Chester Water Authority
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September 24, 2021

<u>VIA EMAIL</u>
Mayor Thaddeus Kirkland
City of Chester
c/o Ken Schuster, Esquire
Schuster Law
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Media, PA 19063
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RE: **<u>The DCED plans to make Chester City residents and businesses into a permanent source of cash for Canadian Retirees.</u>**

Dear Mayor Kirkland:

I am writing as a follow up to my "one mayor to another" August 19 letter to you so you can alert City residents and businesses about the Pennsylvania Department of Community and Economic Development's ("DCED") plan to **permanently increase City water rates** to provide a secure source of funding for a Canadian Pension Plan. I cannot understand why our State government is trying to protect Canadian Citizens by increasing what City residents pay for water? Why indeed? Here are some facts that need to be made public. CWA will make the public aware and you should also.

Our data shows that if the Receiver and Aqua/Essential force a sale of the CWA to benefit Aqua/Essential's second largest shareholder, the Canadian Public Pension Investment Board, many Chester residents will no longer be able to afford their water bill.

Over the last four years, there has been a coordinated effort by the DCED and Aqua Pennsylvania to force a sale of the Chester Water Authority over the resistance of the CWA Board. While that debate has been ongoing, Aqua has consistently misled you and the public about the adverse impact an acquisition will have on residents and businesses in the City of Chester, and who the real beneficiaries of a forced sale of the CWA will be. Several things have become abundantly clear from information recently gleaned from the documents obtained from the City's DCED controlled economic advisors and their lawyers, as well as Aqua's regulatory filings:

- The biggest beneficiaries of a forced sale of the CWA to Aqua/Essential are Aqua/Essential shareholders, the second largest of which is a ***Canadian retiree pension fund***.
- City residents and other CWA ratepayers will be the source of funds for the dividends to shareholders like the Canadian pension fund. Aqua itself made this clear in touting this major investment from a foreign investor, stating that the investment "marks an important step in obtaining permanent financing for Aqua's pending acquisition of Peoples Natural Gas".[1] See March 29, 2019 Aqua America press release announcing $750 million investment by the Canadian pension fund attached as Exhibit "A".
- As Aqua's / Essential's rates increase due to the legally mandated policy of "gradualism", the ***rates will be unaffordable under federal standards for over 60% of the City's residents***.

Ultimately, the fiscal health of residents, businesses, and the City itself depends on fostering long-term economic growth in the City. A forced sale of CWA to Aqua would hinder or stop that growth and make it infinitely harder for the City, its residents, and its businesses to prosper economically. Why is the DCED helping Canadian residents and hurting Pennsylvania residents and businesses by planning to allow Aqua to permanently extract cash from CWA customers in the City and Delaware and Chester Counties?

A. Aqua/Essential Exists to Benefit Its Shareholders, like its Second Largest, the Canadian Retiree's Pension Fund

For its part, Aqua is certainly good at maximizing shareholder profits. For example, Aqua's second largest shareholder is a Canadian pension fund, the Canada Pension Plan Investment Board (CPPIB). The fund bought about 21 million shares of Aqua's stock in March 2020. Since then, Aqua's stock price has skyrocketed up nearly 30% per year on an annualized basis. In addition, Aqua pays a handsome quarterly dividend to its shareholders. ***The Canadian pension fund alone has received over $32 million in dividends in less than two years.*** This is money funneled from the pockets of Aqua's ratepayers into the pockets of its investors. If Aqua acquires CWA, this is money that will be extracted from City residents and business and other CWA customers.

Aqua has been very good to its Canadian shareholder. On March 16, 2020, the Canadian Pension Plan Investment Board purchased 21,661,095 shares of the common stock of Aqua's parent company, Essential Utilities. The purchase price was $750 million, or $34.62 per share.

On September 7, 2021, Essential's common stock closed at $48.99 per share.

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[1] Aqua's acquisition of this gas company is what led it to change its formal corporate name to Essential Utilities.

That means that since CPPIB's purchase, the stock has gone up in value by 28% per year on an annualized basis.

Essential also pays a handsome quarterly dividend to its shareholders. The dividends CPPIB has received are as follows:

Date	**$/share**
5/15/2020	0.234
8/14/2020	0.251
11/13/2020	0.251
2/12/2021	0.251
5/14/2021	0.251
8/13/2021	0.268
	1.506

That means that CPPIB has received a total of $32.6 million in dividends in less than two years.

