THE STATE OF NEW HAMPSHIRE
BEFORE THE
NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

Public Service Company of New Hampshire
d/b/a Eversource Energy
Investigation to Determine Rate Effects of Federal and State Corporate Tax Reductions

Docket No. IR 18-001

Technical Statement of
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March 30, 2018

I. Purpose of Technical Statement

This Technical Statement is being submitted to comply with the directive in Order No. 26,096 (January 3, 2018) in Docket No. IR 18-001 that each public utility file a proposal with the Commission no later than April 1, 2018, to address the effects of the changes in Federal and State tax laws, including financial information that is sufficient to establish a revenue requirement that reflects, prospectively, the impacts of those changes.

Included with this technical statement of Public Service Company of New Hampshire d/b/a Eversource Energy ("Eversource" or the "Company'), and consistent with Order No. 26,096, is the following information:

- The calculation of the Company's deferred tax liability associated with the Federal Tax rate change from 35% to 21%, and the New Hampshire Business Profits Tax from 8.2% to 7.9%
- A preliminary estimate of the excess deferred income taxes ("EDIT") and the resulting from the tax rate changes
- The plans of the Company to refund the deferred tax liability and EDIT to customers

II. Calculation of the Deferred Tax Liability

To determine the level of Federal and State taxes that are presently allowed for recovery through rates, the Company first calculated the taxes that were included in the revenue requirement to set Distribution rates at the time of the Company's last rate review in Docket No. DE 09-035, as well as in the three step increases that were identified in the settlement agreement filed and approved in DE 09-035. Such a calculation was necessary because the settlement agreement in Docket No. DE 09-035, which was approved by the Commission in Order No. 25,123 (June 28, 2010), specifically noted that the Settling Parties did not agree on every individual component included in the overall distribution rate level, but did agree on an overall distribution rate level. Accordingly, individual components, such as the precise amount of taxes included in rates, were not specifically identified at the time. The tax amounts determined following the calculations of the amounts from the settlement in Docket No. DE 09-035 and the subsequent step adjustments were then adjusted to reflect the new 21% Federal tax rate, and the new 7.9% New Hampshire Business Profits tax rate.

To quantify the tax amount that was included in the settled revenue requirement and included in rates in Docket No. DE 09-035, the Company went back to the last *proforma* operating income schedule provided in the docket and adjusted the revenues and corresponding income taxes to arrive at the level of Federal and State income taxes that were included in the settled revenue requirement and then adjusted the taxes by applying the ratio of the old tax rate gross up to the new tax rate gross up. This approach is consistent with the FERC methodology in Order No. 475 that applies the ratio of the new effective tax rate/old effective tax rate and multiplies the resulting percent by the composite incomes taxes allowable included in rates. This calculation resulted in an annual tax adjustment amount of $9.699M, as shown on Attachment CJG-1, page 2.

For the step filing on July 1, 2011, which was filed in Docket No. DE 11-095 and approved in Order No. 25,240 (June 24, 2011), the tax gross up factor utilizing a 35% Federal rate and 8.5% State rate was replaced with the new 21% Federal rate and 7.9% State rate to calculate the difference in taxes related to the July 1, 2011 step increase. This change resulted in an annual tax adjustment amount of $651k, as shown on Attachment CJG-1, page 2.

For the step filing for rates effective July 1, 2012, which was filed in Docket No. DE 12-110 and approved in Order No. 25,382 (June 27, 2012), the tax gross up factor utilizing a 35% Federal rate and 8.5% State rate was replaced with the new 21% Federal rate and 7.9% State rate to calculate the difference in taxes related to the July 1, 2012 step increase. This change resulted in an annual tax adjustment amount of $1.029M, as shown on Attachment CJG-1, page 2.

For the step filing for rates effective July 1, 2013, which was filed in Docket No. DE 13-127 and approved in Order No. 25,534 (June 27, 2013), the tax gross up factor utilizing a 35% Federal rate and 8.5% State rate was replaced with the new 21% Federal rate and 7.9% State rate to calculate the difference in taxes related to the July 1, 2013 step increase. This change resulted in an annual tax adjustment amount of $901k, as shown on Attachment CJG-1, page 2.

The impact of the tax change relating to items covered by the Company's Reliability Enhancement Program ("REP") has been addressed as part of the Company's most recent REP filing. That filing was submitted in Docket No. DE 17-196, and approved by Order No. 26,112 (March 12, 2018).

