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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

Mark Long, Utility Analyst

Joanna Matyjasik, Utility Analyst

Date: September 24, 2020

Re: **Docket No. 20-052-01**, 2021 UUSF Recommendation for South Central Utah Telephone Association.

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) amount payable to South Central Utah Telephone Association (SCUTA) to \$5,393,497 annually, or \$449,458.08 monthly, effective January 1, 2021.

Issue

The Division has reviewed the annual report of SCUTA received on April 15, 2020. Pursuant to PSC rule R746-8-401(4) the Division has calculated the amount of UUSF eligibility to be \$5,393,497 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 South Central Utah Telephone Association.

Discussion

In calculating the UUSF eligibility for SCUTA, 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.
- 3) Depreciation – SCUTA utilizes a group asset depreciation method. Depreciation expense could be affected by current or future rule changes regarding asset depreciation methodologies.
- 4) USF Excluded Costs – SCUTA included about \$249,600 of costs in their Annual Report that should have been excluded from USF reimbursement. These costs were adjusted out by the DPU.
- 5) Accumulated Deferred Income Tax – SCUTA is a non-taxable entity and ADIT has no effect on their operations.
- 6) The Division notes that SCUTA reported an additional \$3.1 million of State USF assistance for 2019.

Conclusion

The DPU recommends adjusting the 2021 Utah USF distribution for South Central Utah Telephone Association to \$5,393,497 annually or \$449,458.08 monthly.

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