

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for recovery of intrastate costs )  
and expenses relating to repair, restoration ) Docket No. 060300-TP  
and replacement of facilities damaged by Hurricane )  
Dennis by GTC, Inc. d/b/a GT Com ) Date: May 30, 2006  
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**GT COM'S OBJECTIONS AND RESPONSES  
TO STAFF'S FIRST SET OF INTERROGATORIES  
TO GTC, INC. D/B/A GT COM (NOS. 1-28)**

**(PUBLIC VERSION - CONFIDENTIAL INFORMATION REDACTED)**

GTC, Inc. d/b/a GT Com ("GT Com") by and through its undersigned counsel, hereby serves its Objections and Responses to Staff's First Set of Interrogatories to GTC, Inc. d/b/a GT Com (Nos. 1-28).

**OBJECTIONS**

GT Com objects to each interrogatory to the extent that it requests budgets, budgeted expenses or revenues, budget variances, financial statements, revenues, net operating income or loss, cost of capital, depreciation status, incremental costs or any information not specified in §364.051(4)(b), Florida Statutes. Such information is not relevant to GT Com's request for cost recovery under §364.051(b)(4), Florida Statutes, nor is it reasonably calculated to lead to the discovery of admissible evidence.

Section 364.051(4)(b), Florida Statutes, permits recovery of "intrastate costs and expenses relating to repairing, restoring, or replacing the lines, plants, or facilities damaged by a named tropical system." Recovery is conditioned upon verification of the Company's costs and a determination that those costs are reasonable under the circumstances for the particular storm. The statute does not in any way predicate recovery of costs upon (or define recoverable costs in terms of or with reference to) budgets, budgeted expenses or revenues, budget variances,

financial statements, revenues, net operating income or loss, cost of capital, depreciation status, incremental costs or any information not specified in §364.051(4)(b), Florida Statutes. In addition, GT Com is a price-regulated small local exchange company. GT Com's rates for basic local telecommunications services are not based on traditional rate base, rate of return regulation or oversight of GT Com's revenues and expenses. GT Com therefore objects to each interrogatory to the extent that it requests such information because such information is not relevant to GT Com's request for cost recovery under §364.051(b)(4), Florida Statutes, nor is it reasonably calculated to lead to the discovery of admissible evidence.

The Commission must decide this case on an expedited basis under §364.051(4)(b), Florida Statutes. Accordingly, in an effort to be responsive and to allow timely preparation for hearing under the expedited procedural schedule in this case, GT Com will respond to Staff's interrogatories subject to and without waiver of any objection the Company raises or may raise, or positions the Company may or could take, regarding the relevance, admissibility, or use of any responsive information contained herein at the final hearing or otherwise in this proceeding. GT Com fully intends to object to any attempt by any person, party or entity to introduce into evidence in this proceeding or otherwise bring before the Commission for consideration any documents or information that relate to matters irrelevant to this proceeding, including but not limited to those listed herein.

Subject to and without waiving objections as set forth above, GT Com responds to staff's interrogatories as follows:

## RESPONSES

Answers to each of the following interrogatories (Nos. 1-28) were provided by:

Mark Ellmer  
Regional Controller and Director of Support Revenues  
PO Box 220  
Port St. Joe, FL 32457

1. Do the in-house company labor amounts identified in Exhibit RME-10 include payroll amounts that would have normally been paid to the GT Com personnel who were involved in the hurricane repairs during that time period? If not, explain.

Answer: Exhibit RME-10 identifies the company's in-house labor costs and expenses relating to repairing, restoring or replacing the lines, plants and facilities damaged by Hurricane Dennis, including both payroll and overtime expenses. The total includes expenses only for those hours actually spent on hurricane repairs, and does not include expenses for non-hurricane work.

2. Are there any overtime amounts included in the in-house company labor amounts included in Exhibit RME-10? If yes, please identify the overtime labor amount and the related benefit and overhead amounts.

