

THE STATE OF NEW HAMPSHIRE

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NHPUC 5APR'19AM11:23

April 5, 2019

Debra A. Howland, Executive Director
New Hampshire Public Utilities Commission
21 South Fruit Street, Suite 10
Concord, New Hampshire 03301-2429

Re: DW 18-047 – Abenaki Water Company (Abenaki)
Investigation to Determine Rate Effects of Corporate Tax Reductions
Staff Recommendation

Dear Ms. Howland:

On March 8, 2019, Blue Ridge Consulting Services, Inc. (Blue Ridge), the Commission Staff's (Staff) consultant in this case, submitted a report containing its findings and recommendations relative to the treatment of savings realized by Abenaki from recent federal and state corporate income tax rate reductions that became effective on January 1, 2018. Blue Ridge's report and supporting workpapers are attached to this correspondence. Based on Blue Ridge's report and the conclusions contained therein, Staff recommends that the Commission order Abenaki to record various deferred liabilities which are reflective of its realized tax savings from January 1, 2018, through the dates that rates are next established for Abenaki's respective systems in future rate proceedings.

Background

On January 3, 2018, the Commission issued Order No. 26,096 in IR 18-001 for the purpose of opening an investigation to determine utility treatment of the effects of the federal corporate income tax rate reduction resulting from the 2017 Tax Cuts and Jobs Act (TCJA) as well as reductions in the NH Business Profits Tax (BPT) and the NH Business Enterprise Tax (BET) which became effective in 2018. To that end, all New Hampshire regulated utilities, including Abenaki, were required to file responses to the Commission's order by no later than April 1, 2018, addressing the anticipated effects of the federal and state corporate tax rate reductions. Further, if the changes in federal and state tax laws resulted in reducing a utility's tax obligations and, thereby increasing its net income, it would be necessary to determine how those reduced obligations should be reflected in the utility's rates going forward. Consequently, the Commission also ordered each effected utility to calculate its interim tax savings and record a deferred liability.

On March 30, 2018, Abenaki submitted its filing with the Commission in compliance with Order No. 26,096. Abenaki's filing was assigned Docket No. DW 18-047. At the time of filing, Abenaki was comprised of four separate systems, each with distinct customer rates: Belmont Water System (BWS), Belmont Sewer System (BSS), Bow Water System (BOW), and Rosebrook Water System (RBS).

On April 9, 2018, the Office of the Consumer Advocate (OCA) filed a letter of participation in accordance with RSA 363:28. There are no intervenors in this proceeding.

In its filing, Abenaki calculated its anticipated annual tax savings resulting from the recently enacted federal and state tax legislation for each of its four systems as follows:

Belmont Water System (BWS)	\$ 6,618
Belmont Sewer System (BSS)	3,082
Bow Water System (BOW)	4,796
Rosebrook Water System (RBS)	15,497

Abenaki further proposed that these annual savings be recorded on its books as a deferred liability until either rates are established in the respective systems' next rate cases or as otherwise ordered by the Commission.

Abenaki's filing also contained a calculation of its excess deferred income tax (EDIT) reserve resulting from the corporate tax rate reductions. Abenaki's calculations resulted in an EDIT reserve of \$39,500 for the four combined systems. Abenaki proposed to return this amount to customers via an amortization mechanism based on the calculated weighted average remaining life of the underlying assets which was determined to be 27.92 years. As a result, Abenaki's combined EDIT would be reduced annually by \$1,415 ($\$39,500 \div 27.92$) until such time that the excess reserve balance is fully exhausted.

Blue Ridge was contracted by the Commission to review Abenaki's tax-change-effect calculations and issue a report of its analysis of the compliance plan provided by Abenaki. As part of its review, Blue Ridge generated discovery questions to which Abenaki responded. Abenaki's discovery responses are attached to this correspondence. In response to Staff 1-1, Abenaki revised its calculation of anticipated annual tax savings resulting from the federal and state corporate rate reductions as follows:

Belmont Water System (BWS)	\$ 6,768
Belmont Sewer System (BSS)	3,102
Bow Water System (BOW)	1,349
Rosebrook Water System (RBS)	15,877

Abenaki, however, did not revise the calculation of its EDIT reserve from that which was originally presented in its March 30, 2018 filing.

Blue Ridge's Calculations of Annual Tax Savings

In its report, Blue Ridge noted that rates were last established for BWS, BSS, and BOW in Docket DW 15-199. *Abenaki Water Company, Inc.*, Order No. 25,905 (June 3, 2016). For these three systems, Blue Ridge proposed and calculated revised annual tax savings amounts based on the application of the “FERC Formula” to the respective revenue requirement calculations approved in Order No. 25,905. Blue Ridge’s calculations relative to these three systems result in the following alternative annual tax savings amounts:

Belmont Water System (BWS)	\$ 5,327
Belmont Sewer System (BSS)	1,438
Bow Water System (BOW)	2,642

Staff notes that Blue Ridge’s proposed calculations are consistent with recent Commission rulings approving revenue requirements for gas and water utilities which were based, in part, on the application of the FERC Formula relative to the income tax component contained in each. The recent gas utility proceedings include DG 17-048, Liberty Utilities (EnergyNorth Natural Gas) Corp. d/b/a Liberty Utilities, in Order Nos. 26,122 (April 27, 2018) and 26,187 (November 2, 2018); and DG 17-070, Northern Utilities, Inc., in Order No. 26,129 (May 2, 2018). The recent water utility proceedings include DW 17-118, Hampstead Area Water Company, Inc., in Order Nos. 26,165 (July 31, 2018) and 26,195 (November 28, 2018); and DW 17-165, Abenaki Water Company, Inc. - Rosebrook Water System, in Order Nos. 26,171 (August 31, 2018) and 26,205 (December 27, 2018).

As indicated above, RBS’s most recent revenue requirement approved in Order No. 26,205 already reflects an appropriate reduction in federal and state income taxes via the application of the FERC Formula. Therefore, Blue Ridge’s report proposes a \$0 annual tax savings adjustment for RBS.

Blue Ridge's Conclusions Regarding Excess Deferred Tax Reserve

With regard to Abenaki’s proposed EDIT reserve for the four combined systems of \$39,500 to be amortized over 27.92 years resulting in an annual combined income tax expense reduction of \$1,415, Blue Ridge’s report concludes that the underlying calculations with respect to these amounts is reasonable. Blue Ridge’s report notes that, per the discovery in DW 17-165, the EDIT reserve should be further allocated amongst Abenaki’s respective systems as follows:

Belmont Water/Sewer Systems (BWS/BSS)	\$ 6,900
Bow Water System (BOW)	17,700
Rosebrook Water System (RBS)	14,900
Total	<u>\$39,500</u>

Blue Ridge's report further notes that the annual amortization of the EDIT reserve attributable to RBS of \$534 ($\$14,900 \div 27.92$ years) is already reflected in its recently approved revenue requirement. See Commission Order No. 26,205 (December 27, 2018).

Staff's Recommendations

Based on the findings and conclusions contained in Blue Ridge's report and consistent with Commission Order No. 26,096, Staff recommends that the Commission order Abenaki to create a regulatory liability, as of January 1, 2018, to account for the impact of federal and state statutory tax rate reductions which (1) enabled the realization of significant annual tax expense savings, and (2) gave rise to an EDIT liability owed to customers.

- (1) Tax Expense Savings. Staff recommends that the Commission direct Abenaki to record annual and cumulative regulatory liabilities for each of its utility systems, with the exception of RBS, in order to track tax savings realized through the effective date of approved permanent base rates in each system's next general rate proceeding. Specifically, Staff recommends the Commission approve the recording of the following annual tax savings amounts for the respective systems:

Belmont Water System (BWS)	\$ 5,327
Belmont Sewer System (BSS)	1,438
Bow Water System (BOW)	2,642

For BWS, this results in a 2018 year-end balance of \$5,327, a 2019 year-end balance of \$10,654, a 2020 year-end balance of \$15,981, and etc. For BSS, this results in a 2018 year-end balance of \$1,438, a 2019 year-end balance of \$2,876, a 2020 year-end balance of \$4,314, and etc. For BOW, this results in a 2018 year-end balance of \$2,642, a 2019 year-end balance of \$5,284, a 2020 year-end balance of \$7,926, and etc. These amounts were determined based on FERC Order No. 475, which employs a formula approach using data from Abenaki's most recent rate case for BWS, BSS, and BOW (DW 15-199) to approximate the cost of service impact (as if the new tax rates were in effect at the time of the last rate order).

