



**Pennichuck Corporation**

**Quarterly Report to the**

**Sole Shareholder  
(City of Nashua Board of Aldermen)**

**Quarter Ended June 30, 2023**

### **Executive Summary**

- Revenues for the second quarter of 2023 were 7.6% lower than the prior year (\$13.3 million versus \$14.4 million). Revenues on a year-to-date basis were also lower when compared to the prior year (\$25.0 million for the six months in 2023 versus \$26.6 million in 2022). Both are primarily due to (1) lower consumption in 2023 versus 2022, as the regulated utilities were negatively impacted by higher-than-normal rainfall in late spring that continued throughout the month of June; (2) booking and recognition of PEU approved recoupment revenues of \$936,000, which were recorded in March of last year, upon receipt of the final NHPUC Order for the 2020 filed rate case for that Company and (3) revenues from the unregulated Water Service business decreased 35.7% from the prior year due to the non-renewal of its largest service contract with the Town of Salisbury, which expired on June 30, 2022.
- Operating Income for the second quarter of 2023 was 31.3% lower than the prior year (\$2.22 million versus \$3.22 million). Operating Income on a year-to-date basis was also lower in comparison to the prior year (\$3.38 million for 2023 versus \$5.14 million), both of which are attributed to the aforementioned lower revenues levels.
- Pre-Tax Loss for the second quarter of 2023 was \$0.87 million versus the pre-tax loss of \$0.40 for 2022. On a year-to-date basis, the pre-tax loss was \$3.3 million for 2023 versus \$1.9 million for 2022.
- Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA) for the second quarter of 2023 was 19.0% lower than the prior year (\$3.4 million versus \$4.2 million). On a year-to-date basis, EBITDA was 11.5% lower than the prior year (\$8.5 million for 2023 versus \$9.6 million for 2022).
- 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 2023 were \$2.9 million compared to \$1.7 million in the second quarter of 2022. On a year-to-date basis, capital expenditures for 2023 were \$3.6 million compared to \$2.3 million in 2022.

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 2023 as compared to the second quarter of 2022 are as follows:

	(000’s)			
	<u>Quarter Ended</u>		<u>Year-to-Date</u>	
	<u>June 30, 2023</u>	<u>June 30, 2022</u>	<u>June 30, 2023</u>	<u>June 30, 2022</u>
Revenues				
Regulated Utilities	\$ 12,746	\$ 13,576	\$ 23,963	\$ 25,022
Other	<u>518</u>	<u>782</u>	<u>1,044</u>	<u>1,621</u>
Total	\$ 13,264	\$ 14,358	\$ 25,007	\$ 26,643
Operating Expenses				
Regulated Utilities	\$ 10,646	\$ 10,418	\$ 20,803	\$ 20,009
Other	<u>393</u>	<u>724</u>	<u>822</u>	<u>1,492</u>
Total	\$ 11,039	\$ 11,142	\$ 21,625	\$ 21,501
Operating Income	\$ 2,224	\$ 3,216	\$ 3,381	\$ 5,142
Non-Operational Income (Expense)	575	0	575	0
Net Interest Expense	<u>(3,672)</u>	<u>(3,616)</u>	<u>(7,208)</u>	<u>(7,008)</u>
Pre-Tax Income (Loss)	\$ (873)	\$ (400)	\$ (3,253)	\$ (1,866)
Income Tax Benefit (Expense)	<u>47</u>	<u>(331)</u>	<u>448</u>	<u>(198)</u>
Net Income (Loss)	\$ <u>(826)</u>	\$ <u>(731)</u>	\$ <u>(2,804)</u>	\$ <u>(2,064)</u>
Earnings Before Interest, Taxes, Depreciation and Amortization	\$ <u>5,082</u>	\$ <u>5,442</u>	\$ <u>8,495</u>	\$ <u>9,611</u>

Revenues from water utility operations decreased 5.9% in the quarter and 4.0% 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 decreased 37.5% on a year-to-date basis, as previously discussed in the “Executive Summary.”

