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

Date: September 2, 2025

Re: **Docket No. 25-046-01,** Review of 2024 Annual Report for Manti Telephone Company, and Recommendations for Utah Universal Service Fund assistance for Calendar Year 2026.

Recommendation (Approval)

The Utah Division of Public Utilities (Division or DPU) recommends that the Public Service Commission of Utah (Commission or PSC) adjust the annual Utah Universal Service Fund (UUSF) amount payable to Manti Telephone Company (Manti or Company) to [redacted] annually, or [redacted] monthly, effective January 1, 2026. This is a decrease of [redacted] from the prior year's 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 17, 2025, the Company filed its annual report of operations in compliance with this rule. The Commission issued an Action Request on April 17, 2025, for the Division to review the filing and make recommendations by September 2, 2025. This memo is the Division's response to the Commission's Action Request. Included with this

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memo is a comprehensive audit report with details of the Company's 2024 operations and recommended changes to the UUSF distribution for Manti Telephone Company.

Background

The Division has reviewed the annual report of Manti Telephone Company received on April 17, 2025. Pursuant to PSC Rule R746-8-401(4), the Division has calculated the amount of UUSF eligibility to be [redacted] annually. The Company's Excess Deferred Income Tax (EDIT) liability was settled in 2023 in the 2025 UUSF distribution.

Discussion

In calculating the UUSF eligibility for Manti Telephone Company, the Division noted the following:

1) Rate of Return – The DPU used a 9.75% rate, the rate of return prescribed by the FCC.
2) Depreciation – Manti utilizes a single asset straight line depreciation method rather than group asset depreciation.
3) Annual Report Review – A review of the 2024 annual report calculated a UUSF decrease to [redacted] annually. Manti had a decrease in federal USF, and plant-specific operating expenses increased by [redacted] and [redacted] respectively, over the prior year.
4) Deferred Regulatory Liability – Manti did not have any EDIT adjustments to be deducted from the UUSF.
5) Federal Funding Concerns –
    a. The Division reviewed the most recent five years of Annual Reports from Manti to determine the amounts of Federal USF and state USF support they were reporting and to observe the trend and history. This is addressed in the Audit Report on page 5 and in Table 1.

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b. The Division reviewed the USF high-cost annual disbursement reports for Manti from the USAC.org website for comparison to what the Company had reported.

c. The Division followed up with phone calls to the Company for further explanation. The Company explained that its consultant [redacted] provides annual advice on any federal support programs available and which ones it might be eligible for.

6) Incremental Level of Service Concerns –

a. The Division knows from prior visits and discussions that Manti Telephone builds the fiber to the premise (FTTP) network throughout its service territory. It owns and maintains a network that provides transmission and service to an average of approximately [redacted] business and residential customers over the past five years. This was discussed on page 8 and Table 4 of the Audit Report.

b. Through phone calls and prior visits to Manti, the Division learned that the Company leases access to its network to its affiliate company, Manti Telecommunications Company (MTCC). The affiliate operates separately from Manti and provides internet access to its own customers. MTCC pays Manti 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. Essentially, MTCC pays Manti to use its system according to the tiered rates for the internet speed requested by its customers. MTCC then provides internet service at a competitive market rate to its customers.

7) Network Design Concerns – This is addressed in the current Audit Report, and the Division discussed this with Manti on several previous occasions through site visits and phone calls. Manti does not design and build its network based solely on the least cost. Instead, it considers factors that offer the best service at a reasonable

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cost for both current and future needs. These factors include customer demand, current customer base, expected growth, the choice between buried cable and pole-mounted cable, copper versus fiber, technological upgrades, land access, and right of way. Making decisions based solely on the lowest cost does not guarantee the best network or transmission quality for the telecom industry. Network design choices are management issues, and it's inappropriate for regulators to micromanage to such an extent.

8) Self-Construction vs. Contracted Construction Concern – This is addressed in the current Audit Report, and the Division has discussed this with Manti on several prior occasions during site visits and through phone calls. Manti has engineers and construction crews for most system and network projects, whether inside plant or outside plant. Manti has equipment such as trenchers, cable spoolers, bucket trucks, etc., that enable Manti to employ self-construction most of the time and on most projects. Manti can complete its projects with its own resources much cheaper and usually faster and more efficiently than hiring outside contractors. Manti coordinates excavation and trenching projects with other utilities and scheduled construction work, allowing Manti to lay cable when a trench is already open for other work. This minimizes cost and the need for trenching or excavating. The use of outside contractors is a management decision and generally not in the Divisions purview.
9) Broadband Access Rate Concerns – This issue is addressed in the current Audit Report, and the Division has discussed this with Manti on other prior occasions through phone calls and during site visits. As mentioned in issue 1.b, Manti leases access to its affiliate company for broadband service. The affiliate company, MTCC, provides internet/broadband service to its own customers at competitive market rates. The affiliate pays the parent company, Manti 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 the industry. The Division imputed a revenue adjustment when the UUSF amount was calculated.

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10) <u>Evaluating the Accuracy of Cost Data Concerns</u> –

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 4-5 of the Audit Report under Scope of Review.
b. The Division starts by collecting and reviewing the Company's most recent (2024) 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. The Division compares the recent report with prior years to identify trends, patterns, abnormalities, and deviations from previous years.
c. The Division prepares and sends 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 initial request for Manti, the Division asked for eight additional accounting records and explanations of three accounting policies.
d. The Division reviews the ledgers, summaries, and other accounting documents and prepares subsequent data requests to gather further information and clarify any questions. The Division reviews the Annual Report and additional accounting documents. For this audit of Manti, the Division sent one data request, with 15 queries.
e. The Division follows up on each data request with phone calls to clarify and gather further details and understanding of what was reported.
f. The Division makes adjustments to the reported data based on our findings. It reviews the adjustments with the Company to verify the accuracy and appropriateness of our work and to gather concurrence from the Company.
g. The year-end totals for revenues, expenses, and rate base accounts are entered into our revenue requirement model, and the needed amount for additional UUSF is calculated.

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Conclusion

The DPU recommends adjusting the 2026 Utah USF distribution for Manti Telephone to [redacted] annually, or [redacted] monthly.

cc: Tami Hansen, CFO – Manti Telephone Company, Inc.