



Water Company Acquisition

Background

July 2018

History

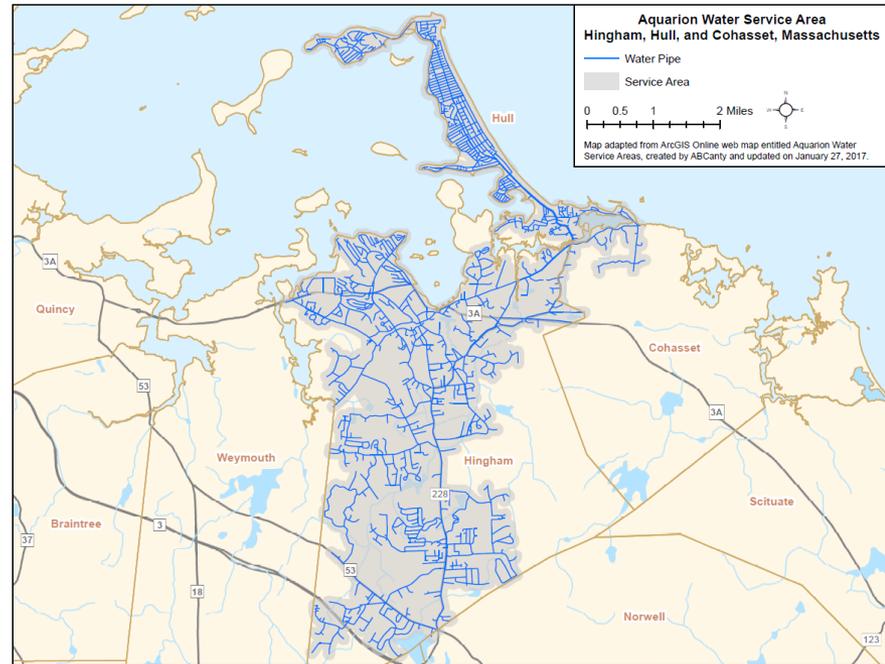


1879:

- **Hingham Water Company incorporated by the General Court of Massachusetts**

1881:

- **General Court authorized extension through Hull and North Cohasset**



13,168 connections (customers) as of 2017:

- **Hingham: 8,196**
- **Hull: 4,638**
- **North Cohasset: 334**

Source: Aquarion return to MA DPU Year ending 12/31/2017

The Hingham Water Company has always been privately owned

Water Company Ownership History



1936: American Water acquires Hingham Water Company to form Mass American Water

66
years



2002: Kelda acquires 4 New England subsidiaries (64,000 customers) of American Water for \$233 million; makes them part of its Aquarion Water Company subsidiary

5
years



2007: Macquarie bank acquires Aquarion (219,400 customers) from Kelda for \$860 million

10
years



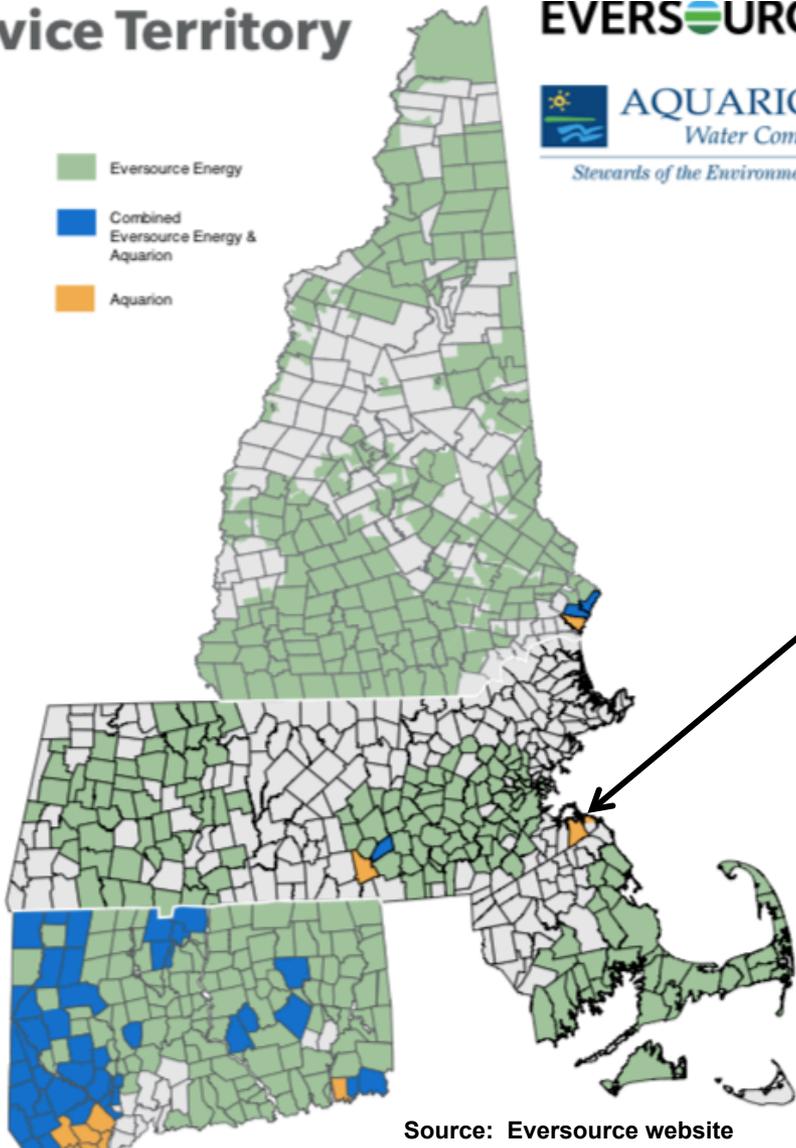
2017: Eversource Energy acquires Aquarion (230,000 customers) from Macquarie for \$1.68 billion

