

# **FOCUS: Pricing Trends for California's Small Local Exchange Carriers**

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## **Abstract**

This paper presents the analyses by the Public Advocates Office (Cal Advocates) at the California Public Utilities Commission (Commission) on broadband pricing trends in California and the implications of broadband pricing on achieving universal access to broadband. Since 2019, Cal Advocates issues annual broadband data requests regarding pricing, penetration, and additional broadband service information to all telecommunication companies that provide broadband services in California. Cal Advocates' pricing analysis utilizes responses to its 2021 annual data requests (DR) from fixed broadband<sup>1</sup> providers offering services in California, along with data from the annual Federal Communications Commission (FCC) Urban Rate Surveys.<sup>2</sup> This focus paper places emphasis on the Small Local Exchange Carriers (Small LECs), which are thirteen small rural telephone companies in California. Cal Advocates' analysis resulted in three major findings:

- 1) Despite the fact that most of the Small LECs receive state subsidies, they charge some of the highest prices for broadband in the state.
- 2) Broadband pricing trends are not uniform among all Small LECs. Those that receive subsidies charge higher prices than those that do not receive subsidies.
- 3) There is a stark variation in price dependent on whether broadband was bundled with other services, such as voice.

## Contents

Introduction .....	4
Small LECs that receive subsidies from the CHCF-A charged some of the highest broadband prices in the state. ....	5
CASF grantees charged lower prices than the CHCF-A Small LECs for plans offered using the same technology and within the same speed tier. ....	6
The price of broadband is influenced by whether the plan is offered on a standalone basis or bundled with other services.....	8
Conclusion.....	10

## List of Figures

Figure 1: Average price of Big 5 and CHCF-A Small LECs plans in the 25-50 Mbps download speed tier by technology, 2021 .....	5
Figure 2: Monthly recurring price comparison between CASF Grantee and CHCF-A Small LECs for DSL plans in the speed tier of >25-50 Mbps, 2021 .....	7
Figure 3: Monthly recurring price comparison between CASF Grantee and CHCF-A Small LECs for Fiber plans in the speed tier of >10-25 Mbps, 2021 .....	8

## List of Tables

Table 1: Small LECs in California .....	4
Table 2: Average monthly recurring prices across select Small LECs, 2021 .....	6
Table 3: Monthly recurring prices for select plans: Sierra and Ponderosa.....	9
Table 4: Average monthly recurring prices for broadband bundled and standalone broadband plans across select Small LECs, 2021 .....	9

## Introduction

Broadband is an essential service for accessing healthcare, education, emergency services, employment, and social services.<sup>3</sup> This has been especially clear during emergencies like the COVID-19 pandemic and the wildfires in the California. The Public Advocates Office (Cal Advocates) at the California Public Utilities Commission (Commission) has released a white paper examining broadband pricing and its impacts on the wellbeing of Californians called [\*Broadband Pricing Trends in California\*](#). This paper examines pricing trends for large broadband providers and finds that California has some of the highest monthly recurring broadband prices in the nation. This paper also finds that since the start of the COVID-19 pandemic, the prices of some broadband plans have markedly increased. *The Broadband Pricing Trends in California* paper is supported by two focus papers: *The Impacts of Broadband Affordability on Health and Wellbeing in California*, and this paper, which examines pricing trends for smaller broadband providers.

