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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

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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. 21-053-01**, Review of 2020 Annual Report for UBTA-UBET Communications, Inc. d/b/a STRATA Networks, and Recommendations for Utah Universal Service Fund assistance for Calendar Year 2022.

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 UBTA-UBET Communications, Inc. (STRATA Networks) to \$4,019,269 annually, or \$334,939.08 monthly, effective January 1, 2022.

Issue

The Division has reviewed the annual report of STRATA Networks received on April 15, 2021. Pursuant to PSC Rule R746-8-401(4), the Division has calculated the amount of UUSF eligibility

to be \$4,019,269 annually. This is an increase of \$1,607,644 from the amount approved by the Commission (\$2,411,625) for 2021.

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. The recommendation increased for 2022 over what was received in 2021. The DPU noted a significant decrease in net operating revenues for 2020. This memo identifies some of the reasons why the DPU recommends a change to the UUSF distribution for STRATA Networks.

Discussion

In calculating the UUSF eligibility for STRATA Networks, the Division noted the following:

- 1) Rate of Return – The FCC prescribed Rate of Return (ROR) effective on July 1, 2021, is 9.75%. This is the ROR the DPU used for the revenue requirement calculation in this model.
- 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. This tax rate change does not affect STRATA Networks because it operates as a co-op and is a non-taxable entity.
- 3) Depreciation – STRATA Networks utilizes single asset straight-line depreciation rather than group asset depreciation. Depreciation expense will be unaffected by any proposed depreciation rule changes for companies using single asset depreciation.
- 4) Accumulated Deferred Income Tax – STRATA is a non-taxable entity and ADIT has no effect on their operations.
- 5) Federal USF Excluded Costs – A review of STRATA Networks expense detail found some reported expenses should have been excluded from the UUSF calculation. An adjustment of \$60,922 was made for these excluded costs.
- 6) Wholesale Broadband – STRATA Networks provided a limited amount of CBOL access (imputed at the rate of \$28/line/month) to their affiliate during 2020. In addition, they provided broadband access through a bundled package at the average rate of \$11.50 per month per line. This resulted in an adjustment to revenue of \$75,186.
- 7) Corporate Allocations – After further review, STRATA Networks identified additional adjustments to reported expenditures in the 2020 Annual Report. Previously reported

expenses were reduced by approximately \$1,268,103 due to inaccurate allocations between regulated and non-regulated expense.

- 8) The Division notes that for 2020, STRATA reported a decrease of about \$1.6 million in state USF funding while the federal USF funding remained about the same at \$10.5 million.

Conclusion

The DPU recommends adjusting the 2022 Utah USF distribution for STRATA Networks to \$4,019,269 annually, or \$334,939.08 monthly.

Cc: Jason McKee, CFO – STRATA Networks.