



California Public Utilities Commission

505 Van Ness Avenue, San Francisco, CA 94102

Press Release

FOR IMMEDIATE RELEASE

Docket #: R.06-06-028

Media Contact: Terrie Prosper, 415.703.1366, news@cpuc.ca.gov

PUC BETTER TARGETS HIGH COST FUND AREAS, SAVES PHONE CONSUMERS \$300 MILLION

SAN FRANCISCO, September 6, 2007 - The California Public Utilities Commission (PUC) today took action to save telephone consumers over \$300 million a year by decreasing the California High Cost Fund-B (CHCF-B) and better targeting the subsidy in truly high cost, hard-to-serve areas. The PUC also authorized a small inflation increase of 2.36 percent to AT&T and Verizon's basic rates, beginning January 1, 2008.

The CHCF-B program began in 1996 to ensure that basic telephone service was available and affordable in high cost, hard-to-serve areas. It is funded by a surcharge on intrastate phone services on consumer telephone bills. As California's population continues to grow, many areas that were once defined as hard-to-serve are now thriving metropolitan or suburban areas with a competitive communications market. Incumbent phone companies now face vigorous competition from wireless, cable, Voice over Internet Protocol, and competitive local exchange carriers.

By today's decision, the CHCF-B, currently at \$436 million annually, will decline by approximately \$315.4 million by July 1, 2009, representing a 74 percent reduction in subsidy expenditures. Thus, the CHCF-B retail surcharge born by telephone consumers will be reduced from 1.3 percent to 0.5 percent, effective January 1, 2008.

"This decision today continues our focus on updating our regulatory programs in light of rapid technological changes and increased competition in the voice marketplace," commented PUC President Michael R. Peevey. "We are committed to bringing affordable voice services to our most rural citizens."

"Consumers and competition alike will find good in this decision," said Commissioner Dian M. Grueneich. "California telephone customers will experience a decrease in the High Cost Fund-B surcharge they pay and California telephone competitors will experience a more level playing field."

“I commend the Commission for undertaking the first comprehensive review of the High Cost Fund-B since its creation over 10 years ago. This review was long overdue,” said Commissioner John Bohn. “In the future, we expect to address the value of High Cost Fund-B subsidies in a more expedient fashion.”

“Our vote today will save California consumers over \$300 million a year and establish a process to bring broadband services delivering voice to the rural parts of the state,” said Commissioner Rachelle Chong, the Assigned Commissioner to the docket.

“This is a decision that will actually keep money in the pockets of ratepayers,” added Commissioner Timothy Alan Simon.

Last year in its Uniform Regulatory Framework proceeding, the Commission determined that basic residential rates of the largest incumbent telephone companies should remain at current levels pending action in the CHCF-B proceeding. Today’s decision determines that a transition period is needed from current basic rate levels to competitive market pricing. It allows AT&T and Verizon to begin that transition on January 1, 2008, by authorizing a basic rate increase tied to inflation, as allowed by the Digital Infrastructure and Video Competition Act of 2006 passed by the state Legislature last year. Should AT&T or Verizon choose to increase its basic rate on January 1, 2008, the rate increase will be no more than \$0.25 for AT&T customers and no more than \$0.41 for Verizon customers. The PUC will separately determine suitable transitional increases in the basic service rate caps for each respective ILEC post January 1, 2009, in the next phase of this proceeding.

The PUC also proposed the creation of a limited California Advanced Services Fund (CASF) to develop broadband infrastructure that delivers voice in unserved and underserved high cost areas of California. The PUC will address whether and how to establish the CASF in the next phase of this proceeding. The goal of this CASF is to bridge the digital divide in these unserved and underserved areas in a technology neutral manner. Economic and social benefits to these rural regions will flow from state-of-the-art broadband infrastructure.

California remains on the vanguard of states with an explicit high cost program for universal service purposes. Twenty-two other states have created high cost funds since California created the second state high cost fund more than a decade ago.

For more information on the PUC, please visit www.cpuc.ca.gov.

###