

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 060300-TP

PETITION FOR RECOVERY OF INTRASTATE
COSTS AND EXPENSES RELATING TO REPAIR,
RESTORATION AND REPLACEMENT OF
FACILITIES DAMAGED BY HURRICANE DENNIS,
BY GTC, INC. D/B/A GT COM.



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VOLUME 1

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PROCEEDINGS: HEARING

BEFORE: CHAIRMAN LISA POLAK EDGAR
COMMISSIONER J. TERRY DEASON
COMMISSIONER ISILIO ARRIAGA
COMMISSIONER MATTHEW M. CARTER, II
COMMISSIONER KATRINA J. TEW

DATE: Wednesday, June 28, 2006

TIME: Commenced at 9:35 a.m.

PLACE: Betty Easley Conference Center
Room 148
4075 Esplanade Way
Tallahassee, Florida

REPORTED BY: LINDA BOLES, RPR, CRR
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9 d/b/a GT Com.

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13 Commission Staff.

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I N D E X

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P R O C E E D I N G S

1
2 CHAIRMAN EDGAR: Good morning. We'll call this
3 hearing to order. Good morning. I'll ask staff to read the
4 notice.

5 MR. TEITZMAN: Pursuant to notice issued June 1st,
6 2006, this time and place has been set for a hearing in
7 Docket Number 060300-TL, the petition for recovery of
8 intrastate costs and expenses relating to repair, restoration
9 and replacement of facilities damaged by Hurricane Dennis, by
10 GTC, Inc. doing business as GT Com.

11 CHAIRMAN EDGAR: Thank you. We'll go ahead and take
12 appearances for the attorneys representing the parties in this
13 case.

14 MR. BECK: Thank you, Madam Chairman. My name is
15 Charlie Beck. I'm with the Office of Public Counsel, and I'm
16 appearing today on behalf of the customers of GT Com.

17 CHAIRMAN EDGAR: Thank you.

18 MS. RULE: Good morning. I'm Marsha Rule with the
19 law firm Rutledge, Ecenia, Purnell & Hoffman, appearing on
20 behalf of GTC, Inc. d/b/a GT Com.

21 MR. HOFFMAN: Good morning, Madam Chairman. My name
22 is Ken Hoffman. I'm appearing with Ms. Rule on behalf of the
23 Petitioner GTC, Inc. d/b/a GT Com.

24 CHAIRMAN EDGAR: Thank you.

25 Staff.

1 MR. TEITZMAN: Adam Teitzman on behalf of Commission
2 staff.

3 CHAIRMAN EDGAR: Thank you. Mr. Teitzman, any
4 preliminary matters?

5 MR. TEITZMAN: I believe GT Com has one preliminary
6 matter they'd like to raise.

7 CHAIRMAN EDGAR: Ms. Rule.

8 MS. RULE: Chairman Edgar, GT Com has placed into the
9 record on several occasions a continuing objection. I'd like
10 to read it into the record and then clarify we're not going to
11 make an objection every time somebody comes forward with a
12 document, and that's found in our statement of basic position.

13 Section 364.051(4)(b), Florida Statutes, does not in
14 any way predicate recovery of costs upon, or define recoverable
15 costs in terms of or with reference to budgets, budgeted
16 expenses or revenues, budget variances, financial statements,
17 revenues, net operating income or loss, cost of capital,
18 depreciation status, incremental costs or any information not
19 specified in Section 364.051(4)(b), Florida Statutes.

20 In addition, GT Com is a price-regulated small local
21 exchange company. GT Com's rates for basic local
22 telecommunications services are not based on traditional rate
23 base rate of return regulation or oversight of GT Com's
24 revenues and expenses. Accordingly, GT Com will object to any
25 attempt to introduce into evidence in this proceeding or

1 otherwise bring before the Commission for consideration any
2 documents or information that relate to matters irrelevant to
3 this proceeding, including, but not limited to, those above.

4 And as I said, we don't intend to object as every
5 document is brought forward, but we did want to highlight to
6 you our objection to the irrelevant nature of some of the
7 information we think you'll hear. Thank you.

8 CHAIRMAN EDGAR: All right. So noted for the record.
9 Mr. Teitzman.

10 MR. TEITZMAN: We can move on to the exhibits,
11 Chairman.

12 CHAIRMAN EDGAR: Let's go ahead and get the exhibits
13 in order.

14 MR. TEITZMAN: Staff has prepared a Comprehensive
15 Exhibit List that's been provided to each of the parties
16 listing staff's stipulated exhibits. I would note that there
17 are three exhibits on that list. At this time staff would
18 request that the comprehensive list be marked for
19 identification as Exhibit 1.

20 CHAIRMAN EDGAR: So noted.

21 (Exhibit 1 marked for identification.)

22 MR. TEITZMAN: Staff would also request that the
23 exhibits on the list be marked for identification as numbered
24 in the list 2 through 4, noting that Exhibit 4 is a
25 confidential exhibit.

1 CHAIRMAN EDGAR: Thank you. And the comprehensive
2 exhibit list will be entered into the record.

3 (Exhibit 1 admitted into the record.)

4 (Exhibits 2, 3 and 4 marked for identification and
5 admitted into the record.)

6 MR. TEITZMAN: Thank you, Chairman.

7 CHAIRMAN EDGAR: Any other preliminary or general
8 matters before we move on, Mr. Teitzman?

9 MR. TEITZMAN: Not at this time. We can move into
10 swearing in the witnesses, if you'd like.

11 CHAIRMAN EDGAR: Okay. I understand we have three
12 witnesses. If they will all stand, we'll go ahead and swear
13 you in at the same time. One, two, three. Okay. Raise your
14 right hand.

15 (Witnesses collectively sworn.)

16 CHAIRMAN EDGAR: Thank you.

17 Okay. I think we're ready for opening statements. I
18 note that the prehearing order limits opening statements to ten
19 minutes a party.

20 Ms. Rule.

21 MS. RULE: Thank you. Good morning, Madam Chairman.
22 Good morning, Commissioners. My name is Marsha Rule and, as
23 you know, I'm appearing on behalf of GT Com.

24 In 2005, the Legislature added a new section to
25 Chapter 364, Florida Statutes, which allows an incumbent local

1 exchange company to petition the Commission to recover its
2 intrastate costs and expenses relating to repairing, restoring
3 or replacing the lines, plants or facilities that were damaged
4 by a named tropical system. This is an expedited proceeding
5 under the new statute, and the new statute very clearly and
6 plainly authorizes GT Com to recover its actual repair and
7 replacement costs subject to only one exception, and that
8 exception, the single permissible cost offset found in the
9 statute, is a storm reserve fund. So if the company has a
10 storm reserve fund, which GT Com does not, it must first look
11 to the money in that fund before it seeks recovery from the
12 Commission. And then after the Commission has verified the
13 company's costs and determined that they're reasonable under
14 the circumstances, the statute permits recovery of a capped
15 amount of up to 50 cents per customer line per month for a
16 period of time not to exceed one year. And in GT Com's case,
17 that's about \$282,000.

18 And as you know, GT Com --

19 COMMISSIONER DEASON: Ms. Rule, let me ask you a
20 question.

21 According to your earlier objection, if it's
22 impermissible for this Commission to consider any of your
23 financial statements, results, budgets, planning, how do we
24 know for a fact that this company does not have a storm cost
25 recovery fund already existing?

1 MS. RULE: Well, I believe a witness can testify
2 under oath that it does not exist, and I think you could
3 certainly look over your books and records and determine if
4 you've ever approved one at any time in the past for this
5 company.

6 As you know, GT Com is a price cap-regulated
7 telecommunications company.

8 Commissioner, there's one more thing I should add.
9 If the company takes its own price cap-regulated funds and
10 budgets it one way or another, that's totally irrelevant to its
11 recovery under this statute. I believe what the statute refers
12 to is a storm reserve fund that you set up and specifically
13 authorize the company to accrue funds to. You directed the
14 ratepayers to pay into that fund, and, accordingly, the company
15 should exhaust that fund before coming back to you for more
16 money.

17 COMMISSIONER DEASON: Is that what the statute says?

18 MS. RULE: The statute says if you have a specific
19 storm reserve fund.

20 COMMISSIONER DEASON: But you just indicated that the
21 company's regulatory accounting is totally irrelevant to this
22 proceeding, that we don't even have the ability to look at your
23 depreciation, your accounting, your budgets. So how do I look
24 at a statute and balance those two things?

