Ms. Patten welcomed those in attendance. She distributed a handout listing the principles the committee discussed and agreed to at the previous meeting. She added one thing that has not been clarified; the distribution systems located in multiple jurisdictions are included in the subcommittee’s discussion.

Mr. Bartlett gave a presentation on his approach to valuing utilities. He stated all of the information in this spreadsheet he is discussing is as of 12/31/2015.

Information provided by the utilities includes the asset ID, description of the asset, the Federal Energy Regulatory Commission (FERC) Account Number, and service date (date installed). The calculation to determine the age of the asset is current year minus the date of service.

Information from Handy Whitman includes the account number (same as the FERC account number) and the year installed which corresponds to a factor. The trending factor is determined by using the age divided by the factor (representing the year installed).

The original cost, also called book value or gross book is the amount that is spent for and cost to install an asset; depreciation represents the allowed depreciation by the Public Utilities Commission (PUC) (in this case applied as of 12/31/2015) and net book value is the original cost minus allowed depreciation.

The next step is to trend. The trending factor (from Handy Whitman) multiplied by the original cost gets to the trended original cost which is what it would cost today to install the same exact item.

A discussion ensued about the various assets, including installation and labor costs, which are rolled up into a FERC account codes. Mr. Bartlett explained the details are not broken out; the utility reports to him the assets they accounted for on their books in a year but do not provide details such as what or where assets were installed or how much labor; only what was spent in his town. Mr. Sansoucy added instructions are available as to what gets reported on each account line including material costs, installations overheads related to installation etc., capitalized to form the basis for that asset and the gross book value.

The next step is to determine a reproduction cost. A brief conversation followed about depreciation. Depreciation is calculated on the entire unit, not on an individual town basis and a company can only earn based on the net book value of the unit.
Mr. Bartlett explained the numbers for Energy North, in Goffstown. The total original cost as reported by Energy North, which includes everything installed in Goffstown, is $2.7 million; an allowed depreciation of $945,000; and a net book value of $1.8 million.

His trend original cost is $2.7 million; using Handy Whitman, he determined the cost to reproduce everything in Goffstown to be about $5 million. He believes this to be reasonable considering the average age of the installations in Goffstown is 20-25 years; to reproduce that property is about double. Of that $5 million investment, Energy North can only earn on the net book value of $1.8 million. He added items that depreciate to $0 do not allow them to earn on their total value of the property however those items are still in use. There are two things to consider; (1) every property depreciated to $0 that is still being used has a contributory value to the whole; and (2) there is value in use and income to contributions and both should be recognized. Net book value does not recognize both; trended cost does.

More discussion followed about depreciation. Utilities can only earn on their net book value and that is what they feel their value is. Assessors look at similar safe investments in the market and compare what those investments can earn versus what the utilities can earn; utilities are usually higher. Net book value is a part of the formula and consideration when you are looking at total value. Mr. Bartlett stated his opinion overall is the total value of utility companies is 25-50% greater than book value.

Mr. Hamilton reiterated there are two values attributed to utility property; the business of running the utility and the property that allows you to do that. He explained one simple element of the Eversource divestiture order highlights this fact clearly; when Eversource sold all its plants, they retained the right in their franchise to recover the stranded investment they made in the scrubber in Bow. As a business, they will be paid back from the people who pay the electric bills over a period of time for the bad investment they made. That has nothing to do with the property; they do not own that property anymore. That distinction is important to understand.

Mr. Bartlett continued with his presentation. His stated original cost is $2.7 million and his depreciated original cost is $2.7 million (which is not his final value); in his experience these two numbers tend to be relatively close. He then used an economic obsolescence adjustment of 17%, representing an indicated value of improvements. He then multiplied the economic obsolescence and depreciated original cost (.17 x $2.7 million = $471,000) which represents his recognition for a regulated utility.

