



# NEWS

93 West Main Street, Clinton, CT 06413

**Connecticut Water Service, Inc. Reports  
Six Month and Second Quarter Earnings**  
*Earnings Total \$0.64 per Share through six months*

**Clinton, Connecticut, August 12, 2013** – Connecticut Water Service, Inc. (NASDAQ GS: CTWS) announced net income of \$6.9 million, or earnings per basic average share (EPS) of \$0.64, on revenues of \$45.8 million in the Water Activities and Service and Rentals segments through the first six months of 2013. In the same six month period of 2012, the Water Activities and Services and Rentals segments produced net income of \$5.1 million, or \$0.59 EPS, on revenues of \$43.3 million.

In the first six months of 2013, there was no activity in the Company's third business segment – the Real Estate segment. In 2012, the Real Estate segment generated net income of approximately \$1.0 million, or \$0.11 EPS, through an open space land sale to the Town of Plymouth, Connecticut, completed in the second quarter of 2012.

Including all three business segments, in the first six months of 2013, the Company had earnings of \$6.9 million, or \$0.64 EPS, on total revenues of \$45.8 million. In the same period of 2012, the Company reported earnings of \$6.1 million, or \$0.70 EPS, on total revenues of \$44.7 million.

In the first six months of 2013, there were approximately 10.8 million weighted average basic common shares outstanding, which is approximately 25% more than in the same period in 2012 due to a successful equity offering of approximately 1.7 million shares and the issuance of 380,254 shares in the Biddeford & Saco Water Company (BSWC) acquisition in December 2012. A portion of the proceeds from the equity offering was used to repay approximately \$21 million of bank lines of credit and \$18 million in debt related to the 2012 acquisition of Maine Water Company. These repayments will lower interest and debt expense more than \$700,000 this year.

(More)

## **Acquisition**

On December 10, 2012, the Company acquired BSWC through a stock-for-stock merger transaction valued at approximately \$12.0 million. BSWC serves about 15,000 customers, or 35,000 people, in four southern Maine communities. BSWC was not a part of Connecticut Water in the first six months of 2012 and its results of operations are not included in 2012 income statement information.

## **Six Month Operating Results**

In the first six months of 2013, income in the Company's core business, the Water Activities segment, was \$6.2 million, or \$0.57 EPS, on total revenues of \$43 million. In the same period of 2012, income from the segment totaled \$4.4 million, or \$0.51 EPS. The increase in revenues for the Water Activities segment was largely attributable to the acquisition of BSWC and an increase in the Water Infrastructure and Conservation Adjustment (WICA) surcharge in Connecticut.

The Company saw consistent performance from its Services and Rentals segment in the first six months of 2013 that contributed income of \$762,000 compared to \$683,000 in the first half of 2012. There was no activity in the Real Estate segment in the first half of 2013. In 2012, there was an open space land sale to the Town of Plymouth, Connecticut, that contributed income of approximately \$1.0 million.

Operating and Maintenance Expenses (O&M) increased approximately \$1 million, or approximately 5.2%, to \$20.7 million in the first six months of 2013. The increase was largely attributable to BSWC operating expenses that were not included in the 2012 six-month results. There were also increases in expenses related to taxes, due to higher earnings, and depreciation associated with the acquisition of BSWC. Excluding \$1.6 million of BSWC O&M expenses, the Company reduced O&M costs by \$574,000 in the first six months of 2013.

Interest and debt expense for the first six months declined 34% to \$2.8 million, from \$4.2 million for the same period of 2012. The decrease was related to reduced interest expense associated with the refinancing of \$55 million in long-term debt in the fourth quarter of 2012 and an additional \$15 million in the first quarter of 2013, the repayment of \$18 million in debt used to acquire Maine Water, and an increase in the patronage refund from a bank cooperative that reduced interest expense.

(More)

## ***Second Quarter Operating Results***

In the second quarter of 2013, net income in the Company's core business, the Water Activities segment, was \$3.9 million, or EPS of \$0.36, on total revenues of \$22.9 million. In the same period of 2012, net income from the segment totaled \$2.8 million, or EPS of \$0.33, on total revenues of \$21.7 million. The increase in revenues for the Water Activities segment was largely attributable to the acquisition of BSWC and an increase in WICA in Connecticut.

