



Pennichuck Corporation

Quarterly Report to the

Sole Shareholder

(City of Nashua Board of Aldermen)

Quarter Ended March 31, 2022

Executive Summary

- Revenues for the first quarter of 2022 were 20.3% higher than the prior year (\$12.28 million versus \$10.21 million).
- Operating Income for the first quarter of 2022 was 407.9% higher than the prior year (\$1.93 million versus \$0.38 million) due to the increased revenues year-over-year.
- Pre-Tax Loss for the first quarter of 2022 was 53.6% lower than the prior year loss (\$1.47 million versus \$3.17 million).
- Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA) for the first quarter of 2022 were 62.3% higher than the prior year (\$4.17 million versus \$2.57 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 2022 were \$0.60 million compared to \$1.34 million in the first quarter of 2021.
- The Annual Meeting of Sole Shareholder was held on Saturday, May 7, 2022, at Pennichuck's Distribution Facility in Merrimack.

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 2022 as compared to the first quarter of 2021 are as follows:

	(000’s)	
	Quarter Ended March 31, 2022	Quarter Ended March 31, 2021
	(Unaudited)	(Unaudited)
Revenues		
Regulated Utilities	\$ 11,446	\$ 9,550
Other	<u>839</u>	<u>663</u>
Total	\$ 12,285	\$ 10,213
Operating Expenses		
Regulated Utilities	\$ 9,591	\$ 9,243
Other	<u>768</u>	<u>591</u>
Total	\$ 10,359	\$ 9,834
Operating Income	\$ 1,926	\$ 379
Non-Operational Income (Expense)	0	(8)
Net Interest Expense	(3,392)	<u>(3,544)</u>
Pre-Tax (Loss)	\$ (1,466)	\$ (3,173)
Income Tax Provision (Benefit)	<u>(133)</u>	<u>(468)</u>
Net (Loss)	\$ <u>(1,333)</u>	\$ <u>(2,705)</u>
Earnings Before Interest, Taxes, Depreciation and Amortization	\$ <u>4,169</u>	\$ <u>2,568</u>

Revenues from the water utility operations increased year-over-year approximately 20.2%. The increase is attributable to:

- (1) Increased consumption levels over the prior year, particularly within our municipal contracts.
- (2) An approved Qualified Capital Project Adjustment Charge (QCPAC) surcharge of 3.90% for capital projects placed in service in 2019 for the Company’s Pennichuck Water Works, Inc. subsidiary, which was granted by the NHPUC on December 9, 2021. This increase was effective for services rendered back to April 23, 2020.

- (3) An approved overall rate increase of 5.45% for the Company's Pittsfield Aqueduct Company, Inc. subsidiary, which was granted by the NHPUC on November 9, 2021. This increase was effective for services rendered as of December 17, 2020, which included \$36,000 of recoupment sales which were recorded in March 2022.
- (4) An approved overall rate increase of 16.79% for the Company's Pennichuck East Utility, Inc. subsidiary which was granted by the NHPUC on February 18, 2022. This increase was effective for services rendered as of December 24, 2020, which included \$936,000 of recoupment sales which were recorded in March 2022.

Revenues from the unregulated water service business increased 27.3% from the prior year due to increases in their Unplanned Revenue activities, which were somewhat limited by the COVID-19 pandemic in early 2021.

Operating Expenses have increased approximately 5.8% year-over-year. The increase is attributable to inflationary increases in power and purification costs, as well as general administrative costs which include health and general liability insurance. The variance in costs for the Service Company relate to contract service requirements and requests by the contracted customers, as well as some variances related to unplanned maintenance activities for which there is revenue coverage.

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

Interest Expense decreased year-over-year by 4.2% due to the capitalization of Fixed Asset Line of Credit (FALOC) interest costs associated with 2019/2020 capital projects for Pennichuck East Utility, Inc. and Pennichuck Water Works, Inc., as authorized by the approved NHPUC QCPAC orders in 2022. These costs have been incurred for ongoing infrastructure installations and replacement, in conformity with the Company's key mission objectives.

