Appendix C



**PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

**Communications Division**
**Consumer Programs Branch**

**RESOLUTION T-17486**
**August 27, 2015**

## R E S O L U T I O N

**Resolution T-17486. Approval of the California LifeLine Program[1] Surcharge Rate of 5.50%, Effective October 1, 2015.**

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## SUMMARY

This resolution adopts a revised California LifeLine (CA LifeLine) Program surcharge rate of 5.50%, effective October 1, 2015, until further revised by the California Public Utilities Commission (Commission or CPUC). The current CA LifeLine surcharge rate is 3.80%. All telecommunications carriers and interconnected Voice over Internet Protocol (VoIP) service providers shall change the CA LifeLine surcharge rate assessed on revenues collected from end-users for intrastate telecommunications services subject to surcharge from 3.80% to 5.50%, effective October 1, 2015, and thereafter[2]. The revised CA LifeLine surcharge rate of 5.50% shall apply on their end-users' bills rendered on or after October 1, 2015.

## BACKGROUND

The Commission implemented the California LifeLine Program, formerly known as Universal Lifeline Telephone Service (ULTS) in 1984, pursuant to Public Utilities (PU) Code § 871. The Commission's Communication Division (CD) administers the CA LifeLine Program.

The CA LifeLine program provides discounted wireline residential basic telephone services and wireless telephone services to low-income households with incomes below approximately 150% of the federal poverty guidelines or enrolled in qualifying public

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[1] The program fund is statutorily referred to as the Universal LifeLine Telephone Service Trust Fund Administrative Committee Fund, pursuant to Public Utilities Code Sections 270 and 277, but is commonly known as the California LifeLine Program.

[2] We apply this directive to VoIP providers pursuant to PU Code § 285.

benefits programs. As of July 31, 2015, approximately 2.2 million customers[3] were enrolled in the CA LifeLine program.

On July 25, 2006, the Commission implemented new federal rules for establishing customer eligibility for CA LifeLine service. Under these new rules, customers may qualify for CA LifeLine either by participating in specific low income public benefits programs or by documenting that their income falls within CA LifeLine Program guidelines. The method for certifying customer qualification changed from customer self-certification processed by carriers to certification of customers' eligibility by a third party administrator through Commission contract. These program changes were approved by the Commission in Decision (D.) 05-04-026.

On May 3, 2007, the Commission issued D.07-05-030, which modified General Order (GO) 153 (Procedure for Administration of the Moore Universal Telephone Service Act) to address customer confusion with the third party verification process. The changes to the CA LifeLine program included requiring additional contacts between the CA LifeLine administrator and potential and existing CA LifeLine customers, additional time for LifeLine customers to return the required forms, and format changes to written communications to improve their effectiveness.

On August 21, 2008, the Commission issued D.08-08-029, which further modified the CA LifeLine program and GO 153. This decision adopted a "pre-qualification" process for enrolling customers in the CA LifeLine program. Effective July 25, 2009, applicants must pay retail basic service rates until they qualify for the program. Once approved for the program, the customer receives a back-credit for all benefits/discounts that would have been received if the program benefits were provided as of the application date.

On June 1, 2012, a new third-party administrator, Xerox State and Local Solutions, Inc., took over the enrollment, verification, customer notification, and database requirements from the previous contractor. The new administrator also provides the California LifeLine public call center functions (which were provided formerly under a separate contract).

In 2012, the Federal Communications Commission (FCC) issued Order 12-11, which made fundamental changes to the federal Lifeline program including elimination of connection charges subsidy (except for tribal customers). FCC Order 12-11 also adopted new requirements for state LifeLine programs including, but not limited to:

[3] Of the 2.2 million customers, 712,693 and 1,512,245 were wireline and wireless subscribers, respectively.

- to collect the last four digits of the program participant's social security number (SS#) and date of birth (DOB);
- to require applicants to provide proof of public benefits program participation or eligibility by income;
- to perform identity checks on all new applicants;
- to perform a one-time sweep of each state's LifeLine customer base as of June 1, 2012; and
- to require participants to complete a certification statement that if multiple discounts are offered at the same address that different economic "household" units exist.

On October 3, 2013, the Commission adopted Resolution T-17407 approving a CA LifeLine budget of $202.594 million for Fiscal Year (FY) 2014-15.

