

*Assessing Standards Board
Utility Valuation Subcommittee Meeting*

Approved as written

DATE: February 1, 2018 **TIME:** 9:30 a.m.

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.

The committee briefly reviewed the following points agreed upon at the January 26, subcommittee meeting:

- *Value of the business is not the same as the value of the property*
- *Economic obsolescence needs to be considered if replacement or reproduction cost is used*
- *Depreciation needs to be determined if replacement or reproduction cost is used*
- *Contribution in Aid of Construction (CIAC) needs to be reported in the inventory supplied by the utilities for*
 - *Original cost; and*
 - *Net book value*

Other Factors discussed:

- *Net book value should be considered in the formula*
- *The subcommittee determined a 20% floor on net book value would be too difficult for municipalities to determine locally*
- *Subcommittee is moving toward a hybrid of the cost basis assessment process (1/19 meeting)*

Chair Patten suggested the discussion for this meeting include the weighting of the net book value and assessed value as well as the principal of having the formula be fact based and verifiable.

Mr. Bartlett distributed handouts from his presentation on 1/19, one page shows Energy North as reported in the Town of Goffstown, original cost and net book value, his opinion of trended cost and his assessment as a comparison and the second page are the numbers he had shown directly from the 2016 Annual FERC Reports showing the total reported utility plant and net utility plant.

Mr. Lessard suggested the only way to stay away from opinions and disagreement is to stick with known numbers, for example, the regulated, multi-jurisdictional utility properties will be assessed except for land; improvements will be assessed at original cost or at net book; something that is simple and straightforward. Mr. Bartlett agreed and suggested the subcommittee invite comments from the utility companies to get their feedback as to whether or not straight original cost would work and if not, why.

Chair Patten would like to be able to bring back to the full Board an update of the principles that have been agreed upon and for the utilities to come and provide their thoughts specifically on original cost and net book value and how they would be affected by each.

Mr. Hamilton agreed the subcommittee should be ready to provide at least a preliminary report to the full Board at the next meeting. Some principles have been laid out that we all agree on and by examining those principles in the context of the available approaches to value the property; he believes the committee can narrow the items to be discussed before a recommendation is provided.

A brief discussion took place about the theoretical discussions that have taken place and the need for actual numbers to examine and analyze to understand where there might be issues with any formula that might be considered.

Mark Dean, General Counsel representing NH Electric Co-op:

- *Currently not rate regulated by PUC*
- *Use mass averaging accounting for items on original cost and some related to CIAC (which is the standard for Co-ops throughout the country)*
- *Begin with solution for everyone and then adjust as needed for NHEC*
- *Can look at an individual town for some components but not all because costs were logged in on an average basis*
- *They have and report net book values for everything system-wide and by town; however you have to take some averages and may have to use a proxy; if you are going to need CIAC figures, you will have to agree to a reasonable way to do some estimations or proxies*
- *Based on some of the comments made about how to deal with the Co-op, the following points were offered:*
 - *Co-op is not currently rate regulated by the PUC; for most of its history it has been treated by the PUC just like all other electric utilities as far as we were subject to rate regulation*
 - *As a Co-op, even when regulated by the PUC, they don't look at rate of return calculations to try to figure out what the rate should be; they use different standards for a non-profits*
 - *The fact that the PUC isn't currently regulating the Co-op's rates, is not just mandated by statute, there was a change to allow Co-op members to vote whether or not the Co-op should be regulated by the PUC for rates and many other things. The way statute works; the Co-op is always subject to the possibility the members could say no we want to be PUC regulated; so NHEC is not currently rate regulated but they could be*
 - *Some of these differences are not a question of PUC regulation they are just a question of the inherent nature of a non-profit Co-op and how its books have been kept because of that over the years*

Mr. Dean stated the Co-op has the following information available by town based on the request, real estate, buildings and improvements, lines, size of lines, transformers, poles, size of poles. Some of those items will in fact have direct costs associated with them, not an average, and for some assets including poles, we have a date of install, and size, but there is not a number attached to the original cost of purchasing that pole. The total overall original cost, net book value and other data can be reported for the entire company and is to DRA.

Mr. Bartlett asked if original cost by town is reported to DRA and if that is what is used for allocation. Mr. Dean indicated the Co-op does not have that information but he does not know how or in what format information is provided to DRA. Mr. Hamilton responded he could not confirm or deny what information, in what detail, was

received by DRA for the allocation. Mr. Dean added if the question is does NHEC report the known book original cost of each pole in a community, the answer is no; that information does not exist. Mr. Bartlett felt, as he understands what NHEC can do and have done, is they are capable of providing at least their best guess estimate of what the original cost is by community. A brief discussion followed including a similar issue with a telecommunication company and language added to statute referring to reporting to the best of their knowledge. Mr. Hamilton suggested the committee would want to recommend an inventory for this property be filed so a value can be calculated by a formula using information provided, if needed. Ms. Patten thanked Mr. Dean for the information pertaining to NH Electric Co-op.

