



Water Company Acquisition

Financial Update

July 2018



Approach

- **Determined requirements for a feasible and advisable potential purchase recommendation to the Board of Selectmen**
 - Rate-transparent acquisition
(acquisition alone would not necessitate a rate increase)**
 - Establish significant capital reserve upon acquisition**
 - Replenish capital reserve annually**
 - Repay all feasibility study costs (including litigation)**
- **Received financial statements from Aquarion and held 3 reconciliation meetings**
- **Used rate-case filing documents and financial statements from Aquarion to create financial analysis**



Compare

Aquarion revenue

- Cost of doing business
- Capital surcharge
- Return on Equity
- Other items DPU allows investor-owned utility to charge ratepayers

VS.

Costs under Town ownership

- Cost of doing business
- Capital reserve
- Debt service on purchase
- Repayment of feasibility study costs

To determine costs under Town ownership, we needed to know the purchase price for the water company. This is primarily why the Town engaged in litigation.



Purchase Price Determination

- **Based on 1879 statute**
- **Increases over time as capital infrastructure accrues 10%/year interest**
- **Town attempted to negotiate a price with Aquarion**
- **Town took legal action because:**
 - **Negotiations were not productive**
 - **There was disagreement as to a price defined by the statute**
 - **There was disagreement whether the water treatment plant was governed by 1879 statute**

Purchase Price Determination



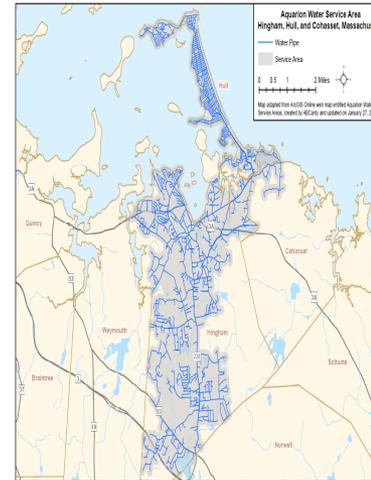
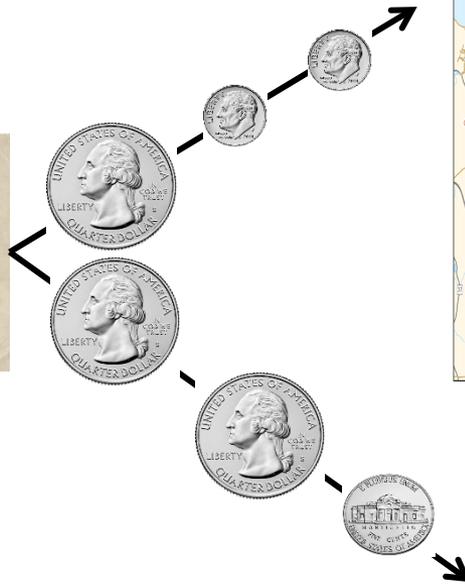
Effective Date	Town position	Aquarion position	Court ruling
12/31/2012	\$50-\$60 million	\$184.5 million (Including the water treatment plant)	
12/31/2013	\$52 million	\$192 million	\$88.6 million
12/31/2017			\$103.0 million (Roll forward of court ruling)

Under the formula, the purchase price increases by
\$3 - \$4 million per year



Financial Update: Conclusions

>\$0.55 of every dollar currently paid by ratepayers
leaves the service area



- Operations
- Maintenance
- Capital improvements

Aquarion/Eversource

- Water Treatment Plant (WTP) lease cost
- Profit
- Federal and State Taxes
- Other expenses