25 MS. RULE: Well, I think the statute obviously means

1 what it says, and if the company had a fund, it would have to
2 look to it no matter where those funds came from. I believe
3 the purpose of the statute, however, is to prevent a company
4 from coming to you and asking for more money for something it
5 already asked you for.

6 COMMISSIONER DEASON: Well, how do I know this
7 company, just as a well-managed company, doesn't look to its
8 risk of operating in the State of Florida and has already set
9 aside funds from its unregulated revenue stream to cover the
10 cost of storm damage recovery?

11 MS. RULE: In our case our witness can swear that to
12 you. And we have not withheld books and records from staff or
13 Public Counsel that they've asked to examine. We believe that
14 their, the result of their examination is irrelevant.

15 I would have to agree with you, if the results of
16 their examination revealed that the company did indeed have a
17 storm cost recovery fund, you could certainly take that into
18 consideration.

19 COMMISSIONER DEASON: Thank you.

20 MS. RULE: As you know, GT Com is a price
21 cap-regulated telecommunications company, and it elected such
22 regulation back in June of 1996. And by making that election,
23 GT Com became exempt from the Commission's traditional rate
24 base rate of return regulatory authority, which means that the
25 company's rates and its expenses and its revenues, its profits

1 and losses aren't subject to the traditional Commission rate
2 cases, traditional Commission revenue requirements or any of
3 the detailed level of ratemaking that applies to the fully
4 regulated monopoly providers of electric service that have been
5 before you recently in storm cost recovery proceedings. This
6 is the first case that you'll consider under the new statute.
7 And we believe the most fundamental issue in this case is
8 whether the Commission can treat GT Com, a competitive
9 telecommunications company, the same way it treats FPL and
10 Progress Energy in their recent storm cost cases. And I
11 respectfully submit to you that the incremental cost approach
12 that you determined was appropriate for those fully regulated
13 electric utilities, and that's the same approach that Public
14 Counsel urges you to adopt in this case, that approach has no
15 place under the new statute and it has no application to a
16 price cap telecommunications company like GT Com.

17 Public Counsel argues that you should apply the
18 incremental cost methodology in this case because you applied
19 it in those electric cases and you applied it, according to
20 Public Counsel, in Sprint's settlement with Public Counsel
21 regarding its 2004 hurricane expenses. But those cases are
22 different and there are a number of reasons why they're not
23 applicable here.

24 First, as you know, electric utilities are monopoly
25 service providers. That's why the Legislature has given the

1 Commission plenary authority over their rates and services in
2 Chapter 366, Florida Statutes. But that's not the case with
3 telecommunications providers like GT Com. GT Com has no
4 service monopoly. It actively competes for customers with
5 other landline providers, cable providers and wireless
6 providers. In recognition of this fact and in recognition of
7 GT Com's decision back in 1996 to elect price cap regulation,
8 the company is statutorily exempt from rate base rate of return
9 regulation.

10 Instead, its rates are limited by statute as well as
11 competitive market forces. And that means necessarily that in
12 any given year, GT Com's revenues may cover all of its expenses
13 and provide a profit, or its revenues may be less in expenses,
14 in which case the company would suffer a loss. But because the
15 company is price regulated, it can't come to you and ask for a
16 general rate increase if its revenues don't cover its costs,
17 even if it suffers losses for several years in a row.

18 Now despite these fundamental differences between
19 monopoly electric companies and competitive telecommunications
20 companies, Public Counsel wants you to apply what is
21 essentially a traditional rate base rate of return regulation
22 to GT Com exactly as if it were seeking storm cost recovery as
23 a monopoly service provider. That approach cannot and should
24 not be applied to a competitive company.

25 Unlike the electric utilities that come before you,

1 GT Com hasn't had a rate case in over 20 years. And unlike the
2 electric utilities, GT Com's rates simply are not based on a
3 Commission-approved revenue requirement that was specifically
4 calculated to give the company not only an opportunity to
5 recover those costs, but also a Commission-approved level of
6 profit. And as I said, in any one year the company could make
7 a lot of money or lose a lot of money. That's the way the
8 competitive world works.

9 Additionally, when you approved incremental cost
10 recovery for the electric utilities, it was with the
11 understanding that costs are considered incremental if there's
12 no provision to recover them through specific base rates or a
13 cost recovery clause. In other words, under traditional
14 ratemaking processes, electric utilities will recover their
15 costs in one of three ways: Either through base rates or a
16 cost recovery clause or, in the case of storm, incremental
17 storm costs through a surcharge. That regulatory environment
18 doesn't exist in the telecommunications world and that type of
19 recovery is not available to GT Com. So unlike the electric
20 utilities, if GT Com can't recover its hurricane costs in this
21 docket, it doesn't get another chance to do so.

22 That's the result you would reach if you apply Public
23 Counsel's attempt -- if you accept Public Counsel's attempt to
24 apply an incremental cost methodology outside of the
25 traditional rate of return rate base regulatory environment.

1 That's not how the methodology is supposed to work and that's
2 certainly not the result contemplated under the new statute.

3 In addition to the electric storm cost recovery
4 cases, Public Counsel relies on its storm cost settlement with
5 Sprint over the 2004 hurricane costs. That case has no
6 precedential value for two reasons: First, it wasn't filed
7 under this statute; and, second, all the Commission did was
8 approve a voluntarily settlement agreement between Sprint and
9 Public Counsel. And your approval of a voluntary settlement
10 agreement in a case filed under a different statute doesn't
11 control your actions in this case.

12 As I said earlier, this is the first case that has
13 been filed under the new statute. The new statute makes that
14 one specific adjustment I talked to you about: Storm reserve
15 funds.

16 Interestingly, however, if you look at
17 Section 366.8260, that's the statute you applied in FPL's
18 recent storm case, you'll find that the Legislature is
19 perfectly well aware of the difference between monopoly rate
20 base-regulated electric utilities and competitively regulated
21 telecommunications companies.

22 That statute was passed during the same legislative
23 session as this statute, the statute you're dealing with today.
24 They became effective, I believe, within one day of each other.
25 And in the electric case, it's pretty clear from looking at it

1 that the Legislature authorized a heightened level of scrutiny
2 over the electric utility storm costs and specifically asked
3 the Commission to make typical rate case type of adjustments to
4 the company's costs.

5 For example, the electric utility statute expressly
6 directs the Commission to remove insurance proceeds. The
7 telephone statute does not. The electric statute also gives
8 the Commission discretion to remove normal capital replacement
9 costs and normal operating costs. The telephone statute does
10 not. Under the electric statute, the Commission can permit the
11 utility to recover lost revenues, and that's certainly not in
12 the telephone statute. And additionally, the electric statute
13 gives the Commission authority to make any other offsetting
14 adjustment that it believes is necessary, and that language is
15 not found anywhere in the telephone statute. And finally, the
16 electric statute doesn't impose any limit on recovery that a
17 utility can have. That is, you go through all the adjustments
18 and what falls out at the end, subject to your approval, is
19 what the utility can recover. The telephone statute, on the
20 other hand, substitutes a different method. You don't have the
21 heightened scrutiny over the costs, but at the end there's a
22 fairly severe rate cap on recovery of 50 cents per line per
23 month for a period of one year no matter what the amount is of
24 damages that was sustained by the company. These are two very
25 different statutes. You should reject Public Counsel's attempt

1 to import language from the electric statute into the case
2 here.

3 Section 361.051(4)(b) clearly and unambiguously
4 permits GT Com to recover its unadjusted costs and expenses.
5 Because its costs and expenses that will be shown to you in
6 this docket exceed the maximum recovery permitted by the
7 statute, we're asking you to allow the company to implement the
8 capped amount of 50 cents per line for a period of one year.
9 Thank you.

10 CHAIRMAN EDGAR: Thank you.

11 Mr. Beck.

12 MR. BECK: Thank you, Madam Chairman and
13 Commissioners. Today you have a case before you that I think
14 has very broad implications that go beyond just the case that
15 GT Com has presented. The issue is whether you're going to
16 allow different standards for storm recovery between electric
17 and telecommunications companies, and whether you're going to
18 treat cost recovery for GT Com differently than you've treated
19 every other case which has appeared before you in the past two
20 years.

21 There's one thing that you'll, I think you might
22 notice from the opening statement by GT Com, and that is
23 they're -- they have not addressed the issue of reasonableness.
24 Because the telephone statute, just like the electric statute,
25 comes down to or authorizes the Commission, it directs the

1 Commission to determine reasonable costs. Reasonable is the
2 legal standard for storm recovery in both industries. You find
3 it in the electric statutes underlying your decisions in the
4 past two years in the electric utility proceedings, and you
5 find it in the statute that governs the telecommunications
6 company and under which GT Com is here today.