Eversource Service Territory



Service Territory

- Eversource Energy
- Combined Eversource Energy & Aquarion
- Aquarion



EVERSOURCE

AQUARION
Water Company
Stewards of the Environment™

Eversource

- 4 million customers (230,000 water)

Hingham/Hull/North Cohasset

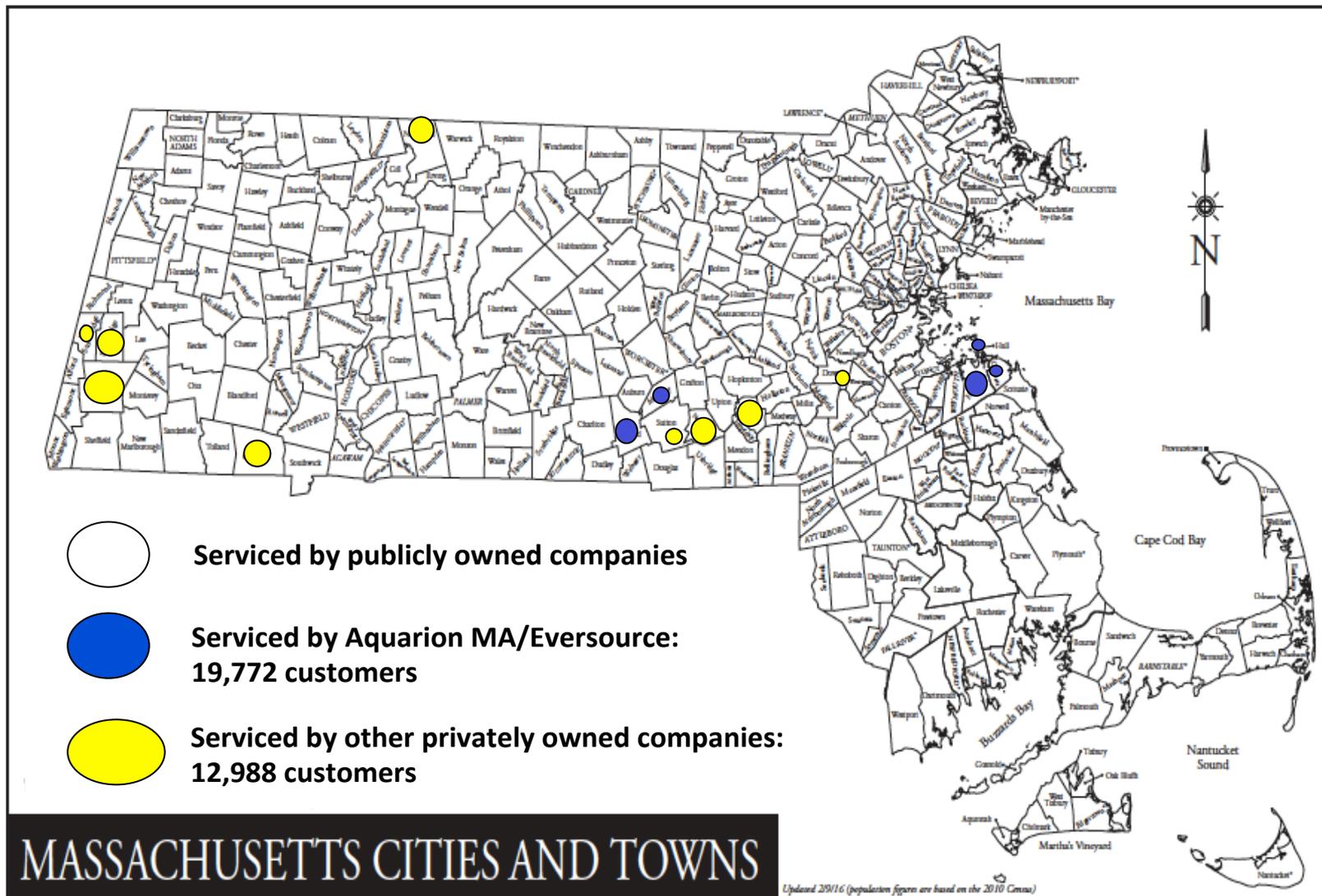
- "Service Area A"
- **72%** of Aquarion MA business
- 6% of Eversource entire water business

