

Hat Island Telephone Company
Docket UT-180019
Responses to UTC Information Request
April 30, 2018

UTC Information Request

EXHIBIT 1

Please provide the following information by February 12, 2018, updated April 30, 2018:

Please note that the Company is an S Corp and no deferred federal income taxes are booked on the Company's books. However, deferred federal income taxes are calculated annually for the interstate cost study and state USF qualification purposes. The Company has used shareholders effective tax rate of 11.49% for the above calculations from the prior year. Because the effective tax rate of 11.49% is lower than 21%, this causes additional expense rather than a benefit to the Company.

1. Accumulated Deferred Federal Income Tax (ADFIT) balance as of December 31, 2017, for Total Washington and Washington Intrastate.

Response:

See attached Exhibit 2 (Excel file), line 31 for the estimated Total Washington and Washington Intrastate amounts.

2. The amount of excess deferred income tax reserve as described in the Internal Revenue Code at 26 U.S.C. § 168(i)(9)(A)(ii) as of December 31, 2017, for Total Washington and Washington Intrastate, to comply with the TCJA.

Response:

See attached Exhibit 2, line 32 for the estimated Total Washington and Washington Intrastate amounts.

3. The amount of excess deferred income tax expense the Company is currently collecting through Washington Intrastate rates and charges as of January 1, 2018, through December 31, 2018.

Response:

As the Company's current rates are not based on a rate of return revenue requirement developed in a recent rate case, the amount of excess deferred income tax expense the Company is currently collecting through Washington Intrastate rates and charges in 2018 is not known. In addition, basic service rates have been established based on the FCC urban rate floor. Terminating intrastate access rates are being reduced based on the FCC ICC Reform Order to mirror interstate rates. Additionally, the tax difference would cause additional expense not a benefit to the Company.

4. A proposed amortization schedule for numbers 2 and 3 (above) along with a supporting rationale for each schedule. Please identify and describe the amortization assumption, e.g., composite, average rate, or other alternative method.

Response:

If the Company were to propose an amortization schedule to amortize the amount identified in the response to Q2, it would be six years based on weighted average remaining life of assets as of year-end 2017. See attached Exhibit 2, line 36. For state USF qualification purposes this is a one-time event. The Company's preference is to exclude the one-time adjustment of excess deferred taxes in 2017 from the state USF calculation. Another reason for this treatment is it's a non-cash item.

5. In the event that all impacts of the TCJA are not fully known to the Company by the due date set forth in this information request, please provide a date certain by which the Company intends to supplement its response including its plans to address these impacts.

Response:

Upon completion of the Company's 2017 Cost Study and closer to completion of its 2017 federal income tax return, the Company plans to provide updated amounts on or before August 15, 2018.

6. Supporting work papers in electronic format with all formulas intact. See WAC 480-07-510(3)(c).

Response:

See attached Exhibit 2 provided for responses to Q1, Q2 and Q4 above.