7 In the electric side, Section 366.05, Florida
8 Statutes, provides the Commission the power to prescribe fair
9 and reasonable rates and charges. 366.06 provides the
10 Commission authority to determine and fix fair, just and
11 reasonable rates that may be requested, demanded or charged by
12 the public utilities.

13 In the same vein, the statute under which GT Com is
14 authorized directs the Commission to determine whether the
15 costs are reasonable under the circumstances for the named
16 storm.

17 GT Com mentions the securitization statute. There's
18 a number of things I think that are important about that.
19 First, your decisions on the electric industry preceded the
20 securitization statute when you adopted incremental costs with
21 a normal capital offset. The securitization statute, of
22 course, only applies when a company is seeking securitization.
23 So it doesn't apply to the other electric cases even post-2005
24 if they're not seeking securitization, and you've seen both.
25 In fact, we only have one case that is still proceeding under

1 securitization. That's Florida Power & Light, Gulf Power
2 changed from their petition and went with a surcharge.

3 The securitization permits -- the statute permits but
4 does not require normal capital adjustments and normal
5 operating cost adjustments. It's not mandatory. And if you'll
6 recall from the 2005 Florida Power & Light case, whether to go
7 with incremental costs or not was a hard-fought issue. So it's
8 certainly not a slam dunk from the statute that you go with
9 incremental costs because that was a very hard-fought issue in
10 the case. Likewise with lost revenues; it's a permissible
11 adjustment but not a required one.

12 What is required by the securitization statute is
13 that you can only approve reasonable and prudent costs. That
14 is also in the securitization statute. So it's just like the
15 telephone statutes and just like the other electric statutes;
16 when you come down to the bottom line, the question is whether
17 the company is seeking reasonable costs.

18 Now why go with incremental costs and why does it
19 apply to GT Com? The Commission has already discussed the
20 rationale behind using incremental costs, and it's to prevent a
21 double counting. It's not reasonable to allow a company to
22 recover costs more than once if the costs, if part of the costs
23 which they're seeking are already recovered in the rates that
24 the company charged. That rationale applies to price cap
25 companies just as it does to a rate of return-regulated

1 company. Companies recover costs through their rates. And it
2 doesn't matter whether you're a rate of return or a price cap
3 company, you still have to recover your costs. In fact, the
4 cost recovery of normal costs is implicitly recognized in the
5 price cap statute because there are certain exceptions there
6 that are allowed from the norm, and those two exceptions -- and
7 you've discussed this in the Sprint order. The exceptions are
8 there's an inflation adjustment, that's one of the changed
9 circumstances from the norm, and then there's the hurricane
10 costs that are also changed circumstances from the norm.

11 Incremental cost is really the essence of changed
12 circumstances. It's what is the increment or what's different
13 than the normal. That's what incremental cost looks like. So
14 almost by its definition incremental cost fits with the
15 underlying premise of the telephone statute, and that is it's
16 based on changed circumstances.

17 We have had a settlement with Sprint that was under
18 the old statute, it's still under the price cap statute, but
19 it's not under the specific provisions for the, for the
20 hurricane costs that GT Com is in here. But Sprint was well
21 aware of the statute. Sprint's settlement was signed after the
22 statute was passed that applies to GT Com in this case. And in
23 that case, Sprint agreed to incremental costs. We also agreed
24 as part of the settlement that the use of incremental costs was
25 reasonable under the circumstances. And that phrase

1 "reasonable under the circumstances" that you'll find in the
2 Sprint settlement tracks the statutory language that applies to
3 GT Com exactly.

4 In this case, in the testimony you're going to find
5 that GT Com has no aversion to double counting expenses. Their
6 request and their work orders that they use as the basis for
7 the request include all sorts of normal expenses, and these
8 find their way into the work orders. We're going to discuss
9 that with Mr. Ellmer when he testifies.

10 GT Com is also not averse to collecting hurricane
11 costs from customers and then again from an interstate
12 High-Cost Fund. In fact, what you have in this case is, is
13 really not just double counting. Double counting would be
14 collecting normal costs through your base rates or basic rates
15 and then collecting them again through a surcharge.

16 Well, in the case of GT Com you're going to find
17 they're also going to collect a significant portion of their
18 hurricane costs from the interstate High-Cost Fund, essentially
19 making a triple counting. And you're going to find that they
20 think they should receive that, that reimbursement from the
21 interstate High-Cost Fund, and that should have no impact on
22 your decision.

23 On top of the triple counting, you're going to see
24 evidence that they've also had gross-ups that have no basis in
25 Commission practice or in logic. They're going to take

1 tax-deductible expenses and then ask you to gross it up for
2 taxes. This makes no sense at all and it's contrary to every
3 Commission practice. You can't have a tax-deductible expense
4 and then gross that up for, for taxes when the tax-deductible
5 expense offsets the revenue.

6 I think you're going to find by the end of the
7 testimony today that GT Com's requested expenses are not
8 reasonable, they're not consistent with Commission practice,
9 and that their petition should be denied, but without
10 inhibiting their ability to come back and file a proper case.
11 Thank you.

12 CHAIRMAN EDGAR: Thank you, Mr. Beck.

13 Ms. Rule, you can call your witness.

14 MS. RULE: Thank you. GT Com calls Mr. Mark Ellmer.

15 COMMISSIONER ARRIAGA: Madam Chair, a quick question.

16 CHAIRMAN EDGAR: Commissioner Arriaga.

17 COMMISSIONER ARRIAGA: When is it your pleasure for
18 us to ask some questions from the original presentations?

19 CHAIRMAN EDGAR: We can do that now. You're
20 recognized.

21 COMMISSIONER ARRIAGA: Thank you so much.

22 Ms. Rule, I read both memorandums of law -- memoranda
23 of law. Thank you. I was corrected this morning. And I think
24 both did a really good job, comprehensive job presenting both
25 cases.

1 However, when I read yours specifically, I find
2 myself with the sensation of potential emptiness in a specific
3 area. After I heard Commissioner Deason this morning, this
4 grew on to me a little more. And I want to ask you based on
5 your legal explanations, how do you expect this Commission to
6 verify costs and expenses beyond the fact that you said so or
7 your witness is going to swear to it? That will be the first
8 question.

9 And the second question will be how do you expect
10 this Commission to determine that costs and expenses are
11 reasonable if you believe, according to your memorandum of law,
12 that we don't have the jurisdiction or the right to look at
13 your financials and look at any of the documents that you're
14 already protesting? So how -- what kind of tools do you think
15 this Commission has? Or do you really think that the
16 Legislature intended for us to rubber stamp whatever you have
17 to say? I'd like to really listen to those arguments. And
18 then I have a question for Public Counsel myself. Thank you.

19 MS. RULE: Certainly. As to the first question, how
20 does the Commission go about exercising its authority under the
21 statute, how does it carry out its duty to verify and determine
22 reasonableness, well, your staff does this all the time in
23 every type of case it undertakes, and, in fact, audited
24 GT Com's claims in this case, conducted extensive discovery.
25 We had data requests, there were audit requests, there were

1 several sets of interrogatories, there were several sets of
2 document requests, and we provided everything that staff asked
3 for. Additionally, we provided voluminous exhibits. That's
4 exactly the same process you go through. You look at the books
5 and records, you determine if they appear to reflect reality,
6 that's the audit, you verify and then you determine if you
7 believe them to be reasonable. In fact, some of the questions
8 that staff asked in discovery was wanting to know whether
9 GT Com had to give up anything in order to negotiate a new
10 contract to get some of its storm work done. They asked
11 detailed questions about the reasonableness of what GT Com
12 undertook in terms of storm cost recovery. We produced the
13 specific drawings and engineering plans for diagraming out the
14 new network, the network that replaced on Alligator Point a lot
15 of the damaged processes. Staff looked at that to determine if
16 they thought it was overengineered. This is something your
17 staff does on a daily basis, and we didn't withhold any
18 information they thought they needed to do that job.

19 As to the reasonableness, again, we've had questions
20 from staff. Staff is there to determine if we are gold plating
21 this process, if we are spending more funds than are necessary,
22 if we went through reasonable processes to try and keep costs
23 down. They do that job all the time and they did it in this
24 case.

25 And with regard to the legislative intent, I'm glad

1 you asked that because I think what you have to do is compare
2 the new statute to recovery for the electric utilities and
3 recovery under the old statute, which is still on the books.

