

TOWN OF HINGHAM

MASSACHUSETTS

Water Supply Committee

SEPTEMBER 26, 2016

A posted meeting of the Hingham Water Supply Committee (the Committee) was held on Monday September 26, 2016 in the East Hearing room, 210 Central St., Hingham, MA.

The meeting was called to order by Mr. Mullen at 7:38PM.

MEMBERS PRESENT

Sam Mullen, Chairman
Kirk Shilts, Secretary
Melissa Bower Smith, Member
Maureen Doran, Member
Matthew Greene, Member
Ron Kirven, Member
Adam White, Member

OFFICIALS PRESENT

Stephen Olson, Aquarion Water Co. (Aquarion)
Ronit Goldstein, Aquarion
Troy Dixon, Aquarion

AGENDA

Mr. Mullen reviewed the posted agenda with the Committee.
Thereafter, the agenda was established as posted.

COMMITTEE MEMBERSHIP

Mr. Mullen welcomed new member Melissa Bower-Smith to the Committee.

MINUTES

The Committee reviewed the prior meeting minutes of July 11, 2016.

Thereafter, a Motion was made by Mr. Kirven and Seconded by Ms. Doran and it was VOTED (*unanimous*);
to approve the meeting minutes of 7/11/16 as drafted.

AQUARION UPDATE:

Mr. Olson provided a handout with public-utility rate case information, company asset descriptions, and various water production/use values.

▪ PUBLIC UTILITY RATE CASE
PROCESS

Mr. Dixon described how Aquarion, a private company and state-licensed public-utility, goes about determining the rates it will charge its customers.

Mr. Dixon said the Massachusetts Dept. of Public Utilities (DPU) regulates the rate setting process through a public rate case proceeding. He said when Aquarion files rate case requests with the DPU it combines all three of its Massachusetts water systems, Hingham/Hull, Milbury and Oxford as a single case. He said Aquarion can only include existing operating expenses and the cost of any completed

infrastructure asset in a rate case. He said the incurred costs linked to infrastructure improvements under construction or expected expenses linked to capital planning projects can never be included in a rate case.

▪ RATE CASE COMPONENTS

Mr. Dixon said Aquarion's last Massachusetts general rate case was based on expenses from 2010. He said all cost incurred since 2010 will be applied to the next rate case. The 2010 information was filed in 2011 and a decision "outcome" was rendered by the DPU in 2012. Aquarion has filed three (3) general rate case requests since taking ownership of the water company in 2002. He said about every ten years Aquarion performs a Cost of Service (COS) study to determine which costs relate to certain aspects of its water delivery service and what fees are applied to its various customer classes. He said a COS study information is integral to the rate case process. He said the most recent COS study Aquarion conducted cost about \$50,000.

Mr. Dixon said Aquarion's cost of providing service (\$15.6 million in 2012) has five components. These include expenses (\$9.9M), financing costs (\$2.4M), income taxes (\$0.9M), property taxes (\$1.1M) and depreciation (\$1.3M). He said the financing cost component represents the costs associated with capital investment and also includes an investor equity return as well as interest on expenses. He said Aquarion reported in its last rate case that it paid 10.2% in equity return investor profit.

Mr. Dixon said each \$100,000 increase in Aquarion's operating expenses would generally correspond to a 0.6% increase in customer rates - and each \$1M of completed infrastructure costs would correspond to a 0.8% increase in customer rates (based on a 7.5% financing costs and an additional 5% for depreciation & property costs). He said that Aquarion's capital budget is currently about \$2.5M.

Mr. Dixon said the cost of providing service is passed among six customer classes (residential, commercial, industrial, public/municipal and two classes of fire suppression). He said who pays what is determined by the COS study. The COS study also examines five cost groupings based on their particular function, these include: base costs (linked to average use), extra capacity maximum day costs, extra capacity peak hour costs, customer costs (billing/accounting), and hydrant costs. The COS study helps ensure that no customer class ends up subsidizing cost that are associated with another class.

