D R A F T

Item # 42
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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Communications Division **RESOLUTION T-17289**
Carrier Oversight and Programs Branch **August 12, 2010**

R E S O L U T I O N

Resolution T-17289. Approval of the California High Cost Fund-B Administrative Committee Expense Budget for Fiscal Year 2011-12 (July 1, 2011 through June 30, 2012) to Comply with the Requirements of Public Utilities Code Section 273 (a).

Summary

This resolution adopts a California High Cost Fund-B (CHCF-B) program expense budget of $47.711 million for Fiscal Year (FY) 2011-12.

Background

The CHCF-B program was established in 1996 pursuant to Public Utilities (PU) Code § 739.3. This program provides universal service subsidy support in the high cost areas of AT&T California, Verizon of California, SureWest Telephone, Frontier Communications of California, and new carriers that become Carriers of Last Resort (COLR), and is funded by a surcharge assessed on consumers' intrastate telecommunications services.

PU Code § 739.3 requires the Commission to implement and maintain a program for universal telephone service support to reduce rate disparity in high cost areas.

In October 1999, PU Code § 270-281 were codified as a result of the enactment of Senate Bill (SB) 669 (Stats. 1999, Chapter 677). PU Code § 270(b) requires that monies in the CHCF-B and five other funds may only be expended pursuant to § 270-281 and upon appropriation in the annual Budget Act.

In June 2006, the Commission issued an Order Instituting Rulemaking (OIR) into the Review of the California High Cost Fund B Program (R.06-06-028). The purpose of the OIR is to review the operation of the CHCF-B program to see if the goals of the program could be met while reducing costs. Interested parties filed comments.

In September 2007, the Commission issued an interim decision (D.) 07-09-020 in R.06-06-028 which adopts major reforms to the CHCF-B program to reduce the size of the CHCF-B, and to better target the support to cover only those "high cost" areas where funding is necessary to meet universal service goals. More importantly, the COLRs would be allowed full pricing flexibility, allowing for basic service rates to increase from the current subsidized rate toward cost based rates.

In D.07-09-020, the Commission ordered the following changes:

- Reduction of the CHCF-B surcharge from 1.3% to 0.5% effective January 1, 2008.
- Increasing the threshold benchmark at which the COLRs are subsidized from the CHCF-B from $20.30 to $36.00 through series of steps beginning January 1, 2008 and ending July 1, 2009.
- Changing the method of calculation of the subsidy payment from the difference between cost and revenue to the difference between cost and the threshold level of $36.00 effective July 1, 2009.
- Setting forth a schedule of reform measures to be considered in Phase II of the proceeding including: (1) a reverse auction mechanism to determine future subsidy levels and (2) establishing a new fund to subsidize broadband deployment in unserved and underserved areas of California.

Subsequently, D.07-12-054 revised the surcharge from 0.50% to 0.25% for the CHCF-B program and initiated a 0.25% surcharge to fund the newly established California Advanced Services Fund (CASF) program effective January 1, 2008. This CHCF-B surcharge change reduced the revenues to the CHCF-B fund below the amounts expended to reduce the surplus in the fund.

The funding of the CHCF-B program was previously scheduled to sunset on January 1, 2009. However, subsequent legislation in 2008 extended the sunset date of the CHCF-B program to January 1, 2012. (See P.U. Code Section 739.3 (h))

The Legislature passed SB 780[1] in 2008 which required an affordability study of the CHCF-B high cost areas and a report to be submitted. The affordability study is being prepared and is expected to be completed at the end of August, 2010.

Resolution T-17215, dated October 15, 2009, revised the CHCF-B surcharge from 0.25% to 0.45% effective December 1, 2009. This was due to a shortfall in the fund caused by a transfer of funds from the CHCF-B to the California General Fund.

The Commission opened a proceeding R.09-06-019 to continue the modification of the CHCF-B program that had occurred under R.06-06-028. R.09-06-019 will consider the

[1] Chapter 342, Statutes of 2008

development of a reverse auction process and ways of automating and streamlining the processing of CHCF-B claims.

On May 10, 2010, the Assigned Commissioner issued a ruling soliciting comments regarding revisions to the definition of "Basic Telephone Service." This ruling was served on parties in both R.09-06-019 and R.06-05-028, the review of the telephone policy programs including California Lifeline.

Discussion

In this Resolution, the Communications Division (CD) proposes a CHCF-B program expense budget of $47.711 million. This proposed budget reflects the benchmark threshold changes adopted in D.07-09-020, the carrier's estimates of expected claims along with estimates from the Commission's Fiscal Office for staff and administrative costs, inter-agency fees, banking charges, audits, and administrative committee costs.

Carrier Claims – FY 2011-12

The major component of the CHCF-B program is the claims paid to carriers. As in prior years, CD sent a data request to the CHCF-B eligible carriers asking them to forecast the claims for the budget year, FY 2011-12. The forecasted claims were aggregated. The forecast was requested in two components each for a six month period. This would reflect the amount needed until the scheduled sunset of the CHCF-B program and the amount if the program is continued beyond the scheduled sunset. Since the legislature has historically extended the CHCF-B program this proposed budget is for an entire fiscal year.