4 And the best explanation I can come up with is this:
5 Let's say GT Com was in here today complaining that there had
6 been a horrible wildfire that had destroyed its plants and
7 facilities. We couldn't go under the new statute. That's
8 specific for hurricane costs. So let's say we came to you
9 under the old one, 364.051(4)(a). And let's assume we showed
10 to you that wildfire and the costs and expenses as the
11 compelling circumstance. Okay? And let's say you decided
12 there was a compelling showing of changed circumstances. Let's
13 say you went through exactly the adjustments that Public
14 Counsel urges you to do. You know what happens when you come
15 out at the end? There's no cap on recovery. So if our damage
16 is due to a wildfire, we get to recover those costs. If our
17 damage is due to a hurricane, which has a very specific
18 recovery mechanism, under Public Counsel's theory we get less.
19 That makes no sense at all. You have to assume that the
20 Legislature wanted to limit recovery for hurricane costs, and I
21 can't read that into the statute. What I read into the statute
22 is a very specific mechanism.

23 CHAIRMAN EDGAR: Commissioner Arriaga.

24 COMMISSIONER ARRIAGA: I appreciate your answer. Try
25 to shorten it for me a little bit because I get a little bit

1 confused. I'm just trying to figure out how do you expect me
2 to make a decision here if you're telling me that I -- the
3 Legislature did not intend me to, intend for us to dig into
4 your financials and to determine a lot of things? How can I
5 determine if you're gold plating or not if I'm not allowed to
6 look at your books? I just -- I don't clearly understand where
7 you're coming from. And I do, I appreciate the difference in
8 the statute and I appreciate the difference in the law and
9 that's why we're looking at these two memorandums. But what
10 kind of tools am I going to use?

11 Let's say staff comes up and says your costs are not
12 reasonable because you did not apply the incremental cost
13 approach, let's say they do that. I'm not allowed to do that
14 according to your, your --

15 MS. RULE: I believe that's a misapplication of the
16 incremental cost approach. The incremental cost approach
17 doesn't look to see whether a particular cost is reasonable.
18 Let's say we spent 10 cents per widget. That's not an
19 incremental issue. That's was 10 cents too much for that
20 widget.

21 COMMISSIONER ARRIAGA: Or let's say you substituted
22 copper for fiber.

23 MS. RULE: You have all the information that you need
24 to determine whether that was a reasonable decision.

25 COMMISSIONER ARRIAGA: Would you say that

1 substituting copper for fiber may not be reasonable in this
2 procedure?

3 MS. RULE: We believe it was -- no. Substituting
4 copper for fiber would not have been reasonable and the company
5 didn't do that.

6 COMMISSIONER ARRIAGA: Well, the point is that you
7 may not give us the tools. You're not -- you're asking to go
8 to a proceeding without giving us the tools to determine what's
9 real and what's not real. I don't know how to proceed.

10 MR. HOFFMAN: Commissioner Arriaga, may I interject a
11 comment?

12 COMMISSIONER ARRIAGA: Please.

13 MR. HOFFMAN: I think that there's some level of
14 miscommunication on our part here. What we're trying to
15 explain to the Commissioners is that through the discovery
16 process we maintained certain continuing objections which we
17 reiterated this morning with respect to the application of the
18 statute, and necessarily some of the documents and information
19 that was requested in this proceeding. So, for example, we
20 maintained objections either in response to requests from
21 staff, requests from Public Counsel or both that a proper
22 application of this statute would not be based on a document
23 requesting certain incremental costs. Another example, we
24 maintained an objection that this statute should not be a
25 function of whether we earned a profit or a loss; what our,

1 what our net profits may or may not have been.

2 But the important point in response to your question
3 is that any and all information was provided, was provided to
4 the staff and to the Public Counsel, even when the information
5 was provided subject to the objections so that the Commission
6 would have the tools to make a decision. We did not want to
7 put the staff and the Commission in a position where there was
8 no choice but to go with the company's position because we view
9 that to be -- that would be an arbitrary decision on our part.
10 We wanted to give the Commission the information to develop a
11 full record. And if the Commission disagrees with us, they
12 will have had the documents to make that decision. If the
13 Commission agrees with us, then the Commission will have the
14 documents and information to support the company's position as
15 to the application of the statute. But all of the information
16 requested, including the availability of our books and records,
17 to respond to the specific question that Commissioner Deason
18 raised early on, have been made available and have been copied
19 to the staff and to the Public Counsel's office.

20 CHAIRMAN EDGAR: Commissioner Arriaga.

21 COMMISSIONER ARRIAGA: Thank you for that
22 clarification, Mr. Hoffman.

23 Mr. Beck, you are suggesting to use the incremental
24 cost approach, and I understand it and I appreciate it. But
25 what I'm -- the question I'm going to ask you is are you

1 suggesting to the Commission that this is the kind of tool that
2 we are going to use forever after and that we are tied to using
3 the incremental cost approach for every case?

4 The reason I ask you this is because since you've
5 cited the FPL cases and other cases before, I think that I
6 insisted several times during those hearings that this was
7 going to be a case-by-case basis, the incremental cost
8 approach. And I think I heard you just say before that also
9 lost revenues may be something that we may recognize eventually
10 down the line. I just want to make sure that you're not
11 suggesting to the Commission that the incremental cost approach
12 is something that we are tied to use because of precedent.

13 MR. BECK: Let me, let me try to expand on that. The
14 statutory criteria that applies to this case, just like the
15 electric cases, is that the costs have to be reasonable. And I
16 think I made it clear in our memo that we did not, we don't
17 advocate that the only thing that can follow that, from that is
18 incremental costs, you know. But you have to determine the
19 costs are reasonable.

20 And what the Commission has done in every instance
21 with respect to storm damages where that issue has arisen has
22 determined that incremental costs are the reasonable way to
23 proceed.

24 In the 2004 Florida Power & Light case, Florida Power
25 & Light filed a case that's very similar to what you see by

1 GT Com at least with respect to the double counting. They
2 wanted an all-inclusive cost approach, and it was a very
3 hard-fought, very litigated position on the incremental costs.
4 The Commission determined that what FPL had filed was not
5 reasonable, and determined that to be reasonable you had to use
6 the incremental cost, which is the change above the normal, you
7 know, what's extra.

8 It's certainly conceivable the Commission could do
9 something else. But what the statute requires is that you have
10 to determine it's reasonable. And all I can say is that at
11 every instance that's been before the Commission where you've
12 been asked to determine whether storm costs are reasonable, the
13 way you've approached it is incremental costs. And so we're
14 asking you to do the same thing here. But it's not because
15 it's the only thing you could possibly do. It's because it
16 makes sense, it prevents double counting, particularly in this
17 case where you have -- the whole premise of the surcharge is
18 changed circumstances. That's in essence what incremental
19 costs are. It's what's changed above the norm? What's
20 different than what's normal? So I think it's very
21 appropriate. I'm not going to say it's the only way you could
22 go, but I think it's the most logical and sensible, and it is
23 the only way you've gone before on it.

24 COMMISSIONER ARRIAGA: Thank you.

25 CHAIRMAN EDGAR: Thank you. Okay. Let's move

1 forward. Let's hear from the witnesses, and, of course, there
2 will be the opportunity to ask questions of the witnesses.

3 Ms. Rule.

4 MS. RULE: Thank you.

5 R. MARK ELLMER

6 was called as a witness on behalf of GTC, INC. d/b/a GT COM
7 and, having been duly sworn, testified as follows:

8 DIRECT EXAMINATION

9 BY MS. RULE:

10 Q Please state your name and business address for the
11 record.

12 A Robert Mark Ellmer, 502 Cecil G. Costin, Sr.
13 Boulevard, Port St. Joe, Florida 32456.

14 Q By whom are you employed and in what capacity?

15 A GTC, Inc. doing business as GT Com as a Regional
16 Controller.

17 Q Did you cause to be prefiled 20 pages of direct
18 testimony on May 9th, 2006, with attached exhibits
19 RME-1 through RME-14?

20 A Yes.

21 Q And did you also cause to be prefiled 18 pages of
22 rebuttal testimony on June 12th, 2006, with attached Exhibits
23 RME-15 through RME-21?

24 A Yes.

25 Q Do you have any changes or corrections to your

1 prepared testimony or exhibits?

2 A Yes. I have three changes to make.

3 In my direct testimony on Page 3, Line 13, I state
4 that GT Com serves approximately 47,358 access lines in
5 Florida. I would like to update that figure. As of May 31st,
6 2006, GT Com serves 46,861 access lines in Florida.

