

STATE OF CONNECTICUT

**PUBLIC UTILITIES REGULATORY AUTHORITY
TEN FRANKLIN SQUARE
NEW BRITAIN, CT 06051**

**DOCKET NO. 18-08-34 PURA AND DPH REVIEW OF THE APPLICATION OF
AQUARION WATER COMPANY OF CONNECTICUT AND
THE TOWN OF NEW FAIRFIELD FOR AQUARION WATER
COMPANY OF CONNECTICUT TO ACQUIRE THE
ASSETS OF THE TOWN OF NEW FAIRFIELD MUNICIPAL
WATER SYSTEM**

October 14, 2020

By the following Commissioners:

John W. Betkoski, III

Michael A. Caron

By the Department of Public Health Commissioner:

Deidre S. Gifford, MD, MPH, Acting Commissioner
by
Kathryn Keenan, Esq.

DECISION

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DECISION

I. INTRODUCTION

A. SUMMARY

In this Decision, the Public Utilities Regulatory Authority (Authority or PURA) and the Department of Public Health (DPH; together, Departments) approve, subject to the conditions stated herein, both the cessation of operations by the Town of New Fairfield (Town) of its public water system (Water System) and the acquisition by Aquarion Water Company of Connecticut (Aquarion or Company) of certain assets of the Water System and all easements conveyed to it by the Town that are necessary to operate the Water System. Upon completion of the acquisition, the Town will cease operations of the Water System, and its existing customers will become customers of Aquarion and will be charged Aquarion's Eastern Division rates.

B. BACKGROUND OF THE PROCEEDING

Pursuant to §§ 16-46 and 16-262n of the General Statutes of Connecticut (Conn. Gen. Stat.), Aquarion and the Town jointly filed an application on August 31, 2018 (Application), requesting that the Departments consent to the cessation of operations by the Town of the Water System and approve Aquarion's acquisition of certain assets of the Water System and all easements conveyed to it by the Town that are necessary to serve the existing customers.

Aquarion and the Town entered into an Asset Purchase Agreement (Agreement) dated August 27, 2018, pursuant to which Aquarion will acquire from the Town certain assets relating to the Water System, including plant and equipment, supplies and inventories, contracts and contract rights, franchise rights, easement rights, and real property rights that are necessary to operate the Water System. Aquarion will not assume or otherwise be responsible for any accounts payable, outstanding debt, taxes accrued, accrued interest, tax collections payable, deferred credits or accumulated deferred income taxes related to the Water System. Aquarion will also not assume any liabilities or obligations of the Town in connection with the transfer of the Water System assets. Finally, Aquarion will not acquire the cash balance in the Municipal Water System Fund Account 215 or any real property. The proposed purchase price to be paid by Aquarion is \$150,000.00, with customary adjustments to be made at closing. Application Exhibit A, p. 6. Upon acquisition, Aquarion will own and operate the Water System.

The Town is a "water company" as defined in Conn. Gen. Stat. § 16-262n.¹ The Town's Water System is regulated by DPH.

Aquarion is a public service company and a water company as defined in Conn. Gen. Stat. §16-1(a). Aquarion is regulated by the Authority and by DPH.

¹ Conn. Gen. Stat. §16-262n defines a "water company" to include any "municipality . . . owning, leasing, maintaining, operating, managing or controlling any . . . well or distributing plant or system employed for the purpose of supplying water to not less than two service connections or twenty-five persons."

C. CONDUCT OF THE PROCEEDING

By Notice of Proceeding dated November 1, 2018, the Departments acknowledged receipt of the Application.

By Notice of Public Comment Hearing and Notice of Hearing dated October 25, 2018, the Departments conducted a public comment hearing on November 28, 2018, at the New Fairfield Senior Center Community Room 33, Route 37, New Fairfield, Connecticut and an evidentiary hearing on November 29, 2018, at the PURA offices, Ten Franklin Square, New Britain, Connecticut (PURA Offices).

By Notice of Inspection dated November 1, 2018, the Departments conducted an inspection of the plant and facilities of the Water System on November 28, 2018.

By Notice of Close of Record dated February 25, 2019, the Departments closed the record in this proceeding.

On May 7, 2019, the Departments issued a proposed final decision in this proceeding.

On May 24, 2019, both Aquarion and the Town filed written exceptions to, and requested oral argument on, the proposed final decision.

By Notice of Rescheduled Oral Arguments dated June 4, 2019, the Departments heard oral arguments on June 19, 2019.

By Notice of Re-Opening of Evidentiary Record dated September 9, 2019, the Departments re-opened the record for the limited purpose of obtaining additional evidence. The Departments issued interrogatories on September 10, 2019, and November 7, 2019.

On July 13, 2020, the Departments issued the First Amended Proposed Final Decision. On August 17, 2020, both Aquarion and the Town filed written exceptions to, and requested oral argument on, the First Amended Proposed Final Decision. Oral arguments were held on September 11, 2020.

D. PARTIES

The Departments recognized Aquarion Water Company of Connecticut, 600 Lindley Street, Bridgeport, CT 06606; Town of New Fairfield, 4 Brush Hill Road, New Fairfield, CT 06812; the Office of Consumer Counsel, Ten Franklin Square, New Britain, CT 06051-2655; and the Commissioner of the Department of Energy and Environmental Protection, 79 Elm Street, Hartford, CT, 06106, as Parties to this proceeding.

E. PUBLIC COMMENT

Aquarion filed its Customer Notice with the Authority on November 2, 2018. The Authority approved receipt of Aquarion's Customer Notice on November 19, 2018. The Customer Notice, modeled after the requirements of Conn. Gen. Stat. §16-19(a), was sent to the Water System customers and contained the date, time and location of all scheduled hearings, as well as information regarding the potential billing impact on current Water System customers if the proposed acquisition was approved.

In addition, the Town provided to the Water System customers a notice dated November 6, 2018, containing the date, time and location of all scheduled hearings, as well as information regarding the potential billing impact on current Water System customers if the proposed acquisition was approved. Response to Interrogatory DPH-2, Attachment 1.

The Departments conducted a public hearing on November 28, 2018, at the New Fairfield Senior Center, 33 Route 37, New Fairfield, Connecticut, for the purpose of receiving comments from the general public concerning the Application. Approximately 9 people attended the hearing. No public comment was provided by any of the attendees.

II. DEPARTMENTS' ANALYSIS

A. VOLUNTARY ACQUISITION AND CESSATION OF OPERATION UNDER CONN. GEN. STAT. §16-46(a)

The Departments commenced this proceeding in response to the Company's and the Town's joint request for approval of the acquisition of the Water System and the Town's request to cease operations of the Water System. Pursuant to Conn. Gen. Stat. §16-46(a), a water company may not cease operations without the consent of the Departments. Upon receipt of a request to cease operations, Conn. Gen. Stat. §16-46(a) requires the Departments to hold a hearing and issue a final Decision setting forth the actions that the water company shall take to ensure a continuous supply of potable water at adequate volume and pressures, in accordance with the procedures and criteria set forth in Conn. Gen. Stat. §§16-262n to 16-262q, inclusive.

Specifically, Conn. Gen. Stat. §16-262n(c) then requires the Departments to conduct a hearing to "determine the actions that may be taken and the expenditures that may be required, including acquisition of the water company by a suitable public or private entity, to assure the availability and potability of water at adequate volume and pressure to the persons served by the water company at a reasonable cost."

