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**PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

**Communications Division  
Carrier Oversight & Programs Branch**

**RESOLUTION T- 17398  
July 25, 2013**

**R E S O L U T I O N**

**Resolution T-17398 Approval of the California High Cost Fund-A Program  
Surcharge Rate of 0.18% Effective October 1, 2013.**

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**SUMMARY**

This resolution adopts California High Cost Fund-A (CHCF-A) program surcharge rate of 0.18%, effective October 1, 2013, until further revised by the California Public Utilities Commission (Commission). All telecommunications carriers shall reduce the CHCF-A surcharge rate assessed on revenues collected from end-users for intrastate telecommunications services subject to surcharge from 0.40% to 0.18% effective October 1, 2013, and thereafter.

**BACKGROUND**

The California High Cost Fund (HCF) was implemented by Decision (D.) 88-07-022, and modified by D.91-05-016 and D.91-09-042, to provide a source of supplemental revenues to three mid-size and seventeen small Incumbent Local Exchange Carriers (ILECs) whose basic exchange access line service rates would otherwise be increased to levels that would threaten universal service. Pacific Bell was appointed as the administrator of the fund and established a separate trust.

In D.96-10-066, the Commission changed the name of HCF to CHCF-A, and also created the California High Cost Fund-B (CHCF-B). This decision included Pacific Bell (now AT&T), GTE California Incorporated (now Verizon),<sup>1</sup> Roseville Telephone Company (now SureWest), and Citizens Telecommunications Company of California (now Frontier) in the newly-created CHCF-B for the purpose of determining universal service subsidy support for large and mid-sized carriers, and maintained the CHCF-A for the

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<sup>1</sup> Verizon Telephone Company resulted from the merger of GTE of CA and GTE Contel.

seventeen small ILECs. This decision also directed the Commission to take over the administration of the CHCF-A from Pacific Bell.

In Resolution T-16092, the Commission transferred the administrative control of the CHCF-A from Pacific Bell to the Commission effective January 1, 1998. This resolution appointed three Commission staff members to serve on the CHCF-A Trust Administrative Committee (AC), and was charged with the responsibility of administering the CHCF-A. In D.98-06-065, the Commission renamed the committee as California High Cost Fund-A AC and revised the governance of the CHCF-A consistent with State rules, practices and procedures.

In October 1999, Public Utilities (PU) Code § 270-281 were codified as a result of the enactment of Senate Bill (SB) 669 (Stats. 1999, Chapter 677). PU Code § 270(b) requires CHCF-A fund and five other public purpose program funds to be expended pursuant to § 270-281 and upon appropriation in the annual Budget Act. Since Fiscal Year (FY) 2001-02, the CHCF-A Fund expenditures have been authorized in the State's Annual Budget Act.

The CHCF-A initially comprised of 17 small ILECs. In D.08-10-010, the Commission authorized the consolidation of three small ILECs: Citizens Telecommunications Company of Tuolumne, Citizens Telecommunications Company of the Golden State and Global Valley Networks, Inc., with the midsize ILEC, Citizens Telecommunications Company of California Inc., (now doing business as Frontier Communications of California). In addition, in D.13-05-028, the Commission authorized another consolidation of Frontier Communications West Coast Inc., into the larger ILEC, Citizens Telecommunications Company of California Inc. doing business as Frontier Communications of California. As a result, there are now 13 small ILECs providing service in rural areas of California that are eligible for CHCF-A funding.

The Commission's action in establishing and administering the CHCF-A is in compliance with statute. PU Code § 275.6 requires the Commission to implement a program for universal service support to reduce any rate disparity in rural areas charged by small telephone corporations that are subject to rate-of-return regulation by the Commission. PU Code § 275.6 was scheduled to sunset on January 1, 2013, but was extended by the Legislature to January 1, 2015.

The CHCF-A program is funded by a surcharge assessed on revenues collected from end-users for intrastate telecommunications services subject to surcharge. On November 19, 2010, the Commission adopted Resolution T-17299 to reduce the surcharge rate to 0.00% effective December 1, 2010, in order to reduce an accumulated fund balance of \$65 million. On June 7, 2012, the Commission adopted Resolution T-17357 and reinstated the surcharge rate at 0.40% effective July 1, 2012, because the cash balance in the fund was low. Historical CHCF-A surcharge rates since the inception of the program are available online at <http://www.cpuc.ca.gov>.

**DISCUSSION**

In this Resolution, the Commission adopts a CHCF-A surcharge rate of 0.18%, effective October 1, 2013, until further revised by the Commission. CD strives to maintain a program fund level with a reserve covering approximately six-months of monthly expenditures. This reserve strikes a reasonable balance between the need to have sufficient liquidity in the fund to cover program expenditures and the desire to not overburden ratepayers by collecting too much in program surcharges.

