STAFF REPORT on
PUBLIC POLICY PROGRAMS

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I. SUMMARY

The California Public Utilities Commission (Commission or CPUC) anticipates initiating a rulemaking proceeding to examine the operations and policies of the state's Universal Service Public Policy Programs (PPPs) in light of advances in technology, and significant changes in the industry and regulatory regime. The various public programs were implemented in response to legislation that has been enacted over the past two-plus decades. An electronic version of the text of each program's enabling legislation can be downloaded at www.leginfo.ca.gov. The Staff[1] of the California Public Utilities Commission have prepared this paper to facilitate review of the universal service programs by the public and the Commission.

California's PPPs were established at varying times (some programs decades ago) pursuant to state legislation. Much has changed in the years since the programs were implemented. New technologies have emerged, market conditions have changed, and new regulatory structures are in place or are being considered that did not exist when the PPPs were first adopted. PPPs that were created decades ago may no longer meet the telecommunication needs of California customers. A program review is therefore warranted to ensure continued compliance with the various Public Utilities (PU) Code Sections and further to ensure that PPPs:

- evolve with technology so program participants may enjoy maximum benefits and select services suited to their needs,
- are designed so that benefits flow to the intended beneficiaries, and
- are funded in a sustainable manner in the face of continuing change.

This paper discusses issues confronting three of the PPPs: the California Teleconnect Fund (CTF); the Deaf and Disabled Telecommunications Program (DDTP); and the Universal Lifeline Telephone Service program (California LifeLine). Under review are program structure and the mechanism by which the programs are funded. The Commission seeks public input on the proposed changes through a workshop process as well as written comments. This document is intended to facilitate the discussion among parties and specifically requests that parties comment on whether the Legislative intent is achieved through the current PPPs or are there other more efficient means of achieving the stated universal service goals.

It is the Commission's intent to develop a better understanding of key issues important to Californians involved in the programs. The information will be used to develop the preliminary scoping memo opening a proceeding on these issues. The Commission will

[1] In addition to the staff from the telecommunication, strategic planning and legal Divisions who contributed to this report, parts of this report are derived from the work of Luana Espana as part of a project she performed for the CPUC while a graduate student in the Goldman School of Public Policy.

provide ample opportunity within the proceeding for parties to comment on legal and administrative issues. This paper reviews the current program operations and funding and asks several questions aimed at providing a framework for discussion.

II. HISTORY AND SUMMARY OF CURRENT PROGRAM OPERATIONS AND FUNDING

In 1983, the Moore Universal Telephone Service Act was implemented (P.U. Code Section 871, Stats. 1987, Chap. 163, Sec. 2) with the goal of offering high quality basic telephone service at affordable rates to the greatest number of citizens. In response, the Commission implemented the first explicit universal service policy for California through Decision (D.) 84-11-028.[2]

In 1996, the Commission issued D.96-10-066 as a result of its own motion opening an investigation and rulemaking into universal service and to comply with Assembly Bill (AB) 3643 (Stats. 1994, Chap. 278). AB 3643 called for the opening of a proceeding to examine the current and future definitions of universal service. D.96-10-066 created additional programs and set out universal service goals. The universal service goals are:

- Available and affordable basic telephone service to all Californians regardless of geography, language, culture, ethnicity, physical characteristics or income differences,
- Choice among competitive telecommunications providers,
- Access to new services and technologies as they become available in order to avoid inferior access to information by some groups, and
- Sufficient information to make informed telephone service choices.

To comply with statutory requirements and achieve stated universal service goals, over the years, the Commission has implemented five public programs funded by surcharges on the billed intrastate services of ratepayers. These programs are:

- Universal Lifeline Telecommunication Services (California LifeLine), which subsidizes basic landline service for low-income households;
- Deaf and Disabled Telecommunication Program (DDTP) which provides landline services and equipment to deaf, hard of hearing and disabled California residents;

[2] Although the first phase of the DDTP was implemented in 1979, the Commission had never formally expressed a universal service policy.

- California Teleconnect Fund (CTF), which provides discounted basic and advanced service to schools, libraries, qualifying hospitals and health facilities, and community based organizations;
- California High Cost Fund–B (CHCF-B), which provides subsidy for landline service in the high-cost areas of the state served by the largest service providers; and
- California High Cost Fund-A (CHCF-A), which is a source of supplemental revenues to small and mid-sized landline telephone service providers.

In 2000 the Legislature passed Senate Bill (SB) 1712 (Chap. 943, Stats. 2000), codified as Public Utilities Code Sections 871.7 and 883, requiring the Commission to open an investigation into the feasibility of redefining universal telephone service to include high-speed internet access and to report its finding to the Legislature. In response the Commission opened Rulemaking (R.) 01-05-046 to comply with the mandates of SB 1712 which included holding Public Participation Hearings throughout the state. The Public Participation hearings allowed the public to voice their views on the issues in the proceeding and the rulemaking process included two rounds of written comments from formal parties to the proceeding. On August 14, 2002, the Commission issued the report to the Legislature[3]. On October 24, 2002, the Commission issued D.02-10-060 completing the proceeding. The decision concluded that expanding the definition of basic telephone service to include broadband was not feasible due to the resulting cost and its impact on the fund.

The recent review of the California LifeLine program, to comply with federal requirements, is discussed later in this section. No other focused or comprehensive reviews of the various programs have been undertaken since their implementation dates. Current and historical data on surcharges and the implementing resolutions are available on the Commission's website at www.cpuc.ca.gov. Click on the Telecommunication Division and then Surcharges and Taxes.

This paper addresses the CTF, DDTP and California LifeLine programs. CHCF-B is under Commission review in a rulemaking that will be released shortly. A proceeding to review CHCF-A will be initiated after our CHCF-B proceeding concludes.

A. UNIVERSAL LIFELINE TELEPHONE SERVICE (CALIFORNIA LIFELINE) PROGRAM

California LifeLine was established in 1984 (D.84-11-028) to comply with the Moore Universal Telephone Service Act (AB 1348, Chapter 1143, Statutes 1983)[4] to provide discounted basic telephone service to low-income households and as a means to achieve

[3] "Broadband Services as a Component of Basic Telephone Service"

[4] The Moore Universal Telephone Service Act was codified at PU Code § 871 et seq.

universal service by providing affordable residential telephone service to low-income households.

1. Program Goal

In D. 94-09-065, the Commission adopted a goal that at least 95% of California households have telephone service irrespective of income-level, ethnicity, or language spoken in the households.[5] This goal was reiterated and incorporated in the Adopted Universal Service Rules adopted by the Commission in D.96-10-066.[6] Specifically, Rule 3.B.3 states:

> It is the objective of the Commission to improve the subscribership rate of basic service to all customer groups, including low income, disabled, non-white, and non-English speaking households, by means of the following mechanisms:
>
> a. All incumbent local exchange carriers (ILECs) and competitive local exchange carriers (CLECs) shall be responsible for pursuing the objective of achieving a 95% subscribership rate among all customer groups, including low income, disabled, non-white, and non-English speaking households, in their service territories.
> b. ILECs and CLECs shall have the flexibility to develop innovative strategies to contribute to the attainment of this objective.
> c. In service territories where there is a substantial population of non-English speakers, a carrier's efforts to communicate with such customers in their native languages shall be a factor that the Commission considers in assessing each local carrier's contribution to pursuit of universal service targets.

Since the implementation of California LifeLine, the penetration rate for low-income households in California has risen from 87% in 1984 to 93% in 2004.[7] Even though the 95% penetration rate for low-income households has not been achieved, the gap has closed significantly between subscribership rate of low-income households and household with income in excess of $20,000. The chart below compares penetration rates for all households, households of income of less than $20,000, and households of income more than $20,000 in California from 1984 to 2004.

