

PENNICHUCK WATER SPECIAL COMMITTEE

DECEMBER 1, 2016

7:00 p.m.

Aldermanic Chamber

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ROLL CALL

PUBLIC COMMENT

COMMUNICATIONS

From: Larry D. Goodhue, Chief Executive Officer, Pennichuck Corporation  
Re: Quarterly Report to Sole Shareholder for Quarter Ended March 31, 2016

From: Larry D. Goodhue, Chief Executive Officer, Pennichuck Corporation  
Re: Quarterly Report to Sole Shareholder for Quarter Ended June 30, 2016

From: Larry D. Goodhue, Chief Executive Officer, Pennichuck Corporation  
Re: Pennichuck Water Works, Inc. – Estimated Water Rate Increase

From: Larry D. Goodhue, Chief Executive Officer, Pennichuck Corporation  
Re: Pennichuck Water Works, Inc. – Water Rate Case

From: Larry D. Goodhue, Chief Executive Officer, Pennichuck Corporation  
Re: Pennichuck Water Works, Inc. – Rate Case (DW 16-806)

From: Larry D. Goodhue, Chief Executive Officer, Pennichuck Corporation  
Re: Quarterly Report to Sole Shareholder for Quarter Ended September 30, 2016

From: Larry D. Goodhue, Chief Executive Officer, Pennichuck Corporation  
Re: Pennichuck Corporation – Board Candidate – Public Interview

UNFINISHED BUSINESS – None

NEW BUSINESS – None

PUBLIC COMMENT

REMARKS BY THE ALDERMEN

POSSIBLE NON-PUBLIC SESSION

ADJOURNMENT



PENNICHUCK

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MERRIMACK, NH 03054-1947

(603) 882-5191  
FAX (603) 913-2305

WWW.PENNICHUCK.COM

May 2, 2016

Mr. Brian McCarthy, President  
Nashua Board of Aldermen  
City of Nashua  
229 Main Street  
Nashua, NH 03060

Dear President McCarthy:

Enclosed for your information is the Pennichuck Corporation Quarterly Report to the Sole Shareholder for the Quarter Ended March 31, 2016.

Please contact me at 603-913-2312 if you have any questions relative to the report.

Sincerely,

A handwritten signature in cursive script, appearing to read 'L. Goodhue'.

Larry D. Goodhue  
Chief Executive Officer

cc. Board of Aldermen  
Mayor James Donchess  
Steven Bolton, City Corporation Counsel  
John Griffin, City Chief Financial Officer



**PENNICHUCK**

**Pennichuck Corporation**

**Quarterly Report to the**

**Sole Shareholder**

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

**Quarter Ended March 31, 2016**

## **Executive Summary**

- Revenues for the first quarter of 2016 were 2.6% greater than the prior year (\$8.69 million versus \$8.47 million).
- Operating Income for the first quarter of 2016 was 23.7% below the prior year (\$0.55 million versus \$0.73 million) due to increased operating costs.
- Pre-Tax Loss for the first quarter of 2016 was 32.4% greater than the prior year loss (\$2.18 million versus \$1.65 million).
- Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA) for the first quarter of 2016 were 2.7% lower than the prior year (\$2.25 million versus \$2.31 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 2016 were \$1.8 million compared to \$1.0 million in the first quarter of 2015.
- The Annual Meeting of Sole Shareholder will be held at the Courtyard Marriott, 2200 Southwood Drive, Nashua, New Hampshire, on Saturday, May 7, 2016 at 9:00 a.m.

We continue to operate as planned. We continue to provide excellent service to our customers and there has been little or no disruption in the Company’s operations.

**Unaudited Financial Highlights**

Financial highlights on a Generally Accepted Accounting Principles (“GAAP”) basis for the first quarter of 2016 as compared to the first quarter of 2015 are as follows:

	Quarter Ended	
	<u>March 31, 2016</u> (Unaudited)	<u>March 31, 2015</u> (Unaudited)
	(000’s)	
Revenues		
Regulated Utilities	\$ 7,801	\$ 7,670
Other	<u>888</u>	<u>796</u>
Total	\$ 8,689	\$ 8,466
Operating Expenses		
Regulated Utilities	\$ 7,224	\$ 6,994
Other	<u>912</u>	<u>744</u>
Total	\$ 8,136	\$ 7,738
Operating Income	\$ 553	\$ 728
Non-Operational Expense	(1)	(1)
Other Income	43	(6)
Net Interest Expense	<u>(2,776)</u>	<u>(2,367)</u>
Pre-Tax (Loss)	\$ (2,181)	\$ (1,646)
Income Tax Benefit	<u>(601)</u>	<u>(323)</u>
Net (Loss)	\$ <u>(1,580)</u>	\$ <u>(1,323)</u>
Earnings Before Interest, Taxes Depreciation and Amortization	\$ <u>2,251</u>	\$ <u>2,309</u>

Revenues from the water utility operations increased approximately 1.7%. The increase is mainly attributable to slightly increased consumption, as well as the impact of the WICA surcharge for Pennichuck Water Works, Inc. Revenues from the unregulated water service business increased 11.8% over the prior year, partially due to an increase in business gained during the prior year, and partially due to the effect on increases in contract rates for certain existing contracts.

Operating Expenses have increased approximately 5.1% year-over-year. The increase is partially attributable to increased property taxes, pension and health insurance costs.

Operating Income has decreased year-over-year as a result of the increased operating costs.

Interest Expense increased 19.7% year-over-year due to the interest cost associated with the increased financed amounts for capital projects, partially offset by the refinancing of several debt instruments in October 2015.

The income tax benefit in the current year reflects the tax treatment for the Municipal Acquisition Regulatory Asset (MARA), which is not deductible for tax purposes. Therefore, the tax benefit rate is 27.6% versus the statutory rate benefit of 39.6% for the first quarter of 2016.

The first quarter pretax loss for 2016 is higher than the pretax loss for 2015. Typically the first quarter is the most difficult 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 2.7% lower than EBITDA for the same period last year due to increased operating costs, coupled with only slightly higher revenue levels.

***Balance Sheet***

	As of March 31, 2016 (Unaudited)	As of December 31, 2015 (Audited)
(000's)		
<b><u>Assets</u></b>		
Property, Plant & Equipment, Net	\$ <u>184,346</u>	\$ <u>183,241</u>
Current Assets:		
Cash	714	1,246
Restricted Cash	5,489	5,729
Investments – 2014 and 2015 Bond Project Funds	17,684	19,779
Investments – Bond Refund Escrow	-	-
Accounts Receivable	4,179	4,502
Inventory	708	712
Other Current Assets <sup>Note 1</sup>	<u>788</u>	<u>2,232</u>
Total Current Assets	<u>29,562</u>	<u>34,200</u>
Other Assets:		
Acquisition Premium	76,559	77,028
Other Assets	<u>16,042</u>	<u>16,194</u>
Total Other Assets	<u>92,601</u>	<u>93,222</u>
TOTAL ASSETS	\$ <u>306,509</u>	\$ <u>310,663</u>
<b><u>Shareholders' Equity and Liabilities</u></b>		
Shareholders' Equity	\$ <u>20,312</u>	\$ <u>22,041</u>
Bonds, Notes and Mortgages	<u>203,309</u>	<u>206,052</u>
Current Liabilities:		
Current Portion of Long-Term Debt	4,835	4,120
Other Current Liabilities	<u>3,687</u>	<u>3,490</u>
Total Current Liabilities	<u>8,522</u>	<u>7,610</u>
Other Long-Term Liabilities:		
CIAC, net	37,840	37,929
Deferred Income Taxes	20,001	20,642
Accrued Pension Liability <sup>Note 2</sup>	8,332	8,286
Other Long-Term Liabilities	<u>8,193</u>	<u>8,103</u>
Total Other Long-Term Liabilities	<u>74,366</u>	<u>74,960</u>
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	\$ <u>306,509</u>	\$ <u>310,663</u>

Note 1 (Other Current Assets) – At December 31, 2015, approximately \$1,335,000 of this balance is comprised of prepaid property taxes, which were expensed in the first quarter of 2016, relating to taxes paid in November and December of 2015 for the second half of the property tax year ended March 31, 2016. The balance of prepaid property taxes as of March 31, 2016, is \$0.

