

# **A Business History**

# The Connecticut Water Company

1956 to 1996

40 Years of Service 130 Years of Tradition

**Quality Water and Service** 

# The Connecticut Water Company 1956-1996

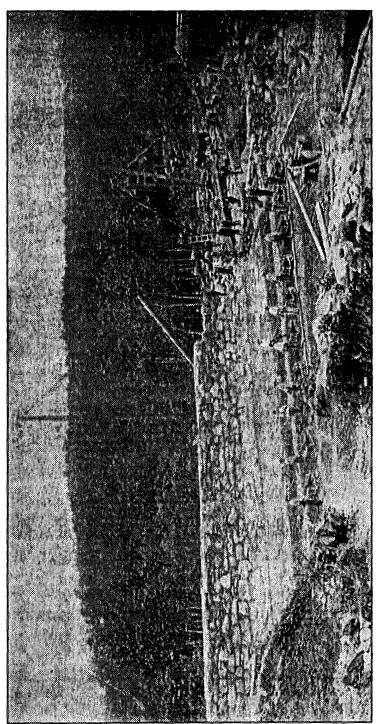
# Introduction

Operation of The Connecticut Water Company began in July 1956 with the merger of The Guilford-Chester Water Company (serving the towns of Guilford, Madison, Clinton, Westbrook, Old Saybrook, Chester, Deep River and Essex) and The Naugatuck Water Company (serving Naugatuck and small sections of Waterbury and Beacon Falls). Immediately after this merger, CWC purchased the water utility holdings of The Connecticut Light & Power Company (located in East Windsor, Enfield, Stafford, Suffield and Windsor Locks).

The merger unified two business strengths: the financial and business expertise of Guilford-Chester's E. P. Williams and his staff and the operational and engineering skill of W. Neal MacKenzie and his staff at The Naugatuck Water Company. The ability to attract the investment necessary to meet the drinking water needs of a rapidly-growing population demanded these strengths.

The company has grown from 20,000 customers in 16 towns in 1956 to 62,000 customers in 32 towns in 1996. We celebrate the anniversary of this merging of separate operating companies and the beginning of a unified company with a tradition of small water system expertise, dating back to the mid-1800's. Today, The Connecticut Water Company, as the sole subsidiary of Connecticut Water Service, Inc., is one of the largest investor-owned water utilities in the State of Connecticut. This history briefly records the events contributing to our growth over the past 40 years as well as a few employee anecdotes of the past.

Marshall T. Chiaraluce President / CEO



1891 Construction of Upper Candee Reservoir Dam, Naugatuch

# **Foundations**

The oldest water company that is part of the CWC system is the Broad Brook Water Company, incorporated in 1849 — 12 years before the Civil War. Following is a listing of the predecessor companies franchised before the 1956 merger.

Year of Incorporati	ion Company Name
1849	Broad Brook Water Company
1866	Rockville Water & Aqueduct Company
1879	Thomaston Water Company
1880	Thompsonville Water Company
1883	Stafford Springs Aqueduct Company
1887	Windsor Locks Water Company
1887	Naugatuck Water Company
1893	Guilford Water Company
1893	Clinton Water Company
1893	Madison Water Company
1893	Terryville Water Company
1895	Village Water Company of Suffield
1895	Deep River Water Supply Company
1895	Chester Water Supply Company
1901	Collinsville Water Company
1905	Somers Water Company
1915	Ellington Water Company
1915	Suffield Water Company
1945	Connecticut Water & Gas Company
	(May 1956, name changed to The
	Connecticut Water Company)

# The 1950s

The Connecticut Water Company was formed on July 24, 1956 and the new company issued its first annual report for the six months of operations ended December 31, 1956. The report for 1956 showed 16 towns served, 20,350 customers, 1,569 shareholders and a

quarterly dividend of \$.22 per share. Two bond issues were transacted—Series A in the amount of \$1,500,000 at 4.20% and Series B in the amount of \$1,000,000 at 4.50%. Of the 250,000 shares of authorized common stock, 152,014 shares were issued, providing the new company with over \$2 million dollars in equity financing.