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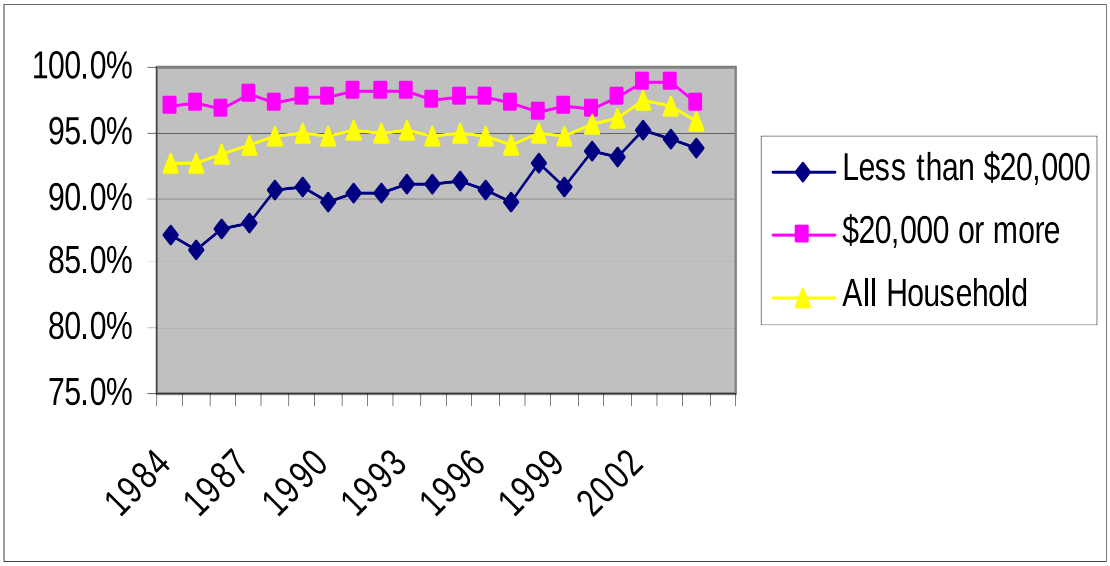
[5] D.94-09-065, page 6.
[6] D.96-10-066, Appendix B.
[7] Source: FCC, Telephone Penetration by Income by State, March 2005



2. Program Rates and Services

Current California LifeLine rates are $5.34 for a flat-rate service,[8] $2.85 for a measured-rate service, and $10.00 for service connection.[9] Each qualified low-income customer and members of the customer's household collectively may have only one California LifeLine line.[10] In a low-income household with a disabled member using a text-telephone device, that household is eligible for an additional California LifeLine line.[11]

California LifeLine is a basic service,[12] which is defined as:

- Access to (a) single party local exchange service, or (b) service that is equivalent, in all substantial respects, to single party local exchange service.
- Access to all interexchange carriers offering service in the California LifeLine customer's local exchange.
- Ability to place calls.
- Ability to receive free unlimited incoming calls.
- Free touch-tone dialing.

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8 This monthly rate includes end-user common line (EUCL) charge (EUCL). In comparison, Pacific Bell's (dba AT&T California) EUCL is $4.38 and residential flat-rate service is $10.69, and Verizon's are $17.05 and $6.50, respectively.

9 California LifeLine rates are established in accordance with PU Code § 874, i.e. not more than 50% of AT&T California's rates for flat-rate service, measured-rate and service connection.

10 At § 5.1.2 of General Order (GO) 153.

11 At § 5.1.5 of GO 153.

12 The definition of basic service was initially adopted by the Commission in D.96-10-066 in the Rulemaking on the Commission's Own Motion into Universal Service and to Comply with the Mandates of Assembly Bill 3643 (R.95-01-020).

- Free unlimited access to 911/E-911.
- Access to local directory assistance (DA). Each utility shall offer to its California LifeLine customers the same number of free DA calls that the utility provides to its non-California LifeLine residential customers.
- Access to foreign Numbering Plan Areas.
- California LifeLine rates and charges.
- Customer choice of flat-rate local service or measured-rate local service. The 17 smaller LECs identified in D.96-10-066 do not have to offer ULTS customers the choice of flat or measured-rate local service, unless the smaller ILEC offers this option to its non-California LifeLine residential customers.
- Free provision of one directory listing per year as provided for in D.96-02-072.
- Free white pages telephone directory.
- Access to operator service.
- Voice grade connection to the public switched telephone network.
- Free access to 800 or 800-like toll-free services.
- One-time free blocking for information services and one-time billing adjustments for changes incurred inadvertently, mistakenly, or that were unauthorized.
- Access to telephone relay services as provided for in Pub. Util. Code § 2881 et seq.
- Toll-free access to customer service for information about California LifeLine, service activation, service termination, service repair, and bill inquiries.
- Toll-free access to customer service representatives fluent in the same language (English and non-English) in which California LifeLine was originally sold.
- Free access to toll-blocking service.
- Free access to toll-control service, but only if (i) the utility is capable of offering toll-control service, and (ii) the California LifeLine customer has no unpaid bill for toll service.
- Access to two residential telephone lines if a low-income household with a disabled person requires both lines to access ULTS.
- Free access to the California Relay Service via the 711 abbreviated dialing code.

All carriers providing residential telephone services are required to provide basic service.

3. California LifeLine, a Stand-Alone Service

California LifeLine is a stand-alone basic telephone service and carriers are prohibited from linking the California LifeLine discount with other telecommunications services.[13] In D.04-11-022, the Commission authorized the NRF-regulated ILECs[14] to include multiple services in a basic service offering.[15] Following this authorization, for $24.99[16] a month, Pacific Bell Telephone Company (dba AT&T California) now offers residential customers unlimited member-to-member calling, unlimited incoming calls, unlimited calling in the US and Canada, and vertical features of call waiting, 3-way calling, voice mail plus, busy redial, return call, call forwarding, caller ID, caller ID block, anonymous call block, call waiting disable, call transfer and do not disturb. Since carriers are prohibited from linking the California LifeLine discount with other telecommunications services, low-income customers cannot benefit from the cost advantage of various bundled services available in the marketplace, even though the average monthly telephone bill of California LifeLine customers, including the California LifeLine discount, exceeds $25.00.

4. Program Funding

From its inception in 1984 through 1997, the California LifeLine program was primarily funded by California ratepayers.[17] In 1997, the Federal Communication Commission (FCC) revised its Lifeline/Link-Up programs[18] and established a 4-tier support for eligible telecommunications carriers (ETC): [19]

- Tier 1– the incumbent local exchange carrier's (ILEC) effective tariffed rate for the primary residential EUCL charge
- Tier 2 – $1.75 per customer per month if the ETC certifies to the Universal Service Fund (USF) administrator that it will pass through this entire amount to the qualifying low-income customer.
- Tier 3 – 50% of the state-mandated Lifeline support, up to a maximum of $1.75 per customer per month if the ETC certifies to

[13] At § 4.1.2 of GO 153.

[14] NRF stands for New Regulatory Framework and NRF-regulated incumbent local exchange carriers are AT&T California, Verizon California, Inc., Citizens Telecommunications Company of California, Inc., and SureWest Telephone.

[15] D.04-11-022, page 23.

[16] At http://www.moveutilities.com/sbc.html?mrc=p_MU_Gsbc

[17] Prior to 1998, the federal Lifeline provided 2 assistance plans. Both plans required states' support that matched or exceeded the federal contributions. Plan 1 allowed states where subscribers' qualifications were "subject to verification" to receive federal contribution equaled one half of the $3.50 EUCL Plan 2 allowed states where subscribers' qualifications were "verified" to receive Plan 1 support and an additional federal contribution toward customers' rate reduction that equaled one half of the EUCL charge. Of the 44 states participating in the federal program, California was the only state receiving federal support under Plan 1.

[18] FCC Report and Order, FCC 97-157 in the Matter of Federal-State Joint Board on Universal Service (CC Docket No. 96-45).

[19] Pursuant to § 54.401 of Title 47 of the Code of Federal Regulations.

the USF administrator that it will pass through this entire amount to the qualifying low-income customer.
- Tier 4 – an additional support of up to $25 per month to each eligible resident of Tribal lands[20] as long as this amount does not bring the basic local residential rate, including any mileage, zonal, or other non-discretionary charges associated with basic residential service, to below $1.

