



State of Utah
Department of Commerce
Division of Public Utilities

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Recommendation

To: Utah Public Service Commission

From: Utah Division of Public Utilities

Chris Parker, Director

William Duncan, Manager

Gary Smith, Utility Analyst

Date: October 4, 2018

Re: **2019 Utah USF Preliminary Recommendation for Gunnison Telephone Company, LLC**

Docket No. 18-043-01

Preliminary Recommendation

The Public Service Commission of Utah (PSC) should decrease the annual 2019 Utah Universal Service Fund (UUSF) payable to Gunnison Telephone Company to \$152,470 annually, or \$12,705.84 monthly, effective January, 2019. This is a decrease of \$192,847 annually, or \$16,070.58 monthly.

Issue

The Division of Public Utilities (DPU) has reviewed the annual report of Gunnison Telephone Company submitted on March 23, 2018. Pursuant to PSC rule R746-8-401(a) and (b), the DPU has calculated the annual UUSF eligibility to be \$152,470 annually (a decrease of \$192,847 from 2018).

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-(3)(a) and the provider's financial information from its last annual report filed with the Commission. This memo and confidential Exhibit 1 presents the DPU recommendation for adjustment to the UUSF distribution of Gunnison Telephone Company.

Discussion

In calculating the UUSF eligibility for Gunnison Telephone Company, the Division utilized the following:

- 1) Rate of Return – Because the FCC prescribed Rate of Return (ROR) changes on July 1, 2019, the DPU used an average of the 10.5% ROR that would be applicable from January to June, 2019, and the 10.25% applicable from July to December 2019. The average rate is 10.375%.
- 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. This represents a tax saving of approximately \$31,832.
- 3) Gunnison Telephone's income tax cost was further reduced due to the DPU utilizing the principle of interest synchronization. Gunnison currently has no debt in its capital structure and interest expense on its books.
- 4) Gunnison Telephone Company's Federal 2017 UUSF increased approximately \$131,000 from 2016.
- 5) Depreciation – Gunnison Telephone Company utilizes single asset straight line depreciation rather than group asset depreciation. Depreciation expense will be unaffected by current rule changes for companies using group asset depreciation.
- 6) Gunnison Telephone Company has not utilized accelerated depreciation and does not have Accumulated Deferred Income Tax (ADIT), or Excess Deferred Income Tax (EDIT). Therefore, no UUSF adjustment for EDIT was necessary.

Conclusion

The DPU recommends adjusting the 2019 UUSF distribution for Gunnison Telephone Company to \$152,470 annually or \$12,705.84 monthly.

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