On January 27, 2014, the Commission issued D.14-01-036, which expanded and modernized the California LifeLine Program, as well as authorized the voluntary participation of wireless service providers in the Program. Today, a low-income eligible household may subscribe to either a wireline or wireless service plan that includes voice, text, and data at discounted and affordable rates.

On November 6, 2014, the Commission adopted Resolution T-17454 approving a CA LifeLine budget of $345.414 million for FY 2015-16.

The CA LifeLine Program is funded by a surcharge assessed against intrastate charges of end-users of all telephone corporations and interconnected VoIP service providers in California. On June 25, 2015, the Commission adopted a surcharge rate of 3.80% in Resolution T-17479, which will be in effect on August 1, 2015. Historical CA LifeLine surcharge rates are available online at http://www.cpuc.ca.gov/PUC/Telco/Consumer+Information/surcharges.htm.

## DISCUSSION

CD periodically reviews universal service public purpose program balances and surcharge rates to ensure that the programs are sufficiently funded. CD strives to maintain a positive program fund level which strikes a reasonable balance between the need to have sufficient liquidity in the fund to cover program expenditures and the desire to not overburden ratepayers by collecting too much in program surcharges.

For this Resolution, the Commission evaluated the current CA LifeLine surcharge rate of 3.80% relative to the CA LifeLine fund balance. CD analysis shows that current CA LifeLine surcharge rate of 3.80% would not be able to accommodate the increase in carrier claim payments by the end of FY 2015-16.

In determining the surcharge revenues, CD applied a billing base of $14.061 billion for the first six months for FY 14-15 and $13.621 billion for the remaining six months for FY 14-15 and for FY 15-16.

Below is a table that illustrates the CA LifeLine subscriber counts as of July 31, 2015 in comparison to previously adopted Budget Resolutions (T-17407, issued October 8, 2013 and T-17454, November 10, 2014) subscriber counts:

| | **FY 2014-15 (T-17407)** | **FY 2015-16 (T-17454)** | **Actuals As of 7/31/15** |
|---|---|---|---|
| CA LifeLine Wireline | 1,000,000 | 600,000 | 712,693 |
| CA LifeLine Wireless | 0 | 1,080,109 | 1,512,245 |
| **Total CA LifeLine subscribers** | 1,000,000 | 1,680,109 | 2,224,938 |
| Adopted Budget | $204,438,000 | $345,648,000 | |

Based on current projections, the CA LifeLine surcharge rate of 5.50% is required in order to maintain an adequate fund balance at the end of FY 2015-16. This surcharge increase is needed to accommodate the increase in CA LifeLine expenses, primarily due to increase in CA LifeLine wireless participation. With an adjusted surcharge rate of 5.50%, CD estimates, as shown in Appendix A, a projected ending fund balance of $332,257,000 on June 30, 2016. With the revised surcharge rate of 5.50%, the CA LifeLine fund will have a positive and adequate ending fund balance despite anticipated increased expenses resulting from program growth by June 30, 2016. However, CD will adjust the surcharge level once an appropriate fund balance has been achieved and customer growth stabilizes during FY 15-16. Hence, in order to maintain solvency of the CA LifeLine fund, we are setting the interim surcharge of 5.50%, effective October 1, 2015. Therefore, CD recommends that the Commission adopt a surcharge rate of 5.50%, effective October 1, 2015, to provide sufficient funding for the CA LifeLine Program.

Accordingly, all telephone corporations[4] and interconnected VoIP service providers[5] shall assess a CA LifeLine surcharge rate of 5.50% on revenues collected from end-users for intrastate telecommunications services subject to surcharge effective October 1, 2015. The CA LifeLine surcharge rate of 5.50% shall apply on their end-users' bills rendered on or after October 1, 2015, and thereafter, until further ordered by the Commission.

