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Idaho Public Utilities Commission
Office of the Secretary
RECEIVED

March 30, 2018

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Boise, Idaho

By email and mail (1 original; 7 copies) to:

Diane Hanian, Commission Secretary

Idaho Public Utilities Commission

472 W. Washington

P.O. Box 83720

Boise, ID 83720-0074

E-mail: Terri.Carlock@puc.idaho.gov (cc'd: Donn.English@puc.idaho.gov)

**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 **Fremont Telcom Co. dba Blackfoot** (hereinafter "Company"). Based upon conversations with Commission staff,

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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 corporate tax rate from 35% to 21% 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,





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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.

Sincerely,

A handwritten signature in blue ink, appearing to read "Aaron M. Neilson".

Aaron M. Neilson
Fremont Telcom Co. dba Blackfoot
VP – General Counsel
406-541-5556
aneilson@blackfoot.com

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2017 Projected Earnings Analysis for Tax Reform Impacts
Fremont Telecom Co.

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	1,045,690	100.0000%	1,045,690	1,045,690
5040 EAS - Billed	-	100.0000%	-	-
5060 Other - Billed	3,605	0.0000%	-	-
5081 Interstate Access				
-SLC (End User)				
-ARC	19,183	0.0000%	-	-
-Switched (TS+NTS)	27,786	2.3700%	659	659
-Special	181,976	0.0000%	-	-
-Settlements	249,951	0.0000%	-	-
-ACAM support (net of estimated HCLS)	2,781	0.0000%	-	-
-CAF ICC	801,001	0.0000%	-	-
-High Cost Loop Support	451,860	7.6459%	34,549	34,549
5084 Intrastate Access	458,937	100.0000%	458,937	458,937
-Switched (TS+NTS)				
-Special	16,671	100.0000%	16,671	16,671
-State USF	-	100.0000%	-	-
5100 Toll -Message	57,258	100.0000%	57,258	57,258
-Private Line	-	0.0000%	-	-
-Settlement	-	0.0000%	-	-
5200 Misc.-Billing & Collection	-	0.0000%	-	-
-Directory Advertising	-	0.0000%	-	-
-Operating Rents	-	0.0000%	-	-
-Other Misc.	9,828	100.0000%	9,828	9,828
5300 Less: Uncollectible Rev. (-)	-	100.0000%	-	-
Total Revenues	3,326,527		1,623,591	1,623,591

OPERATING EXPENSE DETAIL					
6100-6400 Plant Specific Operations					
6110	Network Support Facilities	8,516	60.1275%	5,120	5,120
6120	General Support Facilities	176,956	60.1275%	106,399	106,399
6210	Central Office Switching	123,870	45.0532%	55,807	55,807
6220	Operator Systems	-	0.0000%	-	-
6230	Central Office Transmission	218,822	45.0532%	98,586	98,586
6300	Information Orig./Term. Equip.	-	0.0000%	-	-
6400	Cable & Wire Facilities	659,876	68.1710%	449,844	449,844
	Total Plant Specific	1,188,040		715,757	715,757
6500 Plant Nonspecific Operations					
6512	Provisioning	54,969	60.1275%	33,051	33,051
6530	Network Operations	281,535	60.1275%	169,280	169,280
6540	Access Paid to LECs	-	0.0000%	-	-
	Total Plant Nonspecific	336,504		202,331	202,331
6560 Depreciation & Amortization					
6561	General Support Facilities	102,386	60.1275%	61,562	61,562
6561	Central Office Switching	57,195	15.1076%	8,641	8,641
6561	Operator Systems	-	0.0000%	-	-
6561	Central Office Transmission	301,036	46.6215%	140,347	140,347
6561	Information Orig./Term. Equip.	-	0.0000%	-	-
6561	Cable & Wire Facilities	171,801	68.1744%	117,124	117,124
6563	Capital Leases	-	0.0000%	-	-
6563	Leasehold Improvements	-	0.0000%	-	-
6564	Intangibles	-	0.0000%	-	-
6565	Acquisition Adjustment	-	0.0000%	-	-
	Total Depreciation & Amortization	632,418		327,675	327,675
6600 Customer Operations					
6610	Marketing	91,622	65.9545%	60,429	60,429
6620	Operator Services	-	0.0000%	-	-
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	41,502	71.7823%	29,791	29,791
	-Service Order Proc.-Presubscription	11,839	0.0000%	-	-
6623	Payment & Collection-End User	87,972	69.3180%	60,980	60,980
6623	Billing Inquiry-End User	30,480	96.9074%	29,537	29,537
6623	Service Order Proc.-CXR	216	13.6960%	30	30
6623	Payment & Collection-CXR	4,183	34.5255%	1,444	1,444
6623	Billing Inquiry-CXR	18,783	10.0388%	1,886	1,886
6623	Coin Administration	-	0.0000%	-	-
Category 2 - Revenue Accounting					
6623	Rev. Acctg.-Local Mess. Proc.	-	0.0000%	-	-
6623	Rev. Acctg.-Other Bill & Coll.	1,393	0.0000%	-	-
	-Interstate End User	7,897	0.0000%	-	-
	-Message Toll - Interstate	9,290	100.0000%	9,290	9,290
	-Message Toll - Intrastate	9,290	100.0000%	9,290	9,290
	-Message Toll - Local	-	100.0000%	-	-
	-Message Toll - EAS	4,751	50.0000%	2,376	2,376
6623	Rev. Acctg.-Carrier Access Billing	-	-	-	-
Category 3 - All Other Customer Service					
6623	B & C Amts Paid to LECs	-	0.0000%	-	-
6623	Other Customer Service	18,961	0.0000%	-	-
	Total Customer Operations	338,179		205,053	205,053