An infusion of capital was necessary for the company. The 50's postwar economic boom meant the phenomenal growth in Connecticut towns which resulted in a greater demand for service by CWC. Additionally, this growth spurred highway building and relocation. The first annual report comments on the cost of relocating mains due to the construction of the "new" Connecticut Turnpike.

In 1957 CWC had 21,268 customers, 347 miles of water main installed, 55 employees and average daily production of 8.45 million gallons.

#### **Water Protection**

We inaugurated passes for fishing in the late 1950's. No more than one party of two per day per pond so that if a lawless act or disturbance was created, we would know. No boats were to be used; no dogs or humans to enter the water.

A man from Meriden requested passes to fish quite often. One day he asked if he could stock the Chester Reservoir with trout. "Excellent idea," we said.

Weeks passed and one day an Essex man who had a fishing pass for himself and his son to fish told this story.

He and his son paddled out to the middle of the Chester Reservoir in a small boat (against the rules!) and they were peacefully fishing when a black monster arose from under water about 2 feet from the boat. It scared the man's son so much to see a monster with a spear that he almost fell off the boat.

The monster turned out to be a man in scuba gear, the same man who had suggested stocking the reservoir with fish. He was taken to court and forever barred from spearfishing for trout on CWC property. Permits were canceled for a while.

E. P. Ted Williams, President-retired (Employed 1952-1973)

A record-breaking drought had an unfavorable effect on operations due to the need for water usage restrictions and caused concern over maintaining an adequate supply.

Significant capital was needed to provide water to areas of growth and to ensure a better available water supply. Accordingly, \$600,000 in Series C bonds were sold. Also, due to rising costs, the company planned to file its first rate case with the Department of Public Utility Control. As a result of this rate case, the first increase in rates became effective too late in 1958 to completely offset the effect of a wet summer season. With a new public offering of common stock during 1959, the number of shareholders grew to over 2,000. The cost of taxes to an investor-owned utility was a major concern and the 1959 annual report documented that 22 cents out of every dollar was used to pay federal, state and local taxes.

### The 1960s

During the 60's, the U.S. was culturally invaded by British pop music. Assassination claimed the country's youngest president, John F. Kennedy, his brother, U.S. Senator Robert Kennedy, and civil rights leader, Martin Luther King. Scenes of the Vietnam War could be watched on TV nightly news as well as the landing of the first U.S. astronauts on the moon. TV sets in the northeast went black when an Ontario power plant caused the largest single power failure in the U.S.

The company's steady course was maintained amidst the social and political turbulence of the 60's. Operating revenues continued to climb to a new high and the dividend was increased to \$.94 per share in 1960. Investment in utility plant approached \$12 million. Results of a 1960 census, comparing population changes from 1950 through 1960, confirmed that CWC's service areas were in areas of high growth - from a minimum of 12% in Naugatuck to a maximum of 119% in Windsor Locks. With 23,274 customers, CWC served an estimated population of over 80,000. By 1961 and due to higher operating expenses and taxes—especially the Connecticut Gross Earnings Tax increase of 167%—the company needed to apply for rate relief. New rates were granted effective December 1, 1961. A new public offering of preferred stock was issued to raise additional

capital as the cost of utility plant expansion to a growing service area continued to be significant.

The summer of 1962 was hot and dry, driving up operating revenues as a result of higher water consumption; however, the demand for water also required usage restrictions. The company received the new federal income tax credit on its taxes for investing in utility plant. This credit, geared to stimulate U.S. businesses, also contributed to a raise in income in 1962.

# Meter Reading

The meter was inside the second door in the rear of the house. Out of the first door comes a flash of yellow, white and brown fur and the slobbering canine lips and jowels of a St. Bernard staring me in the face. I froze for a moment but realized he wasn't going to destroy me. I began talking to the dog, assuring him I came in peace to read the meter. I added if it wasn't to his liking, I would leave.

