



## State of Utah

### Department of Commerce Division of Public Utilities

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## Recommendation

**To:** Public Service Commission of Utah

**From:** Utah Division of Public Utilities

Artie Powell, Director

Brenda Salter, Utility Technical Consultant Supervisor

Paul Hicken, Technical Consultant

**Date:** September 24, 2020

**Re:** **Docket No. 20-042-01**, 2021 UUSF Recommendation for Emery Telephone d/b/a Emery Telcom.

### Recommendation (Approval)

The Utah Division of Public Utilities (Division or DPU) recommends the Public Service Commission of Utah (Commission or PSC) adjust the annual Utah Universal Service Fund (UUSF) funds payable to Emery Telephone to \$1,535,885 annually, or \$127,990.42 monthly, effective January 1, 2021.

### Issue

The Division has reviewed the annual report of Emery Telephone received on April 15, 2020. Pursuant to PSC rule R746-8-401(4) the Division has calculated the amount of UUSF eligibility to be \$1,535,885 annually.

### 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 a change to the UUSF distribution for Emery Telephone.

## **Discussion**

In calculating the UUSF eligibility for Emery, the Division noted the following:

- 1) Rate of Return – Because the FCC prescribed Rate of Return (ROR) changes on July 1, 2021, the DPU used an average of the 10.00% ROR that would be applicable from January to June, 2021, and the 9.75% applicable from July to December 2021. The average rate is 9.875%.
- 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 Emery because it operates as a co-op and is a non-taxable entity.
- 3) Depreciation – In 2019, Emery used single asset straight line depreciation. Therefore, depreciation expense in the future will not be affected by any anticipated rule changes to account for a group asset depreciation method.
- 4) Allocation Adjustments – There were adjustments to the rate base for allocation of shared equipment and for reclassification of materials and supplies between regulated and non-regulated operations.
- 5) FCC Excluded Costs – There were costs included in the Annual Report that should be excluded from USF reimbursement. These costs were adjusted out by the DPU.
- 6) Accumulated Deferred Income Tax – Emery is a non-taxable entity and ADIT has no effect on their operations.
- 7) The DPU notes that Emery reported a decrease of \$144K in Utah USF assistance and an increase of \$8.7K in Federal USF for 2019.
- 8) The DPU notes that Emery also reported an increase of \$3.2 million in rate base for 2019.

## **Conclusion**

The DPU recommends adjusting the Utah USF distribution for Emery Telephone to \$1,535,885 or \$127,990.42 monthly.

Cc: Brock Johansen, CEO – Emery Telcom