MINUTES OF THE
ASSESSING STANDARDS BOARD

Approved as Written

DATE: June 9, 2017 TIME: 9:30 a.m.

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

BOARD MEMBERS:

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

MEMBERS of the PUBLIC:

Scott Bartlett, Goffstown Jon Duhamel, Nashua
Jim Michaud, Hudson Tressa Northrop, Unitil
Dave McMullen, Hanover Karen Hanks, NHEC
Jim Commerford, Meredith Tom Hughes, BTTLA
Sue Golden, Concord Kathy Temchack, Concord
Timothy Fortier, NHMA George Hildum
Scott Dickman, NHDRA Gary Roberge, Avitar
Norm Bernaiche, Tri-Towns Brenda Inman, NHEC
Teresa Rosenberger, Devine Millimet Brian Fogg, G.E.S.
George Sansoucy, G.E.S. Charelle Lucas, G.E.S.
William Ingalls, Bedford

Chair Patten opened the meeting at 9:40 a.m. followed by the introduction of the board members.

Minutes

Mr. Stohl motioned to approve the minutes of the May 12, 2017, meeting; Ms. Noel seconded the motion. No discussion. Chairman Patten called the motion to approve the minutes of the May 12, 2017, meeting as written. Ms. Martin abstained. All others approved.

George Sansoucy Utility Valuation Presentation

Mr. Sansoucy began his presentation by stating his company prepares USPAP Standard 1 and 2 appraisals for utility properties throughout the United States including New Hampshire. He will cover USPAP Standard 1 which is the formulation of criteria in the market for an appraisal; the same method used for the Chester appraisal, as well as the other communities in the state. He will also explain some of the unintended
Mr. Sansoucy stated he is a Certified General Appraiser, Certified NH Assessing Supervisor and a registered professional engineer. His company of 17 employees operates out of Lancaster and Portsmouth, NH, performing appraisals in 14 states across the United States bringing a unique national perspective of valuation to the state. There are 6-8 employees who work year-round on utility and special purpose property assessments and updates in New Hampshire and are supervised by Brian Fogg, a Certified NH Supervisor and soon to be a Certified General Appraiser. Ms. Charelle Lucas works with Mr. Fogg gathering and managing data on a statewide basis. The company appraises 80-100 different types of utility property including private and public, regulated and non-regulated utility type properties. These utilities include telephone, water, electric, gas, etc. In total, 90-100 towns in New Hampshire use their values on an annual or 5-year basis.

**Consequences of House Bill 324**

Buckets of value swept in the word “utility” including:

- Non-regulated utilities (Require USPAP 1 and 2 appraisals)
  - All generation facilities will be sold from Public Service before HB 324 is resolved
    - No more regulated generation plants
  - Generation facilities will require DRA valuation
    - Hydroelectric plants (100+- both public and private), nuclear plants, gas-powered power plants, coal plants
- High-voltage transmission lines
- Natural gas pipelines
- Oil pipelines
  - Federally regulated
  - New England-region tariff
    - New Hampshire rate payers pay for lines in other states; vice-versa
  - Permanent on a certificate of need basis
- Local retail gas and propane distribution
- Retail water treatment, storage and distribution
  - Land, dams, reservoirs, water ways, treatment plants, tanks, piping systems
- Municipal water property (Tax exempt)
- Retail electric distribution (4)
  - PSNH, NH Electric Co-op, Liberty Utilities, Unitil
- Municipals (5) (Tax exempt)
  - Littleton, Ashland, Wolfeboro, New Hampton and Woodsville Water and Light
  - Tax Exempt
- Land and land rights

Mr. Hamilton asked how many of the renewable generation facilities have a payment in lieu of tax (PILOT) agreement; Mr. Fogg replied there are several that have on-going settlement agreements but no more than a handful, maybe 10 have actual PILOT agreements. Mr. Sansoucy stated that a separate stand-alone USPAP 1 and 2 appraisal is completed for each hydroelectric utility including those that are still regulated as well as for other types of utilities including gas/fire power plants, wood central generation plants, non-hydro thermal steam and nuclear generation plants; all of which would be swept into HB 324. Mr. Fogg clarified the slide excludes solar plants, which in general are on some type of PILOT, but does include wind facilities.

