



Pennichuck Corporation

Quarterly Report to the

Sole Shareholder

(City of Nashua Board of Aldermen)

Quarter Ended March 31, 2023

Executive Summary

- Revenues for the first quarter of 2023 were 4.5% lower than the prior year (\$11.74 million versus \$12.29 million).
- Operating Income for the first quarter of 2023 was 39.9% lower than the prior year (\$1.16 million versus \$1.93 million) due to lower revenues and increased operating expenses year-over-year.
- Pre-Tax Loss for the first quarter of 2023 was 61.9% higher than the prior year loss (\$2.38 million versus \$1.47 million).
- Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA) for the first quarter of 2023 were 18.2% lower than the prior year (\$3.41 million versus \$4.17 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 2023 were \$0.84 million compared to \$0.60 million in the first quarter of 2022.
- The Annual Meeting of Sole Shareholder will be held on Saturday, May 6, 2023, 9:00 am 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 2023 as compared to the first quarter of 2022 are as follows:

	(000’s)	
	Quarter Ended March 31, 2023 (Unaudited)	Quarter Ended March 31, 2022 (Unaudited)
Revenues		
Regulated Utilities	\$11,217	\$ 11,446
Other	<u>526</u>	<u>839</u>
Total	\$11,743	\$ 12,285
Operating Expenses		
Regulated Utilities	\$10,157	\$ 9,591
Other	<u>429</u>	<u>768</u>
Total	\$10,586	\$ 10,359
Operating Income	\$ 1,157	\$ 1,926
Non-Operational Income (Expense)	-	-
Net Interest Expense	<u>(3,536)</u>	<u>(3,392)</u>
Pre-Tax (Loss)	\$(2,379)	\$ (1,466)
Income Tax Provision (Benefit)	<u>(401)</u>	<u>(133)</u>
Net (Loss)	<u>\$(1,978)</u>	<u>\$ (1,333)</u>
Earnings Before Interest, Taxes, Depreciation and Amortization	<u>\$ 3,413</u>	<u>\$ 4,169</u>

Revenues from water utility operations decreased year-over-year approximately 2.0%. The decrease is chiefly attributable to \$936,000 of one-time PEU allowed recoupment revenues which were recorded in March of last year, resulting from the final Order for the 2020 filed rate case for that Company. However, this year over year negative variance was partially offset by (1) increased consumption levels in 2023 over the prior year; and (2) an approved QCPAC surcharge of 4.96% for capital projects placed in service in 2021 for the Company’s PEU subsidiary, which was finally granted by the NHPUC on January 27, 2023. This QCPAC increase was effective for services rendered back to October 18, 2022. Revenues from the unregulated water service business decreased 37.3% from the prior year due to the non-renewal of its largest service contract by the Town of Salisbury, which expired on June 30, 2022.

Operating Expenses have increased approximately 2.2% 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.

Operating Income has decreased year-over-year as a result of the revenue decrease, in addition to the increased operating costs.

Interest Expense increased year-over-year by 4.2% due to 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 income tax provision in the current year reflects the tax treatment for the Municipal Acquisition Regulatory Asset (MARA), as a permanent book to tax difference in deductible amounts. As of the end of the first quarter, the tax benefit rate is 16.9% versus the statutory rate provision of 27.00%.

The first quarter pre-tax loss for 2023 is higher than the pre-tax loss for 2022, 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 18.1% lower than EBITDA for the same period last year due to the decreased revenues year-over-year, and the increases in operating expenses, as previously discussed.

Balance Sheet

	(000's)	
	As of March 31, 2023 (Unaudited)	As of December 31, 2022 (Audited)
<u>Assets</u>		
Property, Plant & Equipment, Net	\$ 245,684	\$ 247,062
Current Assets:		
Cash	1,972	3,138
Restricted Cash	11,528	10,970
Restricted Cash – Bond Project Funds	0	219
Accounts Receivable	6,514	8,341
Inventory	1,108	991
Other Current Assets ^{Note 1}	<u>1,111</u>	<u>1,983</u>
Total Current Assets	<u>22,233</u>	<u>25,642</u>
Other Assets:		
Acquisition Premium	62,340	62,899
Other Assets	<u>9,242</u>	<u>9,285</u>
Total Other Assets	<u>71,582</u>	<u>72,184</u>
TOTAL ASSETS	<u>\$ 339,499</u>	<u>\$ 344,888</u>
<u>Shareholders' Equity and Liabilities</u>		
Shareholders' Equity	\$ <u>(7,348)</u>	\$ <u>(5,277)</u>
Bonds, Notes and Mortgages	<u>231,844</u>	<u>232,859</u>
Current Liabilities:		
Lines of Credit ^{Note 2}	7,224	6,246
Current Portion of Long-Term Debt	8,032	7,998
Other Current Liabilities ^{Notes 3 & 4}	<u>3,347</u>	<u>6,085</u>
Total Current Liabilities	<u>18,603</u>	<u>20,329</u>
Other Long-Term Liabilities:		
CIAC, net	57,008	57,306
Deferred Income Taxes	14,012	14,418
Accrued Pension Liability ^{Note 5}	6,323	6,177
Other Long-Term Liabilities	<u>19,057</u>	<u>19,076</u>
Total Other Long-Term Liabilities	<u>96,400</u>	<u>96,977</u>
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	<u>\$ 339,499</u>	<u>\$ 344,888</u>

Notes to Balance Sheet

Note 1 (Other Current Assets) – At December 31, 2022, approximately \$1.1 million of this balance was comprised of prepaid property taxes, which were expensed in the first quarter of 2023, relating to taxes paid in November and December of 2022 for the second half of the property tax year ended March 31, 2023. The balance of prepaid property taxes as of March 31, 2023 is \$0.

