

Background

Internet-protocol enabled services and VoIP are emerging telecommunication technologies that access the public switched telephone network from a broadband connection. Under current law, some, but not all, telecommunications providers with internet protocol and VoIP services operate according to certificates of public convenience and necessity granted by the PUC, have tariffs and rates set by the PUC, and make contributions to various telecommunications funds governed by the PUC.

Based on the Department of Revenue's calculation of the gross intrastate operating revenue of each public utility, the PUC receives in the Fixed Utilities Fund (FUF) an assessment to offset its costs of regulation. These assessments, known as the Fixed Utility Fee, are capped at a uniform rate of 0.2 percent of the gross operating revenue of each utility. In FY 2011-12, the Fixed Utilities Fund collected \$11.6 million in fees and assessments, of which \$1.8 million were paid by telecommunications providers.

The PUC also administers the High Cost Support Mechanism (HCSM), through which the PUC subsidizes telecommunications providers in high cost areas (typically rural areas) based on an assessment on all telecommunications providers. The HCSM is collected exclusively from telecommunication providers. Based on cash flow analysis and other economic factors, the PUC recently took action to reduce from 2.9 percent to 2.6 percent the surcharge on intrastate telecommunications services. Telecommunications providers pass on HCSM surcharges on ratepayers' phone bills.

State Revenue

In FY 2013-14 and future fiscal years, the bill requires fee adjustments to maintain current levels of state revenue funding for PUC programs. Exempting some providers without changing operational costs of PUC programs will require an increase in fees paid by other regulated utilities.

Fee Impact on Public Utilities and Telecommunications Service Ratepayers. Section 2-2-322, C.R.S., requires legislative service agency review of measures which create or increase any fee collected by a state agency. Fee adjustments affecting the Fixed Utilities Fund and the High Cost Support Mechanism are described below.

Fixed Utilities Fund. Exempting basic telephone service providers and VoIP telecommunication providers from PUC regulation will reduce revenue to the FUF by \$1.5 million, but because the PUC's costs are unchanged, this amount must be recovered through higher fees on telecommunications companies that remain subject to PUC assessments, as well as other public utilities (e.g., gas and electric providers; according to statistics compiled by the PUC there are 440 telecommunication providers, 5 natural gas utilities, and 2 electric utilities subject to PUC regulation).

Currently, the Fixed Utility Fee is periodically adjusted but remains at a level near the statutory cap. To the extent that the adjustment required by this bill is limited by the cap, the FUF will see a reduction in revenue. However, other changes in intrastate revenue from public utilities also could affect FUF revenue.

High Cost Support Mechanism. The HCSM receives approximately \$60 million from surcharges each year, of which \$5 million will be reduced by the elimination of VoIP telecommunication providers from PUC regulation. Assuming that \$5 million of revenue must be replaced annually, the surcharge will be adjusted from 2.6 percent to 2.9 percent. Between 6 million and 7 million telecommunications service ratepayers are estimated to contribute to the HCSM. This analysis assumes that HCSM continues to generate surcharges in a manner consistent with current practice.

State Expenditures

As described below, in FY 2013-14 the bill increases expenditures in the Legislative Department by up to \$28,645 and 0.4 FTE and increases workload in the PUC. Starting in FY 2014-15, the bill may also result in savings to the PUC. Effects on state expenditures are summarized in Table 1.

Table 1. Expenditures Under HB 13-1255		
Cost Components	FY 2013-14	FY 2014-15
<u>Legislative Department</u>		
Personal Services	\$23,645	
FTE (0.3 LCS, 0.1 OLLS)	0.4	
Legislative Per Diem and Expenses	\$5,000	
<u>Public Utilities Commission</u>		
Personal Services - <i>reduction</i> *		(Up to \$75,105)*
Operating Expenses - <i>reduction</i> *		(Up to 2,601)*
TOTAL	\$28,645	(Up to \$77,706)

* The bill does not reduce PUC workload. Cost reductions are based on deregulation of basic services, which prevents PUC cost recoveries from the Colorado High Cost Administration Fund.

Legislative Department. The bill directs the General Assembly to study 911 services in the 2013 interim. No specific interim committee or other study mechanism is identified by the bill. The fiscal note assumes that legislative study will include legislative participation and costs consistent with typical interim committees, including staffing costs of \$23,645 in the Legislative Council Staff and the Office of Legislative Legal Services, and a budget of \$5,000 for interim per diem and the expenses of participating members of the General Assembly. Because the Legislative Council has already approved funding for 2013 interim committees, a General Fund appropriation is required to operate an additional committee.

PUC. The bill results in a minimal increase in the workload of the PUC in FY 2013-14. Following enactment of the bill, workload of the PUC increases to implement the bill. Specifically, in FY 2013-14, fees and rules affected by the bill will be modified. This temporary workload will be accomplished without requiring additional PUC meetings and will not require new appropriations. Due to the continued limited regulation of VoIP, the bill assumes that ongoing workload of the PUC is not significantly reduced by the bill.

The bill also impacts PUC's funding associated with administration of the HCSM. Pursuant to Section 40-15-402, C.R.S., deregulation of basic services proscribes the PUC's statutory authority to obtain reimbursement of the majority of HCSM's administrative costs from the Colorado High Cost Administration Fund. The bill prevents the expenditure of an estimated \$77,706 in cash funds from the Colorado High Cost Administration Fund each year, used for the costs of 1.0 FTE. This statute, Section 40-15-402, C.R.S., may also impact PUC's authority to distribute HCSM funds to basic service providers.

State Appropriations

For FY 2013-14, the bill requires a General Fund appropriation of \$28,645 to the Legislative Department, and an allocation of 0.4 FTE.

Departments Contacted

Regulatory Agencies
Public Safety
Law

Office of Information Technology
Personnel and Administration
Revenue

Counties
Municipalities
Sheriffs