MINUTES OF THE
ASSESSING STANDARDS BOARD

Approved as Written

DATE: May 26, 2017 **TIME:** 9:30 a.m.

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

BOARD MEMBERS:

Senator James Gray
Senator Bob Guida
Representative Peter Schmidt ~ *Excused*
Representative Mark Proulx
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 ~ *Excused*
Robert Gagne, NHAAO, At-Large Member
Rick Vincent, NHAAO, City Official
Loren Martin, Assessing Official, < 3,000 ~ *Excused*
Marti Noel, NHAAO, Towns > 3,000
Len Gerzon, Public Member
Thomas Thomson, Public Member

MEMBERS of the PUBLIC:

Mary Pinkham-Langer, NHDRA
Scott Dickman, NHDRA
Joe Devarenne, Concord
Jonathan Giegerich, Unitil
Timothy Fortier, NHMA
Tom Hughes, BTLA
Jim Michaud, Hudson
Tressa Northrop, Unitil
Teresa Rosenberger, Devine Millimet
Charelle Lucas, George Sansoucy

Chair Patten opened the meeting at 9:32 a.m. and introductions by the members of the board followed.

Minutes

Ms. Noel ***motioned to approve the minutes of the April 14, 2017, meeting as amended***; Mr. Gerzon ***seconded the motion***. (Check notes; Betsey stated Rep. Proulx seconded.) Chairman Patten stated these minutes included additional amendments requested at the April 28, meeting. No further discussion. Chairman Patten called the motion to approve the minutes of the April 14, 2017, meeting as amended. ***All approved.***

Representative Proulx ***motioned to approve the minutes of the April 28, 2017, meeting****; Mr. Vincent* ***seconded the motion.*** Mr. Michaud stated he did not attend the April 28 meeting and the minutes reflect that he did. Ms. Derosier will verify the attendance at the meeting and correct. No further discussion. Chairman Patten called the motion to approve the minutes of the April 28, 2017, meeting, as amended. ***All approved.***

Chairman Patten summarized briefly that Unitl was invited to come and explain their appraisal process. The board has heard from assessors Gary Roberge of Avitar, Scott Bartlett of Goffstown, Mr. Hamilton and Mr. Dickman of the Department of Revenue (DRA) and the Ms. Ross and Mr. Franz from the Public Utilities Commission (PUC). Assessor George Sansoucy is scheduled to present on Friday, June 9.

Unitil Presentation by Tressa Northrup and Jonathan Geigrich

Ms. Northrup began the presentation by explaining the content of the PA-28 report provided to the towns which includes net additions, current year gross value and prior and current year net book value. Detail is provided by FERC (Federal Energy Regulatory Commission) accounts including actual plant in service, original cost of the installation, depreciation reserve and the calculation of the net book value. Also included is completed construction not classified which are projects that are complete but have not been put into plant in service with the same original cost, depreciation reserve and book value. The vintage year is also provided by FERC account so the assessor can see the actual age of the assets within their respective towns. Mr. Michaud asked if Unitil submits copies of the DRA appraisals to their communities. She replied no, however no requests have been made. If requested, then yes, they would provide it.

Mr. Hamilton asked if the original cost in their report to the town is also provided to the DRA for allocation which is the method the DRA uses to find the value of Unitil's property in each of the communities. Ms. Northrup replied yes to both questions.

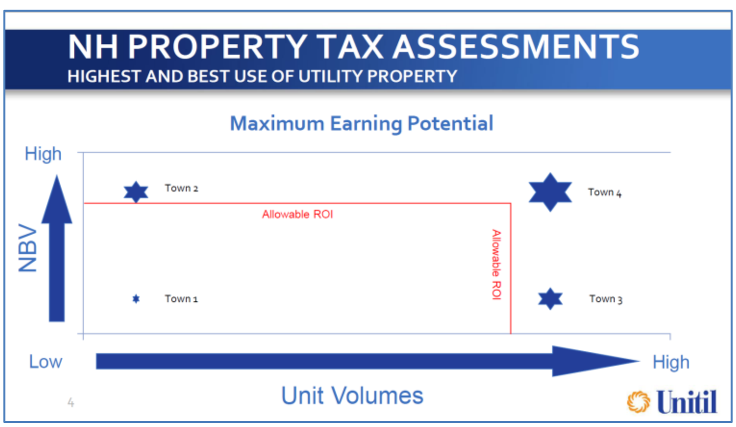
Mr. Giegerich began his presentation explaining the principle issue, from the utility company's standpoint, for New Hampshire utilities.

