Idaho Public Utilities Commission
Office of the Secretary
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Boise, Idaho

IN THE MATTER OF THE INVESTIGATION INTO THE IMPACT OF FEDERAL TAX CODE REVISIONS ON UTILITY COSTS AND RATEMAKING	)))))	CASE NO. GNR-U-18-01 INITIAL RESPONSE OF COLUMBINE TELEPHONE COMPANY, INC.

Columbine Telephone Company, Inc. respectfully files its initial response to the Commission's Notice of Investigation in the above matter, issued on January 17, 2018 under Order No. 33964, to investigate the impact of the new federal tax legislation on utility costs and ratemaking.

The Tax Cuts and Jobs Act of 2017 ("TCJA") was signed into law on or about December 22, 2017; its effective date is January 1, 2018. A key component of the TCJA is the reduction of corporate federal income tax rates from a maximum of 35% to 21%. One of the results of this rate reduction is a reduction in the deferred income tax expense recognized by the company, with the difference to be recorded as a deferred regulatory liability. The Commission has requested an accounting of the tax rate reduction and deferred income expense reduction in order to determine if customer rates should be adjusted or subject to refund.

Columbine has initiated its analysis of the rate reduction impact and preliminarily provides the Commission with an illustration of the operational impact, attached as Confidential Exhibit A (Columbine's Request for Confidentiality is filed herewith). Based on this preliminary analysis, there is no financial benefit to Columbine as a result of the TCJA rate reduction. Columbine, therefore, submits no change in rates or impact to state universal service funding at this time is warranted. The Company cautions the Commission that the illustration provided is only an estimate based on currently available numbers and which are subject to change upon which are very likely to change as 2017 numbers are finalized.

Columbine respectfully submits that a determination on customer rate changes or reduction in state USF fund receipts at this time is premature absent a comprehensive review of the impacts, given the complicated nature of the TCJA and for the reasons: (1) Columbine's 2017 audit process is not complete, the 2017 cost study process is just barely underway with completion anticipated in July, and (3) its 2017 tax filing will occur at the earliest in July, but could be as late as September. The completion of these actions are necessary in order to more accurately determine the full impact of the TCJA on Company operations and its revenue requirement. Columbine respectfully requests an extension to no earlier than October 31, 2018 in which to fully investigate and conduct the appropriate analysis with actual vs. estimated figures. Further, Columbine submits that any rate change or support reduction is premature, since the TCJA provisions are effective as of January 1, 2018, and have no bearing on 2017 results. Columbine understands that the impact of the TCJA on its revenue requirement and USF disbursement should be considered, so long as all of the relevant potential impacts are also considered.

The following is an example of just one element of the impact analysis Columbine will undertake. While Columbine estimates the tax expense reduction to be approximately $67,000 (using year end 2017 estimated income), any actual benefit is dubious, at best. As a regulated rural telecommunications provider, Columbine participates in the NECA pool and submits an annual cost study to NECA for use in rate development and Universal Service Support Filings. As a taxable entity, Columbine includes the calculated cost of income tax for the return earned on regulated investment as part of the annual cost study and Federal CAF BLS support filings. This income tax amount is calculated at the effective tax rate for Ccorporations. Columbine also includes booked income tax expense in the support calculations for Federal High Cost Loop Support (HCLS).

Because the effective tax rate for Columbine decreases from 34% to 21%, this represents a 38% reduction in the tax rate and will result in an annual reduction of interstate revenues and CAF BLS support. In addition, Columbine currently has a federal deferred tax liability representing the difference between book and tax depreciation for plant assets as of 12/31/16. As a result of the reduction in the tax rate, an adjustment will be made to reduce the liability for deferred taxes which will result in a small offsetting increase in the annual interstate revenues and CAF BLS support. The net impact to projected annual interstate revenues and CAF BLS support for both of these changes is an annual reduction of $72,000 in 2018 and $69,000 in 2019.

The liability adjustment will also result in a 1-time credit entry on the income statement as of 2017 and will be included as a reduction in future tax expense in the annual Federal HCLS filing, which will be used to set Columbine's 2019 HCLS support payments. This 1-time credit entry will reduce Columbine's 2019 annual HCLS support by $60,000. Therefore, as a result of the reduction to the corporate tax rate, a corresponding reduction of interstate revenues and Federal Universal Service Support is estimated at $72,000 for 2018 and $129,000 for 2019. The resulting intrastate separations impact is an increase in Columbine's revenue requirement, and pending the outcome of the Commission's state USF investigation, a potential increase in customer rates.

Other elements of the TCJA provisions will also affect Columbine's analysis, such as depreciation expense changes, deductible expense modifications and method changes, allowable third quarter 2017 adjustments, to name a few. The challenge for the Company, and for the Commission, is to consider all of these elements while factoring in the Company's underlying obligation to the consumer, all the while remaining cognizant that the full impact is an unknown value. As the Commission is aware and so stated in its Notice, using 2017 results may be inappropriate and Columbine agrees that determining rates or USF support levels based on those results is premature. Nevertheless, it has provided the requested information as a baseline estimate.

As a regulated telecommunications provider and a designated carrier of last resort, any change in state USF receipts should be determined based on a consideration of all relevant data and issues, and not solely on the TCJA tax rate change. Columbine further urges the Commission to consider that any impacts to customer rates be determined on a full set of facts, rather than a single factor. A base rate adjustment (i.e., request for proposed tariff pages) under the Commission's Notice implies a complete ratemaking process, including a hearing per Idaho statute (61-503), but which would necessarily vet the underlying elements, such as revenue requirement and rate of return, and all relevant income expenses. This undertaking would necessarily include an exchange-by-exchange analysis, since not all exchanges are treated equally – some are more rural and a higher cost to serve – so to provide for an equitable allocation, if any. While Columbine hesitates to suggest the scenario of conducting a rate case, considering the time and expense involved in such an effort, given the high likelihood that it is currently under earning against its revenue requirement set some 20+ years ago; this, then, begs the question whether or not the unintended consequence of this investigation is that a rate increase would indeed be indicated. Columbine has not provided proposed tariff schedules herewith because it is unable at this time, with the information available to it, to determine the full impacts of the TCJA and in good faith present proposed rates that are developed with a full set of facts.

In conclusion, Columbine respectfully represents that the information it provides to the Commission with this filing is the best illustration of estimated TCJA impacts, based on currently available data. Columbine remains ready to cooperate with the Commission in this proceeding and respectfully requests the Commission grant its request for authorization to file supplemental information at a later date in order to fully consider data relevant to this issue, and in any event no earlier than October 31, 2018. This additional time will allow the Company, the Commission and Commission staff to methodically and thoughtfully consider a best-case solution for stakeholders: ensuring for customers quality, dependable service at just, reasonable rates and ensuring for the Company a fair and reasonable return.

DATED this 29th day of March, 2018.

COLUMBINE TELEPHONE COMPANY, INC.

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2017 Earnings Analysis for Tax Reform Impacts
Columbine Telephone Company, Inc.
IPUC Case No. GNR-U-18-01

EXHIBIT A

CONFIDENTIAL

[redacted]

REDACTED - FOR PUBLIC INSPECTION
(Rule 67, IPUC Rules of Procedure)

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