R.13-01-010

***CTF 2.0: Connecting California***

Staff Proposal for the California Teleconnect Fund

January 2014

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## 1. Executive Summary

The purpose of this Communications Division Staff Proposal is to recommend modifications to the California Teleconnect Fund (CTF) program rules. This process was initiated in response to the Order Instituting Rulemaking (OIR) issued in January 2013 to assess whether the significant California Teleconnect Fund (CTF or Fund) subsidies are achieving the Commission's universal service objectives in light of evolving technologies and markets, and whether there is a need for specific guidance on eligibility criteria for participants, service providers, and services.[1]

This Staff Proposal presents a range of recommendations based on an analysis of historical data, data request responses[2], party comments in this proceeding, and publicly available information on the advanced communications services marketplace. The Scoping Memo in this proceeding calls for a workshop on February 21, 2014 to take ideas from parties on how to modify the CTF program in the evolving telecommunications marketplace.

All staff recommendations are intended to support the Commission's decision making process. These recommendations do not represent the final decision of the Commission.

[1] Order Instituting Rulemaking 13-01-010, issued January 31, 2013 (OIR).

[2] Staff proposal is based on responses to annual budget data requests and Communications Division's (CD's) November 2011 data requests. Responses to CD's 2013 data requests were not received in a manner timely enough to be incorporated into this report. The report may be updated to reflect the new data.

Please see the Scoping Memo in Rulemaking (R.)13-01-010 for information about how and when to respond to this Staff Proposal with public comment. Staff anticipates and welcomes feedback and input from parties on the recommendations contained in this document. Staff has attempted to explain the underlying reasoning that led to the specific recommendations in the proposal in order to facilitate public input.

Some of the recommendations are preliminary and are contingent on further legal and technical analysis. Staff intends to update this proposal in response to input. Regardless of whether a specific recommendation is noted as preliminary, future information obtained through the public input process may modify this staff proposal and will be used by the Commission in this Rulemaking.

Summary of Proposed Rules

In developing its proposed rules, staff was guided by the following key issues set out in the OIR:

(1) Are the significant CTF subsidies achieving the Commission's universal service objectives, in light of evolving technologies and markets?

(2) What specific guidance on eligibility criteria for participants will assist staff in carrying out the program's statutory intent?

(3) What services should be eligible and what should the rules and processes be for determining their eligibility?

(4) What specific guidance is needed for service provider eligibility?

(5) What measures may be utilized to ensure that ratepayers' money is spent prudently in fulfilling the CTF's goal of bring advanced communications services to all Californians?

In response to the issues stated in the OIR, staff's proposed rules are designed to:

- Restate universal service goals for CTF with more specificity in order for the Commission to assess the program's effectiveness in achieving its objectives,
- Support community-based organizations that provide high-speed internet access to their local communities, and target discounts to entities who have limited financial and technology resources and serve local communities with limited financial and technology resources.
- Support advanced services and eliminate CTF discounts for voice services, unless it is the only means of internet access,
- Allow local government and non-profits in underserved areas to be eligible CTF service providers, and require all service providers to adhere to consumer protection and safety rules, and
- Change the discount from 50% of service price to a fixed dollar amount.

## 2. Background

### *2.1 Current Policy and Program Design*

Even before Congress established federal universal service policy within the Telecommunications Act of 1996, the California legislature recognized that the longstanding cornerstone of state and federal telecommunications policy is universal service, which requires that telephone service be affordable and ubiquitously available.[3] As part of that commitment, the legislature created the California Teleconnect Fund (CTF) program in statute in 1999, to advance universal telephone service by providing discounts to qualifying schools, libraries, hospitals, health clinics, and community organizations, later specifying that qualifying schools included K-12 and community colleges.[4]

[3] 1994 Cal ALS 278; 1994 Cal AB 3643; 1994 Cal Stats. ch. 278

[4] Cal Pub Util Code § 280. In 1996, the CPUC opened a proceeding to examine universal service, pursuant to AB 3643. That proceeding resulted in D.96-10-066, in which the Commission created the CTF program.

The fund is supported by California telephone users, through an end-user surcharge on intrastate telecommunications services. Eligible organizations apply to the CPUC and present their approval letter to the telecommunications provider, who then submits a claim for reimbursement to the CPUC for the total amount discounted.

In 2006, the Commission opened a rulemaking to conduct a comprehensive review of its universal service public policy programs. That review resulted in Decision (D.)08-06-020, which expanded the category of schools eligible for the CTF discount to include California community colleges (CCC), while subjecting the total CTF discount for community colleges to an annual limit; added internet services to the types of eligible services; allowed certificated and registered carriers to offer internet service under the CTF program without those services being subject to state tariff requirements or Commission regulation; allowed internet service providers (ISPs) to partner with certificated and wireless carriers to provide internet services; added community-based organizations providing 2-1-1 Information and Referral Service to the types of eligible entities; made California Telehealth Network participants eligible for the program, individually or as a consortium.

