Kira M. Slawson (7081)
BLACKBURN & STOLL, L.C.
Attorneys for Gunnison Telephone Company
257 East 200 South, Suite 800
Salt Lake City, Utah 84111
Telephone: (801) 521-7900
Fax: (801) 578-3579

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

Investigation of Revenue Requirement Impacts of the New Federal Tax Legislation Titled: "An act to provide for reconciliation pursuant to Titles II and V of the concurrent resolution of the budget for fiscal year 2018"	DOCKET NO. 17-043-01 REPLY COMMENTS OF GUNNISON TELEPHONE COMPANY

On December 21, 2017, the Utah Public Service Commission (the "Commission") issued a Notice of Comment Period ("Notice") to investigate the revenue requirement impacts of the new federal tax legislation ("Tax Reform Act"). The Commission requested that all regulated utilities in Utah file Comments describing in detail, to the extent practical, the impacts of Tax Reform Act on their respective revenue requirement in the corresponding docket. Gunnison Telephone Company ("Gunnison") filed Comments on February 26, 2018. Pursuant to the Commission's Order issued March 1, 2018, interested parties were ordered to submit comments on Gunnison's Comments on or before March 30, 2018. Reply Comments are due April 16, 2018. The Division of Public Utilities (the "Division") filed responsive Comments on March 30, 2018. Gunnison hereby files these Reply Comments.

REPLY COMMENTS OF GUNNISON

I. Division Comments

The Tax Reform Act that was signed into law on or about December 22, 2017 ("Tax Reform Act") reduced the corporate federal income taxes from a maximum of 35% to 21%. The Division identified two significant impacts from this reduction: (1) it reduces a company's federal income tax expense effective January 1, 2018; and (2) it reduces the deferred income tax liability, accounted for on a company's balance sheet as Accumulated Deferred Income Taxes ("ADIT"). The Division stated that the ADIT will be reduced by the difference between the existing balance of ADIT and the recalculated balance under the new 21% tax rate. The Division identified this as "Excess Deferred Income Taxes" ("EDIT"). The Division noted that the Tax Reform Act requires that for public utility property, a normalization method of accounting be used to amortize the EDIT over the original life of the underlying assets. The Division discussed the Average Rate Assumption Model ("ARAM") as a method for amortizing the EDIT over the life of the public utility property. The Division provided an excel spreadsheet the Division created to review the ARAM calculation in the context of a revenue requirement calculation.

The Division also noted that an alternative method for amortizing the EDIT over the life of the public utility property is permitted. This method computes the excess tax reserve on all public utility property based on the weighted average life or composite rate used to compute depreciation for regulatory purposes; and reduces the excess tax reserve ratably over the remaining estimated regulatory life of the property.

The Division recommended that the Commission defer future treatment of the effects on revenue that will result from the Tax Reform Act. The Division further recommended allowing each of the rate-of-return regulated companies time to calculate and quantify the impacts of the Tax Reform Act on their revenue requirement. The Division agreed that the evaluation of the revenue requirement should include the changes from the Tax Act; changes to Utah Code §54-8b-15; and changes to the administrative rules.

II. Gunnison Reply Comments.

A. Base Affordable Rate.

At the outset, although the Division's Comments did not specifically address the issue of basic telephone service rates, the Division, in its Conclusion, refers to the "mechanism for redressing any associated imbalance in customer rates or state funding." It is critical for the Commission to remember that it set the rates for basic telephone service in Utah to mirror the federal benchmark rates. This rate has been set without determining a company's specific revenue requirement. Therefore, rates for basic telephone service (the affordable base rate) in Utah should not be affected by the reduction in federal tax rate, or changes in Gunnison's revenue requirement. It would be imprudent for the Commission to reduce rates below the federal benchmark, as doing so would result in a reduction in federal support for the high cost of providing basic local exchange service in Utah. As a result, the discussion of the impacts of the Tax Reform Act should be limited to Gunnison's receipt of support from the Utah Universal Public Telecommunications Service Support Fund ("UUSF") going forward, not on the rates charged to customers.

B. <u>Current UUSF Award.</u>

Additionally, as indicated in our previous Comments, Gunnison's current revenue requirement and UUSF distribution, were set by Stipulation which included a Commission established rate base, rate of return, and a tax gross up. Therefore, it would be inappropriate to adjust Gunnison's UUSF award by simply calculating the amortization of the corporate tax rate impact. This would amount to single issue rate making. Rather, as echoed by the Division, before the Commission makes any adjustment to Gunnison's UUSF distribution, the Commission should consider all the relevant issues together to determine Gunnison's current revenue requirement and UUSF disbursement going forward.