In the case of a voluntary acquisition such as this, the Authority, in consultation with the DPH, will approve the acquisition if the acquirer is suitable and the associated expenditures are necessary and reasonable. With regard to suitability, the Departments will consider the following factors: (1) the geographical proximity of the plant of the acquiring entity to the water company; (2) whether the acquiring entity has the financial, managerial and technical resources to operate the water company in a reliable and efficient manner and to provide continuous, adequate service to the persons served by

the company; and (3) the current rates that the acquiring entity charges its customers. See Conn. Gen. Stat. §16-262o. As to the necessity and reasonableness of expenditures, the Authority will review the purchase price, proposed capital improvements, potential liabilities, and the accounting treatment to ensure that rates “reflect prudent and efficient management of the franchise operation.” Conn. Gen. Stat. § 16-19e(a)(5).

In this instance, the Departments have determined that Aquarion is suitable to acquire the Water System. However, the Authority will only allow Aquarion to recover \$25,000 of the purchase price from ratepayers as an amount reasonably necessary to effect the transaction. Consequently, the acquisition is approved subject to the terms and conditions in this Decision.

B. DESCRIPTION OF THE TOWN OF NEW FAIRFIELD PUBLIC WATER SYSTEM

The Town owns and operates the Water System, which is a non-transient, non-community water system in New Fairfield, Connecticut that provides water service to eight (8) customers, including the library, Town Hall, Town Hall Annex, New Fairfield Shopping Plaza, Family Practice and the Stop & Shop Plaza. Application, p. 4; Tr. 11/29/18, p. 35. All customers of the Water System are metered. Tr. 11/29/18, pp. 68-69. The Town is the exclusive service area (ESA) provider for the Water System. Response to Interrogatory DPH-7; Tr. 11/29/18, p. 86. Aquarion is the ESA provider for the rest of New Fairfield. Tr. 11/29/18, pp. 86-87. In addition to the Water System, the Town owns another non-transient, non-community water system and two transient, non-community water systems, all of which are located in New Fairfield. Response to Interrogatory DPH-10.

The Water System consists of three bedrock wells (Wells No. 1, 2 and 3), a pump house, two 5,000 gallon atmospheric storage tanks, a 132-gallon steel hydropneumatic expansion tank, three variable speed booster pumps, treatment, and a distribution system. The Water System has a 40 kilowatt emergency generator with a transfer switch panel. Application, Exhibit A, p. 36; Response to Interrogatory EN-10. The water from Wells No. 1, 2 and 3 is pumped into the pump house where it is treated. The water treatment consists of a potassium chloride water softener, granular activated carbon and sodium hypochlorite disinfection. Once treated, the water is pumped into the two 5,000-gallon atmospheric storage tanks and then pumped out to the customers through the distribution system using three variable speed booster pumps. The 132-gallon steel hydropneumatic expansion tank is connected to the Water System’s distribution piping in the pump house to absorb pressure variations. Application, Exhibit E. All assets of the Water System are located on Town-owned property² or in public rights-of-way. *Id.* at Exhibit F; Response to Interrogatory DPH-5.

² On October 23, 2018, pursuant to Conn. Gen. Stat. § 25-32(p), the Town submitted an application to the Commissioner of DPH requesting a water company land permit to lease the Town’s water company land associated with the Water System to Aquarion. Response to Interrogatory DPH-8, Attachment 1. Specifically, the Town requested a permit to lease to Aquarion all of the land it owns within 200 feet of each of the Water System’s three bedrock wells. *Id.*

Each of the three wells is limited to a production of less than 9 gallons per minute (gpm) due to sanitary set back restrictions. To limit the production, a 9-gpm flow restrictor is installed on each well. Application, Exhibit E. The average winter production of the Water System ranges from 4,500 – 5,500 gallons per day (gpd) and the summer production ranges from 6,000 – 7,000 gpd. Application, p. 4.

The distribution system consists of approximately 1,800 feet of 6-inch ductile iron water mains. Application, Exhibit F. There are no hydrants or private fire service lines within the Water System. The New Fairfield fire department provides fire protection for the customers of the Water System. Response to Interrogatory RA-3.

The Water System was built in 2003 by Charter New Fairfield I and II, LLC (Charter New Fairfield) for the purpose of creating a water supply for one of their commercial properties. Charter New Fairfield transferred the Water System to the Town in 2004. Tr. 11/28/18, p. 32; Response to Interrogatory EN-6. The Town does not have a listing of original cost and current value of the Water System. Response to Interrogatory EN-6. There have been no capital improvements to the Water System during the last 10 years. Application, Exhibit F.

The Water System is managed by two part-time people, one of whom is a volunteer. Tr. 11/29/18, p. 62. Foley's Pump Service is the certified operator of the Water System, which, in addition to operating the system, also handles cross connections and backflow prevention. Application, p. 4; Tr. 11/29/18, p. 53.

At the time of the hearings, the Water System was in compliance with federal and state regulations. Application, Exhibit F.

Aquarion will acquire certain Water System assets and related easements from the Town and operate the Water System as a satellite system. The proposed sale of the Water System to Aquarion was approved at a town meeting on August 20, 2018. Response to Interrogatory DPH-1, Attachment 1.

There will be no immediate change in or interruption of the Water System operations and procedures as a result of this transaction. Aquarion will continue to utilize Wells No. 1, 2, and 3 and the pump house to supply water to customers. Aquarion will have access to the Water System through easements granted to it by the Town. Application, Exhibit A, p. 34.

The Town has been accruing the excess funds from the Water System's revenue in a capital reserve fund, the Municipal Water System Fund Account 215. Tr. 11/29/2018, p.52. The amount of the reserve fund as of June 30, 2018, was \$79,738. Response to Interrogatory AC-6, Attachment 1, p. 6. Pursuant to the Agreement, Aquarion will not acquire the cash balance in the Municipal Water System Fund Account 215. Application, Exhibit A, p. 3; Tr. 11/29/2018, p.50.

C. AQUARION'S SUITABILITY TO ACQUIRE THE WATER SYSTEM

For a voluntary acquisition, PURA, in consultation with DPH, will determine if the acquiring entity, in this case Aquarion, is suitable by considering the following factors

identified in Conn. Gen. Stat. §16-262o(a): (1) the geographical proximity of the plant of the acquiring entity to the water company; (2) whether the acquiring entity has the financial, managerial and technical resources to operate the water company in a reliable and efficient manner and to provide continuous, adequate service to the persons served by the company; (3) the current rates that the acquiring entity charges its customers; and (4) any other factors the PURA deems relevant.

Here, the Departments find that Aquarion is suitable to acquire the Water System.

1. Geographic Proximity

Pursuant to Conn. Gen. Stat. §16-262o, the first criterion the Departments are required to consider in determining whether an entity is suitable is geographic proximity of the entity to the water company. Aquarion owns and operates six water systems in New Fairfield; and four of these systems are located within close proximity of the Water System: Dunham Pond System is 260 feet; Birches System is 2,600 feet; Oakwood System is 3,400 feet; and Possum Ridge System is 3,500 feet from the Water System. Response to Interrogatory RA-5. Accordingly, Aquarion is within the geographical proximity of the Water System and, therefore, is appropriately situated to operate the Water System.

