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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking Regarding
Revisions to the California High Cost
Fund B Program.

Rulemaking 09-06-019
(Filed June 18, 2009)

ASSIGNED COMMISSIONER'S RULING AND AMENDED SCOPING MEMO

This ruling provides an Amended Scoping Memo for the proceeding. This proceeding was opened (as successor to Rulemaking (R.) 06-06-028) to implement reforms to the California High Cost Fund-B (B-Fund) in accordance with the Commission's policies to meet universal service goals for telecommunications services.

As noted in the Assigned Commissioner's previously issued Amended Scoping Memo, after the Commission adopted updated requirements for basic telephone service, the proceeding would then address remaining issues, and in particular, the updating of B-Fund support amounts for high-cost areas.

The designation of high cost areas eligible for B-Fund support and the support amounts per area are currently based on cost data from the 1990's. Moreover, the cost model that was utilized to derive B-Fund support amounts is not technology neutral, but reflects exchange-based wireline technology. Also, significant demographic and cost changes have occurred in high cost areas over the years since the model was first developed. Shifts in census block group boundaries have been revised as populations change. Some areas identified as high cost may no longer be accurately classified. Accordingly, in view of such

factors, the scope of this proceeding previously included the updating of high-cost support amounts

The Commission updated the benchmark threshold for access lines eligible for “high cost” support, raising the threshold to \$36 per line in Decision (D.) 07-09-020. Although updating the benchmark significantly reduced the number of access lines eligible for high-cost support, certain regions still reflect costs above the threshold, based on the data currently being utilized.

Prior to the most recent Amended Scoping Memo, this proceeding had been considering the design of a reverse auction as a mechanism to set high-cost support amounts based on market forces. The assigned Commissioner, however, had determined to address the updating of requirements for basic telephone service as a priority before considering whether to continue to implement a reverse auction or to pursue other measures to update high cost support amounts.

On December 20, 2012, the Commission adopted D.12-12-038, which established revised requirements for offering basic telephone service within California. Now that the Commission has issued D.12-12-038, this proceeding must address remaining issues to update high-cost support amounts and how B-Fund program administration may be improved, automated, and streamlined.

Based on parties’ previously-filed comments, most parties oppose expending further efforts to implement a reverse auction. Some parties advocate complete termination of the B-Fund program, arguing that B-fund subsidies are no longer necessary.

The only parties that continue to support a reverse auction at all are Pacific Bell Telephone Company d/b/a AT&T California (AT&T) and Verizon California Inc. (Verizon). Their support, however, is contingent on the outcome

of other developments first. AT&T stated, in particular, that whether or how providers utilizing non-traditional technologies can participate in the Lifeline program must be determined first. AT&T stated that whether wireless and other intermodal carriers participate in a reverse auction is dependent on whether or how they may participate in the Lifeline program.

Verizon stated that some areas identified as high cost today are no longer high cost, and should be excluded in a reverse auction. Verizon believes that in any case, costs should be updated in a streamlined manner before moving forward with design of a reverse auction.

Amended Scoping Memo

This Amended Scoping Memo is issued to update the schedule and direction of this proceeding in light of the issuance of D.12-12-038, and considering parties' comments, as noted above.

Accordingly, the next priority for this proceeding will be the updating of cost proxy data used to calculate B-Fund support. Updating of the cost data for determining B-Fund support amounts will provide greater assurance that support is limited to reasonable levels needed to meet the goal of universal service.

In previous phases of this proceeding and its predecessor (R.06-06-028), parties expressed conflicting views as to how to update the data and methodologies regarding cost proxies used to determine B-Fund support. For purposes of this amended scoping memo, it is not necessary to review the full range of disputes concerning cost proxy updates. As the next step in this proceeding, our initial focus will be updating B-Fund high-cost support amounts to reflect changes in population densities since cost proxy data was last adopted in D.96-10-066, as discussed below.

As adopted in D.96-10-066, access lines were identified as high cost based, in part, on “Census Block Group” (CBG) data from the 1990 federal census. Since the costs to serve residential access lines vary, in part, as a function of differences in population density, the high-cost support amounts were determined, in part, based on the CBG in which the customer resides.

With the passage of time, however, population demographics, technology and costs of providing basic telephone service have changed considerably. In particular, CBG data from the 2010 census is now available. Therefore, the next priority for this proceeding will focus on updating the relevant data for CBGs used as one factor to determine the access lines eligible for high-cost support.

Based on the updated CBG data, we can identify any changes in CBG boundaries, creation or elimination of CBGs, and/or changes in the categorization of CBGs as rural versus urban based on comparisons of 1990 versus 2010 census data for California. Based on the updating of CBG data, a revised calculation can be made to identify access lines eligible for high-cost support. With this updated assessment, the Commission can make better informed choices regarding subsequent steps to update the calculation of high-costs for those access lines still eligible for B-Fund support.

By March 8, 2013, the Communications Division Staff will make available an update of state-wide CBG mapping data based on the 2010 federal census, showing CBG boundaries and updated designations of CBGs as urban versus rural, in comparison to 1990 census data. This updated CBG data will be served on parties in this proceeding by subsequent ruling. Parties will then be provided an opportunity for comment on how the changes in CBG data since the 1990 census can be implemented to update the identification of access lines that exceed the \$36 threshold for high-cost support and related revisions in the funds

required to provide high-cost B-Fund support. Following receipt of the comments, we shall schedule a workshop for parties to meet and confer with the goal of reaching consensus, or at least minimizing disputes concerning how the changes between the 1990 versus 2010 CBG data can be applied to implement updates in the determination of B-Fund support.

It is anticipated that this proceeding will conclude within 18 months of the issuance of this Amended Scoping Memo, pursuant to Public Utilities Code Section 1701.5.

IT IS RULED that:

1. This Amended Scoping Memo in Rulemaking (R.) 09-06-019 is hereby adopted to update the scope and schedule for remaining issues necessary to conclude the proceeding.
2. As the next step in this proceeding, the initial focus will be updating B-Fund high-cost support amounts to reflect changes in population densities based on Census Block Groups (CBGs) as one factor used to determine the access lines eligible for high-cost support.
3. By March 8, 2013, the Communications Division Staff will make available an update of state-wide CBG mapping data based on the 2010 federal census, showing CBG boundaries and updated designations of CBGs as urban versus rural, in comparison to 1990 census data. This updated CBG data will be served on parties in this proceeding by subsequent ruling. Parties will then be provided an opportunity for comment, followed by a workshop, on how the changes in CBG data since the 1990 can be applied to update B-Fund support amounts.
4. Based on the updated CBG data, relevant changes will be identified in CBG boundaries, creation or elimination of CBGs, and/or changes in the

categorization of CBGs as rural versus urban based on comparisons of 1990 versus 2010 census data for California.

5. Based on the updating of CBG data, a revised calculation will be made to identify access lines eligible for high-cost support. With this updated assessment, the Commission can make better informed choices regarding subsequent steps to update the calculation of high-costs for those access lines still eligible for B-Fund support.

Dated January 29, 2013, at San Francisco, California.

/s/ MICHAEL R. PEEVEY

Michael R. Peevey
Assigned Commissioner