### *2.2 Program Participants and Discounts*

Staff recognizes the importance of widespread internet access to California's economic development. The CTF is the largest universal service subsidy program that directly supports internet adoption.[5] Staff recognizes that high prices are a barrier to adoption

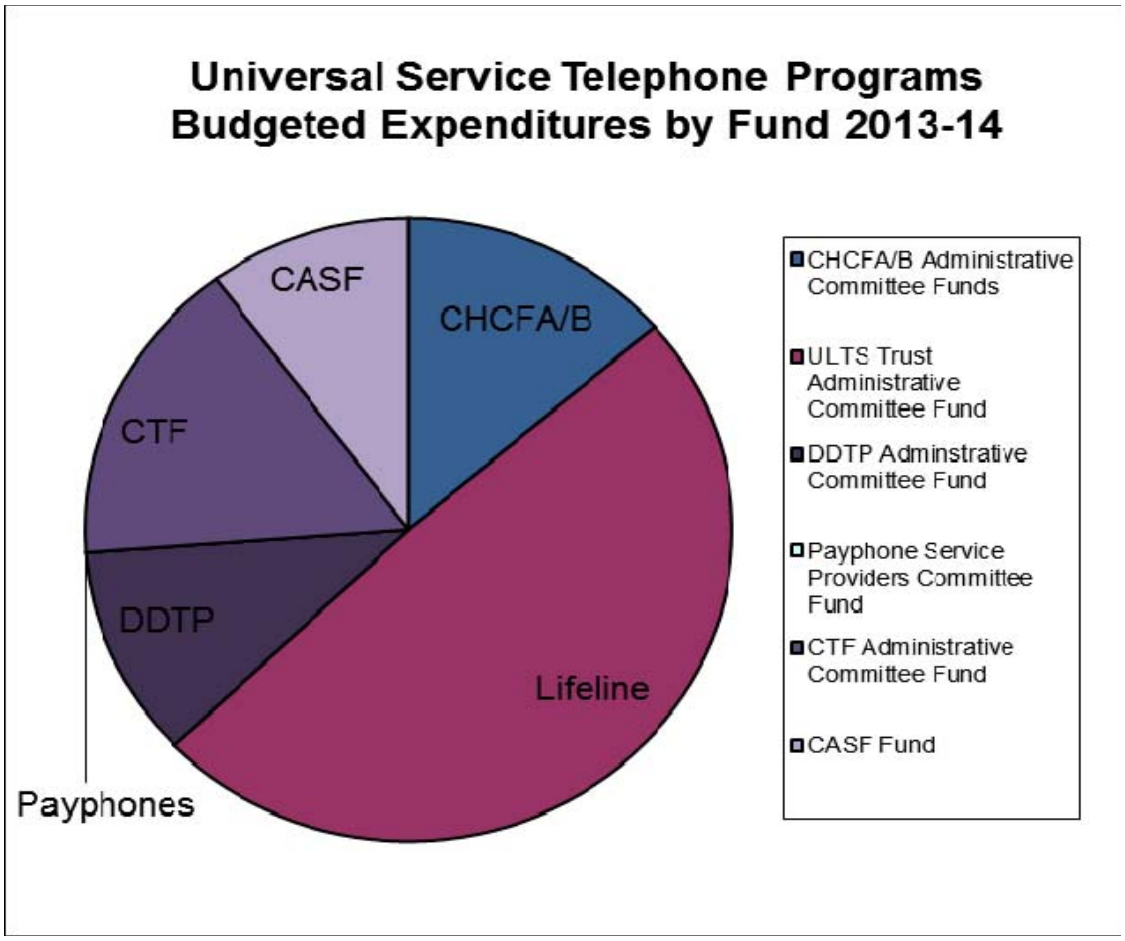
[5] *See* R.12-10-012. The California Advanced Services Fund (CASF) supports broadband networks and has limited funding for regional consortia that promote broadband adoption.

and that higher income is associated with adoption.[6] A recent study posits that better internet service actually leads to income gains.[7]

The CTF provides a 50% discount, after any Federal applicable discounts, on telecommunications and internet services to institutions that play a pivotal role in our economy and society such as schools, libraries, government and hospital district-owned healthcare facilities, community colleges, and nonprofit community-based organizations (CBOs). There are currently more than 9,000 participating entities in the CTF program, including almost 6,000 community-based organizations.

The CTF is a major element of the CPUC universal service program. In FY 2013-14, CTF's $92.4 million budget represented more than 16% of California's universal service budget.[8] The CTF is the second-largest universal service subsidy program, after Lifeline.