Will apply **72%** factor to some MA values to approximate impact to Service Area A

Source: Eversource website



MA water customers serviced by privately-owned water company





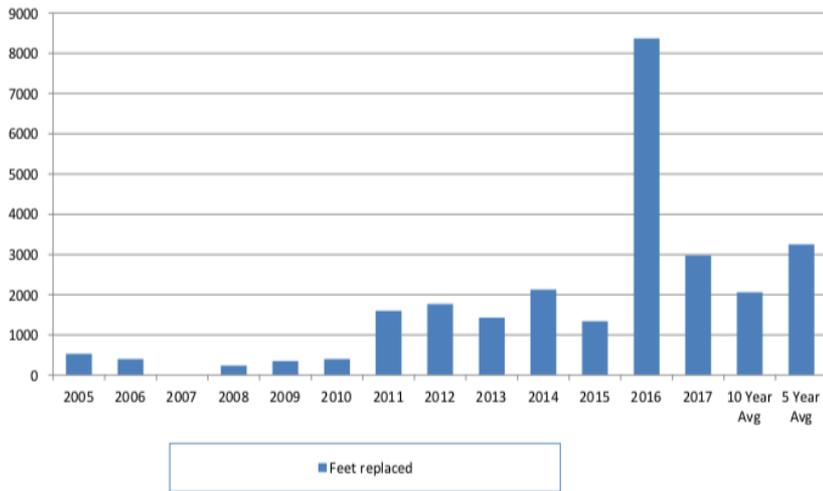
Water Supply and Water Delivery System

- **Water sources:**
 - Fulling Mill Pond (rights purchased in 1886 for \$2,000)
 - Accord Pond (rights purchased in 1912 for \$1,500)
 - 12 wells/pumping stations
- **Water Delivery System:**
 - 2 storage tanks
 - 190 miles of pipe (app. 1 million feet)
 - Water treatment plant
- **DEP Authorized withdrawal limit:**
 - 1.281 billion gallons per year
 - 3.5 million gallons daily average

