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 South Central Utah Telephone Association. Docket #18-052-01.**

Preliminary Recommendation

The Public Service Commission of Utah (PSC) should increase the annual Utah USF payable to South Central Utah Telephone Association (SCUTA) to $5,378,573 annually, or $448,214.42 monthly effective January 2019. This is an increase of $3,275,285 annually.

Issue

The Division of Public Utilities (DPU) has reviewed the annual report of South Central Utah Telephone Association submitted on April 12, 2018. Pursuant to PSC rule R746-8-401(a) and (b), the DPU has calculated the annual UUSF eligibility to be $5,632,665 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 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 UUSF distribution of South Central Utah Telephone Association.

Discussion

In calculating the UUSF eligibility for South Central Utah Telephone Association, 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 tax rate change has no effect on SCUTA because it operates as a co-op and is a non-taxable entity.
3) Depreciation – SCUTA utilizes a group asset depreciation method rather than single asset straight line depreciation. Depreciation expense will be affected by current rule changes for companies using group asset depreciation. SCUTA has a significant amount of assets still in use that are beyond the PSC-prescribed depreciable life.
4) Accumulated Deferred Income Tax – SCUTA is a non-taxable entity and ADIT has no effect on its operations.
5) Working Cash – SCUTA reported working capital of $740,770. However, DPU estimated working capital to be $450,628.
6) USF Excluded Costs – SCUTA reported a total of $254,092 costs that were considered excluded costs for the USF calculation.

Conclusion

The DPU recommends adjusting the Utah USF distribution for South Central Utah Telephone Association (SCUTA) to $5,378,573 annually or $448,214.42 monthly.

Cc: Annette Ormond, Accounting, South Central Utah Telephone Association