

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Communications Division  
Carrier Oversight and Programs Branch

RESOLUTION T-17417  
December 5, 2013

RESOLUTION

**Resolution T-17417 - Approval of the California High Cost Fund-B Fund Surcharge Rate Reduction from 0.30% to 0.00% Effective February 1, 2014.**

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SUMMARY

This resolution adopts a surcharge rate reduction from 0.30% to 0.00% for the California High Cost Fund-B (CHCF-B) Fund Program<sup>1</sup> effective February 1, 2014, and thereafter, until further revised by the Commission. All regulated telecommunication carriers shall revise the CHCF- B surcharge rate from 0.30% to 0.00% on their respective end-user charges billed for intrastate telecommunications services beginning February 1, 2014.

BACKGROUND

In Decision (D.) 96-10-066, the Commission established the CHCF-B program to ensure that telephone service is affordable in high cost areas served by major incumbent local exchange carriers. The CHCF-B program provides high cost support to AT&T California, Verizon of California, Frontier Telecommunications Company of California, and Commission-authorized Carriers of Last Resort (COLR), in exchange for them providing telephone service at discounted rates to customers in areas determined as high cost in nature. The program is funded by an end-user surcharge assessed on intrastate telecommunication revenues.

In October 1999, Public Utilities (PU) Code § 270-281 were codified pursuant to the enactment of Senate Bill (SB) 669 (Stats. 1999, Chapter 677). Section 270(b) requires that the funds in the CHCF-B be spent in accordance with §§ 270-281 and upon appropriation in the Annual Budget Act.

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<sup>1</sup> Also known as the California High Cost Fund – B Administrative Committee Fund pursuant to Public Utilities Code § 270(a)(2), and pursuant to SB 669.

In June 2006, the Commission issued an Order Instituting Rulemaking (OIR) for the CHCF-B Program (R.06-06-028). The purpose of the OIR was to review the operation of the CHCF-B program to determine if the goals of the program could be continued while reducing costs. In September 2007, the Commission issued an interim decision (D.) 07-09-020 in R.06-06-028, adopting major reforms to the CHCF-B program.

Since the inception of the CHCF-B program, the Commission has set surcharge rates through Commission decisions and resolutions. Resolution T-17311 authorized the current surcharge rate of 0.30% on March 24, 2011.

On October 9, 2011, PU Code § 739.3(h) was codified by the enactment of SB 3 (Stats. 1999, Chapter 695, section 4) extending the sunset date for the program from January 1, 2012 to January 1, 2015.

On August 23, 2012, the Commission approved Resolution T-17370, adopting the CHCF-B Fund program expense budget of \$29.342 million for Fiscal Year (FY) 2013-14.

On October 19, 2013, the CPUC's Budget Office informed the Communications Division (CD) that the State of California plans to repay the \$134 million loan that it borrowed from the CHCF-B Program. The loan will be repaid in two installments - \$75 million by June 30, 2014 and \$59 million by June 30, 2015.

On September 19, 2013, the Commission approved Resolution T-17399 adopting the CHCF-B Fund program expense budget of \$22.392 million for FY 2014-15.

## **DISCUSSION**

In this resolution, the Commission adopts a CHCF-B surcharge rate of 0.00%, effective February 1, 2014, and thereafter, until further revised by the Commission. The Commission has delegated authority to CD to monitor the CHCF-B program fund balances to ensure that the program has sufficient funds to pay CHCF-B claims and other program expenditures. Accordingly, CD periodically reviews CHCF-B program revenues and expenses. CD strives to maintain a fund balance with a reserve of about three to six months of program expenditures. This amount of reserve strikes a reasonable balance between having sufficient funds to cover program expenditures, while not overburdening ratepayers.

If the current surcharge rate remains at 0.30%, the CHCF-B fund balance will increase from approximately \$43.2 million as of August 31, 2013 to approximately \$66.6 million by January 1, 2015. During this period, CD estimates that it will collect approximately \$59 million if the surcharge rate remains at 0.30%. These

calculations are based on a total intrastate billing base of \$14.76 billion, obtained from the Commission’s Telecommunications and User Fees Filing System (TUFFS) program report data. Since the average total CHCF-B monthly payment to carriers is about \$2.23 million, maintaining the surcharge rate at 0.30% would increase the fund balance to almost a 30-month expenditure reserve, as shown in Table 1.

