State of Utah

Department of Commerce
Division of Public Utilities

CHRIS PARKER
Executive Director

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Director, Division of Public Utilities

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Lieutenant Governor

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

Date: September 24, 2020

Re: **Docket No. 20-2303-01,** 2021 UUSF Recommendation for Hanksville Telcom, Inc.

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 Hanksville Telcom, Inc. (Hanksville) to $76,299 annually, or $6,358.25 monthly, effective January 1, 2021.

Issue

The Division has reviewed the annual report of Hanksville received on April 15, 2020. Pursuant to PSC rule R746-8-401(4) the Division has calculated the amount of UUSF eligibility to be $81,428 annually, but because of a deferred regulatory liability the amount to be distributed is $76,299.

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

160 East 300 South, Box 146751, Salt Lake City, UT 84114-6751

Telephone (801) 530-7622 • Facsimile (801) 530-6512 • *www.publicutilities.utah.gov*

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 Hanksville, Inc.

Discussion

In calculating the UUSF eligibility for Hanksville, 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.
3) Depreciation – In 2019, Hanksville used single asset straight line depreciation. Therefore, depreciation expense in the future will not be affected by any anticipated rule changes to account for a group asset depreciation method.
4) Allocation Adjustments – There were adjustments to the rate base for allocation of shared equipment between regulated and non-regulated operations.
5) FCC Excluded Costs – There were costs included in the Annual Report that should be excluded from USF reimbursement. These costs were adjusted out by the DPU.
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. According to Hanksville's amortization this will result in payback of $5,129 for the current year. This equates to the total net UUSF disbursement of $76,299 in 2021.
7) The DPU notes that for 2019, Hanksville reported an increase of $46K in Federal USF and a decrease of $20K in Utah USF assistance.

Conclusion

The DPU recommends adjusting the Utah USF distribution for Hanksville to $76,299 or $6,358.25 monthly.

Cc: Brock Johansen, CEO – Hanksville Telcom, Inc.