

STATE OF CALIFORNIA

Public Utilities Commission  
San Francisco

**M e m o r a n d u m**

**Date:** March 7, 2008

**To:** The Commission  
(Meeting of March 13, 2008)

**From:** Pamela C. Loomis, Deputy Director  
Office of Governmental Affairs (OGA) — Sacramento

**Subject:** **SB 780 (Wiggins) – Telecommunications: universal service.  
As amended: January 17, 2008**

**LEGISLATIVE SUBCOMMITTEE RECOMMENDATION: SUPPORT WITH  
AMENDMENTS**

**SUMMARY OF BILL:**

This bill would extend the sunset dates for the California High Cost Fund-A (CHCF-A) and the California High Cost Fund-B (CHCF-B) programs from January 1, 2009, to January 1, 2013.

The bill would also provide that, in addition to ensuring universal and affordable service in high-cost areas of the state, it is the intent of the Legislature that the CHCF-A and B program funds be used to address “the ability to access the fund [sic] for broadband access in unserved and underserved areas through varied mechanisms, including innovative and community-based approaches to extending broadband access.” (Sec. 1 (b) p.2)

**SUMMARY OF SUPPORTING ARGUMENTS FOR RECOMMENDATION:**

The CPUC supports the extension of the CHCF-A and CHCF-B programs to January 1, 2013. The CHCF-A fund provides an essential source of supplemental revenues to the small Local Exchange Carriers (LECs) in order for them to be able to provide local exchange telephone service at affordable rates, in furtherance of the goals of universal service.

The CHCF-B program is currently under review to improve and better target the universal service support for high cost areas of non-rural telephone companies. The program is scheduled to end on January 1, 2009, but there is still a need for universal service support in those areas.

## **SUMMARY OF SUGGESTED AMENDMENTS:**

### **1. Delete the intent language relating to broadband in Section 1(b).**

- To date, the Commission has not permitted recovery under the CHCF-A or CHCF-B programs for the costs of broadband infrastructure deployment.

## **DIVISION ANALYSIS (Communications Division):**

### **CHCF-A PROGRAM**

- This bill would extend the sunset date of the CHCF-A program from January 1, 2009 to January 1, 2013. The CHCF-A program provides supplemental revenues to small local exchange carriers (LECs) to minimize disparities between basic telephone service rates in rural versus metropolitan areas.
- This bill would prevent the sudden ending of subsidies (transfer payments) to the small LECs if the CHCF-A program were to sunset on January 1, 2009.
- The CHCF-A program is funded by an all-end-user surcharge on total intrastate billings (except billings of Lifeline customers). If the program is not extended, it is likely that this surcharge would be removed from the bills of all ratepayers for intrastate billings after January 1, 2009.
- The CHCF-A Fund is budgeted at \$66. 51 million for FY 07-08.
- Currently the Rural Telephone Infrastructure Grant Program is funded through the CHCF-A fiscal year budget. Under this program, \$10 million is available annually to fund new infrastructure projects to bring telephone service to unserved Californians. Pending bill, SB 1149, will extend the Rural Telephone Infrastructure Grant program until January 1, 2013. If the CHCF-A is not extended, the CPUC would have to fund the Rural Telephone Infrastructure Grant Program from the CHCF- B fiscal budget, assuming that the CHCF-B program is also extended to January 1, 2013. If neither CHCF-B nor CHCF-A is extended, funding for the Rural Telephone Infrastructure Grant Program will cease.

### **CHCF- B PROGRAM**

- This bill would extend the sunset date of the CHCF-B program from January 1, 2009 to January 1, 2013. The CHCF-B program provides supplemental revenues to the four largest local exchange carriers in California: Pacific Bell (now AT&T); Verizon of California; SureWest; and Frontier of California. These revenues subsidize the cost of residential lines in high cost areas served by these companies. The purpose of the subsidies is to keep basic telephone service affordable and to meet the Commission's universal service goal.

- This bill would prevent the sudden ending of subsidies (transfer payments) to the four non-rural carriers if the CHCF-B program were to sunset on January 1, 2009.
- The CHCF-B program is funded by an all-end-user surcharge on total intrastate billings (except billings of Lifeline customers). If the program is not extended, it is likely that this surcharge would be removed from the bills of all ratepayers for intrastate billings after January 1, 2009.
- The CHCF-B Fund is budgeted at \$435.979 million for FY 07-08.

#### **Both CHCF-A and CHCF-B**

- For the foreseeable future, there will be a continuing need for universal service support in high cost areas and the continuation of these programs by this pending legislation will ensure the program goals can be met with a minimum of disruption.

