State of Utah
Department of Commerce
Division of Public Utilities

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Recommendation

To: Utah Public Service Commission

From: Utah Division of Public Utilities
Chris Parker, Director
William Duncan, Manager
Paul Hicken, Technical Consultant

Date: October 4, 2018

Re: **2019 UUSF Recommendation for Manti Telephone Company.**
Docket #18-046-01

Preliminary Recommendation

The Public Service Commission of Utah (PSC) should decrease the annual Utah USF payable to Manti Telephone Company to $695,232.89 annually, or $57,936.07 monthly, effective January 2019. This is a reduction of $254,767 annually.

Issue

The Division of Public Utilities (DPU) has reviewed the annual report of Manti Telephone Company submitted on April 12, 2018. Pursuant to PSC rule R746-8-401(a) and (b), the DPU has calculated the annual USF eligibility to be $754,075 annually.

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 1) 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 Manti Telephone Company.

Discussion

In calculating the USF eligibility for Manti Telephone Company, 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.
3) Depreciation – Manti Telephone Company utilizes single asset straight line depreciation rather than group asset depreciation. Depreciation expense will be unaffected by current rule changes for companies using group asset depreciation.
4) USF Excluded Costs – Manti Telephone is an average schedule company and is not subject to federal USF excluded costs.
5) UUSF Eligibility – Based on Manti Telephone Company's 2017 Annual Report, the DPU has calculated the annual revenue requirement beginning with Calendar Year 2019 to be $754,075.
6) Accumulated Deferred Income Tax – Manti used deferred tax credits of $335,396 in 2017 to take advantage of the higher rates. Consequently its actual tax payments decreased and total revenue increased above the revenue requirement for UUSF. Therefore, a reduction in UUSF is recommended based on the 2017 Annual Reports.
7) Deferred Regulatory Liability – Because of the federal tax rate change for 2018, Manti Telephone has Excess Deferred Income Tax which is a Regulatory Liability and should be returned to the UUSF. Manti calculated an amortization schedule to return the Excess Deferred Income Tax based on the life of the assets. Using the company's calculations, the Division recommends lowering the 2019 annual distribution from the UUSF an additional $58,842.11 and following the amortized payback schedule until the Deferred Regulatory Liability is fully paid off. This reduction is in addition to the reduction of $195,925- annually calculated by the review of the 2017 annual report.

Conclusion

The DPU recommends adjusting the Utah USF distribution for Manti Telephone to $695,232.89 annually or $57,936.07 monthly.

Cc: Tami Hansen, CFO – Manti Telephone Company, Inc.