

Aquarion Water Company of Connecticut
Response to Interrogatories

Docket No: 13-08-13
January 2, 2014

Witness: D. Morrissey
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- Q) EN-1: Provide a listing of all acquisitions of community water systems located in Connecticut made by your company in the last five years. Include in your response the name of the acquired company; the location of the company; the number of connections served by the company acquired (at the time of acquisition and by customer category – residential, commercial & industrial, institutions, and government); the date of the acquisition; total population served by the acquired company; and the PURA docket number, if applicable, associated with the acquisition. Also provide the number and type of connections served by your company prior to the acquisition.
- A) EN-1: Refer to EN-1 Attachment 1 for the data points described above.

NOTE: Of the 58 water systems acquired over the past two and one-half years, only 2 systems exceeded 1,000 customers.

Acquired Company/ Systems	Acquired Date	Docket No.	Town	Customers	Est. Population (a)
Aquarion Water Company Connecticut Prior to Acquisition				184,286	588,372
Topstone Hydraulic Company	08/31/11	DN 10-12-11			
1 Ridgefield Knolls			Ridgefield	237	906
2 Hollandale Estates			Danbury	75	196
3 Rolling Ridge Estates			Danbury	43	112
4 Birchwood Water Association	12/01/11	DN 11-05-06	Malborough	91	250
Brookfield Water Company	12/20/11	DN 11-06-07			
5 Brookfield Water Company			Brookfield	203	521
6 1087 Federal Road			Brookfield	1	3
Rural Water Company	12/28/11	DN 11-06-17			
7 Ridgefield Lakes - Main System			Ridgefield	151	577
8 Ridgefield Lakes - Well No. 11			Ridgefield	6	23
9 Ridgefield Lakes - Well No. 4			Ridgefield	3	11
10 Ridgefield Lakes No. 1			Ridgefield	11	42
11 Ridgefield Lakes - Well No. 2			Ridgefield	11	42
12 Ridgefield Lakes No. 9			Ridgefield	15	57
13 Scodon - Well No. 2 & 3			Ridgefield	78	298
14 Scodon - Well No. 4			Ridgefield	-	-
15 Craigmoor System			Ridgefield	29	111
16 Soundview - Interconnection			Ridgefield	36	138
17 Southern Brookfield			Brookfield	90	231
18 Brook Acres			Brookfield	53	136
19 Brookfield Division			Brookfield	258	662
20 Towne Brooke Commons			Brookfield	102	262
21 The Cedars			Danbury	8	21
22 Pearce Manor			Danbury	50	130
23 Ken Oaks			Danbury	57	149
24 Cedar Heights			Danbury	138	360
25 Oakwood Acres			New Fairfield	99	257
26 Fieldstone Ridge			New Fairfield	29	75
27 Candlewood Acres			Brookfield	28	72
Ron Black Water Systems	02/15/12	DN 11-04-13			
28 Tyler Lake - Clearview Hills			Wolcott	79	215
29 Tyler Lake - Woodrich Village			Wolcott	27	74
30 Tyler Lake - Indian Springs			Danbury	92	240
31 Tyler Lake - Tyler Lake			Goshen	58	144
32 Judea Water - Judea Green			Washington	82	180
33 Judea Water - Judea Depot			Washington	44	97
34 Judea Water - Quarry Ridge			New Preston	34	115
35 Olmstead Water - Newtown			Newtown	162	376
36 Olmstead Water - Birches			New Fairfield	23	60
37 Olmstead Water - Brookwood			Brookfield	87	223
38 Olmstead Water - Butternut			Brookfield	31	79
39 Olmstead Water - Possum Ridge			New Fairfield	64	166
40 Chestnut Tree Hill			Newtown	48	112
41 Circle Drive			Litchfield	49	166
42 Meckauer Water Company	07/12/12	DN 11-09-01	Bethel	47	96
43 Dunham Pond	12/01/12	DN 12-02-03	New Fairfield	37	96
United Water Connecticut	09/04/12	DN 12-03-08			
44 New Milford			New Milford	3,348	6,938
45 Meadowbrook			New Milford	141	292
46 Pleasant View			New Milford	93	193
47 Dean Heights			New Milford	63	131
48 Twin Oaks			New Milford	56	116
49 Forest Hills			New Milford	97	201
50 Park Glen			New Milford	12	25
51 Carmen Hill Orchard/ Candlewood Terrace			New Milford	126	261
52 Indian Ridge			New Milford	53	110
53 Greenridge			Brookfield	226	580
54 Chimney Heights			Bethel	582	1,190
55 Berkshire Corporate Park			Bethel	71	145
56 Newtown			Newtown	1,783	4,142
57 Woodbury			Woodbury	681	1,161
58 Indian Fields Homeowners Association	08/15/13	DN 13-02-04	Brookfield	55	141
Acquisition Customer/ Population Additions				10,253	23,704
Pending Water Companies to be Acquired per PURA and DPH Approval					
West Service Corporation	Pending	DN 13-01-11			
1 West Service Water System			Suffield	212	719
2 Valley View Water System			Mansfield	60	203
3 East Derby Waterworks	Pending	DN 13-07-13	Derby	500	1,249
4 Bedrock Water Association	Pending	DN 10-03-18	New Milford	15	45
5 Litchfield Hills Water Association	Pending	DN 10-01-16	New Milford	50	150
6 West Shores Water System	Pending		Woodbury		
Pending Acquisition Customer/ Population Additions				837	2,366

