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**SENATE COMMITTEE ON ENERGY, UTILITIES AND  
COMMUNICATIONS**

**Senator Ben Hueso, Chair  
2021 - 2022 Regular**

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**Bill No:** SB 857 **Hearing Date:** 3/14/2022  
**Author:** Hueso  
**Version:** 1/19/2022 Introduced  
**Urgency:** Yes **Fiscal:** Yes  
**Consultant:** Sarah Smith

**SUBJECT:** Telecommunications: universal service programs

**DIGEST:** This bill extends the sunsets for the California High Cost Fund programs (CHCF-A and CHCF-B) by five years.

**ANALYSIS:**

Existing law:

- 1) Establishes the CHCF-A program to provide 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. Existing law requires the California Public Utilities Commission (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. (Public Utilities Code §275 and §275.6)
- 2) 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. (Public Utilities Code §276 and §276.5)
- 3) Authorizes the CPUC to administer a surcharge to fund the CHCF-A and CHCF-B. (Public Utilities Code §§275-276.5)
- 4) Sunsets the CHCF-A and B programs on January 1, 2023. (Public Utilities Code §§275-276.5)

This bill extends the sunset dates for the CHCF-A and CHCF-B from January 1, 2023, to January 1, 2028.

## Background

*Creation and Evolution of the High Cost Funds.* The CHCF-A and CHCF-B are two of several programs that comprise California's Universal Service Programs, which are aimed at ensuring that all Californians have access to affordable, high-quality telecommunications services. The CPUC established California's High Cost Fund in 1988 pursuant to AB 1466 (N. Waters, Chapter 755, Statutes of 1987), which required the CPUC to develop a program to reduce telephone rate disparities between small independent telephone companies serving rural areas and companies serving urban areas. The High Cost Fund subsidized small to mid-sized telephone companies serving rural and small metropolitan communities through subsidies administered by Pacific Bell. Until 1995, local telephone service was generally provided through one telephone utility in each service territory. In 1995, the CPUC issued a decision opening California's local telephone exchanges to competition between companies. In 1996, The CPUC issued a decision modifying the High Cost Fund to address increased competition between different types of carriers in local exchange markets. These modifications included splitting the High Cost Fund into the CHCF-A and CHCF-B programs.

The CHCF-A supports small, rate-regulated telephone corporations that operate in high-cost rural areas of the state where few other telecommunications providers offer services. The CHCF-B supports larger companies that operate as Carriers of Last Resort (COLRs), which have an obligation to provide basic telephone services in other high-cost communities. In addition to establishing these two different programs, the CPUC's decision also relieved Pacific Bell of its administrative duties for the High Cost Fund by making the CPUC the administrator of the CHCF-A and CHCF-B. Since the creation of the CHCF-A and CHCF-B, the Legislature has regularly extended the operation of the high cost funds. This bill would extend the existing sunset by five years to January 1, 2028.

*CHCF-A.* Under existing law, the CHCF-A program provides rate support to small independent telephone corporations. This rate assistance is intended to ensure that residents in rural communities can access telecommunications services, including broadband services, at rates comparable to those for similar services in urban areas. Rural telecommunications rates can significantly exceed urban rates due to higher infrastructure costs and a lack of economies of scale.

*CHCF-B.* The CHCF-B program provides subsidies to large telecommunications companies that provide basic telephone services as COLRs in high-cost areas. The CPUC currently defines a high-cost area as a community in which the cost per landline is \$36 or higher. CHCF-B subsidies are intended to ensure that residents in high-cost areas can remain connected to essential services by enabling these

carriers to keep rates at an affordable level. Unlike companies that participate in the A-Fund, companies that participate in the B-Fund are not rate-regulated by the CPUC.

*Status of High Cost Fund Surcharge Revenue.* Both the CHCF-A and CHCF-B are funded by a surcharge on in-state telecommunications services. This bill would extend the CPUC's authority to collect those surcharges; however, this extension does not necessarily mean that surcharges will be collected for both funds. While the amount needed to cover costs for CHCF-A company expenses is determined through 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. 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.

*Need for Amendments.* **Technical clarifying amendments to conform certain terms in existing law.**

### **Prior/Related Legislation**

AB 1959 (Wood, Chapter 256, Statutes of 2018) extended the CHCF-A and B programs from January 1, 2019, to January 1, 2023.

SB 1364 (Fuller, Chapter 520, Statutes of 2014) extended the sunset date for the CHCF programs A and B from January 1, 2015, to January 1, 2019. The bill also encouraged the CPUC to maximize the use of federal funding when administering universal service programs.

SB 3 (Padilla, Chapter 695, Statutes of 2011) extended the sunset date for the CHCF programs A and B from January 1, 2012, to January 1, 2015.

SB 780 (Wiggins, Chapter 342, Statutes of 2008) extended the sunset dates for the CHCF programs A and B and required the CPUC to submit a report on the affordability of basic telephone services within the CHCF-B service territories by July 1, 2010.

**FISCAL EFFECT:** Appropriation: No Fiscal Com.: Yes Local: Yes

**SUPPORT:**

California Communications Association, Co-sponsor  
California's Independent Telecommunications Companies, Co-sponsor  
Frontier Communications, Co-sponsor  
AT&T  
Rural County Representatives of California

**OPPOSITION:**

None received

**ARGUMENTS IN SUPPORT:** According to the author:

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.

**-- END --**