State of Utah

Department of Commerce
Division of Public Utilities

MARGARET W. BUSSE
Executive Director

CHRIS PARKER
Director, Division of Public Utilities

SPENCER J. COX
Governor

DEIDRE HENDERSON
Lieutenant Governor

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
Casey J. Coleman, Utility Technical Consultant

Date: October 1, 2021

Re: **Docket No. 21-2303-01,** Review of 2020 Annual Report for Hanksville Telcom, Inc. and Recommendations for Utah Universal Service Fund assistance for Calendar Year 2022.

Preliminary Recommendation

The Public Service Commission of Utah ("PSC" or "Commission") should adjust the annual Utah Universal Service Fund ("UUSF") payable to Hanksville Telcom, Inc. (Hanksville) to $29,338.76 annually, or $2,444.90 monthly effective January 1, 2022. For the 2021 calendar year Hanksville received $76,299 annually, or $6,358.25 monthly. The current recommendation represents a UUSF decrease of $46,960.24 annually or $3,913.35 monthly.

Issue

The Division of Public Utilities ("DPU" or "Division") has reviewed the annual report of Hanksville submitted on April 15, 2021. Pursuant to PSC rule R746-8-401(3)(a) and (b) and R746-8-401(4)(a) and (b), the DPU has calculated the annual UUSF eligibility for 2022 to be $34,467.76. However, the company has a Deferred Regulatory Liability of $5,129 for 2022. This liability should be deducted from its UUSF distributions. Therefore the 2022 annual distribution should be $29,338.76 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 presents the DPU recommendation for adjustment to the UUSF distribution for Hanksville.

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") previously changed on July 1, of each year the DPU had used a blended ROR for Hanksville in previous years. The glide path in rates suggested by the FCC has concluded so a blended rate is not necessary. The DPU used a 9.75% ROR for Hanksville.
2) Depreciation – In 2020, Hanksville used a method that is similar to a vintage depreciation method. Therefore, depreciation expense in the future will not be affected by any anticipated rule changes to account for a group asset depreciation method.
3) Allocation Adjustments – There were adjustments to the rate base for allocation of shared equipment between regulated and non-regulated operations.
4) 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.
5) 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 $29,338.76 in 2022.

Conclusion

The DPU recommends adjusting the Utah USF distribution for Hanksville to $29,338.76 annually, or $2,444.90 monthly.

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