A combined 78 customers served

(a) Aquarion Water Company estimated population per system is calculated by extrapolating the variance in the Company's 2012 and 2010 population count per the Company's Annual Reports.

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- Q) EN-2: For each acquisition, provide the purchase price, including transaction costs and the method by which the water company was obtained (e.g. purchase of common stock, net assets, etc.).
- A) EN-2: Refer to EN-2 Attachment 1 for the purchase price, transaction costs and purchase method for each of the acquired water companies.

Company	Docket	Transaction Costs	Purchase Price	Asset or Stock Purchase
Topstone Hydraulic Company	10-12-11	27,944	561,000	Assets
Brookfield Water Company	11-06-07	65,130	1,300,000	Assets
Rural Water Company	11-06-17	51,137	800,000	Assets
Birchwood	11-05-06	28,037	34,100	Assets
Ron Black systems	11-04-13	67,452	297,500	Assets
Meckauer Water Company	11-09-01	12,480	10,000	Assets
Dunham Pond	12-02-03	33,184	115,000	Assets
United Water Connecticut	12-03-08	513,383	37,878,204	Stock
Indian Fields Homeowners Assoc.	13-02-04	22,793	38,500	Assets
Total		\$ 821,540	\$ 41,034,304	

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- Q) EN-3: For each acquisition, where possible, please provide a comparison of the purchase price with the net book value of the company acquired. Describe how the difference between these two values was treated for ratemaking purposes.
- A) EN-3: Refer to EN-3 Attachment 1 for the comparison of the purchase price with the net book value of the acquired water companies as well as the regulatory treatment utilized for ratemaking purposes. With the exception of Indian Fields Homeowner Association (acquisition not completed prior to the latest general rate filing), the regulatory treatment proposed in the acquisition applications were approved by PURA in the acquisition docket and is being recovered in rates as authorized by the Authority in docket 13-02-20.

Company	Docket	Purchase Price (a)	Net Book Value	Difference	Regulatory Treatment of Premium/ (Discount)
Topstone Hydraulic Company	10-12-11	588,944	561,000	27,944	Deferred and Amortized over 3 yrs.
Brookfield Water Company	11-06-07	1,365,130	1,174,054	191,076	Deferred and Amortized over 3 yrs.
Rural Water Company	11-06-17	851,137	780,079	71,058	Deferred and Amortized over 3 yrs.
Birchwood	11-05-06	62,137	76,314	(14,177)	Deferred and Amortized over 3 yrs.
Ron Black systems	11-04-13	364,952	291,720	73,232	Deferred and Amortized over 3 yrs.
Meckauer Water Company	11-09-01	22,480	18,371	4,109	Deferred and Amortized over 3 yrs.
Dunham Pond	12-02-03	148,184	602,115	(453,931)	Deferred and Amortized over 3 yrs.
United Water Connecticut (b)	12-03-08	38,391,587	28,105,973	10,285,614	See Note (c)
Indian Fields Homeowners Assoc.	13-02-04	61,293	38,500	22,793	Deferred and will propose to be amortized in next rate proceeding.
Total		\$ 41,855,844	\$ 31,648,126	\$ 10,207,718	

(a) Includes Transactions costs.

(b) Includes \$2.5m fair value adjustment for land proposed to be divested to the Town of Woodbury.

(c) Approximately \$6.6 million of the acquisition premium is reflected in an acquisition adjustment account (117 account) and was included in rate base at the time of the Company's rate proceeding. The remaining \$3.7 million was included in a goodwill account (124 account) with no rate recovery.

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- Q) EN-4: For each acquisition, provide the average rate impact on your company's existing customers. Provide the rate impact on a total dollar, % increase, and per connection basis. Explain the rationale behind this impact and if the rate impact continues. Explain if the company received an enhanced rate of return, recovery of any acquisition premium, or any other enhancement in order to effectuate the acquisition. Also, explain and quantify whether the rate impact associated with the acquisition was applied equally to each type of customer group (e.g. residential, commercial).
- A) EN-4: Refer to EN-4 Attachment 1 for the data points described above.

