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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:
	)	CAPITOL WATER
	)	CORPORATION

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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 Capitol Water Corporation (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 affect them, and how resulting benefits could be passed on to customers. *See id. at 1-2*.

On June 1, 2018, the Commission received the Company’s response to Commission Order No. 33965. Through its outside accountant, the Company stated, “it will result in a larger

tax burden for Capitol Water going forward of between 3% and 6% of net income. As a result of this increase, in the amount (of) tax that will be due, it would not be appropriate to decrease the rates the customers are being charged, and likely should result in an increase in rates of around 1-2% to maintain the profitability for the corporation.” The Company further stated, “...for corporations the size and having the profit levels of Capitol Water, the change in the tax law actually is an increase in tax liability.”

## STAFF ANALYSIS

Staff has reviewed the Company’s response and its 2017 Annual Report filed on April 27, 2018. Based upon its review, Staff believes the Company will not benefit from the TCJA. Prior to the TCJA, the corporate income tax rate was blended based on the tax brackets shown in Table 1 below. With the passage of the TCJA, the corporate tax rate changed to a flat rate of 21%.

**Table 1: Marginal Corporate Income Tax Rates (2005-2017)**

<b>Marginal Tax Rate</b>	<b>Income</b>	<b>Tax</b>
15%	\$0 - \$50,000	15% of the amount over \$0
25%	\$50,001 - \$75,000	\$7500 + 25% of the amount over \$50,000
34%	\$75,001 - \$100,000	\$13,750 + 34% of the amount over \$75,000
39%	\$100,001 - \$335,000	\$22,250 + 39% of the amount over \$100,000
34%	\$335,001 - \$10,000,000	\$113,900 + 34% of the amount over \$335,000
35%	\$10,000,001 - \$15,000,000	\$3,400,000 + 35% of the amount over \$10,000,000
38%	\$15,000,001 - \$18,333,333	\$5,150,000 + 38% of the amount over \$15,000,000
35%	Over \$18,333,333	35%

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 an operating income before income taxes of \$124,578. With a net operating income of \$124,578, the corporate federal tax expense at 2017 tax rates would be \$28,240, for an effective federal tax rate of 24.48%. The corporate federal tax expense at 2018 tax rates would be \$18,244, for an effective federal tax rate of 21%.

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. Therefore, 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 2017 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 Capitol Water Corporation.

Respectfully submitted this 19th day of June 2018.



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Karl T. Klein  
Deputy Attorney General

Technical Staff: Kathy Stockton

## CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 19<sup>TH</sup> DAY OF JUNE 2018,  
SERVED THE FOREGOING **REPORT OF THE COMMISSION STAFF RE:**  
**CAPITOL WATER CORPORATION**, IN CASE NO. GNR-U-18-01, BY MAILING A  
COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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SECRETARY

CERTIFICATE OF SERVICE