MINUTES OF THE
ASSESSING STANDARDS BOARD

Approved as Amended

DATE: March 10, 2017 TIME: 9:30 a.m.

LOCATION: Legislative Office Building – Room 303, 33 North State Street, Concord, NH

BOARD MEMBERS:

- Senator James Gray
- Senator Scott McGilvray ~ Absent
- Representative Peter Schmidt
- Representative Mark Proulx ~ Absent
- Betsey Patten, Public Member, Chairman
- Stephan Hamilton, NHDRA
- Jim Wheeler, Municipal Official, City ~ Absent
- Paul Brown, Municipal Official, Towns >3,000
- Eric Stohl, Municipal Official, < 3,000 ~ Absent
- Robert Gagne, NHAOA, At-Large Member
- Rick Vincent, NHAOA, City Official
- Loren Martin, Assessing Official, < 3,000 ~ Absent
- Marti Noel, NHAOA, Towns > 3,000
- Len Gerzon, Public Member
- Thomas Thomson, Public Member ~ Absent

MEMBERS of the PUBLIC:

- Renee Fisher, NHDRA
- Scott Dickman, NHDRA
- Barbara Reid, NHMA
- Scott Bartlett, Goffstown
- Rosann Lentz, Portsmouth
- Alrick Hammar, Lebanon
- Dan Main, Unitil
- Tressa Northrop, Unitil
- Mary Pinkham-Langer, NHDRA
- Jim Michaud, Hudson
- Jon Duhamel, Nashua
- Joe Devarene, Concord
- Teresa Rosenbergh, Devine Millimet
- Mark Lambert, Unitil
- Jonathan Giegerich, Unitil
- Lynda Bloom, George Sansoucy

Introductions

Chairman Betsey Patten opened the meeting. Introductions followed.

Minutes

Chairman Patten requested a motion to accept the minutes of the February 24, 2017 meeting. Mr. Gagne motioned to accept the minutes; Mr. Gerzon seconded. A correction was made to the location of the meeting from the DRA to the Legislative Office Building. Mr. Michaud requested an addition to the minutes to reflect the involvement of the DRA having submitted an amicus brief in pending utility appeals. After a brief discussion, a fourth bullet point was added to page 2, under the Utility Valuation Standards discussion, “DRA and NHMA have both submitted amicus briefs in the pending appeals”. Chairman Patten called for a vote to accept the minutes of February 24, 2017 as amended. Mr. Brown, Representative Schmidt and Ms. Noel abstained. All others approved.

Legislative Update

- House Bill 254 came out of committee and was killed
- House Bill 323 was amended to remove reference to Standard 6 and expanded language pertaining to the Uniform Standards of Professional Appraisal Practice (USPAP) was added

- House Bill 324 has been retained by the Science, Technology and Energy Committee

**Income and Expense**

Ms. Noel stated a revised white paper had been distributed to the board members. There are a few minor corrections that need to be made on pages 2, 9, and 10 otherwise it is complete.

Ms. Noel *motioned for the Assessing Standards Board to accept the Income & Expense White Paper*. Mr. Gagne *seconded the motion*. Mr. Brown stated the motion to accept the report of the subcommittee with proposed changes was tabled in a previous meeting. Ms. Noel and Mr. Gagne withdrew their motions.

Mr. Brown *moved to accept the Income & Expense subcommittee report with changes*. Ms. Noel *seconded*. Chairman Patten called the motion to accept the I&E report. *All approved*. Chairman Patten thanked Ms. Noel and the members of the subcommittee for their work.

Mr. Hamilton stated that he and Ms. Noel had been working on a preamble for the report including why it was created and what it represents. Also considered was how this report will be communicated in a context that could be read and understood. A suggestion was made to include access to the court cases that were reviewed that helped establish the income approach as a valid approach to value property for taxation. It was determined that Mr. Hamilton and Ms. Noel would work together towards finalizing the preamble and incorporating the cases. A final sample of the document will be brought to the next meeting along with an explanation as to how it will be communicated.

**Utility Valuation Standards**

Mark Lambert introduced himself as well as the other representatives from Unitil. Dan Main, Assistant Controller, Tressa Northrop, Manager of Utility Accounting and Budgeting and Jonathan Giegerich, Tax Manager.

An overview of Unitil was provided. Unitil is a gas and electric distribution utility, serving communities in Maine, New Hampshire and Massachusetts. Their presence in NH is relatively small delivering electricity to 75,000 customers and gas to 30,000 customers, including residential homes and businesses, within two separate territories covering the capital and seacoast areas. They acquired Northern Utilities in late 2000 to which added to the areas they serve from north of Portland into the seacoast through Salem. The company does not own any generating facilities and are for the most part a distribution company with some transmission. The energy they distribute is purchased from generating companies and they earn a return from the delivery of energy to homes and businesses.