Answer: Yes, the in-house company labor amounts in Exhibit RME-10 include overtime labor charges of \$10,930.29 relating to repairing, restoring or replacing the lines, plants and facilities damaged by Hurricane Dennis. GT Com does not calculate benefits and overhead separately for overtime versus regular time; however, using \* BEGIN CONFIDENTIAL [REDACTED] END CONFIDENTIAL \* for benefits (found in GT Com's Response to Item 4 of Staff Audit Request No 9) GT Com estimates \* BEGIN CONFIDENTIAL [REDACTED] END CONFIDENTIAL \* of benefit dollars associated with overtime pay.

3. If GT Com included in-house labor costs in its hurricane costs to be recovered in this docket and at the same time is recovering in-house labor costs in its current rates through Price-Cap regulation, will it double recover the in-house labor costs? If no, please explain.

Answer: No. Traditional principles of rate base, rate of return regulation permit a regulated utility to recover its prudently incurred costs and a reasonable rate of return on its investment. These principles do not apply to a price regulated company such as GT Com. As a matter of law, GT Com is subject to limited price cap regulation and is exempt from §§364.03, 364.035(1) and (2), 364.05, and 364.055, as well as other

provisions necessary for rate base, rate of return regulation. See §364.052(2), Fla. Stat. (2004). GT Com's revenue and rates are not established by the Commission to allow GT Com the opportunity to recover specific prudently incurred costs and a Commission-established return. GT Com's prices for various services are limited by both statute and market forces. As such, under price cap regulation, there is no revenue requirement established by the Commission which includes recovery of in-house labor costs. These costs may or may not be recovered by GT Com through GT Com's local rates in any given year.

Further, §364.051(4)(b) specifically permits price-regulated local exchange companies to recover "intrastate costs and expenses relating to repairing, restoring, or replacing the lines, plants, or facilities damaged by a named tropical system" subject only to the limitations expressed therein, which do not include an inquiry regarding a company's rates, budgets, or rate of return. Finally, GT Com has been under price regulation since 1996 and the last rate case for the former St. Joseph Telephone Company, which served the area damaged by Hurricane Dennis, was well over 20 years ago. Accordingly, GT Com's current rates do not have hurricane costs "built in" and were never intended to "recover" the extraordinary repair costs necessitated by the spate of increased hurricane activity experienced in Florida in recent years.

4. On Exhibit RME-11, why were taxes calculated on the total amount of \$474,752?

Answer: To the extent that GT Com is able to recover costs and expenses relating to hurricane repairs, it will incur additional taxes. This tax effect must be included in the calculation of hurricane costs in order for the Company to fully recover such costs. GT Com therefore calculated taxes on the total amount of its request.

5. What portion of the \$444,192 shown on Exhibit RME-11 was deducted for income tax purposes in 2005?

Answer: \$193,354

6. What were the amount of deferred taxes that were generated in 2005 due to the costs and expenses incurred as a result of Hurricane Dennis?

Answer: As shown below, the deferred tax associated with capitalized costs for 2005 was \$2,582:

			<u>Investment</u>	<u>Book Rate</u>	<u>Book Depr</u>	<u>Tax Rate</u>	<u>Tax Depr</u>	<u>Tax Depr Over/(Under) Book</u>
BS01FL	2232	210	63,520	10.00%	529	10.00%	3,176	2,647
BS01FL	2232	130	16,885	10.00%	141	10.00%	844	704
BS01FL	2423	000	110,140	6.67%	612	5.00%	2,754	2,141
BS01FL	2423	210	12,004	6.67%	67	5.00%	300	233
BS01FL	2421	000	19,067	6.67%	106	5.00%	477	371
BS01FL	2441	000	11,372	6.67%	63	5.00%	284	221
BS01FL	2422	000	7,580	6.67%	42	5.00%	190	147
BS01FL	2422	210	10,270	6.67%	57	5.00%	257	200
			<u>250,838</u>		<u>1,617</u>		<u>8,281</u>	<u>6,664</u>
						Tax Rate		0.3875
						Deferred Tax		2,582.19

7. Referencing the following GT Com response to question five of staff's 1<sup>st</sup> data request:

**Response:** The Company is currently in the midst of Outside Plant CPR conversion and replacement. The computer program containing original cost data dates back to the mid-1980's and is no longer a usable program and thus, data is not available by specific section of cable. However, based on discussion with members of the Company's engineering group, the Company has been able to determine that all cable was placed in service prior to 1990 with the exception of one section of Alligator point cable of approximately 726 feet. That section was placed in service in 1998 at original cost of \$20,274. The Company converted cable assets to 15 year lives in 1996 when it elected price cap regulation.

