

KARL T. KLEIN  
DEPUTY ATTORNEY GENERAL  
PO BOX 83720  
BOISE, IDAHO 83720-0074  
(208) 334-0320  
IDAHO BAR NO. 5156

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Street Address for Express Mail:  
472 W. WASHINGTON  
BOISE, IDAHO 83702-5918

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:**  
) **SUEZ WATER IDAHO, INC.**  
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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 Suez Water Idaho, Inc. (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.

## **SUEZ WATER IDAHO REPORT**

The Company filed its report on March 29, 2018. In it, the Company proposes to reduce base rates by \$2,722,791, or about 5.6%, to account for the reduction in corporate tax rates and associated changes to the revenue conversion factor. The Company has hired an outside consulting firm to assist in a detailed review of its income tax records in order to verify the balances of the regulatory liabilities subject to normalization (plant-related) as well as deferred tax liabilities that are unprotected (non plant-related). Thus, the Company did not propose any changes related to revaluing or amortizing deferred tax liabilities, preferring to wait to address the deferred tax liabilities in a general rate case, after the detailed review has been completed.

The TCJA also eliminated the tax-exempt status of Contributions in Aid of Construction (“CIAC”) for water and sewer utilities.<sup>1</sup> As a result of the taxability of CIAC, the Company proposes that the contributor pay the income tax consequences of the taxability of the contribution so that the Company’s customers will not subsidize the contributor. The Company proposes to gross-up the CIAC charged to developers at the net present value of cash flows resulting from the taxability of the CIAC and the future deductibility for income tax purposes of the resulting asset. Additionally, in order to eliminate the impact on current customers, the Company proposes that that the deferred income tax impact of such transaction be held outside of the ratemaking process.

## **STAFF REVIEW**

Staff has reviewed the Company’s report and verified the impact of the reduction in tax rates and changes to the revenue conversion factor. Based upon its review, Staff recommends the Commission authorize a base rate reduction of \$2,722,791 on June 1, 2018. The comments below discuss Staff’s recommendation in further detail.

### *Income Tax Expense*

The TCJA’s primary provision reduced the federal corporate income tax rate from 35% to 21%. After the TCJA passed, the Governor of Idaho signed House Bill 463 reducing the Idaho State Corporate Income Tax rate to 6.925% (previously 7.4%) effective January 1, 2018.

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<sup>1</sup> In general, CIAC includes money, services, or property provided to a utility at no cost, which the utility uses to offset the costs to acquire, improve, or construct property, facilities, or equipment used to provide utility services.

The reductions in tax rates, and the corresponding changes to the gross revenue conversion factor, reduces the Company's retail revenue requirement by \$2.7 million as shown on Attachment A. In its report, the Company used the revenues allowed in its last general rate case, UWI-W-15-01, to calculate the percentage by which to uniformly reduce water service rates. Staff believes that 2017 billed revenues would provide a timelier and accurate calculation of the percentage reduction (5.574% vs. 5.557%) and has used the 2017 billed revenues as the basis for its recommendation. This adjustment does not alter the revenue requirement calculation; it only affects the percentage decrease. Attachment B shows Staff's proposed rate calculation.

#### Deferred Income Taxes

As of December 20, 2017, deferred tax amounts had to be revalued at the lower corporate tax rate, resulting in Excess Deferred Income Tax ("EDIT") balances. Balances associated with regulated utility operations result in a balance sheet reclassification from deferred tax to deferred regulatory asset or liability. The revaluation affects both plant and non-plant balances. For plant-related EDIT, the Company must amortize the balance over the remaining life of the associated assets in order to comply with the IRS's normalization rules. Balances associated with non-plant EDIT can be amortized over any period deemed appropriate by the Commission.

The Company's report did not recommend an amortization period or rate adjustment for EDIT. The Company indicated that it has engaged an outside accounting firm to assist in a detailed review of its income tax records in order to verify the balances of the regulatory liabilities. The Company asserts that treatment of the regulatory liabilities is best addressed in a general rate case.

Staff believes that the third-party review will provide additional information that will help inform Staff's recommendations on how to amortize the EDIT and return the benefits to customers. Staff will work with the Company to determine the appropriate ratemaking treatment of the EDIT, and file its recommendations after the third-party review is completed.

#### January 1 – May 31, 2018 Regulatory Liability

Commission Order No. 33965 instructed utilities to immediately account for the financial benefits from the January 1, 2018 tax rate reduction to 21% by creating a deferred regulatory liability until they are reflected in customer rates. The Company's report did not address the regulatory liability. Staff will work with the Company to determine the amount of the regulatory

liability and the method in which it should be returned to customers when the Company provides updates to the EDIT balances later this year.

