Assessing Standards Board
Utility Valuation Subcommittee Meeting

Approved as Written

DATE: January 12, 2017

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

SUBCOMMITTEE MEMBERS in ATTENDANCE
Bob Edwards, Betsey Patten, Steve Hamilton, Jim Wheeler, Joe Lessard, Scott Bartlett

MEMBERS of the PUBLIC
Loren Martin, David Grant, Joe Devarenne, Bob Gagne, Jim Michaud, Charelle Lucas, George Sansoucy, Dave Marazoff

Ms. Patten welcomed those in attendance.

Minutes
Mr. Lessard motioned to approve the minutes of December 15, 2017. Mr. Hamilton seconded the motion. Discussion followed.

- Mr. Wheeler requested the following sentence be added to the record on page one, in paragraph three, line nine, before the sentence beginning with, “A brief discussion…”; “In addition to requesting whether detailed inventory information could be provided, Mr. Wheeler suggested the request also include actual cost information.” Ms. Patten stated the initial letters sent did not include actual cost information in the request however it could be included in the next request for information.

- Mr. Lessard questioned the next to the last paragraph on page two. After a brief discussion the following correction was made: “Ms. Patten stated the information would be requested from all types of three utilities who have property in multiple jurisdictions including water, gas and electric.”

No further discussion. Mr. Lessard reformed his motion to approve the minutes of December 15, 2017, as amended. Mr. Hamilton seconded the motion. Ms. Patten called the motion to approve the minutes of December 15, 2017 as amended. All approved.

Utility Letter Responses

Mr. Hamilton briefly explained how it was determined which three utilities would be sent a letter as well as the purpose and intent of the letter. The purpose and intent of the letter was to verify if the utilities could provide detailed inventory information for property within each community. A three-tiered approach was used to determine which sample of utilities would receive the letter. It has been heard historically and through testimony that NH Electric Co-Op (NHEC) represented a utility that is difficult to retrieve information from; Unitil has offered to provide information as they have said their records are very good and Eversource/PSNH, being the largest multi-jurisdictional property in the State, should be included in the request.

While the timing of the request was challenging, Mr. Hamilton stated he heard from all three utilities and the message was similar, there may be some technical challenges, but they all believed it is possible to provide inventory information by community. One of the challenges will be providing discreet information about land. For
NHEC, who rather than relying on occupancy rights-of-way in the early days, were taking easements for the location of their equipment and poles, and this may be more of a challenge to inventory the land and rights they occupy.

Mr. Sansoucy stated he attended this meeting to provide information as to why using replacement cost for utility valuation is not a good idea because utility valuation is different than other property valuation. With utility property, the replacement cost today is more expensive than the reproduction cost of the assets within a community. A replacement cost methodology will be very difficult to come up with and if done, it will likely not be accurate or indicative of the value of the property in a community. In this case, the reproduction cost produces the correct value of property rather than replacement cost. The reason is modern replacement addresses modern standards and codes to operate under which you cannot apply to historic units of property. An engineering nuance that is difficult to understand and appreciate. The inventories can be provided but the bigger picture is this type of property needs to be valued to the maximum extent possible on the reproduction cost; the same way it has been done for the past 50-80 years: the original cost times a reproduction cost multiplier for that type of property. The most important information to obtain from the utilities is their cost information so they can be properly trended and depreciated. PSNH and Unitil have excellent original cost data, NHEC has no original cost data by year with which to do a reproduction cost but they have an excellent inventory.

Mr. Sansoucy continued, reproduction cost new less depreciation, is used with trending indexes by companies and appraisers and is designed to produce reproduction costs while taking into consideration the technological changes built into utility property. He reiterated his suggestion for a reporting bill that standardizes reporting to streamline the process by reporting costs and vintage year and using a third party, nationally recognized trend to get you cost new by reproduction. He asked the board to reconsider requesting the inventory and assigning numbers to it, and instead use the original cost data and multiplier in the valuation model.

