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# UTAH DEPARTMENT OF COMMERCE

Division of Public Utilities

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## Final UUSF Recommendation

**To:** Public Service Commission of Utah

**From:** Utah Division of Public Utilities

Chris Parker, Director  
Brenda Salter, Assistant Director  
Abdinasir Abdulle, Utility Technical Consultant Supervisor  
Paul Hicken, Technical Consultant

**Date:** November 1, 2023

**Re:** **Docket No. 23-041-01**, Review of 2022 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 2024.

The Utah Division of Public Utilities (Division or DPU) recommends the Public Service Commission of Utah (Commission or PSC) approve the annual Utah Universal Service Fund (UUSF) amount payable to Frontier Communications of Utah (Frontier or Company) to \$3,084,978 annually, or \$257,081.50 monthly, effective January 1, 2024.

## Issue

PSC Rule R746-8-401 requires the DPU to make a final recommendation 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 the Division's final recommendation for the UUSF distribution for Frontier.

Division of Public Utilities

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## Background

Frontier did not receive any UUSF support in 2023, nor has it received any support in recent years based on the Division's review of Frontier's Annual Reports indicating no support was warranted.

On March 29, 2023, the Division received the 2022 Annual Report of Frontier and began its review and analysis. The Company's report was initially submitted on an older version of the annual report form. For the last five years, the Company had been going through bankruptcy proceedings and was investing only a minimal amount in its Utah exchanges. The Company's annual reports for the past few years indicated the rate base was mostly depreciated and there were very few new assets added. Of note, Frontier emerged from bankruptcy in 2021, and rate base accounting adjustments made in previous years ( [REDACTED] [REDACTED] ), discussed later) were not reflected in Frontier's 2021 Annual Report submitted to the Commission. The Division reviewed the Annual Reports submitted by Frontier for the years 2018, 2019, and 2020 and verified the rate base accounting adjustments made in those years were consistent with rate base and rate base adjustments as filed in the 2022 Annual Report. Based on analysis of the information received, the Division submitted an initial recommendation<sup>1</sup> to the Commission on September 1, 2023, for UUSF support totaling more than \$3.9 million to Frontier beginning in January 2024.

On September 8, 2023, the Division received an amended annual report from Frontier on the correct form. The amended annual report included detailed exchange data and line charges that helped determine if total per line charges were meeting a minimum base line threshold and if any USF revenue should be imputed. The Division reviewed the amended annual report and made an appropriate adjustment for imputed revenue. On September 26, 2023, the Division submitted an amended recommendation<sup>2</sup> to the Commission for Frontier's UUSF support totaling more than [REDACTED] (adjusted down from the previous [REDACTED] ). The Commission issued a Supplemental Action Request<sup>3</sup> on September 29, 2023, requesting that the Division provide further explanation for its amended action request

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<sup>1</sup> Docket No. 23-041-01, DPU Action Request Response, September 1, 2023.

<sup>2</sup> Docket No. 23-041-01, DPU Amended Action Request Response, September 26, 2023.

<sup>3</sup> Docket No. 23-041-01, PSC Supplemental Action Request, September 29, 2023.

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response, specifically regarding any analysis where UUSF support would be involved for competing Carriers of Last Resort (COLR) with duplicative networks, as outlined in Rule R746-349-10. On October 6, 2023, the Division submitted its response<sup>4</sup> to the Commission's supplemental action request. In its response, the Division stated that Frontier added approximately [REDACTED] of new assets to its network in 2022 but the Division could not determine if those assets were duplicative because not enough information was provided.

On October 10, 2023, Frontier provided the previously requested detailed information on the asset additions for 2022. The Division has analyzed this new information and determined that of the [REDACTED] of new assets added in 2022, about [REDACTED] of the assets were installed in 7 exchanges where a competing COLR operating under a Commission-approved plan is installing a network to provide service to the same customers. Consequently, Frontier's assets could be duplicative in nature. Considering the new information received, the Division has made additional adjustments for its final recommendation.

Pursuant to PSC Rule R746-8-401(4), the Division has revised the calculated amount of UUSF eligibility to be \$3,084,978 annually, which is about \$849,351 less than the initial recommendation. As noted above, this represents the removal from rate base of approximately [REDACTED] of new assets in 2022 that could be duplicative of a competing COLR's infrastructure in the same exchanges. Even with this significant adjustment, the Company's annual report still showed [REDACTED] of rate base on which to calculate revenue requirement. The Division's analysis of Frontier's 2022 operations and the final recommendation for 2024 UUSF distribution for Frontier are as follows:

## **Discussion**

In calculating this final recommendation for UUSF eligibility for Frontier, the Division noted the following:

- 1) The Division adjusted the reported rate base because of potentially duplicative assets put in service in 2022. The Company reported [REDACTED] of new assets

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<sup>4</sup> Docket No. 23-041-01, DPU Supplemental Action Request Response, October 6, 2023.

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- were put in service in 2022. The Division determined that [REDACTED] of these assets were in exchanges with a competing COLR and could result in duplicative networks. Consequently, the Division adjusted [REDACTED] out of Frontier's reported rate base.
- 2) The Division adjusted the reported depreciation expense for 2022. The 2022 assets incurred depreciation expense for time they were in service during 2022. The Division calculated the 2022 estimated depreciation expense for these assets and made an adjustment in the amount of [REDACTED].
  - 3) The Company's reported rate base for 2022 appeared to increase because of the Company's inadvertent accounting error in 2021. The Division reviewed the Company's annual reports going back to 2018 and found that rate base was consistently reported in other years except for 2021, which appears to be an anomaly. In prior years, the Company reported [REDACTED] as an entry in rate base with an adjustment to remove it. Likewise, there has been a corresponding entry to Accumulated Amortization – Intangibles (account 3500) to offset the [REDACTED] amount. In 2021, the reported TPA amount was [REDACTED]. However, the corresponding entry was mistakenly entered in Accumulated Amortization- Other (account 3600). The mistaken entry caused the 2021 rate base to be understated by about [REDACTED]. The reported rate base for 2021 was [REDACTED], which was not enough to warrant UUSF support. This error was not discovered by the Division nor reported by the Company until this current year's review. In addition, the Company emerged from bankruptcy in 2021, and the [REDACTED] account was adjusted to zero for the 2022 report year.

## **Conclusion**

Based on the Division's review of Frontier's annual report and additional information provided by the Company, the Division's final recommendation is that the Commission approve the 2024 Utah USF distribution for Frontier Communications of Utah, to \$3,084,987 annually, or \$257,081.50 monthly.

cc: Jessica Matushek, Director of Accounting, Frontier Communications of Utah.