Note 2 (Accrued Pension Liability) – During the first quarter of 2016, \$195,000 was contributed into the Pension Plan, while approximately \$149,000 in benefit payments were made to participants and approximately \$18,000 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 2016 as compared to the first quarter of 2015 is as follows:

	<u>March 31, 2016</u> (Unaudited)	<u>March 31, 2015</u> (Unaudited)
	(000's)	
Operating Activities:		
Net Income (Loss)	\$ (1,580)	\$ (1,323)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	1,752	1,315
Provision for Deferred Taxes	(588)	(310)
Other	(22)	(11)
Changes in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	323	149
(Increase) Decrease in Inventory	4	24
(Increase) Decrease in Other Assets	1,631	1,376
Increase (Decrease) in Accounts Payable	340	(594)
Increase (Decrease) in Other Liabilities	<u>(98)</u>	<u>445</u>
Net Cash Provided by (Used in) Operating Activities	<u>1,762</u>	<u>1,071</u>
Investing Activities:		
Purchases of Property, Plant & Equipment, including the Debt Component of AFUDC	(2,514)	(1,212)
(Increase) Decrease in Restricted Cash	(4,668)	23,957
Purchase of Marketable Securities	7,002	-
Change in Deferred Land Costs and Interest in Real Estate Partnerships	<u>6</u>	<u>-</u>
Net Cash Provided by (Used in) Investing Activities	<u>(174)</u>	<u>22,745</u>
Financing Activities:		
Borrowings (Repayments) on Line of Credit	-	-
Payments on Long-term Debt	(2,098)	(24,366)
Contributions in Aid of Construction	3	-
Proceeds from Long-term Borrowings	69	1,578
Debt Issuance Costs	(24)	-
Dividends Paid	<u>(70)</u>	<u>(69)</u>
Net Cash Provided by (Used in) Financing Activities	<u>(2,120)</u>	<u>(22,857)</u>
Increase (Decrease) in Cash and Cash Equivalents	(532)	959
Cash and Cash Equivalents at Beginning of Period	<u>1,246</u>	<u>2,987</u>
Cash and Cash Equivalents at End of Period	\$ <u>714</u>	\$ <u>3,946</u>

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

## **Capital Expenditures**

Capital Expenditures in the first quarter of 2016 were \$1.8 million as compared to \$1.0 million in the first quarter of 2015. Major expenditures in the first quarter of 2016 included:

Harris Dam Spillway Reconstruction	\$ 516,000
Operations Building Design and Construction	\$ 261,000
Dean & Main Building Renovations	\$ 212,000
Vehicles, Trucks and Excavators	\$ 150,000
Asset Management and GIS System	\$ 134,000

## **Subsequent Events**

### ***Financing***

On February 2, 2016, Pennichuck Water Works, Inc. filed a petition with the New Hampshire Public Utilities Commission (NHPUC) to approve a Water Infrastructure and Conservation Adjustment (WICA) surcharge to be effective June 1, 2016, approve proposed 2016 WICA projects, and preliminarily approve proposed 2017 WICA projects.

On February 12, 2016, Pennichuck Water Works, Inc. filed a petition with the NHPUC for approval to borrow \$1,400,000 for a 30-year term from the State of New Hampshire's Drinking Water Revolving Loan Fund, to be used to replace a portion of the water main on Amherst Street, and up to three adjoining streets, in Nashua. The financing has been approved by the Pennichuck Board of Directors and the Sole Shareholder. An Order was issued by the NHPUC approving the petition on April 26, 2016, and becomes effective as of May 26, 2016.

On February 12, 2016, Pennichuck East Utility, Inc. filed a petition with the NHPUC for approval to borrow \$1,650,000 for a 20-year term from the State of New Hampshire's Drinking Water Revolving Loan Fund, to be used to replace the water main on Varney Road in the Locke Lake water system in Barnstead. The financing has been approved by the Pennichuck Board of Directors and the Sole Shareholder. An Order was issued by the NHPUC approving the petition on April 29, 2016, and becomes effective as of May 30, 2016.

On February 12, 2016, Pennichuck East Utility, Inc. filed a petition with the NHPUC for approval to borrow \$2,200,000 from CoBank, ACB for a 25-year term, to be used for capital improvement projects. The financing has been approved by the Pennichuck Board of Directors and the Sole Shareholder. An Order was issued by the NHPUC approving the petition on April 29, 2016, and becomes effective as of May 30, 2016.

On February 12, 2016, Pittsfield Aqueduct Company, Inc. filed a petition with the NHPUC for approval to borrow \$440,000 for a 30-year term under the State of New Hampshire's Drinking Water Revolving Loan Fund, to be used for the installation of a water main on Fairview Street and Catamount Road in Pittsfield. The financing has been approved by the Pennichuck Board of Directors and the Sole Shareholder. An Order was issued by the NHPUC approving the petition on April 27, 2016, and becomes effective as of May 27, 2016.

### ***Educational Programs***

The Company will be providing tours of the Water Treatment Plant to 4<sup>th</sup> grade students during the week of May 2<sup>nd</sup>.

The Company has worked with the Nashua School District and has provided a watershed protection program to 5<sup>th</sup> grade students.

### ***Flushing of Mains***

As in prior years, we have commenced the flushing of the water mains in most 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 at the Courtyard Marriott, 2200 Southwood Drive, Nashua, New Hampshire, on Saturday, May 7, 2016 at 9:00 a.m. The main purpose of the meeting is to elect four directors nominated for election. The nominees are C. George Bower, Jay N. Lustig, John D. McGrath and Preston J. Stanley, Jr.





PENNICHUCK

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August 3, 2016

Mr. Brian McCarthy, President  
Nashua Board of Aldermen  
City of Nashua  
229 Main Street  
Nashua, NH 03060

Dear President McCarthy:

Enclosed for your information is the Pennichuck Corporation Quarterly Report to the Sole Shareholder for the Quarter Ended June 30, 2016.

Please contact me at 603-913-2312 if you have any questions relative to the report.

Sincerely,

Larry D. Goodhue  
Chief Executive Officer

cc. Board of Aldermen  
Mayor James Donchess  
Steven Bolton, City Corporation Counsel  
John Griffin, City Chief Financial Officer



**Pennichuck Corporation**

**Quarterly Report to the**

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

**Quarter Ended June 30, 2016**

## **Executive Summary**

- Revenues for the second quarter of 2016 were 2.0% lower than the prior year (\$10.7 million for 2016 versus \$10.9 million for 2015). Revenues on a year-to-date basis were flat when compared to the prior year (\$19.4 million for the six months in 2016 versus \$19.4 million in 2015).
- Operating Income for the second quarter of 2016 was 26.4% below the prior year (\$2.2 million for 2016 versus \$3.0 million for 2015). Operating Income on a year-to-date basis is 25.9% lower than the prior year (\$2.7 million for 2016 versus \$3.7 million for 2015).
- Pre-Tax Income for the second quarter of 2016 was \$0.5 million versus \$0.2 million for 2015. On a year-to-date basis, the pre-tax loss was \$1.7 million for 2016 versus \$1.4 million for 2015.
- Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA) for the second quarter of 2016 was 2.2% higher than the prior year (\$4.6 million in 2016 versus \$4.5 million for 2015). On a year-to-date basis, EBITDA was \$6.9 million for 2016 versus \$6.8 million for 2015.
- 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 2016 were \$4.4 million compared to \$2.4 million in the second quarter of 2015. On a year-to-date basis, capital expenditures for 2016 were \$6.3 million compared to \$3.4 million in 2015.

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 2016 as compared to the second quarter of 2015, and the six months of 2016 as compared to the six months of 2015, are as follows:

	(\$000’s)			
	<u>Quarter Ended</u>		<u>Year-to-Date</u>	
	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Revenues				
Regulated Utilities	\$ 9,802	\$ 10,140	\$ 17,603	\$ 17,810
Other	<u>913</u>	<u>795</u>	<u>1,801</u>	<u>1,591</u>
Total	\$ 10,715	\$ 10,935	\$ 19,404	\$ 19,401
Operating Expenses				
Regulated Utilities	\$ 7,539	\$ 7,141	\$ 14,763	\$ 14,135
Other	<u>988</u>	<u>822</u>	<u>1,900</u>	<u>1,566</u>
Total	\$ 8,527	\$ 7,963	\$ 16,663	\$ 15,701
Operating Income	\$ 2,188	\$ 2,972	\$ 2,741	\$ 3,700
Non-Operational Income (Expense)	788	(41)	830	(48)
Net Interest Expense	<u>(2,510)</u>	<u>(2,699)</u>	<u>(5,286)</u>	<u>(5,066)</u>
Pre-Tax Income (Loss)	\$ 466	\$ 232	\$ (1,715)	\$ (1,414)
Income Tax Benefit (Expense)	<u>(345)</u>	<u>(180)</u>	<u>256</u>	<u>143</u>
Net Income (Loss)	\$ <u>121</u>	\$ <u>52</u>	\$ (1,459)	\$ (1,271)
Earnings Before Interest, Taxes, Depreciation and Amortization	\$ <u>4,611</u>	\$ <u>4,540</u>	\$ <u>6,874</u>	\$ <u>6,849</u>

Revenues from the water utility operations decreased 3.3% in the quarter and 1.2% on an annual basis versus last year. Accrued revenues include actual billed amounts through 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 increased 14.8% in the second quarter over the prior year, primarily due to unplanned maintenance activities. On a year-to-date basis, the unregulated water service revenues are up by 13.3%.

