State of Utah
Department of Commerce
Division of Public Utilities

FRANCINE GIANI
Executive Director

CHRIS PARKER
Director, Division of Public Utilities

GARY HERBERT
Governor

SPENCER J. COX
Lieutenant Governor

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 South Central Utah Telephone Association. Docket No. 19-052-01.**

Preliminary Recommendation

The Public Service Commission of Utah (PSC) should adjust the annual Utah USF payable to South Central Utah Telephone Association (SCUTA) to $5,287,743 annually, or $440,645.25 monthly effective January 2020.

Issue

The Division of Public Utilities (DPU) has reviewed the annual report of SCUTA submitted on April 12, 2018. Pursuant to PSC rule R746-8-401(a) and (b), the DPU has calculated the annual UUSF eligibility to be $5,287,743 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 SCUTA.

Discussion

In calculating the UUSF eligibility for South Central Utah Telephone Association, the Division utilized the following:

1) Rate of Return – Because the FCC prescribed Rate of Return (ROR) changes on July 1, 2020, the DPU used an average of the 10.25% ROR that would be applicable from January to June, 2020, and the 10.00% applicable from July to December 2020. The average rate is 10.125%.
2) State and Federal Income Tax – For 2018 the DPU used a federal tax rate of 21% and a Utah tax rate of 4.95% to estimate income taxes included in the USF calculation. This tax rate change has no effect on SCUTA because it operates as a co-op and is a non-taxable entity.
3) Depreciation – SCUTA utilizes a group asset depreciation method rather than single asset straight line depreciation. Depreciation expense in the future will be affected by anticipated rule changes for companies using group asset depreciation. SCUTA has a significant amount of assets still in use that are beyond the PSC-prescribed depreciable life. Therefore, a rate adjustment formula which considers accumulated depreciation and average remaining life will be used after the rule change goes into effect to make adjustments to depreciation expense.
4) Accumulated Deferred Income Tax – SCUTA is a non-taxable entity and ADIT has no effect on its operations.
5) Working Cash – SCUTA reported working capital of $740,770. However, DPU estimated working capital to be $460,403.
6) USF Excluded Costs – The DPU estimated a total of $206,809 of expenses were considered to be excluded costs for the USF calculation.
7) Allocations for non-regulated operations – The DPU reviewed non-regulated allocations from company provided spreadsheets. Some NR allocations appeared to be included in the regulated company's 2018 Trial Balance. However the amount of costs was approximately offset by the amount of revenues. Therefore no adjustment is necessary.
8) The Division notes that SCUTA reported an additional $270,945 of Federal USF assistance for 2018.

Conclusion

The DPU recommends adjusting the Utah USF distribution for South Central Utah Telephone Association to $5,287,743 annually or $440,645.25 monthly.

Cc: Annette Ormond, Accounting, South Central Utah Telephone Association