Company	Average Rate Impact on Existing Customers			Explain Rationale of Impact	Enhanced return, recovery of acq premium/ discount	Rate impact applied to all groups equally?
	Total \$	% Increase	Per Connection			
Topstone Hydraulic Company	N/A	N/A	N/A	Note 1	None	Note 2
Brookfield Water Company	N/A	N/A	N/A	Note 1	Recovery of Acq. Premium	Note 2
Rural Water Company	N/A	N/A	N/A	Note 1	Recovery of Acq. Premium	Note 2
Birchwood	N/A	N/A	N/A	Note 1	Recovery of Acq. Discount	Note 2
Ron Black systems	N/A	N/A	N/A	Note 1	Recovery of Acq. Premium	Note 2
Meckauer Water Company	N/A	N/A	N/A	Note 1	Recovery of Acq. Premium	Note 2
Dunham Pond	N/A	N/A	N/A	Note 1	Recovery of Acq. Discount	Note 2
United Water Connecticut	N/A	N/A	N/A	Note 1	Recovery of Acq. Premium	Note 2
Indian Fields Homeowners Assoc.	N/A	N/A	N/A	Note 1	None	Note 2
Total		\$ -	\$ -			

Note 1: The acquired water company did not have an impact on the rates of existing customers. Refer to the Company's response to EN-6.

Note 2: The acquired water company rates were equalized with the Company's Eastern Division or has moved closer to equalization through the PURA's directive.

General Note: As part of the 2013 general rate proceeding, docket 13-02-20, the Company received a 50 bps premium on return on equity for its acquisition of small water systems.

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- Q) EN-5: Provide a description of the history of each acquisition, including what party(ies) initiated the acquisition, the reasons why your company purchased the water company, and if known, the reason why the water company decided to sell.
- A) EN-5: Refer to EN-5 Attachment 1 for the data points described above.

Acquired Company	Description	Initiating Part(ies)	Reasons for Purchase	Reason for Sale
Topstone Hydraulic Company	355 customers in the Towns of Ridgefield and Danbury	Topstone	Operational synergies, consolidation in the Danbury region.	Burdensome regulatory requirements, health regulations and diversion permit issues.
Brookfield Water Company	204 customers in the Town of Brookfield	Mutual	BWC water resources and infrastructure were critical pieces in providing comprehensive water solution to the Town of Brookfield's longstanding water quality and quantity issues. Assist in PURA/DPH's shared objectives for consolidation of small water systems in the state.	Burdensome regulatory requirements, health regulations and diversion permit issues.
Rural Water Company	1,252 customers in the Towns of Brookfield, Ridgefield, New Fairfield, and Danbury	Mutual	Provide comprehensive water supply solutions to the Town of Brookfield, expands the geographical footprint that fills the gap between lower Fairfield and northern Fairfield/Litchfield county service areas.	Increased regulatory requirements, health regulations and diversion permit issues. Faced with political and regulatory challenges in providing water services coupled with no clear succession plan.
Birchwood	91 customers in the Town of Malborough	Birchwood	Provide comprehensive water supply solutions that will address long-standing water quality and water quantity problems within the area.	Lacked the managerial, technical and financial expertise to operate the water system.
Ron Black systems	964 customers in the Towns of Newtown, Brookfield, Danbury, New Fairfield, Washington, Litchfield, Wolcott, and Goshen	Ron Black	The Black water systems were largely located in the metro-Danbury area. Many of the systems lacked adequate investment for many years. Aquarion saw this as an opportunity to provide comprehensive water supply solutions that will address long-standing water quality and water quantity problems within the area.	Increased regulatory requirements, health regulations and diversion permit issues.
Meckauer Water Company	47 customers in the Town of Bethel	Meckauer	Provide comprehensive water supply solutions that will address long-standing water quality and water quantity problems within the area.	Interested in the divestiture of the business.
Dunham Pond	37 customers in the Town of New Fairfield	Union Savings Bank	Provided synergies with the Company's existing Ball Pond system. Provide comprehensive water supply solutions that will address long-standing water quality and water quantity problems within the area.	Bank-owned, foreclosed water system. The Bank did not possess the technical and managerial resources to own and operate the water system.
United Water Connecticut	7,332 customers in the Towns of New Milford, Bethel, Brookfield, Newtown, and Woodbury	United Waterworks	Backbone for connecting systems in the Metro-Danbury region, complements other recent small systems acquisitions, supports the continued consolidation of water systems in the area, and opportunities operating and financial synergies.	United Water's Connecticut operation represented a small satellite to its much larger operations in NY, NJ, ID and elsewhere in the U.S.
Indian Fields Homeowners Assoc.	55 customers in the Town of Brookfield	IFH Association	Assist in PURA/DPH's shared objectives of water system consolidation.	Lacked the managerial, technical and financial expertise to operate the water system.