Mr. Giegerich, representing Unitil, briefly explained how CIAC is accounted for. He agrees with the concept that a functioning asset having a \$0 value does not intuitively make sense, however if the cost of that asset was recovered, the value would still be \$0, then becomes what they call a public service asset; it functions but does not generate revenue. He added a recommendation from this subcommittee is important to them.

Mr. Giegerich was asked if Unitil could provide net book value, original cost and CIAC by town and he responded with the exception of CIAC, that information has been provided. He was not sure if CIAC was tracked by town but he would inquire. He also offered to submit a cover letter sent to towns with the PA-28, which includes the total cost, original cost, net book value and current additions and retirements for the year.

Mr. Bartlett suggested original cost and net book value information also be requested from Liberty Utilities and Eversource as they are other types of utilities included in this discussion.

Mr. Hamilton gave a brief presentation on the distinction between the value of a business versus the value of the property and the complexities in between. The committee should be mindful of the spectrum between business and property and the taxing of the real estate only. CIAC is important to include but determining how it relates to the business versus how it relates to the property is worth considering.

Hudson Area Water Works v. Town of Hudson - The Supreme Court examined the claim CIAC can't be included in the value for taxation because the utility didn't pay for it; the Supreme Court said no, it doesn't matter who paid for it, they ruled it was taxable value. When including CIAC, the spectrum becomes unclear as to what is business versus property value.

Another example is the PUC order issued for the divestiture of Eversource that included a provision for Eversource to recover the stranded costs for the scrubber in Bow, through billing their customers, over a period of time. They no longer own the Bow plant so it is not part of their business value and has nothing to do with property they own so it is not a property value. A discussion followed pertaining to where the balance point might be between the spectrum of business and real estate value. There are positive and negative aspects related to both the business and property sides and it was suggested a range should be considered.

Mr. Giegerich explained the supply charge on a utility bill as flow-through revenue which gets paid to Unitil who then expenses it out to the supplier or generating facility; there is no mark-up. The shipping and distribution charges are 100% tied to the net book value of their assets. The assets depreciated to \$0 do not generate revenue however he agreed there is inherent value.

A brief illustration was given to show how the inequitable distribution of taxes is created by the determination of value in a community. Town A has all new equipment and Town B has a depreciated value of \$0; using net book value, Town A is paying all the taxes and Town B is not paying any. It was reiterated that the purpose of this subcommittee and discussion about a valuation method is ultimately about the inequitable distribution of taxes.

Ms. Patten asked if the committee agreed on the following principles:

- There is a relationship between original cost and net book value
- There is a way to come up with a range showing original cost to net book value

The committee agreed to the stated principles.

A discussion followed about the use of a minimum value and a maximum value. Net book value was considered the minimum however the maximum began as original cost or something more than original cost. It was suggested Mr. Bartlett's argument for original cost makes and sense and might be a proxy for replacement cost new less depreciation or at least within that range because the trending (presented at 2.5%) and the depreciation (also presented at 2.5%) offset. Mr. Lessard offered the maximum might be higher than original cost but to determine that he felt the committee needed to review the town-by-town information from the utilities to gain a better understanding of what the minimum and maximum values might be. Mr. Hamilton added the fundamental purposes are to find a technique that can be employed at the local level; a technique which creates values that if added up approximates the value of the unit and to stop having to contribute through water, electric and tax bills to pay the cost of litigating the differences.

Ms. Patten asked if the committee agreed on the following principles:

- The assessed value in a community should be greater than net book value

The committee agreed with the first principle. More discussion followed about the second principle and whether or not the committee should consider an upper limit. They agreed to consider the second principle "the assessed value in a community should less than or equal to the original cost" once they reviewed the data from the utility companies.

Ms. Patten stated she did think the committee was prepared to bring a recommendation to the full board. After a brief discussion, the committee agreed to postpone the three meetings (full Board, Equalization and Rules subcommittees) scheduled for Friday, February, 9 until Friday, February 16 and to hold another subcommittee meeting on Friday, February 9, at 9:30 a.m. for analysis of data received and to come to a resolution on a recommendation to the full Board.

Mr. Bartlett suggested a request for information be sent to Pennichuck Water, which would then provide information for electric, water and gas utilities. Ms. Patten restated the information that will be requested will be original cost and net book value by town, CIAC for both original cost and net book value, if available.

Next Meeting

Friday, February 9, 2018, at 9:30 p.m. at DRA

Friday, February 16, 2018

- 9:00 a.m. – Equalization subcommittee
- 9:30 a.m. – Full Board meeting
- 1:00 p.m. – Rules subcommittee

Ms. Patten adjourned the meeting at 11:55 a.m.

Respectfully submitted,
Stephanie Derosier

Municipal and Property Division
NH Department of Revenue Administration

All meetings are recorded and available upon request.

Documentation relative to the Assessing Standards Board may be submitted, requested or reviewed by:

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