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Department of Commerce Division of Public Utilities

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Action Request Response

To: Public Service Commission of Utah

From: Utah Division of Public Utilities

Chris Parker, Director

Artie Powell, Manager

Brenda Salter, Utility Technical Consultant Supervisor

Shauna Benvegna-Springer, Utility Technical Consultant

Gary Smith, Utility Technical Consultant

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Date: October 1, 2021

Re: **Docket No. 21-040-01**, Review of 2020 Annual Report for Central Utah Telephone and Recommendations for Utah Universal Service Fund assistance for Calendar Year 2022.

Recommendation (Approve)

The Division of Public Utilities (Division) recommendation to the Utah Public Service Commission (Commission) is to decrease the 2021 Utah Universal Service Fund (UUSF) payment to Central Utah Telephone Company (Company) to \$209,521 annually, or \$17,460.08 monthly, effective January 1, 2022. This recommendation is a decrease of 51.2256 % or \$220,051 annually, from \$429,572 issued annually on January 1, 2021.

Issue

The Commission requested the Division on April 16, 2021, to review the 2020 Annual report for compliance and recommendations. Pursuant to Commission Rule R746-8-401(4) the Division has reviewed the annual report and the report complies with the Commissions rule for reporting requirements. The Division has reviewed the annual report of the Company received on April 15, 2021. The Division calculated the amount of UUSF eligibility to be \$309,953 annually before the excess deferred income tax adjustment.

Background

Commission Rule R746-8-401 requires the Division to make annual recommendations to the Commission for adjustments to the monthly UUSF distribution to each provider based on an established Federal Communications Commission (FCC) rate of return and the provider's financial information from its last Annual Report filed with the Commission. This memo details why the Division recommends a change to the UUSF distribution for Central Utah Telephone.

Discussion

In calculating the UUSF eligibility for Central Utah Telephone, the Division noted the following:

- 1) Rate of Return –The FCC prescribed Rate of Return (ROR) effective on July 1, 2021, is 9.75%. This is the ROR the Division used for the revenue requirement calculation in this model.
- 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 USF calculation.
- 3) Depreciation – The Company utilizes a group asset depreciation method. Depreciation expense could be affected by current or future rule changes regarding asset depreciation methodologies.
- 4) Federal USF Excluded Costs – The Company had no excluded costs from their FCC expenditures reported for 2020.

- 5) Excess 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 1 for the calculation and amortization amounts. The Company's 2020 EDIT ARAM schedule reported \$100,432 for EDIT for the 2020 UUSF review. The Division recommends the Commission deduct \$100,432 from the UUSF eligibility amount of \$309,953 to equal \$209,521 for the 2022 UUSF payment.
- 6) Wholesale Broadband – The Company discontinued use of the NECA tariff in 2020. The Company provided wholesale broadband bundled access to their affiliate based at a rate above \$25 plus Access Recovery Charge (ARC) rate.
- 7) Consumer Broadband – The Company does not provide Consumer Broadband Only Loop (CBOL).

Conclusion

The Division recommends adjusting the 2021 Utah USF distribution for Central Utah Telephone to \$209,521 annually or \$17,460.08 monthly effective January 1, 2022.

cc: Ross Cox, Central Utah Telephone Company
Mike Plows, Central Utah Telephone Company
Brad Welch, Central Utah Telephone Company
Eddie Cox, Central Utah Telephone Company