#### **PROGRAM BACKGROUND:**

- The California High Cost Fund (HCF) was implemented by D.88-07-022, as 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 LECs whose basic exchange access line service rates would otherwise be increased to levels that would threaten universal service.
- D.96-10-066 changed the name of HCF to CHCF-A, and created the California High Cost Fund-B (CHCF-B) for the four largest carriers. D.96-10-066 maintained the 17 small LECs in CHCF-A.
- Both programs have been extended in the past and are currently scheduled to sunset on January 1, 2009.
- To receive funding from the programs, a carrier must be a carrier of last resort.

#### **CHCF- A only**

- The CHCF-A makes supplemental revenues available to small rural LECs providing services in high cost areas. Currently the small LECs are: Calaveras Telephone Company, California-Oregon Telephone Company, Citizens Telecommunications Company of the Golden State, Citizens Telecommunications Company Of Tuolumne, Ducor Telephone Company, Global Valley Networks, Inc., Foresthill Telephone Company, Happy Valley Telephone Company, Hornitos Telephone Company, Kerman Telephone Company, Pinnacles Telephone Company, The Ponderosa Telephone Company, Sierra Telephone Company, Siskiyou Telephone Company, Verizon West Coast Incorporated, The Volcano Telephone Company, and Winterhaven Telephone Company.

#### **CHCF- B only**

- Addressing the emergence of competition for local exchange services, in 1996 the Commission decided that in addition to support for small and medium carriers, mechanisms needed to be established that would support universal service in high-cost areas served by the major LECs who served as Carriers of Last Resort (COLR). Taking the position that small LECs should not be subject to the same rules applicable to the larger LECs, in 1996 the Commission created the California High Cost Fund-B (CHCF-B) and changed the name of the original small-LEC high cost fund to CHCF-A.
- The CHCF-B was created to provide universal service subsidy support for the larger carriers: Pacific Bell (now AT&T), GTE California and GTE Contel (now Verizon of California), Roseville Telephone Company (now SureWest), and Citizens Telecommunications Company of California (now Frontier of California).
- In D. 07-09-020, as modified by D. 07-11-039, the Commission adopted preliminary reforms to the California High Cost Fund-B (CHCF-B) program. The Commission revised the CHCF-B threshold level for “high cost” lines eligible for CHCF-B fund support in order to limit the number of lines qualifying for subsidy to a more reasonable level. Consequently, the surcharge was lowered from 1.3% to 0.5% as of January 1, 2008.
- However, on December 20, 2007, the Commission approved D.07-12-054, which revised the CHCF-B surcharge rate yet again from 0.5% to 0.25% and established the California Advanced Services Fund (CASF) with a surcharge rate of 0.25%.
- Carriers shall continue to remit CHCF-B revenues through the normal monthly remittance process at the surcharge rate of 0.25%. This will decrease the CHCF-B fund by \$315.4 million by July 1, 2009, which represents a 74% reduction in subsidy expenditures.
- In Order Instituting Rulemaking (R.) 06-06-028, the Commission is currently investigating the program with goals of reducing the size of the program while still meeting the universal service goals.

## **LEGISLATIVE HISTORY:**

**CHCF-A** -- In 1987 the Legislature enacted PU Code Section 739.3 requiring the Commission to develop and implement a program to establish a fair and equitable local rate structure through transfer payments to small independent telephone corporations serving rural and small metropolitan areas. The purpose of the program is to “promote the goals of universal telephone service and to reduce any disparity in the rates charged by those companies” in comparison to the lower rates charged to customers in the larger metropolitan areas. (PU Code section 739.3(a); AB 1466 (Ch. 755, Statutes of 1987).

**CHCF- B** –In 1996, with Decision (D.) 96-10-066, the Commission implemented the legislative mandate of AB 3643 (Ch. 278, Statutes of 1994), which amended PU Code Sec. 793.3, to require a cost support program for large telecommunication carriers serving high cost areas.

*The sunset date of both the CHCF-A and B fund programs was last extended (to January 1, 2009) by SB 1276 (Bowen), chaptered September 28, 2004. (Stats. 2004, Ch. 847, Sec. 3.)*

**FISCAL IMPACT:**

Since this would extend programs already in existence, it would not change the Commission's administration costs. Therefore, this bill has no additional financial impact on the Commission and there are no expanded work duties created by this bill.

**STATUS:**

SB 780 is in the Assembly awaiting policy committee assignment.

**SUPPORT/OPPOSITION:**

**Support (as of 1/28/08):** AT&T; California Communications Association; California Independent Telephone Companies; Frontier Communications; and SureWest Communications.