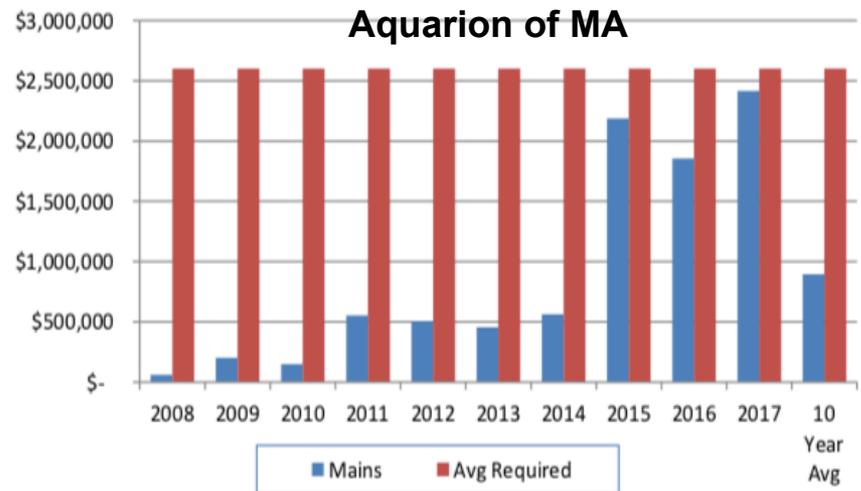


Water Main Replacement History

Service Area A - Historical Water Main Feet Replaced



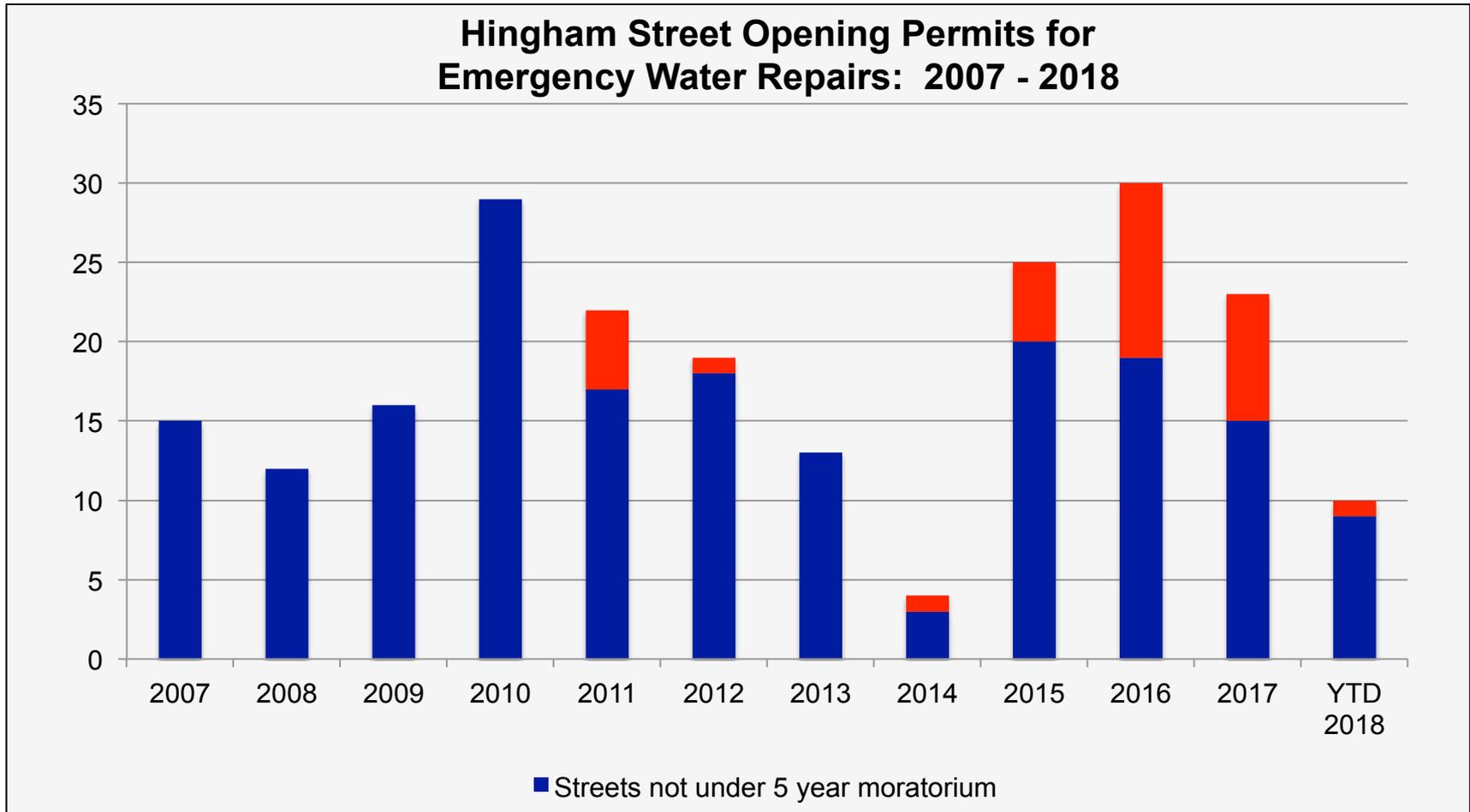
Historical Water Main Replacement



- **KANEW study commissioned by Aquarion**
- **Identified and evaluated annual capital investment options for MA**
 - \$2.6 million (illustrated)
 - \$1.8 million (recommended)
 - \$1.1 million

72% of recommended investment ~ \$1.3 million per year for Service Area A

Hingham Emergency Water Repair History



Cutting into newly-paved roads degrades their quality



MA water regulation

All MA water companies

Massachusetts Department of Environmental Protection

(MASSDEP)

MassDEP is responsible for ensuring clean air and water, safe management and recycling of solid and hazardous wastes, timely cleanup of hazardous waste sites and spills, and the preservation of wetlands and coastal resources.

