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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

Mark Long, Utility Analyst

**Date:** October 1, 2019

**Re:** **2020 UUSF Recommendation for UBTA-UBET Communications Inc. (d/b/a STRATA Networks). Docket No. 19-053-01.**

## Preliminary Recommendation

The Public Service Commission of Utah (PSC) should adjust the annual Utah USF payable to STRATA Networks to \$1,658,233 annually, or \$138,186.08 monthly effective January 2020.

## Issue

The Division of Public Utilities (DPU) has reviewed the annual report of STRATA Networks submitted on April 14, 2019. Pursuant to PSC rule R746-8-401(a) and (b), the DPU has calculated the annual UUSF eligibility to be \$1,658,233 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, 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 – 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 Networks 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 in the future will be affected by anticipated rule changes for companies using group asset depreciation. STRATA has a significant amount of depreciation expense and assets that are in service longer than their expected life. This may require further analysis in the future when the rule changes are in effect 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 DPU notes that STRATA reported an additional \$1 million of Federal USF assistance for 2018.

## **Conclusion**

The DPU recommends adjusting the Utah USF distribution for STRATA Networks to \$1,658,233 or \$138,186.08 monthly.

Cc: Karl Searle, CFO, STRATA Networks.