

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**Communications Division
Carrier Oversight and Programs Branch**

**RESOLUTION T-17705
October 22, 2020**

RESOLUTION

**RESOLUTION T-17705 Approval of the California High Cost Fund-A Program
Surcharge Rate of 0.70% Effective December 1, 2020.**

SUMMARY

This resolution adopts a California High Cost Fund-A (CHCF-A) program surcharge rate of 0.70%, effective December 1, 2020, 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 0.35% to 0.70% effective December 1, 2020, and thereafter.

BACKGROUND

The California High Cost Fund was implemented by Decision (D.) 88-07-022, as modified by D.91-05-016 and D.91-09-042, to provide a source of supplemental revenues for Small Incumbent Local Exchange Carriers (ILECs) whose basic exchange access line service rates would otherwise be increased to levels that would threaten universal service. These decisions provide foundational program guidelines. Of the 13 Small ILECs eligible for CHCF-A funding, ten currently request CHCF-A support.¹

¹ The ten Small ILECs that currently request CHCF-A support are: Calaveras Telephone Company, Cal-Ore Telephone Company, Ducor Telephone Company, Foresthill Telephone Company, Kerman Telephone Company, Pinnacles Telephone Company, The Ponderosa Telephone Company, Sierra Telephone Company, Siskiyou Telephone Company, and Volcano Telephone Company. The three Small ILECs that currently do *not* request

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) 2001-2002, the CHCF-A Fund expenditures have been authorized in the State's Annual Budget Act.

Public Utilities (P.U.) Code § 275.6 requires the Commission to implement the CHCF-A program to reduce any rate disparity in rural areas charged by small telephone corporations that are subject to rate-of-return regulation. To facilitate that opportunity, the CHCF-A program funding bridges the revenue differential between the basic service rate revenue paid by Small ILEC customers and the revenue requirement needed by a Small ILEC to achieve its authorized rate-of-return. The CHCF-A program is scheduled to sunset on January 1, 2023.²

The CHCF-A program is funded by a surcharge assessed on revenues collected from intrastate telecommunications services subject to surcharge. Intrastate services are referred to internally as the "billing base" reported by all carriers, with associated surcharges billed to and collected from end users, then remitted by the carriers monthly to the Commission. 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 <https://www.cpuc.ca.gov/surchargesfeestaxes/>.

DISCUSSION

In this Resolution, the Commission increases the CHCF-A surcharge rate from 0.35% to 0.70%, effective December 1, 2020, until further revised by the Commission. The CPUC's Communications Division (CD) aims to maintain reserves sufficient to cover three to six months of program expenditures. This strikes a reasonable balance between

CHCF-A support are Happy Valley Telephone Company, Hornitos Telephone Company, and Winterhaven Telephone Company.

² On September 5, 2018, the Governor signed into law Assembly Bill 1959, extending the program from January 1, 2019 to January 1, 2023. The bill is codified in P.U. Code § 275.6(g).

the maintaining sufficient funds to cover program expenditures and minimizing the impact on ratepayers.

For the past several years, the intrastate billing base has declined significantly³, resulting in lower surcharge revenue collected for the CHCF-A. While the rate of decline has slowed in the past year, CD projects that the billing base will continue to decline over the next several years. For FY 2020-2021, average monthly expenditures are projected to be \$3,170,000, which is greater than the projected average monthly revenue of \$1,924,000. If the CHCF-A surcharge rate remains at 0.35%, CD projects that the CHCF-A would deplete all funds before the end of Fiscal Year (FY) 2020-2021. The projected CHCF-A fund balance as of June 30, 2021 is (\$2,770,000).⁴ These projections are summarized in Table 1 below.

Table 1

CHCF-A Projected Cash Flow and Fund Balance at Existing Surcharge Rate		
(dollars in thousands)		
Surcharge Rate (unchanged)		0.35%
CHCF-A Fund Balance as of 7/1/2020	\$	12,188
FY 2020-2021 (7/1/2020 - 6/30/2021)		
Estimated Surcharge Revenue	\$	22,687
Estimated Other Revenue ¹	\$	400
Estimated Expenditures	\$	(38,045)
Estimated CHCF-A Fund Balance on 6/30/2021	\$	(2,770)
FY 2021-2022 (7/1/2021 - 6/30/2022)		
Estimated Surcharge Revenue	\$	22,657
Estimated Other Revenue ¹	\$	-
Estimated Expenditures	\$	(39,900)
Estimated CHCF-A Fund Balance on 6/30/2022	\$	(20,013)
¹ Other Revenue is Investment Income - Surplus Money Investments		

To maintain a positive fund balance with sufficient reserves, CD recommends that the Commission increase the CHCF-A surcharge rate from 0.35% to 0.70% effective

³ Total reported intrastate revenue subject to surcharge was \$10.027 billion in 2018 and \$7.370 billion in 2019. Projected revenue for 2020 is \$6.599 billion.

⁴ This forecast assumes no lag in monthly revenues or expenditures. However, actual monthly revenues and expenditures typically lag by two to three months.

December 1, 2020. The revised surcharge rate results in projected monthly revenues that are greater than projected monthly expenditures, which allows the fund balance to gradually increase and build the minimum three months of reserves by the end of FY 2020-2021. With the increased surcharge rate, the fund balance is projected to be \$10,464,000 by the end of FY 2020-2021. The projected fund balance at the end of FY 2021-2022 is \$15,878,000, which is within the upper bound of six months of reserves. Table 2 below shows the effects of the surcharge increase on projected revenues and fund balance for FY 2020-2021 and FY 2021-2022.

