MINUTES OF THE
ASSESSING STANDARDS BOARD

Approved as Amended

DATE: April 28, 2017
TIME: 9:30 a.m.

LOCATION: Department of Revenue Administration – 109 Pleasant Street, Concord, NH

BOARD MEMBERS:

Senator James Gray
Representative Peter Schmidt
Representative Mark Proulx ~ Excused
Betsey Patten, Public Member, Chair
Stephan Hamilton, NHDRA
Jim Wheeler, Municipal Official, City
Paul Brown, Municipal Official, Towns >3,000

Eric Stohl, Municipal Official, < 3,000
Rick Vincent, NHAAO, City Official
Loren Martin, Assessing Official, < 3,000
Marti Noel, NHAAO, Towns > 3,000
Len Gerzon, Public Member
Thomas Thomson, Public Member

MEMBERS of the PUBLIC:

Mary Pinkham-Langer, NHDRA
David Grant, Unitil
Rosann Lentz, Portsmouth
Mark Lambert, Unitil
Meg Nelson, Sulloway & Hollis
Skip Sansoucy
Timothy Fortier, NHMA
Joe Devarenne, Concord

Jonathan Giegerich, Unitil
Scott Bartlett, Goffstown
Tom Hughes, BTLA
Jim Commerford, Meredith
Charelle Lucas, George Sansoucy
Kathy Temchack, Concord
Teresa Rosenberger, Devine Millimet

Chair Patten opened the meeting at 9:30 a.m. Introductions followed.

Scott Bartlett, Goffstown Utility Presentation

Mr. Bartlett began his presentation with a brief background of his appraisal experience and his introduction to the unit method and the Handy Whitman trended cost approach. He has developed a combination of approaches using the Handy Whitman trended cost approach as his primary method as well as considering the other approaches to value in order to develop a value that is reasonable. He stated that he works within the definitions of market value found in RSA 75:1 and the Rev 600 rules.

The subject property of this presentation is owned by Public Service of New Hampshire (PSNH), located in the town of Goffstown, as part of an electrical transmission and distribution system, which is considered its highest and best use. There are three large substations in the town and there have been significant improvements to two of the properties in the last two years; as well as a substantial amount of transmission lines that interconnect the distribution system. All users in town use PSNH.

The effective date of the appraisal is April 1, 2016, which incorporates the financial cost data provided to the town by PSNH as of December 31, 2015. He makes an extraordinary assumption that the data provided as of
December 31, 2015, is representative of the condition of the property as of April 1, 2016.

Example of Simplified Unit Approach to Value

For the purposes of this example only Mr. Bartlett made an extraordinary assumption that the Net Utility Plant as reported in the FERC report is the market value of PSNH as of April 1, 2016. The basic unit approach to value begins with the net utility plant value (market value) of the entire company as reported by PSNH on the Federal Energy Regulatory Commission (FERC) Form 1 Report. The original cost as reported to the town by PSNH as of 12/31/2015; using the extraordinary assumption is the April 1, 2016 value.

Net Utility Plant (aka Market Value) [FERC Report 1] $2,804,136,789
Original Cost of Goffstown [As reported by PSNH] $46,114,064 divided by
Original Cost of Company [FERC Report 1] $4,017,893,307 equals
Allocation Factor 0.011477


\[ \text{Indicated Market Value} = \text{Net Utility Plant} \times \text{Allocation Factor} \]

\[ $2,804,136,789 \times 0.011477 = $32,183,078 \]

Comparison:

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indicated Market Value – Goffstown</td>
<td>$32,183,078</td>
</tr>
<tr>
<td>State’s Reported Value – 2016</td>
<td>$29,282,720</td>
</tr>
<tr>
<td>Difference</td>
<td>-9.0%</td>
</tr>
<tr>
<td>Net Book Value reported by PSNH</td>
<td>$37,257,251</td>
</tr>
<tr>
<td>Difference</td>
<td>+15.8%</td>
</tr>
</tbody>
</table>

Mr. Bartlett stated this was not the figure he used for the market value of Goffstown, however based on the assumptions he made, he could have. He feels the most important reason for the differences in the opinion of market value for utility properties among appraisers is the belief that net book equals market value; a concept he does not agree with. However, since a regulated utility company’s allowed return on equity is based on its net utility plant, which essentially is net book value, the regulated utility company’s net market value is a function of net book value and has to be considered.

