



Pennichuck Corporation

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

Quarter Ended June 30, 2022

Executive Summary

- Revenues for the second quarter of 2022 were 9.1% higher than the prior year (\$14.4 million for 2022 versus \$13.2 million for 2021). Revenues on a year-to-date basis were also 13.7% higher when compared to the prior year (\$26.6 million for the six months in 2022 versus \$23.4 million in 2021). Both are primarily due to (1) increased consumption in 2022 versus 2021, 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, for which an Order approving this surcharge 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 Ordered and 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 Ordered and 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; and (5) increased revenue from the unregulated water service business, led by increases in their Unplanned Revenues which had previously been negatively impacted in 2020-2021 by COVID-19 pandemic limitations.
- Operating Income for the second quarter of 2022 was 28.0% higher than the prior year (\$3.2 million for 2022 versus \$2.5 million for 2021). Operating Income on a year-to-date basis was also higher in comparison to the prior year (\$5.1 million for 2022 versus \$2.9 million for 2021). Both of which are attributed to the increased revenue levels offset by increased operating expenses, at the regulated entities.
- Pre-Tax Loss for the second quarter of 2022 was \$0.4 million versus the pre-tax loss of \$0.7 million for 2021. On a year-to-date basis, the pre-tax loss was \$1.9 million for 2022 versus \$3.9 million for 2021.
- Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA) for the second quarter of 2022 was 10.2% higher than the prior year (\$5.4 million in 2022 versus \$4.9 million in 2021). On a year-to-date basis, EBITDA was 29.7% higher than the prior year (\$9.6 million for 2022 versus \$7.4 million for 2021).
- 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 2022 were \$1.7 million compared to \$3.0 million in the second quarter of 2021. On a year-to-date basis, capital expenditures for 2022 were \$2.3 million compared to \$4.5 million in 2021. The lower amounts invested in 2022 are directly tied to delays in capital projects, or deferrals from 2022 into 2023, due to supply chain disruptions and delays.

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 2022 as compared to the second quarter of 2021, and the six months of 2022 as compared to the six months of 2021, are as follows:

	(000’s)			
	<u>Quarter Ended</u>		<u>Year-to-Date</u>	
	<u>June 30, 2022</u>	<u>June 30, 2021</u>	<u>June 30, 2022</u>	<u>June 30, 2021</u>
Revenues				
Regulated Utilities	\$ 13,576	\$ 12,290	\$ 25,022	\$ 21,840
Other	<u>782</u>	<u>906</u>	<u>1,621</u>	<u>1,569</u>
Total	\$ 14,358	\$ 13,196	\$ 26,643	\$ 23,409
Operating Expenses				
Regulated Utilities	\$ 10,418	\$ 9,866	\$ 20,009	\$ 19,109
Other	<u>724</u>	<u>859</u>	<u>1,492</u>	<u>1,450</u>
Total	\$ 11,142	\$ 10,725	\$ 21,501	\$ 20,559
Operating Income	\$ 3,216	\$ 2,471	\$ 5,142	\$ 2,850
Non-Operational Income (Expense)	0	251	0	243
Net Interest Expense	<u>(3,616)</u>	<u>(3,459)</u>	<u>(7,008)</u>	<u>(7,003)</u>
Pre-Tax Income (Loss)	\$ (400)	\$ (737)	\$ (1,866)	\$ (3,910)
Income Tax Benefit (Expense)	<u>(331)</u>	<u>(190)</u>	<u>(198)</u>	<u>278</u>
Net Income (Loss)	\$ <u>(731)</u>	\$ <u>(927)</u>	\$ <u>(2,064)</u>	\$ <u>(3,632)</u>
Earnings Before Interest, Taxes, Depreciation and Amortization	\$ <u>5,442</u>	\$ <u>4,862</u>	\$ <u>9,611</u>	\$ <u>7,430</u>

Revenues from water utility operations increased 10.6% in the quarter and 14.7% 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 3.3% on a year-to-date basis, as Unplanned Revenues have rebounded over 2020, as previously discussed in the “Executive Summary.”

Operating Expenses have increased approximately 3.7% in the second quarter and 4.4% on a year-to-year basis. The increase is attributable to increases in power and purification costs above inflationary levels, due to supply chain issues and abnormally high fuel costs, as well as inflationary increases in general administrative costs which include health and general liability insurance, as well as a multitude of items related to employee benefits, retirement and pension costs, and other overall administrative costs required to run the business. Increased 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 as a result of the revenue gains previously discussed, partially offset by the increased operating expense levels recognized for the quarter and year-to-date.

