Date of Hearing: August 3, 2022

ASSEMBLY COMMITTEE ON APPROPRIATIONS
Chris Holden, Chair
SB 857 (Hueso) – As Amended March 21, 2022

Policy Committee: Communications and Conveyance Vote: 11 - 0

Urgency: Yes State Mandated Local Program: Yes Reimbursable: No

SUMMARY:

This bill extends, through January 1, 2028, authorization for the California High Cost Fund (CHCF) A and CHCF B programs.

FISCAL EFFECT:

1) Ongoing revenue (CHCF-A Administrative Committee Fund), likely in the mid-tens of millions of dollars annually, from the CHCF-A telecommunications customer surcharge, to be expended each year by the California Public Utilities Commission (CPUC) to support small rural telephone companies. (The CPUC adjusts the CHCF-A surcharge annually. Currently, the CPUC sets the CHCF-A surcharge at 0.7% collected by telecommunications companies from all end users.)

2) Ongoing expenditures (CHCF-B Administrative Committee Fund), likely in the low-tens of millions of dollars, to be expended by the CPUC to support telecommunication companies providing service in high-cost areas. (The CPUC adjusts the CHCF-B surcharge annually. Currently, the CPUC sets the CHCF-B surcharge at 0.00%, in light of a surplus in the CHCFB fund.)

3) Ongoing annual costs (special funds), of approximately $1 million to $1.5 million and approximately $400,000 to $1.5 million, to the CPUC to administer the CHCF-A program and the CHCF-B program, respectively.

4) Unknown but significant costs, likely several hundreds of thousands of dollars annually, to the State of California as a customer of telecommunications services who pays the CHCF-A and CHCF-B surcharges. These costs are difficult to calculate because the state pays them through many discrete, disparate telecommunications billings.

COMMENTS:

1) **Purpose.** The author intends this bill to continue the CHCF programs, which the author describes as ensuring Californians in high-cost areas have access to essential telecommunications services.

2) **Background**. Statute establishes a number of programs to further the goal of universal telephone service, that is, high-quality basic telephone service at affordable rates to the greatest number of citizens. Two such programs are CHCF-A and CHCF-B. Though the programs vary in their specifics, each provides subsidies to telecommunications companies

that provide telecommunications service in areas of the state that are expensive to service—generally, areas that are sparsely populated and featuring rugged terrain. Statute also declares funding for the CHCF-A program to be critical to public health and safety. This is because, according to statute, such funding pays for maintenance of universal public telephone service throughout the state. According to the CPUC, in fiscal year 2021-22, the CHCF-A program supported 46,698 lines in remote, rural areas of the state at a total program cost of $41.5million. The average monthly CHCF-A subsidy was $61.75 per line. The CPUC also reports the CHCF-B, during fiscal year 2020-21, supported 66,638 lines at a total program cost of $22.4 million. The average monthly CHCF-B subsidy was $12.47 per line.

The Legislature has repeatedly extended both programs over the years.

3) **What Happens If the Programs Go Away?** As noted above, the Legislature established each program to further the state's goal of universal telephone service. Without the subsidies, ratepayers in the CHCF-A and CHCF-B areas would likely pay more—possibly a lot more—for basic telephone service. However, the dynamics that lead to higher rates vary for each program. Telephone companies that receive subsidies from the CHCF-A program are small telephone companies offering service according to rate-of-return regulation. Such regulation means the rates for service charged by each company is set by the CPUC at amounts sufficient to cover each company's costs, including profit. The CPUC sets these rates during a periodic "general rate case" for each company. Absent the CHCF-A subsidy, these small telephone companies would need to recover their costs from some other source. Likely, they would raise rates substantially on their small customer bases and reduce investment in infrastructure. Ratepayers would face significantly higher costs for telephone service and, potentially, degraded service. Some ratepayers may cancel service. If enough ratepayers did so, these small companies might go out of business. As a result, there would be no telephone service provided in these rural areas.

   The situation differs somewhat for the companies subsidized by the CHCF-B program. These are large companies—AT&T and Verizon for example—that serve both high-cost rural areas and lower-cost urban areas and whose rates the CPUC does not regulate. (The CPUC formally decided that sufficient competition exists to check the rates of these companies, so rate-of-return regulation is unnecessary.) Like the CHCF-A companies, these companies are known as "carriers of last resort," meaning they are obligated, within certain territories, to provide service to every customer who requests it, even if doing so is uneconomic.

   Absence of CHCF-B subsidies does not threaten the overall economic viability of these large companies, at least in the near term; however, they would need to recover the previously subsidized costs from somewhere. As noted above, these companies operate in competitive markets, as well as markets in which the extent of competition is debatable. Cancellation of the CHCF-B subsidy would leave these companies with the economically unenviable choice of increasing prices on potentially price-sensitive urban customers who have options for telecommunications service, or concentrating price increases on customers in the high-cost areas where the company is legally obligated to provide telephone service to every customer who requests it and where comparable service may not exist. If the company choses the latter option, customers in high-cost areas would face dramatically higher prices for basic telephone service, unless they cancel service altogether. Neither outcome would further the state's goal of universal telephone service.

In the longer term, the companies that receive subsidies from the CHCF-B program may question the economic logic of continuing to provide service, absent the subsidies.

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