

AMENDED IN SENATE MARCH 29, 2016

SENATE BILL

No. 1122

Introduced by Senator Cannella

February 17, 2016

An act to amend Section 275.6 ~~of~~ *of*, and to add Section 455.4 to, the Public Utilities Code, relating to telecommunications.

LEGISLATIVE COUNSEL'S DIGEST

SB 1122, as amended, Cannella. Telecommunications: *small independent telephone corporations: rates: universal service: California High-Cost Fund-A.*

Under existing law, the Public Utilities Commission has regulatory authority over public utilities, including telephone corporations. Existing law authorizes the commission to fix just and reasonable rates and ~~charges~~. *charges for every public utility. Existing law, with certain exceptions, prohibits a public utility from changing any rate, except upon a showing before the commission and a finding by the commission that the new rate is justified.* Existing law requires the commission to exercise its regulatory authority to maintain the California High-Cost Fund-A Program (CHCF-A program) to provide universal service rate support to small independent telephone corporations, as defined, in amounts sufficient to meet the revenue ~~requirements~~ *requirement, as defined*, 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.

This bill would ~~make a nonsubstantive change to revise~~ the CHCF-A program ~~requirements~~. *requirements to provide that the revenue requirement of a small independent telephone corporation includes*

rate case expenses, as defined, and would require that rate case expenses be separately included in the revenue requirement regardless of any commission determinations regarding the reasonableness of other expenses. The bill would require the commission to issue its final decision on a general rate case of a small independent telephone corporation no later than 390 days following the corporation's filing of its general rate case application or advice letter initiating the general rate case. If the commission fails to issue a final decision by the 390th day, the bill would provide that the rate design proposed by the small independent telephone corporation in its application or advice letter will take effect on an interim basis, subject to an accounting true-up in a final commission decision or resolution concluding the rate case, if issued within 420 days. If a final decision or resolution concluding the case has not been issued by the commission within 420 days, the bill would provide that the interim rate design that went into effect on the 390th day following the filing of the general rate case application or advice letter would become final and that rate design would remain in place until the commission issues a final decision or resolution concluding the rate case, without any true-up accounting. The bill would provide that any new rate design adopted in a final decision or resolution issued by the commission after 420 days following the filing of the application or advice letter would take effect on a prospective basis only, as of the effective date of the final decision or resolution. The bill would provide that its provisions may be waived at any time by mutual consent of the executive director of the commission and the small independent telephone corporation.

Vote: majority. Appropriation: no. Fiscal committee: ~~no~~-yes.
State-mandated local program: no.

The people of the State of California do enact as follows:

- 1 SECTION 1. Section 275.6 of the Public Utilities Code is
- 2 amended to read:
- 3 275.6. (a) The commission shall exercise its regulatory
- 4 authority to maintain the California High-Cost Fund-A
- 5 Administrative Committee Fund program (CHCF-A program) to
- 6 provide universal service rate support to small independent
- 7 telephone corporations in amounts sufficient to meet the revenue
- 8 ~~requirements~~ requirement established by the commission through
- 9 rate-of-return regulation in furtherance of the state's universal

1 service commitment to the continued affordability and widespread
2 availability of safe, reliable, high-quality communications services
3 in rural areas of the state.

4 (b) For purposes of this section, the following terms have the
5 following meanings:

6 (1) “Carrier of last resort” means a telephone corporation that
7 is required to fulfill all reasonable requests for service within its
8 service territory.

9 (2) “Rate base” means the value of a telephone corporation’s
10 plant and equipment that is reasonably necessary to provide
11 regulated voice services and access to advanced services, and upon
12 which the telephone corporation is entitled to a fair opportunity to
13 earn a reasonable rate of return.

14 (3) “*Rate case expenses*” mean the reasonable costs incurred
15 by a telephone corporation in preparing, initiating, and
16 participating in any commission proceeding or advice letter
17 process in which its rates, rate design, or revenue requirement are
18 evaluated or adjusted.

19 ~~(3)~~

20 (4) “Rate design” means the mix of end-user rates, high-cost
21 support, and other revenue sources that are targeted to provide a
22 fair opportunity to meet the revenue requirement of the telephone
23 corporation.

24 ~~(4)~~

25 (5) “Rate-of-return regulation” means a regulatory structure
26 whereby the commission establishes a telephone corporation’s
27 revenue requirements, requirement, and then fashions a rate design
28 to provide the company a fair opportunity to meet the revenue
29 requirement.

30 ~~(5)~~

31 (6) “Revenue requirement” means the amount that is necessary
32 for a telephone corporation to recover its reasonable expenses and
33 tax liabilities and earn a reasonable rate of return on its rate base.
34 *Reasonable expenses include rate case expenses. Rate case*
35 *expenses shall be separately included in the revenue requirement*
36 *regardless of any commission determinations regarding the*
37 *reasonableness of other expenses.*

38 ~~(6)~~

1 (7) “Small independent telephone corporations” are rural
2 incumbent local exchange carriers subject to commission
3 regulation.

