

AQUA AMERICA: A Corporate Profile

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Aqua America is the second largest publicly traded U.S. water utility company, serving nearly 3 million people in eight states.¹ For more than 100 years, Aqua America operated almost exclusively in the suburbs of Philadelphia, where it was founded in 1886. In 1968, a holding company was formed, and in the early 1990s the company began an aggressive growth-by-acquisition strategy. In 2004, the parent corporation, still based in Bryn Mawr, Pa., changed its name from Philadelphia Suburban Corp. to Aqua America to announce its arrival on the national stage.² To date, the company's operations remain concentrated in Pennsylvania, with about half of its customers and more than half of its revenues coming from the state.³

Strategy

Aqua America focuses on buying water systems and hiking water prices. It typically purchases small water and sewer systems in areas near its existing network.⁴ In addition to owning systems, the company operates a handful of local government-owned systems, but it uses those deals as a way to build its reputation and to get a foot in the door on a possible acquisition of the systems.⁵

After taking over and building out its systems, the company seeks to increase water rates.⁶ The ability to hike consumer bills is the key to its earnings.⁷ On top of regular rate increases, the company pursues state approval to implement distribution system improvement charges to increase revenue and speed up returns.⁸

This surcharge, which CEO Nicholas DeBenedictis through his political connections was instrumental in first establishing in Pennsylvania, allows the company to increase customer bills without full public scrutiny.⁹ Six states where Aqua America operates allow this surcharge,¹⁰ and the company is exploring how to get the charge authorized in its other two states: Texas and Virginia.¹¹ The company plans for most of its investments to be recoverable through the surcharges.¹²

In 2010, after nearly two decades of rapid expansion through acquisitions, Aqua America began pruning its operations to winnow out state operations with lower earnings potential, including where regulators forbade certain increases to rates.¹³ Since then, the company has cut its state presence by more than 40 percent, exiting six states to focus on its remaining eight.¹⁴

Aqua America continues to expand in the energy-rich states of Pennsylvania, Ohio and Texas, and the company actively seeks to sell water to the oil and gas industry.¹⁵ In 2011, it entered into a major joint venture pipeline project to transport millions of gallons of water from the Susquehanna River to hydraulic fracturing (fracking) sites in Pennsylvania.¹⁶ “Pennsylvania is booming with gas drilling,” DeBenedictis told *Bloomberg News* in October 2013. “And we’re the largest supplier for the gas industry for water.”¹⁷

Aqua America’s joint venture, however, has proved less profitable than expected. In 2013, a year after the company evicted low-income families from their mobile home community to build the pumping station for the pipeline,¹⁸ it booked a net loss on the project, citing a slowdown in drilling.¹⁹

Assessment

After rapid growth in the late 1990s and early 2000s, Aqua America has seemingly flatlined, with lackluster expansions and strong public resistance to its rate hike plans. For example, public opposition has apparently scared the company out of New York and Florida, where it sold its operations in the face of municipalization efforts and strong public scrutiny of its rates and service.²⁰ Organized communities have a real chance to win local public control of their water resources and to purchase their systems from the company.

A Major Public Victory in Florida

In 2013, after a dynamic campaign by FLOW Florida, Aqua America pulled out of the state of Florida, selling its systems to the Florida Governmental Utility Authority and other entities.

Aqua Utilities Florida, a subsidiary of Aqua America, had been the largest private water utility in Florida,²⁵ serving drinking water to about 60,000 people statewide in 2012.²⁶ Many customers were deeply dissatisfied with the company and reported chronic water quality and customer service problems,²⁷ and these customers paid some of the highest water rates in the state.²⁸

- **Aqua Utilities charged twice as much as comparable publicly owned utilities.** For a typical household within a county, using 5,000 gallons a month, Aqua Utilities charged 105 percent more than comparable publicly owned utilities, which adds up to an extra \$255 a year.²⁹
- **Aqua Utilities had serious water quality problems.** From 2007 to 2011, the company violated drinking water quality regulations 76 times and wastewater regulations 39 times.³⁰ Many of the company’s customers complained that the company’s water was smelly, discolored, contaminated and undrinkable.³¹

“Try to remember that the shareholder is the boss. If you are doing something that isn’t going to benefit the shareholders on a year-to-year basis, you shouldn’t do it just to get bigger. You really have to come to the bottom line.”

