

CHAIRMAN
Martin P. Honigberg

COMMISSIONERS
Kathryn M. Bailey
Michael S. Giaimo

EXECUTIVE DIRECTOR
Debra A. Howland

STATE OF NEW HAMPSHIRE



PUBLIC UTILITIES COMMISSION
21 S. Fruit St., Suite 10
Concord, N.H. 03301-2429

TDD Access: Relay NH
1-800-735-2964

Tel. (603) 271-2431

FAX No. 271-3878

Website:
www.puc.nh.gov

NHPUC 28SEP18AM10:32

September 28, 2018

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

RE: DW 18-123 West Swanzey Water Company
Petition for Exemption from Commission Order No. 26,096 in Docket IR 18-001
Staff Recommendation for Approval

Dear Ms. Howland:

The purpose of this letter is to provide Staff's recommendation regarding West Swanzey Water Company's ("West Swanzey" or "Company") petition to incorporate the recent changes in Federal and State taxes into rates and grant exemption from Commission Order No. 26,096 in Docket IR 18-001 ("petition"). West Swanzey's petition was assigned Docket No. DW 18-123. As discussed and outlined below, Staff recommends that West Swanzey be denied an increase in rates, but be approved for exemption from Commission Order No. 26,096 and further participation in Docket IR 18-001.

At the end of December 2017, the United States Congress voted, and the President signed into law, major Federal tax changes, commonly known as the Tax Cuts and Jobs Act of 2017 ("Tax Act"). The Tax Act is effective for tax years beginning in 2018 and, among other items, substantially reduces the Federal Corporate Income Tax Rate from a maximum 35 percent to a flat 21 percent. The change in the Federal Corporate Income Tax Rate also affects any Accumulated Deferred Income Tax ("ADIT") recorded on a company's books. In addition to the Tax Act, the State of New Hampshire also changed two specific taxes. It lowered the NH Business Enterprise Tax ("BET") from .72 percent to .675 percent and lowered the NH Business Profits Tax ("BPT") from 8.2 percent to 7.9 percent.

Subsequently, the Commission issued Order No. 26,096 in Docket IR 18-001 requiring each public utility regulated by the Commission to record the estimated reductions in the Federal Corporate Income Tax and State BET and BPT as a deferred liability in an appropriate account on their books using the specific methodology outlined in the Commission's order. Additionally, each regulated utility was instructed to calculate its excess ADIT, or Excess Deferred Income Tax ("EDIT"), and to recognize such as a deferred liability and reduction in their respective revenue requirements. Each

utility was to file a proposal with the Commission by no later than April 1, 2018 to address the effects of the Federal and State tax law changes. The primary reasons for the investigation are stated on page one of the order, "The revenue impacts of the 2017 Tax Act and changes in New Hampshire's business taxes, in general, occur outside of a normal rate case, are likely material, and constitute an event outside the control of the utility."

West Swanzezy submitted its petition on August 3, 2018 in which it indicated that it is a "Subchapter C" corporation subject to Federal income and State business taxes. West Swanzezy further stated that a review of the settlement schedules in their last permanent rate case, DW 17-103, indicated an increase of \$1,550 or approximately 33 percent in the Federal and State tax components over those reflected in the Company's approved rates. While the State tax component was lowered from 8.20 percent to 7.90 percent, the Federal tax component increased from 15 percent to 21 percent resulting in a 2018 tax rate factor of .37440 while the 2017 tax rate factor was .28156. West Swanzezy stated that the tax expense included in the revenue requirement would increase from \$4,702 to \$6,252 or \$1,550.

Staff reviewed West Swanzezy's petition and adds the following information. West Swanzezy's last Permanent Rate Case was in Docket DW 17-103 where permanent rates, based on a total revenue requirement of \$96,034, were approved on February 23, 2018 by Commission Order No. 26,105. West Swanzezy's approved revenue requirement and rates included a provision for Federal and State income taxes of \$4,702. Applying the 2018 tax rate factor increases the provision for Federal and State income taxes to \$6,252; an increase of \$1,550, which equates to 1.6 percent increase in the Company's recently approved revenue requirement. Staff deems this as de minimis.

Staff reviewed the Company's 2017 NHPUC Annual Report filed subsequent to its last rate proceeding. The Annual Report indicated that the Company recorded no ADIT, thus, there is currently no EDIT to calculate.

In conclusion, after reviewing West Swanzezy's Petition, its most recent revenue requirement calculation, most recent permanent rate case Order, and Annual Report, Staff recommends the Commission deny West Swanzezy's request for an increase in rates as the revenue impact related to the change in taxes is not material and should be addressed in a normal rate case. Based on Staff's review, West Swanzezy has satisfied the requirements of Commission Order No. 26,096 and Staff recommends the docket be closed.

Thank you for your assistance and attention regarding this matter. If you have any questions, do not hesitate to contact me.

Respectfully,



Robyn J. Descoteau
Utility Analyst, Gas & Water Division

cc: Service List

SERVICE LIST - EMAIL ADDRESSES - DOCKET RELATED

Pursuant to N.H. Admin Rule Puc 203.11 (a) (1): Serve an electronic copy on each person identified on the service list.

Executive.Director@puc.nh.gov
amanda.noonan@puc.nh.gov
david.shulock@puc.nh.gov
jayson.laflamme@puc.nh.gov
ocalitigation@oca.nh.gov
stephenpstcyr@yahoo.com
steve.frink@puc.nh.gov

Docket #: 18-123-1 Printed: September 28, 2018

FILING INSTRUCTIONS:

- a) Pursuant to N.H. Admin Rule Puc 203.02 (a), with the exception of Discovery, file 7 copies, as well as an electronic copy, of all documents including cover letter with:**

DEBRA A HOWLAND
EXECUTIVE DIRECTOR
NHPUC
21 S. FRUIT ST, SUITE 10
CONCORD NH 03301-2429

- b) Serve an electronic copy with each person identified on the Commission's service list and with the Office of Consumer Advocate.**
- c) Serve a written copy on each person on the service list not able to receive electronic mail.**