

Date of Issuance: June 8, 2012

**PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

**Communications Division  
Carrier Oversight & Programs Branch**

**RESOLUTION T- 17357  
June 7, 2012**

**R E S O L U T I O N**

**Resolution T-17357 Approval of the California High Cost Fund-A Administrative Committee Fund Surcharge Rate of 0.40% Effective July 1, 2012.**

---

**SUMMARY**

This resolution adopts a revised California High Cost Fund-A (CHCF-A) Program surcharge rate of 0.40% beginning on July 1, 2012, or until further revised by the Commission. All telecommunications carriers shall revise the CHCF-A surcharge rate assessed on end-user intrastate telecommunications service revenues to 0.40% beginning on July 1, 2012, and thereafter, or until otherwise directed by the Commission.

**BACKGROUND**

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 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.

D.96-10-066 changed the name of HCF to CHCF-A and created the California High Cost Fund-B (CHCF-B). This decision included Pacific Bell (now SBC), GTE California Incorporated (now Verizon)<sup>1</sup>, Roseville Telephone Company (now SureWest), and Citizens Telecommunications Company of California (now Frontier) in the CHCF-B for the purpose of determining universal service subsidy support and maintained the

---

<sup>1</sup> Verizon Telephone Company resulted from the merger of GTE of CA and GTE Contel.

CHCF-A for the 17 small ILECs. This decision also directed the Commission to take over the administration of the CHCF-A from Pacific Bell. Resolution T-16092 approved the transfer of administrative control of the CHCF-A from Pacific Bell to the Commission effective January 1, 1998. This resolution appointed three Commission staff members as committee members of the CHCF-A Trust Administrative Committee (AC) charged with the responsibility of administering the CHCF-A on behalf of the Commission. D.98-06-065 renamed the committee as California High Cost Fund-A AC and revised the governance of the CHCF-A consistent with State rules and procedures.

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 that the monies in the CHCF-A and five other funds be expended pursuant to § 270-281 and upon appropriation in the annual Budget Act. Since Fiscal Year (FY) 2001-02, the CHCF-A Fund expenditures have been authorized in the State's Annual Budget Act.

D.08-10-010 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 Local Exchange Carrier of, Citizens Telecommunications Company of California Inc., now Frontier. The consolidation authorized by D.08-10-010 became effective on January 1, 2009, and therefore, reduced the total number of small ILECs from 17 to 14.

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. PU Code § 275.6 was scheduled to sunset on January 1, 2013, but was extended by the Legislature to January 1, 2015.

The CHCF-A program is funded by a surcharge on revenues collected from end-users for intrastate telecommunications services subject to surcharge. 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 adopts a CHCF-A surcharge rate of 0.40% beginning on July 1, 2012, or until further revised by the Commission.

Communications Division regularly reviews cash balances, budget obligations and surcharge revenues to maintain appropriate fund levels for all of the public purpose programs. On November 19, 2010, the Commission adopted Resolution T-17299 to reduce the surcharge rate to 0.00% beginning on December 1, 2010, in order to reduce the cash balance of \$65.279 million. With the current surcharge rate of 0.00%, the

CHCF-A cash balance is decreasing as no CHCF-A surcharge revenues are being received, but CHCF-A expenses continue to be incurred. At current expense levels we anticipate the CHCF-A will have diminished all reserves by October 2012 as shown below.

			(\$000)
	March 2012 CHCF-A Cash Balance	\$	28,257
Less:			
	Six Months of CHCF-A actual estimated funding	\$	16,896
	Rural Telephone Bank refunds	\$	22,000
		\$	38,896
		\$	(10,639)

CD therefore proposes increasing the surcharge to 0.40% in order to meet ongoing program costs and to cover the CHCF-A FY 2012-13 program budget of \$49.773 million adopted by Commission Resolution T-17331 on August 18, 2011, which includes subsidy payments and Rural Telecommunications Infrastructure Grant Program projects. CD expects to collect approximately \$62 million over a one-year period with the surcharge rate at 0.40%. The proposed surcharge will also provide the necessary funds to cover the anticipated refund, of approximately \$22 million, to certain small ILECs for the Rural Telephone Bank (RTB) which are expected to be paid out in FY 2012-13. The Commission ordered certain small ILECs to refund proceeds from the RTB dissolution to the CHCF-A; however, Commission’s Decision 10-06-029 was recently overturned by the California Court of Appeals which directed the Commission to restore the RTB payments to applicants.

Certain key actual and forecasted CHCF-A data are included in Attachment I.

All telecommunications carriers shall assess a CHCF-A rate of 0.40% on their revenues collected from end-users for intrastate telecommunications services subject to surcharge beginning on July 1, 2012, and thereafter, or until otherwise directed by the Commission.