He slowly released me, stepped back, sat down and just stared at me. As I tried to move away, he'd get up and rumble a growl down in his throat. I stood fast.

The dog was on a chain, but the chain was lying on the ground and disappeared into the cellar door. Not knowing how long the chain was, I inched away as he inched forward until it was obvious the chain was secured on the other end.

Dan Martin, Meter Reader-Retired (Employed 1972-89)

The CWC logo was used for the first time on the 1963 Annual Report. Operating revenues and net income set new records and the dividend was increased to \$0.25 per quarter. A record number of 1,189 new customers began CWC service in 1963.

An Employee Stock Purchase Plan was approved at the 1963 Annual Meeting of Stockholders. 39% of employees enrolled and 93% of the 2,366 stockholders lived in Connecticut. The company hired a full-time public relations director to make the public fully aware of the company's problems and accomplishments. In the 1963 annual report, the company gave attention to its largest industrial

customers, many of which have remained viable (albeit under reorganization) in 1996. Among these are R. R. Donnelly, Old Saybrook, Chesebrough-Ponds, Clinton, Peter-Paul, Inc., Naugatuck, C. H. Dexter, Windsor Locks, U.S. Rubber Company, Naugatuck, and Cuno Filter, Stafford.

In 1964 operating revenues and net income continued to climb. Much of this expansion was attributed to the growth in housing subdivisions and the increasing popularity of washing machines, dishwashers, and garbage disposals. A continued drought also increased consumption, but required restrictions on water use. By the end of 1965, Connecticut was in its sixth year of record drought. For the period from 1961 to 1965, rainfall was 46.4" below normal.

In 1964, the company received the Advancement Award of the Connecticut Section of the American Water Works Association for advancing public relations in the Connecticut water industry. In the years that follow, CWC employees will receive individual awards from this and other professional and industry organizations.

The Mulberry Reservoir Dam in Naugatuck was raised 14' for a project cost of \$393,000 in 1965. The company continued an intensified exploration program for water sources. Approximately 750' of test holes were drilled. A suggestion committee met regularly for free communication between management and employees. The company realized \$4,300 from the sale of Christmas trees in 1965 as part of its forestry program.

The drought continued into 1966, CWC's tenth anniversary year. The costs of the Vietnam War derailed a federally-funded, low-cost financing plan to aid municipal water companies. The financing plan never happened, but CWC and other investor-owned companies protested this plan vigorously, arguing the plan discriminated in favor of municipal systems.

1967 brought an end to the drought and the need for further rate relief. New rates were granted in 1968 by the DPUC.

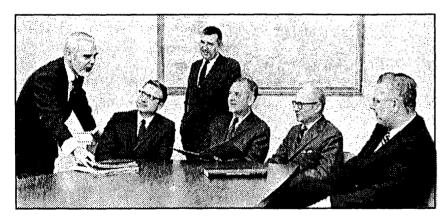
In 1968, raising the dam at Stafford Springs and the installation of a 2,000,000 gallon standpipe at Brainard Road, Enfield, were completed. Norman P. Wilcox, Manager of Guilford-Chester Division, retired after 34 years, and the Deep Hollow Reservoir in Chester was renamed Wilcox Reservoir in his honor.

In 1969 operating revenues climbed, but the cost of taxes skyrocketed. The combined effect of changes in the investment tax credit, an increase in the state gross earnings tax, the new Connecticut corporate tax, and increased property taxes drove the cost of taxes to \$0.26 out of every dollar earned.

### The 1970s

The end of the Vietnam War signaled recession. An energy crisis was precipitated by the Middle East oil cartel. Inflation and disco fever raged. Amendment 26 to the U.S. Constitution lowered the voting age to eighteen. Renewed concern for the environment, partially due to several major oil spills worldwide, made headlines.