CIAC

From June 13, 1996 to December 31, 2017, CIAC to water utilities was not taxable. Beginning January 1, 2018 CIAC is once again taxable. This change will likely cause water utilities to require a gross-up payment from the contributor so the utility can cover the additional taxes it will have to pay on CIAC. Because of this, the Company proposes to gross-up the CIAC charges to contributing developers at the net present value of cash flows resulting from the taxable CIAC and the future tax deductibility of the resulting asset. Staff believes the Company's proposal requiring the contributor to pay for the income tax consequences of the taxable CIAC will ensure that customers are not subsidizing the contributor. Staff recommends that the Commission accept the Company's proposal. Staff recommends that the calculation of CIAC should be reviewed again during the Company's next general rate case.

**STAFF RECOMMENDATION**

After a thorough review of the Company's report and further discussions with the Company, Staff recommends that the Commission order the Company to reduce its retail rates by \$2,722,791, or approximately 5.6%, as shown on Attachments A and B. Staff further recommends that the Commission order the Company to file an update on its deferred tax accounts after the outside accounting firm has completed its review of the Company's income tax records. Staff will work with the Company at that time to determine the amount and manner in which to return to customers the remaining benefits of the TCJA. Additionally, Staff recommends the Commission authorize the Company to gross-up its CIAC calculations to account for the taxability of the contributions.

Respectfully submitted this 22<sup>nd</sup> day of May 2018.



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Karl T. Klein  
Deputy Attorney General

Technical Staff: Donn English

**SUEZ Water Idaho Inc.**  
**GNR-U-18-01**  
**Calculation of 2017 Federal Income Taxes**

Line No.	Description (a)	Calculation @ 35% (b)	Calculation @ 21% (c)	Difference
1	Total Total Pre-Tax Book Income	\$15,743,979	\$15,743,979	
2	Deductible State Tax: [1]	1,111,712	1,040,352	\$71,360
	Permanent Differences:			
3	Reverse FBOS TaxStream	204,746	204,746	
4	Non-deductible Penalties	245	245	
5	Disallowed Meals	6,004	6,004	
6	Lobbying Dues	5,295	5,295	
7	Total Permanent Differences	<u>216,290</u>	<u>216,290</u>	
8	Financial Taxable Income	<u>14,848,557</u>	<u>14,919,917</u>	
9	<b>Unit Tax Rate</b>	35.00%	21.00%	
10	Federal Tax-Current	5,196,995	3,133,183	<u>2,063,812</u>
11	Total			2,135,172
12	Gross Revenue Conversion Factor			<u>1.2752091</u>
13	Change in Revenue Requirement			<u>\$2,722,791</u>
14	2017 Revenues			<u>48,851,670.39</u>
15	Percent reduction			<u>-5.574%</u>

[1] Please note the State income tax rate of 6.925% was utilized in the calculation as a result of the passage of H.B. 463. The amount in column c represents a reduction of approximately 6.4% and is calculated as the the State income tax on line 2 of column c times 6.925% / 7.4%.

SUEZ WATER IDAHO INC.  
 APPLICATION OF PRESENT RATES AND PROPOSED RATES TO CONSUMPTION ANALYSIS  
 WITH ADJUSTMENTS FOR THE IMPACT OF TCJA  
 FOR THE YEAR ENDED DECEMBER 31, 2017