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Q) EN-6: For each acquisition, describe if, or to what extent, your company has maintained or continues to maintain unique rates or surcharges for customers of the acquired company. Describe the rationale for the differing rates and if there are plans to equalize those rates with the rates of your company's other customers.

A) EN-6: In acquisitions over the past two and one-half years, Aquarion Water Company has proposed to either retain the existing water systems' current rates or to implement the Company's Eastern Division rates. In one other instance for the Ron Black water systems, which consisted of 8 different rate structures, Aquarion requested an initial adjustment to the rates which would be the first of three phases to establish appropriate revenues while eliminating multiple rate structures across the Black systems. Aquarion Water Company has not otherwise proposed any unique rates or surcharges for the customers of the acquired companies.

In the Company's most recent rate case docket 13-02-20, Aquarion Water Company was ordered by the Authority to equalize the service charges throughout the Company's divisions while making substantial strides in moving closer to equalizing the volumetric rates. In acquisitions initiated subsequent to the 13-02-20 final decision, Aquarion will propose that the acquired water company customers assume the Company's Eastern Division rates as per the Authority's directive.

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Q) EN-7: For each acquired company, provide the amount of post-acquisition investments made for needed improvements. Describe the ratemaking treatment for these post-acquisition investments.

A) EN-7: The post-acquisition investments by acquisition, provided in the table below, were included in the Company's rate base and authorized to be recovered in the Company's most recent rate case docket 13-02-20. The acquired companies capital investments do not include periodic replacements for meters, services, hydrants and valves.

Company	Docket	Capital Investments
Topstone Hydraulic Company	10-12-11	466,516
Rural Water Company	11-06-17	948,599
Birchwood	11-05-06	287,966
Ron Black systems	11-04-13	949,226
Meckauer Water Company	11-09-01	86,382
Dunham Pond	12-02-03	9,071
United Water Connecticut	12-03-08	6,188,449
Total		\$ 8,936,209

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Q) EN-8: Describe your company's current policies, goals, and organizational structure associated with the acquisition of small community water systems in Connecticut serving populations of 1,000 or less. Please describe whether there are perceived limits in the level of acquisitions to be pursued in terms of size and type of systems being acquired and the overall aggregate level of acquisition activity.

A) EN-8: It is widely recognized that the state of Connecticut has too many very small water companies that find it difficult to meet the ever growing, ever more expensive, requirements placed on them. Economically, it is difficult at best for such small companies to survive the rigors of increasing costs and regulation with a small customer base. Consolidation of the water industry in Connecticut for many of the small water companies has been encouraged by the Authority and the Department of Public Health ("DPH"). The Company's recent acquisitions represent a significant step in achieving these shared objectives.

Over the last two and one-half years the level of Aquarion's acquisition activity has increased significantly whereby the Company added 58 new water systems serving approximately 10,300 customers. The Company now serves over 193,000 customers in 48 towns and cities in 6 counties in Connecticut. Our response to Interrogatory **EN-1** demonstrates Aquarion's consolidation efforts beginning with the acquisition of the assets of the Topstone Hydraulic Company in August of 2011. In the span of less than two and one-half years, Aquarion has more than tripled the number of water systems through which it is providing safe and reliable drinking water to its customers.

The Company's most recent acquisitions, especially in the Metro-Danbury region, provide a backbone for connecting the water systems in that region. It also complements the Company's recent smaller system acquisitions in the area and supports the continued consolidation and elimination of smaller systems. It provides opportunities to reduce costs through operating efficiencies and by spreading fixed costs over a larger base, which will benefit all customers, not only those acquired. It also provides customers with the benefits of being a member of a larger organization who will solve problems when there are questions and concerns. Lastly, Aquarion has eliminated the burden placed on Regulators by the previous owners of these systems, who have not been capable of providing the necessary financial and technical resources necessary to maintain the systems. Recent acquisition decisions from PURA and the DPH have recognized the Company's efforts thus far.

The Company, through these acquisitions, intends to continue the work that has been encouraged by PURA and DPH. In many cases, Aquarion's recent acquisitions will enhance its ability to move water between systems that will allow the Company to provide surplus water to deficient areas. By interconnecting water systems, economies are captured and the reliability of the systems are improved.

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The Company has clearly exhibited its intentions of solving these types of issues in the State. This has and will continue to include acquiring other small systems which have water quality and quantity issues. The Company believes that by using its regional approach, it is best suited to meet these challenges. Through its integrated approaches to operating the systems and consolidated back-office functions, the Company expects to produce cost savings that will be evident both immediately and over the course of time.

During the course of these acquisitions, the Company has been providing the funds necessary to invest in much needed water infrastructure and to address operational problems. These customers will also share in the benefits of being part of a much larger local Connecticut utility with extensive local management and the economic resources available to ensure quality water service. The Company's broad customer base allows for stability of rates not possible for smaller Companies needing significant capital investment.

