



STATE OF CONNECTICUT

PUBLIC UTILITIES REGULATORY AUTHORITY

Frequently Asked Questions (FAQs): PURA Orders Rate Decrease for Aquarion Water Customers

- [Final Decision](#)
- [Decision Summary Document](#)

How will PURA's Final Decision impact an average residential customer's water bill? When will this change take effect?

Compared to current rates and coupled with the WICA surcharge being reset to \$0, this Decision will decrease the average residential customer's total bill by about \$67 per year for service rendered beginning March 15, 2023.

How much water does the average household use?

The average household uses approximately 7,000 gallons of water per month, or roughly 9.4 hundred cubic feet (CCF).

See [this sample Aquarion water bill](#) to better understand usage and meter readings.

How is the tiered rate design approved in this Decision going to impact my residential service? Why do Aquarion's rates vary throughout its service territory?

The Decision authorizes a new three-tier pricing structure for Aquarion residential single-family customers in all but three of its divisions. The new pricing structure is designed to encourage conservation by sending appropriate pricing signals to higher-volume users. Based on an historical usage analysis, Tier 1 will capture approximately 76% of customer bills, Tier 2 will capture approximately 17% of bills, and Tier 3 will affect approximately 7% of bills.

| Tier: | Monthly Consumption Hundred Cubic feet (CCF) = 748 gallons | Rate |
|--------|--|-----------------------------|
| Tier 1 | First 9 CCF | Initial Consumption Rate |
| Tier 2 | Over 9 CCF, up to 20 CCF | 20% higher than Tier 1 Rate |
| Tier 3 | Over 20 CCF | 20% higher than Tier 2 Rate |

Why do Aquarion's rates vary throughout its service territory?

Residential rates vary across Aquarion's Connecticut service territory because some rates are associated with legacy systems that were only recently acquired by Aquarion. This Decision attempts, where possible, to equalize rates across all of Aquarion's service territory in Connecticut.

The three divisions excluded from the tiered rate design approved in this Decision are Eastern Division (Tyler Indian Spring & Clearview), Northern Division, and Valley Water Division.

How does PURA make its determination on the appropriate rates?

PURA is charged with reviewing any distribution rate application filed by a regulated electric, gas, or water utility. Specifically, PURA's statutory obligation is to determine whether the requested rates are sufficient but not in excess of the amount the company needs to cover the costs of providing safe, adequate, and reliable service in its defined geographic territory. Conn. Gen. Stat. §§ 16-19(a) and 16-19e. Moreover, operating expenses must "reflect prudent and efficient management of the franchise operation." Conn. Gen. Stat. § 16-19e(a)(5). Therefore, only those expenses that are reasonable and necessary to provide service to the public may be included as an allowable expense.

The statutory prerogative to establish just, reasonable, and sufficient utility rates is based upon principles established in two landmark United States Supreme Court cases, as recognized by the Connecticut Supreme Court.

See the Standard of Review section of the Final Decision for more information.

Did PURA deny any Operations and Maintenance Expenses for recovery in rates?

Yes; the Decision declined to incorporate certain operating expenses, equating to an annual revenue requirement reduction of over \$10.7 million that Aquarion sought to recover through customer rates. PURA determined that Aquarion did not satisfy its evidentiary burden and that these expenses were not demonstrated to benefit ratepayers. These costs include, but are not limited to, Aquarion's share of costs linked to its 2017 merger with Eversource (\$4.9 million); outside legal costs related to this rate case (\$390,000); industry and non-industry membership dues (\$300,712); charitable donations (\$81,491); and entertainment expenses (\$37,812), among others.

Did Aquarion request to further increase the company's revenue requirement during the rate case?

Yes. In August 2022, Aquarion initially requested a revenue requirement increase of \$27,497,828, for total revenues of \$225,750,412. The company later supplemented its initial application, bringing its total requested revenue requirement to \$236 million.

Are water companies allowed to recoup investments for infrastructure outside of a rate case?

Yes. The Connecticut General Assembly has established the Water Infrastructure and Conservation Adjustment (WICA), which "provides an opportunity for recovery of a portion of capital investment in between rate cases." Specifically, under WICA, water companies are permitted to increase revenues to contemporaneously recover the costs of an expansive range of eligible capital projects.

By law, WICA allows water companies to invest up to 10% of their approved revenue requirement between rate cases, and up to 5% in a given year. Each rate case resets this cap, meaning Aquarion may seek recovery for additional eligible water infrastructure investments made between the date of this Decision and the next rate case equivalent to 10% of the approved revenue requirement of \$195.5 million.

How many people are served by Aquarion Water Company in Connecticut?

Aquarion serves approximately 207,000 customers in 56 town and cities. See [Aquarion's Service Territory Map](#).

How much of my water bill goes toward paying executives of Eversource and Aquarion?

In this proceeding, Aquarion requested recovery of \$410,676 in Eversource executive compensation in base rates, which would have resulted in an impact to an average household of \$1.44 per year. The company also requested recovery of \$2,045,996 for Aquarion officer compensation in base rates, which would have resulted in an impact to an average household of \$2.07 per year.

Instead of authorizing the compensation as requested, the Decision states that PURA finds it is necessary and appropriate to connect the recovery of Eversource and Aquarion officer compensation to the achievement of certain affordability metrics. If these metrics are not achieved on an annual basis, Aquarion customers would pay \$0 toward Eversource executive compensation and would see the compensation paid toward Aquarion officers reduced by 10% per year.

How did the Authority determine that the company's allowed return on equity

(ROE) of 8.70% is appropriate? How much ROE was the company seeking? What is a typical ROE range?

U.S. Supreme Court precedent requires that a regulated utility receive an opportunity to recover prudent operating expenses as well as capital costs, including a fair and reasonable rate of return on capital investments.

The Authority examined several factors during this proceeding in determining a just and reasonable ROE, including current economic and market conditions, analytical models and cost of equity capital methodologies, such as the Discounted Cash Flow (DCF) Model and the Capital Asset Pricing Model (CAPM), ROEs of similar companies in other jurisdictions, and the company's financial risk and credit rating. In reviewing these factors, the Authority made determinations regarding each method's input components and reviewed variations of the models. Additionally, other relevant factors were analyzed in the process of evaluating and applying the cost of equity models.

The Authority found an 8.70% ROE to be consistent with these cost of equity methodologies and factors. The company was seeking a 10.35% ROE, which included a 0.25% acquisition adder and a 0.07% flotation cost adjustment.

For more information on the topic generally, visit: [YouTube: Learn more about an investor-owned utilities' allowed rate on return.](#)

Eversource acquired Aquarion in 2017. Did this rate case determine whether Eversource's acquisition of Aquarion achieved net savings for ratepayers?

In the 2017 Merger Decision, PURA stated that Eversource will only recover transaction costs to the extent savings from the merger exceed costs as adjudicated in a future rate case proceeding. Because Aquarion sought recovery of the merger transaction costs in this proceeding, the Authority reviewed the request, finding that Aquarion failed to substantiate its proposal to recover \$4.9 million in merger costs, primarily due to the company's failure to provide evidence demonstrating savings as a result of the merger.

Conversely, the Authority did find that the record supported a conclusion that the merger benefitted Aquarion, Eversource, and their shareholders, not the Aquarion ratepayers. Specifically, PURA finds that savings accrued to the company by virtue of the merger and likely increased the earnings of Aquarion, which is a benefit to the Aquarion shareholders, not its ratepayers.