## ADVICE LETTER FILING

In Resolution T-16901, issued December 2, 2004, the Commission modified the tariff process for revising telecommunications Public Programs surcharge rates. The revised process requires all certificated carriers filing tariffs with the Commission to file a generic tariff reference to AT&T California (formerly SBC California) tariffs for the list of Public Purpose Program surcharge rates and the Reimbursement Fee. This process change became effective with surcharge rates and reimbursement fees implemented on January 5, 2005, and thereafter, until further revised by the Commission. In accordance with Resolution T-16901, AT&T California should file an advice letter on or before September 21, 2015, to modify the CA LifeLine surcharge rate from 3.80% to 5.50%, effective October 1, 2015, and thereafter, until further revised by the Commission. Pursuant to Ordering Paragraph #1 of Resolution T-16901, all other carriers with Commission-filed scheduled tariffs should already be cross-referenced to AT&T California's tariff for all future changes in the Public Program surcharges, including the CA LifeLine Fund. Therefore, these carriers are not required to file an advice letter reflecting the new surcharge rate of 5.50%, effective on October 1, 2015 and thereafter. These concurring carriers, however, are required to implement the new CA LifeLine surcharge rate of 5.50%, effective October 1, 2015. All interconnected VoIP service providers are similarly required to revise and implement the new CA LifeLine surcharge rate.

## SAFETY ISSUES

The carriers that provide Lifeline benefits to their customers are required to adhere to all Commission rules, decisions, GOs, and statutes, including PU Code § 451, to take all actions "…necessary to promote the safety, health, comfort, and convenience of its patrons, employees, and the public." The CA LifeLine Program helps to promote universal service by subsidizing essential communications links to low-income and at-risk individuals throughout California.

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[4] *See* PU Code §2881(g).

[5] *See* PU Code §285(c).

CA LifeLine Program allows participants to have access to 211 for essential community services, 311 for non-emergency municipal services, 511 for traffic and transportation information, 711 for relay services, 811 for public infrastructure underground location information, and 911 to reach police, fire and emergency medical responders when fire, natural disasters, medical emergencies, or other crises occur. This Resolution ensures that there is adequate funding, at an appropriate level, to support the CA LifeLine Program budgetary expenditures, which help and enhance the safety of Californians, particularly eligible low-income households.

In light of the preceding paragraphs, CD believes that the 5.50% surcharge rate on intrastate telecommunications revenues, effective October 1, 2015, is reasonable and should be adopted.

## COMMENTS

In compliance with PU Code § 311 (g), the Commission e-mailed on July 14, 2015, a notice letter informing all telephone corporations, members of the CA LifeLine Administrative Committee and Working Group, and the parties of records in R. 11-03-013 of the availability of this draft resolution for comments, as well as the availability of the final resolution, if adopted by the Commission, on the Commission website at www.cpuc.ca.gov.

On August 3, 2015, T-Mobile West LLC, dba T-Mobile and MetroPCS California, LLC (collectively "T-Mobile") filed comments on the draft resolution and raised the following issues:

1. Support for Wireless LifeLine

T-Mobile supports the expansion of the LifeLine program to wireless services, the current provider reimbursement method, and the Specific Support Amount utilized by the Commission. However, it is concerned that the proposed surcharge burdens business and residential consumers who are otherwise already subject to a host of regulatory surcharges, taxes and fees.

2. The Proposed Surcharge Increase and the Proposed "Ending Balance" for FY 2015-16 are Unprecedented

The proposal to increase the surcharge from 2.40% to 3.80% (a 58% increase) in Resolution T-17479, effective August 1, 2015, and again from 3.8% to 5.5% (as proposed in this Resolution) in a matter of two months is unprecedented. Further, T-Mobile states that the "ending balance" for FY 2015-16 of $332 million is also unprecedented compared to the expected expenditures for the current fiscal year.

3. The Proposed Resolution Fails to Provide Adequate Data on the Proposed Increase Expenditures

The proposed resolution does not offer any data or analysis to support the position that the current CA LifeLine surcharge rate of 3.80% would not be sufficient to accommodate the increase in provider claim payments by the end of FY 2015-16 and notes that in Resolution T-17454 (CA LifeLine Budget Resolution issued on November 10, 2014), CD provided a more detailed analysis of anticipated LifeLine expenditures for FY 2015-16. The Proposed Resolution, however, does not explain what new projections, if any, it used to determine that an increase in the surcharge rate was warranted.

