Assessing Standards Board
Utility Valuation Subcommittee Meeting

Approved as written

DATE: January 19, 2018

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

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

MEMBERS of the PUBLIC
Joe Devarenne, Concord, Mark Dean, NHEC, David Grant, Unitil, Jim Michaud, Hudson, Jonathan Giegerich, Unitil, Teresa Rosenberger, DMB, David Grant, Unitil, Robert Gagne

Ms. Patten welcomed those in attendance.

Ms. Patten began by stating the committee is continuing to look for a process and calculation that will alleviate the variances between assessed values of utilities; one that is predictable and able to be used by each municipality. She then reviewed the points the committee has agreed to thus far:

- Moving forward with a cost approach
- Determine a calculation that will allow municipalities to understand and use
- Utilities would like a process and calculation that is predictable for rate case purposes

Three utilities were asked if they could provide detailed inventory information that would be needed for this type of approach and at least two responded they could. A discussion took place at the last meeting pertaining to replacement cost versus reproduction cost and it is understood that one or both will be part of the solution.

Mr. Bartlett distributed information to help distinguish and provide clarification about the different types of approaches. One of the points made was that even though a property has depreciated to zero and a utility can no longer earn a rate of return on it, it still has a contributory value which is included in the assessment.

Mr. Gagne offered some other points to help find some common ground:

- Even though a utility cannot earn a rate of return on an asset that has a depreciated value of $0; it is a difficult concept to comprehend that taxes should not be paid on something that is functioning
- If Net Book Value is the lowest amount a utility can argue for to pay taxes on; can they argue anything lower than that
- It is the higher values, which may be based on approaches the do not account for the same things the PUC might, that motivate them to petition for lower values
- There the two extremes: Net Book Value being $0; the values they consider are not reasonable. If the direction goes toward using, a floor might be reasonable to consider
Discussion followed. Ms. Patten explained the importance of being able to briefly explain, in lay terms, the recommendation to the Legislature.

Mr. Bartlett suggested removing transmission line utilities from the group of property currently being discussed as he does not believe net book value plays a part in valuing that type of property. A brief discussion followed.

Mr. Bartlett motioned to remove the FERC tariffed transmission line properties are not part of NH PUC regulated distribution networks from the discussion of the multi-jurisdictional assessment process. Mr. Hamilton seconded the motion. Discussion followed. Ms. Patten called the motion. All approved.

A discussion followed about using net book value. Some of the concerns discussed included it depreciates to a $0 value, the biggest impact would be on a town-by-town basis in particular a town with all new property versus a town will all its property depreciated to $0 and that it would be difficult to calculate by municipalities because of the significant amount of data to consider. A floor for depreciation was mentioned to lessen the impact of that negative consequence. Discussion continued. The committee agreed no matter what technique they advise, no property value within a multi-jurisdictional distribution system should ever depreciate to $0.

Mr. Wheeler explained, in his opinion, the reproduction cost method seems to be the most straightforward and easiest method to explain and understand. It essentially it lumps assets together and assigns a dollar value which is then trended forward versus the replacement cost method which values by individual assets and requires a laborious effort to complete an assessment. Discussion followed.

Mr. Hamilton agreed the strength of the reproduction cost method is its simplicity however one cost is being applied to various unknown assets that are lumped together and that one cost is being trended; economy of scale may be important. That is a part of the trending cost that cannot be understood without getting to the level of detail of what each element is and if we are going to get into that detail then we are better off with a replacement cost new which would be more appropriate to understand how to properly trend forward these elements. He added this process is to determine a calculation to approximate a value (not market value) rather the value of the current use of a utility distributing electricity, water or gas within a community. This approach will lead us toward coming up with a statutory value.

Mr. Bartlett added when using different approaches, a theory of reconciliation is used, which is a process that weighs the approaches and determines which approach has the most weight. Four different approaches have been discussed and he suggested the committee start looking at a combination of approaches.

**Other Business**

Mr. Michaud asked if the committee is saying both the state and the municipalities will be valuing the property using the same method or are you going to continue having two different values like we have today?

Ms. Patten responded 83-F is not part of this discussion. Mr. Hamilton added Mr. Gagne is leading an equalization subcommittee effort to move away from reliance on the 83-F value for the equalization process. We are going to be determining a value under 83-F for the unit because for PSNH or Unitil or any other property owners in the state, it is the value of their property which is most important when we calculate their state education tax they pay directly to us. Mr. Bartlett added whatever the committee comes up with he thinks it will be beneficial if that value is used by the communities for their calculations of equalization. This will alleviate the state from coming up with an allocation and individual value for each community; I think that is huge step toward making this process work.
Mr. Hamilton added if the Department’s value was not relied on in the equalization process and there was a statutory formula the municipalities had to follow in order to value this property in a particular way for a particular use, the Department would not make individual allocations of the unit value and would send them their one tax bill.

Mr. Michaud asked if the utilities were invited into this subcommittee and Ms. Patten stated they were not. A discussion ensued about the Bow case.

Mr. Edwards asked if there was an example using actual numbers that could be reviewed. Mr. Bartlett offered to bring an example from Goffstown to the next meeting.

Next Meeting
Friday, January 26, 2018, at 9:30 a.m. at DRA

Ms. Patten adjourned the meeting at 3:08 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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