Rate Block CCF	Number Of Bills	Total Consumption	Present Rate	Present Rate Revenue	Proposed Rate	Proposed Revenue	Percent
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
<u>Residential - Bi-Monthly</u>							
Customer Charge							
5/8	94,077		\$ 22.36	\$ 2,103,562	\$ 21.11	\$ 1,985,965	-5.59%
3/4	328,446		22.36	7,344,053	21.11	6,933,495	-5.59%
1	45,397		28.58	1,297,446	26.99	1,225,265	-5.56%
1 1/2	1,455		48.90	71,150	46.17	67,177	-5.58%
2	619		75.87	46,964	71.64	44,345	-5.58%
3	3		147.98	444	139.73	419	-5.58%
Subtotal	469,997	0		10,863,619		10,256,666	
Winter Usage							
Up to 3 CCF							
Summer Usage							
Up to 3 CCF		4,729,400	1.5738	7,443,130	1.4674	6,939,922	-6.76%
Over 3 CCF		7,731,150	1.9673	15,209,491	1.8577	14,362,157	-5.57%
Subtotal		12,460,550		22,652,621		21,302,079	
Subtotal				33,516,240		31,558,745	
Flat Rate	148		85.86	12,707	81.07	11,998	-5.58%
Total Class				\$ 33,528,947		\$ 31,570,743	
<u>Commercial - Bi-Monthly</u>							
Customer Charge							
5/8	2,852		22.36	\$ 63,771	21.11	\$ 60,206	-5.59%
3/4	12,291		22.36	274,827	21.11	259,463	-5.59%
1	15,222		28.58	435,045	26.99	410,842	-5.56%
1 1/2	10,304		48.90	503,866	46.17	475,736	-5.58%
2	11,268		75.87	854,903	71.64	807,240	-5.58%
3	776		147.98	114,832	139.73	108,430	-5.58%
4	229		276.07	63,220	260.68	59,696	-5.57%
6	24		460.91	11,062	435.22	10,445	-5.57%
8	0		602.98	0	569.37	0	-5.57%
Subtotal	52,966	0		2,321,526		2,192,058	
Winter Usage							
Over 3 CCF							
Summer Usage							
Up to 3 CCF		2,586,839	1.5738	4,071,167	1.4674	3,795,928	-6.76%
Over 3 CCF		3,985,866	1.9673	7,841,394	1.8577	7,404,543	-5.57%
Subtotal		6,572,705		11,912,561		11,200,471	
Total Class				\$ 14,234,087		\$ 13,392,529	
<u>Other Public Authority - Bi-Monthly</u>							
Customer Charge							
5/8	17		22.36	\$ 380	21.11	\$ 359	-5.59%
3/4	46		22.36	1,029	21.11	971	-5.59%
1	184		28.58	5,259	26.99	4,966	-5.56%
1 1/2	107		48.90	5,232	46.17	4,940	-5.58%
2	223		75.87	16,919	71.64	15,976	-5.58%
3	6		147.98	888	139.73	838	-5.58%
4	6		276.07	1,656	260.68	1,564	-5.57%
Subtotal	589	0		31,363		29,614	
Winter Usage							
Over 3 CCF							
Summer Usage							

SUEZ WATER IDAHO INC.  
 APPLICATION OF PRESENT RATES AND PROPOSED RATES TO CONSUMPTION ANALYSIS  
 WITH ADJUSTMENTS FOR THE IMPACT OF TCJA  
 FOR THE YEAR ENDED DECEMBER 31, 2017

Rate Block CCF (1)	Number Of Bills (2)	Total Consumption (3)	Present Rate (4)	Present Rate Revenue (5)	Proposed Rate (6)	Proposed Revenue (7)	Percent (8)
Up to 3 CCF		18,505	1.5738	29,123	1.4674	27,154	-6.76%
Over 3 CCF		67,215	1.9673	132,232	1.8577	124,865	-5.57%
Subtotal		85,720		161,355		152,019	
Total Class				\$ 192,718		\$ 181,633	
<u>Private Fire Lines - Bi-Monthly</u>							
Fire Line Size							
3" and smaller	2,637		39.42	\$ 103,951	37.22	\$ 98,149	-5.58%
4"	3,526		59.75	210,679	56.42	198,937	-5.57%
6"	2,994		148.40	444,310	140.13	419,549	-5.57%
8"	882		243.85	215,076	230.26	203,089	-5.57%
10"	54		380.29	20,536	359.09	19,391	-5.57%
12"	36		569.62	20,506	537.87	19,363	-5.57%
Hydrants	975		23.90	23,303	22.57	22,006	-5.56%
Sprinkler	6		597.28	3,584	563.99	3,384	-5.57%
Total Private Fire	11,110	0		\$ 1,041,945		\$ 983,868	
Total	534,810	19,118,975		\$ 48,997,697		\$ 46,128,773	
Variance						\$ (106)	
Total Water Revenue				\$ (2,722,791)		\$ 46,128,879	-5.56%

## CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 22<sup>ND</sup> DAY OF MAY 2018, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF TO SUEZ WATER IDAHO'S TAX REPORT**, IN CASE NO. GNR-U-18-01, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

GREGORY P WYATT  
SUEZ WATER IDAHO INC  
PO BOX 190420  
BOISE ID 83719-0420  
E-mail: [greg.wyatt@suez-na.com](mailto:greg.wyatt@suez-na.com)

  
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SECRETARY

CERTIFICATE OF SERVICE