

State of California

**Public Utilities Commission
San Francisco**

M E M O R A N D U M

Date : June 30, 2010

**To : The Commission
(Meeting of July 8, 2010)**

**From : Gretchen Dumas
Public Utilities Counsel V**

**Subject: Filing of Comments in Response to FCC's Notice of Proposed
Rulemaking to Modify the E-Rate Program Consistent with the
Recommendations of the National Broadband Plan**

RECOMMENDATION: In response to an FCC Notice of Proposed Rulemaking (NPRM) to modify the federal universal service E-rate program consistent with the objectives of the National Broadband Plan, staff is recommending that the CPUC file comments supporting FCC proposals to streamline the E-rate applications process, to phase out funding of traditional voice services in favor of broadband access, and to support an interim pilot program to gauge the cost and related impacts of a proposed plan to fund use of wireless broadband Internet access away from school premises. Opening Comments are due July 9, 2010.

BACKGROUND: This rulemaking is one of several the FCC has initiated to implement the National Broadband Plan, released on April 17, 2010. Reform of the Universal Service Fund (USF) to maximize broadband utilization is one of the chief ambitions of that Plan. The E-rate program (formerly known as the schools and library universal support mechanism) represents the second largest component of the federal Universal Service Fund (USF).¹ The NPRM seeks comment on various reforms, including streamlining the application and competitive bidding process, revising the way applicants calculate their discounts, changing the way "rural" is defined, supporting wireless access services away from schools, allowing the leasing of dark fiber from municipalities and other non-carrier sources, reassessing the services and funding of Priority 1 versus

¹ Notice of Proposed Rulemaking, In the Matter of Schools and Libraries Universal Support Mechanism, CC Docket No. 02-6, A National Broadband Plan For Our Future, GN Docket No.09-51, rel. May 20, 2010, ¶ 1.

Priority 2² services, indexing the E-rate disbursements to inflation, and allowing schools and libraries to dispose of obsolete equipment without violating the prohibition against reselling E-rate funded equipment.

The E-rate program has been in existence for 12 years. It is capped at \$2.25 billion per year. Demand has consistently exceeded available funding. By streamlining the program, the FCC hopes to be able to support higher bandwidth services that enable customized interactive online learning in place of more traditional telephone service. Eligibility for the program is based on the percentage of students receiving free or reduced price lunches in the National School Lunch Program.³ The general emphasis of the suggested reforms is to expand funding of broadband Internet access services in a cost-effective manner, which may include reprioritizing or redirecting funds from other services.

DISCUSSION: Staff recommends that the CPUC file comments supporting the gradual phase-out of traditional voice services as part of the larger transition from traditional circuit-switch technologies to IP-enabled services based on broadband access. In addition, staff recommends support of the FCC's proposals to streamline the application process. The point of these reforms to the application process is to encourage greater E-rate participation and to reduce the costs to applicants for completing the application form.

In the case of wireless broadband access away from school premises, staff is recommending that the impact of the proposal to eliminate the rule that schools must allocate the cost of wireless Internet access service between in-school use and non-funded off-premises use be tested in a limited-duration pilot program. A limited trial will enable the FCC to determine demand for such non-school usage and gauge the various incentives driving schools to adopt particular supported services. It also will allow the FCC to assess the adequacy of the safeguards for preventing waste, fraud, and abuse and the interactions between this proposal and other reforms in the NPRM.

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² Eligible services are categorized under two service rubrics. Presently, the E-rate program has been able to fund all Priority 1 services. Priority 2 services are subsidized subject to available monies after Priority 1 funding. Hence, Priority 2 services are usually funded only for those libraries and schools defined by a very high level of poverty. Under the current formula, schools that have over 75% of students qualifying for free or reduced lunches are usually the only schools receiving funds for Priority 2 services. Priority 1 services under the current program would include traditional telephone services (including 1MB), and DSL, T1, *etc.* services, and Internet access services. Priority 2 services include internal connections (wiring, hubs, switches, some types of servers) and basic maintenance for such services.

³ NPRM ¶ 35.