The income tax provision in the current year reflects the tax treatment for the Municipal Acquisition Regulatory Asset (MARA). As of the end of the first quarter, the tax benefit rate is 9.1% versus the statutory rate provision of 27.08%.

The first quarter pre-tax loss for 2022 is lower than the pre-tax loss for 2021, for reasons as discussed in this quarterly report. 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 62.3% higher than EBITDA for the same period last year due to the increased revenues year-over-year, over-and-above the increases in operating expenses, as previously discussed.

Balance Sheet

	(000's)	
	As of March 31, 2022 (Unaudited)	As of December 31, 2021 (Audited)
<u>Assets</u>		
Property, Plant & Equipment, Net	\$ 243,940	\$ 245,197
Current Assets:		
Cash	3,383	1,493
Restricted Cash	9,793	12,656
Restricted Cash – Bond Project Funds	38	255
Accounts Receivable	10,412	9,869
Inventory	867	733
Other Current Assets ^{Note 1}	<u>879</u>	<u>1,431</u>
Total Current Assets	<u>25,372</u>	<u>26,437</u>
Other Assets:		
Acquisition Premium	64,541	65,082
Other Assets	<u>17,750</u>	<u>12,516</u>
Total Other Assets	<u>82,291</u>	<u>77,598</u>
TOTAL ASSETS	\$ <u>351,603</u>	\$ <u>349,232</u>
<u>Shareholders' Equity and Liabilities</u>		
Shareholders' Equity	\$ <u>(4,793)</u>	\$ <u>(3,464)</u>
Bonds, Notes and Mortgages	<u>229,629</u>	<u>227,063</u>
Current Liabilities:		
Lines of Credit ^{Note 2}	9,619	6,608
Current Portion of Long-Term Debt	7,952	9,149
Other Current Liabilities ^{Notes 3 & 4}	<u>4,017</u>	<u>6,246</u>
Total Current Liabilities	<u>21,588</u>	<u>22,003</u>
Other Long-Term Liabilities:		
CIAC, net	57,096	57,302
Deferred Income Taxes	14,778	14,850
Accrued Pension Liability ^{Note 5}	12,329	12,159
Other Long-Term Liabilities	<u>20,976</u>	<u>19,319</u>
Total Other Long-Term Liabilities	<u>105,179</u>	<u>103,630</u>
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	\$ <u>351,603</u>	\$ <u>349,232</u>

Notes to Balance Sheet

Note 1 (Other Current Assets) – At December 31, 2021, approximately \$0.9 million of this balance was comprised of prepaid property taxes, which were expensed in the first quarter of 2022, relating to taxes paid in November and December of 2021 for the second half of the property tax year ended March 31, 2022. The balance of prepaid property taxes as of March 31, 2022 is \$0.

Note 2 (Lines of Credit) – At March 31, 2022, \$7.9 million of this balance was comprised of the borrowed balance against the Fixed Asset Lines of Credit. This balance has been significantly reduced since that date, and currently has a balance of \$0.8 million, due to the payoff of the Pennichuck Water Works, Inc. Fixed Asset Line of Credit (FALOC) with the proceeds brought into the Company from the April 26, 2022 issuance of bonds by Pennichuck Water Works, Inc., as a reimbursement of capital expenditures funded during 2021.

Note 3 (Other Current Liabilities) – At March 31, 2022, approximately \$1.1 million of this balance is comprised of accounts payable which relates to activities that were performed in the first quarter of 2022.

Note 4 (Other Current Liabilities) – At March 31, 2022, approximately \$0.3 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 2022, \$125,000 was contributed into the Pension Plan, while approximately \$208,000 in benefit payments were made to participants and approximately \$70,000 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 2022 as compared to the first quarter of 2021 is as follows:

