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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
Paul Hicken, Technical Consultant

Date: September 1, 2022

Re: **Docket No. 22-052-01,** Review of 2021 Annual Report for South Central Utah Telephone Association, Inc. Communications, Inc., and Recommendation for Utah Universal Service Fund assistance for Calendar Year 2023.

Recommendation (Approval)

The Division of Public Utilities (DPU or Division) recommends the Public Service Commission (PSC or Commission) adjust the annual Utah Universal Service Fund (UUSF) amount payable to South Central Utah Telephone Association, Inc. (SCUTA or Company) to $6,139,926 annually, or $511,660.50 monthly, effective January 1, 2023.

Issue

The Division has reviewed the annual report of SCUTA received on April 15, 2022. Pursuant to PSC Rule R746-8-401(5), the Division calculated the amount of UUSF eligibility to be $6,139,926 annually. This recommendation is an increase of 10.7% or $592,423 annually from the $5,547,503 amount approved by the Commission for 2022.

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 2023 over what was received in 2022. The DPU noted a decrease in net operating revenues of approximately$1.3 million for 2021. In addition, the report showed total rate base of approximately $44.8 million in 2021, which is an increase of approximately $2.8 million. The Division's analysis of SCUTA's 2023 UUSF distribution recommendation is as follows.

Discussion

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

1) Federal USF Support - The Division notes that for 2021, SCUTA reported no federal USF support from the Alternative Connect America Cost Model (ACAM). Also, there was a decrease in federal high-cost loop support from $1,704,816 to $1,592,458 ($112,358). Conversely, the state high-cost loop support increased by $105,754 from $5,287,743 to $5,393,497.
2) Decrease in Net Revenues – The Company reported an overall decrease in net operating revenue of $597,032. While some revenue streams increased slightly, switched access revenue decreased by $455,412 and prior period settlements decreased by $529,435. According to the Company, access revenues decreased because Paycheck Protection Program (PPP) loans received in 2020 reduced the NECA reimbursement for 2021.
3) Increase in Operating Expenses – The Company reported an overall increase in operating expense of $746,664. Most expense categories increased in 2021, but the largest increases were in buried cable $254,502, access expense $191,066, and depreciation expense $108,051. According to the Company, additional labor was needed, and inflation contributed to the rising cost of fuel and materials.
4) Increase in Rate Base – The Division used a 2-year average rate base for the revenue calculation. In 2021 the Company reported a net average rate base of $44,860,915, up from $41,991,605 reported in 2020. This is an increase of

$2,869,310 in average rate base. The majority of the increase is due to additions to plant in service asset accounts such as central office transmission, conduit systems, buried cable, and support assets.

5) PPP Loan Forgiveness – SCUTA reported PPP loan forgiveness in the amount of $1,173,831 during 2021 for a loan that was received in during the COVID-19 crisis in 2020. The DPU made an adjustment in this amount to the revenue calculation for the upcoming year.
6) Federal USF Excluded Costs – SCUTA submitted a list of excluded costs identified by its consultant in its annual cost study. The DPU made an adjustment of $228,780 for these excluded costs.
7) Imputed Revenue – SCUTA did not report any lines for broadband access at less than $25 per line per month. Consequently, there was no imputed revenue for broadband access. However, SCUTA did impute $1,452 of revenue because the Access Recovery Charge (ARC) to Lifeline customers was not collected.
8) Rate of Return – The FCC authorized Rate of Return (ROR) effective on July 1, 2022, is 9.75%.[1] This is the ROR the DPU used for the revenue requirement calculation in this model.
9) Accumulated Deferred Income Tax – SCUTA is a non-taxable entity and ADIT has no effect on its operations.
10) State and Federal Income Tax – SCUTA operates as a co-op and is a non-taxable entity. Therefore, the tax rate changes of 2018 do not affect the revenue calculation for this company.
11) Depreciation – SCUTA utilizes a group asset depreciation method. Consequently, its asset groups should be reviewed periodically to ensure that retirements are occurring when appropriate and not carried in the asset base longer than needed.

[1] Federal Register, Vol. 87, No. 56, March 23, 2022, p.16576

Conclusion

The Division recommends adjusting the 2023 Utah USF distribution for SCUTA to $6,139,926 annually, or $511,660.50 monthly.

cc: Annette Ormond, South Central Utah Telephone Association.