



Pennichuck Corporation

Quarterly Report to the

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

Quarter Ended March 31, 2024

Executive Summary

- Revenues for the first quarter of 2024 were 3.7% higher than the prior year (\$12.17 million versus \$11.74 million).
- Operating Income for the first quarter of 2024 was 23.3% higher than the prior year (\$1.43 million versus \$1.16 million) due to lower revenues and increased operating expenses year-over-year.
- Pre-Tax Loss for the first quarter of 2024 was 26.9% lower than the prior year loss (\$1.74 million versus \$2.38 million).
- Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA) for the first quarter of 2024 were 11.1% higher than the prior year (\$3.79 million versus \$3.41 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 2024 were \$1.83 million compared to \$0.84 million in the first quarter of 2023.
- The Annual Meeting of Sole Shareholder was held on Saturday, May 4, 2024, 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 2024 as compared to the first quarter of 2023 are as follows:

	(000’s)	
	Quarter Ended March 31, 2024	Quarter Ended March 31, 2023
	(Unaudited)	(Unaudited)
Revenues		
Regulated Utilities	\$11,577	\$ 11,217
Other	<u>590</u>	<u>526</u>
Total	\$12,167	\$ 11,743
Operating Expenses		
Regulated Utilities	\$10,206	\$ 10,157
Other	<u>534</u>	<u>429</u>
Total	\$10,740	\$ 10,586
Operating Income	\$ 1,427	\$ 1,157
Non-Operational Income (Expense)	-	-
Net Interest Expense	<u>(3,166)</u>	<u>(3,536)</u>
Pre-Tax (Loss)	\$ (1,739)	\$ (2,379)
Income Tax Provision (Benefit)	<u>(323)</u>	<u>(401)</u>
Net (Loss)	<u>\$ (1,416)</u>	<u>\$ (1,978)</u>
Earnings Before Interest, Taxes, Depreciation and Amortization	<u>\$ 3,789</u>	<u>\$ 3,413</u>

Revenues from water utility operations increased year-over-year by approximately 3.2%. The increase is chiefly attributable to an approved overall increase in water rates of 10.2% for the PWW rate case approved on July 27, 2023 by the NHPUC. Revenues from the unregulated water service business increased 12.0% from the prior year, chiefly due to the addition of the Town of Contoocook Village maintenance contract.

Operating Expenses have increased approximately 1.5% year-over-year. The increase is attributable to increased maintenance related activities within the regulated utilities. As well as general administrative costs which include benefits and general liability insurance. The variance in costs for the Service Company chiefly relates to contract service requirements associated with the new Town of Contoocook contract.

Operating Income has increased year-over-year as a result of the revenue increase, previously noted.

Interest Expense decreased year-over-year by 10.5% due to the full amortization of the debt costs associated with the 2014 Bond escrow deposits, at the end 2023. The escrow deposits were required to facilitate the advance refunding of the 2014 & 2015 bonds, which resulted from the issuance of \$73.6 million of taxable bonds by Pennichuck Water Works on August 26, 2020.

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 18.5% versus the statutory rate provision of 26.9%.

The first quarter pre-tax loss for 2024 is lower than the pre-tax loss for 2023, 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 11.0% higher than EBITDA for the same period last year due to the increased revenues year-over-year, as previously discussed.

Balance Sheet

	(000's)	
	As of March 31, 2024 (Unaudited)	As of December 31, 2023 (Audited)
<u>Assets</u>		
Property, Plant & Equipment, Net	\$ 251,651	\$ 251,517
Current Assets:		
Cash	1,515	707
Restricted Cash	7,980	9,934
Restricted Cash – Bond Project Funds	0	221
Accounts Receivable	8,809	8,535
Inventory	1,524	1,194
Other Current Assets ^{Note 1}	<u>892</u>	<u>1,861</u>
Total Current Assets	<u>20,720</u>	<u>22,452</u>
Other Assets:		
Acquisition Premium	60,069	60,646
Other Assets	<u>8,475</u>	<u>8,355</u>
Total Other Assets	<u>68,544</u>	<u>69,001</u>
TOTAL ASSETS	\$ <u>340,915</u>	\$ <u>342,970</u>
<u>Shareholders' Equity and Liabilities</u>		
Shareholders' Equity	\$ <u>(12,055)</u>	\$ <u>(10,585)</u>
Bonds, Notes and Mortgages	<u>234,973</u>	<u>236,718</u>
Current Liabilities:		
Lines of Credit ^{Note 2}	10,694	8,204
Current Portion of Long-Term Debt	7,467	7,399
Other Current Liabilities ^{Notes 3 & 4}	<u>4,609</u>	<u>6,629</u>
Total Current Liabilities	<u>22,770</u>	<u>22,232</u>
Other Long-Term Liabilities:		
CIAC, net	57,854	56,961
Deferred Income Taxes	13,509	13,811
Accrued Pension Liability ^{Note 5}	5,042	5,018
Other Long-Term Liabilities	<u>18,822</u>	<u>18,815</u>
Total Other Long-Term Liabilities	<u>95,227</u>	<u>94,605</u>
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	\$ <u>340,915</u>	\$ <u>342,970</u>

Notes to Balance Sheet

Note 1 (Other Current Assets) – At December 31, 2023, approximately \$.9 million of this balance was comprised of prepaid property taxes, which were expensed in the first quarter of 2024, relating to taxes paid in November and December of 2023 for the second half of the property tax year ended March 31, 2024. The balance of prepaid property taxes as of March 31, 2024 is \$0.