Mr. White asked if Aquarion could provide the Committee with a copy of its last general rate case filing and DPU

outcome. Mr. Dixon said he believed this material may be on the DPU's website, but if not, Aquarion could provide this prior to the next meeting.

▪ WATER RATES

Mr. Dixon described Aquarion's Hingham/Hull residential average water bill that corresponded to the year it filed a general rate case, 2001 (\$627), 2009 (\$729), and 2012 (\$799). He said the average Hingham/Hull water bill has since decreased due to savings linked to refinancing the water treatment plant's debt, and a single-year IRS credit. He said residential customers comprise about 80% of all customer classes.

▪ OPERATING TARIFF

Mr. Dixon described a "Tariff" as the operating terms and conditions that Aquarion imposes on itself and its customers, which accompanies each rate case filing. The Tariff must be approved by the DPU. He said Aquarion filed, and was granted, a Tariff amendment in 2016 relative to changing a fire suppression system requirement. Dr. Shilts said the Committee was unaware that Aquarion's operating Tariff could be singularly amended independent from a general rate case.

▪ COMPANY ASSETS & INVESTMENTS

Mr. Olson said Aquarion's local footprint involves over 250 acres of privately-owned land located primarily in Hingham; twelve (12) driven and dug wells; two (2) reservoirs; 192 miles of pipe; two (2) storage tanks; and a stand-alone water treatment plan. He said Aquarion has 12,960 local customers in the South Shore.

Mr. Olson said since Aquarion's 2002 purchase of the water company, it has invested approximately \$10.7M in new water mains; 1.9M in treatment plant updates; 2.1M in meters; 2.9M in supply system upgrades; and 0.1M in fire hydrants. Of note, this includes 912 public hydrants and 415 private hydrants. A discussion ensued about hydrants being a common location for water main leaks.

▪ WATER MAIN FAILURES

Mr. Olson said Hingham is experiencing more water main breaks this year compared to Hull, where historically Hull usually exceeds Hingham. He said 2015 had the most water main breaks in recent history – possibly due to the protracted cold that winter.

▪ OUTDOOR WATER RESTRICTIONS

Mr. Olson said water use across Aquarion's Hingham/Hull system has curtailed 20-30% since a mandatory outdoor water ban was imposed on August 2nd. He said pre-warning letters were sent to 51 high use customers. He said 33 customers were confirmed to be operating their irrigation system in defiance of the water ban and this year's historic

drought conditions. To date, no Aquarion customer has had their water shut-off for non-compliance to a water ban.

▪ WATER SUPPLY PROJECTIONS

Mr. Olson said water demand/use is tracking similar to past years and still projected to be within the state-imposed annual registration limit.

Ms. Doran asked Mr. Olson about the available (legal) water supply in light of the number of sizeable new housing developments that have been permitted by the Town just this year. Mr. Olson said Aquarion's short-term plan (5-9 years) for supplying additional water is to recover unaccounted-for-water from the system's current 19% down to 15% (about 140,000 gal/day), which is an industry standard. He said a mid-term plan (15-20 years) is to recover an additional amount of unaccounted-for-water from 15% down to 10%, the state's recommended goal. Mr. White said the unaccounted-for-water value seems ever-changing based on hypothetical variables. He said what matters is what Aquarion reports to the state, and asked Aquarion to provide the Committee with a definitive value for the next meeting.

Mr. Olson said any long-term plan must involve obtaining a new source supply from outside of the Weir River watershed basin. Mr. White asked if Aquarion has any alternative new source supply studies, such as desalinization, that the Committee could review. Dr. Shilts said the Town of Hull performed a desalinization plant study a number of years ago that was tied to their building offshore wind turbines. The Committee expressed consensus that a discussion on new source supply should be an upcoming agenda item.

SCHEDULE

The Committee established its next scheduled meeting for Monday, January 23, 2017.

ADJOURNMENT

The September 26, 2016 meeting of the Hingham Water Supply Committee meeting adjourned at 9:16 PM.

Respectfully submitted,

Kirk Shilts, D.C.
Secretary
Hingham Water Supply Committee