

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA



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

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

**REPLY COMMENTS  
OF THE DIVISION OF RATEPAYER ADVOCATES ON  
ADMINISTRATIVE LAW JUDGE'S RULING FOR FURTHER  
COMMENTS ON COST PROXY REVISIONS**

**LINDSAY BROWN**  
Attorney

for the Division of Ratepayer Advocates  
California Public Utilities Commission  
505 Van Ness Ave.  
San Francisco, CA 94102  
Phone: (415) 703-1960  
Email: [lindsay.brown@cpuc.ca.gov](mailto:lindsay.brown@cpuc.ca.gov)

**DALE PIIRU**  
Analyst

for the Division of Ratepayer Advocates  
California Public Utilities Commission  
505 Van Ness Ave.  
San Francisco, CA 94102  
Phone: (415) 703-1726  
Email: [dale.piiru@cpuc.ca.gov](mailto:dale.piiru@cpuc.ca.gov)

August 23, 2013

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**I. INTRODUCTION**

Pursuant to the schedule established in the Administrative Law Judge’s Ruling For Further Comments On Cost Proxy Revisions (Ruling) issued July 18, 2013, the Division of Ratepayer Advocates (DRA) submits these Reply Comments on the issues delineated in the Ruling in response to other parties’ Opening Comments.

**II. DATED COST PROXIES AND DATED POLICY**

Verizon stated in its comments that “[t]he current cost proxies are outdated and should be updated.”<sup>1</sup> DRA agrees that these proxies are out of date for a number of reasons and that the Commission should update them. It should be noted, however, that DRA also believes that the High-Cost Fund-B (B-Fund) Program as a whole is out of date, and is at odds with the Commission’s current Uniform Regulatory Framework (URF) policy.

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<sup>1</sup> Verizon Comments at 2.

### III. ADDITIONAL STEPS ARE NEEDED TO DETERMINE WHETHER PARTICULAR CBGS ARE ELIGIBLE TO RECEIVE SUBSIDY FUNDING

In its comments, Citizens Telecommunications Company of California Inc., dba Frontier Communications of California (Frontier) asserts that it is allowed to bring into the B-Fund Program the Census Block Groups (CBGs) served by various General Rate Case (GRC) incumbent local exchange carriers (ILECs) it acquired as a result of its recent mergers.<sup>2</sup> Those former entities are now part of the URF company<sup>3</sup> and thus are now eligible to *seek* B-Fund support. Since the original cost proxy results are out of date, some common sense adjustments must be made to more properly reflect current conditions as other parties noted in their comments.

For example, Verizon recommends that “the Commission make incremental adjustments to the B-Fund cost proxies, but without performing a cost study.”<sup>4</sup> Verizon is on the right track when it recommends reducing the size of the program through adjustments to the existing cost proxies. Verizon stated in its comments:

At a minimum, the cost proxies should be adjusted to capture the extraordinary population changes in some areas. Placer County and Riverside County’s populations, for example, increased by 102% and 87% respectively between 1990 and 2010. Small towns such as Imperial saw a 259% increase in population over this period. Population increases drive higher household density, and higher density areas usually have lower per-line costs.<sup>5</sup>

AT&T also observed a downward trend in the amount of B-Fund support it receives.

AT&T specifically noted that “. . . AT&T’s supported lines have gone down 29% from July 2009 (the date of the benchmark going to \$36) to April 2013.”<sup>6</sup>

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<sup>2</sup> Frontier Comments, at 3.

<sup>3</sup> Citizens Telecommunications Company California, Inc. (CTC).

<sup>4</sup> Verizon Comments at 1.

<sup>5</sup> Verizon Comments at 2.

<sup>6</sup> AT&T Comments at 1.

DRA believes that in addition to the issue of population changes in some areas raised by Verizon, and the downward trend in B-Fund support noted by AT&T, the Commission should also analyze other factors that would further reduce the size of the B-Fund Program. While the parties have agreed that no new cost studies should be undertaken<sup>7</sup>, this proceeding should determine the eligibility of individual CBGs to receive funding based on today's conditions.