Operating Expenses have increased approximately 7.1% in the second quarter and 6.1% on a year-to-year basis. The increase is mainly attributable to increased direct operating costs associated with the increase in water consumption levels, as well as increases in real estate taxes and labor costs.

Operating Income has decreased year-over-year as a result of the variation in revenue and operating expense levels recognized year-to-date.

Interest Expense decreased in the second quarter due to a partial refund of interest payments related to one of our State Revolving Fund (“SRF”) notes payable. However, year-over-year it has increased 5.3% resulting from 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 income and year-to-date pretax loss for 2016 are both at higher earned amounts than the pretax levels for 2015 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 14.9% versus the statutory rate benefit of 39.6% 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 increases in Non-Operational Income (Expense) that are discussed in the Subsequent Events section.

<b><i>Balance Sheet</i></b>	(\$000's)	
	As of June 30, 2016 (Unaudited)	As of December 31, 2015 (Audited)
<b><u>Assets</u></b>		
Property, Plant & Equipment, Net	\$ <u>186,743</u>	\$ <u>183,241</u>
Current Assets:		
Cash	956	1,246
Restricted Cash	5,676	5,729
Investments – 2014 and 2015 Bond Project Funds	13,227	19,778
Accounts Receivable	5,953	4,502
Inventory	743	712
Other Current Assets <sup>Note 1</sup>	<u>1,956</u>	<u>2,233</u>
Total Current Assets	<u>28,511</u>	<u>34,200</u>
Other Assets:		
Acquisition Premium <sup>Note 2</sup>	76,087	77,028
Other Assets	<u>15,881</u>	<u>16,194</u>
Total Other Assets	<u>91,968</u>	<u>93,222</u>
TOTAL ASSETS	\$ <u>307,222</u>	\$ <u>310,663</u>
<b><u>Shareholder's Equity and Liabilities</u></b>		
Shareholder's Equity	\$ <u>20,333</u>	\$ <u>22,041</u>
Bonds, Notes and Mortgages	<u>203,955</u>	<u>206,052</u>
Current Liabilities:		
Current Portion of Long-Term Debt	4,880	4,120
Other Current Liabilities	<u>3,256</u>	<u>3,490</u>
Total Current Liabilities	<u>8,136</u>	<u>7,610</u>
Other Long-Term Liabilities:		
CIAC, net	37,914	37,929
Deferred Income Taxes	20,340	20,642
Accrued Pension Liability <sup>Note 3</sup>	8,342	8,286
Other Long-Term Liabilities	<u>8,202</u>	<u>8,103</u>
Total Other Long-Term Liabilities	<u>74,798</u>	<u>74,960</u>
TOTAL SHAREHOLDER'S EQUITY AND LIABILITIES	\$ <u>307,222</u>	\$ <u>310,663</u>

Note 1 (Other Current Assets) – At December 31, 2015, approximately \$1.3 million of this balance is comprised of prepaid property taxes, which were expensed in the first quarter of 2016, relating to taxes paid in November and December of 2015 for the second half of the property tax year ended March 31, 2016. The balance in prepaid property taxes as of June 30, 2016 is \$1.1 million, relating to amounts due in November and December of this year.

Note 2 – In accordance with GAAP, the Acquisition Premium is being written-off over the 30-year life of the principal of the City Acquisition Debt. The difference in the balance of Acquisition Premium between December 31, 2015 and June 30, 2016 is due to the amortization for the six months of 2016.

Note 3 (Accrued Pension Liability) – During the six months of 2016, \$425,000 was contributed into the Pension Plan, while approximately \$300,000 in benefit payments were made to participants and approximately \$243,000 of investment income and appreciation was earned in the plan.

***Unaudited Cash Flow Statement***

Cash Flow on a GAAP basis for the second quarter of 2016 as compared to the second quarter of 2015, and the year-to-date 2016 versus 2015, are as follows:

	(\$000's)			
	Quarter Ended		Year-to-Date	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
<b>Operating Activities:</b>				
Net Income (Loss)	\$ 121	\$ 52	\$ (1,459)	\$ (1,271)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:				
Depreciation and Amortization	1,671	1,665	3,423	2,977
Provision for Deferred Taxes	359	194	(229)	(116)
Other	(37)	(10)	(59)	(18)
Changes in Assets and Liabilities:				
(Increase) Decrease in Accounts Receivable	(1,774)	(1,885)	(1,451)	(1,736)
(Increase) Decrease in Inventory	(35)	(67)	(31)	(43)
(Increase) Decrease in Other Assets	(894)	(1,056)	737	320
Increase (Decrease) in Accounts Payable	21	927	361	333
Increase (Decrease) in Other Liabilities	(405)	(674)	(503)	(229)
Net Cash Provided by (Used in) Operating Activities	<u>(973)</u>	<u>(854)</u>	<u>789</u>	<u>217</u>
<b>Investing Activities:</b>				
Purchases of Property, Plant & Equipment, including the Debt Component of AFUDC	(4,363)	(2,522)	(6,877)	(3,734)
Proceeds from Sale of Property, Plant & Equipment	702	-	702	-
(Increase) Decrease in Restricted Cash	(3,706)	1,151	(8,374)	25,108
Sale of Investment Securities	7,977	-	14,979	-
Change in Deferred Land Costs	(2)	-	4	-
Net Cash Provided by (Used in) Investing Activities	<u>608</u>	<u>(1,371)</u>	<u>434</u>	<u>21,374</u>
<b>Financing Activities:</b>				
Borrowings (Repayments) on Line of Credit	-	-	-	-
Payments on Long-term Debt	(672)	(628)	(2,770)	(24,994)
Contributions in Aid of Construction	18	15	21	15
Proceeds from Long-term Borrowings	1,364	591	1,433	2,227
Debt Issuance Costs	(33)	(47)	(57)	(105)
Dividends Paid	(70)	(69)	(140)	(138)
Net Cash Provided by (Used in) Financing Activities	<u>607</u>	<u>(138)</u>	<u>(1,513)</u>	<u>(22,995)</u>
Increase (Decrease) in Cash and Cash Equivalents	242	(2,363)	(290)	(1,404)
Cash and Cash Equivalents at Beginning of Period	<u>714</u>	<u>3,946</u>	<u>1,246</u>	<u>2,987</u>
Cash and Cash Equivalents at End of Period	<u>\$ 956</u>	<u>\$ 1,583</u>	<u>\$ 956</u>	<u>\$ 1,583</u>

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

## **Capital Expenditures**

Capital Expenditures in the second quarter of 2016 were \$4.4 million as compared to \$2.4 million in the second quarter of 2015. Capital Expenditures for the year-to-date were \$6.3 million as compared to \$3.4 million in 2015.

Major expenditures in the first half of 2016 included:

New Operations Building Design and Construction	\$ 2,017,000
Harris Dam Spillway Reconstruction	1,503,000
Dean & Main Building Renovations	317,000
Asset Management, GIS, Data Presentation System	297,000
Maple Haven Booster Station Upgrade	225,000
Merrimack Raw Water Transmission Main	197,000

## **Subsequent Events**

### ***Financing***

On May 9, 2016, the New Hampshire Public Utilities Commission issued Order No. 25,896 approving a Water Infrastructure and Conservation Adjustment (WICA) surcharge of 3.03% for customers of Pennichuck Water Works, Inc. in the Nashua Core System. The surcharge is effective for service rendered on and after June 1, 2016. The Order was effective May 31, 2016.

On June 2, 2016, Pennichuck Water Works, Inc. completed a financing transaction with the New Hampshire Department of Environmental Services under the State of New Hampshire’s Drinking Water Revolving Loan Fund (the “SRF”) in the amount of \$1,400,000 for a 30-year term at an interest rate of 2.5%. The loan will fund the replacement of a portion of the water mains on Amherst Street, and up to three adjoining streets, in Nashua.

On June 2, 2016, Pennichuck East Utility, Inc. completed a financing transaction with the New Hampshire Department of Environmental Services under the State of New Hampshire’s Drinking Water Revolving Loan Fund in the amount of \$1,650,000 for a 20-year term at an interest rate of 2.5%. The loan will fund the replacement of a water main on Varney Road in the Locke Lake water system in Barnstead.

