

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**Communications Division****RESOLUTION T-17370****Carrier Oversight and Programs Branch****August 23, 2012****R E S O L U T I O N**

Resolution T-17370. Approval of the California High Cost Fund-B Administrative Committee Expense Budget for Fiscal Year 2013-14 (July 1, 2013 through June 30, 2014) 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 \$29.342 million for Fiscal Year (FY) 2013-14.

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 areas served by the non-rural telephone companies. The companies eligible to receive support include AT&T California, Verizon of California, SureWest Telephone, Frontier Communications of California, and new carriers that become Carriers of Last Resort (COLR) serving those areas. The CHCF-B program is funded by a surcharge assessed on revenues collected from end-users for 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 was 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 adopted major reforms to the CHCF-B program to reduce the size of the CHCF-B fund, 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.

In 2008, the Legislature passed SB 780¹ which required an affordability study of the CHCF-B high cost areas and a report to be submitted. The affordability study found that the median California household telephone bill as reported in the 2010 affordability surveys, adjusted for inflation, has not changed significantly from the prior 2004 survey. Further, 71% of the respondents found their monthly landline bill affordable.

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

¹ Chapter 342, Statutes of 2008

The Commission opened a successor proceeding, R.09-06-019, to continue the modification of the CHCF-B program that had occurred under R.06-06-028. R.09-06-019 may consider the development of a reverse auction process and ways of automating and streamlining the processing of CHCF-B claims.

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

Resolution T-17311, dated March 24, 2011, reduced the CHCF-B surcharge from 0.45% to 0.30% for service rendered on or after May 1, 2011. This reduction in the surcharge was necessary due to a growing surplus in the fund and projected reduction in claims from the program.

The CHCF-B program has a sunset date of January 1, 2015 (See P.U. Code § 739.3 (h)).

Discussion

In this Resolution, the Communications Division (CD) proposes a CHCF-B program expense budget of \$29.342 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 2013-14

The major component of the CHCF-B program is the claims paid to carriers. On March 22, 2012, as in prior years, CD sent a data request to the CHCF-B eligible carriers asking them to forecast the claim amounts for the budget year, FY 2013-14. The forecasted claim amounts for FY 2013-14 that were returned by the carriers totaled approximately \$24.047 million. This amount was then increased by approximately 11%, to \$26.896 million, to provide a cushion for any contingences and expected errors in carriers' forecasts.

Similarly, for the previous fiscal year's (2012-13) budget, the carriers projected claim amounts of \$29.114 million and CD increased this amount by approximately 12% which resulted in the FY 2012-13 claims forecast of \$32.614 million. Fiscal year 2013-14's claims budget is \$5.718 million less than FY 2012-13's claims budget.

SureWest Telephone Company (SureWest) indicated that it would no longer request further claims from the CHCF-B fund as it would no longer have service areas that

qualify as “high cost.” SureWest has received payments from the CHCF-B program to offset Extended Area Service (EAS) revenue that were lost.² Further, pursuant to D.07-09-002, the EAS payments to SureWest were phased out on January 1, 2012 and therefore are not included in this budget.

Carrier Claims - FY 2012-13

As shown in Appendix A, the proposed 2013-14 CHCF-B program budget includes a provision of \$700,000 for prior year’s claims. This is included because there was some uncertainty on the FY 2012-13 budget and some carriers estimated the claims by not correctly accounting for the change in formula. Carrier claim are expected to continue to decline.

Other Program Costs

For FY 2013-14 the estimate for audits is \$300,000 which reflects the portion of the anticipated costs of the auditing program activity attributed to the CHCF-B program. The carriers have periodic comprehensive audits and a portion of those auditing costs that relate to auditing of the CHCF-B program is charged to the CHCF-B budget.

Because of a change in the collection of payments, the banking charges are estimated to be zero for the FY 2013-14.

The FY 2012-13 budget for data processing automation was \$78,000 however a new data processing system has been established for receiving surcharge revenues and there are updated procedures for processing claims. The data processing budget estimate for 2013-14 is \$75,000.

Administrative Committee Costs

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

PUC Staff and Administration Costs

The PUC staff and administration costs have two components: 1) the inter-agency fees that are estimated by the Department of Finance and sent to the Commission and 2) the

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

CPUC staff and administrative related to CPUC employees working on the CHCF-B program. The related costs of these two components are \$344,000 and \$519,000 respectively.

