BEFORE THE NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

Abenaki Water Company

Docket No. DW 18-_____

COMPLIANCE PLAN IN RESPONSE TO ORDER NO. 26,096

The Abenaki Water Company (AWC) is comprised of four separate systems: Belmont Water System (BWS), Belmont Sewer System (BSS), BOW System (BOW) and Rosebrook System (RB). The annual income tax expense per system included in current rates charged to customers was calculated using the Federal corporate income tax rate of 34%, the New Hampshire Business Enterprise Tax (BET) of 0.72%, and the New Hampshire Business Profits Tax (BPT) of 8.2%, as approved (or as filed, for RB) by the State of New Hampshire Public Utilities Commission (PUC) in AWC's last full rate cases dated June 3, 2016 (Docket No. 25-905 related to BWS, BSS and BOW) and December 1, 2017 (Docket No. 17-165 related to RB) (collectively, the Dockets). The calculated income tax expenses per system were \$13,878 (BWS), \$3,832 (BSS), \$7,966 (BOW) and \$35,837 (RB).

Per **Exhibits A1 – A4**, AWC has provided a summary of the income statements, by system, approved by the PUC in the Dockets. To calculate the projected annual Federal and New Hampshire income tax expense as a result of the provisions of the Tax Cuts and Jobs Act (the Act), and the reductions in the BET and BPT, **Exhibits A1 – A4** provide AWC's computation of the pre-tax income amounts approved by the PUC in the Dockets: \$26,126 (BWS), \$2,699 (BSS), \$11,406 (BOW) and \$73,249 (RB). These pre-tax income amounts were tax affected first by the 2018 rates for BET (0.675%) and BPT (7.9%), (combined 8.575%), and second by the newly enacted 21% Federal rate provided for by the Act, which resulted in projected annual income tax expenses of \$7,260 (BWS), \$750 (BSS), \$3,170 (BOW) and \$20,340 (RB). The reductions in Federal and New Hampshire income tax expenses as a result of the Act and reduction in BPT/BET rates is \$6,618 (BWS), \$3,082 (BSS), \$4,796 (BOW) and \$15,497 (RB) as summarized on **Exhibits A1 – A4**. In 2018, and each annual period thereafter, these amounts will be recorded as deferred liabilities by AWC until final rates are established in a general rate case or until otherwise ordered by the PUC.

Per **Exhibit B**, AWC has multiplied the equity currently invested in rate base (by system) by the last approved returns on equity per the Dockets to calculate equity returns as requested by the PUC. The equity returns are as follows: \$33,286 (BWS & BSS), \$7,676 (BOW) and \$19,289 (RB).

Please refer to **Exhibit C** for AWC's calculation of the excess deferred tax reserve (excess reserve) caused by the reduction in the Federal income tax rate as of December 31, 2017, which AWC will carry on its balance sheet as of January 1, 2018. The calculation of the excess reserve as of December 31, 2017 was initially calculated utilizing the Federal corporate income tax rate of 34%, which represents the rate utilized by AWC prior to the Act. The Act reduced the Federal corporate income tax rate from 34% to 21% effective January 1, 2018.

To determine the excess reserve balance that AWC carries at January 1, 2018 as a result of the Act, **Exhibit C** also provides a calculation for the excess reserve as of December 31, 2017 utilizing the 21% rate. The difference between the calculations of the excess reserve at 34% ($103,400) and 21% ($63,900) rates results in AWC's excess reserve balance of $39,500 as of January 1, 2018.

In accordance with §13001 (d)(3)(C)(i) of the Act, public utilities are allowed to compute the weighted average depreciable life of public utility property included in the plant account, and to reduce the excess reserve balance over the remaining regulatory life of the related property. Please refer to **Exhibit D**, page 3 of 4, for guidance from the Internal Revenue Service (IRS) pertaining to the method allowed for public utilities.

AWC proposes to return the excess Federal income tax previously collected using this methodology. Accordingly, the excess reserve balance of $39,500 as discussed and calculated above will be amortized ratably over the weighted average remaining life of these assets as per the following analysis.

The weighted average depreciable life remaining was determined to be 27.92 years. Therefore, AWC proposes to reduce income tax expense annually by $1,415 ($39,500 / 27.92 years) until the excess reserve balance is reduced to $0.

AWC expects to file, on an annual basis, a schedule detailing the balance in the deferred liability account as a result of the reduction in Federal and New Hampshire income tax rates until AWC's next general rate case, or until otherwise ordered by the PUC, as well as a schedule detailing the balance of the excess reserve as of the respective year-end, and the reduction in the excess reserve for the respective year then ended.