(1) Wide disparity of valuations amount the town assessments

(2) Wide disparity between town assessments and DRA assessments

(3) Lack of consistent standards, rules and guidelines for valuing utilities

He explained that due to the lack of standards, rules and guidelines for assessing utility properties, utilities cannot forecast or guess based on plant additions what an assessment may be based on the inputs provided to the assessor. Throughout the presentations, there was a lot of discussion to understand the different appraisal processes and even though the appraisers are bound by USPAP, there is uncertainty on the utility side caused by a significant amount of abatement cases that cost the towns, utility companies and most of all the taxpayers.



Referencing Slide (4) above, Mr. Wheeler asked where the inconsistencies were; year-to-year or town-by-town. Mr. Giegerich stated swings may occur within a community but it is more town-by-town because utilities are not town centric they are territory centric so when costing on the utility rates, which are not town-by-town, it is difficult to make sure we are within those costs we are setting because of the variance of value.

Mr. Hamilton asked if Unitil does an analysis of the values of the small segments that are taxable in each of the smaller towns. Mr. Giegerich stated the company hires an appraiser who values the property as a unit and then allocates the value down. Ms. Noel asked how often the company hires an appraiser and Mr. Geigerich replied only for court cases. Mr. Vincent asked if the swings of value within a town could be due to a revaluation and

Mr. Giegerich replied it could be.

Mr. Michaud asked for clarification on the heading of the first slide whether Mr. Giegerich was representing all utilities. Mr. Giegerich stated that while he felt through discussions with other utilities they would agree, he should not speak for them and clarified that this presentation is for Unitil's New Hampshire utilities.

Mr. Giegerich continued Unitil feels the values of their assets are strictly tied to their highest and best use. In order to determine the highest and best use of a utility, the implications of rate making need to be understood. Recovered costs include operating and maintenance costs (which include property taxes), the cost of product sales, and physical investment through depreciation. A depreciation rate is determined by the PUC during a rate case so that the utility can recover an investment (over its entire useful life) that they are putting into service. The difference between this depreciation rate and a rate calculated using a replacement cost new less depreciation analysis, is not how long will it take a pole to rot for example; but how long that pole will be useful under safety and reliability standards.

In addition, the utility gets to earn what is called a return on investment which is an opportunity to earn 7, 8 or 9 percent of their rate base. Utilities are considered self-construction companies because they are always building assets which need to be funded. Utilities do this through long-term debt in the form of bonds or equity through shareholders. That cost of capital is paid out of that 7, 8 or 9 percent, which after the monthly mortgage payment is much less than that. While that amount may be earned, there are a lot of obstacles in the way of the utilities actually achieving that amount.

In the matter of unit volumes, this is where we get into the highest and best use. Not all towns earn revenue at the same pace due to population density or special contracts for manufacturing, for example. Does a town that has high volumes mean those town's assets are worth more? That line of thinking would mean the amount a utility can make is directly tied to unit volume and plant investment. (Referencing Slide 4) Looking at the varying amounts of revenue each of those towns can create, if you were to sever say Town 2, the assets of Towns 1, 3 and 4 would be impaired as well as the assets in Town 2. When you assess an individual town's assets rather than by the unit, you are essentially severing it from the rest of the utility because the utility's net book value is the revenue earned collectively and the unit volumes reflect the revenue being earned year over year. When you sever any of those assets, the allowed return on investment is affected impairing Towns 1, 3 and 4 on the schedule, the assets will not be worth as much and those towns will have to return revenue back to the rate payers. When the utility is valued as a whole unit, recognizing towns have varying volumes and net book value, you combine them. As soon as assets are severed by town; the assets become impaired.

Mr. Hamilton asked if the assets could actually be severed and stand-alone. Mr. Giegerich replied it is not possible for those assets to stand alone. A utility is engineered to work as a network for the highest efficiency which is not town by town. When assets are assessed by town, the assessment would not reflect the functional use of those assets.

Mr. Gagne, referencing Mr. Geigerich's statement the only way to assess a utility is as a whole, stated the utility cannot be taxed as a whole at the local level; only the assets within a town's borders have to be taxed. He asked Mr. Geigerich if he agreed it is an allocation issue not a valuation issue and if he thought it fair to expect that one town should go through the efforts of appraising the entire utility using a top down versus a bottom up method; the top down being the unit method and bottom up valuing only what is within a community's borders. Mr. Geigerich stated he feels the best way, without running into considerations and adjustments, would be the top down method because then there would only be the allocation issue. If using the bottom up method, consideration for separating the assets would need to be reflected.

