



Idaho Public Utilities Commission  
Office of the Secretary  
RECEIVED

MAR 30 2018

2205 Keithley Creek Road  
P.O. Box 7  
Midvale, ID 83645  
208.355.2211  
Fax 208.355.2222

March 30, 2018

Boise, Idaho

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 Midvale Telephone Company (hereinafter "Company"), an ESOP which is taxable as a pass-thru entity. 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 tax rate 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

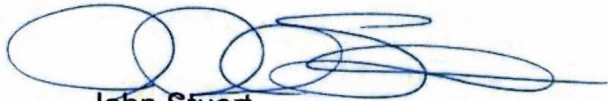
funding is at issue and appropriate opportunity to be heard in person or in writing.” IDAPA 31.46.01.106.04(d). Order No. 33965 made no mention of changes to any telephone company’s USF funding. Company did not know that a reduction in USF funding was at issue until a later conversation with Commission 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, 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, consisting of several overlapping loops and a trailing line.

John Stuart  
President/CEO

Midvale Telephone Company  
2205 Keithley Creek Rd.  
Midvale, ID 83645

*"Employee Owned, Community Focused, Customer Centered"*  
*MTE Communications is an equal opportunity provider and employer*

**2017 Projected Earnings Analysis for Tax Reform Impacts**  
**Midvale Telephone Company**

FCC Account and Description	Total Idaho Operations Subject To Separations	Projected Intrastate		Projected Tax Reform Intrastate Total
		Allocation Factor	Intrastate Total	
Operating Revenues				
5000 Local - Billed	335,817	100.0000%	335,817	335,817
5040 EAS - Billed	-	0.0000%	-	-
5060 Other - Billed	17,743	100.0000%	17,743	17,743
5081 Interstate Access	-	-	-	-
-SLC (End User)	161,012	0.0000%	-	-
-ARC	6,571	1.5451%	102	102
-Switched (TS+NTS)	47,668	0.0000%	-	-
-Special	551,212	0.0000%	-	-
-Settlements	1,484,491	0.0000%	-	-
-ACAM support (net of estimated HCLS)	-	0.0000%	-	-
-CAF ICC	667,152	1.5451%	10,308	10,308
-High Cost Loop Support	719,919	100.0000%	719,919	719,919
5084 Intrastate Access	-	-	-	-
-Switched (TS+NTS)	68,132	100.0000%	68,132	68,132
-Special	38,048	100.0000%	38,048	38,048
-State USF	350,785	100.0000%	350,785	350,785
5100 Toll -Message	-	0.0000%	-	-
-Private Line	-	0.0000%	-	-
-Settlement	-	0.0000%	-	-
5200 Misc. -Billing & Collection	-	0.0000%	-	-
-Directory Advertising	-	0.0000%	-	-
-Operating Rents	-	100.0000%	-	-
-Other Misc.	2,239	100.0000%	2,239	2,239
5300 Less: Uncollectible Rev. (-)	648	100.0000%	648	648
Total Revenues	4,451,437		1,543,741	1,543,741
OPERATING EXPENSE DETAIL				
6100-6400 Plant Specific Operations				
6110 Network Support Facilities	861	52.0071%	448	448
6120 General Support Facilities	63,278	52.0071%	32,909	32,909
6210 Central Office Switching	138,229	32.0325%	44,278	44,278
6220 Operator Systems	-	0.0000%	-	-
6230 Central Office Transmission	973,304	32.0325%	311,774	311,774
6300 Information Orig./Term. Equip.	-	0.0000%	-	-
6400 Cable & Wire Facilities	677,489	62.9711%	426,622	426,622
Total Plant Specific	1,853,161		816,031	816,031
6500 Plant Nonspecific Operations				
6512 Provisioning	-	0.0000%	-	-
6530 Network Operations	97,857	52.0071%	50,893	50,893
6540 Access Paid to LECs	-	0.0000%	-	-
Total Plant Nonspecific	97,857		50,893	50,893
6560 Depreciation & Amortization				
6561 General Support Facilities	346,685	52.0071%	180,301	180,301
6561 Central Office Switching	30,833	15.0000%	4,625	4,625
6561 Operator Systems	-	0.0000%	-	-
6561 Central Office Transmission	284,428	40.7297%	115,847	115,847
6561 Information Orig./Term. Equip.	-	0.0000%	-	-
6561 Cable & Wire Facilities	303,244	62.9711%	190,956	190,956
6563 Capital Leases	-	0.0000%	-	-
6563 Leasehold Improvements	-	0.0000%	-	-
6564 Intangibles	-	0.0000%	-	-
6565 Acquisition Adjustment	-	0.0000%	-	-
Total Depreciation & Amortization	965,190		491,729	491,729
6600 Customer Operations				
6610 Marketing	20,482	100.0000%	20,482	20,482
6620 Operator Services	650	100.0000%	650	650
6620 Directory Publishing-Alpha.	5,893	68.3810%	4,030	4,030
6620 Directory Publishing-Classified	-	0.0000%	-	-
6620 Directory Publishing-Foreign	-	0.0000%	-	-
Category 1 - Local Business Office				
6623 Service Order Proc.-End User	23,664	73.0000%	17,275	17,275
-Service Order Proc.-Presubscription	-	0.0000%	-	-
6623 Payment & Collection-End User	17,749	68.8604%	12,222	12,222
6623 Billing Inquiry-End User	17,749	75.0000%	13,312	13,312
6623 Service Order Proc.-CXR	-	50.0000%	-	-
6623 Payment & Collection-CXR	-	50.0000%	-	-
6623 Billing Inquiry-CXR	-	50.0000%	-	-
6623 Coin Administration	-	0.0000%	-	-

