Action Request Response

To: Public Service Commission of Utah

From: Utah Division of Public Utilities

Chris Parker, Director
Brenda Salter, Assistant Director
Abdinasir Abdulle, Utility Technical Consultant Supervisor
Casey J. Coleman, Utility Technical Consultant
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Date: September 1, 2023

Re: **Docket No. 23-2419-01,** Review of 2022 Annual Report of Direct Communications Cedar Valley and Recommendations for Utah Universal Service Fund assistance for Calendar year 2024.

Preliminary Recommendation

The Division of Public Utilities ("Division" or "DPU") recommends the Public Service Commission of Utah ("PSC" or "Commission") adjust the annual Utah Universal Service Fund ("UUSF") payable to Direct Communications Cedar Valley ("DCCV" or "Company") to $2,604,685 annually, or $217,057.08 monthly, effective January 1, 2024. For the 2023 calendar year, DCCV received $3,094,626 annually, or $257,885.50 monthly. The current recommendation represents a UUSF decrease of $489,941 annually or $40,828.42 monthly.

Issue

The Division has reviewed the annual report of DCCV submitted on April 18, 2023. Pursuant to PSC rule R746-8-401(6)(a) and (b) and R746-8-401(7), the DPU has calculated the annual UUSF eligibility for 2024 to be $2,693,245. However, the Company has a Deferred Regulatory Liability of $88,560 for 2024. This liability should be deducted from its UUSF distributions. Therefore the 2024 distribution should be $2,604,685 annually or $217,057.08 monthly.

Background

PSC rule R746-8-401 requires the DPU to recommend to the PSC adjustments to the monthly UUSF distribution for each provider based on the FCC rate of return set forth in R746-401-(7)(b) and the provider's financial information from its last annual report filed with the Commission. This memo presents the DPU's recommendation for adjustment to the UUSF distribution of DCCV.

Discussion

In calculating the UUSF eligibility for DCCV, the Division utilized the following:

1) Rate of Return –The DPU used a 9.75% rate, which is the rate-of-return prescribed by the FCC for DCCV.
2) 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.
3) A review of the 2022 annual report calculated a UUSF decrease of $401,381 annually. This decrease reflects DCCV seeing an increase in Switched Access Revenues.
4) Deferred Regulatory Liability – DCCV used accelerated depreciation in 2018. Because of the change in federal tax rate and using accelerated depreciation in prior years, DCCV Communication has a Deferred Regulatory Liability that should be returned to the UUSF. DCCV calculated an amortization for the Excess Deferred Income Tax. Using the Company's calculations, the Division recommends lowering the UUSF distribution an additional $88,560 annually until the Deferred Regulatory Liability has been fully amortized. This decrease offsets some of the increase noted in item 3.
5) Imputed Revenues – DCCV imputed revenues for its Broadband Only customers and reflected those calculated amounts in its Annual Report.

Conclusion

The DPU recommends adjusting the UUSF distribution for DCCV Communications to $2,604,685 annually, or $217,057.08 monthly.

cc: Kip Wilson, President, Direct Communications Cedar Valley
R. Michael Parish, Direct Communications Cedar Valley