7 Also in my direct testimony on Page 7, Line 23,
8 change "repair approximately" to "replace or repair."

9 And on Page 8, Line 1, add a period after the words
10 "telephone pedestals" and delete the rest of the sentence.

11 Finally, in my rebuttal testimony on Page 9, Line 12,
12 strike the phrase "the Legislature enacted Section
13 364.051(4)(b)" and insert the phrase "Section 364.051(4)(b)
14 became effective."

15 COMMISSIONER ARRIAGA: Would you repeat the last
16 correction, please?

17 THE WITNESS: Yes, sir. In my rebuttal testimony on
18 Page 9, Line 12, strike the phrase, "The Legislature enacted
19 Section 364.051(4)(b)" and insert the phrase "Section
20 364.051(4)(b) became effective."

21 BY MS. RULE:

22 Q Are those your only changes?

23 A Yes.

24 Q With those changes do you adopt this as your
25 testimony in the proceeding today?

1 A Yes.

2 MS. RULE: Commissioners, I would ask that
3 Mr. Ellmer's prefiled direct and rebuttal be inserted into the
4 record as though read.

5 CHAIRMAN EDGAR: The prefiled direct and rebuttal
6 testimony with the corrections noted by the witness will be
7 entered into the record as though read.

8 MS. RULE: Thank you. I would also like Mr. Ellmer's
9 exhibits RME-1 through 21 identified, and I believe that would
10 be, according to the staff list that would be Exhibit Numbers 5
11 through 25.

12 CHAIRMAN EDGAR: Ms. Rule, could we do that as a
13 composite exhibit?

14 MS. RULE: Certainly.

15 CHAIRMAN EDGAR: Okay. So that will be composite
16 Exhibit Number 5.

17 MS. RULE: Thank you.

18 (Exhibit 5 marked for identification.)

19

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1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **GTC, INC., D/B/A/ GT COM**

3 **DIRECT TESTIMONY OF R. MARK ELLMER**

4 **DOCKET NO. 060300-TL**

5

6 **I. INTRODUCTION AND CREDENTIALS**

7 **Q. Please state your name and business address.**

8 A. My name is R. Mark Ellmer. My business address is P.O. Box 220, Port St. Joe,
9 Florida, 32457.

10 **Q. By whom are you employed and what is your position?**

11 A. I am employed by GTC, Inc. d/b/a GT Com, a subsidiary of Fairpoint
12 Communications, Inc., as its Regional Controller and Director of Support Revenues.

13 **Q. Please describe your duties and responsibilities in that position.**

14 A. I direct the activities of GT Com's Accounting Department, including General Ledger
15 activity, accounts payable, preparing monthly/annual statements, review of annual
16 cost studies, and oversight of NECA, USAC and FCC reporting requirements. In
17 addition, I coordinate with the corporate controller of Fairpoint, Inc., GT Com's
18 parent company, to provide regional data for consolidated SEC reporting, quarterly
19 and annual audits, budgets, budget variance reports and payroll. A copy of my
20 resume is attached as Exhibit RME-1, Resume of R. Mark Ellmer.

21 **Q. Please describe your educational background and business experience.**

22 A. I have a Bachelor of Business Administration from the University of Mississippi and
23 a Bachelor of Arts in accounting from the University of West Florida. I am a

1 Certified Public Accountant and have been employed in the telecommunications
2 industry for almost 25 years. As shown in my attached resume, I have been the
3 Regional Controller of GT Com since 2003 and have had substantial managerial
4 responsibility for the Company's accounting functions, including cost accounting and
5 expense tracking, for 16 years.

6 **II. PURPOSE**

7 **Q. What is the purpose of your testimony in this proceeding?**

8 A. The purpose of my testimony is to support GT Com's request for approval to recover
9 its intrastate costs and expenses related to repairing and restoring certain lines, plants
10 and facilities damaged by Hurricane Dennis in 2005. My testimony addresses Issues
11 1 through 5 in this docket. I will describe, document and verify the specific costs and
12 expenses GT Com incurred, demonstrate that they are reasonable under the
13 circumstances, and propose that the Commission grant the maximum recovery
14 permitted under §364.051(4)(b)5., Florida Statutes, of \$0.50 per access line per month
15 for 12 months. In addition, because this is the first case the Commission will
16 consider under §364.051(4)(b), Florida Statutes, I will also explain its requirements.

17 **Q. Are you sponsoring any exhibits in this case?**

18 A. Yes. In addition to Exhibit RME-1 referenced above, I am sponsoring the following
19 exhibits:

20 Exhibit RME-2: Costs and Expenses Charged to Work Order No. 2005838

21 Exhibit RME-3: Photos of Coastal Damage

22 Exhibit RME-4: Costs and Expenses Charged to Work Order No. 2005839

23 Exhibit RME-5: Photos of Damage to Alligator Point

- 1 Exhibit RME-6: Costs and Expenses Charged to Work Order No. 2005796
2 Exhibit RME-7: Costs and Expenses Charged to Work Order No. 2005797
3 Exhibit RME-8: Costs and Expenses Charged to Work Order No. 2005861
4 Exhibit RME-9: Costs and Expenses Charged to Work Order No. 2005798
5 Exhibit RME-10: Map of Work Order Costs to Petition Amounts
6 Exhibit RME-11: GT Com Carrying Costs and Taxes
7 Exhibit RME-12: Summary of Cost Allocations
8 Exhibit RME-13: 2005 Tracom Contract Price List
9 Exhibit RME-14: GT Com Inventory Materials

10 **Q. Please describe GT Com and its service territory.**

11 A. GT Com is certificated in Florida as a small local exchange telecommunications
12 company and is subject to carrier-of-last-resort obligations. The Company serves
13 approximately ^{46,861}~~47,358~~ access lines in 17 exchanges throughout the Florida
14 Panhandle/Big Bend Area, including Alligator Point, Altha, Apalachicola,
15 Blountstown, Bristol, Carrabelle/Dog Island, Chattahoochee, Eastpoint/St. George
16 Island, Hosford, Keaton Beach, Laurel Hill, Mexico Beach, Paxton, Perry, Port St.
17 Joe, Tyndall Air Force Base, and Wewahitchka.

18

19 **ISSUE 1: WHAT AMOUNT OF INTRASTATE COSTS AND EXPENSES DID GT**
20 **COM INCUR RELATING TO REPAIRING, RESTORING, OR REPLACING THE**
21 **LINES, PLANTS OR FACILITIES DAMAGED BY HURRICANE DENNIS?**

22

1 **ISSUE 2: ARE THE COSTS AND EXPENSES IDENTIFIED IN ISSUE NO. 1**
2 **REASONABLE UNDER THE CIRCUMSTANCES FOR HURRICANE DENNIS?**

3

4 **Q. Did Hurricane Dennis cause damage to any of GT Com's Florida lines, plants**
5 **and facilities in 2005?**

6 A. Yes. On or about July 10, 2005, Hurricane Dennis made landfall on Santa Rosa
7 Island, Florida. The center of the storm moved across the Florida Panhandle,
8 bringing high winds and damaging storm surge to GT Com's service territory. The
9 wind, storm surge and resulting erosion damaged or destroyed various copper and
10 fiber routes within GT Com's system and necessitated both immediate temporary
11 repairs as well as permanent work to repair, restore and replace the damaged lines,
12 plants and facilities.

13 **Q. Please provide a general description of the damage caused to GT Com's lines,**
14 **plants and facilities by Hurricane Dennis.**

15 A. Although Hurricane Dennis caused damage and necessitated repairs in many areas of
16 GT Com's Panhandle service territory, due to high winds and storm surge, most of
17 the damage occurred in coastal areas between Alligator Point and Port St. Joe. As I
18 will explain in more detail later, Hurricane Dennis damaged or destroyed more than
19 230 pedestals located in GT Com's Apalachicola, Eastpoint, Carrabelle, Indian Pass
20 and Alligator Point service areas, and washed out and damaged or destroyed
21 approximately 7200 feet of copper cable and 700 feet of fiber cable in those areas.
22 Overall, Hurricane Dennis caused significant damage to GT Com's lines, plants and

1 facilities that resulted in loss of service to approximately 10,000 access lines, or 21%
2 of GT Com's customers.

