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

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

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

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

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

Serviced by publicly owned companies

Serviced by Aquarion MA/Eversource: 19,772 customers

Serviced by other privately owned companies: 12,988 customers

Sources: MA Department of Public Utilities
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

Sources: Tata and Howard Capital Efficiency Plan; Aquarion Return to MA DPU Year ending 12/31/2017
Water Main Replacement History

Service Area A - Historical Water Main Feet Replaced

Aquarion of MA

- 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

Sources: DPU File Room; Exhibit AWC-TMD-1 (Supp.) dated 9 Feb 2018, Exhibit RR-HH-6 dated 2 Jul 2018
Hingham Emergency Water Repair History

Hingham Street Opening Permits for Emergency Water Repairs: 2007 - 2018

Cutting into newly-paved roads degrades their quality

Source: Town Engineer
MA water regulation

All MA water companies

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

Privately owned MA water companies

- 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)

Sources: MA DEP website, Aquarion Annual Report to DPU for 2017
How a rate case works

- Utility petitions for tariff increase to recover costs
- Affected communities have option to file as intervenor
- Testimony and discovery (Company, Attorney General, Interveners)
- DPU holds public hearings
- DPU holds rate hearing
- DPU makes determination

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

13.89% requested rate increase

Includes 10.5% Return On Equity (ROE)

$1,725,800 requested capital surcharge

2017 – 2019: $1,012,620
2020: $313,365
2021: $399,815

$3,458,690 potential revenue increase over 5 years

Average increase of $300 to water bill

“...Represents a cost that is borne by customers through the ratemaking process...”
(Source: D.P.U. 17-90 Exhibit JPW dated 13 Apr 2017)

72% of requested increase = $2.5 million for Service Area A

Additional Sources: DPU 17-90 Exhibit 4 dated 13 Apr 2017; DPU 17-90 AG-13-14 Attach. A dated 19 Mar 2018; DPU 17-90 Towns 5-12, 5-13 dated 30 Mar 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