	(000's)	
	<u>March 31, 2022</u> (Unaudited)	<u>March 31, 2021</u> (Unaudited)
Operating Activities:		
Net Income (Loss)	\$ <u>(1,333)</u>	\$ <u>(2,705)</u>
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	2,243	2,196
Provision for Deferred Taxes	(126)	(461)
Other	(8)	(8)
Changes in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	(543)	1,242
(Increase) Decrease in Inventory	(134)	(58)
(Increase) Decrease in Other Assets	1,458	1,959
Increase (Decrease) in Accounts Payable	(1,347)	(895)
Increase (Decrease) in Other Liabilities	<u>(659)</u>	<u>(218)</u>
Net Cash Provided by (Used in) Operating Activities	<u>(449)</u>	<u>1,052</u>
Investing Activities:		
Purchases of Property, Plant & Equipment, including the Debt Component of AFUDC	(653)	(1,406)
(Increase) Decrease in Restricted Cash	-	-
Purchase of Marketable Securities	-	-
Proceeds from Sale of Property	-	-
Change in Deferred Land Costs and Interest in Real Estate Partnerships	<u>-</u>	<u>-</u>
Net Cash Provided by (Used in) Investing Activities	<u>(653)</u>	<u>(1,406)</u>
Financing Activities:		
Borrowings (Repayments) on Lines of Credit	3,011	1,296
Payments on Long-term Debt	(3,030)	(1,543)
Contributions in Aid of Construction	4	-
Proceeds from Long-term Borrowings	-	632
Debt Issuance Costs	(2)	-
Dividends Paid	<u>(70)</u>	<u>(70)</u>
Net Cash Provided by (Used in) Financing Activities	<u>(87)</u>	<u>315</u>
Increase (Decrease) in Cash and Cash Equivalents	(1,189)	(39)
Cash and Cash Equivalents at Beginning of Period	<u>14,403</u>	<u>9,432</u>
Cash and Cash Equivalents at End of Period	\$ <u><u>13,214</u></u>	\$ <u><u>9,393</u></u>

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

Capital Expenditures

Capital Expenditures in the first quarter of 2022 were \$0.6 million as compared to \$1.3 million in the first quarter of 2021. Major expenditures in the first quarter of 2022 included:

Pennichuck East Utility - Radio Project	\$77,000
Pennichuck Water Works - Bowers Dam Spillway Reconstruction	\$56,000
Pennichuck Water Works - Radio Project	\$46,000
Pennichuck Water Works - Kessler Farm Tank Replacement C.O.	\$44,000

Rate Case – 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. The overall rate increase is subject to the normal regulatory filing process with the NHPUC. The final permanent rate increase granted is effective retroactive back to the filing date. On February 18, 2022, the NHPUC issued Order No. 26,586 approving a permanent rate increase of 16.79%, becoming effective with services rendered as of December 24, 2020.

Qualified Capital Project Adjustment Charge – Pennichuck Water Works, Inc.

On March 29, 2022, the NHPUC issued Order No. 26,598 approving a Pennichuck Water Works, Inc. QCPAC surcharge of 1.56% for capital projects placed in service in 2020. This order became effective with services rendered back to April 2, 2021 and allows for recover in the form of a monthly recoupment surcharge, to be collected over a twelve-month period from the date of the order.

Subsequent Events

Qualified Capital Project Adjustment Charge – Pennichuck East Utility, Inc.

On April 8, 2022, the NHPUC issued Order No. 26,608 approving a Pennichuck East Utility, Inc. QCPAC surcharge of 4.02% for capital projects placed in service in 2020. This order became effective with services rendered back to September 29, 2021 and allows for recover in the form of a monthly recoupment surcharge, to be collected over a twelve-month period from the date of the order.

Financing

On April 26, 2022, the Company's Pennichuck Water Works, Inc. subsidiary issued approximately \$6.8 million of tax-exempt and taxable bonds through the NH Business Finance Authority as reimbursement for its 2021 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. This offering used substantially the remainder of funds approved by Governor and Council, as a TEFRA approval for annual bond issuances. The Company has a subsequent authorization approved for up to \$57.5 million in bonds that can be issued for the next five years, which has a TEFRA approval in place for the first three years of that capacity.

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 of Sole Shareholder

The Annual Meeting of Sole Shareholder was held on Saturday, May 7, 2022, at Pennichuck's Distribution Facility in Merrimack. At the Annual Meeting, C. George Bower, Amymarie R. Corriveau, Jay N. Lustig, John D. McGrath and Preston J. Stanley, Jr. were elected to the Board of Directors for three-year terms; and Sarah Pillsbury was elected to the Board of Directors for a two-year term.