



Pennichuck Corporation

Quarterly Report to the

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

Quarter Ended September 30, 2024

Executive Summary

- Revenues for the third quarter of 2024 were 18.9% higher than the prior year (\$17.3 million versus \$14.6 million). Revenues on a year-to-date basis were also higher when compared to prior year (\$43.3 million for the nine months in 2024 versus \$39.6 million in 2023). This was due to higher consumption during the quarter, coupled with the approved overall increase in water rates of 10.2% for the PWV rate case approved on July 27, 2023, by the NHPUC. Revenues from the unregulated water service business also increased 13.1% on a year-to-date basis due to the addition of the Town of Contoocook Village maintenance contract.
- Operating Income for the third quarter and year-to date 2024, were both higher than the prior year due to the increased revenues, as covered later in this memo, which exceeded the increases in operating expenses year-over-year.
- Pre-Tax Income for the third quarter of 2024 was \$2.0 million versus the pre-tax loss of \$0.2 for 2023. This is primarily due to the increase in revenues in 2024 over 2023. On a year-to-date basis, the pre-tax loss was \$0.6 million for 2024 versus \$3.5 million for 2023.
- Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA) for the third quarter of 2024 were 50.9% higher than the prior year (\$8.6 million versus \$5.7 million for 2023). On a year-to-date basis EBITDA was 20.4% higher than the prior year (\$17.1 million versus \$14.2 million for 2023). In both instances, it was primarily due to the revenue increases as previously noted.
- 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 \$6.4 million to the City in principal, interest and dividends to fund the City Acquisition Debt. This is consistent with prior years.
- Capital expenditures for the third quarter of 2024 were \$5.6 million compared to \$3.8 million in the third quarter of 2023. On a year-to-date basis, capital expenditures for 2024 were \$8.8 million compared to \$7.3 million in 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 2024 as compared to the third quarter of 2023 are as follows:

	Quarter Ended		Year-to-Date	
	September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
	(000’s)			
Revenues				
Regulated Utilities	\$ 16,680	\$ 14,028	\$ 41,470	\$ 37,991
Other	<u>613</u>	<u>594</u>	<u>1,852</u>	<u>1,637</u>
Total	\$ 17,293	\$ 14,622	\$ 43,322	\$ 39,628
Operating Expenses				
Regulated Utilities	\$ 11,417	\$ 10,699	\$ 32,552	\$ 31,502
Other	<u>568</u>	<u>482</u>	<u>1,654</u>	<u>1,307</u>
Total	\$ 11,985	\$ 11,181	\$ 34,206	\$ 32,809
Operating Income	\$ 5,308	\$ 3,441	\$ 9,116	\$ 6,819
Non-Operational Income (Expense)	0	(7)	0	568
Net Interest Expense	<u>(3,292)</u>	<u>(3,646)</u>	<u>(9,738)</u>	<u>(10,854)</u>
Pre-Tax Income (Loss)	\$ 2,016	\$ (212)	\$ (622)	\$ (3,467)
Income Tax Benefit (Expense)	<u>(739)</u>	<u>187</u>	<u>(280)</u>	<u>638</u>
Net Income (Loss)	\$ <u>1,277</u>	\$ <u>(25)</u>	\$ <u>(902)</u>	\$ <u>(2,829)</u>
Earnings Before Interest, Taxes, Depreciation and Amortization	\$ <u>8,555</u>	\$ <u>5,690</u>	\$ <u>17,090</u>	\$ <u>14,185</u>

Revenues from water utility operations increased 19.3% in the quarter and 9.2 % on a year-to-date basis, versus last year, as discussed in the “Executive Summary”. Revenues from the unregulated water service business also increased 13.1% on a year-to-date basis as previously discussed.

Operating Expenses have increased approximately 4.3% 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 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, as previously noted.

Interest Expense decreased year-over-year by 11.0% 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 third quarter, the effective tax rate is 44.6% versus the statutory rate provision of 26.9%.

Earnings before interest, taxes, depreciation, and amortization (EBITDA) is 20.4% 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 <u>September 30, 2024</u> (Unaudited)	As of <u>December 31, 2023</u> (Audited)
<u>Assets</u>		
Property, Plant & Equipment, Net	\$ 260,712	\$ 251,517
Current Assets:		
Cash	831	707
Restricted Cash	7,234	9,934
Restricted Cash – Bond Project Funds	-	221
Accounts Receivable	9,534	8,535
Inventory	1,373	1,194
Other Current Assets ^{Note 1}	<u>1,439</u>	<u>1,861</u>
Total Current Assets	<u>20,411</u>	<u>22,452</u>
Other Assets:		
Acquisition Premium	58,902	60,646
Other Assets	<u>8,579</u>	<u>8,355</u>
Total Other Assets	<u>67,481</u>	<u>69,001</u>
TOTAL ASSETS	<u>\$ 348,604</u>	<u>\$ 342,970</u>
<u>Shareholders' Equity and Liabilities</u>		
Shareholders' Equity	\$ <u>(11,701)</u>	\$ <u>(10,585)</u>
Bonds, Notes and Mortgages	<u>240,809</u>	<u>236,718</u>
Current Liabilities:		
Lines of Credit ^{Note 2}	5,341	8,204
Current Portion of Long-Term Debt	7,594	7,399
Other Current Liabilities ^{Notes 3 & 4}	<u>7,136</u>	<u>6,629</u>
Total Current Liabilities	<u>20,071</u>	<u>22,232</u>
Other Long-Term Liabilities:		
CIAC, net	61,527	56,961
Deferred Income Taxes	14,118	13,811
Accrued Pension Liability ^{Note 5}	4,838	5,018
Other Long-Term Liabilities	<u>18,942</u>	<u>18,815</u>
Total Other Long-Term Liabilities	<u>99,425</u>	<u>94,605</u>
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	<u>\$ 348,604</u>	<u>\$ 342,970</u>

