



Pennichuck Corporation

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

Quarter Ended September 30, 2022

Executive Summary

- Revenues for the third quarter of 2022 were 19.3% higher than the prior year (\$17.3 million for 2022 versus \$14.5 million for 2021). Revenues on a year-to-date basis were 15.8% higher than last year (\$43.9 million for the nine months in 2022 versus \$37.9 million in 2021). Quarterly and year-to-date revenues which were higher in comparison to prior year results are due to a combination of:
 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.
 5. The Pennichuck Water Service Company overall revenues were below 2021 comparative results, due to the non-renewal of its largest service contract by the Town of Salisbury, which expired on June 30, 2022. However, this decrease in overall revenues for PWSC was partially offset by increases in their Unplanned Revenues on other existing contracts, as these activities returned to their overall pre-pandemic levels.
- Operating Income for the third quarter of 2022 was 52.6% higher than the prior year (\$5.8 million for 2022 versus \$3.8 million for 2021). Operating Income on a year-to-date basis was 64.2% higher than the prior year (\$11.0 million for 2022 versus \$6.7 million for 2021). 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 2022 was \$2.1 million higher than last year (\$2.3 million versus \$0.2 million for 2021). On a year-to-date basis, the pre-tax income was \$4.1 million higher than last year (\$0.4 million for 2022 versus a pre-tax loss of \$3.7 million for 2021).
- Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA) for the third quarter of 2022 was 35.0% higher than the prior year (\$8.1 million in 2022 versus \$6.0 million for 2021). On a year-to-date basis, EBITDA was \$17.7 million for 2022 versus \$13.5 million for 2021.

- 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 2022 were \$1.1 million compared to \$1.9 million in the third quarter of 2021. On a year-to-date basis, capital expenditures for 2022 were \$4.6 million compared to \$6.3 million in 2021. Capital expenditures have lagged in 2022, due almost exclusively due to supply chain disruption and delays, causing projects to be delayed within the year, or deferred to 2023.

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 2022 as compared to the third quarter of 2021, and the nine months of 2022 as compared to the nine months of 2021, are as follows:

	(000’s)			
	<u>Quarter Ended</u>		<u>Year-to-Date</u>	
	<u>September 30, 2022</u>	<u>September 30, 2021</u>	<u>September 30, 2022</u>	<u>September 30, 2021</u>
Revenues				
Regulated Utilities	\$ 16,609	\$ 13,626	\$ 41,631	\$ 35,466
Other	<u>705</u>	<u>871</u>	<u>2,326</u>	<u>2,440</u>
Total	\$ 17,314	\$ 14,497	\$ 43,957	\$ 37,906
Operating Expenses				
Regulated Utilities	\$ 10,842	\$ 9,862	\$ 30,851	\$ 28,971
Other	<u>612</u>	<u>831</u>	<u>2,104</u>	<u>2,281</u>
Total	\$ 11,454	\$ 10,693	\$ 32,955	\$ 31,252
Operating Income	\$ 5,860	\$ 3,804	\$ 11,002	\$ 6,654
Non-Operational Income (Expense)	0	(6)	0	237
Net Interest Expense	<u>(3,579)</u>	<u>(3,569)</u>	<u>(10,587)</u>	<u>(10,572)</u>
Pre-Tax Income (Loss)	\$ 2,281	\$ 229	\$ 415	\$ (3,681)
Income Tax Benefit (Expense)	<u>400</u>	<u>104</u>	<u>202</u>	<u>382</u>
Net Income (Loss)	\$ 2,681	\$ 333	\$ 617	\$ (3,299)
Earnings Before Interest, Taxes, Depreciation and Amortization	\$ <u>8,069</u>	\$ <u>6,030</u>	\$ <u>17,680</u>	\$ <u>13,460</u>

Revenues from water utility operations increased 22.1% in the quarter and 17.2% 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 decreased 22.2% in the quarter and 4.2% on an annual basis, respectively (related to the non-renewal of the one major contract cited above). In the aggregate, these variations in revenues are due to the revenue variations cited earlier in this document.

