

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**Communications Division
Carrier Oversight and Programs Branch**

**RESOLUTION T-17311
March 24, 2011**

R E S O L U T I O N

**Resolution T-17311 Approval of the California High Cost Fund-B Fund
Surcharge Rate of 0.30% Effective May 1, 2011.**

Summary

This resolution adopts a surcharge rate of 0.30% for the California High Cost Fund-B (CHCF-B) Fund Program¹ effective May 1, 2011 and thereafter, until further revised by the Commission. All regulated telecommunication carriers shall revise the CHCF- B surcharge rate from 0.45% to 0.30% on their end-user's charges rendered for intrastate telecommunications services on May 1, 2011, and thereafter.

Background

Commission Decision (D.) 96-10-066 established the CHCF-B to ensure that telephone service is affordable in high cost areas served by major incumbent local exchange carriers. The CHCF-B program provides universal service subsidy to AT&T California, Verizon of California, Frontier Telecommunications Company of California, as well as Commission authorized Carriers of Last Resort (COLR), in exchange for providing service to areas deemed to be high cost in nature. The program is funded by an end-user surcharge on billed intrastate telecommunication revenues.

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). Section 270(b) states that the monies in the CHCF-B and six other public purpose program funds may only be expended pursuant to §§ 270-281 and upon appropriation in the Annual Budget Act.

¹ 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.

Section 739.3(h) states that the CHCF-B program will remain in effect until January 1, 2012, unless the date is extended by statute.

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 which adopted major reforms to the CHCF-B program. The reforms included reducing the size of the CHCF-B and better targeting the support to cover only those "high cost" areas where funding is necessary to meet universal service goals. More importantly, the COLRs were allowed full pricing flexibility, allowing for local basic exchange service rates to increase from the current subsidized rates toward cost-based rates. In summary, the Commission in D.07-09-020, set forth the following changes:

- Reduced the CHCF-B surcharge from 1.3% to 0.5% effective January 1, 2008.
- Increased the threshold benchmark at which the COLRs are subsidized from the CHCF-B from \$20.30 to \$36.00 through series of steps beginning January 1, 2008 and ending July 1, 2009.
- Changed the method of calculation of the subsidy payment from the difference between cost and revenue to the difference between cost and the threshold level of \$36.00 effective July 1, 2009.
- Set forth a schedule of reform measures to be considered in Phase II of the rulemaking proceeding including: (1) a reverse auction mechanism to determine future subsidy levels and (2) establishing a new fund to subsidize broadband deployment in unserved and underserved areas of California.

Subsequently, in December 2007, the Commission issued D.07-12-054, which further reduced the surcharge from 0.50% to 0.25% for the CHCF-B program and initiated a 0.25% surcharge to fund the newly established California Advanced Services Fund (CASF) program effective January 1, 2008.

On June 18, 2009, the Commission opened a proceeding R.09-06-019 to continue the modification of the CHCF-B program that had occurred under R.06-06-028. R.09-06-019 is considering the development of a reverse auction process and ways of automating and streamlining the processing of CHCF-B claims.

For FY 2010-11, the Commission approved Resolution T-17211 on August 20, 2009, adopted a budget of \$50.935 million for the CHCF-B fund.

For FY 2011-12, the Commission approved Resolution T-17289 on August 12, 2010, adopted a budget of \$47.711 million for the CHCF-B fund.

On May 10, 2010, the Assigned Commissioner issued a ruling soliciting comments regarding revisions to the definition of "Basic Telephone Service." This ruling was served on parties in both R.09-06-019 and R.06-05-028, the review of the telephone policy programs including California Lifeline.

Since the issues related to basic telephone service need to be resolved prior to changes in the CHCF-B fund operation, the Commission will hold Public Participation Hearings (PPH) in March of 2011 to gather information from the public and interested parties. This information will be used to resolve the issues related to basic service that are pertinent to the CHCF-B fund and other public purpose programs.

Discussion

The Commission has assigned its Communication Division (CD) to monitor the CHCF-B program fund balances to ensure that sufficient funds exist to pay CHCF-B claims and other program expenditures. Accordingly, CD periodically reviews CHCF-B program revenues and expenses. Since carrier claims are the primary program expense, CD annually seeks the CHCF-B carriers' forecasts of their estimated claims. These forecasts are then reviewed and compared with actual claims data. To assess the appropriateness of the surcharge level, CD considers the claims data as well as the program's fund balance, estimates of incoming revenues from the customer surcharge, and estimates of other expected expenditures. The total of the estimated claims and administrative expenses plus a contingency amount is used to estimate the budget.

At the time of the prior revision of the CHCF-B surcharge by Resolution T-17215, the fund had a negative balance and some claims payments were deferred due to the legislature having authorized a \$75 million loan to the General Fund of which \$59 million of that amount has been transferred with \$16 million outstanding. In response, the surcharge was raised to 0.45% to increase the rate of revenue collections with the expectation that it would later need to be lowered. A recent review of the CHCF-B shows that it has a surplus of funds and that the surcharge should be reduced to better match revenues with expenses.

Appendix A shows the fiscal year 2009-10 and forecasted CHCF-B FY 2010-11 Projected Cash Flow Analysis. The surcharge revenues for FY 2009-10 were divided by the composite surcharge rate to arrive at an effective billing base of \$19.92 billion. Based on past practices and uncertainty about the future billing base in conjunction with the latest changes to the threshold level, CD recommends using a billing base of \$20.80 billion for FY 2010-11.

