

From: Connors, Ryan <Ryan.Connors@northcoastresearch.com>

Sent: Thursday, October 24, 2024 9:29 AM

To: Barrow, Kimberly <kmb@pa.gov>

Subject: [External] FW: GWI Business | Middlesex Water, venture capital for water tech, the hack heard round the world

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Hello Commissioner Barrow,

I watched with interest your comments on the Veolia rate case and I agree, it was a very straightforward and well-managed proceeding. Also, I thought the column below may be of interest.

Best,

Ryan M. Connors

[The hack heard round the world of water](#)

After throwing cyber stones for years, private water utilities find their house is made of glass after all.

22 October 2024

Ryan Connors

Global Water Intelligence

“I am the greatest!”

So crowed boxing newcomer Muhammad Ali in 1964 as he guaranteed victory against seemingly invincible heavyweight champion Sonny Liston.

Despite such haughty bravado, which would become his trademark, Ali was and remains a beloved figure in the world of sport because he backed up his brash talk: not only did he defeat Liston to claim the title, he went on to be considered by many the greatest boxer of all time.

Ali was just telling the truth – he really was, quite literally, the greatest.

Private sector water utilities have long exhibited similar braggadocio in holding out their capabilities against their municipal counterparts, and in recent years cybersecurity has been a case in point.

In a 2021 podcast, National Association of Water Companies CEO Rob Powelson called the cyber breach of the Oldsmar, Florida water system “alarming”, and scorned Oldsmar’s preparedness, arguing that investor-owned water utilities are frequently better prepared to address cybersecurity.

Powelson opined that cybersecurity is “pretty basic blocking and tackling, and there are some great municipal systems out there that are doing this quite effectively, but a lot of these community water systems are not investing properly, and these are the low-lying areas where these threat vectors are penetrating.”

More recently, in a September 2024 presentation, the president of Essential Utilities’ Aqua division noted that “as a privately held, investor-owned company, we have a higher standard on cyber,” saying that “the water industry is so lagged because it is so government-dominated.”

These are just two examples of what has become a reflexive talking point among private sector water utilities regarding their superlative ability to ward off hackers.

Unfortunately, recent events have exposed the private water industry as decidedly un-Ali-like in backing up its claims of superior systems security.

On 3rd October, American Water, the largest private sector water utility in the United States serving 14 million people – and the industry’s undisputed bellwether – suffered a cyber breach that forced the company to take its primary billing system offline for nearly a week.

Like a bumptious boxer hitting the canvas, the industry has been predictably jeered given its former conceit, with American Water itself having echoed the industry's worthier-than-thou talking points on cyber in a public call with investors just months before falling victim to hackers.

In response to the breach, one ratepayer advocate noted of private water utilities that, "People who live in glass houses should not throw stones," while a spokesperson for a trade association representing municipal water systems noted sardonically that "This is further evidence that privatisation of publicly owned water and sewer infrastructure isn't always the answer."

More importantly than mere taunts, the American Water breach emboldens those already contesting the private sector's cyber superiority in regulatory channels.

This includes Pennsylvania's Office of the Consumer Advocate, which as part of its opposition to Aqua's acquisition of the Greenville Sanitary Authority, took issue with claims that the transaction would improve the system's cybersecurity.

The OCA suggested that such claims are a red herring, saying proponents "claim that the transaction would improve security of information systems against cyberattacks targeted at 'municipal-owned utilities' without identifying any need-based improvements."

The PUC judge overseeing the case agreed, issuing a recommended decision calling for the PUC to reject the acquisition, noting that "there is no evidence that Greenville would not be capable of enhancing its cybersecurity" and that the "evidence demonstrates that Greenville would be capable of responding to a cyber attack."

2024 has been a tough year for private sector water utilities, with a conspicuous cyber breach the bitter cherry on a foul sundae that includes stalled momentum on fair market value acquisition policy, sharper pushback on rate increases, and a high-profile investigation into water quality issues.

A definitive split has opened in recent years between smaller private water utilities, which merely wish to go about the prosaic-but-vital business of operating water and wastewater systems, and larger players, whose decisions reflect a far greater prioritisation of growth in the strategic pecking order.

