

ALJ/TRP/jt2

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Decision 14-06-008 June 12, 2014

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)

**DECISION REGARDING COST PROXY UPDATE PROVISIONS
AND RELATED MATTERS**

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DECISION REGARDING COST PROXY UPDATE PROVISIONS AND RELATED MATTERS

1. Summary

The California High-Cost Fund-B (B-Fund) program was established in 1996 as part of our policy framework to further the Commission's universal telephone service goals by promoting affordability of basic telephone service in high cost areas within the service territories of the major incumbent local exchange carriers.

Pursuant to the B-Fund program rules, a Carrier of Last Resort must offer basic telephone service to all residential customers within a designated service area, and receives a prescribed level of funding to support affordable basic service based on adopted cost proxy allowances. With this decision, we adopt provisions to implement updated methodologies to calculate cost support amounts pursuant to Public Utilities Code Section 739.3. Updating of the data used for determining B-Fund support amounts will provide greater assurance that such support is limited to reasonable levels needed to support the goal of universal service.

2. Historical Background

On June 29, 2006, we opened Rulemaking (R.) 06-06-028 to (1) satisfy the requirements for review of the B-Fund program; (2) institute reforms; and (3) respond to concerns of the Legislature and consumer advocacy groups as to the size of the B-Fund. On June 19, 2009, the Commission opened R.09-06-019 as successor to R.06-06-028, for purposes of resolving issues which remained

pending in R.06-06-028 to review and update the B-Fund program that was originally adopted in Decision (D.) 96-10-066.¹

In D.96-10-066, we adopted a Cost Proxy Model (Model) to determine the cost of providing basic telephone service by Census Block Group (CBG). Based on this Model, we set funding levels to support the provision of basic service by Carriers of Last Resort (COLRs) within California where the cost of providing basic telephone service within a designated CBG exceeded a designated high-cost threshold. A per-line support amount was paid to COLRs for each primary residential access line served within eligible areas based on the adopted Model. We increased the high-cost threshold to \$36 per line in D.07-09-020. Raising the threshold significantly reduced the number of access lines eligible for high-cost support, although COLRs still served certain regions that reflected cost proxies above the threshold, based on the data utilized as adopted in D.96-10-066.

The cost support which a COLR receives from the B-Fund is currently based on 1994 cost data developed and 1990 census demographics. Since that time, demographics, technologies, and industry conditions have changed significantly. Also, technological innovations, as well as other economic factors, have impacted costs per access line served.

As a result of population changes in California since the 1990 census, many areas designated as high cost in 1996 no longer fit that category today. Yet, population growth in these areas permits COLRs to make subsidy claims where actual per-line costs may be below the \$36 threshold. This trend will continue as

¹ The California Legislature enacted Senate Bill 1276 (Chapter 847, Statutes of 2004), requiring Commission review of the CHCF-B.

more population growth occurs in low density suburban and rural areas. Thus, while carriers' costs may be declining, claims on the B-Fund may be providing excessive cost recovery.

In R.06-06-028, we solicited comment on whether to revise our list of high cost areas based on the most currently available census data regarding population density and, if so, what revisions would result. Parties were also allowed to offer alternative criteria that they believe should be considered in updating the list of high cost areas.

Upon review of those comments, we adopted D.07-09-020, affirming that the basic service support amounts should be updated to reflect more current conditions. As stated in D.07-09-020, however, updating cost of service data raises difficult questions. For example, given the competitiveness of the communications industry through intermodal technologies, it is unclear what technology would or should be used for setting a competitively-neutral cost proxy. For example, wireless or broadband technology may provide comparable local service to an area at a lower cost than the traditional copper-loop circuit-switched architecture. Yet, the associated existing cost models for identifying high cost areas are grounded in traditional wireline network architecture. It would not be feasible to undertake a cost study based on data from intermodal providers, or to modify cost data to reflect differences among various intermodal technologies.

We concluded in D.07-09-020 that the costs of the existing incumbent wireline network continued to be acceptable, at least in the near term, for updating the high cost proxy. We therefore adopted the Hatfield Model (HM 5.3) for purposes of developing updated cost proxies to derive B-Fund support levels prospectively. Our stated intent was to avoid relitigation over the

previously adopted methodology or sources to calculate inputs, such as depreciation or costs of capital. Rather, our goal was to limit the updating of cost inputs to those which had been used in the most recent unbundled network element (UNE) cost proceedings.

