

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA



FILED
08-31-10
04:59 PM

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

R.09-06-019
(Filed January 18, 2009)

**RESPONSE
OF THE DIVISION OF RATEPAYER ADVOCATES
ON THE MOTION OF THE UTILITY REFORM NETWORK FOR
CLARIFICATION OF LIFELINE RATES**

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August 31, 2010

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OF THE DIVISION OF RATEPAYER ADVOCATES
ON THE MOTION OF THE UTILITY REFORM NETWORK FOR
CLARIFICATION OF LIFELINE RATES**

The Division of Ratepayer Advocates (“DRA”) respectfully submits this Response on the Motion (“Motion”) of The Utility Reform Network (“TURN”) for Clarification of the Treatment of Lifeline Rates filed August 16, 2010.

I. DRA Supports TURN’s Motion

DRA supports TURN’s proposals that the Commission should take the following steps:

- 1) After December 31, 2010, LifeLine rates should be frozen at their current levels until further action from the Commission in R.06-05-028, but the rates should be frozen for a period no shorter than three years.
- 2) After December 31, 2010, while LifeLine rates are frozen, the state subsidy provided to LifeLine carriers whose basic service rates are no longer subject to price caps will be frozen at the level of subsidy provided as of December 31, 2010.
- 3) Carriers and third party contractors must educate front line representatives including customer service representatives, call center workers and those conducting education campaigns about the rate freeze so customers receive the proper information.

In addition, as DRA has stated in earlier commentary, the Commission needs to address procedural requirements and create a timeline for a comprehensive LifeLine decision.

Continuing the interim LifeLine rate caps will protect low-income customers. At the same time, maintaining the caps will create breathing room for the Commission to tackle complex unresolved questions such as how to provide wireless discounts and manage the LifeLine fund size over time in a thoughtful and deliberate fashion.

II. TURN is correct in asking for the completion of an Affordability Study

TURN states that the Commission ordered Staff to conduct an affordability study in the context of evaluating the California LifeLine program in D.08-09-042. TURN also correctly points out that an affordability study has not been completed or released.¹ DRA agrees that an affordability study needs to be completed so that the Commission would have a more complete understanding of what will potentially happen to LifeLine customers if the basic service rate caps are lifted.

III. The Decision to Grant TURN's Motion Is Needed Now

With January approaching so quickly, and given the procedural requirements, it is imperative that the Commission take fast action and issue a decision continuing the cap on LifeLine rates after January 1, 2011. Basic rate caps are due to expire on 12/31/2010 -less than three months away. Once the rate caps are allowed to expire, and carriers will be free to raise the rate for basic service at will, LifeLine customers will be at risk for commensurate rate increases once carriers are allowed to raise residential basic rates with no Commission oversight. Expedited Commission action is the only way to protect these LifeLine customers. The Commission needs to grant TURN's Motion before rate deregulation hits on January 1, 2011.

IV. A Cap on Carrier Draws Is Critical & Fiscally Prudent

DRA supports TURN's recommendation that the Commission freeze the subsidy to carriers providing LifeLine service. The subsidy mechanism is complicated and the amount

¹ TURN Motion at 6.

a carrier receives depends on the type of carrier as well as on other factors. However, one aspect of the subsidy payment is very straight forward: the bigger the difference between the LifeLine rate and the retail rate of basic service, the larger the subsidy paid to the carrier. Thus, if basic service rates increase upon introduction of full pricing flexibility, even if LifeLine rates are not frozen, then the gap in absolute terms between LifeLine rates and retail rates becomes larger putting pressure on the Fund if carriers are going to be made whole. This would provide carriers with a potential windfall.²

Without an adequate Affordability Study, the Commission has little understanding of what would be the impact on the LifeLine Fund will be when residential rate caps are removed in 2011 and the gap between LifeLine rates and retail rates starts to widen. Therefore, the Commission should freeze Carrier subsidy draws.

V. Conclusion

TURN's motion is a sound approach for protecting ratepayers in California. The Commission should not gamble with basic telephone rates, particularly not with LifeLine rates for low-income customers. In today's economy, basic affordable telephone service is more important than ever and needs to be protected.

Respectfully submitted,

/s/ LAURA E. GASSER

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² TURN Motion at 8.

CERTIFICATE OF SERVICE

I hereby certify that I have this day *re served* a copy of **RESPONSE OF THE DIVISION OF RATEPAYER ADVOCATES ON THE MOTION OF THE UTILITY REFORM NETWORK FOR CLARIFICATION OF LIFELINE RATES** to the official service lists in **R.09-06-019** and by using the following service:

E-Mail Service: sending the entire document as an attachment to all known parties of record who provided electronic mail addresses.

U.S. Mail Service: mailing by first-class mail with postage prepaid to all known parties of record who did not provide electronic mail addresses.

Executed on **September 7, 2010** at San Francisco, California.

/s/ JAIME VADO

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