Note 2 (Lines of Credit) – At March 31, 2024, \$10.6 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.

Note 3 (Other Current Liabilities) – At March 31, 2024, approximately \$1.7 million of this balance is comprised of accounts payable which relates to activities that were performed in the first quarter of 2024.

Note 4 (Other Current Liabilities) – At March 31, 2024, 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 2024, \$250,000 was contributed into the Pension Plan, while approximately \$267,000 in benefit payments were made to participants and approximately \$1,602,000 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 2024 as compared to the first quarter of 2023 is as follows:

	(000's)	
	<u>March 31, 2024</u> (Unaudited)	<u>March 31, 2023</u> (Unaudited)
Operating Activities:		
Net Income (Loss)	\$ <u>(1,416)</u>	\$ <u>(1,978)</u>
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	2,361	2,258
Provision for Deferred Taxes	(315)	(394)
Other	(8)	(8)
Changes in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	(274)	1,827
(Increase) Decrease in Inventory	(330)	(117)
(Increase) Decrease in Other Assets	1,139	1,656
Increase (Decrease) in Accounts Payable	(1,420)	(2,036)
Increase (Decrease) in Other Liabilities	<u>(531)</u>	<u>(612)</u>
Net Cash Provided by (Used in) Operating Activities	<u>(794)</u>	<u>596</u>
Investing Activities:		
Purchases of Property, Plant & Equipment, including the Debt Component of AFUDC	(1,023)	(620)
(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>(1,023)</u>	<u>(620)</u>
Financing Activities:		
Borrowings (Repayments) on Lines of Credit	2,491	988
Payments on Long-term Debt	(2,166)	(2,003)
Contributions in Aid of Construction	-	-
Proceeds from Long-term Borrowings	197	287
Debt Issuance Costs	(2)	(5)
Dividends Paid	<u>(70)</u>	<u>(70)</u>
Net Cash Provided by (Used in) Financing Activities	<u>450</u>	<u>(803)</u>
Increase (Decrease) in Cash and Cash Equivalents	(1,367)	(827)
Cash and Cash Equivalents at Beginning of Period	<u>10,862</u>	<u>14,327</u>
Cash and Cash Equivalents at End of Period	<u>\$ 9,495</u>	<u>\$ 13,500</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 2024 were \$1.8 million as compared to \$0.8 million in the first quarter of 2023. Major expenditures in the first quarter of 2024 included:

PWW – Radio Project	\$ 231,000
PEU – Londonderry System Improvements	\$ 220,000
PWW – Clicksoft Replacement (Sales Force)	\$ 113,000

Consolidated Rate Case & Merger of Subsidiaries–Pennichuck Water Works, Inc. (PWW), Pennichuck East Utilities, Inc. (PEU), and Pittsfield Aqueduct, Inc. (PAC)

On November 21, 2023, the Company’s regulated subsidiaries, Pennichuck Water, Pennichuck East, and PAC filed a joint petition with the NHPUC seeking approval of a consolidation of allowed water rates, inclusive of the water rates and revenues for each of the utilities. The proposed structure for the consolidated rates is substantially the same as the current rate structure for Pennichuck Water. Additionally, on December 15, 2023, Pennichuck Water, Pennichuck East, and PAC filed a joint petition with the NHPUC seeking the approval of a merger of these three entities into one surviving entity, Pennichuck Water.

After approvals by the NHPUC, the consolidation of entities and rates would require the approval of the Company’s sole stockholder, the City of Nashua and the Company’s Board of Directors. Additionally, certain amendments to existing agreements and documents will need to be approved by Pennichuck Water’s Board of Directors, as well as the existing lenders to the Company, Pennichuck Water, Pennichuck East, and PAC, all of which has been discussed with the pertinent parties. Final approval by the NHPUC on the proposed consolidation of rates and merger of subsidiaries is expected to be received in late 2024 or early 2025.

Qualified Capital Project Adjustment Charge

Pennichuck Water Works – On February 15, 2024, Pennichuck Water Works filed a petition with the NHPUC for a 2.59% surcharge on all capital improvements completed and placed in service by Pennichuck Water Works in 2023. 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 25, 2024, and the final effective date of the Order. Final approval by the NHPUC on this QCPAC surcharge is expected to be received in late 2024. 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 February 14, 2024, Pennichuck East Utility filed a petition with the NHPUC for a 2.46% surcharge on all capital improvements completed and placed in service by Pennichuck East Utility in 2023. 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 2024 and will most likely be collected in bills over a three-month period of time.

Subsequent Events

Financing

On April 25, 2024, the Company’s Pennichuck Water Works, Inc. subsidiary issued approximately \$9.5 million of tax-exempt and taxable bonds through the NH Business Finance Authority as reimbursement for its 2023 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 fourth 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 was held on Saturday, May 4, 2024, 9 a.m. at Pennichuck’s Distribution Facility in Merrimack.