In D.07-09-020, we also expressed the intention to institute a reverse auction process whereby competitors could bid on the rights to become a COLR and to receive B-Fund support payments, and the lowest winning bid would determine the B-Fund support amount.

Although we initially undertook to further consider the issue of a reverse auction process in this rulemaking, the assigned Commissioner ultimately determined to first address updating basic telephone service requirements before considering the merits of a reverse auction or other measures to update high cost support amounts. After the Commission adopted D.12-12-038 establishing new requirements for basic service, the assigned Commissioner issued an Amended Scoping Memo (January 29, 2013) noting that most parties oppose further efforts to implement a reverse auction, and amending the direction of the proceeding to set, as its next priority, the updating of cost proxy data used to calculate B-Fund support. The Amended Scoping Memo directed that the scope of such updates would focus on changes in population densities since cost proxy data was last adopted in D.96-10-066.

3. Procedural Matters

This phase of the proceeding resolves remaining issues relating to the cost proxy update process. No party has requested evidentiary hearings, and no hearings are necessary to resolve issues resolved herein. Written comments provide a sufficient basis for the reforms that we adopt. This proceeding has been categorized as quasi-legislative.

Parties participating in this phase of the proceeding include the incumbent local exchange carriers (ILECs): Pacific Bell Telephone Company d/b/a AT&T California (AT&T), Verizon California Inc. (Verizon), SureWest Telephone (SureWest), and Citizens Telecommunications Company of California Inc., d/b/a Frontier Communications Company of California (Frontier), the small regional ILECs, Cox California Telecom L.L.C. (Cox), and Comcast Communications. Consumer perspectives were represented by the Office of Ratepayer Advocates (ORA) (formerly known as the Division of Ratepayer Advocates² during these proceedings), and jointly by The Utility Reform Network (TURN), the Center for Accessible Technology, and the Greenlining Institute.

This phase of the proceeding was implemented as the next step following resolution of issues relating to the updating of basic service requirements. By ruling dated March 3, 2013, a workshop was scheduled for March 27, 2013 to discuss the steps and processes to produce updated state-wide CBG mapping data based on the 2010 federal census for purposes of revising the cost proxies utilized to calculate B-Fund support amounts. The workshop was to focus on the goal of producing updated census data utilized in calculating B-Fund support amounts both in terms of CBG boundaries and CBG population density. Although multiple factors, such as technology advances and general price level indices, have influenced changes in cost proxy amounts since the 1990s, the focus

² The Division of Ratepayer Advocates changed its name on September 26, 2013 to the Office of Ratepayer Advocates (ORA). We refer herein to ORA as used in this proceeding.

of the workshop was limited to CBG-related census data changes, and the effects of those changes on cost proxy amounts used to derive B-Fund support.

The due date of April 26, 2013 was set for opening comments, and May 10, 2013 for reply comments focused on the methodologies and algorithms necessary to implement the 2010 mapping data update for purposes of revising the current cost proxies utilized to calculate B-Fund support.

As a result of the workshop, various parties joined in sponsoring joint comments filed May 22, 2013, which set forth a consensus proposal on methodologies and algorithms necessary to remap 1990 households from their 1990 CBGs to CBGs based on the 2010 census (the methodologies were developed by GeoLytics, Inc., a consultant retained by the parties, as described in Attachment A to this order).³ These parties also agreed that a follow-up workshop would be advisable to discuss the consensus and next steps. A July 10, 2013 follow-up workshop was held to better understand the data tables attached to the Joint Comments, and how the remapping of 1990 CBG data translates into impacts on the size of the B-Fund, and changes in B-Fund support payments to qualifying carriers.

