

TO: File

From: D. Butler

Date: January 31, 2020

Subject: PURA Decisions – Acquisitions of Public Water & Sewer By Public/Private Companies

The information contained below summarizes some of the acquisitions of water utilities by public/private corporations in the state of Connecticut. The examples net-out rate implications to the utility acquired and serve as an indicator of future actions by PURA. This comparison is provided to support the discussions regarding the potential sale of New Hartford's water and sewer assets.

**Connecticut Water Company – Acquisition of Heritage Village Water Company**

Docket No. 16-07-09 December 5, 2016 Section C.5.D - Page 9

"Post-acquisition CWC and the HVWC will remain stand-alone entities under CWS. The Company is not proposing any changes to the rates or any conditions to the water or sewer service for the HVWC at this time. The HVWC will retain its existing water and sewer rates that were approved by the Authority in the 2015 Rate Decision. The HVWC will continue to file its rate applications as a stand-alone entity unless or until, it is merged into CWC. Furthermore, as long as CWC and HVWC remain separate companies, each company respective cost of service study will only be submitted when filing rate applications."

**Aquarion Water Company – Acquisition of East Derby Waterworks**

Docket No. 13-07-13 June 4, 2014  
Section B.2 – Page 7

"East Derby has 485 metered customers and 15 private fire connections. Post acquisition, Aquarion proposed that the East Derby customers become customers of Aquarion's Eastern Division and maintain the existing East Derby rates until Aquarion's next rate increase filing, which is anticipated to be effective late in 2016. Application, p. 5; East Derby Response to Interrogatory RA-1; Tr. 12/4/13, pp. 17 and 18.

Aquarion proposed to maintain East Derby's water sales rates based on the fact that East Derby experienced an overall rate increase of approximately 7% effective May 7, 2013. In addition, the Agreement was signed before the Company's rate increase became effective on September 24, 2013. Aquarion also stated that the annual revenues that will be received from East Derby post-acquisition will provide support for the rate base of \$1,675,000 and the operating costs of the system, not causing any subsidy to or from the existing Aquarion customers. Application, pp. 7 and 8, Exhibit B; Aquarion Response to Interrogatory RA-5. East Derby owns 46 public fire

hydrants that provide public fire protection to customers. The Regional Water Authority has not charged the City or East Derby for public fire protection. Post-acquisition, the City will be required to pay hydrant and inch-foot charges to Aquarion for public fire protection. Since East Derby did not charge for public fire protection, Aquarion proposed to use its Eastern Division hydrant and inch-foot charge. The approved annual Aquarion hydrant charge and inch-foot charge for public fire protection Eastern Division public fire protection are \$236.58 and \$0.09242, respectively. Application, Asset Purchase Agreement, Schedule 1.1.3; Late Filed Exhibit No. 8, Supplemental Response to Late Filed Exhibit No. 8; Tr. 12/18/13, pp. 83-86.

East Derby's existing rates are lower than Aquarion's Eastern Division. For comparative purposes, the Authority generally assumes that the typical residential customer consumes 18,000 gallons per quarter, or 72,000 gallons per year, and that the service is on a 5/8 inch meter. Currently, a residential customer of East Derby who uses 18,000 gallons of water per quarter would pay \$132.00. An Aquarion Eastern Division's customer would pay \$139.89 per quarter, a \$7.89 increase over East Derby's existing rates, or approximately \$32.00 more per year per customer ( $\$7.89 \times 4 = \$31.56$ ). Application, p. 5; Late Filed Exhibit No. 1. Aquarion was asked if allowing East Derby to maintain its lower rates post acquisition would be abiding. The Company stated that this directive was issued subsequent to the signing of the Agreement with East Derby and that, during the negotiations and discussions with Derby, Aquarion informed Derby that it would keep the East Derby rates in effect and hold them constant. Aquarion Response to Interrogatory OCC-2; Tr. 12/4/13, pp. 21-23, 40-42."

**Aquarion Water Company – Acquisition of Southeastern CT Water Authority Lantern Hill Division Water System**

Docket No. 16-04-22 December 21, 2016 Section B.2 – Page 5

"Aquarion proposed, post acquisition, that the SCWA LHD customers will become customers of Aquarion and be charged the rates of the Company's Eastern Division pursuant to the September 24, 2013 Decision in Docket No. 13-02-20, Application of Aquarion Water Company of Connecticut to Amend Its Rates (Aquarion Rate Case Decision). In the Aquarion Rate Case Decision, the Authority directed the Company to bill customers of newly acquired water companies its Eastern Division tariff rates.