Notes to Balance Sheet

Note 1 (Other Current Assets) – At September 30, 2024, the balance of \$1.4 represents a decrease of \$0.9 million from the end of 2023, due to the expensing of prepaid property taxes in the first three quarters of 2024.

Note 2 (Lines of Credit) – At September 30, 2024, \$5.3 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 September 30, 2024, approximately \$3.8 million of this balance is comprised of accounts payable which relates to activities that were performed in the third quarter of 2024.

Note 4 (Other Current Liabilities) – At September 30, 2024, approximately \$0.3 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 first nine months of 2024, \$1.0 million was contributed into the Pension Plan, while approximately \$942,000 in benefit payments were made to participants and approximately \$2,991,000 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 2024 as compared to the third quarter of 2023 is as follows:

	(000's)			
	<u>Quarter Ended</u>		<u>Year-to-Date</u>	
	<u>September 30, 2024</u>	<u>September 30, 2023</u>	<u>September 30, 2024</u>	<u>September 30, 2023</u>
Operating Activities:				
Net Income (Loss)	\$ <u>1,277</u>	\$ <u>(26)</u>	\$ <u>(902)</u>	\$ <u>(2,829)</u>
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:				
Depreciation and Amortization	2,326	2,255	7,338	6,796
Provision for Deferred Taxes	746	(182)	(25)	(615)
Other	(8)	(8)	302	(600)
Changes in Assets and Liabilities:				
(Increase) Decrease in Accounts Receivable	927	(444)	(999)	(125)
(Increase) Decrease in Inventory	(76)	26	(179)	(89)
(Increase) Decrease in Other Assets	858	1,840	1,299	3,163
Increase (Decrease) in Accounts Payable	(82)	(1,417)	660	(1,170)
Increase (Decrease) in Other Liabilities	<u>(631)</u>	<u>(860)</u>	<u>(262)</u>	<u>(584)</u>
Net Cash Provided by (Used in) Operating Activities	<u>5,337</u>	<u>1,183</u>	<u>7,232</u>	<u>3,947</u>
Investing Activities:				
Purchases of Property, Plant & Equipment, including the Debt Component of AFUDC	(5,667)	(3,797)	(10,246)	(7,677)
Proceeds from Sale of Property, Plant & Equipment	-	-	-	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	<u>(5,667)</u>	<u>(3,797)</u>	<u>(10,246)</u>	<u>(6,886)</u>
Financing Activities:				
Borrowings (Repayments) on Lines of Credit	3,036	2,709	(2,862)	(585)
Payments on Long-term Debt	(2,589)	(2,489)	(6,060)	(6,755)
Contributions in Aid of Construction	18	-	32	222
Proceeds from Long-term Borrowings	-	745	9,707	8,577
Debt Issuance Costs	(20)	(26)	(390)	(332)
Dividends Paid	<u>(69)</u>	<u>(69)</u>	<u>(209)</u>	<u>(209)</u>
Net Cash Provided by (Used in) Financing Activities	<u>376</u>	<u>870</u>	<u>218</u>	<u>918</u>
Increase (Decrease) in Cash and Cash Equivalents	46	(1,744)	(2,796)	(2,021)
Cash and Cash Equivalents at Beginning of Period	<u>8,019</u>	<u>14,050</u>	<u>10,861</u>	<u>14,327</u>
Cash and Cash Equivalents at End of Period	\$ <u>8,065</u>	\$ <u>12,306</u>	\$ <u>8,065</u>	\$ <u>12,306</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 third quarter of 2024 were \$5.6 million as compared to \$3.8 million in the third quarter of 2023. Major expenditures in 2024 included:

PEU – Londonderry System Improvements	\$ 2,014,000
PWW – Bowers Dam Reconstruction	\$ 1,351,000
PWW – Newbury Street – Main Replacement	\$ 699,000

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.

Financing

Pennichuck Corporation – On, September 27, 2024, the Company’s existing \$4.0 million Working Capital Line of Credit (WCLOC) with TD Bank, N.A., was renewed and extended to September 30, 2026. This line-of-credit is a type of short-term financing that is periodically drawn upon in support of our business operations.

Pennichuck Water Works - 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.

Subsequent Events

Pennichuck East Utility – On October 30, 2024, the Company’s Pennichuck East Utility, Inc. closed on a term-loan with CoBank, ACB in the amount of \$1.9 million, for a term of 25 years. The loan proceeds were used to repay Fixed Assel Line of Credit monies borrowed from CoBank for its 2023 capital improvements in Pennichuck East’s water supply, distribution and support systems.