

**Testimony to the Energy & Technology Committee  
on behalf of Aquarion Water Company of Connecticut  
February 7, 2013**

**RE: SB 807 AAC *Water Infrastructure & Conservation,*  
*the Department of Public Health, Municipal Reporting Requirements and*  
*Unpaid Utility Accounts at Multi-Family Dwellings***

Aquarion Water Company of Connecticut appreciates the opportunity to be here today and thanks the Energy and Technology Committee for addressing some very important issues facing Connecticut's water industry. Aquarion supports the provisions of SB 807, particularly those related to water infrastructure and conservation, as well as issues designed to address the need to encourage consolidation of the hundreds of small water companies throughout our state and the need to address overdue accounts and bad debt write-offs associated with residential multi-family dwelling customers.

Aquarion has provided water to Connecticut residents for over 150 years. The Company operates 79 systems throughout the state and serves an estimated population of 625,000 in 47 Connecticut cities and towns. Aquarion's customer service is unsurpassed, having the top rating for any Connecticut Utility for the past six years based on the PURA utility scorecard. Aquarion prides itself on being a steward of the environment and works hard to ensure that water resources are protected and water operations are sustainable.

We too concur with the comments submitted by the Connecticut Water Works Association and our industry colleagues on SB 807. Our testimony today focuses on Section 8 of the bill regarding consolidation of the industry and Section 10 regarding overdue accounts associated with multi-family dwellings.

**Section 8 of SB 807: Legislative Changes to Facilitate the Acquisition of Water Systems**

Background:

Connecticut has the dubious distinction of having hundreds of small water companies throughout the state. It is widely recognized that too many of these are small systems that are underfunded and under-staffed. Many of these companies are struggling and cannot keep up with the constant need to repair and replace aging infrastructure, much less upgrade inadequate facilities. Making matters worse, they cannot afford the cost of regulatory compliance or of filing a rate case to even request the level of revenues needed to do what needs to be done. Other systems are managed by part-time volunteers or are family-run companies that simply want to get out of the business. Economically, it is challenging at best for these small companies to survive the rigors of increasing costs and regulation with a small customer base. Recognizing this, the state has encouraged consolidation in the industry and the state's larger, more financially secure water companies have helped to consolidate many of these systems and have made the necessary investments to bring them up to standards.

Consolidation is not limited to small systems. Earlier this year, PURA and DPH approved Aquarion's acquisition of United Water Connecticut, a 7,000 customer system. In approving the transaction, the agencies found that the acquisition will provide the backbone for connecting systems in the Metro-Danbury region and supports consolidation and elimination of smaller systems in the area. They also found that the acquisition will provide opportunities to reduce costs through operating efficiencies, which will benefit all customers and is in the best interest of ratepayers.

Under current law, Conn. Gen. Stat. 16-262n and 16-262o empower PURA and DPH to order a viable water company to acquire a troubled water company and allow recovery of the costs of acquisition and any necessary improvements. In the case of a voluntary acquisition of a troubled water company, under Conn. Gen. Stat. 16-262s the acquiring company may be allowed to recover the costs of acquisition and needed improvements. ***Current law, however, does not provide encouragement for larger region-wide water companies to acquire smaller viable water companies even where consolidation would benefit the customers and the region as a whole.***

As PURA and DPH have recognized, without an acquisition adjustment, traditional ratemaking calls for the acquiring company to recover its costs based only on the acquired company's depreciated rate base, which discourages beneficial acquisitions.

Because the value of a water system is often greater than its depreciated book value, there has been a gap between what sellers are willing to sell their assets for and what buyers are willing to pay for those assets. An above-book purchase price is often necessary to consummate a transaction. It represents a negotiated purchase price between parties, and is necessary to ensure that a long term, comprehensive solution of providing safe and reliable quantities of water to customers can be realized. After all, it is unlikely that smaller stand-alone water companies have the inclination, much less the wherewithal, to accomplish regional objectives. This is a reality that has been recognized by regulators to facilitate the state's goal of consolidating these hundreds of small water companies. Where a transaction calls for a reasonable acquisition premium to effectuate the transaction and the transition of customers from a small company to a larger well-run company with the wherewithal to make needed investment and provide superior service, the acquiring company should have a reasonable and realistic opportunity to earn a return on its entire cost of the investment.

Fortunately, PURA and DPH have recognized this in recent acquisition cases and have allowed recovery of reasonable acquisition premiums. For example, PURA and DPH noted the value of an acquisition premium as a necessary incentive to the acquisition of a viable small water company in the recent Brookfield Water acquisition case:

The Departments acknowledge water quality and quantity problems in this region of Connecticut that stretch back upwards of 20 years. Up until now, these problems seemed incapable of resolution due to the piecemeal approaches that were taken to deal with these issues. The Departments believe that Aquarion, with its resources and industry expertise, is suited to move this region's water situation in a positive direction with a more comprehensive and long term plan for water service. This holistic solution could not, of course, have taken place without the acquiescence of the smaller water companies

to sell their systems. As such, in determining which costs of this acquisition the Departments should allow, in this instance, requires a look beyond the dollar amounts to the results achieved. (Brookfield, Docket No. 11-06-17, December 14, 2011)

Proposed Modification of Subsection (a)(2) of Section 8 of Raised Bill No. 807:

Section 8 of Raised Bill No. 807 provides an incentive for viable water companies to acquire smaller troubled water companies. However, it could be interpreted as failing to provide the necessary comfort to incent the acquisition of smaller companies before they go over the precipice of viability, due to among other things the need to meet ever increasing, yet important, regulatory requirements.