Operating Expenses have increased approximately 7.5% in the third quarter and 5.4% on a year-to-year basis. The increase is mainly attributable to increases in power and purification costs above inflationary levels, due to both supply chain issues and abnormally high fuel costs. Additionally, inflationary increases in general administrative costs which include health and general liability insurance, and other overall administrative costs have impacted these expense level increases. Conversely, the reduction in overall costs for the Service Company are directly related to the non-renewal of the Town of Salisbury service contract, as previously discussed.

Operating Income has increased 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 third quarter by 0.3%, as compared to the third quarter of last year; and year-to-date versus last year by approximately 0.1% resulting from the interest costs associated 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 third quarter and year-to-date pre-tax income for 2022 versus pre-tax levels for 2021 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 which is not deductible for tax purposes. Therefore, the tax benefit is -48.7% 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 the increased revenues, over-and-above the increases in operating expenses, as previously discussed.

<u>Balance Sheet</u>	(000's)	
	As of <u>September 30, 2022</u> (Unaudited)	As of <u>December 31, 2021</u> (Audited)
<u>Assets</u>		
Property, Plant & Equipment, Net	\$ <u>244,556</u>	\$ <u>245,197</u>
Current Assets:		
Cash	3,494	1,493
Restricted Cash ^{Note 1}	9,779	12,656
Restricted Cash – Bond Project Funds	0	255
Accounts Receivable ^{Note 2}	11,805	9,869
Inventory	849	733
Other Current Assets ^{Note 3}	<u>1,233</u>	<u>1,431</u>
Total Current Assets	<u>27,160</u>	<u>26,437</u>
Other Assets:		
Acquisition Premium	63,446	65,082
Other Assets	<u>17,354</u>	<u>12,516</u>
Total Other Assets	<u>80,800</u>	<u>77,598</u>
TOTAL ASSETS	\$ <u>352,516</u>	\$ <u>349,232</u>
<u>Shareholder's Equity and Liabilities</u>		
Shareholder's Equity	\$ <u>(2,889)</u>	\$ <u>(3,464)</u>
Bonds, Notes and Mortgages	<u>232,952</u>	<u>227,063</u>
Current Liabilities:		
Lines of Credit ^{Note 4}	5,093	6,608
Current Portion of Long-Term Debt	7,767	9,149
Other Current Liabilities ^{Note 5}	<u>4,364</u>	<u>6,246</u>
Total Current Liabilities	<u>17,224</u>	<u>22,003</u>
Other Long-Term Liabilities:		
CIAC, net	56,848	57,302
Deferred Income Taxes	14,792	14,850
Accrued Pension Liability ^{Note 6}	12,670	12,159
Other Long-Term Liabilities	<u>20,919</u>	<u>19,319</u>
Total Other Long-Term Liabilities	<u>105,229</u>	<u>103,630</u>
TOTAL SHAREHOLDER'S EQUITY AND LIABILITIES	\$ <u>352,516</u>	\$ <u>349,232</u>

Notes to Balance Sheet

Note 1 (Restricted Cash) – At September 30, 2022, the balance of \$9.8 million represents a decrease of \$2.9 million from the end of 2021, mainly due to: 1) a \$2.5M total repayment of a loan, over a four-month period from February – May 2022, from the SBA’s Paycheck Protection Program which were received originally received by the Company on May 8, 2020; and 2) the variation in revenue and operating expense levels recognized for the year-to-date.

Note 2 (Accounts Receivable) – During the nine months of 2022, the balance in Accounts Receivable increased approximately \$1.9 million from the year-end total at December 31, 2021 of \$9.9 million. This is mainly attributed to revenue increases generated by the regulated utilities due to the increased consumption levels year-over-year, as well as the approved QCPAC and rate orders, as previously discussed.

Note 3 (Other Current Assets) – At September 30, 2022, the balance of \$1.2 million represents a decrease of \$0.2 million from the end of 2021, mainly due to the expensing of prepaid property taxes in the first three quarters of 2022.

Note 4 (Lines of Credit) – At September 30, 2022, approximately \$1.9 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 \$3.1 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 in 2023.