For Link-Up:[21]

- 50% in customary charge for service connection or $30, whichever is less.
- An additional $70 for eligible resident of Tribal lands[22] to cover 100% of the customary charge between $60 and $130.[23]

The above changes took effect on January 1, 1998. Consequently, California's federal Lifeline/Link-Up support increased from less than $65 million to over $250 million annually. The table below shows federal and support for the California LifeLine program from 2001 to 2004:

	Federal LifeLine/Link-Up Support ($ in millions)	California LifeLine Support	Total State and Federal Support
2001	$285.412	$199.849	$485.261
2002	$292.586	$208.185	$500.771
2003	$302.888	$223.270	$526.158
2004	$301.723	$240.955	$542.678

In D.96-10-066, in the face of open local exchange telephone markets competition, the Commission opened the California LifeLine program to CLECs in a competitively neutral manner. For the LifeLine/Link-Up programs, the FCC continues to limit the federal support to ETCs.[24] Since non-ETCs are not eligible for federal LifeLine/Link-Up support, non-ETCs' low-income customers are wholly funded by the California LifeLine program. In 2004, there were over 3.4 million customers enrolled in the California LifeLine program served by 34 carriers: 22 carriers were ILECs which are

[20] This is also referred to as Enhanced Lifeline. The California LifeLine program does not require Non-ETCs to provide Enhanced Lifeline.

[21] Pursuant to § 54.111of Title 47 of the Code of Federal Regulations.

[22] This is also referred to as Enhanced Link-Up. The California LifeLine program does not require Non-ETCs to provide Enhanced Link-Up.

[23] $130 is the sum of $30 that the customer pays, $30 that Link-Up pays for regular low-income customers, and $70 that Link-Up pays for resident of Tribal lands.

[24] FCC 04-87, Paragraph 54.

also ETCs;[25] and 12 were CLECs which were all non-ETCs.[26] The table below shows the number of customers served and public support received by ETCs and non-ETCs in 2004:

	# of California LifeLine Customers	Federal Support	California LifeLine Support	Total Support/ Customer/Mo
ETCs	3,082,000	$301,723,000	$180,485,000	$13.04
Non-ETC	366,000	$0	$60,702,000	$13.82
Total	3,448,000	$301,723,000.00	$241,187,000.00	

5. Program Expenditures

Carriers who provide California LifeLine seek reimbursement of the discounts (or lost revenues) and incremental operating costs from the program pursuant to General Order (GO) 153, Procedures for Administration of the Moore Universal Telephone Service Act. ETCs' lost revenues are computed after deducting support payments from the federal Lifeline/Link-Up programs. California LifeLine is the only PPP that reimburses carriers for their operating costs associated with the provision of the public program.[27] Of the $241 million California LifeLine support paid to ETCs and non-ETCs in 2004, approximately 7% or $17 million was paid for carriers' data processing, customer notification, accounting, service representative and legal costs that are (i) directly attributable to the California LifeLine program, (ii) would not otherwise be incurred in the absence of the California LifeLine program, and (iii) not recovered from other sources, such as the rates and charges paid by California LifeLine customers, the utility's general rates, or subsidies from the federal Lifeline and Link Up programs.[28] Pursuant to Resolution T-16996, commencing July 1, 2006, carriers will no longer be responsible for qualifying California LifeLine customers. Thus, a significant portion of the total incremental cost incurred by carriers for providing California LifeLine will be eliminated.

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[25] As of March 1, 2006, non-ILECs that have received ETC designation include: MPower Communications Corp, a CLEC; Sprint PCS, a PCS provider; Western Wireless, a cellular service provider; and AT&T, a CLEC. Only AT&T provides California LifeLine and receives federal Lifeline/Link-Up support.

[26] The CPUC approved AT&T's (U-5002-C) ETC designation on May 26, 2005 in Resolution T-16909.

[27] Federal Lifeline/Link-Up programs also do not reimburse carriers for their operating expenses.

[28] GO 153 § 8.

6. Commercial Mobile Radio Service (CMRS) Providers

CMRS is any mobile telecommunications service that is provided for profit and makes interconnected service available to a substantial portion of the public.[29] CMRS services include cellular, personal communication service (PCS), wide-area specialized mobile, and 2-way radiotelephone. In 1995 and 1998, the Commission considered whether California LifeLine should be provided by CMRS providers in R.95-01-020 and R.98-09-005, respectively. In both proceedings, this proposal was not adopted. CMRS providers alleged that CMRS is a discretionary non-residential service and CMRS providers are not subject to states' rate regulation, etc. Furthermore, no major CMRS provider in California has yet requested ETC designation from the CPUC, though many have requested and received ETC designation in other states.

7. Other California LifeLine Programs/Services

In addition to providing discounted basic telephone service to low-income customers, the program, through contracts with outside consultants, performs California LifeLine outreach in a competitively neutral manner and operates call-centers assisting customer enrollment in California LifeLine in numerous languages including English, Spanish, Cambodian, Cantonese, Hmong, Korean, Lao, Mandarin, Tagalog and Vietnamese. The total annual cost of these two contracts is in excess of $5.5 million. These programs were established in accordance with D.96-10-066.

8. Preserving Federal LifeLine/Link-Up Support

Currently, California LifeLine is an income-based, self-certification program. In April 2004, the FCC adopted FCC No. 04-87 (in WC Docket No. 03-109) requiring states to document customers' income qualifications in order to continue to receive subsidies from the federal income-based Lifeline-Link-Up programs. To preserve the $300 million in federal Lifeline/Link-Up support, the Commission has taken the following actions to comply with the federal mandate for income verification:

- On December 2, 2004, issued R.04-12-001 to implement the FCC order.
- On April 7, 2005, adopted D.05-04-026 amending the California LifeLine program from self-certification to require income documentation; and
    - Added a program-based eligibility criterion,
    - Shifted the responsibility of verifying California LifeLine customers' eligibility from the carriers to a CPUC-contracted, Certifying Agent (CertA).

[29] 47 U.C.S. § 322(d)(3).

- On December 2, 2005, issued D.05-12-013 adopting Revised GO 153 to be applied when the new program takes effect.
- On March 2, 2006, adopted Resolution T-16996 establishing July 1, 2006 as the changeover date from the existing income-based self-certification to program-based and income-documented and the effective date of Revised GO 153.

9. Certifying Agent (CertA)

Solix, Inc. was awarded the CertA contract (hereinafter, "CertA") and tasked with the following responsibilities:

- Create a master database for the storage and updating of the 3.4 million California LifeLine customers' data information;
- Set up a mechanized communication system for the daily exchange of customers' data information between carriers which enroll low-income customers in the program subject to qualification and CertA which qualifies customers;
- Qualify an estimated 700,000 new California LifeLine customers a year;
- Qualify the continued eligibility of the existing 3.4 million California LifeLine customers on an annual basis;
- Design an informational web-site for consumers;
- Design an online system allowing the Commission's Consumer Affairs Branch to have access to the master database for the purpose of resolving consumers' complaints regarding consumers' California LifeLine qualification; and
- Operate a seven-language[30] and a text-telephone device capable call-center.

All of the above tasks are to be implemented by July 1, 2006.

10. New California LifeLine Programs to Take Effect on July 1, 2006

Starting July 1, 2006, customers may qualify for California LifeLine under either program-based or income-based criteria. To qualify as a program-based customer, the customer or another person in your household must be enrolled in any one of the following public-assistance programs:

[30] The seven languages are: English, Spanish, Chinese, Japanese, Korean, Vietnamese and Tagalog.

Medicaid/Medi-Cal	Low Income Home Energy Assistance Program (LIHEAP)
Supplemental Security Income (SSI)	Federal Public Housing Assistance or Section 8
Food Stamps	Temporary Assistance for Needy Families (TANF)
Healthy Families Category A	National School Lunch's FREE Lunch Program (NSL)
Tribal TANF	Bureau of Indian Affairs General Assistance
Women, Infant and Children Program (WIC)	Head Start Income Eligible (Tribal Only)

To qualify as an income-based customer, the customer's total household income must meet the California LifeLine income limits as shown below:

Household Size	**ULTS Annual Income Limits** (6/1/06 through 5/31/07)
1-2 members	$21,300
3 members	$25,100
4 members	$30,200
Each additional member	$5,100

New program-based customers may enroll through self-certification. New income-based customers are required to provide income documentation showing that total household income is at, or below, the California LifeLine income guidelines.

Existing customers are required to verify their continued eligibility annually. At the annual verification, customers have the option of continuing their enrollment under program-based or income-based criteria. Their qualification is on a self-certification basis.

11. Performance Standards

The Commission has conducted numerous audits on carriers verifying that program funds received by carriers are used for the intended purposes. Starting July 1, 2006, as a measure for program accountability, CertA is required to randomly select 3% of the existing customers and request proof of eligibility from this customer sample. CertA is also required to track and report its findings to the Commission.