Scope of Work

- Request information from utility companies (for years a full update of value is being completed)
  - Breakdown of net book value in the town
  - Detailed breakdown of improvements by
    - Type
    - Year installed
    - Cost of installation in the town
  - Copy of PA-20

Mr. Bartlett added he would like to see the PA-20 available to assessors as he does not believe there is any information on the form that is confidential.

- Prior year FERC Form 1
- Detailed inventory provided by PSNH every year
  - An estimate of what they think their property is worth
- Includes total property value
- Equalization factor
  - Breakdown of net book value [original cost less depreciation]; received upon request
- This report does not include adjustments for time

The detail provided by PSNH includes a breakdown by year, by property type and by cost which helps in determining whether or not adjustments are needed the following year.

A summary was given of information provided which included original cost, allocation, depreciation and net book value of the assets in the town of Goffstown as well as the totals for each category. Land is not trended and for this exercise has been removed.

Mr. Bartlett explained the Handy Whitman Cost Index, and the components used to determine a trending factor and trended cost. The index is updated semi-annually and he uses the January 1 update. Each type of property in Handy Whitman has a three-digit number which coincides with a FERC account number.

**Trended Cost Approach Example: (1) Distribution Pole Built in 1983**

<table>
<thead>
<tr>
<th>Type of Property</th>
<th>Distribution pole, wires and fixtures</th>
<th>Handy Whitman 364 / FERC Account 364</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year of Current Appraisal</td>
<td>2007</td>
<td>Handy Whitman Index No. 519</td>
</tr>
<tr>
<td>Year Installed</td>
<td>1983</td>
<td>Handy Whitman Index No. 227</td>
</tr>
<tr>
<td>Current Index Number</td>
<td>(519) divided by Year Installed Index</td>
<td>(227) equals a trending factor of 2.2896</td>
</tr>
<tr>
<td>Original Cost in 1983</td>
<td>$400</td>
<td>multiplied by</td>
</tr>
<tr>
<td>Trending Factor</td>
<td>2.2896</td>
<td>equals</td>
</tr>
<tr>
<td>Trended Original Cost</td>
<td>$915</td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>2007-1983 = 24 years old x 2.5%</td>
<td>60%</td>
</tr>
<tr>
<td></td>
<td>$915 [Trended Original Cost] x .60 [Depreciation] = $549</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$915 [Trended Original Cost] - $549 [Depreciated Value] = $365 Trended Value of Pole</td>
<td></td>
</tr>
</tbody>
</table>

Mr. Bartlett explained this calculation is most useful in an Excel worksheet where it can easily be calculated for each item. The depreciation he uses for transmission is 2% and for distribution 2.5% up to a maximum of 80% total depreciation.

**PSNH Example**

<table>
<thead>
<tr>
<th>Type of Property</th>
<th>Transmission pole, wires and fixtures</th>
<th>Handy Whitman / FERC Account 355</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year of Current Appraisal</td>
<td>2016</td>
<td>Handy Whitman Index No. 663</td>
</tr>
<tr>
<td>Year Installed</td>
<td>1966</td>
<td>Handy Whitman Index No. 60</td>
</tr>
<tr>
<td>Current Index Number</td>
<td>(663) divided by Year Installed Index</td>
<td>(60) equals a trending factor of 11.05</td>
</tr>
<tr>
<td>Original Cost in 1966</td>
<td>$21,453</td>
<td>multiplied by</td>
</tr>
<tr>
<td>Trending Factor</td>
<td>11.05</td>
<td>equals</td>
</tr>
<tr>
<td>Trended Original Cost</td>
<td>$237,057</td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>2016-1966 = 63 years old x 2%</td>
<td>126 or 100% = 80% [Maximum]</td>
</tr>
<tr>
<td></td>
<td>$237,057 [Trended Original Cost] x .80 [Depreciation] = $189,646</td>
<td></td>
</tr>
</tbody>
</table>

Trended Value of Poles installed in 1966

Each line item is trended and depreciated separately and then a total of each column is calculated at the end of the report. Totals are calculated for transmission, distribution, transformers and meters. No detail is provided for transformers and meters so they are assumed to have been installed at the same time as distribution so the same average age and depreciation as distribution is used. This information is for the trended cost of improvements only. Land cannot be trended and therefore is valued separately. Construction work in progress does not contain a trending factor because it is new and may not be on-line yet; however it is there and does add value.

