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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 Director
Abdinasir Abdulle, Utility Technical Consultant Supervisor
Paul Hicken, Utility Technical Consultant
Joanna Matyjasik, Utility Analyst

Date: September 3, 2024

Re: **Docket No. 24-041-01**, Review of 2023 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 2025.

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 Frontier Communications of Utah (Frontier or Company) to \$3,022,487 annually, or \$251,873.91 monthly, effective January 1, 2025. This is a decrease of \$62,491 from the 2024 recommendation.

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. On April 11, 2024, the Company filed its annual report of operations in compliance with this rule. The Commission issued an Action Request on April 11, 2024,

Division of Public Utilities

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for the Division to review the filing and make recommendations by September 3, 2024. This memo is the Division's response to the Commission's Action Request. Included with this memo is a comprehensive audit report with details of the Company's 2023 operations and recommended changes to the UUSF distribution for Frontier.

Background

The Division has reviewed Frontier's annual report received on April 11, 2024. Pursuant to PSC Rule R746-8-401(4), the Division has calculated the amount of UUSF eligibility to be \$3,022,487 annually. This is a decrease of \$62,491 from the \$3,084,978 amount previously approved by the Commission. One reason for the decreased revenue requirement is that Frontier's operating revenues increased in 2023 due to increased access revenue. Another factor is that new assets added to rate base were nearly \$5 million less than in 2022. Consequently, the need for UUSF revenue decreased.

Discussion

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

- 1) The Division notes that for 2023 Frontier received only small amounts of federal and state USF support. Most of Frontier's federal support was from the CAF II program and ended in 2021. They reported about [REDACTED] of other federal funds in 2022 and [REDACTED] in 2023. State USF funding was also minimal with only [REDACTED] in 2022 and [REDACTED] in 2023.
- 2) Frontier's total operating revenues for 2023 were about [REDACTED], an increase of about [REDACTED] from the previous year.
- 3) To meet the revenue requirement, the amount of [REDACTED] additional state USF support was calculated from 2023 operations and will be distributed to the Company beginning in 2025. In both 2022 and 2023, the Company received less than 1% of the revenue requirement from state or federal USF support.
- 4) Frontier's operating expenses for 2023 were about [REDACTED], the same as for 2022.
- 5) Frontier uses an FCC approved group depreciation method. Depreciation expense accounts for about [REDACTED] of total operations expense. Frontier's total Plant in Service is about [REDACTED] depreciated. An adjustment was made to reduce depreciation expense by [REDACTED] on assets in exchanges where there is overlapping service with a competing COLR.
- 6) Frontier reported an average net rate base of [REDACTED] for 2023. About [REDACTED] of new assets were placed in service in 2023. About [REDACTED] of these new assets were

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installed in exchanges where there is duplicative service with another COLR. An adjustment was made to reduce the rate base by this amount.

- 7) Frontier did not have an EDIT obligation for 2023 nor 2024. It was paid off in 2021.
- 8) Frontier reported imputed revenue of [REDACTED]. This resulted in an adjustment to decrease operating revenues.
- 9) Frontier reported total line connections of [REDACTED] for 2023. Line counts have decreased each year for the past 5 years. Since 2019, the line counts have decreased by more than [REDACTED].
- 10) Frontier provides service to residential and business customers in 27 exchanges statewide. In 7 of these exchanges there is another COLR competing for customers and UUSF funding. The Commission has determined that UUSF should not be awarded for duplicative service. Therefore, some adjustments were made to Frontier's UUSF recommendation for 2025. These adjustments are discussed in more detail in the attached Audit Report.

Conclusion

The DPU recommends adjusting the 2025 Utah USF distribution for Frontier Communications of Utah to \$3,022,487 annually, or \$251,873.51 monthly.

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