The organizational structure of Aquarion has largely remained unchanged as a result of these acquisitions. Eight of the last nine acquisitions recently completed were acquisitions of assets, while only one was a stock transaction (UWCT). In the case of the UWCT transaction, the former entity was merged and consolidated into AWC-CT to help further streamline operations.

The Company does not perceive that there are any limits in the level of acquisitions to be pursued in terms of size and type of systems being acquired and the overall aggregate level of acquisition activity, as long as the appropriate supportive regulatory policies remain in effect. These policies include recovery of any acquisition premium in rates and an upward rate of return adjustment (premium) to Companies that demonstrate that they have consolidated small water systems in a manner consistent with PURA and DPH policies.

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Q) EN-9: Please comment on how the ratemaking polices approved by the general assembly in Public Act 13-78 may influence the number, type and pace with your company's efforts to combine operations with small community water systems serving populations of 1,000 or less in comparison to your previous efforts to acquire systems of this nature.

A) EN-9: Public Act 13-78 demonstrates the state of Connecticut's support for and encouragement of the acquisition of small water companies by larger more efficient and financially capable companies.

For example, by including in WICA the cost of reasonable and necessary system improvements required for a water system acquisition, the state is permitting more timely recovery of investments needed to bring many of these smaller systems into compliance with current public health and safety standards. Aquarion would be less willing to acquire these smaller systems, particularly non-viable systems, absent timely recovery of needed investment to bring these systems up to current standards.

By codifying PURA's practice of allowing the recovery of reasonable acquisition premiums the legislature has recognized that such premiums are often necessary in order to facilitate the acquisition of such systems. Absent acquisition premiums, which is the difference between an agreed upon sales price and the depreciated book value of the acquired system's assets, many owners of small water systems would be unwilling to sell their systems, and absent the ability to recover such acquisition premiums, Aquarion would not be willing to acquire many of these systems.

Similarly, by providing for a premium rate of return to water companies that acquire non-viable systems, the state is encouraging the large more viable systems to acquire these smaller non-viable systems, which will provide benefits to customers and enhance system viability. Moreover, such premium rates of return recognize the risks inherent in acquiring non-viable systems, for example, in terms of taking on problems that might not be readily apparent because the assets acquired are primarily underground and not capable of easy detection. As such, a premium rate of return is a key incentive to Aquarion's continued acquisition of troubled systems.

Aquarion suggests that continued regulatory and legislative support is needed to foster continued beneficial consolidation in the industry. In particular, Aquarion suggests that actions be taken to streamline the permitting and hearing process associated with such acquisitions. The Company submits that there is no need for a number of permits and hearings, which are costly and time consuming, for every acquisition. Rather, PURA and DPH should be given the discretion to waive certain permits and hearing procedures.

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These current and suggested legislative incentives will allow Aquarion to continue its acquisition policy. Absent such incentives, Aquarion would be less willing to purchase these small, and often non-viable, systems.

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- Q) EN-10: Has your company ever sought to acquire a small community water system serving a population of 1,000 or less in Connecticut, or was it approached by a water system of that size wishing to sell but did not complete the transaction? If so, describe the reasons why the transaction was not completed.
- A) EN-10: Yes, the Company has sought and has also been approached by owner's of water systems seeking their sale, where no subsequent transactions were completed. The reasons why they were not completed include: unrealistic price expectations on the part of the sellers; systems that were in such decrepit condition that capital requirements to make betterments to the system would far outweigh revenues to be derived from the system; and water quality issues that were so severe (including radon and radium contamination) that required water treatment costs would exceed revenue requirements necessary to serve the system.

EN-1

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Witness: Terrance O'Neill

EN-1 Provide a listing of all acquisitions of community water systems located in Connecticut made by your company in the last five years. Include in your response the name of the acquired company; the location of the company; the number of connections served by the company acquired (at the time of acquisition and by customer category – residential, commercial & industrial, institutions, and government); the date of the acquisition; total population served by the acquired company; and the PURA docket number, if applicable, associated with the acquisition. Also provide the number and type of connections served by your company prior to the acquisition.

Response: The information requested is provided in Exhibit EN-1.

Acquired Company	Location	Total # of Customers	# of Residential customers	# of Public Auth. customers	Date of Acquisition	Population Served	PURA Docket #	CWC # of customers prior to acquisition		
								Total	Residential	Other
Legend Hill/Madison Schools	Madison	122	120	2	8/25/2009	415	none	87361	76245	11116
Jensen's - Killingworth (Beechwood)	Killingworth	293	293	0	2/10/2010	996	none	88534	76823	11711
Jensen's - Mansfield (Rolling Hills)	Mansfield	181	181	0	2/10/2010	615	none	88534	76823	11711
Green Springs Water Company	Madison	26	26	0	3/29/2011	88	none	89402	77274	12128
Country Manor	Hebron	24	24	0	5/23/2011	82	none	89428	77300	12128
Hawk's Nest System	Old Lyme	105	105	0	7/21/2011	357	09-12-12	89452	77324	12128
Stage Coach Farms	Durham	4	4	0	11/19/2012	14	none	90023	77966	12057

Witness: David Benoit

EN-2 For each acquisition, provide the purchase price, including transaction costs and the method by which the water company was obtained (e.g. purchase of common stock, net assets, etc.).

