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UTAH DEPARTMENT OF COMMERCE

Division of Public Utilities

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Memorandum

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
Date: September 1, 2023
Re: **Docket No. 23-999-03**, UUSF Annual Review – Summary of Recommended Distributions

Recommendation (Approve)

The Division of Public Utilities (Division) recommends distributions from the Utah Universal Service Fund (UUSF) for High Cost Loop Support to telecom providers in 2024 totaling \$36,564,089 for the year. This is an increase of \$14,964,008 from the 2023 annual UUSF distribution of \$21,600,081.

The Division recommends a reduction to UUSF distributions for companies with Excess Deferred Income Tax (EDIT) by the annual normalization amount. The UUSF distribution recommended by the Division is reduced from the total UUSF of \$37,064,942 by \$500,853 for the repayment of EDIT as outlined in the attached summary Exhibit 1. The Division does not recommend repayment to the fund of EDIT from companies receiving no payments from the fund. The Division also recommends the Public Service Commission of Utah (Commission) increase the UUSF surcharge. While the Commission may wish for further analysis and comment on the appropriate amount, DPU estimates the surcharge will need to increase from \$0.36 to \$0.74 per line.

Issue

This memorandum provides the Commission with a summary of the Division's recommended UUSF High Cost Loop Support distributions commencing January 1, 2024. These recommended UUSF distributions are discussed in greater detail in contemporaneously filed dockets.

There are four types of disbursements allowed under the UUSF program: monthly High Cost Loop Support disbursements, monthly Relay Utah Program disbursements, biannual Lifeline Support disbursements, and One-Time Distributions as requested and approved. The Division's recommendations include a total of \$36,564,089 in annual distributions, an increase of \$14,964,008 from the current calendar year's distributions. Based on the current contribution level of \$0.36¹ per line and current connections of approximately 4 million, the annual contributions to the fund will total approximately \$17 million. Going forward, the appropriate charge or contribution per connection depends, of course, on many factors including the desired level of reserves, the expected cost of other programs and one-time distributions, and the desire for stability in the rate charged.

Background

Pursuant to PSC rule R746-8-401(9) and (10), the Division has filed separate dockets with the Commission recommending the amount of UUSF distributions for each qualifying rate-of-return regulated telecommunications provider to occur commencing January 1, 2024. Exhibit 1 to this memorandum summarizes these recommended UUSF annual distribution amounts for each provider and provides a comparison to distributions ordered to occur in 2023.

Discussion

In 2018, the Division calculated and recommended UUSF disbursements using a prospective or future (i.e., 2019) measure, akin to a test period in a routine general rate case. Some providers, including the Utah Rural Telecom Association, advocated that UUSF payments should be based on a "true-up" of a prior period (i.e., 2017). The Division has

¹ Calculation and Application of UUSF Surcharge, Docket No. 21-R008-01, R746-8-301, Rate Effective July 1, 2021.

since used the prior period annual report to calculate UUSF distributions. The Division reviewed the 2022 annual report for calculating the disbursements for 2024.

On July 2, 2021, the Division filed a Request for Agency Action² with the Commission to establish in rule, along with various other modifications, the process for annual reviews of the UUSF. Modifications to PSC rule R746-8-401 went into effect January 1, 2022. The annual review process includes the following:

- February 14 – annual report form provided to each rate-of-return regulated provider
- April 15 – rate-of-return regulated provider shall file its annual report
- September 1 – Division files non-binding estimate of any UUSF
 - Interested parties may seek intervention within 15 days of the Division's filing
- November 1 – Division files the final recommendation with the Commission
- November 15 – No later than November 15, parties may challenge the Division's recommendation
- January 1 – If the Division's recommendation is not challenged, and the Commission finds the UUSF distribution to be reasonable, the UUSF distribution amounts will become effective

The Division forecasted the UUSF activities, assuming the growth in the number of access lines and the average costs of the Universal Service Fund will remain the same as those of the previous two years. Included in the calculation is the Division's proposed 69% increase to the UUSF distribution for 2024. The Division anticipates growth in access lines/connection. The forecast revealed that the monthly ending account balance based on the current rate (\$0.36) will decline, becoming negative by June 2024 and will remain negative through the end of 2024 (Table1).

² Request for Agency Action Regarding Utah Universal Service Fund, Docket No. 21-R008-04, Utah Admin Code R746-8-200 and R746-8-401.

