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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	)	CASE NO. GNR-U-18-01
INTO THE IMPACT OF FEDERAL TAX CODE	)	
REVISIONS ON UTILITY COSTS AND	)	REPORT OF THE
RATEMAKING	)	COMMISSION STAFF RE: CDS
	)	STONERIDGE UTILITIES, LLC.
	)	

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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 CDS StoneRidge Utilities, LLC (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 its response on April 13, 2018. The Company stated the new tax rates do not affect it because it is a Limited Liability Company (LLC) whose taxes pass through to its owners.

## **STAFF ANALYSIS**

Staff reviewed the Company's response and its 2017 Annual Report. Based upon its review, Staff believes the TCJA provides no benefits to the Company that might require a water rate adjustment.

The TCJA reduced the federal corporate tax rate and the federal personal tax rate. As an LLC, the Company is not subject to the federal corporate tax rate. Instead, the Company is a pass-through entity whose income flows to, and is taxed at the personal tax rate of its owner. Because the Company's income is taxed at the owner's personal tax rate, the TCJA's reduction to the personal tax rate must be considered to determine whether customers' rates include tax expenses that exceed 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, as established in Case No. SWS-W-06-01. *See* Order No. 30342. The Company's 2017 Annual Report indicates that the Company realized a net income of \$65,131. With a net income of \$65,131, the personal federal tax burden at 2017 tax rates would be \$12,042, for an effective tax rate of 18.5%. The personal federal tax burden at 2018 rates would be \$10,269, for an effective tax rate of 15.8%. *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 rates do not include more utility-related income tax expense than the Company's owner will pay under the TCJA. Accordingly, the TCJA has not resulted in tax benefits that should be returned to customers, and no water rate adjustment is necessary.

## **STAFF 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 it relates to CDS StoneRidge Utilities, LLC.

Respectfully submitted this 7<sup>th</sup> day of June 2018.



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Karl T. Klein  
Deputy Attorney General

Technical Staff: John Nobbs  
Donn English

### 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

### CDS StoneRidge Utilities, LLC - 2017 Tax Calculation

Net Income	\$65,131
Federal Income Tax	\$12,042
Effective Tax Rate	18.5%

### 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

### CDS StoneRidge Utilities, LLC - 2018 Tax Calculation

Net Income	\$65,131
Federal Income Tax	\$10,269
Effective Tax Rate	15.8%

## CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 7<sup>TH</sup> DAY OF JUNE 2018, SERVED THE FOREGOING **REPORT OF THE COMMISSION STAFF RE: CDS STONERIDGE UTILITIES, LLC.**, IN CASE NO. GNR-U-18-01, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

KEITH E GARNER  
STONERIDGE UTILITIES CO  
111 E SEGO LILY DR STE 400  
SANDY UT 84070

  
\_\_\_\_\_  
SECRETARY

CERTIFICATE OF SERVICE