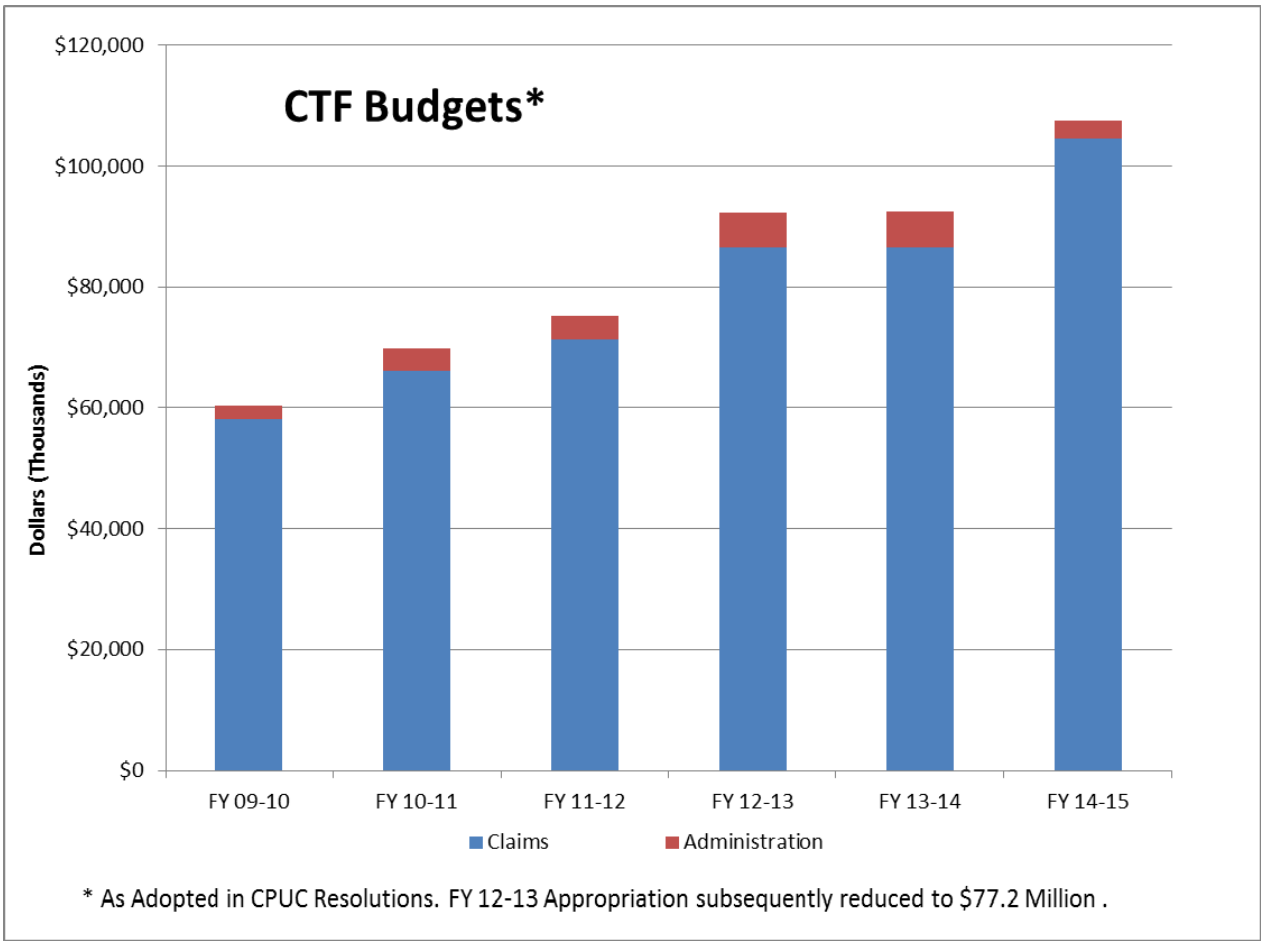
[6] "Broadband Adoption and Use in America: OBI Working Paper Series No.1," FCC Omnibus Broadband Initiative (OBI) Working Reports (http://hraunfoss.fcc.gov/edocs_public/attachmatch/DOC-296442A1.pdf).
[7] "The greatest expected increase in income is for the transition from being without broadband to gaining 4 mbps." From "Measuring the Impact of Broadband on Income," Ericsson 2013, quoted in UN ITU 2013 Broadband Report , p.28.
[8] California 2013 Budget Act (http://www.ebudget.ca.gov/).



