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Recommendation

To: Utah Public Service Commission
From: Utah Division of Public Utilities
Chris Parker, Director
William Duncan, Manager
Shauna Benvegna-Springer, Utility Technical Consultant
Date: October 4, 2018
Subject: **2019 USF Preliminary Recommendation for Central Utah Telephone Company**
Docket 18-040-01

Preliminary Recommendation (Approve)

The Public Service Commission of Utah (PSC) should decrease the annual 2019 Utah USF (UUSF) payable to Central Utah Telephone Company to \$96,976.29 annually, or \$8,081.11 monthly, effective January 1, 2019. This is a reduction of \$88,959 in UUSF payments.

Issue

The Division of Public Utilities (DPU) has reviewed the annual report of Central Utah Telephone Company submitted on April 15, 2018. Pursuant to PSC rule R746-8-401(a) and (b), the DPU has calculated the annual USF eligibility to be \$178,605 annually. In addition, because of the tax law changes, the Division recommends the PSC order the Company to refund the UUSF \$81,631.71 annually for the years 2019 through 2023. The Division recommends reducing the proposed annual amount of \$178,605 by 81,631.71 to \$96,976.29 for the excess deferred income tax calculation.

Background

PSC rule R746-8-401 requires the DPU to recommend to the PSC adjustments to the monthly USF distribution for each provider based on the FCC rate of return set forth in R746-401-(3)(a) and the provider's financial information from its last annual report filed with the Commission. This memo presents the DPU recommendation for adjustment to the USF distribution of Central Utah Telephone Company.

Discussion

In calculating the USF eligibility for Central Utah Telephone, the Division utilized the following:

- 1) Rate of Return – Because the FCC prescribed Rate of Return (ROR) changes on July 1, 2019, the DPU used an average of the 10.5% ROR that would be applicable from January to June, 2019, and the 10.25% applicable from July to December 2019. The average rate is 10.375%.
- 2) State and Federal Income Tax – The DPU used a federal tax rate of 21% and a Utah tax rate of 4.95% to estimate future income taxes included in the USF calculation. This represents a tax saving of approximately \$342,990 compared to actual taxes paid in 2017.
- 3) Central Utah Telephone's income tax cost was further reduced due to the DPU utilizing the principle of interest synchronization. Central Utah currently has no debt in its capital structure or interest expense on its books.
- 4) Depreciation – Central Utah Telephone Company utilizes group asset depreciation rather than single asset straight line depreciation. Depreciation expense will be affected by current rule changes for companies using group asset depreciation.
- 5) Central Utah Telephone Company's Federal 2017 USF increased from 2016. Please see Exhibit 1, page 1.
- 6) Accumulated Deferred Income Tax (ADIT) – Central Utah Telephone has utilized accelerated depreciation and has accumulated deferred income taxes. Due to the decrease in the federal tax rate, the Company has excess deferred income taxes (EDIT). EDIT is a deferred regulatory liability, which should be returned to UUSF. The legislation that reduced federal taxes requires that a normalization method of accounting must be used to amortize EDIT over the original life of the underlying assets for public utility property. The primary method provided in the legislation is the average rate assumption method (ARAM). The legislation further advised that EDIT should be returned no sooner than calculated utilizing ARAM or the Company would be assessed federal penalties. Any

penalties assessed in association with the Company's treatment of EDIT would be an excluded expense that could not be recaptured through UUSF. Please refer to the EDIT tab on Exhibit 1, page 3 for the calculation and amortization amounts. The Division recommends the Company should refund the UUSF \$81,631.71 annually for the next five years.

Conclusion

The DPU recommends adjusting the Utah USF distribution for Central Utah Telephone Company to \$96,976.29 annually, or \$8,081.11 monthly, effective January 1, 2019.

cc: Ross Cox, Central Utah Telephone Company