2. Financial, Managerial and Technical Resources

The second criterion considered by the Departments is whether the potential acquiring entity has the financial, managerial and technical resources to operate the Water System in a reliable and efficient manner and to provide continuous, adequate service to the persons served by the Town. Aquarion has provided water and water services to its customers continuously since 1857. Application, p. 3. It serves approximately 625,000 customers in 51 towns and cities throughout Connecticut. Id. Aquarion has extensive experience acquiring and operating small water companies in Connecticut. Id., pp. 3 and 4.

Based on Aquarion's balance sheet showing a good capitalization and its income statement showing profitability, the Departments consider Aquarion to have the financial strength to execute the proposed acquisition.

The following are summary income statements for Aquarion:

	12/31/15 in \$(000)	12/31/16 in \$(000)	12/31/17 in \$(000)	9/30/18 in \$(000)
Operating Revenues	179,463	181,249	183,170	139,484
Total Operating Expenses	132,498	130,155	134,735	97,149
Utility Operating Income (UOI)	46,965	51,094	48,435	42,335
Other Income	2,663	7,490	2,401	2,137
Other Deductions	2,249	4,124	1,842	0
Other Income Net	414	3,366	559	0
Income Before Interest Charges	47,379	54,460	48,994	44,472
Total Interest Charges	15,055	14,739	14,397	11,378

	12/31/15 in \$(000)	12/31/16 in \$(000)	12/31/17 in \$(000)	9/30/18 in \$(000)
Net income	32,324	39,721	34,597	33,104

Response to Interrogatory FI-13, Attachment 1.

The table above demonstrates that operating revenues trended up from years ending 2015 through 2017. UOI averages \$48,831,333 for the last three year ends. The nine months ended September 31, 2018, shows profitability continuing.

The following are summary balance sheets for Aquarion:

	12/31/15 in \$(000)	12/31/16 in \$(000)	12/31/17 in \$(000)	9/30/18 in \$(000)
Cash	193	177	200	220
Restricted Cash	249	130	153	153
Accounts Receivable	10,010	10,500	10,442	11,754
Receivable from Associates	39,841	30,292		0
Total Current Assets	72,665	63,332	28,338	35,922
Net Utility Plant	855,499	929,866	973,706	1,009,787
Total Assets	1,120,280	1,196,191	1,188,213	1,232,061
Accounts Payable and Accrued Expenses	23,206	24,934	26,855	18,604
Other Liabilities and Deferred Credits	428,810	476,864	469,042	0
Long-Term Debt	304,363	304,706	305,627	305,237
Total Stockholder's Equity	363,901	379,656	380,170	395,273

Response to Interrogatory FI-13, Attachment 1.

Total assets and total stockholders' equity is strong for each of the year ends and the nine months ending September 30, 2018, which shows an increase in financial strength each year.

Financial analysis of the Aquarion financial statements produced the following ratios:

	Aquarion as of 12/31/17	Aquarion As of Q3 2018 (9 months)	Aquarion Pro Forma 2018Q3 with acquisition
Current Ratio	0.8	0.6	0.6
Cash Flow from Operations Ratio	2.3	0.7	0.8
Times Interest Earned	4.1	4.2	4.2
Cash Flow Coverage Ratio	5.4	3.9	3.9

	Aquarion as of 12/31/17	Aquarion As of Q3 2018 (9 months)	Aquarion Pro Forma 2018Q3 with acquisition
Total Debt/Total Capital (%)	44.6%	43.6%	43.6%
Funds from operations/total debt (%)	25.4%	14.5%	14.5%
Net Debt to Earnings Before Interest Taxes Depreciation and Amortization Ratio	3.1	3.9	3.9
Return on Total Assets	5.0%	3.9%	3.9%
Return on Total Capital	8.6%	6.8%	6.8%

Response to Interrogatory FI-11.

Most notably, Aquarion has a strong times interest earned ratio. This ratio reflects the number of times before tax earnings cover interest expense. The cash flow coverage ratio is also strong and shows Aquarion has sufficient cash flow to meet its financial charges. The return on total assets is strong and indicates that the management of Aquarion has sufficiently used its resources to obtain income. The Authority concludes that Aquarion is able to service its debt and maintain its financial integrity. In addition, Aquarion has a good source of capital via intercompany borrowings through Eversource commercial paper at an interest rate 90-100 basis points lower than the external capital markets. Response to Late Filed Exhibit No. 2.

Based on an analysis of Aquarion's balance sheets, income statements, and financial ratios, the Departments find that, consistent with prior decisions, Aquarion has the financial, managerial and technical resources necessary to execute the proposed acquisition of assets and to serve the customers.³

3. Rates of Acquiring Entity

The third criteria used to assess the suitability of the acquiring entity is the rates that the entity charges its customers. Aquarion proposed, upon acquisition, to bill the customers of the newly acquired system at its Eastern Division rates. Response to Interrogatory RA-6.

Aquarion also proposed to apply its present schedule of miscellaneous service charges and its rules and regulations for the Water System. The existing customers will be subject to any applicable surcharges or surcredits, such as the WICA surcharge and the Revenue Adjustment Mechanism. Application, p. 6 and Response to Interrogatory CA-1. Aquarion stated that WICA surcharges will be applied to existing Water System

³ Based on this in-depth evaluation, for purposes of acquiring small water companies in accordance with Conn. Gen. Stat. § 16-262o(a)(2), the Authority will consider Aquarion to have the financial, managerial and technical resources to operate small water companies in a reliable and efficient manner until such time as the Authority determines Aquarion's financial, managerial and technical resources must be reevaluated. Doing so avoids the repetitive review of Aquarion's financial, managerial and technical resources for future small water company acquisitions.

customers after the Authority approves Aquarion's next Semi-Annual Filing Reports or Annual Reconciliation filing. Application, p. 6. The Company will be directed to include the retail revenues from the Water System in its total annual revenues in future WICA filings.

The Authority finds that Aquarion's proposed implementation of rates for the existing Water System customers is appropriate. The rates have been reviewed and previously approved by PURA as just and reasonable.

D. NECESSITY AND REASONABLENESS OF EXPENDITURES

1. Short Term Capital Improvements

Aquarion estimates the cost associated with the operation and maintenance of the Water System to be approximately \$15,000 per year. This includes costs for labor, chemicals and purchased power or fuel, or both. Response to Interrogatory RA-4.

Aquarion identified \$95,500 in short-term capital improvements for the Water System within the first two years. Specifically, Aquarion plans to: (1) install a telog cell dialer and local data logging/controls, at a cost of \$22,000; (2) install a chlorine analyzer, at a cost of \$4,700; (3) install an analyzer recycle tank, at a cost of \$1,500; (4) install two chemical metering pumps, at a cost of \$3,300; (5) replace a chemical storage tank, at a cost of \$2,000; (6) install a pressure transmitter and other instrumentation work, at a cost of \$7,000; and (7) install a meter chamber for the Stop & Shop Plaza, at a cost of \$55,000. Response to Interrogatories RA-4.