Interest Expense increased in the second quarter by approximately 4.5% over the second quarter of last year; and, year-to-date versus last year by approximately 0.1%, resulting from the interest costs associated with the additional financed amounts for capital projects which have been incurred for ongoing infrastructure replacement, in conformity with the Company's key mission objectives.

The second quarter pre-tax loss and year-to-date pre-tax loss for 2022 are both lower than the pre-tax levels for 2021 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. 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 -10.7% 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 due to the increased revenues, over-and-above the increases in operating expenses, as previously discussed.

Balance Sheet

	(000's)	
	As of June 30, 2022 (Unaudited)	As of December 31, 2021 (Audited)
<u>Assets</u>		
Property, Plant & Equipment, Net	\$ <u>243,822</u>	\$ <u>245,197</u>
Current Assets:		
Cash	6	1,493
Restricted Cash	11,968	12,656
Restricted Cash – Bond Project Funds	41	255
Accounts Receivable	11,025	9,869
Inventory	917	733
Other Current Assets ^{Note 1}	<u>2,208</u>	<u>1,431</u>
Total Current Assets	<u>26,165</u>	<u>26,437</u>
Other Assets:		
Acquisition Premium	63,993	65,082
Other Assets ^{Note 2}	<u>17,565</u>	<u>12,516</u>
Total Other Assets	<u>81,558</u>	<u>77,598</u>
TOTAL ASSETS	\$ <u>351,545</u>	\$ <u>349,232</u>
<u>Shareholders' Equity and Liabilities</u>		
Shareholders' Equity	\$ <u>(5,555)</u>	\$ <u>(3,464)</u>
Bonds, Notes and Mortgages ^{Note 3}	<u>234,683</u>	<u>227,063</u>
Current Liabilities:		
Lines of Credit ^{Note 4}	2,376	6,608
Current Portion of Long-Term Debt	7,726	9,149
Other Current Liabilities ^{Notes 5 and 6}	<u>6,836</u>	<u>6,246</u>
Total Current Liabilities	<u>16,938</u>	<u>22,003</u>
Other Long-Term Liabilities:		
CIAC, net	56,871	57,302
Deferred Income Taxes	15,145	14,850
Accrued Pension Liability ^{Note 7}	12,500	12,159
Other Long-Term Liabilities	<u>20,963</u>	<u>19,319</u>
Total Other Long-Term Liabilities	<u>105,479</u>	<u>103,630</u>
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	\$ <u>351,545</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 June 30, 2022 is \$1.1 million.

Note 2 (Other Assets) – At June 30, 2022, approximately \$5.4 million of this balance was comprised of the asset Right-of-Use: 25 Walnut Street which was recognized on January 31, 2022, due to the adoption of FASB A.S.U. 2016-02. The accounting standard became effective for private companies with fiscal years beginning after December 15, 2021, and it represents the present value of the right-of-use of the facility if all available renewal options are exercised (with the offsetting lease obligation recognized as a long-term liability on the balance sheet). The asset will be amortized directly against its long-term liability on an annual basis, with no impact to the company's income statement.

Note 3 (Bonds, Notes and Mortgages) – At June 30, 2022, approximately \$6.8 million of this balance is comprised of tax-exempt and taxable bonds issued on April 26, 2022. These bonds were issued through the NH Business Finance Authority as reimbursement for its 2021 capital improvements in Pennichuck Water Works' water supply, distribution and support systems.

Note 4 (Lines of Credit) – At June 30, 2022, approximately \$1.2 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 \$1.2 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 5 (Other Current Liabilities) – At June 30, 2022, approximately \$2.1 million of this balance is comprised of accounts payable which relates to activities that were performed in the second quarter of 2022.

