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**Testimony of Connecticut Water Company
State Tax Panel
September 16, 2015**

Connecticut Water Company appreciates the significant task before you as a committee and thanks you for the opportunity to comment to the panel regarding taxation in the State.

Connecticut Water Company is a private water company that provides water service to more than 300,000 people in 56 communities in Connecticut. We have made significant capital investments in infrastructure and utility plant to deliver safe reliable water service in the communities we serve. These facilities are subject to local property taxes, and we are often among the top ten taxpayers in any given town.

We join with our colleagues in the Connecticut Water Works Association (CWWA), to express our concerns about the provisions in the most recent state budget and tax package which eliminated the sales tax exemption for private water companies under Section 12-412 (90). This exemption was adopted after careful study and review in 1994, in large part to address differences in state policies that contributed to disparities in the water rates paid by customers served by private water companies throughout Connecticut.

Private water companies, like other businesses in the state, are subject to the Connecticut Corporation Business Tax (CBT), the 20% surcharge on the CBT, as well as local real estate and property taxes. Many water companies are also impacted by the change in the budget that limits the use of tax credits earned from prior donations of open space land to local communities or other eligible tax credits. These taxes represent additional costs that are reflected in our customer rates, increasing costs for water service.

Unfortunately, the budget presented in the final days of the legislative session repealed the sales tax exemption that had been established nearly 20 years ago for goods and services purchased by a private water company. This change was not in prior versions of the budget so there was no testimony on record that reflected the concerns about eliminating the exemption. When the exemption was established it was intended to provide greater equity for customers served by private water companies as compared to those served by municipalities or regional water authorities who do not pay such taxes.

In addition to the costs of paying the sales tax, we have determined as we have sought to implement the change that there are considerable challenges in the implementation, administration and audit of sales tax for the water utilities and we would expect for the regulatory agencies. As water companies continue to be included under some other existing statutory exemptions that apply to the 'sale, furnishing or service of water, steam or electricity', it has become complicated to determine which specific purchases are exempt and which are now subject to sales. The administrative burden this creates for the company, our suppliers and our regulators may be greater than the benefit that will be realized through the additional increment of sales tax that will be collected.

As water companies are authorized to seek a limited reopener before PURA to recover the additional costs from the new taxes in customers' rates, this change simply has the effect of driving up costs for water service for customers in more than 90 communities that are served in all or part by a private water company. In essence, it will add a new tax on some but not all water customers and places a disproportionate burden on businesses and residents served by private water companies.

Connecticut's water utilities strive to provide public water supplies to customers at reasonable rates, recognizing that safe supplies of quality water are fundamental to meet the public health, safety, fire protection, and economic development needs of the communities they serve.

Restoring the sales tax exemption for private water utilities will help ensure that private water customers are not burdened with additional costs that drive up their water rates. Connecticut Water joins with our colleagues in CWWA in urging the tax panel to recommend restoring the sales tax exemption for private water companies.

Thank you for your consideration.