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- (2) EDIT. Staff recommends that the Commission direct Abenaki to record a regulatory liability for each of its utility systems for their respective EDIT reserves, as follows:

Belmont Water/Sewer Systems (BWS/BSS)	\$ 6,900
Bow Water System (BOW)	17,700
Rosebrook Water System (RBS)*	<u>14,366</u>
Total	<u>\$38,966</u>

*(Per DW 17-165: \$14,900 original EDIT - \$534 amortization for 2018)

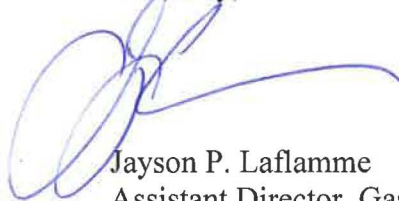
Per Commission Order No. 26,205, Abenaki will amortize the EDIT associated with RBS, representative of an annual tax credit to its customers, by \$534 annually until it is reduced to \$0. With respect to the EDIT's associated with BWS/BSS and BOW, Staff proposes that the amortizations of such, representing income tax credits to customers, should be resolved in these systems' next general rate cases.

Staff believes that the recommendations proposed above provide a satisfactory and full resolution of the issues contained in DW 18-047. Therefore, Staff further recommends that, upon approval of the above, the Commission close Docket No. DW 18-047.

Prior to filing this recommendation with the Commission, Staff forwarded draft copies to Abenaki and the OCA for their review as well as seeking their respective positions with regard to Staff's recommendations. In response, Abenaki indicated that it concurred with Staff's recommendations. The OCA did not respond to Staff's inquiry.

Thank you for your assistance with this matter. If you have any further questions regarding this case, please do not hesitate to contact me.

Sincerely,



Jayson P. Laflamme
Assistant Director, Gas – Water Division

Attachments: Blue Ridge's Report and Supporting Workpapers dated March 8, 2019
Abenaki's Discovery Responses

cc: Service List

BEFORE THE NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

Docket Nos. DW 18-047

Abenaki Water Company

Tax Change Effect Analysis

INTRODUCTION

At the end of December 2017, the United States Congress voted, and the President signed into law, the Federal Tax Cuts and Jobs Act ("2017 Tax Act"), effecting major changes in the U.S. tax structure beginning January 1, 2018. Among other actions, the 2017 Tax Act substantially reduced the maximum corporate income tax rate from 35 percent to 21 percent. It also impacted deferred tax reserves on the balance sheet, which had to be revalued with the resulting excess deferred income taxes (EDIT) flowed back to customers. In addition, in 2018, the New Hampshire Business Enterprise Tax (BET) rate was reduced from 0.72 percent to 0.675 percent, and the Business Profits Tax (BPT) was reduced from 8.2 percent to 7.9 percent.

In Order No. 26,096 in IR 18-001, the New Hampshire Public Utilities Commission ("Commission") initiated an investigation into how the 2017 Tax Act and the reductions to the BPT and BET would affect the expenses of each New Hampshire public utility. If the changes in the tax laws reduced the tax obligations and increased the net incomes of those utilities, it would be necessary to determine how those reduced obligations should be reflected in rates. The Commission also ordered each utility to calculate its interim tax savings and record a deferred liability.¹

Blue Ridge Consulting Services, Inc. ("Blue Ridge") was asked to review the tax-change-effect calculations of Abenaki Water Company (AWC or "Company") in Docket No. DW 18-047. This report reflects our analysis of the Compliance Plan provided by the Company in response to Commission Order No. 26,096.

SUMMARY OF COMPANY'S FILING

On March 29, 2018, AWC filed a response to the Commission's Order No. 26,096 in IR 18-001. AWC's filing was assigned Docket No. DW 18-047. AWC is comprised of four separate systems:

- Belmont Water System (BWS)
- Belmont Sewer System (BSS)
- BOW System (BOW)
- Rosebrook System (RB)

The annual level of income tax expense reflected in current customer rates was established in Docket Nos. 15-199² (BWS, BSS, and BOW) and 17-165 (RB). Table 1 below presents the statutory tax rates as filed and approved in each rate case.

¹ NHPUC Order No. 26,096, page 2.

² The Company's filing referenced to *Docket No. 25-905*. The Docket No. is 15-199 and the *Order No.* is 25,905.

BEFORE THE NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION
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Abenaki Water Company
Tax Change Effect Analysis

Table 1: Tax Rates Reflected in Current Customer Rates³

	DW 15-199		DW 17-165
	As Filed & Approved		As Filed 12/7/17 As Approved 12/27/18
Taxable Income	100.00%		100.00% 100.00%
Less: NH Business Profits Tax	- 8.50%	-	8.20% 7.90%
Federal Taxable Income	91.50%		91.80% 92.10%
Federal Income Tax Rate	x 34.00%	x	34.00% 21.00%
Effective Federal Income Tax Rate	31.11%		31.21% 19.34%
Add: NH Business Profits Tax	+ 8.50%	+	8.20% 7.90%
 Effective Tax Rate	 <u>39.61%</u>		 <u>39.41%</u> <u>27.24%</u>
 Percent of Income Available if No Tax	 100.00%		 100.00% 100.00%
Less: Effective Tax Rate	<u>-39.61%</u>		<u>-39.41%</u> <u>-27.24%</u>
 Percent Used as a Divisor in Determining Revenue Requirement	 <u>60.39%</u>		 <u>60.59%</u> <u>72.76%</u>
 Tax Multiplier (Effective Tax Rate + Percent Used as a Divisor)	 <u>0.65590</u>		 <u>0.65049</u> <u>0.37440</u>

Company-Calculated Income Tax Expense Savings

Table 2 presents the annual level of income tax expense collected in rates and estimated savings as a result of the 2017 Tax Act and reduction in the New Hampshire BPT rate, as represented by the Company. For 2018, and each annual period thereafter, the Company proposes to record the calculated savings as a regulatory liability until new rates are established in a general rate case proceeding or until otherwise ordered by the PUC.⁴

Table 2: Annual Income Tax Expense Collected in Base Rates and Savings Computed by Company⁵

			Per Company
	Docket No.	Reflected in Base Rates	Computed Tax Savings
1 Belmont Water System	DW 15-199	\$ 13,878	\$ 6,768
2 Belmont Sewer System	DW 15-199	3,832	3,102
3 BOW System	DW 15-199	4,459	1,349
4 Rosebrook System	DW 17-165	35,837	15,877

Excess Deferred Tax Reserve

To determine the excess reserve balance that AWC carries at January 1, 2018, as a result of the 2017 Tax Act, the Company calculated the ADIT balance as of December 31, 2017, utilizing

³ WP DW 18-047 Abenaki Tax Savings, Tab Table 1. Data obtained from DW 15-199 Order No. 25,905 and Exhibit Nos. 15 and 20 and DW 17-165 Order No. 26,205 and Exhibit No. 9.

⁴ DW 18-047 AWC Response to IR 18-001, dated March 29, 2018, page 1.

⁵ Abenaki response to Staff DR 1-1, Attachment A1-A4.

BEFORE THE NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

Docket Nos. DW 18-047

Abenaki Water Company

Tax Change Effect Analysis

the 21% rate. The difference between the calculations of the ADIT balance at 34% (\$103,400) and at 21% (\$63,900) results in AWC's excess reserve balance of \$39,500 as of January 1, 2018.

AWC proposes to return the excess federal ADIT previously collected using the Reverse South Georgia Method (RSGM). Accordingly, the excess reserve balance of \$39,500 as discussed and calculated above will be amortized ratably over the weighted average remaining life of these assets. The weighted average depreciable life remaining was determined to be 27.92 years. Therefore, AWC proposes to reduce income tax expense annually by \$1,415 ($\$39,500 / 27.92$ years) until the excess reserve balance is reduced to \$0.

AWC expects to file, on an annual basis, a schedule detailing the balance in the deferred liability account as a result of the reduction in federal and New Hampshire income tax rates until AWC's next general rate case or until otherwise ordered by the PUC, as well as a schedule detailing the balance of the excess reserve as of the respective year-end and the reduction in the excess reserve for the respective year then ended.

OBSERVATIONS AND RECOMMENDATIONS

Prior Cases on Which Current Rates Were Established

1. Belmont Water, Belmont Sewer, and BOW last established permanent base rates and step adjustments through a Settlement approved by the Commission in Docket No. DW 15-199, Order No. 25,905 (Settlement Agreement filed on May 5, 2016). Applicable New Hampshire business profit and federal corporate income tax rates were 8.5 percent and 34 percent, respectively.

Rosebrook System last requested and received an order to increase permanent rates, including a step adjustment, in Docket No. DW 17-165. RB filed the application shortly before the enactment of the Tax Cuts and Jobs Act on December 22, 2017. The Commission issued a final order approving RB's Settlement Agreement with Staff on December 27, 2018 (Settlement Agreement filed on November 14, 2018).

Blue Ridge reviewed the Settlement Agreements, supporting schedules, and rate increase orders in Docket Nos. DW15-199 and DW 17-165. Table 3 below summarizes total operating revenues and income tax expenses reflected in current rates on a fully adjusted basis.