Note 5 (Other Current Liabilities) – At September 30, 2022, approximately \$2.4 million of this balance is comprised of accounts payable which relates to activities that were performed in the third quarter of 2022.

Note 6 (Accrued Pension Liability) – During the nine months of 2022, \$376,000 was contributed into the Pension Plan, while approximately \$635,000 in benefit payments were made to participants and approximately \$248,000 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 2022 as compared to the third quarter of 2021, and the year-to-date 2022 versus 2021, are as follows:

	(000's)			
	Quarter Ended		Year-to-Date	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Operating Activities:				
Net Income (Loss)	\$ 2,681	\$ 333	\$ 617	\$ (3,299)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:				
Depreciation and Amortization	2,210	2,169	6,677	6,568
Provision for Deferred Taxes	(392)	(96)	(179)	(361)
Other	(8)	(251)	(25)	(268)
Changes in Assets and Liabilities:				
(Increase) Decrease in Accounts Receivable	(781)	412	(1,936)	291
(Increase) Decrease in Inventory	67	(1)	(117)	(76)
(Increase) Decrease in Other Assets	2,310	2,041	3,143	4,707
Increase (Decrease) in Accounts Payable	(599)	(1,720)	13	(1,419)
Increase (Decrease) in Other Liabilities	<u>(1,758)</u>	<u>(19)</u>	<u>(1,325)</u>	<u>303</u>
Net Cash Provided by (Used in) Operating Activities	<u>3,730</u>	<u>2,868</u>	<u>6,868</u>	<u>6,446</u>
Investing Activities:				
Purchases of Property, Plant & Equipment, including the Debt Component of AFUDC	(2,416)	(1,489)	(4,856)	(6,126)
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>(2,416)</u>	<u>(1,772)</u>	<u>(4,856)</u>	<u>(6,409)</u>
Financing Activities:				
Borrowings (Repayments) on Lines of Credit	2,717	1,639	(1,514)	73
Payments on Long-term Debt	(2,425)	(1,876)	(7,935)	(5,192)
Contributions in Aid of Construction	(1)	8	9	23
Proceeds from Long-term Borrowings	0	698	6,785	7,068
Debt Issuance Costs	(278)	-	(278)	-
Dividends Paid	<u>(69)</u>	<u>(70)</u>	<u>(209)</u>	<u>(210)</u>
Net Cash Provided by (Used in) Financing Activities	<u>(56)</u>	<u>399</u>	<u>(3,142)</u>	<u>1,762</u>
Increase (Decrease) in Cash and Cash Equivalents	1,258	1,495	(1,130)	1,799
Cash and Cash Equivalents at Beginning of Period	<u>12,015</u>	<u>9,736</u>	<u>14,403</u>	<u>9,432</u>
Cash and Cash Equivalents at End of Period	<u>\$ 13,273</u>	<u>\$ 11,231</u>	<u>\$ 13,273</u>	<u>\$ 11,231</u>

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

Capital Expenditures

Capital Expenditures in the third quarter of 2022 were \$1.1 million as compared to \$1.9 million in the third quarter of 2021. Capital Expenditures for the year-to-date were \$4.6 million as compared to \$6.3 million in 2021.

Major expenditures in the nine months of 2022 included:

W&E Interconnect - PEU	\$472,000
Carbon Filter Media Replacement - PWW	\$358,000
Chataqua Ave. Main Replacement - PWW	\$267,000
Dudley St. Main Replacement – PWW	\$261,000

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

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, and as temporary rates were granted at current rates, 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 recovery 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 recovery in the form of a monthly recoupment surcharge, to be collected over a twelve-month period from the date of the order.

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. As the Company was denied temporary rates at current rates, this rate increase will be earned prospectively once ordered and approved, as opposed to being effective back to 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 summer of 2023.

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 previously 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

On October 18, 2022 the Company's Pennichuck East Utility, Inc. subsidiary closed on a term loan financing transaction with CoBank, ACB in the amount of \$655,936 for a term of 25 years. The loan proceeds were used to repay Fixed Asset Line of Credit monies borrowed during 2021 for capital projects for that year, which were placed in service by December 31, 2021.