

MAR 30 2018

Boise, Idaho  
Rockland

P.O. Box 269 • 150 S Main, Rockland, Idaho 83271 • 1 800 245 4329 • 208-548-2345 • **Directcom.com**

March 30, 2018

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 Direct Communications Rockland (hereinafter "Company"). Based upon conversations with Commission staff, 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. Company's rate is currently \$25.76 for residential service and \$40.54 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, 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,



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Tim May  
General Manager

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**p** 208.548.2345  
**f** 208.548.9911  
**e** [Tim@directcom.com](mailto:Tim@directcom.com)

[www.DirectCom.com](http://www.DirectCom.com)

2017 Projected Earnings Analysis for Tax Reform Impacts  
Direct Communications - Rockland

FCC Account and Description	Total Idaho Operations Subject To Separations	Projected Intrastate		Projected Tax Reform Intrastate Total
		Allocation Factor	Intrastate Total	
OPERATING REVENUE DETAIL				
Operating Revenues				
5000 Local - Billed	284,741	100.0000%	284,741	284,741
5040 EAS - Billed	-	0.0000%	-	-
5060 Other - Billed	39,059	100.0000%	39,059	39,059
5081 Interstate Access				
-SLC (End User)	77,094	0.0000%	-	-
-ARC	3,689	0.8025%	30	30
-Switched (TS+NTS)	140,906	0.0000%	-	-
-Special	646,868	0.0000%	-	-
-Settlements	1,524,421	0.0000%	-	-
-ACAM support (net of estimated HCLS)	-	0.0000%	-	-
-CAF ICC	1,001,082	0.0000%	-	-
-High Cost Loop Support	626,748	100.0000%	626,748	626,748
5084 Intrastate Access				
-Switched (TS+NTS)	13,930	100.0000%	13,930	13,930
-Special	49,833	100.0000%	49,833	49,833
- State USF	202,401	100.0000%	202,401	202,401
5100 Toll -Message	-	0.0000%	-	-
-Private Line	-	0.0000%	-	-
-Settlement	-	0.0000%	-	-
5200 Misc. -Billing & Collection	1,667	21.2957%	355	355
-Directory Advertising	-	0.0000%	-	-
-Operating Rents	45,120	100.0000%	45,120	45,120
-Other Misc.	23,968	100.0000%	23,968	23,968
5300 Less: Uncollectible Rev. (-)	-	100.0000%	-	-
Total Revenues	4,681,527		1,286,185	1,286,185
OPERATING EXPENSE DETAIL				
6100-6400 Plant Specific Operations				
6110 Network Support Facilities	14,766	51.7386%	7,640	7,640
6120 General Support Facilities	91,348	51.7386%	47,262	47,262
6210 Central Office Switching	51,127	44.1510%	22,573	22,573
6220 Operator Systems	-	0.0000%	-	-
6230 Central Office Transmission	526,622	44.1510%	232,509	232,509
6300 Information Orig./Term. Equip.	-	0.0000%	-	-
6400 Cable & Wire Facilities	289,391	53.5115%	154,857	154,857
Total Plant Specific	973,254		464,841	464,841
6500 Plant Nonspecific Operations				
6512 Provisioning	-	0.0000%	-	-
6530 Network Operations	297,179	51.7386%	153,756	153,756
6540 Access Paid to LECs	-	0.0000%	-	-
Total Plant Nonspecific	297,179		153,756	153,756
6560 Depreciation & Amortization				
6561 General Support Facilities	293,492	51.7386%	151,849	151,849
6561 Central Office Switching	99,793	15.0000%	14,969	14,969
6561 Operator Systems	-	0.0000%	-	-
6561 Central Office Transmission	213,957	53.5546%	114,584	114,584
6561 Information Orig./Term. Equip.	-	0.0000%	-	-
6561 Cable & Wire Facilities	721,664	53.5115%	386,173	386,173
6563 Capital Leases	-	0.0000%	-	-
6563 Leasehold Improvements	-	0.0000%	-	-
6564 Intangibles	-	0.0000%	-	-
6565 Acquisition Adjustment	-	0.0000%	-	-
Total Depreciation & Amortization	1,328,906		667,575	667,575



