

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 BET/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 8.575%)		\$ (2,240)
Federal taxable income		\$ 23,886
Federal income taxes (\$23,886 x 21%)		\$ (5,020)

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 (\$2,240 + \$5,020)	\$ 7,260
Calculated Reduction due to 2017 Tax Act and NH rate changes	\$ (6,618)

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 BET/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 8.575%)		\$ (230)
Federal taxable income		\$ 2,469
Federal income taxes (\$2,469 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 (\$230 + \$520)	\$ 750
Calculated Reduction due to 2017 Tax Act and NH rate changes	\$ (3,082)

## 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
Utility Operating Income	\$ 14,468	\$ 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	\$ 15,131	\$ 11,219
Interest Charges	\$ 2,983	\$ 2,983
Net Income	\$ 12,148	\$ 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 8.575%)		\$ (980)
Federal taxable income		\$ 10,426
Federal income taxes (\$10,426 x 21%)		\$ (2,190)

Federal and state income tax expense per 2016 Rate Case	\$ 7,966
Federal and state income tax expense per 2017 Tax Act and NH rate changes (\$980 + \$2,190)	\$ 3,170
Calculated Reduction due to 2017 Tax Act and NH rate changes	\$ (4,796)

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 BET/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 8.575%)		\$ (6,280)
Federal taxable income		\$ 66,969
Federal income taxes (\$66,969 x 21%)		\$ (14,060)

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 (\$14,120 + \$6,280)	\$ 20,340
Calculated Reduction due to 2017 Tax Act and NH rate changes	\$ (15,497)

ABENAKI WATER COMPANY  
EQUITY RETURN

	EXHIBIT B			
	Belmont Water & Sewer Systems	BOW System	Rosebrook System	Total
Equity Invested in Rate Base as of December 31, 2017	\$ 354,104	\$ 81,656	\$ 205,199	<u>\$ 640,959</u>
Last Approved Return on Equity	<u>9.40%</u>	<u>9.40%</u>	<u>9.40%</u>	<u>A</u>
Equity Return	<u>\$ 33,286</u>	<u>\$ 7,676</u>	<u>\$ 19,289</u>	

A - Agrees with total stockholder's equity per Abenaki Water Company's audited December 31, 2017 Financial Statements

ABENAKI WATER COMPAY  
 CALCULATION OF EXCESS TAX RESERVE  
 DECEMBER 31, 2017

EXHIBIT C			
	Balance @ 12/31/2016	2017 Timing Differences	Balance @ 12/31/2017
Book vs Tax Timing Differences - Plant***	175,000	129,100	304,100
Effective Tax at 34%	34%	34%	34%
Deferred Tax Liability at 34%	<u>59,500</u>	<u>43,900</u>	<u>103,400</u> <b>A</b>
Book vs Tax Timing Differences - Plant ***			304,100
Effective Tax at 21%			21%
Deferred Tax Liability at 21%			<u>63,900</u> <b>B</b>
Excess Tax Reserve @ 12/31/2017			<u>39,500</u> <b>A - B</b>

\*\*\* - Includes assets placed in service 12/31/2016 and prior



## EXHIBIT D

## Checkpoint Contents

## 2017 Tax Reform

## Complete Analysis of the Tax Cuts and Jobs Act

## Organization of the Complete Analysis

## Analysis

## Chapter 1300 DEPRECIATION

## 1309 Normalization requirements for public utilities

## ¶ 1309. Normalization requirements for public utilities

*Code Sec. none, as amended by 2017 Tax Cuts and Jobs Act §13001(d)*

*Generally effective: Tax years beginning after Dec. 31, 2017.*

*Committee Reports, see ¶5032*

As described at ¶ 102, the Tax Cuts and Jobs Act reduced the corporate tax rate to a flat 21% rate. Public utilities are required, as a condition of using MACRS to use normalization accounting under which depreciation for ratemaking purposes doesn't reflect the accelerated depreciation under MACRS. (FTC 2d/Fin ¶L-9300; FTC 2d/Fin ¶L-9301; USTR ¶1684.01)

**New Law.** The Tax Cuts and Jobs Act provides that public utilities subject to the normalization method of accounting are not treated as applying the normalization method for any public utility property for purposes of Code Sec. 167 or Code Sec. 168 if they reduce their excess tax reserves resulting from the lower tax rate (see below) in computing their cost of service for ratemaking purposes and for purposes of reflecting operating results in their regulated books of account, more rapidly or to a greater extent than the amount the reserve would be reduced under the average rate assumption method. (2017 Tax Cuts and Jobs Act §13001(d)(1))

For this purpose, the excess tax reserve is the reserve for deferred taxes described in Code Sec. 168(i)(9)(A)(ii) (see FTC ¶L-9304 ; USTR ¶1684.01 ) as in effect on the day before the rate reductions described at ¶ 102 take effect (2017 Tax Cuts and Jobs Act §13001(d)(3)(A)(i)), minus the amount that would be the balance in the reserve if the amount of the reserve were determined by assuming that the Tax Cuts and Jobs Act corporate rate reductions were in effect for all prior periods. (2017 Tax Cuts and Jobs Act §13001(d)(3)(A)(ii))