BEFORE THE NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION
Docket Nos. DW 18-047
Abenaki Water Company
Tax Change Effect Analysis

Table 3: Income Tax Expense Reflected in Abenaki System Rates⁶

	Docket No.	Rate Relief	Adjusted Revenues	Adjusted Income Taxes	Effective Tax Rate
1 BWS Base Rates	DW 15-199	\$ (2,904)	\$ 124,762	\$ 11,154	39.61%
2 BWS Step Increase	DW 15-199	6,662	6,662	1,259	39.61%
3 Total Belmont Water System		\$ 3,758	\$ 131,424	\$ 12,413	39.61%
4 BSS Base Rates	DW 15-199	\$ 32,192	\$ 110,505	\$ 3,351	39.61%
5 BSS Step Increase	DW 15-199	-	-	-	39.61%
6 Total Belmont Sewer System		\$ 32,192	\$ 110,505	\$ 3,351	39.61%
7 BOW Base Rates	DW 15-199	\$ 21,654	\$ 87,861	\$ 5,288	39.61%
8 BOW Step Increase	DW 15-199	4,116	4,116	867	39.61%
9 Total BOW System		\$ 25,770	\$ 91,977	\$ 6,155	39.61%
10 RBS Base Rates	DW 17-165	\$ 64,736	\$ 341,071	\$ 16,972	27.24%
11 RBS Step Increase	DW 17-165	15,043	15,043	1,540	27.24%
12 Total Rosebrook System		\$ 79,779	\$ 356,114	\$ 18,512	27.24%

Income Tax Expense Savings

- Blue Ridge found that the saving calculations Abenaki submitted in response to Order No. 26,096 did not apply the composite tax rate change to the correct income tax expense value in cost of service. Abenaki used the income tax expense value from its proposed adjusted test year in DW 15-199, which did not reflect the agreed upon ratemaking adjustments in the approved Settlement Agreement.

Blue Ridge also found that permanent rates for RB already reflect the reduced 2018 state and federal statutory tax rates so the proposed savings adjustment for the system is unnecessary.

In addition, while negligible, Blue Ridge found that the Company's filing did not include the BET. The Company stated that the 2017 BET return, as filed in 2018, included a tax due of \$686 for all systems combined. The potential impact of the BET rate reduction from 0.72 percent to 0.674 percent is immaterial.⁷

Table 4 summarizes the Company's original revenue reduction per its March 29, 2018, compliance filing, revisions provided by the Company during discovery, and Blue Ridge's calculation of the revenue reduction per the FERC formula.

⁶ WP DW 18-047 Abenaki Tax Savings, Tab Table 3. Data obtained from DW 15-199 Order No. 25,905 and Exhibit Nos. 15 and 20 and DW 17-165 Order No. 26,205 and Exhibit No. 9.

⁷ Abenaki response to Staff 1-1.

BEFORE THE NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION
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Abenaki Water Company
Tax Change Effect Analysis

Table 4: Blue Ridge Calculated Savings vs. Abenaki Proposed Savings—Base Rates⁸

	Belmont Water	Belmont Sewer	BOW	Rosebrook
1 Original Revenue Reduction Per 3/29/18 Filing	\$ 6,618	\$ 3,082	\$ 4,796	\$ 15,497
2 Revenue Reduction Per Abenaki as revised in DR 1-1	\$ 6,768	\$ 3,102	\$ 1,349	\$ 15,877
3 Blue Ridge Calculations:				
4 Composite Income Tax Expense (D)	11,154	3,351	5,288	16,972
5 New Effective Tax Rate Factor (E)	0.3744	0.3744	0.3744	0.3744
6 Old Effective Tax Rate Factor (F)	0.6559	0.6559	0.6559	0.3744
7 Revenue Reduction Per FERC Formula = D - D*(E/F)	\$ 4,787	\$ 1,438	\$ 2,270	\$ -
8 Difference from Original Filing (Line 7 - Line 1)	\$ (1,831)	\$ (1,644)	\$ (2,526)	\$ (15,497)

3. Blue Ridge recommends that the revised income tax savings (line 7 in Table 4) be recorded as deferred liabilities by AWC until final rates are established in a general rate case proceeding or until otherwise ordered by the Commission.
4. Blue Ridge found that Abenaki did not reflect the impact of the tax rate changes on the step adjustments authorized in DW 15-199. As shown in the table below, the impact of Blue Ridge's findings is de minimis. Nonetheless, Blue Ridge recommends that these additional savings be recorded as deferred liabilities by AWC until final rates are established in a general rate case or until otherwise ordered by the Commission.

Table 5: Blue Ridge Calculated Savings vs. Abenaki Proposed Savings—Step Adjustment⁹

	Belmont Water	Belmont Sewer	BOW	Rosebrook
1 Composite Income Tax Expense (D)	1,259	-	867	1,540
2 New Effective Tax Rate Factor (E)	0.3744	0.3744	0.3744	0.3744
3 Old Effective Tax Rate Factor (F)	0.6559	0.6559	0.6559	0.3744
4 Revenue Reduction Per FERC Formula = D - D*(E/F)	\$ 540	\$ -	\$ 372	\$ -

5. The total deferred liabilities that should be recorded, including the savings in base rates and in the step adjustment, is summarized in the following table.

Table 6: Total Deferred Liabilities from Tax Savings

	Belmont Water	Belmont Sewer	BOW	Rosebrook
1 Base Rates Revenue Reduction	\$ 4,787	\$ 1,438	\$ 2,270	\$ -
2 Step Adjustment Revenue Reduction	540	-	372	-
3 Total Revenue Reduction	\$ 5,327	\$ 1,438	\$ 2,642	\$ -

⁸ WP DW 18-047 Abenaki Tax Savings, Tab Table 4; Compliance Filing to Order No. 26,096, dated March 29, 2018, and Abenaki response to Staff 1-1, Exhibits A-1 through A-4.

⁹ WP DW 18-047 Abenaki Tax Savings, Tab Table 5.

BEFORE THE NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

Docket Nos. DW 18-047

Abenaki Water Company

Tax Change Effect Analysis

Excess Deferred Taxes

6. Abenaki recorded an excess ADIT balance of \$39,500, which covers all four systems. The Company used the Revised South Georgia Method (RSGM), which determined the weighted average depreciable life of the underlying plant assets to be 27.92 years. The Company proposes to amortize the regulatory liability to zero based on a January 1, 2018, start date. The annual tax expense offset is \$1,415 for all systems.¹⁰
7. However, Blue Ridge found that the amortization in connection with Rosebrook System is already reflected in the permanent rates established in DW 17-165. The supporting schedule for the Settlement Agreement indicates the excess ADIT after revaluation of the tax reserve balance was \$14,900. The corresponding annual amortization is \$534 based on 27.92 years.¹¹
8. The balance of the excess ADIT balances for BWS/BSS and BOW are \$6,900 and \$17,700, respectively.¹²
9. Blue Ridge found that the Company did not factor in the EDIT from the reduction in BPT rate. However, the amount is immaterial due to New Hampshire decoupling from bonus depreciation and the value of the change in the BPT rate of 0.3% from 8.2% to 7.9%.
10. The DW 15-199 Settlement Agreement states, "Abenaki agrees to track the cost of service for each of its three systems separately. Balance Sheets and Income Statements will continue to be compiled for each system on a standalone basis."¹³ Accordingly, Blue Ridge recommends that the Commission remind Abenaki to record and amortize the balance for each system individually.
11. Blue Ridge requested and reviewed the Company's workpaper for developing the weighted average depreciable life of 27.92 years. The response indicated that the 27.92 is a composite of all systems. The separate remaining lives for each system are 18.44, 16.21, and 36.22 years for BWS/BSS, BOW, and RB, respectively.¹⁴ Blue Ridge found the calculations reasonable.

¹⁰ DW 18-047 Compliance Plan and Exhibit C.

¹¹ DW 17-165 Exhibit 9, Attachment A, Schedule 4d.

¹² Attachment Tech 1-3 AWC Excess Tax Reserve by Systems-Breakdown

¹³ DW 15-199 Settlement Agreement at page 5.

¹⁴ Abenaki response to Staff DR 1-6.

