

Aquarion proposes 23% Water Rate Hike

NOTE: LINKS IN THIS DOCUMENT WILL NOT WORK. GO TO FairfieldTaxpayer.com to send an Aquarion "1-Click email"

Dear neighbor,

We've come to appreciate that fighting to keep our town both desirable and affordable is a fulltime job!

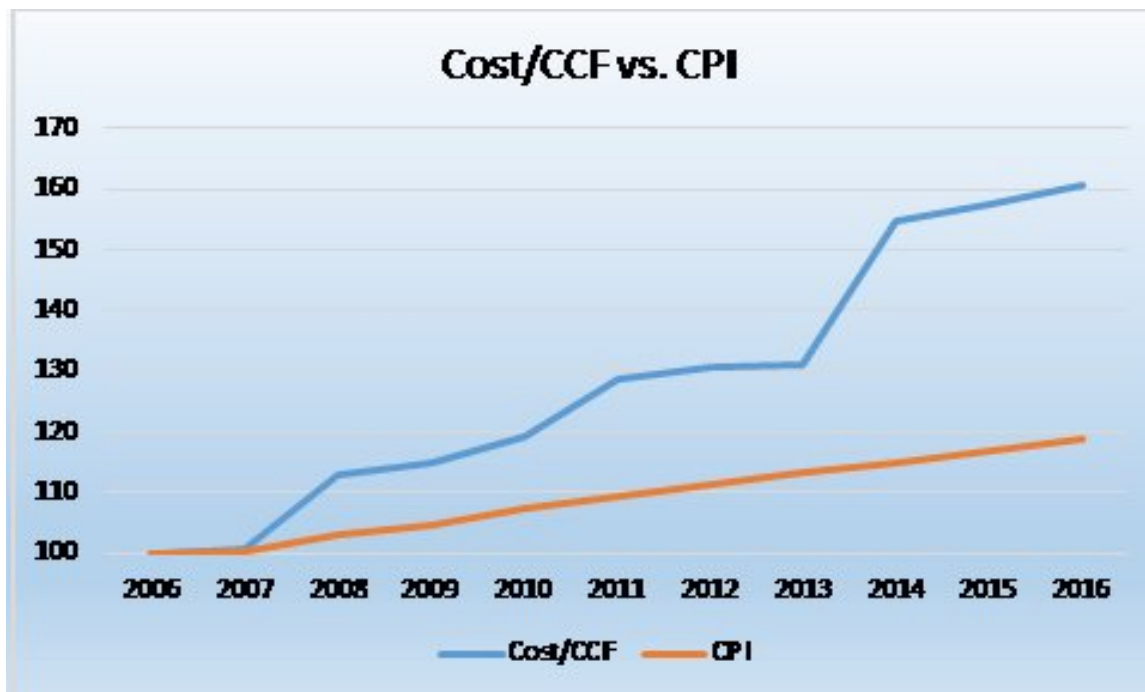
Last week we learned that **our water company, Aquarion, wants to increase our water rates by 23%** over 3 years (increases of 18.3%, 1.8% and 1.9% starting in September of this year). While the impact on individual households will vary, this increase would hit the average Fairfield resident at least as hard as an additional 1% increase in our property tax rates. Ouch!

We have two ways to fight back:

1. **Send an [Aquarion "1-Click email"](#) to the regulatory authorities**, State consumer advocates, as well as the State and local officials that can influence the outcome of the process of reviewing and granting rate increases. The **Public Utilities Regulatory Authority (PURA)** has proven that they listen in the past. We need to do our part - writing emails is critical.
2. **Attend the public hearing next Tuesday in Fairfield** (June 18th, 6:30pm at Independence Hall) to speak out. Fairfield's hearing is the first of four to be held by the PURA regarding Aquarion's huge increase across all its customers. (Details below).

[Click here](#) to read Aquarion's Q&A about its rationale for the proposed price increase.

While we are still working to finalize our view on this, our initial analysis leads us to the following points worthy of consideration in your emails to PURA. First, a perspective on the history of Aquarion water prices in Fairfield.



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, 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.

2. **Surcharges and other fees have increased a lot:** Meanwhile, monthly service charges 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.
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 75% for a comparable group of water utilities. All else equal, these high dividend payments have caused Aquarion to issue additional debt and increase its prices to finance its operations.
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 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 at the expense of 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. **Impact on our Town:** The Town of Fairfield is a big water user - on the order of \$1.8 million annually. So, higher water rates will also be passed on to us as higher property taxes. We need to hold rate increases to a minimum for us as individual citizens AND as municipal taxpayers.

[*Click here to send a "1-Click email" to the 40 Regulators and State Officials*](#)
(you can see a full list of recipients on our site)

*** Please attend the PURA Public Hearing ***
Tuesday, June 18th at 6:30PM
Independence Hall
725 Old Post Rd
Fairfield

Fairfield Taxpayer has taken out a full-page ad in today's Fairfield Minuteman Newspaper to help educate citizens about the proposed increase and upcoming hearings. Please read a reprint of the ad at the bottom of this email.

