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State of Utah
Department of Commerce
Division of Public Utilities

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Executive Director

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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
Joseph Hellewell, Utility Analyst

Date: October 1, 2019

Re: **2020 UUSF Recommendation for Union Telephone Company, Docket No. 19-054-01**

Preliminary Recommendation

The Public Service Commission of Utah ("PSC") does not need to adjust the annual Utah USF ("UUSF") payable to Union Telephone Company ("Union"). The Company did not receive any UUSF support for 2019 and that level of support is accurate for 2020.

Issue

The Division of Public Utilities ("DPU") has reviewed the annual report of Union submitted on April 30, 2019. Pursuant to PSC rule R746-8-401(a) and (b), the DPU has calculated the annual UUSF eligibility to be $0.00 annually.

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 provider's financial information from its last annual report filed with the

Commission. This memo presents the DPU recommendation for adjustment to the UUSF distribution of Union.

Discussion

In calculating the UUSF eligibility for Union, the DPU 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% 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. However since Union didn't pay any income taxes in 2017 there is no difference between actual taxes paid and estimated taxes.
3) Depreciation – Union does not utilize single asset straight line depreciation. Depreciation expense may be affected by current rule changes.
4) Increased Federal USF: Union received a substantial increase in federal interstate universal service fund revenue in 2017. This materially impacted Union's draw on the UUSF.
5) Deferred Regulatory Liability – Because of the change in federal tax rate and using accelerated depreciation in prior years, Union has a deferred regulatory liability. The total liability incurred by Union is $151,999.79. The Commission should consider what action may be appropriate with regard to Union's rates and the amortization of this liability.

Exhibit 1.1 accompanying this recommendation shows only the Department of Public Utilities' (DPU) method in calculating Union's annual UUSF subsidy, which is $0.00.

Conclusion

The DPU recommends keeping the UUSF distribution for Union Telephone to $0.00 annually.

Cc: Chris Reno, CEO, Union Telephone Company