Redacted

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
Shauna Benvegnu-Springer, Utility Technical Consultant
Joanna Matyjasik, Utility Analyst

Date: September 2, 2025

Re: **Docket No. 25-040-01,** Review of 2024 Annual Report of Central Utah Telephone, Inc. d/b/a CentraCom and Recommendation for Utah Universal Service Fund Assistance for Calendar Year 2026.

Recommendation (Approval)

The Division of Public Utilities ("Division" or "DPU") recommends that the Public Service Commission of Utah ("PSC" or "Commission") adjust the annual Utah Universal Service Fund ("UUSF") payable to Central Utah Telephone Company ("Central" or "Company") to $0 annually, or $0 monthly, effective January 1, 2026. For the 2025 calendar year, Central received [redacted] annually or [redacted] monthly. The current recommendation represents a UUSF decrease of [redacted] annually, or [redacted] monthly, to no UUSF distribution in calendar year 2026.

Issue

On April 17, 2025, the Company filed its 2024 Annual Report for UUSF assistance. On April 17, 2025, the Commission issued an Action Request to the Division to provide analysis, evaluation results, and the basis for conclusions and recommendations regarding the Company's report. This memorandum represents the Division's response to the Commission's Action Request.

Redacted

Discussion

In calculating the UUSF eligibility for Central, the Division utilized the following:

1) Rate of Return – The DPU used a 9.75% rate, the rate of return prescribed by the FCC.
2) Depreciation – Central utilizes a group asset depreciation method rather than single asset straight-line depreciation.
3) Annual Report Review – A review of the 2024 annual report calculated a UUSF decrease to $0 annually. Central had an increase in federal USF and plant-specific operating expenses by [redacted] and [redacted] over the prior year, respectively.
4) Deferred Regulatory Liability – Central used accelerated depreciation in 2018. Due to changes in federal and state tax rates, as well as accelerated depreciation in prior years, Central has a Deferred Regulatory Liability that should be returned to the UUSF. Central calculated an amortization schedule for the Excess Deferred Income Tax. The Division recommends not adjusting the EDIT taxes because the Company does not qualify for UUSF in calendar year 2026.
5) Federal Funding Concerns
    a. We examined five years of Annual Reports from Central to identify the amounts of Federal USF and state USF support Central reported and to analyze the trend and history. This was discussed in the Audit Report on page 4 and in Table 1.
    b. In Data Request 2.3, we asked the Company to provide more details on its most recent reporting of Federal support, such as which programs it participated in and why or why not.
    c. We reviewed the USF high-cost annual disbursement reports for the Company from the USAC.org website for comparison to what the Company had reported.
    d. We followed up with phone calls to the Company for further explanation. The Company explained that its consultant [redacted] provides advice on any federal support programs available and which ones it might be eligible for.

Redacted

6) <u>Incremental Level of Service Concerns</u>
    a. We know from prior visits and discussions that the Company builds the fiber to the home (FTH) network throughout its service territory. Central owns and maintains the network, which consists of an average of roughly 1,753 business and residential customers over the past five years. This was discussed on page 9 and Table 4 of the Audit Report.
    b. Through phone calls and prior visits to the Company, we learned that the Company leases access to the network to its affiliate Company, Central Telecom Services (CTS). The affiliate operates separately from the Company and provides internet access to its own customers. CTS pays the Company a monthly rate for access to the network according to the NECA tariff rates for the appropriate level of service requested. NECA tariff rates are tiered access rates for different upload/download speeds based on nationwide averages of other telecom companies. So essentially, CTS pays the Company to use its system according to the tiered rates for the internet speed requested by customers. CTS then provides internet service at a competitive market rate to its customers.

7) <u>Network Design Concerns</u>
    This was not addressed in the current Audit Report, but we have discussed this with the Company on many prior occasions, with site visits and phone calls. Central does not design and build its network on a least cost basis. Instead, it considers factors that provide the best service at a reasonable cost for current and future needs. There are many factors under consideration, such as customer demand, current customer base, future growth, the choice between buried cable and cable from poles, copper versus fiber, technological upgrades, land access, and right of way. Least cost decisions do not provide the best network or transmission for the telecom industry. The DPU believes that making network design choices is a management issue for the Company, not a matter for the Division to dictate management decisions.

Redacted

8) Self-Construction vs. Contracted Construction Concern

   We have discussed this idea with the Company on many prior occasions during site visits and through phone calls. The Company has engineers and construction crews for inside or outside network projects. Company equipment, such as trenchers, cable spoolers, and bucket trucks, enables them to employ self-construction on most projects. The Company can complete projects with its resources at a lower cost and usually faster and more efficiently than hiring outside contractors. The Company coordinates excavation and trenching projects with other utilities and contractors so it can lay cable when a trench is already opened for other work. This minimizes cost and the need for trenching or excavating.

9) Broadband Access Rate Concerns

   This issue was not addressed in the current Audit Report, but we have discussed this with the Company on other prior occasions through phone calls and during site visits. As mentioned in issue 1) b., the Company leases access to its affiliate for broadband service. The affiliate company, CTS, provides internet/broadband service to its customers at competitive market rates. The affiliate pays the parent company, Central Utah Telephone, for access according to the NECA tariff rates. The NECA tariff rates are established by gathering cost data for internet transmission from thousands of telecom companies across the nation. The rates are the acceptable standards for industry.

10) Evaluating the Accuracy of Cost Data Concerns

   a. The DPU's process for evaluating cost data is generally the same procedure for each company assessed. The evaluation process is addressed briefly in pages 2 and 3 of the Audit Report under Scope of Review.
   b. We start by collecting and reviewing the Company's most recent (2023) Annual Report of Operations. This contains the year-end totals for all the Company's accounts, such as expense/revenue accounts and balance sheet accounts. We compare the recent report with prior years to identify trends, patterns, abnormalities, and deviations.

Redacted

c. We prepare and send an initial data request to collect general ledgers, trial balances, depreciation summaries, and other accounting documents to verify the information in the Annual Report. In this request, we asked for eight additional accounting records and explanations of three accounting policies.
d. We review the ledgers, summaries, and other accounting documents and prepare subsequent data requests to gather further information and clarify any questions we find in our review of the Annual Report and additional accounting documents. For this audit, we sent a single data request, with 41 specific queries.
e. We follow up each data request with phone calls to clarify and gather further details and understanding of what was reported.
f. During the site visit, we discussed the responses further with the Company's management, sampled various parts of the Company's digital system to include A/R, A/P, contracts, payroll distribution, cost allocation, customer billing, and compliance with customer rights and responsibilities. We reviewed a sample of the Company's assets and location, system infrastructure in the field, and the service area with expansion and growth plans, as well as the 5-year infrastructure plans.
g. We adjust the reported data based on our findings and review the adjustments with the Company to verify the accuracy and appropriateness of our work and to gather concurrence from the Company.
h. The year-end totals for revenues, expenses, and rate base accounts are entered into our revenue requirement model, and the amount needed for additional UUSF is calculated, ensuring that data balances to previous years and current documents.

Conclusion

The DPU recommends adjusting the UUSF distribution for Central to $0 annually, or $0 monthly, beginning January 1, 2026.

Attachments (2) 2024 Audit Report and 2024 Annual Report

Redacted

cc: Bawb Nielsen, Senior Accountant, CentraCom
Chad Wray, Controller, CentraCom
Mike Plows, CFO, CentraCom
Brad Welch, COO, CentraCom
Eddie Cox, President, CentraCom