Here is the complete list of the scheduled public hearings:

<u>Date</u>	<u>Time</u>	<u>Place</u>
Tuesday, June 18, 2013	6:30 PM	First Floor Conference Room, Independence Hall, 725 Old Post Road, Fairfield, CT
Monday, June 24, 2013	6:30 PM	Cafeteria, Mystic Middle School, 204 Mistuxet Avenue, Mystic, CT
Tuesday, June 25, 2013	6:30 PM	Auditorium, City Hall, 140 Main Street, Torrington, CT
Monday, July 8, 2013	6:30 PM	Auditorium - Eno Memorial Hall, Simsbury Senior Center, 754 Hopmeadow Street, Simsbury, CT

WHAT????

A 23% Increase in Water Rates?

And a 36% Increase in Electric Distribution Rates?

The Problem	<p>Fairfield residents received a notice recently from Aquarion Water Company informing us that it has requested approval from the Connecticut Public Utilities Regulatory Authority (“PURA”) for an 18.3% increase in water rates effective in September this year, plus further increases of 1.8% and 1.9% in the following two years, resulting in a total requested increase of 22.7%.</p>	<p>Meanwhile, The United Illuminating Company has requested approval from PURA for a 36% increase in its electric distribution rates over the next two years, which would result in a 12% increase in our electric bills, effective in July or August this year, assuming no change in the cost of power generation. Stand by for further updates on this subject as we do more research.</p>
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Fairfield Taxpayer is not an expert on water companies or electric utilities, but we want to alert everyone to these proposed substantial increases in the cost of our water and power, **which are essentially another tax we must pay**. If approved, their combined effect on the average taxpayer in Fairfield would be **equivalent to a 1%---2% increase in property taxes**.

How You Can Help	1	Please use our Aquarion "1---Click" Email system at FairfieldTaxpayer.com to send your message to the Public Utilities Regulatory Authority, to our State Senator and Representatives, and to others who can influence the decision makers in this matter. With one click, your email will go to ALL of them.
	2	Please attend the public meeting with representatives from Aquarion on Tuesday, June 18th at 6:30 pm in the First Floor Conference Room of Independence Hall (725 Old Post Road), Fairfield CT.
	3	Please contribute your comments to the forum on this subject at www.FairfieldTaxpayer.com ; if you have expertise on utilities and their regulation and are willing to help, please email us at FairfieldTaxpayer@gmail.com

Some of the key questions we would like answered at the June 18th meeting are as follows:

Questions We Need Answered	<p>Why is it necessary to raise water rates so much?</p> <ul style="list-style-type: none"> ➤ According to the Company’s Web site, it needs this huge rate increase: (a) to recover its investment of more than \$143 million in infrastructure improvements over the last three years (water mains, storage tanks, treatment plants, dams and pump stations); (b) to offset what it calls “cost increases outside its control”; and (c) to offset the effect of significant past and projected future declines in consumption. ➤ However, the rates that public utilities are allowed to charge their customers are not based solely on the amount of money they spend on capital improvements; instead rates are based on the rate of return the regulators feel it is reasonable for them to earn on the money the owners invest in the business. ➤ So we need to know what Aquarion’s return on equity (i.e., the owners’ investment) has been, and what it will be after the proposed rate increases. ➤ If anything, Aquarion’s return on equity should have benefited in recent years from low inflation in costs in general, and from much lower interest costs on the money it borrows.
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Questions
We Need
Answered

How do water rates compare in different towns in CT and other states, and how are any material differences explained?

How do Aquarion's costs compare to those of other water utilities, including executive compensation?

- For example, why were Administrative and General Salaries up over 17% in 2012?
- Why were Employee Pensions and Benefits up almost 29%?

Is there any adverse effect on customers from the fact that 55% of Aquarion is owned by an Australian banking group (Macquarie) in one of its private equity funds, and the other 45% by British Columbia Investment Management?

- For example, what extra fees are paid by Aquarion's customers to the holding companies, and does Aquarion pay higher interest or dividends to the holding companies than it would pay if it borrowed the money directly and issued its own preferred stock?
- Also, does it make sense for the regulators to allow Aquarion to earn, say, a 10% return on the ~50% of its total capital that is equity at the operating company level when its holding company may have borrowed 80% or more of the capital it has invested in Aquarion, thereby forcing its water customers to pay the cost of higher interest rates on all of the Company's debt?

Is there any adverse effect on Fairfield customers from the need to invest in capital improvements in other towns served by Aquarion in Connecticut, Massachusetts and New Hampshire, particularly any that Aquarion has chosen to acquire in recent years that may not have properly managed, maintained and replaced their aging water infrastructures?

What about the Water Infrastructure and Conservation Adjustment (WICA) surcharge that Aquarion customers have been paying since April 2009 to fund the timely replacement of water distribution pipes and other infrastructure?

Why does Aquarion already have a much higher authorized return on equity of 9.95% than United Illuminating at 8.75%, and why is it requesting an even higher ROE of 10.6%?

- Under the new accounting rules, private equity firms must mark their investments to market on a quarterly basis, and it would be helpful to know what has happened to the Aquarion's value since its acquisition by Macquarie in 2007 for \$860 million in order to assess whether the current authorized rate of return should be changed.

Fairfield Taxpayer is a non-partisan organization dedicated to
KEEPING FAIRFIELD BOTH DESIRABLE AND AFFORDABLE FOR ALL OF ITS RESIDENTS.
Please visit us at www.fairfieldtaxpayer.com to become better informed and, we hope, to add your support and voice to our online discussions.

PLEASE---SIGN UP, BE HEARD, MAKE A DIFFERENCE!