State of Utah
Department of Commerce
Division of Public Utilities

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Memorandum

To: Utah Public Service Commission

From: Utah Division of Public Utilities
Chris Parker, Director
Artie Powell, Manager
Shauna Benvegnu-Springer, Utility Technical Consultant
Gary Smith, Utility Analyst

Date: October 3, 2019

Re: **CORRECTED 2020 UUSF Recommendation - Central Utah Telephone Company, Docket No. 19-040-01**

Recommendation (Approve)

The Division recommends the Public Service Commission of Utah (PSC) should decrease the annual Utah Universal Service Fund (UUSF) payable to Central Utah Telephone Company (Central UTC) from $663,712 annually, or $55,309.33 monthly to $0 annually, effective January 1, 2020.

Issue

The Division of Public Utilities (DPU) has reviewed the annual report of Central UTC submitted on April 15, 2019. Pursuant to PSC rule R746-8-401(a) and (b). Based on Central UTC's calculated rate of return, the DPU finds the company is not eligible for UUSF distributions effective January 1, 2020.

Background

PSC rule R746-8-401 requires the DPU to recommend to the PSC adjustments to the monthly UUSF distribution for each provider based on 1) the FCC rate of return set forth in R746-401-(3)(a) and the providers financial information from its last annual report filed with the

Commission. This memo presents the DPU's recommendation for adjustment to the UUSF distribution of Central UTC.

Discussion

In calculating the UUSF eligibility for Central UTC, the Division utilized the following:

1) Rate of Return – Because the FCC prescribed rate of return (ROR) changes on July 1, 2020, the DPU used an average of the 10.25% ROR that would be applicable from January to June, 2020, and the 10.00% applicable from July to December 2020. The average rate is 10.125%.

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 UUSF calculation.

3) Depreciation – Central UTC 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.

4) Accumulated Deferred Income Tax (ADIT) – Central Utah Telephone 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, which should be returned to UUSF. 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.

Conclusion

The DPU recommends the PSC adjust the UUSF distribution for Central UTC to $0 annually.

cc: Ross Cox, Central Utah Telephone Company
Michele Beck, Office of Consumer Services
Justin Jetter, Assistant Attorney General