On June 2, 2016, Pittsfield Aqueduct Company, Inc. completed a financing transaction with the New Hampshire Department of Environmental Services under the State of New Hampshire’s Drinking Water Revolving Loan Fund in the amount of \$440,000 for a 30-year term at an interest rate of 3.2%. The loan will fund the installation of a water main on Fairview Street and Catamount Road in Pittsfield.

On June 16, 2016, Pennichuck East Utility, Inc. completed a financing transaction with CoBank, ACB in the amount of \$2,200,000 for a term of 25 years at an interest rate of 4.2% to be used for non-SRF funded capital improvement projects being completed in 2016. Of this amount, \$1.25 million was drawn down at closing, with the remaining \$950,000 to be drawn down in the fourth quarter of 2016.

***Non-Operational Income (Expense)***

On June 30, 2016, our Will Street Operations Facility was sold for \$1,010,000. A net gain of \$702,000 from this transaction was recognized in June, after the recognition of the payment of direct selling expenses and the write-off of net book value carrying costs for the property. As contemplated at the time that the net total funding was procured for the construction of the new Operations Building, the net cash proceeds from this sale will be used in the completion and payment of the new facility in Merrimack. We will continue to occupy the Will Street Operations Facility as a \$0 triple-net tenant until the new facility is ready for occupancy, which is scheduled to be ready in December 2016.

***Educational Programs***

During the week of May 2<sup>nd</sup>, the Company celebrated Water Week by providing tours of the Concord Street Water Treatment Plant to 4<sup>th</sup> grade students from the Nashua school system.

The Company provided a water protection program to the 5<sup>th</sup> grade students of the Nashua school system and sponsored a poster contest for the students.



25 MANCHESTER STREET  
PO BOX 1947  
MERRIMACK, NH 03054-1947

(603) 882-5191  
FAX (603) 913-2305

WWW.PENNICHUCK.COM

VIA HAND DELIVERY AND E-MAIL

August 17, 2016

Mr. Brian McCarthy  
President  
Board of Aldermen  
City of Nashua  
229 Main Street  
Nashua, NH 03060

Re: Pennichuck Water Works, Inc. – Estimated Water Rate Increase

Dear President McCarthy:

On behalf of Pennichuck and its water utility companies, I wanted to make you aware that Pennichuck Water Works (“PWW”) has filed a Notice of Intent (“NOI”) to file a rate case with the New Hampshire Public Utilities Commission (“PUC”) on August 17, 2016. This rate case will request the PUC to approve an increase in PWW’s rates, to allow PWW to collect sufficient revenues to pay for the costs of the Company’s current operating expenses and investment in infrastructure over the past several years. PWW has not had an increase in its base (or permanent) rates since 2010, even though during that time PWW has invested approximately \$40 million in improvements to its water utility assets and has experienced material increases in its operating expenses, some at well above inflationary rates.

The PUC’s rate case process involves the following steps:

- Notice of Intent to File Rate Schedules, which must state an estimate of the projected increase in rates. Filed on August 17, 2016.
- A complete Rate Case filing, which includes the final proposed change in rates and all testimony, exhibits and schedules required under PUC rules and regulations. This must be filed no earlier than 30 days of the date of the NOI, on or after September 19, 2016.
- The PUC will open a docket for the Rate Case and issue an Order of Notice scheduling a prehearing conference to address timing and other procedural aspects. We expect this prehearing conference to occur sometime in October 2016.

- PWW’s Rate Case will include a request that the PUC allow a “temporary” rate increase, which will allow PWW to charge higher rates during the pendency of the Rate Case. We expect hearings on PWW’s temporary rate request will be held before the end of 2016.
- The PUC will approve a detailed procedural schedule for the docket, which will include discovery and testimony by PUC Staff, the Office of Consumer Advocate, and any other parties. A hearing on permanent rates is likely to be held in the Spring or Summer of 2017.

PWW’s NOI states its best current estimate as of the date of this filing as to the amount of the base rate increase that PWW will ultimately seek. This requested increase will be finalized within the next 30 days as PWW completes its full Rate Case filing.

The current base rate increase set forth in the NOI is to increase PWW’s base annual revenues by approximately \$5.5 million, which represents an increase in base rates of 19.5%. As will be carefully documented by PWW’s full Rate Case filing, this increase is appropriate and reasonable for the following reasons: PWW has not had an increase in base rates since 2010; PWW’s operating expenses have increased during that period in some cases at higher than the rate of inflation; and PWW has borrowed and invested over \$40 million in new capital assets since the beginning of 2013 to serve its customers, and a rate increase is necessary so that it can pay the debt service attributable to these new capital investments.

The following table provides an illustration of the impacts on an average residential customer:

Average Monthly Residential Bill

Current	Under New Rate
\$50.14	\$59.91

The requested rate increase is consistent with the City of Nashua’s plan when it acquired Pennichuck in January 2012. Because the City does not seek to charge a profit for Pennichuck’s water utility service and because the cost of operating PWW as a municipally-owned utility is lower than if Pennichuck were still privately-owned, the requested rate increase is lower than if the City had not acquired Pennichuck. In comparison to City ownership, management estimates that the rate increase under the prior private ownership model would have been 35.4%, which would have resulted in a new monthly bill of \$67.89.

After nearly 5 years of City ownership, PWW continues to provide high quality water service, with important investments in safe and secure infrastructure, and with excellent customer service, at rates that are lower than they would have been under prior private ownership.

The Notice of Intent to File Rate Schedules will be posted on Pennichuck's website ([www.Pennichuck.com](http://www.Pennichuck.com)).

We will keep the Board of Aldermen informed as we proceed through the regulatory process.

Please feel free to call me at 603-913-2312 if you need any further information or clarification.

Sincerely,

A handwritten signature in black ink, appearing to read "L. Goodhue".

Larry D. Goodhue  
Chief Executive Officer

cc. Board of Aldermen  
Mayor James Donchess  
Steven Bolton, Corporation Counsel

STATE OF NEW HAMPSHIRE  
BEFORE THE  
PUBLIC UTILITIES COMMISSION

PENNICHUCK WATER WORKS, INC.

DOCKET NO. DW 16-\_\_

**NOTICE OF INTENT TO FILE RATE SCHEDULES**

Pursuant to RSA Chapter 378 and N.H. Code of Admin. Rules 1604.05, Pennichuck Water Works, Inc. ("PWW") hereby gives notice of its intent to file rate schedules with the New Hampshire Public Utilities Commission. PWW will be seeking to increase its authorized revenue requirement by \$5,545,917, or 19.48%. PWW will also be seeking authority to charge temporary rates, collect a step increase in rates, and modify its revenue requirement methodology. This will be PWW's first general rate increase since its 2010 rate proceeding, Docket No. DW 10-091, which was based on a 2009 test year.

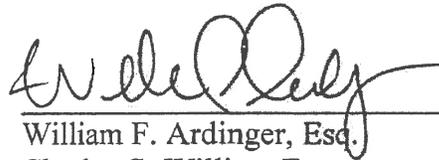
PENNICHUCK WATER WORKS, INC.

By its attorneys,

RATH, YOUNG & PIGNATELLI, P.C.

Dated: August 17, 2016

By:



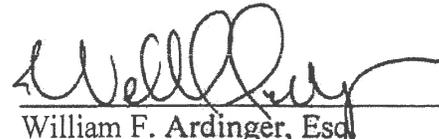
William F. Ardinger, Esq.  
Charles G. Willing, Esq.  
Marcia A. Brown, Esq.

**CERTIFICATE OF SERVICE**

I hereby certify that a copy of this Notice of Intent has been forwarded this 17<sup>th</sup> day of August, 2016, to the Office of the Consumer Advocate by hand and electronic delivery.

Dated: August 17, 2016

By:



William F. Ardinger, Esq.



VIA HAND DELIVERY AND E-MAIL

September 27, 2016

Mr. Brian McCarthy  
President, Board of Aldermen  
City of Nashua  
229 Main Street  
Nashua, NH 03060

Re: Pennichuck Water Works, Inc. – Water Rate Case

Dear President McCarthy:

As referenced in my letter to you dated August 17, 2016, Pennichuck Water Works, Inc. filed its rate case with the New Hampshire Public Utilities Commission (PUC) on September 23, 2016. The docket number for the rate case is DW 16-806.