In the second quarter of 2013, there was no activity in the Real Estate segment. In the same period of 2012, the Real Estate segment generated EPS of \$0.11 through a sale of protected open space land to the Town of Plymouth, Connecticut.

The Company saw consistent performance from its Services and Rentals segment in the second quarter of 2013, which contributed income of \$376,000 compared to \$333,000 in the second quarter of 2012.

O&M expenses increased \$281,000, or 2.8%, to \$10.4 million in the second quarter of 2013. As with the six month results, there were also increases in expenses related to taxes, due to higher earnings, and depreciation associated with the acquisition of BSWC. Excluding \$764,000 of BSWC O&M expenses, the Company reduced O&M costs by \$483,000 in the second quarter of 2013.

Interest and debt expense for the second quarter declined 31% to \$1.5 million, from \$2.1 million for the same period of 2012. The decrease in interest and debt expense was related to the refinancing of long-term debt in December 2012 and in March 2013 and the repayment of Maine Water debt used to acquire Maine Water.

## **Regulatory Developments**

In the second quarter of 2013, the State of Connecticut enacted laws that provide for a revenue adjustment mechanism (RAM), expansion of WICA eligible conservation related projects, and an increase in the WICA cap from 7.5% to 10%.

The RAM allows water utilities to recover the difference between the actual revenues billed in a calendar year and the revenues that the Public Utilities Regulatory Authority (PURA) approved at the time of their last rate general rate proceeding through an adjustment on customer bills. Revenues billed in excess of what was allowed in the last rate case would be returned to customers through a credit on bills. The RAM removes the financial disincentive for water utilities to develop and implement effective water conservation programs.

(More)

In addition, the Company is planning to take advantage of a recent clarification in the Federal Internal Revenue Service (IRS) Code that allows utilities to take an immediate deduction of qualified capital spending that otherwise would have been deducted in small increments over many years. The new IRS interpretation of the Repair Tax Deduction Credit (RTDC) has provided Connecticut Water, which has made significant capital expenditures in recent years for its infrastructure replacement program, the opportunity to file for a refund of federal tax payments going back to 2010. The Company estimates the tax refund it will receive as a result of the RTDC will be approximately \$10 million.

On June 28, 2013, the Connecticut Office of Consumer Counsel and the Attorney General of the State of Connecticut signed on to Connecticut Water's proposal to use the unique and unprecedented opportunity afforded by the Connecticut regulatory developments and the RTDC to benefit customers and the Company. The result is a Settlement Agreement (Agreement) between the three parties that calls for temporarily reducing customers' rates for two years, not implementing new rates from a general rate case until October 2015 at the earliest, folding the WICA surcharge into base rates that resets WICA to zero, and delaying for six months the next WICA surcharge filing. A news release was issued on the Agreement on July 1, 2013, and a Form 8-K regarding the Agreement was filed with the SEC on July 2, 2013.

According to Eric Thornburg, President and CEO of Connecticut Water, the Agreement benefits customers and the Company. "Customers would enjoy a two-year rate reduction and the Company would benefit from the timely implementation of the RAM and resetting the WICA surcharge to zero without having to file a general rate case application."

The Agreement provides that if PURA does not fully approve the Agreement in its entirety, it shall be deemed withdrawn. Accordingly, the Agreement is not effective unless and until it is approved by PURA. The Company has requested PURA to issue a decision on the Agreement by August 31, 2013.

In Maine, the regulations regarding Water Infrastructure Charge (WISC) have been finalized. WISC allows for eligible infrastructure investments to be recovered between rate cases and is similar to Connecticut's WICA. Maine Water and BSWC expect to first take advantage of WISC in late 2013 or 2014.

In July 2013, the Maine Public Utilities Commission (MPUC) approved stipulations that settled rate case applications for three of Maine Water's systems. In June 2013, Maine Water also filed rate case applications with MPUC for three additional water systems.