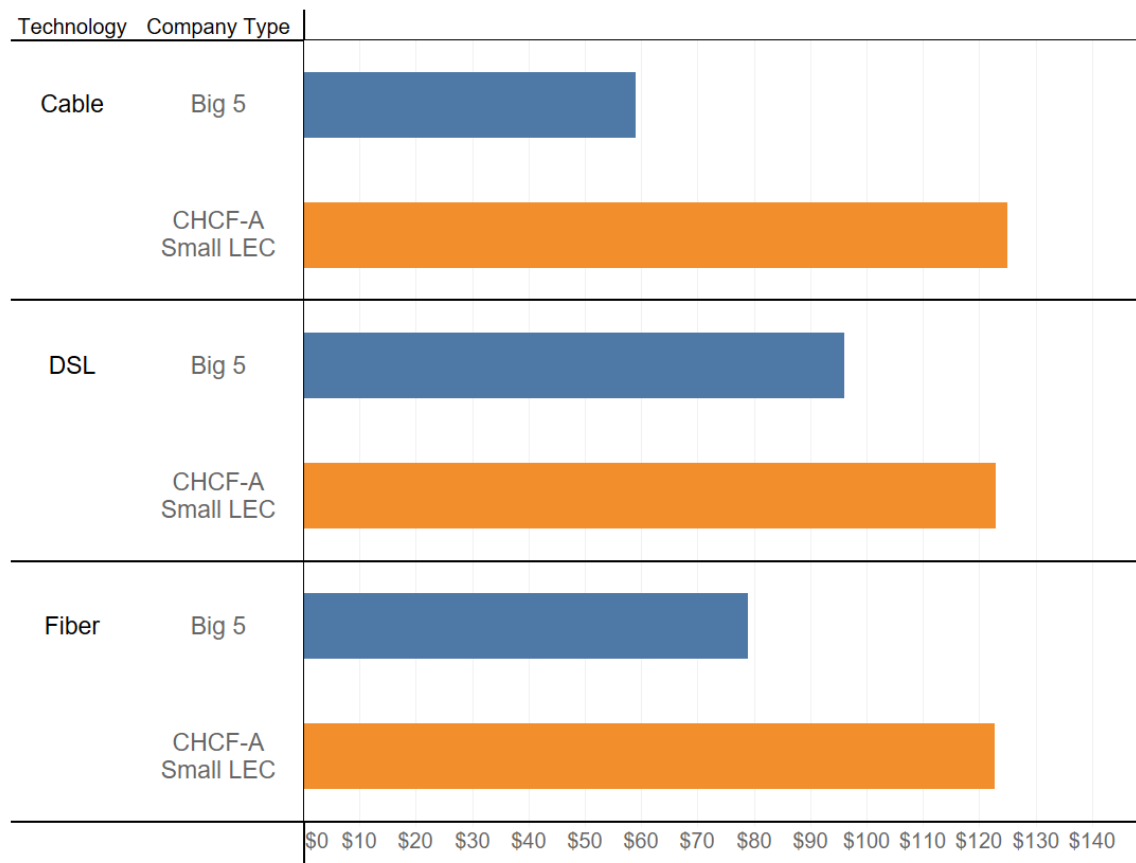
The Small LECs are thirteen rural telephone companies in California (Table 1). Out of those thirteen Small LECs, ten of them receive state subsidies from the California High Cost Fund-A (CHCF-A) to deploy broadband-capable facilities and provide customers with access to broadband services.<sup>4</sup>

**Table 1: Small LECs in California**

Company name	Receives Subsidies from the CHCF-A program
Calaveras Telephone Company	Yes
California-Oregon Telephone Company	Yes
Ducor Telephone Company	Yes
Foresthill Telephone Company	Yes
Happy Valley Telephone Company	Yes
Hornitos Telephone Company	Yes
Kerman Telephone Company	Yes
Pinnacles Telephone Company	Yes
The Ponderosa Telephone Company	Yes
Sierra Telephone Company	Yes
Siskiyou Telephone Company	Yes
The Volcano Telephone Company	Yes
Winterhaven Telephone Company	Yes
Happy Valley Telephone Company	No
Hornitos Telephone Company	No
Winterhaven Telephone Company	No

Although Small LECs generally charged higher prices in comparison to AT&T, Comcast, Charter, Cox, and Frontier (Big 5), prices were not uniform across all Small LECs (Figure 1). Our annual data request shows that some Small LECs had some of the highest broadband prices in California, despite the subsidies from the CHCF-A. The ten Small LECs that receive CHCF-A subsidies are subject to the Commission’s rate of return regulation, including the requirement to file general rate case applications.<sup>5</sup> Happy Valley, Hornitos, and Winterhaven (TDS Companies<sup>6</sup>) are Small LECs that operate without CHCF-A subsidies, and hence, do not file general rate case applications at the Commission.

