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INLAND TELEPHONE

Idaho Public Utilities Commission
Office of the Secretary
RECEIVED

MAR 30 2018

Boise, Idaho

March 30, 2018

Via electronic filing to diane.hanian@puc.idaho.gov

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

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 Inland Telephone Company (hereinafter "Inland"). Based upon conversations with Commission staff, Inland 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. Inland understands that the impact of the 2017 Tax Act on Inland's revenue requirement and USF disbursement should be considered in the determination of Inland's rates and USF disbursements, but Inland believes that the Commission should consider all of the relevant potential impacts to Inland's revenue requirement at the same time. Thus, while Inland is providing the calculations required by the notice, Inland requests that the Commission take no action at this time with regard to changing rates or adjusting USF distributions until all of Inland's financial information is complete and the full impact of the changes in the tax rate can be analyzed, and Inland 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. Inland's revenue requirement was established decades ago. Through Inland's counsel, Inland has asked the Commission for a copy of the Inland's revenue requirement calculation prior to submitting this required information, but did not receive such information. Because Inland has no record of the tax rate used in connection with determining Inland's revenue requirement, Inland 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 Inland's authorized rate of return as set in Inland's last rate case, it is not possible for Inland to evaluate whether or not Inland is over-earning or under-earning with the change in the federal tax rate. Until all of the information can be evaluated, Inland is opposed to the Commission adjusting rates or USF distributions based solely upon the change in the federal tax rate.

Inland has not included proposed tariff schedules that show the revenue requirement impacts from the 2017 Tax Act. As stated above, because Inland does not know what tax rate was used in determining Inland's revenue requirement, Inland 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. Inland will await the Commission's actions to determine if Inland should file changes to rates and USF funding to recognize the impacts of the 2017 Tax Act or if Inland desires to initiate a rate case to determine what, if any, changes are required to be made to the rates charged by Inland.

Inland remains ready to cooperate with the Commission to provide updates to the attached information as well as any additional supporting documentation. The initial filing will be made via email to diane.hanian@puc.idaho.gov with a copy to terri.carlock@puc.idaho.gov; the original and seven (7) copies will follow via Federal Express.

Sincerely,

James K. Brooks

James K. Brooks
Treasurer/Controller
Inland Telephone Company