STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

DOCKET NO. DW 18-___

Pennichuck Water Works, Inc.,
Pennichuck East Utility, Inc., and
Pittsfield Aqueduct Company, Inc.

Technical Statement of Larry D. Goodhue

December 19, 2018

A. Purpose of this Technical Statement

This technical statement is being provided in accordance with the requirements of New Hampshire Code of Administrative Rules, Chapter Puc 1605.02. This statement will describe revised tariff language that Pennichuck Water Works, Inc. ("PWW"), Pennichuck East Utility, Inc. ("PEU"), and Pittsfield Aqueduct Company, Inc. ("PAC") (collectively the "Companies") seek to implement to account for changes in federal tax law regarding the

B. Background

Prior to the 2017 changes to the Federal Tax Act, 26 U.S.C. §118 ("Section 118") included special rules for regulated utilities that received contributions in aid of construction (either in the form of cash payments given to the Company or property constructed and transferred by the developer to the Company) ("CIAC") whereby CIAC payments to regulated water utilities were excluded from taxable income if they were not incorporated into the regulated utility's rate base. In late 2017, as a part of the recently enacted Tax Cuts and Jobs Act, Congress amended Section 118 to remove the exclusion from taxation for CIAC payments to regulated water utilities.

The respective tariffs of the Companies currently allows them each to recover certain fees or property associated with the Company's acceptance of CIAC. If the CIAC is in the form of contributed property assets, the property being installed by the developer and contributed to the Company at no cost includes water mains, water services (main to stop portion), pumping stations, storage tanks, treatment facilities and other assets necessary for the Company to provide public water service to the developer's customers. When the Company accepts the property assets from the Developer it books the value of the accepted property as CIAC. The value of the CIAC is determined by the Company based upon the type of property asset by using accepted engineering indices values for the New England Region.

The Company's investment in any developer installed property is limited, by tariff (PWW tariff Page 40, Para. B, PEU tariff Page 35, Para. B, PAC tariff Page 36, Para. B) to "one times the annual revenue" created by each customer who connects to the developer-built facilities. If the CIAC from the developer is contributed in cash, instead of property assets, their contribution is made at the gross level of investment determined by the Company as it relates to the cost of the property assets being installed, with the "one times annual revenue" paid back to the developer by the Company at such time that customer connections are established.

As a result of the 2017 amendments to Section 118, CIAC payments to the Company no longer fully cover the true cost to the Companies. As a result, the Companies are seeking permission to amend their respective tariffs to allow them to recover the resulting tax costs when CIAC property or payments are received by the Companies. The formula for calculating the tax costs associated with CIAC is as follows:

Tax Cost = ((CIAC)/(1-Current Effective Tax Rate)) – CIAC

Current Effective Tax Rate = Current BPT Rate + (Current Federal Tax Rate * (1 – Current BPT Rate))

Using current law, the formula would include the following inputs (however, this tariff changed is designed to accommodate any effective rates in place during any given tax year):

BPT Rate = 7.9%
Federal Tax Rate = 21%
Effective Tax Rate = 27.24%

C. Impact of the Tariff Revision on the Companies' Revenues

If the Companies do not amend their tariffs to allow for the collection of the tax costs resulting from CIAC property or payments, the impact on the Companies would be to increase their costs that must be recovered from ratepayers. Because the policy of the State of New Hampshire has been to require developers to fund the capital costs of expanding a utility's service into new areas, the Companies believe it is appropriate and consistent with this policy to require these same developers to pay for the tax costs that are incurred by the Companies when they receive CIAC payments. If these tax costs are not funded by the developers, these costs will eventually be passed on to all of the Companies' ratepayers.

If the tariffs are amended, the changes will have a neutral impact on the Companies' revenues as compared to the taxation of CIAC payments prior to the 2017 amendments to the Tax Act.

D. Revised Tariff

The Companies have enclosed revised tariff pages, in both clean and "black-lined" versions, incorporating the revised applicability described above. The changes are reflected on the Companies respective tariff pages as follows:

<u>PWW</u>: Tariff pages 31, 31A, 32, 32A, 39, 40, 46 and 46A.
<u>PEU</u>: Tariff pages 28, 28A, 35, 36, 46 and 46A.

PAC: Tariff pages 28, 28A, 35, 36 and 42.

The Companies request that the Commission allow the tariff page to become effective in 30 days, or as may be otherwise ordered by the Commission.