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Idaho Public Utilities Commission
Office of the Secretary
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March 30, 2018

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Diane Hanian, Commission Secretary
Idaho Public Utilities Commission
472 W. Washington
P.O. Box 83720
Boise, ID 83720-0074

Boise, Idaho

Re: Case No. GNR-U-18-01
Notice of Investigation – Order No. 33964

Dear Ms. Hanian:

On January 17, 2018, the Idaho Public Utilities Commission (the "Commission") issued a Notice of Investigation – Order No. 33964 ("Notice") to investigate the impact of the new federal tax legislation ("2017 Tax Act") on utility costs and ratemaking. Pursuant to the Notice, each rate-regulated utility must (a) immediately account for the financial benefits from the January 1, 2018 tax rate reduction to 21% as a deferred regulatory liability; and (b) by Friday, March 30, 2018, file a report with the Commission identifying and quantifying all tax changes individually. The report must disclose the federal income tax components for the year 2017, and the federal income tax components if the utility had been subject to the 2017 Tax Act's revisions to the tax code, including the 21% tax rate. In addition, each utility's report must include proposed tariff schedules that show the revenue requirement impacts from the 2017 Tax Act.

The attached worksheets are the response of Albion Telephone Company (hereinafter "Company"), an S-Corp which is taxable as a pass-thru entity. Based upon conversations with Commission staff, Company understands the Commission intends to either adjust rates or adjust Universal Service Fund ("USF") distribution amounts based on the single issue of the change in tax rates. Company understands that the impact of the 2017 Tax Act on Company's revenue requirement and USF disbursement should be considered in the determination of the Company's rates and USF disbursements, but Company believes that the Commission should consider all of the relevant potential impacts to Company's revenue requirement at the same time. Thus, while the Company is

providing the calculations required by the notice, the Company requests that the Commission take no action at this time with regard to changing rates or adjusting USF distributions until all of the Company's financial information is complete and the full impact of the changes in the tax rate can be analyzed, and the Company can fully state its case as to whether rates or USF distribution amounts should be adjusted.

As the Commission is aware, public utilities ratemaking requires that all income and expenses be evaluated to determine a company's revenue requirement. Typically, only after the revenue requirement has been determined will rates be adjusted. Changes in expenses, such as a reduction (or increase) in the federal income taxes, would need to be evaluated against a company's revenue requirement and associated authorized rate of return. Company's revenue requirement was established decades ago. Company has asked the Commission for a copy of the Company's revenue requirement calculation prior to submitting this required information, but did not receive such information. Because Company has no record of the tax rate used in connection with determining Company's revenue requirement, Company cannot determine if a reduction in the tax rate has any financial benefit as a deferred regulatory liability. Moreover, without knowing Company's authorized rate of return as set in Company's last rate case, it is not possible for Company to evaluate whether or not Company is over-earning or under-earning with the change in the federal tax rate. Until all of the information can be evaluated, Company is opposed to the Commission adjusting rates or USF distributions based solely upon the change in the federal tax rate.

Another factor to consider is that while rate of return incumbent local exchange carriers, such as Company, are regulated public utilities like electricity, gas, and water, the regulated telecommunications industry in Idaho is different from other public utilities.

Idaho does not set local rates based on Company's costs, it sets the rates for qualifying high-cost local exchange telephone companies at 125% of the statewide weighted average rate. That rate is currently \$27.28 for residential service and \$47.22 for business service. This local rate is substantially greater than the benchmark local rate established in the Federal Communications Commission's USF/ICC Transformation Order dated November 18, 2011, below which Company

would receive dollar for dollar reductions in federal High Cost Loop Support. These rates for telecommunication service were not set based on actual costs, including a gross up for federal income tax, and should not be reduced based solely on the reduction in the federal tax rate. Also, with the current uncertainty of the future of the Idaho Universal Service Fund, it would seem imprudent to make any changes to the distribution levels until the Commission has finalized its findings in Case Number GNR-T-17-05 Review of Idaho Universal Service.

In addition, Company does not believe that the Commission has authority to reduce Company's USF funding based solely upon Order No. 33965. "No order altering a telephone company's funding from the USF will be issued without notice that USF funding is at issue and appropriate opportunity to be heard in person or in writing." IDAPA 31.46.01.106.04(d). Order No. 33965 made no mention of changes to any telephone company's USF funding. Company did not know that a reduction in USF funding was at issue until a later conversation with Commission staff. Based upon what the Company is required to provide to the Commission, Company has not been given an appropriate opportunity to be heard. The Commission is apparently going to make a change in USF funding based upon an estimated numerical calculation, using 2017 data that is not fully subject to the federal tax reform, without taking into consideration all the other issues that go into setting ratepayer rates and USF funding levels.