BEFORE THE NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION
Docket Nos. DW 18-047
Abenaki Water Company
Tax Change Effect Analysis

INFORMATION RELIED UPON

- 1) IR 18-001, Order No. 26,096, January 3, 2018
- 2) DW 18-047, Company response to IR 18-001, Order No. 26,096, dated March 29, 2018
- 3) DW 15-199, BWS, BSS, and BOW last general rate case
 - a) Settlement Agreement filed on May 5, 2016, (Exhibit 15) and Settlement Schedules (Exhibit 20)
 - b) Order No. 25,905, dated June 3, 2016
 - c) Staff provided DW 15-199 Settlement Schedules (corrected)
- 4) DW 17-165, RB last general rate case
 - a) Settlement Agreement dated November 13, 2018, (Exhibit 11) and Settlement Schedules (Exhibit 9)
 - b) Order No. 26,205, dated December 27, 2018
 - c) Staff provided DW 17-165 Settlement Schedules (corrected)
- 5) Attachment Tech 1-3 AWC Excess Tax Reserve by Systems-Breakdown

Before the New Hampshire Public Utilities Commission
Docket No. DW 18-047
Abenaki Water Company
Tax Rates Reflected in Current Customer Rates

	DW 15-199	DW 17-165	
	As Filed & Approved	As Filed 12/7/2017	As Approved 12/27/2018
Taxable Income	100.00%	100.00%	100.00%
Less: NH Business Profits Tax	- 8.50%	- 8.50%	- 7.90%
Federal Taxable Income	91.50%	91.50%	92.10%
Federal Income Tax Rate	x 34.00%	x 34.00%	x 21.00%
Effective Federal Income Tax Rate	31.11%	31.11%	19.34%
Add: NH Business Profits Tax	+ 8.50%	+ 8.50%	+ 7.90%
Effective Tax Rate	<u>39.61%</u>	<u>39.61%</u>	<u>27.24%</u>
Percent of Income Available if No Tax	100.00%	100.00%	100.00%
Less: Effective Tax Rate	<u>-39.61%</u>	<u>-39.61%</u>	<u>-27.24%</u>
Percent Used as a Divisor in Determining Revenue Requirement	<u>60.39%</u>	<u>60.39%</u>	<u>72.76%</u>
Tax Multiplier (Effective Tax Rate ÷ Percent Used as a Divisor)	<u>0.65590</u>	<u>0.65590</u>	<u>0.37440</u>

Before the New Hampshire Public Utilities Commission

Docket No. DW 18-047

Abenaki Water Company

Annual Income Tax Expense Collected in Base Rates and Savings Computed by Company

		Per Company	
		Reflected in	Computed
	Docket No.	Base Rates	Tax Savings
1 Belmont Water System	DW 15-199	\$ 13,878	\$ 6,768
2 Belmont Sewer System	DW 15-199	3,832	3,102
3 BOW System	DW 15-199	4,459	1,349
4 Rosebrook System	DW 17-165	35,837	15,877

Before the New Hampshire Public Utilities Commission
Docket No. DW 18-047
Abenaki Water Company
Income Tax Expense Reflected in Abenaki System Rates

	Docket No.	Rate Relief	Adjusted Revenues	Adjusted Income Taxes	Effective Tax Rate	
1 BWS Base Rates	DW 15-199	\$ (2,904)	\$ 124,762	\$ 11,154	39.61%	DW 15-199 Settlement Schedules - Pages 1 and 8, Col. 9
2 BWS Step Increase	DW 15-199	6,662	6,662	1,259	39.61%	DW 15-199 Settlement Schedules - Page 12
3 Total Belmont Water System		\$ 3,758	\$ 131,424	\$ 12,413	39.61%	
4 BSS Base Rates	DW 15-199	\$ 32,192	\$ 110,505	\$ 3,351	39.61%	DW 15-199 Settlement Schedules - Pages 16 and 23, Col. 9
5 BSS Step Increase	DW 15-199	-	-	-	39.61%	
6 Total Belmont Sewer System		\$ 32,192	\$ 110,505	\$ 3,351	39.61%	
7 BOW Base Rates	DW 15-199	\$ 21,654	\$ 87,861	\$ 5,288	39.61%	DW 15-199 Settlement Schedules - Pages 27 and 34, Col. 9
8 BOW Step Increase	DW 15-199	4,116	4,116	867	39.61%	DW 15-199 Settlement Schedules - Page 38
9 Total BOW System		\$ 25,770	\$ 91,977	\$ 6,155	39.61%	
10 RBS Base Rates	DW 17-165	\$ 64,736	\$ 341,071	\$ 16,972	27.24%	DW 17-165 Settlement Schedules - Pages 015 and 021, Col. 11
11 RBS Step Increase	DW 17-165	15,043	15,043	1,540	27.24%	DW 17-165 Settlement Schedules - Page 029
12 Total Rosebrook System		\$ 79,779	\$ 356,114	\$ 18,512	27.24%	

Sources:

DW 15-199

Settlement Agreement
Settlement Schedules
Order

https://www.puc.nh.gov/Regulatory/Docketbk/2015/15-199/TRANSCRIPTS-OFFICIAL%20EXHIBITS-CLERKS%20REPORT/15-199_2016-05-12_EXH_15.PDF
https://www.puc.nh.gov/Regulatory/Docketbk/2015/15-199/TRANSCRIPTS-OFFICIAL%20EXHIBITS-CLERKS%20REPORT/15-199_2016-05-12_EXH_20.PDF
https://www.puc.nh.gov/Regulatory/Docketbk/2015/15-199/ORDERS/15-199_2016-06-03_ORDER_25905.PDF

DW 17-165

Settlement Agreement
Settlement Schedules
Order

https://www.puc.nh.gov/Regulatory/Docketbk/2017/17-165/LETTERS-MEMOS-TARIFFS/17-165_2018-11-05_STAFF_SETTLEMENT_AGREEMENT_PERM_RATES_STEP_ADJ.PDF
https://www.puc.nh.gov/Regulatory/Docketbk/2017/17-165/LETTERS-MEMOS-TARIFFS/17-165_2018-11-05_STAFF_ATT_SETTLEMENT_AGREEMENT_PERM_RATES_STEP_ADJ.PDF
https://www.puc.nh.gov/Regulatory/Docketbk/2017/17-165/ORDERS/17-165_2018-12-27_ORDER_26205.PDF

Before the New Hampshire Public Utilities Commission

Docket No. DW 18-047

Abenaki Water Company

Comparison of Company's Revenue Reduction and FERC Method-Base Rates

	FERC METHOD REVENUE REDUCTION AT NEW STATE & FEDERAL TAX RATE				
	Belmont Water	Belmont Sewer	BOW	Rosebrook	
1 Original Revenue Reduction Per 3/29/18 Filing	\$ 6,618	\$ 3,082	\$ 4,796	\$ 15,497	
2 Revenue Reduction Per Abenaki as revised in DR 1-1	\$ 6,768	\$ 3,102	\$ 1,349	\$ 15,877	
3 Blue Ridge Calculations:					
4 Composite Income Tax Expense (D)	11,154	3,351	5,288	16,972	<-- Permanent Base Rates
5 New Effective Tax Rate Factor (E)	0.3744	0.3744	0.3744	0.3744	
6 Old Effective Tax Rate Factor (F)	0.6559	0.6559	0.6559	0.3744	<-- Staff DR 1-3; Confirmed tax factors reflected in prior rate case
7 Revenue Reduction Per FERC Formula = D - D*(E/F)	\$ 4,787	\$ 1,438	\$ 2,270	\$ -	
8 Difference from Original Filing (Line 7 - Line 1)	\$ (1,831)	\$ (1,644)	\$ (2,526)	\$ (15,497)	
	4,787	1,438	2,270	-	

Before the New Hampshire Public Utilities Commission

Docket No. DW 18-047

Abenaki Water Company

Comparison of Company's Revenue Reduction and FERC Method-Step Adjustment

FERC METHOD
REVENUE REDUCTION
AT NEW STATE
& FEDERAL TAX RATE

	Belmont Water	Belmont Sewer	BOW	Rosebrook	
1 Composite Income Tax Expense (D)	1,259	-	867	1,540	<-- Step Increase
2 New Effective Tax Rate Factor (E)	0.3744	0.3744	0.3744	0.3744	
3 Old Effective Tax Rate Factor (F)	0.6559	0.6559	0.6559	0.3744	<-- Staff DR 1-3; Confirmed tax factors reflected in prior rate case
4 Revenue Reduction Per FERC Formula = $D - D \cdot (E/F)$	\$ -540	\$ -	\$ 372	\$ -	

Before the New Hampshire Public Utilities Commission
Docket No. DW 18-047
Abenaki Water Company
Total Savings from Base Rates and Step Adjustment

	Belmont Water	Belmont Sewer	BOW	Rosebrook	
1 Base Rates Revenue Reduction	\$ 4,787	\$ 1,438	\$ 2,270	\$ -	Table 2
2 Step Adjustment Revenue Reduction	540	-	372	-	Table 3
3 Total Revenue Reduction	\$ 5,327	\$ 1,438	\$ 2,642	\$ -	

Before the New Hampshire Public Utilities Commission
Docket No. DW 18-047
Abenaki Water Company
AWC Computation Verification

	Belmont Water	Belmont Sewer	BOW System	Rosebrook System
Net Income	\$ 12,248	\$ (1,133)	\$ 6,947	\$ 37,412
Add Back: Composite Income Taxes - Old	13,878	3,832	4,459	35,837
Pre-Tax Income	\$ 26,126	\$ 2,699	\$ 11,406	\$ 73,249
Effective Tax Rate	53.12%	141.98%	39.09%	48.92%
State Income Tax - New	2,064	213	901	5,787
Federal Income Tax - New	5,053	522	2,206	14,167
Composite Income Tax - New	\$ 7,117	\$ 735	\$ 3,107	\$ 19,954
Calculated Reduction - Chk	\$ 6,761	\$ 3,097	\$ 1,352	\$ 15,883
Calculated Reduction - Exhibits A1 - A4	\$ 6,768	\$ 3,102	\$ 1,349	\$ 15,877
Difference	\$ (7)	\$ (5)	\$ 3	\$ 6

