

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 1144 (Cox) – Telecommunications: universal service:
California High Cost Fund A program.
As introduced: February 4, 2008**

LEGISLATIVE SUBCOMMITTEE RECOMMENDATION: SUPPORT

SUMMARY OF BILL:

This bill would extend the California High Cost Fund A (CHCF-A) program's current sunset date from January 1, 2009 to January 1, 2013.

Currently CHCF-A and CHCF-B programs are authorized under Public Utilities Code (PU Code) Section 739.3. This bill would recast the CHCF-A program authorizing language of Sec.739.3 (a), (b), and (d) as new PU Code Section 275.5. This change would place the CHCF-A program authorizing language next to the authorizing language for the CHCF-A Administrative Committee found at Sec. 275.

SUMMARY OF SUPPORTING ARGUMENTS FOR RECOMMENDATION:

The California Public Utilities Commission (Commission) supports the extension of the CHCF-A program to January 2013. The CHCF-A fund provides an essential source of supplemental revenues to the small rural 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.

SUMMARY OF SUGGESTED AMENDMENTS:

- Delete PU Code Sec. 739.3 (a) and (b).
- Delete "s" from the word "programs" from the PU Code Sections 739 (d) and 275.5.

DIVISION ANALYSIS (Communications Division):

- 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 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 SB 1144 is not passed, 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.
- There will be a continuing need for universal service support in high cost areas and the continuation of this program by this pending legislation will ensure the program goals can be met with a minimum of disruption.
- The Federal Universal Service Program also provides funding to eligible carriers in high cost areas. The FCC is currently considering changes to its high cost program.

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). D.96-10-066 maintained the 17 small LECs in CHCF-A.

- The program has been extended in the past and is currently scheduled to sunset on January 1, 2009.
- To receive funding from the CHCF-A program, a carrier must be a carrier of last resort.
- The CHCF-A makes supplemental revenues available to the 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.

LEGISLATIVE HISTORY:

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).

The sunset date of the CHCF-A fund program was last extended (to January 1, 2009) by SB 1276 (Ch. 847, Statutes of 2004).

FISCAL IMPACT:

Since this would extend a program 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:

SB1144 is in the Senate Committee on Energy, Utilities and Communication awaiting hearing.

SUPPORT/OPPOSITION:

California Independent Telephone Companies (sponsor)

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Date: March 7, 2008.

BILL LANGUAGE:

BILL NUMBER: SB 1144 INTRODUCED
BILL TEXT

INTRODUCED BY Senator Cox

FEBRUARY 4, 2008

An act to add and repeal Section 275.5 of the Public Utilities Code, relating to telecommunications.

LEGISLATIVE COUNSEL'S DIGEST

SB 1144, as introduced, Cox. Telecommunications: universal service: California High-Cost Fund-A program.

The existing federal Telecommunications Act of 1996 establishes a program for the regulation of telecommunications to attain the goal of local competition, while implementing specific, predictable, and sufficient federal and state mechanisms to preserve and advance universal service, consistent with certain universal service principles. The universal service principles include the principle that consumers in all regions of the nation, including low-income consumers and those in rural, insular, and high-cost areas, should have access to telecommunications and information services, including interexchange services and advanced telecommunications and information services, that are reasonably comparable to those services provided in urban areas and that are available at rates that are reasonably comparable to rates charged for similar services in urban areas.

Under existing law, the Public Utilities Commission has regulatory authority over public utilities, including telephone corporations. Existing law authorizes the commission to fix just and reasonable rates and charges for public utilities. Existing law establishes the California High-Cost Fund-A Administrative Committee Fund (CHCF-A Fund), the California High-Cost Fund-B Administrative Committee Fund, the Universal Lifeline Telephone Service Trust Administrative Committee Fund, the Deaf and Disabled Telecommunications Program Administrative Committee Fund, the Payphone Service Providers Committee Fund, and the California Teleconnect Fund Administrative Committee Fund 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, until January 1, 2009, requires the commission to develop, implement, and maintain a 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 for the purpose of promoting the goals of universal telephone service and to reduce any disparity in the rates charged by those companies (CHCF-A

program).

This bill would recast the CHCF-A program provisions in the Public Utilities Code adjacent to the CHCF-A Fund provisions and would require the commission to develop, implement, and maintain the CHCF-A program until January 1, 2013.

Vote: majority. Appropriation: no. Fiscal committee: yes.
State-mandated local program: no.

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

SECTION 1. Section 275.5 is added to the Public Utilities Code, to read:

275.5. (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 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.

(d) 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.