Table 1. Forecast – UUSF Collection and Distribution Based on the Current Surcharge

		FORECAST - UUSF Collection & Distribution						
		Current Surcharge (\$/Line) \$.36						
		Surcharge Access lines/connections	Amount Collected	Administrative costs	Total Remitted	UUSF Distribution to ILECs	License, Hearing Associated F	End of Month Balance
2023	Jul	4,063,228.00	\$ 1,462,762.07	\$ 18,998.85	\$ 1,443,763.28	\$ 1,800,006.74	\$ 85,114.94	\$ 11,870,418.08
	Aug	4,081,512.53	\$ 1,469,344.51	\$ 18,330.15	\$ 1,451,014.36	\$ 1,800,006.74	\$ 85,114.94	\$ 11,436,310.76
	Sep	4,099,879.33	\$ 1,475,956.56	\$ 18,330.15	\$ 1,457,626.41	\$ 1,800,006.74	\$ 85,114.94	\$ 11,008,815.49
	Oct	4,118,328.79	\$ 1,482,598.36	\$ 18,330.15	\$ 1,464,268.22	\$ 1,800,006.74	\$ 85,114.94	\$ 10,587,962.03
	Nov	4,136,861.27	\$ 1,489,270.06	\$ 18,330.15	\$ 1,470,939.91	\$ 1,800,006.74	\$ 85,114.94	\$ 10,173,780.26
	Dec	4,155,477.14	\$ 1,495,971.77	\$ 18,330.15	\$ 1,477,641.63	\$ 1,800,006.74	\$ 85,114.94	\$ 9,766,300.20
2024	Jan	4,174,176.79	\$ 1,502,703.65	\$ 18,330.15	\$ 1,484,373.50	\$ 3,047,007.42	\$ 85,114.94	\$ 8,118,551.34
	Feb	4,192,960.59	\$ 1,509,465.81	\$ 18,330.15	\$ 1,491,135.66	\$ 3,047,007.42	\$ 85,114.94	\$ 6,477,564.65
	Mar	4,211,828.91	\$ 1,516,258.41	\$ 18,330.15	\$ 1,497,928.26	\$ 3,047,007.42	\$ 85,114.94	\$ 4,843,370.55
	Apr	4,230,782.14	\$ 1,523,081.57	\$ 18,330.15	\$ 1,504,751.42	\$ 3,047,007.42	\$ 85,114.94	\$ 3,215,999.62
	May	4,249,820.66	\$ 1,529,935.44	\$ 18,330.15	\$ 1,511,605.29	\$ 3,047,007.42	\$ 85,114.94	\$ 1,595,482.55
	Jun	4,268,944.85	\$ 1,536,820.15	\$ 18,330.15	\$ 1,518,490.00	\$ 3,047,007.42	\$ 85,114.94	\$ (18,149.81)
	Jul	4,288,155.10	\$ 1,543,735.84	\$ 18,330.15	\$ 1,525,405.69	\$ 3,047,007.42	\$ 85,114.94	\$ (1,624,866.47)
	Aug	4,307,451.80	\$ 1,550,682.65	\$ 18,330.15	\$ 1,532,352.50	\$ 3,047,007.42	\$ 85,114.94	\$ (3,224,636.33)
	Sep	4,326,835.34	\$ 1,557,660.72	\$ 18,330.15	\$ 1,539,330.57	\$ 3,047,007.42	\$ 85,114.94	\$ (4,817,428.11)
	Oct	4,346,306.09	\$ 1,564,670.19	\$ 18,330.15	\$ 1,546,340.05	\$ 3,047,007.42	\$ 85,114.94	\$ (6,403,210.42)
	Nov	4,365,864.47	\$ 1,571,711.21	\$ 18,330.15	\$ 1,553,381.06	\$ 3,047,007.42	\$ 85,114.94	\$ (7,981,951.72)
	Dec	4,385,510.86	\$ 1,578,783.91	\$ 18,330.15	\$ 1,560,453.76	\$ 3,047,007.42	\$ 85,114.94	\$ (9,553,620.31)

This highlights, based on the 2024 increased UUSF distribution, that the current funding of the Universal Service is not sustainable. To alleviate this problem, the Division is proposing the Commission increase the surcharge rate from \$0.36 to \$0.74 per line. This will keep the Universal Service Fund well-funded as is shown by the positive ending balance through the forecast period in Table 2. The monthly ending account balance will be approximately \$10 million at the end of December 2024 (Table 2).