Note 6 (Other Current Liabilities) – At June 30, 2022, approximately \$1.3 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 7 (Accrued Pension Liability) – During the six months of 2022, \$251,000 was contributed into the Pension Plan, while approximately \$420,000 in benefit payments were made to participants and approximately \$156,000 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 2022 as compared to the second quarter of 2021, and the year-to-date 2022 versus 2021, are as follows:

	(000's)			
	Quarter Ended		Year-to-Date	
	<u>June 30, 2022</u>	<u>June 30, 2021</u>	<u>June 30, 2022</u>	<u>June 30, 2021</u>
Operating Activities:				
Net Income (Loss)	\$ <u>(731)</u>	\$ <u>(927)</u>	\$ <u>(2,064)</u>	\$ <u>(3,632)</u>
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:				
Depreciation and Amortization	2,224	2,203	4,467	4,399
Provision for Deferred Taxes	339	196	213	(265)
Other	(9)	(9)	(17)	(17)
Changes in Assets and Liabilities:				
(Increase) Decrease in Accounts Receivable	(612)	(1,363)	(1,155)	(121)
(Increase) Decrease in Inventory	(50)	(17)	(184)	(75)
(Increase) Decrease in Other Assets	(625)	707	833	2,666
Increase (Decrease) in Accounts Payable	1,959	1,196	612	301
Increase (Decrease) in Other Liabilities	<u>1,092</u>	<u>540</u>	<u>433</u>	<u>322</u>
Net Cash Provided by (Used in) Operating Activities	<u>3,587</u>	<u>2,526</u>	<u>3,138</u>	<u>3,578</u>
Investing Activities:				
Purchases of Property, Plant & Equipment, including the Debt Component of AFUDC	(1,787)	(3,231)	(2,440)	(4,637)
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	(1,787)	(3,231)	(2,440)	(4,637)
Financing Activities:				
Borrowings (Repayments) on Lines of Credit	(7,242)	(2,862)	(4,231)	(1,566)
Payments on Long-term Debt	(2,480)	(1,773)	(5,510)	(3,316)
Contributions in Aid of Construction	6	15	10	15
Proceeds from Long-term Borrowings	6,785	5,738	6,785	6,370
Debt Issuance Costs	2	-	-	-
Dividends Paid	<u>(70)</u>	<u>(70)</u>	<u>(140)</u>	<u>(140)</u>
Net Cash Provided by (Used in) Financing Activities	<u>(2,999)</u>	<u>1,048</u>	<u>(3,086)</u>	<u>1,363</u>
Increase (Decrease) in Cash and Cash Equivalents	(1,199)	343	(2,388)	304
Cash and Cash Equivalents at Beginning of Period	<u>13,214</u>	<u>9,393</u>	<u>14,403</u>	<u>9,432</u>
Cash and Cash Equivalents at End of Period	\$ <u>12,015</u>	\$ <u>9,736</u>	\$ <u>12,015</u>	\$ <u>9,736</u>

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

Capital Expenditures

Capital Expenditures in the second quarter of 2022 were \$1.7 million as compared to \$3.0 million in the second quarter of 2021. Capital Expenditures for the year-to-date were \$2.3 million as compared to \$4.5 million in 2021.

Major expenditures in the first half of 2022 included the following new projects, or projects from 2021 which had final costs incurred in the current year:

Pennichuck East Utility – W&E System in Town of Salem	\$382,000
Pennichuck Water Works – Chataqua Ave. Main Replacement	\$265,000
Pennichuck Water Works - Kessler Farm Tank Replacement	\$165,000
Pennichuck Water Works – French Street Main Replacement	\$118,000

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, as requested, is subject to the normal regulatory filing process with the NHPUC. In accordance with the regulations in NH, the final permanent rate increase granted is effective retroactive back to the “order of notice” date to customers. On February 18, 2022, the NHPUC issued Order No. 26,586 approving a permanent rate increase of 16.79%, in response to this request and filing, becoming effective with services rendered back to 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.

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 Works’ water supply, distribution and support systems. The bond issuance was approved by the Pennichuck

Board of Directors and the Sole Shareholder, as a part of two overlapping multi-year bond approvals for the Company’s annual bond issuances. 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.

Subsequent Event

Rate Case – Pennichuck Water Works, Inc.

On June 27, 2022, Pennichuck Water Works, Inc. filed a request with the NHPUC for a rate increase of 13.06% over its current rates for the test year 2021, effective as of the “order of notice” date to customers on August 1, 2022. The overall rate increase is subject to the normal regulatory filing process with the NHPUC. The 13.06% rate increase would be inclusive of a 3.90% QCPAC surcharge which was approved on December 9, 2021 in Order No. 26,555 and a 1.56% QCPAC surcharge which is currently pending in DW 21-023, as well as a 1.79% QCPAC surcharge for which approval is in pendency in Docket DW 22-006, all of which in the aggregate account for 7.25% of the overall requested increase. Final approval by the NHPUC on new permanent rates for PWW is expected in the late summer of 2023.