The first year of this new decade brought many changes to CWC. Edward P. Williams, President of CWC since its inception and former President of the Guilford-Chester Water Co., was named Chairman of the Board and Chief Executive Officer. W. Neal MacKenzie, former President of The Naugatuck Water Co., became President and Chief Operating Officer. William C. Stewart, former President of Walsh College of Accountancy, was hired as Vice President Finance (and subsequently became CWC President). William F. Guillaume, former CWC Company Engineer, was named Vice President Operations (and subsequently became Senior Vice President-Operations and Engineering).



Executive Management Committee. Left to Right: F. A. Shaw, W. F. Guillaume, J. W. LaFlamme, W. N. MacKenzie, E. P. Williams and W. C. Stewart (1970)

Chester Realty, Inc. was formed as a subsidiary to facilitate purchases and sales of land.

1971 was an impressive year. Revenues grew 18% and net income increased by 30%. The federal government issued new guidelines on dividends, salary increases, and rate increases to slow the growing rate of inflation. CWC fell within all the guidelines. Mr. MacKenzie became President and Chief Executive officer as Mr. Williams retained his role as Chairman of the Board and became the Finance Committee Chairman as well. Due to increasing costs especially related to taxes, another rate case was filed. This rate relief improved 1972 year end results, despite a wet year. In Naugatuck, where rainfall has been measured by CWC and its predecessor (Naugatuck Water Company) since 1896, rainfall was at an all time high.

In 1972, legislators and special interest groups renewed efforts to open CWC land for public recreational use. CWC opposed proposed legislation with two equivocations: unless costs incurred are paid by others and unless the quality of our water can be safeguarded. In the same year the company sold 8 acres of land in Madison and purchased land in Guilford for future use and access for a standpipe. In 1973, the company owned approximately 5,000 acres of land.

CWC had a good year in 1973 despite an economic slowdown throughout Connecticut and much of the U.S., caused primarily by energy shortages. The annual report focused on the environment and on the continued hard work of CWC employees; E. P. Williams, Chairman of the Board, retired from the company.

A merger with Suburban Water Service, a water company which served 7,653 customers and shared CWC management, was proposed for 1974. (Suburban was the holding company for Broad Brook Water Co., Rockville Water and Aqueduct Co., Thomaston Water Co., Terryville Water Co. and Collinsville Water Co.) In the merger, CWC shareholders received one share of CWS stock for each share of CWC stock held. Suburban shareholders received one share of CWS stock for each 1.25 shares of SWS stock held.

The first annual report of the new Connecticut Water Service, Inc. was issued for 1974. While the merger was still not complete,

results for both companies were reported separately and on a pro forma combined basis. The merger allowed the new CWS better access to financial markets and expanded the company's service area to 26 towns. In 1974 employee wages hit the \$1,000,000 mark, the goal of 100% metered customers was nearly reached, and the billing process was automated. To illustrate the high cost of inflation, CWC's initial financing, Series A at 4.2%, matured and it was replaced by Series G at 11.0%

On December 16, 1974, the Safe Drinking Water Act became law. Designed to protect the nation's supply of drinking water, SDWA had a major impact on CWC, especially in the cost of investment in complete water filtration plants for all surface water reservoir supplies.

The effect of a rate case filed in 1975 only minimally impacted 1975 financial results. One of the major factors driving the need for a rate increase was the increased cost of power resulting from the energy crisis. In 1975, the company invested \$93,000 in new computer equipment to streamline the preparation of the 160,000 bills sent annually to customers.

By CWC's 20th year, 1976, operating revenues exceeded \$7,000,000 for the first time and the number of customers exceeded 41,000, primarily due to growth in the company's Northern Region. The number of shareholders climbed to 4,027 and investments in utility plant reached \$10,600,000. The severity of the winter caused hundreds of frozen meters and required tremendous dedication by CWC employees to keep the water flowing to customers.