Table 2. Forecast – UUSF Collection and Distribution Based on the Proposed Surcharge

		FORECAST - UUSF Collection & Distribution						
		New Surcharge (\$/Line) \$.74 (Effective Jan 1, 2024)						
		Surcharge Access lines/connections	Amount Collected	Administrative costs	Total Remitted	UUSF Distribution to ILECs	License, Hearing Imposition	End of Month Balance
2023	Jul	4,063,228.00	\$ 1,462,762.07	\$ 18,998.85	\$ 1,443,763.28	\$ 1,800,006.74	\$ 85,114.94	\$ 11,870,418.08
	Aug	4,081,512.53	\$ 1,469,344.51	\$ 18,330.15	\$ 1,451,014.36	\$ 1,800,006.74	\$ 85,114.94	\$ 11,436,310.76
	Sep	4,099,879.33	\$ 1,475,956.56	\$ 18,330.15	\$ 1,457,626.41	\$ 1,800,006.74	\$ 85,114.94	\$ 11,008,815.49
	Oct	4,118,328.79	\$ 1,482,598.36	\$ 18,330.15	\$ 1,464,268.22	\$ 1,800,006.74	\$ 85,114.94	\$ 10,587,962.03
	Nov	4,136,861.27	\$ 1,489,270.06	\$ 18,330.15	\$ 1,470,939.91	\$ 1,800,006.74	\$ 85,114.94	\$ 10,173,780.26
	Dec	4,155,477.14	\$ 1,495,971.77	\$ 18,330.15	\$ 1,477,641.63	\$ 1,800,006.74	\$ 85,114.94	\$ 9,766,300.20
2024	Jan	4,174,176.79	\$ 3,088,890.83	\$ 18,330.15	\$ 3,070,560.68	\$ 3,047,007.42	\$ 85,114.94	\$ 9,704,738.52
	Feb	4,192,960.59	\$ 3,102,790.83	\$ 18,330.15	\$ 3,084,460.69	\$ 3,047,007.42	\$ 85,114.94	\$ 9,657,076.85
	Mar	4,211,828.91	\$ 3,116,753.39	\$ 18,330.15	\$ 3,098,423.25	\$ 3,047,007.42	\$ 85,114.94	\$ 9,623,377.74
	Apr	4,230,782.14	\$ 3,130,778.78	\$ 18,330.15	\$ 3,112,448.64	\$ 3,047,007.42	\$ 85,114.94	\$ 9,603,704.02
	May	4,249,820.66	\$ 3,144,867.29	\$ 18,330.15	\$ 3,126,537.14	\$ 3,047,007.42	\$ 85,114.94	\$ 9,598,118.80
	Jun	4,268,944.85	\$ 3,159,019.19	\$ 18,330.15	\$ 3,140,689.04	\$ 3,047,007.42	\$ 85,114.94	\$ 9,606,685.49
	Jul	4,288,155.10	\$ 3,173,234.78	\$ 18,330.15	\$ 3,154,904.63	\$ 3,047,007.42	\$ 85,114.94	\$ 9,629,467.76
	Aug	4,307,451.80	\$ 3,187,514.33	\$ 18,330.15	\$ 3,169,184.19	\$ 3,047,007.42	\$ 85,114.94	\$ 9,666,529.59
	Sep	4,326,835.34	\$ 3,201,858.15	\$ 18,330.15	\$ 3,183,528.00	\$ 3,047,007.42	\$ 85,114.94	\$ 9,717,935.24
	Oct	4,346,306.09	\$ 3,216,266.51	\$ 18,330.15	\$ 3,197,936.36	\$ 3,047,007.42	\$ 85,114.94	\$ 9,783,749.24
	Nov	4,365,864.47	\$ 3,230,739.71	\$ 18,330.15	\$ 3,212,409.56	\$ 3,047,007.42	\$ 85,114.94	\$ 9,864,036.45
	Dec	4,385,510.86	\$ 3,245,278.04	\$ 18,330.15	\$ 3,226,947.89	\$ 3,047,007.42	\$ 85,114.94	\$ 9,958,861.98

Conclusion

If the Commission orders the changes in UUSF recommended by the Division, the calculated annual UUSF disbursements to all providers commencing January 1, 2024, would total \$36,564,089. This amount includes a reduction for the repayment of EDIT. Also, the Division is proposing the Commission increase the UUSF surcharge rate from \$0.36 to \$0.74 per line.