Summary

**Energy North** - Total Original Cost (OC); $2.7 million; Reported Net book value $1.8 million; $0 land value

**Mr. Bartlett** - Trended OC $5 million, Depreciation $2.2 million; Depreciated OC $2.7 million

**PNSH/Eversource** – Total OC $46 million; Reported Net book value $37 million; [Deduct land and land rights]; Improvements only - $45 million; Net book value $36 million

**Mr. Bartlett** – Trended OC $90 million; Depreciation $40 million; Depreciated OC before economic obsolescence $49 million; Total OC $45 million

Mr. Bartlett stated the values are close and he tends to find a fairly close correlation between his original cost and his total assessed value. It was clarified that other than depreciation and economic obsolescence, which are based on his opinion, the numbers can be proven by fact. Mr. Lessard reiterated a point he made at the last meeting, the original cost (book value) is a reasonable number to use because it accounts for a lot of the pluses and minuses; it includes depreciation because today’s costs are a whole lot different.

Mr. Sansoucy agreed original book value is a good compromise; it is one simple number which over time builds in depreciation from appreciation. It is presented in Mr. Bartlett’s analysis as a good proxy for value, being very similar. He briefly explained the model endorsed in Massachusetts by the Supreme Court which uses a 50% weighting of net book costs and a 50% weighting of reproduction cost new less depreciation and actual property
lives. Simply stated, original cost is a reported number; it is used on the property tax card and it doesn’t change. Original cost would be a reasonable proxy for value in a majority of communities excluding generation and transmission property.

Mr. Bartlett stated House Bill 1381 would have a utility paying on the value of the entire unit versus each community. He added his opinion that in this current market, in the current condition, the total value of these plants is somewhere between 25-50% greater than net book value. All numbers start with original cost, what the property was booked at when first put into place; net book value is original cost less depreciation; trended original cost is the original cost times a factor less depreciation. In addition, Mr. Bartlett explained the depreciation he uses is consistent at about 2.5% because in his experience the cost of utility items has increased over time at about 2.5%. With trending, if costs are increasing at 2.5% and he is depreciating that at 2.5%, he ends up at the same place.

Mr. Gagne stated he felt the conversation is heading in the right direction but suggested keeping recommendation simple. It should be measurable, consistent and predictable. No matter the resolution, there will be a burden on tax payers or rate payers or both but not on the utility because they pass their expenses on to the rate payers.

A brief discussion followed about the NH Electric Co-op and their unique situation and whether the committee should or should not consider them in this discussion or if another solution may be needed for them.

Mr. Bartlett continued the direction towards using original cost is a good one but stated it will not work for land. It was agreed that a discussion should take place about land and that it should not be considered a principle.

Ms. Patten reaffirmed the following principles that has been agreed to:

- Value of business and value of property are not the same

A discussion followed about Contributions in Aid of Construction (CIAC). The following example was provided: In a community with a wind farm, the wind farm developer has to connect their wind farm to the electric grid; the developer builds a line and a substation to introduce their electricity into the larger system and then gives the property to the utility. The regulated utility reports it as CIAC at a value of $0 and they cannot earn a rate of return on the value of that asset. This is common for water distribution systems in commercial developments and residential subdivisions. It is an important feature and consideration that needs to be accounted for and have a value represented to it. Mr. Sansoucy briefly explained how this property is amortized not depreciated and how it earns revenue for the utility. The benefits offset the obligation as the benefit is receiving property they did not have to pay for and the obligation is the utility has to maintain, repair and replace it. If this property were to be replaced, it would no longer be considered CIAC and would be considered original cost and part of the rate base. In order to account for this property, it must be specifically requested from the utility because it is not reported to the Town or to the PUC because it essentially has a value of $0. It was suggested this be included in requests for information by community and part of the guiding principles.

Ms. Patten restated the following principle agreed to for CIAC:

- Original cost needs to include CIAC
- Net book value should include the depreciated value of CIAC
- CIAC has to be reported as inventory by the utilities

Other Business

A brief discussion followed pertaining to the hearing scheduled for House Bill 1381 on January 30 and whether or not the principles agreed to, to date should be provided to the Ways and Means Committee. It was determined that Ms. Patten will compile the principles the committee has agreed to and provide a statement to the Committee of a timeline for when a recommendation will be provided.
Mr. Sansoucy requested the committee consider a phase-in for communities that will be impacted by an increase or decrease in values to alleviate an immediate, significant impact. It was agreed the phase-in is a good idea, and that it should be included in the recommendation to the full Board, but it will ultimately be up to the Legislature to make that decision.

Next Meeting

February 1, 2018 at 9:30 at DRA.

Ms. Patten adjourned at 12:00 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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