Aquarion plans to operate the Water System as a satellite water system in its Eastern Division for approximately two years, at which time Aquarion may interconnect the Water System with its Dunham Pond system. Response to Interrogatory RA-4; Tr. 11/29/2018, pp. 26-27. Aquarion stated that water systems are generally interconnected when one of the systems has a water supply need or water quality issues. In this situation, however, Aquarion may connect the two systems for resiliency purposes as the water systems are in close proximity to each other. Response to Interrogatory RA-5; Tr. 11/29/2018, pp. 27, 33, 42 and 66. The cost of interconnecting the Water System to the Dunham Pond system is estimated to be \$80,000, and the cost to interconnect to other local systems approaches \$1 million. The Company plans to pay for the costs of any interconnections as part of its capital program, subject to a prudency review by the Authority. Response to Interrogatory RA-5.

The Departments find that the proposed short-term capital improvements are necessary and reasonable to assure the availability and potability of water and the provision of water at adequate volume and pressure.⁴ The Authority will monitor the Company's short-term capital improvements to ensure the Company is conducting reasonable due diligence and properly estimating the scope and cost of these

⁴ This determination is not an approval under Conn. Gen. Stat. § 16-262v(1)(G) for Water Infrastructure and Conservation Adjustment (WICA) eligibility. Aquarion will be ordered to submit a detailed description of and estimate for the proposed improvements for review and approval by the Authority.

improvements. Substantial disparities between the estimated \$95,500 in improvements and actual expenditures resulting from inadequate due diligence may be disallowed.⁵ .

2. Purchase Price and Recovery from Ratepayers

Aquarion and the Town agreed to a purchase price of \$150,000. Application, p. 5. The issue before the Authority, however, is not how much Aquarion pays the Town, which is a contractual matter between the two parties. Rather, the issue is whether and to what extent Aquarion is allowed to recover this capital investment (including the additional \$95,500 in capital improvements) from ratepayers.

Generally, the primary test for regulated water companies to recover capital investments is the prudence standard. However, the voluntary acquisition of small water systems is more complex because it often places two important public policies in conflict. Specifically, on the one hand, the legislature mandates that the Authority implement a “level and structure of rates [that] reflect prudent and efficient management of the franchise operation.” Conn. Gen. Stat. § 16-19e(a)(5). On the other hand, the legislature encourages the consolidation of small water systems, especially ones that are not economically viable, through a variety of mechanisms. See, e.g., Conn. Gen. Stat. § 16-262o(c) (allowing rate surcharges); Conn. Gen. Stat. § 16-262s(b) (allowing recovery of acquisition premium and award of premium rate of return). The conflict arises because, with limited exceptions, the acquisition of small water systems, particularly those that are antiquated or not economically viable, is neither prudent nor efficient, thereby requiring current ratepayers to bear the associated costs.

Applying the principles enumerated in Conn. Gen. Stat. § 16-19e(a), the Authority will balance these competing legislative priorities by permitting recovery of capital investments for voluntary acquisitions that are either (1) demonstrated to be prudent or (2) structured to minimize the negative impact on ratepayers. Specifically, the Authority will apply a multi-step evaluation to ensure acquisitions impose the lowest possible burden on ratepayers while reasonably promoting consolidation.

First, the Authority will consider the prudence of the investment by examining whether the proposed purchase price is in excess of the net book value (NBV). For regulated utilities, the NBV generally provides a reasonable approximation of asset value. However, for small water systems, the NBV of the plant is not necessarily an indicator of the ratemaking value or a prudent purchase price. Notably, the use of NBV as a valuation tool presumes that the initial water system investment was prudent and that, by simply accounting for accumulated depreciation, the current book value of the assets is a reasonable representation of the ratemaking value of the asset. This assumption does not hold for many small water systems, which were not utility investments but, instead, were enabling infrastructure projects necessary to permit real estate developments (e.g.

⁵ For future acquisitions, the Authority’s financial analysis of short-term capital improvements will take into consideration all reasonably anticipated capital investments for the first five (5) years following the acquisition. Accordingly, Aquarion should provide the estimated capital costs for a 5-year period rather than a 2-year period. This will provide further assurance for ratepayers that the sellers have not unreasonably deferred investment in the water system.

vacation cottages or a shopping plaza). As a result, a significant portion of the original cost would likely have been disallowed or deemed a contribution in aid of construction if the system had been constructed by or transferred to a regulated utility. The NBV often does not account for these types of adjustments and, therefore, is not an accurate methodology for determining the utility ratemaking value of the asset.⁶

In addition, many small water system operators do not have or are not willing to provide the necessary documentation to accurately determine the NBV. In such cases, the acquiring water company must approximate the NBV by inventorying the existing assets, estimating construction costs, deriving the original cost using industry indices, and approximating adjustments for depreciation. This process imbues the resulting NBV with a significant margin of error.

As a result of these issues, NBV may not be a reliable indicator of the ratemaking value of small water systems and, therefore, the prudence of the purchase price. Consequently, the Authority will generally consider the NBV, adjusted for estimating errors, to provide an approximate ceiling for any purchase price.⁷

Next, the Authority will conduct a substantive evaluation of whether the acquisition (comprised of both the proposed purchase price and short-term capital improvements) is prudent by determining if existing ratepayers will be obligated to subsidize the resulting revenue requirement. The analysis is similar to the hurdle rate analysis typically employed by public utilities to ascertain prudence of new investments. Specifically, the Authority will determine the revenue requirement for the total capital investment, consisting of the return on investment, operations and maintenance costs, depreciation, and taxes that would result from adding the negotiated purchase price and the approved short-term capital improvements to the acquiring water company's rate base. Using the revenue requirement, the Authority will calculate the cost of service for the water system (Cost of Service). The Authority will then compare the Cost of Service against the expected revenues from the water system (System Revenues), which will include revenues from metered rates and from any surcharges proposed by the acquiring water company on the new customers. The difference between the Cost of Service and the System Revenues (Net Cost of Service) will quantify the level of subsidy, if any, required by the acquisition.

If the Net Cost of Service is zero or less, the Company can earn a reasonable return on the investment without requiring subsidization from existing ratepayers. As a result, barring any inconsistencies with the principles stated in Conn. Gen. Stat. § 16-19e, the Authority will likely find the purchase price and short-term capital improvements to be prudent.

If the Net Cost of Service is more than zero, the Company's return on the investment will require subsidization by existing ratepayers. Consequently, the

⁶ In accordance with standard utility accounting practices, contributed plant and contributions in aid of construction should be excluded from the NBV determination.

⁷ The specific facts and circumstances of an acquisition might warrant or justify a purchase price in excess of the NBV; however, Aquarion will continue to have the burden of demonstrating the purchase price is prudent in order to obtain full recovery.

acquisition can only be justified under the state's policy encouraging water system consolidation. As such, in these cases, the Authority will require the water company to demonstrate that the resulting subsidy is the least amount reasonably necessary to enable the transaction. The acquiring water company has the following options to satisfy this requirement:

a. Surcharge Optimization

The water company may demonstrate that the amount of proposed surcharge has been set to maximize future revenues from the water system without creating an unreasonable hardship on the new customers. In evaluating whether a surcharge is an unreasonable hardship, the Authority will consider the current average monthly bills compared to bills under the new metered rates. The Authority will also consider equity issues such as whether the customers benefitted from unreasonably low rates in prior years as a result of deferred maintenance and investment in the system.⁸

b. System Benefit Offset

The water company may demonstrate that all or a portion of the Net Cost of Service is a result of a system benefit, including, among other things, avoided costs and increased reliability. In certain cases, the acquisition of a small water system may allow the acquiring water company to avoid costs that would otherwise be incurred in operating its water system (e.g. providing a source of supply) or in making reliability improvements (e.g. interconnecting systems or providing redundancy for maintenance). Importantly, generalized claims of system benefits are not sufficient to justify subsidization by ratepayers. Rather, the acquiring water company will need to provide evidence supporting the amount of avoided costs or improvements to reliability.

