



Aqua America Chairman Says Short-Term Ownership in Regulated Water Utility Industry is Detrimental

BRYN MAWR, Pa., Jun 15, 2006 (BUSINESS WIRE) -- Aqua America, Inc. (NYSE:WTR) Chairman and Chief Executive Officer Nicholas DeBenedictis said he believes that business models that fail to instill long-term ownership of regulated water utility systems will be harmful to communities and customers. DeBenedictis' remarks to the 29th annual National Conference of Regulatory Attorneys, which is meeting June 11-14 in Scottsdale, Arizona, provided a year-in-review assessment on the concerns he raised at last year's conference on the topic of certain non-utility buyers acquiring U.S. water systems.

"While our company has been in the water business for 120 years, we've seen shifting ownership models over the past decade or so involving electric companies, European conglomerates and now private-equity financial buyers. These rapidly changing business structures have caused considerable turmoil for communities, consumers and water utility employees," said DeBenedictis.

"Private-equity funds have become the dominant players in today's M&A market, reshaping almost every industry they touch," he stated. "I believe that some of these financial buyers might be looking to the regulated utility market to get above-market returns in a short amount of time. That's why I'm concerned about turning our precious water resources over to any private-equity buyers who are highly leveraged, bring a short-term investment horizon and have little or no experience in water quality and utility management."

DeBenedictis urged regulators to clearly define the rules when evaluating potential acquisitions. For example, the Pennsylvania Public Utility Commission (PUC) voted in March 2006 to reconsider the sale of a water and wastewater company to Hydro Star, an affiliate of American International Group (AIG). Commission members raised concerns that the purpose of transaction might be to realize quick profits by "flipping" the acquired company. The vote also referenced the investors' lack of utility management experience, which could lead to severe consequences for customers in the short and long run.

"I applaud the Pennsylvania PUC for its decision to take a closer look at the potential ramifications of this type of transaction," he said.

The reason for the long-term horizon is the major investments needed in the nation's deteriorating water infrastructure. "We need companies that will be in the water business for the long haul and are committed to making the capital investments needed to maintain and upgrade the nation's infrastructure," he said. "Our assets have long lives of 50 to 100 years. Therefore, short-term financial gratification is not consistent with the longevity of water assets and a long-term commitment to customers and the water industry."

As proof, he cited the American Society of Civil Engineers (ASCE) assigning a D-minus grade to the nation's water treatment plants, wells, pumps and pipes in its 2005 Report Card for America's Infrastructure. In addition, the U.S. Environmental Protection Agency has recommended that utilities need to invest \$277 billion over the next 20 years to upgrade and maintain the nation's water systems.

Beginning in the 1990s, DeBenedictis noted that electric utilities, such as Enron, DQE and others, entered the water industry thinking they would capitalize on synergies between the two businesses. "When the new model failed to produce the desired financial results," he said, "the electrics quickly exited the water business, leaving some troubled water systems in their wake - with Enron-backed Azurix being the poster child for this failure."

European multi-utility conglomerates were next to jump into the U.S. water market. As of today, almost all of them have decided to exit. "The business model of some European firms of paying a premium for acquisitions and imposing major cost-cutting caused adverse reactions among some communities, employees and regulators," he said. "After a few years in the U.S. water business, the end result of that European model is dissatisfied customers, distressed employees and some community water systems suffering from reduced capital investment."

Aqua America, Inc. is the largest U.S.-based publicly-traded water utility, serving more than 2.5 million residents in Pennsylvania, Ohio, North Carolina, Illinois, Texas, Florida, New Jersey, Indiana, Virginia, Maine, Missouri, New York, and South Carolina. Aqua America is listed on both the New York and Philadelphia Stock Exchanges under the ticker symbol WTR.

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