Mr. Sansoucy continued with high-pressure gas pipelines. He described the complexity of these systems which are owned by international companies; are regulated by the Federal Energy Regulatory Commission (FERC), are built on a certificate of need and are on a transmission tariff generally from the source to New Hampshire.
High-voltage transmission lines, called jurisdictional lines, get swept into HB 324. They are regulated by FERC and their jurisdiction is managed by the New England ISO (NE ISO) because the lines and tariff are spread all over New England. These include jurisdictional and non-jurisdictional transmission (smaller transmission reclassified as distribution) which are valued differently in the development of the criteria for the appraisal.

Mr. Sansoucy provided an explanation and history of the utility structure in New Hampshire including the relationships between regional and jurisdictional assets; the effect of state and federal tariffs; locations of new and long-standing utility assets such as substations, pipelines and transmission lines and how electricity and other resources are distributed throughout New England and, in particular New Hampshire.

Next, he described the first major 230 volt substation built in 1926-1930 in the town of Monroe as having its first complete overhaul including site work expansion, new transformers, insulators and digital controls. A brief discussion took place on how net book value, depreciation and original cost are considered in the value when these types of changes take place as well as the accounting for upgrades (replacing current assets), retiring assets and adding new property in order to maintain service in a safe and efficient manner (called contribution to fixed cost). Mr. Fogg added, with regards to the substation in Monroe, that 74% of the town’s value is utility value, which is the highest in the state, due to the two hydros and a lot of electric transmission property.

Mr. Sansoucy continued it is the normal, typical electric distribution that HB 324 has been perceived to be about; those utilities regulated by the NH Public Utilities Commission (PUC). However, the unintended consequence of HB 324 is that it is sweeping 75-80% of the non-distribution, non-regulated and differently regulated utilities into one bucket; those that are fully subject to USPAP 1 and 2.

Hypothetical Example – PSNH

For 2016, PSNH reported total taxes (including RSA 83-F tax, state and local taxes) of $81.2 million; if the unit method employed by the DRA were used throughout the state; the total tax would drop to $62.2 million ($50 million town and city; $12 million state). The residential reduction would be $11.2 million; commercial reduction would be about $7.8 million. The commercial rate is much less per kilowatt basis than the residential rate. While averages have been provided; the analysis needs to separate the two categories. The overall residential rate reduction would be 2.15% equating to $26 per year.

Mr. Sansoucy stated a lot of what has been heard has been about averages but taxes have an impact on value; they are an expense and are included in the development of the cap rate. Another misconception is if property taxes go down there will be an automatic reduction in rates; that is not true. Property taxes are one of many expenses that may contribute to the increase or decrease of a rate but are not the only factor. If a utility saves $19 million in taxes, they are not obligated to request a rate case from the PUC to reduce their rate; they could put the savings into capital expenditures. Ms. Northrup from Unitil added the opposite is also true; whether the property taxes go up or down, until you do a rate case; it is not reflected in the utility rates. Mr. Gagne stated all else being equal is the key. Rates would be impacted by a reduction of $19 million in the expenses; whether property taxes or something else, people would pay less on their electric rates.

Ms. Noel asked if there were more rate payers than taxpayers in the state. Mr. Hamilton stated there are 680,000 parcels in the state including vacant parcels; Mr. Sansoucy indicated there were 450,000 rate payers. Ms. Noel stated even though the rate changes for a municipality; the tax for the individual property owner would still increase to cover the difference in the budget. Ms. Temchak agreed adding a certain amount still has to be raised and a shift will occur among the different property owners; all types of property will pay more when one class pays less. Mr. Brown asked if an outside entity could request a rate case. Mr. Sansoucy and Ms. Northrup both stated it was their understanding that only a utility could request a rate case and the PUC could order one.