#### **IV. FRONTIER PROPOSAL TO RECEIVE HIGH COST FUND B FOR ITS NEW TERRITORIES**

In 2008, Frontier merged several of its affiliates<sup>8</sup> into the URF entity, CTC.<sup>9</sup> In 2012 Frontier merged another one of its affiliates, Frontier West-Coast<sup>10</sup>, with CTC. The stipulated settlement agreements approved by the Commission between Frontier and DRA in both of the merger proceedings did not permit the new service territories of the newly merged entities to participate in the B-Fund Claims Process until the Commission has resolved certain B-Fund issues.<sup>11</sup> While it appears that Frontier may apply for B-Fund support for these territories, the Commission is not required to approve every CBG that Frontier, or any other carrier, submits for consideration. Determining which CBGs may receive funding is one of the subjects of this proceeding. In its comments,

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<sup>7</sup> See AT&T Comments at 1-2; Frontier Comments at 6; Verizon Comments at 1-2.

<sup>8</sup> Citizens Telecommunications Company of Tuolumne, d/b/a Frontier Communications of Tuolumne; Citizens Telecommunications Company of the Golden State, d/b/a Frontier Communications of the Golden State; and Global Valley Networks, Inc., d/b/a Frontier Communications of Global Valley.

<sup>9</sup> Citizens Telecommunications Company of California Inc.

<sup>10</sup> Frontier Communications West Coast Inc.

<sup>11</sup> D.08-10-010, Finding of Fact 3, p. 20 provides: "To address DRA's concerns, the Parties negotiated a Settlement Agreement attached to this decision as Attachment A. Under the Settlement Agreement, Frontier-California will not include the three merged service areas in its Fund-B draw until the Commission has concluded its review of the B-Fund as ordered in D.07-09-020."; D.13-05-028, Finding of Fact 6(a), p. 12 provides: "Frontier-California will continue to participate in the High Cost Fund-B program on a stand-alone basis, but the territory of Frontier-West Coast will not be included in the High Cost Fund B claims process until the Commission concludes its review of the B-Fund as ordered in D.07-09-020, specifically the resolution of the remaining issues contained in Ordering Paragraph 13. If the High Cost Fund-B docket (R.06-06-028, R.09-06-019) remains open upon conclusion of the completed review of the B-Fund, Frontier-West Coast will be allowed to participate in the B-Fund claims process."

Frontier set forth a proposal for how the Commission should find the CBGs in the new service territories of the newly merged entities eligible for B-Fund subsidies<sup>12</sup>. In response to Frontier's proposal, DRA believes that the Commission should not automatically assume that any CBG within those newly acquired territories is eligible to receive B-Fund subsidies. Rather, the Commission should examine each CBG in Frontier's newly acquired service territories and determine whether each CBG is eligible to receive B-Fund subsidies.

## V. CONCLUSION

DRA agrees with other parties to this proceeding that no further cost studies are needed to develop acceptable updated cost proxy data. However, DRA concurs with Verizon that the Commission must do some amount of adjustment to the current proxy costs in order to determine whether a CBG is high cost and should be eligible to collect B-Fund support. In response to Frontier's comments, DRA also does not believe that the Commission should automatically approve the CBGs in the new Frontier service territories of the newly merged entities as eligible for B-Fund subsidies.

Respectfully submitted,

/s/ LINDSAY BROWN

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Lindsay Brown  
Staff Counsel

Attorney for the Division of Ratepayer  
Advocates

California Public Utilities Commission  
505 Van Ness Ave.  
San Francisco, CA 94102  
Phone: (415) 703-1960  
Email: [lindsay.brown@cpuc.ca.gov](mailto:lindsay.brown@cpuc.ca.gov)

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<sup>12</sup> Frontier Comments at 3-6.