B. A forced sale to Aqua/Essential will cause massive rate increases because the law guarantees Aqua/Essential a substantial return on a system purchase

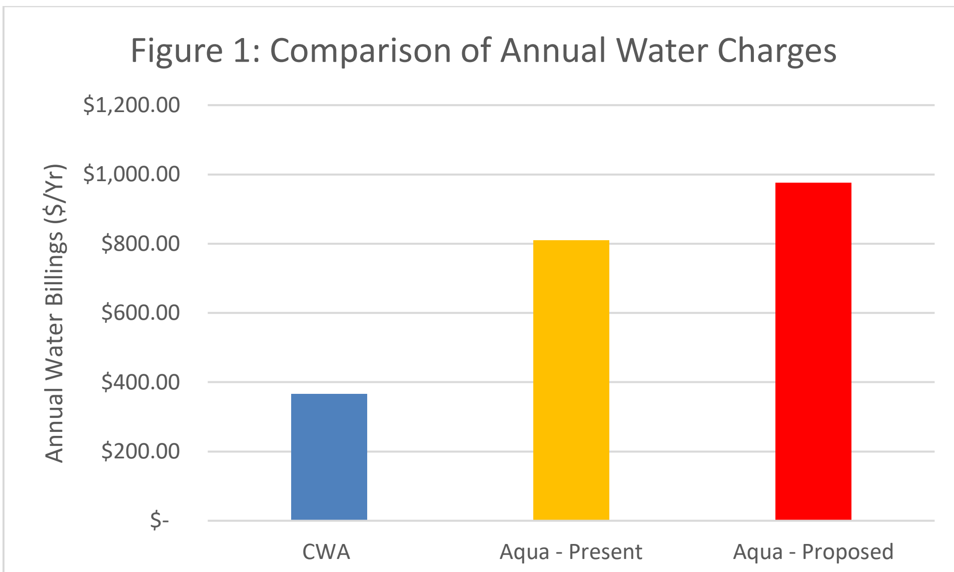
There is no debate that Aqua's current water rates are much higher than CWA's. There is also no debate that after Aqua acquires a new system, Aqua eventually raises the rates for the acquired customers to match Aqua's main rates statewide. **<u>In fact, this is a requirement of Pennsylvania Public Utility Commission regulatory policy</u>**. Thus, following an Aqua acquisition of CWA, it is only a matter of time before City residents and businesses will be charged Aqua's higher rates. Indeed the Act 47 coordinator and its counsel conceded this and advised the DCED of this very fact in January 2019, indicating that "the higher the bid, the higher the ratepayers will be charged" and that an Aqua purchase could lead to "significant increases into the future." See March 26, 2020 email from D. Connelly to DCED's K. Bracey; and A. Santucci email to DCED's K. Bracey, both attached and marked as Exhibit "B". Make no mistake about what Aqua's higher rates will mean for your constituents: ***People who can afford water service today will be unable to pay for the exact same service when Aqua more than doubles their rates (or increases them even higher***. Even based on the guidelines the federal Environmental Protection Agency sets, water service will become unaffordable for over 61% of the City's residents. Hundreds, perhaps thousands, of families will have their water turned off because they are unable to pay Aqua's absurdly high rates. This pain will be so widespread and cut so deep that water service will become unaffordable even for people with good full-time jobs.

For example, a typical household in the City uses 4,000 gallons of water each month. For this amount, CWA charges $30.54 per month, or $366.48 per year.

- Under Aqua's existing water rates, the bill would be $67.48 per month, or $809.76 per year. ***That is a 121% increase over CWA's rates.***

- On August 20, 2021, Aqua made a filing with its regulator (PUC) proposing even higher water rates. If Aqua's request is granted, the average residential water bill would jump even further to $81.32 month, or $975.84 per year. ***That is a 166% increase over CWA's rates.***

A comparison of the annual billing for water service for a typical City resident is shown in Figure 1.



City residents already receive excellent water service from CWA. Why must they lose that and pay more for their water?

Aqua/Essentials rates will massively increase the percentage of Chester residents for whom water is no longer affordable under federal standards.

The EPA has set a threshold to determine if water service is "affordable" for a customer. Specifically, the EPA considers an annual water bill of less than 2.5% of Median Household Income to be affordable.[2] The following table of US Census data shows a breakdown of households in the City by income range.

[2] https://www.awwa.org/Portals/0/AWWA/ETS/Resources/AffordabilityAssessmentTool.pdf

Table 1: Income Brackets and Households in the City of Chester			
Range Low	Range High	Midpoint	Households
$0	$9,999	$5,000	1,959
$10,000	$14,999	$12,500	1,064
$15,000	$24,999	$20,000	1,878
$25,000	$34,999	$30,000	1,628
$35,000	$49,999	$42,500	1,703
$50,000	$74,999	$62,500	1,751
$75,000	$99,999	$87,500	770
$100,000	$149,999	$125,000	499
$150,000	$199,999	$175,000	160
$200,000		$200,000	90
	Total Households		11,502

Under CWA's current low rates, the average residential water bill is $366.48 per year. Under these low rates, water service is unaffordable only to a person making less than $14,659.20 per year. That means that anyone in the City with even a minimum wage job is able to afford water.

Under Aqua's current high rates, the average residential water bill would be $809.76 per year. Under these high rates, water service would be unaffordable to any person making less than $32,390.40 per year. That is 53% of the households in the City.