The Authority will credit amounts for system benefits against the Net Cost of Service because ratepayers will be the beneficiaries of these avoided costs and improvements. As a result, the acquiring water company may use system benefits to offset or justify costs that would otherwise be subsidized by ratepayers. If the value of the system benefits meets or exceeds the Net Cost of Service, barring any inconsistencies with the principles stated in Conn. Gen. Stat. § 16-19e, the Authority will likely find the purchase price and short-term capital improvements to be a reasonable investment.

c. Efficacy of Purchase Price

If an acquisition still requires ratepayer subsidization after accounting for surcharges and system benefits, the acquiring water company will need to demonstrate that the proposed purchase price is the least amount reasonably necessary to effect the transaction. Importantly, subsidized acquisitions are prima facie imprudent because ratepayers will be disadvantaged without receiving any corresponding benefit. Therefore, the only cash consideration that can survive a review under the Authority's statutory mandates is that amount reasonably necessary to encourage sellers to engage in the transaction. While state policy may favor small water system consolidation, the policy does not support consolidation at any cost.

⁸ In future proceedings, Aquarion should provide evidence that current customers of the water systems have been notified of any proposed surcharge and given a reasonable opportunity to participate in the proceeding.

Consequently, the acquiring water company will need to show that an objectively reasonable seller would not complete the sale but for the negotiated purchase price. In evaluating whether the acquiring water company has met this burden, the Authority will consider, among other things: (1) the seller's willingness and ability to continue operating the water system; (2) the liabilities and expenses the seller avoids by consummating the sale, including capital demands and compliance obligations with state and federal water quality standards; (3) ancillary or pecuniary benefits, such as added property tax base, which may incent the transaction; and (4) transactional costs, such as legal fees, which may deter the transaction.

If the purchase price is demonstrated to be reasonably necessary to facilitate the transaction, the Authority will generally allow the acquiring water company to recover the purchase price in rates because the transaction will have struck a reasonable balance between the state's policy favoring water system consolidation and the Authority's mandate to ensure prudent operation.

If the acquiring water company is unable to demonstrate that the purchase price is reasonably necessary to facilitate the transaction, the Authority will generally disallow recovery of the purchase price or a portion thereof as being inconsistent with the state's policy priorities. In such cases, the acquiring water company will be responsible for any difference between the purchase price paid to the seller and the allowed amount as a shareholder expense. Aquarion has expressed concern that disallowing such expenditures would deter the Company from engaging in small water acquisitions. However, the Authority believes this methodology will encourage voluntary acquisitions that are prudently negotiated and which adhere to the General Assembly's articulated policies.⁹

3. Recovery of Costs for New Fairfield Water System

a. Net Book Value

In the present case, a comparison between the \$150,000 purchase price and the estimated NBV of the Water System does not provide meaningful evidence as to the prudence of the acquisition. Financial documents were not available to establish a NBV; therefore, the Applicants estimated a NBV of \$277,344 for the Water System. Application, p. 8, Exhibit D; Response to Interrogatory AC-1. The Applicants also provided evidence supporting a NBV of \$150,000. Response to Interrogatory EN-1, Attachment 1. In response to Authority interrogatories, the Applicants declined to explain the large variation in these estimates or provide an estimated margin of error for the NBV calculation. Response to Interrogatories AC-13 and AC-15. Finally, the Town stated that it "carried the valuation in its books at \$427,910." Town's Written Exceptions to Proposed Final Decision, May 24, 2019, p. 1. As a result, an estimate of the NBV could fall within a very wide range of values.

⁹ Aquarion raised the issue of whether the Authority should develop its evaluation process through a formal rule-making proceeding. Regulations related to the acquisition of small waters systems may be warranted in the future. However, in this Decision, the Authority is providing the reasoning and basis for the conclusions and orders herein. To the extent this Decision creates precedent, Aquarion may rely on it for guidance in future applications.

Further, a regulated utility would not have constructed the Water System originally without a substantial contribution in aid of construction. Specifically, Tim Simpkins, the director of health for the Town, stated:

We had a project that was being built, and they weren't able to drill a well on that site, so we had to figure out a way that we could get them water because the grocery store was imperative for the town to get. So we took it on. The administration at that point in time really didn't want the water system, but in order to make the project work, they took it.

Tr. 11/29/2018, pp. 60-61.

Similarly, Tom Quigley, the Town's water pollution control chairman, stated "The water system was built by [a developer] for the purpose of creating water for their commercial properties. At the end . . . the water system was turned over to the Town of New Fairfield as a gift . . ." Tr. 11/29/2018, p. 32. Consequently, the Water System was not a typical utility investment but rather a necessary cost to develop the shopping center. If a regulated utility had constructed the Water System, a substantial portion, if not all, of the original cost of the Water System would have been disallowed or offset by a contribution in aid of construction by the developer. As such, the NBV of the Water System would deviate from the ratemaking value.

In support of its estimated NBV, Aquarion cited Section 117 of the Uniform Chart of Accounts, which requires adjustments "to accumulated provisions for depreciation and amortization and contributions in aid of construction with respect to such property." (emphasis added). Aquarion Written Exceptions to Proposed Final Decision, May 24, 2019, p. 5. Notably, Aquarion declined to adjust the estimated NBV for what the record indicates is a contribution in aid of construction. Response to Interrogatory AC-12.

Therefore, even though \$277,344 might be a reasonable estimate, within some margin of error, of the NBV for accounting purposes, the amount has no direct correlation to the ratemaking value or the prudence of the purchase price. As a result, the NBV analysis offers no material support for the Authority to determine the prudence of the proposed acquisition.

b. Prudence Review and Subsidization by Ratepayers

i. Net Cost of Service

The acquisition will have a substantial Net Cost of Service and, therefore, will not survive a prudence review. Using the worksheets provided by Aquarion, the Authority determined that, if Aquarion was allowed to recover the proposed purchase price and capital improvements (together totaling \$245,500), the Water System would operate with an initial annual revenue deficiency of approximately \$22,575. This revenue deficiency will be paid for (or subsidized) by ratepayers. The deficiency and associated subsidy will decline over time as the plant depreciates, but the Water System will continue to run deficits indefinitely because the projected annual revenue of \$24,517 is simply insufficient

to cover the annual cost of service.¹⁰ Applying a weighted average life of the assets of 27 years, the total Net Cost of Service would be approximately \$329,506.¹¹ The table below summarizes the calculations.

	Year 1	Life of Asset
Required Return (7.5% on 245,500)	18,057	226,838
Operating and Maintenance	15,000	405,000
Depreciation	4,629	169,240
Property Taxes	4,868	55,602
Income Taxes	4,538	72,627
Cost of Service (Revenue Requirement)	47,092	991,465
Anticipated Revenue	24,517	661,959
Net Cost of Service	22,575	329,506

Response to Interrogatory AC-20, Attachment 1.