3 **Q. How did GT Com track costs and expenses to repair damage caused by**
4 **Hurricane Dennis?**

5 A. As part of its pre-hurricane preparations, the Company routinely establishes one or
6 more work authorization projects, also known as work orders, within its accounting
7 system to facilitate the necessary repair work immediately after the storm passes. In
8 this case, the Company actually established three pre-hurricane work orders to
9 capture work done in the areas in which we expected damage. Work Order No.
10 2005838 was established for repair work in and around Franklin and Gulf Counties
11 while Work Order No. 2005839 was established for repair work in and around
12 Okaloosa and Walton Counties. Although Work Order No. 2005837 was established
13 for repair work in and around Taylor County, no expenses were ever charged to it
14 because the Company did not experience any hurricane damage in that area.

15 We began repairs as soon as the storm passed, with all repair work charged to
16 Work Order No. 2005838 or 2005839. However, as repair work progressed and we
17 discovered the full extent of the damage caused by the hurricane, we determined that
18 the damage on Alligator Point and in the Indian Pass area was particularly severe and
19 would require substantial additional work to effect permanent repairs. Accordingly,
20 the Company opened four additional work orders to track these projects. Work Order
21 No. 2005798 was established to account for placement of fiber optic cable at Indian
22 Pass; Work Order No. 2005796 was established to account for replacement of fiber
23 optic cable on Alligator Point; and Work Order No. 2005797 was established to

1 account for replacement copper cable on Alligator Point. Finally, Work Order No.
2 2005861 was established to account for placement of a carrier system on Alligator
3 Point. All labor, materials and overhead costs incurred in connection with these
4 projects were charged to the appropriate work order for tracking purposes.
5 Accordingly, these six work orders comprise the total amount of direct company-wide
6 costs and expenses GT Com incurred to repair, restore and replace lines, plants and
7 facilities damaged by Hurricane Dennis.

8 **Q. Have you reviewed all of the invoices and charges to these six work orders?**

9 A. Yes, I have.

10 **Q. Do you have prior experience in reviewing the costs and expenses for labor and**
11 **materials incurred in connection with the type of work performed under these**
12 **work orders?**

13 A. Yes. As shown in my Exhibit RME-1, I have 24 years of cost accounting experience
14 in the telecommunications industry, which has made me generally familiar with the
15 costs of telecommunications labor and materials expenses. My opinion is based on
16 that experience as well as my specific knowledge of these work orders.

17 **Q. Based on your experience, is it your opinion that the specific work performed**
18 **relative to the six work orders was necessary and that the costs incurred were**
19 **reasonable?**

20 A. Yes, as I will explain in more detail below with regard to each specific work order.

21 **Q. Please describe the costs and expenses charged to Work Order No. 2005838**
22 **(Franklin and Gulf Counties) and explain why the work was necessary.**

1 A. The costs and expenses charged to Work Order No. 2005838 (Franklin and Gulf
2 Counties) include contracted labor and materials as well as GT Com-supplied labor,
3 materials and cost allocations relating to repairing damage caused by Hurricane
4 Dennis in the Franklin County and Gulf County areas, with the exception of the
5 Alligator Point and Indian Pass projects, which were charged to other project-specific
6 work orders that I will describe separately below. The costs and expenses charged to
7 Work Order No. 2005838 are detailed in my attached Exhibit RME-2, Costs and
8 Expenses Charged to Work Order No. 2005838, which is a compilation of all
9 invoices for contracted labor and materials and all charges for in-house labor,
10 materials and cost allocations charged to this work order. A key to the contractor
11 charge codes shown in the invoices is found in Exhibit RME-13, 2005 Tracom
12 Contract Price List, while a key to the GT Com inventory materials codes shown in
13 the in-house charges is found in Exhibit RME-14, GT Com Inventory Materials.

14 The majority of the Company's cable facilities are buried, so most of the
15 damage caused by Hurricane Dennis in this area was caused by water rather than
16 wind, as rising water entered pedestals and cable was dislocated and damaged by
17 storm surge or wave activity. As shown in Exhibit RME-3, Photos of Coastal
18 Damage, the company incurred substantial damage to cable route buried on state or
19 county rights of way.

20 The Company incurred \$31,534 of materials expense in the Franklin County
21 and Gulf County areas, including pedestals, cable, splice kits and related items, plus
22 \$26,985 of contractor labor expense, including splice crews, drop crews, and general
23 assistance, to repair or replace damaged cable, ^{or repair} replace approximately 230 damaged

1 telephone pedestals, ~~and repair other pedestals~~. In order to ensure that all pedestal
2 damage was identified and repaired, each pedestal suspected to have water intrusion
3 was inspected. In those pedestals in which the inspection revealed repairable water
4 damage, the pedestal was dried, all cable was cleaned, cable connections housed in
5 the pedestal were reworked, and all other work necessary to rehabilitate the pedestal
6 and prepare it to resist saltwater corrosion was performed, including application of
7 pea gravel, weed killer and ant killer. Where damage was so severe that repair was
8 not cost-effective, the pedestal was replaced. Other expenses charged to this work
9 order include the cost to repair damage such as wind damage to the roofs of GT
10 Com's Apalachicola and Carrabelle central offices; water and wind damage to the
11 Eastpoint and Apalachicola generators; and damage to water lines in the Carrabelle
12 central office. Finally, this work order also includes the cost of repairs necessary to
13 restore service on Dog Island.

14 The bulk of this work was contracted out due to the magnitude of the work,
15 the need to have it completed as soon as possible, and the fact that GT Com is not
16 staffed to handle this level of damage repair. While Company employees were able
17 to repair some amount of hurricane damage, they could not handle all of the repairs
18 charged to this work order in addition to their normal work activities.

19 The remaining \$127,222 of expense shown in Exhibit RME-2 reflects the
20 Company's in-house materials, labor, benefits and overhead costs and expenses
21 related to post-hurricane repair and restoration in Gulf and Franklin Counties, such
22 as: the cost of immediate temporary repairs to restore service pending an engineering
23 inspection and formulation of an appropriate plan for permanent repair and

1 restoration of facilities, including ferrying portable generators between the
2 Company's numerous carrier sites to recharge batteries; employee labor and materials
3 necessary to respond to hurricane-related trouble reports; approximately \$10,000 of
4 engineering labor to survey and plan repair of hurricane damage; and initial repairs to
5 or replacement of pedestals and other facilities immediately following the hurricane
6 to restore service to high-priority locations such as the sheriff's department and
7 prisons.

8 As shown in Exhibit RME-2, GT Com incurred total costs and expenses of
9 \$189,053 relating to repairing, restoring and replacing its lines, plants and facilities
10 that were damaged by Hurricane Dennis in Franklin and Gulf Counties, exclusive of
11 the Alligator Point and Indian Pass projects.

12 **Q. Please describe the costs and expenses charged to Work Order No. 2005839**
13 **(Okaloosa and Walton Counties) and explain why the work was necessary.**

14 A. Hurricane Dennis caused only minor wind damage in Okaloosa and Walton Counties.
15 The work charged to this Work Order was performed by Company employees in
16 order to reconnect aerial drop wire in the Florala area that had been knocked down by
17 wind or flying debris. The costs and expenses charged to Work Order No. 2005839
18 are detailed in Exhibit RME-4, Costs and Expenses Charged to Work Order No.
19 2005839, which is a compilation of charges for in-house labor and cost allocations.
20 As shown in Exhibit RME-4, GT Com incurred total costs and expenses of only
21 \$7,614 relating to Hurricane Dennis damage in Okaloosa and Walton Counties.

1 **Q. Are the costs and expenses charged to Work Order No. 2005838 (Franklin and**
2 **Gulf Counties) and Work Order No. 2005839 (Okaloosa and Walton Counties)**
3 **reasonable under the circumstances?**

4 A. Absolutely. Under the post-hurricane circumstances in which the Company was
5 operating, it was reasonable to incur the costs and expenses that were charged to these
6 work orders to make the temporary and permanent repairs necessary for the Company
7 to provide service to its customers. Not making the required temporary and
8 permanent repairs was simply not an option.

9 Further, the costs themselves are reasonable in amount, given the extent of the
10 damage caused by Hurricane Dennis. Much of the contracted work, including
11 pedestal repair and replacement, was charged at rates that were set in a pre-existing
12 contract for standard services. GT Com puts this contract out for bids every two
13 years, thus ensuring that the rates are competitive and that the Company is never in
14 the position of being without necessary assistance or paying excessive emergency
15 rates.

16 Although GT Com has the advantage of contracted rates, it may seek bids for
17 larger projects such as the cable repairs and replacement necessitated by Hurricane
18 Dennis. The Company considered seeking bids on the cable projects but opted not to
19 do so because the bid process would have delayed repairs by at least a month.
20 Instead, GT Com negotiated terms for the cable projects that were more favorable
21 than those found in the pre-existing contract. Thus, all contracted work was
22 performed at either the pre-existing contract rate or lower.