Under Aqua's proposed new even higher rates, the average residential water bill would be $975.84 per year. Under these rates, water service would be unaffordable to any person making less than $39,033.60 per year. That is 61% of the households in the City. This would include a number of the City's own full-time union employees. For example, 14 of 20 employees in the City's Public Works Department would not earn enough to afford Aqua's water rates.[3] City police cadets would not earn enough to afford Aqua's water rates.[4] City secretaries would not earn enough to afford Aqua's water rates.[5]

Imagine the consequences if more than 60% of the City's population cannot afford basic water service under Aqua. These families are already living on tight budgets. They can afford CWA's low water bills, but they do not have an extra $500 per year or more to

[3] City's 2021 budget at page 35 of 40 (*available at* https://static1.squarespace.com/static/5f721f5325ced83982f1d194/t/5ff8d14b79a6bc1bd6f47e4a/1610142027305/2021+Budget.pdf).
[4] *Id.* at page 12 of 40.
[5] *Id.* at page 12, 26, 29 of 40.

pay Aqua. For some families, even juggling their bills in drastic fashion will not be enough. They will simply be unable to pay.

A sale of the CWA system to Aqua is not only bad for families, it is bad for business too. We have looked at some of the larger employers in the City that we serve to attempt to gauge the impact of high Aqua water rates. A number of these larger businesses will see water bills go up by millions of dollars per year under Aqua. Not for one year, but every year after, if Aqua acquires the water system. We question the ability of these businesses to remain afloat with such draconian increases in essential utility service costs. At some point, Aqua's water rate increases will strip these businesses of any hope of being profitable. Under such circumstances, these businesses will be left with no choice but to cut jobs or relocate out of the City. This will further deplete the City's fragile tax base. Why is DCED pursuing this absurd strategy?

C. Aqua's/Essential's municipal acquisition strategy is its main pitch to shareholders, because it knows it can pass along the costs of acquiring systems to ratepayers in order to pay shareholder dividends.

It is worth thinking about the reasons for these differences in rates. Municipally owned entities like CWA operate under a much different business model than investor-owned utilities like Aqua. CWA is locally owned and is focused solely on providing high-quality affordable service to its customers. CWA is controlled by locally appointed board members who answer to the communities CWA serves and no one else. On the other hand, investor-owned utilities like Aqua are responsible to distant and sometimes foreign shareholders. Aqua's goal is to maximize shareholder profit above all else.

Importantly, the economic trends outlined in this letter will only grow worse for Aqua's customers in the future. Aqua's senior management is promising its investors continuous growth in earnings per share in the range of 7 to 10% per year. The only way for Aqua to meet this aggressive target is through continuous Aqua rate raises. Aqua's rate growth will just go on and on. Aqua's past practices bear this out. Like clockwork, Aqua has asked its regulator for a double-digit rate increase every three years. If the Public Utility Commission grants Aqua's current rate increase request, Aqua's residential customer rates will go up by 20%.

To hide the economic pain it causes, Aqua will often promise to temporarily freeze rates for newly acquired customers. Indeed, Aqua has made such a promise to the City. Do not let Aqua fool you. Aqua has no legal authority to promise a rate freeze. Indeed, Aqua promised such a rate freeze to newly acquired sewer customers in New Garden Township, but the PUC, Aqua's regulator overruled Aqua's promise. Even if Aqua could make such a promise – which Aqua cannot – the rate freeze would only **be temporary**. Aqua **always** eventually imposes huge rate increases on newly acquired customers. This is Aqua's unbroken practice in numerous acquisitions going back decades. See the attached article for the financial rate shock that residents and businesses of Limerick Township, Montgomery County must now deal with --- an Aqua October surprise of a 90% sewer rate increase. (Exhibit C)

These problems for the City and its residents can be avoided by keeping Aqua out and keeping the CWA in public hands. The focus should not be on increasing dividends to large Aqua shareholders like the Canada Pension Plan Investment Board.[6] Frankly, the City would be far better served accepting the CWA's offer of settlement, investing that $60 million in Aqua/Essential stock, and using the dividends to fund the City's pension plans. That investment could support the annual obligations of the City's pension plans and more. Even better, the CWA would remain in public hands, rates would stay low for City residents and the City would at least be treated as well as Aqua's massive Canadian investor, which holds a seat on Aqua's board of directors.

Why is DCED asking City residents to permanently fund the pensions of Canadian Retirees by paying 2 or 3 times as much as they currently pay for their Water?

This week the US Senate held confirmation hearings for the newly nominated US Ambassador to Canada, the Honorable David Cohen, former managing partner of Ballard Spahr. Is it a coincidence that the law firm that the DCED insisted that the City use to litigate an attempted hostile take-over of CWA and sale of CWA to Aqua, also represents Aqua and is the nominated Ambassador's old law firm, Ballard Spahr?

By the way how are DCED and the Receiver and your DCED provided law firm doing in pursuing the City's claim for the return (or sale) of its sewer system in the as yet unconsummated Aqua-DELCORA transaction as I laid out in my August 19, 2021 letter?

Please keep in touch with us. Thank you.

Respectfully yours,

/s/ Paul Andriole

Paul Andriole
Board Vice Chair
Chester Water Authority

[6] We assume the City (or its Receiver appointed at Governor Wolf's direction) has demanded from Aqua/Essential an accounting of the identities of Aqua's institutional investors, particularly foreign entities or those whose substantial investors are foreign entities, so that the public can assess the true beneficial interests in any attempted sale to Aqua/Essential.