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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 )** **CASE NO. GNR-U-18-01**  
**REVISIONS ON UTILITY COSTS AND )**  
**RATEMAKING. )** **REPORT OF THE**  
**)** **COMMISSION STAFF RE:**  
**)** **FALLS WATER COMPANY**

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The Staff of the Idaho Public Utilities Commission submits this report about the impact of the Tax Cuts and Jobs Act of 2017 (the “TCJA”) on Falls 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 affected utilities—including the Company—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.

On March 30, 2018, the Company responded to Commission Order No. 33965. The Company stated that its rates should not be adjusted due to the TCJA because the tax rate used to

calculate the Company's revenue requirement in its last general rate case was 15% (*see* Case No. FLS-W-12-01), which is less than the reduced corporate federal tax rate of 21%. Additionally, the Company is an S-Corporation and, for federal tax purposes, passes its corporate income, losses, deductions, and credits through to its owner's federal tax return.

## **STAFF ANALYSIS**

Staff has reviewed the Company's response to Order No. 33965, and additional information provided in the Company's 2017 Annual Report. Based upon its review, Staff agrees that rates for the Company's customers should not be adjusted. As an S-Corporation, the Company is a pass-through entity and is not subject to federal corporate tax rate. Rather, its income flows through to its owner and is subject to the owner's personal tax rate. The TCJA also reduced the personal tax rate. Thus, while the TCJA's reduced corporate federal tax rate does not apply to the Company, the TCJA's reduction to the personal federal tax rate—including that of the Company's owner—must be assessed to determine whether the customers' rates are covering tax expenses that are higher than what the Company, through its owner, will now pay.

Staff notes that the Company's customers currently pay rates that assume the Company has a 15% tax rate. The Company's 2017 Annual Report indicates that the Company realized a net income of \$280,811. With a net income of \$280,811, the personal federal tax burden at 2017 tax rates would be \$76,088, for an effective tax rate of 27.1 percent. The personal federal tax burden at 2018 tax rates would be \$73,974, for an effective tax rate of 26.3 percent. *See* Attachment A for calculations. Since the effective tax rates for 2017 and 2018 both exceed the 15% tax rate currently embedded in the Company's revenue requirement, the Company's base rates do not assume the Company is paying more tax than it will pay under the TCJA. Thus, the TCJA has not inflated the Company's base rates or resulted in Company benefits that should be returned to customers, and no rate adjustment is necessary.

## **RECOMMENDATION**

After reviewing the Company's response and additional information filed in the Company's Annual Report, Staff recommends that the Commission accept the Company's response as complying with Order No. 33965, not adjust the Company's rates due to the TCJA, and close this case as to Falls Water Company.

Respectfully submitted this 30<sup>th</sup> day of May 2018.

*K T K*

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Karl T. Klein  
Deputy Attorney General

Technical Staff: Brad Iverson-Long  
Joe Terry

**Individual Tax Rates - Single Taxpayer 2017**

Marginal Tax Rate	Income	Tax
10%	0 - \$9,325	10%
15%	\$9,325 - \$37,950	\$953 + 15% of any amount over \$9,525
25%	\$37,950 - \$91,900	\$5,247 + 25% of any amount over \$37,950
28%	\$91,900 - \$191,650	\$18,735 + 28% of any amount over \$91,900
33%	\$191,650 - \$416,700	\$46,665 + 33% of any amount over \$191,650
35%	\$416,700 - \$418,400	\$120,932 + 35% of any amount over \$416,700
39.6%	Over \$418,400	\$121,527 + 39.6% of any amount over \$418,400

**Falls Water Company - 2017 Tax Calculation**

Net Income \$280,811  
 Federal Income Tax \$76,088  
 Effective Tax Rate 27.1%

**Individual Tax Rates - Single Taxpayer 2018**

Marginal Tax Rate	Income	Tax
10%	0 - \$9,525	10%
12%	\$9,525 - \$38,700	\$953 + 12% of any amount over \$9,525
22%	\$38,700 - \$82,500	\$4,454 + 22% of any amount over \$38,700
24%	\$82,500 - \$157,500	\$14,090 + 24% of any amount over \$82,500
32%	\$157,500 - \$200,000	\$32,090 + 32% of any amount over \$157,500
35%	\$200,000 - \$500,000	\$45,690 + 35% of any amount over \$200,000
37%	Over \$500,000	\$150,690 + 37% of any amount over \$500,000

**Falls Water Company - 2018 Tax Calculation**

Net Income \$280,811  
 Federal Income Tax \$73,974  
 Effective Tax Rate 26.3%

## CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 30<sup>TH</sup> DAY OF MAY 2018, SERVED THE FOREGOING **REPORT OF THE COMMISSION STAFF RE: FALLS WATER COMPANY**, IN CASE NO. GNR-U-18-01, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

K SCOTT BRUCE  
GENERAL MANAGER  
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SECRETARY