

Date of Hearing: June 15, 2022

ASSEMBLY COMMITTEE ON COMMUNICATIONS AND CONVEYANCE

Sharon Quirk-Silva, Chair

SB 857 (Hueso) – As Amended March 21, 2022

SENATE VOTE: 37-0

SUBJECT: Telecommunications: universal service programs

SUMMARY: This bill extends the authorization for the California High Cost Fund (CHCF) A and B programs through January 1, 2028. This bill is an urgency measure. Specifically, **this bill:**

EXISTING LAW:

- 1) Establishes the CHCF-A program under the administration of the California Public Utilities Commission (CPUC), to provide rate support to small independent telephone companies in rural, high-cost areas of the state to ensure residents' access to affordable telecommunications services in these communities. (Public Utilities Code (PUC) §275.6)
- 2) Requires the CPUC to regulate the rates of telephone corporations receiving CHCF-A subsidies, and it requires the CPUC to use subsidies from the CHCF-A fund to cover those reasonable costs that A-Fund cannot recover through rates. (PUC §275.6)
- 3) Establishes the CHCF-B program to provide support to large telecommunications "Carriers of Last Resort" in high-cost areas of the state to ensure residents' access to basic telephone services. (PUC §276.5)
- 4) Authorizes the CPUC to administer a surcharge to fund the CHCF-A and CHCF-B. (Public Utilities Code §§275-276.5)
- 5) Authorizes the CHCF-A and B programs through January 1, 2023, and provides that after that day the program is repealed. (Public Utilities Code §§275-276.5)

FISCAL EFFECT: Unknown.

COMMENTS:

- 1) *Author's Statement.* "Recent wildfires and the Covid-19 pandemic have demonstrated the need to ensure that Californians have access to high-quality, affordable telecommunications services. Some of our state's most vulnerable residents live in communities where the cost of providing telephone service has been historically high. California's high cost funds help ensure that residents in these communities can afford telephone service. However, existing law sunsets California's high cost fund programs next year. SB 857 extends this sunset by five years to ensure that Californians in high cost areas can continue to access these essential telecommunications services."
- 2) *The CPUC administers various telecommunications universal service programs.* The CPUC is responsible for ensuring consumers have safe, reliable, affordable, and universal access to

telecommunications services. To that end, the CPUC has oversight responsibilities for several public purpose programs that ensure universal access to telecommunications services. The programs include both CHCF programs, California Lifeline, California Teleconnect Fund, the Deaf & Disabled Telecommunications Program, and the California Advanced Services Fund. To oversee the various programs, each program has an administrative committee, which function as advisory boards to the CPUC regarding the development, implementation, and administration of their respective programs. All the public purpose programs, including CHCF A and B, are funded by surcharges assessed on landline, wireless, and VoIP intrastate revenues.

- 3) *California High Cost Fund A (CHCF-A)*. The CHCF-A provides universal service rate support to small independent telephone corporations (small LECs) in amounts sufficient to meet the revenue requirements established by the commission through rate-of-return regulation in furtherance of the state's universal service commitment to the continued affordability and widespread availability of safe, reliable, high-quality communications services in rural areas of the state. CHCF-A promotes customer access to advanced services and deployment of broadband-capable facilities in rural areas that is reasonably comparable to that in urban areas, consistent with national communications policy.

There are 13 small LECs in California that are eligible to draw revenue from the CHCF-A program, but only 10 companies currently draw from the fund. In 2022 the CPUC adopted a program budget of about \$34.6 million. The customer base of each small LEC and the subsidy level varies widely though. For example, the smallest small LEC, Pinnacles Telephone, has only 216 customers with annual subsidy level of about \$2,000 per line. However, the yearly support level of Pinnacles Telephone is only about \$416,000. The largest small LEC, Sierra Telephone, has 15,408 customers with a subsidy level of about \$640 per line, totaling about \$9.9 million per year. Without continued support from the CHCF-A, the service rates for all the companies that draw support from the CHCF-A would otherwise be increased to levels that would threaten universal service.

- 4) *California High Cost Fund B (CHCF-B)*. The CHCF-B provides subsidies to carriers of last resort (COLRs) for providing basic local telephone service to residential customers in high-cost areas that are currently served by AT&T California and Frontier Communications of California. COLRs are telephone corporations that are legally obligated to fulfill all reasonable requests for service in their service territories. High cost areas of California are those in which the cost to the COLR to provide service is \$36 or more per telephone line. The purpose of the CHCF-B subsidies in high cost areas is to keep basic telephone service affordable in rural areas of the state, and to meet the Commission's universal service goal.

For the fiscal year 2020-2021, the CHCF-B program supported 66,638 lines in 57 rural counties across the state. 38,981 of those lines are in AT&T's service territory, and 27,657 are in Frontier's service territory. Across the state, both carriers serve approximately 5,000,000 phone lines. The average support per line for the CHCF-B program is about \$12.47 per month, or \$149.69 per year. The annual subsidy level to both carriers for the entire program is about \$10 million per year.

- 5) *CHCF Surcharges*. Both the CHCF-A and CHCF-B are funded by a surcharge on intra-state (within the state) telecommunications services. This bill would extend the CPUC's authority to collect those surcharges and administer the program through 2028. The current surcharge

rate for the CHCF-A program is 0.7%; whereas the CHCF-B surcharge is set at 0% because of a budgetary surplus. T surcharge rates are not likely to increase for either program in the near future.

The surcharge rate for the CHCF-A program is determined based, in part, on the cumulative level of funding needed for the 10 small LECs, which is determined through individual rate cases at the CPUC. Claims submitted by the small independent telephone corporations for CHCF-A subsidies have remained relatively stable and have not risen with the rate of inflation. On the other hand, the CHCF-B fund has carried a surplus for several years. Since December 2013, the CPUC has declined to collect the CHCF-B surcharge due to the surplus in the account. As of March 2022, the CHCF-B surplus is approximately \$22 million. In recent budget years, the state has borrowed funds from the CHCF-B surplus to fund other universal service telecommunications programs. As funds are repaid to the CHCF-B fund, the surplus may grow to \$106 million in future years.

REGISTERED SUPPORT / OPPOSITION:

Support

California Communications Association
California Independent Telephone Companies
California State Association of Counties
Frontier Communications Corporation
Rural County Representatives of California

Opposition

None on file

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