The establishment of a total trended cost less depreciation value is not a complete appraisal. All other forms of functional and economic obsolescence need to be applied. He stated there may be functional obsolescence in PSNH however he has not observed any in the property located in Goffstown. In an effort to recognize regulation, he had been applying a 15% economic depreciation to the trended original cost (based on a 1981 BTLA decision) and over time and through discussions, he has adjusted that to 15-35% based on the company and adjustments he was seeing.

The approach he uses now considers what is happening in the financial market. While PSNH does not sell in the public market, Eversource, Unitil and Liberty Utilities do. A few resources he uses are the Dow Jones Index, the BSMI Buy Right Index and AUS Consultant Monthly Utility Reports. These resources show investment information, stock prices and how they sell in relationship to net book value on the market, and expected returns. Over time, it has shown that the expected rate of return for utility companies is a bit lower than the average for other investments which shows it is a safe investment.

Assumptions

Mr. Bartlett stated the following is a summary of assumptions that support his opinion of what the economic obsolescence is going to be. There may be information missing however he did not want to get into a detailed analysis during this presentation.

Based on the consideration that the stock market represents an equity side of 50% of the company; the capital side is the loans. As a general rule, based on that information, it is assumed the total value of a properly running plant will be between 25-50% greater than net book value. If there are issues, the percentage will be different.

Assumptions Made from AUS monthly

• Allowed Return on Equity 9.3%
• Stock Market to Book ratio 150% to 200%
• Equity/Capital Ratio 50%
• Expected return on equity 8.5%
• Expected return on capital 6.5%

Calculation of Economic Obsolescence

Net Book Value of PSNH Assets (FERC) $2,804,136,789
Allowed Rate of Return 9.3%
Allowed Return on Equity $260,784,721
Developed Cap Rate 0.075
   Equity 8.5% @ 50% = 4.25%
   Capital 6.5% @ 50% = 3.25%
Capitalized Value $3,477,129,619 [Net Book Value x 1.24]
Original Cost – Goffstown $46,114,064
Original Cost – Company – FERC $4,017,893,307
Allocation Factor 0.011477
Capitalized Value $3,477,129,619
Indicated Value of Goffstown Improvements $39,907,017
Depreciated Trended Cost of Goffstown $49,886,016
Indicated Economic Obsolescence $ 9,978,999
Indicated % Economic Obsolescence 20%

Mr. Bartlett restated his estimate of economic depreciation to be between 15-35% and this calculation falls within that range and that will be applied to the value of improvements going forward.

**Land Value**

Mr. Bartlett referenced a 1987 BTLA decision, PSNH v Town of Londonderry, which states in part, “[...The Board notes that economic depreciation should be applicable to all of the public utility property other than land, which is best evaluated separate from the public utility property even though the highest and best use of the land may be for supporting public utility property [...].”

This is the support and reasoning he uses to value land in fee; substation land as vacant, industrial land and all other parcels valued the same as other similar parcels. He believes the vacant industrial land is most appropriate for the land value because he has already picked up the improvements in the trended cost approach.

He then summarized the value of the 135,000 linear feet of transmission rights-of-way that average 150 feet in width. He has a value of $750 per linear foot which totals about $1 million which translates to about $22 per acre. The location of the transmission lines vary from backland to residential streets to commercial property. Essentially he trying to determine what the loss of value is for that property.