**Opposition (as of 1/28/08):** None on file.

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**Date:** March 7, 2008

**BILL LANGUAGE:**

BILL NUMBER: SB 780      AMENDED  
BILL TEXT

AMENDED IN SENATE    JANUARY 17, 2008  
AMENDED IN SENATE    JANUARY 7, 2008  
AMENDED IN SENATE    APRIL 9, 2007

INTRODUCED BY    Senator Wiggins  
                  (    Coauthor:    Senator Kehoe  
                  )

FEBRUARY 23, 2007

An act to amend Section 739.3 of the Public Utilities Code,  
relating to telecommunications.

LEGISLATIVE COUNSEL'S DIGEST

SB 780, as amended, Wiggins. Telecommunications: universal  
service.

(1) Existing law authorizes the Public Utilities Commission to supervise and regulate every public utility in the state, including telephone corporations, and to fix just and reasonable rates and charges for the public utility. Existing law establishes the California High-Cost Fund-A Administrative Committee Fund (CHCF-A) and the California High-Cost Fund-B Administrative Committee Fund (CHCF-B) in the State Treasury, and requires that moneys in the funds are the proceeds of rates and are held in trust for the benefit of ratepayers and to compensate telephone corporations for their costs of providing universal service and may be expended only to accomplish specified telecommunications universal service programs, upon appropriation in the annual Budget Act or upon supplemental appropriation. Existing law requires the commission to develop, implement, and maintain the CHCF-A and CHCF-B programs until January 1, 2009.

This bill would require the commission to develop, implement, and maintain the CHCF-A and CHCF-B programs until January 1, 2013.

Under existing law, a violation of the Public Utilities Act or an order or direction of the commission is a crime.

Because the ~~program~~ programs that ~~is~~ are extended under the provisions of this bill are within the act and a decision or order of the commission implements the ~~program~~ requirements of the programs, a violation of these provisions would impose a state-mandated local program by creating a new crime.

(2) The California Constitution requires the state to reimburse local agencies and school districts for certain costs mandated by the state. Statutory provisions establish procedures for making that reimbursement.

This bill would provide that no reimbursement is required by this act for a specified reason.

Vote: majority. Appropriation: no. Fiscal committee: yes.

State-mandated local program: yes.

THE PEOPLE OF THE STATE OF CALIFORNIA DO ENACT AS FOLLOWS:

SECTION 1. It is the intent of the Legislature , in extending the California High-Cost Fund-A and California High-Cost Fund-B programs pursuant to this act , that the funds be used to address both of the following:

(a) The continued need for universal and affordable high-quality service in high-cost areas of the state, particularly where telecommunications competition is limited.

(b) The ability to access the fund for broadband access in unserved and underserved areas through varied mechanisms, including innovative and community-based approaches to extending broadband access.

SEC. 2. Section 739.3 of the Public Utilities Code is amended to read:

739.3. (a) The commission shall develop, implement, and maintain a suitable program to establish a fair and equitable local rate structure aided by universal service rate support to small independent telephone corporations serving rural and small metropolitan areas. The purpose of the program shall be to promote the goals of universal telephone service and to reduce any disparity in the rates charged by those companies.

(b) For purposes of this section, small independent telephone corporations means those independent telephone corporations serving rural areas, as determined by the commission.

(c) The commission shall develop, implement, and maintain a suitable, competitively neutral, and broadband program to establish a fair and equitable local rate support structure aided by universal service rate support to telephone corporations serving areas where the cost of providing services exceeds rates charged by providers, as determined by the commission. The commission shall develop and implement the program on or before October 1, 1996. The purpose of the program shall be to promote the goals of universal telephone service and to reduce any disparity in the rates charged by those companies. Except as otherwise explicitly provided, this subdivision does not limit the manner in which the commission collects and disburses funds, and does not limit the manner in which it may include or exclude the revenue of contributing entities in structuring the program.

(d) The commission shall structure the programs required by this section so that any charge imposed to promote the goals of universal service reasonably equals the value of the benefits of universal service to contributing entities and their subscribers.

(e) The commission shall investigate reducing the level of universal service rate support, or elimination of universal service rate support in service areas with demonstrated competition.

(f) This section shall remain in effect until January 1, 2013, and as of that date is repealed, unless a later enacted statute that becomes effective on or before January 1, 2013, deletes or extends that date.

SEC. 3. No reimbursement is required by this act pursuant to Section 6 of Article XIII B of the California Constitution because the only costs that may be incurred by a local agency or school district will be incurred because this act creates a new crime or

infraction, eliminates a crime or infraction, or changes the penalty for a crime or infraction, within the meaning of Section 17556 of the Government Code, or changes the definition of a crime within the meaning of Section 6 of Article XIII B of the California Constitution.