The workshop also included discussion of Frontier's suggestion to address a process for those CBGs that do not currently have cost proxies but that are now being added to the B-Fund program through Commission action. In Frontier's case, D.08-10-010 approved the treatment of new areas of Frontier's territory as

³ The proposal was jointly sponsored by: AT&T (U1001C), Cox California Telcom, LLC (U5684C), TURN, Verizon (U1002C), Citizens Telecommunications Company of California Inc. (Frontier) (U1020C), ORA, Happy Valley Telephone Company (U1010C), Hornitos Telephone Company (U1011C) and Winterhaven Telephone Company (U1021C) d/b/a TDS Telecom, and CALTEL.

Uniform Regulatory Framework (URF) territory and therefore eligible for B-Fund support if the costs for the CBGs in those areas meet the threshold. These specifically identifiable and currently authorized URF areas thus need cost proxies in order to determine B-Fund support requirements.

We issue this decision based on the written record of comments and workshops as summarized above.

4. Positions of Parties

Parties' positions are set forth in the May 22, 2013, joint filing. At the workshop on July 10, 2013, to develop a methodology for updating CBG mapping data, AT&T proposes that the 2010 CBGs with the costs as calculated in the May 22, 2013 joint filing be used to determine B-Fund cost proxy support amounts going forward. AT&T's B-Fund support has recently declined at a rate of approximately 1% per month. AT&T's supported lines have decreased by 29% from July 2009 (the date of the benchmark going to \$36) to April 2013. AT&T believes these trends will continue.

ORA agrees with other participants at the July 10, 2013 technical workshop that there would be little benefit from developing entirely new cost studies. Advances in technology have rendered the Cost Proxy Model obsolete, the model is no longer supported, and it is unavailable to perform even minimal updates. While the existing data is out of date, ORA agrees that the time, expense, and resources required to conduct new cost studies or cost updating outweigh the benefits that could be derived from doing so. ORA therefore supports a Commission finding that no further cost studies are warranted for the purpose of updating B-Fund subsidy amounts.

ORA, however, does express support for adjusting the output or results of the model to better reflect conditions today or using the cost proxies as only one

of several factors in determining eligibility and levels of B-Fund subsidies. For example, the single biggest cost driver in providing basic phone service is population density. Population density is explicitly linked to the CBG mapping process. If a CBG, which was designated a high cost area in 1996, now has a significantly higher population density, by definition the cost of service should be much lower than it was previously, and this should be taken into account when determining the eligibility of that CBG for B-fund subsidies.

AT&T has been able to map 98% of its existing supported high cost households to 2010 CBGs, but that mapping does not reflect new households that would be eligible for support based on 2010 CBGs and the May 22 joint filing.

Verizon estimates that support will be reduced by 15% for approximately 35,000 of the successfully mapped 46,717 Verizon lines. For the approximately 12,000 lines where mapping efforts continued, there is an estimated decline in support of up to 26.8%. Together, Verizon estimates a decline in support of 18.17%. On December 18, 2013, Verizon subsequently completed its analysis and reported that of the 28 counties in which Verizon receives B-Fund support, for 46,717 lines based on the 1990 CBGs, Verizon identified 11,983 lines that were unable to be mechanically translated to a 2010 CBG. Verizon has completed its analysis whereby 10,243 of the unmatched lines were matched to the appropriate 2010 CBG, and thus the appropriate cost support was identified. As a result, virtually all of the access lines in the 1990 CBGs served by Verizon have been matched to a 2010 CBGs. Verizon's total monthly claim would decrease from \$493,988 using 1990 CBGs to \$412,609 using 2010 CBGs, a decrease of 16.47%.

AT&T had difficulty geocoding and mapping 2% of its lines, and Cox performed a manual review of its B-Fund customers while reserving its technical analysis until after a final decision. Verizon requested until November 15, 2013

to complete work on high cost CBGs in 14 counties. As these carriers have had technical difficulties with Cost Proxy Updates, and have provided tentative estimates, ORA attempted to review some of the methodological issues of updating the CBG maps by examining the CBGs through the lens of changing household and population density in B-Fund eligible CBGs.

ORA recommends adoption of a density screen for CBGs as an added measure to avoid perpetuating overpayment of B-Fund support. ORA does not recommend an absolute level for such a screen, but tentatively recommends that eliminating CBGs from B-Fund support eligibility that exceed 1,000 households per square mile. This would exclude 20 of the listed 786 CBGs from eligibility, as well as possibly eliminate some new CBGs proposed by carriers for B-Fund support.

