

Application to the Representative  
Policy Board for Approval for the  
Acquisition of the Aquarion Water  
Company

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## **Application to acquire the Aquarion Water Company**

### **1. Statement of authorization sought by the applicant**

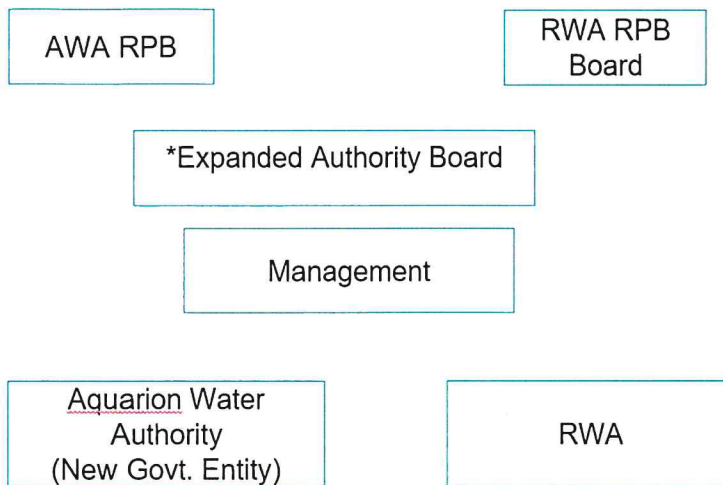
With this application, the South Central Connecticut Regional Water Authority (RWA), acting as itself and on behalf of the newly created Aquarion Water Authority, inclusive of amendments to the RWA's enabling legislation, Special Act 77-98, and Public Act No.1 – SS1 passed in the June 2024 Special Session, seeks authorization from the RWA Representative Policy Board (RPB) – acting as itself and on behalf of the Aquarion Water District RPB – to submit a binding bid and, if successful, own and operate the Aquarion Water Company (AWC) as further described in Confidential Exhibit A.

This application also requests authorization from the RWA Representative Policy Board – acting as itself and on behalf of the Aquarion Water District RPB – to approve both the non-contingent bridge financing for the binding bid and the issuance of the take-out financing. See also Confidential Exhibit B.

AWC, a subsidiary of Eversource Energy, is the public water supply company for approximately 242,000 customer accounts or more than 777,000 people in 72 cities and towns in Connecticut, Massachusetts, and New Hampshire. AWC is the largest investor-owned water utility in New England and is among the seven largest in the U.S by rate base with a combined \$1.277 billion rate base. Based in Bridgeport, Connecticut, AWC has been in the public water supply business since 1857.

The proposed purchase by the newly created Aquarion Water Authority would mean that towns of Beacon Falls, Bethel, Bridgeport, Brookfield, Burlington, Canaan, Cornwall, Danbury, Darien, East Derby, East Granby, East Hampton, Easton, Fairfield, Farmington, Goshen, Granby, Greenwich, Groton, Harwinton, Kent, Lebanon, Litchfield, Mansfield, Marlborough, Middlebury, Monroe, New Canaan, New Fairfield, New Hartford, New Milford, Newtown, Norfolk, North Canaan, Norwalk, Norwich, Oxford, Plainville, Redding, Ridgefield, Salisbury, Seymour, Shelton, Sherman, Simsbury, Southbury, Southington, Stamford, Stonington, Stratford, Suffield, Torrington, Trumbull, Washington, Weston, Westport, Wilton, Wolcott, and Woodbury would become part of the Aquarion Water District, pursuant to enabling legislation. Each of the towns in the Aquarion Water District would have voting representation on the Aquarion Water District RPB in proportion to the number of customers and the amount of land owned in each community.

The proposed structure, if the bid is successful, is shown below.



\*Eleven-person board – 6 appointments by RWA RPB and 5 appointments by AWA RPB – technically two boards acting as one

The acquisition and the associated financing are being structured such that there is no adverse impact on RWA customers as they would receive benefits described later in this application as would AWC customers. We will also structure the acquisition debt such that there is not an impact on AWC customer rates.

### **Unusual Circumstances**

This application is being submitted under unusual circumstances. First, there is a very short time frame from the start of the sale of AWC by Eversource to the date a binding, non-contingent bid needs to be submitted. Given our regulatory process and the need to submit a binding offer with no contingencies, this application is being submitted very early in the process and therefore, there is still considerable work to finalize both the non-binding bid, the binding bid, and, if successful, the Purchase & Sale Agreement. This application reflects what is currently envisioned and will be further refined. Further details are anticipated at the time of the public hearing scheduled in August 2024.

