

DEPARTMENT OF FINANCE BILL ANALYSIS

AMENDMENT DATE: 06/25/2012
POSITION: Oppose
SPONSOR: California's Independent Telecommunications Companies

BILL NUMBER: SB 379
AUTHOR: Fuller, Jean

BILL SUMMARY: Telecommunications Policies

Existing law requires the California Public Utilities Commission (PUC) to regulate public utilities, which includes telephone corporations. The PUC also establishes and maintains universal service programs to ensure that affordable telephone service is available in rural, high-cost areas of the state, including the California High Cost Fund A (CHCF-A) program, which sunsets on January 1, 2015. Current law also provides for continued affordability and availability of high-quality telecommunications services to all Californians.

This bill would declare the Legislature's findings that the state's telecommunications policies include continued universal service rate support for small, independent telephone corporations subject to rate of return regulation by the PUC to provide the state's rural areas with telecommunications service access. This bill would mandate that the CHCF-A program provide subsidies for both telephone and broadband services infrastructure.

FISCAL SUMMARY

According to the PUC, this bill could result in the need to increase program costs. Program expenditures have had alternating increases and decreases but have trended up. Program revenues have increased and decreased; however, the revenue changes have been more dramatic. For example, actual 2010-11 fee revenues were \$33.8 million. For 2011-12, estimated revenues are \$11.4 million and the 2012-13 expected revenues are \$49.8 million. We note the PUC has the authority to adjust rates to meet program needs. The following provisions of the bill could drive increased program costs:

- Mandating the CHCF-A to continue to increase funding to offset federal funding reductions will increase CHCF-A costs.
Adding the cost of broadband infrastructure to the program will limit the PUC ability to collect revenues because participants may withhold affiliate broadband revenue from rate calculations, as Internet Protocol (IP) based services are not collectable.
Locking in the current regulatory structure requires ratepayers to fund expansion of the program scope.
Expanding the scope of program costs to include broadband as well as increasing the fund size may result in a need for additional PUC resources.

The PUC estimates this bill would require 1.0 Administrative Law Judge, 1.0 Public Utilities Counsel III, and 2.0 Public Utilities Regulatory Analyst III and \$546,000 PUC Utilities Reimbursement Account. However, this estimate appears to be high. We note any request for additional resources would be evaluated as a part of the annual budget development process.

Analyst/Principal (0621) J.McGuinn Date Program Budget Manager Karen Finn Date
Department Deputy Director Date
Governor's Office: By: Date: Position Approved Position Disapproved
BILL ANALYSIS Form DF-43 (Rev 03/95 Buff)

Fuller, Jean

06/25/2012

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COMMENTS

Finance is opposed to the bill for the following reasons:

- The bill could result in increased costs to ratepayers for the costs of deploying broadband capable facilities.
- This bill may duplicate services already provided pursuant to California Advanced Services Fund, a program to assist in bridging the "digital divide" by funding broadband services.
- The bill may be premature as the Federal Communications Commission is promulgating changes to the High Cost Fund-A program.

Code/Department Agency or Revenue Type	SO	(Fiscal Impact by Fiscal Year)						Fund Code
	LA	(Dollars in Thousands)						
	CO	PROP						
	RV	98	FC	2012-2013	FC	2013-2014	FC	2014-2015
8660/PUC	SO	No		----- See Fiscal Summary -----				0462
8660/PUC	SO	No	C	0	C	546	C	546 0462
<u>Fund Code</u>	<u>Title</u>							
0462	Publ Utilities Comm Utilities Reimb Acct							