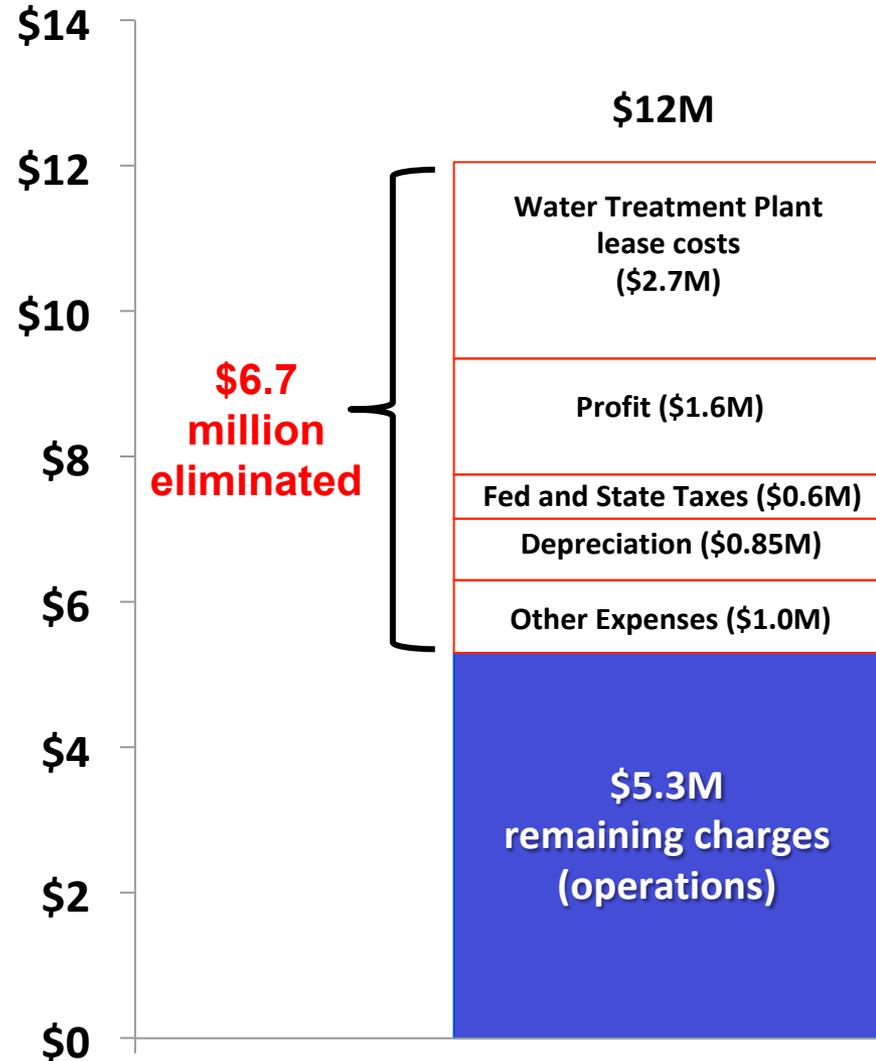
Financial Update: Conclusions



Over **55%** of
Aquarion's costs
could be eliminated
under Town
ownership

*These are costs that
an investor-owned utility
is allowed to charge ratepayers*

\$ Millions (M)



Financial Update: Conclusions



Town ownership results in savings to ratepayers

Additional Town Costs

- Outsourced Operations and Maintenance
- Payment in Lieu of Taxes to Town of Hingham (PILOT)
- New municipal charges (e.g., billing)
- Debt service for purchase, repayment of feasibility costs
- \$3 million capital reserve establishment
- \$2 million annual capital replenishment from year 1



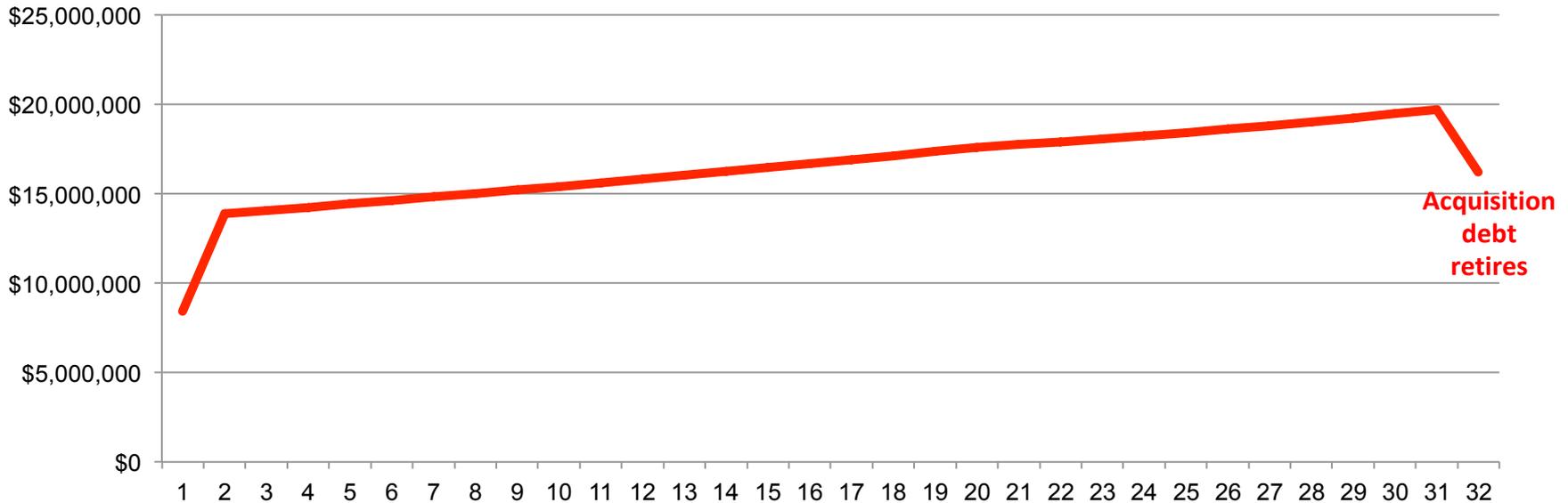
55%
eliminated costs



Total Municipal Ownership Costs

- ✓ Rate-transparent acquisition (acquisition alone would not necessitate a rate increase)
- ✓ Establish significant capital reserve upon acquisition
- ✓ Replenish capital reserve annually
- ✓ Repay all feasibility study costs (including litigation)