Jim Husted, meter repair (1975)

During 1977, two large industrial customers closed their Connecticut facilities. This decline in industrial revenues was a trend—with industrial customers accounting for 11.2% of revenues in 1975 compared with 4% in 1995. Despite this, operating revenues were again at a new record high. The Connecticut General Assembly established a special study commission to consider expansion of the Hartford Metropolitan District Water Bureau into areas served by CWC. Company President W. Neal MacKenzie was elected President of the National Association of Water Companies, an organization representing the national water industry on national legislative issues.

In 1978 work began on the new Kelseytown Water Treatment Plant, expected to cost approximately \$6,000,000. The DPUC allowed for a surcharge on Construction Work in Progress due to high costs of compliance with the Safe Drinking Water Act. This allows utilities to recover up to 90% of the financial cost incurred during the construction of new plant required for SDWA compliance.

# Customer Service

I received my first memo from the president addressed No Beard. Copies went to Black Beard and Red Beard.

A customer wrote a very complimentary letter to the president after Mike Lowe, Walt Meizejeski and I installed a new service line. The customer forgot our names but not the service or our beards. He referred to us in the letter by our beards or the lack of one.

When Marshall Chiaraluce wrote a memo to let us know just how much he and the customer appreciated our service, he addressed us by our given and newly-given names, and I am now No Beard.

Gary Chrystal, Utilityperson (Employed 1987 to present)

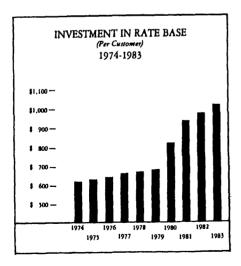
Significant management changes occurred in 1978. W. Neal MacKenzie was appointed Chairman of the Board; William Stewart was named President; and William Guillaume was elected to the Board of Directors. In 1979, Bertram L. Lenz joined the company as Vice President, Finance. Under this new management, CWC issued its first Federal Income Tax Exempt bonds through the Connecticut Development Authority, creating an excellent source of capital for the company and attractive returns for investors.

To close the decade, the new treatment plant at the Kelseytown Reservoir was named in honor of former company president W. Neal MacKenzie.

#### The 1980s

East Germany's Berlin Wall, separating East and West Berlin, was dismantled. Terrorism struck in the form of plane hijackings and bombings. Toxic gas kills 2,000 and wounds 150,000 people in Bhopal, India. A major nuclear accident at Chernobyl and the Alaskan oil spill from the Exxon Valdez heightened concerns over the environment.

In 1980 the company recognized that the twin factors of inflation and heavily-mandated construction, attributed to complying with SDWA, made rate requests a continuing activity rather than one entered into from time to time as the need arises. CWC established a policy of preparing for rate requests annually, using the previous calendar year as a basis for filing. 1980 estimated costs for construction in 1981were \$12,500,000. In contrast, internally generated funds available for construction in 1980 were less than \$2,000,000. Rate increases granted to CWC by the DPUC in 1980 alone exceeded \$3,000,000. The gap between needed capital and revenues was filled by proceeds from bond issues.



The 1983 annual report presented a graph, illustrating the investment in Utility Plant required in the 10 years since SDWA.

As a means of raising equity capital and to offer a benefit to CWS shareholders, the Company began a dividend reinvestment plan. The plan, still in effect, allows a shareholder to reinvest CWS stock dividends and to make additional cash reinvestments without brokerage or other purchase fees.

# The Corporate Office

My first job at CWC was in the Accounting Department working for Mr. LaFlamme. One morning I noticed my long-hair Husky dog, named Hobie, walking down the CWC driveway toward the parking lot where my car was parked.

He was wet, muddy and looked tired. Hobie had a habit of jumping into any car with an open window to rest. I thought I had left my car window open that day and went to the parking lot to check. By the time I reached the parking lot, I saw Mr. LaFlamme, the treasurer, cleaning the back seat of his company car, and he was not happy. He said, "Mrs. Mullen, that dirty dog over there was in this car. He was lying all over the papers going to the DPUC. Do you know who he belongs to?" I said, "No, sir. I do not, but I'll help you clean up the car."