Due to the substantial Net Cost of Service, the acquisition is not supported under a standard prudency review. Therefore, the burden falls upon Aquarion to demonstrate that the resulting subsidy is the least amount reasonably necessary to enable the transaction, including by showing that the customer surcharge is optimal, providing evidence of offsetting system-wide benefits, or establishing that the purchase price is essential to enabling the transaction.

ii. Surcharge Optimization

The Applicants did not propose a surcharge as a mechanism to address the revenue deficiency. Notably, the Water System's existing customers (including the Town) will generally have lower annual water bills under Aquarion's Eastern Division rates, and Aquarion acknowledged "rates will go down slightly for customers." Tr. 11/29/2018, p. 95.

The reduction is due to the substantial decrease in the consumption rate from the current \$12/kgal to \$5.66/kgal. This reduction is offset marginally by the fixed meter fee, but the seven customers proposed to have 1" meters (\$387/year) will still see reductions of about 20-40% depending upon their usage. The one exception is Stop & Shop, which is the Water System's largest customer. Stop & Shop consumes approximately half of the water and is proposed to have a 6" meter, which carries a \$7,735/year fee. Due to this higher meter fee, Stop & Shop will pay roughly the same under Aquarion's rates, despite the substantial reduction in the consumption rate. Response to Interrogatory AC-51, Attachment 1.

¹⁰ Aquarion asserted the acquisition is supported by "the incremental revenues that would be available to offset costs if Aquarion were allowed to connect more customers to the Water System to alleviate their water quality problems." Aquarion's Written Exceptions to Proposed Final Decision, May 24, 2019, p. 7. However, Aquarion offered no evidence during the proceeding to support or quantify this claim. As a result, the Authority is unable to factor potential future revenues into its analysis.

¹¹ Using the negative acquisition adjustment proposed by Aquarion, the Net Cost of Service would increase to \$529,000. LFE-6, Attachment 1.

The Town “vehemently objects” to the imposition of a surcharge as “both onerous and burdensome.” Town’s Written Exceptions to Proposed Final Decision, May 24, 2019, p. 2. Notably, the \$150,000 purchase price negotiated by the Town is the primary cause of the revenue deficiency and the potential need for a surcharge to minimize subsidization by ratepayers. The \$150,000 purchase price, therefore, appears to be at odds with the Town’s “position that it has a responsibility to protect and support small business, . . .” *Id.* Aquarion indicated that it did not pursue a surcharge because the system has only seven (7) customers. Tr. 11/29/2018, p. 79.

The decision to forego a surcharge eliminates a potential revenue stream that would reduce the revenue deficiency and the ratepayer subsidy and provide justification for the purchase price and capital improvements.¹²

iii. System Benefit Offset

The Net Cost of Service can potentially be offset if the acquisition results in avoided costs or system-wide improvements that benefit ratepayers in general. Here, the Applicants proffered that the Water System could provide cost-effective reliability improvements for a nearby Aquarion water system, Dunham Pond. Application, p. 7. However, the record provides limited evidence to support this assertion.

Aquarion testified that “[s]ince there is only one well in the Dunham Pond system it would be prudent for the Company to install or acquire the additional water source.” Response to Interrogatory AC-25. According to Aquarion, “the cost to develop a new source of supply . . . is estimated to be approximately \$150,000 to \$250,000.” Response to Interrogatory RA-10. Aquarion suggested that an interconnection between the two systems at a cost of approximately \$80,000 would provide reliability for Dunham Pond at a lower cost. Tr. 11/29/2018, p. 66. Accounting for the interconnection cost, the net benefit would range from \$70,000 to \$170,000.

However, Aquarion subsequently admitted “the Dunham Pond System has 3 wells” and failed to explain this oversight or why an additional water source was needed for reliability. Response to Interrogatory AC-54. Further, the Milone & MacBroom engineering report provided by the Applicants states that the Dunham Pond system has excess capacity even with the largest of its three wells offline. Response to Interrogatory AC-28 Attachment. The evidence, therefore, does not support the conclusion that the acquisition and the \$80,000 interconnection of the systems would provide a material system-wide benefit.

In addition, Aquarion did not provide any evidence that a \$250,000 new source of supply solely for reliability purposes would have been a prudent investment for the Dunham Pond system and, as such, a cost avoided by the acquisition. An avoided cost

¹² The Town stated that “a \$60/meter charge will mandate a thorough review of all materials, statements and comments upon which the vote was premised to determine whether the metering fee invalidates the vote and thus requires a revote at a subsequent duly called Town Meeting.” Town’s Written Exceptions to Proposed Final Decision, May 24, 2019, p. 2. Due to the limited number of customers, the Authority is not requiring a surcharge; therefore, the Town’s objection is moot.

analysis only applies to reasonably foreseeable costs, and there is insufficient evidence in the record to find that \$250,000 in reliability expenditures would have been obviated by the acquisition.

In short, the Applicants have failed to demonstrate that the acquisition provides tangible system benefits that would offset the full Net Cost of Service imposed by the transaction.¹³

iv. Efficacy of Purchase Price

Because the acquisition will require ratepayer subsidization after accounting for any surcharges and system benefits, Aquarion must demonstrate that the proposed purchase price is the least amount reasonably necessary to effect the transaction.

For this part of the analysis, the Authority will consider, among other things: (1) the seller's willingness and ability to continue operating the water system; (2) the liabilities and expenses the seller avoids by consummating the sale, including capital demands and compliance obligations with state and federal water quality standards; (3) ancillary benefits, such as added property tax base, which may incent the transaction; (4) transactional costs, such as legal fees, which may deter the transaction; and (5) evidence submitted by the applicants supporting the reasonableness of the purchase price.

Here, the record shows that the Town considers continued ownership of the Water System to be a liability. The Town's director of health stated:

In the opinion of the town, we're getting rid of a liability. We're not in the water business, and we never wanted to be in the water business. . . . We see it as a liability. It's aging. There could be potential problems down the road, and we don't want to have them.

Tr. 11/29/2018, pp. 60-61 (Simpkins).

Similarly, the Town provided testimony that "[i]f I were to leave the system and Tim gave up his duties, we would have to set up a whole water department with employees, with salary, with benefits and retirements, and the town doesn't want to go down that road." Tr. 11/29/18, p. 62 (Quigley).

In addition, the Town has identified the potential need to extend new water mains to certain areas of the town impacted by well contamination. Tr. 11/29/2018, pp. 60, 61. The Town has not undertaken this project due to the significant capital costs associated with main extensions. *Id.*, p.94. Aquarion acknowledged that a "number of residents and businesses in proximity to the Water System have water quality problems" but that the Town "does not have the wherewithal to extend its current system to connect to additional customers." Aquarion Written Exceptions to Proposed Final Decision, May 24, 2019, p.

¹³ Aquarion requested that the decision "be revised to reflect that the acquisition of the Water System provides tangible near-term and longer-term system benefits" Aquarion Written Exceptions to First Amended Proposed Final Decision, August 17, 2020, p. 16. However, Aquarion did not identify any legal or factual error in the First Amended Proposed Final Decision that would allow the Authority to reach a different conclusion regarding the system benefits.

