



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, Utility Technical Consultant

Mark Long, Utility Technical Consultant

Joanna Matyjasik, Utility Analyst

Date: October 1, 2021

Re: **Docket No. 21-050-01**, Review of 2020 Annual Report for Navajo Communications Company, Inc. d/b/a Frontier Navajo Communications Company, 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 Navajo Communications Company, Inc. (Navajo 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 Navajo Communications Company, Inc. 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 Navajo.

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 Navajo.

Discussion

In calculating the UUSF eligibility for Navajo Communications Company, Inc. the Division noted the following:

- 1) Reported Earnings Exceed Authorized ROR - Navajo reported net operating income of \$724,828. Based on an authorized 9.75% rate of return and various adjustments, the Company would be allowed \$142,788 net operating income. This makes them ineligible for UUSF assistance.
- 2) Accumulated Depreciation – Navajo reported more than \$4.6 million of accumulated depreciation in 2020, leaving an adjusted rate base of \$1.4 million. The company's assets are mostly depreciated and 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 – Residential customer counts for 2020 were reported at 44 and business customers were 149. This is a decrease of 7% in total customers from 2019. However, the total customers have decreased from 300 to 193, more than 36% over the last 5 years. Declining customers may be a factor in the Company's reluctance to invest in new rate base.
- 4) Accumulated Deferred Income Tax (ADIT) – Navajo reported \$19,240 of deferred income taxes 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 Navajo Communications Company, Inc.

Cc: Jessica Matushek, Director of Accounting, Navajo Communications Company, Inc.