



GARY HERBERT
Governor

SPENCER J. COX
Lieutenant Governor

State of Utah

Department of Commerce Division of Public Utilities

CHRIS PARKER
Executive Director

ARTIE POWELL
Director, Division of Public Utilities

Recommendation

To: Public Service Commission of Utah

From: Utah Division of Public Utilities

Artie Powell, Director

Brenda Salter, Utility Technical Consultant Supervisor

Paul Hicken, Technical Consultant

Mark Long, Utility Analyst

Joanna Matyjasik, Utility Analyst

Date: August 25, 2020

Re: **Docket No. 20-053-01**, 2021 UUSF Recommendation for UBTA-UBET Communications, Inc. dba Strata Networks.

Recommendation (Approval)

The Utah Division of Public Utilities (Division or DPU) recommends the Public Service Commission of Utah (Commission or PSC) adjust the annual Utah Universal Service Fund (UUSF) funds payable to UBTA-UBET Communications, Inc. dba STRATA Networks to \$2,411,625 annually, or \$200,968.75 monthly, effective January 1, 2021.

Issue

The Division has reviewed the annual report of STRATA Networks received on April 15, 2020. Pursuant to PSC rule R746-8-401(4) the Division has calculated the amount of UUSF eligibility to be \$2,411,625 annually.

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 change to the UUSF distribution for STRATA Networks.

Discussion

In calculating the UUSF eligibility for STRATA Networks, the Division noted the following:

- 1) Rate of Return – Because the FCC prescribed Rate of Return (ROR) changes on July 1, 2021, the DPU 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 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. This tax rate change has no effect on STRATA Networks because it operates as a co-op and is a non-taxable entity.
- 3) Depreciation – In 2019, STRATA changed from a group asset depreciation method to single asset straight line depreciation. Depreciation expense in the future will not be affected by anticipated rule changes for companies using group asset depreciation method.
- 4) Accumulated Deferred Income Tax – STRATA is a non-taxable entity and ADIT has no effect on their operations.
- 5) The DPU notes that STRATA reported a decrease of \$1.1 million in Federal USF assistance for 2019.
- 6) The DPU notes that STRATA also reported an increase of \$9.2 million in rate base for 2019.

Conclusion

The DPU recommends adjusting the Utah USF distribution for STRATA Networks to \$2,411,625 or \$200,968.75 monthly.

Cc: Jason McKee, CFO, STRATA Networks.