The second unusual circumstance is this is a competitive bidding process. Therefore, our financial advisors, valuations and bid pricing are highly confidential and need to be protected. As part of this application, we are seeking a protective order for the confidential information.

### **2. The need for the acquisition**

This acquisition is consistent with our mission, vision, and values. It supports our mission to provide customers with high-quality water and services at a reasonable cost while promoting the preservation of watershed lands and aquifers, and our vision to be an innovative environmental services organization

and water utility that sustains life, strengthens our communities, and protects natural resources for future generations.

Eversource's decision to sell AWC presents a rare and time-sensitive opportunity that aligns with our strategic goals and regional water supply strategy. Such opportunities for significant expansion in the water utility sector are infrequent, making this acquisition particularly compelling and transformational.

While we are expanding our commercial businesses to help offset the declining average consumption within RWA's existing and mature service territory, this acquisition has additional benefits as noted below.

**A. Public Ownership.** Public ownership of utility companies can effectively serve community interests. This is demonstrated by the fact that there are only nine publicly traded investor-owned water utilities in the nation compared to approximately 153,000 that are publicly owned. The RWA has a proven 45-year track record of demonstrating the benefits of government ownership, local control and regulation, and organizational stability in the water utility sector.

The potential acquisition of AWC would extend those benefits on a larger scale, result in water services remaining in public hands and accountable to the communities they serve. Since January 2000, when Aquarion was first sold to Kelda Group plc, a British Water Utility, with this sale, the company would have had four owners in 25 years. This acquisition would also provide stability of ownership to AWC's employees and customers.

Additionally, RWA has an abundant supply of water that can potentially supply additional areas within AWC's distribution system through subsequent interconnections.

**B. Economies of Scale and Operational Efficiencies**

By acquiring AWC, there will be improved economies of scale, operational efficiencies, a broader focus on customer service and community support as well as access to lower cost of capital, and a broader customer base for our commercial service offerings that mitigate water rate increases for consumers.

This acquisition, if successful, will transform AWC into a not-for-profit water authority with the ability to issue tax-exempt debt for capital improvements.

**C. Local Control and Community Focus**

RWA's amended legislation establishes a new Aquarion Water Authority as a not-for-profit, quasi-public utility, which it would oversee, and a governance structure that mirrors the RWA's. Each of the towns in the Aquarion Water District would have voting representation on the Aquarion Representative Policy Board in proportion to the number of customers and the amount of land owned in each community. The amended legislation is structured to provide representation to AWC customers, in the same manner that RWA provides to customers.

A regional entity is better positioned to understand and address the needs of local communities. Allowing a non-local entity to acquire AWC Connecticut operations could result in decisions that may not be in the best interest of local residents and stakeholders.

**D. Operational & Financial Management**

The RWA's track record of balancing financial stability with reasonable rates for customers, will carry over to the new Aquarion Water Authority. This includes:

- Being one of the first water utilities to offer a customer assistance program
- Having a rigorous capital project prioritization process
- Pursuing low-cost loans and grants as well as refunding opportunities
- Having one of the lowest main break records in the nation
- Maintaining high-quality water by meeting or exceeding all state and federal drinking water standards
- Ensuring operating and capital budgets are reviewed by both governing boards and the independent Office of Consumer Counsel
- Preparing Ten-Year financial models that are shared with both governing boards
- Adhering to requirements for applications and public hearings (e.g., capital projects over \$3.5 million; commercial acquisitions over \$1.5 million; and rate applications)

**E. Talent Pool and Expertise**

The acquisition would provide access to a larger pool of skilled professionals in the water management sector. This expanded talent base should drive more innovation, improve service quality, and ensure management of water resources across the region. Enhanced career opportunities will exist for both RWA and AWC employees as well as succession planning opportunities.

**F. Environmental Stewardship**

Acquiring AWC would enable the RWA to extend its environmental protection efforts on a larger scale, ensuring sustainable water and land protection and management practices are deployed across a broader region.

**3. Analysis of Alternatives to the acquisition**

Other than not pursuing this unique opportunity, there are no other viable alternatives.

