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# 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

Artie Powell, Manager

Paul Hicken, Technical Consultant

Mark Long, Utility Analyst

**Date:** October 1, 2019

**Re:** **2020 UUSF Recommendation for Citizens Telecom Company of Utah.**

**Docket No. 19-041-03**

## Preliminary Recommendation

The Public Service Commission of Utah (PSC) is currently not paying any Utah Universal Service Fund (UUSF) assistance to Citizens Telecom Company of Utah. Based on the company's 2018 Annual Report the company does not qualify for UUSF payments in the 2020 calendar year.

## Issue

The Division of Public Utilities (DPU) has reviewed the annual report of Citizens Telecom Company of Utah received on April 10, 2019. Pursuant to PSC rule R746-8-401(4) the DPU has determined that no adjustments are necessary to the UUSF eligibility for Citizens Telecom Company of Utah.

## **Background**

PSC rule R746-8-401 requires the DPU to make annual recommendations to the PSC for adjustments to the monthly UUSF distribution to each provider based on an established FCC rate of return and the provider's financial information from its last Annual Report filed with the Commission. This memo details why the DPU recommends no change to the UUSF distribution for Citizens Telecom Company of Utah.

## **Discussion**

In calculating the UUSF eligibility for Citizens Telecom Company of Utah, the Division utilized the following:

- 1) Depreciation – Citizens utilizes group asset depreciation. PSC rule R746-8-401 is currently being revised to establish a method to for periodically revising depreciation rates when a company chooses to use group asset depreciation. Changes to this rule may affect Citizens' depreciation expense and subsequent UUSF funding in future periods.
- 2) Accumulated Deferred Income Tax (ADIT) – Citizens reported accumulated deferred income taxes for 2018. The average ADIT reported was about \$5.8 million. This is a significant deduction from the company's rate base and may affect future UUSF distributions. The Commission has not ruled how to address this issue for companies with no UUSF support.
- 3) Accumulated Depreciation – Citizens reported more than \$118.8 million of accumulated depreciation. Since over 95 percent of the company's assets are fully depreciated, there is very little rate base left as a basis for return on investment.

## **Conclusion**

The DPU recommends no change to the Utah USF distribution for Citizens Telecom Company of Utah.

Cc: Jessica Matushek, Director of Accounting, Frontier Communications