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

Date: September 1, 2023

Re: **Docket No. 23-053-01**, Review of 2022 Annual Report for UBTA-UBET Communications, Inc. d/b/a/ Strata Networks, 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 UBTA-UBET Communications, Inc. (UBTA-UBET or Strata) to \$6,049,028 annually, or \$504,085.67 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 Strata Networks.

Division of Public Utilities

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Background

The Division has reviewed the annual report of Strata Networks received on April 17, 2023. Pursuant to PSC Rule R746-8-401(4), the Division has calculated the amount of UUSF eligibility to be \$6,049,028 annually. This is an increase of \$2,328,457 from the amount, \$3,720,571, approved by the Commission for 2023. Some reasons for the increase appear to be that while operating income increased, net income decreased by \$797,616 in 2022. This is mostly due to an increase of \$622,094 for interest on funded debt. Also, the Company added more than \$9.3 million of new assets in 2022. The average rate base for 2022 was \$80,458,968, an increase of \$5,308,837 from the average in 2021. The Division's analysis of the Strata's 2022 operations and the recommendation for 2024 UUSF distributions are as follows:

Discussion

In calculating the UUSF eligibility for Strata Networks, the Division noted the following:

- 1) Federal USF support increased in 2022 - The Division notes that for 2022 Strata reported a total of \$11,010,437 Federal support, which is \$298,438 more than in 2021. The total included \$10,059,038 ACAM support, \$33,825 in Federal Lifeline support, \$111,522 in Emergency Broadband support, \$105,372 in Schools and Library support, and \$700,680 in other Federal support.
- 2) Net Income decreased in 2022 – While net operating income increased, total net income decreased by \$797,616 due to increased interest expense and other non-operating expenses.
- 3) Rate Base increased in 2022 – Strata added more than \$9.3 million of new assets in 2022. This resulted in an increase to the rate base. The 2-year average rate base for 2022 was reported at \$80,458,968 which is \$5.3 million greater than in 2021.
- 4) Depreciation – UBTA-UBET utilizes a single asset depreciation method which was not affected by recent rule changes. The DPU notes that depreciation expense for 2022 was \$7.3 million, about \$740,000 greater than in 2021.
- 5) Wholesale Broadband – The Company modified its tariff rates in 2022 to consolidate ARC charges and other charges. The consolidated tariff rate is higher than the recommended wholesale broadband rate. No adjustment for wholesale broadband is needed currently.
- 6) USF Excluded Costs – The Division's review of Strata's expense detail identified some costs that should have been excluded from the UUSF calculation. An adjustment in the amount of \$58,197 was made to decrease expenses.

- 7) 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.
- 8) Excess Accumulated Deferred Income Tax (EDIT) – The Company 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%.¹ This is the ROR the DPU used for the revenue requirement calculation in this model.

Conclusion

The DPU recommends adjusting the 2024 Utah USF distribution for UBTA-UBET Communications, Inc. to \$6,049,028 annually, or \$504,085.67 monthly.

cc: Jason McKee, CFO – UBTA-UBET Communications, Inc.

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