# Recommendation

**To:** Utah Public Service Commission

**From:** Utah Division of Public Utilities
Chris Parker, Director
William Duncan, Manager
Joseph Hellewell, Utility Analyst

**Date:** October 4, 2018

**Re:** **2019 USF Recommendation for Union Telephone Company, Docket No. 18-054-01**

## Preliminary Recommendation

The Public Service Commission of Utah (PSC) should decrease the annual Utah USF payable to Union Telephone to $0.00 annually, effective January 1, 2019. This is an annual decrease of $75,861.00.

## Issue

The Division of Public Utilities (DPU) has reviewed the annual report of Union telephone submitted on August 30, 2018. Pursuant to PSC rule R746-8-401(a) and (b), the DPU has calculated the annual USF eligibility to be $0.00 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 Union Telephone.

## Discussion

In calculating the USF eligibility for Union 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. However since Union Telephone company didn't pay any income taxes in 2017 there is no difference between actual taxes paid and estimated taxes.
3) Depreciation – Union Telephone does not utilize single asset straight line depreciation. Depreciation expense will be affected by current rule changes.
4) Interest Synchronization – The DPU utilized the principle of interest synchronization as a method to account for interest expense that would be potentially paid with the adoption of the hypothetical debt structure. This principle was used to calculate this recommendation.
5) Increased Federal USF: Union received a substantial increase in federal interstate universal service fund revenue in 2017. This materially impacted Union Telephone's draw on the Utah Universal Service Fund.
6) Deferred Regulatory Liability – Because of the change in federal tax rate and using accelerated depreciation in prior years, Union Telephone has a deferred regulatory liability. The total liability incurred by Union Telephone is $151,999.79. The Commission should consider what action may be appropriate with regard to Union Telephone's rates and the amortization of this liability.

Exhibit 1.1 accompanying this recommendation shows only the Department of Public Utilities' (DPU) method in calculating Union Telephone's annual Utah USF subsidy, which is $0.00.

## Conclusion

The DPU recommends adjusting the Utah USF distribution for Union Telephone to $0.00 annually.