**Figure 1: Average price of Big 5 and CHCF-A Small LECs plans in the 25-50 Mbps download speed tier by technology, 2021**



**Small LECs that receive subsidies from the CHCF-A charged some of the highest broadband prices in the state.**

Within each technology-speed tier, some Small LECs charged higher monthly recurring prices for fixed broadband plans than other broadband providers surveyed. However, this trend of

higher prices was not uniform across all thirteen Small LECs. The ten Small LECs that receive subsidies from the CHCF-A *charged higher prices* for plans in the same speed tier-technology compared to the three Small LECs that are not subsidized by the CHCF-A. For example, for an advertised speed of 25/5 Mbps, Sierra, which is a recipient of subsidies from the CHCF-A, charged its customers a monthly price that is almost one and a half times as much (\$111.95) as Hornitos (\$74.75), which does not receive CHCF-A subsidies (See Table 2 below). This difference in price between Sierra and the TDS Companies that do not receive CHCF-A subsidies cannot be explained by geography alone, as Sierra offers service in areas next to Hornitos with similar terrain. Nor does company size, as measured in terms of housing units served, explain the difference in prices because Sierra is significantly larger than Happy Valley, Hornitos, and Winterhaven combined,<sup>7</sup> meaning that Sierra’s number of customers is much larger in comparison to any of the TDS Companies.

**Table 2: Average monthly recurring prices across select Small LECs, 2021**

Company	Receives CHCF-A Subsidy?	Speed	Monthly Price
<b>Happy Valley (TDS Company)</b>	No	25/5 Mbps	\$75.15
<b>Hornitos (TDS Company)</b>	No	25/5 Mbps	\$74.75
<b>Sierra</b>	Yes	25/5 Mbps	\$111.95
<b>Ponderosa</b>	Yes	25/5 Mbps	\$131.45

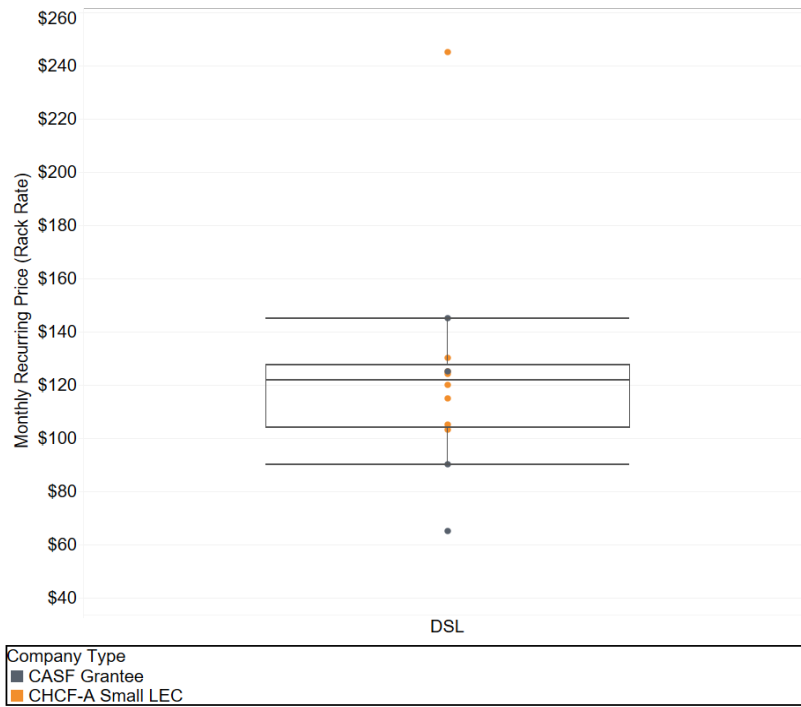
These variations in pricing shown above exist in plans that use the same technology to provide broadband and have similar advertised speed tiers. The pricing variations highlight the fact that technology of service delivery and advertised speed alone cannot completely explain the variation in broadband plan prices. The incomplete explanation for existing price variations warrants examination of other potential factors to understand the large disparity in broadband pricing among Small LECs. One key source of such variation will be discussed in the next section.

**CASF grantees charged lower prices than the CHCF-A Small LECs for plans offered using the same technology and within the same speed tier.**