12. Advisory Committee

The Commission created the Universal Lifeline Telephone Service (ULTS) Trust in D.87-10-088 for the receipt and investment of the program surcharge monies. In the same order, the Commission also created the ULTS Trust Administrative Committee (AC) charged with the responsibilities of administering the ULTS Trust and disbursement of the program funds. In 2002, the Commission issued D.92-04-059 restructuring the ULTSAC.[31] Currently, the ULTSAC is composed of nine members:

- a large or mid-sized local exchange carrier (LEC);
- a small LEC; an inter-exchange carrier;
- a competitive local exchange carrier (CLEC) or wireless carrier;
- two consumer organizations, each of whom represents a different constituency, based on geographic or economic criteria, on language, or on other criteria which reasonably influence lack of access to basic telephone service - or one consumer organization and a state agency with universal service expertise;
- three community based organizations (CBOs), each of whom represents a different constituency, based upon geographic or economic criteria, on language, or other criteria which reasonably influence lack of access to basic telephone service; and
- the Commission's Office of Ratepayer Advocates.

Instead of administrative, the ULTSAC is to function as an advisory board charged with the following responsibilities[32]:

a) Pursuant to Pub. Util. Code § 273(a), on or before June 1 of each year the ULTSAC shall submit a proposed budget to the Commission's Telecommunications Division. The proposed budget shall include estimated program expenditures and the Committee's projected expenses for the fiscal year (July 1 to June 30) that will commence thirteen (13) months thereafter.
b) Pursuant to Pub. Util. Code § 273(b), on or before October 1 of each year the ULTSAC shall submit a report to the Commission describing Committee activities during the prior fiscal year.
c) Pursuant to Pub. Util. Code § 277(a), the ULTSAC shall advise the Commission regarding the development, implementation and administration of the California LifeLine program, within the

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31 In R.01-08-002, the Order Instituting Into Implementation of Senate Bill 669, As It Affects California High-Cost Fund A; California High-Cost Fund B; Universal Lifeline Telephone Service Trust; Payphone Service Providers Enforcement; Telecommunications Devices for the Deaf Interim Placement Committee; Public Policy Payphone Program; and California Teleconnect Fund.

32 Charter of the ULTS Administrative Committee, Paragraph 4.1.

context of the Committee's purpose, as described in Paragraph 2.1.[33]

In the annual report for the period ending June 30, 2004, the ULTSAC stated the following goals and objectives for fiscal year 2004-05:[34]

- Meet regularly under the Provisions of Bagley-Keene Open Public Meeting Act;
- Follow procedures mandated by Charter;
- Provide recommendations and changes to California LifeLine Marketing Plan;
- California LifeLine to provide recommendations to TD on R.03-04-003;
- Monitor and evaluate CBO education and outreach. Identify any targeted audience changes;
- Closely monitor CPUC's Conflict of Interest Concerns Relative to the impact on ULTS Administrative Committee members;
- Review and monitor ULTS Administrative Committee Budget;
- Discuss and access Senate & Assembly Bills impact on California LifeLine;
- Continual interaction with California LifeLine outreach program Contractor, RHA and Associates;
- Monitor legislative activities that may impact California LifeLine or consumers in California;
- Submit yearly California LifeLine budget for review and approval by Commission resolution; and
- Review possible Consumer Bill of Rights issue integration with California LifeLine.

B. California Teleconnect Fund (CTF)

The CTF was established by D.96-10-066, in compliance with Assembly Bill (AB) 3643 (Chap. 278, Stat. 1994) to provide discounts on selected telecommunication services to qualified entities. The program is funded by an All End-User Surcharge, which is a

[33] Paragraph 2.1 states: The purpose of the ULTSAC is to function, pursuant to Pub. Util. Code § 277(a), as an advisory board to advise the Commission regarding the development, implementation, and administration of the Universal Lifeline Telephone Service Trust (ULTS) program to ensure lifeline telephone service is available to the people of the state, as provided by the Moore Universal Telephone Service Act, Pub. Util. Code § 871 et seq., and to carry out program under the Commission's direction, control and approval.

[34] This report was submitted to the Commission in accordance with § 4.1.b of the Charter of the ULTS Administrative Committee.

percentage applied to customers' intrastate-billed services appearing on their monthly phone bills and is updated as needed to ensure adequate program funding.

1. Original Program Structure

Qualifying Entity	Eligible Services	CTF Discount
School and/or Library	All Measured Business Service lines, Switched 56 lines, ISDN, T-1, DS-3 and up to and including OC-192[35] services or their functional equivalents	50%
Municipal or County Government Owned and Operated Hospital and Health Clinic	Switched 56 lines, ISDN, T-1, and DS-3 or their functional equivalents	20%
Community Based Organization	Two switched 56 lines, or two ISDN lines, or one switched 56 line and one ISDN line, or one T1 line, or their functional equivalents	25%

The above table identifies the qualified participants, eligible services and applicable discounts at the program's inception in 1997.

Telecommunications service providers offer the services to participants at the applicable discount and seek reimbursement from the fund via claims submitted to the Commission.

2. Program Changes

In R.01-05-046, the Commission investigated the feasibility of redefining basic service to include high-speed Internet access, and also sought comment on the CTF program. Comments received at Public Participation Hearings and during the comment cycle of the proceeding provided insight on ways the Commission could improve participation in the CTF program. The report issued in connection with this proceeding concluded that the differing levels of discounts and eligible services available to the various qualifying entities and the cumbersome application process may have resulted in low participation by hospitals and community based organizations (CBOs). The decision[36]

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[35] Resolution T-16542, July 12, 2001, added OC-1, OC-3, OC-12, OC-48 and OC-192 services, or their functional equivalents, to the list of discounted services available to schools and libraries.

[36] D.02-10-060

directed staff to prepare a resolution implementing the appropriate changes to the CTF program.

In 2002, SB1863 (Chap. 308, Stat. 2002) added Section 884 to the Pubic Utilities Code. Section 884(a) states:

> "…that any program administered by the Commission addressing the inequality of access to advanced telecommunications services by providing those services to schools and libraries at a discounted price should also provide comparable discounts to a nonprofit community technology program."

Section 884(b) was also added to the code and defines community technology program as:

> "…a community-based nonprofit organization that is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code and engages in diffusing technology into local communities and training local communities that have no access to or have limited access to the Internet and other technologies."

The Commission issued Resolution T-16742 on May 8, 2003 to comply with the provisions of SB 1863 and to implement the program revisions ordered by D.02-10-060. The resolution equalized the quantity, type and discount available to all program participants. It also added hospital district owned and operated hospitals and health clinics to the list of qualifying entities. The following table illustrates that all eligible entities receive a 50% discount on the same types and quantities of service.

3. Current Program Structure

Qualifying Entity	Eligible Services	CTF Discount
School and/or Library, Municipal, County Government or Hospital District Owned and Operated Hospital and Health Clinic, Community Based Organization	All Measured Business Service lines, Switched 56 lines, ISDN, DSL, T-1, DS-3 and up to and including OC-192 services or their functional equivalents	50%

In addition, the Commission has implemented SB 720 (Stats. 2003, Chap. 531 Sec. 1) which requires a 40%, one-time discount be given on installation costs associated with advanced services if there are funds available in the budget after program expenses, up to $3 million, in FY 2003-04 and 2004-05. The program became effective January 1, 2004 and sunset on June 30, 2005. During that time, approximately $60,000 was paid in claims for installation services.

SB 1102 (Stats. 2004, Chap 227, Sec. 95) requires that the federal E-rate discount be applied prior to determining the CTF discount. This ensures that program funding from all sources is maximized and the state program is not overburdened by participants' failure to take advantage of available federal funding.

4. Program Funding

D.96-10-066 established the initial surcharge of 0.41% intended to raise $50 million per year in program funding. In July 2001 the Commission issued Resolution T-16542 expanding the high-speed services available through the program and increasing the annual funding cap to $55 million.

The following table summarizes the surcharge changes since the program's inception on February 1, 1997.

Date	Surcharge
01/01/06	0.130%
08/01/04	0.160%
01/01/03	0.000%
11/01/01	0.300%
01/01/01	0.185%
08/01/98	0.050%
02/01/97	0.410%

The surcharge and funding cap can be increased or decreased on Staff recommendation, via Commission resolution, at any time. This ensures adequate program funding is available. As the table indicates, the surcharge changes only when necessary. It remained constant at several times and actually dropped to 0% for a period to decrease an excess fund balance.