Does the company's response mean that the plant that needed to be replaced due to Hurricane Dennis was 100% depreciated?

Answer: All but approximately 726 feet was fully depreciated; however, all plant was serviceable, still in use, and did not require replacement until it was destroyed by Hurricane Dennis. Accordingly, these costs are recoverable under §364.051(4)(b) because they are "intrastate costs and expenses relating to repairing, restoring, or replacing the lines, plants, or facilities damaged by a named tropical system." Recovery

is subject only to the limitations expressed in the statute, which do not include an inquiry regarding the depreciation status of the lines, plants or facilities that are repaired, restored or replaced.

8. If the answer to the question above is no, please explain.

Answer: As stated above, all but approximately 726 feet was fully depreciated.

9. In response to question six of staff's 1<sup>st</sup> data request in this docket, GT Com stated that it would receive approximately \$139,000 of High Cost Loop Support payments in 2007 for the additional 2005 expenses and capital projects necessitated by Hurricane Dennis. Should the \$139,000 in additional High Cost support be applied as a reduction to the Hurricane costs the company is requesting to recover? If no, explain.

Answer: No. As stated in GT Com's response to staff's first data request, "Assuming no change in the national average cost per loop, GT Com estimates that it could receive approximately \$139,000 of High Cost Loop Support Payments in 2007 for the additional 2005 expenses and capital projects necessitated by Hurricane Dennis." This estimate was based on the recovery requested in its original petition; after adjusting for changes shown in the Direct Testimony of R. Mark Ellmer, the estimated amount would be \$141,450 (which is similarly based on the assumption of no change in the national average cost per loop or "NACPL").

However, GT Com would receive High Cost Loop Support payments in 2007 only to the extent that its average loop cost *exceeds* the NACPL for 2005 based on actual costs reported retroactively by telecommunications companies throughout the country on a quarterly basis. The NACPL for 2005 has not yet been determined but it will not remain the same. The table below shows the annual increase in NACPL from 2000 through 2004, the most recent year for which data is available:

<b>NACPL Data Year</b>	<b>Payment Year</b>	<b>NACPL</b>	<b>\$ Increase</b>	<b>% Increase</b>
2000	2002	259.27		
2001	2003	267.03	7.76	2.99%
2002	2004	278.65	11.62	4.35%
2003	2005	298.92	20.27	7.27%
2004	2006	318.74	19.82	6.63%

Although the NACPL for calendar year 2005 is not yet known, based on the most recent quarterly update for the period ending September 30, 2005, it is currently estimated that the NACPL will increase from \$318.74 to \$323.90 for settlements based on that period's data. Based on historic trends and information from consultants, GT Com currently anticipates the calendar year 2005 NACPL used for initial 2007 payments will be at least \$343.00.

As shown in the table below, GT Com's St. Joe Division will lose approximately 7% or \$8.98 of USF support per loop for every \$10.00 increase in NACPL:

	Original	\$10 Increase in NACPL	Difference
Category 1.3 Loops	35,285	35,285	-
Company Cost Per Loop	561.07	561.07	-
National Average Cost Per Loop	322.10	332.10	10.00
Projected USF Support	4,647,638	4,330,955	(316,683)
Percent change	-	-	(6.81%)
Support per Loop	131.72	122.74	(8.98)

Therefore, if the 2005 NACPL is determined to be \$343, GT Com could receive approximately \$121,317 of High Cost Loop Support payments as a result of the additional costs incurred in 2005. This amount would change by \$0.90 for every \$1 change in the NACPL. However, High Cost Loop Support payments are not guaranteed and in any event, would not be received until 2007. Further, the calculation requested by Staff considers only the impact of hurricane costs, and assumes that all other factors affecting High Cost Loop Support remain exactly the same. This is not a viable assumption because there are many additional factors that will affect such support and the amount of money that GT Com may eventually receive. Finally, Further, §364.051(4)(b) permits GT Com to recover all intrastate costs and expenses relating to repairing, restoring or replacing the lines, plants or facilities damaged by Hurricane Dennis, without regard to funds that may or may not be received by GT Com two years later.