The SCWA's existing rates are higher than Aquarion's Eastern Division rates and were last increased by the SCWA on November 1, 2012. Currently, a SCWA residential customer who uses 12,500 gallons per quarter pays \$123.81 or \$495.24 annually, while Aquarion's Eastern Division residential customer would be charged \$109.42 per quarter or \$437.68 annually for the same usage. Application, p. 5, Exhibit B, p. 9; Exhibit G.

Initially, Aquarion stated that even though its Eastern Division rates were lower than those of the SCWA, the resulting annual revenues would cover the revenue requirement of \$10,504 for the interconnection and not require any cross subsidization from Aquarion's legacy customers. Id., Exhibit B, pp. 8-10. However, during the hearing, it was discovered that the SCWA had 23

and not 24 customers and the costs associated with abandoning the existing well and removing the pump house were not included in the original revenue requirement. The Company was asked to update the customer count and the revenue requirement to include these costs. Ints. Tr. Page 27. The updated revenue requirement is Aquarion Rate Case Decision pursuant to Section II.F.5.b. New Company Purchases and Order No. 8 in which the Authority directed the Company to bill customers of newly acquired water companies its Eastern Division tariff rates \$12,679, which is more than originally calculated.

The OCC claims that under the revision, Aquarion's proposed rate level for the SCWA LHD fails to cover the entire revenue requirement associated with the improvements necessary to interconnect the SCWA LHD water system to Aquarion's Mystic System. Accordingly, the OCC does not believe the SCWA LHD customers should receive a rate decrease while Aquarion's existing customers would subsidize the acquisition system improvements and cost to operate the water system. Per Late Filed Exhibit No. 1, the revenue requirement shortfall is \$2,612 or approximately 20% of the total cost of service. The OCC stated that if the Departments propose to charge the SCWA LHD customers Aquarion's Eastern Division rates, the remaining revenue requirement shortfall should be billed through an acquisition adjustment surcharge. OCC Brief, pp. 2 and 3. Aquarion's response is that the acquisition will have no adverse impact on ratepayers of either Aquarion or the SCWA LHD. Aquarion Brief, pp. 7 and 8.

The Departments acknowledge the OCC's position that the SCWA LHD customers should not receive a rate decrease as a result of the acquisition. However, post acquisition the Authority will require the former SCWA LHD customers to be charged the Aquarion Eastern Division rates to comply with the Aquarion Rate Case Decision. In this instance, the Authority finds that the revenue requirement shortfall of \$2,612 is de minimus and does not warrant a rate surcharge in this proceeding. The rate impact amount for the 195,613 legacy customers is \$0.013 per year."

**Aquarion Water Company – Acquisition of West Service Corp and REJA Acquisition Corp.**

Docket No. 13-01-11 November 6, 2013 Section C.2 – Page 10

"Upon acquisition, Aquarion proposes to adopt its Eastern Division's existing metered rate schedule. It consists of meter service charges based on the size of the meter and a two-tier declining commodity charge based on a threshold of 314 for the first 314 TG and over 314 TG. This proposal would eliminate an additional rate structure within Aquarion. A customer in West Service would now pay approximately \$128.26 using 18 TG per quarter based on Aquarion's Eastern Division rates. Aquarion stated that it did not have the billing determinants for West Service's public fire protection revenues of \$38,606 as reported in West Service's 2011 Annual Report. Therefore, it could not break down the revenues between the hydrant and inch-foot charges but would obtain the records from West Service. Aquarion stated that residential metered sales of \$89,835 represent 70% of the total revenues of \$128,441 and public fire protection represents 30% or \$38,606. Application, Attachment BB, p. 19; Dixon PFT, p. 3; Responses to Interrogatories RA-1, RA-3, OCC-6, Attachment 1, p. 5; Tr. 5/2/13, pp. 92 and 93.

The Authority finds it reasonable to adopt Aquarion's Eastern Division metered rate schedule and an additional rate structure within Aquarion.

