

**Response to information request included in the Procedural Order Re: Motion to Extend Filing
Deadline and Waive Puc 203.20, as it pertains to the CIAC taxation exemption reinstatement with the
Federal Infrastructure Investment and Jobs Act**

This is written in response to the request included in the Order referenced above, as it pertains to the tax consequences of the reinstatement of the exemption for CIAC given to water and waste water utilities, and if this action was considered as a part of the discussion, negotiations, and Settlement Agreement presented on behalf of Pennichuck East Utility, Inc. in Docket No. DW 20-156. There are several factors that need to be considered in this response, including:

1. When the Tax Cut and Jobs Act was enacted in December 2017, the exemption from inclusion as taxable income for CIAC contributed to water and wastewater utilities, as originally enacted by the Federal government in 1992, was effectively terminated.
2. As a result of this tax legislation, the regulated Companies in the Pennichuck Corporation consolidated group (Pennichuck Water Works, Inc. (PWW), Pennichuck East Utility, Inc. (PEU), and Pittsfield Aqueduct Company, Inc. (PAC)) prepared a filing under Docket No. DW 18-189, requesting a Tariff allowing for these companies to assess a “gross-up” for the tax incurred upon accepting assets as CIAC. This was done, to nullify any impairment that would occur from this contributed property eroding the tax assets accumulated and paid for by customers, as it pertained to any net loss carryforwards, or the assessment of incremental taxes from the CIAC. These Tariffs were approved in Docket No. DW 18-189 in Order No. 26-211 on January 18, 2019.
3. The Tariffs requested and approved in Order No. 26-211 were constructed such that the “gross-up” calculation would be computed using whatever the current tax rate was in any given tax year. This allowed the Companies to use these Tariffs going forward regardless of whether the: (1) CIAC tax still applied, (2) whether it was reinstated as an exemption at the Federal level but not at the State level, (3) was reinstated as an exemption at both the State and Federal level, or (4) the rate of taxation was altered at either the Federal or State level.
4. The Tariffs were also constructed such that the “gross up” money collected is deposited into a separate bank account, and is the first money used to pay any Federal and State tax liability due, should amounts be due and payable over and above income sheltered by NOL carryforwards.
5. The reinstatement of the exemption under the Infrastructure Investment and Jobs Act (“IIJA”) has effectively eliminated the Federal taxation of CIAC retroactively back to 1/1/2021, for any CIAC contributed for assets contributed and placed in service on or after that date.
6. The reinstatement of the exemption has not, as of yet, been implemented for NH Business Profits Tax in the State of NH, and as such, CIAC is still subject to taxation for NHBPT.
7. The Companies are currently only assessing the “gross up” inclusive of the current NHBPT rate of 7.7% for all projects contributed after the effective date of the IIJA.

8. The Companies are waiting until after the current calendar year is closed to refund amounts collected for contributors for CIAC contributed from 1/1/2021 until the date that IJA was enacted. This comes from advice from the Company's tax advisor, as it is yet uncertain whether or not the NHDRRA will reinstate the exemption for CIAC taxation for water utilities in the coming month, and as such, a full refund of those monies can be processed, rather than a partial refund.
9. The allowed revenue structure for all of the Pennichuck Corporation regulated utilities does not include Federal and State income taxes in its allowed revenue buckets: CBFRR, OERR and DSRR. As such, the action under TCJA had no impact on the allowed revenues for the companies, and the reinstatement of the exemption under IJA has, additionally, no impact on the allowed revenues for the companies.
10. In the Orders for the completion of the last permanent rate case for PWW in Docket No. DW 19-084, PAC in Docket No. DW 20-153, and this current rate case for PEU under Docket No. DW 20-156, the Company has requested (PEU) and received approval (PWW and PAC) for the inclusion of the cash payment incurred under the NH Business Enterprise Tax (NHBET), as that minimum tax is incurred regardless of innate profitability of corporations in NH, as it is derived based upon payroll, interest and dividends paid. And, it is paid regardless of any NOL carryforwards a corporation may have in existence to shelter NHBPT. The CIAC taxation has no bearing on the computation of the NHBET, and as such, has no impact on this tax factor included in the OERR portion of revenues, as already approved for PWW and PAC, and as being requested for approval for PEU in this docket.
11. The Company has included in the dockets reference above for PWW, PEU and PAC, that at such time in the future that its currently existing NOL carryforward no longer shelter (partially or fully) its taxable income for payments in cash for Federal or State NHBPT taxes, that it will request inclusion of those cash amounts in its OERR allowed revenues in future rate cases. But, regardless of that inclusion, the Tariffs approved for the Companies in Docket No. 18-189 and Order No. 26-211 will eliminate any impact of any taxation for CIAC for the companies, as the cash is collected from contributors, and used on a FIFO ("first in, first out") basis to pay for tax payments due, such that the net cash payments for Federal and State income taxes that would be included in the OERR portion of allowed revenues in the future, when and if that occurs, would be the net amount includable after the tax impact from CIAC income.

Due to all of these factors and based upon the successful implementation of the requested CIAC taxation Tariffs for the Companies, a discussion, negotiation or inclusion of the impact of the reinstatement of the exemption for CIAC from taxation in the Settlement Agreement for the case, was not needed or relevant.