		DW 15-199	DW 15-199	DW 15-199	DW 17-165
NH Business Profits Tax	7.900%	8.500%	8.500%	8.500%	8.200%
Federal Income Tax	21.00%	34.00%	34.00%	34.00%	34.00%
Effective Tax Rate	27.24%	39.61%	39.61%	39.61%	39.41%
Tax Gross Up Percent	72.76%	60.39%	60.39%	60.39%	60.59%
Revenue Conversion Factor	1.3744	1.6559	1.6559	1.6559	1.6505

10,349	1,069	4,518	28,869
7,117	735	3,107	19,954
3,232	334	1,411	8,915
-31.23%	-31.23%	-31.23%	-30.88%
(4,334)	(1,197)	(1,392)	(11,191)

DW 15-199
ABENAKI WATER COMPANY, INC.
BELMONT WATER DIVISION
PERMANENT RATE OPERATING INCOME STATEMENT

	(1) Test Year 10 1/2 months Per Company	(2) Normalization Adjustments Per Company	(3) Pro-forma Adjustments Per Company	(4) Adjusted Test Year Per Company	(5) Staff Adjustments (Att A; Sch 3a)	(6) Adj #	(7) Adjusted Test Year Per Staff	(8) Revenue Deficiency / (Surplus)	(9) Revenue Requirement
Operating Revenues									
Water Sales	\$ 111,808	\$ 15,973	\$ 11,018	\$ 138,799	\$ (115)	14	\$ 138,684	\$ (13,922)	\$ 124,762
Other Operating Revenues	-	-	-	-	115	15	115		115
Total Water Revenues	111,808	15,973	11,018	138,799	-		138,799	(13,922)	124,877
Operating Expenses									
Operation & Maintenance Expenses:									
Source of Supply Expenses	-	-	-	-	-		-		-
Pumping Expenses	19,849	2,836	-	22,685	(291)	16	22,394		22,394
Water Treatment Expenses	11,091	1,584	200	12,875	(138)	17	12,737		12,737
Transmission & Distribution Expenses	8,309	1,187	-	9,496	-		9,496		9,496
Customer Accounts Expenses	3,806	544	-	4,350	-		4,350		4,350
Administrative & General Expenses	6,760	965	6,123	13,848	(1,434)	18 - 20	12,414		12,414
Total Operation & Maintenance Expenses	49,815	7,116	6,323	63,254	(1,863)		61,391		61,391
Depreciation Expense	15,471	2,210	1,973	19,654	(631)	21 - 23	19,023		19,023
Amortization Expense - CIAC	(1,231)	(176)	-	(1,407)	-		(1,407)		(1,407)
Amortization Expense - Organization Costs	-	-	4,726	4,726	(2,321)	24	2,405		2,405
Taxes other than Income	9,581	1,369	3,798	14,748	(2,229)	25 - 27	12,519		12,519
Total Operating Expenses	73,636	10,519	16,820	100,975	(7,044)		93,931		93,931
Net Operating Income / (Loss)									
Before Income Taxes	38,172	5,454	(5,802)	37,824	7,044		44,868	(13,922)	30,946
Income Taxes	7,425	1,061	5,392	13,878	2,790	Att A; Sch 3c	16,668	(5,514)	11,154
Net Operating Income (Loss)	\$ 30,747	\$ 4,393	\$ (11,194)	\$ 23,946	\$ 4,254		\$ 28,200	\$ (8,407)	\$ 19,792

**DW 15-199
ABENAKI
SEWER DIVISION
PERMANENT RATE OPERATING INCOME STATEMENT**

	(1) Test Year 10 1/2 Months Per Company	(2) Normalization Adjustments Per Company	(3) Pro-forma Adjustments Per Company	(4) Adjusted Test Year Per Company	(5) Staff Adjustments (Att B; Sch 3a)	(6) Adj #	(7) Adjusted Test Year Per Staff	(8) Revenue Deficiency / (Surplus)	(9) Revenue Requirement
Operating Revenues									
Sewer Sales	\$ 68,524	\$ 9,789	\$ 39,246	\$ 117,559	\$ -		\$ 117,559	\$ (7,054)	\$ 110,505
Other Operating Revenues	-	-	-	-	-		-	-	-
Total Sewer Revenues	<u>68,524</u>	<u>9,789</u>	<u>39,246</u>	<u>117,559</u>	<u>-</u>		<u>117,559</u>	<u>(7,054)</u>	<u>110,505</u>
Operating Expenses									
Operation & Maintenance Expenses:									
Source of Supply Expenses	-	-	-	-	-		-	-	-
Pumping Expenses	13,816	1,974	1,625	17,415	-		17,415	-	17,415
Sewer Treatment Expenses	46,479	6,639	8,741	61,859	(2,718)	9 - 10	59,141	-	59,141
Transmission & Distribution Expenses	-	-	-	-	-		-	-	-
Customer Accounts Expenses	3,806	544	-	4,350	-		4,350	-	4,350
Administrative & General Expenses	6,417	917	6,123	13,457	(1,972)	11 - 13	11,485	-	11,485
Total Operation & Maintenance Expenses	<u>70,518</u>	<u>10,074</u>	<u>16,489</u>	<u>97,081</u>	<u>(4,690)</u>		<u>92,391</u>	<u>-</u>	<u>92,391</u>
Depreciation Expense	2,200	314	360	2,874	-		2,874	-	2,874
Amortization Expense - CIAC	-	-	-	-	-		-	-	-
Amortization Expense - Organization Costs	-	-	1,661	1,661	(816)	14	845	-	845
Taxes other than Income	3,366	481	824	4,671	(333)	15 - 17	4,338	-	4,338
Total Operating Expenses	<u>76,084</u>	<u>10,869</u>	<u>19,334</u>	<u>106,287</u>	<u>(5,839)</u>		<u>100,448</u>	<u>-</u>	<u>100,448</u>
Net Operating Income / (Loss)									
Before Income Taxes	(7,560)	(1,080)	19,912	11,272	5,839		17,111	(7,054)	10,057
Income Taxes	-	-	3,832	3,832	2,313	Att B; Sch 3c	6,145	(2,794)	3,351
Net Operating Income (Loss)	<u>\$ (7,560)</u>	<u>\$ (1,080)</u>	<u>\$ 16,080</u>	<u>\$ 7,440</u>	<u>\$ 3,526</u>		<u>\$ 10,966</u>	<u>\$ (4,260)</u>	<u>\$ 6,706</u>

DW 15-199
ABENAKI WATER COMPANY, INC.
BOW WATER DIVISION
PERMANENT RATE OPERATING INCOME STATEMENT

	(1) Test Year 10 1/2 Months Per Company	(2) Normalization Adjustments Per Company	(3) Pro-forma Adjustments Per Company	(4) Adjusted Test Year Per Company	(5) Staff Adjustments (Att C; Sch 3a)	(6) Adj #	(7) Adjusted Test Year Per Staff	(8) Revenue Deficiency / (Surplus)	(9) Revenue Requirement
Operating Revenues									
Water Sales	\$ 58,021	\$ 8,289	\$ 34,375	\$ 100,685	\$ (103)	11	\$ 100,582	\$ (12,721)	\$ 87,861
Other Operating Revenues	-	-	-	-	103	12	103		103
Total Water Revenues	<u>58,021</u>	<u>8,289</u>	<u>34,375</u>	<u>100,685</u>	<u>-</u>		<u>100,685</u>	<u>(12,721)</u>	<u>87,964</u>
Operating Expenses									
Operation & Maintenance Expenses:									
Source of Supply Expenses	-	-	-	-	-		-		-
Pumping Expenses	15,713	2,246	-	17,959			17,959		17,959
Water Treatment Expenses	5,825	833	-	6,658			6,658		6,658
Transmission & Distribution Expenses	9,312	1,330	-	10,642			10,642		10,642
Customer Accounts Expenses	4,358	622	-	4,980			4,980		4,980
Administrative & General Expenses	6,656	950	6,607	14,213	(1,137)	13 - 14	13,076		13,076
Total Operation & Maintenance Expenses	<u>41,864</u>	<u>5,981</u>	<u>6,607</u>	<u>54,452</u>	<u>(1,137)</u>		<u>53,315</u>	<u>-</u>	<u>53,315</u>
Depreciation Expense	10,764	1,538	2,415	14,717	(1,811)	15 - 16	12,906		12,906
Amortization Expense - CIAC	(5,790)	-	651	(5,139)	-		(5,139)		(5,139)
Amortization Expense - Organization Costs	-	-	2,129	2,129	(1,046)	17	1,083		1,083
Taxes other than Income	8,150	1,164	2,778	12,092	(1,966)	18 - 20	10,126		10,126
Total Operating Expenses	<u>54,988</u>	<u>8,683</u>	<u>14,580</u>	<u>78,251</u>	<u>(5,960)</u>		<u>72,291</u>	<u>-</u>	<u>72,291</u>
Net Operating Income / (Loss) Before Income Taxes	3,033	(394)	19,795	22,434	5,960		28,394	(12,721)	15,673
Income Taxes	2,475	354	5,137	7,966	2,361	Att C; Sch 3c	10,327	(5,039)	5,288
Net Operating Income (Loss)	<u>\$ 558</u>	<u>\$ (748)</u>	<u>\$ 14,658</u>	<u>\$ 14,468</u>	<u>\$ 3,599</u>		<u>\$ 18,067</u>	<u>\$ (7,682)</u>	<u>\$ 10,385</u>