Mr. Bartlett restated his concern with replacement cost because he does not know of an appraiser that uses replacement cost for utilities and this is not a house or building; it is a complex entity requiring prices for different pieces of equipment and multiples to come up with a replacement cost for one contiguous unit. A consistency among appraisals completed by himself, Mr. Teagarden, Mr. Dickman and Mr. Sansoucy is they all started with original cost; it is after that where they start to differ. This discussion is diverging from that concept into something completely different. The more fact based the data, the more reliable the approach. Original cost is fact. Handy Whitman, while an opinion of an outside company, it is not influenced by an appraiser or a utility company, it therefore is considered fact. Net book value is a fact, it is not disputed. Where the disagreements will arise is in depreciation because regardless of the approach, it is an opinion. The amount of information that will need to be collected and established for a replacement cost approach, much of that being an opinion, concerns him.

Mr. Hamilton stated of all the things having been described as a mixture of fact and opinion, there was one that does not include any opinion, and that is net book value. To find a way to close the differences, he believes a new approach is worthy of examining. If we are going to apply a valuation technique to most of the property in the community and most communities are appraised using replacement cost new less depreciation plus a land value method, then maybe that might be a good standard to apply to utility property as well.

Mr. Wheeler, using his experience as a design engineer, felt using a replacement cost new approach could become extremely onerous unless verifiable costs such as the purchase price and shipping and installation of the equipment can be provided by the utility. Mr. Hamilton agreed with this if all the equipment were new; there are cost services that provide cost details for elements of utility property like the way Handy Whitman provides trending factors, which would be applying a replacement cost new less depreciation approach. Mr. Wheeler felt that would be difficult to do for an entire utility and the best place to get the costs would be from the utilities. If we get to the point this might not be the right method, then maybe the right or a less difficult method might be reproduction cost trended forward.
Mr. Bartlett expressed concern that too much time was being spent on whether to use replacement or reproduction cost and that the most important discussion, in his opinion, of what to apply for depreciation will not take place. Depreciation will be applied to either method replacement cost or reproduction cost. He restated his opinion to use reproduction cost because that information is available, it has been used, and then direct the conversation to what is the depreciation, and do we apply physical, economic or functional obsolescence?

Mr. Edwards asked if the components in Handy Whitman take into consideration changes in technology, changes in sophisticated equipment we are trying to assess; does it factor in all the technology changes? Mr. Sansoucy responded no, that would be replacement cost. He explained the Handy Whitman index was developed by an engineering company to index the cost of property in each year for what it is and the existing reproduction cost of property that is in the streets.

After listening to the conversation, Ms. Martin offered that it appears everyone is, in fact, beginning with original cost and that using a replacement cost new would be a whole new methodology for everyone including the utilities, as well as the assessors. Using the original cost provided by the utilities would be the easiest to start with then the discussion could move forward. Mr. Hamilton briefly summarized a few of his concerns with reproduction cost new or trending original costs forward as neither takes into account changes in technology or technique, it takes a whole bucket of property and moves it forward based on the year it was put into service, it does not account for changes in labor costs to material costs and economy of scale does not get contemplated because the original cost gets booked in the accounting of the utility as what they paid for those elements that they placed in service in that year.

Mr. Wheeler added inventory can be fairly fixed and agreed upon. The number we are talking about, at least with Handy Whitman, is based on historic information, pricing that has occurred, so it is not a forecast; it is a look back at pricing information so that is significant in his mind. RS Means he has used and he feels the board could go down either path.

Mr. Edwards state he is concerned with using original cost and trending because after it is trended there is a new value that is not representative with what it would be replaced with today nor does it take into consideration perhaps all the technological changes. He is not convinced that net book value is the way to go either but he needs more education on that. The replacement cost new and backing it down with depreciation for all these different factors to the point where you get to the asset value as of that given moment seems to be the most accurate to him.

Mr. Gagne offered a potential shortcoming on a book value approach. On other scenarios a floor on depreciation has been contemplated; similar to poles and conduits. Book value does not accommodate that unless you are going to make an adjustment. Some of what is in book value is down to a zero value on those assets so if you start going in the direction of book value, you may want to think about how you would treat that. To be fair there should be a floor on how far down you think that asset could go.

Mr. Hamilton responded to that observation; book value is much more applicable to a unit than it is to the assets within a small portion of the unit. To that end, when net book value is applied against a unit, there is an allocation to all of the communities so typically that occurs on the original cost. Even on property that has been depreciated to zero, a value does get assigned to it. If you do take a small portion of a property and just apply net book value, you will wind up in that situation which is not advisable.

Next Meeting

January 19, 2018 at 1:00 at DRA.
Ms. Patten adjourned at 12:50 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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