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

<b>Surcharge Rate Unchanged at:</b>		<b>0.30%</b>
<b>CHCF-B Balance on August 31, 2013</b>		<b>\$43,212,460</b>
<b>Estimated Surcharge Revenue</b>		
September 1, 2013 to June 30, 2014	\$36,900,934	
July 1, 2014 to January 1, 2015	\$22,140,561	
<b>Total</b>		<b>\$59,041,495</b>
<b>Estimated Expenditures</b>		
September 1, 2013 to June 30, 2014 (Budget Res. T-17370)	\$24,451,667	
July 1, 2014 to January 1, 2015 (Budget Res. T-17399)	\$11,195,750	
<b>Total</b>		<b>\$35,647,417</b>
<b>Estimated CHCF-B Balance on January 1, 2015 (a)</b>		<b>\$66,606,538</b>
<b>Average Monthly CHCF-B Expenditure (b)</b>		<b>\$2,227,964</b>
<b>Estimated Months of Reserve (a/b)</b>		<b>30 months</b>
		<b>\$55,661,728</b>

Since continuing the current surcharge rate of 0.30% will result in a surplus reserve, CD recommends reducing the CHCF-B surcharge rate from 0.30% to 0.00%. Reducing the surcharge to 0.00% would allow CD to meet forecasted expenditure obligations through January 1, 2015, while reducing the fund’s reserve balance. If the rate is reduced 0.00%, the CHCF-B fund balance is forecasted to decrease to approximately \$26 million by January 1, 2015, as shown in Table 2.

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

<b>By Reducing the Surcharge Rate effective February 1, 2014 to:</b>	0.00%
<b>CHCF-B Balance on August 31, 2013</b>	<b>\$43,212,460</b>
<b>Estimated Surcharge Revenue</b>	
September 1, 2013 to June 30, 2014	\$18,450,467
July 1, 2014 to January 1, 2015	\$0
<b>Total</b>	<b>\$18,450,467</b>
<b>Estimated Expenditures</b>	
September 1, 2013 to June 30, 2014 (Budget Res. T-17370)	\$24,451,667
July 1, 2014 to January 1, 2015 (Budget Res. T-17399)	\$11,195,750
<b>Total</b>	<b>\$35,647,417</b>
<b>Estimated CHCF-B Balance on January 1, 2015 (a)</b>	<b>\$26,015,510</b>
<b>Average Monthly CHCF-B Expenditure (b)</b>	<b>\$2,227,964</b>
<b>Estimated Months of Reserve (a/b)</b>	<b>12 months</b>

\* Cash flows are calculated to reflect that surcharge revenues are due 40 days after the end of the billing month. Therefore, the discontinuance of CHCF-B fund remittances reflecting the February 1, 2014 surcharge rate reduction to 0.00% would begin to occur by March 12, 2014.

CD estimates that, even with the surcharge rate of 0.00%, the program will continue to have a fund reserve that is sufficient to fund all carrier claims and pay for other expenses while reducing CHCF-B revenue by an estimated \$18.45 million for the remainder of FY 2013-14, and by an estimated \$22.14 million from July 1, 2014 to January 1, 2015.

The estimated reserve reduction totaling \$40.59 million through the end of calendar year 2014 reflects the differential between the January 1, 2015 Table 1 estimated balance of \$66.607 million (incorporating a 0.30% surcharge rate), and the Table 2 estimated balance of \$26.016 million (incorporating a 0.00% surcharge rate).

The anticipated repayment of the two outstanding loan amounts totaling \$134 million, during Fiscal Year 2014-15, will also increase the CHCF-B Fund balance amount substantially more than estimated above. CD will continue to monitor the CHCF-B fund to ensure that it has sufficient funds to meet future obligations.

Finally, carriers should maintain the programming for the B-Fund surcharge active in their billing systems as well as continue to itemize the CHCF-B Fund surcharge with the 0.00% surcharge rate printed on all end-user bills. We note that the Commission currently has an open rulemaking (R. 09-06-019) performing a comprehensive review of

the CHCF-B program. If the Rulemaking results in a significant change to the forecasted level of CHCF-B funding, we will issue a resolution to adjust the CHCF-B surcharge rate.

### **ADVICE LETTER FILING**

Consistent with Resolution T-16901, dated December 2, 2004, we require AT&T (formerly SBC) to file an advice letter with the Communications Division by January 10, 2014, modifying the CHCF- B surcharge from 0.30% to 0.00% effective February 1, 2014, and thereafter, until further revised by the Commission. AT&T is not required to inform competing carriers of its revised tariff changes.