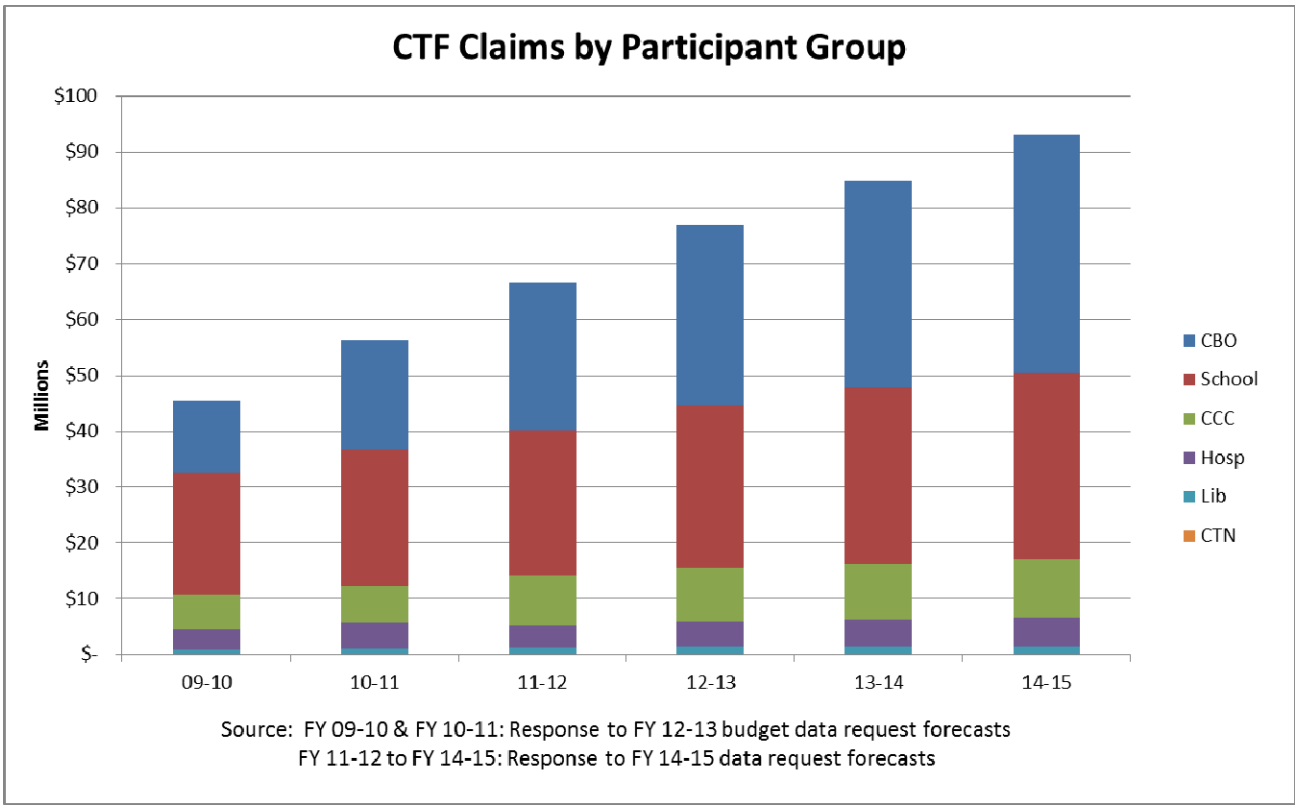

Over the last five years, the CTF budget has grown from $60 million in FY 2009-10 to approximately $108 million in FY 2014-15. Budget drivers include new rules expanding the types of eligible participants, services, and service providers; outreach to CBOs; and a lack of price or quantity limitations on services. The vast majority of the program budget, more than 90%, is for carrier claims, with less than 10% for program administration.

The CTF is funded by a surcharge on intrastate telephone service, one of the six surcharges supporting California's public purpose telecommunications programs. Each surcharge rate is adjusted periodically based on forecasted demand for that program.

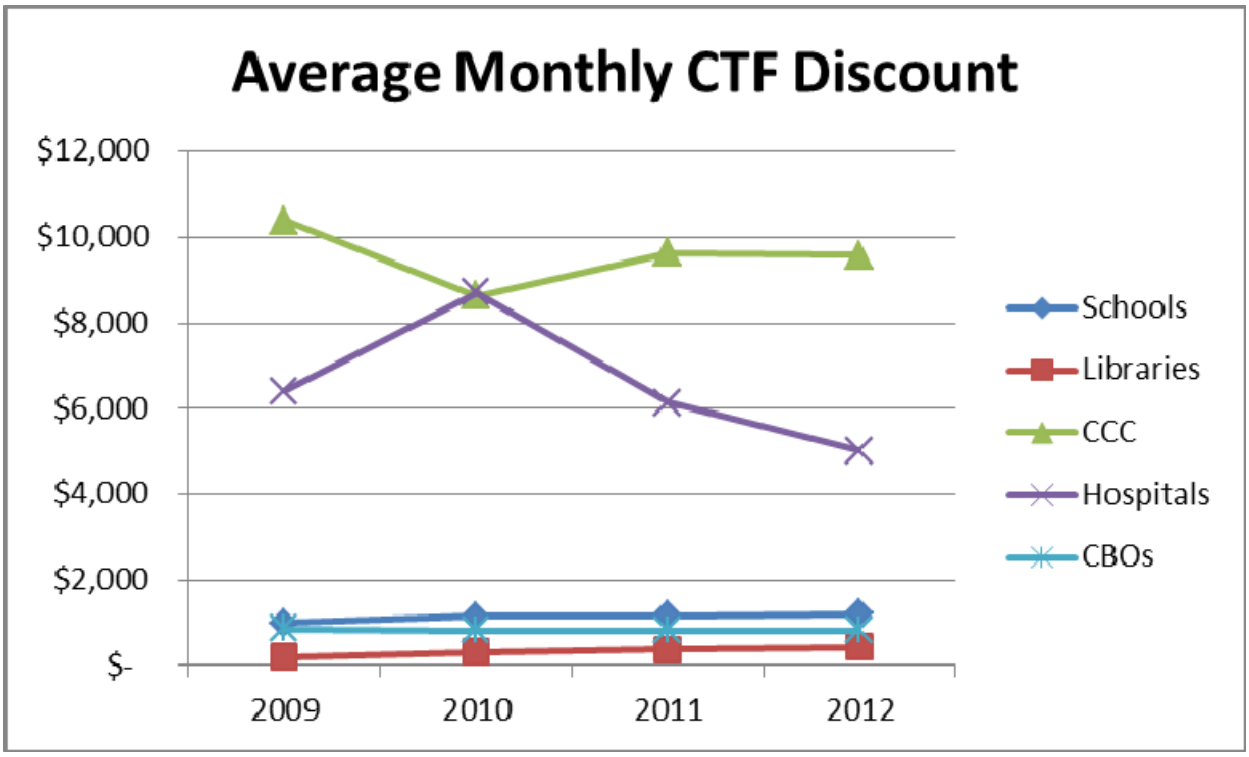
The CTF surcharge rate was increased from 0.079%, set on June 1, 2008, to the current rate 0.59%, set on December 1, 2012.