CD estimates that the decrease in the surcharge to 0.30% will assure the surcharge collects enough money to fund all carrier claims and related expenses without further increasing reserves and will reduce CHCF-B revenue by about \$2.20 million for the remainder of FY 2010-11 and by an estimated \$26.4 million for FY 2011-12. CD will review the forecasts for FY 2011-12 to ensure that the CHCF-B fund has sufficient funds to meet its future obligations.

All certificated telecommunications carriers shall revise CHCF- B rate from 0.45% to 0.30% on their end-user's bills rendered for intrastate telecommunications services on May 1, 2011 and thereafter.

Advice Letter Filing

Consistent with Resolution T-16901, dated December 2, 2004, the Commission should require AT&T (formerly SBC) to file an Advice Letter on or before April 20, 2011, modifying the CHCF- B surcharge from 0.45% to 0.30% to take effect on May 1, 2011 and thereafter, until further revised by the Commission. AT&T is not required to inform competing carriers of tariff changes which comply with this resolution.

Comments

In compliance with PU Code § 311 (g), a notice letter was e-mailed on February 22, 2011 to all telecommunications carriers, the CHCF-B AC, and the parties on the service list of R.09-06-019 informing these parties that this draft resolution is available at the Commission's website <http://www.cpuc.ca.gov/static/documents/index.htm> and is available for public comments. This letter also informed parties that the final conformed Resolution adopted by the Commission will be posted and will be available at this same website. No comments were received.

Findings

1. In October 1999, Public Utilities (PU) Code § 270-281 were codified as a result of the enactment of Senate Bill 669.
2. PU Code § 270(b) requires that the monies in California High Cost Fund-B (CHCF-B) Fund may only be disbursed pursuant to § 270-281 and upon appropriation in the annual Budget Act.
3. Resolution T-17211 approved on August 20, 2009 adopted a budget of \$50.935 million for the CHCF-B AC Fund for FY 2010-11.

4. The Budget Act of 2008 (Chapters 268 and 269 of the Statutes of 2008) transferred \$35 million by appropriation to the general fund. The \$35 million was transferred on October 20, 2008.
5. Senate Bill 2, Third Extraordinary Session, signed by the Governor on February 20, 2009 transferred an additional \$40 million to the General Fund. Of this amount \$24 million was transferred on April 1, 2009. The remaining \$16 million of the appropriation may still be transferred.
6. As of June 30, 2010, the balance in the CHCF-B Fund was determined to be \$18.28 million.
7. A surcharge rate change is needed to match revenues to expenditures and prevent a surplus of funds in the CHCF-B Fund.
8. Based on CD's analysis as shown in Appendix A, a surcharge adjustment to 0.30% should allow the CHCF-B fund to have sufficient revenues to cover program expenditures while reducing the surplus in the fund.
9. CD estimates that the decrease in the surcharge from 0.45% to 0.30% will decrease CHCF-B revenue by about \$1.90 million for the remainder of FY 2010-11 and by an estimated \$22.86 million for FY 2011-12.
10. All certificated telecommunications carriers should revise CHCF-B surcharge to 0.30% on their end-user's bills rendered for intrastate telecommunications services on May 1, 2011, and thereafter, until further revised by the Commission.
11. In accordance with Resolution T-16901, dated December 2, 2004, AT&T should file an Advice Letter on or before April 20, 2011, modifying the CHCF-B surcharge rate from 0.45% to 0.30% to take effect on May 1, 2011, and thereafter, until further revised by the Commission.
12. Copies of the notice letter advising parties of the availability of this draft resolution and the conformed resolution, when adopted by the Commission, on the Commission's web site were e-mailed on February 22, 2011 to all telecommunications carriers, the CHCF-B Advisory Committee, and the parties on the service list of R.09-06-019.

THEREFORE, IT IS ORDERED that:

1. The California High Cost Fund (CHCF) -B surcharge rate of 0.30%, effective May 1, 2011 until further revised by the Commission, is adopted.
2. AT&T shall file an Advice Letter on or before April 20, 2011, modifying the surcharge rate for the CHCF-B AC Fund from 0.45% to 0.30%, effective May 1, 2011, and thereafter, until further revised by the Commission.
3. All certificated telecommunications carriers shall revise CHCF-B Fund surcharge rate from 0.45% to 0.30% on their end-user's charges rendered for intrastate telecommunications services on May 1, 2011, 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 March 24, 2011 adopted this Resolution. The following Commissioners approved it:

/s/ Paul Clanon

PAUL CLANON
Executive Director

MICHAEL R. PEEVEY
President
TIMOTHY ALAN SIMON
MICHEL PETER FLORIO
CATHERINE J.K. SANDOVAL
MARK FERRON
Commissioners

Appendix A

California High Cost Fund - B
Projected Cash Flow Analysis
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	FY 2009-10	FY 2010-11
Projected Intrastate Revenues		
Subject to Surcharge	\$19,916,500	\$20,800,000
Surcharge Rate Effective January 1, 2008	0.25%	
Surcharge Rate Effective December 1, 2009	0.45%	0.45%
Surcharge Rate Effective May 1, 2011		0.30%
Beginning Fund Balance	-\$15,074	\$19,345
Revenues		
Surcharge	\$73,027	\$88,400
Investment Income	\$31	\$50
Total Revenues	\$73,058	\$88,450
Expenditures		
FY2008-09	\$0	
FY2009-10	\$38,639	
FY2010-11 (State budget Appropriation)		\$50,935
Loan to General Fund (remainder)		\$16,000
Total Expenditures	\$38,639	\$66,935
Ending Fund Balance	\$19,345	\$40,860

End of Appendix A