



NENAWC Meeting Addresses IRS Repair Tax Allowance: An Epic Opportunity to Share Tax Benefits With Connecticut Ratepayers

On November 7-8, 2013, the New England Chapter of the National Association of Water Companies (NENAWC) held its fall meeting in Nashua, New Hampshire. In attendance were staff members of New England's investor owned water industry, water industry vendors and consultants, state public utility commissions, and consumer advocates. Representing the Office of Consumer Counsel (OCC) was Supervisor of Utility Financial Analysis, Rich Sobolewski.

At the meeting, a distinguished panel made up of tax consultants from Ernst and Young, KPMG, PricewaterhouseCoopers, staff from utility companies, and state utility regulators provided a discussion of the Internal Revenue Service (IRS) rules for Repair Tax Deduction and the newly issued final IRS regulations.

These changes in the Federal IRS Code through Revenue Procedure 2012-19 allow utilities to take an immediate deduction of qualified capital spending that otherwise would have been deducted over many years based on depreciation rates. These tax changes allow utilities to receive federal income tax refunds up to the amount of income taxes paid in the current tax year as well as retroactively in the prior two taxes years. The credits can be carried forward to be used in future tax years.

The OCC recently entered into a Settlement Agreement with the Connecticut Water Company and Connecticut Office of the Attorney General on this issue. On August 30, 2013, the Public Utilities Regulatory Authority (PURA) approved the Settlement Agreement in PURA Docket No. 09-12-11RE01. Based on the final regulations approved in September 2013 by the IRS, the



settlement is estimated to result in rate credits of approximately 8% annually, or \$12 million over the next two years. The PURA decision may be found by clicking on the following link:

<http://www.dpuc.state.ct.us/FINALDEC.NSF/0d1e102026cb64d98525644800691cfe/45bff0ec7015f51085257bdb00558c1f?OpenDocument&Highlight=0,09-12>

In the upcoming months, OCC will be looking to implement the changes in tax rules in a way that provides the greatest benefit that can be applied to Connecticut's utility ratepayers.