When Mr. LaFlamme returned to the office from the DPUC, I told him the truth. Lucky for me—he liked dogs.

Cathy Mullen, Data Processing Manager (Employed 1974 to present)

CWC was granted its third consecutive annual rate increase of greater than \$3 million in 1982.

Connecticut's worst flood since the Naugatuck River flood of 1955 occurred in June; hard hit was the lower Connecticut River valley. Some of the bridges lost to the flood waters contained mains and would take years to completely reconstruct. Water service was restored within a few days using temporary facilities.

J. W. LaFlamme, Treasurer of CWC since its inception, retires in 1983.

A greater rate of customer growth was experienced in 1984 than 10 previous years due in part to increased expansion in the Northern Region. Two milestones were achieved in 1985-service to the newly renovated Bradley International Airport and maintenance of service to all customers throughout Hurricane Gloria. Also, CWC participated in its first DPUC docket regarding the possible mandatory acquisition of a failing water system.

In 1986 as a culmination of three years of effort by the Water Resources Task Force, The Connecticut Plan was released. This plan divides the state into seven public water supply management regions. Because of the geographic diversity of CWC's service areas, the company would be involved in four of the seven regions.

In 1986-89, CWC acquired the following systems:

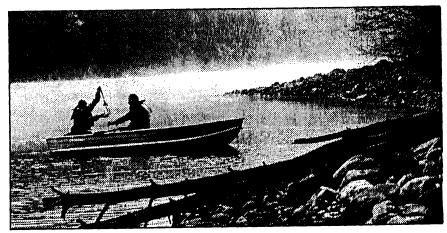
	Customers
Lakewood Heights, Coventry	70
Ellington, Ellington	70
Tolland Aqueduct Company, Tolland	92
CLR, Inc., Guilford	60
Cedar Crest, Guilford	25
Indian Field Company, Naugatuck	798
Heritage Woods Water System, Tolland	60
Pinewood Estates, Guilford	106
Lakeview Terrace, Coventry	29
Nathan Hale, Coventry	40
Vernon Water Department, Vernon	976
Thistle Rock, Guilford	47
Llynwood Water Company, Bolton & Vernon	74

William C. Stewart in his president's letter in the following year's annual report describes 1989 as interesting and unusual. Part of the interesting was CWC's first general rate increase in two and a quarter years—nearly \$5.2 million—granted by the DPUC. The unusual: The Office of Consumer Counsel and the Town of South Windsor appealed the rate decision as did the Company. The appeals were denied by the Superior Court.

### The 1990s

Saddam Hussein ordered Iraqi soldiers to invade Kuwait; the U.S. led Allies defeated Iraq in Operation Desert Storm. Microsoft Corporation made a technological splash with its new Windows computer software, luring the world to surf the Internet. The Soviet Union is dismantled. Americans are exhorted to reduce, reuse, recycle. The buzz in business is downsize, rightsize, and reengineer while the water industry learns about privatization and competization.

During the 90's, heightened awareness of environmental and water quality issues drives Total Water Quality Management. Long before the total quality concept became popular, CWC focused on source protection, land acquisition and management, in-reservoir treatment (such as the first installed aeration system in the state), modern treatment facilities (including the first use of granular activated carbon as primary filter medium in New England and the first use of primary clarifiers with no submerged moving parts in the U.S.), distribution system maintenance and continuous improvements, sophisticated leak detection, conservation management and certified staff.



Thomas Gaidish, Water Quality Supervisor, and Keith Winslow, Pump Station Attendant, take water samples on the Long Hill Reservoir, Naugatuck Region, as part of CWC's water quality monitoring. (1995)

In March of 1991, the Company was granted rate relief of \$6,100,000. Because this rate relief did not fully consider the effect of conservation (or reduced water consumption), management took immediate steps to lower costs.