**Final Summary of Value**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated Replacement Cost</td>
<td>$90,004,548</td>
</tr>
<tr>
<td>Depreciation</td>
<td>-40,118,532</td>
</tr>
<tr>
<td>Economic Obsolescence</td>
<td>- 9,977,203</td>
</tr>
<tr>
<td>Depreciated Cost (rounded)</td>
<td>$39,900,000</td>
</tr>
<tr>
<td>Land Value</td>
<td>49.12 acres</td>
</tr>
<tr>
<td>ROW value</td>
<td>135,000 linear feet</td>
</tr>
</tbody>
</table>

Market Value as of April 1, 2016 not including public ROW is $41,716,700
Final Comparison of Values

Market Value as of April 1, 2016 not including public ROW is $41,716,700
State’s Reported Value – 2016 $29,282,720
Difference -29.8%

Net Book Value reported by PSNH $37,257,251
Difference -10.7%

The valuation of the public right of way I did not include that in the value we just compared. In my opinion the states value does not include the valuation of the public right of way. In addition, the PSNH reported assets, the net book values also does not include the valuation of public right of way.

The public right of way is not owned by PSNH. Under RSA 72:23 I(b), public rights-of-way are required to be assessed based on their use. The owner of that land is the town of Goffstown and the State of NH. The property is valued as owned by the town and the State and then it is allocated to the individual utility companies that use them.

Questions

- Mr. Brown asked Mr. Bartlett if he agreed the biggest difference between his appraisal method and Mr. Roberge’s heard last meeting was the application of the economic depreciation. Mr. Bartlett agreed and added Mr. Roberge felt the benefits of regulation were outweighed by the negatives and so he did apply an adjustment; the adjustment just happened to be zero.

- Mr. Brown asked Mr. Bartlett if his method could be applied state-wide; and if yes, would the value be based on assets and inventories in the individual cities and towns? Mr. Bartlett replied yes and yes. Mr. Brown followed up. Would the land values differ based on the value of industrial land in a given town? Mr. Bartlett replied yes, the value may be higher or lower depending on the town or city.

- Mr. Brown asked if the unit method accounted for the varying land values among towns. Mr. Bartlett indicated it does not; the unit method includes the land value. In his opinion, because the unit method uses the original cost; land values could vary greatly. For example if a lot was purchased in 1920 for $1,500 but was worth $250,000 today, there would be a significant difference in the land value.

- Mr. Gagne asked if PSNH owned any generation facilities in Goffstown. Mr. Bartlett stated no, and added that is one of the reasons he does not recognize functional obsolescence in Goffstown. If you look at PSNH as a whole, that may be an issue. Mr. Gagne asked if Goffstown had a hydro facility. Mr. Bartlett stated they do not. The hydro in Goffstown, previously owned by PSNH, is now owned separately.

- Representative Schmidt asked what the natures of the upgrades in Goffstown were. Mr. Bartlett stated the upgrades were to the substations to bring them up to current standards.

- Mr. Hamilton asked if the technique Mr. Bartlett used to value a utility would work the same way if the same level of cooperation and information provided by PSNH were not provided by other taxpayers. Mr. Bartlett stated he could not comment on individual properties. In the past he has done work around the state and used this same approach. Some information was more difficult to get but he was able to get the information he needed. In general, he has found most of the utilities to be extremely cooperative. Mr. Hamilton followed up by asking whether Mr. Bartlett whether he knew if it would work for all
municipalities and every company doing assessing. Mr. Bartlett stated he did not.

Mr. Lambert, representing Unitil, added that most often investments are made to improve reliability and replace aging equipment in order to meet reliability standards.

- Mr. Stohl asked Mr. Bartlett why he wasn’t valuing the land at its highest and best use. Why not use the value per acre? Mr. Bartlett stated a utility typically purchases land somewhere a bit off so they can run their lines and build what they want, which in this case is industrial use. The flip argument is I’m not looking at the highest and best use because they can’t earn on that value. Which is true, they can’t. I’m still looking at its assessment purpose; what the contributory value of that land will be; which I believe is going to be a little bit higher than the actual earning potential.

- Mr. Hamilton asked during the analysis of the stock market of the performance of stocks versus what they can earn; what steps Mr. Bartlett takes to separate business enterprise value from real estate valued for taxation? Mr. Bartlett stated he is not doing an in-depth analysis of the stock market. He is looking at journals and reports in order to come up with a trend; comparing percentages to net book value. Net book value is improved property and does not include business value. He looks at real property and does not consider enterprise value.

