



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

Bhavana Venjimuri, Utility Analyst

Date: November 16, 2020

Re: **Docket No. 20-2419-01**, Direct Communications Cedar Valley – 2019 Annual Report UUSF Review.

Recommendation (Approve)

The Division of Public Utilities' (Division) recommends the Utah Public Service Commission (Commission) adjust the Utah Universal Service Fund (UUSF) payable to Direct Communications Cedar Valley (Company) to \$2,465,886 annually, or \$205,490.50 monthly, effective January 1, 2021.

Issue

Pursuant to Commission rule R746-8-401, the Division reviewed the Company's annual report submitted on April 16, 2020, and determined that the Company's annual report was incomplete. The Division issued formal data requests to obtain additional information and held a meeting with the Company and their counsel on October 22, 2020. The Division has reviewed all information and responses from the Company and has calculated the recommended amount of UUSF eligibility to be \$2,465,886.

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 the FCC rate of return set forth in R746-8-401-(3)(a) and the provider's financial information from its last annual report filed with the Commission.

The Division received the Company's 2019 annual report on April 16, 2020, and issued a data request on May 5, 2020. The Company responded with incomplete information on June 10, 2020. The Division issued a second data request on August 7, 2020. The Company responded with incomplete information on September 11, 2020. The Division issued a third data request on October 8, 2020. The Company responded on November 4, 2020 (confidential copies attached). The information provided does not, in the Division's opinion, meet the burden of proof for recovery for certain expenses including a proposed management fee and a proposed consultant fee.

The Division understands that some management expense is reasonable, but the Company is relying on an affiliate entity to bill for management services rather than have company executive employees, but has not demonstrated that these management expenses are the lower of market or cost for the affiliate. The Company did not produce sufficient documentation to understand and confirm this expense and therefore has not met its burden of proof for recovery.

The Company also included a consulting expense for a firm owned by a sister and brother-in-law of the Company's managing owners. The consulting firm was paid the same amount monthly. When requested, the Company did not have any documentation of any specific value received from the consultant and only provided one invoice without any meaningful details of any specific services provided by the consultant. The Company could not produce a record of even a single communication exchange with the consulting company involving specific services requested and provided. The Division cannot identify any demonstrated value being provided to the Company for the ongoing expense and recommends disallowance of the consulting fee.

The Division's proposed recommended adjustments as mentioned above are found in the Revenue Requirement tab of the attached Excel Annual Report and UUSF workbook and the attached DPU Proposed Adjustment Summary.

Conclusion

The Division recommends the Commission adjust the UUSF distribution for Direct Communications Cedar Valley to \$2,465,886 annually, or \$205,490.50 monthly, effective January 1, 2021.

Cc: Kip Wilson, Direct Communications Cedar Valley - (kip@directcom.com)
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