In 1992, William C. Stewart was named Chairman of the Board. Later in the year, Mr. Stewart retired from the company after 22 years of service. Marshall T. Chiaraluce, a former executive of the South Central Regional Water Authority with over 20 years experience in the industry, was named President and Chief Executive Officer. During 1992, as interest rates declined, CWC refinanced \$15,000,000 in long term debt at lower rates. The strategic planning process was introduced with goals in economic, regulatory/public affairs, and organizational areas.

In 1992-93, the company acquired the following water systems:

<u>System</u>	<b>Customers</b>
Highland Heights, Prospect	36
Chester Village West, Chester	11
Ellsworth Estates, East Windsor	82

In 1993, the recently-completed Naugatuck Water Treatment Plant was named in honor of former Chairman of the Board William C. Stewart. Net earnings reached a new record due to the combined effects of debt refinancings and the hot and dry summer. CWC was the only major Connecticut Public Utility to not seek rate relief during 1993. CWC began marketing water service to customers whose homes are directly passed by CWC mains. By 1996, 160 new customers are added.

In 1994, the company in joint cooperation with the Shenipsit Lake Association and the Department of Public Health and Addiction Services, opened a seasonal recreation (hiking and fishing) program in the Northern Region's Shenipsit Reservoir, ending long-standing contention in this area between the company's interests and those of local residents. The program received the Governor's Environment 2000 Award the following year. Governor John Rowland stated in his comments on the program, "The success of the Shenipsit Lake

Reservoir Program is an outstanding example of diverse groups working together to benefit the common good."

1994 marked the third consecutive year without a rate case. CWC introduced its Customer Stock Purchase Plan, the first of its kind in New England. This plan allows the company to raise equity financing and allows customers to become stockholders of the company under favorable terms. At the end of 1995, 1500 new shareholders were added. 1994 was the 25th consecutive year of dividend increases for stockholders.

In 1995, CWC acquired the Sound View Water System, a seasonal system serving 430 customers in the Town of Old Lyme. The company and its employees participated in staging the first Connecticut Special Olympics World Games and continued its participation in the March of Dimes Walk-A-Thon.

During the 90's computer technology is a major component of business viability, CWC's supply, treatment and distribution facilities and financial system were automated by 1981, but a new management information system in 1996 allows the company to greatly improve the extent and speed of information and service to customers.



Maureen Westbrook, Director of Government and Public Affairs, and Gary Pozzato, President of the Shenipsit Lake Association (center) accept the Governor's E/2000 Award from DEP Commissioner Sidney Holbrook. (1995)

### The Future

The suburban and small-town nature of CWC's service area has made the company unique, offering advantages presented by few other investor-owned water utility companies. However, from its inception to the present this advantage also presents a challenge for the company. All three regions are proximal to a municipal water system (Hartford, New Haven and Waterbury). Suburban, smalltown water systems do not have the customer density of these municipal systems. Although the cost per mile of main does not differ significantly between these systems, available customers per mile to pay for the cost of constructing and operating these systems greatly favors municipal systems. There are also significantly less taxes and other economic advantages for municipal systems. Since its inception in 1956, the CWC's rates have been compared to its neighboring municipal systems. The challenge of this comparison has been best met by stringent cost containment to avoid a rate case while providing quality service.

More than 23 previously separate water systems have been added since 1956. 17 of these system acquisitions occurred over 10 years from 1986 through 1995. There is a state and national trend for smaller water systems to either consolidate with larger utilities or



Al Davis, technician, conducts a leak detection test, one of the services CWC offers businesses, municipalities and other water utilities.

contract with these larger utilities for operation or management assistance. This trend has been accelerated by the demands placed on public water systems by SDWA. The challenge of ensuring compliance with these increasing standards burdens the limited financial, managerial and operational resources of 600+ small water systems in Connecticut. CWC provided comprehensive management and operation services to small water systems over the past five years and will continue to seek out opportunities for management, operations, consulting contracts and acquisitions of viable water systems.