4 (c) In administering the CHCF-A program the commission shall
5 do all of the following:

6 (1) Continue to set rates to be charged by the small independent
7 telephone corporations in accordance with Sections 451, 454, 455,
8 and 728.

9 (2) Employ rate-of-return regulation to determine a small
10 independent telephone corporation’s revenue requirement in a
11 manner that provides revenues and earnings sufficient to allow the
12 telephone corporation to deliver safe, reliable, high-quality voice
13 communication service and fulfill its obligations as a carrier of
14 last resort in its service territory, and to afford the telephone
15 corporation a fair opportunity to earn a reasonable return on its
16 investments, attract capital for investment on reasonable terms,
17 and ensure the financial integrity of the telephone corporation.

18 (3) Ensure that the rates charged to customers of small
19 independent telephone corporations are just and reasonable and
20 are reasonably comparable to rates charged to customers of urban
21 telephone corporations.

22 (4) Provide universal service rate support from the California
23 High-Cost Fund-A Administrative Committee Fund to small
24 independent telephone corporations in an amount sufficient to
25 supply the portion of the revenue requirement that cannot
26 reasonably be provided by the customers of each small independent
27 telephone corporation after receipt of federal universal service rate
28 support.

29 (5) Promote customer access to advanced services and
30 deployment of broadband-capable facilities in rural areas that is
31 reasonably comparable to that in urban areas, consistent with
32 national communications policy.

33 (6) Include all reasonable investments necessary to provide for
34 the delivery of high-quality voice communication services and the
35 deployment of broadband-capable facilities in the rate base of
36 small independent telephone corporations.

37 (7) Ensure that support is not excessive so that the burden on
38 all contributors to the CHCF-A program is limited.

(d) In order to participate in the CHCF-A program, a small independent telephone corporation shall meet all of the following requirements:

- (1) Be subject to rate-of-return regulation.
- (2) Be subject to the commission's regulation of telephone corporations pursuant to this division.
- (3) Be a carrier of last resort in their service territory.
- (4) Qualify as a rural telephone company under federal law (47 U.S.C. Sec. 153(44)).

(e) Upon request from the commission, a small independent telephone corporation that receives support from the CHCF-A program shall provide information regarding revenues derived from the provision of unregulated Internet access service by that corporation or its affiliate within that corporation's telephone service territory. The commission shall treat as confidential any information provided pursuant to this subdivision.

(f) The commission shall structure the CHCF-A program so that any charge imposed to promote the goals of universal service reasonably equals the value of the benefits of universal service to contributing entities and their subscribers.

(g) This section shall remain in effect only until January 1, 2019, and as of that date is repealed, unless a later enacted statute, that is enacted before January 1, 2019, deletes or extends that date.

SEC. 2. Section 455.4 is added to the Public Utilities Code, to read:

455.4. (a) For purposes of this section, "small independent telephone corporation" has the same meaning as in Section 275.6.

(b) A small independent telephone corporation may file its general rate case application or advice letter initiating a general rate case any time up to and including December 1 of the second year preceding the test year used in its rate case.

(c) The commission shall issue its final decision on a general rate case of a small independent telephone corporation no later than 390 days following the corporation's filing of its general rate case application or advice letter initiating the general rate case.

(d) Notwithstanding Section 454, if the commission fails to issue a final decision as required by subdivision (c), the rate design proposed by the small independent telephone corporation in its application or advice letter shall take effect on an interim basis beginning 390 days following the filing of the application or advice

1 *letter. That rate design shall be subject to an accounting true-up*
2 *if a final commission decision or resolution concluding the rate*
3 *case is issued within 420 days of the filing. The rate design adopted*
4 *in a commission decision or resolution within 420 days shall be*
5 *made effective as of the 390th day and the accounting true-up shall*
6 *eliminate any revenue differences between the interim rate design*
7 *and the rate design in the commission decision or resolution. If a*
8 *final decision or resolution concluding the case has not been issued*
9 *by the commission within 420 days of the filing, the interim rate*
10 *design that took effect on the 390th day following the filing of the*
11 *general rate case application or advice letter shall become final*
12 *and that rate design shall remain in place until the commission*
13 *issues a final decision or resolution concluding the rate case,*
14 *without any true-up accounting. Any new rate design adopted in*
15 *a final decision or resolution issued by the commission after 420*
16 *days following the filing of the application or advice letter shall*
17 *take effect on a prospective basis only, as of the effective date of*
18 *the final decision or resolution.*
19 *(e) The requirements of subdivisions (c) and (d) may be waived*
20 *at any time by mutual consent of the executive director of the*
21 *commission and the small independent telephone corporation.*