Mr. Brown asked if the base rate for rate making is replacement cost or net book and whether or not interest is an allowable expense under the rates. Mr. Geigerich replied it is net book in rate making and interest is not recovered in rates. That cost of capital, the monthly mortgage payment, is not part of the rates; that is paid out of the 7, 8 or 9 percent return on investment.

Several questions were asked by Mr. Vincent and the following responses were provided by Mr. Giegerich. The PUC does not oversee the locations of infrastructures or mandate where substations must be placed. Through eminent domain there have been instances where part of an infrastructure had to be moved. Ms. Northrup stated nothing as large as a substation has had to be moved however lines have and Unitil lost their corporate office when Route 101 was expanded. Mr. Geigerich did not think the PUC would have an issue if part of the infrastructure were moved as long as the ability to function was not impaired.

Mr. Hamilton asked if it would be fair to say that in general, rate making value is reflective of the market value of the whole unit and Mr. Geigerich replied yes. Mr. Gagne clarified that the rates that are set for Unitil are uniform throughout the service area and the rates in the individual towns are not based on the net book value in that town. Mr. Geigerich stated that was correct.

Mr. Gerzon explored the eminent domain experience Unitil went through with their corporate headquarters and the value that was paid. Ms. Northrup clarified the building was part of the service bill not the rate base because it was not an operating center. Mr. Gerzon verified that (1) it was in an original cost basis less depreciation, similar to the other assets; (2) the value paid by the Department of Transportation (DOT) was fair market value; (3) and the entity was made whole which determined what the outer highest and best use was, leaving the system market value for a commercial building. Ms. Northrup replied yes to all three questions. Mr. Gerzon asked if she could explain the accounting of the proceeds of that sale and who benefited from the sale and how. Ms. Northrup stated she could not answer that question at this time but would be happy to find the information. Mr. Gerzon added it would be interesting to know who (as a regulated utility) benefited from that sale. Did it go to the rate base, to the shareholders, towards lower rates? Mr. Gagne asked how the DOT's estimate of value compared to the company's net book value; on that piece of land. Mr. Geigerich stated they would look into it and provide the answer to the board.

Mr. Giegerich continued, when looking at severing utility assets, there are load and pressure demands as well as other things that go into developing a utility network. We are trying to service customers in the most efficient way possible which is not necessarily bound by the town. When assets are severed, they are essentially being valued in a manner they cannot be used.

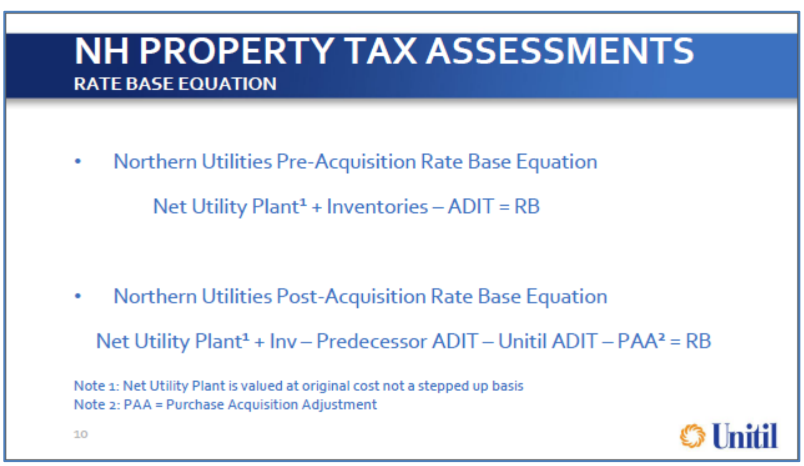
Mr. Gerzon asked, specific to eminent domain, if there had ever been a situation where the town approached the utility to purchase their system. Mr. Geigerich did not know of one. Mr. Gerzon stated the purpose for the question was in his experience PSNH had those conversations to municipalize but in an eminent domain situation, it is not a market transaction. The seller does not want to sell but is compelled to due to police power and the sale would create severability which would cause the rest of the system to have to be made whole.

Mr. Giegerich explained street lights are one type of utility asset that towns do request to purchase. There is a big push to allow towns to purchase street lights and replace them with LED to lower their kilowatt per hour (kwh) charges and save on their utility bills. When they are purchased, they are purchased at net book value. The states of Rhode Island and Maine have legislation; Massachusetts legislation requires they be purchased at net book value. These sales fall apart whenever a utility is not compelled to sell at net book value because towns cannot afford to purchase them. Examples of comparable sales ME PUC Docket #2014-00313 where CNP was selling their streetlights and the combined ME PUC Docket 2014-00317 for Amara Energy who were selling their assets and in that, they go into a discussion of the purchase price and what is net book value.

