

State of California

Public Utilities Commission
San Francisco

MEMORANDUM

Date : April 3, 2008

To : The Commission
(Meeting of April 10, 2008)

From : Laura Gasser
Public Utilities Counsel IV

Subject: Filing of Comments in Response to FCC's Notice of Proposed Rulemaking regarding Use of Reverse Auctions To Determine Amount of High-Cost Universal Service Support; WC Docket No. 05-337; CC Docket No. 96-45

RECOMMENDATION: The CPUC should file limited comments in response to the Federal Communications Commission's (FCC) Notice of Proposed Rulemaking (NPRM), adopted January 9, 2008, seeking comment on the merits of using reverse auctions to determine the amount of high-cost universal service support provided to eligible telecommunications carriers (ETCs) serving rural, insular, and high cost areas. The FCC tentatively concluded that reverse auctions offer several potential advantages over current high-cost support distribution mechanisms, and that it should develop an auction mechanism to determine high-cost universal service support. The FCC seeks comment on specific issues regarding auctions and auction design that must be resolved in order for the FCC to implement an auction mechanism. Comments are due April 17, 2008.

BACKGROUND: In its Universal Service First Report and Order, the FCC recognized certain advantages of using competitive bidding to determine high-cost universal service support.¹ The record and the state of competition in rural areas, however, were insufficient to support adoption of a competitive bidding mechanism at that time.² More recently, the FCC asked the Federal-State Joint Board on Universal Service (Joint Board) to review the FCC's rules relating to the federal high-cost universal service support mechanisms for rural carriers and

¹ First Report and Order, *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, 12 FCC Rcd 8776, 8948, ¶ 320 (1997) (Universal Service First Report and Order) (subsequent history omitted).

² *See id.* at 8950, ¶ 324.

competitive ETCs, with the aim of making recommendations for comprehensive reform of the high-cost fund.

In a Public Notice released May 1, 2007, the Joint Board sought comment on various proposals for long term, comprehensive reform of the high-cost universal service support mechanisms, including the use of reverse auctions. In its May 31, 2007 comments with the Joint Board, the CPUC noted it was very interested in the policy discussion of the benefits and drawbacks of implementing some type of reverse auction process to determine support levels for carriers in high cost areas. However, because the issue was before the CPUC in a pending proceeding, the CPUC could not file specific comments on the merits or specific outlines of a reverse auction process. In its November 2007 Recommended Decision,³ the Joint Board concluded that reverse auctions may offer advantages over current high-cost distribution mechanisms, and that the FCC should explore the most appropriate auction mechanisms to determine high-cost universal service support.

DISCUSSION: Staff recommends that the CPUC file comments informing the FCC of CPUC decision D.07-09-020, Interim Opinion Adopting Reforms to the High Cost Fund-B Mechanism, issued in the California High Cost Fund B program proceeding (R.06-06-028). In that decision, the Commission stated its intent to implement, in the next phase of the proceeding, a market-driven reverse auction process as a basis to determine appropriate levels of high-cost B-fund support and acknowledged that a reverse auction process ultimately offers a superior solution to cost proxy model updating as a basis for determining these support levels. Staff further recommends that the CPUC inform the FCC that this second phase of the proceeding is ongoing, and that the CPUC cannot at this time comment on the specific proposals for implementing a reverse auction process, as these matters are pending before it in the current Rulemaking.

Assigned staff: Laura Gasser – Legal Division (LGX, 3-2169)
Roxanne Scott – Communications Division (rs2, 3-5263)

³ See Recommended Decision, *High-Cost Universal Service Support; Federal-State Joint Board on Universal Service*, WC Docket No. 05-337, CC Docket No. 96-45, 22 FCC Rcd 8998 (2007) (Recommended Decision), ¶ 6.