5. Program Participants

Over 2,700 schools, libraries, CBOs, hospitals and health clinics currently participate in the CTF program and receive discounted service. Approximately 34 carriers provide discounted services to these entities and the CTF's FY 2006-07 budget is $22 million. The Commission continues to streamline the CTF application and claim processing procedures to ensure the program adds new participants and reimburses carriers in a timely manner.

The following table illustrates program participation by qualifying entity for each year of the program.[37]

[37] Source – Report to the Legislature on the California Teleconnect Fund, May 2005

Approved CTF Participants by Year				
Year	**CBO**	**Schools & Libraries**	**Government Owned Hospital/Clinic**	**Cumulative Total**
As of Mar 2006	6	10	1	17
2005	114	81	3	198
2004	141	108	7	256
2003	277	171	7	455
2002	4	61	0	65
2001	5	67	0	72
2000	2	85	0	87
1999	14	195	2	211
1998	15	303	9	327
1997	9	1,042	8	1,059
Total	**587**	**2,123**	**37**	**2,747**

In the above table, CTF participants with multiple sites are counted as one active participant. Discounts are applied retroactively to the date the application was filed. This ensures the applicant is not disadvantaged by any delays in the application process.

The above table depicting participation is instructive, as it illustrates that program participation for CBOs and health facilities increased substantially after the discount amounts and service types and quantities were equalized for all participants in 2003. However, merely tracking participation without some idea of the number of potential participants does not allow us to determine how successful the program has been at reaching its target group.

6. Program Budgets

Below are the program expenditures for fiscal years 2002 through 2005/06 and the projected budget for 2006/07. In accordance with SB 669, the program changed to the state's fiscal year cycle in the middle of 2001. The budget for the last 4 years of the program and the proposed budget for Fiscal Year 2006-2007 is given below.

2002 - 03	2003 - 04	2004 - 05	2005 - 06	2006 - 07
$29,222,316	$37,645.000	$17,974,000	$20,321,000	$22,000,000

7. Performance Standards

D.96-10-066 did not create performance standards to measure the program's success at meeting the Commission's goals for the program. The above table's budget figures are useful to measure year-to-year progress, but do not give an adequate picture of overall program success. Comparing annual expenditures against the fund cap is not an adequate measure of success since the $55 million figure was not based on an estimate of the funding required to achieve 100% participation.

Although D.96-10-066 did not impose any reporting requirements, the *Supplemental Report to the 2003 Budget Act*, required the Commission to prepare a report on the status of the CTF program. That report was submitted to the Legislature on January 12, 2004. The *Supplemental Report to the 2004 Budget Act* required the Commission to file a follow-up to the 2004 report addressing such issues as:

- Barriers to participation;
- Changes to improve the application process;
- Alternate uses of CTF funds to address the digital divide;
- Impacts of federal E-rate discounts;
- An estimate of the necessary surcharge level.

That report was submitted to the Legislature in May 2005.

C. DEAF AND DISABLED TELECOMMUNICATIONS PROGRAM (DDTP)

The DDTP was implemented to comply with P.U. Code 2881. Additional legislation was added to the code and ultimately four separate programs were created to provide equipment and services to Californians who are deaf, hearing impaired or disabled.

1. Program Structure

The first program, implemented in 1979 in compliance with Senate Bill 597, distributes telecommunications devices for the deaf (TDDs) to certified deaf and hearing impaired telephone subscribers, schools or organizations representing the deaf or hearing-impaired and state agencies having significant contact with the public. The devices allow users to communicate via typed conversation transmitted to another person with the same equipment. There is no cost to the users for the devices.

In 1983 a second program was implemented in compliance with Senate Bill 244. This program improves communications for the deaf and hearing impaired by providing direct access to the public switched telephone network. This program called the California Relay Service (CRS) uses third party intervention to provide 24 hour access to any other telephone subscriber in the state. It allows deaf and hearing impaired users to place and accept calls from other subscribers that do not have special equipment for communicating with the deaf or hearing impaired.

The third program, implemented in 1985 to comply with Senate Bill 60, provides consumers with hearing, vision, mobility, speech and cognitive disabilities with specialized telecommunications equipment such as amplifying devices, telephone ringer signals, automatic dialers, speakerphones and cordless phones.

The forth program provides placement of telecommunications devices for the deaf in existing buildings and public accommodations pursuant to Public Utilities Code section 2881.2.

2. Program Changes

In 1999, SB 699 (Chap. 677, Stats. 1999) was enacted requiring the Commission to transfer into the State Treasury six funds associated with the telecommunications public programs administered by the Commission. The DDTP was affected in several ways. First, program funds were transferred from a trust account in a private bank to the State Controller's Office, subject to the state budget cycle. Second, DDTP operations were changed so that the Commission would administer the program rather than provide oversight to an outside entity who administers the program. Finally, SB 669 required that all DDTP staff be state employees or be contracted to provide DDTP services.

In December 2002 the Commission issued its decision outlining the structure of the program in accordance with SB 669. Pursuant to that decision, the Commission currently administers the DDTP program and contracts out for management of the day-to-day program operations, and equipment warehousing and distribution. The DDTP contractor's main office is in Oakland and there are seven Service Centers[38] throughout the state where residents can walk in and receive information, equipment needs assessment and instructions in equipment use. The warehouse contractor is responsible for shipping equipment to participants, receiving old or damaged equipment from recipients and maintaining an inventory tracking system.

3. Advisory Committees

The DDTP program includes three advisory committees, The Telecommunications Access for the Deaf and Disabled Administrative Committee (TADDAC[39]), Equipment Program Advisory Committee (EPAC) and California Relay Service Advisory Committee (CRSAC). TADDAC is the umbrella Committee representing all DDTP participants and advises the Commission in regard to equipment distribution and relay

[38] The walk-in Service Centers are located in Sacramento, Oakland, Fresno, Santa Ana, Burbank, Riverside and San Diego.
[39] TADDAC was previously known as the Deaf and Disabled Telecommunications Program Advisory Committee - DDTPAC). Even though the title is administrative committee, the function of the committee is advisory.

services, including recommended policies. TADDAC is comprised of telephone company representatives, consumer representatives of the deaf and disabled community, a relay service provider and a representative from the CPUC.

The EPAC is responsible for making recommendations to the TADDAC regarding new equipment technology, new products, equipment distribution, service quality and policies. CRSAC monitors and evaluates the performance of the relay service, receives complaints from users and makes recommendations to the TADDAC on relay service procedure, service quality and public awareness.

The TADDAC has also formed ad hoc committees to advise the Commission on specific issues or events affecting the DDTP. During the transition ordered by SB 669 and AB 1734, members developed recommendations for the Commission regarding the transition of the program into the State structure.

In December 2005 the TADDAC formed another ad hoc committee called the Administrative Contract Workgroup (ACW) and prepared the *Strategic Plan for Restructure and Placement of the DDTP* (Plan). The Plan contains recommendations for:

- Moving toward a more cost-effective centralized DDTP contract structure;
- Maintaining the DDTP within the Commission and creating a DDTP unit within the Telecommunications Division
- Restructuring the administrative committee of User/Consumer representatives
- Restructuring the Equipment Distribution Program to become a hybrid, making equipment available at service centers, allowing direct shipping of equipment and developing a voucher system called *The Consumer Purchase Program*, enabling participants to purchase their own equipment.

The Commission appreciates the ACW’s efforts in preparing this timely document for consideration during this proceeding.

Program Funding

Date	DDTP Surcharge
01/01/06	0.270%
02/01/04	0.300%
07/01/03	0.047%
10/01/02	0.300%
12/01/01	0.480%
09/01/01	0.481%
12/01/01	0.480%

The Public Utilities Code provides funding for the DDTP by a surcharge not to exceed one-half of one percent on intrastate telecommunications revenues billed. The Surcharge appears on customers monthly bills. The table to the right summarizes the surcharge changes for the DDTP program over the last 10 years.

As with the CTF program, the DDTP surcharge can be adjusted at any time based on the funding needs of the program. This mechanism allows the Commission to ensure that adequate funding is available for program need. This is especially important when the revenues upon which the funding is based vary from the projected figures.

4. Program Participation

The DDTP currently has approximately 500,000 certified participants. The table below depicts the program activities for 2003 through 2005 and their effect on participation.

