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

Joseph Hellewell, Utility Analyst

Date: October 4, 2018

Re: **2019 USF Recommendation for Carbon/Emery Telcom, Inc., Docket No. 18-2302-02**

Preliminary Recommendation

The Public Service Commission of Utah (PSC) should increase the annual Utah USF payable to Carbon/Emery Telcom, Inc. to $1,370,670.00 annually, or $114,222.46 monthly, effective January, 2019. This is an annual increase of $484,600.00.

Issue

The Division of Public Utilities (DPU) has reviewed the updated annual report of Carbon/Emery Telcom Inc. submitted on Oct. 1, 2018. Pursuant to PSC rule R746-8-401(a) and (b), the DPU has calculated the annual USF eligibility to be $1,370,670.00 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 Carbon/Emery Telcom Inc.

Discussion

In calculating the USF eligibility for Carbon/Emery Telcom Inc., 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 – Carbon/Emery Telcom Inc. utilizes single asset straight line depreciation rather than group asset depreciation. Depreciation expense will be unaffected by current rule changes for companies using single asset depreciation. However, Carbon/Emery's depreciation method change from group to straight line contributed to a change in its UUSF subsidy.
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 methodology was used to calculate this recommendation.
5) Deferred Regulatory Liability – Because of the change in federal tax rate and using accelerated depreciation in prior years, Carbon/Emery Telcom has a deferred regulatory liability that should be returned to the Utah USF. Using the company's calculations, the Division recommends that Carbon/Emery Telcom pay back the liability in accordance with the amortization table prepared according to IRS statute. The total liability incurred by Carbon/Emery Telcom is $42,495. Carbon/Emery Telcom has elected to pay back the entire liability in the first year. This equates to a $42,495 reduction to Carbon/Emery Telcom's calculated Utah USF amount of $1,413,165 resulting in a net annual disbursement of $1,370,670.00 in 2019.

Exhibit 1.1 accompanying this recommendation shows only the DPU method in calculating Carbon/Emery Telcom's annual Utah USF subsidy, which is $1,413,165.00. The payback of all Carbon/Emery Telcom's deferred income tax in the first year is responsible for the DPU's recommendation of $1,370,670.00.

Conclusion

The DPU recommends adjusting the Utah USF distribution for Carbon/Emery Telcom Inc. to $1,370,670 annually, or $114,222.46 monthly.