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Subject: Interesting find... Aquarion Water builds back better with new tri-state acquisition - Global Water Intelligence
Date: Thursday, October 21, 2021 8:05:50 PM

Here is the article I found with comments from Aquarion Water Company on the acquisition. The link is here but to read easily I have extracted it below.

<https://www.globalwaterintel.com/global-water-intelligence-magazine/22/5/general/aquarion-water-builds-back-better-with-new-tri-state-acquisition>

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Aquarion Water builds back better with new tri-state acquisition

The water arm of power giant Eversource Energy had the heart cut out of its Massachusetts rate base last year. CEO Don Morrissey tells GWI how it is rebuilding its portfolio, starting with its largest acquisition since 2002.

Aquarion Water Company has teed up its biggest acquisition in nearly 20 years after agreeing to acquire Pink Sheets-traded New England Service Company, which serves around 10,000 customer end-points in Connecticut, New Hampshire and Massachusetts. NESC's regulated footprint is about as close a match for Aquarion's as it gets, and the deal offers compelling evidence that Aquarion's parent, NYSE-listed Eversource Energy, remains committed to growing its water arm.

When Eversource lost the very public battle to acquire Connecticut Water in 2018, there was speculation that a lack of other meaningful acquisition targets in its New England stronghold might mean its water subsidiary was destined to languish as an unloved minnow. The \$110 million remunicipalisation of the water system in Hingham (MA) last year compounded frustration at the group level by leaving a gaping hole in Aquarion's rate

base.

“Last July, we parted with 13,000 customers in the Hingham-Hull-Cohasset area. The question now is: how do we recoup what we lost last year, and go about growing this business to bring it to a new level? New England Service Company is a terrific fit for us, and it does a nice job in getting us about three quarters of the way there,” Aquarion CEO Don Morrissey told GWI this month.

Aquarion has completed 25 growth acquisitions involving around 75 systems in the past ten years, although Morrissey is the first to admit that opportunities like NESC are rare. Sizeable private utilities such as Torrington Water and Jewett City Water in Connecticut are tightly held, and in order to extend beyond the 8% growth it can achieve by investing capital in its existing rate base, Aquarion has had to look elsewhere.

“The larger opportunity set is on the municipal side of things,” Morrissey observed. “Our attention is focused on systems that have critical mass, and the goal will be to do a transaction every 12 to 18 months of the size of 3,000 to 10,000 customers. If we look at the opportunity set for us just in the three states that we operate in, there’s a significant opportunity there, and we’re knocking on doors.”

Morrissey does not view the historical reluctance of the Connecticut Public Utilities Regulatory Authority (PURA) to adopt fair market value legislation as a significant headwind to acquisitive growth in the state.

“We tried a couple of times to get fair value legislation here in Connecticut. I think it would still be a relatively difficult climb, and the fundamental question becomes to what extent is it a requisite for growth. It’s certainly nice to have, but I don’t believe it’s mandatory,” he told GWI.

PURA has in any case been preoccupied with the fallout from Hurricane Isaias last August, and earlier this month imposed a \$30 million penalty on Eversource for failing to meet its obligations to its ratepayers on the power side in the aftermath of the tropical storm.

This – and the concurrent punitive reduction in Eversource’s return on equity – causes an immediate headache for newly promoted group CEO Joe Nolan, who took over from Jim Judge the day before the civil penalty was announced, but it remains entirely independent from the group’s water business under Aquarion.

There is something of a queue right now as far as rate cases in Connecticut are concerned, with Jewett City

Water, Connecticut Water, and NESC's Valley Water subsidiary all awaiting definitive outcomes. Aquarion Water Connecticut has been out of the rate arena since 2013, and while its allowed ROE in the state stands at 9.63%, the closest indication of PURA's current thinking is the proposed final decision delivered to Jewett City Water late last month, which stipulates an ROE of 9.94%. This is, however, likely to include a premium to reflect JCWC's small size.

A significant portion of Aquarion's capital expenditure is eligible for treatment under PURA's Water Infrastructure and Conservation Adjustment mechanism, which allows for interim rate relief between formal rate cases. Aquarion has taken full advantage of this, more than doubling its annual capex spend over the last five years.

"In 2016 we were around \$62 million, and this year we'll spend about \$140 million," Morrissey confirmed. "We're going to continue to grow that to about \$200 million over the next five years, and looking over the long term, our expectation is that earnings should grow in a similar fashion."

Aquarion generated \$41.2 million of net income on revenues of \$215 million in 2020.

AQUARION'S M&A ACTIVITY UNDER EVERSOURCE

Since being taken over by Eversource Energy in 2017, Aquarion Water has been an active acquiror of municipal water systems in its three states of operation. Larger opportunities have proved more elusive.

Year	State	Vendor	Asset	Price
2021	CT/NH/MA	Privately held/OTC-traded	New England Service Company*	40,500
2021	CT	Town of Canaan	Water system	345,000
2021	NH	Wiggin Way/Winterberry Homeowners' Association	Water distribution infrastructure	-
2021	CT	Town of New Hartford	Water and wastewater systems*	8,000
2020	CT	Town of New Fairfield	Municipal water system	150,000
2020	CT	Town of	Municipal	572,000

2019	CT	Marlborough Privately held	water system Interlaken Water Company	0
2019	CT	Valleywood / Arlington Homes	Pleasure Valley / Arlington Acres water systems	166,

** Closing still requires regulatory approval*

Source: GWI WaterData

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