Operating Expenses have increased approximately 0.5% 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 2.9% 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 second quarter pre-tax loss and year-to-date pre-tax loss for 2023 are both higher than the pre-tax loss for 2022, due to the revenue and expense variations discussed above.

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 second quarter, the tax benefit rate is 13.8% versus the statutory rate provision of 27.00%.

Earnings before interest, taxes, depreciation and amortization (EBITDA) is 11.5% 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 June 30, 2023 (Unaudited)	As of December 31, 2022 (Audited)
<u>Assets</u>		
Property, Plant & Equipment, Net	\$ 246,813	\$ 247,062
Current Assets:		
Cash	1,567	3,138
Restricted Cash	12,479	10,970
Restricted Cash – Bond Project Funds	4	219
Accounts Receivable	8,023	8,341
Inventory	1,105	991
Other Current Assets <sup>Note 1</sup>	<u>2,358</u>	<u>1,983</u>
Total Current Assets	<u>25,536</u>	<u>25,642</u>
Other Assets:		
Acquisition Premium	61,776	62,899
Other Assets	<u>9,171</u>	<u>9,285</u>
Total Other Assets	<u>70,947</u>	<u>72,184</u>
TOTAL ASSETS	<u>\$ 343,296</u>	<u>\$ 344,888</u>
<u>Shareholders' Equity and Liabilities</u>		
Shareholders' Equity	\$ <u>(8,217)</u>	\$ <u>(5,277)</u>
Bonds, Notes and Mortgages <sup>Note 2</sup>	<u>238,431</u>	<u>232,859</u>
Current Liabilities:		
Lines of Credit <sup>Note 3</sup>	2,951	6,246
Current Portion of Long-Term Debt	7,232	7,998
Other Current Liabilities <sup>Notes 3 &amp; 4</sup>	<u>6,379</u>	<u>6,085</u>
Total Current Liabilities	<u>16,562</u>	<u>20,329</u>
Other Long-Term Liabilities:		
CIAC, net	57,034	57,306
Deferred Income Taxes	13,993	14,418
Accrued Pension Liability <sup>Note 5</sup>	6,345	6,177
Other Long-Term Liabilities	<u>19,148</u>	<u>19,076</u>
Total Other Long-Term Liabilities	<u>96,520</u>	<u>96,977</u>
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	<u>\$ 343,296</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 June 30, 2023 is \$1.1 million.

Note 2 (Bonds, Notes and Mortgages) – At June 30, 2023, approximately \$6.0 million of this balance is comprised of tax-exempt and taxable bonds issued on April 26, 2023. These bonds were issued through the NH Business Finance Authority as reimbursement for its 2022 capital improvements in Pennichuck Water Works' water supply, distribution and support systems.

Note 3 (Lines of Credit) – At June 30, 2023, \$3.0 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. These 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 3 (Other Current Liabilities) – At June 30, 2023, approximately \$3.5 million of this balance is comprised of accounts payable which relates to activities that were performed in the second quarter of 2023.

