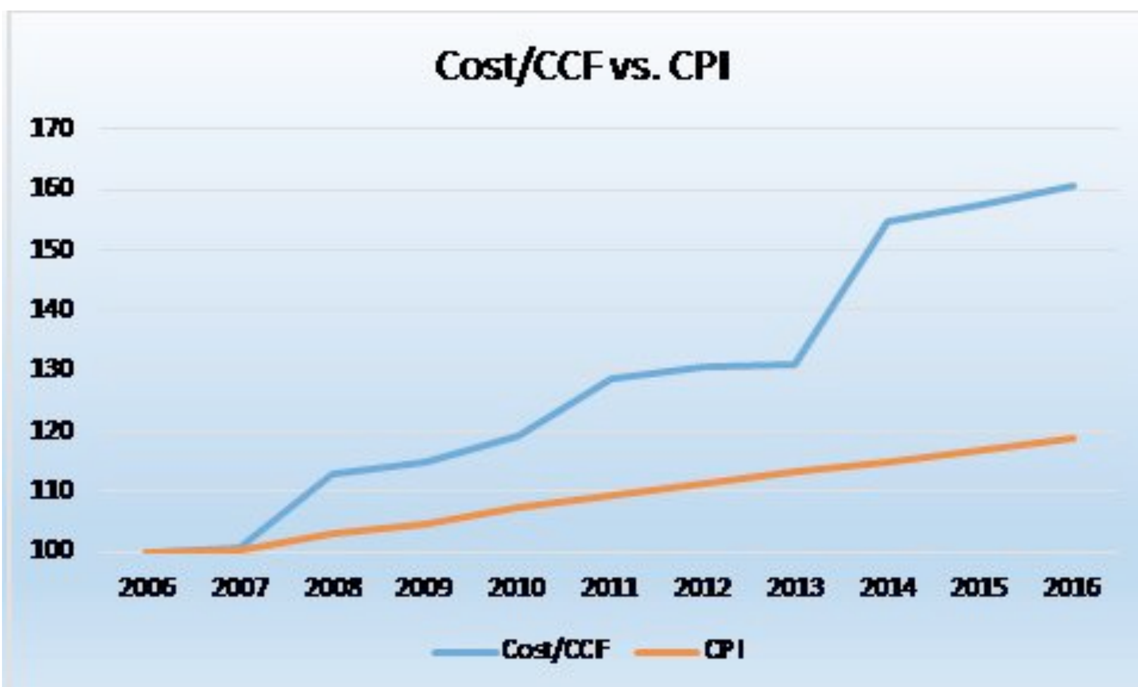
June 19,2013

Dear PURA,

When I began researching the reasons Aquarion was proposing a 3-year, 23% rate hike, I quickly found myself focused on the company's ownership structure and the incentives associated with being part of a private equity portfolio. Taken together, the points I mention below can't help but indicate that Aquarion as a company has been using significant rate increases since being bought by Macquarie to enrich its top management, private equity owners and to finance its strategy of expansion for the sake of long term revenue and earnings growth.

I strongly urge PURA to consider granting a zero percent rate increase and encourage management of Aquarion to finance its required capital improvements and desired strategic expansion through retained earnings supplied by its current allowable return plus through achieving efficiency gained through the modernization of its operations. This represents a change for the company, as it has used huge rate increases since being acquired to finance both its operations needs and outsized cash payments to its owners.

1. **Big recent price hikes for Fairfield**: For at least the nine years 1998-2006 (maybe longer) Aquarion's water usage rates for Fairfield remained essentially flat. However, since shortly after it was acquired by an Australian private equity firm in 2007, its usage charges per CCF (hundred cubic feet) have risen 31%, about three times faster than inflation. With the proposed hikes, the cumulative increase in usage charges will be over 60% by 2016, maintaining a rate of increase of about 3 times the current rate of inflation. Why, after these many years of no price increases, are rate payers subject to a 60% proposed increase? Is it related to the incentives, dividend payments and compensation under new ownership?



2. **Surcharges and other fees have increased a lot:** Meanwhile, monthly service charges for Fairfield customers are already up more than 60% since 2006, and we have been paying a surcharge since 2009 called the "Water Infrastructure and Conservation Adjustment" that is supposed to cover the costs of "completed infrastructure improvements" that have been made. One of the key reasons for Aquarion's proposed 23% water usage rate hike is infrastructure improvement - the type of investment these surcharges were presumably supposed to cover. Please help me understand this.