Total Municipal Ownership Costs



Years 3 – 31 average yearly cost increase = 1.2%

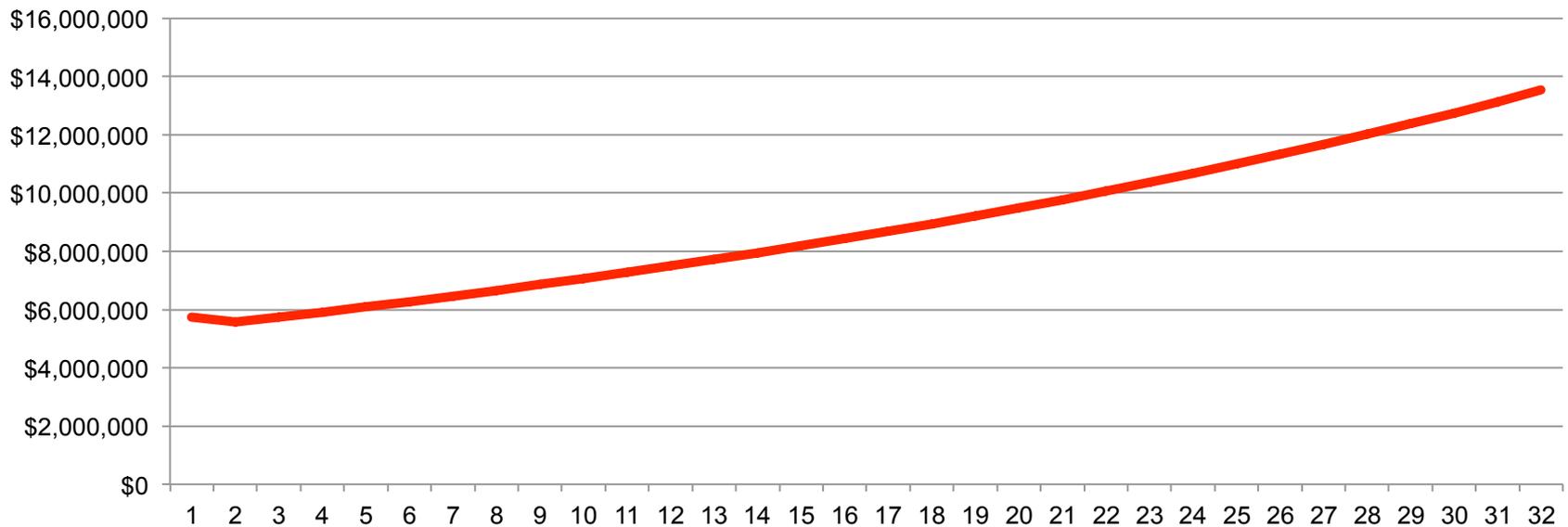


Municipal Operations and Maintenance Costs

Elements

- Property Taxes (Payment in Lieu of Taxes) and FICA Taxes
- Outsourcing Services
- Additional Municipal Costs (services and labor)
- Transaction Costs (Year 1 only)

Municipal Operations and Maintenance Costs



***3% assumed annual municipal cost % increase
(overall increase including debt service = 1.2%)***



Acquisition Debt Financing

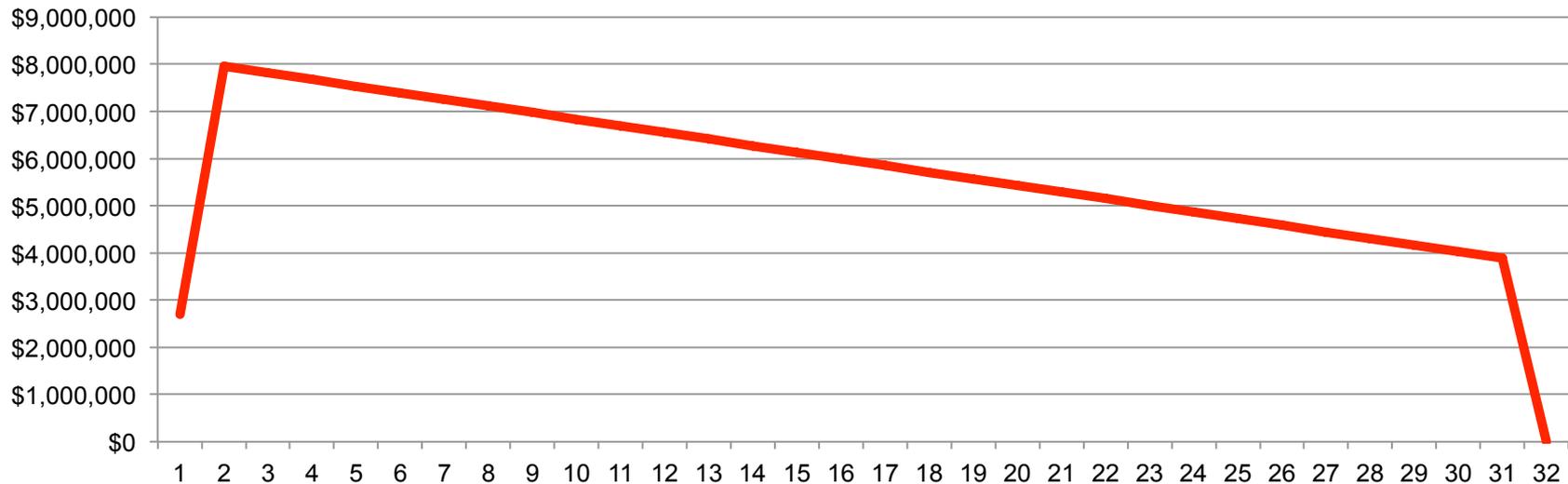
Estimated acquisition price (as of Apr 2019)	\$107,837,567
Capital reserve funding	\$ 3,000,000
Repayment of feasibility study costs	\$ 1,490,000

