

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**Communications Division
Carrier Oversight & Programs Branch**

**RESOLUTION T- 17453
November 20, 2014**

R E S O L U T I O N

Resolution T-17453 Approval of the California High Cost Fund-A Program Surcharge Rate of 0.35% Effective January 1, 2015.

S U M M A R Y

This resolution adopts a California High Cost Fund-A (CHCF-A) program surcharge rate of 0.35%, effective January 1, 2015, until further revised by the California Public Utilities Commission (Commission). All telecommunications carriers and interconnected Voice over Internet Protocol (VOIP) service providers shall change the CHCF-A surcharge rate assessed on revenues collected from end users for intrastate telecommunications services subject to surcharge from 0.18% to 0.35% effective January 1, 2015, and thereafter.

B A C K G R O U N D

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),¹ 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

¹ Verizon Telephone Company resulted from the merger of GTE of CA and GTE Contel.

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

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 and five other public purpose program funds to be expended pursuant to §§ 270-281 and upon appropriation in the annual State 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 supported seventeen 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 thirteen small ILECs providing service in rural areas of California that are eligible for CHCF-A funding.²

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.

The CHCF-A program is funded by a surcharge assessed on revenues collected from intrastate telecommunications services subject to surcharge. The Commission periodically reviews public purpose program fund balances and adjusts surcharge rates to ensure that the programs are sufficiently funded. 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 increases the CHCF-A surcharge rate from 0.18% to 0.35%, effective January 1, 2015, until further revised by the Commission. The Communications Division (CD) strives to maintain a program fund level with a reserve

² The thirteen small ILECs are: Calaveras Telephone Company, California-Oregon Telephone Company, Ducor Telephone Company, Foresthill Telephone Company, Happy Valley Telephone Company, Hornitos Telephone Company, Kerman Telephone Company, Pinnacles Telephone Company, Ponderosa Telephone Company, Sierra Telephone Company, Siskiyou Telephone Company, Volcano Telephone Company, and Winterhaven Telephone Company.

covering approximately six months of annual 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 0.18%, CD forecasts that the CHCF-A fund balance would decrease from approximately \$20 million as of June 30, 2014, to zero by approximately October 2015, completely depleting the fund.

Without a surcharge rate increase, CD estimates that it would collect approximately \$2 million per month going forward. Since average CHCF-A monthly expenditures are approximately \$3 to \$3.5 million, a surcharge rate remaining at 0.18% would eventually deplete the fund balance by an average of \$1.5 million monthly, resulting in a zero balance by approximately October 2015, therefore compromising the CHCF-A program's ability to provide support to the small ILECs. The fund has already been reduced to less than a reasonable six month reserve. A calculation showing this analysis is presented in Table 1.

Table 1
Projected Cash Flow and Fund Balance

Surcharge Rate Unchanged		0.18%
CHCF-A Fund Balance on June 30, 2014		\$ 19,940,000
Estimated Surcharge Revenue		
FY 2014-15 (July 1, 2014 to June 30, 2015)	\$ 25,360,000	
FY 2015-16 (July 1, 2015 through October 31, 2015)	\$ 8,449,000	\$ 33,809,000
Total Balance Plus Surcharge Revenue		\$ 53,749,000
Estimated Expenditures		
FY 2014-15	\$ 39,312,000	
FY 2015-16 (July 1, 2015 through October 31, 2015)	\$ 14,429,000	\$ 53,741,000
Estimated CHCF-A Fund Balance on October 31, 2015		\$ 8,000

To arrive at a target six month reserve of forecasted expenditures, CD recommends that the surcharge rate be increased from 0.18% to 0.35% effective January 1, 2015. The new rate would allow CD to meet the forecasted expenditure obligations for FY 2014-15 and FY 2015-16 through June 30, 2016. The ending CHCF-A fund balance on June 30, 2016, is forecasted at approximately \$20 million, as shown in Table 2, or approximately six times monthly expenditures, which is within our target balance of six months of monthly expenditures.

All telecommunications carriers³ and interconnected VoIP service providers⁴ shall assess a CHCF-A surcharge rate of 0.35% on their revenues collected from end users for intrastate telecommunications services subject to surcharge effective January 1, 2015, until further directed by the Commission.

Table 2
Projected Cash Flow and Fund Balance

Proposed Surcharge Rate effective January 1, 2015		0.35%
CHCF-A Fund Balance on June 30, 2014		\$ 19,940,000
Estimated Surcharge Revenue		
FY 2014-15 (July 1, 2014 to June 30, 2015) *	\$ 33,328,000	
FY 2015-16	\$ 49,264,000	\$ 82,592,000
Total Balance Plus Surcharge Revenue		\$ 102,532,000
Estimated Expenditures		
FY 2014-15	\$ 39,312,000	
FY 2015-16	\$ 43,287,000	\$ 82,599,000
Estimated CHCF-A Fund Balance on June 30, 2016		\$ 19,933,000

* 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 January 1, 2015, surcharge rate change would be received approximately 40 days after the end of January 2015, or during March 2015.

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 may be issued to further change the CHCF-A surcharge rate.