Note 2 (Lines of Credit) – At March 31, 2023, \$8.2 million of this balance was comprised of the borrowed balance against the Fixed Asset Lines of Credit, which exist for both Pennichuck Water Works and Pennichuck East Utility. This balance has been significantly reduced since the end of March, and currently has a balance of \$2.4 million, due to the payoff of the PWW FALOC with the proceeds brought into the Company from the April 26, 2023 issuance of bonds by Pennichuck Water Works, Inc., as a reimbursement of capital expenditures funded during 2022.

Note 3 (Other Current Liabilities) – At March 31, 2023, approximately \$1.3 million of this balance is comprised of accounts payable which relates to activities that were performed in the first quarter of 2023.

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 2023, \$125,000 was contributed into the Pension Plan, while approximately \$230,000 in benefit payments were made to participants and approximately \$92,000 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 2023 as compared to the first quarter of 2022 is as follows:

	(000's)	
	<u>March 31, 2023</u> (Unaudited)	<u>March 31, 2022</u> (Unaudited)
Operating Activities:		
Net Income (Loss)	\$ (1,978)	\$ (1,333)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	2,258	2,243
Provision for Deferred Taxes	(394)	(126)
Other	(8)	(8)
Changes in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	1,827	(543)
(Increase) Decrease in Inventory	(117)	(134)
(Increase) Decrease in Other Assets	1,656	1,458
Increase (Decrease) in Accounts Payable	(2,036)	(1,347)
Increase (Decrease) in Other Liabilities	<u>(612)</u>	<u>(659)</u>
Net Cash Provided by (Used in) Operating Activities	<u>596</u>	<u>(449)</u>
Investing Activities:		
Purchases of Property, Plant & Equipment, including the Debt Component of AFUDC	(620)	(653)
(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>(620)</u>	<u>(653)</u>
Financing Activities:		
Borrowings (Repayments) on Lines of Credit	988	3,011
Payments on Long-term Debt	(2,003)	(3,030)
Contributions in Aid of Construction	-	4
Proceeds from Long-term Borrowings	287	-
Debt Issuance Costs	(5)	(2)
Dividends Paid	<u>(70)</u>	<u>(70)</u>
Net Cash Provided by (Used in) Financing Activities	<u>(803)</u>	<u>(87)</u>
Increase (Decrease) in Cash and Cash Equivalents	(827)	(1,189)
Cash and Cash Equivalents at Beginning of Period	<u>14,327</u>	<u>14,403</u>
Cash and Cash Equivalents at End of Period	\$ <u>13,500</u>	\$ <u>13,214</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 2023 were \$0.8 million as compared to \$0.6 million in the first quarter of 2022. Major expenditures in the first quarter of 2022 included:

PWW – Radio Project	\$101,000
PEU – Londonderry System Improvements	\$ 56,000
PWW – Renewed Services	\$ 54,000
PWW – Network Migration	\$ 39,000

Rate Case – Pennichuck Water Works, Inc. (PWW)

On June 27, 2022, Pennichuck Water Works 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 its request for temporary rates at current rates, this rate increase will be earned prospectively once new permanent rates are 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 Pennichuck Water Works is expected in the summer of 2023.

Qualified Capital Project Adjustment Charge

Pennichuck Water Works – On February 14, 2023, Pennichuck Water Works filed a petition with the NHPUC for a 1.37% surcharge on all capital improvements completed and placed in service by Pennichuck Water Works in 2022. The Commission has not yet issued an Order approving this requested surcharge. When the Commission issues the Order, the approved surcharge will become effective retroactively on a “services rendered” basis. The Order will allow recoupment of the surcharge from all its customers based on their actual bills incurred between the date of the issuance of bonds on April 26, 2023, and the final effective date of the Order. Final approval by the NHPUC on this QCPAC surcharge is expected to be received in late 2023. And it is anticipated that this surcharge will be billed to customers over a one-to-three month period following the approval of the recoupment calculation of the approved surcharge.

Pennichuck East Utility – On January 27, 2023, the NHPUC issued Order Nisi No. 26,767 approving a Pennichuck East Utility QCPAC surcharge of 0.94% for capital projects placed in service in 2021. This Order became effective with services rendered back to October 18, 2022 and allowed for recovery in the form of a monthly recoupment surcharge, to be collected over a three-month period from the date of the Order.

On February 14, 2023, Pennichuck East Utility filed a petition with the NHPUC for a 1.36% surcharge on all capital improvements completed and placed in service by Pennichuck East Utility in 2022. The Commission has not issued an Order approving this requested surcharge. When the Commission issues the Order, the approved surcharge will become effective retroactively on a “services rendered” basis. The Order will allow recoupment of the surcharge from all its customers based on their actual bills incurred between the date for which the annual long-term debt funding for these projects is closed upon, and the final effective date of the Order. Final approval by the NHPUC on this QCPAC surcharge is expected to be received in late 2023, and will most likely be collected in bills over a three-month period of time.

Subsequent Events

Financing

On April 26, 2023, the Company’s Pennichuck Water Works, Inc. subsidiary issued approximately \$6.1 million of tax-exempt and taxable bonds through the NH Business Finance Authority as reimbursement for its 2022 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, as the second issuance under its multi-year bonding authority approved by these key stakeholders in 2020. This issuance had previously received NHPUC approval on Order No. 26,459, dated March 2, 2021, which authorized up to \$57.5 million in bonds via multiple issuances for the years 2021 – 2025.

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

The Annual Meeting of Sole Shareholder will be held on Saturday, May 6, 2023, 9 a.m. at Pennichuck’s Distribution Facility in Merrimack.