Studying household density ranges of eligible CBGs is a method to get another perspective on establishing proxy boundaries to limit B-Fund support payments. Household density might be used as a method to verify that boundaries that limit which CBGs are eligible for B-Fund support are reasonable. Due to different CBG mapping configurations used in 1990 and 2010, ORA attempted to focus on density ranges as this avoids the need for direct correspondence between incompatible CBG maps across decades. ORA examined the original set of 1990 CBGs used by the Commission and by GeoLytics, and found that a pattern of very high density CBGs was included. Over 500 of these CBGs had household densities of over 4,000 per square mile.

Raising the B-Fund cost threshold from \$20 to \$36 for B-Fund eligibility eliminated many of the highest density CBGs likely to be least in need of B-Fund support payments. ORA reviewed the list of 786 CBGs remapped for the 2010 Census that GeoLytics generated and still found two CBGs with household

densities over 2,000 per square mile and 18 CBGs with densities between 1,000 and 2,000 per square mile. ORA found one CBG (2010) that would be eligible for \$11 in B-Fund support if there were any households or population in its borders. However, it is entirely under water off the north coast of Humboldt County.

Cox is also in the process of determining the impact of new high cost CBGs, if any, result from Commission adoption of the May 22 proposal. Cox is in a unique position in that it is likely the only competitive local exchange carrier currently designated as a COLR that is a COLR only in certain designated areas of its service territory. If the Commission adopts the May 22 proposal, Cox and other similarly situated COLRs will be directed to file a Tier 1 advice letter to update its tariff to include the 2010 CBGs where its CHCF-B Customers are within Cox's current COLR service territory. TURN agrees with Cox that this tariff filing is necessary and that a period of not less than 90 days should be granted to allow time for implementation.

5. Issues Specifically Relating to Frontier

Frontier's two local exchange providers are both regulated under the Commission's URF, which allows rate flexibility and rate deaveraging. Both of the Frontier companies provide service to many rural and high cost areas throughout California. Frontier claims that the basic rates for its two local exchange providers are well below the true cost to serve many of these areas, and are at or below the majority of residential rates offered by the other local exchange providers in California in both the CHCF-A and CHCF-B programs.

Frontier's current monthly rate for basic residential flat rate service is \$19.00 for customers in its largest company Citizens Telecommunications Company of California, and \$21.50 for its much smaller URF company Frontier Communications of the Southwest Inc. Frontier received approval to merge its

rate of return company Frontier Communications West Coast Inc. (U1020C) into Citizens Telecommunications Company of California Inc., which has a basic rate of \$16.85.

Frontier supports moving forward to implement B-Fund cost proxy updates. Frontier urges adoption of its proposed CBG proxy cost per line methodology and 11 modified CBGs, of which five are above the \$36 benchmark. Frontier proposes a methodology for assigning CBG costs to the new areas. Frontier proposes adoption of the CBGs as shown in the complete data set contained in Attachment A in Frontier's filed September 2013 comments.

Frontier developed a household density factor based on 2010 CBG household counts and 2010 square miles per CBG per the U.S. Census Bureau. As discussed in Frontier's August 29, 2013 comments, Frontier geo-coded all of its basic primary residential lines into 2010 CBGs using 2010 census data for both of its existing B-Fund companies which receive monthly support. Frontier then applied the new CBG cost per line for each of its CBGs. The CBG per line costs were pulled from the agreed-upon work product developed by GeoLytics and discussed at the July 10, 2013 workshop to develop an estimated monthly claim amount for each company and impact to the B-Fund claims.

Frontier urges adoption of its proposed CBG proxy cost per line methodology and 11 modified CBGs, of which five are above the \$36 benchmark. Frontier recommended a proxy cost per line adjustment only to a subset of CBGs where it deemed the \$17.77 support as too low.

