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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
Artie Powell, Manager
Brenda Salter, Utility Technical Consultant Supervisor
Trevor Jones, Utility Analyst
Paul Hicken, Technical Consultant

Date: September 1, 2022

Re: **Docket No. 22-043-01**, Review of 2021 Annual Report for Gunnison Telephone Company and Recommendations for Utah Universal Service Fund assistance for Calendar Year 2023.

Recommendation (Approval)

The Utah Division of Public Utilities (Division) recommends the Public Service Commission of Utah (Commission) adjust the annual Utah Universal Service Fund (UUSF) amount payable to Gunnison Telephone Company (Company) to \$457,054 annually, or \$38,088 monthly, effective January 1, 2023. This recommendation is an increase by \$123,232 from the \$333,822 issued for the year 2022.

Issue

On March 10, 2022, the Commission requested the Division review the Company's 2021 Annual Report for compliance and recommendations. Pursuant to the Utah Admin. Code R746-8-401, the Division reviewed the annual report for compliance. The Division calculated the amount of UUSF eligibility to be \$457,054 annually.

Division of Public Utilities

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Background

Rule 746-8-401(9) requires the Division to make annual recommendations to the Commission for adjustments to the monthly UUSF distribution for 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 presents the Division's recommendation.

Discussion

In calculating the UUSF eligibility for the Company, the Division noted the following:

1. Rate of Return – The FCC prescribed Rate of Return (ROR) effective on July 1, 2022, is 9.75%. This is the ROR the Division used in its models.
2. Depreciation – The Company utilizes single asset straight-line depreciation rather than group asset depreciation. Depreciation expense may be affected by future rule changes.
3. 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 UUSF calculation.
4. Accumulated Deferred Income Tax – The Company is a taxable entity and there is no ADIT on its operations.
5. Wholesale Broadband – The Company provided broadband access to its affiliate based on the NECA tariff rate.
6. Consumer Broadband – The Division imputed \$26,258 in revenue in calculating the revenue requirement.
7. Net Utility Operating Income – In the Division's calculation of the revenue requirement, it was noted that operating expenses and tax expenses had increased which decreased the amount of Net Income compared to the prior year. This caused the revenue requirement to increase this year.

Conclusion

The Division recommends adjusting the 2023 UUSF distribution for Gunnison Telephone Company to \$457,054 annually, or \$38,088 monthly, effective January 1, 2023.

cc: Natalie Gleave, Gunnison Telephone Company
Pat Thorne, Thorne & Associates, CPA's