	2003	**2004**	**2005**
Equipment Campaigns (CTAP)	4	4	4
Relay Campaigns (CRS)	0	2	1
New Customers	5,323	13,199	16,518
Field Advisor Visits	8,213	5,668	5,198
Outreach Presentations	1,899	1,964	1,900
Service Center Visits	21,590	24,145	29,722
Call Center Certification Forms Processed	42,039	48,786	55,370
Call Center Calls Handled	248,521	199,019	221,622
Total CTAP Customers	396,470	439,885	483,524
Out-Bound CRS Calls**	6,058,177	5,663,971	3,708,478

Two new DDTP Service Centers opened in August 2003 and the total number of Service Center visits between 2003 and 2005 increased by more than 35%. The decrease in Out-Bound CRS calls could be attributed to, in part, an increase in the use of other technologies such as text messaging and video relay. A combination of the new Service Center sites and the marketing campaigns appear to have had the desired effect of increasing awareness of the program which resulted in increased program participation.

5. Program Budget

Below is a list of the past seven years' budgets and the proposed budget for fiscal year 2006-2007.

YEAR	BUDGET
FY 2006-07	$69,030,000
FY 2005-06	$66,800,000
FY 2004-05	$68,604,000
FY 2003-04	$69,116,480
FY 2002-03	$72,414,950
1/02-6/02	$27,061,998
CY 2001	$49,714,600
CY 2000	$57,373,006
CY 1999	$52,206,319

With the implementation of SB 669, the Commission moved from a calendar year to a fiscal year budget cycle. The DDTP budget has remained fairly constant over the last five years even though there has been an increase in program participation as shown in the previous table. Again, this may be attributable to the fact that some costs have declined as participants have found other, less expensive and/or more preferable ways to communicate such as text messaging and video relay system that are not offered by the program.

The Commission anticipates that with continuing marketing campaigns, program participation will continue to increase. The budget cap of one-half of one percent appears to be adequate to fund the program at its present level and even at increased participation levels since the current surcharge is only 0.270%.

6. Performance Standards

P.U. Code Section 2881 requires the Commission to prepare and submit to the Legislature annually a report on the fiscal status of the programs established and funded pursuant to Sections 2881, 2881.1 and 2881.2. The report is to include information on the surcharge level, revenues and program expenses, and an evaluation of options for controlling expenses and increasing program efficiency including but not limited to the following options:

- Means testing
- Imposition of limits or restrictions on relay usage
- More efficient means for obtaining and distributing equipment
- Establishing quality standards for the relay system

Section 2881 also requires the Commission to perform an assessment of expanding the scope of the program to allow for additional access capability consistent with evolving telecommunications technology.

The Commission has prepared and submitted the required reports on a regular basis, sometimes consolidating two years into one report. Although means testing and limits on relay usage have never been explored, the Commission has consistently sought more efficient means to provide high quality service and equipment to DDTP participants.

In December 2005 the Commission issued three Requests for Proposals (RFPs). One RFP was for a contract to act as the DDTP administrator, controlling the day to day operations of the program under the oversight of the Commission. This RFP includes a provision for a 10% annual increase in program participation with penalties assessed for not achieving that goal. This contract has been sent to the control agency for approval.

The second RFP was for the equipment distribution program and the third was for a marketing contract. These two RFPs also include performance standards with penalties for failure to meet those standards and are currently at various stages of review.

D. Overview of Universal Service Program Funding

1. Intrastate Telecommunications Revenue Subject to Surcharges

All PPPs are funded by end-user surcharges assessed on intrastate telecommunications services except:

1. Universal Lifeline Telephone Service billings;
2. Charges to other certificated carriers for services that are to be resold;
3. Coin sent paid telephone calls (coin in box) and debit card calls;
4. Customer-specific contracts effective before 9/15/94;
5. Usage charges for coin-operated pay telephones;
6. Directory advertising; and
7. One-way radio paging.

Intrastate telecommunications revenue subject to surcharges reported by telecommunications carriers for the last three years are:

	Total Intrastate Billing subject to Surcharges ($ in millions)	Reported by Wireline Carriers ($ and % of Total)	Reported by Wireless Carriers ($ and % of total)
2005	$21,080 (100%)	$8,460 (40%)	$12,620 (60%)
2004	$19,823 (100%)	$8,617 (43%)	$11,206 (57%)
2003	$19,329 (100%)	$9,339 (48%)	$9,990 (52%)

As shown in the table above, customer migration out of the existing telephone network and wireless networks thus far has not resulted in a significant erosion of intrastate telecommunications revenue subject to surcharges. However, it is unlikely that this trend will continue as VoIP, Wi-Fi and other new technologies may compete more vigorously for customers through cost and innovative services.

2. Surcharges Rates

The current surcharge rates for the 5 PPPs are:

ULTS	CRS	CHCF-A	CHCF-B	CTF	Total
1.3%	0.3%	0.2%	2.0%	0.1%	3.90%

The surcharge level for each program is evaluated at least once a year and is determined based on the total funding requirement, i.e. the sum of program budget and a fund reserve for economic uncertainty equivalent to 8%-10% of the program budget, divided by the projected intrastate revenue subject to surcharge. The table below shows the variability of surcharge rate changes since 2001:

Effective Date	ULTS	CRS	CHCF-A	CHCF-B	CTF
1/1/2006	1.3%			2.0%	0.1%
4/1/2005	1.6%				
1/1/2005				2.4%	
8/1/2004					0.2%
2/1/2004		0.3%			
1/1/2004	1.1%			2.2%	
9/1/2003	1.2%				
7/1/2003		0.0%		2.7%	
5/1/2003			0.2%		
3/1/2003				2.2%	
1/1/2003	0.0%				0.0%
10/1/2002		0.3%			
7/1/2002			0.4%	1.4%	
1/1/2002			0.3%		
12/1/2001					
11/1/2001				1.5%	0.3%
9/1/2001		0.5%			
7/1/2001	1.5%		0.2%		
1/1/2001	0.8%	0.0%	0.0%	2.6%	0.2%

3. Funding Viability

Our existing funding mechanism may not be viable in the face of emerging technologies and potential customer migration to new technologies that are not within State jurisdiction. For example, VoIP and DSL are classified by the FCC as interstate and data/information services with a telecommunications component, rather than a telecommunications service, and may not continue to be available for PPP surcharges.[40]

E. Audit Requirement

Audit requirements for the public programs are contained in P.U. Code Section 274. The Commission is required to conduct financial audits of the revenues collected in connection with each fund and compliance audits in regard to Commission orders connected with each fund. Commencing July 1, 2002, these audits are to be conducted on a three-year cycle.

There are over 500 telecommunications carriers who collect public program surcharges from their customers and remit the monies to the state. The number of carriers who provide discounted services or receive subsidies from one of the programs varies by program. The staffing required to provide audits on over 500 carriers on a three-year cycle is prohibitive, however, recent audits have been conducted by Commission staff, Department of Finance staff through an inter-agency agreement with the Commission and past audits have been conducted through contracts with outside auditors. The Commission expects to continue using this three-pronged approach in order to comply with the code requirements.

In a twelve month period, the Commission completed audits on 12 small local exchange carriers. Audits of the 3 largest carriers were completed over the past two and a half years. These audits covered the carriers who collect and/or receive the bulk of the funds in connection with the public programs.

III. THE NEED FOR PROGRAM REVIEW

Several reasons compel us to conduct a comprehensive review of the PPPs:

A. PPPs Have not been comprehensively Reviewed

First, the PPPs have not been comprehensively reviewed since they were first established. A focused review was conducted in 2002, pursuant to Senate Bill 1712, which required "the Commission to consider whether California should expand its low income subsidy program and require all carriers to provide high speed internet access in the "basic service" package."[41] That review was limited in scope and recommended against changing the definition of basic service at that time. Other than the 2002

40 FCC 02-42 in CC Docket 02-33 and Section IV of this report.
41 Commission's report: "Broadband Services as a Component of Basic Telephone Service". August 2002

proceeding, no PPPs have had a limited or comprehensive evaluation of the program's compliance with statutory requirements or a determination of the program's success at meeting its stated goals. In fact, there are limited performance measures in place for program evaluation. Without a program review, it is difficult for the Commission to measure the success of the programs or verify the flow of the contributions to program participants. Program review is long overdue.

B. AVAILABILITY OF NEW & ADVANCED TECHNOLOGIES

Second, because of the availability of new and advanced technologies, the communication needs of Californians are changing, but PPPs have not been revised to take the significant technological transformation of the telecommunications industry into account. As such the current PPP structure may exclude benefits to customers because of their choice of technology.

