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 23, 2020

Re: **Docket No. 20-2302-01,** 2021 UUSF Recommendation for Carbon/Emery Telcom, Inc.

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 Carbon/Emery Telcom, Inc. (Carbon) to $1,371,867 annually, or $114,322.25 monthly, effective January 1, 2021.

Issue

The Division has reviewed the annual report of Carbon/Emery Telcom, Inc. received on April 15, 2020. Pursuant to PSC rule R746-8-401(4) the Division has calculated the amount of UUSF eligibility to be $1,387,294 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

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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 Carbon/Emery Telcom, Inc.

Discussion

In calculating the UUSF eligibility for Carbon/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 UUSF calculation.
3) Depreciation – In 2019, Carbon 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) Deferred Regulatory Liability – Because of the change in federal tax rate and using accelerated depreciation in prior years, Carbon has Excess Deferred Income Tax (EDIT) which is a regulatory liability that should be returned to the UUSF. Using the company's calculations, the Division recommends that Carbon payback the liability in accordance with the amortization table prepared according to IRS statute. The total liability incurred by Carbon is $184,733.00. According to Carbon's amortization this will result in payback of $15,427 for the current year. This equates to the total net UUSF disbursement of $1,371,867 in 2021.
7) The DPU notes that Carbon reported an increase of $3.5 million to rate base in 2019.
8) The DPU notes that in 2019 Carbon reported an increase of $937K in UUSF and $243K of FUSF assistance.

Conclusion

The DPU recommends adjusting the Utah USF distribution for Carbon/Emery Telcom, Inc. to $1,371,867 or $114,322.25 monthly.

Cc: Brock Johansen, CEO – Carbon/Emery Telcom, Inc.