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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

Artie Powell, Manager

Paul Hicken, Technical Consultant

Mark Long, Utility Analyst

**Date:** October 1, 2019

**Re:** **2020 UUSF Recommendation for Manti Telephone Company.**

**Docket No. 19-046-01**

## Preliminary Recommendation

The Public Service Commission of Utah (PSC) should adjust the annual Utah Universal Service Funds (UUSF) payable to Manti Telephone Company to $857,308 annually, or $71,442.42 monthly, effective January 1, 2020.

## Issue

The Division of Public Utilities (DPU) has reviewed the 2018 annual report of Manti Telephone Company submitted on April 12, 2019. Pursuant to PSC rule R746-8-401(4), the DPU has calculated the annual UUSF eligibility to be $928,708 annually. However, the company has a liability of Excess Deferred Income Tax. The amortized amount for 2019 is $71,399.58, which must be deducted from the 2020 allotment. Therefore the 2020 annual distribution should be $857,308.

## Background

PSC rule R746-8-401 requires the DPU to make annual recommendations to the PSC for adjustments to the monthly UUSF distribution to each provider based on an established FCC rate of return and the provider's financial information from its last Annual Report filed with the Commission. This memo details why the DPU recommends a decrease to the UUSF distribution for Manti Telephone Company.

## Discussion

In calculating the UUSF eligibility for Manti Telephone Company, 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 USF calculation.
3) Depreciation – Manti Telephone Company 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.
4) USF Excluded Costs – Manti Telephone is an average schedule company and is not subject to federal USF excluded costs.
5) UUSF Eligibility – Based on Manti Telephone Company's 2018 Annual Report, the DPU has calculated the annual UUSF requirement beginning with Calendar Year 2020 to be $928,708.
6) Accumulated Deferred Income Tax – Manti used most of its deferred tax credits in 2017 to take advantage of the higher rates. In 2018 only $12,000 of tax credits were reported, a significant reduction from last year.
7) Deferred Regulatory Liability – Because of the federal tax rate change for 2018, Manti Telephone has Excess Deferred Income Tax, which is a Regulatory Liability and should be returned to the UUSF. Manti calculated an amortization schedule to return the Excess Deferred Income Tax based on the life of the assets. Using the company's calculations, the Division recommends lowering the 2020 annual distribution from the UUSF by $71,399.58 and following the amortized payback schedule until the Deferred Regulatory Liability is fully paid off. This reduces the UUSF annual distribution further to the amount of $857,308.42 annually.
8) The Division notes that Manti did not report any Federal USF assistance for 2018.

## Conclusion

The DPU recommends adjusting the 2020 Utah USF distribution for Manti Telephone to $857,308 annually or $71,442.42 monthly.

Cc: Tami Hansen, CFO – Manti Telephone Company, Inc.