ADVICE LETTER FILING AND SURCHARGE CHANGES

Consistent with Resolution T-16901, dated December 2, 2004, AT&T (formerly SBC) should file an advice letter on or before December 4, 2014, modifying the CHCF-A surcharge rate from 0.18% to 0.35%, effective January 1, 2015, until further revised by the Commission. Further, all telephone corporations and interconnected VoIP service providers shall revise the CHCF-A surcharge rate assessed on revenues collected from end-users for intrastate telecommunications services, subject to surcharge, from 0.18% to 0.35%. AT&T is not required to inform competing carriers of tariff changes which comply with this resolution.

³ See PU Code § 275.

⁴ See PU Code § 285(c).

SAFETY ISSUES

The small ILECs are required to adhere to all Commission rules, decisions, General Orders and statutes including Public Utilities Code § 451 by undertaking all actions "...necessary to promote the safety, health, comfort, and convenience of its patrons, employees, and the public." The CHCF-A subsidy provides carriers with the resources to provide safe, reliable and affordable telephone service to its customers in rural, high cost areas.

Reliable telephone service is essential in these generally rural areas that are sometimes isolated. The CHCF-A program provides financial support to the small ILECs to aid them in providing customers with access to 211 for essential community services, 311 for non-emergency municipal services, 511 for traffic and transportation information, 811 for public infrastructure underground location information, and 911 to reach police, fire and emergency medical responders when fire, natural disasters, medical emergencies, or other crises occur.

This Resolution ensures that the CHCF-A program has adequate funds to continue to promote the goals of universal service by subsidizing essential communications links in high cost, rural communities.

COMMENTS

In compliance with PU Code § 311(g), the Commission, on October 21, 2014, emailed a draft of this resolution to all telecommunications carriers, the CHCF-A AC and the parties of record in Rulemaking 01-08-002, and Application 99-09-044 informing them that it is available for public comments. The email notice also informed the parties that the final Resolution, when adopted by the Commission, will be available on the Commission website <http://www.cpuc.ca.gov>.

On November 5, 2014, the Small ILECs filed comments on the proposed resolution. The Small ILECs agree that the surcharge rate increase is necessary as CD's forecast indicates that the CHCF-A fund would be depleted by October 2015 if the surcharge rate remained at the current rate. The Small ILECs also believe, based on the CD forecast, that the revised surcharge rate appears to be reasonable and that they appreciate the Commission's diligence in ensuring that the fund remains sufficient to meet the program's funding requirements.

FINDINGS AND CONCLUSIONS

1. In D.88-07-022, the Commission established the High Cost Fund (HCF) to provide a source of supplemental revenues to three mid-size and seventeen small ILECs whose basic exchange access line service rates would otherwise be increased to levels that would threaten universal service.

2. D.88-07-022 was modified by D.91-05-016 and D.91-09-042.
3. In D.96-10-066, the Commission changed the name of HCF to CHCF-A and also created the CHCF-B.
4. In D.96-10-066, the Commission included the three mid-size Incumbent Local Exchange Carriers (ILECs) in the CHCF-B for the purpose of determining universal service subsidy support and maintained the CHCF-A for seventeen small ILECs.
5. 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.
6. In October 1999, Public Utilities (PU) Code §§ 270-281 were codified as a result of the enactment of Senate Bill 669.
7. 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.
8. There are currently thirteen small ILECs providing service in rural areas of California that are eligible for CHCF-A funding.
9. In Resolution T-17398, the Commission authorized a CHCF-A program surcharge rate of 0.18% effective October 1, 2013.
10. If the CHCF-A surcharge rate remains at 0.18%, the fund balance would be depleted by approximately October 2015.
11. With a CHCF-A surcharge rate of 0.35%, the fund balance is forecasted to be approximately \$20 million by June 30, 2016.
12. All telecommunications carriers and interconnected VoIP service providers should revise the CHCF-A surcharge rate assessed on intrastate telecommunications service revenues to 0.35%, effective January 1, 2015, and thereafter, until further directed by the Commission.
13. The Commission is conducting a review of the CHCF-A program in Rulemaking 11-11-007.
14. In accordance with Resolution T-16901, dated December 2, 2004, AT&T should file an advice letter by December 4, 2014, modifying the CHCF-A surcharge rate from 0.18% to 0.35%, effective January 1, 2015, until further revised by the Commission. AT&T is not required to inform competing carriers of tariff changes which comply with this resolution.
15. On November 5, 2014, the Small ILECs filed comments on the proposed resolution.

THEREFORE, IT IS ORDERED that:

1. The California High Cost Fund-A surcharge rate of 0.35%, shall be effective January 1, 2015, until further revised by the Commission, is adopted.
2. AT&T shall file an advice letter on or before December 4, 2014, modifying the surcharge rate for the California High Cost Fund-A, from 0.18% to 0.35%, effective January 1, 2015, and thereafter, until further revised by the Commission.
3. All telecommunications carriers and interconnected VoIP service providers 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 0.18% to 0.35%, effective January 1, 2015, 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 November 20, 2014. The following Commissioners approved it:

PAUL CLANON
Executive Director