The majority of these CBGs have an assigned cost from GeoLytics. For the new Frontier properties, only eight CBGs should have adjusted proxy costs, and of those only four of the proxy costs would be above \$36. The four CBGs above \$36 are \$36.72, \$36.27, \$41.98 and \$45.38, which are appropriate based on the

density study and methodology proposed by Frontier. Also, using a density factor based on square miles and household counts at the CBG level is what Frontier believes to be the most reasonable method to arrive at a proxy cost for those CBGs which do not have mapped cost from GeoLytics. Frontier supports assigning one CBG with a cost above \$36 that is within its existing B-Fund, Frontier Communications of California Inc. property. GeoLytics mapped this CBG over to the default of \$17.77.

Verizon agrees with applying a density adjustment, but believes the methodology for determining the adjustment should be the subject of a round of comments. Verizon does not necessarily dismiss Frontier's calculations, but believes there may be a more accurate or efficient methodology than what Frontier has unilaterally chosen.

TURN believes Frontier's proposed methodology for establishing cost proxies for CBGs that do not currently have cost proxies is reasonable, particularly due to the small number of CBGs at issue, and correspondingly small amount of funding at stake. TURN supports Frontier's approach for the limited purpose of developing cost proxies for the handful of Frontier CBGs now in the B-Fund. Undertaking this exercise using a new cost model would be a resource intensive, lengthy process. TURN does not believe, however, that the Frontier methodology should be generally applied to all CBGs or that the approach would substitute for a rigorous cost study, applicable to all telephone lines in California.

ORA notes that Frontier did not choose to undergo the Commission review (namely the filing of a General Rate Case) necessary to obtain CHCF-A subsidies. While Frontier has presented a method to designate high cost areas for purposes of the B-Fund, ORA believes it is questionable whether the new

areas Frontier proposes to designate for high cost treatment are actually in need of subsidy funding. Because none of the four smaller Frontier ILECs chose to apply for A-Fund subsidies before the merger, ORA believes it is not reasonable to permit them to draw B-Fund subsidy funds now. If Frontier did not believe these small carriers needed High Cost support before the merger, ORA believes the need for support in those areas should be even less now because today the smaller entities are now able to share in the economies of scale enjoyed by that larger company.

ORA believes that Frontier's former small ILECs are not eligible for support until the Commission completes its review of the B-Fund. Frontier disagrees, arguing that in the Commission decisions approving the settlement agreements regarding the B-Fund allowed the inclusion of the companies merged into Citizens Telecommunications Company of California Inc. (CTC-CA) once the Commission reviewed certain aspects of the B-Fund. Specifically, the settlement language refers to the ordering paragraph in a 2007 decision that the Commission undertakes a review and possible updating of cost proxies for high cost census block groups and overall review of the B-Fund process. The adopted settlement agreement is that Frontier will be eligible to bring in the new properties to the B-Fund once this phase (ordering paragraph 13 of D.07-09-020) of the B-Fund review is complete.

6. Discussion

The May 22, 2013 joint proposal to adjust line counts and B-Fund support amounts by mapping the 1990 CBGs to 2010 CBGs is reasonable and efficient, and we adopt it. For purposes of calculating B-Fund support amounts prospectively, we thus authorize implementation of parties' joint proposal for methodologies and algorithms to remap 1990 households from the 1990 CBGs to

CBGs based on 2010 census results of remapping as set forth in parties' joint comments and summarized in Attachment A to this order. We adopt the CBG per line costs from the agreed-upon work product developed by GeoLytics (the consultant retained for this purpose) as referenced in the May 22, 2013 joint comments in Attachment 3 of those comments. We authorize the affected COLRs to file Tier 1 advice letters to implement these changes. COLRs receiving B-Fund support should reflect the mapping of existing customers based on the 2010 remapped CBGs, with no further changes to be applied at this time.

While all households in CBGs from 1990 were mapped to CBGs from the 2010 census, not all 1990 CBGs had support amounts assigned to them since many areas were not part of the original companies included in the CHCF-B program in D.96-10-066. At the time, the B-Fund program only included existing large and mid-sized New Regulatory Framework local exchange carriers. If there are new 2010 CBGs now, or that subsequently become served by companies eligible to receive support from the B-Fund (as compared to CHCF-A fund), a process for determining the level of CHCF-B support for those areas, if any, such as a proxy or other agreed-upon method, could potentially be developed since no cost data currently exists.