10. What personnel (by labor types (i.e. engineer, technician, etc.)), whether contracted or in-house, participated in the damage assessment?

Answer: Personnel participating in on-site damage assessment included GT Com's district plant manager, its director of operations, two outside plant engineers. Carlos Trawick, the contractor, also participated in the assessment at no charge.

11. Referring to the direct testimony of witness Ellmer, page 13, lines 2-6, how does the company normally recover costs associated with network upgrades to increase reliability and expand services?





14. On Exhibit RME-1 (pg. 5), it is described that fiber optic cable was used to replace copper lines at both Indian Pass and Alligator Point. In addition, a new carrier system was installed at Alligator Point. Had these facilities been repaired with the technology that was in place prior to the storm (i.e. copper lines), what would the replacement costs have been? Please identify the difference between the costs incurred versus the costs that would have been incurred.

Answer: There was no copper cable at Indian Pass; fiber cable was replaced with fiber cable. See page 13 of Mr. Ellmer's testimony.

Regarding Alligator Point, see pages 12-13 of Mr. Ellmer's testimony, where he explains that the cost of the three Alligator Point projects exceeded the cost of simply moving and replacing existing copper cable by approximately \$40,000.

15. On Exhibit RME-1 (pg. 8), GT Com details that weed killer and ant killer were applied to rehabilitated pedestals. Are these costs included for recovery in this case, and if so, please identify the amount? Would this expense be considered a normal maintenance expense?

Answer: The total amount requested for these items is \$421.85 as detailed in table below. The initial application of pest and weed control compound to a newly-installed or rehabilitated pedestal when placing it in service is a necessary component of the cost of repairing, restoring or replacing the pedestal rather than normal maintenance because it is necessary in order to preserve the new cable connections from damage and intrusion by pests and weeds. However, if additional applications are necessary after the pedestal is placed in service, the additional expense would be considered normal maintenance. No such normal maintenance expenses are included in GT Com's request.

Inventory Item #	Description	Unit Cost	Units	Extended Cost
011 0076	Insect Spray	2.64	10	26.40
049 0020	Wasp Spray	2.96	4	11.84
049 0104	Fire Ant Control	3.03	107	324.21
049 5002	Weed Killer	2.97	20	59.40
				421.85

16. On Exhibit RME-1 (pg. 8), witness Ellmer describes that part of the storm recovery request is for an amount to repair "damage to the roofs of GT Com's Apalachicola and Carrabelle central offices." In response to staff's first data request, question one, GT Com claims that it has property insurance for both flood and windstorms. Is damage to the roofs of the central offices at Apalachicola and Carrabelle covered by the insurance, and if so, why is recovery being sought in this docket?

Answer: The amount of repair expense for the roofs was lower than the amount of the property insurance deductible and thus GT Com was not eligible to receive any insurance reimbursement.

17. On Exhibit RME-2 (pg. 40), the invoice details expenses incurred prior to the date of Hurricane Dennis (7/10/2005)? Why does GT Com believe it is appropriate to recover these expenses in this docket?

Answer: The invoice in question shows fuel charges incurred when GT Com “topped off” the fuel tank of its emergency generator as part of its storm preparation process. The fuel was thereafter used in connection with the Company’s storm repair efforts and therefore should be recovered.

18. Are any of the costs included in this filing related to the change made by GT Com/FairPoint in the integrated end-user billing system?

Answer: No.

19. On June 23, 2005, GT Com ordered two power supply units from Sprint North Supply (P.O. number 13775). As this occurred prior to the date of the storm on July 10, 2005, were these items purchased as regular inventory items? Why does GT Com believe expenses incurred prior to July 10, 2005 should be included for storm recovery in this docket?

Answer: These items were purchased as part of GT Com’s inventory stocking process. Accordingly, they were charged to the balance sheet inventory account when purchased and were expensed only when actually used by GT Com for hurricane repairs. The cost of the power supply units is recoverable because it is an expense relating to repairing, restoring, or replacing the lines, plants, or facilities damaged by Hurricane Dennis. Further, failure to maintain critical inventory items such as power supply units would have resulted in longer out of service times following the hurricane as well as higher costs due to potential shortages and expenses of expedited shipping.