3. **Huge dividends paid to equity holders:** Since 2007, Aquarion's board of directors chose to payout $156 million in dividends to its private equity owners. This payout averaged 97% of annual earnings, compared to 62% currently and 75% since 2007 for the comparable group of public water utilities referenced in "FI-24 Attachment 1". All else equal, these high dividend payments have caused Aquarion to issue additional debt and significantly increase its prices to finance its operations.

   One further perspective on the higher payout rates for Aquarion: IF it had maintained a 75% payout since 2007, it would have paid out $121M in dividends, a savings of $35M. $35M just happens to equal the ANNUAL revenue increase it will see if and when its 22.7% rate increase is realized. In essence, it seems evident that Aquarion is asking for a 3-year rate increase simply to finance its excessive (relative to its peer group) dividends paid to its owners since they bought the company. Enough said.

4. **Current customers fund acquisition binge:** Aquarion has acquired eight water companies in less than two years as part of its strategy to generate growth in its customers, revenues and earnings. It also owns smaller operating water companies in NH and MA. These small, relatively inefficient water suppliers, have in many cases needed significant capital infusions to modernize their operations, which were financed in large part by higher rates paid by Aquarion's existing customers. Is it right for Aquarion to finance its growth strategy by raising the prices that we and other existing customers must pay?

5. **Successful conservation causes higher prices??** One of the reasons behind the proposed rate increase is that Aquarion needs higher per gallon prices to offset a drop in consumption by its customers. Average customer usage has dropped 12% in a decade through successful conservation measures. It seems that customers should be rewarded for conservation, not penalized, and that Aquarion should modernize and find operating efficiencies to achieve an adequate financial return on today's volumes at today's prices - not prices 23% higher.

6. **Board of directors is comprised of 100% insiders.** I find this very surprising. Because Aquarion of CT has a three person board of directors made up of its top three executives, it lacks any checks and balances found in the vast majority of boards. Capable and well intentioned outside directors would help create the beginning of proper governance and more creative approaches to solving problems, so important in a public utility.

7. **Aquarion's top executives seem overpaid.** Aquarion's revenue size ranks it sixth in out of ten comparable (including Aquarion) companies shown in Attachment FI-24. Nonetheless, its CEO compensation ranks second and CFO compensation ranks third. It is worth noting that all nine of these comparable companies are publicly traded firms. Being public typically adds significant complexity, risk and demands to the jobs of a CEO and CFO. Consequently, the compensation of an executive of a public company is most often superior to that of a private company like Aquarion. Despite

being of average size and being private, Aquarion's CEO compensation second and CFO third. Finally on the point of compensation, in many cases of a privately held company, like Aquarion, which has many "layers" of holding companies, it is often the case that executives are compensated via arrangements with other entities they are able to (and do) influence. We have no proof that this is the case; however, given the company's structure and the fact that we have no data regarding the holding company structure that exists between the operating company and the actual owners, my experience leads me to expect the possibility of higher total compensation than reported by the operating company. Compensation is in and of itself not a bad thing. It can, however, lead to conflicts of interest and incentives incongruent with what may appear without knowledge of this information.

Never before have I wished that I were an experienced Wall St Utility Analyst. I am sure I would have additional and perhaps different insights, concerns and perhaps a different point of view. But I am not. To me, an life-long financial professional, I mainly see a lot of smoke; experience says there could be fire. The ONLY way to clear the smoke or, on the other hand to see if there is really a fire, is to shine the light of clear, complete information disclosure.

My biggest questions are:

1. what is the complete holding company structure of companies and entities between Macquarie and Aquarion?
2. What is the complete compensation of the executive staff of Aquarion, including all stock incentives, bonuses and deferred comp plans?
3. How does your debt borrowing cost compare vs. comparable index of similarly rated utilities? How does the duration of debt compare?
4. What entities hold bonds in Aquarion? Are any of these firms or individuals related to Aquarion or Macquarie? (I worry about management being conflicted in a decision to repay high cost debt through issuing newer, low interest debt).
5. What were the board discussions regarding the timing and magnitude of past dividends and payout decisions?
6. What has been the real cost of the acquisitions? Up front purchase price, earn out provisions, options for employees/staff, immediate dollars needed to "modernize" and integrate each.
7. What are the reasons Aquarion does not have a balanced board – insiders and outsiders that have a fiduciary responsibility to represent other stakeholders. Or at least have a PURA and OCC representative have rights
8. How has Macquarie valued the equity since purchased? Quarterly or annually?
9. Why would Connecticut (or PURA) permit our utilities to be owned by PE, which by definition require a premium ROE vs. public stocks, for illiquidity…………why is that good for consumers?

Thanks for reading my analysis and questions. And thank you for agreeing to come back to Fairfield to have another hearing on this important matter.