

**COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF PUBLIC UTILITIES**

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**Application and Petition of Aquarion Water Company of  
Massachusetts, Inc., pursuant to M.G.L. c. 165 and  
M.G.L. c. 164 for Approval and Authorization to Reduce  
its Water Treatment Plant Surcharge as Set Forth Herein and  
for such other Approval and Authorization as may be Deemed  
Necessary or Appropriate in connection with the foregoing**

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**D.P.U. 12-84**

**PETITION FOR APPROVAL**

Pursuant to M.G.L. c. 164 and M.G.L. c. 165, Aquarion Water Company of Massachusetts, Inc. (the "Company" or "Aquarion") respectfully requests that the Department of Public Utilities (the "Department") approve the Company's petition to reduce its Water Treatment Plant Surcharge (the "Surcharge") effective immediately.

• **INTRODUCTION**

By way of background, in 1995 Massachusetts-American Water Company ("Mass-American") was in the process of constructing a water treatment plant in Hingham, along with related off-site piping and pumping station improvements (the "WTP Project"). The WTP Project was undertaken in concert with an Administrative Consent Order entered into with the Massachusetts Department of Environmental Protection on April 29, 1993. Massachusetts-American Water Company, D.P.U. 95-118, at 7-10 (1996). In order to accomplish the WTP Project, Mass-American's then-parent, American Water Works Company ("AWW"), formed Massachusetts Capital Resources Company ("MassCapital") as a wholly-owned special-purpose company for the purpose of financing and constructing the WTP Project using a project finance approach. Id. at 58. See also Massachusetts-American Water Company, D.P.U. 95-41 (1995). On July 1, 1995, MassCapital purchased the partially-constructed WTP Project from Mass-

American and obtained access to \$37,700,000 in tax-exempt bonds through the Massachusetts Development Finance Agency (“MDFA”) to finance construction. D.P.U. 95-118, at 58-59. MassCapital entered into a ground lease with Mass-American and, in exchange, Mass-American entered into a 40.5-year operating lease for the WTP (“WTP Lease”). Id. at 60.

The WTP Lease expense, along with operating and maintenance expenses associated with the WTP, are recovered through the Surcharge. Id. at 61, 164. The Surcharge is designed to collect 67 percent of the WTP Lease expense through a fixed charge that varies by meter size and 33 percent through a charge that varies by consumption. Id. at 175. The Surcharge is applicable to customers in the company’s Hingham district (i.e., Hingham, Hull, North Cohasset, and Norwell).

The Department in its decision in D.P.U. 95-118 recognized that the WTP Project close-out process and final apportionment of construction savings between Mass-American and its contractor potentially could result in savings that should be passed back to customers in the form of a reduced Surcharge. Id. at 57-58. Therefore, the Department directed Mass-American to provide an accounting of the final costs of the WTP Project upon completion and placed Mass-American and the parties to that proceeding on notice that the Department could, at its discretion, reopen the record for the purpose of recalculating the Surcharge to adjust for lower than anticipated WTP Project costs. Id. at 57-58.

In April 2002, Aquarion Company purchased Mass-American and MassCapital, along with other AWW affiliates in Connecticut, New Hampshire, and New York. Thereafter, the company’s name was changed to Aquarion and MassCapital’s name was changed to Aquarion Water Capital of Massachusetts, Inc. (“Aquarion Capital”). In turn, upon the acquisition

Aquarion discovered that the final reconciliation had not been filed and took the appropriate steps to complete that task.

Accordingly, on December 22, 2005, Aquarion filed with the Department<sup>1</sup> proposed rates and charges designed to reduce the Surcharge by \$204,144 per year to account for the January 2005 redemption of \$2,565,000 in tax-exempt bonds which were originally issued in 1995. The Department docketed this matter as D.T.E. 05-94. On December 28, 2005, the Department allowed the proposed reduction to the Surcharge to go into effect, subject to further investigation.

After review and based on the record evidence in D.T.E 05-94, the Department exercised the discretion it reserved to itself in D.P.U. 95-118 and ordered Aquarion to refund the outstanding excess bond proceeds associated with the redemption of \$2,565,000 in bonds related to the construction of the WTP Project, including accumulated interest, to its Hingham division ratepayers as proposed.<sup>2</sup> The Department's decision issued on March 9, 2007.

- **REFINANCING**

In order to take advantage of the low interest rate environment, the Company recently completed a refinancing of the Aquarion Capital bonds. As noted, those bonds had supported the construction of the WTP. The overall level of debt was \$29.905 million which had a weighted average coupon rate of 6.85 percent. The Company was able to refinance the existing debt into a \$21.0 million, 10-year amortizing bank note bearing interest at 4.10 percent. The Company was also able to liquidate approximately \$4.2 million of restricted cash associated with the bonds, and a \$5.7 million intercompany note receivable to reduce the amount needed to be refinanced. The

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<sup>1</sup> At the time of this filing, the Department was called the Department of Telecommunications and Energy.

<sup>2</sup> The Department also directed that an additional \$8,821 representing the residual difference between the adjusted excess bond funds of \$2,573,821 and the actual bond redemption of \$2,565,000, plus interest accrued at Aquarion's commercial paper rate, be included in the refund balance.

closing occurred on October 1, 2012 and the Company has determined that its annual debt service on the WTP will decrease approximately \$926,000 annually.

- **COMPANY'S REQUEST**

The Department in its decision in D.P.U. 95-118 reserved to itself the ability to reopen the record for the purpose of recalculating the Surcharge to adjust for lower than anticipated WTP Project costs. The Department subsequently exercised that discretion and approved a reduction to the Surcharge in D.T.E 05-94. Similarly, the Company now petitions the Department to recognize that the refinancing of the Aquarion Capital bonds constitutes a financially analogous situation whereby its customers stand to benefit, immediately, from the decrease of approximately \$926,000 annually related to its annual debt service on the WTP.

**WHEREFORE**, for the reasons set forth in this Petition and in the testimony and exhibits of the Company's witness, the Company respectfully requests that the Department:

ORDER: That the tariffs set forth, attached hereto, are just and reasonable and are approved; and

ORDER: Such other and further order and approvals as may be necessary or appropriate.

Respectfully submitted,

**AQUARION WATER COMPANY OF  
MASSACHUSETTS, INC.**

By its attorney,



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