If the current surcharge rate remains at 0.40%, CD forecasts that the CHCF-A fund balance would increase from approximately \$11 million as of April 30, 2013, to approximately \$41 million by June 30, 2014. During this time, CD estimates that it will collect approximately \$72 million using a 0.40% surcharge rate. Since the average CHCF-A monthly expenditure is only about \$3 million, if the surcharge rate remains at 0.40%, the fund balance would rise to approximately 14-times the monthly expenditure level. A calculation showing this analysis is presented below in Table 1.

**Table 1  
 Projected Cash Flow and Fund Balance**

<b>Surcharge Rate Unchanged</b>		<b>0.40%</b>
<b>Estimated CHCF-A Fund Balance on April 30, 2013</b>		\$ 11,302,000
<b>Estimated Surcharge Revenue</b>		
To June 30, 2013	\$ 10,546,000	
FY 2013-14 (July 1, 2013 to June 30, 2014)	\$ 61,300,000	\$ 71,846,000
<b>Estimated Expenditures</b>		
To June 30, 2013	\$ 8,402,000	
FY 2013-14	\$ 33,525,000	\$ 41,927,000
<b>Estimated CHCF-A Fund Balance on June 30, 2014</b>		\$ 41,221,000

To reduce the expected CHCF-A program fund surplus, CD recommends that the surcharge rate be reduced from 0.40% to 0.18% effective October 1, 2013. The new rate would allow CD to meet the remaining expenditure obligations for FY 2012-13 and forecasted expenditures through December 31, 2014. The ending CHCF-A fund balance on December 31, 2014, is forecasted at approximately \$19 million, as shown in Table 2 below, or six-times monthly expenditures, which is within our target balance of six-months of monthly expenditures.

All telecommunications carriers shall assess a CHCF-A surcharge rate of 0.18% on their revenues collected from end-users for intrastate telecommunications services subject to surcharge effective October 1, 2013, until otherwise directed by the Commission.

**Table 2**  
**Projected Cash Flow and Fund Balance**

<u>Surcharge Rate effective October 1, 2013</u>	<u>0.18%</u>
<b>Estimated CHCF-A Fund Balance on April 30, 2013</b>	\$ 11,302,000
<b>Estimated Surcharge Revenue</b>	
0.40% to November 30, 2013 *	\$ 36,061,000
0.18% from 12/1/2013 to 12/31/2014 *	\$ 29,939,000 \$ 66,000,000
<b>Estimated Expenditures</b>	
To June 30, 2013	\$ 8,402,000
July 1, 2013 to December 31, 2014	\$ 50,287,050 \$ 58,689,050
<b>Estimated CHCF-A Fund Balance on December 31, 2014</b>	\$ 18,612,950

\* Cash flows are calculated to reflect that surcharge revenues are due 40 days after the end of the billing month. Therefore, most surcharge revenues reflecting the October 1, 2013, surcharge rate change would be received approximately 40 days after the end of October 2013, or during December 2013.

We note that the Commission currently has an open rulemaking (R. 11-11-007) performing a comprehensive review of the CHCF-A program. If the Rulemaking results in a significant change to the forecasted level of CHCF-A funding, a resolution will be issued to change the CHCF-A surcharge rate.

**Advice Letter Filing**

Consistent with Resolution T-16901, dated December 2, 2004, the Commission should require AT&T (formerly SBC) to file an Advice Letter on or before September 15, 2013, modifying the CHCF-A surcharge rate from 0.40% to 0.18%, effective October 1, 2013, until further revised by the Commission. AT&T is not required to inform competing carriers of tariff changes which comply with this resolution.

**SAFETY ISSUES**

The small ILECs are required to adhere to all Commission rules, decisions, General Orders and statutes including Public Utilities Code § 451 to take all actions "...necessary to promote the safety, health, comfort, and convenience of its patrons, employees, and the public." The CHCF-A program helps to promote universal service by subsidizing an essential communications links in rural communities throughout California. This

Resolution ensures that there is adequate funding, at an appropriate level, to support the CHCF-A program budgetary expenditures.

### **COMMENTS**

In compliance with PU Code § 311(g), a notice letter was emailed on June 25, 2013, to all telecommunications carriers, the CHCF-A AC and the parties of record in Rulemaking 01-08-002, Application 99-09-044 and Rulemaking 11-11-007 informing these parties of the availability of the draft of this Resolution for public comments at the Commission's website <http://www.cpuc.ca.gov>. This letter also informed parties that the final Resolution, adopted by the Commission, will be available at the same website.