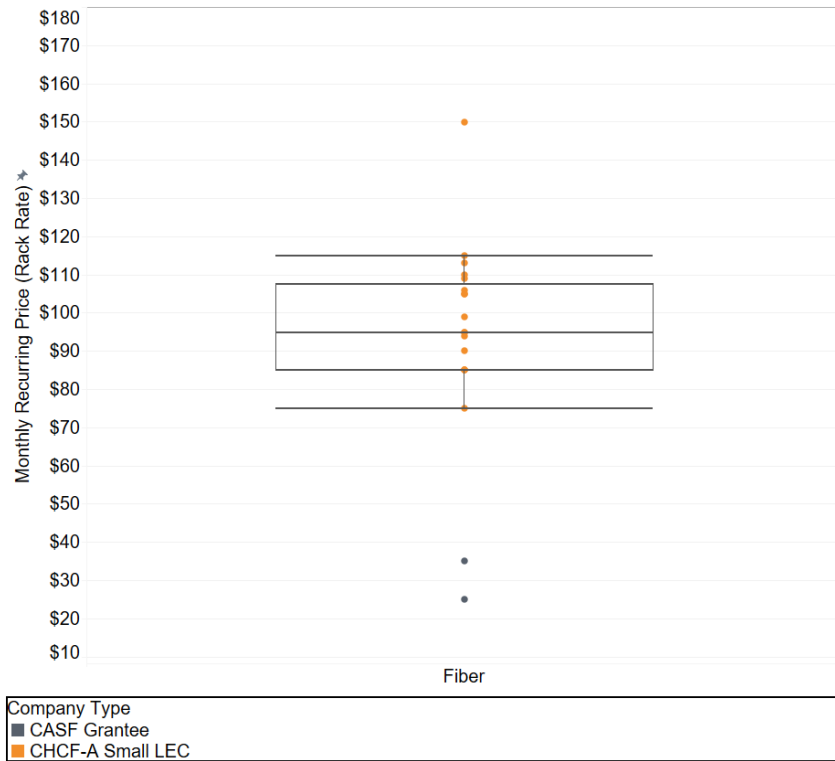
The California Advanced Services Fund (CASF) provides grants to companies to bridge the “digital divide” in unserved and underserved areas in California.<sup>8</sup> In 2021, four companies that

responded to Cal Advocates' data request received CASF grants: Race, Charter, Cal.net, and Frontier. The monthly price for broadband plans varied among these providers. For example, for plans that offered DSL in the >25-50 Mbps download speed tier, one CASF grantee's plans ranged from \$65 to \$145 a month. In the same speed tier for the same technology, the CHCF-A Small LECs' plans ranged from \$103 - \$245 a month, as shown in Figure 2 below). For Fiber plans in the >10-25 Mbps download speed tier, one CASF grantee charged customers \$25 to \$35 a month, whereas the CHCF-A Small LECs' plans ranged from \$75 to \$150 a month, as shown in Figure 3 below.

**Figure 2: Monthly recurring price comparison between CASF Grantee and CHCF-A Small LECs for DSL plans in the speed tier of >25-50 Mbps, 2021**



**Figure 3: Monthly recurring price comparison between CASF Grantee and CHCF-A Small LECs for Fiber plans in the speed tier of >10-25 Mbps, 2021**



Although the CASF grantees and CHCF-A Small LECs received millions of dollars in state subsidies, on average, the 2021 CASF grantees charged lower prices than the CHCF-A Small LECs for plans offered using the same technology and within the same speed tier.

**The price of broadband is influenced by whether the plan is offered on a standalone basis or bundled with other services.**

Broadband can be provided on its own (standalone) or in a bundle with other services such as telephone, TV, and cable service (bundled). For the Small LECs, especially for the ten companies that are subsidized by CHCF-A, prices of standalone broadband plans were *higher* than prices of bundled broadband plans (Table 4) even though bundled plans provided more services. Furthermore, the prices of standalone broadband plans were significantly higher than the prices of the broadband price within a bundled plan. For Sierra’s 25/5 Mbps plans, the price of broadband within the bundled plan was \$79.95 whereas the price of a standalone broadband plan was nearly double that amount at \$139.95 (See Table 3).



**Table 3: Monthly recurring prices for select plans: Sierra and Ponderosa<sup>9</sup>**

Company Name	Plan Speed Download/ Upload	Service Description	Monthly Recurring Price (Price of Broadband in Bundle)
Sierra	25/5	Standalone	\$139.95
		Bundle	\$104.95 (\$79.95)
	50/25	Standalone	\$149.50
		Bundle	\$114.95 (\$89.95)
	100/50	Standalone	\$189.95
		Bundle	\$154.95 (\$129.95)
Ponderosa	25/3	Standalone	\$149.95
		Bundle	\$112.95 (\$87.95)
	50/20	Standalone	\$244.95
		Bundle	\$124.95 (\$99.95)

That is, customers paid more for purchasing data-only plans rather than purchasing a bundled plan with a voice connection. As speeds increased, the average monthly recurring price of plans offered using the same technology *increased* substantially for the standalone broadband plans of CHCF-A funded Small LECs. This was especially the case for Ponderosa, and Sierra (Table 3). By contrast, the TDS companies who do not receive the CHCF-A fund charged lower prices for standalone plans than bundled plans. Furthermore, the TDS companies charged nearly identical prices for plans offered over the same technology and at higher speeds (see Happy Valley, Hornitos, and Winterhaven in Table 4).