20. On page seven of his direct testimony, witness Ellmer indicates that most of the damage to its equipment was done by water intrusion versus wind which tended to damage buildings and other similar structures. What procedures/precautions have been taken or are in place to reduce or eliminate the chance that equipment will be damaged by water, if another natural disaster struck? Please elaborate on any safeguards or protective measures.

Answer: GT Com provides service to customers along the coast of the Florida Panhandle. GT Com’s customers live along the waterfront and therefore GT Com’s facilities likewise must be located along the waterfront. Coastal facilities are unavoidably vulnerable to

damage by water and wind. Buried cable will survive many storms that aerial cable will not. GT Com therefore buries coastal cable wherever feasible in order to protect against damage by wind and saltwater corrosion, and attempts to locate pedestals as far away as possible from water's edge to reduce or eliminate the chance that equipment will be damaged by water. GT Com also has installed and is testing "Ped Lock" devices in some pedestals that should increase water resistance. Additionally, GT Com was able to move buried cable farther inland on Alligator Point. However, GT Com knows of no way to protect its pedestals or underground cable from hurricane forces sufficient to destroy roadways, as shown in Exhibits RME-3 and 5.

21. On page ten of his direct testimony, witness Ellmer indicates that much of the contracted work relating to pedestal repair and replacement were done at pre-existing contracted rates. Were the contracting company's rates the same throughout the repair and replacement phase or did the rates fluctuate during this period? If they did fluctuate, what were the rates during the various phases?

Answer: The rates remained the same during the entire period. They are set at the beginning of the contract period and remain in effect throughout the contract period.

22. On page ten of his direct testimony, witness Ellmer indicates that GT Com negotiated terms of their cable projects that were more favorable than the ones found in its pre-existing contract(s). Please clarify this statement. What happened to the pre-existing contract(s)? Was it voided or renegotiated with the same company or another company? If it was the pre-existing company that renegotiated the contract, what concessions were made, if any, to consummate a new contract?

Answer: GT Com negotiates basic contract rates each year and those rates are set for the year in the pre-existing contract referenced in Mr. Ellmer's testimony. However, that contract does not cover emergency services, nor does it require GT Com to assign all work to the contractor. GT Com therefore was not required to void or renegotiate the contract and did not do so when it elected to negotiate a separate, more favorable rate for the cable projects.

23. On page 11 of his direct testimony, witness Ellmer states that given the company's past experience with the area, the extent of the current damage, the prospect of future hurricane damage, and the company's long-term plans for modernizing its facilities, their engineers couldn't justify simply replacing the cable and waiting for the next hurricane to wash it away again.

From these statements, it appears that GT Com did not replace the damaged equipment with comparable equipment, but updated its system by installing enhanced equipment. If this is the case, why does GT Com believe that it should be reimbursed for the replacement of its pre-existing equipment with updated / enhanced equipment? Please elaborate and explain why the up-dated costs should be included as recovery costs?

Answer: Section §364.051(4)(b) does not require existing facilities to be repaired or replaced with the same exact facilities. Instead, it more broadly specifies recovery of costs and expenses “relating to repairing, restoring, or replacing” facilities damaged by Hurricane Dennis if they “are reasonable under the circumstances.” For example, although moving cable inland on Alligator Point could be considered an improvement to GT Com’s system, the cost is recoverable because it “relates to” hurricane repairs and as explained on page 11 through 13 of Mr. Ellmer’s testimony, was more than reasonable under the circumstances. GT Com’s use of fiber, a carrier system and smaller copper in lieu of an exact replacement of existing copper cable similarly relates to repairing, restoring or replacing damaged facilities, and is similarly reasonable under the circumstances as explained on pages 12 and 13 of Mr. Ellmer’s testimony. In no event, however, should GT Com’s prudent choice of replacement materials cause it to recover less than if it had opted to replace the exact facilities damaged by Hurricane Dennis.

24. On page 12 of his direct testimony, witness Ellmer seems to indicate on one hand that fiber optics equipment was less expensive than copper cables; however, later in the same paragraph, witness Ellmer states that simply removing and replacing the existing copper cable was somewhat less expensive. Please reconcile these statements.