Table 2

CHCF-A Projected Cash Flow and Fund Balance with Surcharge Increase		
(dollars in thousands)		
Proposed Surcharge Rate, effective 12/1/2020		0.70%
CHCF-A Fund Balance as of 7/1/2020	\$	12,188
FY 2020-2021 (7/1/2020 - 6/30/2021)		
Estimated Surcharge Revenue	\$	35,921
Estimated Other Revenue ¹	\$	400
Estimated Expenditures	\$	(38,045)
Estimated CHCF-A Fund Balance on 6/30/2021	\$	10,464
FY 2021-2022 (7/1/2021 - 6/30/2022)		
Estimated Surcharge Revenue	\$	45,314
Estimated Other Revenue ¹	\$	-
Estimated Expenditures	\$	(39,900)
Estimated CHCF-A Fund Balance on 6/30/2022	\$	15,878
¹ Other Revenue is Investment Income - Surplus Money Investments		

All telecommunications carriers⁵ and interconnected VoIP service providers⁶ shall assess a CHCF-A surcharge rate of 0.70% on their revenues collected from end users for intrastate telecommunications services subject to surcharge effective December 1, 2020, until further directed by the Commission.

While the 0.70% surcharge rate is projected to result in sufficient funds, there is considerable uncertainty regarding future expenditures. There is an open

⁵ See PU Code § 275.

⁶ See PU Code § 285(c).

Rulemaking (R.11-11-007) performing a comprehensive review of the CHCF-A program. Issues being considered in this proceeding include imputing broadband revenue when determining the level of CHCF-A support, as well as other changes to the ratemaking and annual CHCF-A support processes. If the Commission modifies CHCF-A program policy in this proceeding, there may be a significant impact on the amount of annual CHCF-A support provided to the Small ILECs, either increasing or decreasing that support.

Additionally, on August 6, 2020 the Commission adopted D. 20-08-011 which opens the Small ILEC service territories to wireline competition. If the Commission authorizes a Competitive Local Exchange Carrier (CLEC) to provide wireline telephone service in a Small ILEC territory, it may cause the affected Small ILEC to draw additional CHCF-A support. However, the size of this effect is unknown at this time as CLECs have yet to apply and receive authorization to offer service in a Small ILEC territory.

If changes adopted in R. 11-11-007 or CLEC entry result in significant changes in the forecasted CHCF-A expenditures, then a resolution may be issued to further change the CHCF-A surcharge rate.

ADVICE LETTER FILING AND SURCHARGE CHANGES

Consistent with Resolution T-16901, approved December 2, 2004, AT&T (formerly SBC California) should file an advice letter on or before November 9, 2020, to modify the CHCF-A surcharge rate from 0.35% to 0.70%, effective December 1, 2020, 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 0.35% to 0.70%. AT&T is not required to inform competing carriers of tariff changes which comply with this resolution.

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 their customers in rural, high cost areas.

Reliable telephone service is essential in these rural areas. The CHCF-A program provides financial support to the Small ILECs to aid them in providing customers with telephone service that can be used to access 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.

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

COMMENTS

Public Utilities Code section 311(g)(1) requires that a draft resolution be served on all parties and be subject to a public review and comment period of 30 days or more, prior to a vote of the Commission on the resolution. A draft of today's resolution was served for comment to the utilities and other interested parties.

FINDINGS

1. The California High Cost Fund (HCF) was implemented by Decision (D.) 88-07-022, as modified by D.91-05-016 and D.91-09-042, to provide a source of supplemental revenues for Small Incumbent Local Exchange Carriers (ILECs) whose basic exchange access line service rates would otherwise be increased to levels that would threaten universal service.
2. Currently there are 13 Small ILECs eligible for California High Cost Fund-A (CHCF A) funding, of which ten currently request CHCF-A support.
3. In October 1999, Public Utilities (PU) Code §§ 270-281 were codified as a result of the enactment of Senate Bill 669.
4. PU Code § 270(b) requires that the funds 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.
5. In Resolution T-17453, the Commission authorized a CHCF-A program surcharge rate of 0.35% effective January 1, 2015.
6. If the CHCF-A surcharge rate remains at 0.35%, the fund balance would be depleted before the end of Fiscal Year 2020-2021.

7. With a CHCF-A surcharge rate of 0.70%, the fund balance is forecasted to be \$10.464 million by June 30, 2021.
8. All telecommunications carriers and interconnected VoIP service providers should revise the CHCF-A surcharge rate assessed on intrastate telecommunications service revenues to 0.70%, effective December 1, 2020, and thereafter, until further directed by the Commission.
9. The Commission is conducting a review of the CHCF-A program in Rulemaking 11-11-007.
10. The Commission opened the Small ILEC territories to wireline competition in D.20-08-011.
11. In accordance with Resolution T-16901, dated December 2, 2004, AT&T should file an advice letter by November 9, 2020, modifying the CHCF-A surcharge rate from 0.35% to 0.70%, effective December 1, 2020, until further revised by the Commission. AT&T is not required to inform competing carriers of tariff changes which comply with this resolution.

THEREFORE, IT IS ORDERED that:

1. The California High Cost Fund-A surcharge rate of 0.70%, effective December 1, 2020, until further revised by the Commission, is adopted.
2. AT&T shall file an advice letter on or before November 9, 2020, modifying the surcharge rate for the California High Cost Fund-A, from 0.35% to 0.70%, effective December 1, 2020, and thereafter, until further revised by the Commission.
3. All telecommunications carriers and interconnected Voice over Internet Protocol 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 0.35% to 0.70%, effective December 1, 2020, and thereafter, until further revised by the Commission.

This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on _____, the following Commissioners voting favorable thereon:

RACHEL A. PETERSON
Acting Executive Director