6700 Corporate Operations:									
6710	Executive & Planning	-	0.0000%	-	-	-	-	-	-
6720	General & Administrative	798,511	59.4302%	474,557	474,557	474,557	474,557	474,557	474,557
Total Corporate Operations									
		798,511		474,557	474,557	474,557	474,557	474,557	474,557
Other Operating Expenses:									
	Contributions	4,500	59.4302%	2,674	2,674	2,674	2,674	2,674	2,674
	Universal Service Fund	-	0.0000%	-	-	-	-	-	-
	Lifeline Connection Assistance	-	0.0000%	-	-	-	-	-	-
	Total Other	4,500		2,674	2,674	2,674	2,674	2,674	2,674
7240 General Taxes									
7240	Property	93,364	60.1275%	56,137	56,137	56,137	56,137	56,137	56,137
7240	Gross Receipts	-	0.0000%	-	-	-	-	-	-
7240	PUC Fee	-	0.0000%	-	-	-	-	-	-
7240	Franchise Fees	-	0.0000%	-	-	-	-	-	-
7240	Other	10,183	0.0000%	-	-	-	-	-	-
	Total General Taxes	103,547		56,137	56,137	56,137	56,137	56,137	56,137
Other Expenses:									
	Interest Expense	4,238	62.0917%	2,631	2,631	2,631	2,631	2,631	2,631
	Other	-	0.0000%	-	-	-	-	-	-
	Total Other	4,238		2,631	2,631	2,631	2,631	2,631	2,631
	Total Operating Expenses	3,405,937		1,986,816	1,986,816	1,986,816	1,986,816	1,986,816	1,986,816
	Net Operating Income Before Taxes	(79,410)		(363,225)	(363,225)	(363,225)	(363,225)	(363,225)	(363,225)
7200 Income Taxes (Calculated)									
	Net Income Before SIT & FIT	(79,410)		(363,225)	(363,225)	(363,225)	(363,225)	(363,225)	(363,225)
	Less Fixed Charges (-)	4,238	62.0917%	2,631	2,631	2,631	2,631	2,631	2,631
	Subtotal (lines 7-8)	(83,648)		(365,856)	(365,856)	(365,856)	(365,856)	(365,856)	(365,856)
	Other SIT Base Add/Ded. (+)	-	0.0000%	-	-	-	-	-	-
	SIT Taxable Inc. (lines 9+-10)	(83,648)		(365,856)	(365,856)	(365,856)	(365,856)	(365,856)	(365,856)
	7230 SIT-Current (at 6.6%)	(5,521)		(24,147)	(24,147)	(24,147)	(24,147)	(24,147)	(24,147)
	Other FIT Base Add/Ded. (+)	-	0.0000%	-	-	-	-	-	-
	FIT Taxable Inc. (lines 9-12+-13)	(78,127)		(341,710)	(341,710)	(341,710)	(341,710)	(341,710)	(341,710)
	Gross FIT (at 35% AND 21%)	(27,345)		(119,598)	(119,598)	(119,598)	(119,598)	(119,598)	(119,598)
	7210P Claimed ITC (-)	-	0.0000%	-	-	-	-	-	-
	Surtax Elimination (-)	-	0.0000%	-	-	-	-	-	-
	7220 FIT-Current (lines 15-16-17)	(27,345)		(119,598)	(119,598)	(119,598)	(119,598)	(119,598)	(119,598)
	7250 Deferred tax liability amortization	(11,102)	60.1275%	(6,675)	(6,675)	(6,675)	(6,675)	(6,675)	(6,675)
	Net Operating Income (Loss)	(35,443)		(212,805)	(212,805)	(212,805)	(212,805)	(212,805)	(212,805)
	Net Operating Income (Loss)	(35,443)		(212,805)	(212,805)	(212,805)	(212,805)	(212,805)	(212,805)

DEFERRED TAX LIABILITY

4340 Deferred Regulatory Liability:

Estimated Change in Deferred Tax Liability - Regulatory Liability

Estimated Amortization Period of Regulatory Liability

Annual amortization of deferred regulatory liability

(111,015)

10

\$ (11,102)

Effective Tax Rate Calculation:

Federal Tax Rate

State Tax Rate

ה

Effective Tax Rate

34.00%

6.60%

2.24%

36.24%

21.00%

6.60%

1.39%

22.39%

22.39%

Note:

Allocation factors from the 2016 cost study unless otherwise noted