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# UTAH DEPARTMENT OF COMMERCE

## Division of Public Utilities

MARGARET W. BUSSE  
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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. 23-052-01**, Review of 2022 Annual Report for South Central Utah Telephone Association, Inc., and Recommendations for Utah Universal Service Fund assistance for Calendar Year 2024.

## Recommendation (Approval)

The Utah Division of Public Utilities (Division or DPU) recommends the Public Service Commission of Utah (Commission or PSC) adjust the annual Utah Universal Service Fund (UUSF) amount payable to South Central Utah Telephone Association, Inc. (SCUTA or Company) to \$8,598,237 annually, or \$716,519.75 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 South Central Utah Telephone Association, 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](http://www.dpu.utah.gov) • telephone (801) 530-7622 • toll-free in Utah (877) 874-0904 • fax (801) 530-6512

## Background

The Division reviewed the 2022 annual report of SCUTA received on April 17, 2023. Pursuant to PSC Rule R746-8-401(4), the Division has calculated the amount of UUSF eligibility to be \$8,598,237 annually. This is an increase of \$2,458,311 from the amount, \$6,139,926, approved by the Commission for 2023. Some reasons for the increase appear to be that while revenues remained nearly the same from 2021 to 2022, operating expenses increased by more than \$790 thousand in the same period, mostly due to increased depreciation expenses. Also, the Company added over \$11.6 million of new assets and the net rate base increased from about \$44.8 million to \$50.8 million in 2022. The Division's analysis of the SCUTA's 2022 operations and the recommendation for 2024 UUSF distributions are as follows:

## Discussion

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

- 1) Federal USF support increased in 2022 - The Division notes that for 2022, SCUTA reported a total of \$1,748,454 Federal support, which is a slight increase of \$148,654 from 2021. The support included \$1,703,076 in High-Cost Loop support, \$3,318 in Federal Lifeline support and \$42,060 in Emergency Broadband support.
- 2) Net Operating Revenue increased slightly – SCUTA reported \$20.6 million in 2022 and \$20.5 million in 2021. The increase came mostly from basic local services.
- 3) Net Operating Expense increased – The Company reported \$18.5 million in 2022, which was \$790,392 more than in 2021. Most of the increase was due to depreciation expenses.
- 4) Rate Base increased in 2022 – SCUTA reported a 2-year average rate base of \$49.8 million for 2022. This is \$5 million more than the average rate base of \$44.8 million reported in 2021.
- 5) Depreciation – SCUTA utilizes group asset depreciation. Consequently, its asset groups should be reviewed periodically to ensure that retirements occur when appropriate and are not carried in the asset base longer than warranted. The Division notes that SCUTA reported about \$20.2 million of retired assets in 2022.
- 6) Imputed Revenue – SCUTA reported that \$1,563 of revenue should be imputed because the Access Recovery Charge (ARC) was not collected from Lifeline customers. No other broadband access line charges were affected.
- 7) USF Excluded Costs – A total of \$258,782 of costs were identified that should have been excluded from the UUSF calculation. The Company initially submitted a list of \$251,531 excluded costs and the Division identified an additional \$7,251 of excluded costs. Excluded costs are typically identified by an annual cost study at the end of

the year. They include direct costs and allocated costs for expenses that were not pertinent to regulated service or that cross over both regulated and non-regulated operations. Excluded costs include things such as donations and sponsorships for community events and other events, which are beneficial to the community and company, but not directly pertinent to regulated service. An adjustment of \$258,782 was made to reduce expenses.

- 8) Excess Accumulated Deferred Income Tax (EDIT) – SCUTA operates as a co-op and is a non-taxable entity. Therefore, no adjustment is needed for EDIT.
- 9) 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.
- 10) 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 adjusting the 2024 Utah USF distribution for South Central Utah Telephone Association, Inc. to \$8,598,237 annually, or \$716,519.75 monthly.

cc: Annette Ormond, Accountant – South Central Utah Telephone Association, Inc.

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