It is important to note that even though we filed a Notice of Intent to File Rate Schedules in August requesting an estimated increase in rates of 19.5%, the actual rate increase being requested in the September 23<sup>rd</sup> filing is 17.21%. The following table provides an illustration of the impact on an average residential customer’s monthly bill:

<b>Average Residential Monthly Bill Based on Annual Usage of 103 ccf (100 Cubic Feet)</b>				
	Customer Charge 5/8" Meter	Volumetric Charge (in 100 cubic feet)	WICA Surcharge	Total Monthly
Current Rates	<b>\$20.34</b>	<b>\$28.31</b>	<b>\$1.48</b>	<b>\$50.13</b>
Proposed Temporary Rate	<b>\$21.64</b>	<b>\$30.12</b>	<b>\$0.00</b>	<b>\$51.76</b>
Proposed Permanent Rate, Including Step Increase	<b>\$23.90</b>	<b>\$33.26</b>	<b>\$0.00</b>	<b>\$57.16</b>

The filing relative to the docket can be found on the PUC website at [www.puc.nh.gov](http://www.puc.nh.gov). In addition, a link to the rate case filing on the PUC website can be found on Pennichuck’s website at [www.pennichuck.com](http://www.pennichuck.com).

In the next few weeks, we will be mailing out notices to customers related to this filing, including a Frequently Asked Questions insert to explain the salient items of the rate case, and the value of water and on-going infrastructure replacement. This information will be posted on our website in conjunction with this mailing.

We expect to keep the Board of Aldermen informed as we proceed through the regulatory process. Please feel free to contact me at 603-913-2312 if you need any further information or clarification.

Sincerely,



Larry D. Goodhue  
Chief Executive Officer

cc. Board of Aldermen  
Mayor James Donchess  
Steven Bolton, Corporation Counsel



25 MANCHESTER STREET  
PO BOX 1947  
MERRIMACK, NH 03054-1947

VIA HAND DELIVERY AND E-MAIL

(603) 882-5191  
FAX (603) 913-2305

October 31, 2016

WWW.PENNICHUCK.COM

Mr. Brian McCarthy  
President, Board of Aldermen  
City of Nashua  
229 Main Street  
Nashua, NH 03060

Re: Pennichuck Water Works, Inc. – Rate Case (DW 16-806)

Dear President McCarthy:

On October 25, 2016, the New Hampshire Public Utilities Commission issued Order No. 25,957 relative to the water rate case filed by Pennichuck Water Works, Inc. A copy of the Order is enclosed for your information.

The Order states that a Prehearing Conference and Technical Session related to the rate case will be held at the offices of the Public Utilities Commission in Concord on November 21, 2016 at 1:30 p.m.

The Order also states that any party seeking to intervene in the proceeding shall submit to the Commission a Petition to Intervene with copies sent to Pennichuck Water Works and the Office of the Consumer Advocate on or before November 16, 2016.

As I have indicated in past correspondence, we will keep the Board of Aldermen informed as we proceed through the regulatory process.

Please feel free to contact me at 603-913-2312 if you need further information or clarification.

Sincerely,

A handwritten signature in black ink, appearing to read 'L. Goodhue'.

Larry D. Goodhue  
Chief Executive Officer

cc. Board of Aldermen  
Mayor James Donchess  
Steven Bolton, Corporation Counsel

**THE STATE OF NEW HAMPSHIRE  
PUBLIC UTILITIES COMMISSION**

**DW 16-806**

**PENNICHUCK WATER WORKS, INC.**

**Petition for Permanent and Temporary Rate Increases and Modifications in Ratemaking  
Methodology**

**Order Suspending Proposed Tariffs and Establishing a Prehearing Conference**

**ORDER NO. 25,957**

**October 25, 2016**

On August 17, 2016, Pennichuck Water Works, Inc. (“PWW” or the “Company”), filed a notice of intent to file rate schedules. PWW is a New Hampshire corporation and regulated water utility that provides service to approximately 28,000 customers in a number of municipalities in Southern New Hampshire including the City of Nashua, and the Towns of Amherst, Bedford, Derry, Epping, Hollis, Merrimack, Milford, Newmarket, Newton, Plaistow, and Salem. PWW is owned by Pennichuck Corporation, which in turn is wholly owned by the City of Nashua.

On September 26, 2016, PWW filed with the Commission a petition for a permanent rate increase pursuant to RSA 378:3 and 378:27-28, and for temporary rates pursuant to RSA 378:27. PWW also seeks certain modifications to the ratemaking structure agreed to in settlement and imposed in *Joint Petition of City of Nashua, Pennichuck Corporation, et al., Petition for Approval to Acquire Stock in Pennichuck Corp.*, Order No. 25,292 (November 23, 2011). PWW also proposes to discontinue its current Water Infrastructure and Conservation Adjustment (WICA) pilot program, and replace it with annual step adjustments for all completed capital improvements each year. The petition and subsequent docket filings, other than any information

for which confidential treatment is requested of or granted by the Commission, will be posted to the Commission's website at <http://www.puc.nh.gov/Regulatory/Docketbk/2016/16-806.html>.

PWW seeks an overall permanent increase in its water revenues of \$4,907,917. For a residential customer using 10,300 cubic feet of water per year, this represents a 14.02% increase in monthly bills or \$7.03 per month for the average residential customer. The proposed revenue increase of \$4,907,917 is comprised of a calculated revenue deficiency of \$2,242,509 based on the 2015 test year, and an additional \$2,665,408 in revenues in a step increase based on capital improvements that will be used and useful as of December 31, 2016. PWW proposes an overall rate of return of 4.83%, based on a cost of equity of 5.84% and a weighted average cost of debt of 4.79%. PWW states that the requested permanent rate increase is necessary due to the time since PWW's last rate case, an increase in certain costs, and the addition of plant in service to PWW's rate base.

PWW proposes to modify the ratemaking structure agreed to in settlement and imposed in Order No. 25,292 to address its reliance on debt and the associated cash flow needs. The proposed modifications include: (1) using a five-year trailing average of revenues vs. test year revenues to mitigate revenue fluctuations resulting from wet vs. dry years; (2) creating an enhanced fixed revenue component called a Debt Service Revenue Requirement to allow PWW to collect revenue at a level of 1.25 times its annual debt service costs; (3) dividing the existing \$5 million Rate Stabilization Fund (RSF) into three components: (a) a new Debt Service RSF of \$700,000 relating to PWW's existing debt issues; (b) a new Operating Expense RSF in the amount of \$1.6 million; and (c) the existing City acquisition Debt Service RSF, now to be set at \$2.7 million; (4) creating a mandatory 3 year rate case filing requirement; and (5) establishing an annual step adjustment program in place of the WICA program, so that rates can be adjusted

every year for all completed capital expenditures. PWW also seeks to include \$440,620 in its permanent customer rates for a ten-year period, in order to reimburse the City of Nashua for costs it incurred in its eminent domain proceeding against PWW in Docket DW 04-048.

PWW proposes a temporary rate increase to its operating revenues of \$1,771,116 or 6.21%, an amount that represents 80% of its requested \$2.2 million permanent rate increase excluding the proposed step adjustment revenues associated with 2016 projects. The Company requests that temporary rates be effective as of September 23, 2016, on a service-rendered basis. The Company states that the approval of temporary rates will allow PWW to collect sufficient revenues to satisfy its principal and interest obligations, and its covenant requirements, with respect to its debt. The Company also states that temporary rates will serve to mitigate rate shock should the Commission ultimately approve permanent rates and a step adjustment at the levels requested by PWW. If temporary rates are approved, customer bills will be reconciled with the permanent rates approved by the Commission at the conclusion of this proceeding.

The filing raises, inter alia, issues related to modifications of the ratemaking methodology agreed to in settlement in Docket DW 11-026 and approved by the Commission in Order No. 25,292; whether the proposed ratemaking modifications represent a request to modify Order No. 25,292; whether PWW's request to recover \$440,620 in rates to reimburse the City of Nashua for costs that the City incurred in its eminent domain proceeding against PWW requires modification of the settlement agreement in Docket DW 11-026 and/or Order No. 25,292; what standards would apply to the modification of the settlement agreement and/or order; the reasonableness of the proposed permanent and temporary rates; and the reasonableness of discontinuing the WICA pilot program and the proposed establishment of an annual step adjustment for all capital expenditures. In addition, Staff is directed to consider the adequacy of

the schedules submitted to demonstrate an earnings deficiency that justifies a rate increase under the settlement agreement in DW 11-026. Each party has the right to have an attorney represent the party at the party's own expense.