We also adopt Frontier's proposed CBG proxy cost per line methodology and 11 modified CBGs, of which five are above the \$36 benchmark, as shown in the complete data set contained in Attachment A in Frontier's filed September 2013 comments and given the decline in the size of the B-Fund.

Verizon and ORA recommend that the Commission make incremental adjustments to the B-Fund cost proxies to take population increases and density into account when determining CBG eligibility. (ORA at 2; Verizon at 2.)

We decline to undertake further steps to adjust existing cost proxies as proposed by Verizon and ORA beyond those steps outlined in the May 22, 2013 joint proposal for households in CBGs from 1990 to 2010 for purposes of this proceeding. Among other things, further cost proxy refinements would raise questions about what network technology is to be the basis for cost proxy adjustments. Given our policy of remaining technology-neutral with respect to B-Fund support issues, it would not be productive to attempt to pick one particular technology over others to be the basis for B-Fund cost support analysis.

In theory, additional refinements in existing cost proxy amounts or in identifying additional eligible high-cost regions would be possible, but in practice, we do not believe further proceedings for that purpose are warranted.

We specifically decline to adopt ORA's proposal to impose a density screen as a constraint limiting the number of access lines that would otherwise qualify for B-Fund support. As noted by AT&T, it would be arbitrary to consider a density screen in isolation from other possibly offsetting effects on cost proxy updates. Also, as noted by TURN, attempts to update the data through a density screen would likely require layering of related data and calculations, thereby further complicating the process. Adding more factors, however, starts the analysis down the slippery slope of a detailed cost analysis. We conclude, however, that it would be too resource intensive to undertake further attempts at refining the cost data given the limited level of B-Fund support at issue.

B-Fund support levels decreased substantially following our action to raise the B-Fund per-line support threshold to \$36 in D.07-09-020. The current level of support is \$23.6 million, far below that of 10 years ago when the B-Fund had a budget of \$469 million in carrier claims. Support amounts required for the

B-Fund have dropped precipitously as a result, and will decline further by implementing the May 22, 2013 proposal. Given the limited remaining amounts of B-Fund money at issue, we do not believe that expending further Commission and party resources on such efforts to address further methodologies to refine B-Fund support amounts would be a productive endeavor.

As Frontier notes, the Commission may at a future time need to reexamine B-Fund costs, but only if the B-Fund is extended beyond the current statutory expiration of January 1, 2015, or if other issues arise.⁴

For similar reasons, we decline to expend further resources to pursue design and implementation of a reverse auction mechanism to select COLRs and to set B-Fund support amounts. Given the limited amount of B-Fund support at issue, we do not believe there would be sufficient carrier participation to justify further proceedings or to enable a reverse auction to work. As noted in the assigned Commissioner's January 29, 2013 amended scoping memo, most parties agree the Commission should not conduct a cost study or otherwise pursue a reverse auction as a basis to update cost proxy amounts, as it would be incredibly resource-intensive and time consuming, given the current limited size of the B-Fund. We do not believe that it would be cost effective or in the public interest to expend further Commission or party resources for such an endeavor.

By ruling dated April 2013, we also previously solicited comments on the findings regarding the affordability of basic telephone service, issued on September 30, 2010, entitled: "Staff Report to the California Legislature: Affordability of Basic Telephone Service." In view of subsequent proceedings in

⁴ Pursuant to Pub. Util. Code § 739.3(h), the CHCF-B is set to expire January 1, 2015, unless extended by legislation.

the Lifeline docket (R.11-03-013) where we have taken steps to provide for the affordability of Lifeline telephone service, we will not pursue further study of the affordability issue in this docket.

As directed below, we direct all B-Fund carriers to implement the provisions of this decision by the filing of an advice letter. We recognize that AT&T and other ILECs that are COLRs throughout their serving territory do not list in their tariffs the CBGs where it is a COLR (and thereby eligible for CHCF-B support). Consequently, unlike Cox, the change in supported CBGs adopted in this decision does not require updating to the tariff of AT&T and other ILECs that are COLRs throughout their service territory. Accordingly, we do not require such carriers to update their tariffs to implement this decision.