6. Consequently, the Town will significantly reduce its potential liability by disposing of the Water System.

Beyond reducing its liabilities, the Town will benefit from increased cash flows because of the acquisition. First, upon closing this transaction, the Town intends to transfer the capital reserve fund containing approximately \$80,000 to its general fund. Response to Interrogatory AC-6, Attachment 1, p.6. The Town established the capital reserve fund to make improvements to and investments in the Water System. Tr. 11/29/2018, pp. 49-52. The Town noted that Aquarion proposed short-term capital improvements to the Water System (totaling \$95,500) and that “we [the Town] would probably need to make those improvements if we kept the system.” *Id.*, p. 52 (Quigley). By retaining this reserve account, which the Town would otherwise have spent on the Water System, the Town is receiving a substantial cash benefit in consideration for the Water System.

Second, property tax revenues will increase as the Water System assets move from exempt municipal property to the Town’s taxable grand list. Tr. 11/29/2018, p. 62. Specifically, the estimated property tax over the first ten years is approximately \$45,000. Late Filed Exhibit LFE No. 6, Attachment 1. This excludes future capital improvements which will further increase tax revenue. Because this acquisition has a positive Net Cost of Service, Aquarion’s existing ratepayers will be subsidizing these tax payments to the Town.

In summary, apart from the purchase price, the Town will receive significant benefits from the transaction, including retention of the reserve fund, future tax revenues, a reduction of liability and the avoidance of substantial short-term and long-term costs. Consequently, the record does not support the conclusion that the additional \$150,000 cash purchase price is necessary to incentivize an objectively reasonable seller to engage in this transaction. Importantly, although the Applicants assert the Water System “has real value”, the substantial Net Cost of Service and the absence of a corresponding system benefit prove that, as a utility asset, it does not – at least for the ratepayers who will be subsidizing it. Response to Interrogatory AC-12.

Here, the Town may be deterred by transactional costs and administrative obstacles from selling the Water System. The Authority finds it reasonable to allow a purchase price that will generally cover the seller’s reasonable transactional and administrative costs. Doing so removes a disincentive for system owners to engage in the acquisition and regulatory process and promotes the legislature’s goal of consolidating economically non-viable systems. Aquarion estimated its own transaction costs at \$25,000. Therefore, the Authority finds that \$25,000 is a reasonable approximation of the Town’s incurred costs to engage in the transaction and is sufficient to encourage an objectively reasonable seller to consummate the transaction. The Authority will allow recovery by Aquarion of this amount as part of the purchase price.

In its filings and during the first round of oral arguments, Aquarion registered its disagreement with the Authority’s disallowance of portions of negotiated purchase prices for small water systems. Aquarion Written Exceptions, May 24, 2019, p. 2. In doing so, Aquarion suggests that the laudable goal of water system consolidation takes precedence over its obligation to operate prudently and efficiently. However, the Authority must

balance the legislature's goal of system consolidation against a statutory mandate that public utilities operate with economy and efficiency. Here, the record demonstrates that a purchase price of \$150,000 is neither prudent nor necessary to effect the transaction. Apart from these two principles, the Authority has no basis on which to allow recovery of Aquarion's expenditure from ratepayers.¹⁴

The Authority does not believe that disallowing such costs will discourage water system consolidation. In Docket No. 13-02-20RE03, the Authority granted Aquarion a premium rate of return pursuant to Conn. Gen. Stat. § 16-262s(b). According to Aquarion, the premium was "to reward the Company's past performance in acquiring and consolidating small water systems and to incentivize continued acquisitions and consolidation which are in the public's best interest." Response to Interrogatory AC-24 (emphasis added). Notably, the premium rate, effective October 2013, has resulted in an additional \$16,000,000 of revenues for Aquarion collected from ratepayers to support small water system acquisition. *Id.* Therefore, Aquarion should weigh carefully any implication that disallowing the portion of a purchase prices in excess of the amount necessary to effect a transaction (in this case \$125,000) negates the effect and purpose of the \$16,000,000 collected from ratepayers under the premium rate of return.

4. Accounting Treatment

The Authority will reject Aquarion's proposed accounting treatment for the transaction. Rather, the Authority will allow Aquarion to add to its ratebase those capital investments actually made by the Company. In the Application, Aquarion proposes to increase its rate base as follows:

<u>Description</u>	<u>Amount</u>
Purchase Price	\$ 150,000
Capital improvements	\$ 95,500
NBV adjustment	<u>\$ 127,344¹⁵</u>
Additional Rate Base	\$ 372,844

Late Filed Exhibit LFE No. 6, Attachment 1.

The Authority finds that the accounting methodology proposed by Aquarion artificially inflates Aquarion's rate base and associated return by allowing recovery for

¹⁴ Aquarion asserts that, by disallowing the recovery from ratepayers of portions of the purchase price, the Authority may "motivate many [municipalities] to defer a sale of assets until regulatory concerns or violations leave it no other option." Aquarion Written Exceptions to First Amended Proposed Final Decision, August 17, 2020, p. 10. Aquarion reasons that "the average citizen" should not be expected to approve a sale in exchange for little to no value. *Id.* In short, Aquarion's position is that ratepayers either pay a price premium now or pay higher infrastructure costs later. This is a false dichotomy, however. Prudent system consolidation can (and should) be achieved by allowing regulated utilities to recover a prudent purchase price along with any amount reasonably necessary to effect the transaction. Allowing the recovery of purchase prices not supported by the factual record is unfair to ratepayers and reduces the ability of ratepayers to continue to subsidize the legislative goal of water system consolidation.

¹⁵ The NBV Adjustment is the difference between the \$150,000 purchase price and the \$277,344 estimated NBV.

investments not made by Aquarion. Aquarion did not provide evidence that the additional cost resulting from this approach provides benefits to ratepayers. As a result, Aquarion's proposed accounting treatment makes these acquisitions unnecessarily complicated and expensive and does not advance the important public policy of small water system consolidation.¹⁶

Instead, the Authority will allow Aquarion to include the following in rate base, subject to a prudence review of capital improvements:

Allowable Purchase Price	25,000
Capital Improvements	95,500
Rate base	120,500

The Authority will disallow any amount of the \$150,000 purchase price paid by Aquarion in excess of the \$25,000, and Aquarion shall treat the amount as unrecoverable plant investment on its books.¹⁷ The difference between the estimated NBV and the allowable purchase price shall be considered contributed plant and excluded from ratebase. Aquarion's estimated \$25,000 acquisition costs will be deferred until the time of the next rate case proceeding, at which time they will be amortized over a 3-year span.

E. CUSTOMER SERVICE

Aquarion plans to send a welcome package to communicate to the Water System customers when the proposed acquisition is approved. The communication will provide consistent messages for customers on how to reach the Company, copies of Company Rules and Regulations and the rate and charges schedule, as well as the benefits of the transaction. The Company will use a direct mailing to welcome new customers. Response to Interrogatory CA-1 and CA-2.

Current Aquarion employees will manage and operate the Water System, and the customer service and billing functions will also be merged into Aquarion's operations. The customers of the Water System will benefit from Aquarion's extensive workforce and technical expertise. The customer service policies and procedures of Aquarion will apply to the customers of the water system at the time of the acquisition. Aquarion is not proposing any changes to those policies and procedures at this time and does not intend to seek a waiver of any customer service related regulations or statutes. Response to Interrogatory CA-4 and CA-5.

