



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
Paul Hicken, Technical Consultant
Date: October 4, 2018
Re: **2019 UUSF Recommendation for STRATA Networks. Docket #18-053-02.**

Preliminary Recommendation

The Public Service Commission of Utah (PSC) should increase the annual Utah USF payable to STRATA Networks to \$3,324,890 annually, or \$277,074.17 monthly effective January 2019. This is an increase of \$1,358,494 annually.

Issue

The Division of Public Utilities (DPU) has reviewed the annual report of STRATA Networks submitted on April 11, 2018. Pursuant to PSC rule R746-8-401(a) and (b), the DPU has calculated the annual UUSF eligibility to be \$3,324,890 annually.

Background

PSC rule R746-8-401 requires the DPU to recommend to the PSC adjustments to the monthly USF 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 presents the DPU recommendation for adjustment to the UUSF distribution of STRATA Networks.

Discussion

In calculating the UUSF eligibility for STRATA Networks, 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 USF calculation. This tax rate change has no effect on STRATA because it operates as a co-op and is a non-taxable entity.
- 3) Depreciation – STRATA utilizes a group asset depreciation method rather than single asset straight line depreciation. Depreciation expense will be affected by current rule changes for companies using group asset depreciation. STRATA had a significant amount of depreciation expense which may require a more detailed review to determine if the depreciation rates used for various asset groups are appropriate.
- 4) Accumulated Deferred Income Tax – STRATA is a non-taxable entity and ADIT has no effect on their operations.
- 5) The Division notes that STRATA reported an additional \$3.1 million of Federal USF assistance for 2017.

Conclusion

The DPU recommends adjusting the Utah USF distribution for STRATA Networks to \$3,324,890 or \$277,074.17 monthly.

Cc: Karl Searle, CFO, STRATA Networks.