Nonetheless, we agree with TURN that all B-Fund carriers should be required to file a Tier 1 Advice Letter to finalize the list of 2010 CBGs eligible for B-Fund support and to update support calculations. B-Fund carriers shall be able to file an initial monthly claim using monthly data that is contemporary with the effective date of this decision. B-Fund carriers shall be allowed to work with Communications Division staff in determining the specific filing deadline, review period, and funding approval for the initial claim based on this decision. After the initial claim is filed, B-Fund carriers shall work with the Communications Division staff to conform to the standardized filing timeline schedule for subsequent monthly claims in accordance with General Order (GO) 96-B. Pursuant to GO 96-B, staff or interested stakeholders will then have 20 days to suspend or protest the Advice Letter if there are problems with the data or calculation. Also, if the list of qualifying CBGs eligible for B-Fund support subsequently changes after the effective date of this decision, each COLR has an ongoing obligation to update its list through a Tier 1 Advice Letter.

We decline to adopt Frontier's proposal to allow carriers to submit B-Fund payment claims based on the revised methodologies adopted in this decision on a retroactive basis dating back to January 1, 2014. We conclude that authorizing such retroactive treatment would not be legally defensible. Instead, we affirm that B-Fund claims may be submitted pursuant to the methodologies adopted in this decision following the filing of an advice letter, and assuming no protests or suspension of the advice letter occurs 20 days after filing. This implementation period will allow B-Fund carriers that need to update their tariffs the time to do so, and to otherwise provide all B-Fund carriers time to implement the changes adopted herein.

7. Comments on Proposed Decision

The proposed decision of the assigned Commissioner in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code, and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed on May 12, 2014, and reply comments were filed on May 19, 2014, by various parties. We have reviewed the comments, and have made certain refinements in finalizing this order.

8. Assignment of Proceeding

Michael R. Peevey is the assigned Commissioner and Thomas R. Pulsifer is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. The Commission last adopted B-Fund cost proxy amounts based on 1994 cost data developed and 1990 census demographics. Since those cost proxies were first adopted, customer demographics, carrier technologies, and general industry conditions have changed significantly.

2. The cost support which is provided for B-Fund purposes is currently based on 1994 cost data and 1990 census mapping data and demographics.

3. The methodologies and algorithms set forth in the joint proposal dated May 22, 2013, implements 2010 mapping data updates for purposes of revising the current cost proxies utilized to calculate B-Fund support.

4. No further resources are warranted to pursue design and implementation of a reverse auction mechanism to select COLRs and to set B-Fund support amounts. Given the limited amount of B-Fund support remaining at issue, there would likely not be sufficient carrier participation to enable a reverse auction to work.

5. Given the limited remaining amounts of B-fund money at issue, expending further Commission and party resources on additional efforts to review and revise methodologies to identify or calculate B-Fund cost proxies would not be a productive endeavor.

Conclusions of Law

1. The joint proposals set forth in the parties' May 22, 2013 filing (and summarized in Attachment A) should be adopted regarding the methodologies and algorithms necessary to implement the 2010 mapping data update for purposes of revising the basis currently being utilized to calculate B-Fund support payments.

2. The CBG per line costs in Attachment 3 of the joint parties' May 22, 2013 filing and in Attachment A of Frontier Communications' September 2013 filing, should be adopted for use in determining B-Fund support.

3. The filing of a Tier 1 advice letter is an appropriate procedural vehicle to implement the directives of this decision.

4. No further proceedings should be conducted to further pursue cost proxy updates or to implement further modifications to the B-Fund program in this proceeding.

5. With the issuance of this decision, no further issues are outstanding in this docket and the docket should now be closed.

O R D E R

IT IS ORDERED that:

1. The Joint Proposal of May 22, 2013, is hereby adopted regarding the methodologies and algorithms necessary to implement the 2010 mapping data update for purposes of revising the current cost proxies utilized to calculate California High Cost Fund-B support as described in Attachment A to this order.

