

California Public Utilities Commission
Quarterly Report on California High Cost Fund – B



California Public Utilities Commission

January 2008

Introduction

On August 31, 2007, the Legislative Analyst's Office issued the Supplemental Report of the 2007 Budget Act which requires the Commission to report quarterly on its efforts to produce a review of the California High Cost Fund - B (CHCF-B) program, an update on the proceeding and efforts to comply with the statutorily mandated sunset of the program. This is the report for the quarter ending December 31, 2007.

The Communications Division provided prior status reports on the CHCF-B Program Review on April 18, 2007 and on October 5, 2007. The first report explained the authority and history of the Universal Service program as it applies to rural, insular and high cost areas served by the larger (non-rural) carriers. The second report summarized a major September 2007 decision impacting the CHCF-B program and delineated the next steps in the proceeding after September Assigned Commissioner Rulings requesting comments. In this third report, we explain subsequent events in the CHCF-B program review.

Proceeding Status Update

Carrier of Last Resort Issues

On October 5, 2007, the Assigned Commissioner issued a ruling (ACR) regarding the scoping and scheduling of Phase II issues. This ruling sought comment on issues related to the reverse auction and possible use of the cost proxy model in determining the level of support for and selection of the Carrier of Last Resort (COLR). These changes will permit

the B-Fund program to continue on a more limited basis for only areas that are truly high cost.

Under current law, the cap on basic service rates would terminate on January 1, 2009. The October 5, 2007 ACR sought input on a process for a phase-in of any increases to basic residential rate levels to provide an orderly transition to full pricing flexibility over a limited time period. As a basis for calculating the applicable level of rate increases, the Commission will examine whether to establish a target cap for each Carrier of Last Resort¹ (COLR). Once the targeted cap is reached, the cap restrictions may be removed and the COLRs may be granted full pricing flexibility to make any subsequent adjustments in basic rates based on competitive market forces.

The Rulemaking in Phase II will also examine the administrative procedures for processing B-Fund claims and will seek ways to improve the process through streamlining and administrative efficiencies while still permitting proper verification and audit of the claims. There are other Commission proceedings that are underway or expected to be opened that consider Public Purpose Programs and a review of the California High Cost Fund - A.²

A copy of the October 5, 2007, Assigned Commissioner's Ruling (ACR) is attached as Appendix A.

¹ A designated Carrier of Last Resort is obligated to serve customers within its service area - even those in very high cost areas.

² The California High Cost Fund - A provides universal service support to eligible smaller local exchange carriers in California.

Reverse Auction Issues

Another ACR was issued on December 13, 2007 which sought comments to design and implement a reverse auction mechanism. A copy of this ACR is attached as Appendix B. This ruling sought nominees from parties to three Working Groups (WG) that would examine issues related to the reverse auction and make recommendations to the Commission.

1. The first WG would consider service provider eligibility requirements including services, quality and reliability, and audit and verification requirements along with some other considerations.
2. The second WG would consider bidding protocols including publicizing auctions, method for submitting bids, and other factors in establishing a bidding process.
3. The third WG would consider the geographic areas where the bids would apply. This WG would also consider whether a pilot project should be established first and the areas where the auction mechanism would apply.³

California Advanced Services Fund

On December 20, 2007, the Commission unanimously adopted Decision 07-12-054 which established the California Advanced Services Fund (CASF) to assist in broadband deployment in primarily unserved areas of California. A copy of this decision is attached as Appendix C.

³ Although this report is for the quarter ending December 31, 2007, an ACR issued on January 7, 2008, combined the last two working groups into a single working group because there was overlap in the issues that the two groups would consider.

D.07-09-020, issued in September, 2007, reduced the CHCF-B surcharge from 1.30% to 0.50% beginning on January 1, 2008. D.07-12-054 further modified the surcharge to be 0.25% for the CHCF-B program and 0.25% to fund the newly established CASF program.

The CASF program will be limited to a total of \$100 million over two years. Applicants for CASF funds will propose projects to serve primarily unserved areas with broadband service. The applicant will seek 40% of the funding from the CASF and will have to provide the remaining 60%. Workshops will be scheduled to establish the eligibility and evaluation criteria and other mechanisms for the CASF program. The Commission will adopt the criteria by resolution. The CASF establishes a program to directly address the Legislative finding that the availability of high-quality telecommunications and advanced information and communication technologies are important for the future prosperity of California.

Although Public Utilities Code Section 739.3 is scheduled to sunset on January 1, 2009, there will be a continuing need to address service in high cost areas after that date.⁴ The Commission anticipates that there will be a continuing universal service need in high cost areas and is expected to continue a program in a modified and more targeted form.

Next Steps

⁴ On January 7, 2008, SB 780 (Wiggins) was amended to add language to extend the CHCF-B program to January 1, 2013. If this bill is chaptered, the CHCF-B program will not sunset as currently scheduled on January 1, 2009. The Commission supports extension of the CHCF-B program to 2013.

Carrier of Last Resort Issues

The working groups will hold subsequent meetings during January and February 2008 for the purposes of addressing carrier eligibility for participating in the auction and bidding protocols. Each working group is expected to establish its own meeting schedules and processes for exchanging information and processes for exchanging information and developing recommendations to the Commission. Each working group will work with a Communications Division staff coordinator. An update on the working groups will be provided in the next quarterly report.

California Advanced Services Fund

The Commission is planning to hold workshops on the CASF program implementation issues. Tentatively scheduled for February 2008, these workshops will establish the criteria for eligibility, scoring of applications, and other mechanisms to ensure that the CASF funds are expended in a proper manner.

The Commission is also seeking legislation to amend PU Code Section 270 to establish a CASF fund within the state treasury to collect and disburse funds for the CASF program. The carriers will be retaining the funds until the CASF fund is established, and then transfer the CASF funds along with appropriate interest to the state treasury. CASF application requests, once approved by the Commission staff with appropriate checks and balances, would be disbursed under the CASF program guidelines from the state treasury. The process would be similar to that for the CHCF-A, CHCF-B, and other state universal service program payments.

Appendix A

Assigned Commissioner's Ruling

October 5, 2007

<http://docs.cpuc.ca.gov/efile/RULINGS/73607.pdf>

Appendix B

Assigned Commissioner's Ruling

December 13, 2007

<http://docs.cpuc.ca.gov/efile/RULINGS/76446.pdf>

Appendix C

Decision 07-12-054

December 20, 2007

http://docs.cpuc.ca.gov/WORD_PDF/FINAL_DECISION/76947.PDF