**Based upon the foregoing, it is hereby**

**ORDERED**, that NHPUC No. 6 Water, Pennichuck Water Works, Inc., Proposed Second Revised Pages 43, 44, 45, and 47 are hereby suspended; and it is

**FURTHER ORDERED**, that a Prehearing Conference, pursuant to N.H. Code Admin. Rules Puc 203.15, be held before the Commission located at 21 S. Fruit St., Suite 10, Concord, New Hampshire on November 21, 2016, at 1:30 pm, at which each party will provide a preliminary statement of its position with regard to the petition and any of the issues set forth in N.H. Code Admin. Rules Puc 203.15; and it is

**FURTHER ORDERED**, that, immediately following the Prehearing Conference, PWW, the Staff of the Commission and any Intervenors hold a Technical Session to review the petition; and it is

**FURTHER ORDERED**, that pursuant to N.H. Code Admin. Rules Puc 203.12, PWW shall notify all persons desiring to be heard at this hearing by publishing a copy of this Order no later than November 7, 2016, in a newspaper with general circulation in those portions of the state in which operations are conducted, publication to be documented by affidavit filed with the Commission on or before November 16, 2016; and it is

**FURTHER ORDERED**, that pursuant to N.H. Code Admin. Rules Puc 203.12, PWW shall notify all persons desiring to be heard at this hearing by mailing a copy of this Order to the Clerks of the Towns of Amherst, Bedford, Derry, Epping, Hollis, Merrimack, Milford, Newmarket, Newton, Plaistow, and Salem and to the Clerk of the City of Nashua, by first class

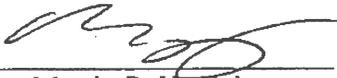
U.S. Mail, postmarked no later than November 7, 2016, and documented by affidavit filed with the Commission on or before November 16, 2016; and it is

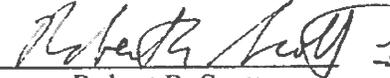
**FURTHER ORDERED**, that the Executive Director shall cause a copy of this Order to be provided to the service list in Docket DW 11-026 no later than November 7, 2016; and it is

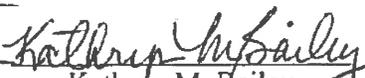
**FURTHER ORDERED**, that consistent with N.H. Code Admin. Rules Puc 203.17 and Puc 203.02, any party seeking to intervene in the proceeding shall submit to the Commission seven copies of a Petition to Intervene with copies sent to PWW and the Office of the Consumer Advocate on or before November 16, 2016, such Petition stating the facts demonstrating how its rights, duties, privileges, immunities or other substantial interest may be affected by the proceeding, as required by N.H. Code Admin. Rule Puc 203.17 and RSA 541-A:32,I(b); and it is

**FURTHER ORDERED**, that any party objecting to a Petition to Intervene make said Objection on or before November 21, 2016.

By order of the Public Utilities Commission of New Hampshire this twenty-fifth day of October, 2016.

  
 Martin P. Honigberg  
 Chairman

  
 Robert R. Scott  
 Commissioner

  
 Kathryn M. Bailey  
 Commissioner

Attested by:

  
 Debra A. Howland  
 Executive Director

Individuals needing assistance or auxiliary communication aids due to sensory impairment or other disability should contact the Americans with Disabilities Act Coordinator, NHPUC, 21 S. Fruit St., Suite 10, Concord, New Hampshire 03301-2429; 603-271-2431; TDD Access: Relay N.H. 1-800-735-2964. Notification of the need for assistance should be made one week prior to the scheduled event.



PENNICHUCK

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WWW.PENNICHUCK.COM

November 14, 2016

Mr. Brian McCarthy, President  
Nashua Board of Aldermen  
City of Nashua  
229 Main Street  
Nashua, NH 03060

Dear President McCarthy:

Enclosed for your information is the Pennichuck Corporation Quarterly Report to the Sole Shareholder for the Quarter Ended September 30, 2016.

Please contact me at 603-913-2312 if you have any questions relative to the report.

Sincerely,

Larry D. Goodhue  
Chief Executive Officer

cc. Board of Aldermen  
Mayor James Donchess  
Steven Bolton, City Corporation Counsel  
John Griffin, City Chief Financial Officer



**Pennichuck Corporation**

**Quarterly Report to the**

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

**Quarter Ended September 30, 2016**

## **Executive Summary**

- Revenues for the third quarter of 2016 were 15.6% higher than the prior year (\$14.5 million for 2016 versus \$12.5 million for 2015). Revenues on a year-to-date basis increased 6.1% over last year (\$33.9 million for the nine months in 2016 versus \$31.9 million in 2015).
- Operating Income for the third quarter of 2016 was 28.5% higher than the prior year (\$5.5 million for 2016 versus \$4.3 million for 2015). Operating Income on a year-to-date basis is 3.3% higher than the prior year (\$8.3 million for 2016 versus \$8.0 million for 2015).
- Pre-Tax Income for the third quarter of 2016 was \$2.8 million versus \$1.6 million for 2015. On a year-to-date basis, the pre-tax income was \$1.1 million for 2016 versus \$0.2 million for 2015.
- Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA) for the third quarter of 2016 was 21.8% higher than the prior year (\$7.2 million in 2016 versus \$5.9 million for 2015). On a year-to-date basis, EBITDA was \$14.0 million for 2016 versus \$12.7 million for 2015.
- 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.
- Capital expenditures for the third quarter of 2016 were \$6.4 million compared to \$4.6 million in the third quarter of 2015. On a year-to-date basis, capital expenditures for 2016 were \$12.7 million compared to \$8.0 million in 2015.

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 2016 as compared to the third quarter of 2015, and the nine months of 2016 as compared to the nine months of 2015, are as follows:

	(\$000’s)			
	<u>Quarter Ended</u>		<u>Year-to-Date</u>	
	<u>September 30, 2016</u>	<u>September 30, 2015</u>	<u>September 30, 2016</u>	<u>September 30, 2015</u>
Revenues				
Regulated Utilities	\$ 13,572	\$ 11,748	\$ 31,175	\$ 29,558
Other	<u>933</u>	<u>797</u>	<u>2,734</u>	<u>2,388</u>
Total	\$ 14,505	\$ 12,545	\$ 33,909	\$ 31,946
Operating Expenses				
Regulated Utilities	\$ 8,126	\$ 7,542	\$ 22,889	\$ 21,677
Other	<u>866</u>	<u>714</u>	<u>2,766</u>	<u>2,280</u>
Total	\$ 8,992	\$ 8,256	\$ 25,655	\$ 23,957
Operating Income	\$ 5,513	\$ 4,289	\$ 8,254	\$ 7,989
Non-Operational Income (Expense)	27	11	857	(37)
Net Interest Expense	<u>(2,747)</u>	<u>(2,694)</u>	<u>(8,033)</u>	<u>(7,760)</u>
Pre-Tax Income (Loss)	\$ 2,793	\$ 1,606	\$ 1,078	\$ 192
Income Tax Benefit (Expense)	<u>(466)</u>	<u>(154)</u>	<u>(210)</u>	<u>(11)</u>
Net Income (Loss)	\$ 2,327	\$ 1,452	\$ 868	\$ 181
Earnings Before Interest, Taxes, Depreciation and Amortization	\$ <u>7,169</u>	\$ <u>5,886</u>	\$ <u>14,043</u>	\$ <u>12,735</u>

Revenues from the water utility operations increased 15.5% in the quarter and 5.5% on an annual basis versus last year. Accrued revenues include actual billed amounts through the September 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 increased 17.1% in the third quarter over the prior year, primarily due to unplanned maintenance activities. On a year-to-date basis, the unregulated water service revenues are up by 14.5%.

Operating Expenses have increased approximately 8.9% in the third quarter and 7.1% on a year-to-year basis, compared to the same periods in 2015. The increase is mainly attributable to increased direct operating costs associated with the increase in water consumption levels, as well as increases in real estate taxes and labor costs.

Operating Income has increased year-over-year as a result of the variation in revenue and operating expense levels recognized year-to-date.

Interest Expense year-over-year for the first nine months has increased 3.5% resulting from 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 third quarter and year-to-date pretax income for 2016 are both at higher earned amounts than the pretax levels for 2015 due to the revenue and expense variations discussed above.

The year-to-date income tax expense in the current year reflects the treatment for the Municipal Acquisition Regulatory Asset, which is not deductible for tax purposes. Therefore, the tax expense is 19.5% versus the statutory rate benefit of 39.6% 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 increases in Non-Operational Income (Expense) that are discussed in the Subsequent Events section.