(More)

Connecticut Water Service, Inc. is the largest publicly traded water company based in New England. Through its wholly-owned public water utility subsidiaries, The Connecticut Water Company, The Maine Water Company, and the Biddeford & Saco Water Company, the Company provides drinking water to 122,000 customers, or about 400,000 people, throughout the states of Connecticut and Maine.

###

**News media contact:**

Daniel J Meaney, APR,  
Director of Corporate Communications  
Connecticut Water Service, Inc.  
93 West Main Street, Clinton, CT 06413-1600  
(860) 664-6016

This news release may contain certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 regarding the Company's results of operation, financial position and long-term strategy. These forward-looking statements are based on current information and expectations, and are subject to risks and uncertainties discussed in our filings with the Securities and Exchange Commission, which could cause the Company's actual results to differ materially from expected results. We undertake no obligation to update or revise forward-looking statements, whether as a result of new information, future events, or otherwise.

(More)

## Connecticut Water Service, Inc. & Subsidiaries

### Selected Income Statement Information (unaudited)

| (In thousands except per share amounts)                       | Three Months Ended<br>June 30, |                 | Six Months Ended<br>June 30, |                 |
|---|--------------------------------|-----------------|------------------------------|-----------------|
|   | 2013                           | 2012            | 2013                         | 2012            |
| Operating Revenues  | \$22,545                       | \$21,348        | \$42,274                     | \$39,888        |
| Other Water Activities Revenues                               | 309                            | 324             | 708                          | 673             |
| Real Estate Revenues  | --                             | 1,450           | --                           | 1,450           |
| Service and Rentals Revenues                                  | 1,477                          | 1,366           | 2,866                        | 2,701           |
| Total Revenues  | <u>\$24,331</u>                | <u>\$24,488</u> | <u>\$45,848</u>              | <u>\$44,712</u> |
| Operating Expenses  | \$17,286                       | \$16,337        | \$33,656                     | \$31,326        |
| Other Utility Income, Net of Taxes                            | \$179                          | \$188           | \$385                        | \$364           |
| Total Utility Operating Income                                | \$5,438                        | \$5,199         | \$9,003                      | \$8,926         |
| Gain on Property Transactions, Net of Taxes                   | \$--                           | \$982           | \$--                         | \$982           |
| Non-Water Sales Earnings (Services and Rentals), Net of Taxes | \$376                          | \$333           | \$762                        | \$683           |
| Net Income  | \$4,310                        | \$4,163         | \$6,923                      | \$6,073         |
| Net Income Applicable to Common Shareholders                  | \$4,300                        | \$4,153         | \$6,904                      | \$6,054         |
| Basic Earnings Per Average Common Share                       | \$0.40                         | \$0.48          | \$0.64                       | \$0.70          |
| Diluted Earnings Per Average Common Share                     | \$0.39                         | \$0.47          | \$0.63                       | \$0.69          |
| Basic Weighted Average Common Shares Outstanding              | 10,819                         | 8,667           | 10,811                       | 8,659           |
| Diluted Weighted Average Common Shares Outstanding            | 10,989                         | 8,805           | 10,977                       | 8,793           |
| Book Value Per Share  | \$17.11                        | \$13.75         | \$17.11                      | \$13.75         |

### Condensed Consolidated Balance Sheets (unaudited)

| (In thousands)                         | June 30, 2013    | June 30, 2012    |
|--|------------------|------------------|
| <b>ASSETS</b>                          |                  |                  |
| Net Utility Plant                      | \$455,439        | \$419,002        |
| Current Assets                         | 33,082           | 26,415           |
| Other Assets                           | 97,575           | 108,038          |
| Total Assets                           | <u>\$586,096</u> | <u>\$553,455</u> |
| <b>CAPITALIZATION AND LIABILITIES</b>  |                  |                  |
| Shareholders' Equity                   | \$188,193        | \$121,208        |
| Preferred Stock                        | 772              | 772              |
| Long-Term Debt                         | 178,731          | 187,841          |
| Current Liabilities                    | 11,862           | 36,890           |
| Other Liabilities and Deferred Credits | 206,538          | 206,744          |
| Total Capitalization and Liabilities   | <u>\$586,096</u> | <u>\$553,455</u> |