Company has not included proposed tariff schedules that show the revenue requirement impacts from the 2017 Tax Act. As stated above, because Company does not know what tax rate was used in determining Company's revenue requirement, Company cannot know the revenue requirement impacts from the 2017 Tax Act, and thus cannot propose revised tariff schedules. In addition, the calculated impacts of the 2017 Tax Act in the attached schedule are only estimates based on 2017 financial results, rather than the actual impacts that are more appropriately measured against 2018 financial results. Any proposed reduction in rates may cause Company to run afoul of minimum rates required to be charged in order to be eligible for state or federal USF funding. Company will await the Commission's actions to determine if Company should file changes to rates and USF funding to recognize the impacts of the 2017 Tax Act or if Company desires to initiate a rate

case to determine what, if any, changes are required to be made to the rates charged by Company.

Company remains ready to cooperate with the Commission to provide updates to the attached information as they become available.

Rich Redman



Albion Telephone Company
225 W North Street
Albion, ID 83311

2017 Projected Earnings Analysis for Tax Reform Impacts
Albion Telephone Company

FCC Account and Description	Total Idaho Operations Subject To Separations	Projected Intrastate Allocation Factor	Projected Intrastate Total	Projected Tax Reform
				Intrastate Total
Operating Revenues				
5000 Local - Billed	1,177,007	100.0000%	1,177,007	1,177,007
5040 EAS - Billed	-	0.0000%	-	-
5060 Other - Billed	154,581	100.0000%	154,581	154,581
5081 Interstate Access				
-SLC (End User)	506,433	0.0000%	-	-
-ARC	27,082	7.1611%	1,939	1,939
-Switched (TS+NTS)	380,367	0.0000%	-	-
-Special	1,466,959	0.0000%	-	-
-Settlements	1,710,157	0.0000%	-	-
-ACAM support (net of estimated HCLS)	-	0.0000%	-	-
-CAF ICC	728,777	7.1611%	52,188	52,188
-High Cost Loop Support	1,742,056	100.0000%	1,742,056	1,742,056
5084 Intrastate Access				
-Switched (TS+NTS)	55,384	100.0000%	55,384	55,384
-Special	65,324	100.0000%	65,324	65,324
- State USF	464,502	100.0000%	464,502	464,502
5100 Toll -Message				
-Private Line	-	0.0000%	-	-
-Settlement	-	0.0000%	-	-
5200 Misc. -Billing & Collection				
-Directory Advertising	123,247	0.0381%	47	47
-Operating Rents	13,547	100.0000%	13,547	13,547
-Other Misc.	689	100.0000%	689	689
5300 Less: Uncollectible Rev. (-)	(2,754)	100.0000%	(2,754)	(2,754)
Total Revenues	8,613,358		3,724,511	3,724,511
OPERATING EXPENSE DETAIL				
6100-6400 Plant Specific Operations				
6110 Network Support Facilities	16,712	63.4954%	10,611	10,611
6120 General Support Facilities	373,253	63.4954%	236,998	236,998
6210 Central Office Switching	136,450	44.4982%	60,718	60,718
6220 Operator Systems	-	0.0000%	-	-
6230 Central Office Transmission	1,151,734	44.4982%	512,501	512,501
6300 Information Orig./Term. Equip.	-	0.0000%	-	-
6400 Cable & Wire Facilities	1,183,202	71.3492%	844,205	844,205
Total Plant Specific	2,861,351		1,665,034	1,665,034
6500 Plant Nonspecific Operations				
6512 Provisioning	776	0.0000%	-	-
6530 Network Operations	401,278	63.4954%	254,793	254,793
6540 Access Paid to LECs	-	0.0000%	-	-
Total Plant Nonspecific	402,054		254,793	254,793
6560 Depreciation & Amortization				
6561 General Support Facilities	115,119	63.4954%	73,095	73,095
6561 Central Office Switching	-	15.0000%	-	-
6561 Operator Systems	-	0.0000%	-	-
6561 Central Office Transmission	686,889	48.2711%	331,569	331,569
6561 Information Orig./Term. Equip.	-	0.0000%	-	-
6561 Cable & Wire Facilities	1,278,945	71.3492%	912,517	912,517
6563 Capital Leases	-	0.0000%	-	-
6563 Leasehold Improvements	-	0.0000%	-	-
6564 Intangibles	-	0.0000%	-	-
6565 Acquisition Adjustment	-	0.0000%	-	-
Total Depreciation & Amortization	2,080,953		1,317,181	1,317,181
6600 Customer Operations				
6610 Marketing	89,761	42.0905%	37,781	37,781
6620 Operator Services	-	57.1163%	-	-
6620 Directory Publishing-Alpha.	-	0.0000%	-	-
6620 Directory Publishing-Classified	-	0.0000%	-	-
6620 Directory Publishing-Foreign	-	0.0000%	-	-
Category 1 - Local Business Office				
6623 Service Order Proc.-End User	259,430	55.4243%	143,787	143,787
-Service Order Proc.-Presubscription	47,153	0.0000%	-	-
6623 Payment & Collection-End User	182,320	68.0918%	124,145	124,145
6623 Billing Inquiry-End User	108,537	68.0923%	73,905	73,905
6623 Service Order Proc.-CXR	1,588	50.0000%	794	794
6623 Payment & Collection-CXR	9,800	50.0000%	4,900	4,900
6623 Billing Inquiry-CXR	4,338	50.0000%	2,169	2,169
6623 Coin Administration	-	0.0000%	-	-

