



## Memorandum

*To: Ted Alexiades, Hingham Town Administrator*

*From: David Young, CDM Smith*

*Date: December 4, 2013*

*Subject: Clarifications to the January 29, 2009 Evaluation of the Acquisition of Aquarion Water Company by Hingham Municipal Light Plant (HMLP) Conducted by CDM Smith*

Over the past couple of years the Town of Hingham has been conducting detailed evaluations regarding the feasibility of the town acquiring the assets of the Aquarion Water Company of Massachusetts (Aquarion) as they relate to the Hingham, Hull and North Cohasset water system. Having received local support, the town is currently in the process of pursuing acquisition of those assets with the intent of operating the system as a municipal water system. During this evaluation process, a memorandum prepared by CDM Smith (CDM Inc. at the time) under contract to the HMLP (not the Town of Hingham) has been brought up in the discussions with some potential “misrepresentations” put forth as to what was stated in the memorandum. Thus, the intent herein is to clarify two key issues presented in that memorandum.

### **Issue 1: Town’s Ability to Purchase Aquarion Assets**

CDM Smith contracted with HMLP in 2008 to conduct a preliminary evaluation of whether the power company could purchase Aquarion. As CDM Smith does not provide legal services, we consulted with the law firm of Rubin and Rudman LLC to address the issue and to review the legislation that created two other water districts in the Commonwealth. It was concluded that HMLP does not have the statutory authority to acquire or operate a water utility. Other potential ways of pursuing the acquisition were discussed if special legislation was to be utilized to change the HMLP authority or if the town were to become involved in the process.

The above evaluation and resultant finding did not address the town’s ability to purchase the Aquarion assets. However, upon review of Chapter 139, Section 11 of the Acts of 1879 and subsequent Amendments, it appears to be clear that the Town of Hingham has the right at any time to purchase the corporate assets and rights and privileges of the Aquarion Hingham service area.

### **Issue 2: Cost Analysis of Aquarion Purchase**

The costs presented in the 2009 memorandum for HMLP were based on limited information as no discussions with Aquarion representatives or facility inspections took place during the evaluation. Costs were obtained from data filed with the Massachusetts Department of Public Utilities (DPU) and

some available Annual Returns. Several assumptions needed to be made to even interpret this cost data as it included two distinct service areas: the Hingham area and the Oxford/ Millbury area. Allocation factors were derived in order to designate asset values belonging to the two Aquarion owned areas. The intent was to develop an approximation of a potential acquisition cost by using both a net asset value approach and a replacement value approach. This broad scale cost analysis resulted in a range of \$42 to \$72 Million for the Hingham system. If those acquisition costs were to be financed using revenue bonds (not general obligation bonds) at 6 percent interest over a 20 year term it would result in a 41 to 57 percent increase over the existing \$9 Million in annual rate revenue. This was a simplistic analysis based on limited data developed to provide an "order of magnitude" cost evaluation to HMLP. Since HMLP did not have the authority to acquire Aquarion, no further cost evaluations were undertaken.

Since the above evaluation was conducted, representatives from the Town of Hingham reportedly have been able to acquire more detailed costs directly from Aquarion. This has allowed town representatives to develop a much better understanding of potential acquisition costs and impacts to water rates. Various scenarios for minimizing impacts to water rates should Hingham purchase this Aquarion service area have been studied in detail and presented to the public. This level of detail (unlike the 2009 cost analysis) has reportedly included such items as lower interest rates for bonding the acquisition by taking advantage of the town's excellent financial condition, deleting known investor rates of return from the operating budget, lowering the percentage of unaccounted for water and several operational budget parameters.

We trust this clarifies the issues that have recently been brought to our attention as a result of the 2009 memorandum for HMLP. Should you require any additional information at this time please contact me at 617-452-6544.