- Mr. Hamilton clarified whether the stock performance numbers shown represent the performance of the percentage of stock related to the real estate or the overall stock? Mr. Bartlett stated he is comparing the overall stock to the real property in an effort to use an approach that is reasonable and he feels this approach does that. He stated he cannot justify and explain everything however he feels he has come up with an approach that is reasonable and incorporates common sense.

- Mr. Gerzon asked if Mr. Bartlett, through an examination of the stock market, accounted or adjusted for 2-3% of new growth. Mr. Bartlett stated no, he does not get that detailed. He added there will be arguments on either side of any approach and he feels he has come up with a relatively simple approach that shows his thought process. This approach supports his opinion that the overall economic obsolescence should be between 15-35% and in this case he used 20.

Public Utilities Commission (PUC)

Chairman Patten introduced Anne Ross and Tom Frantz from the Public Utilities Commission and thanked them for taking the time to speak with the board about how the PUC regulates utilities.

Attorney Anne Ross introduced herself as the general counsel at the Public Utilities Commission (PUC) and Mr. Tom Frantz, head of the electric division, who will walk through the basic rate making regulatory process of an electric utility which is the same process as natural gas, water and sewer, and other utilities. The examples discussed will relate to the electric utilities.

Mr. Frantz gave a brief overview of the PUC structure. He heads the electric division where 80-85% of the work includes looking at wholesale markets and the ISO New England area as well as retail aspects. The audit staff annually looks at all the books and records of the companies.

Foundations of Traditional Regulation

- For a long the industry was vertically integrated
- One company provided all services including
  - Generation
  - Transmission
Distribution

- Restructured in 1990s

The PUC is currently in the second phase of the electric restructuring and divestiture process that began in late 1990s with the divestiture of the Seabrook nuclear plant.

Why and What Do We Regulate?

The PUC regulates public utilities which are industries that have something vested with the public interest and are a monopoly. The PUC does not regulate telecom, cable or internet service. Mr. Stohl asked, “What is your opinion as to why the telecommunications is not a public utility in NH?”

Attorney Ross responded in 2012, the legislature passed Senate Bill 48 which essentially deregulated retail telecommunications in NH because they felt there were enough alternatives available that it was no longer a monopoly. The PUC still handles some consumer issues but has very little regulatory power over the carriers. In addition, municipal utilities are not considered public utilities and therefore not regulated by the commission. It was an old legislative decision based on the idea that because the municipality has voters who are also the rate payers, the voters can manage the costs and way the utility provides its services.

Mr. Frantz added when you say a monopoly, it is essentially a single provider of that service or product and in this case it might be the distribution or transmission of electricity over those lines the monopolist sets prices for and therefore there is a central role for regulation. That is also true of NH Electric Co-op which used to regulate as any other utility in the state however because it is member owned and through the restructuring of the industry in the late 1990s, legislation passed that allowed the Co-op and its members to vote to opt out of regulation, which they did, to no longer be rate regulated except in specific areas by the PUC.

The Federal Energy Regulatory Commission (FERC) in Washington regulates the transmission of electricity. The PUC regulates the distribution which includes regular distribution rates, who pays the tariff rate to line extension policies and energy efficiency programs. The wholesale generation market is a competitive market that was deregulated in the mid-1990s and is overseen by the Independent System Operator in New England (ISO NE) for the administration of its tariffs and the monitoring of market power. Wholesale markets are, to some degree, are also overseen by FERC.

Attorney Ross stated the PUC also regulates private water and sewer companies, which are not municipal, as well as the distribution systems for natural gas companies. The PUC does not regulate interstate pipelines. Anything that is going from NH into another state is FERC regulated. The small customers remain captive to the distribution company for their supply; the large customers can shop out in the wholesale natural gas market. We do not regulate telecom; we do not regulate cable, we do not regulate internet service.

Mr. Hamilton stated generation is generally unregulated; is there any generation that are regulated? Mr. Frantz stated legislation was passed, RSA 374-F Electric Utility Restructuring Act, which directed the divestiture of generation or power purchase agreements and that was done for all of our utilities, however, Eversource owned, and still does own, generation.