Specifically, Subsection (a)(1) of Section 8 provides for the recovery of a reasonable acquisition premium in the case of the acquisition of a non-viable system. Subsection (a)(2) of Section 8 provides: “The Public Utilities Regulatory Authority may allow the recovery of *such* reasonable acquisition premium when it is demonstrated that *such* proposed acquisition will provide benefits to customers by (A) enhancing system viability, (B) avoiding capital costs or saving in operating costs, or (C) as otherwise determined by the authority.” [Emphasis added.] A simple modification to this sentence, by changing the words “such” to “a” would remove this uncertainty with respect to the ability of an acquiring company to recover the cost of an acquisition premium provided that the Authority determines that the “acquisition will provide benefits to customers”. Accordingly, we urge that the beginning of the first sentence of Subsection (a)(2) of Section 8 be modified to read as “The Public Utilities Regulatory Authority may allow the recovery of *a* reasonable acquisition premium when it is demonstrated that *a* proposed acquisition will provide benefits to customers ...”

Consolidated ownership and operation of these smaller systems has already served customers well. For example, many of these systems, whether they were viable or troubled before being acquired, did not have the wherewithal to purchase and install emergency generators in order to ensure the supply of clean potable water during storms like those recently experienced in Connecticut. In one particular case, prior to the acquisition of the United Water Company and Rural Water by Aquarion, storm Alfred hit Connecticut on October 31, 2011. In the aftermath of the storm, over 1,137 Rural Water and United Water customers were issued boil water notices due to the systems not having backup power facilities available to ensure continuous supply of water. Some of these customers went multiple days without water. This was despite Aquarion lending approximately 11 generators to Rural Water Company before and after the storm. Aquarion took ownership of these systems in 2012 and experienced similar widespread power outages in these areas as a result of Hurricane Sandy. As a result of Aquarion’s responsiveness and preparedness planning, including the installation of emergency generators, only 388 customers were without water and, as soon as trees were cleared and access provided, service to these customers was immediately restored. There were no outages in any of the other newly acquired systems as a result of Aquarion’s planning and operation during the storms.

***Modifying Subsection (a)(2) of Section 8 to explicitly provide for the recovery of reasonable acquisition premiums on the purchase of viable smaller systems and a premium rate of return to encourage the acquisition of troubled systems will codify current practice and will facilitate acquisitions whereby customers will benefit from acquisitions by becoming customers of***

*larger organizations with more extensive management and economic resources available to ensure reliable quality water service.*

### **Section 10 of SB 807: Measures to Address Rising Bad Debt on Multi-Family Dwelling Utility Accounts**

Overdue accounts and bad debt write-offs associated with Residential Multi-Family Dwelling customers is an increasing problem. For Aquarion Water Company of Connecticut, Residential Multi-Family accounts represent roughly 15.6% of all accounts but constitute 45.7% of Accounts Receivable over 90 days and 57.5% of bad debt write-offs. In fact, the percentage of receivables greater than 90 days has risen from roughly 32% in 2008 to over 57% in 2012.

The disproportionate levels of receivables and bad debt is due in large part to landlords taking advantage of lax laws designed to deal with utility bills for tenant-occupied dwellings. This problem affects not only the utilities, but the utilities' customers who pay their bills and must also pick up the tab for the under-recovery of costs due to bad debt write-offs.

Currently, water companies have very little recourse to recover unpaid bills from landlords. Unlike their rights to enforce obligations against single family dwellings who fail to pay their bills, water companies cannot terminate service to master metered multi-family dwellings. (Conn. Gen. Stat. 16-262e(a)(2)) Rather, they are limited to petitioning the courts to have a receiver appointed to collect rents and pay the water bills. (Conn. Gen. Stat. 16-262f and 16-262t) Despite pursuing this course of action, for 2012, Aquarion alone has experienced over \$900,000 in Accounts Receivable over 90 Days due to Residential Multi-Family Dwelling accounts and projects over \$600,000 in bad-debt write-offs. In other words, current law is ineffective and virtually unenforceable against unscrupulous landlords and results in significant costs to the water companies and their customers.

Section 10 of Raised Bill No. 807 would grant the receiver broader authority to enforce the landlord's obligation to pay for utility services by adding to the current authority to collect rents, the receiver's ability to petition the court to attach an unscrupulous landlord's wages and bank account as well as seek other statutory post-judgment remedies. As such, Section 10 of Raised Bill No. 807 provides a potential solution to this mounting problem by providing a mechanism to enforce payment of utility bills by unscrupulous landlords.

### **Conclusion**

Aquarion thanks the Committee for addressing these important issues and asks for your support of SB 807. We stand ready to work with the members of the Committee, our water industry colleagues, and other stakeholders to revise the language, as appropriate to accomplish the desired goals of the legislation. If you have questions please contact Bruce Silverstone at (203) 336-7658 or bsilverstone@aquarionwater.com.