1 **Q. Please describe the work charged to Work Orders Nos. 2005797 (Alligator Point**
2 **Copper Cable Replacement), 2005796 (Alligator Point Fiber Optic Cable) and**
3 **2005861 (Alligator Point CRX System) and explain why the work was necessary.**

4 A. As you can see from the photos in Exhibit RME-5, Photos of Damage to Alligator
5 Point, Hurricane Dennis destroyed much of the coastline road on Alligator Point. GT
6 Com's cable was buried in the right of way and therefore the storm surge and wave
7 action that destroyed the road also unearthed and destroyed the cable.

8 This is not the first time that this section of road has been washed away,
9 taking GT Com's cable with it. Given the Company's past experience with this area,
10 the extent of the current damage, the certain prospect of future hurricane damage, and
11 the Company's long-term plans for modernizing its facilities, our engineers could not
12 justify simply replacing the cable and waiting for the next hurricane to wash it away
13 again. Instead, they developed a plan to move the cable inland for greater storm
14 resistance, replace portions of the existing 900 and 600 pair copper cable with fiber
15 optic cable (Work Order No. 2005796) and a carrier system (Work Order No.
16 2005861), and replace copper cable as needed (Work Order No. 2005797).

17 The county had re-routed the main Alligator Point road, so GT Com was able
18 to place cable in the newly-available right of way (at no cost for the use of the right of
19 way), which was farther inland than the old location and therefore more secure.
20 Rather than replace the expensive existing 900 pair cable, GT Com opted to use fiber
21 feeder cable, which is significantly less expensive, to a point approximately midway
22 between Highway 98 and the end of Alligator Point. Use of fiber cable along with
23 the associated carrier system also permitted GT Com to replace damaged 600 pair

1 cable with less expensive 50 pair cable to distribute service from the new carrier.
2 This three-part project involved permanent replacement and rerouting of
3 approximately 8,200 feet of distribution cable.

4 Charges totaling \$63,079 to Work Order No. 2005796 are detailed in Exhibit
5 RME-6, Costs and Expenses Charged to Work Order No. 2005796. Charges totaling
6 \$82,903 to Work Order No. 2005797 are detailed in Exhibit RME-7, Costs and
7 Expenses Charged to Work Order No. 2005797, while charges totaling \$80,405 to
8 Work Order No. 21004861 are detailed in Exhibit RME-8, Costs and Expenses
9 Charged to Work Order No. 2005861. The total of these three projects as shown in
10 Exhibit RME-10 is \$226,386, which was incorrectly rounded in the Petition to
11 \$227,000.

12 **Q. Are the costs and expenses charged to the three Alligator Point work orders**
13 **reasonable under the circumstances?**

14 A. Yes. The degree of damage on Alligator Point forced GT Com to make extensive
15 repairs, and the Company prudently developed a long-term solution that not only
16 provides more secure facilities with less exposure to damage from waves and storm
17 surge, but also permitted the use of cost-saving fiber optics in lieu of more expensive
18 and less resilient 900-pair copper cable, thus modernizing the Company's facilities.
19 GT Com believes that simply moving and replacing the existing copper cable,
20 although somewhat less expensive, would have been unwise and imprudent because
21 fiber provides a more reliable network and higher quality service, minimizes the need
22 for routine repairs, and is less prone to noisy line issues, which are always a problem
23 along coastal areas. Further, as stated above, GT Com was able to accomplish the

1 projects at a reasonable cost, having negotiated a price that was lower than its
2 standard contract rates. Therefore, while the cost of the three projects exceeded the
3 cost of simply moving and replacing the damaged cable by approximately \$40,000,
4 the expense was reasonable under the circumstances because it provided the
5 opportunity to increase the reliability of the Company's network and expand services
6 to our customers.

7 **Q. Please describe the work charged to Work Order No. 2005798 (Indian Pass**
8 **Fiber Optic Cable) and explain why the work was necessary.**

9 A. Hurricane Dennis washed out and destroyed portions of County Road 30 near Indian
10 Pass, uncovering and damaging approximately 700 feet of GT Com fiber cable that
11 was buried in the right-of-way. GT Com first made a temporary repair under Work
12 Order No. 2005838 by hanging the fiber from hand-buried stub poles along the road
13 to continue to provide service and protect against further damage. Work Order No.
14 2005798 includes only the costs of the permanent repair, which required boring a
15 tunnel beside the road under the washed out area, pulling new fiber cable through the
16 bore and splicing it to existing cable at points beyond the damaged area. As shown in
17 Exhibit RME-9, Costs and Expenses Charged to Work Order No. 2005798, the bulk
18 of this work was contracted out, although a small amount of company engineer labor
19 was required.

20 **Q. Are the costs and expenses charged to Work Order No. 2005798 (Indian Pass**
21 **Fiber Optic Cable) reasonable under the circumstances?**

22 A. Yes. The total amount charged to this work order was \$24,452, which was rounded to
23 \$24,000 in GT Com's Petition. As I explained above, this work was performed at a

1 reasonable cost as a negotiated rate that was lower than GT Com's standard contract
2 rates. The Company reviewed and rejected the lower-cost option of installing poles
3 and hanging aerial fiber; although it would be cheaper in the short term, aerial fiber in
4 coastal areas is prone to wind damage and future repair costs would negate any short-
5 term savings.

6 **Q. How can you be certain that repair work unrelated to Hurricane Dennis repairs**
7 **is not included in the six work orders shown in your exhibits?**

8 A. Each invoice must be approved by a Manager and thereafter by his or her Director
9 before it can be paid and charged to a work order. In addition, once received by the
10 accounting department, invoices are subject to further review to determine that they
11 are charged correctly, further ensuring that the invoices shown in my exhibit are
12 directly related to the specific work orders to which they are charged.

13 Employee time charged to the work orders is similarly controlled and
14 reviewed. GT Com maintains electronic time sheets, which must be approved by each
15 employee's immediate supervisor as to both the amount of time charged and the
16 projects to which it is charged before payroll will process.

17 Work orders that require engineering labor, such as the Alligator Point and
18 Indian Pass projects, are also subject to engineering review. For example, when a
19 work order is assigned to an engineer, he or she not only performs the necessary
20 engineering work and develops project specifications, but also is responsible for
21 monitoring the labor and invoices charged to that work order. Having designed the
22 project, the engineer is familiar with the type and amount of labor and materials
23 necessary to complete the work order. After an invoice is approved for payment by

1 the responsible engineer, it must also be approved by a Director, after which it is
2 subject to further accounting review to ensure that it was properly charged.

3 **Q. Please explain the relationship of Work Orders Nos. 2005796, 2005797, 2005798,**
4 **2005861, 2005838 and 2005839 to the figures listed on page 4 of GT Com's**
5 **Petition.**

6 A. The costs for which GT Com seeks recovery can be grouped several ways. For
7 discussion purposes herein, I have separated them into three groups: the Alligator
8 Point project (Work Orders 2005796, 2005797 and 2005861); the Indian Pass project
9 (Work Order 2005798); and general repairs (Work Orders 2005838 and 2005839).
10 Page 4 of GT Com's Petition similarly grouped Work Orders 2005796, 2005797,
11 2005861 and 2005798 by project, but showed the charges from Work Orders 2205838
12 and 2005839 broken down into the cost categories of contract labor, materials, and in-
13 house labor, which was done to provide the Commission with an overview of the type
14 of general repair expense necessitated by Hurricane Dennis.

15 Exhibit RME-10, Map of Work Order Costs to Petition Amounts, shows the
16 charges to each work order, broken down into the categories of material, plant labor,
17 engineer labor, contract labor, total labor, benefits, or other overhead. The exhibit
18 then "maps" these charges to the amounts shown on page 4 of GT Com's Petition.

19 **Q. Exhibit RME-10 indicates that GT Com seeks recovery of costs that are slightly**
20 **different from the amounts shown on page 4 of GT Com's Petition. Please**
21 **explain.**

22 A. I discovered while preparing my testimony that GT Com made three minor
23 mathematical errors when compiling figures for its Petition: a generator fuel invoice

1 was inadvertently omitted from Work Order No. 2005838, resulting in a request that
2 was \$3,313 too low; a rounding error in connection with Alligator Point project
3 expenses resulted in a request that was \$614 too high; and a rounding error in
4 connection with the Indian Pass project resulted in a request that was \$452 too low.
5 GT Com seeks recovery of the corrected amounts shown in Exhibit RME-10.

