

## **Water Company Acquisition Q's and A's**

### **Why was the Water Company Acquisition Study Committee formed?**

The Board of Selectmen, concerned with a history of very large rate hikes and poor service, recommended to Town Meeting in 2012 that we study whether or not the Town should acquire the water company.

Town Meeting agreed and provided \$320,000 in funding. The Board of Selectmen appointed a committee consisting of four former chairmen of the Advisory Committee and the chairman of the Sewer Commission. The committee has issued several interim reports over the past fourteen months and has recently made a recommendation to the Board of Selectmen.

### **What did the Water Company Acquisition Study Committee recommend?**

The committee began its study after Town Meeting in April 2012, considering three possible options: a) purchase the company under the statute which gives the Town that right; b) leave things as they are; and, c) come to a negotiated settlement with Aquarion.

The committee has concluded that 'Option b - leave things as they are' should no longer be considered. The committee recommends that the Town either purchase the company under the statute which gives the Town that right or seek a negotiated purchase.

### **Is the water company for sale?**

Aquarion officials have repeatedly said "no," it is not for sale. However, the statute under which the company was licensed by the state legislature in 1879 gives the Town the right to purchase the company at any time, and states a formula for determining the price.

### **Why did the Committee recommend the purchase of the water company?**

The committee's financial analysis indicates that the Town could own and operate the water company at a significantly lower cost than Aquarion. The cost difference is estimated as between and \$70 and \$90 million over twenty years, even including the cost of purchasing the facility.

The committee had three requirements that it felt must be met before it could make a 'purchase' recommendation.

First, the act of purchasing the company should not have a negative effect on water rates all by itself – in other words, the purchase must be “rate transparent” to ratepayers.

Second, there must be sufficient savings to allow for lower and slower rate increases as well as a stepped-up capital-improvement plan.

Third, the committee must be confident that its interpretation of the statute is legally sound and should withstand challenge.

All of these conditions can be met, according to the committee, and with the expected decrease in costs to own and operate the company, purchasing it is the appropriate action.

**Isn't the water infrastructure old? Wouldn't we be buying something that needs a lot of repair?**

The cost of repairing the water system is covered by the ratepayers. That is true now and would be true whether we purchased the system or not. Ratepayers pay for the repairs either way.

If we purchased the system, though, the lower cost of ownership would allow for an increased rate of repair based on the current rate expectations. Lower costs would also allow for lower and slower rate increases.

**How would we pay for the purchase?**

The Town would bond the purchase amount. With interest rates at historic lows and the Town's triple-A bond rating, the cost of this borrowing would be very low.

**Why should we undertake a large capital purchase so soon after raising taxes to pay for building projects? Won't this increase taxes?**

No. Taxes will not be affected. Like the Sewer Department and the Light Plant, the other two utilities the Town owns, the costs of ownership and operation will be paid for through the user rate. The committee's price estimate is such that the price can be covered without increasing water rates in order to purchase.

**Why does the committee think the Town can operate the water system more cheaply?**

The committee conducted an extensive analysis of the operations of the water system. Most of their work has been focused on that for the last fourteen months.

They looked at what costs the Town would not need to pay if it owned the system. For example, the approximate ten-percent return-on-equity which Aquarion currently provides its shareholders would be available to the Town to provide more repairs and/or to slow rate growth. Other such costs include the cost of the bond for the water treatment plant (for which the Town may borrow much more cheaply), the current surcharge for volume water use, federal and state taxes, and similar items.

The committee also looked at new costs the Town might incur not presently covered under the water rate. For example, some of the billing and collections costs are currently absorbed by Aquarion's Connecticut headquarters. Also, there will be a cost to be sure we have the right management in place to protect the Town's interests.

After subtracting some costs and adding in others, the committee found that it could cost the Town 20-25% less to own and operate the system than it costs Aquarion. The committee found that—even including the cost to finance the purchase—savings would accrue in the first year.

### **Can the Town operate a water utility effectively?**

The Town currently owns two utilities, the Light Plant and Sewer Department, and they operate quite effectively.

In fact, only a handful of Massachusetts communities have investor-owned water systems. The vast majority of local water systems in Massachusetts are municipally-owned. Our situation is very unusual. At least initially, the committee has recommended that an experienced water company operator run the system for the Town. The costs of that type of arrangement are already taken into account and do not reduce the cost savings.

### **Aren't Hull and Cohasset involved in this? What do they think?**

All of Hull's water distribution system, and a small section of Cohasset's, are part of Aquarion's holdings in this area.

Initial discussions with the Town Managers of Hull and Cohasset indicate that there is support for this proposal and that their Towns would be willing to negotiate an inter-municipal agreement to cover the system operations in the future.

### **Where can I get more information?**

The committee has posted almost all of the documents it has used in its study on the Town's website. Go to the Town's home page, choose "Committees," then "Water Company Acquisition Study Committee."

**What's next?**

The Board of Selectmen voted on June 27<sup>th</sup> to approve the study committee's recommendations.

The Board of Selectmen will be determining next steps shortly.