Response: The information requested is provided in Exhibit EN-2.

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Docket 13-08-13
Exhibit EN-2

The Connecticut Water Company
Witness: David Benoit

Acquired Company	Purchase Price*	Transaction Costs	Method Obtained
Legend Hill/Madison Schools	\$ 1	\$ 11,860 Expensed	Purchased net assets
Jensen's - Killingworth (Beechwood)	\$ 214,063	\$ 22,252 Expensed	Purchased net assets
Jensen's - Mansfield (Rolling Hills)	\$ 83,339	\$ 22,252 Expensed	Purchased net assets
Green Springs Water Company	\$ 1	\$ 4,172 Expensed	Purchased net assets
Country Manor	\$ 129,000	\$ 9,742 Expensed	Purchased net assets
Hawk's Nest System	\$ 216,130	\$ 27,560 Expensed	Purchased net assets
Stage Coach Farms	\$ 1	\$ - Expensed	Purchased net assets

* excludes transaction costs in the next column that were expensed for all the acquisitions listed

Witness: David Benoit

EN-3 For each acquisition, where possible, please provide a comparison of the purchase price with the net book value of the company acquired. Describe how the difference between these two values was treated for ratemaking purposes.

Response: The information requested is provided in Exhibit EN-3.

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Exhibit EN-3

The Connecticut Water Company
Witness: David Benoit

Acquired Company	Purchase Price	Original Net Book Value	Rate-making Treatment of difference
Legend Hill/Madison Schools	\$ 1	na	
Jensen's - Killingworth (Beechwood)	\$ 214,063	na	
Jensen's - Mansfield (Rolling Hills)	\$ 83,339	na	
Green Springs Water Company	\$ 1	na	
Country Manor	\$ 130,000	na	
Hawk's Nest System			
Land and wells	\$ 150,000	na	
System	66,130	\$ 66,130	No difference
	<u>\$ 216,130</u>		
Stage Coach Farms	\$ 1	na	

na - Had not been previously owned by a regulated water company

Witness: David Benoit

EN-4 For each acquisition, provide the average rate impact on your company's existing customers. Provide the rate impact on a total dollar, % increase, and per connection basis. Explain the rationale behind this impact and if the rate impact continues. Explain if the company received an enhanced rate of return, recovery of any acquisition premium, or any other enhancement in order to effectuate the acquisition. Also, explain and quantify whether the rate impact associated with the acquisition was applied equally to each type of customer group (e.g. residential, commercial).

Response: The rate impact of each acquisition is provided in Exhibit EN-4.

The Company did not receive any of the following:

- Enhanced rate of return
- Recovery of Acquisition Premium
- Any other enhancement in order to effectuate the acquisition

Only the costs associated with Legend Hill were fully recovered in the Company's last rate case. The rate impact of the acquisition was applied equally on a percentage basis to all customer classes.

Acquired Company	Rate Base Acq Cost + post acq	Aquired Company							Rate Impact on existing Customers	
		Annual Rate Impact							On Approved	Per Authorized
		Revenues	O & M Exp	Dep 1.64%	Prop Tax 2.1%	Cap Costs 7.32%	Tax GU 2.91%	Net Rate Impact (increase)	Docket 09-12-11 Revenues \$ 71,150,683 (rate increase)	Docket 09-12-11 Customer 88,500 (rate Increase)
Legend Hill/Madison Schools	\$ 544,747	\$ 38,306	\$ 9,500	\$ 8,934	\$ 11,440	\$ 39,875	\$ 15,852	\$ (47,295)	-0.07%	\$ (0.53)
Jensen's - Killingworth (Beechwood)	\$ 520,277	105,453	9,400	8,533	10,926	38,084	15,140	23,370	0.03%	0.26
Jensen's - Mansfield (Rolling Hills)	\$ 124,676	65,051	17,000	2,045	2,618	9,126	3,628	30,634	0.04%	0.35
Green Springs Water Company	\$ 52,537	13,079	3,400	862	1,103	3,846	1,529	2,339	0.00%	0.03
Country Manor	\$ 159,586	9,113	1,000	2,617	3,351	11,682	4,644	(14,181)	-0.02%	(0.16)
Hawk's Nest System	\$ 457,039	28,955	2,700	7,495	9,598	33,455	13,300	(37,593)	-0.05%	(0.42)
Stage Coach Farms	\$ 3,093	1,187	200	51	65	226	90	555	0.00%	0.01
								<u>\$ (42,171)</u>	-0.06%	<u>\$ (0.48)</u>

Witness: Terrance O'Neill

EN-5 Provide a description of the history of each acquisition, including what party(ies) initiated the acquisition, the reasons why your company purchased the water company, and if known, the reason why the water company decided to sell.