Mr. Frantz briefly explained dams developed by independent power producers during the mid-1980s as the road into competition in the wholesale market. The federal program was known as the Public Utility Regulatory Police Act of 1978 (PURPA) and a similar act in NH called the Limited Electrical Policy Act in 1978 (LEPA) allowed for the development of a project and entitlement to sell the output to a local distribution company at what was known a an avoided cost rate. Those long-term rates, which at the time were very high, were based on forecast of oil and the cost a utility would have built a project for.

Representative Schmidt asked if the generation from solar arrays, net metering, was regulated under the PUC.
Attorney Ross responded yes, it is required by legislation that was passed last year. The big challenge there is setting an appropriate rate for the juice that gets flowed back into the grid. Mr. Frantz added there is currently a case in deliberation at the PUC pertaining to energy metering. The PUC follows legal standards determined by the US Supreme Court. A utility is entitled to earn a return on its investments commensurate with the risk of similar business. One of the key and most contentious areas in setting rates is setting the return on equity.

Mr. Frantz continued that only prudently incurred costs are permitted in rates and the PUC looks closely at the costs and management practices and even if prudently incurred, they must be used and useful. Determining what is used and useful is another area of controversy. The costs need to be known and measurable. After a rate case has been resolved; the PUC may conduct a rate case that looks at a historic test year which will include the actual costs incurred in the previous 12 months or five quarters which form the test year revenues and costs. The commission will pro-form some things forward if they are known and measurable. For example, if we know about the building of a substation that is going to serve load and is going to be used and useful, we might actually put that in rates or have a step adjustment going forward once it becomes operational so a new rate case is not necessary.

Rate cases are expensive for the PUC, the utility and the consumer advocate. The electric division is a small division for regulating approximately $1.6 billion in electric rates every year in NH. If there are things they can do to stretch out rate cases they do, such as step adjustments for known and measurable changes. Rate cases do not come in every year.

**Revenue Requirement**

At the heart and one of the most basic concepts in traditional regulation is the revenue requirement; the total revenue the utility should be entitled to collect from its customers. The revenue requirement is the sum of all the operating and maintenance costs, its capital costs and return and depreciation.

*The following information is an excerpt from the power point presentation by Mr. Frantz:*

\[
RR = O&M + A&G + D + T + (r \times RB)
\]

- **RR** is the authorized revenue requirement
- **O&M** is the operation and maintenance costs
- **A&G** is the utility’s administration and general costs
- **D** is depreciation and generally done straight-line in NH over useful life using whole-life technique:

\[
D\% = \frac{100\% - (Net\ Salvage/Original\ Cost)}{Average\ Service\ Life}
\]

- **T** is taxes
- **r** is the overall return or weighted cost of capital
- **RB** is the rate base where the rate base equals the total plant asset value minus the accumulated depreciation plus working capital; assets in NH are valued at original cost not replacement or some level of the value of service

Must move from setting the RR to setting rates by class

5 Step Process

1. Establish the Revenue Requirement
2. Functionalization of Costs by Type of Service
Generation, Transmission and Distribution (also customer service and admin) based on FERC Uniform System of Accounts

3. Classification of Costs

Purpose is better reflect costs in rates – are the costs fixed or variable, customer-related or not?

4. Allocation of Costs

How will the pie be divided? Cost causer pay? Favor large C&I?

No perfect way to allocate joint costs

5. Establish Rates in the Tariff for each customer class

Based on billing determinants (kWh, kW, # customers)

How fine should the rates be? TOU? Large customer charge?

End of power point presentation excerpt.

Attorney Ross added a private business revenue requirement would be the gross receipts; for a utility, the revenue requirement is the amount of money they get to collect annually. Chairman Patten asked if the PUC determined that formula. Mr. Frantz replied yes. Using the costs in the FERC system of accounts an audit is conducted. Experts at the commission review depreciation using the whole life technique for public utilities which is a straight line depreciation of the assets over their useful life.

With regards to the taxes, Mr. Gagne asked if that includes just property taxes or all taxes. Mr. Frantz replied all taxes; the property taxes are not included in the operation and maintenance costs. He added they are embedded in the distribution rates that everybody pays on their bill.