Conclusion

The itemized costs for the FY 2013-14 budget are included in Appendix A and are summarized in the table below:

| Description | FY 2013-14 Proposed Budget (\$ million) | FY 2013-14 Adopted Budget (\$ million) |
|-------------------------|--|---|
| Program Costs | \$ 28.471 | \$ 28.471 |
| Committee Costs | \$ 0.008 | \$ 0.008 |
| All Other Costs | \$ 0.863 | \$ 0.863 |
| Total Program Budget | \$ 29.342 | \$ 29.342 |

On July 23, 2012, 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 2013-14 in the amount of \$ 29.342 million. Due to potential conflict of interest issues, the budget could not be 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 24, 2012.

In this Resolution, we adopt the proposed FY 2013-14 CHCF-B expense budget of \$29.342 million.

Notice/Protests

Notice of the CHCF-B AC Chairperson's expense budget letter was published in the Commission's Daily Calendar on July 24, 2012. 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>

In compliance with PU Code § 311 (g), a Notice of Availability was e-mailed on July 19, 2011 to the CHCF-B claimants, the CHCF-B AC members and alternates, and to parties

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.

on the service list of R.09-06-019 informing these parties that the draft of this Resolution is available at the Commission's website <http://www.cpuc.ca.gov> and is available for public comments. In addition, CD also informed these parties of the subsequent availability of the conformed resolution, when adopted by the Commission, at the Commission's website as indicated above. No comments were received.

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 California Advanced Services Fund program.
6. The authorizing legislation for the CHCF-B program, PU code § 739.3 is set to expire on January 1, 2015.
7. The Commission opened R.09-06-019 to further review aspects of the CHCF-B program. Comments are currently being sought on both a proposed and an alternate proposed decision relating to basic telephone service.
8. On July 24, 2012, the Chairperson of the CHCF-B AC submitted to the Commission a proposed fiscal year (FY) 2013-14 expense budget for the CHCF-B AC Fund of \$29.342 million.

9. The CHCF-B AC's proposed expense budget was noticed in the Commission's Daily Calendar of July 24, 2012.
10. 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 24, 2012. No comments were received.
11. The proposed Expense Budget for the CHCF-B AC Fund for FY 2013-2014 of \$29.342 million, as set forth in Appendix A 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 2013-14 of \$29.342 million, as set forth in Appendix A 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 23, 2012.

PAUL CLANON
Executive Director

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

| Program Expenses | July 2012- June 2013 | July 2013 - June 2014 | July 2013 - June 2014 |
|--|----------------------------|-----------------------|------------------------|
| | Adopted per Res T-17328 | Proposed | Adopted Res T-17370 |
| a | b | c | d |
| Expenses | | | |
| Program Costs | | | |
| 1 Carrier Claim Payments (Current) ¹ | \$ 32,614 | \$ 26,896 | \$ 26,896 |
| 2 Carrier Claims for prior years | \$ 700 | \$ 700 | \$ 700 |
| 3 Interest for Untimely Payments | \$ 1,000 | \$ 500 | \$ 500 |
| 4 Other Program Services | | | |
| 5 Other Legislative Mandated Programs/Other Program Payments | | | |
| 6 Audits | \$ 175 | \$ 300 | \$ 300 |
| 7 Banking Fees ² | \$ 23 | \$ - | \$ - |
| 8 Data Processing Automation ³ | \$ 78 | \$ 75 | \$ 75 |
| Administrative Committee Costs ⁴ | | | |
| 9 Administrative Committee-Per Diem | \$ 2 | \$ 2 | \$ 2 |
| 10 Administrative Committee-Travel and Others | \$ 4 | \$ 4 | \$ 4 |
| 11 Administrative Committee-Other Expenses | \$ 2 | \$ 2 | \$ 2 |
| PUC Staff and Admin Costs | | | |
| 12 Inter-Agency Fee ⁵ | \$ 1,245 | \$ 344 | \$ 344 |
| 13 CPUC Staff and Administrative Costs ⁶ | \$ 490 | \$ 519 | \$ 519 |
| 14 Total Program Expenses | \$ 36,333 | \$ 29,342 | \$ 29,342 |

Notes

- 1 Claim payments for FY 2012-13 are based on projections submitted by carriers in May 2011. SureWest EAS payments cease on 1/1/2012.
- 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 2012-13.
- 5 Based on estimate of pro-rata costs allocated to state service agencies, e. g. DGS, State Personnel Board, etc. - overestimated in past.
- 6 Based on personnel staff allocation estimate and program priorities for the five public purpose programs and CASF, but only includes CHCF-B portion.