Aquarion proposed to maintain the Valley View's flat rate of \$30.00 until the Company evaluates the feasibility of metering these customers. In the event metering is viable, Aquarion proposed that the Valley View customers adopt the Eastern Division metered rates. The Valley View system has been in place since 1954 and the rates have not been increased in over ten years. The Company indicated that it must evaluate the feasibility, location of meter pits, and the property frontage of Valley View system in order to determine costs associated with metering these customers. The Company anticipated doing this within the first year post-acquisition. Application, p. 2; Responses to Interrogatories RA-4, OCC-8, OCC-9; Tr. 5/2/13, pp. 93-96; Aquarion Brief, pp. 2 and 3.

The Authority finds that it would be reasonable to adopt Aquarion's Eastern Division's flat rate of \$40.00 per month instead of the existing \$30.00 per month rate. The \$40.00 flat monthly rate should cover the necessary improvements required to update and meter Valley View and continue operating it as a satellite system. It will also eliminate an additional rate structure to Aquarion's various existing rate schedules in an effort toward rate equalization.

Aquarion also proposed to adopt its present schedule of miscellaneous service charges and its rules and regulations to both water systems. These customers will be billed on a per diem basis consistent with the rest of Aquarion's customer base. Both West Service and Valley View will be subject to the Water Infrastructure Conservation Adjustment surcharges or credits. Aquarion stated that it would continue to operate both systems as satellite systems and did not anticipate that either system would be charged any surcharge in light of any necessary capital improvements. Application, p. 2; Response to Interrogatory CS-5; Tr. 5/2/13, pp. 95 and 96; Late Filed Exhibit No. 1.

The Authority finds that Aquarion billing the West Service and Valley View System customers on a per diem basis and adopting its miscellaneous service charges and rules and regulations are consistent with prior Aquarion acquisition decisions before the Authority."

### **Connecticut Water Company – Acquisition of Avon Water Company**

Docket No. 16-11-31 April 12, 2016 Section H – Page 18

"Post-acquisition, CWC and AWC will remain stand-alone entities under CWS. The Applicants are not proposing any changes to the rates or any conditions to the water services for AWC at this time. The Authority acknowledges Avon's concerns and examined the impact on the current rates and service for customers of AWC as a result of the acquisition. AWC would retain its existing rates that were approved by the Authority in the March 31, 2010 Decision in Docket No. 09-10-08, Application of The Avon Water Company to Increase Rates, and subsequently the December 16, 2015 Decision in Docket No. 09-10-08RE02, Application of The Avon Water Company to Increase Rates – Settlement Agreement. AWC would continue to file its rate

applications as a stand-alone entity unless or until, it is merged into CWC. Furthermore, as long as CWC and AWC remain separate companies, each company's respective cost of service study would be submitted when filing rate applications. Benoit PFT, p. 7; Response to Interrogatory RA-1.

AWC is anticipating making a WICA filing before the acquisition is completed and is expecting to charge for one after the acquisition. AWC is not expecting to make a Revenue Adjustment Mechanism (RAM) filing in the near future and does not have one now. Approval of an Earning Sharing Mechanism (ESM) is not needed because AWC does not have a RAM. Response to Interrogatory RA-1.

The Applicants state that CWS can serve customers at a cost that is lower than AWC can by continuing to operate as a stand-alone entity. The AWC customers will have the benefit of a more resilient system and increased operational flexibility. Customers ultimately will receive lower rates than they would have had due to the decreased cost of operations and merger synergies. AWC customers will benefit from synergies resulting from CWS' greater resources and access to financial markets, plus benefit from access to CWS' wider and more diverse technical employee pool. The Applicants stated that in a subsequent rate proceeding, addressing rates for AWC customers, they expect to propose an equitable distribution of the expense synergies resulting from the Acquisition between shareholders and ratepayers. Benoit PFT, p. 5; Joint Application, p. 9.

Based on the information provided above, the Authority finds that from a rates perspective, the merger is in the best interest of AWC, CWS and CWC."