- **Monitors and regulates water quality and water supply**
- **Certifies and licenses treatment and distribution system operators**

Privately owned MA water companies

Department of Public Utilities (DPU)

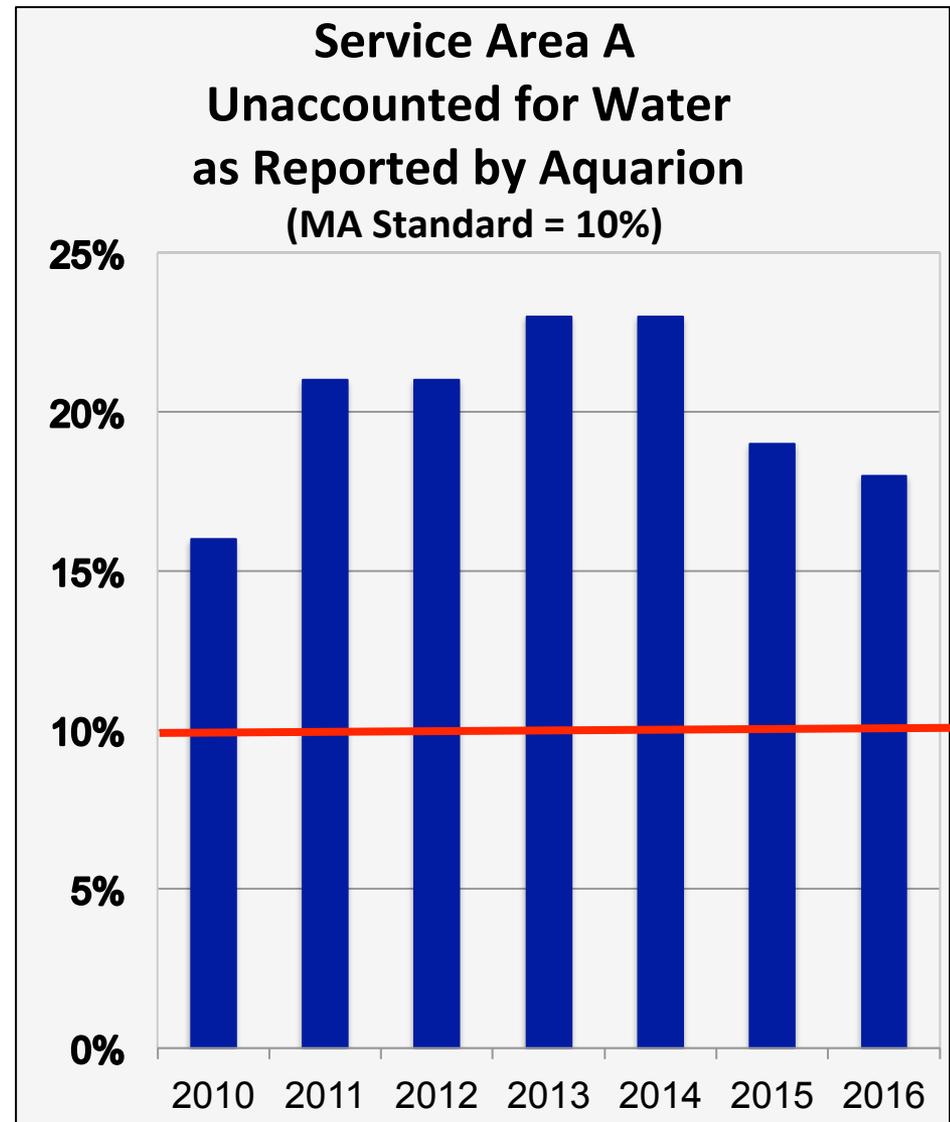
The DPU oversees investor-owned electric power, natural gas, and water companies in Massachusetts. In addition, the DPU regulates the safety of bus companies, moving companies, and transportation network companies. We also oversee the safety of natural gas pipelines.

