

**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA**



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Order Instituting Rulemaking into the Review  
of the California High Cost Fund B Program.

Rulemaking 06-06-028  
(Filed June 29, 2006)

**REPLY COMMENTS OF VERIZON CALIFORNIA INC. (U 1002 C) IN  
RESPONSE TO ASSIGNED COMMISSIONER'S RULING SOLICITING  
COMMENTS ON REVISIONS IN THE CALIFORNIA ADVANCED SERVICES  
FUND PROGRAM**

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November 19, 2008

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Verizon California Inc. (U 1002 C) (Verizon) respectfully submits these reply comments in response to the October 15, 2008 Assigned Commissioner's Ruling (Ruling) seeking comments on suggested revisions to the California Advanced Services Fund (CASF). These comments address points made by AT&T in its Opening Comments.<sup>1</sup>

**A. The Matching Fund Scope Should Not Be Expanded to Include Expenses**

AT&T suggests that carriers be permitted to seek CASF funds to cover certain operating expenses in unserved areas, in lieu of the current limitation to capital costs.<sup>2</sup> AT&T justifies this proposal on the assertion that wireless providers usually lease, rather than construct, backhaul facilities, and that expanding funding to include leasing expenses would remove a disadvantage faced by such carriers in the funding process.<sup>3</sup> AT&T also suggests that maintenance expenses be included in sparsely populated areas.<sup>4</sup> However, neither of these requests is adequately justified.

First and foremost, funding ongoing expenses does not directly satisfy the Commission's goal of encouraging broadband infrastructure deployment, a predominant factor in its decision to establish the CASF.<sup>5</sup> Second, the need to purchase or lease backhaul facilities is not unique to wireless carriers. Verizon commented on the need for expansion or upgrade of backhaul or "middle mile"

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<sup>1</sup> Comments of Pacific Bell Telephone Company, etc. In Response to the Assigned Commissioner's Ruling (AT&T Comments), filed November 5, 2008.

<sup>2</sup> AT&T Comments at 3-5.

<sup>3</sup> Id. at 4.

<sup>4</sup> Id. at 5.

<sup>5</sup> See, e.g., D.07-12-054 at 11-20.

transit facilities to serve some communities,<sup>6</sup> and the Commission acknowledged that other providers had made similar claims in “notable” circumstances.<sup>7</sup>

Moreover, nothing prevents wireless or other impacted carriers from joining with the entities from whom they purchase transit access to seek funding for facilities in particular areas. As discussed below, such an approach would spur infrastructure development directly and give the Commission greater certainty in knowing how the funds were used. Finally, maintenance costs are incurred by all carriers and cover a wide range of possible activities. It is unclear why they warrant funding.

In addition, including expenses in funding raises a number of issues that would greatly complicate the funding evaluation process. Expense items are likely to be subject to greater dispute regarding whether they are justified or prudent, or whether the particular item of expense should be included or not. Also, unlike capital spending, which can be readily identified and tracked through associated work orders, periodic milestones, and project completion dates, expenses are subject to change (either increase or decrease) in the future, so funding would necessarily be based on a forecast. Forecasts would be subject to dispute, not only as to the amount but also the duration eligible for funding (as, for example, would be required for AT&T’s net-present-valuation means of calculating expenses).<sup>8</sup> These disputes would raise potential audit issues and would greatly complicate the grant administration and implementation processes. Perhaps for these reasons, comparable grant programs have generally been

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<sup>6</sup> See Verizon’s Comments to the Draft Resolution T-17143, filed May 14, 2008, at 1.

<sup>7</sup> Resolution T-17143 at 8.

<sup>8</sup> Id. at 5.

limited to capital outlays, e.g., AB 140 telecommunications infrastructure grants<sup>9</sup> and state grants to water and sewer utilities.<sup>10</sup>

**B. Matching Fund Flexibility Should Include a Per-Household Floor**

AT&T also suggests that the current 40% limitation on total project support be eliminated for unserved areas, leaving applicants free to seek up to 100% of capital and eligible operating expenses.<sup>11</sup> While Verizon agrees that some additional flexibility should be afforded in this area, complete elimination of the matching percentage, with no minimum required cost per potential household, may lead to overfunding as discussed in opening comments.<sup>12</sup>

Failure to include any limitation would also complicate the process. For example, project bids would likely include matching percentages that would err on the high side. If too few competing projects are submitted, as occurred in the first round, the Commission might be willing to fund projects despite their high matching percentages. On the other hand, if the Commission rejects such projects, a negotiation process of sorts would likely develop, in which carriers resubmit projects they would be willing to fund at a lower matching percentage, complicating the award process. This process might continue until a carrier receives its minimum acceptable bid. To avoid such uncertainty, the award criteria should be modified to include a floor on the minimum amount of capital per potential household that the carrier is expected to invest in a project.

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<sup>9</sup> See D.03-09-071 at 16 (“all funds shall be spent exclusively on telecommunications infrastructure and amounts necessary to comply with Commission grant administration directives.”)

<sup>10</sup> See D.06-03-015 at 12 (“state grant funds shall not be spent on expenses” absent approval from the Department of Health Services).

<sup>11</sup> AT&T Comments at 5.

<sup>12</sup> Comments of Verizon California Inc. in Response to the Assigned Commissioner’s Ruling (Verizon Comments) at 6-8, filed November 5, 2008.

## Conclusion

Verizon appreciates the opportunity to comment on proposals to improve the Commission's CASF program, and requests modification as proposed above and in opening comments.

DATED: November 19, 2008

Respectfully submitted,

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By: /s/ Elaine M. Duncan  
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**CERTIFICATE OF SERVICE**

I hereby certify that: I am over the age of eighteen years and not a party to the within entitled action; my business address is 711 Van Ness Avenue, Suite 300, San Francisco, California 94102; I have this day served a copy of the foregoing, **REPLY COMMENTS OF VERIZON CALIFORNIA INC. (U 1002 C) IN RESPONSE TO ASSIGNED COMMISSIONER'S RULING SOLICITING COMMENTS ON REVISIONS IN THE CALIFORNIA ADVANCED SERVICES FUND PROGRAM** by electronic mail to those who have provided an e-mail address and by U.S. Mail to those who have not, on the service list.

I declare under penalty of perjury that the foregoing is true and correct.

Executed this 19<sup>th</sup> day of November, 2008 at San Francisco, California.

/s/ Christine Becerra  
CHRISTINE BECERRA

R.06-06-028



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