



SPENCER J. COX
Governor

DEIDRE M. HENDERSON
Lieutenant Governor

UTAH DEPARTMENT OF COMMERCE

Division of Public Utilities

MARGARET W. BUSSE
Executive Director

CHRIS PARKER
Division Director

Action Request Response

To: Public Service Commission of Utah

From: Utah Division of Public Utilities

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

Date: September 1, 2023

Re: **Docket No. 23-050-01**, Review of 2022 Annual Report for Navajo Communications Company, Inc. d/b/a Frontier Navajo Communications Company, and Recommendations for Utah Universal Service Fund assistance for Calendar Year 2024.

Recommendation (Approval With Conditions)

The Utah Division of Public Utilities (Division or DPU) recommends the Public Service Commission of Utah (Commission or PSC) approve with conditions the annual Utah Universal Service Fund (UUSF) amount payable to Navajo Communications Company, Inc. (Navajo or Company) to \$749,621 annually, or \$62,468.42 monthly, effective January 1, 2024.

Issue

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 the recommended changes to the UUSF distribution for Navajo Communications Company, Inc.

Division of Public Utilities

Heber M. Wells Building • 160 East 300 South • P.O. Box 146751 Salt Lake City, UT 84114-6741
www.dpu.utah.gov • telephone (801) 530-7622 • toll-free in Utah (877) 874-0904 • fax (801) 530-6512

Background

The Division has reviewed the annual report of Navajo Communications Company, Inc. received on March 29, 2023. Note that the Company's report was completed on an older version of the annual report form. The Division requested a new report using the most updated form, but nothing has been received to date. Consequently, some information on exchange details was omitted and potential revenue adjustments for line charges revenue were not calculated. In addition, there was a tax rate change in 2022 that was not included on the older form.

Pursuant to PSC Rule R746-8-401(4), the Division has calculated the amount of UUSF eligibility to be \$749,621 annually. The Company did not receive any UUSF support in 2023, nor has it received any support in recent years because the revenue model used by the Division indicated no support was warranted.

Noted changes to the revenue requirement include but are not limited to the following. In 2022 the reported network access revenue decreased by more than \$1 million. Meanwhile, total operating expenses increased by \$88 thousand. In addition, the Company added more than \$1.5 million in new assets which caused an increase in the total average rate base. The Division's analysis of the Navajo's 2022 operations and the recommendation for 2024 UUSF distributions are as follows:

Discussion

In calculating the UUSF eligibility for Navajo Communications Company, Inc., the Division noted the following:

- 1) The Division notes that for 2022 Navajo reported only \$252 of Federal Lifeline support. No other Federal support was indicated. In 2021, the Company reported more than \$1 million in Federal support, mostly from switched access revenue.
- 2) Net Operating Revenue decreased – Navajo reported \$230,887 of net operating revenue for 2022. This is a decrease of \$1,016,060 from 2021 and is largely due to decreased switched access revenue as previously mentioned.
- 3) Total Operating Expense increased – Navajo reported \$602,767 operating expense in 2022, an increase of \$88,565 from 2021. Most of the increase is due to depreciation expenses.
- 4) Rate Base increased – The Company reported more than \$1.5 million of new assets added in 2022. Consequently, the total average rate base increased to \$2,055,991 for 2022, an increase of \$183,977.

- 5) Excess Accumulated Deferred Income Tax (EDIT) – This is a deferred liability which should be returned to the UUSF. However, the Company didn't receive any UUSF in prior years, and their EDIT calculation showed that the amount of EDIT liability has been fully amortized since 2021. No adjustment is needed.
- 6) Imputed Revenue – Navajo reported \$1,169 of imputed revenue based on lines of service below the base affordable rate. An adjustment was made to revenue for this amount. No information was reported on broadband lines or charges. Consequently, no adjustments were made at this time for wholesale broadband access.
- 7) Rate of Return – The FCC prescribed Rate of Return (ROR) effective on July 1, 2021, is 9.75%.¹ This is the ROR the DPU used for the revenue requirement calculation in this model.
- 8) State and Federal Income Tax – The DPU used a federal tax rate of 21% and a Utah tax rate of 4.85% to estimate future income taxes included in the UUSF calculation.

Conclusion

The DPU recommends approving with conditions the 2024 Utah USF distribution for Navajo Communications Company, Inc. \$749,621 annually, or \$62,468.42 monthly. This recommendation is conditional on the Company providing to the DPU by October 1, 2023, the 2022 Annual Report using the correct form with the necessary information filled in. There may be further adjustments to this recommendation pending the receipt of additional information from the Company.

cc: Jessica Matushek, Director of Accounting, Navajo Communications Company, Inc.

¹ Federal Communications Commission DA 21-568A, item 7, WC Docket No. 21-148, May 14, 2021.