Note 4 (Other Current Liabilities) – At June 30, 2023, approximately \$1.3 million 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 six months of 2023, \$375,000 was contributed into the Pension Plan, while approximately \$470,000 in benefit payments were made to participants and approximately \$199,000 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)			
	Quarter Ended		Year-to-Date	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Operating Activities:				
Net Income (Loss)	\$ <u>(826)</u>	\$ <u>(731)</u>	\$ <u>(2,804)</u>	\$ <u>(2,064)</u>
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:				
Depreciation and Amortization	2,283	2,224	4,541	4,467
Provision for Deferred Taxes	(39)	339	(433)	213
Other	(584)	(9)	(592)	(17)
Changes in Assets and Liabilities:				
(Increase) Decrease in Accounts Receivable	(1,509)	(612)	318	(1,155)
(Increase) Decrease in Inventory	3	(50)	(114)	(184)
(Increase) Decrease in Other Assets	(371)	(625)	1,286	1,184
Increase (Decrease) in Accounts Payable	1,924	1,032	246	(315)
Increase (Decrease) in Other Liabilities	<u>1,285</u>	<u>1,092</u>	<u>314</u>	<u>359</u>
Net Cash Provided by (Used in) Operating Activities	<u>2,166</u>	<u>2,660</u>	<u>2,762</u>	<u>2,488</u>
Investing Activities:				
Purchases of Property, Plant & Equipment, including the Debt Component of AFUDC	(3,260)	(1,787)	(3,880)	(2,440)
Proceeds from Sale of Property, Plant & Equipment	791	-	791	-
(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	(2,469)	(1,787)	(3,089)	(2,440)
Financing Activities:				
Borrowings (Repayments) on Lines of Credit	(4,282)	(7,242)	(3,294)	(4,232)
Payments on Long-term Debt	(2,262)	(2,480)	(4,265)	(5,510)
Contributions in Aid of Construction	222	6	223	10
Proceeds from Long-term Borrowings	7,545	6,785	7,832	6,785
Debt Issuance Costs	(301)	2	(306)	(276)
Dividends Paid	<u>(69)</u>	<u>(70)</u>	<u>(140)</u>	<u>(140)</u>
Net Cash Provided by (Used in) Financing Activities	<u>853</u>	<u>(2,999)</u>	<u>50</u>	<u>(3,363)</u>
Increase (Decrease) in Cash and Cash Equivalents	550	(2,126)	(277)	(3,315)
Cash and Cash Equivalents at Beginning of Period	<u>13,500</u>	<u>13,214</u>	<u>14,327</u>	<u>14,403</u>
Cash and Cash Equivalents at End of Period	<u>\$ 14,050</u>	<u>\$ 11,088</u>	<u>\$ 14,050</u>	<u>\$ 11,088</u>

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

### Capital Expenditures

Capital Expenditures in the second quarter of 2023 were \$2.9 million as compared to \$1.7 million in the second quarter of 2022. Major expenditures in the first half of 2023 included:

PWW – Filter Media Replacement	\$ 596,000
PWW – Raymond Street Main Replacement	\$ 252,000
PWW – Salem Street Main Replacement	\$ 236,000
PEU – Hanover Street Main Replacement	\$ 228,000

### 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.

On July 27, 2023, the NHPUC issued Order No. 26,862 approving an overall permanent rate increase of 10.20%, becoming effective with services rendered back to the date of the order. The 10.20% rate increase is inclusive of a 3.90% QCPAC surcharge which was approved on December 9, 2021 in Order No. 26,555, a 1.56% QCPAC surcharge which was approved on March 29, 2022 in Order No. 26,598, and a 1.80% QCPAC surcharge which was approved on October 11, 2022 in Order No. 26,697, resulting in a net increase of billed rates to customers over and above the QCPAC surcharges of 2.94%.

### Qualified Capital Project Adjustment Charge

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 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 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.

### Financing

Pennichuck Water Works - 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.

On May 25, 2023, the NH Public Utility Commission by Order *Nisi* No. 26,827, approved Pennichuck Water Works petition for approval to renew and extend its Fixed Asset Line of Credit with TD Bank, NA, ("FALOC") in Docket No. DW 23-040. On June 28, 2023, the Company closed the Fixed Asset Line of Credit renewal with TD Bank, NA in the amount of \$12,000,000 for two years. The FALOC is used to fund construction work in progress on capital projects, which will be refinanced into bond indebtedness, annually.

Pennichuck East Utility - On August 3, 2023, the NH Public Utility Commission by Order *Nisi* No. 26,869, approved Pennichuck East Utility's petition for approval to renew, extend, and increase its Fixed Asset Line of Credit with CoBank, ACB ("FALOC") from \$3,000,000 to \$4,000,000 for three years. The FALOC is used to fund construction work in progress on capital projects, which will be refinanced into a long-term debt obligation, annually. PEU's current FALOC is set to expire on September 30, 2023, with an expected closing date on the new \$4,000,000 in the Fall of 2023.

### Subsequent Events

Pennichuck Water Works – On August 23, 2023, the NHPUC issued Order *Nisi* 26,875 approving a Pennichuck Water Works surcharge of 1.36% for capital projects placed in service in 2022. This order became effective with services rendered back to April 26, 2023, 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.