**Status Quo: No Action**

Maintaining the current situation would mean allowing AWC to be sold to another entity, potentially a non-local entity. The benefits, as noted above, associated with the proposed acquisition would be foregone. While we will continue to expand commercial offerings and revenues, and pursue, if appropriate, smaller adjacent water utilities, this is a one-time historic and transformational opportunity.

## **Acquisition Considerations**

AWC's operations align perfectly with the RWA's regional focus and expertise.

The remaining components of the acquisition process are listed below:

- obtaining approval from the Representative Policy Board
- being one of the selected bidders for Round 1 – Non-binding offer
- being the selected bidder from Round 2 – Binding offer
- attaining approval from Eversource
- gaining approval from the Public Utilities Regulatory Authority

### **4. Statement and Analysis of costs/savings**

#### **Capital Cost**

The debt will be issued under the newly created Aquarion Water Authority. As an Authority, the only source of financing is debt. There will not be an impact to the RWA or AWC customers.

For the permanent ("take-out") financing, issuance of tax-exempt water revenue bonds will be the primary source of capital for the acquisition. We also expect to receive junior subordinate financing and will issue additional junior subordinate tax-exempt financing, if needed.

We are targeting a financing structure such that the acquisition itself will not result in a rate increase for the existing AWC customers as the debt, and associated coverage requirement, will be covered by the company's cash flow. We are also working toward the rated debt being investment grade and ideally carry the same credit ratings as the RWA.

Additionally, the binding bid must not be contingent on financing. Therefore, we will be securing non-contingent financings with the submission of the binding bid. Ideally this bridge financing will not actually be issued. However, it would be available if needed, due to the timing of the tax-exempt financing.

As part of due diligence, we will further evaluate AWC's on-going capital requirements. We have already reviewed public information. While we anticipate that on-going capital needs will result in the need to issue more debt, we will avail ourselves of tax-exempt bonds, which has a lower cost of capital. We will also avail ourselves of low-cost loans (e.g., Drinking Water State Revolving Fund) and grant opportunities.

Further details on the cost capital can be found in Confidential Exhibit A.

#### **Operating Cost**

The RWA's post-acquisition operating costs will not be adversely impacted. We anticipate a potential benefit associated with the allocation of certain costs for support provided under contract to the Aquarion Water Authority.

As it relates to the Aquarion Water Authority, we also expect there will be favorable impacts associated with increased purchasing power and future tax benefits as examples. Our assessment of operating expenses has so far been based on public information and this information to date has been used in our modeling. Our assessment will be updated based on the Confidential Information Material that will be provided by the Eversource bankers and due diligence.

### **Rejected Alternative**

The alternative to the acquisition of AWC is taking no action. This alternative has been analyzed and deemed less favorable to the RWA, the Aquarion Water Authority, and the communities served for the reasons noted above, including not pursuing the historic and transformational aspects of this acquisition opportunity.

### **5. Statement of facts on which the RPB may rely**

The RPB may rely upon the contents of this application as a statement of facts, as well as upon testimony given by members of the Authority's management and its consultants in public hearings.

### **6. Statement of financial condition**

#### **Financial Condition of the RWA**

As previously noted, there is not expected to be any adverse post-acquisition impact on the RWA's financial position from the acquisition. The RWA is in a strong financial position and at the end of fiscal 2024, despite the cool wet summer in calendar 2023, we had the second highest year-end disposition. Our S&P rating is AA- and our Moody's rating is Aa3. The structure of the acquisition is designed to protect the RWA's financial position and ratings.

We anticipate using the same proven successful RWA approaches for the financial management of the Aquarion Water Authority. We will obtain ratings for the senior tax-exempt debt issuance of the acquisition. We will pursue getting indicative ratings as this will determine the cost of the debt offering and is important to the bidding process. Our objective is to have the tax-exempt debt for the acquisition to be rated investment grade.

#### **Financial Condition of AWC**

AWC, a subsidiary of Eversource Energy, is one of the largest investor-owned water utilities in the United States, serving approximately 777,000 people across 242,000 customer accounts throughout 72 cities and towns in Connecticut, Massachusetts, and New Hampshire.

#### **Key financial highlights for AWC (from public information) include:**

- **Net Income:** \$33 million
- **Rate Base:** \$1.3 billion
- **Credit Ratings:** Baa1 from Moody's and S&P BBB+ (recent downgrades)

Recent credit rating downgrades appear to be based on a belief that Eversource would only provide extraordinary financial support to Aquarion as well as the current perception of a challenging regulatory environment in Connecticut.