### **Torrington Water Company – Acquisition of City of Torrington Water System**

Docket No. 13-12-02 November 12, 2014  
Section E.1 and E.2 – Page 9

"The Authority approved the Company's current schedule of water service rates and fire protection charges, schedule of miscellaneous charges, and rules and regulations in the Decision dated August 13, 2008 in Docket No. 08-03-19, Application of The Torrington Water Company for Amendment of Rate Schedule (Rate Case Decision), effective on that date.

The City Water System has 252 metered residential, commercial, industrial and public authority customers. The Company sells water to the City on a sales for resale basis without the imposition of a Water Infrastructure Conservation Adjustment (WICA) surcharge or credit. Currently, the Company performs the meter reading and water billing for the City Water System customers and applies a 10% premium to the Company's approved rates for the City's various customer classes. The City does not assess public or private fire protection charges. The City is responsible for maintaining its hydrants, and at the City's request, TWC repairs or replaces the hydrants as necessary as part of its merchandising and jobbing revenue. Once the acquisition takes place, the Company will own and maintain the hydrants. Post acquisition, the City will be

required to pay for public fire protection and be charged based on hydrant and inch-foot charges and private fire protection charges. Application, Suhanovsky PFT, pp. 3-5; Responses to Interrogatories RA-1, RA-3 and RA-5.

After the Company filed the instant Application on December 4, 2013, two Decisions were approved by the Authority that affected the rates in effect for the Company. The first Decision changed the WICA surcharge from 6.52% to 6.73% to be applied to customers' bills effective April 1, 2014. Decision dated March 19, 2014, in Docket No. 10-05-01WI08, Application of The Torrington Water Company for Its Annual Reconciliation of its Water Infrastructure Conservation Adjustment for Year End 2013, (WICA Decision), p. 2. The second Decision was legislatively mandated per Public Act No. 13-78, Section 3, which established a Revenue Adjustment Mechanism (RAM) for Connecticut water utilities. Decision dated March 26, 2014, in Docket No. 08-03-19RE02, Application of The Torrington Water Company for Amendment of Rate Schedule – 2013 RAM (RAM Decision). The RAM is a revenue true-up mechanism that annually reconciles the difference between actual billed revenues during a year and allowed annual revenues established in the utility's most recent rate increase application. In the RAM Decision, the Company was authorized by the Authority to impose an 8.08% RAM on the Company's customer bills effective April 1, 2014. The RAM applies to miscellaneous charges, sales for resale contracts and water sales such as metered, flat and fire service rates. RAM Decision, p. 1 and Appendix A. pp. 1 and 2.

Presently, the City Water System customers are billed the Company's current rates plus a 10% premium for being a sales for resale customer. The WICA surcharge does not apply to the City because WICA does not apply to sales for resale customers. In addition, the Company is also charging the City the newly approved RAM of 8.08%. Once the Company acquires the City Water System, the 10% surcharge will be deleted, the RAM of 8.08% will remain and the 6.73% WICA surcharge will be applied to the City Water System customers because they will now be customers of the Company. The tables below summarize the rate impacts that will affect the City Water System customers once they become customers of the Company.

As can be seen in the tables above (Not shown), post acquisition the City Water System customers will see slight decreases to their bills as a result of the acquisition. If the City Water System customers were not acquired, they would be billed the 10% premium plus the RAM surcharge of 8.08% totaling 18.08%. Once they become customers of the Company, the 10% premium goes away and the City Water System customers will be charged the 8.08% RAM surcharge and the 6.73% WICA surcharge totaling 14.81% over the Company's approved rates currently in effect.

As a result of the acquisition, the Company will see an increase in metered sales from the City Water System of \$176,759. Since the City did not charge for private and public fire protection post acquisition, the Company would now be receiving revenues of \$41,326 from public fire protection, and \$12,696 from private fire protection. This totals \$230,781 (\$176,759 + \$41,326 + 12,696) in annual revenues based on 2013 figures. The Authority finds that the Company has demonstrated the correct rate calculations comparing the City's rates pre-acquisition and post-

acquisition and finds that the acquisition would benefit both the City Water System customers and the Company's existing customers as a whole. There would be economies of scale in combining a non-regulated water system with the Company as it is a regulated water company which has provided water and water services to Connecticut residents since 1873. The Company is familiar with the City Water System, which it has operated and maintained since 1967. Finally, the revenues from the City Water System customers will support the rate base value of \$350,000, not causing any subsidization to or from existing Company customers.

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