Total borrowing	\$112,327,567

Acquisition Debt Service

\$112,327,567

1 year short-term (2.25%), 30 years long-term (3.75%)



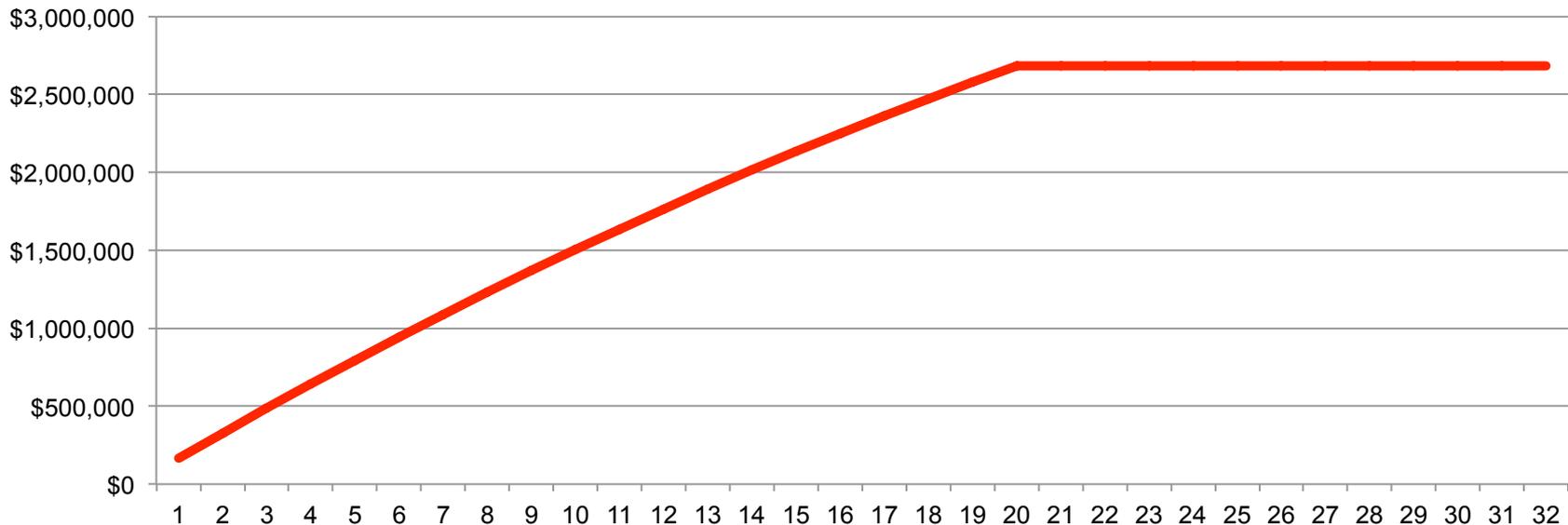
***Level principal financing reduces interest cost over life of loan;
acquisition debt retires after Year 31***



Annual Capital Reserve Financing

Annual Capital Reserve replenishment	\$2,000,000
Long-Term Borrowing Interest Rate	3.25%
Long-Term Borrowing Term (years)	20

Annual Capital Reserve Financing Debt Service



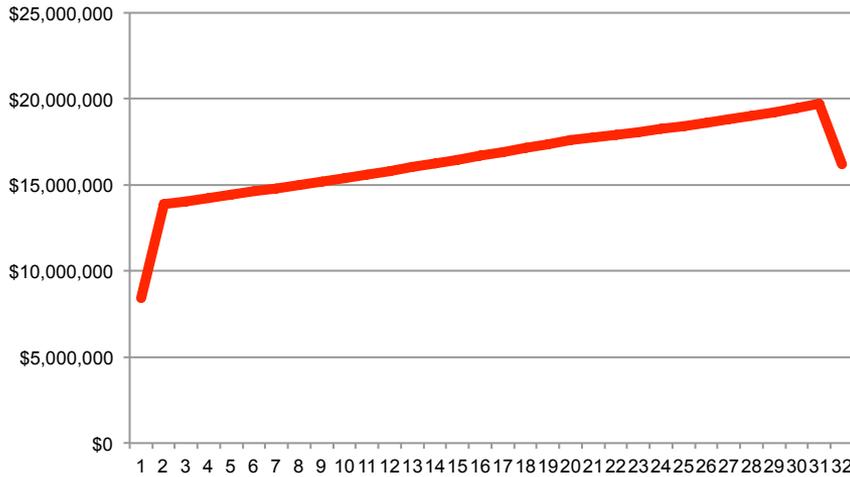
Cumulative capital investment:

- 5 years = \$13 million (average \$2.6 million per year)
- 10 years = \$23 million (average \$2.3 million per year)
- 30 years = \$63 million (average \$2.1 million per year)

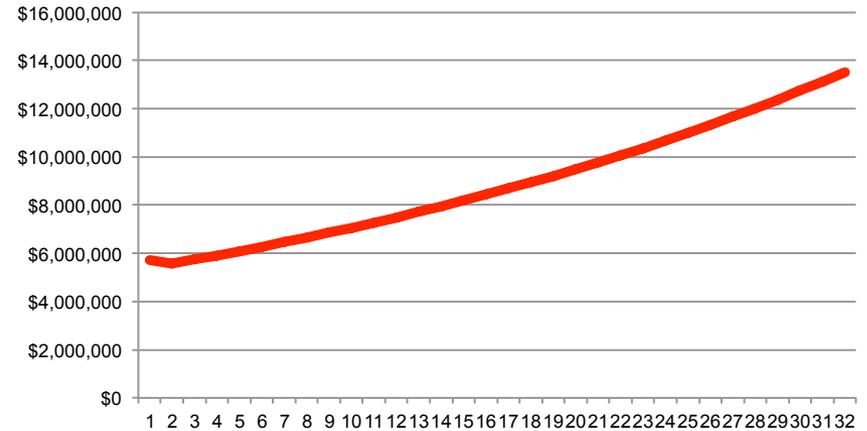
Summary: Town Ownership Costs



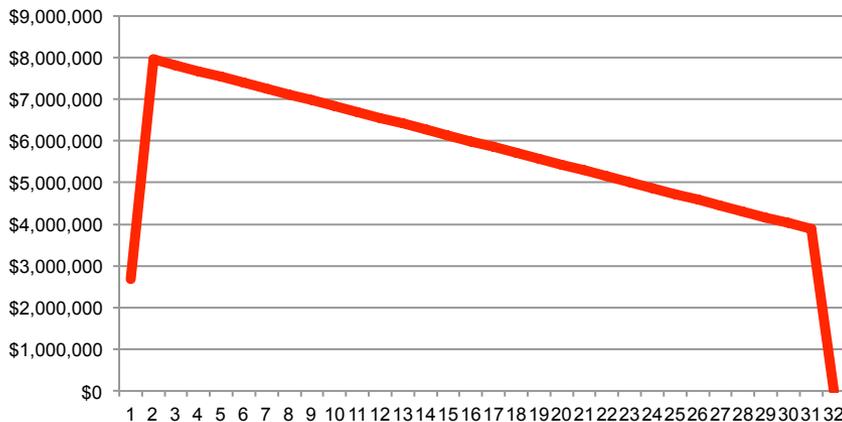
Total Municipal Ownership Costs
1.2% annual increase Years 3 - 31



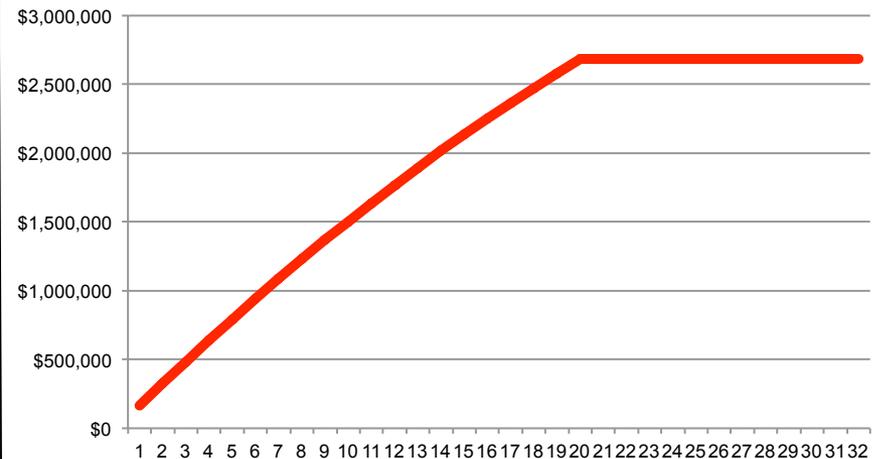
Municipal Operations and Maintenance Costs
3% annual cost increase (excluding debt service)



Acquisition Debt Service
Purchase, Initial capital investment, repayment of feasibility costs



Annual Capital Reserve Financing Debt Service
\$2 million per year





Financial Update Variables

- **Town**
 - Interest rates
 - Outsourcing costs
- **Aquarion**
 - Current rate case
 - WRIM capital surcharge
 - Frequency and magnitude of future rate increases