—**Nicholas DeBenedictis, Chairman, President and CEO of Aqua America**²¹

Key Financial Figures (2013)

Aqua America

Headquarters: Bryn Mawr, Pennsylvania

CEO: Nicholas DeBenedictis

Total Compensation: \$3.2 million²²

Revenues: \$769 million²³

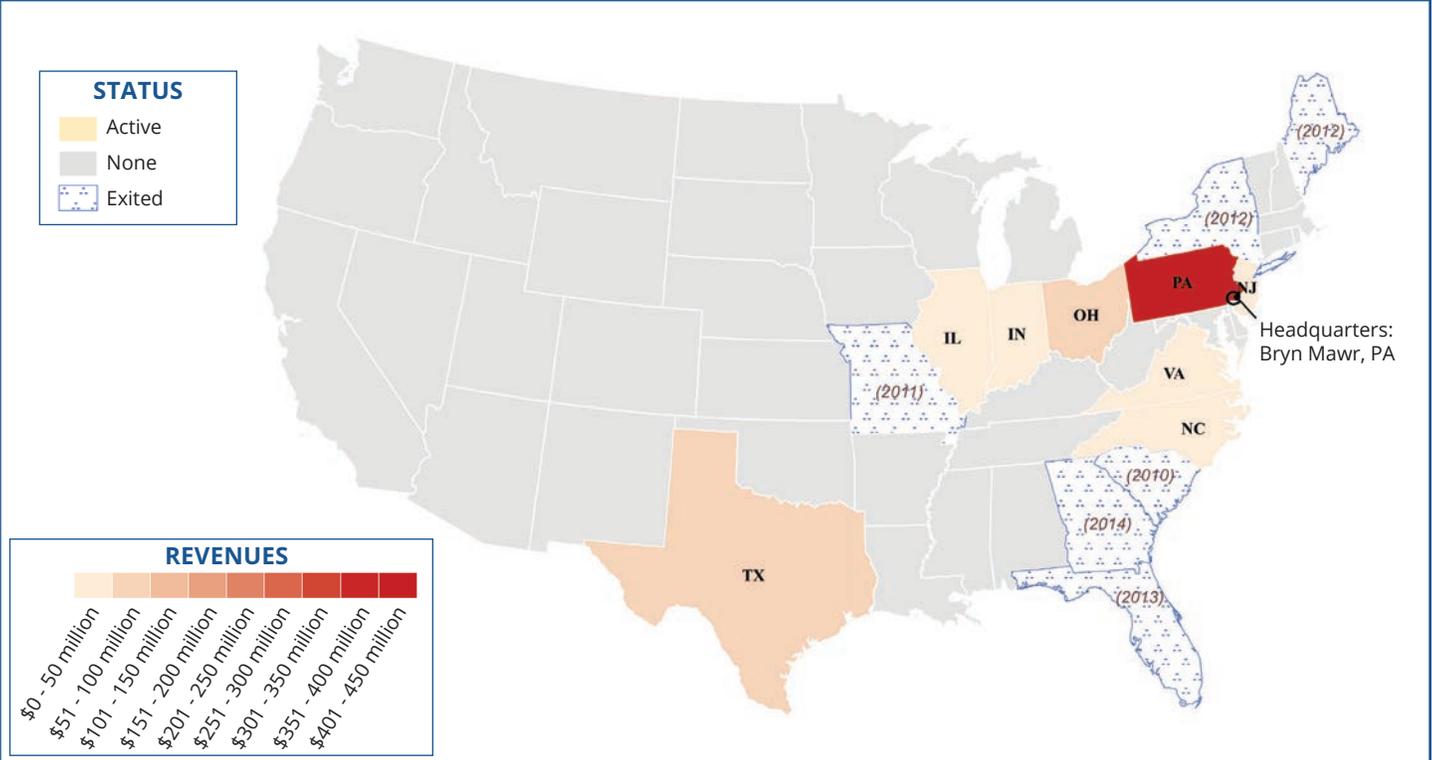
Profit: \$221 million²⁴

- **Aqua Utilities had the most customer complaints.** From 2007 to 2011, the state Public Service Commission received 767 customer complaints about Aqua Utilities.³² In 2011, the company was responsible for more than 40 percent of all water and sewer complaints filed with the commission, and it received seven times more complaints than the regulated water utility with the next highest number.³³

Because of these major issues, a coalition of community groups from 19 counties came together and formed FLOW Florida in early 2010. They encouraged residents to contact their elected officials and attend state regulatory hearings to speak out against the company’s rate increases and services.³⁴ The community organizing paid off.

In early 2012, in response to his constituents’ ongoing problems with Aqua Utilities, state senator Alan Hays (R-Umatilla) introduced a bill, in his words, “to stop utility companies and the Public Service Commission from ripping off consumers.”³⁵ In the final minutes of the state’s 2012 legislative session, the legislature unanimously passed an amended version of the bill that created a study committee on investor-owned water utilities. It was the first step toward changing state laws to best protect consumers from poor-performing and high-cost private water utilities.³⁶ Around this time, in February 2012, the state Public Service Commission cut the company’s authorized return on equity because of its “marginal” service quality.³⁷

Aqua America's Presence



SOURCE: Aqua America. U.S. Securities and Exchange Commission. Form 10-K. March 3, 2014 at 4 to 5.

In September 2012, after years of what it considered inadequate profit in the state,³⁸ Aqua America announced its plans to exit Florida, offering to sell its operations to the Florida Governmental Utility Authority.³⁹ By the end of 2013, it had finalized the sale of every one of its water and sewer systems in the state.⁴⁰

Improvements Underway in Fort Wayne, Indiana

In response to concerns of its residents, the city of Fort Wayne, Ind., has acted to take public control of Aqua Indiana's water systems in and around the city. Aqua Indiana, a subsidiary of Aqua America, owned systems in the northern and southwest part of Fort Wayne.

