

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

**IR 18-001**

**Investigation to Determine Rate Effects of Federal and  
State Corporate Tax Reductions**

**Order Opening Investigation**

**ORDER NO. 26,096**

**January 3, 2018**

At the end of December 2017, the United States Congress voted and the President signed into law major federal tax law changes<sup>1</sup> (“2017 Tax Act”) effective for tax year 2018. Among other things, the 2017 Tax Act substantially reduces the corporate income tax rate from 35 percent to 21 percent, effective this year. It also affects the deferred tax reserve which must be normalized for the benefit of customers. In addition, in 2018 the New Hampshire Business Enterprise Tax (“BET”) rate will fall from 0.72 percent to 0.675 percent, and the Business Profits Tax (“BPT”) will decline from 8.2 percent to 7.9 percent.

Investor-owned public utilities regulated in the State of New Hampshire recover the costs of the applicable federal and state taxes from utility customers through rates established by the Commission in periodic rate cases specific to each utility. These rate cases allow the Commission to fully investigate the costs and revenues required for the prudent operation of each utility. The revenue impacts of the 2017 Tax Act and the changes in New Hampshire’s business taxes, in general, occur outside of a normal rate case,<sup>2</sup> are likely material, and constitute an event outside the control of the utility.

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<sup>1</sup> H.R.1 - An Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018.

<sup>2</sup> The two regulated New Hampshire gas distribution utilities as well as certain water utilities have rate cases pending and due to be completed in 2018.

The Commission determines that it is necessary to investigate<sup>3</sup> how the 2017 Tax Act and the reductions to the BPT and BET will affect the expenses of each of the New Hampshire public utilities. If the changes in the tax laws will reduce the tax obligations and increase the net incomes of those utilities, it will then be necessary to determine how those reduced obligations should be reflected in rates.<sup>4</sup>

To that end, the Commission requires all regulated electric, gas, sewer, and water utilities in New Hampshire to record on their books as a deferred liability, in an appropriate account, the estimated reduction in federal income tax resulting from the 2017 Tax Act, as well as the estimated reduction in the State of New Hampshire BET and BPT. The entries for the deferral shall be calculated using the methodology used by the Commission in setting revenue requirements as follows: Each utility shall take the equity currently invested in rate base, multiplied by the last-approved return on equity, to derive an equity return; and then calculate relative to that return the difference between the gross-up for a federal income tax of 35 percent and for a federal income tax of 21 percent and also for the reductions in BET and BPT. The difference shall be entered as a deferred liability until final rates are established for the utility in a general rate case, or until otherwise ordered by the Commission. In addition, each public utility subject to this notice shall calculate the excess deferred tax reserve caused by the reduction in the corporate federal income tax rate, and recognize as a deferred liability the estimated reduction of the utility's revenue requirement.

Each utility shall file a proposal with the Commission no later than April 1, 2018, to address the effects of the changes in tax laws, including financial information that is sufficient to establish a revenue requirement that reflects prospectively the impacts of those changes. The

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<sup>3</sup> Pursuant to RSA 374:4 (duty to keep informed), RSA 374:3 (general supervisory power), and RSA 365:5 (power to independently investigate).

<sup>4</sup> Pursuant to RSA 374:2 (rates must be reasonable) and RSA 378:7 (power to determine reasonable rates).

filing shall include a calculation of any deferred liability accrued by report date and any liability projected to be accrued until the time when final rates are next issued in accordance with a general rate case. It shall also include a plan for providing periodic reports on the accrual and extinguishment of the deferred liability, including an outline of the financial information the utility would expect to file that would be sufficient to establish a revenue requirement that reflects the impact of the tax law changes.

Several utilities have rate cases being investigated by the Commission. Those utilities shall consider whether a rate reduction associated with the reduced tax obligations of the 2017 Tax Act, BET, and BPT, can be effected within the schedule for those rate cases and shall also comply with the filing requirements described herein.

Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty Utilities (“Granite State Electric”) and Unitil Energy Systems, Inc. (“UES”), concluded rate cases within the last year. Their respective rate agreements contain a provision on the method by which they shall manage exogenous events. While changes in tax law are typically treated as exogenous events, the Commission declines to make that finding pursuant to the two approved rate case settlements at this time, and requires both Granite State Electric and UES to comply no later than April 1, 2018, with the reporting requirements as described in this Order.

The Commission intends to open a separate docket for each of the filings received and will consider appropriate rate impacts in those company-specific dockets. The Commission notes that the Office of Consumer Advocate (“OCA”) made a filing described as a complaint on this subject on January 2, 2018. The OCA has the authority to participate in each of the utility-specific dockets pursuant to RSA 363:28 and all utility filings will be served on the OCA pursuant to Commission rule.

The petition and subsequent docket filings, other than any information for which confidential treatment is requested of or granted by the Commission, will be posted to the Commission's website at [www.puc.nh.gov](http://www.puc.nh.gov).

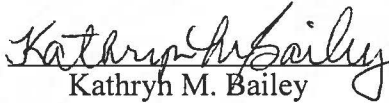
**Based upon the foregoing, it is hereby**

**ORDERED**, all regulated public utilities in the State of New Hampshire shall make filings complying with this Order no later than April 1, 2018.

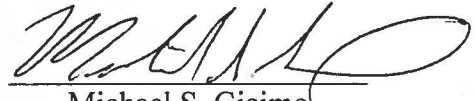
By order of the Public Utilities Commission of New Hampshire this third day of January, 2018.



Martin P. Honigberg  
Chairman

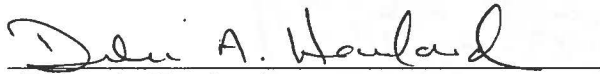


Kathryn M. Bailey  
Commissioner



Michael S. Giaimo  
Commissioner

Attested by:



Debra A. Howland  
Executive Director