**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 June 22, 2012, modifying the CHCF-A surcharge rate from 0.00% to 0.40% to take effect on July 1, 2012, and thereafter, or 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 emailed on April 24, 2012, to all telecommunications carriers, the CHCF-A AC and the parties of record in

Rulemaking 01-08-002 and Application 99-09-044 informing these parties of the availability of the draft of this Resolution for public comments at the Commission's website <http://www.cpuc.ca.gov>. This letter also informed parties that the final Resolution, adopted by the Commission, will be available at the same website. No comments were received.

## **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 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.
2. D.96-10-066 changed the name of HCF to California High Cost Fund-A (CHCF-A) and created the California High Cost Fund-B (CHCF-B). This decision included the three mid-size ILECs in the CHCF-B for the purpose of determining universal service subsidy support and maintained the CHCF-A for 17 small ILECs. D.98-06-065 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 and procedures.
3. In October 1999, Public Utilities (PU) Code § 270-281 were codified as a result of the enactment of Senate Bill 669.
4. D.08-10-010, effective January 1, 2009, 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 Local Exchange Carrier, Citizens Telecommunications Company of California Inc., now Frontier, and reduced the number of small ILECs from 17 to 14.
5. PU Code § 270(b) requires that the monies in the CHCF-A and five other funds be expended pursuant to § 270-281 and upon appropriation in the annual Budget Act.
6. The Commission authorized the current surcharge rate of 0.00% in Resolution T-17299 adopted on November 19, 2010, and effective December 1, 2010.
7. With the current surcharge rate of 0.00%, the CHCF-A cash balance is decreasing as no CHCF-A surcharge revenues are being received, but CHCF-A expenses are being incurred. As we anticipate the CHCF-A will not be able to pay expenditures by October 2012, it is important to reinstate the surcharge in order to maintain a sufficient cash balance.
8. Certain key actual and forecasted CHCF-A data are included in Attachment I.
9. The Commission should adopt a revised CHCF-A surcharge rate of 0.40% beginning on July 1, 2012, or until further revised by the Commission.

10. All telecommunications carriers should revise the CHCF-A surcharge rate assessed on end-user intrastate telecommunications service revenues to 0.40% beginning on July 1, 2012, and thereafter, or until otherwise directed by the Commission.
11. In accordance with Resolution T-16901, dated December 2, 2004, AT&T should file an Advice Letter on or before June 22, 2012, modifying the CHCF-A surcharge rate from 0.00% to 0.40% to take effect on July 1, 2012, and thereafter, or until further revised by the Commission. AT&T is not required to inform competing carriers of tariff changes which comply with this resolution.
12. In compliance with PU Code § 311(g), a notice letter was emailed on April 24, 2012, to all telecommunications carriers, the CHCF-A AC and the parties of record in Rulemaking 01-08-002 and Application 99-09-044 informing these parties of the availability of the draft of this Resolution for public comments at the Commission's website <http://www.cpuc.ca.gov>. This letter also informed parties that the final Resolution, adopted by the Commission, will be available at the same website. No comments were received.

**THEREFORE, IT IS ORDERED** that:

1. The California High Cost Fund-A surcharge rate of 0.40% is effective July 1, 2012, or until further revised by the Commission.
2. AT&T shall file an Advice Letter on or before June 22, 2012, modifying the surcharge rate for the California High Cost Fund-A, from 0.00% to 0.40%, effective July 1, 2012, and thereafter, or until further revised by the Commission. AT&T is not required to inform competing carriers of tariff changes which comply with this resolution.
3. All telecommunications carriers shall revise the California High Cost Fund-A surcharge rate assessed on end-user intrastate telecommunications service revenues to 0.40% beginning on July 1, 2012, and thereafter, or until further revised by the Commission.

Resolution T-17357  
CD\MWC

This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on June 7, 2012. 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 J. FERRON  
Commissioners

Attachment I

**CALIFORNIA HIGH COST FUND - A**

	FY 2009-10	FY 2010-11	FY 2011-12 **	FY 2012-13 **
<b>Budget (\$000)</b>				
CHCF-A Subsidies \$	48,822	\$ 41,686	\$ 45,398	\$ 43,950
RTI * \$	15,000	\$ 15,000	\$ 10,000	\$ 5,000
Other \$	891	\$ 905	\$ 885	\$ 823
<b>Total Budget \$</b>	<b>64,713</b>	<b>\$ 57,591</b>	<b>\$ 56,283</b>	<b>\$ 49,773</b>
<b>CHCF-A Sucharge Rate</b>				
Effective 1/1/2008	0.13%			
5/1/2010	0.11%	0.11%		
12/1/2010		0.00%	0.00%	
6/1/2012			0.40%	0.40%
<b>Year-End Fund Balance</b>				
As of June 30 \$	61,301	\$ 53,643	\$ 13,800	\$ 21,300

\* Rural Telecommunications Infrastructure Grant Program sunsets 1/1/2013

\*\* Estimated