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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 Beehive Telephone Company**
Docket No. 18-051-01

Preliminary Recommendation (Approve)

The Public Service Commission of Utah (PSC) should increase the annual 2019 Utah USF (UUSF) payable to Beehive Telephone Company (Company) to \$ 1,485,267 annually, or \$123,772.25 monthly amount, effective January 1, 2019.

Issue

The Division of Public Utilities (DPU) has reviewed the annual report of Beehive 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 \$1,485,267 annually. This is an increase of \$1,485,267 in UUSF payments as Beehive is not receiving Utah USF.

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 Beehive Telephone Company.

Discussion

In calculating the UUSF eligibility for Beehive 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) Beehive Telephone Company's income tax cost was increased due to the DPU utilizing actual interest expense. Beehive currently has debt in its capital structure and interest expense on its books.
- 4) Depreciation – Beehive 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.

Conclusion

Based on the review of the 2017 Annual Reports submitted by Beehive Telephone Company and the factors discussed above, the DPU recommends increasing the Utah USF distribution for Beehive Telephone Company to \$1,485,267 annually or \$123,772.25 monthly amount.

cc: Ray Hendershot, Beehive Telephone Company (ray.hendershot@beehive.net)