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
Artie Powell, Manager
Casey J. Coleman, Utility Technical Consultant
Joseph Hellewell, Utility Analyst

Date: October 1, 2019

Re: **2020 UUSF Recommendation for Hanksville Telcom, Docket No. 19-2303-01**

Preliminary Recommendation

The Public Service Commission of Utah ("PSC") should adjust the annual Utah USF ("UUSF") payable to Hanksville Telcom (Hanksville) to $27,867 annually, or $2,322.25 monthly, effective January 1, 2020. Hanksville's current annual UUSF distribution is $57,968.

Issue

The Division of Public Utilities ("DPU") has reviewed the annual report of Hanksville submitted on July 25, 2019. Pursuant to PSC rule R746-8-401(a) and (b), the DPU has calculated the annual UUSF eligibility to be $32,996 or $2,749.67 monthly 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 provider's financial information from its last annual report filed with the PSC. This memo presents the DPU recommendation for adjustment of the UUSF distribution to Hanksville.

Discussion

In calculating the UUSF eligibility for Hanksville, 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 10.00% 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 – Hanksville 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) FCC Excluded Costs – Hanksville included costs that were excluded by the Federal Cost Study. These costs were then adjusted out by the DPU.
5) UUSF Eligibility – Based on Hanksville's 2018 Annual Report, the DPU has calculated the annual UUSF requirement beginning with calendar year 2020 to be $32,996.
6) Deferred Regulatory Liability – Because of the change in federal tax rate and using accelerated depreciation in prior years, Hanksville has Excess Deferred Income Tax (EDIT) which is a regulatory liability that should be returned to the UUSF. Using the company's calculations, the Division recommends that Hanksville payback the liability in accordance with the amortization table prepared according to IRS statute. The total liability incurred by Hanksville is $30,350.00. According to Hanksville's amortization this will result in payback of $5,129.00 for the current year. This equates to the total net UUSF disbursement of $27,867 in 2020.

Exhibit 1.1 accompanying this recommendation shows only the DPU's method in calculating Hanksville's annual UUSF subsidy, which is $32,996. The payback of all Hanksville's deferred income tax in the first year is responsible for the DPU's recommendation of $27,867.

Conclusion

The DPU recommends adjusting the UUSF distribution for Hanksville Telcom to $27,867 annually, or $2,322.25 monthly.

Cc: Michele Beck, Director – Office of Consumer Services

Brock Johansen, CEO – Carbon/Emery Telcom, Inc.