Growth in CBO discounts outpaces that for all other sectors. CBOs now constitute more than half of all CTF participants. They are expected to receive over 40% of total CTF subsidies for FY 2013-14. The top fifty community organization users in FY 2010-11 included individual affiliates of national nonprofit entities, such as Goodwill Industries, as well as standalone nonprofits. Health care community organizations were heavily represented among the top users.




Community colleges and public hospitals had the highest per-entity discounts, while libraries had the lowest. A comparison of the top service types used by the different entity sectors in fiscal years 2009-11 indicates that schools and community colleges were the biggest users of the highest-speed data services. Community organizations lagged in their use of advanced services. In 2012, the average monthly discount for schools was $1210, for libraries $419, for community colleges, $9,585, for hospitals $5007, and for CBOs $811.




## 3. Proposed Rules

### *3.1 Goals*

*Issue:* As raised in the OIR, a key issue is whether the significant California Teleconnect Fund subsidies are achieving the Commission's universal service objectives in light of evolving technologies and markets.[9] However, California's universal service goal is typically defined as telephone service to residential customers and has not been redefined in the context of the CTF program.[10]

To address this issue, staff proposes a set of program goals to narrowly focus subsidy payments to entities that further the universal service goal in areas where internet access is most needed. Current and proposed goals statements, along with the rationale for the proposed changes, are listed below:

[9] California Public Utilities Commission, *Order Instituting Rulemaking to Conduct a Comprehensive Examination of the California Teleconnect Fund*, R. 13-01-010, issued January 31, 2013 (OIR), p.1.
[10] D.12-12-038, pp. 2-3.

*Current statement of goals:*

The CTF "will foster innovation in the use of advanced telecommunications services…and… will assist in ensuring affordable, widespread access to the telecommunications networks, and the resources tied to those networks. The California Teleconnect Fund also reduces the dichotomy between the information rich and the information poor.[11]

*Proposed restatement of goals:*

The goal of the CTF program is 1) to bring every Californian access[12] to advanced communications services in their local communities;[13] 2) to insure high-speed internet connectivity for community anchor institutions at reasonable rates; and 3) to increase high-speed internet access penetration in communities with lower rates of internet adoption and greater financial need. [14]

*Rationale:*

The goals articulate the type of service and the type of access that the program aims to support, in order to give the CPUC and the people of California a means to evaluate

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[11] D.96-10-066.

[12] "Access" means providing high-speed real-time interactive any-to-any internet connections to the public during reasonable business hours at minimal or no cost within their local community. (See CBO eligibility rules.)

[13]See BTOP Los Angeles Computer Access Network 'LACAN' (http://ita.lacity.org/stellent/groups/departments/@ita_contributor/documents/contributor_web_content/lacityp_026767.pdf). "The ITA was awarded $7.5 million to create 188 public computer centers throughout the City of Los Angeles' diverse neighborhoods at libraries, workforce training centers, youth and family centers, parks and recreation and community centers. The achieved results have been remarkable: 188 Public Computer Centers were upgraded with 3,418 new computers and 133 of these Centers with *faster and more reliable Broadband connections*. Over 75,000 weekly users benefit from the availability of this new equipment and broadband connection. Thousands of Angelenos are securing jobs and improving their quality of life from this project now and may continue for the upcoming years. They are realizing the benefits of the information age *including training and guidance*. For many citizens LACAN provides their only means of accessing broadband Internet services *within a short distance from their residence."* (emphasis added)

[14] OIR at 7. "The Commission clearly contemplated that CBOs would provide internet access to their constituents when the Commission established the CTF in 1996."

whether the CTF subsidies are achieving the Commission's universal service objectives in light of evolving technologies and markets.

### *3.2 Eligibility criteria for participants*

*Issues:*

The first issue is, whether eligibility criteria should be modified to target entities whose mission supports the goals of the CTF, and, second, whether there is a need for specific guidance on eligibility criteria for participants,[15] such that Commission staff may effectively carry out the program's statutory intent.

Overly broad criteria may lead to the inefficient use of resources. For example, a lack of specificity in the application requirements can leave the basis for approval or rejection open to question by applicants and staff, thus draining limited resources. More importantly, the lack of specificity can result in entities receiving discounts whose participation may not achieve CTF goals or do so minimally.

In response, staff proposes rules to clarify and refine the eligibility criteria to be applied to current and future participants. Current and proposed rules, along with the rationale for the proposed changes, are listed below.

#### 3.2a Schools

*Current Rule:*

Qualifying public or nonprofit schools providing elementary or secondary education (K-12) which do not have endowments of more than $50 million are eligible for the CTF discount. The term "nonprofit schools" includes schools operated by a religious order

[15] OIR, p.6.

that have been incorporated as a nonprofit Public Benefit Corporation or as a nonprofit Religious Corporation.[16]

*Proposed rule:*

Reduce endowment cap from $50 Million to a lower threshold to be discussed in workshops and comments. All other eligibility criteria remain the same.

*Rationale:*

By reducing the endowment level from $50 million, the program will target the subsidy to the entities in most financial need, in line with the proposed goals.

### 3.2b Community colleges

*Current Rule:*

Community colleges are categorically eligible.

*Proposed rule:*

No change.

*Rationale:*

Community colleges further the program's goals of offering local access at affordable rates.

### 3.2c Libraries

*Current Rule:*

Libraries which were eligible for participation in state-based plans for funds under Title III of the Library Services and Construction Act are eligible for the CTF discount.[17]

[16] D.96-10-066

[17] D.96-10-066.