2. The Census Block Group per line costs in Attachment 3 of the parties' May 22, 2013, joint proposal are adopted.

3. The proposed methodology of Citizens Telecommunications Company of California Inc, d/b/a Frontier Communications Company of California (Frontier) for assigning Census Block Group (CBG) costs to the new areas, as set forth in its September 2013 comments, is hereby adopted. Frontier shall file a Tier 1 advice letter to implement funding for California High Cost Fund-B support utilizing the CBG cost data as shown in the data set contained in Attachment A in Frontier's filed September 2013 comments.

4. Within 90 days of the effective date of this decision, each of the existing Carriers of Last Resort providing basic service within California that are eligible for support under the provisions of the California High Cost Fund-B (CHCF-B), namely Pacific Bell Telephone Company d/b/a AT&T California (AT&T), Verizon California Inc. (Verizon), Citizens Telecommunications Company of California, Inc. d/b/a Frontier Communications Company of California, and Cox California Telecom, L.L.C., shall file a Tier 1 advice letter to include the 2010 Census Block Groups covering CHCF-B customers within the carrier's current service territory for purposes of determining the applicable amount of CHCF-B support in accordance with the methodologies and algorithms set forth in the Joint Proposal filed on May 22, 2013. Each of the B-Fund carriers shall be able to file an initial monthly claim using monthly data that is contemporary with the effective date of this decision. B-Fund carriers shall be allowed to work with Communications Division staff in determining the specific filing deadline, review period, and funding approval for the initial claim based on this decision. After the initial claim is filed, B-Fund carriers shall work with the Communications Division staff to conform to the standardized filing timeline schedule for subsequent monthly claims in accordance with General Order 96-B. This implementation process will allow B-Fund carriers that need to update their tariffs the time to do so, and to otherwise provide all B-Fund carriers time to implement the changes resulting from this decision.

5. The Commission will update the B-Fund website with adopted Census Block Group and related cost data resulting from this decision and subsequent B-Fund providers' Advice Letter filings.

6. Rulemaking 09-06-019 is closed.

This decision is effective today.

Dated June 12, 2014, at San Francisco, California.

MICHAEL R. PEEVEY

President

MICHEL PETER FLORIO

CATHERINE J.K. SANDOVAL

CARLA J. PETERMAN

MICHAEL PICKER

Commissioners

Attachment A

Re-Mapping Procedure for Converting 1990 to 2012 Census Boundaries based on GeoLytics Methodology

The following text is a description of how GeoLytics, Inc. developed the re-mapping of census boundaries for purposes of updating B-Fund support calculations for this proceeding.

The re-mapping procedure for converting data from 1990 to 2010 boundaries is quite complicated. The basic procedure was to use the TIGER/Line 2010 relationship between 2010 blocks with those from 2000 and then from 2000 to those in 1990. This procedure showed how block boundaries had changed between censuses. For example, if a 1990 block split into two for the 2000 census, others tracts merged, while some tracts both merged and then split. There are over 11 million blocks in the US in 2010, so in fact these are very small geographic areas. But in order to be more precise, when necessary we broke blocks down. When the blocks split then the matter of how to split the population becomes a problem. In order to determine how to subdivide blocks we looked at the TIGER Street files. The assumption being that people live on or near streets, so the number of addresses on a street will indicate the approximate weight to give to that area of the block. From the blocks or block parts we created a Block Weighting File. These population weights were then applied to the various other counts to convert them from 1990 to 2000 and then from 2000 to 2010 block boundaries. Once the data had been calculated at the block level we were then able to sum up the blocks to the various other geographies. Testing was then done to assure the accuracy and validity of the weighting method compared with the original numbers from the 1990 Long Form data set.

Block splits between 1990 and 2000 were weighted by an analysis of the 1990 streets. To split a Block into parts, the sub-Block areas were weighted according to the 1990 streets relating to each 2000 Block part. The assumption is that local roads indicate where the population lived. 1990 streets were determined using Tiger/Line 1992. Using Tiger 1992 and Tiger 2000 we created a correspondence between 1990 and 2000 Blocks, as well as a weighting value. The weighting value was then used to help split Block demographics for those Blocks that had been split or merged between 1990 and 2000. The file produced by this process is the 1990 to 2000 Block Weighting File (BWF). From this BWF we can roll up the 1990 data to any 2000 geography (tract, zip code, county, etc.).

(End of Attachment A)