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## State of Utah

### Department of Commerce Division of Public Utilities

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## Recommendation

**To:** Public Service Commission of Utah

**From:** Utah Division of Public Utilities

Artie Powell, Director

Brenda Salter, Utility Technical Consultant Supervisor

Shauna Benvegna-Springer, Utility Technical Consultant

Gary Smith, Utility Technical Consultant

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**Date:** September 29, 2020

**Re:** **Docket No. 20-040-01**, Central Utah Telephone Company – 2019 Annual Report  
UUSF Review.

### Recommendation (Approve)

The Division of Public Utilities (Division) recommends the Utah Public Service Commission (Commission) increase the 2021 Utah Universal Service Fund (UUSF) payment to Central Utah Telephone Company (Company) of \$329,140 annually or \$27,428.33 monthly effective January 1, 2021.

### Issue

The Division has reviewed the Company's 2019 fiscal year end (FYE) annual report submitted on April 15, 2020. Pursuant to Commission rule R746-8-401(4), the Division has calculated the Company's 2021 UUSF eligibility payment amount to be \$623,873 annually. Because of the federal tax law changes, the Division recommends the Company's UUSF payment for 2021 be

reduced by EDIT in the amount of \$294,733. This amount is derived from the combined EDIT years of 2019 and 2020 in the amounts of \$194,301 and \$100,432, respectively, based on the Company's ARAM schedule (Exhibit 2). The Division recommends reducing the proposed 2021 eligibility amount of \$623,873 by \$294,733 to \$329,140 annually.

## **Background**

Commission rule R746-8-401 requires the Division to recommend to the Commission adjustments to the monthly UUSF distribution for each provider based on 1) the FCC rate of return set forth in R746-8-401(3)(a) and 2) the provider's financial information from its last annual report filed with the Commission. This memo presents the Division's recommendation for adjustment to the UUSF distribution of the Company.

## **Discussion**

In calculating the UUSF eligibility for the Company, the Division utilized the following:

- 1) Rate of Return – Because the FCC prescribed Rate of Return (ROR) changes on July 1, 2021, the Division used an average of the 10.00% ROR that would be applicable from January to June, 2021, and the 9.75% applicable from July to December 2021. The average rate is 9.875%.
- 2) State and Federal Income Tax – The Division 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 – The Company utilizes group asset depreciation rather than single asset straight line depreciation. Depreciation expense may be affected by proposed rule changes for companies using group asset depreciation.
- 4) Excludable Expenses – The Company's annual report included costs that were adjusted by the Division to be excluded, based on their cost study completed for FYE 2019.

5) Accumulated Deferred Income Tax (ADIT) – The Company utilized accelerated depreciation and has accumulated deferred income taxes. The change in the federal tax rate resulted in, the Company accruing excess deferred income taxes (EDIT). EDIT is a deferred regulatory liability and should be returned to UUSF. 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 ARAM calculation on Exhibit 2 for the calculation and amortization amounts. The Division recommends the Commission reduce the Company's 2021 UUSF proposed eligibility amount by \$294,733.00. The 2019 EDIT in the amount of \$194,301 was not deducted because the Company did not qualify for 2020 UUSF payments. The Company's 2020 EDIT ARAM schedule reported \$100,432 for EDIT for the 2020 UUSF review. The combined 2019 and 2020 EDIT amounts total \$294,733. The Division recommends the Commission deduct \$294,733 from the UUSF eligibility amount of \$623,873 for the 2021 UUSF payment.

## **Conclusion**

The Division recommends adjusting the 2021 UUSF distribution for Central Utah Telephone Company from \$0 to \$329,140 annually, or \$27,428.33 monthly, effective January 1, 2021.

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