Answer: Mr. Ellmer explains on page 12 of his testimony that that the fiber cable itself is less expensive and more resilient than 900 pair copper cable. However, when the carrier system and associated costs are included, the total project cost was more than if GT Com had replaced the existing 900 pair copper cable.

25. GT Com made a business decision to replace the existing copper cables and replace them with fiber. Why does GT Com believe that the additional costs or the difference between the cost of replacing the copper cable with fiber (approximately \$40K) should be borne by GT Com's customers and not by the company and its shareholders/investors?

Answer: Section §364.051(4)(b) does not require existing facilities to be repaired or replaced with the same exact facilities. Instead, it more broadly specifies recovery of costs and expenses “relating to repairing, restoring, or replacing” facilities damaged by Hurricane Dennis if they “are reasonable under the circumstances.” GT Com’s use of fiber, a carrier system and smaller copper in lieu of an exact replacement of existing copper cable relates to repairing, restoring or replacing damaged facilities, and is reasonable under the circumstances as explained on pages 12 and 13 of Mr. Ellmer’s testimony. In no event, however, should GT Com’s prudent choice of replacement materials cause it to recover less than if it had opted to replace the exact facilities damaged by Hurricane Dennis.

26. In relation to Interrogatory No. 25, why should GT Com's customers be charged the additional replacement costs of burying cable and other similar equipment versus the lower cost option of installing poles and hanging aerial fiber? Please elaborate.

Answer: The risk of wind damage to aerial plant (poles and aerial fiber) is greater than the risk of water damage to buried plant. Buried cable will survive many storms that aerial cable will not. GT Com therefore buries coastal cable wherever feasible in order to protect against damage by wind and saltwater corrosion and reduce costs of maintenance. The cable in question was already buried for these reasons and GT Com prudently opted to rebury it for the same reasons. Further, because this cable was already buried, reburying it is simply a repair cost, not an "additional replacement" cost.

27. Please quantify/delineate GT Com's carrying costs and taxes relating to the requested hurricane recovery costs and expenses.

Answer: GT Com calculated its total costs and expenses relating to repairing, restoring, and replacing the lines, plants, and facilities damaged by Hurricane Dennis, and applied its average cost of short term debt to that figure in order to determine the implied cost associated with borrowing that amount. GT Com then added this amount to previously-calculated hurricane costs and multiplied that total by a composite federal and state income tax rate to determine the additional taxes that it would incur if permitted to recover its calculated hurricane costs. As set forth in Exhibit RME-11, those amounts are as follows:

Time Period - July 2005 - June 2006	1 Year
Amount of Expenditure	\$ 444,192
Interest Rate (Average cost of short term borrowing - Revolver Debt) of Parent Company for 2005	6.880%
Carrying costs	<u>\$ 30,560</u>
Total	\$ 474,752
Consolidated FIT & SIT Rate	0.38750
Taxes	183,967
Total Taxes and Carrying Costs	214,527

Intrastate Factor	70.3957%
	<hr/>
Intrastate Portion	\$ <u>151,018</u>

28. Does GT Com have any plans to establish a storm reserve fund to help defray the cost of repair and replacement of equipment that may be damaged in future storms?

Answer: No.

**AFFIDAVIT**

STATE OF FLORIDA)

COUNTY OF Gulf

I hereby certify that on this 30<sup>th</sup> day of May, 2006, before me, an officer duly authorized in the State and County aforesaid to take acknowledgments, personally appeared R. Mark Ellmer, who is personally known to me, and he/she acknowledged before me that he provided the answers to Staff's First Set of Interrogatories to GTC, INC. d/b/a GT COM (Nos. 1-28) in Docket No. 060300-TL, and that the responses are true and correct based on his personal knowledge.

In witness whereof, I have hereunto set my hand and seal in the State and County aforesaid as of this 30<sup>th</sup> day of May, 2006.

Rebecca H. Bateman

Notary Public  
State of Florida, at Large

My Commission Expires:

7-12-07



Rebecca H. Bateman  
My Commission DD226812  
Expires July 12, 2007