SureWest Telephone Company (SureWest) indicated that it would no longer request further claims from the CHCF-B fund as it would no longer have service areas that qualify as "high cost." However, the CHCF-B budget estimate still includes payments to SureWest to offset Extended Area Service (EAS) revenue that was lost.[2] Further, pursuant to D.07-09-002, the EAS payments to SureWest will be phased out over a period of five years, and the budget reflects the reduced amount. The budget estimate for FY 2010-11 claims also includes an amount for contingences and expected errors in forecasts.

Carrier Claims – FY 2010-11

As shown in Appendix A.1, the proposed 2011-12 CHCF-B program budget includes a provision of $700,000 for prior year's claims. This increment is being added because

[2] D.05-08-004 authorizes SureWest to continue receiving payments of $11.5 million on an interim basis to offset lost EAS revenues. Subsequently, D.07-09-002 requires SureWest to reduce its CHCF-B draw for EAS purposes in a series of steps beginning January 1, 2007 and ending January 1, 2012. For half of FY 2011-12, the CHCF-B draw for EAS is $3.06 million then such payments will cease.

there was some uncertainty on the FY 2010-11 budget and some carriers estimated the claims by not correctly accounting for the change in formula.

Other Program Costs

For FY 2011-12 the estimate for audits decreased from $353,000 to $175,000 to better reflect the anticipated costs of the auditing program activity for the larger carriers. The carriers have periodic comprehensive audits and a portion of the cost that relates to auditing of the CHCF-B program is charged to the CHCF-B budget.

The banking fees include flat monthly charge and a charge per transaction. Due to a change in the bank providing the service, an increase in expenses is anticipated from 2010-2011. The FY 2011-12 estimate for banking fees is $19,000.

The FY 2010-11 budget for data processing automation was $25,000 and there are no significant changes anticipated for FY 2011-12.

Administrative Committee Costs

The Administrative Committee costs of $8,000 were estimated based on travel and other expenses for four meeting in the fiscal year. Historically, the committee has scheduled four meetings per year, and this is expected to continue with no changes in costs.

PUC Staff and Administration Costs

The PUC staff and administration costs have two components: 1) the inter-agency fees that are estimated by the Department of Finance and sent to the Commission and 2) the CPUC staff and administrative related to CPUC employees working on the CHCF-B program. The related costs of these two components are $1,210,000 and $692,000 respectively.

Conclusion

The itemized costs for the FY 2010-11 budget are included in Appendix A.1 and are summarized in the table below:

Description	FY 2011-12 Proposed Budget ($ million)	FY 2011-12 Adopted Budget ($ million)
Program Costs	$ 45.801	$ 45.801
Committee Costs	$ 0.008	$ 0.008
All Other Costs	$ 1.902	$ 1.902
Total Program Budget	$ 47.711	$ 47.711

On June 14, 2010, in compliance with Paragraph 4.a.1 of the CHCF-B Administrative Committee (AC) Charter, the Chairperson of the CHCF-B AC submitted, to the Director of CD, a letter supporting an expense budget for FY 2011-12 in the amount of $ 47.711 million. The Chairperson's letter was submitted in his personal capacity following the June 9, 2010 CHCF-B AC meeting. Due to potential conflict of interest issues, the budget was not adopted by a quorum of the CHCF-B AC. 3 Notice of the chairperson's letter was published in the Commission's Daily Calendar on June 21, 2010.

In this Resolution, we adopt the proposed FY 2011-12 CHCF-B expense budget of $47.711 million.

Notice/Protests

Notice of the CHCF-B AC Chairperson's expense budget letter was published in the Commission's Daily Calendar on June 21, 2010. The proposed budget letter can be viewed on the Commission's website under the CHCF-B Budget heading at: http://www.cpuc.ca.gov/PUC/Telco/Public+Programs/Advisory+Boards/CA+High+Cost+Fund-B.htm The Commission did not receive any protests or comments on this matter.

In compliance with PU Code § 311 (g), a Notice of Availability was e-mailed on July 13, 2010 to the CHCF-B claimants, the CHCF-B AC members and alternates, and to parties on the service list of R.09-06-019[4] informing these parties that the draft of this Resolution is available at the Commission's website http://www.cpuc.ca.gov and is available for public comments. In addition, CD also informed these parties of the subsequent availability of the conformed resolution, when adopted by the Commission, at the Commission's website as indicated above. No comments were received.

[3] All CHCF-B AC members are required to conform to the requirements of Govt. Code § 1090 and "The Fair Political Practices Act". AC members may not participate in an activity where there is an actual or a perceived conflict of interest.
[4] The service list is initially the same as for R.06-06-028.