*Proposed rule:*

No change.

*Rationale:*

Libraries further the program's goals of offering local access at affordable rates.

### 3.2d Hospitals and health clinics

*Current rules:*

Hospitals and health clinics that are municipal and county government-owned and operated, and all participants in the California Telehealth Network (CTN) funded by the pilot federal rural health care program, [18] are eligible for the CTF discount on only CTF-eligible services related to the CTN.

*Proposed rule:*

No change is proposed to the rule establishing eligibility for government-owned and operated hospitals and health clinics. For the participants in the CTN funded under the permanent federal rural health care program,[19] only the participants that are also CTF-approved participants are eligible for the CTF discount, subject to the resolution of claims administration issues associated with both the pilot and permanent programs operating concurrently.

*Rationale:*

Including government hospitals, clinics, and CTF-eligible CTN participants in the CTF program is in line with legislative intent to target the CTF discounts to hospitals and health clinics.[20]

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[18] Decision 08-06-020,p.33.
[19] *Rural Health Care Support Mechanism*, FCC, WC Docket No. 02-60, REPORT AND ORDER, Rel. December 21, 2012, FCC 12-150
[20] Cal.Pub.Util.Code s 280.

### 3.2e Community-based organizations (CBOs)

*Current rule:*

Tax exempt 501(c)(3 )or 501 (d) organizations offering health care, job training, job placement, 2-1-1 referral services and information, educational instruction, or a community technology program providing access to, and training in, the internet and other technologies are eligible for the CTF discount.

A CBO's administrative office locations are not eligible, if they do not also provide any of the qualifying services stated above.

*Proposed rules:*

In order to be eligible for a CTF discount, a community organization must offer one or more of the qualifying services as its primary mission.

A "community-based organization" is defined as a small, nongovernmental, California nonprofit corporation which itself directly serves individuals and families, and which offers services to anyone who needs it without charge or at a minimal fee. The organization should offer services within a local geographic area in California, be located within the geographic boundaries of the local government entity in which its target population resides, and have a governing body drawn from the community it serves.

"Access" means providing high-speed real-time interactive any-to-any internet connections to the public during reasonable business hours at minimal or no cost within their local community.

CBO eligibility is based on a nine-point system. To qualify, each CBO must have all seven

of the required attributes, plus one of the two optional attributes, stated below:

Required Attributes:

- Revenues less than $1 million, except for 2-1-1 CBOs.
- Qualifying service(s) must be 50% or more of a CBO's mission.
- IRS 501(c)(3) tax exempt letter.
- IRS Form 990 or other financial statements and attestation, if they do not have a Form 990 or if the Form 990 is inadequate.
- Provides its community access to the internet – except not applicable to health care or 2-1-1 CBOs.
- Provides services directly to individuals at specific geographic location(s).
- Located in an area with a household internet adoption rate of less than 60%.

Optional Attributes:

- Located in an economically depressed area, i.e. an area with median income less than 150% of the federal poverty level.
- A majority of members of the Board of Directors resides in the county where the CBO is located.

Additional requirements for specific types of CBOs are:

- Health care CBOs must be staffed by licensed medical personnel;
- Qualifying educational instruction is limited to early childhood education, curriculum similar to that offered in K-12 public schools, or internet training;
- Religious entities applying as CBOs must provide qualifying services through a separate legal entity; and
- 2-1-1 CBOs must continue to be approved by CPUC Resolution in order to be eligible for CTF discounts.

*Rationale:*

The recommended rules provide clear guideposts that will give staff the guidance needed to achieve the proposed program goals. Mandating a clear and significant connection between a CBO's qualifying services and its overall mission ensures that the program reaches its intended recipients and is in accordance with PU Code Section 280, which established the CTF.

Requiring CBOs to provide internet access to their local communities and to be located in areas where household internet adoption is less than 60% ensures that the beneficiaries of CTF discounts will be Californians who are more in need of advanced communications services, consistent with proposed goals.

Comments from the parties support this approach. For example, DRA recognizes that more specificity is needed for determining qualifying educational instruction, stating that the Commission should: "support only entities that directly interact with and provide specific benefits to information-poor communities to improve public internet access, education, or medical care; that provide direct community communications technology programs, information access, and training; and that make the funded internet service publicly available; fund only educational services that involve significant training of members of the public in internet-related skills, as well as student services, library internet access, and rural and low-income urban telehealth programs."[21]

*Current Rule:*

The maximum annual revenues a CBO may have in order to be eligible is $50 million.

[21] DRA Comments on Goals.

*Proposed rule:*

The maximum annual revenues a CBO may have in order to be eligible is $1 million. 2-1-1 Referral Services and Information providers approved by CPUC Resolution are exempt from the $1 million maximum annual revenue requirement.