Mr. Hamilton clarified when talking about street lights; it is not the distribution system; just the street lights. Mr. Giegerich stated it is just the brackets and the lights. Mr. Hamilton continued assuming assets could be removed from a community; what would an operator have to do to provide for the safety and reliability of a small part of a larger system. Mr. Geigerich stated getting electricity or gas there would involve attaching to a transmission line; stepping voltages down to an allowable amount to go into a home so they do not blow out a breaker panel or meter. If it is just distribution assets such as poles and wires, services and meters, you would need some way to get high voltage electricity into a substation; hook up to a substation; and step the voltages down and push it out through your distribution system which may require a significant amount of plant investment go into that town. Mr. Dickman added redundant systems would need to be installed to such a degree that it would not be profitable to operate.

In summary, Mr. Giegerich stated the important considerations for determining highest and best use of utility assets and potential issues (1) legal permissibility: assets cannot be legally sold without PUC approval; (2) financially possible: it could be but there are numerous hurdles to overcome such as transaction costs and holding the ratepayers harmless; (3) maximum productivity: the assets are most productive when the system runs as a whole unit versus individually; and (4) physically possible: there are infrastructure restraints if assets are severed. The utility assets function most efficiently as a whole unit and Unitil believes that is how they should be valued. However, if valued using the bottom up method; an understanding of what it will mean to sever assets from the infrastructure of the system and the financial impact to do that must be considered in the analysis. It is the opinion of Unitil the highest and best use of utility assets is as a whole using the net book value.

Mr. Giegerich continued it has been presented that while an estimate of value is believed to be correct, the most difficult issue is being able to prove it. He referenced Unitil's acquisition of 100% stock in both Northern Utilities Incorporated and Granite State Gas Transmission Company in December 2008. These companies were purchased at a significant discount; under net book value, and the PUC, in its approval, mandated the ratepayers be held harmless. If they had been purchased at a premium, that cost would have come out of the return on investment. With the ratepayers being held harmless, a concept called accumulated deferred income tax (ADIT) was used. ADIT is a book accounting method used to track the difference between book depreciation deductions and tax depreciation deductions. It represents the amount of cash benefit a utility has gotten from the Federal Government for the assets in the ground, which does not need to come from the ratepayers. A utility consists of very long-life assets. The IRS gives the utility a modified accelerated cost recovery system (MACRS), which is essentially a tax life or recovery life (not a useful life) of 20 years. A utility recovers the net book value (or rate base) from the ratepayers but earns the rate base of net book value less ADIT. The total ADIT retained in this sale was $20 million which Unitil does not get to earn a return on.



**ADIT = Cash Deduction from Government*
**Unitil ADIT = Assets Unitil put into service since owning Northern Utilities*

Mr. Giegerich stated he feels the reason utility assets do not transfer much above net book value is due to the limited amount of revenue that can be recovered and the significant costs that are incurred having to hold the ratepayers harmless. Net book value is tied to what a utility can earn on and why Unitil feels it is a good baseline for these transactions; because it is fundamental about everything there is to do with a utility.

NH PROPERTY TAX ASSESSMENTS

PROPERTY TAX VALUATION EFFECTS – Rough Estimate Based on Presenter's Ratio

	ASSESSED VALUE		PROPERTY TAX	
UNITIL ENERGY SYSTEMS	2016	2015	2016	2015
NBV	180,664,199	166,870,932	3,965,050	3,757,687
DRA Valuation	192,150,988	163,908,368	4,228,810	3,703,947
Assessed Value	221,642,546	196,771,829	4,698,756	4,257,578
ASB Presenter 4/28 - 111.97%	202,288,521	186,844,289	4,439,641	4,207,457
ASB Presenter 4/14 - 117.11%	211,584,490	195,430,535	4,643,660	4,400,807
ASB Presenter 6/9- 205.40%	371,087,084	342,755,498	8,144,275	7,718,347

12 Unitil

**This slide is the corrected slide provided prior to the completion of the minutes. S. Derosier*

Mr. Giegerich, prior to explaining the information on the slide above, stated it was not his intent to insult any of the previous presenters or their methods. His intent of providing the information on this slide was to show the results of the various methods used to appraise utility property and how no matter what method is used, there will be always be losers.