The average rate assumption method is the method under which the excess in the reserve for deferred taxes is reduced over the remaining lives of the property as used in its regulated books of account which gave rise to the reserve for deferred taxes. Under this method, if timing differences for the property reverse, the amount of the adjustment to the reserve for the deferred taxes is calculated by multiplying (1) the ratio of the aggregate deferred taxes for the property to the aggregate timing differences for the property as of the beginning of the period in question (2017 Tax Cuts and Jobs Act §13001(d)(3)(B)(i)) by (2) the amount of the timing differences that reverse during the period. (2017 Tax Cuts and Jobs Act §13001(d)(3)(B)(ii))

The reversal of timing differences generally occurs when the amount of the tax depreciation taken on the asset is less than the amount of the regulatory depreciation taken on the asset. To ensure that the deferred tax reserve, including the excess tax reserve, is reduced to zero at the end of the regulatory life of the asset that generated the reserve, the amount of the timing difference which reverses during a tax year is multiplied by the ratio of (1) the aggregate deferred taxes as of the beginning of the period in question to (2) the aggregate timing differences for the property as of the beginning of the period in question. (Com Rept, see ¶5032)

**Illustration:** A calendar year regulated utility placed property costing \$100 million in service in 2016. For regulatory (book) purposes, the property is depreciated over 10 years on a straight line basis with a full year's allowance in the first year. For tax purposes, the property is depreciated over 5 years using the 200% declining balance method and a half-year placed in service convention.

**Normalization calculation for corporate rate reduction**  
(Millions of dollars)

	Year(s)										
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total
Tax expense	20	32	19.2	11.52	11.52	5.76	0	0	0	0	100
Book depreciation	10	10	10	10	10	10	10	10	10	10	100
Timing difference	10	22	9.2	1.52	1.52	(4.24)	(10)	(10)	(10)	(10)	0
Tax rate	35%	35%	21%	21%	21%	31.1%	31.1%	31.1%	31.1%	31.1%	
Annual adjustment to reserve	3.5	7.7	1.9	0.3	0.3	(1.3)	(3.1)	(3.1)	(3.1)	(3.1)	0



	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total
Cumulative deferred tax reserve	3.5	11.2	13.1	13.5	13.8	12.5	9.3	6.2	3.1	(0.0)	0
Annual adjustment at 21%						(0.9)	(2.1)	(2.1)	(2.1)	(2.1)	(9.3)
Annual adjustment at average rate						(1.3)	(3.1)	(3.1)	(3.1)	(3.1)	(13.8)
Excess tax reserve						0.4	1.0	1.0	1.0	1.0	4.5

The excess tax reserve as of Dec. 31, 2017, the day before the corporate rate reduction takes effect, is \$4.5 million. The taxpayer will begin taking the excess tax reserve into account in the 2021 tax year, which is the first year in which the tax depreciation taken with respect to the property is less than the depreciation reflected in the regulated books of account. The annual adjustment to the deferred tax reserve for the 2021 through 2025 tax years is multiplied by 31.1% which is the ratio of the aggregate deferred taxes as of the beginning of 2021 (\$13.8 million) to the aggregate timing differences for the property as of the beginning of 2021 (\$44.2 million). (Com Rept, see ¶5032)

However, if, as of the first day of the tax year that includes date of enactment of the 2017 Tax Cuts and Jobs Act, the taxpayer was required by a regulatory agency to compute depreciation for public utility property on the basis of an average life or composite rate method (2017 Tax Cuts and Jobs Act §13001(d)(2)(A)), and the taxpayer's books and underlying records did not contain the vintage account data necessary to apply the average rate assumption method (2017 Tax Cuts and Jobs Act §13001(d)(2)(B)), the taxpayer will be treated as using a normalization method of accounting if, with respect to the jurisdiction, the taxpayer uses the alternative method for public utility property that is subject to the regulatory authority of that jurisdiction.

The alternative method is the method in which the taxpayer computes the excess tax reserve on all public utility property included in the plant account on the basis of the weighted average life or composite rate used to compute depreciation for regulatory purposes (2017 Tax Cuts and Jobs Act §13001(d)(3)(C)(i)), and reduces the excess tax reserve ratably over the remaining regulatory life of the property. (2017 Tax Cuts and Jobs Act §13001(d)(3)(C)(ii))

If, for any tax year ending after date of enactment of the 2017 Tax Cuts and Jobs Act, the taxpayer does not use a normalization method of accounting, the taxpayer's tax for the tax year is increased by the amount by which it reduces its excess tax reserve more rapidly than

permitted under a normalization method of accounting (2017 Tax Cuts and Jobs Act §13001(d)(4)(A)) and the taxpayer would not be treated as using a normalization method for purposes of the MACRS rules. (2017 Tax Cuts and Jobs Act §13001(d)(4)(B))

**Effective:** Tax years beginning after Dec. 31, 2017. (Com Rept, see ¶5032)

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