When the Commission adopted its universal service policy, wireline telephone service was the main telephone service used by California households. Wireless service was not as widely adopted. During the past decade, the telecommunication industry has experienced advances in technology, shifts in the competitive markets, and major changes in service and price structures. As a result, new technologies have matured and have become more practical and economical for customers to use.

Today, customers use different technologies for basic communication and enjoy access to alternative telecommunication services that never existed when universal service was adopted. These new technologies and service bundles, such as wireless, broadband, Wi-Fi, and VoIP with the array of enhanced services and benefits, are changing the basic communication and information choices available to Californians. One concern is that PPPs are not technology neutral. Both the ULTS and DDTP programs offer subsidies only for certain products or technologies. Under the California LifeLine program, only customers with wireline service are eligible to receive the California discount. Other technologies are not eligible for the subsidy even though some, such as wireless, are becoming more popular among low income customers and are being used more because of mobility and accessibility features. Likewise, only certain products and equipment qualify for the DDTP subsidy even though other options exist that may meet customers' needs and bring more value to customers. As technology evolves, it could bypass the beneficiaries of the programs unless the programs adapt. As such, the PPPs may be out dated and may no longer meet the telecommunications needs of Californians. A program review would identify what actions, if any, the Commission should take to ensure programs are technology neutral.

C. CHANGES IN TECHNOLOGY MAY AFFECT CONTINUED FUNDING

Third, changes in technology may affect continued funding of the public purpose programs and are a source of concern. Customer migration to technologies that may not be within state jurisdiction threatens the viability of program funding. Program funding relies on revenues subject to surcharges from carriers. Currently wireline and wireless carriers contribute to this funding, however as customers migrate from landline and wireless telephone networks to other technologies, program funding will decline. A review of the current funding mechanism would help identify ways to ensure the longevity of the funding and ultimate success of the programs.

The Commission should review the programs on a regular basis to see if they still meet the needs of Californians, and if they are accomplishing their statutory goals and objectives established by the legislature in Public Utilities Code Sections, including Sections 709, 871.7 (c) (1) and 871.7 (c) (2)[42]:

(a) To continue our universal service commitment by assuring the continued affordability and widespread availability of high-quality telecommunications services to all Californians.
(b) To focus efforts on providing educational institutions, health care institutions, community-based organizations, and governmental institutions with access to advanced telecommunications services in recognition of their economic and societal impact.
(c) To encourage the development and deployment of new technologies and the equitable provision of services in a way that efficiently meets consumer need and encourages the ubiquitous availability of a wide choice of state-of-the-art services.
(d) To assist in bridging the "digital divide" by encouraging expanded access to state-of-the-art technologies for rural, inner-city, low-income, and disabled Californians.
(e) To promote economic growth, job creation, and the substantial social benefits that will result from the rapid implementation of advanced information and communications technologies by adequate long-term investment in the necessary infrastructure.
(f) To promote lower prices, broader consumer choice, and avoidance of anticompetitive conduct.
(g) To remove the barriers to open and competitive markets and promote fair product and price competition in a way that encourages greater efficiency, lower prices, and more consumer choice.
(h) To encourage fair treatment of consumers through provision of sufficient information for making informed choices, establishment

[42] PU Code Section 709 was established pursuant to SB 1563 and SB 1863.

> of reasonable service quality standards, and establishment of processes for equitable resolution of billing and service problems."[43]

And,

> " It is the intent of the Legislature that the commission initiate a proceeding investigating the feasibility of redefining universal telephone service by incorporating two-way voice, video, and data service as components of basic service. It is the Legislature's further intent that, to the extent that the incorporation is feasible, that it promote equity of access to high-speed communications networks, the Internet, and other services to the extent that those services provide social benefits that include all of the following:
>
> (1) Improving the quality of life among the residents of California.
> (2) Expanding access to public and private resources for education, training, and commerce. "[44]

IV. FEDERAL ISSUES AND THEIR IMPACT ON CA'S PUBLIC PURPOSE PROGRAMS

California's universal service programs are supported by both federal and state mechanisms; therefore, program changes must conform not only to California's universal service objectives, but also to broader federal policies and goals. This is particularly important in light of emerging services. Recently, the FCC preempted state regulation of broadband services and determined that such services are subject to regulation only at the federal level. *See, Appropriate Framework for Broadband Access to the Internet over Wireline,* CC Docket 02-33, adopted on August 5, 2005 and released on September 23, 2005. However in making this determination, the FCC continued to require DSL providers to contribute to the Universal Service funds through August 2006. The FCC indicated that by August 2006 it will extend the requirement for DSL services to contribute to universal service or it will have established a new mechanism to collect universal service contributions.

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[43] PU Code Section 709
[44] PU Code Section 871.7 (c) (1) and (2)

V. THE SCOPE OF THE PROGRAM REVIEW AND ISSUES TO CONSIDER

The Commission is interested in a comprehensive review of the PPPs to ensure that the programs are transparent, technology neutral, well managed and information about the programs is widely available. In addition, the Commission is interested in seeking input on identifying areas where statutory changes may be required to expand the programs to bring additional benefits to program participants. To that end, the Commission is seeking input on the following issues:

A. PROGRAM TRANSPARENCY AND STATUTORY REQUIREMENTS ISSUES

1. Do the existing programs meet the statutory requirements of universal service?

2. How can the Commission ensure that the public purpose programs are effective in reaching the right population?

3. How can the Commission provide information about the programs in an effective and timely manner?

4. How can the Commission improve the transparency of the programs?

5. What changes, if any, should the Commission consider to improve program operations?

6. The Commission seeks ways to ensure that public purpose programs match the needs of the participants evolving with technology as appropriate. Does the current mechanism allow programs to keep pace with technological advancements to meet customer needs?

7. The Commission's public purpose programs should be fully technologically neutral. Do current programs achieve that goal? How can the exiting program be changed to assure technology neutrality?

8. How can the Commission improve the programs in such a way that they are more responsive to technology, market and regulatory changes?

9. The Commission is committed to establishing programs that are consistent with federal policies and support federal programs. As we stated in our 2006 Workplan, we would "Coordinate with federal requirements to ensure public support for the intended purpose, or at least, maximize participation in public purpose programs

such as lifeline.[45]" What changes are needed to be consistent with federal rules and policies?

B. CALIFORNIA LIFELINE ISSUES:

1. The Commission is interested in a California LifeLine program that meets the daily telecommunication needs of the California LifeLine customers. Does the current program achieve that?

2. The Commission's goal is to maximize the service options available to California LifeLine program participants to ensure the programs provide customers with options to meet their telecommunication needs. Does the current program promote that goal?

3. The California LifeLine program goal is to expand its reach to every eligible customer in the state and maximize participation. Does the current program achieve that? What needs to be changed so that more eligible California residents will participate in the programs?

4. The Commission last reviewed the definition of basic service in 2002 in D.02-10-062. In that review, the Commission concluded that it was not necessary to revise the definition of basic service, and in particular, it was not necessary to add broadband to the definition of basic service. Since then many new technologies have become available that warrant a comprehensive review of the PPPs and in particular, of the current definition of the basic service. Should the Commission review the definition of basic service? What factors should the Commission consider when reviewing the definition of basic service?

5. Should additional or advanced services such as cellular/personal communications service (PCS) or VoIP be included in the definition of basic service?

6. If so, what statutory issues the Commission would need to address? For example, current statute allows only one landline per household. Does this definition need to be changed?

7. If advanced services are included in the definition of basic service, how should the Commission address access to emergency services for California LifeLine telephone service members? Telephone service provides a vital link to emergency services for California LifeLine customers and their household members. Setting aside any potential reliability, accessibility or feasibility of cellular/PCS E-911 and VoIP nomadic-911, if California LifeLine is applied to mobile telephone services in a

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45 CPUC 2006 Workplan, page 16, http://www.cpuc.ca.gov/PUBLISHED/REPORT/53008.htm

household, the emergency connection from the household will move when the mobile telephone is moved from the residence increasing the availability of the vital link to the person with the phone, but reducing the availability to any persons remaining in the residence.