Response: The information requested is provided in Exhibit EN-5.

Acquired Company	Location	Initiating Party	Reason CWC Purchased	Reason Water Company Sold
Legend Hill/Madison Schools	Madison	CWC	Located within CWC ESA; requiring treatment for uranium removal	Did not possess managerial, technical and financial expertise
Jensen's - Killingworth (Beechwood)	Killingworth	Town of Killingworth	Located within CWC ESA; requiring treatment for uranium removal	Did not possess managerial, technical and financial expertise
Jensen's - Mansfield (Rolling Hills)	Mansfield	Jensen's	Part of Jensens Killingworth transaction	Did not possess managerial, technical and financial expertise
Green Springs Water Company	Madison	Green Springs	Located within CWC ESA	Did not possess managerial, technical and financial expertise
Country Manor	Hebron	CWC	Purchased to gain access to existing 50gpm well on parcel adjacent to CWC Hebron Center System	Did not possess managerial, technical and financial expertise
Hawk's Nest System	Old Lyme	CWC	Water supply to supplement CWC Soundview System during peak demand	Did not possess managerial, technical and financial expertise
Stage Coach Farms	Durham	Stage Coach Farms	System acquired via Certificate of Convenience and Necessity regulatory process	Did not possess managerial, technical and financial expertise

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Witness: David Benoit

EN-6 For each acquisition, describe if, or to what extent, your company has maintained or continues to maintain unique rates or surcharges for customers of the acquired company. Describe the rationale for the differing rates and if there are plans to equalize those rates with the rates of your company's other customers.

Response: All the customers of the acquired systems have been moved to previously authorized CWC rates. No unique rates or surcharges were implemented due to any of these acquisitions.

Witness: Terrance O'Neill

EN-7 For each acquired company, provide the amount of post-acquisition investments made for needed improvements. Describe the ratemaking treatment for these post-acquisition investments.

Response: The information requested is provided in Exhibit EN-7.

Acquired Company	Rehabilitation Costs	Rate-making Treatment
Legend Hill/Madison Schools	\$ 544,746	Is in rate base (Docket 09-12-11)
Jensen's - Killingworth (Beechwood)	\$ 306,214	Will record as rate base in next rate case
Jensen's - Mansfield (Rolling Hills)	\$ 41,337	Will record as rate base in next rate case
Green Springs Water Company	\$ 52,536	Will record as rate base in next rate case
Country Manor	\$ 29,586	Will record as rate base in next rate case
Hawk's Nest System	\$ 240,909	Will record as rate base in next rate case
Stage Coach Farms	\$ 3,092	Will record as rate base in next rate case

Witness: Maureen Westbrook

EN-8 Describe your company's current policies, goals, and organizational structure associated with the acquisition of small community water systems in Connecticut serving populations of 1,000 or less. Please describe whether there are perceived limits in the level of acquisitions to be pursued in terms of size and type of systems being acquired and the overall aggregate level of acquisition activity.

Response: Connecticut Water supports the acquisition of small water systems in Connecticut, in part because it provides an opportunity for growth for our company, but more so because we believe the customers and communities served by many of these small systems can be better served by having a larger company with financial, managerial and technical expertise owning those systems. As one of the state's largest water utilities, with a long history of service and regulatory compliance, we have a sense of responsibility to ensure that the water supply needs of residents of Connecticut are met.

Connecticut Water's footprint extends to 56 towns and we welcome the opportunity to acquire small systems, particularly those that are nearby in communities we serve that may be integrated with our existing operations or at least more efficiently operated by our existing staff. We have people throughout the company involved in local communities, in contact with local elected officials and public health staff, who help identify systems that may be in need and/or appropriate for acquisition. We are able to rely on our local operations staff to run those systems and, where possible, we would interconnect those systems with our existing system to provide access to supply and greater operational reliability.

We do not consider ourselves to be limited by the overall aggregate level of acquisition activity. While there are a number of state policies and statutes that recognize and seek to address the challenges faced by these small systems, we may be discouraged from pursuing acquisitions of these small systems because of the complexity of the approval process and the significant capital needs for these systems that may not be supported by the customer base and revenues from the system. Having ratemaking processes that support this is critical, and the steps taken in PA 13-78 were significant to encourage these acquisitions.