*Rationale:*

The discounts should be targeted to those in most financial need. Based on CD's "lead list" of potentially eligible CBOs,[22] the Commission could limit the discounts to smaller entities with less than $1 million in revenues and still reach close to 10,000 more potentially eligible CBOs.[23]

TURN supports this concept, commenting: "Most small CBOs, as TURN has defined them above, have revenues no-where near this amount. While revenue data on small nonprofits has been challenging to find in time for this filing, a surrogate is to examine expenses. 'Over 66 percent of all potential CTF-eligible nonprofits in California report expenses of less than $500,000, whereas the majority of CTF participants report expenses in the $1 million to $5 million range.' Using the aforementioned large nonprofits above, for example, United Way of the Bay Area had 2011 expenses of approximately $34 million; Goodwill Industries of SF, San Mateo and Marin had 2011 expenses of approximately $36 million. Thus, better targeting of small CBOs will result in a broader diffusion of CTF subsidies and improved access for target populations."[24]

TURN further comments that the Commission should target CBOs that provide access to computers, including instruction or labs, to individuals from lower socioeconomic and

[22] Developed by CTF Outreach contractor Richard Heath and Associates based on the National Taxonomy of Exempt Entities (NTEE) system used by the U.S. IRS to classify nonprofit organizations.
[23] The lead list currently includes a total of more than 25,000 entities. Of almost 12,300 entities on the list who reported revenues, 9700 reported less than $1 million in revenues, and of those, about 8600 reported less than $500,000 in revenues.
[24] TURN opening comments on OIR.

disenfranchised communities; and that have relatively small budgets.[25] They further comment: "many CBOs are so small that all they can afford is to give clients use of a computer--for those who have no access at home (or may even have no home), a few hours access can facilitate the search for jobs, housing, food and medical care, and these individuals are often the proverbial 'information poor,' the exact targets for whom the CTF was created."[26]

Verizon also agrees, recommending that the CPUC help only CBO's that need help and lower the revenue threshold to "a fraction of $50 million."[27]

### *3.3 Eligibility Criteria for Services*

*Issue:*

Rapid technological advances have resulted in a continuing introduction of new, complex telecommunication and internet access services, which often bundle CTF-eligible services with non-CTF-eligible services. Current rules require staff to determine on a case by case basis if a service or a component of a service is eligible for the CTF discount based on whether the service or one of its components is functionally equivalent to the list of services established by the Commission many years ago. The combination of these two factors creates significant challenges for staff. Hence, a key issue is what should be the rules or processes for determining service eligibility.

In response, staff proposes rules to define services in terms of functionality, rather than in terms of technology used. Current and proposed rules, along with the rationale for the proposed changes, are listed below.

[25] TURN opening comments on OIR.
[26] TURN reply comments on OIR.
[27] Verizon comments on OIR.

*Current Rules:*

- The following technologies that could be used to connect customers to the internet are eligible to be subsidized:
  - Measured Business Service Lines;
  - Switched 56 Lines;
  - Integrated Service Digital Network (ISDN);
  - T-1, DS-3 up to and including OC-192 services;
  - Internet Access;
  - Multi-Protocol Label Switching (MPLS);[28] and
  - The functional equivalents of the services named above.

- New service eligibility is evaluated on a case by case basis.
- Only the CTF-eligible component of bundled services qualifies for the CTF discount.

*Proposed rules:*

Limit CTF subsidies to high-speed, real time, interactive, any-to-any internet connections and data circuits. CTF subsidies would no longer be applied to voice service, including interconnected VoIP service, unless it is the only vehicle for internet access in a geographic area.

For schools and libraries, staff recommends that eligible services mirror requirements set by the FCC for E-Rate funding,[29] including: allowing use of E-rate subsidized services for after school hours; funding only the on-campus portion of E-rate-eligible wireless

[28] MPLS is eligible when used in conjunction with another CTF-eligible service.

[29] *Schools and Libraries Universal Service Support Mechanism; A National Broadband Plan For Our Future*, Federal Communications Commission SIXTH REPORT AND ORDER, CC Docket No. 02-6; GN Docket No. 09-51, Rel. September 28, 2010.

internet service;[30] and supporting services using lit or dark fiber provided by government and non-profits.

To improve the service eligibility evaluation process, staff recommends (1) carriers annually submit a list of services with documentation supporting their eligibility; (2) all services be approved by the CPUC as eligible prior to provisioning of CTF discounts; and (3) the criteria for service eligibility, including the concept of functional equivalence, be developed in workshops. (Also see the Cost Containment section's recommended rules regarding the calculation of CTF discounts on services.)

*Rationale:*

Focusing on internet access, rather than on voice service, furthers the goal of bringing every Californian access[31] to advanced communications services in their local communities.

Dark fiber services provide a readily available and cost-effective way to extend internet access in some areas, in line with program goals.[32]

Determining service eligibility prior to providing discounts will reduce the administrative burden on carriers and staff and facilitate claim processing.

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[30] *Modernizing the E-rate Program for Schools and Libraries*, WC Docket No. 13-184, FCC Notice of Proposed Rulemaking, Rel. July 23, 2013.

[31] "Access" means the availability of a high-speed internet connection to the public during reasonable business hours at minimal or no cost within their local community. (See CBO eligibility rules.)

[32] The Commission recently recognized middle-mile transport as a telecommunications service. *See* D.13-12-050.

### *3.4 Eligibility criteria for service providers*

*Issue:*

The OIR asks whether there is a need for specific guidance on the eligibility criteria for service providers and whether the exclusion of service providers not subject to the Commission's regulatory authority results in sub-optimal choices and distributions of subsidies.[33] The Scoping Memo asks whether current consumer protection rules are adequate and whether new measures are necessary.[34]

In response, staff proposes 1) new rules to establish quality, affordability, safety, and reliability conditions for service providers who receive compensation from the CTF program and 2) expanding eligibility to new providers in underserved areas. Current and proposed rules, along with the rationale for the proposed changes, are listed below.

