the Service

Company is related to a return of pre-pandemic levels of activity, which has also contributed to the quarter and year-over-year increases over 2020.

Operating Income has decreased 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 increased in the third quarter by 33.3%, as compared to the third quarter of last year; and year-to-date versus last year by approximately 27.7% 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 third quarter pre-tax income and year-to-date pre-tax loss for 2021 versus pre-tax levels for 2020 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 37.8% versus the statutory rate benefit of 27.08% on a year-to-date basis.

Earnings before interest, taxes, depreciation and amortization (EBITDA) are lower than EBITDA for the same periods last year due to revenues which remained virtually flat, in addition to increased operating expenses and interest expense levels in comparison to 2020.

	(000's)	
<u>Balance Sheet</u>	As of <u>September 30, 2021</u> (Unaudited)	As of <u>December 31, 2020</u> (Audited)
<u>Assets</u>		
Property, Plant & Equipment, Net	\$ <u>244,473</u>	\$ <u>242,469</u>
Current Assets:		
Cash	1,527	310
Restricted Cash ^{Note 1}	9,666	8,885
Restricted Cash – Bond Project Funds	38	237
Accounts Receivable ^{Note 2}	8,494	8,785
Inventory	674	598
Other Current Assets ^{Note 3}	<u>874</u>	<u>1,797</u>
Total Current Assets	<u>21,273</u>	<u>20,612</u>
Other Assets:		
Acquisition Premium	65,614	67,202
Other Assets	<u>16,282</u>	<u>17,014</u>
Total Other Assets	<u>81,896</u>	<u>84,216</u>
TOTAL ASSETS	\$ <u>347,642</u>	\$ <u>347,297</u>
<u>Shareholder's Equity and Liabilities</u>		
Shareholder's Equity	\$ <u>(3,020)</u>	\$ <u>412</u>
Bonds, Notes and Mortgages	<u>231,254</u>	<u>226,912</u>
Current Liabilities:		
Lines of Credit ^{Note 4}	5,553	5,480
Current Portion of Long-Term Debt	6,488	6,020
Other Current Liabilities ^{Note 5}	<u>4,250</u>	<u>5,474</u>
Total Current Liabilities	<u>16,291</u>	<u>16,974</u>
Other Long-Term Liabilities:		
CIAC, net	56,896	56,536
Deferred Income Taxes	14,630	14,931
Accrued Pension Liability ^{Note 6}	15,483	15,424
Other Long-Term Liabilities	<u>16,108</u>	<u>16,108</u>
Total Other Long-Term Liabilities	<u>103,117</u>	<u>102,999</u>
TOTAL SHAREHOLDER'S EQUITY AND LIABILITIES	\$ <u>347,642</u>	\$ <u>347,297</u>

Notes to Balance Sheet

Note 1 (Restricted Cash) – At September 30, 2021, the balance of \$9.7 million represents an increase of \$0.8 million from the end of 2020, mainly due to the variation in revenue and operating expense levels recognized for the year-to-date.

Note 2 (Accounts Receivable) – During the nine months of 2021, the balance in Accounts Receivable decreased approximately \$0.3 million from the year-end total at December 31, 2020 of \$8.8 million. This is mainly attributed to revenue decreases generated by the regulated utilities due to the reduced consumption levels year-over-year, as previously discussed.

Note 3 (Other Current Assets) – At September 30, 2021, the balance of \$0.9 million represents a decrease of \$0.9 million from the end of 2020, mainly due to the expensing of prepaid property taxes in the first quarter of 2021.

Note 4 (Lines of Credit) – At September 30, 2021, approximately \$1.4 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 \$4.2 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 tax-exempt or taxable bond indebtedness annually.

Note 5 (Other Current Liabilities) – At September 30, 2021, approximately \$1.5 million of this balance is comprised of accounts payable which relates to activities that were performed in the third quarter of 2021.

Note 6 (Accrued Pension Liability) – During the nine months of 2021, \$921,000 was contributed into the Pension Plan, while approximately \$628,000 in benefit payments were made to participants and approximately \$89,000 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 2021 as compared to the third quarter of 2020, and the year-to-date 2021 versus 2020, are as follows:

	(000's)			
	Quarter Ended		Year-to-Date	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Operating Activities:				
Net Income (Loss)	\$ <u>333</u>	\$ <u>4,058</u>	\$ <u>(3,299)</u>	\$ <u>593</u>
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:				
Depreciation and Amortization	2,169	2,138	6,568	6,414
Provision for Deferred Taxes	(96)	(1,019)	(361)	(256)
Other	(251)	(8)	(268)	(25)
Changes in Assets and Liabilities:				
(Increase) Decrease in Accounts Receivable	412	(709)	291	(2,190)
(Increase) Decrease in Inventory	(1)	26	(76)	22
(Increase) Decrease in Other Assets	2,041	863	4,707	1,245
Increase (Decrease) in Accounts Payable	(1,720)	1,195	(1,419)	(837)
Increase (Decrease) in Other Liabilities	<u>(19)</u>	<u>374</u>	<u>303</u>	<u>(1,655)</u>
Net Cash Provided by (Used in) Operating Activities	<u>2,868</u>	<u>6,918</u>	<u>6,446</u>	<u>3,311</u>
Investing Activities:				
Purchases of Property, Plant & Equipment, including the Debt Component of AFUDC	(1,489)	(2,920)	(6,126)	(5,746)
Proceeds from Sale of Property, Plant & Equipment	(283)	-	(283)	-
(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	<u>(1,772)</u>	<u>(2,920)</u>	<u>(6,409)</u>	<u>(5,746)</u>
Financing Activities:				
Borrowings (Repayments) on Lines of Credit	1,639	582	73	(4,021)
Payments on Long-term Debt	(1,876)	(71,641)	(5,192)	(76,524)
Contributions in Aid of Construction	8	1	23	20
Proceeds from Long-term Borrowings	698	73,883	7,068	85,035
Debt Issuance Costs	0	-	-	-
Dividends Paid	<u>(70)</u>	<u>(70)</u>	<u>(210)</u>	<u>(210)</u>
Net Cash Provided by (Used in) Financing Activities	<u>399</u>	<u>2,755</u>	<u>1,762</u>	<u>4,300</u>
Increase (Decrease) in Cash and Cash Equivalents	1,495	6,753	1,799	1,865
Cash and Cash Equivalents at Beginning of Period	<u>9,736</u>	<u>5,386</u>	<u>9,432</u>	<u>10,274</u>
Cash and Cash Equivalents at End of Period	\$ <u>11,231</u>	\$ <u>12,139</u>	\$ <u>11,231</u>	\$ <u>12,139</u>

Financial information is available on the Company's website (www.Pennichuck.com).

Capital Expenditures

Capital Expenditures in the third quarter of 2021 were \$1.9 million as compared to \$2.9 million in the third quarter of 2020. Capital Expenditures for the year-to-date were \$6.5 million as compared to \$5.8 million in 2020.

Major expenditures in the nine months of 2021 included:

Kessler Farm Tank Replacement	\$3,011,181
Coburn Woods (Carryover)	\$577,148
Locke Lake Surface Water Treatment (Carryover)	\$238,546

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 November 9, 2021, the NHPUC issued Order No. 26,544 approving an overall permanent rate increase of 5.45%, becoming effective with services rendered back to December 17, 2020.

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. A Settlement Agreement between the parties is in its final stages, to be submitted to the Commission on or before December 9th, in preparation for a final hearing on the case on December 15th, in order to arrive at agreed upon new final rates. Final approval by the NHPUC on new 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.

On September 29, 2021 the Company's Pennichuck East Utility, Inc. subsidiary closed on a term loan financing transaction with CoBank, ACB in the amount of \$1,135,409 for a term of 25 years. The loan proceeds were used to repay Fixed Asset Line of Credit monies borrowed during 2020 for capital projects for that year, which were placed in service by December 31, 2020.

Subsequent Events

Pennichuck Water Works, Inc.

On October 21, 2021, Pennichuck Water Works (PWW) filed an emergency tariff sheet with the NHPUC. The Company's emergency tariff filing is on behalf of a single customer, the Merrimack Village District (MVD), which allows the customer to purchase bulk water at our actual variable cost of production. Currently, the initial rate to be billed will be \$0.67 per cubic feet. This will allow access to PWW's bulk water supply while MVD's water supply systems are brought into compliance with water quality regulations for PFAS contaminants.

On November 12, 2021, the NHPUC issued Order No. 26,552, with an effective date of November 20, 2021, approving Pennichuck Water Works request for an emergency tariff filing on behalf of a single customer, the Merrimack Village District. This emergency tariff is on a temporary basis and must not exceed a term longer than six months from the effective date.

In conjunction with this, PWW also opened a docket under DW 21-134 for the approval of a special contract for these emergency rates, in order to bring those rates into full force and effect (preceding and succeeding the emergency rate tariff), upon approval, for the time period from which the emergency usage of this water was initiated on October 20, 2021, for a period not to exceed a termination date of December 31, 2022.

Pennichuck East Utility, Inc.

On October 29, 2021, the NHPUC issued NISI Order No. 26,538, with an effective date of November 30, 2021, approving Pennichuck East Utility's request to borrow \$2,546,632 from CoBank, ACB for a 25 year term. This financing is being used to fund a "one time" refill and replenishment of the Company's Material Operating Expense Revenue Requirement (MOERR) Rate Stabilization Fund, as well as repay intercompany debt incurred to support the Company as it awaits final permanent rate relief, and the reestablishment of its RSF funds. On November 30, 2021, Pennichuck East Utility closed on this term loan financing transaction with CoBank, ACB in the amount of \$2,546,632 for a term of 25 years at an interest rate of 4.25%.