

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**Communications Division
Carrier Oversight and Programs Branch****RESOLUTION T-17211
August 20, 2009****R E S O L U T I O N****Resolution T-17211. Approval of the California High Cost Fund-B Administrative Committee Expense Budget for Fiscal Year 2010-11 (July 1, 2010 through June 30, 2011) 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 \$50.935 million for Fiscal Year (FY) 2010-11.

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 scheduled to sunset on January 1, 2009. However, subsequent legislation extended the sunset date of the CHCF-B program to January 1, 2012.

R.06-06-028 was closed and another proceeding (R.09-06-019) was opened to continue the modification of the CHCF-B program. R.09-06-019 will consider the development of a reverse auction process and ways of automating and streamlining the processing of CHCF-B claims.

Discussion

In this Resolution, the Communications Division (CD) proposes a CHCF-B program expense budget of \$50.935 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 2010-11

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 2010-11. The forecasted claims were aggregated.

SureWest Telephone Company (SureWest) indicated that when the threshold reached \$36, 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.¹ 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 2009-10

As shown in Appendix A.1, the proposed 2010-11 CHCF-B program budget of \$50.935 million includes a provision of \$1 million for prior year's claims. This increment is being added because there was some uncertainty on the FY 2009-10 budget and some carriers estimated the claims by not correctly accounting for the change in formula. Because of the possibility of exceeding the contingency amount in the FY 2009-10 budget, the 2010-11 budgets includes a provision to sufficiently cover prior year's claims.

Other Program Costs

For FY 2010-11 the estimate for audits increased to \$353,000 due to the anticipated audits of 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 FY 2009-10 estimate for banking fees was \$30,000, but a review of past actual expenses shows that it was recently about \$13,000. The banking fees include flat monthly charge and a charge per transaction. To be in line with the actual expenses the banking fee estimate was reduced by 50% to \$15,000.

¹ 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 FY 2010-11, the CHCF-B draw for EAS is \$3.06 million, which represents a \$2.04 million reduction from the FY 2009-10 draw of \$5.10 million.

The FY 2009-10 budget for data processing automation was \$50,000 while the actual expenses have been significantly less. To be more in line with actual expenditures, the Data Processing Automation estimate was also reduced by 50%.

Affordability Study

The Legislature passed SB 780² which required an affordability study of the CHCF-B high cost areas and a report to be submitted by July 1, 2010. Because of this unanticipated expense, the Commission submitted Budget Change Proposal (BCP) #26 requesting an augmentation of \$1 million to cover the estimated costs of conducting and administering the study and also providing the required report to the legislature. The BCP #26 was approved by the Department of Finance so the appropriation as shown in Appendix A.1 was augmented from the amount originally in Resolution T-17160.

Administrative Committee Costs

The Administrative Committee costs 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. The first component is the inter-agency fees that are estimated by the Department of Finance and sent to the Commission. The most recent estimate which will be applied to the 2010-11 fiscal year is \$1,038,000. The other component is the CPUC staff and administrative costs. The divisions within the CPUC that work with the CHCF-B program estimate the staff time devoted to the CHCF-B program. The estimated salary and overhead expenses for are totaled to estimate the expense for the CHCF-B program for FY 2010-11. The budget estimate for FY 2010-11 is \$609,000.

Conclusion

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

² Chapter 342, Statutes of 2008

Description	FY 2010-11 Proposed Budget (\$million)	FY 2010-11 Adopted Budget (\$million)
Program Costs	49.280	49.280
Committee Costs	0.008	0.008
All Other Costs	1.647	1.647
Total Program Budget	\$ 50.935	\$ 50.935

On July 17, 2009, 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 2010-11 in the amount of \$ 50.935 million. The Chairperson's letter was submitted in his personal capacity following the June 10, 2009 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 July 21, 2009.

In this Resolution, we adopt the proposed FY 2010-11 CHCF-B expense budget of \$50.935 million.

Notice/Protests

Notice of the CHCF-B AC Chairperson's expense budget letter was published in the Commission's Daily Calendar on July 21, 2009. 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 21, 2009 to the CHCF-B claimants, the CHCF-B AC members and alternates, and to parties on the service list of R.09-06-019⁴ informing these parties that the draft of this Resolution is available at the Commission's website <http://www.cpuc.ca.gov/> ([search for Resolution T-17211](#)) 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.
9. On July 17, 2009, the Chairperson of the CHCF-B AC submitted to the Commission a proposed fiscal year (FY) 2010-11 expense budget for the CHCF-B AC Fund of \$50.935 million.
10. The CHCF-B AC's proposed expense budget was noticed in the Commission's Daily Calendar of July 21, 2009.

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 21, 2009. No comments were received.

The proposed Expense Budget for the CHCF-B AC Fund for FY 2010-2011 of \$50.935 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 2010-2011 of \$50.935 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 20, 2009. The following Commissioners approved it:

/s/ Paul Clanon

PAUL CLANON
Executive Director

MICHAEL R. PEEVEY
President
DIAN M. GRUENEICH
JOHN A. BOHN
RACHELLE B. CHONG
TIMOTHY ALAN SIMON
Commissioners

APPENDIX A.1				
CALIFORNIA HIGH COST FUND B ADMINISTRATIVE COMMITTEE FUND				
PROGRAM BUDGETS				
All Amounts in (\$000)				
		July 2009 - June 2010	July 2010 - June 2011	July 2010 - June 2011
Program Expenses		Adopted per Res T-17160	Proposed	Adopted
a		b	c	d
Expenses				
Program Costs				
1	Carrier Claim Payments (Current) ¹	\$ 47,606	\$ 46,887	\$ 46,887
2	Carrier Claims for prior years		\$ 1,000	\$ 1,000
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	\$ 60	\$ 353	\$ 353
7	Banking Fees ²	\$ 30	\$ 15	\$ 15
8	Data Processing Automation ³	\$ 50	\$ 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	\$ 2,124	\$ 1,038	\$ 1,038
13	CPUC Staff and Administrative Costs ⁶	\$ 637	\$ 609	\$ 609
Budget Change Proposal #26				
14	Affordability Study required by SB 780 ⁷	\$ 1,000		
15	Total Program Expenses	\$ 52,515	\$ 50,935	\$ 50,935
Notes				
1 Claim payments for FY 2010-11 are based on projections submitted by carriers in May 2009 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.				
7 Chapter 342, Statutes of 2008				