On July 10, 2013, Cooper, White & Cooper filed comments on the draft Resolution on behalf of the small ILECs, asserting their support for the proposed surcharge reduction. No other parties filed comments.

### **FINDINGS AND CONCLUSIONS**

1. The California High Cost Fund (HCF) was implemented by Decision (D.) 88-07-022, and modified by D.91-05-016 and D.91-09-042, to provide a source of supplemental revenues to three mid-size and seventeen small Incumbent Local Exchange Carriers (ILECs) whose basic exchange access line service rates would otherwise be increased to levels that would threaten universal service.
2. In D.96-10-066, the California Public Utilities Commission (Commission) changed the name of HCF to California High Cost Fund-A (CHCF-A) and created the California High Cost Fund-B (CHCF-B).
3. In D.96-10-066, the Commission included the three mid-size ILECs in the CHCF-B for the purpose of determining universal service subsidy support and maintained the CHCF-A for seventeen small ILECs.
4. In D.98-06-065, the Commission renamed the CHCF-A Trust Administrative Committee to CHCF-A Administrative Committee (AC) and revised the governance of CHCF-A to be consistent with state rules, practices, and procedures.
5. In October 1999, Public Utilities (PU) Code § 270-281 were codified as a result of the enactment of Senate Bill 669.
6. PU Code § 270(b) requires that the monies in the CHCF-A and five other public purpose program funds be expended pursuant to § 270-281 and upon appropriation in the annual State Budget Act.
7. In D.08-10-010, the Commission consolidated three small ILECs: Citizens Telecommunications Company of Tuolumne, Citizens Telecommunications Company of the Golden State and Global Valley Networks, Inc., with the midsize

Local Exchange Carrier, Citizens Telecommunications Company of California Inc., doing business as Frontier Communications of California.

8. In D.13-05-028 the Commission consolidated Frontier Communications West Cost Inc., into the larger ILEC, Citizens Telecommunications Company of California Inc., doing business as Frontier Communications of California.
9. There are 13 small ILECs providing service in rural areas of California that are eligible for CHCF-A funding.
10. In Resolution T-17357, the Commission authorized CHCF-A program surcharge rate of 0.40% effective July 1, 2012.
11. If the surcharge rate remains at 0.40%, the CHCF-A fund balance would increase to approximately \$41 million by June 30, 2014.
12. With a CHCF-A surcharge rate of 0.18%, the fund balance is forecasted to be approximately \$19 million by December 31, 2014.
13. All telecommunications carriers should revise the CHCF-A surcharge rate assessed on end-user intrastate telecommunications service revenues to 0.18%, effective October 1, 2013, until otherwise directed by the Commission.
14. The Commission is conducting a review of the CHCF-A program in Rulemaking 11-11-007.
15. In accordance with Resolution T-16901, dated December 2, 2004, AT&T should file an advice letter by September 15, 2013, modifying the CHCF-A surcharge rate from 0.40% to 0.18%, effective October 1, 2013, until further revised by the Commission. AT&T is not required to inform competing carriers of tariff changes which comply with this resolution.
16. In compliance with PU Code § 311(g), a notice letter was emailed on June 25, 2013, to all telecommunications carriers, the CHCF-A AC and the parties of record in Rulemaking 01-08-002, Application 99-09-044 and Rulemaking 11-11-007 informing these parties of the availability of the draft of this Resolution for public comments at the Commission's website <http://www.cpuc.ca.gov>. This letter also informed parties that the final Resolution, adopted by the Commission, will be available at the same website.
17. On July 10, 2013, Cooper, White & Cooper filed comments on the draft Resolution on behalf of the small ILECs, asserting their support for the proposed surcharge reduction. No other parties filed comments.

**THEREFORE, IT IS ORDERED** that:

1. The California High Cost Fund-A surcharge rate of 0.18%, shall be effective October 1, 2013, until further revised by the Commission, is adopted.

2. AT&T shall file an Advice Letter on or before September 15, 2013, modifying the surcharge rate for the California High Cost Fund-A, from 0.40% to 0.18%, effective October 1, 2013, and thereafter, until further revised by the Commission.
3. All telecommunications carriers shall revise the California High Cost Fund-A surcharge rate assessed on revenues collected from end-users for intrastate telecommunications services, subject to surcharge, from 0.40% to 0.18%, effective October 1, 2013 and thereafter, until further revised by the Commission.

This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on July 25, 2013. The following Commissioners approved it:

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PAUL CLANON  
Executive Director