Fort Wayne took over the operation of the northern water and sewer system from Aqua Indiana in 2008,⁴¹ after winning a lengthy battle over the city's right to condemn that went all the way to the state supreme court.⁴² The transfer received huge support across northern Ft. Wayne, where poor service had plagued Aqua Indiana's customers. Those customers were grateful to receive less-expensive, higher-quality city water.⁴³ "I drink more tap water than I used to," Linda Henrie of the Eagle Lake neighborhood told the *Journal Gazette* in 2009. "It tastes better."⁴⁴

It took more than five years, however, to finalize a purchase agreement because the company also sued over the purchase price.⁴⁵ Aqua America's DeBenedictis has admitted that the company generally is "looking at every penny on the way out of the door" when it sells assets.⁴⁶

Because of the uncertainty over the price of the northern system, the city delayed pursuing a purchase of the company's other water system serving the southwestern part of the city, even as those residents clamored for public service.⁴⁷ "It's just pathetic," resident Jeanine Recht said when describing Aqua Indiana's customer service to the *Journal Gazette* in 2010. "The service is nonexistent, and the water quality is fair to poor."⁴⁸

A drought during the summer of 2012 served as a game changer. Aqua Indiana was unable to meet the water needs of more than a thousand of its customers, forcing it to connect to the city's water system. This precipitated talks between the city and the company about transferring the southwestern system to city ownership.⁴⁹

In July 2013, Fort Wayne and Aqua Indiana announced that they had reached a deal to resolve all outstanding disputes. The city agreed to pay a total of \$67 million for the northern water and sewer system and the southwestern water system. The company will retain the southwestern wastewater system for at least the next five years.⁵⁰

Increases in Annual Water Bills Under Aqua Pennsylvania For Households Using 54,000 Gallons of Water a Year, as of January 2014

Municipality	Sale Year	Annual Water Bill			Total Increase Since Privatization		Total Percent Increase Since Privatization		Compound Annual Percent Increase
		Before Privatization		After	Not inflation adjusted	Inflation adjusted	Not inflation adjusted	Inflation adjusted	
		Not inflation adjusted (nominal dollars)	Inflation adjusted (Jan. 2014 dollars) ⁶¹	Jan. 2014					
<i>Bensalem Township</i>	1999 ⁶²	\$105 ⁶³	\$147	\$667 ⁶⁴	\$562	\$520	537%	354%	13%
<i>Bristol Borough Authority</i>	1996 ⁶⁵	\$120 ⁶⁶	\$178	\$720 ⁶⁷	\$601	\$542	503%	304%	10%
<i>Media Borough</i>	1995 ⁶⁸	\$181 ⁶⁹	\$278	\$720 ⁷⁰	\$539	\$442	297%	159%	8%
<i>West Chester Area Municipal Authority</i>	1998 ⁷¹	\$205 ⁷²	\$294	\$720 ⁷³	\$515	\$426	251%	145%	8%
Average		\$153	\$224	\$707	\$554	\$483	397%	240%	10%

The city planned to provide better water, improve service and rejuvenate the systems — all at a lower price. What’s more, the city will implement long-term and locally accountable rate control to help ensure that prices are affordable for its residents. Although it sounds like a great feat, the city can accomplish its goals because it does not have to turn a profit.⁵¹

Public ownership will cut the typical southwestern city household’s water bill by more than 30 percent. Once Fort Wayne takes over, a typical resident using 5,000 gallons a month will save \$129 a year on water service.⁵² Former Aqua customers will also save another \$120 to \$240 a year on home treatment because the city water is pre-softened and is less likely to damage appliances.⁵³

Aqua Indiana expected to finalize the sale by the end of 2014,⁵⁴ and the city planned to begin transferring the southwestern customers to the city utility during the fall of 2014.⁵⁵ Ft. Wayne Mayor Tom Henry explained why he pursued local public control of the water systems: “A commitment to reliable and high quality water at an affordable price for all residents is critical as we position ourselves as a leader in quality of life, economic development, and job growth.”⁵⁶

High Rates in Pennsylvania

Aqua America through its subsidiary has bought more than a dozen small municipal water systems in Pennsylvania since 1990.⁵⁷ After buying a water system, the company increases the rates of its new customers over time up to the level it charges in its main service division. At the same time, it hikes the rates of its main division, so the new purchases need even steeper increases to be equalized.⁵⁸

As of January 2014, in the four largest of these privatized water systems,⁵⁹ typical households were paying nearly five times as much for water service on average as they paid before Aqua took over their systems. After accounting for inflation, typical residential bills have increased by an average of 240 percent or \$483 a year (see table). That is an average increase of 10 percent a year.

Aqua Pennsylvania has not increased its water rates since 2012 because of a deal it negotiated with state regulators to reduce its federal income taxes. Aqua America anticipates increasing its Pennsylvania rates again in 2015.⁶⁰

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