### **SAFETY ISSUES**

The CHCF-B carriers 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 all its patrons, employees, and the public.” The CHCF-B subsidy provides carriers with financial support to provide reliable and affordable telephone service to its customers in high cost areas, while providing access to emergency 911 and other public safety services.

### **COMMENTS**

In compliance with PU Code § 311 (g), on November 5, 2013, we provided a notice by email to all telecommunications carriers, the CHCF-B Administrative Committee, and the parties on the service list of R.09-06-019 regarding the availability of this draft resolution on the Commission’s website, <http://www.cpuc.ca.gov/static/documents/index.htm> . We also informed them that the draft resolution is available for public comments and that the final conformed Resolution will be posted and will be available on the same website after it is adopted by the Commission. The Commission received no comments.

### **FINDINGS AND CONCLUSIONS**

1. In October 1999, Public Utilities (PU) Code § 270-281 were codified pursuant to the enactment of Senate Bill 669.
2. PU Code § 270(b) requires that funds in the California High Cost Fund-B (CHCF-B) Fund be expended and disbursed pursuant to § 270-281 and upon appropriation in the annual Budget Act.

3. On March 24, 2011, the Commission adopted Resolution T-17311 which reduced the CHCF-B surcharge rate from 0.45% to 0.30 %.
4. On August 23, 2012, the Commission approved Resolution T-17370 which adopted \$29.342 million in CHCF-B Fund Program expense budget for FY 2013-2014.
5. \$134 million loan that the State of California borrowed from the CHCF-B Program are scheduled to be repaid in two payment amounts; \$75 million by June 30, 2014 and \$59 million by June 30, 2015.
6. Repayment of \$134 million loan by the State of California to the CHCF-B program will increase the CHCF-B Fund balance substantially.
7. On September 19, 2013, the Commission approved Resolution T-17399 which adopted \$22.392 million in CHCF-B Fund Program expense budget for FY 2014-15.
8. The CHCF-B program is due to sunset on January 1, 2015.
9. As of August 31, 2013, the CHCF-B Fund balance was approximately \$43.2 million.
10. If the surcharge rate is maintained at .30% of intrastate revenues, CHCF-B Fund balance will be approximately \$66.6 million by January 1, 2015.
11. A surcharge rate reduction is necessary to reduce the CHCF-B Fund balance.
12. Communications Division's analysis as shown in Tables 1 and 2 demonstrate that a surcharge adjustment from 0.30% to 0.00% would continue to allow the CHCF-B fund to have sufficient revenues to cover program expenditures while reducing the fund surplus.
13. CD estimates that, by decreasing the surcharge rate from 0.30% to 0.00%, CHCF-B revenue will decrease by an estimated \$18.45 million for the remainder of FY 2013-14 and by an estimated \$22.14 million for the period July 1, 2014 to January 1, 2015.
14. All certificated telecommunications carriers should revise the CHCF-B surcharge for intrastate telecommunications services from 0.30% to 0.00%, effective February 1, 2014, and thereafter, until further revised by the Commission.
15. In accordance with Resolution T-16901, dated December 2, 2004, AT&T should file an advice letter with the Communications Division by January 10, 2014, modifying the CHCF-B surcharge rate from 0.30% to 0.00% effective February 1, 2014, and thereafter, until further revised by the Commission.

16. On November 5, 2013, a notice letter was emailed to all telecommunications carriers, the CHCF-B Advisory Committee, and the parties on the service list of R.09-06-019 regarding the availability of this draft resolution and the conformed resolution, when adopted by the Commission, on the Commission's website.

**THEREFORE, IT IS ORDERED that:**

1. The California High Cost Fund -B surcharge rate shall be reduced from 0.30% to 0.00%, effective February 1, 2014, and thereafter, until further revised by the Commission.
2. AT&T shall file an advice letter with the Communications Division by January 10, 2014, modifying the surcharge rate for the California High Cost Fund -B from 0.30% to 0.00%, effective February 1, 2014, and thereafter, until further revised by the Commission.
3. All certificated telecommunications carriers shall revise the California High Cost Fund -B surcharge rate from 0.30% to 0.00% on their respective end-user charges billed for intrastate telecommunications services beginning February 1, 2014, and thereafter, until further revised by the Commission.

This Resolution is effective today.

I hereby certify that the Public Utilities Commission at its regular meeting on December 5, 2013 adopted this Resolution. The following Commissioners approved it:

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**PAUL CLANON**  
**Executive Director**