



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 Direct Communications Cedar Valley**
Docket No. 18-2419-01

Preliminary Recommendation (Suspend - Pending Information)

The Public Service Commission of Utah (PSC) should suspend the increase in annual 2019 Utah Universal Service Fund (UUSF) payable to Direct Communications Cedar Valley pending Division of Public Utilities (DPU) receipt and review of necessary requested information, effective January, 2019.

Issue

The DPU has reviewed the annual report of Direct Communications Cedar Valley (DCCV) submitted on March 23, 2018. Pursuant to PSC rule R746-8-401(a).

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 Exhibit 1 present the DPU recommendation for adjustment to the UUSF distribution of Direct Communications Cedar Valley.

Discussion

In calculating the UUSF eligibility for Direct Communications Cedar Valley, 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 2019 UUSF calculation. This represents a tax saving of approximately \$178,184 on projected taxes calculated from Direct Communications' 2017 Annual Report.
- 3) Depreciation – Direct Communications Cedar Valley utilizes group depreciation rather than single asset depreciation. Depreciation expense is expected to be affected by current rule changes for companies using group asset depreciation. Changes in depreciation expense would impact the calculated UUSF distribution eligibility.
- 4) Direct Communications Cedar Valley's Federal 2017 UUSF decreased approximately \$8,800 from 2016.
- 5) Direct Communications Cedar Valley has utilized accelerated depreciation and has Accumulated Deferred Income Taxes (ADIT). Due to the decrease in the federal tax rate, DCCV has Excess Deferred Income Taxes (EDIT). EDIT is a Deferred Regulatory Liability which should be returned to UUSF. The Tax Act, which reduced federal taxes requires that a normalization method of accounting must be used to amortize EDIT over the original life of the underlying assets for public utility property. The primary normalization method provided in the Tax Act is the Average Rate Assumption Method (ARAM). The Tax Act advises that if EDIT is returned sooner than calculated utilizing ARAM, federal penalties would be assessed. Any penalties assessed in association with Direct Communications Cedar Valley's treatment of EDIT would be an excluded expense that could not be recaptured through UUSF. The DPU has not received the ARAM calculation necessary to determine the portion of the EDIT to credit UUSF. As a result, the DPU recommends suspending DCCV's 2019 UUSF distribution until the ARAM calculation is received, reviewed and applied.
- 6) Based on a review of the 2017 Annual report, DCCV would be eligible for an increase of \$1,158,853 annually. This would be partially offset by repayment of EDIT. However, DCCV did not respond to a data request issued in May 31, 2018 under Docket No. 17-2419-01 in time to include in the DPU's review for recommendation. The DPU is unable to make a recommendation in this docket without time to review this additional information.

Conclusion

The DPU recommends suspension of the increase in annual 2019 Utah UUSF payable to Direct Communications Cedar Valley pending Division of Public Utilities (DPU) receipt and review of necessary requested information,

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