Adding the tax changes identified above from the settlement agreement and the subsequent step adjustment results in a tax tax adjustment amount from the tax gross up change of $12.281M annually, or $1.023M per month. Consistent with Order No. 26,096, the Company has deferred $3.070M through March 31, 2018 to record this deferred tax liability, and will continue to defer $1.023M per month until rates are adjusted per the Company's proposal as described subsequently within this Technical Statement.

The following attachments have been provided for the calculation of the amounts identified above:

- Attachment CJG-1: The Calculation of the annual reduction amount and the amount to be deferred monthly until distribution rates are changed.
- Attachment CJG-2: Schedule 1 Page 1 of PSNH's permanent rate filing. This filing was submitted on June 29, 2009 in Docket No. DE 09-035
- Attachment CJG-3: Revenue Deficiency Update Page 3, filed Dec 15, 2009 in Docket No. DE 09-035
- Attachment CJG-4: The Settlement Agreement filed and approved in Docket No. DE 09-035
- Attachment CJG-5: The Company's July 1, 2011 step increase filing in Docket No. DE 11-095
- Attachment CJG-6: The Company's July 1, 2012 Step increase filing in Docket No. DE 12-110
- Attachment CJG-7: The Company's July 1, 2013 Step increase filing in Docket No. DE 13-127

III. Quantification of the Impact on Accumulated Deferred Income Taxes ("ADIT")

ADIT represents the collection of unpaid tax liabilities through rates. In other words, it is the amount Eversource collects through rates to pay for future tax liabilities to the Internal Revenue Service ("IRS"). As a result of the tax rates changing, the Company's future ADIT liability has been reduced. Accordingly, the amount of ADIT must be reduced to reflect the lower tax rates. This reduction results in an estimate of EDIT that needs to be recorded to a regulatory liability account because it represents a future obligation of the Company to return these funds to customers, instead of the IRS.

A calculation of the estimated EDIT was performed, and recorded to a regulatory liability as of December 31, 2017. Provided in Attachment CJG-8 are the estimated EDIT amounts for Eversource's depreciable and non-depreciable assets. In Attachment CJG-8, page 2 is an estimated amortization schedule using the Average Rate Assumption Method ("ARAM") that is required to be used when refunding EDIT from depreciable assets. These estimates will be replaced in future tax years with actual EDIT refund amounts as the relevant tax liabilities actually come due.

IV. Proposal and Periodic Update

The Company is proposing that a distribution rate adjustment to refund the monthly amount of $1.023M that is currently being deferred as a result of the tax rate changes be addressed as part of the Company's next distribution rate review. In that way, the tax changes may be analyzed in conjunction with other changes to the Company's costs and revenues that have occurred since the conclusion of its last rate review. The Company understands the priority its customers place on the stabilization of rates and believes that preserving the opportunity to pair a potential increase in rates due to cost increases since the Company's last rate review, with an offsetting refund due to the tax reductions, is consistent with this priority.

Similarly, the Company is proposing that the EDIT amounts currently deferred be addressed as part of the Company's next distribution rate review. Any changes to address the EDIT should occur along with changes in the other components of rate base when establishing the overall revenue requirements for rate setting. Included in the Company's last rate review in Docket No. DE 09-035 was a level of ADIT that acted as a reduction to rate base. If the Company were to begin returning the EDIT now, it would lower the overall ADIT amount in rate base, which would result in an increase in rate base. An increase in rate base would require a corresponding increase in distribution rates to recover the return on the increased rate base level. To avoid having single-issue ratemaking, and to avoid having to adjust taxes, rate base and revenue levels without regard to the Company's overall revenue requirement, including this as an item in Eversource's next rate review is the most appropriate course of action.

In terms of timing, the Company intends to file an application for a distribution rate review in 2018 soon after the completion of the divestiture of its New Hampshire generating facilities. The Company's last distribution rate review was completed in 2010, and its next distribution rate review was generally contemplated as part of the "2015 Public Service Company of New Hampshire Restructuring and Rate Stabilization Agreement" approved in Docket No. DE 14-238. The comprehensive set of terms to that agreement included a commitment by the Company to extend its stay-out period for a distribution rate review by two years to July 1, 2017 to coincide with the anticipated completion of the divestiture process. Therefore, the Company's planned upcoming distribution rate review is both a near-term opportunity for customers to realize the benefits of the tax change, as well as the next logical step following the completion of restructuring in New Hampshire.

Finally, the Company is proposing that an annual filing be submitted to the Commission by June 1 of each year to address the extinguishment of the EDIT. These filings would contain information for the prior year identifying the then-current levels of EDIT and the estimated forecast of the EDIT amortizing into the future.