DW 17-165
ABENAKI WATER COMPANY, INC.
ROSEBROOK DIVISION
PERMANENT RATES
PRO-FORMA OPERATING INCOME STATEMENT

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(10a)	(11)
	Original Permanent Rate Filing			Revised Permanent Rate Filing			Permanent Rates					
	Actual Test Year	Company Proforma Adjust's	Proforma Test Year	Revised Test Year Filed 4/23/18	Original Company Proforma Adjust's	Revised Proforma Test Year	Staff Proforma Adjust's (Sch 4a)	Adj # (Sch 4a)	Proforma Operating Income	Revenue Deficiency (Surplus) (Sch 1)	FERC Income Tax Adjustment (Sch 1)	Operating Income Requirement (Sch 1)
Operating Revenue:												
Sales of Water	\$ 270,092	\$ 102,232	\$ 372,324	\$ 276,335	\$ 102,232	\$ 378,567	\$ (102,232)	22	\$ 276,335	\$ 78,179	\$ (13,443)	\$ 341,071
Other Operating Revenue	-	-	-	-	-	-	-		-	-	-	-
Total Operating Revenues	270,092	102,232	372,324	276,335	102,232	378,567	(102,232)		276,335	78,179	(13,443)	341,071
Operating Expenses:												
Operation & Maintenance Expenses:												
Source of Supply	212,574	1,342	213,916	-	-	-	-		-	-	-	-
Pumping Expenses	-	-	-	69,265	-	69,265	-		69,265	-	-	69,265
Water Treatment Expenses	-	-	-	34,871	-	34,871	-		34,871	-	-	34,871
Transmission & Distribution Expenses	-	-	-	18,287	-	18,287	-		18,287	-	-	18,287
Customer Accounts Expenses	-	-	-	11,255	-	11,255	-		11,255	-	-	11,255
Administrative & General Expenses	-	-	-	83,356	1,342	84,698	2,903	23-24	87,601	-	-	87,601
Total Operation & Maintenance Expenses	212,574	1,342	213,916	217,034	1,342	218,376	2,903		221,279	-	-	221,279
Depreciation Expense	57,272	6,491	63,763	57,272	6,491	63,763	(2,782)	25	60,981	-	-	60,981
Amortization Expense - CIAC	(15,975)	-	(15,975)	(15,975)	-	(15,975)	-		(15,975)	-	-	(15,975)
Amortization Expense - Other	(1,124)	4,529	3,405	(1,124)	4,529	3,405	(4,529)	26	(1,124)	-	-	(1,124)
Taxes Other Than Income	22,704	-	22,704	22,704	-	22,704	(8,704)	27	14,000	-	-	14,000
Total Operating Expenses	275,451	12,362	287,813	279,911	12,362	292,273	(13,112)		279,161	-	-	279,161
Net Operating Income before Income Taxes	(5,359)	89,870	84,511	(3,576)	89,870	86,294	(89,120)		(2,826)	78,179	(13,443)	61,910
Less: Income Taxes	10,626	25,211	35,837	10,626	25,211	35,837	(36,234)	28-29	(397)	30,812	(13,443)	16,972
NET OPERATING INCOME	\$ (15,985)	\$ 64,659	\$ 48,674	\$ (14,202)	\$ 64,659	\$ 50,457	\$ (52,886)		\$ (2,429)	\$ 47,367	\$ -	\$ 44,938

Date Request Received: 1/15/2019
Request No. Staff 1-1

Date of Response: 1/28/2019
Witness: Pauline Doucette & DHL&S PC

REQUEST: BET is assessed on a business's enterprise value tax base, which is defined by the Department of Revenue Administration as "the sum of all compensation paid or accrued, interest paid or accrued, and dividends paid by the business enterprise, before special adjustments and apportionment." The Company's calculation of the BET impact applies the reduced rate against business income.

- a) Please confirm that the BET is applicable to the Company.
- b) If confirmed, please provide corrected schedules reflecting the impact of the BET rate reduction.

RESPONSE:

We confirm that the Company is subject to Business Enterprise Tax (BET) in the State of New Hampshire (NH) and confirm our understanding that the tax is calculated as the sum of all compensation paid or accrued, interest paid or accrued, and dividends paid by the business enterprise. The Company's 2017 BET return, as filed with the NH Department of Revenue Administration in 2018 included a tax due of \$686 for all systems combined (based on the total compensation of \$73,147 and total interest of \$22,075) and was calculated using the tax rate of 0.72%. The Company has evaluated the potential impact of the rate reduction from 0.72% to 0.675% and deemed it to have an immaterial impact on the total BET.

Furthermore, the Company revised its calculations of the income tax reductions due to 2017 Tax Act and NH BPT rate change by eliminating the impact of BET. See Exhibits A-1 through A-4.

Date Request Received: 1/15/2019
Request No. Staff 1-2

Date of Response: 1/28/2019
Witness: Pauline Doucette & DHL&S PC

REQUEST: Exhibit A3 (shown below) reports that the approved Operating Revenues under the first column (Docket No. 15-199; Order No. 25,905) is \$100,685.

ABENAKI WATER COMPANY - BOW SYSTEM

EXHIBIT A3		
	As per Docket No. 25-905 dated 6/3/16	Under Tax Cuts and Jobs Act and Reduction in BET/BPT Rates
Operating Revenues	\$ 100,685	\$ 91,977
Less Operating Expenses:		
Operation & Maintenance	\$ 54,452	\$ 54,452
Depreciation Expense	\$ 14,717	\$ 14,717
Amortization of CIAC	\$ (5,139)	\$ (5,139)
Amortization Expense - Other	\$ 2,129	\$ 2,129
Taxes Other than Income Taxes	\$ 12,092	\$ 12,092
Income Taxes	\$ 7,966	\$ 3,170
Total Operating Expenses	\$ 86,217	\$ 81,421

- a) Please confirm the correct operating revenue should be \$91,977.
- b) Please confirm the correct income tax is \$7,966, as reported.

RESPONSE:

In reference to Exhibit A-3 for BOW System (BOW):

- a. We have revised the Exhibit to correctly reflect the operating revenues as approved in Docket No. 25-05 dated 6/3/16, which should have been \$91,977.
- b. We have revised the Exhibit to correctly reflect the income tax expense of \$4,459 which was calculated using approved effective income tax rate of 39.1% (as noted in Docket No. 15-199)

In addition to the aforementioned revisions, the Exhibit has been updated to reflect the change in income tax expense as a result of the reduction in the federal corporate tax rate from 34% to 21% per the Tax Cuts and Jobs Act, and the reduction of the NH Business Profits Tax from 8.2% to 7.9%.

Date Request Received: 1/15/2019
Request No. Staff 1-3

Date of Response: 1/28/2019
Witness: Pauline Doucette & DHL&S PC

REQUEST:

The impact of the 2017 Tax Act and the reductions to the BPT and BET were determined by the Company based on the annual income tax expense in the last general rate case (Docket No. 15-199 for BWS, BSS, and BOW; Docket No. 17-165 for RB). Please provide workpapers supporting the revenue conversion factors in the last general rate case.

RESPONSE:

Attached are Exhibits C-1 through C-4 showing revenue conversion factors for each of the systems as filed with the last general rate case.

Date Request Received: 1/15/2019
Request No. Staff 1-4

Date of Response: 1/28/2019
Witness: Pauline Doucette & DHL&S PC

REQUEST:

The impact of the 2017 Tax Act and the reductions to the BPT and BET were determined by the Company based on the annual income tax expense in the last general rate case (Docket No. 15-199 for BWS, BSS, and BOW; Docket No. 17-165 for RB).

- a) Did the Company receive any step adjustments for capital investments placed into service after the last general rate case?
- b) If yes, what is the impact of the new tax rates on the step adjustments by system?