*Current rules:*

Only CPCN holders or wireless registration holders may make claims for compensation from the CTF. CPCN holders may partner with internet service providers (ISPs) and file claims on their behalf for internet access related services.

*Proposed rules:*

In underserved areas (download < 6Mbps and upload <1.5Mbps)[35] staff recommends that local governments and nonprofit corporations be allowed to provide service to CTF-eligible participants. Staff understands that Public Utilities Code Section 270 may limit the Commission's ability to use CTF funds to subsidize services provided by non-

[33] OIR at 7-9.
[34] Scoping Memo at 4.

[35] Similar to criteria used by CASF. See *Decision Implementing Broadband Grant and Revolving Loan Program Provisions,* California Public Utilities Commission D.12-02-015, February 1, 2012.

telecommunications corporations and recommends that parties address this issue in workshops and comments.

All service providers, telecommunications corporations or entities partnering with them, including ISPs, or any other provider that serves CTF participants, should conform to consumer protection, customer service, and consumer safety requirements; and approved service providers must publish CTF contact and price information on their websites. Staff recommends that parties address at workshops and in their comments specific consumer protection and safety requirements.

*Rationale:*

Allowing local governments and non-profits to provide service to CTF participants in underserved areas is consistent with program goals to bring every Californian access to advanced communications services[36] in their local communities.

Additionally, the new rules will help the CPUC to efficiently and effectively carry out its core mission: providing safe, reliable, affordable utility service to California citizens. The Commission's stated mission is to serve the public interest by protecting consumers,[37] and a rule requiring adherence to basic consumer protections supports the agency's mission.

TURN supports this concept, recommending that the CPUC expand the CTF subsidy to service providers that are not subject to CPUC jurisdiction and protect the public

[36] See FN2.
[37] CPUC mission statement (http://www.cpuc.ca.gov/PUC/aboutus/pucmission.htm).

interest by implementing safeguards by conditioning "the grant on certain terms and on submitting [the CTF subsidy recipient] to CPUC authority for CTF compliance."[38]

### *3.5 Cost Containment*

#### 3.5a Mechanisms to limit subsidy size:

*Issue:*

Rapid growth in program expenditures is driven in part by entities using ever more advanced and costly services and using more of those services. In opening the OIR, the Commission intended to further the important goal of bringing the benefits of advanced communications services to all Californians, while also ensuring that California ratepayers' money is spent prudently.[39]

In response, staff proposes new rules that limit program expenditures, create an incentive for eligible entities to procure services at lower costs, and monitor program expenditures. Current and proposed rules, along with the rationale for the proposed changes, are listed below.

*Current rule:*

Subsidies are set at 50% of the service price, independent of price level or quantity of service purchased.

*Proposed rules:*

Modify the CTF discount to be a flat dollar amount per service type (subject to adjustment by the Commission). Potential mechanisms include:

[38] TURN comments on Goals
[39] OIR at 2.

- Annually set a fixed dollar discount based on the lowest price paid by a CTF participant for a CTF-eligible service. Services would be grouped by speed and/or features to allow for price comparison between carriers. For example, if the lowest price paid for a service is $100. A portion of $100, e.g. $20, would be the fixed dollar discount applied to all CTF customers.
- For internet access service below 50 Mbps, set a fixed dollar CTF discount based on the annual lowest price paid by a CTF participant. Services would be grouped by speed and/or features to allow for price comparison between carriers. For all other services, the discount would be based on a percentage of price, e.g. 50%.

Staff appreciates that each of the above mechanisms has limitations and introduces complexity into the CTF program. Because of this, staff recommends that mechanisms to achieve a fixed dollar discount be proposed by parties in their comments and discussed in a workshop. Another issue that merits discussion is whether the mechanism and level of discount should be equally applied to all entities.

*Rationale:*

Limited public resources should be used judiciously, balancing the CPUC's fiduciary responsibilities and its statutory and policy universal service obligations. Controlling the size and/or rate of change of the Fund reduces the CTF surcharge to consumers and also ensures ratepayer's money is wisely used.

A fixed dollar discount based on the lowest price paid by a CTF participant minimizes the potential for fraud, waste, and abuse in a communications marketplace with unregulated prices. Additionally, a fixed dollar discount eliminates the administrative

burden of determining the basis for the CTF discount on complex bundled services, which contain both CTF-eligible and CTF-ineligible components.

### 3.5b Ensuring that Entities Meet Program Requirements

*Issue:*

The issue is whether there are rules and processes for updating participant eligibility that will keep program costs under control while at the same time allow staff to effectively and efficiently carry out the Commission's goals.

In response, staff proposes new rules that ensure that entities meet the Commission's requirements for the program. Current and proposed rules, along with the rationale for the proposed changes, are listed below.

*Current Rules*

Every CTF participant's continued eligibility will be verified at least every five years.

*Proposed rules:*

Every participating entity, including both current participants and new participants, must recertify within 3 years of the issuance of new rules. Entities that receive the CTF discount must annually report to the Commission the unduplicated headcount of individuals who used the supported internet service.

Staff recommends a one-year moratorium on new applications to allow sufficient time to prepare the infrastructure necessary to implement new program requirements and to begin the recertification process.

*Rationale:*

Staff's recommendations will increase the effectiveness of subsidies by ensuring that CTF funds flow to participating entities that meet program eligibility criteria.