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February 12, 2018

**VIA E-FILING**

Mr. Steven V. King, Executive Director and Secretary  
Washington Utilities and Transportation Commission  
1300 South Evergreen Park Drive SW  
Olympia, WA 98504-7250

Re: Dockets UT-180013, UT-180017, UT-180019, UT-180020, UT-180021,  
UT-180022, UT-180023, UT-180024, UT-180025, UT-180026, UT-180027,  
UT-180029, UT-180030, UT-180031, UT-180032, UT-180034, UT-180036,  
UT-180037

Dear Mr. King:

The Washington Independent Telecommunications Association (WITA) is filing this letter in the above-referenced dockets on behalf of its members.<sup>1</sup>

As expressed in the letter of January 23, 2018 filed by WITA in the above-referenced dockets, the issue of deferred taxes in the telecommunications world does not lend itself to resolution by February 12, 2018. This matter was discussed in detail with Commission Staff on a conference call on February 1, 2018.

As related on that call, it is very difficult for any specific WITA member to provide the information requested by Commission Staff without the results of its annual audit or review for 2017. These audits or reviews are underway at the present time or are scheduled to be undertaken in the coming few weeks. Then, to get the Washington intrastate portion, the jurisdictional cost studies must be completed and the amount of deferred tax assigned to the appropriate jurisdiction.

Once the data is available, the calculation sounds simple on its face, but it turns out to be very difficult in actuality. The calculation of the "excess" of accumulated deferred income taxes

<sup>1</sup> It is WITA's understanding that TDS will be filing responses on behalf of their operating companies in Washington.

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(and in some cases it is a reduction of an asset rather than a liability) is to take the balance of the deferred income tax expense at December 31, 2017, and calculate the difference between the twenty-one percent tax rate contained in the Tax Credit and Jobs Act (TCJA) and the historical corporate tax rate. However, the calculation could be impacted by a number of complications, depending on a company's tax status.

For example, the calculation of the deferred income tax balance is complicated by the potential use of the one hundred percent bonus depreciation that became effective for qualified property both acquired and placed in service after September 27, 2017. This tax treatment could differ from qualified property purchased prior to that date, but used for projects that were completed after that date, if a company elects to use the one hundred percent bonus depreciation. These different depreciation categories will impact the calculation of the deferred tax balance.

In addition, WITA's members are facing the need to determine what calculations and recognition will occur at the federal level. This is true for both those companies that participate in interstate pools and those companies that receive support from the federal high cost fund. It is believed that in 2018, there will be a substantial reduction in interstate revenues as a result of using the twenty-one percent tax rate. This is probably a result for both the NECA pooling process and the federal high cost support calculation. The effects of those revenue reductions are not known at this time, but would need to be taken into account in the overall review of the effect of the TCJA.

Another complicating issue is determining the appropriate treatment of the excess deferred income tax expense under GAAP. It appears that without regulatory action to the contrary, recognition of the entire amount of the "excess" is to occur in 2017. To the best of our knowledge, at this juncture it has not yet been determined what is encompassed by the term "action by a regulator." For example, it is not clear whether that action needs to be prescriptive or whether it is sufficient for it to be permissive. It is also not clear whether the "regulatory action" needs to be embodied in a formal order, or whether agency acquiescence or regulatory staff guidance is sufficient. In any event, the regulatory action would result in the ability to amortize the treatment of the excess deferred income tax amount over a period of time. That period of time could be a set number of years or it could be the remaining life of the assets or groups of assets that gave rise to the deferred income tax amount.

There are at least two other complicating factors. First, some companies have deferred income tax assets (in essence a future increase in income tax expense). Second, other companies are S corporations and may not have used an effective tax rate of thirty-four percent.

WITA also wants to remind the Commission that under RCW 80.04.530 (2), WITA's

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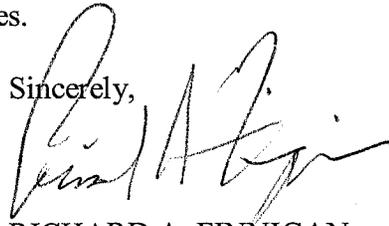
members have an exemption from any requirement to file reports or data with the Commission. While WITA's members do not intend to claim that exemption for this particular exercise at this time, WITA would appreciate it if the Commission keeps in mind that the companies are engaging in a voluntary exercise in providing the data to the Commission that the Commission Staff has requested.

Based on all of the foregoing, WITA suggests that a target be set of April 30, 2018, for the companies to provide preliminary data. That information should be able to include the total Washington deferred income tax amount and identify the "excess" portion. It should also be kept in mind that many WITA companies have negative or very low rates of returns<sup>2</sup> so notwithstanding whatever accounting treatment may be applied to the deferred tax reserve to reflect the change in Federal income tax rates, there would be no potential amounts available for special treatment with respect to those companies. Indeed, even for companies not in that situation, the elimination of portions of the deferred tax reserve on a flash-cut basis, as seemingly contemplated by GAAP in the absence of regulatory action, would not result in any increase in available cash.

Jurisdictional numbers should be ready by August 15, 2018 and may be available earlier. Again, that is because the jurisdictional cost studies will need to have been completed before the jurisdictional separation effect is known.

WITA appreciates the Commission's patience in working through what is a very complicated issue for telecommunications companies.

Sincerely,



RICHARD A. FINNIGAN

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cc: Client (via e-mail)

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<sup>2</sup> See, Staff's Open Meeting Memorandum of November 9, 2017, and, in particular, the Attachment to that Memorandum.