RESPONSE:

The latest approved step adjustments for capital improvements were incorporated into the Company's most recent general rate case filings (Docket No. 15-199 for Belmont Water System (BWS), Belmont Sewer System (BSS) and BOW and Docket No. 17-165 for Rosebrook System (RB)). The Company was allowed to implement a step adjustment for 2015 capital additions with an increase in the revenue requirement of \$6,662 for BWS and \$4,116 for BOW. The Company was also allowed to implement a step adjustment for the capital additions with an increase in revenue adjustment of \$13,727 for RB.

To the best of our knowledge, the Company has not been granted additional step adjustments that would require further analysis of the impact of the new tax rates.

Date Request Received: 1/15/2019
Request No. Staff 1-5

Date of Response: 1/28/2019
Witness: Pauline Doucette & DHL&S PC

REQUEST:

The Company's Compliance Plan in Response to Order No. 26,096 states that the excess reserve balance of \$39,500 will be amortized ratably over the weighted average remaining life of the assets. When does the liability begin amortizing for ratemaking purposes?

RESPONSE:

There are no Letters of Deficiency for Tioga or Gilford Village Water District. In response to Order No. 26,096, to clarify, we have calculated the excess deferred reserve balance of \$39,500 and propose to amortize over 27.92 years (the weighted average remaining life of the assets) beginning January 1, 2018.

Date Request Received: 1/15/2019
Request No. Staff 1-6

Date of Response: 1/28/2019
Witness: Pauline Doucette & DHL&S PC

REQUEST:

The Company's Compliance Plan in Response to Order No. 26,096 states that the weighted average remaining life of the assets underlying the excess deferred reserve balance was determined to be 27.92 years. Please provide the supporting calculation.

RESPONSE:

Please see attached Exhibit B showing the calculation of the weighted average remaining life of the assets underlying the excess deferred reserve balance of 27.92 years.

ABENAKI WATER COMPANY - BELMONT WATER SYSTEM

EXHIBIT A1		
	As per Docket No. 25-905 dated 6/3/16	Under Tax Cuts and Jobs Act and Reduction in BPT Rates
Operating Revenues	\$ 131,424	\$ 131,424
Less Operating Expenses:		
Operation & Maintenance	\$ 63,254	\$ 63,254
Depreciation Expense	\$ 19,654	\$ 19,654
Amortization of CIAC	\$ (1,407)	\$ (1,407)
Amortization Expense - Other	\$ 4,726	\$ 4,726
Taxes Other than Income Taxes	\$ 14,748	\$ 14,748
Income Taxes	\$ 13,878	\$ 7,260
Total Operating Expenses	\$ 114,853	\$ 108,235
Utility Operating Income	\$ 16,571	\$ 23,189
Other Income and Deductions:		
Interest Income	\$ 1,471	\$ 1,471
Total Other Income	\$ 1,471	\$ 1,471
Less: Income Taxes on Other Income	\$ -	\$ -
Net Other Income and Deductions	\$ 1,471	\$ 1,471
Income Before Interest Charges	\$ 18,042	\$ 24,660
Interest Charges	\$ 5,794	\$ 5,794
Net Income	\$ 12,248	\$ 18,866
Recalculation of income taxes based on 2017 Tax Act and NH rate changes:		
Pretax Income (\$18,866 + \$7,260)	\$	26,126
New Hampshire income taxes (\$26,126 x 7.90%)	\$	(2,060)
Federal taxable income	\$	24,066
Federal income taxes (\$24,066 x 21%)	\$	(5,050)
Federal and state income tax expense per 2016 Rate Case	\$	13,878
Federal and state income tax expense per 2017 Tax Act and NH rate changes (\$2,060 + \$5,050)	\$	7,110
Calculated Reduction due to 2017 Tax Act and NH rate changes	\$	(6,768)

ABENAKI WATER COMPANY - BELMONT SEWER SYSTEM

EXHIBIT A2		
	As per Docket No. 25-905 dated 6/3/16	Under Tax Cuts and Jobs Act and Reduction in BPT Rates
Operating Revenues	\$ 110,505	\$ 110,505
Less Operating Expenses:		
Operation & Maintenance	\$ 97,081	\$ 97,081
Depreciation Expense	\$ 2,874	\$ 2,874
Amortization Expense - Other	\$ 1,661	\$ 1,661
Taxes Other than Income Taxes	\$ 4,671	\$ 4,671
Income Taxes	\$ 3,832	\$ 750
Total Operating Expenses	\$ 110,119	\$ 107,037
Utility Operating Income	\$ 386	\$ 3,468
Other Income and Deductions:		
Interest Income	\$ 517	\$ 517
Total Other Income	\$ 517	\$ 517
Less: Income Taxes on Other Income	\$ -	\$ -
Net Other Income and Deductions	\$ 517	\$ 517
Income Before Interest Charges	\$ 903	\$ 3,985
Interest Charges	\$ 2,036	\$ 2,036
Net Income (loss)	\$ (1,133)	\$ 1,949
Recalculation of income taxes based on 2017 Tax Act and NH rate changes:		
Pretax Income (\$1,949 + \$750)		\$ 2,699
New Hampshire income taxes (\$2,699 x 7.90%)		\$ (210)
Federal taxable income		\$ 2,489
Federal income taxes (\$2,489 x 21%)		\$ (520)
Federal and state income tax expense per 2016 Rate Case		\$ 3,832
Federal and state income tax expense per 2017 Tax Act and NH rate changes (\$210 + \$520)		\$ 730
Calculated Reduction due to 2017 Tax Act and NH rate changes		\$ (3,102)

ABENAKI WATER COMPANY - BOW SYSTEM

EXHIBIT A3		
	As per Docket No. 25-905 dated 6/3/16	Under Tax Cuts and Jobs Act and Reduction in BPT Rates
Operating Revenues	\$ 91,977	\$ 91,977
Less Operating Expenses:		
Operation & Maintenance	\$ 54,452	\$ 54,452
Depreciation Expense	\$ 14,717	\$ 14,717
Amortization of CIAC	\$ (5,139)	\$ (5,139)
Amortization Expense - Other	\$ 2,129	\$ 2,129
Taxes Other than Income Taxes	\$ 12,092	\$ 12,092
Income Taxes	\$ 4,459	\$ 3,170
Total Operating Expenses	\$ 82,710	\$ 81,421
Utility Operating Income	\$ 9,267	\$ 10,556
Other Income and Deductions:		
Interest Income	\$ 663	\$ 663
Total Other Income	\$ 663	\$ 663
Less: Income Taxes on Other Income	\$ -	\$ -
Net Other Income and Deductions	\$ 663	\$ 663
Income Before Interest Charges	\$ 9,930	\$ 11,219
Interest Charges	\$ 2,983	\$ 2,983
Net Income	\$ 6,947	\$ 8,236
Recalculation of income taxes based on 2017 Tax Act and NH rate changes:		
Pretax income (\$8,236+ \$3,170)		\$ 11,406
New Hampshire income taxes (\$11,406 x 7.90%)		\$ (900)
Federal taxable income		\$ 10,506
Federal income taxes (\$10,506 x 21%)		\$ (2,210)

Federal and state income tax expense per 2016 Rate Case	\$ 4,459
Federal and state income tax expense per 2017 Tax Act and NH rate changes (\$900 + \$2,210)	\$ 3,110
Calculated Reduction due to 2017 Tax Act and NH rate changes	\$ (1,349)

ABENAKI WATER COMPANY - ROSEBROOK SYSTEM

EXHIBIT A4

	As per Docket No. 17-165 dated 12/1/2017	Under Tax Cuts and Jobs Act and Reduction in BPT Rates
Operating Revenues	\$ 372,324	\$ 372,324
Less Operating Expenses:		
Operation & Maintenance	\$ 213,916	\$ 213,916
Depreciation Expense	\$ 63,763	\$ 63,763
Amortization of CIAC	\$ (15,975)	\$ (15,975)
Other Misc Adjustments	\$ 3,405	\$ 3,405
Taxes Other than Income Taxes	\$ 22,704	\$ 22,704
Income Taxes	\$ 35,837	\$ 20,291
Total Operating Expenses	\$ 323,650	\$ 308,104
Utility Operating Income	\$ 48,674	\$ 64,220
Other Income and Deductions:		
Interest Income	\$ 2,334	\$ 2,334
Total Other Income	\$ 2,334	\$ 2,334
Less: Income Taxes on Other Income	\$ -	\$ -
Net Other Income and Deductions	\$ 2,334	\$ 2,334
Income Before Interest Charges	\$ 51,008	\$ 66,554
Interest Charges	\$ 13,596	\$ 13,596
Net Income	\$ 37,412	\$ 52,958
Recalculation of Income taxes based on 2017 Tax Act and NH rate changes:		
Pretax income (\$52,958 + \$20,291)	\$	73,249
New Hampshire income taxes (\$73,249 x 7.90%)	\$	(5,790)
Federal taxable income	\$	67,459
Federal income taxes (\$67,459 x 21%)	\$	(14,170)