4. Maintaining the 3.8% Surcharge Should be Adequate Pending Additional Information

T-Mobile indicates that the 3.80% surcharge appears to provide adequate funding even if the projected participation of 600,000 and 1,080,109 for wireline and wireless as set forth in Budget Resolution T-17454 were off by 50%. The ending balance for the fund would still be about $54 million ($159 million[6] -$105 million[7]) . Additionally, T-Mobile further notes that there are apparently 3 million eligible low-income households in California and with the assumption of 50% increase would result in participation of 2.7 million households. This would translate to nearly 90% participation rate, which seems unlikely in a short period of time unless provided with additional data to support the increase.

5. The Increased Expenditures for Universal Service are the Result of Increased Lifeline Enrollment and the SSA Reimbursement Method

It is more accurate to note that the increase in projected expense is due to an increase in LifeLine participation overall not just increase in carrier claims by wireless service providers as the proposed resolution suggests. Additionally, T-Mobile notes that the guidelines set forth in D.14-01-036 is more expensive per participant and more costly as Lifeline subscribership continues to increase to its former levels. On this note, and the reasons above, T-Mobile supports further efforts to examine and reevaluate the current

[6] FY 2015-16 ending balance, Appendix A in Resolution T-17479 on 3.80% surcharge resolution, issued June 26, 2015.

[7] If the same methodology was utilized and those claims were increased by 50%, the cost associated with those claims would increase by approximately $105 million (i.e., $210 million – projected wireless claims, perResolution T-17454 at p.5 x 50%).

program, to make sure it is meeting the Commission's and the Legislature's intended goals.

In summary, T-Mobile recommends that the Commission maintains the 3.80% CA LifeLine surcharge and rejects the proposed 5.50% surcharge pending further information to prove that the projected ending balance for FY 2015-16 is inadequate.

**CD's Response to T-Mobile's Comments:**

CD agrees with T-Mobile that the CA LifeLine surcharge increase of 5.50% is unprecedented. However, this increase is needed in order to continue to meet the universal goal of offering high quality communications service at affordable rates to qualifying low-income households. Overall, CA LifeLine participation for wireless service has dramatically increased in the past year and thus, the 5.50% is required for the additional program growth. The rapid growth in wireless service participation was not initially anticipated during the preparation of FY 2015-16 in October 2014. Thus, the total forecasted number of wireless service participation was understated.

Since the introduction of CA LifeLine wireless service in 2014, the CA LifeLine program has experienced a significant, rapid increase in consumer and carrier demand, and therefore program volume and costs have increased proportionately. The table below illustrates additional data regarding the growth in the CA LifeLine program wireless service subscribership.

| | **FY 2014-15 (T-17407)** | **FY 2015-16 (T-17454)** | **Actuals As of 7/31/15** |
|---|---|---|---|
| CA LifeLine Wireline | 1,000,000 | 600,000 | 712,693 |
| CA LifeLine Wireless | 0 | 1,080,109 | 1,512,245 |
| **Total CA LifeLine subscribers** | **1,000,000** | **1,680,109** | **2,224,938** |
| Adopted Budget | $204,438,000 | $345,648,000 | |

As of July 31, 2015, the total number of CA LifeLine participants was 2,224,938, which is 55% higher than the number that was originally forecasted/ budgeted for FY 2014-15 and 24% higher than the number that was originally forecasted/budgeted for FY 2015-16. We also note that the total number of actual participants during the first month in FY

2015-16 alone has far exceeded CD's FY 2014-15 Budget Resolution (T-17407) and FY 2015-16 Budget Resolution (T-17454) forecasted California LifeLine participants of 1,000,000 and 1,680,109, respectively. In addition, due to increased California LifeLine applications and renewals received by the California LifeLine Third Party Administrator (TPA), additional funding is needed to compensate added expenses that are/will be incurred by the TPA. The TPA is responsible for determining eligibility of low-income households in the program, as well providing a multi-language customer support call center. Current enrollment processes include, among other things, the Direct Application Process, Image Exchange Process, and Identity Verification Process.

As part of developing the Governor's proposed budget, the Commission develops its program budget a year in advance. As noted in the table above, CD underestimated the wireless service subscription and budget for FY 2014-15 and FY 2015-16. As a result, the Commission requested, and was granted, a supplemental budget for FY 2014-15 from the legislature.

