

Date of Hearing: May 4, 2011

ASSEMBLY COMMITTEE ON UTILITIES AND COMMERCE

Steven Bradford, Chair

AB 841 (Buchanan) – As Amended: March 31, 2011

SUBJECT: Telecommunications: universal service

SUMMARY: Authorizes the California Public Utilities Commission (PUC) to require interconnected Voice over Internet Protocol (VoIP) service providers to collect and remit surcharges on their California intrastate revenues in support of the universal service funds.

EXISTING LAW:

- 1) Authorizes the PUC to supervise and regulate every public utility in the state, including telephone corporations.
- 2) Establishes six funds in the State Treasury through which the state's universal service programs are funded.
- 3) Requires that moneys in the funds may only be expended for specified purposes and upon appropriation in the annual Budget Act or upon supplemental appropriation.
- 4) States that the Federal Telecommunications Act of 1996 establishes a program of cooperative federalism for the regulation of telecommunications to attain the goal of local competition, while implementing specific, predictable, and sufficient federal and state mechanisms to preserve and advance universal service, consistent with certain universal service principles.

FISCAL EFFECT: Unknown.

COMMENTS: According to the author, "as consumers move from traditional wireline communications towards technology such as VoIP, the result is a reduction in the traditional wireline revenue. The state must adapt to this changing environment in order to ensure the universal service funds are protected. Although California interconnected VoIP providers connect to the public switched telephone network and benefit from the state universal service programs, their customers have not been paying into the funds at the state level. AB 841 addresses this by requiring interconnected VoIP providers to contribute to the state universal service funds in a manner consistent with federal law."

1) Background: Universal service has been an important public policy objective on both the federal and state level. The United States Congress first made universal service a basic goal of telecommunications policy with the passage of the Communications Act of 1934. In 1983, the California Legislature enacted the Moore Universal Telephone Service Act to ensure that consumers have access to basic voice service that is both affordable and ubiquitously available. To achieve this legislative goal, the PUC created various public programs such as the: 1) California High-Cost Fund A, which provides direct support to the 14 small rural telephone companies that are under rate of return regulation; 2) California High-Cost Fund B, which provides support for large local exchange carriers (AT&T, Verizon, Frontier, and SureWest) for the high-cost areas of their service territories where the cost of providing basic service exceeds

\$36 per month; 3) California Advanced Services Fund, which is intended to promote universal service in unserved and underserved areas in the state by awarding funding to qualifying certificated applicant carriers; 4) California LifeLine, which provides discounted basic telephone (landline) services to eligible California households; 5) California Teleconnect Fund which is a program to provide 50% discount on selected telecommunications services to qualifying schools, libraries, government-owned and operated hospitals and health clinics, and community based organizations, and 6) Deaf and Disabled Telecommunications Program, which has two components: a dual party relay system known as California Relay Service (CRS) and a specialized equipment program known as California Telephone Access Program (CTAP). Subsequent legislation expanded DDTP to serve California individuals with hearing, vision, speech, cognitive and mobility disabilities.

2) What is VoIP service: During the past decade, the telecommunications industry has experienced advances in technology, shifts in the competitive markets, and major changes in service and price structures. Of increasing importance among these recent changes in technology is the migration of voice service away from the circuit-switched platform, to routed or soft-switched "packetized" telephone transmission relying on the Internet protocol (IP). With IP, the network routes a call over different network pathways maintained by the carrier or carriers carrying the voice service, not over one sustained circuit, and as a consequence the network's voice delivery is more efficient and less expensive to provision. All voice services, along with other network services, are now transitioning to this increasingly common transmission protocol as a converged network is adapted to carry voice, data, and video bits seamlessly from the point of view of the consumer. FCC data indicate that there are, as of December 2008, some 2.5 million VoIP users in California, of which approximately 2 million are residential subscribers.

The Federal Communications Commission's (FCC) rules define "interconnected VoIP service" as a service that: 1) enables real-time, two-way voice communications; 2) requires a broadband connection from the user's location; 3) requires Internet protocol-compatible customer premises equipment, and 4) permits users generally to receive calls that originate on the public switched telephone network (PSTN) and to terminate calls to the PSTN. Interconnected VoIP services may be fixed or nomadic. A fixed interconnected VoIP service can be used at only one location, whereas a nomadic interconnected service may be used at multiple locations.

3) Level the playing field: Due to the increasing customer migration to VoIP services, these customers presently do not contribute to the California universal service programs. In order to level the playing field, this bill authorizes the PUC to require interconnected VoIP service providers to collect and remit surcharges on their California intrastate revenues in support of the universal service funds.

On January 13, 2011, the PUC opened a Rulemaking to address whether to require interconnected VoIP service providers within California to collect and remit state public purpose program surcharges on intrastate revenues. It is unclear what progress the PUC has made on this issue.

4) Suggested amendments: On page 2, line 15, the author and this committee may wish to replace "may" with "shall" as it relates to the PUC requiring VoIP service providers to collect and remit surcharges on their California intrastate revenues in support of the universal service funds.

REGISTERED SUPPORT / OPPOSITION:

Support

AT&T (Sponsor)
California Cable and Telecommunications Association (CCTA)
Frontier Communications

Opposition

The Utility Reform Network (TURN) (unless amended)

Analysis Prepared by: DaVina Flemings / U. & C. / (916) 319-2083