### **Business and Structure of AWC**

AWC operates separate regulated water utilities in Connecticut (Aquarion Water Company of Connecticut, or AWC-CT and Torrington Water Company), Massachusetts (Aquarion Water Company of Massachusetts, or AWC-MA), and New Hampshire (Aquarion Water Company of New Hampshire, or AWC-NH and Abenaki Water Company). These regulated companies provide water services to approximately 777,000 people across 242,000 customer accounts throughout seventy-two cities and towns in Connecticut, Massachusetts, and New Hampshire. As of December 31, 2023, approximately 92 percent of AWC's customers were based in Connecticut. The company is structured to manage a wide range of water-related operations, including:

- **Water Treatment Plants:** 10 surface water treatment plants
- **Groundwater Wells:** 328 wells
- **Pumping Stations:** 101 stations
- **Dams:** thirty-one 31 dams
- **Water Mains:** 3,817 miles of water main
- **Water Storage Tanks:** 200 + tanks

AWC's mission is to deliver high-quality water and services to its customers while maintaining a commitment to environmental stewardship and operational excellence.

### **7. Agreement to Acquire**

The Purchase & Sale Agreement (PSA) for the successful bidder with Eversource is several months away. It is anticipated that the effort to negotiate a PSA will not start until binding bids are submitted. We are planning to engage experienced merger/acquisition legal counsel to support management's negotiation of the PSA.

Please see Confidential Exhibit B. This confidential exhibit includes valuation ranges and other information that will be used in the determination of both the non-binding bid and the binding, post due diligence, bid.

Eversource kicked-off the process the week of July 8, 2024. The Confidential Information Material (CIM) will be provided once the Non-Disclosure Agreements (NDA) are finalized. An estimate of the timeline is below.

- **July/August 2024:** NDA signed and Eversource will issue its CIM to interested parties



- **August/September 2024:** Deadline for submitting non-binding bids
- **October/November 2024:** Final binding bids to be submitted
- **December 2024:** Estimated timeline for selecting the winning bid and beginning the public utility commission approval process in CT, MA, and NH

There will be an opportunity for due diligence for the finalist selected from the non-binding bids.

## **8. The amount of bonds and their terms**

### **Amount of Bonds or Other Obligations**

Please see Confidential Exhibit A. This exhibit includes the envisioned structure of all sources of financing. As previously stated, a goal is that the acquisition does not result in a rate increase for AWC customers and to issue primarily investment grade tax-exempt debt.

We will also work to ensure that there is tax-exempt capacity to support AWC's on-going capital program.

## **9. Purpose of Bonds**

The financing will be used for the acquisition, issuance costs, and working capital. The envisioned structure to meet these needs is identified in Confidential Exhibit A.

## **10. Property**

It is anticipated that this will be a stock and not an asset purchase. Therefore, there will be numerous assets and liabilities that are assumed by the buyer of AWC. The CIM, when released, should include these details. Due diligence will also further vet these considerations and the PSA will document the way the assets and liabilities will be addressed. We will engage legal counsel, and as needed, other professional experts.

As part of due diligence, our consulting engineer will be engaged to assess AWC's infrastructure. This will also further refine estimates of on-going post-acquisition capital requirements.

## **11. Cost index adjustment**

Not applicable.

## **12. Contingency**

We will determine if any contingency needs to be included as the process progresses.

## **Conclusion:**

With this application, we are seeking authorization from the RWA RPB acting as itself and on behalf of the Aquarion Water District RPB – to proceed as outlined in this application.

Your support is essential to our competitively participating in this historic and transformational business opportunity. We are committed to provide timely updates as the process progresses.

This proposed acquisition is consistent with the RWA's mission, vision, and values. It supports our mission to provide customers with high-quality water and services at a reasonable cost while promoting the preservation of watershed lands and aquifers, and our vision to be an innovative environmental services organization and water utility that sustains life, strengthens our communities, and protects natural resources for future generations.

The potential ownership of AWC promises to bring numerous benefits to employees, customers and communities served. The RWA's 45-year track record demonstrating the benefits of government ownership, local control and regulation, and organizational stability would be extended on a larger scale, ensuring water services remain under local ownership and accountable to the communities they serve.