We would caution against creating state programs that would direct additional grants or other funds to these small systems if they do not have the key technical and managerial skills to support the operations long term. Fixing a portion of the problem without assessing their overall capabilities will only mask the problem and the customers may be better served if the system is acquired.

Costs for system improvements in these acquisitions can be compounded by the fact that these systems are often not always subject to the same level of enforcement or regulatory compliance when operated independently as when acquired by a larger company. The acquiring entity is often cited for violations and expected to make immediate improvements to correct violations that had previously gone unreported. While we fully support improvements that are necessary to ensure a safe, adequate water quality, there are some items identified under these orders that may not require such immediate action.

Interconnecting these acquired systems to our operations is often the most practical long term solution, but there are limitations in regulatory programs, state policies or funding mechanisms that can impede implementation of such a strong long term solution.

For example, when an acquired system has an existing source which is under the threshold of 50,000 gallons per day so would not otherwise require a diversion permit, if the acquiring company chose to interconnect that system to an existing system that required a diversion permit, the company would now need to seek a diversion permit for the source of supply that was already in use by the small system. The time and expense of securing such a permit is an added burden.

The costs for a main extension to interconnect to an acquired system which may have quality or supply issues is often greater than what may otherwise be considered a 'reasonable' investment on a per customer basis. Though the statute allows for a surcharge to be imposed on the customers of an acquired company for system improvements, as a practical matter that has rarely been done, and the costs are typically distributed amongst the larger customer base. The ability to now use WICA to recover the costs for system improvements will mitigate the timing issues there, but expands the recovery beyond those customers served. It will be important that rate decisions for individual companies reflect these policies and allow for the timely recovery of the investments in rates without precluding other important capital investments of the company.

If state funding is involved for main extensions, the sizing of the pipe to interconnect the system may be limited to only what is required to serve the existing affected population, without allowing for capacity to meet future growth or even fire protection needs.

Finally, we are seeing a growing number of circumstances where there are areas in a community which are served by private wells that lack adequate quantity or quality to meet public health and safety standards but may not fall under DEEP programs for contaminated wells. Finding a solution for these residents is much like acquiring a small system, where we must decide what level of investment is appropriate to provide water for a relatively small number of customers and how best to get recovery for those costs. A surcharge on those customers alone may be cost prohibitive, but some mechanism should be considered to assist in these situations.

Witness: Maureen Westbrook

EN-9 Please comment on how the ratemaking policies approved by the general assembly in Public Act 13-78 may influence the number, type and pace with your company's efforts to combine operations with small community water systems serving populations of 1,000 or less in comparison to your previous efforts to acquire systems of this nature.

Response: We were encouraged by the ratemaking policies adopted in PA 13-78 as they support plans for acquisition of small systems. The ability to recover an acquisition premium and an incentive ROE for purchasing troubled systems, supports the financial case for such acquisitions. Further, allowing for the recovery of improvements for these acquired systems through WICA reduces the delays that would otherwise have occurred if the expenses were not allowed until the next general rate case.

It will be important that rate decisions for individual companies reflect these policies and allow for the timely recovery in rates of the necessary investments without precluding other important capital investments of the company.

We will continue to evaluate each situation and determine the system needs, how we can best serve those customers, if an interconnection is appropriate, and whether the costs that will be incurred to acquire and improve these small systems are reasonable and appropriate to include in customers' rates.

We are eager to work with regulators to solve the issues of small water system and to continue to work collaboratively on legislative or regulatory tools that support these efforts.

Witness: Terrance O'Neill

EN-10 Has your company ever sought to acquire a small community water system serving a population of 1,000 or less in Connecticut, or was it approached by a water system of that size wishing to sell but did not complete the transaction? If so, describe the reasons why the transaction was not completed.

Response: The information requested is provided in Exhibit EN-10.

Water System	PWSID #	Location	Initiating Party	Reason for not pursuing acquisition
Birchwood Estates	CT0790051	Marlborough	Birchwood Estates	Investigation revealed significant deficiency of source water availability. See Docket 11-05-06
Pinecrest	CT1698041	Woodstock	Pinecrest	Very small water system (40 customers) with source water arsenic above the MCL. Currently providing operations pursuant to DPUC decision.
Hill Hollow Association	CT0386051	Durham	Hill Hollow Association	Lack of adequate supply, currently proceeding with interconnection to the Town of Durham water system.
Laurel Hill Water Association	CT0790041	Marlborough	Laurel Hill	Distribution system non-compliant with construction standards and would require significant capital to reconfigure system.
West Service Corporation	CT1390021	Suffield	West Service Corporation	Unrealistically high proposal with regard to selling offer.
Topstone Hydraulics	Multiple	Multiple	Topstone Hydraulics	Geographic locations significantly outside of our current operations areas.
Ron Black's Systems	Multiple	Multiple	Ron Black	Geographic locations significantly outside of our current operations areas.