Referencing using the DRA values, Mr. Sansoucy stated the impact of changing to the DRA unit method of
value is 52% of the communities will be impacted; 48% will have a minor impact because of size or they already use net book value; very few would have a positive impact. Mr. Fogg added the negative impact would be in the communities where DRA has a value of a power plant that is higher than the settlement agreement such as Newington Station. Mr. Sansoucy added when a USPAP 1 and 2 appraisal is completed for Monroe for their hydroelectric plants; they are so tax sensitive that this is a very important component of our USPAP 1, constant knowledge and research, because the taxes have a significant impact in the capitalization rate on the income approach. If using the DRA values, the four most impacted communities in the state would be Monroe with a 55% tax rate increase; 27% increase in in Berlin; 25% in Stratford and 20% in Littleton. This would cause an enormous shift in tax revenue in those towns.

Mr. Sansoucy briefly explained what the residential and commercial electric rates were in multiple states and that New Hampshire is comparable or has rates less than Connecticut, Massachusetts, Rhode Island and Vermont.

**Highest and Best Use**

Mr. Sansoucy stated the NH PUC provides the guidance for the first test; they issue a franchise and authorize the operation of a franchise electric utility. Mr. Sansoucy was asked if he determined the highest and best use of the entire property or the property located within in an individual community and he replied it depended on the property. For instance, the highest and best use of the NH Electric Co-op property in the town of Chester was determined to be an electric distribution system. If there were negative influences on the property from outside that community; they were applied as a form of economic obsolescence. The number one goal, however, is to inventory and determine the highest and best use of the property located within the borders of that community. The North Country for example has towns with less population; we apply economic depreciation because as a whole; that region is over-served and underutilized and the revenue does not cover that property so we depreciate property in that particular community more.

Mr. Sansoucy continued to explain what he believed to be the problem with the electric rates; which was not property tax but the fractured franchises within New Hampshire. In his experience, New Hampshire is the most inefficient state on a regulatory basis. He went on to explain how some companies built their franchises by purchasing other small companies while others purchased land and pieces of the system as well as the inefficiency caused by having multiple companies operating in the same towns.

He stated utility assets could be sold within towns simply by installing or removing meter points on road crossings. Mr. Fogg added the systems are not integrally connected; they can be broken out in a meter point that separates any one of them from another. However, it was added that a franchise cannot be transferred without defining a public interest and explaining how, why and who to the PUC. The question was asked what would have to be done to physically separate assets from one town to another. Mr. Sansoucy stated if there are four roads crossing, you would have to put in four meters. He added that he does not add or deduct the value of the meters in a valuation.

**Effects of Regulation**

Mr. Sansoucy stated there are always positive and negative effects to regulation however regulation exists largely because of the positive effects. It is not only utility companies that are regulated; there are many industries that are regulated to some extent and the effects are not always negative. There are both positive and negative impacts of regulation and it is the economic obsolescence that represents the measure of the net effect of that regulation. When a utility is regulated, utility rate payers benefit from the oversight of the PUC through a regulatory compact which allows a utility to earn a return on their investment. This has been explained as a limitation on what a utility can earn. However, there is other resulting revenue from the regulatory compact. Depreciation (debt payments) is paid by the rate payers; prudently incurred operation and maintenance costs are
reimbursed as well as all interest payments. In addition, there is a process called “grossing up” which is a calculation of the income taxes and the tax rate that the company also earns. A utility also uses the GAP method which allows for accelerated depreciation (also called deferred federal income tax); a regulatory benefit of cash flow.

