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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
Joanna Matyjasik, Utility Analyst
Paul Hicken, Technical Consultant

Date: September 1, 2022

Re: **Docket No. 22-050-02**, Review of 2021 Annual Report for Navajo Communications Company, Inc. d/b/a Frontier Navajo Communications Company, and Recommendations for Utah Universal Service Fund assistance for Calendar Year 2023.

Recommendation (No Action)

The Utah Division of Public Utilities (Division or DPU) recommends no change in the Utah Universal Service Fund (UUSF) assistance to Navajo Communications Company, Inc. (Navajo or Company). The Public Service Commission of Utah (PSC or Commission) is currently not paying any assistance. Based on the Company's 2021 Annual Report, the Company does not qualify for UUSF payments in the 2023 calendar year.

Issue

The Division has reviewed the 2021 annual report of Navajo Communications Company, Inc. received on April 18, 2022. Pursuant to PSC Rule R746-8-401(4), the Division has determined that no adjustments are necessary to the UUSF eligibility for Navajo.

Division of Public Utilities

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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 notable findings and any recommended changes to the UUSF distribution for Navajo Communications Company, Inc.

Discussion

In calculating the UUSF eligibility for Navajo Communications Company, Inc., the Division noted the following:

- 1) UUSF Eligibility (Reported Earnings Exceed Authorized ROR) – Navajo reported net operating income of \$184,197. Based on an authorized 9.75% rate of return and various adjustments, the Company would be allowed \$182,521 net operating income. This makes them ineligible for UUSF assistance.
- 2) Accumulated Depreciation – Navajo reported more than \$4.7 million of accumulated depreciation in 2021, leaving an adjusted rate base of \$2 million. The company's assets are almost fully depreciated and there is minimal rate base left as a basis for return on investment.
- 3) Customer Counts Are Decreasing – Residential customer counts for 2021 were reported at 41 and business customers were 144. This is a decrease of 4% in total customers from 2020. However, the total customers have decreased from 300 to 185, more than 38% over the last six years. Declining customers may be a factor in the Company's reluctance to invest in new rate base.
- 4) Excess Deferred Income Tax (EDIT) – Navajo reported \$278 of deferred income taxes for 2021. This affects the company's net operating income and may affect future UUSF distributions. The Commission has not ruled how to address this issue for companies with no UUSF support.
- 5) Rate of Return – The FCC prescribed Rate of Return (ROR) effective on July 1, 2021, is 9.75%.¹ This is the ROR the DPU used for the revenue requirement calculation in this model.
- 6) 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.

¹ Federal Register, Vol. 87, No. 56, March 23, 2022, p. 16576.

Conclusion

The DPU recommends no change to the Utah USF distribution for Navajo Communications Company, Inc.

cc: Jessica Matushek, Director of Accounting, Navajo Communications Company, Inc.