



State of Utah  
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Division of Public Utilities

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Oct 14, 2010

To: Public Service Commission

From: Division of Public Utilities  
Philip Powlick, Director  
William Duncan, Manager, Telecom and Water

Re: Docket. No. 09-2424-01, In the Matter of the Utah Rural Telecom Association's Petition to Initiate Rulemaking Proceedings to Amend Utah Admin. Code R746-360-8.

Recommendation:

The Division of Public Utilities (DPU) supports the rule change as submitted by the Utah Rural Telecom Association (URTA) and recommends that it become effective as soon as practical.

Analysis:

During the past year, the DPU has reviewed the existing Commission rule for the Calculation of Fund Distributions in Rate of Return Incumbent Telephone Corporation Territories (R746-360-8), as well as current and past practices by various parties involved in determination of USF support. During that review, it became clear that although revenue sources were clearly defined to include "revenues received from the provision of services in both the interstate and intrastate jurisdictions" (see R746-360-2), there was no corresponding provision that defined embedded costs (R746-360-8).

Even though embedded costs were not specifically defined, the DPU had used both interstate and intrastate expenses in calculating revenue requirement and USF eligibility. However, by practice and through interpretation of the existing rule, return on capital investment has been determined by applying the intrastate rate of return to the entire rate base, even though the rate base of a telephone company is jurisdictionally split between intrastate and interstate based on FCC guidelines. Since the intrastate rate of return is generally lower than the interstate rate of return, this practice had the effect of decreasing the overall return that companies are allowed to earn.

The DPU believes it is proper to align the rate of return applied to each portion of a company's rate base with the jurisdiction of the appropriate governmental entity. The rule, as proposed by URTA, would define how this process would apply in future rate cases, and avoid any confusion in determination of allowed return on investment.