	(\$000's)	
<b><i>Balance Sheet</i></b>	As of September 30, 2016 (Unaudited)	As of December 31, 2015 (Audited)
<b><u>Assets</u></b>		
Property, Plant & Equipment, Net	\$ 192,858	\$ <u>183,241</u>
Current Assets:		
Cash	5,434	1,246
Restricted Cash	6,737	5,729
Investments – 2014 and 2015 Bond Project Funds	7,892	19,778
Accounts Receivable	7,090	4,502
Inventory	681	712
Other Current Assets <sup>Note 1</sup>	<u>941</u>	<u>2,233</u>
Total Current Assets	<u>28,775</u>	<u>34,200</u>
Other Assets:		
Acquisition Premium <sup>Note 2</sup>	75,616	77,028
Other Assets	<u>15,703</u>	<u>16,194</u>
Total Other Assets	<u>91,319</u>	<u>93,222</u>
TOTAL ASSETS	\$ <u>312,952</u>	\$ <u>310,663</u>
<b><u>Shareholder's Equity and Liabilities</u></b>		
Shareholder's Equity	\$ <u>22,620</u>	\$ <u>22,041</u>
Bonds, Notes and Mortgages	204,206	206,052
Current Liabilities:		
Current Portion of Long-Term Debt	5,081	4,120
Other Current Liabilities	<u>5,512</u>	<u>3,490</u>
Total Current Liabilities	<u>10,593</u>	<u>7,610</u>
Other Long-Term Liabilities:		
CIAC, net	38,320	37,929
Deferred Income Taxes	20,841	20,642
Accrued Pension Liability <sup>Note 3</sup>	8,254	8,286
Other Long-Term Liabilities	<u>8,118</u>	<u>8,103</u>
Total Other Long-Term Liabilities	<u>75,533</u>	<u>74,960</u>
TOTAL SHAREHOLDER'S EQUITY AND LIABILITIES	\$ <u>312,952</u>	\$ <u>310,663</u>

Note 1 (Other Current Assets) – At December 31, 2015, approximately \$1.3 million of this balance is comprised of prepaid property taxes, which were expensed in the first quarter of 2016, relating to taxes paid in November and December of 2015 for the second half of the property tax year ended March 31, 2016. The balance in prepaid property taxes as of September 30, 2016 is zero, as we are fully into the second half of the property tax year for accrual accounting purposes.

Note 2 – In accordance with GAAP, the Acquisition Premium is being written-off over the 30-year life of the principal of the City Acquisition Debt. The difference in the balance of Acquisition Premium between December 31, 2015 and September 30, 2016 is due to the amortization for the nine months of 2016.

Note 3 (Accrued Pension Liability) – During the nine months of 2016, \$753,700 was contributed into the Pension Plan, while approximately \$452,000 in benefit payments were made to participants and approximately \$828,000 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 2016 as compared to the third quarter of 2015, and the year-to-date 2016 versus 2015, are as follows:

	(\$000's)			
	Quarter Ended		Year-to-Date	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
<b>Operating Activities:</b>				
Net Income (Loss)	\$ <u>2,327</u>	\$ <u>1,452</u>	\$ <u>868</u>	\$ <u>181</u>
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:				
Depreciation and Amortization	1,726	1,689	5,149	4,672
Provision for Deferred Taxes	480	166	251	50
Other	(48)	(9)	(107)	(33)
Changes in Assets and Liabilities:				
(Increase) Decrease in Accounts Receivable	(1,137)	(165)	(2,588)	(1,901)
(Increase) Decrease in Inventory	61	80	30	37
(Increase) Decrease in Other Assets	1,264	1,061	2,001	1,381
Increase (Decrease) in Accounts Payable	899	(508)	1,260	(175)
Increase (Decrease) in Other Liabilities	<u>1,275</u>	<u>250</u>	<u>774</u>	<u>21</u>
Net Cash Provided by (Used in) Operating Activities	<u>6,847</u>	<u>4,016</u>	<u>7,638</u>	<u>4,233</u>
<b>Investing Activities:</b>				
Purchases of Property, Plant & Equipment, including the Debt Component of AFUDC	(6,964)	(4,917)	(13,843)	(8,651)
Proceeds from Sale of Property, Plant & Equipment	(67)	-	635	-
(Increase) Decrease in Restricted Cash	2,016	656	(6,358)	25,764
Sale of Investment Securities	2,257	-	17,236	-
Change in Deferred Land Costs	<u>3</u>	<u>(5)</u>	<u>7</u>	<u>(5)</u>
Net Cash Provided by (Used in) Investing Activities	<u>(2,755)</u>	<u>(4,266)</u>	<u>(2,323)</u>	<u>17,108</u>
<b>Financing Activities:</b>				
Borrowings (Repayments) on Line of Credit	-	-	-	-
Payments on Long-term Debt	(720)	(641)	(3,490)	(25,635)
Contributions in Aid of Construction	4	-	25	15
Proceeds from Long-term Borrowings	1,172	2,141	2,605	4,368
Debt Issuance Costs	0	(32)	(57)	(137)
Dividends Paid	<u>(70)</u>	<u>(69)</u>	<u>(210)</u>	<u>(207)</u>
Net Cash Provided by (Used in) Financing Activities	<u>386</u>	<u>1,399</u>	<u>(1,127)</u>	<u>(21,596)</u>
Increase (Decrease) in Cash and Cash Equivalents	4,478	1,149	4,188	(255)
Cash and Cash Equivalents at Beginning of Period	<u>956</u>	<u>1,583</u>	<u>1,246</u>	<u>2,987</u>
Cash and Cash Equivalents at End of Period	<u>\$ 5,434</u>	<u>\$ 2,732</u>	<u>\$ 5,434</u>	<u>\$ 2,732</u>

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

## **Capital Expenditures**

Capital Expenditures in the third quarter of 2016 were \$6.4 million as compared to \$4.6 million in the third quarter of 2015. Capital Expenditures for the year-to-date were \$12.7 million as compared to \$8.0 million in 2015.

Major expenditures in the nine months of 2016 included:

New Operations Building Design and Construction	\$ 5,126,000
Harris Dam Spillway Reconstruction	1,922,000
Locke Lake, Varney Road – Water Main	1,458,000
Merrimack Raw Water Transmission Main	517,000
Asset Management, GIS, Data Presentation System	439,000
Dean & Main Building Renovations	317,000

## **Subsequent Events**

### ***Rate Case – Pennichuck Water Works, Inc.***

On September 23, 2016, Pennichuck Water Works, Inc. (“PWW”) filed a request with the New Hampshire Public Utilities Commission (“NHPUC”) for a rate increase of 17.21% over its current rates for the test year 2015, for which 7.86% is related to a permanent rate increase, and 9.35% is related to a prospective step increase (associated with capital investments and other allowable expenditures in the twelve months following the test year). The overall rate increase is subject to the normal regulatory filing process with the NHPUC, as followed for all prior rate case filings, and as such, the final permanent rate increase granted will be effective retroactive back to the filing date, once approved by the NHPUC. The step increase, once approved and granted, would be earned on a forward looking basis, as of the date of the order granting such increase. In addition, PWW has requested that a temporary rate increase of 6.21% be granted as a subset of the final permanent rate increase, with the intention that this temporary rate increase would be approved very early in 2017. The request for this overall increase is based upon increases in PWW’s operating costs since the last allowed rate increase in 2010/2011 (for the 2009 test year), as well as revenues needed to pay the debt service on over \$40 million of infrastructure replacements made since the last rate case, with those dollars being invested in its real property assets, distribution and treatment systems, and other necessary capital items, to ensure continued compliance with the Safe Drinking Water Act and prudent ongoing replacement of aging infrastructure to properly maintain the company’s operating systems. A prehearing conference on the rate case filing is set for November 21, 2016 at the NHPUC, and notices were mailed to all PWW customers along with a FAQ fact sheet, on November 7, 2016.

### *Financing*

On May 9, 2016, the New Hampshire Public Utilities Commission issued Order No. 25,896 approving a Water Infrastructure and Conservation Adjustment (WICA) surcharge of 3.03% for customers of Pennichuck Water Works, Inc. in the Nashua Core System. The surcharge is effective for service rendered on and after June 1, 2016. The Order was effective May 31, 2016.

On June 2, 2016, Pennichuck Water Works, Inc. completed a financing transaction with the New Hampshire Department of Environmental Services under the State of New Hampshire's Drinking Water Revolving Loan Fund (the "SRF") in the amount of \$1,400,000 for a 30-year term at an interest rate of 2.5%. The loan will fund the replacement of a portion of the water mains on Amherst Street, and up to three adjoining streets, in Nashua.

On June 2, 2016, Pennichuck East Utility, Inc. completed a financing transaction with the New Hampshire Department of Environmental Services under the State of New Hampshire's Drinking Water Revolving Loan Fund in the amount of \$1,650,000 for a 20-year term at an interest rate of 2.5%. The loan will fund the replacement of a water main on Varney Road in the Locke Lake water system in Barnstead.

