



## **PURA Reduces Ratepayer Payments By Over \$500,000 In East Derby Waterworks Acquisition By Aquarion Water Company**

Docket No. 13-07-13, Joint Review Of The Public Utilities Regulatory Authority And The Department Of Public Health For Approval Of Application Of Aquarion Water Company Of Connecticut And The City Of Derby For Aquarion Water Company To Acquire The Assets Of The East Derby Waterworks, Decision, June 4, 2014.

For the complete decision, see:

<http://www.dpuc.state.ct.us/dockcurr.nsf/All/AC904A470E813AB085257CED006B2FB0?OpenDocument>

In this Decision, the Public Utilities Regulatory Authority and the Department of Public Health jointly approved the City of Derby's request to cease operations as a water company and allowed Aquarion Water Company of Connecticut to acquire the assets of the City of Derby's East Derby Waterworks, for a total payment of \$1,675,000.

The OCC recommended that the Authority reject the Application because the Office did not support Aquarion's acquisition of East Derby as proposed. The OCC opposed the inclusion in the sales price of an "acquisition premium" that would have required all of Aquarion's existing customers to pay a premium amount of \$550,806.

PURA accepted OCC's position and expressly rejected the Aquarion Water request for an acquisition premium which will not be recorded in rate base or collected in the rates of Aquarion Water's customers.

The Authority's Decision stated that while acquisition adjustments, or amounts above book value, have been permitted in the past, the Authority agrees with the OCC that those instances were approved with consideration of each transactions operational benefits and that no such benefit exists in this proceeding. Decision at page 12.

Although the OCC reiterated its full support for permitting acquisition premiums where there are direct benefits to the current ratepayers who would be asked to pay a premium for the acquisition, the Office argued that Aquarion's acquisition of East Derby did not provide any such benefits. Indeed, OCC noted that East Derby is not connected to Aquarion's other water



systems, nor are there any known plans for such a connection to be established since the East Derby system contains no sources of supply and is interconnected with and surrounded by the Regional Water Authority.

Thus, the OCC submitted that the only beneficiaries of the transaction are the two parties to the agreement: shareholders of Aquarion and the City of Derby. The OCC further noted that in a typical business transaction, there is nothing wrong with the City seeking to maximize the financial gains for its citizens. The OCC recommended that those instances involved the acquisition of a system that was expected to provide operational benefits (i.e., provide an additional source of supply to a constrained area, contain a distribution system that helps in connecting currently unconnected satellite systems, etc.) or the acquired system was expected to provide financial benefits that covered the acquisition premium.

The OCC's analysis of this transaction revealed no such benefits since Aquarion is a regulated utility with inelastic demand, ratepayers do not have a choice of water providers, and thus must accept supply from the water company which owns the franchise in their territory. Therefore, OCC argued that ratepayers of Aquarion should not be forced to fund an acquisition at a premium which does not provide any benefit or value to them, and thus the OCC did not support approval without removal of the proposed acquisition premium. PURA agreed with OCC's positions in its June 4, 2014 decision.