Category 2 - Revenue Accounting					
6623	Rev. Acctg.-Local Mess. Proc.	42,964	57.1000%	24,532	24,532
6623	Rev. Acctg.-Other Bill & Coll.				
	-Interstate End User	1,860	0.0000%	-	-
	-Message Toll - Interstate	10,543	0.0000%	-	-
	-Message Toll - Intrastate	12,403	100.0000%	12,403	12,403
	-Message Toll - Local	12,403	100.0000%	12,403	12,403
	-Message Toll - EAS	-	0.0000%	-	-
6623	Rev. Acctg.-Carrier Access Billing	18,277	50.0000%	9,139	9,139
Category 3 - All Other Customer Service					
6623	B & C Amts Paid to LECs	-	0.0000%	-	-
6623	Other Customer Service	21,293	0.0000%	-	-
Total Customer Operations		822,670		445,958	445,958
Corporate Operations:					
6710	Executive & Planning	229,078	55.2637%	126,597	126,597
6720	General & Administrative	605,650	52.5954%	318,544	318,544
Total Corporate Operations		834,728		445,141	445,141
Other Operating Expenses:					
	Contributions	11,818	52.4445%	6,198	6,198
	Universal Service Fund	-	0.0000%	-	-
	Lifeline Connection Assistance	-	0.0000%	-	-
Total Other		11,818		6,198	6,198
General Taxes					
7240	Property	169,957	63.4954%	107,915	107,915
7240	Gross Receipts	-	0.0000%	-	-
7240	PUC Fee	-	0.0000%	-	-
7240	Franchise Fees	-	0.0000%	-	-
7240	Other	4,776	0.0000%	-	-
Total General Taxes		174,733		107,915	107,915
Other Expenses:					
	Interest Expense	259,714	67.9479%	176,470	176,470
	Other	-	0.0000%	-	-
Total Other		259,714		176,470	176,470
Total Operating Expenses		7,448,021		4,418,690	4,418,690
Net Operating Income Before Taxes		1,165,337		(694,180)	(694,180)
Income Taxes (Calculated)					
7200	Net Income Before SIT & FIT	1,165,337		(694,180)	(694,180)
	Less Fixed Charges (-)	259,714	67.9479%	176,470	176,470
	Subtotal (lines 7-8)	905,623		(870,650)	(870,650)
	Other SIT Base Add/Ded. (+)	-	0.0000%	-	-
	SIT Taxable Inc. (lines 9+-10)	905,623	-	(870,650)	(870,650)
	7230 SIT-Current (at 6.6%)	59,771		(57,463)	(57,463)
	Other FIT Base Add/Ded. (+)	-	0.0000%	-	-
	FIT Taxable Inc. (lines 9-12+-13)	845,851		(813,187)	(813,187)
	Gross FIT (at 35% AND 21%)	296,048		(284,615)	(170,769)
	7210P Claimed ITC (-)	-	0.0000%	-	-
	Surtax Elimination (-)	-	0.0000%	-	-
	7220 FIT-Current (lines 15-16-17)	296,048		(284,615)	(170,769)
7250	Deferred tax liability amortization	(421,140)	63.4954%	(267,405)	(267,405)
Net Operating Income (Loss)		1,230,658		(84,697)	(198,543)
DEFERRED TAX LIABILITY					
4340	Deferred Tax Liability:				
	Change in Deferred Tax Liability	(3,607,320)			
	Amortization period of Liability - Avg remaining life of TPIS in years	9			
	Annual amortization of deferred regulatory liability	\$ (421,140)			
Effective Tax Rate Calculation:					
	Federal Tax Rate	34.63%	28.14%		
	State Tax Rate	7.73%	7.76%		
		2.68%	2.18%		
	Federal Tax Rate	34.63%	28.14%		
	Effective Tax Rate	37.31%	30.32%		
Note:					
Allocation factors from the 2016 cost study unless otherwise noted					