¹⁶ In the future, Aquarion should not file applications that use the negative acquisition adjustment unless Aquarion can demonstrate it is in the public interest.

¹⁷ The Authority is not prohibiting Aquarion from paying the Town the \$150,000 purchase price or any other renegotiated amount. Rather, Aquarion is barred from recovering the amount in excess of \$25,000 from ratepayers. The Authority would expect Aquarion to allocate some portion of the \$16,000,000 in premium rate of return collected from ratepayers for water system consolidation to cover such disallowed costs.

III. FINDINGS OF FACT

1. The Town owns and operates the Water System, which is a non-transient, non-community water system in New Fairfield that provides water service to eight (8) customers. All of the customers are metered.
2. In addition to the Water System, the Town owns another non-transient, non-community water system and two transient, non-community water systems, all of which are located in New Fairfield.
3. The Water System consists of three bedrock wells, a pump house, two 5,000-gallon atmospheric storage tanks, a 132-gallon steel hydropneumatic expansion tank, three variable speed booster pumps, treatment, and a distribution system.
4. All assets of the Water System are located on Town-owned property or in public rights-of-way.
5. Aquarion owns and operates six water systems in New Fairfield and is within the geographical proximity of the Water System
6. Aquarion's balance sheets, income statements, and financial ratios demonstrate a financially strong company.
7. The Eastern Division rates proposed for implementation have been reviewed and previously approved by PURA as just and reasonable.
8. The proposed \$95,500 short-term capital improvements are necessary and reasonable to assure the availability and potability of water and the provision of water at adequate volume and pressure.
9. The Water System was not a typical utility investment but rather a necessary cost to develop a shopping center.
10. The estimated NBV of \$277,344 does not account for contribution in aid of construction.
11. The Net Cost of Service for the acquisition of the Water System would be approximately \$329,506.
12. The acquisition and the \$80,000 interconnection to the Dunham Pond system would not provide a material system-wide benefit.
13. Continued ownership of the Water System would be a substantial liability for the Town.
14. The Town will receive significant benefits from the transaction, including retention of the reserve fund, future tax revenues, a reduction of liability and the avoidance of substantial short-term and long-term costs.

15. The \$150,000 cash purchase price is not necessary to incentivize an objectively reasonable seller to engage in this transaction.
16. \$25,000 is a reasonable approximation of the Town's incurred costs to engage in the transaction and is sufficient to encourage an objectively reasonable seller to consummate the transaction.

IV. CONCLUSION

Based on the analysis above, Aquarion is suitable to acquire the Water System, and the proposed expenditures are necessary and reasonable. Therefore, subject to the conditions herein, the Departments consent to the cessation of operations by the Town of the Water System pursuant to Conn. Gen. Stat. §16-46 and approve the acquisition, subject to the Orders below. Upon completion of the acquisition, the Town will cease operations of the Water System and its customers will become customers of Aquarion.

V. ORDERS

For the following Orders, the Company or the Town, or both, shall submit one original of the required documentation to the Executive Secretary, 10 Franklin Square, New Britain, Connecticut 06051 and one copy of the required documentation to Michael Hage, Section Supervisor, Department of Public Health, Drinking Water Section, 410 Capitol Ave., MS# 51WAT, P.O. Box 340308, Hartford, Connecticut 06134-0308, and file an electronic version through the Authority's website at www.ct.gov/pura. Submissions filed in compliance with the Department's Orders must be identified by all three of the following: Docket Number, Title and Order Number. Compliance with orders shall commence and continue as indicated in each specific Order or until the Company or the Town requests and the Departments approve that the Company's or the Town's compliance is no longer required after a certain date.

1. No later than **ten days** after the issuance of this Decision, the Town shall mail or hand deliver a copy of the Decision to each customer of the Water System.
2. No later than **thirty days** after the issuance of this Decision, Aquarion shall provide to the Departments, in writing, the names, mailing and email addresses, and telephone numbers, including emergency telephone numbers, of the administrator and certified operator of the Water System.
3. No later than **thirty days** after the issuance of this Decision, the Town shall provide to the Departments a copy of the Water Company Land Permit issued to it by the Commissioner of Public Health pursuant to Conn. Gen. Stat. § 25-32(p) for the lease of the Town's water company land.
4. Pursuant to Conn. Gen. Stat. §16-262o(d), no later than **sixty days** after the issuance of this Decision, the Town shall transfer to Aquarion all of the Town's water-related plant and assets, including, but not limited to, (a) title to all of Town's wells, their mains, storage tanks, service connections, pumps and pump house, and all of their other water-related facilities, equipment and appurtenances and (b) any leases to, or other interests in, water-related real or personal property.

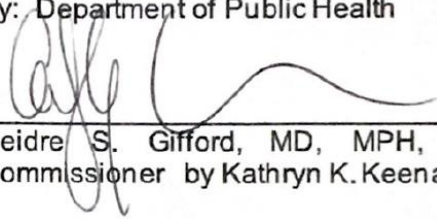
5. Prior to commencing the improvements identified in Section II.C (Necessary and Reasonable Improvements), Aquarion shall submit to the Authority for its approval in accordance with Conn. Gen. Stat. § 16-262v(1)(G) a detailed description of and estimate for the improvements.
6. No later than **thirty days** after the transfer of the Water System assets and related easements to Aquarion, Aquarion shall submit to the Departments written verification that the transfer has taken place in accordance with this Decision, including entries used to record its acquisitions of these assets and necessary easements. The journal entries shall include an accounting of the legal and administrative costs incurred by Aquarion in connection with the acquisition.
7. No later than **one hundred twenty days** after the closing of the transaction and quarterly thereafter, Aquarion shall file reports to the Authority detailing the actual capital improvements and O&M costs for the Water System along with the revenues received from the Water System customers.
8. No later than **March 1, 2022**, Aquarion shall update the Aquarion's Water Supply Plan to include the Water System and submit such update to the Departments.
9. The Company shall include the retail revenues from the Water System in its total annual revenues in future WICA filings.

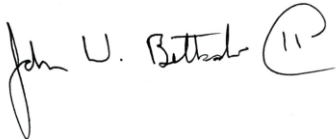
DOCKET NO. 18-08-34 PURA AND DPH REVIEW OF THE APPLICATION OF AQUARION WATER COMPANY OF CONNECTICUT AND THE TOWN OF NEW FAIRFIELD FOR AQUARION WATER COMPANY OF CONNECTICUT TO ACQUIRE THE ASSETS OF THE TOWN OF NEW FAIRFIELD MUNICIPAL WATER SYSTEM

This Decision is adopted by the following Commissioners:

By: Public Utilities Regulatory Authority

By: Department of Public Health


Deidre S. Gifford, MD, MPH, Acting
Commissioner by Kathryn K. Keenan, Esq.



John W. Betkoski, III



Michael A. Caron

CERTIFICATE OF SERVICE

The foregoing is a true and correct copy of the Decision issued by the Public Utilities Regulatory Authority and the Department of Public Health, State of Connecticut, and was forwarded by Certified Mail to all parties of record in this proceeding on the date indicated.



Jeffrey R. Gaudiosi, Esq.
Executive Secretary
Public Utilities Regulatory Authority

October 14, 2020

Date