C. <u>Calculation of Effects of Tax Reform Act.</u>

Gunnison agrees with the recommendation of the Division, that the Commission should defer, for future treatment, the effects that may result from the Tax Reform Act; and that the Commission should consider such effects in the context of the regulatory changes to Utah Code §54-8b-15, and the applicable administrative rules. The Utah statutory changes have already taken effect, and the administrative rules are currently being implemented so that review of those issues can be undertaken with Gunnison's filing of its 2018 Annual Report. However, the Commission should be mindful that the Tax Reform Act does not apply to current period income taxes until 2018. Further, the Tax Reform Act also includes other modifications from prior tax law, besides the decrease in the corporate tax rate. For example, the amount of interest expense that can be included as a tax deduction has been significantly reduced. Therefore, while the Commission can calculate the effect of statutory and administrative rule changes on Gunnison's revenue requirement based on the 2018 Annual Report filed with the Commission, calculating the impacts of the Tax Reform Act based on 2017 operations will not produce accurate results. As a result, the full effects of the Tax Reform Act should be considered for operations in 2018 and beyond. In other words, the Commission should consider the effects of the Tax Reform Act, on Gunnison's UUSF distribution, and implement any necessary changes to Gunnison's UUSF distribution that result from the Tax Reform Act based on Gunnison's 2018 operations which will be reported in Gunnison's 2019 Annual Report to the Commission. This would afford a holistic review of Gunnison's current revenue requirement taking into consideration all relevant factors, based on actual results. Moreover, this approach would avoid inappropriately determining or altering Gunnison's UUSF disbursement on a single issue.

Additionally, individual companies will have individual circumstances that need to be addressed. For example, if a company has a "deferred income tax" account, it was accumulated over some period of time. One issue that would need to be addressed for each individual company is whether the company was receiving UUSF during that period of time; and as suggested above, whether the UUSF award was based on a black box settlement agreement, or whether the UUSF was based on a gross up for taxes (and if so, at what rate).

Finally, Gunnison would remind the Commission that there has historically been regulatory lag in the UUSF award process and that UUSF awards have been on a prospective basis after the application for such award. In this case, the lower corporate tax rate sunsets in 2025. To the extent the Commission is considering a normalization of the tax benefit received from the lower corporate income tax rate over some period of time, the Commission should be prepared to address the tax detriment Gunnison will suffer when the corporate tax rate increases and the deferred income tax account is insufficient to cover the deferred tax liability.

D. Request for Technical Conference.

Although the normalization of deferred taxes may be an issue that is more common in energy cases, this issue rarely, if ever, comes up in telecommunications rate/UUSF cases. As a result, Gunnison suggests that it may be beneficial to hold a technical conference to consider these issues in the context of the UUSF, rather than rates.

III. CONCLUSION

Gunnison appreciates the opportunity to provide these Reply Comments and believes that the Division is correct that evaluation of Gunnison's revenue requirement should be made taking into consideration all of the changes associated with the Tax Reform Act, the changes to Utah Code 54-8b-15, and the newly enacted and proposed administrative rule changes. To consider any one of these impacts independently would be tantamount to single issue ratemaking and would be inappropriate. Also, Gunnison suggests that a technical conference may assist with evaluation of these matters.

DATED this 16th day of April, 2018.

BLACKBURN & STOLL, LC

Kira M. Slawson
Attorneys for Gunnison Telephone Company

CERTIFICATE OF SERVICE

I hereby certify that on the 16th day of April, 2018, I served a true and correct copy of Gunnison Telephone Company's Reply Comments on Investigation of Revenue Requirement Impacts of the New Federal Tax Legislation Titled: "An act to provide for reconciliation pursuant to Titles II and V of the concurrent resolution of the budget for fiscal year 2018," Docket No. 17-043-01 via e-mail transmission to following persons at the e-mail addresses listed below:

Division of Public Utilities
Bill Duncan
Chris Parker
Erika Tedder
wduncan@utah.gov
chrisparker@utah.gov
etedder@utah.gov

Office of Consumer Services
Michelle Beck
mbeck@utah.gov

Assistant Utah Attorneys Generals
Justin Jetter
Robert Moore
jjetter@utah.gov
rmoore@utah.gov

Gunnison Telephone Company
natalieg@gtelco.net

Kira M. Slawson