Given the additional expenses resulting from increased California LifeLine wireless participation and TPA's compensation mentioned in the aforementioned paragraphs, and many other program related costs, it is necessary to raise the CA LifeLine surcharge from 3.80% to 5.50%. The 5.50% surcharge will provide adequate funding for added program expansion expenditures and to meet statutory obligations set forth in PU Code § 871. Hence, CD disagrees with T-Mobile that the 3.80% is adequate to fund the California LifeLine Program.

Finally, CD acknowledges T-Mobile's comments that the projected increased expense is due to increased LifeLine participation overall and not just an increase in carrier claims by wireless service providers. Even though the total number of CA LifeLine participants was 712,693 as of July 31, 2015 (as demonstrated in the table above), which is higher than the anticipated CA LifeLine wireline participation count of 600,000 for FY 2015-16, the increase in CA LifeLine wireless participation is driving the increase in CA LifeLine surcharge. Consequently, CD does not fully agree with T-Mobile's assessment that the projected increased expense is due to increased participation overall. Therefore, it is more accurate to say that the increase in projected expenses is due primarily to a rise in CA LifeLine wireless participation overall, which ultimately results in increased CA LifeLine wireless claims. CD also notes that pending before the Commission is the Phase II of Rulemaking 11-03-013. In Phase II, the Commission may reevaluate the CA LifeLine Program elements, which is currently ongoing.

In conclusion, for the reasons stated in this Resolution and responses to T-Mobile's comments, CD believes that the 5.50% surcharge is appropriate and reasonable and should be adopted. Therefore, CD recommends that the Commission increase the California LifeLine surcharge from 3.80% to 5.50%, effective October 1, 2015.

## FINDINGS

1. The California LifeLine Program (CA LifeLine), known as the Universal Lifeline Telephone Service Program, was implemented by the California Public Utilities Commission (CPUC or Commission) in 1984 pursuant to Public Utilities (PU) Code § 871.

2. On October 3, 2013, the Commission adopted Resolution T-17407 approving a CA LifeLine budget of $202.594 million for fiscal year (FY) 2014-15.

3. On November 6, 2014, the Commission adopted Resolution T-17454 approving a CA LifeLine budget of $345.414 million for FY 2015-16.

4. The current CA LifeLine surcharge rate of 3.80% was approved by the Commission in Resolution T-17479 on June 25, 2015.

5. The current balance of CA LifeLine monies requires the Commission to increase the surcharge rate for the CA LifeLine fund from 3.80% to 5.50%, effective October 1, 2015, and thereafter, until further revised by the Commission. The revised surcharge rate will enable the CA LifeLine fund to have a positive ending fund balance, given anticipated expenses, by June 30, 2016.

6. This surcharge increase is needed to accommodate the increase in CA LifeLine expenses, primarily due to increase in CA LifeLine wireless participation.

7. In determining the surcharge revenues, CD applied a billing base of $14.061 billion for the first six months for FY 14-15 and $13.621 billion the remaining six months for FY 14-15 and for FY 15-16.

8. In order to maintain solvency of the CA LifeLine fund, we are setting the interim surcharge of 5.50%, effective October 1, 2015.

9. The CA LifeLine surcharge rate of 5.50%, effective October 1, 2015, is reasonable and should be adopted.

10. All telecommunications carriers and interconnected VoIP service providers should revise the CA LifeLine surcharge rate assessed on intrastate telecommunications service revenues to 5.50%, effective October 1, 2015, and thereafter, until further directed by the Commission.

11. All telecommunications carriers and interconnected VoIP service providers shall apply the CA LifeLine surcharge rate of 5.50% in their end-users' bills rendered on or after October 1, 2015.

12. Consistent with Resolution T-16901, dated December 2, 2004, AT&T should file an advice letter on or before September 21, 2015, modifying the CA LifeLine surcharge rate from 3.80% to 5.50% to take effect on October 1, 20215, and thereafter, until further revised by the Commission.

13. In compliance with PU Code § 311 (g), the Commission e-mailed on July 8, 2015, a notice letter informing all telephone corporations, members of the CA LifeLine Administrative Committee and Working Group, and the parties of record in R.11-03-013 of the availability of this revised draft resolution for comments, as well as the availability of the conformed resolution, if adopted by the Commission, on the Commission website at www.cpuc.ca.gov.