- **Sets rates**
- **Requires filing of annual financial returns**

DEP Performance Standard: Unaccounted for Water



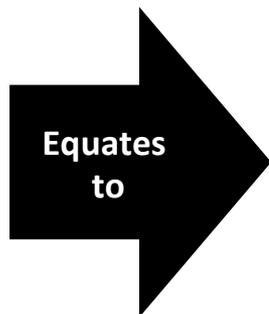
- ***“Unaccounted for Water (UAW)... is the percent of water entering the distribution system not accounted for from service meter readings or from unmetered municipal uses such as fire fighting and street cleaning.” (DEP Website)***



Source: MA DEP Website



Impact of achieving 10% DEP Standard



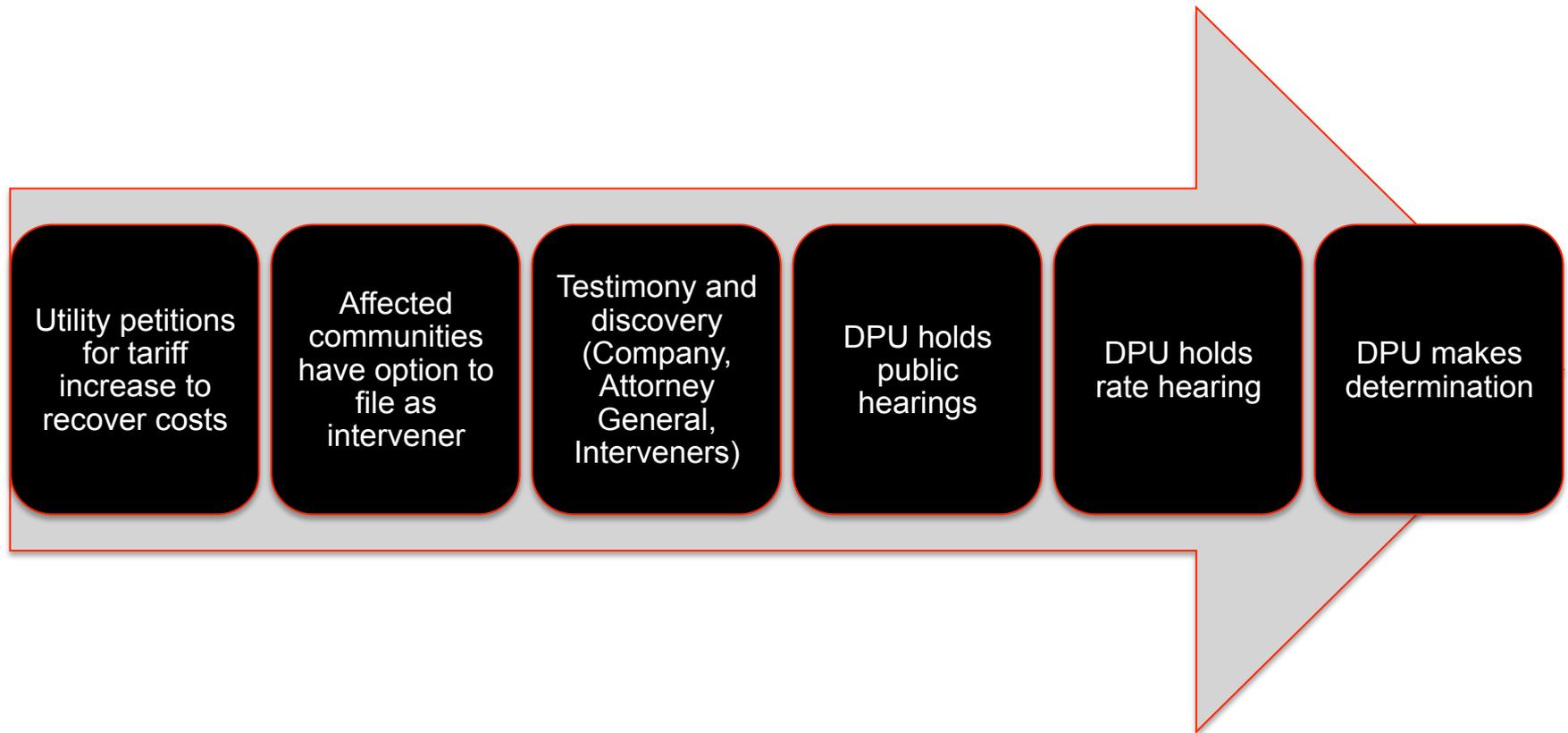
Annual consumption of **1,029** households

29 days' average consumption for Service Area A

Withdrawing **49%** fewer gallons from Accord Pond each year (2017: 187 million gallons withdrawn)