Federal and state income tax expense per 2017 Rate Case	\$ 35,837
Federal and state income tax expense per 2017 Tax Act and NH rate changes (\$14,170 + \$5,790)	\$ 19,960
Calculated Reduction due to 2017 Tax Act and NH rate changes	\$ (15,877)

		Date Placed				Accumulated	12/31/17	Depr Period	Remaining	Weighted
						Depreciation	Estimated	End	Dept in Yrs	Average
Account	Description	Project #	In Service	Life	Costs	12/31/17	Value			Calculation
Structures & Improvements										
304	Structures & Improvements		01/01/87	40	14,620	9,200	7,015	2,185	9	0.13
304	Structures & Improvements		11/01/94	40	14,620	8,783	5,161	3,622	17	0.23
304	Structures & Improvements		12/26/97	40	14,620	881	451	430	20	0.03
304	2001 Pump Station Addition		05/30/01	40	14,620	6,967	2,786	4,181	23	0.25
304	Omegaphone		05/30/01	40	14,620	750	253	497	23	0.03
304	New Booster Station		12/31/15	40	14,620	9,200	230	8,970	38	0.55
Total Structures & Improvements					35,781	15,897	19,884			
Wells										
307	Well #1		01/01/87	50	18,275	12,000	7,320	4,680	19	0.36
307	Well #2		07/27/90	50	18,275	5,932	3,262	2,670	23	0.21
307	Well #3		12/20/90	50	18,275	4,442	2,444	1,998	23	0.16
307	Well #4		11/01/94	30	10,965	69,699	54,075	15,624	7	0.75
307	Well #5		06/01/09	30	10,965	104,079	31,175	72,904	21	3.48
Total Wells					196,152	98,276	97,876			
Pumping Equipment										
311	Pumping Equipment - 2009 Well	2009		10	3,655	32,015	23,110	8,905		
311	Pump.Equip. - VFD (CIAC)		07/01/10	10	3,655	3,644	2,766	878	3	0.01
311	Pump.Equip. - VFD (Part CIAC)		07/01/10	10	3,655	3,643	2,764	879	3	0.01
311	New Booster Pump		03/09/12	10	3,655	1,136	625	511	4	0.01
311	Enhance SCADA system at Pump Station		12/01/14	10	3,655	823	254	569	7	0.01
311	New Booster Station pumping equip.		12/31/15	10	3,655	15,064	3,013	12,051	8	0.19
311	New Booster Station pumping equip.		07/31/16	10	3,655	12,217	1,731	10,486	9	0.16
311	Replace chemical pump		05/31/16	10	3,655	1,265	200	1,065	8	0.02
311	Replace Well 5 submersible pump		07/31/16	10	3,655	9,590	1,359	8,231	9	0.13
Total Pumping Equipment					79,397	35,821	43,576			
Water Treatment Equipment										
320	Water Treatment Equipment		06/30/01	28	10,234	21,310	12,269	9,041	12	0.38
Total Water Treatment Equipment					21,310	12,269	9,041			
Distr. Reservoirs & Standpipes										
330	Distr. Reservoirs & Standpipes		01/01/87	50	18,275	15,400	9,394	6,006	19	0.46
330	Distr. Reservoirs & Standpipes (Part CIAC)		07/01/10	45	16,448	45,472	7,418	38,054	38	2.66
330	Distr. Reservoirs & Standpipes (Part CIAC)		07/01/10	45	16,448	45,471	7,418	38,053	38	2.66
Total Distr. Reservoirs & Standpipes					106,343	24,229	82,114			
Trans. & Distr. Mains										
331	Trans. & Distr. Mains		01/01/87	50	18,275	36,800	22,448	14,352	19	1.09
331	Trans. & Distr. Mains		09/18/90	50	18,275	3,026	1,665	1,361	23	0.11
331	Composite Water/Sewer Plan		05/03/10	40	14,620	1,413	265	1,148	32	0.07
Total Trans. & Distr. Mains					41,239	24,378	16,861			
Services										
333	Services		01/01/87	40	14,620	15,000	11,057	3,943	9	0.21
333	Retired service line 406 Darby				(250)	(250)				
333	Services		07/01/14	40	14,620	295	26	269	37	0.02
333	Services		11/30/15	40	14,620	909	47	862	38	0.05
333	New service line 406 Darby		07/31/16	40	14,620	1,451	51	1,400	39	0.09
Total Services					17,405	10,931	6,474			
Meters										
334	Meters	2008		20	7,310	88	40	48		
334	Meters	2009		20	7,310	264	106	158		
334	Meters - Retired		10/19/10	20	7,310	(125)	(125)			
334	Meter		10/19/10	20	7,310	174	65	109		
334	Meters		07/01/14	20	7,310	38,847	5,899	32,948	17	1.00
334	Meters		12/31/15	20	7,310	8,644	286	8,358	18	0.24
334	Meters - Retired (from 2014)		2015		(17,993)	(17,993)				(0.51)
334	Meters - Retired		2015		(1,356)	(1,356)				(0.04)
334	Meters - Returned from 2015		01/31/16		(2,930)	(2,930)				(0.08)
334	Meter installations		01/31/16	20	7,310	365	35	330	18	0.01
Adjustment					28			28		
Total Meters					26,006	(15,074)	41,980			
Communication Equipment										
346	Capital Expenditures Misc. - phone system		10/01/14	7	2,559	489	227	262	4	0.00
Total Communication Equipment					489	227	262			
Office Computer/Communication Equip.										
347	Computer Billing/GL/AP System and Website		07/01/14	7	2,559	5,165	2,583	2,582	4	0.03
347	Capital Exp. Misc. - Remote access software		10/01/14	5	1,828	278	180	97	2	0.00
347	NH Office new computer set up		12/31/16	5	1,828	223	45	178	4	0.00
Total Computer/Communication Equip.					5,665	2,608	2,857			
Total Water Plant					529,787	208,862	320,925			
Sewer Plant										
354	Wiring from building to controller		02/14/11	40	14,620	3,855	678	3,227	33	0.20
361	Sewer Mains		01/01/87	50	18,275	100,000	61,000	39,000	19	2.97
371	Purchase New and Rebuild Existing Sewer Pump		07/01/14	10	3,655	7,204	2,521	4,682	7	0.07
Total Sewer Plant					111,059	64,149	46,910			
Total Plant					640,846	273,011	367,834		754	18.44

RECAP - ALL SYSTEMS				
Recap	Cost	Weighted Avg		To response
		Separate	Combined	
LMC (BWS/BSS)	640,846	18.44	5.52	
WR (BOW)	318,412	16.21	2.41	
RB	1,181,436	36.22	19.99	
	2,140,694		27.92	

AWC Rosebrook Water

DW 17-165

Schedule 1C

Effective Tax Factor

Taxable Income	100.00%
Less: NH Business Profits Tax	8.20%
Federal Taxable Income	91.80%
Federal Income Tax Rate	34.00%
Effective Federal Income Tax Rate	31.21%
Add: NH Business Profit Tax	8.20%
Effective Tax Rate	39.41%
Percent of Income Available if No Tax	100.00%
Effective Tax Rate	39.41%
Percent Used as a Divisor in Determining the Revenue Requirement	60.59%
Tax Multiplier	65.05%

DW 15-199

AWC Belmont Sewer

Schedule 5A

Effective Tax Factor

Taxable Income	100.00%
Less: NH Business Profits Tax	8.50%
Federal Taxable Income	91.50%
Federal Income Tax Rate	34.00%
Effective Federal Income Tax Rate	31.11%
Add: NH Business Profit Tax	8.50%
Effective Tax Rate	39.61%
Percent of Income Available If No Tax	100.00%
Effective Tax Rate	39.61%
Percent Used as a Divisor in Determining the Revenue Requirement	60.39%
Tax Multiplier	65.59%

DW 15-199

AWC Belmont Water

Schedule 5A

Effective Tax Factor

Taxable Income	100.00%
Less: NH Business Profits Tax	8.50%
Federal Taxable Income	91.50%
Federal Income Tax Rate	34.00%
Effective Federal Income Tax Rate	31.11%
Add: NH Business Profit Tax	8.50%
Effective Tax Rate	39.61%
Percent of Income Available if No Tax	100.00%
Effective Tax Rate	39.61%
Percent Used as a Divisor in Determining the Revenue Requirement	60.39%
Tax Multiplier	65.59%

DW 15-199

AWC Bow Water

Schedule 5A

Effective Tax Factor

Taxable Income	100.00%
Less: NH Business Profits Tax	8.50%
Federal Taxable Income	91.50%
Federal Income Tax Rate	34.00%
Effective Federal Income Tax Rate	31.11%
Add: NH Business Profit Tax	8.50%
Effective Tax Rate	39.61%
Percent of Income Available if No Tax	100.00%
Effective Tax Rate	39.61%
Percent Used as a Divisor in Determining the Revenue Requirement	60.39%
Tax Multiplier	65.59%

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