The numbers on the slide represent the ratios of the presenter's assessments versus the net book value of the assets they assessed and then applied that ratio to Unitil's net book value. Using that methodology, the conclusion was generally the same therefore applying any of those methods for all properties would still result in different values and there would still be losers.

With regards to trending historical costs using an inflationary index such as Handy Whitman and applying the same range of adjustment in a replacement cost new less depreciation (RCNLD) analysis; the result would be a ratio that is close to the calculation above. While he understands he is simplifying the process; the towns Mr. Roberge and Mr. Sansoucy assess are within a couple percentage points of Unitil's percentages which means they are using a steady valuation method to value the assets. Mr. Bartlett does not assess any Unitil property and Mr. Giegerich stated he could not apply the same analysis. He reiterated the point of this exercise is to say that no matter what valuation method is used there will not be 100% winners. Mr. Gagne noted the DRA values were not included on the slide and requested that they be added.*

The question was asked if regulation in other states was the same as in New Hampshire and Mr. Giegerich stated there could be some differences in the items included and excluded with regards to operating and maintenance costs and the rate base however return on investment, net book value, how depreciation is calculated and recovery of costs is the same. If there were sales of entire units, Mr. Geigerich added it would be important in the process of using comparable sales to understand regulation in the jurisdiction the sale took place. Mr. Gagne clarified adjustments would have to be made to reflect differences in regulation.

Based on a previous comment that the electric distribution system is a giant grid working throughout the state as one global system, Mr. Hamilton asked Mr. Giegerich if he agreed with that description. Mr. Giegerich suggested it is not a grid where everything is the same as there is a definite progression and transmission system to transfer electricity with substations to facility step downs. The system layout may be described more like a node with tentacles in order to most efficiently deliver electricity. Ms. Northrup added that all utilities use transmissions lines for both gas and electricity however a distribution system is distinct to one utility company and does not connect to any other utility.

Mr. Vincent asked what could cause changes to net book value. Mr. Giegerich answered the only time net book changes are by the addition and retirement of assets (depreciation). Net book value will decrease by depreciation or increase from additions.

A brief discussion took place of market value versus investment value and Unitil's concern pertaining to the valuation of a utility. When utilities buy or sell, it is not certain assets of a company that buys or sells; it is the entire infrastructure and that is how they believe a utility should be valued. Their concern is that due to the variations in the assessment of utility assets for taxation purposes there is an inconsistency in the taxes they are paying.

Mr. Michaud asked Mr. Giegerich whether a number or a report was provided from their appraisal; if he thought municipalities should be forced to use a number without an appraisal packet; and if he would support legislation to encourage the release of that information. Mr. Giegerich stated Unitil received a full appraisal report and that he does not feel the document is confidential. If Mr. Michaud was referring to the DRA report, he believes based on statute that it is improper for the DRA to provide that information. Unitil is not opposed to providing the information when requested and he would be a proponent of a legislative change in the reporting requirements. As far as assessing, Unitil understands that due to the lack of rules for assessing utilities there will be a wide range of assessments and finds no fault with anyone doing their job. They believe something needs to be done to find a way to benefit everyone. That is why they are here.

Chairman Patten thanked Mr. Giegerich and Ms. Northrup for taking the time to present and attend the meetings.

<u>Matrix Discussion</u>

A discussion took place pertaining to the matrix and the information that could be included in order to present to the House Committee a summary of the current assessing practices. Current headings include: Presenter (Use town names), Appraised Market Value (Y/N), Highest & Best Use (How is it determined), Regulation (Is it considered; what are the adjustments), Approach to Value Used (Cost, Unit, Other), Economy of Scale Adjustment (Y/N), Obsolescence Adjustment (Functional or Economic) and Allocation (Y/N). A list of definitions for each of the headings will be provided to assist with the understanding of information provided.

After discussion, it was agreed to add the headings Method (Provide for transparency), Inputs (Independently verified) and Land/Public Right-of-way (Considered in valuation Y/N). It was also suggested the distinction be made that the board's information is about transmission and distribution utilities only.

Chairman Patten stated that Mr. Hamilton will step back from the ASB's presentation in order to represent the Commissioner and the DRA.

Friday, June 9, 2017, at 9:30 a.m. at the DRA

- George Sansoucy Presentation

Friday, June 23, 2017, at 9:30 a.m. at the LOB – Room 303

- George Sansoucy Presentation continued
- Gather information and discuss how to present what the board has heard to the Legislature.

Mr. Gagne ***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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