How a rate case works

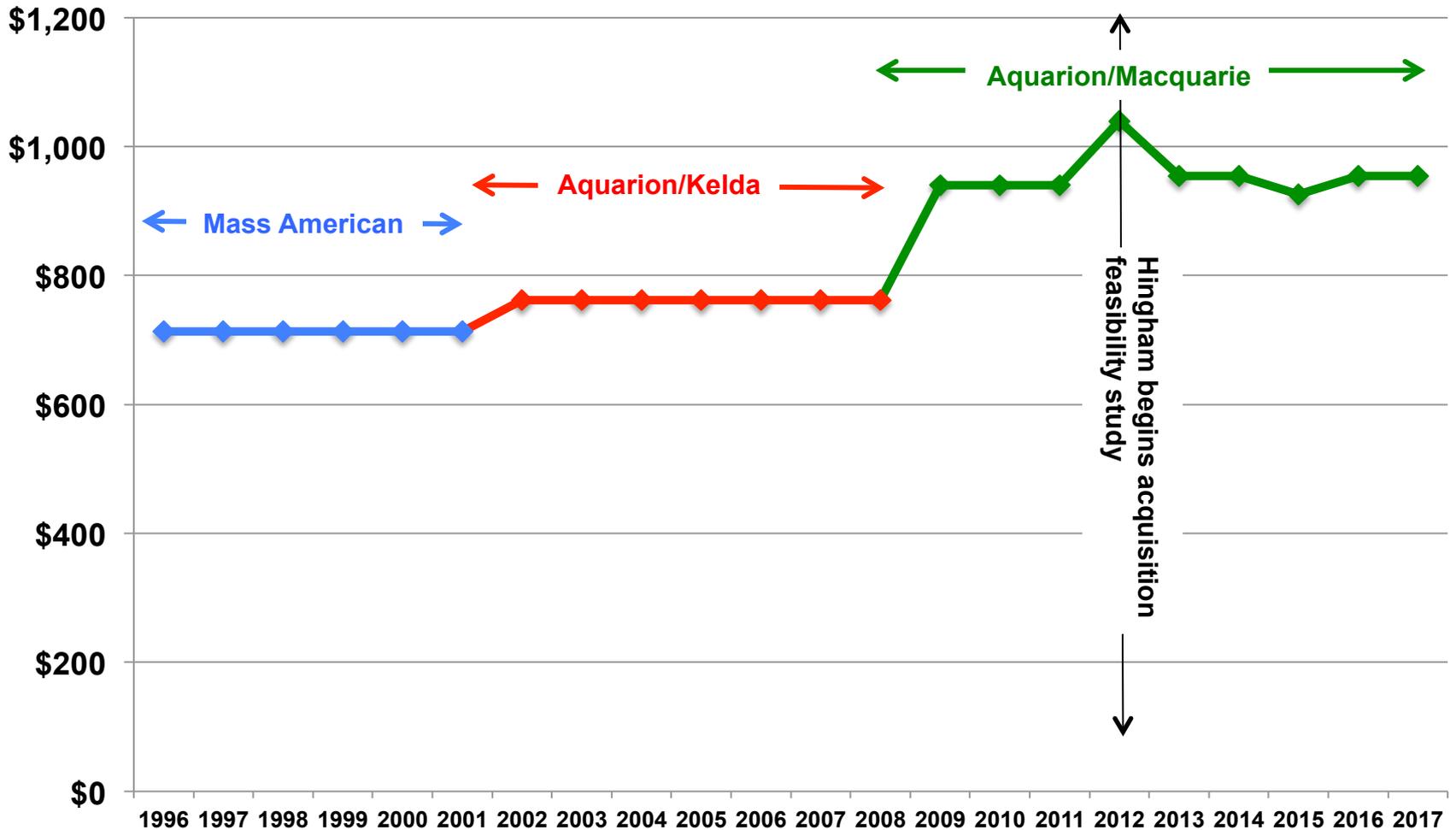


Expenses that are allowed in rate cases include operating costs, Return on Equity (companies allowed to submit ROE between 10.5% and 14.5%) , Depreciation, legal expenses (including rate cases)