**Table 4: Average monthly recurring prices for broadband bundled and standalone broadband plans across select Small LECs, 2021<sup>10</sup>**

Company	Receives CHCF-A Subsidy?	Speed	Whether Plan is Standalone or Bundled	Monthly Price
Ponderosa	Yes	25/5 Mbps	Bundled	\$112.95
			Standalone	\$149.95
Sierra	Yes	25/5 Mbps	Bundled	\$104.95
			Standalone	\$139.95
Kerman	Yes	25/3 Mbps	Bundled	\$92.50
			Standalone	\$95
Happy Valley (TDS Company)	No	25/5 Mbps	Bundled	\$77.80
			Standalone	\$72.50
		50/10 Mbps	Bundled	\$77.80
			Standalone	\$73
Hornitos	No	25/5 Mbps	Bundled	\$77

<b>(TDS Company)</b>			Standalone	\$72.50
		50/10 Mbps	Bundled	\$77
<b>Winterhaven (TDS Company)</b>	No	25/5 Mbps	Standalone	\$73
			Bundled	\$78.50
		50/10 Mbps	Standalone	\$72.50
			Bundled	\$78.50
	Standalone	\$73		

## Conclusion

In comparison to the Big 5 companies, the Small LECs charged higher prices for plans offered using the same technology at similar speeds. Furthermore, the Small LECs that receive the CHCF-A subsidy charged substantially higher prices than the Small LECs that do not receive the CHCF-A subsidy. This supports Cal Advocates' finding<sup>11</sup> that subsidies alone may not serve the intended benefit of lowering broadband plan prices for customers.

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<sup>1</sup> The FCC defines fixed broadband service as “one that serves end users primarily at fixed endpoints using stationary equipment, such as the modem that connects an end user’s home router, computer or other Internet access device to the network. This term includes fixed wireless broadband services (including those offered over unlicensed spectrum).” See FCC-11-161 (2011), pp. 36-37.

<sup>2</sup> FCC, Urban Rate Survey Data & Resources, <https://www.fcc.gov/economics-analytics/industry-analysis-division/urban-rate-survey-data-resources>.

### Notes:

<sup>3</sup> See Decision (D.) 20-07-032 (2020, July 16), Decision Adopting Metrics and Methodologies for Assessing the Relative Affordability of Utility Service, pp. 27-32.

See also D.21-10-020, Rulemaking 20-09-001 (2021, October 21), Decision Resolving Phase I of Broadband for All Proceeding, p.2.

See also Executive Department, State of California (2020, August 14), Executive Order (E.O.) N-73-201.

<sup>4</sup> California Public Utilities Commission (CPUC), California High Cost Fund-A, <https://www.cpuc.ca.gov/industries-and-topics/internet-and-phone/california-high-cost-fund-a>, accessed June 2022.

<sup>5</sup> Public Utilities Code Section 275.6(c)

<sup>6</sup> Happy Valley Telephone Company, Hornitos Telephone Company, and Winterhaven Telephone Company are subsidiaries of Telephone and Data Systems, Inc., also known as TDS.

<sup>7</sup> CPUC, EOY2020 CA Fixed Broadband Adoption, <https://public.tableau.com/app/profile/cpuc/viz/EOY2020CAResidentialFixedBBDeployment/Dashboard>, accessed June 2022.

<sup>8</sup> CPUC, CASF Background and History, <https://www.cpuc.ca.gov/industries-and-topics/internet-and-phone/california-advanced-services-fund/casf-background-and-history>, accessed February 2023.

<sup>9</sup> Annual Broadband Pricing Data Request, 2022

<sup>10</sup> Annual Broadband Pricing Data Request, 2022

<sup>11</sup> Public Advocates Office, California Public Utilities Commission, *Broadband Pricing Trends in California: Implications of broadband pricing in achieving universal access to fixed broadband*, February 2023.