This analysis is based on available information and our understanding and reasonable interpretation of the current rate case



Aquarion Revenue Assumptions: 2 Scenarios

#1

13.89%
requested rate
increase

+

10%
rate increases
every 3 years

#2

13.89%
requested rate
increase

+

**WRIM* capital
surcharge to
2021**

+

10%
rate increases
every 3 years

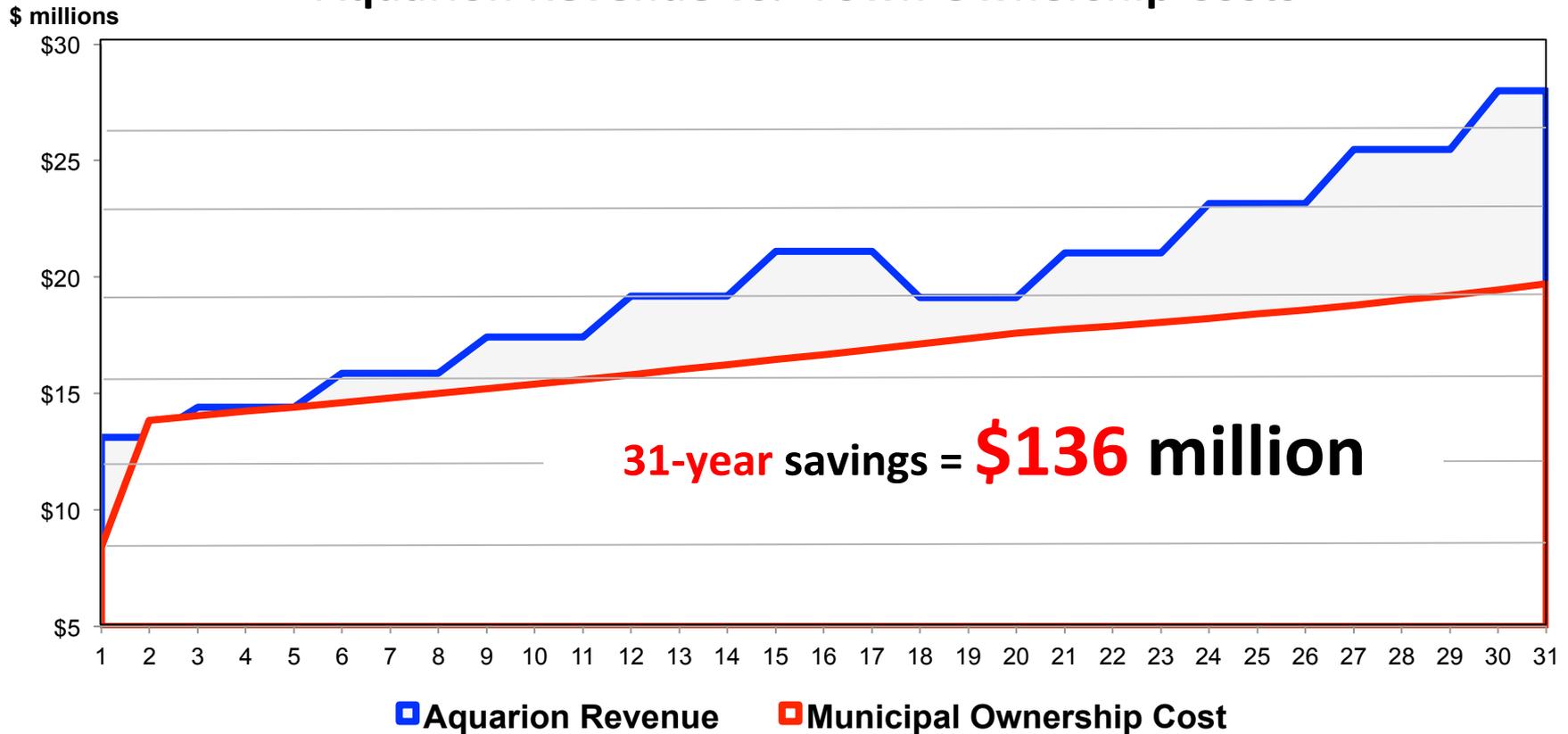
*WRIM → Proposed Water Reliability Improvement Mechanism annual surcharge

Cumulative Savings: Scenario #1



- **13.89%** requested rate increase
- **10%** rate increases every 3 years
- **No** WRIM capital surcharge

