



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

Casey J. Coleman, Utility Technical Consultant

Date: October 1, 2021

Re: **Docket No. 21-2302-01**, Review of 2020 Annual Report for Carbon/Emery Telcom, Inc. and Recommendations for Utah Universal Service Fund assistance for Calendar Year 2022.

Preliminary Recommendation

The Public Service Commission of Utah (“PSC” or “Commission”) should adjust the annual Utah Universal Service Fund (“UUSF”) payable to Carbon/Emery Telcom, Inc. (Carbon/Emery) to \$2,240,964.35 annually, or \$186,747.03 monthly effective January 1, 2022. For the 2021 calendar year Carbon/Emery received \$1,371,867 annually, or \$114,322.25 monthly. The current recommendation represents a UUSF increase of \$869,097.35 annually or \$72,424.78 monthly.

Issue

The Division of Public Utilities (“DPU” or “Division”) has reviewed the annual report of Carbon/Emery submitted on April 15, 2021. Pursuant to PSC rule R746-8-401(3)(a) and (b) and R746-8-401(4)(a) and (b), the DPU has calculated the annual UUSF eligibility for 2022 to be

\$2,256,391.35. However, the company has a Deferred Regulatory Liability of \$15,427 for 2022. This liability should be deducted from its UUSF distributions. Therefore the 2022 annual distribution should be \$2,240,964.35 annually.

Background

PSC rule R746-8-401 requires the DPU to recommend to the PSC adjustments to the monthly UUSF distribution for each provider based on the FCC rate of return set forth in R746-401-(3)(a) and the provider's financial information from its last annual report filed with the Commission. This memo presents the DPU recommendation for adjustment 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”) previously changed on July 1, of each year the DPU had used a blended ROR for Carbon/Emery in previous years. The glide path in rates suggested by the FCC has concluded so a blended rate is not necessary. The DPU used a 9.75% ROR for Carbon/Emery.
- 2) Depreciation – In 2020, Carbon/Emery used a method that is similar to a vintage depreciation method. Therefore, depreciation expense in the future will not be affected by any anticipated rule changes to account for a group asset depreciation method.
- 3) 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.
- 4) 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.
- 5) Deferred Regulatory Liability – Because of the change in federal tax rate and using accelerated depreciation in prior years, Carbon/Emery 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/Emery payback the liability in accordance with the amortization table prepared according to IRS statute. The

total liability incurred by Carbon/Emery is \$184,733.00. According to Carbon/Emery's amortization this will result in payback of \$15,427 for the current year. This equates to the total net UUSF disbursement of \$2,240,964.35 in 2022.

Conclusion

The DPU recommends adjusting the Utah USF distribution for Carbon/Emery Telcom, Inc. to \$2,240,964.35 or \$186,747.03 monthly.

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