On June 2, 2016, Pittsfield Aqueduct Company, Inc. completed a financing transaction with the New Hampshire Department of Environmental Services under the State of New Hampshire's Drinking Water Revolving Loan Fund in the amount of \$440,000 for a 30-year term at an interest rate of 3.2%. The loan will fund the installation of a water main on Fairview Street and Catamount Road in Pittsfield.

On June 16, 2016, Pennichuck East Utility, Inc. completed a financing transaction with CoBank, ACB in the amount of \$2,200,000 for a term of 25 years at an interest rate of 4.2% to be used for non-SRF funded capital improvement projects being completed in 2016. Of this amount, \$1.25 million was drawn down at closing, with the remaining \$950,000 to be drawn down in the fourth quarter of 2016.

### *Non-Operational Income (Expense)*

On June 30, 2016, our Will Street Operations Facility was sold for \$1,010,000. A net gain of \$636,000 from this transaction was recognized, after the recognition of the payment of direct selling expenses and the write-off of net book value carrying costs for the property. As contemplated at the time that the net total funding was procured for the construction of the new Operations Building, the net cash proceeds from this sale will be used in the completion and payment of the new facility in Merrimack. We will continue to occupy the Will Street Operations Facility as a \$0 triple-net tenant until the new facility is ready for occupancy, which is scheduled to be ready on or about December 10, 2016.



PENNICHUCK

25 MANCHESTER STREET  
PO BOX 1947  
MERRIMACK, NH 03054-1947

November 21, 2016

(603) 882-5191  
FAX (603) 913-2305

WWW.PENNICHUCK.COM

Mr. Brian McCarthy  
President, Board of Aldermen  
City of Nashua  
229 Main Street  
Nashua, NH 03060

Re: Pennichuck Corporation – Board Candidate – Public Interview

Dear President McCarthy:

The Nominating and Governance Committee of the Pennichuck Board of Directors has scheduled a public interview of Mr. John M. Murphy, a candidate for Director of the Pennichuck Board. The public interview will take place at Pennichuck Corporation's Corporate Office, 25 Manchester Street, Merrimack, NH, in the Board Room at 5:30 p.m. on Tuesday, December 13, 2016. A copy of Mr. Murphy's resume is enclosed.

The members of the Board of Aldermen and members of the public are welcome to attend.

If any members of the Board of Aldermen have questions for the candidate, we respectfully request that you provide your questions to the Pennichuck Nominating and Governance Committee at the following address or email no later than December 8, 2016:

Chairman, Nominating and Governance Committee  
Attention: Suzanne L. Ansara, Corporate Secretary  
Pennichuck Corporation  
P.O. Box 1947  
Merrimack, NH 03054  
Email: [suzanne.ansara@pennichuck.com](mailto:suzanne.ansara@pennichuck.com)

Please contact me if you have any questions. I can be reached at 603-883-0797.

Regards,

Thomas J. Leonard  
Chairman of the Board

cc. Nominating and Governance Committee  
Mayor James Donchess  
Board of Aldermen  
Steven Bolton, Corporation Counsel

## **John M. Murphy**

99 Hawthorne Village Road • Nashua, NH •

### **OBJECTIVE**

To obtain a Utility Board position that fully utilizes my knowledge and experience of municipal and publically owned utilities.

### **EXPERIENCE**

**Fidelity Investments, Merrimack NH**

**Senior Research Analyst (2005-Present)**

#### **Research**

- Provide the municipal group detailed credit analysis of all investment grade and high yield names in the Water & Sewer, Public Power, Electric Co-op, and Environmental Services sectors, which includes Project Debt and all Corporate-Backed tax-exempt debt
- Convey operational knowledge of all types of utilities and governance to investment team
- Enthusiastically lead credit investment idea generation for assigned sectors in both the bond and money market space
- Deliver timely analysis of the Corporate Environmental Waste Sector, including Waste Management, Republic Services, Covanta and Wheelabrator, working in partnership with high yield and equity counterparts
- Lead Distressed Credit Team, Detroit and Puerto Rico
- Responsible for in-depth modeling and monitoring of all issuers via customized financial models and daily surveillance of credits using Feedly and other proprietary web surveillance tools
- Present semi-annual sector updates to both bond and money market groups and establish buy and sell recommendations based on macro and issuer level factors
- Engage tax-backed analysts daily on interrelated credits
- Actively manage 2a-7 money market exposures and annual approvals for 82 municipal issuers
- Analyze all structural and legal aspects of Industrial Development, Pollution Control and Solid Waste bonds for our bond and money market groups
- Collaborate with corporate, high yield and equity utility analysts on company and sector reviews
- Act as liaison with our corporate group to provide seamless coverage and introduce investment ideas to our municipal bond and money market groups
- Cultivate and maintain key issuer, rating agency and sell-side relationships

#### **Portfolio and Markets**

- Work extensively with portfolio managers and traders to uncover relative value trade ideas in assigned sectors
- Track the daily trading of top 25 holdings
- Review over-weights and under-weights with portfolio managers on a periodic basis
- Provide the investment team semi-annual updates of top trade ideas and exposures

#### **Leadership**

- Lead the Utility Team in the development of industry and security level analysis
- Established and lead our BAB's team, which is responsible for, trade idea generation across all sectors, surveillance of market fundamentals and coordination of the municipal research staff
- Represent the Revenue Team that updates senior management of issues affecting research in the municipal money markets
- Work closely with our quantitative analyst to spearhead our Refunding Strategies Team, which is responsible for trade idea generation, security selection and specialized tool development regarding potential alpha generating refunding opportunities
- Energetically involved in the recruiting and hiring of key employees and the training and mentoring of municipal and taxable research associates as well as junior traders
- Organize quarterly credit trips with Portfolio Managers and Traders
- Presented at numerous investment seminars for consultants and industry conferences, such as; NFMA, NYMWFA, Manhattan Institute, Large Public Power Council, Bond Buyer, Southern Municipal Finance Association, MEAG and AMP Partners Annual Meetings as well as American Public Power Association conferences

**Corporate and Canadian (2001-2005)**

- In charge of all trading and relative value idea generation for the auto, utility, energy, pipeline, sovereign, paper, chemical and EETC sectors, which included high yield and crossover securities
- Handled all derivative transactions for aforementioned sectors, which included long CDS strategies, as well as positive and negative basis trades
- Worked extensively with credit analysts to introduce new investment strategies into the funds
- Relationship manager for all sell-side firms in U.S. and Canada
- Provided relative value trades and sector rotation ideas for all Canadian dollar fixed income securities, which included federal and provincial governments, agency, corporate, ABS, CMBS debt as well as interest rate derivatives
- Monitored all exposures and portfolio weightings for the Canadian bond funds
- Led the working group on Canadian interest rate swaps, purchased the first interest swap in our Canadian bond funds
- Presented to consultants and industry groups about market conditions, credit issues and our investment process

**Municipal (1999-2001)**

- Charged with idea generation and trading for all national bonds fifteen years and longer and the following state specific funds, Massachusetts, Minnesota, Ohio and Maryland
- Responsible for all derivative trading, which included U.S. Treasury Futures, Municipal Bond Futures and Forward Starting MMD Swaps
- Key member of Fidelity's fixed income derivative steering committee
- Assisted portfolio managers in the construction and repositioning of their funds versus new benchmarks

**Structuring**

- Led JP Morgan's municipal asset backed (TOB) marketing effort (Putters/Drivers)
- Priced and structured JP Morgan's short-term municipal asset backed program
- Presented at numerous derivative RFP's
- Charged with expanding cash and derivative transactions to corporate and relative value accounts

**Long and Short-Term Trading**

- Traded all municipal high grade and insured bonds from five to thirty years
- Tracked and studied key relationships between tax exempt and taxable fixed income markets
- Priced all short-term municipal instruments including, VRDB's, Commercial Paper, Derivatives and Puts
- Acted as a liaison with our high net worth sales group
- Represented JP Morgan on various industry panels and associations
- Participated in numerous issuer RFPs

**Short-term Municipal Trader,  
Trading**

- Traded all municipal products from one to five years
- Priced five billion dollar of variable rate products
- Calculated and reset Bankers Trust TENR rate
- Marketed one billion dollar tender option program

**EDUCATION**

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**Adelphi University**  
**Master of Science**, Banking and Money Management

**June 1991**

**Baruch College, City University of New York**  
**Bachelor of Business Administration**, Finance and Management

**December 1987**

**COMMUNITY INVOLVEMENT**

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- First Tee of New Hampshire, Director of Nashua Chapter
- Boys and Girls Club of Greater Nashua
- Bishop Guertin Scholarship Committee