The desire for growth is understandable, particularly given that valuations appear to be pricing in much greater growth than the industry has historically delivered: the average water utility P/E multiple of 24 times is more than 40% above the electric utility peer group average.

No company wants to see its P/E multiple contract, so a desire to chase expansion is natural, but is superior growth really what investors value in a water utility?

The facts suggest not. Smaller water utilities happy with a more measured pace of growth, and opposed to some of the industry's more aggressive growth policies, trade at a premium to the sector's average P/E.

Could it be that, rather than the potential for rapid growth, what investors really value about water utilities are their steady earnings, consistent dividends, and limited risk profile?

The answer is likely yes, particularly since – as the experience of 2024 suggests – the chase for growth includes significant unintended consequences.

Maybe private water utilities really *are* the greatest, but they need to get back to basics and recall what it is that makes them great.

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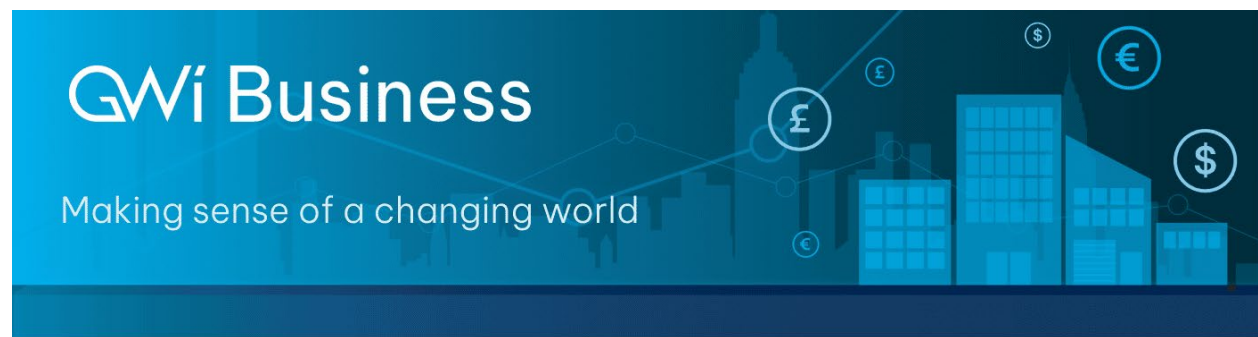
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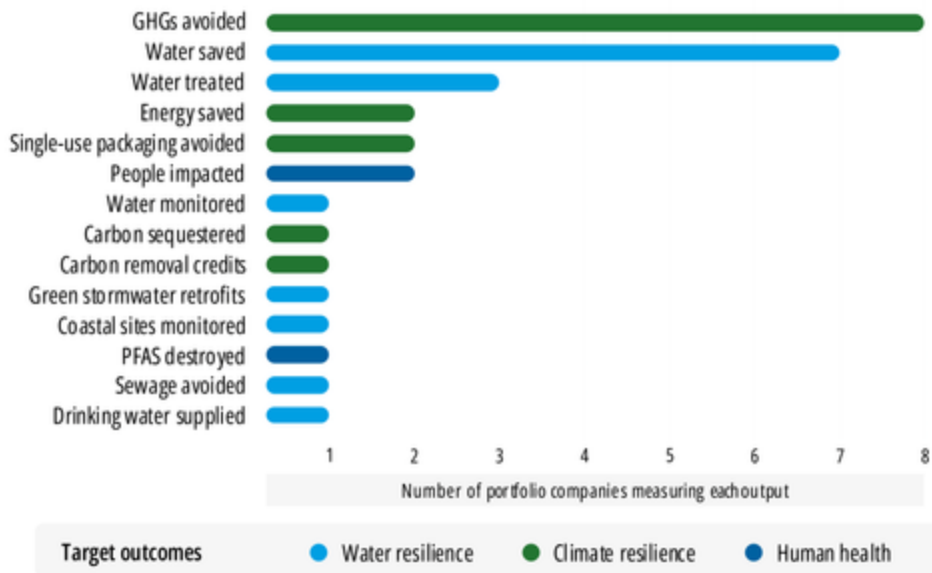
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