State of Utah

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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Date: October 1, 2021

Re: **Docket No. 21-2419-01,** Review of 2020 Annual Report for Direct Communications Cedar Valley, and Recommendations for Utah Universal Service Fund assistance for Calendar Year 2022.

Recommendation (Approval)

The Utah Division of Public Utilities (Division or DPU) recommends the Public Service Commission of Utah (Commission or PSC) adjust the Utah Universal Service Fund (UUSF) amount payable to Direct Communications Cedar Valley (DCCV or Company) to $1,605,074 annually or $133,756.17 monthly, effective January 1, 2022. This is a decrease of $1,378,912 from the amount stipulated ($2,983,986) on May 27, 2021.

Issue

The Division has reviewed the annual report of DCCV received on April 15, 2021. Pursuant to PSC Rule R746-8-401(4), the Division has calculated the amount of UUSF eligibility to be

$1,693,634 annually. However, the company had a liability of Excess Deferred Income Tax for 2021 in the amount of $88,560 which must be deducted from the 2022 allotment. Therefore the 2022 annual distribution would be $1,605,704.

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 details why the DPU recommends a change to the UUSF distribution for Direct Communications Cedar Valley.

Discussion

In calculating the UUSF eligibility for DCCV, 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 UUSF calculation.
3) Depreciation – DCCV utilizes an accelerated depreciation method rather than single asset straight-line depreciation. Depreciation expense may be affected by proposed depreciation rule changes in the future for companies using accelerated asset depreciation.
4) Accumulated Deferred Income Tax – The Company reported Excess Accumulated Deferred Income Tax (EDIT) in 2020 which is considered a deferred liability and should be deducted from the 2022 UUSF distribution. The 2021 amortized amount that should be deducted from the 2022 distribution is $88,560.
5) Wholesale Broadband – DCCV provides Consumer Broadband Only Loops (CBOL) to their affiliate at the wholesale rate of $1 per month per access line. The recommended wholesale rate for this offering is $25 per month. The DPU imputed revenue at the rate of $24 per month because the Company already collected $1 per line per month. This resulted in an adjustment of $2,444,616 to the Company's revenue, thus reducing significantly its eligibility for UUSF support.
6) The Division notes that for 2020, DCCV reported only $137,300 of federal USF assistance and no Lifeline support.

Conclusion

The DPU recommends adjusting the 2022 Utah USF distribution for Direct Communications Cedar Valley to $1,605,074 annually, or $133,756.17 monthly beginning January 1, 2022.

Cc: Kip Wilson, President - Direct Communications Cedar Valley

R. Michael Parish, Direct Communications Cedar Valley