Aquarion Revenue vs. Town Ownership Costs

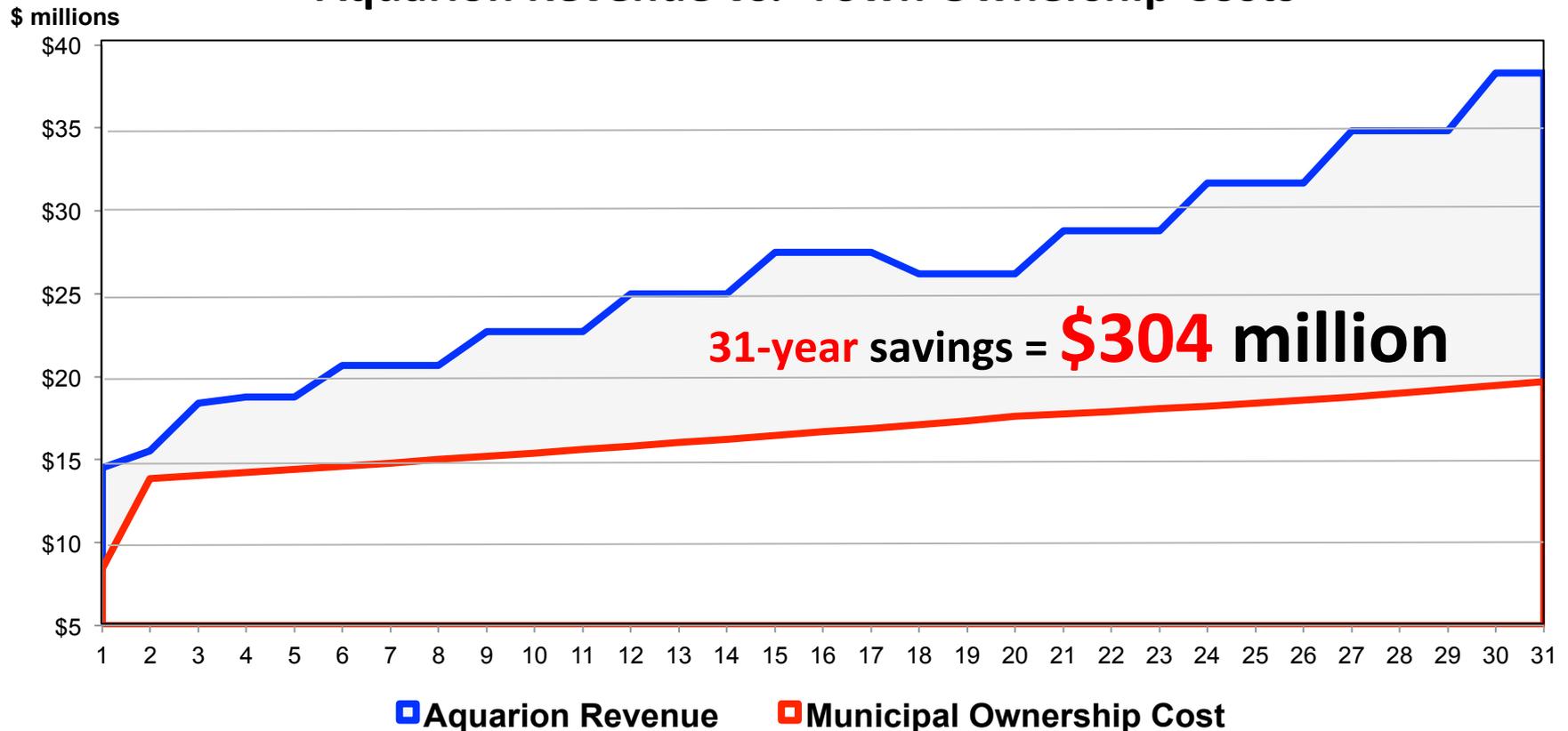




Cumulative Savings: Scenario #2

- **13.89%** requested rate increase
- **10%** rate increases every 3 years
- **WRIM capital surcharge through 2021**

Aquarion Revenue vs. Town Ownership Costs



Information about WRIM that informed financial update



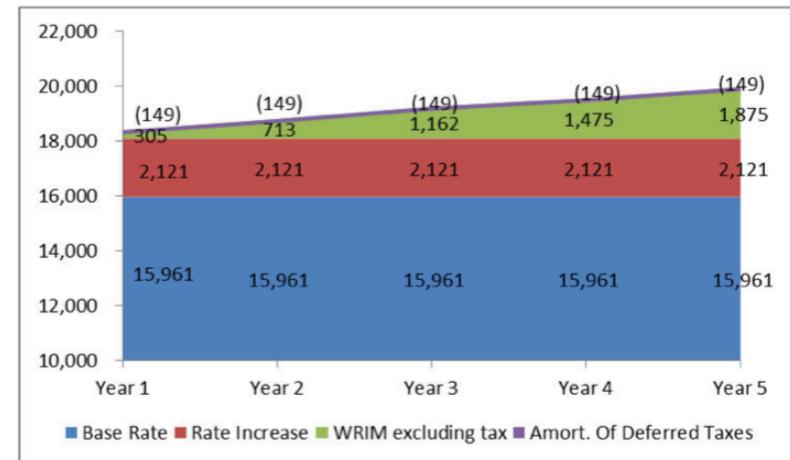
- **Why does the WRIM have such a significant impact on savings?**

- *“The WRIM is an interim measure, meaning that it will operate on cycles between base-rate cases. This is because, under the Department’s precedent, all recovery would be shifted from the WRIM to base rates as part of each rate case...”*

