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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

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Shauna Benvegnu-Springer, Utility Technical Consultant

Gary Smith, Utility Technical Consultant

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Date: October 1, 2021

Re: **Docket No. 21-052-01**, Review of 2020 Annual Report for South Central Telephone Association, Inc. and Recommendations for Utah Universal Service Fund assistance for Calendar Year 2022.

Recommendation (Approved)

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) amount payable to South Central Utah Telephone Association (SCUTA) to \$5,547,503 annually, or \$462,291.92 monthly, effective January 1, 2022. This recommendation is an increase of 2.8554% or \$154,006 annually, from \$5,393,497 received annually on January 1, 2021.

Issue

On April 16, 2021, the Commission requested the Division to review the 2020 Annual Report for compliance and make recommendations. Pursuant to Commission Rule R746-8-401(4) the Division has reviewed the annual report and found the report complies with the Commission's reporting requirements. The Division has reviewed the annual report of SCUTA received on April 15, 2021. The Division calculated the amount of UUSF eligibility to be \$5,547,503 annually.

Background

Commission 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 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 DPU recommends a change to the UUSF distribution for South Central Utah Telephone Association.

Discussion

In calculating the UUSF eligibility for SCUTA, 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 DPU used for the revenue requirement calculation in this model.
- 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. The tax rates do not affect SCUTA because it operates as a non-taxable entity.
- 3) Depreciation – SCUTA 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 – SCUTA included \$168,684 of costs in their Annual Report that should have been excluded from USF reimbursement. These costs were adjusted out by the DPU.
- 5) Excess Accumulated Deferred Income Tax – SCUTA is a non-taxable entity and ADIT has no effect on their operations.
- 6) Wholesale Broadband – SCUTA provided broadband access to their affiliate based on the DSL revenue requirement calculated by their consultants in 2019 and 2020. The amount, divided by 12 months, divided by the average monthly line counts, equals an average wholesale rate greater than \$21.00 per line per month.
- 7) Consumer Broadband - SCUTA does not provide Consumer Broadband Only Loop (CBOL).
- 8) Corporation Allocations – SCUTA provided the allocation tables for the non-regulated expenses. The non-regulated costs were not included in the 2020 Annual Report expenditures.

Conclusion

The DPU recommends adjusting the 2021 Utah USF distribution for South Central Utah Telephone Association to \$5,547,503 annually or \$462,291.92 monthly.

Cc: Annette Ormond, Accounting, – South Central Utah Telephone Association