14. On August 3, 2015, T-Mobile West LLC, dba T-Mobile and MetroPCS California, LLC (collectively "T-Mobile") filed comments and are addressed in this Resolution .

15. As of July 31, 2015, the total number of CA LifeLine participants was 2,224,938, which is 55% higher than the number that was originally forecasted/budgeted for FY 2014-15 and 24% higher than the number that was originally forecasted/budgeted for FY 2015-16.

16. The total number of actual participants during the first month in FY 2015-16 alone has far exceeded CD's FY 2014-15 Budget Resolution (T-17407) and FY 2015-16 Budget Resolution (T-17454) forecasted California LifeLine participants of 1,000,000 and 1,680,109, respectively.

17. Due to increased California LifeLine applications and renewals received by the California LifeLine Third Party Administrator (TPA), additional funding is needed to compensate added expenses that are/will be incurred by the TPA to determine eligibility of low-income households in the program.

THEREFORE, IT IS ORDERED that:

1. The California LifeLine Fund surcharge rate of 5.50% is effective October 1, 2015, and thereafter, until further revised by the Commission, is adopted.

2. AT&T shall file an Advice Letter on or before September 21, 2015, modifying the surcharge rate for the California LifeLine Fund from 3.80% to 5.50%, effective October 1, 2015, and thereafter, until further revised by the Commission.

3. All telecommunications carriers and interconnected VoIP service providers shall revise the California LifeLine surcharge rate assessed on revenues collected from end-users for intrastate telecommunications services, subject to surcharge, from 3.80% to 5.50%, effective October 1, 2015, and thereafter, until further directed by the Commission.

4. All telecommunications carriers and interconnected VoIP service providers shall apply the California LifeLine surcharge rate of 5.50% on their end-users' bills rendered on or after October 1, 2015.

This resolution is effective today.

I certify that this Resolution was adopted by the Public Utilities Commission as its regular meeting on August 27, 2015, the following Commissioners approved it:

/s/ Timothy J. Sullivan
TIMOTHY J. SULLIVAN
Executive Director

MICHAEL PICKER
President
MICHEL PETER FLORIO
CATHERINE J.K. SANDOVAL
CARLA J. PETERMAN
LIANE M. RANDOLPH
Commissioners

# Appendix

# Appendix A

## California LifeLine Fund

Projected Budgets and Revenue

*Millions of Dollars*

| | FY 2014-15 | FY 2015-16 |
|---|---|---|
| 1 Beginning Balance[1] | $ 50.020 | $ 1.676 |
| 2 Billing Base | $ 14,061.000 | $ 13,621.000 |
| | $ 13,621.000 | |
| 3 Revenue | | |
| Surcharge Revenue at 1.15%[2] | $ 80.851 | |
| Surcharge Revenue at 2.40% (effective 1/1/15)[3] | $ 163.452 | $ 27.242 |
| Surcharge Revenue at 3.80% (effective 8/1/15)[4] | | $ 86.266 |
| Surcharge Revenue at 5.50% (effective 10/1/15)[5] | | $ 561.866 |
| 4 Total Revenue | $ 244.303 | $ 675.375 |
| 5 Total Resources (Ln 1 + Ln 4) | $ 294.32 | $ 677.05 |
| 6 Budget[6] | $ 202.647 | $ 344.793 |
| 7 Proposed Supplemental | $ 90.000 | |
| 8 Total Expeditures (Ln 6 + Ln 7) | $ 292.65 | $ 344.79 |
| 9 Ending Balance (Ln 5 - Ln 8) | $ 1.676 | $ 332.257 |

[1] Beginning Balance from Governor's Budget

[2] ($14,061,000,000 Billing Base*1.15%/12)*6

[3] ($13,621,000,000 Billing Base*2.40%/12)*1 for FY 1516

[4] ($13,621,000,000 Billing Base*3.80%/12)*2

[5] ($13,621,000,000 Billing Base*5.50%/12)*9

[6] FY 2014-15 Adopted Budget Resolution T-17454 (LA$181.4 Mil + SO$21.247Mil);
FY 2015-16 Adopted Budget Resolution T-17454 (LA$324.2 Mil + SO$20.573Mil)

End of Appendix-A