UTAH DEPARTMENT OF COMMERCE
Division of Public Utilities

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Amended 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
Shauna Benvegnu-Springer, Utility Technical Consultant

Date: September 14, 2022

Re: **Docket No. 22-040-01** 2021 Annual Report of Central Utah Telephone, Inc. d/b/a CentraCom

Recommendation (Approval)

The Division of Public Utilities ("Division") recommends that the Public Service Commission of Utah ("Commission") decrease the Utah Universal Service Fund ("UUSF") payment from $209,521 or $17,460.08 monthly to zero ($0.00) annually effective January 1, 2023, for Central Utah Telephone, Inc. d/b/a CentraCom ("Company").

Issue

On April 18, 2022, the Company filed its 2021 Annual Report for UUSF assistance. On the same day, the Commission issued an Action Request to the Division to provide analysis, evaluation results, and the basis for conclusions and recommendations regarding the Company's report. Under Commission Rule R746-8-401, the Division has reviewed the annual report, and the information complies with the Commission's rule for reporting requirements. The division calculated the amount of UUSF eligibility to be zero ($0.00) annually.

Background

Commission Rule R746-8-401 requires the Division to make annual recommendations to the Commission for adjustments to the monthly UUSF distribution to each provider based on an established Federal Communications Commission (”FCC”) rate of return (“ROR”) and the provider’s financial information from its last annual report filed with the Commission. This memorandum details the Division’s recommended changes for the UUSF distribution for the Company.

Discussion

In calculating the UUSF eligibility for the Company, the Division noted the following:

1) Rate of Return – The FCC prescribed ROR effective July 1, 2021, to be 9.75%. This is the ROR the Division used for the revenue requirement calculation in this model.
2) State and Federal Income Tax – The Division 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 - The Company utilizes a group asset depreciation method. Depreciation expense could be affected by current or future rule changes regarding asset depreciation methodologies.
4) Federal USF Excluded Costs – The Company had no excluded costs from their FCC expenditures reported for 2021.
5) Excess Accumulated Deferred Income Tax (ADIT) – The Company utilized accelerated depreciation and has accumulated deferred income taxes. The change in the federal tax rate resulted in the Company accruing excess deferred income taxes (EDIT). EDIT is a deferred regulatory liability and should be returned to UUSF. Legislation that reduced federal taxes requires that a normalization method of accounting be used to amortize EDIT over the original life of the underlying assets for public utility property. The primary method provided in the legislation is the average rate assumption method (ARAM). The legislation further advised that EDIT should be returned no sooner than calculated utilizing ARAM, or the Company would be assessed federal penalties.

Any penalties associated with the Company's treatment of EDIT would be an excluded expense that could not be recaptured through UUSF. Please refer to the ARAM calculation on Exhibit 1 for the calculation and amortization amounts. The Company’s 2021 EDIT ARAM schedule reported $69,846 for EDIT for the 2021 UUSF review.

6) Wholesale Broadband – The Company discontinued using the NECA tariff in 2020. The Company provided wholesale broadband bundled access to their affiliate based on a rate above $25 plus an access recovery charge (ARC).
7) Consumer Broadband – The Company provides Consumer Broadband Only Loop (CBOL). The CBOL rate is above the $25 plus the ARC rate.
8) Reasons for Failure to Qualify -The reasons the Company is not eligible for UUSF are the following:
    a. Network Access Revenue increased by $293,000.
    b. Plant Expenses decreased by $308,100.
    c. Depreciation expense decreased by $175,600.

The overall effect of these revenues and expense reductions provided the Utah operations with a substantial net income for 2021. The Annual Report Model projects that the Company would be over-earning if UUSF payments continue. Refer to the attached Annual Report Revenue Requirement tab.

Conclusion

The Division recommends adjusting the 2023 UUSF distribution for the Company to zero ($0.00) annually, effective January 1, 2023.

cc: Chad Wray, Central Utah Telephone Company
Mike Plows, Central Utah Telephone Company
Brad Welch, Central Utah Telephone Company
Eddie Cox, Central Utah Telephone Company