Rates charged by the utility company are regulated by the Public Utilities Commission (PUC). In general, utility companies apply to change their rates every four-to-five years through a rate case process which incorporates hearings, evidence and experts for both the PUC and utility company. The company presents their case for what expenses it has to recover and the assets for which it needs to get a recovery of return on. Within the past five-to-ten years, a slight change in rate making has occurred to allow for an annual filing for new capital investments, such as air and ground assets, in order to recover those costs. These slight increases, called step adjustments or capital trackers,
help eliminate rate shock to the customers and help the company return what they are authorized to return. This has, in essence, eliminated the regulatory gap between the company spending money and recovering it from rate payers. This process is the basis for regulated utility companies to decrease the period between going in to increase rates, which is a costly process for both companies and the PUC. The utility is allowed to earn a rate of return on the assets that they have acquired or built and to recover their expenses.

A regulated electric utility in NH is allowed to recover its costs and earn a return on its assets that includes a component called a return on equity. When you ask for a particular return on equity, within the market average, part of the discovery, testimony and investigation looks at that requested return on equity. The experts on both sides compare it to what other utilities across the country of like size and unlike size are receiving from their regulatory commission in their most recent rate cases. It’s a unique, highly-regulated, non-competitive market so there are boundaries on what a utility will ask for in its rate of return. Two of the most common questions asked by the PUC is “Why did the property taxes go up from the prior value reported to us?” and “What have you done to mitigate those?”

When filing for new distribution rates, a “test” year is used that reflects a year’s worth of expenses eligible to be recovered from customers. For example, if you apply in 2016 to increase your rate to cover an increase in costs, 2015 will be the “test” year; the hearings process will take place and the rates will become effective in 2017. Therefore the 2017 rates will be based on 2015 costs. Among the expenses our company has are salaries and benefits, operating expenses, maintenance, professional fees which include audit and legal fees and property taxes. Property taxes are an annual expense included in the calculation used by the PUC for what a company can recover in rates from its customers.

Rates are based on a certain year and do not go into effect until two years later so essentially the company is recovering costs from two years ago which have through inflation and other things have escalated. The fixed rates you are charging are not recovering current costs, known as the regulatory lag explained earlier. However, the rate making process that involves investment and new property plant and equipment; the rates for those investments can be increased every single year. A company cannot increase rates for increased operating expenses such as salaries and wages or property taxes. The rates are based on when and how a company spends and do not include market adjustments or what it is worth now. There is no appreciation of the assets we are allowed to recover. We only get the return on what we spent, not what is may be worth. We know going in that we get to recover the dollars we spent plus our approved rate of return.

For example: The company is going to spend $1 million and the PUC rates will allow them to get a $1 million and 9% back; that is all the property has the capacity to earn

Rate cases are not something the utility company requests often. There is no rule of thumb as to when to apply for new rates. Every quarter Unitil does an analysis of current or the last twelve months of rate of return on their assets and compares that to the authorized rate of return from the commission. That is reported to the PUC every quarter. When the company feels it gets to a point of where it is necessary to go back in to ask for new rates, they do that.

The company’s main interest is in fairness, equity and consistency for their rate payers throughout the state because they are paying the property taxes. One of the concerns is the difference in values between the towns the company has assets in and understanding how the value is determined. The rate process is a lengthy and expensive process and what comes out is what the utility is allowed to earn. A rate is set for all residential customers, another for all small commercial customers and another for larger commercial and industrial customers and these rates are consistent for all the
customers in all the towns they serve. The challenge is when values increase annually; it becomes difficult to raise the money for property taxes through the rates that were set based on lower assessed values. It is understood that there will be times when the allocation of value and a variance in property tax is appropriate from town to town, for example because of the installation of new assets. However, without a standard or process to develop value, it is difficult to understand the inconsistencies.

10 minute break

Chairman Patten reiterated the purpose of inviting the utility entities to speak in front of the board which was to make sure their concerns were heard and considered with regards to the charge assigned to the board by the legislature with regards to the valuation of utility companies. The charge by the legislature is to determine what the utilities, assessors and DRA are valuing and how.

Mr. Gerzon reiterated some important points relating to the PUCs concern with the rate making process and cost of energy over the past 30 or so years and the issue before the board which is the continued effort for transparency in how valuation is derived and assessments made. Through the telecom process, it was clear that 3 out of the 4 categories of property valuation have standards applied to them and the 4th, utility property, does not. The discussion has begun about whether or not there should be standards for the valuation of this type of property and if yes, what should they be?