Mr. Hamilton clarified the revenue requirement provided to the company limits the amount of revenue they can receive; it does not tell them how much money they will make running their company. Mr. Frantz agreed and added rate cases typically take 9-12 months to complete; they are very complex and contain a lot of information and analysis. Test year kilowatt hour sales are used even if things change; FERC uses a forward looking test year of costs and sales. There are justifications for both and tension as to which test year to use can occur. Once the PUC sets the revenue requirement, it is set from the time of the data and information. There will be changes, in the financial markets, in the weather, sales and costs but once the rate is set, that is the number they are entitled to. Earnings are monitored and there are some things that can be done outside of a rate case.

Attorney Ross added the company has every incentive to make sure that it gets every single cost in there and then figure out how to do better than what is set. The regulatory books are not the tax books; they are different, and what the PUC sees each year are the regulatory filings not the tax filings. Mr. Frantz added the FERC Form 1 contains very good information.

Costs

Determining revenue, how big the pie will be, is the first step. Then rates are set for the different customers and classes. The PUC functionalizes costs for distribution and transmission; in generation costs are classified as variable costs, fixed costs and customer costs to better set rates and pricing. Those costs are then allocated to customer classes; another highly contentious issue in a rate case. Once the revenue requirement is divvied up among the customer classes, customer charges; how much per kilowatt hour; will there be a per kilowatt hour demand charge, are determined.
Electric Industry

Mr. Frantz briefly summarized the output and sales for New England. In NH, there is about 4,100 megawatts or so of resource generating assets in the state. Seabrook is the largest generating asset at about 1,216 megawatts and fossil hydro that Eversource owns, that the commission is in the process of divesting, at about 1,100 megawatts. Then there are merchant plants; plants that were built using funds raised in private capital markets with other companies and not from rate payer funds. They are essentially are unregulated by the commission and sell into the wholesale markets or bilaterally.

Mr. Brown asked if the PUC gets return on investment information for those projects for comparison. Mr. Frantz stated no, but suggested they would be lower. Attorney Ross added they will never see their books but offered that if you believe competitive markets drive efficiency you would assume that these merchant plants operate leaner than fully regulated plants.

Mr. Thomson asked if wood-energy plants would be considered merchant plants. Mr. Frantz stated they came out of PURPA and LEPA programs in 1978 and got long-term contracts called rate orders. He followed with a brief summary. Attorney Ross clarified they are merchant plants but they do have that supplemental rec income in addition to their energy income and capacity income that they are earning through the markets.

Mr. Frantz summarized a typical customer bill. The restructuring of electric utilities to some degree was due to the new construction in generation; it was no longer a natural monopoly. New Hampshire has very competitive markets. You don’t have to buy your power from Liberty or Unitil or Eversource; you can actually go get it from a competitive electric supplier. There are at least 30 at this time which allow a customer to shop around for the lowest price.

In the early 1990s, after the bankruptcy of PSNH, and after Northeast Utilities took them over, rates that were already high then soared to the point they were some of the highest rates in the country. The legislature passed RSA 374-F and the commission moved to restructuring and divesting generating assets for all the companies. The company sold at a loss and created stranded costs. Stranded costs were the rates that couldn’t be recovered in normal operation through the market and the utilities were entitled to recover them. Through a very low interest rate those costs were recovered in a way that was financially beneficial for customers.

Mr. Gagne explained part of the reason the ASB has taken up this issue is because there has been higher and lower than average assessments. He asked if the PUC had an opinion whether or not a particular assessment was correct or not. Attorney Ross stated they don’t know. She added the only way the commission would have any idea would be to hire an expert to value a portfolio and determine a market value, which they did in 2013. She added when the PUC sets rates; they look at the net book value which is an historic, embedded cost with depreciation applied. We are not looking at market value; we are looking at the regulatory net book value which may be higher or lower than the market value.

Mr. Gagne inquired whether Attorney Ross or Mr. Frantz had an opinion on whether or not utilities should be subject to the property tax at the same rates based on market value or if there some reason why they should be considered differently. Attorney Ross stated, as a lawyer she felt there would be constitutional issues in NH if you tried to tax them differently unless there were a persuasive argument to tax them differently.