(Source: DPU 17-90 Towns 7-24, 8 Jun 2018)

- *“...Further, the rate base recovered through the WRIM factor will be rolled into the rate base of the new base rates and the WRIM factor will be reset to zero.”*

(Source: DPU 17-90 Towns 5-6, 30 Mar 2018)



Source: DPU 17-90 Towns 5-12 30 Mar 2018

- **Under what circumstances would WRIM end?**

- *“The Company cannot predict under what circumstances the WRIM would end.”* (Source: DPU 17-90 Towns 7-21, 8 Jun 2018)

Financial Update: Conclusions



What's the same under Town Ownership:

- Town receives property tax revenue
- Ratepayers pay for capital improvements

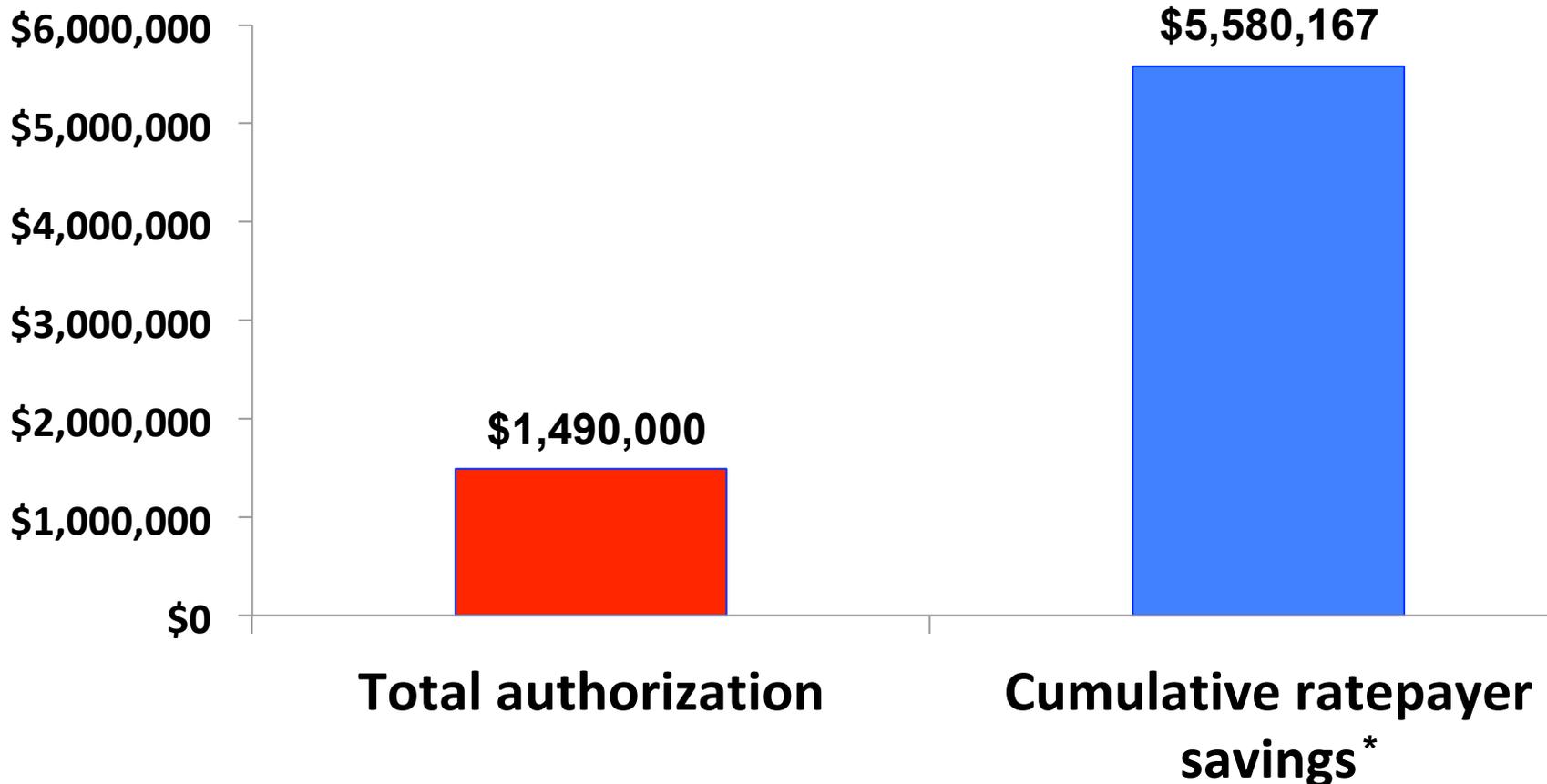
What's different under Town Ownership:

- Cost of doing business increases at a slower rate
 - Implication: smaller rate increases resulting in substantial savings to ratepayers
- No surcharge needed to accelerate capital investment
- Acquisition debt retires after 31 years (Town has fully paid for system)
 - Costs decline significantly



Cost and savings since feasibility study initiation

As of May 30, 2018



* Refinancing of Water Treatment Plant debt and one-time tax credit