The resulting revenue is included in each of the USPAP 1 and 2 appraisals to determine what the ultimate cash flow will be. This is where differences occur. Mr. Sansoucy summarized the inputs used in the development of the income approach for USPAP 2, which will be discussed in detail at the next meeting. In summary, it is not only the return on equity the utility can earn on; it is also the depreciation, the interest and operating and maintenance cost that are also received through the rates paid by the rate payers. The process of inventorying the property within each community, finding the cost and applying the income approach is completed for every single town and utility they do.

The NH Supreme Court, in return for the benefits of regulation, requires utilities to ensure 100% reliability of the system to the best of their ability; to replace warn or damaged equipment and structures; provide rapid repairs in emergencies and provide service to new customers, which is called an obligation to serve. He briefly described a consideration called contribution in aid of construction (CIAC) and the issue of non-reporting and non-taxing of this property that is not always considered in the development of a value. Mr. Hamilton stated the DRA does include CIAC as part of the taxable value and has for a number of years.

Property Taxation in New Hampshire

Mr. Sansoucy explained economic obsolescence as an expense having an impact on the cap rate and on value, its importance in the income approach as well as the development of an appraisal. He compared the tax rates of Berlin and Monroe stating the major difference being due to the economic obsolescence induced by property taxes. The process in the valuation of a utility within a community consists of the development of value using the following approaches: cost approach; reproduction cost new; reproduction cost new less depreciation (using actual observed depreciation not book depreciation); and a sales comparison approach (using sales annually from across the country to provide indicators). For the valuation of the utility property in town of Chester, two income approaches were developed to represent the two types of buyers for utility property; other regulated utilities and non-profits such as NH Electric Co-op.

Mr. Sansoucy referenced Chester as a “gold town” (which was coined by the BTLA because it was colored gold) which represents a town that has a different highest and best use for different types of property within one town; distribution and transmission. Chester has a 345,000 volt transmission line going through it; it has a large right-of-way land value which is valued separately; it also has a substation that serves the region and does not generate income from the rate payers in Chester. Distribution poles and wires conform to the income, sales and cost approach because they have revenue, market sales and a definitive cost and depreciation. The transmission line is federally regulated and is valued at reproduction cost new less depreciation. The two values once reconciled must then be combined. Mr. Fogg briefly explained economic obsolescence is most commonly considered within the sales and income approaches for towns with distribution assets as a measure of regulation.

Allocation

Mr. Sansoucy stated allocation is and has been the biggest single problem in this debate. There are two ways to value utility property; bottoms up and top down. He stated New Hampshire is a bottoms-up state because property must be valued within the community. The top down method used by the DRA determines the value of the whole utility and then allocates value to the individual communities. He feels that there is no arithmetic method that can allocate the correct value to the towns and cities.
Mr. Fogg added with all else being equal, the unit method’s biggest issue is when property is added to one community and not to the other communities; it becomes impossible using the unit method’s mathematical formula to get that value from that one community flowed to where it belongs, which is jurisdictionally where it exists. Allocating value to towns where property does not exist is, in a nut shell, what is wrong with the allocation method.

Ms. Martin asked Mr. Sansoucy if the way he is presenting, bottoms up, if he were properly accounting for all aspects of depreciation; the sum of all the values of all the communities would be the same as the total value of the state. Mr. Sansoucy replied the value would be no different and they do test it. One of the major differences in what he does however are the gold towns; you have to break out and value the jurisdictional transmission property that is under a certificate of need and add it to the distribution value.

Mr. Hamilton asked Mr. Sansoucy if he felt there was a problem allowing one town to choose a different result than another which could result in a dramatic difference in the value of the whole state. Mr. Sansoucy agreed if one town chooses the correct value and another chooses an incorrect value that yes, it would result in an incorrect value of the whole. Mr. Hamilton asked if Mr. Sansoucy felt his values should be used for equalization. Mr. Sansoucy stated he would like to see his values used for equalization because he believes in them however because other methods are being used; that would create an equalization issue.

Senator Gray motioned to adjourn. Ms. Noel seconded.

Chair Patten adjourned the meeting at 12:30 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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