Chairman Patten reiterated that the process will be to determine what the utilities, assessors and DRA are valuing and how. Utilities that are regulated through the PUC operate within strict regulations and guidelines and if they are also a publicly traded entity have additional guidelines to abide by. Regulated entities cannot sell or lease the property, stop doing business or raise rates without the approval of the PUC and if they were to sell, the company purchasing the property would fall under the same guidelines in order to maintain the exclusive territorial rights of the company. Regulation affects how this type of property can be valued because the fundamental rights, which are typically valued on residential and commercial properties, are different.

The question was asked whether or not the DRA received appraisal reports for utility properties and a point added that towns may receive them. Currently, the DRA and some towns do receive appraisal reports for this type of property however the content is varied. Statute provided the department authority under Standard 6 of USPAP to review reports for mass appraisal; which the valuation of this type of property does not qualify. With the removal of Standard 6 in statute the department will now have the opportunity through this board to create a process to review these reports and provide adequate information to all communities.

Frustration was expressed at the lack of transparency and availability of the DRA’s utility appraisals. The taxpayers (utility companies) are provided a copy of the appraisal report. RSA 21-J:14, Confidentiality of Department Records, prohibits the DRA from disclosing any taxpayer information. Some taxpayers do provide the DRA’s appraisal to the municipality.

Mr. Giegerich added that rate cases, after they are filed, are available on the PUC website for any company. For the company, the rate payers are the taxpayers and have the right to our information.

Questions and Answers

Q: What percentage of the company’s total expenses are property taxes?
   A: The representatives were unsure and will get back to the board with the answer
Q: Do you inform the towns of your value?
   A: Municipalities are provided net book of assets annually

Q: At your most recent rate setting, what was your rate of return?
   A: 2011 rate was in the 9.6% - 10% range
   A: We are in the final stages of new rates

Q: What is the cost basis that you get a return on?
   A: The rate base which is the net book value; depreciated value of the asset

Q: What is Unitil’s concern?
   A: The inconsistent valuation between towns

Q: Do you request backup documentation for your value, such as an appraisal report?
   A: In most cases we receive a tax bill
   A: If we feel there is a need for abatement based on the value, we file

Q: Does Unitil provide a value to the municipalities?
   A: The net book value is provided to all towns

Q: Does the company receive requests for additional data and do they provide it?
   A: About 50% of towns request additional data for valuation and yes, the company provides the requested data

Q: Has Unitil ever appealed a DRA value?
   A: No. Their value is close to the company’s net book value

Q: Does the company receive an appraisal report with their tax bill?
   A: No

To this question, a statement was added that the towns do receive a report, available to the public that conforms to the Uniform Standards of Professional Appraisal Practices (USPAP) and explains how values were set.

Q: Does Unitil have a tax attorney firm?
   A: Yes, Pierce Atwood

Other Business

Chairman Patten stated she has copies of the 2011 appeals of Bath v. PSNH and Brentwood v. NH Electric Co-op. She will forward the copies to the members of the board for review. Pertaining to presentations, Mr. Bartlett, Mr. Sansoucy and Avitar have agreed to present their utility valuation methods to the board; the DRA will continue their presentation. The invitation remained for utility companies to present and Mr. Estes agreed to provide the board with background information.

Mr. Hamilton stated he would bring examples of utility appraisal reports received by the department to the next meeting. The subtotal on the 2014 Summary Report by Utility Company distributed is incorrect and a corrected copy will be sent to the members.

Clarification was requested as to whether or not the MS-1 values on the reports distributed were equalized. The MS-1 value is the local assessed value reported by the towns. Some of the minor variations that occur may be explained by the equalization ratio. The concern was that the
comparison is not an apples-to-apples comparison. The DRA Equalization website was referenced for additional information and comparison.

It was requested that if a presenter is planning to be at the meetings that it be included on the agenda. Chairman Patten stated if the information is known at the time the agenda is made available, it will be included. At this time, Unitil was the only company to respond to the request.

**Next Meeting**

Friday, March 24, 2017 at 9:30 at the LOB

Bring calendars next meeting to schedule future meetings.

Mr. Gagne *motioned to adjourn.* Mr. Vincent *seconded.*

Chairman Patten adjourned the meeting.

Respectfully submitted,
Stephanie Derosier

Municipal and Property Division
NH Department of Revenue Administration

All meetings are recorded and are available upon request.

Documentation relative to the Assessing Standards Board may be submitted, requested or reviewed by:

Telephone: (603) 230-5096  
Facsimile: (603) 230-5947  
Web: [www.revenue.nh.gov](http://www.revenue.nh.gov)  
E-mail: asb@dra.nh.gov

In person at:
109 Pleasant Street, Concord

In writing to:
NH Department of Revenue  
Assessing Standards Board  
PO Box 487  
Concord, NH 03302-0487