

First Selectman Bill Gerber's Remarks at the RWA Hearing August 27, 2024

Hi, I'm Bill Gerber, the First Selectman of the Town of Fairfield, CT. Fairfield has a population of about 63,000. Aquarion owns real property in Fairfield assessed at about \$64 million, which translates into just under \$1.8 million of tax revenue for the Town.

Some of the red flags I see from the current proposal come from years of work experience, on different sides of acquisitions- as acquirer, acquiree and advisor.

I don't know the water industry, but from public information, my initial takeaways are in line with several others you have heard from:

- This just looks like a really highly leveraged buyout by South Central Connecticut Regional Water Authority ("RWA"), a substantially smaller organization (that is also a quasi-public entity) of a substantially larger organization (Aquarion, which will become "AWA").
- RWA would apparently leverage up AWA with billions of dollars of debt to finance the transaction. Since Eversource paid \$1.675 billion for Aquarion in 2017, I guess we should expect AWA to add well over \$2 billion of debt. And all that debt will be repaid by the cash flows generated by Aquarion (or should I say Aquarion's customers?).
- RWA would replace the regulator currently protecting the customers of Aquarion, called PURA. For all its warts, PURA has kept a check on water rates charged to the residents of Fairfield and other municipalities, not long ago denying Aquarion's proposed rate increase. PURA's work on this front can be seen in excruciating detail in the 150+ page DOCKET NO. 22-07-01 APPLICATION OF AQUARION WATER COMPANY OF CONNECTICUT TO AMEND ITS RATE SCHEDULE March 15, 2023, authored by PURA commissioners Marissa P. Gillett and Michael A. Caron. It is no secret that Aquarion's customers pay a significantly lower rate for water than RWA's customers.
- Post transaction, independent regulatory oversight from PURA would be replaced by a self-regulating entity, the Authority Board, comprised of members **appointed by** RWA and AWA.
- Furthermore, despite AWA contributing net plant in service of about \$1.2 billion versus RWA's \$533 million, including ten water treatment plants to RWA's four, 100 pumping stations versus 34 from RWA, 200 water storage tanks versus 35 from RWA, 59 towns with 207,000 customers (in CT) versus RWA's 21 towns with 120,300 customers... despite this disparity in relative contribution, RWA will nonetheless **control this self-regulating Board** with its six appointed members, versus five appointed by the Aquarion municipalities.

RWA's presentation – "RPB Application, Bid to Convert AWC to an Authority, August 22-27, 2024" – gives assurances that the transaction structure will "protect **RWA's** consumers & financial position," "so there is no adverse impact to RWA customers" and will "safeguard the RWA's financial standing and credit ratings."

I do not think RWA can make a similar statement that would be convincing for Aquarion's municipalities and customers. On Aquarion's \$200+ million of revenues, it appears you'll have about \$80mm of O&M expenses and \$18mm of property taxes, to be paid in the form of PILOT. Those property taxes, at least for Fairfield, exclude the impact of our 5-year revaluation to be completed next year. Add, say, \$100+ million of annual interest expense and there is nothing left for investment in infrastructure, something Aquarion has been doing at a clip of over \$130mm a year. Will infrastructure improvements be financed with more debt?

Ultimately, it doesn't seem credible that AWA's water rates will not increase significantly. RWA's promise to not raise rates really doesn't hold water, so to speak. Of course, you haven't disclosed a timeframe, so you may be able to keep rates stable for a short period, but the bill for this acquisition ultimately must be paid.

I would urge RWA, if you move forward with this transaction, to consider different structures that are fair and make sense, ***not just for RWA***, but for Aquarion municipalities and customers as well. Please don't take excessive risks that could ultimately jeopardize supply, service and rates in the 59 towns and 207,000 customers in the Aquarion region.

Thank you.