

FEASIBILITY STUDY

**(Acquisition of the Milford Water Company
by the Town of Milford)**

Overview and Summary

Introduction – Purpose and Scope

▶ Purpose

- Evaluate the Advantages/Disadvantages of Acquiring the Milford Water Company (MWC)
- Evaluate the Financial Feasibility
- Estimate Potential Savings
- Estimate Ratepayer Impacts

▶ Approach and Analysis

- Model Total Revenue Requirements – Continued Private Ownership and Public Ownership after Acquisition

▶ Outline of Presentation

- Slides 3 through 10 – Rates Comp. (3), Adv./Disadv. (4), Sys. Assets (5), Pur. Price (6), Rev. Reqts. (7), Sens. Anal. (8), Cust. Impacts (9), Sum. & Concls. (10)

Comparison of MWC's Rates

Annual Consumption (Thousands of gallons)	MWC – Residential Annual Bill (at Current Rates)	Average Annual Bill of 29 Nearby Communities	MWC Res. Bill minus average Bill of 29 Communities	Percentage MWC Bill is above the Average Bill of the 29 Communities
30	\$301	\$170	\$131	77%
90	\$628	\$443	\$185	42%
150	\$972	\$810	\$162	20%

Advantages and Disadvantages of Public Ownership

▶ Advantages

- Greater Control of Rate Levels and Structure
- Potential for Lower Rates
- Direct Control of Management and Operations
- Direct Control over Quality of Service and Customer Relations

▶ Disadvantages

- Greater Financial Risk
- Responsibility for all Service Issues
- Loss of State Oversight (by the MADPU)

Used and Useful Assets of the MWC

- ▶ SECTION 5 – Detailed Description of all System assets As of the End of FY2014
 - Primary Source of Information – 2011 Master Plan prepared by Tata and Howard
 - Supplemented with Information from MDEP Sanitary Surveys and information provided in the Recent Rate Case (MDPU Docket 12-86)
- ▶ Need to Update with System Additions, Betterments and Retirements (AB&Rs) since the end of FY2012
- ▶ An Engineering Assessment of System Assets may be Appropriate just before Closing (particularly for AB&Rs from 2012 up to the closing date)

Estimated Purchase Price (PP)

► Range (2014)

- Low Side – Original Cost Less Depreciation (OCLD)
 - (Least Impact to the Town and Ratepayers)
 - \$32,000,000
- High side – Reproduction Cost New Less Depreciation (RCNLD)
[Note – the RCNLD Value for the New Water Treatment Plant is about equal to its OCLD Value, which is about 40% of the Total System RCNLD Value]
 - (Greatest Impact to the Town and Ratepayers)
 - \$56,000,000
- Mid-Range Price
 - \$44,000,000
 - (Assumed PP for the Base Case)

Total Revenue Requirements

- ▶ See Attachment A to Slide 7
- ▶ This Attachment shows Total Revenue Requirements (TRR) with both Public Ownership and Continued Private Ownership for the Base Case; Net Annual savings and Cumulative Savings (2014 – 2024)
- ▶ Annual savings Years 2014 – 2019
 - 2015 – \$400,000, 2016 – \$638,000, 2017 – \$877,000, 2018 – \$841,000, 2019 – \$1.1 million
- ▶ Cumulative Savings
 - 2015 – 2018 \$2.75 million
 - 2015 – 2024 \$13.2 million

Sensitivity Analysis

- ▶ Four Variables Tested (Purchase Price, O&M Costs (Public Ownership), Bond Interest Rates, and Escalation Rate of RR (Private Ownership))
- ▶ Only Purchase Price is Relatively Sensitive
- ▶ Impact of Purchase Price (PP)

Criteria	Base Case	SC-1A	SC- RCNLD
PP	\$44 million	\$50 million	\$56 million
Cumulative Savings (10 Yrs.)	\$13 million	\$9 million	\$5 million
Years with Losses	0	1	4
Minimum Annual Savings/(Maximum Annual Loss)	\$400,000	–(\$17,000)	–(\$433,000)

Customer Impacts

- ▶ Likely impacts to Ratepayers if the Base Case Assumptions are fairly close (and all of the Savings are passed on to Ratepayers)
 - First two years – 5% to 8% rate reductions
 - Years 2 through 6 – 10% to 13% reductions
 - Years 7 through 10 – 17% to 20% reductions
- ▶ The Town would have complete control over the Rate Structure, Customer Classes and Distribution of Costs within each Class

Conclusions And Recommendations

- ▶ It is the Opinion of Legal Counsel that the Town has the Legal Authority to Acquire the Assets and Franchise Rights of the MWC
- ▶ It is our Opinion that the Town has the Financial Capability to Successfully Acquire this Privately held Water System
- ▶ The Uncertainty and Risk that was Associated with this Acquisition was Eliminated by Recent Legislation
- ▶ The Purchase Price is likely to be within a Range bound on the Low Side by the OCLD Value (about \$32 Million) and on the High Side by the RCNLD Value (about \$56 million)
- ▶ If the Town does Acquire this Water System, it is likely that it will result in Annual Savings (min. about 10%) to the Town and Ratepayers
- ▶ Town Officials have Indicated that the Potential Economic Benefits Outweigh all of the Potential Disadvantages