8. What would be the cost issues if advanced services are included in the program? The average household in California has 2.93 members. If all California LifeLine customers opt for mobile or advanced services, extending California LifeLine to all low-income household members could increase the program cost from the $241 million to $1.5 billion (2.93 multiplied by the sum of $241 million plus $301 million federal support). This is based on the assumption that advanced service or CMRS providers continue not to seek ETC designation from the CPUC as they are today. As California LifeLine customers migrate from ETC to non-ETC, the cost to the California LifeLine program will increase.

9. California LifeLine is a stand-alone basic telephone service and carriers are prohibited from linking the California LifeLine discount with other telecommunications services.[46] Thus, low-income customers cannot benefit from the cost advantage of various bundled services available in the marketplace. How should the Commission overcome this limitation?

10. What are the advantages of revising our existing California LifeLine policy and allowing the California LifeLine discount to be applied to a basic telephone service bundled with other telecommunications services that are available in the marketplace?[47] Would this be consistent with our statutory goals?

11. California LifeLine is the only PPP that reimburses carriers for their operating costs associated with the provision of the public program.[48] Pursuant to Resolution T-

46 At § 4.1.2 of GO 153.

47 One potential advantage is cost savings as shown in this example: In D.04-11-022, the Commission authorized the NRF-regulated incumbent local exchange carriers to include multiple services in a basic service offering. Following this authorization, for $24.99 a month, Pacific Bell Telephone Company (dba AT&T California) now offers residential customers unlimited member-to-member calling, unlimited incoming calls, unlimited calling in the US and Canada, and vertical features of call waiting, 3-way calling, voice mail plus, busy redial, return call, call forwarding, caller ID, caller ID block, anonymous call block, call waiting disable, call transfer and do not disturb. On the other hand, Using the aforementioned bundled service as an example, if California LifeLine discount were allowed to be applied to bundled service, California LifeLine customers would pay only $19.65 ($24.99 less $5.34 California LifeLine subsidy) a month for local, long distance and vertical services. This amount is less than the average California LifeLine customer monthly bill for similar services today.

48 Federal Lifeline/Link-Up programs also do not reimburse carriers for their operating expenses. Of the $241 million California LifeLine support paid to ETCs and non-ETCs in 2004, approximately 7% or $17 million was paid for carriers’ data processing, customer notification, accounting, service representative and legal costs that are (i) directly attributable to the California LifeLine program, (ii) would not otherwise be incurred in the absence of the California LifeLine program, and (iii) not recovered from other sources, such as the rates and charges paid by

16996, commencing July 1, 2006, carriers will no longer be responsible for qualifying California LifeLine customers. Thus, a significant portion of the total incremental cost incurred by carriers for providing California LifeLine will be eliminated. Should the Commission cease the operating cost reimbursement to carriers for the California LifeLine program, consistent with other PPP and the federal Lifeline/Link-Up policy on cost reimbursement?

C. DDTP ISSUES:

1. The goal of DDTP is to ensure that every eligible deaf, hearing impaired or disabled customer has access to the program service offerings. Does the current program have the potential to increase participation?

2. Unlike the California Lifeline program, there is no income eligibility criteria required for DDTP benefits. Should the Commission consider implementing a means-tested eligibility requirement for DDTP participants? Would establishing means-tested requirement expand program participation or ensure greater benefits to those who are most in need? What are the pros and cons of means-testing? Would program participation drop if means-tested eligibility is instituted? Is means testing an efficient use of ratepayer funds?

3. The Commission is developing means-tested eligibility mechanisms for the California Lifeline program in compliance with federal regulations. Could similar mechanisms be applied to DDTP? For example, income eligibility could be based on the recently-adopted ULTS model which has shifted from income-based to program-based.

4. The DDTP walk-in centers currently verify certifications of deafness, hard-of-hearing or disability. Should they also perform income eligibility for DDTP participants?

5. How should we target DDTP marketing efforts to low-income groups so program benefits reach the population most in need of its services? Should the Commission consider using one of the upcoming marketing campaigns for this purpose?[49]

California LifeLine customers, the utility's general rates, or subsidies from the federal Lifeline and Link Up programs. (G.O GO 153 § 8).

[49] The Commission is in the process of finalizing a contract for marketing services over the next two years. Once a contractor has been chosen and the campaigns are being developed, at least one of the marketing campaigns in the coming years could target low-income deaf, hard-of-hearing and disabled citizens.

6. Because of the evolving nature of telecommunications technologies, new products and services emerge continuously that may better serve the deaf and disabled community, including new technologies being developed for the population at large which provide mobility, easy access and greater options. These advances have an even greater impact on DDTP participants since they enable the DDTP participants to conduct their personal and professional lives without a wireline connection or other cumbersome equipment. For example, many deaf and disabled participants are using services such as text messaging, or instant messaging to communicate instead of the more complicated systems like CRS or CapTel which are also less portable. The usage rate for service such as CRS is dropping because participants are finding the new services to be easier, faster and more accessible than the conventional services. In addition, new services are often cheaper and readily available at the nearest electronics store. Should the program be expanded to allow maximum choice when participants consider various equipments? If not, what limits should be put in place and why should they be put in place?

7. Is DDTP technology neutral?

8. What would be the potential for program budget increase if new technologies that may be more expensive and charges that are based on usage (for example, text messaging) are allowed?

D. CTF ISSUES:

1. Is current CTF program in compliance with the statute?

2. At the time CTF was established, the advanced services, such as switched 56 lines, ISDN and T1 lines, were expensive and typically in institutional settings such as colleges and office buildings. Most eligible entities used dial-up Internet access, and did not receive a discount on those services. Eventually, less expensive high speed services became available and as such were suitable for use by eligible entities such as schools and CBOs. Legislation was revised to include these services and also to extend the 50% discount available to schools and libraries to all participants. Senate Bill 1863 added Public Utilities Code Section 884. Section 884(a) states the intent of the legislature:

   "…that any program administered by the Commission addressing the inequality of access to advanced telecommunications services by providing those services to schools and libraries at a discounted price should also provide comparable discounts to a nonprofit community technology program."

The bill also stated the policy goal of focusing efforts on providing educational institutions, health care institutions, and CBOs with access to advanced telecommunications services in recognition of their economic and societal impact. Does the current program support this goal?

3. Are there any changes to the CTF program that the Commission should consider?

4. Should the Commission consider including advanced services such as VoIP, wireline broadband via PCS, and wireline broadband via several wi-fi technologies or their functional equivalents, in the list of services eligible for program subsidy? Is it appropriate to fund services beyond the Commission's jurisdiction?

5. Should the Commission review the 50% discount mechanism and replace it with a different mechanism?

E. FUNDING MECHANISM ISSUES:

1. Appropriate funding is critical to the longevity of the programs. Does the current mechanism ensure long-term support of the programs?

2. What are the advantages and disadvantages of the current funding mechanism?

3. What changes, if any, would be necessary to improve the program funding?

4. What funding mechanisms are available? What are the advantages and disadvantages of each?

5. Should the Commission consider changing the funding mechanism from revenue-based to number-based by assessing a uniform fee for each assigned number in the North American Numbering Plan (NANP)? The FCC is considering reforming its USF contribution system. On February 14, 2002, in FCC 04-145 (CC Docket Nos.: 96-45, 98-171, 90-571, 92-237, 99-200, 95-116 and 98-170), Report and Order and Second Further Notice of Proposed Rulemaking, the FCC, among other issues, sought comments on whether contributions by carriers based on a flat charge for each end-user connection, depending on the nature or capacity of the connection and/or on each working telephone number are consistent with the 1996 Telecommunications Act. The FCC has not yet issued an order determining whether the existing USF contribution system should be reformed.

6. Would assessment of the uniform monthly fee on assigned NANP numbers be consistent with PU Code § 739.3(d)?[50]

7. Would the exclusion of numbers for one-way paging be consistent with PU Code § 234(b)(2), which classified providers of one-way paging as not telephone companies?

8. Does the CPUC have the oversight on the service providers to ensure that the appropriate universal service funding amount is remitted to the State Controller's Office?

F. PROGRAM IMPLEMENTATION AND REPORTING REQUIREMENTS:

1. What implementation issues should the Commission consider as part of this review?

2. What implementation schedule would be feasible?

3. Are current reporting requirements adequate?

4. Are current performance measurements appropriate?

5. What additional reporting requirement and performance standards should be implemented to help transparency and future review of the programs?

[50] Requires any charge imposed for the funding of universal service rate be "reasonably equals the value of the benefits of universal service to contributing entities and their subscribers".