## 2017 Projected Earnings Analysis for Tax Reform Impacts

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FCC Account and Description	Total Idaho Operations Subject To Separations	Projected Intrastate Allocation Factor		Projected Tax Reform Intrastate Total
		Projected Intrastate Allocation Factor	Projected Intrastate Total	
<b>6600 Customer Operations</b>				
6610 Marketing	82,377	58.8938%	48,515	48,515
6620 Operator Services	2	100.0000%	2	2
6620 Directory Publishing-Alpha.	263	78.1065%	205	205
6620 Directory Publishing-Classified	-	0.0000%	-	-
6620 Directory Publishing-Foreign	-	0.0000%	-	-
<b>Category 1 - Local Business Office</b>				
6623 Service Order Proc.-End User	19,230	82.2706%	15,821	15,821
-Service Order Proc.-Presubscription	39,704	0.0000%	-	-
6623 Payment & Collection-End User	29,423	69.2971%	20,389	20,389
6623 Billing Inquiry-End User	7,356	69.2851%	5,097	5,097
6623 Service Order Proc.-CXR	-	0.0000%	-	-
6623 Payment & Collection-CXR	30,041	49.9983%	15,020	15,020
6623 Billing Inquiry-CXR	37,110	50.0000%	18,555	18,555
6623 Coin Administration	-	0.0000%	-	-
<b>Category 2 - Revenue Accounting</b>				
6623 Rev. Acctg.-Local Mess. Proc.	-	0.0000%	-	-
6623 Rev. Acctg.-Other Bill & Coll.	-	0.0000%	-	-
-Interstate End User	-	0.0000%	-	-
-Message Toll - Interstate	-	0.0000%	-	-
-Message Toll - Intrastate	-	0.0000%	-	-
-Message Toll - Local	-	0.0000%	-	-
-Message Toll - EAS	-	0.0000%	-	-
6623 Rev. Acctg.-Carrier Access Billing	11,889	50.0000%	5,945	5,945
<b>Category 3 - All Other Customer Service</b>				
6623 B & C Amts Paid to LECs	-	0.0000%	-	-
6623 Other Customer Service	13,745	0.0000%	-	-
<b>Total Customer Operations</b>	<b>271,140</b>		<b>129,548</b>	<b>129,548</b>
<b>6700 Corporate Operations:</b>				
6710 Executive & Planning	365,455	48.0109%	175,458	175,458
6720 General & Administrative	579,276	48.0109%	278,116	278,116
<b>Total Corporate Operations</b>	<b>944,731</b>		<b>453,574</b>	<b>453,574</b>
<b>Other Operating Expenses:</b>				
Contributions	11,381	48.0109%	5,464	5,464
Universal Service Fund	-	0.0000%	-	-
Lifeline Connection Assistance	-	0.0000%	-	-
<b>Total Other</b>	<b>11,381</b>		<b>5,464</b>	<b>5,464</b>
<b>7240 General Taxes</b>				
7240 Property	60,572	51.7386%	31,339	31,339
7240 Gross Receipts	-	0.0000%	-	-
7240 PUC Fee	-	0.0000%	-	-
7240 Franchise Fees	-	0.0000%	-	-
7240 Other	-	0.0000%	-	-
<b>Total General Taxes</b>	<b>60,572</b>		<b>31,339</b>	<b>31,339</b>
<b>Other Expenses:</b>				
Interest Expense	37,111	51.7106%	19,190	19,190
Other	-	0.0000%	-	-
<b>Total Other</b>	<b>37,111</b>		<b>19,190</b>	<b>19,190</b>
<b>Total Operating Expenses</b>	<b>3,924,274</b>		<b>1,925,288</b>	<b>1,925,288</b>
<b>Net Operating Income Before Taxes</b>	<b>757,253</b>		<b>(639,104)</b>	<b>(639,104)</b>

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FCC Account and Description	Total Idaho Operations Subject To Separations	Projected Intrastate		Projected Tax Reform Intrastate Total
		Allocation Factor	Intrastate Total	
<b>7200 Income Taxes (Calculated)</b>				
Net Income Before SIT & FIT	757,253		(639,104)	(639,104)
Less Fixed Charges (-)	37,111	51.7106%	19,190	19,190
<b>Subtotal (lines 7-8)</b>	<b>720,142</b>		<b>(658,294)</b>	<b>(658,294)</b>
Other SIT Base Add/Ded. (+/-)	-	0.0000%	-	-
<b>SIT Taxable Inc. (lines 9+-10)</b>	<b>720,142</b>		<b>(658,294)</b>	<b>(658,294)</b>
7230 SIT-Current (at 6.6%)	47,529		(43,447)	(43,447)
Other FIT Base Add/Ded. (+/-)	-	0.0000%	-	-
<b>FIT Taxable Inc. (lines 9-12+-13)</b>	<b>672,612</b>		<b>(614,846)</b>	<b>(614,846)</b>
Gross FIT (at 35% AND 21%)	235,414		(215,196)	(129,118)
7210P Claimed ITC (-)	-	0.0000%	-	-
Surtax Elimination (-)	-	0.0000%	-	-
<b>7220 FIT-Current (lines 15-16-17)</b>	<b>235,414</b>		<b>(215,196)</b>	<b>(129,118)</b>
<b>7250 Deferred tax liability amortization</b>	<b>(77,177)</b>	<b>51.7386%</b>	<b>(39,930)</b>	<b>(39,930)</b>
<b>Net Operating Income (Loss)</b>	<b>551,486</b>		<b>(340,530)</b>	<b>(426,608)</b>
<b>DEFERRED TAX LIABILITY:</b>				
<b>4340 Deferred Tax Liability:</b>				
Change in Deferred Tax Liability	(771,771)			
Amortization period of Liability - Avg remaining life of TPIS in years	10			
Annual amortization of deferred regulatory liability	\$ (77,177)			

Note:

Allocation factors from the 2016 cost study unless otherwise noted