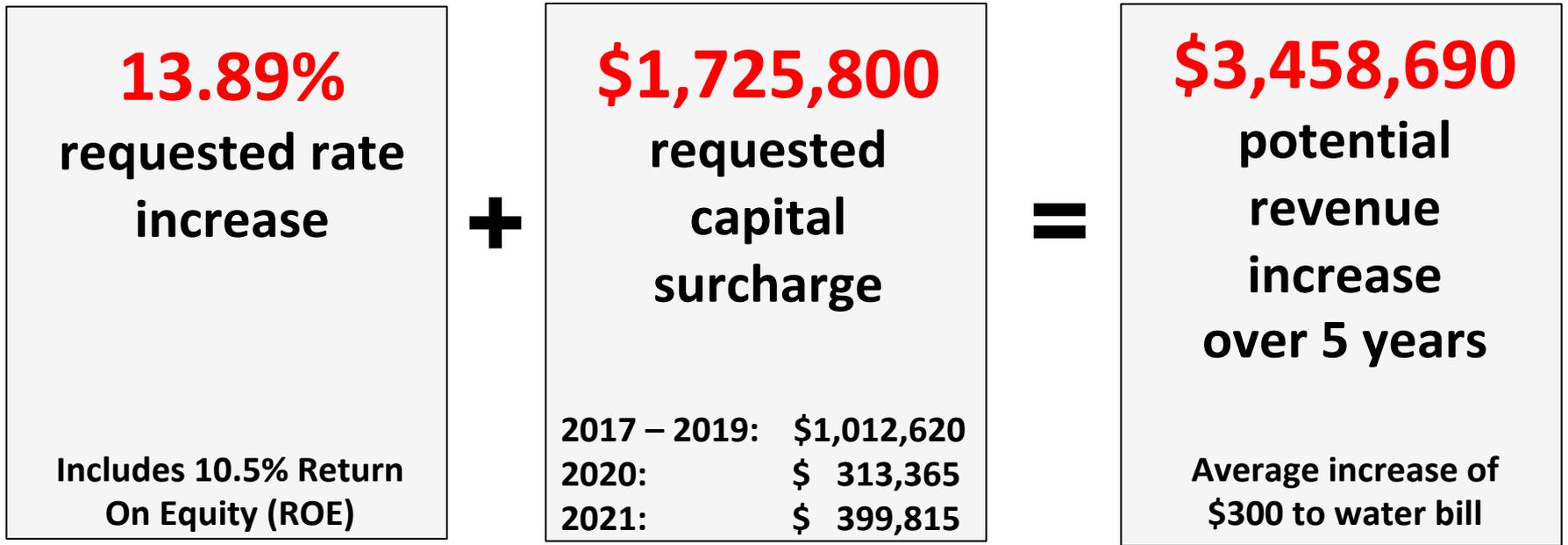
Hingham Residential Water Bill History: 1996 to present



Annual Water Bill (90,000 gallons)

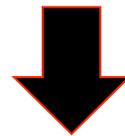


Current rate case (DPU 17-90) as of 6/25: Aquarion of MA



“This request for rate relief is driven in part by the Company’s investment in the infrastructure, and in part by increases in operating and maintenance expenses and general property tax increases offset by increased revenues.”

(Source: D.P.U. 17-90 Exhibit JPW dated 13 Apr 2017)



“...Represents a cost that is borne by customers through the ratemaking process...”

(Source: D.P.U. 17-90 Exhibit Towns 7-23 dated 11 Jun 2018)





Current rate case: capital surcharge

- **WRIM: Water Reliability Improvement Mechanism**
 - Proposed surcharge to accelerate capital investment and recover costs sooner
- **Rationale**
 - *“The Company is not in a position to increase the capital budget without introduction of the WRIM mechanism”* (Source: D.P.U. 17-90 Exhibit: Towns 7-3, 8 June 2018)
 - *“...other water companies, including the Company’s affiliates operating in other states, have these types of mechanisms in place to support incremental capital investment”* (Source: D.P.U. 17-90 Exhibit: Towns 7-8, 8 June 2018)
- **How it works**
 - Annual surcharge levied as % of revenue base, with limits for a given year and given rate case
 - *“The Company is proposing that the WRIM would apply to incremental distribution projects completed after the end of the test year. This proposal is not isolated to specific projects.”* (Source: DPU 17-90 Towns 7-22, 8 Jun 2018)
- **Impact**
 - WRIM investment gets incorporated into rate base, which becomes the basis for the next rate increase (and future WRIM surcharges should they occur)

Reasons Hingham initiated feasibility study in 2012



- Water rates (5th highest in the state in 2012)
- Persistent emergency water main breaks without plan to fix in coming year
 - Chronic underinvestment in capital
- Customer complaints about service disruptions and associated fire-safety concerns
- To allow greater Town control over management of water supply and water delivery infrastructure
- Acknowledgment that a private owner's first responsibility is to its shareholders—not its customers