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
Casey J. Coleman, Utility Technical Consultant

Date: October 4, 2018

Re: **2019 USF Recommendation for All West Communications**, Docket No. 18-2180-01

Preliminary Recommendation

The Public Service Commission of Utah (PSC) should decrease the annual Utah USF payable to All West Communications to $1,197,558 annually, or $99,796.49 monthly. This is a reduction of $844,453 from the current amount.

Issue

The Division of Public Utilities (DPU) has reviewed the annual report of All West Communications submitted on April 16, 2018. Pursuant to PSC rule R746-8-401(a) and (b), the DPU has calculated the annual USF eligibility to be $1,197,558 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 All West Communications.

Discussion

In calculating the USF eligibility for All West Communications, 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 $20,073 compared to actual taxes paid in 2017
3) Depreciation – All West Communications 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
4) The Division notes that All West Communications reported an additional $532,677 of Federal USF assistance for 2017.
5) A review of the 2017 annual report calculated a UUSF decrease of $630,738 annually.
6) Deferred Regulatory Liability – All West Communications used accelerated depreciation in 2017. Because of the change in federal tax rate and using accelerated depreciation in prior years, All West Communication has a Deferred Regulatory Liability that should be returned to the UUSF. All West calculated a seven year amortization for the Excess Deferred Income Tax. Using the company's calculations, the Division recommends lowering the distribution from UUSF an additional $213,715 annually until the Deferred Regulatory Liability has been fully amortized. This decrease is in addition to the decrease noted in item 5.
7) The Division is waiting for All West Communications to provide the FCC List of Prohibited Expenses—Expense Categories that are Precluded from Recovery via the High-Cost USF. Once the Division receives this report some adjustments to this number are possible.

Conclusion

The DPU recommends adjusting the Utah USF distribution for All West Communications to $1,197,558 annually, or $99,796.49 monthly.

Cc: Jenny Prescott, Vice-President Finance & HR