



State of Utah

Department of Commerce
Division of Public Utilities

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Action Request Response

To: Public Service Commission of Utah

From: Utah Division of Public Utilities

Chris Parker, Director

Artie Powell, Manager

Brenda Salter, Utility Technical Consultant Supervisor

Paul Hicken, Technical Consultant

Mark Long, Utility Technical Consultant

Joanna Matyjasik, Utility Analyst

Date: October 1, 2021

Re: **Docket No. 21-041-01**, Review of 2020 Annual Report for Citizens

Telecommunications Company of Utah d/b/a Frontier Communications of Utah, and
Recommendations for Utah Universal Service Fund assistance for Calendar Year
2022.

Recommendation (No Action Required)

The Utah Division of Public Utilities (Division or DPU) recommends no change in the Utah Universal Service Fund (UUSF) assistance to Citizens Telecommunications Company of Utah (Citizens or Company). The Public Service Commission of Utah (PSC or Commission) is currently not paying any assistance. Based on the Company's 2020 Annual Report, the Company does not qualify for UUSF payments in the 2022 calendar year.

Issue

The Division has reviewed the 2020 Annual Report of Citizens Telecommunications Company of Utah received on April 12, 2021. Pursuant to PSC Rule R746-8-401(4), the Division has determined that no adjustments are necessary to the UUSF eligibility for Citizens.

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 Federal Communications Commission 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 no change to the UUSF distribution for Citizens Telecommunications Company of Utah.

Discussion

In calculating the UUSF eligibility for Citizens Telecommunications Company of Utah, the Division noted the following:

- 1) Reported Earnings Decreased But Still Exceed Authorized ROR – Citizens net operating revenues decreased slightly from 2019 and significantly from 2018. In spite of decreasing revenues, the 2020 reported earnings still surpassed the authorized 9.75% return on rate base, which equates to approximately \$1,034,529. The Company's reported net operating income of \$1,513,012 makes them ineligible for UUSF assistance.
- 2) Accumulated Depreciation – Citizens reported more than \$122.3 million of accumulated depreciation in 2020. Since over 92 percent of the company's assets are fully depreciated, there is minimal rate base left as a basis for return on investment. The DPU contacted the Company to inquire if further capital investment was planned in order to increase the rate base. The Company's response was that while they are in a better position now to invest in service upgrades having come out of bankruptcy, no specific rate base upgrades are planned.
- 3) Customer Counts Are Decreasing – Total customer counts for 2020 were reported at 4,882 for both business and residential customers. This is a decrease of 929 from 2019 total customers. Declining customers contributed to the decrease in revenues and may be a factor in the Company's reluctance to invest in new rate base.
- 4) Accumulated Deferred Income Tax (ADIT) – Citizens reported a substantial amount of accumulated deferred income taxes (more than \$750K) for 2020. This affects the company's net operating income and may affect future UUSF distributions. The Commission has not ruled how to address this issue for companies with no UUSF support.

Conclusion

The DPU recommends no change to the Utah USF distribution for Citizens Telecommunications Company of Utah.

Cc: Jessica Matushek, Director of Accounting, Citizens Telecommunications Company