Ms. Martin questioned whether the PUC compares the average annual property tax increase of a utility company to the average annual tax increase of other non-utility taxpayers. Mr. Frantz responded no. Ms. Martin followed up. How would the PUC know if a tax was overly burdensome? Mr. Frantz responded the question would be whether or not the overall requirements were overly burdensome, not just one particular asset. The PUC does not determine whether the property taxes in individual towns are too high or too low.
Attorney Ross and Mr. Frantz had to leave for another meeting. The board thanked them for coming.

Minutes of April 14, 2017

Discussion

- Page 3; 6th Paragraph - “Mr. Gerzon asked how the state allocated value.”
  - Changed “Mr. Gerzon” to Mr. Gagne.

The following changes were requested by Ms. Martin. Ms. Derosier verified the comments with the recording in order to provide the correct language.

- Page 4; 4th Paragraph “With this approach, there is no allocation. If the approach were used to value the entire state, the value would be the same.” Ms. Martin stated there is no allocation as stated in the first statement. It would be based on the replacement cost less depreciation in each community. – Clarify the following statements:
  - “With this approach, he is using what is actually in that community so there is no allocation. If this approach were used to value the entire state, using the same method of replacement cost less depreciation and then allocating, the value would be the same as because the allocation would be based on the replacement cost less depreciation in each community.”

- Page 4; 5th Paragraph - Clarify following statement:
  - The report PSNH provides indicates a total taxable property value; the detail that he receives requests from the utility is the year in-service and original cost and the summary of that information page is included in the appraisal.

- Page 5; 1st Paragraph; Last sentence – Clarified statement:
  - He believes the positive is equal to the negative but he can’t prove it using typical appraisal methods.

- Page 5; 4th Paragraph – Clarified statements:
  - Mr. Roberge replied yes and yes it would include any outside forces including regulation. He does not believe any sale of a utility is fair market value.
  - Mr. Roberge disagreed reiterated that outside forces do affect the sale of this unique property however and he does not think that the sale of these properties are at is fair market value.

- Page 5; 5th Paragraph; Line 4 – Add previous statement made by Mr. Gagne preceding Ms. Martin comment:
  - Mr. Gagne presented an example of an apartment complex where in most cases, a cap rate is developed. He asked if that income were regulated based on the rent allowed 20 years ago, wouldn’t that negate or affect the use of the replacement cost new on the value today? Mr. Roberge stated it would not negate the use of that method but would have to be accounted or adjusted for and therefore would have an impact.
  - Corrected statement: Ms. Martin added, With regards to an apartment building with restricted rents, Ms. Martin stated she feels regulation should be considered and that there are also positive impacts that should be considered as well such as no vacancy, guaranteed rent and low financing interest rates.

- Page 6; 1st paragraph; Line 6 – Added “additional”
  - Everything else in assessing can be proven and defended with additional supporting market information.
The amended minutes will be presented at the May 26, 2017, meeting for approval.

Representative Schmidt stated that when members are not in attendance, in most case, there is a valid reason and therefore the absence is excused. He feels the term “absent” reflects a member is just not there and he would like the minutes to use a term to reflect an excused absence. After a brief discussion, it was determined the term “excused” would be used for those members of the board not in attendance at a meeting.

Meeting Schedule

Friday, May 12, 2017, at 9:30 a.m. at the DRA
- Presentation – continuation of Scott Dickman’s presentation

Friday, May 26, 2017, at 9:30 a.m. at the Legislative Office Building (LOB) - Room 303
- Unitil – Explain their process

Friday, June 9, 2017 at 9:30 a.m. at DRA
- George Sansoucy Presentation

Friday, June 23, 2017, at 9:30 a.m. at the Legislative Office Building (LOB) - Room 303
- Gather information received and discuss how to present the information to Legislature

Correspondence was received from Mr. Roberge and was distributed. A discussion will take place at the next meeting.

Mr. Gerzon motioned to adjourn. Mr. Vincent seconded.

Chair Patten adjourned the meeting at 12:10 p.m.

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:

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