Findings

1. The California High Cost Fund-B (CHCF-B) program was established in 1996 pursuant to Public Utilities (PU) Code § 739.3 to implement a program for universal service support to reduce rate disparity in high cost areas.

2. In October 1999, PU Code § 270-281 were codified as a result of the enactment of Senate Bill (SB) 669.

3. PU Code § 270(b) requires that the monies in the CHCF-B Administrative Committee (AC) Fund may only be disbursed pursuant to § 270-281 and upon appropriation in the annual Budget Act.

4. In September 2007, D.07-09-020 ordered CHCF-B program changes which: increases the subsidy threshold from the then current $20.30 to $36.00 over time, reduces the CHCF-B surcharge from 1.3% to 0.5% effective January 1, 2008, and changes the method of calculation of the subsidy payment from the difference between cost and revenue to the difference between cost and the threshold level. In addition, the Commission stated that in Phase II of the proceeding, it wanted to develop and implement a reverse auction mechanism to determine future CHCF-B subsidy levels.

5. In December 2007, D.07-12-054 further modified the surcharge from 0.50% to 0.25% for the CHCF-B program, and initiated a 0.25% surcharge to fund the newly established CASF program.

6. The authorizing legislation for the CHCF-B program, PU code § 739.3 is set to expire on January 1, 2012.

7. The Legislature through SB 780 required an affordability study for the CHCF-B high cost areas and a report to be submitted by July 1, 2010.

8. The Commission opened R.09-06-019 to further review aspects of the CHCF-B program. Comments are currently being sought on basic telephone service.

9. On June 14, 2010, the Chairperson of the CHCF-B AC submitted to the Commission a proposed fiscal year (FY) 2011-12 expense budget for the CHCF-B AC Fund of $47.711 million.

10. The CHCF-B AC's proposed expense budget was noticed in the Commission's Daily Calendar of June 21, 2010.

11. Copies of the notice letter advising parties of the availability of this draft resolution and the conformed resolution, when adopted by the Commission on the Commission's web site were e-mailed to the CHCF-B claimants, the CHCF-B AC, and the parties on the service list of R.09-06-019 on July 13, 2010. No comments were received.

12. The proposed Expense Budget for the CHCF-B AC Fund for FY 2011-2012 of $47.711 million, as set forth in Appendix A.1 of this resolution, is reasonable and should be adopted.

THEREFORE, IT IS ORDERED that:

1. The expense budget for the California High Cost Fund-B Administrative Committee Fund for Fiscal Year 2011-12 of $47.711 million, as set forth in Appendix A.1 of this resolution, is adopted.

This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on August 12, 2010.

PAUL CLANON
Executive Director

APPENDIX A.1
CALIFORNIA HIGH COST FUND B ADMINISTRATIVE COMMITTEE FUND
PROGRAM BUDGETS
All Amounts in ($000)

	Program Expenses	July 2010- June 2011 Adopted per Res T-17211	July 2011 - June 2012 Proposed	July 2011 - June 2012 Adopted
	a	b	c	d
	Expenses			
	Program Costs			
1	Carrier Claim Payments (Current) [1]	$ 46,887	$ 43,882	$ 43,882
2	Carrier Claims for prior years	$ 1,000	$ 700	$ 700
3	Interest for Untimely Payments	$ 1,000	$ 1,000	$ 1,000
4	Other Program Services			
5	Other Legislative Mandated Programs/Other Program Payments			
6	Audits	$ 353	$ 175	$ 175
7	Banking Fees [2]	$ 15	$ 19	$ 19
8	Data Processing Automation [3]	$ 25	$ 25	$ 25
	Administrative Committee Costs [4]			
9	Administrative Committee-Per Diem	$ 2	$ 2	$ 2
10	Administrative Committee-Travel and Others	$ 4	$ 4	$ 4
11	Administrative Committee-Special Needs Accommodation and Teleconferencing	$ 2	$ 2	$ 2
	PUC Staff and Admin Costs			
12	Inter-Agency Fee [5]	$ 1,038	$ 1,210	$ 1,210
13	CPUC Staff and Administrative Costs [6]	$ 609	$ 692	$ 692
14	**Total Program Expenses**	**$ 50,935**	**$ 47,711**	**$ 47,711**

Notes

1 Claim payments for FY 2011-12 are based on projections submitted by carriers in May 2010 and include Surewest EAS payments.
2 Based on estimated lockbox and other banking fees.
3 Based on estimated costs for SQL programming and maintaining the electronic filing and monitoring system.
4 Pursuant to D. 02-04-059, per diem and other costs are authorized for committee member attendance in the CHCF-B AC meeting. It is assumed that there will be 4 meetings of the CHCF-B AC during FY 2010-11.
5 Based on estimate of pro-rata costs allocated to state service agencies, e. g. DGS, State Personnel Board, etc.
6 Based on personnel staff allocation estimate and program priorities for the five public purpose programs and CASF, but only includes CHCF-B portion.