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# 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  
Joanna Matyjasik, Utility Analyst  
Paul Hicken, Technical Consultant

**Date:** September 1, 2022

**Re:** **Docket No. 22-041-01**, Review of 2021 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 2023.

## Recommendation (No Action)

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 d/b/a Frontier Communications 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 2021 Annual Report, the Company does not qualify for UUSF payments in the 2023 calendar year.

## Issue

The Division has reviewed the 2021 annual report of Citizens Telecommunications Company of Utah d/b/a Frontier Communications of Utah received on April 18, 2022. Pursuant to PSC Rule R746-8-401(4), the Division has determined that no adjustments are necessary to the UUSF eligibility for Citizens.

Division of Public Utilities

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## 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. This memo details notable findings and any recommended changes to the UUSF distribution for Citizens Telecommunications Company of Utah d/b/a Frontier Communications of Utah.

## Discussion

In calculating the UUSF eligibility for Citizens Telecommunications Company of Utah d/b/a Frontier Communications of Utah, the Division noted the following:

- 1) UUSF Eligibility (Reported Earnings Exceed Authorized ROR) – Citizens reported net operating income of \$777,564. Based on an authorized 9.75% rate of return and various adjustments, the Company would be allowed \$171,464 net operating income. This makes them ineligible for UUSF assistance.
- 2) Accumulated Depreciation – Citizens reported more than \$123.7 million of accumulated depreciation in 2021. Since almost all of the company's assets are fully depreciated, there is minimal rate base left as a basis for return on investment.
- 3) Customer Counts Are Decreasing – Total customer counts for 2021 were reported at 4,169 for both business and residential customers. This is a decrease of 713 from 2020 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) Excess Deferred Income Tax (EDIT) – Citizens reported \$74,676 of deferred income taxes for 2021. 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.
- 5) Rate of Return – The FCC prescribed Rate of Return (ROR) effective on July 1, 2021, is 9.75%.<sup>1</sup> This is the ROR the DPU used for the revenue requirement calculation in this model.
- 6) 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.

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<sup>1</sup> Federal Register, Vol. 87, No. 56, March 23, 2022, p. 16576.

## **Conclusion**

The DPU recommends no change to the Utah USF distribution for Citizens Telecommunications Company of Utah d/b/a Frontier Communications of Utah.

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