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IDAHO PUBLIC
UTILITIES COMMISSION

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Attorney for the Staff of the
Idaho Public Utilities Commission

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

**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**
) **REPORT OF THE**
) **COMMISSION STAFF RE:**
) **SPIRIT LAKE EAST WATER**
) **COMPANY**
)

The Staff of the Idaho Public Utilities Commission submits this report about the impact of the federal Tax Cuts and Jobs Act of 2017 (the “TCJA”) on Spirit Lake East Water Company (the “Company”), as directed by Order No. 33965.

BACKGROUND

On December 22, 2017, the President signed the TCJA into law. Effective January 1, 2018, The TCJA decreased the federal corporate tax rate from 35% to 21%. In response, the Commission opened this multi-utility case to investigate whether to adjust the rates of certain utilities that benefit from the reduced tax rate. *See* Order No. 33965. The Commission directed all rate-regulated utilities—except for small water companies with less than 200 customers, and the small electric utility, Atlanta Power—to immediately account for the tax benefits as a regulatory liability, and to report on how the tax changes affected them, and how resulting benefits could be passed on to customers. *See id.* at 1-2.

The Company filed a response on March 30, 2018, stating that it recorded a \$20,993.62 operating loss in 2017, and thus receives no benefit from the TCJA.

STAFF ANALYSIS

Staff has reviewed the Company's response and additional information requested from the Company, and confirmed that the Company's operating losses mean the Company will not benefit from the TCJA.

The Company's annual report was unavailable at the time of Staff's review. Staff thus reviewed the Company's 2017 fiscal year income statement. Staff noted that the Company's reported operating loss omits depreciation expense. In the Company's last general rate case (Case No. SPL-W-13-01), the Commission-approved revenue requirement included \$20,395 of depreciation expense. Though depreciation expense may vary from year to year, any depreciation expense would increase the Company's reported operating loss. Thus, the Company's reported operating loss might be understated. Additionally, upon review of the Company's income statement, Staff noted it contains some expense accounts that should be scrutinized in a general rate case. These include Account 426 Misc. Non-Utility Expense for \$1,599.62, and Ask Accountant Account for \$202.40. If Staff were to propose removing these expenses from the Company's revenue requirement in the next general rate case, that adjustment would decrease the Company's operating loss reported here. But removing those expenses would not eliminate the Company's reported operating loss especially if, as noted above, the Company's reported operating loss is understated to the extent it omits depreciation expense.

Because the Company reported a net operating loss, it will not pay income tax and the TCJA's decreased tax rate would not benefit the Company.

STAFF RECOMMENDATION

Staff recommends that the Commission acknowledge that the Company reported net operating loss and thus does not receive any benefit from the TCJA. Additionally, Staff recommends the Commission close this case as it relates to the Spirit Lake East Water Company.

Respectfully submitted this 25th day of May 2018.



Karl T. Klein
Deputy Attorney General

Technical Staff: Joe Terry

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 25TH DAY OF MAY 2018, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF TO SPIRIT LAKE EAST WATER COMPANY'S TAX REPORT**, IN CASE NO. GNR-U-18-01, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

SPIRIT LAKE EAST WATER
LESLIE RAYNER DIRECTOR
PO BOX 3388
COEUR D'ALENE ID 83816



SECRETARY