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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
Shauna Benvegnu-Springer, Utility Technical Consultant

Date: October 4, 2018

Subject: **2019 USF Preliminary Recommendation for Skyline Telecom**

Docket: 18-576-01

Preliminary Recommendation (Approve)

The Public Service Commission of Utah (PSC) should decrease the annual 2019 Utah USF payable to Skyline Telecom to $0 annually, or no monthly amount effective January 1, 2019.

Issue

The Division of Public Utilities (DPU) has reviewed the annual report of Skyline Telecom 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 $0 annually. This is a reduction of $46,308 in UUSF payments.

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 Skyline Telecom.

Discussion

In calculating the USF eligibility for Skyline Telecom, 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 $115,000 compared to actual taxes paid in 2017.

3) Skyline Telecom' income tax cost was further reduced due to the DPU utilizing the principle of interest synchronization. Bear Lake currently has no debt in its capital structure and interest expense on its books.

4) Depreciation – Skyline Telecom 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.

5) Accumulated Deferred Income Tax (ADIT) – Skyline Telecom has utilized accelerated depreciation and has accumulated deferred income taxes. Due to the decrease in the federal tax rate, the Company has excess deferred income taxes (EDIT). EDIT is a deferred regulatory liability. The legislation that reduced federal taxes requires that a normalization method of accounting must be used to amortize EDIT over the original life of the underlying assets for public utility property. The primary method provided in the legislation is the average rate assumption method (ARAM). The legislation further advised that EDIT should be returned no sooner than calculated utilizing ARAM or the Company would be assessed federal penalties. Any penalties assessed in association with the Company's treatment of EDIT would be an excluded expense that could not be recaptured through UUSF. Please refer to the EDIT tab on Exhibit 1, page 3 for the calculation and amortization amounts. The Commission should consider how to address this issue going forward for companies with no UUSF support.

Conclusion

Based on the review of the 2017 Annual Report submitted by Skyline Telecom and the factors discussed above, the DPU recommends reducing the Utah USF distribution for Skyline Telecom to $0 annually or no monthly amount January 1, 2019

cc: Ross Cox, Skyline Telecom (rcox@centracom.com)