<b>Category 2 - Revenue Accounting</b>				
6623	Rev. Acctg.-Local Mess. Proc.	2,066	71.5970%	1,479
6623	Rev. Acctg.-Other Bill & Coll.			
	-Interstate End User	1,368	0.0000%	-
	-Message Toll - Interstate	7,750	0.0000%	-
	-Message Toll - Intrastate	9,118	100.0000%	9,118
	-Message Toll - Local	9,118	100.0000%	9,118
	-Message Toll - EAS	-	0.0000%	-
6623	Rev. Acctg.-Carrier Access Billing	15,517	50.0000%	7,759
<b>Category 3 - All Other Customer Service</b>				
6623	B & C Amts Paid to LECs	-	0.0000%	-
6623	Other Customer Service	8,716	0.0000%	-
<b>Total Customer Operations</b>		<b>139,840</b>		<b>95,444</b>
<b>6700 Corporate Operations:</b>				
6710	Executive & Planning	171,974	45.5370%	78,312
6720	General & Administrative	418,571	42.7323%	178,865
<b>Total Corporate Operations</b>		<b>590,545</b>		<b>257,177</b>
<b>Other Operating Expenses:</b>				
	Contributions	-	52.4445%	-
	Universal Service Fund	-	0.0000%	-
	Lifeline Connection Assistance	-	0.0000%	-
<b>Total Other</b>		<b>-</b>		<b>-</b>
<b>7240 General Taxes</b>				
7240	Property	60,367	52.0071%	31,395
7240	Gross Receipts	-	0.0000%	-
7240	PUC Fee	-	0.0000%	-
7240	Franchise Fees	-	0.0000%	-
7240	Other	2,245	0.0000%	-
<b>Total General Taxes</b>		<b>62,612</b>		<b>31,395</b>
<b>Other Expenses:</b>				
	Interest Expense	-	0.0000%	-
	Other	-	0.0000%	-
<b>Total Other</b>		<b>-</b>		<b>-</b>
<b>Total Operating Expenses</b>		<b>3,709,205</b>		<b>1,742,668</b>
<b>Net Operating Income Before Taxes</b>		<b>742,232</b>		<b>(198,927)</b>
<b>7200 Income Taxes (Calculated)</b>				
	Net Income Before SIT & FIT	742,232		(198,927)
	Less Fixed Charges (-)	-	0.0000%	-
	<b>Subtotal (lines 7-8)</b>	<b>742,232</b>		<b>(198,927)</b>
	Other SIT Base Add/Ded. (+/-)	-	0.0000%	-
	<b>SIT Taxable Inc. (lines 9+-10)</b>	<b>742,232</b>		<b>(198,927)</b>
	7230 SIT-Current (at 6.6%)	48,987		(13,129)
	Other FIT Base Add/Ded. (+/-)	-	0.0000%	-
	<b>FIT Taxable Inc. (lines 9-12+-13)</b>	<b>693,245</b>		<b>(185,798)</b>
	Gross FIT (at 35% AND 21%)	242,636		(65,029)
	7210P Claimed ITC (-)	-	0.0000%	-
	Surtax Elimination (-)	-	0.0000%	-
	<b>7220 FIT-Current (lines 15-16-17)</b>	<b>242,636</b>		<b>(65,029)</b>
<b>7250 Deferred tax liability amortization</b>		<b>(87,881)</b>	52.0071%	<b>(45,704)</b>
<b>Net Operating Income (Loss)</b>		<b>538,490</b>		<b>(75,064)</b>
<b>DEFERRED TAX LIABILITY</b>				
<b>4340 Deferred Tax Liability:</b>				
	Change in Deferred Tax Liability	(427,585)		
	Amortization period of Liability - Avg remaining life of TPIS in years	5		
	Annual amortization of deferred regulatory liability	\$ (87,881)		
<b>Effective Tax Rate Calculation:</b>				
	Federal Tax Rate	33.38%	24.60%	
	State Tax Rate	7.75%	7.75%	
		2.59%	1.91%	
	Federal Tax Rate	33.38%	24.60%	
	Effective Tax Rate	35.97%	26.51%	
Note:				
Allocation factors from the 2016 cost study unless otherwise noted				