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Recommendation

To: Utah Public Service Commission

From: Utah Division of Public Utilities
Chris Parker, Director
Artie Powell, Manager
Shauna Benvegnu-Springer, Utility Technical Consultant
Gary Smith, Utility Analyst

Date: October 1, 2019

Subject: **2020 UUSF Recommendation - Bear Lake Communications, Docket No. 19-2201-01**

Recommendation (No Action Required)

The Public Service Commission of Utah (PSC) is currently not paying Utah Universal Service Fund (UUSF) assistance to Bear Lake Communications (Company). 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 Bear Lake Communications submitted on April 15, 2018. Pursuant to PSC rule R746-8-401(a) and (b), the DPU has calculated that the Company does not qualify for UUSF monthly distribution payments.

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 1) the FCC rate of return set forth in R746-401-(3)(a) and the providers financial information from its last annual report filed with the

Commission. This memo presents the DPU recommendation for adjustment to the UUSF distribution of Bear Lake Communications.

Discussion

In calculating the UUSF eligibility for Bear Lake Communications, 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 the current federal tax rate of 21% and a Utah tax rate of 4.95% to estimate 2020 income taxes included in the USF calculation.
- 3) Depreciation – Bear Lake Communications utilizes group asset depreciation rather than single asset straight line depreciation. Depreciation expense will be affected by current rule changes for companies using group asset depreciation.
- 4) Accumulated Deferred Income Tax – Bear Lake Communications has utilized accelerated depreciation and has accumulated deferred income taxes (ADIT). Due to the decrease in the federal tax rate, the Company has excess deferred income taxes (EDIT). EDIT is a deferred regulatory liability which should be returned to UUSF. The legislation that 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 method provided in the legislation is the average rate assumption method (ARAM). The legislation further advised that EDIT should be returned no sooner than calculated utilizing ARAM or the Company would be assessed federal penalties. Any penalties assessed in association with the Company's treatment of EDIT would be an excluded expense that could not be recaptured through UUSF. Please refer to the EDIT tab on Exhibit 1 for the calculation and amortization amounts.

Conclusion

Based on the review of the 2018 Annual Reports submitted by Bear Lake Communications and the factors discussed above, the DPU recommends no change to the UUSF distribution for the Company.

cc: Ross Cox, Bear Lake Communications (rcox@centracom.com)
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