6 **Q. Does GT Com seek recovery of carrying costs and taxes in this docket?**

7 A. Yes. GT Com did not quantify carrying costs and taxes in its Petition because the
8 expenses sought by the Company, apart from carrying costs and taxes arising from
9 such expenses, exceed the maximum amount that is recoverable under
10 §364.051(4)(b), Florida Statutes. However, if the Commission were to make
11 adjustments that reduce such expenses below the cap, GT Com's related intrastate
12 carrying costs and taxes in the amount of \$151,018, as shown in Exhibit RME -11,
13 GT Com Carrying Costs and Taxes, should be included as a recoverable expense.

14 **Q. Please explain how GT Com allocated benefits and overhead to each work order.**

15 A. The overhead allocation is an automatic software-generated entry charged to each
16 work order based on the percentage of total time charged to it, in compliance with
17 FCC Part 32 rules, as amended. For example, if 10% of all hours worked during an
18 accounting period were charged to a particular work order, the software would
19 automatically allocate 10% of the benefits and overhead to that work order. GT
20 Com's cost allocations to each of the six hurricane work orders are shown in Exhibit
21 RME-12, Summary of Cost Allocations.

22

1 **ISSUE 3. WHAT IS THE APPROPRIATE AMOUNT OF INTRASTATE COSTS**
2 **AND EXPENSES RELATED TO DAMAGE CAUSED BY HURRICANE DENNIS**
3 **THAT SHOULD BE RECOVERED PURSUANT TO SECTION 364.051(4)?**

4
5 **Q. What is the total company amount and intrastate portion of GT Com's costs and**
6 **expenses related to damage caused by Hurricane Dennis that GT Com should**
7 **recover in this docket?**

8 A. As shown in Exhibit RME-10, GT Com incurred total company costs and expenses of
9 \$658,719 relating to repairing, restoring or replacing the lines, plants and facilities
10 damaged by Hurricane Dennis. The intrastate portion of that amount is \$463,710, all
11 of which is appropriate for recovery up to the limit imposed by §364.051(b)5., Florida
12 Statutes.

13 **Q. How did GT Com calculate the intrastate portion of the total costs and expenses**
14 **to repair, restore, and replace its lines, plants and facilities damaged by**
15 **Hurricane Dennis?**

16 A. As shown in Exhibit RME-10, GT Com applied the jurisdictional factor of 70.3957%
17 from its most recent Part 36 cost study to the total company costs in Work Orders
18 Nos. 2005796, 2005797, 2005798, 2005861, 2005838 and 2005839.

19 **Q. Please discuss the basis for GT Com's request for cost recovery.**

20 A. As stated in its Petition, GT Com seeks cost recovery under the new hurricane cost
21 recovery clause found in §364.051(4)(b), Florida Statutes (the "Hurricane Cost
22 Recovery Clause"). In order to recover costs under the Hurricane Cost Recovery
23 Clause, GT Com must demonstrate the following: that the Company is a qualified

1 petitioner; that it has experienced damage caused by a qualifying event; that it has
2 incurred qualifying expenses; and that those expenses are reasonable under the
3 circumstances.

4 **Q. Is GT Com a qualified petitioner under the Hurricane Cost Recovery Clause?**

5 A. Yes. As required by §364.051(4)(b), GT Com is a local exchange company that is
6 subject to carrier of last resort obligations, and pursuant to §364.051(4)(b)8., has not
7 filed a petition for hurricane cost recovery in the last 12-month period. Because GT
8 Com has fewer than 1 million access lines, it is not required to incur a minimum
9 amount of damage under §364.051(4)(b)7. in order to file this Petition.

10 **Q. Has GT Com experienced damage caused by a qualifying event?**

11 A. Yes. The damage for which GT Com seeks recovery was caused by Hurricane
12 Dennis which was “a tropical system occurring after June 1, 2005, and named by the
13 National Hurricane Center” as specified by §364.051(4)(b), Florida Statutes.

14 **Q. Did GT Com incur qualifying expenses caused by Hurricane Dennis that were
15 reasonable under the circumstances?**

16 A. Yes. In order to qualify for cost recovery under the Hurricane Cost Recovery Clause,
17 an expense must relate to repairing, restoring, or replacing lines, plants or facilities
18 damaged by the qualifying event. GT Com incurred a total of \$463,710 in intrastate
19 costs relating to the repair, restoration or replacement of lines, plants and facilities
20 damaged by Hurricane Dennis, as shown in Exhibit RME-10. As I have explained,
21 those costs and expenses are certainly reasonable under the circumstances.

22 **Q. Does the Hurricane Cost Recovery Clause impose any other restrictions on GT
23 Com’s cost recovery request?**

1 A. No. GT Com has no storm reserve fund so its recovery is not limited by
2 §364.051(b)4., and the statute imposes no additional conditions upon GT Com's
3 recovery of its reasonable expenses. The statute does not, for example, condition or
4 limit cost recovery based on the level of the company's earnings, the amount the
5 company may have previously budgeted or spent for hurricane repairs, or the amount
6 by which the qualifying expense is incremental to some other figure. The statute
7 clearly creates a cost recovery mechanism unrelated to the petitioner's earnings,
8 triggered by an extraordinary event that is specifically defined therein, with a
9 maximum possible recovery of \$0.50 per customer line per month for 12 months.

10

11 **ISSUE 4: WHAT IS THE APPROPRIATE LINE ITEM CHARGE PER ACCESS**
12 **LINE, IF ANY, THAT SHOULD BE CHARGED TO THE CUSTOMERS OF GT**
13 **COM FOR RECOVERY OF THE AMOUNT IDENTIFIED IN ISSUE 1?**

14

15 **Q. What line item charge per access line should the Commission authorize GT Com**
16 **to impose for recovery of its reasonable hurricane costs?**

17 A. GT Com incurred reasonable intrastate costs and expenses of \$463,710, including
18 carrying costs and taxes, relating to hurricane damage repair. In order to completely
19 recover those costs within a one-year period, GT Com would have to impose a
20 monthly charge of approximately \$0.816 on each of its 47,358 Florida access lines,
21 which is in excess of the maximum cost recovery charge permitted by §364.051(b)5.,
22 Florida Statutes. Given the amount of expense incurred by GT Com and the

1 relatively small number of access lines served by the Company, the Commission
2 should authorize GT Com to recover \$0.50 per access line per month for 12 months.

3

4 **ISSUE 5: IF A LINE ITEM CHARGE IS APPROVED IN ISSUE 2, ON WHAT DATE**
5 **SHOULD THE CHARGE BECOME EFFECTIVE AND ON WHAT DATE SHOULD**
6 **THE CHARGE END?**

7

8 **Q. When should the Hurricane Cost Recovery Charge become effective and when**
9 **should it end?**

10 A. The Commission should permit GT Com to implement the charge as soon as it is
11 possible to do so, continuing for the full 12-month period. GT Com will monitor and
12 review its cost recovery and will, at the end of the period, refund any collections in
13 excess of the approved amount pursuant to §364.051(b)6., Florida Statutes.

14 **Q. Please summarize your testimony.**

15 A. GT Com's costs and expenses to repair, restore and replace the lines, plants and
16 facilities damaged by Hurricane Dennis are reasonable under the circumstances. The
17 Commission should permit the Company to recover a portion of such costs through a
18 line-item charge of \$0.50 per Florida access line for 12 months, subject to true-up.

19 **Q. Does this conclude your direct testimony?**

20 A. Yes.

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **GTC, INC., D/B/A/ GT COM**

3 **REBUTTAL TESTIMONY OF R. MARK ELLMER**

4 **DOCKET NO. 060300-TL**

5

6 **Q. Please state your name and business address.**

7 A. My name is R. Mark Ellmer. My business address is P.O. Box 220, Port St. Joe,
8 Florida, 32457.

9

10 **Q. Have you previously provided testimony in this docket?**

11 A. Yes.

12

13 **Q. What is the purpose of your rebuttal testimony?**

14 A. My rebuttal testimony addresses the direct testimony of Mr. Michael Buckley of the
15 Florida Public Service Commission Staff and the testimony of Public Counsel's
16 witness Mr. Hugh Larkin. Specifically, I will address the three audit finding
17 discussed by Mr. Buckley and explain why the costs referenced therein should be
18 approved for recovery. I will also respond to Mr. Larkin's testimony regarding
19 certain expenses for which GT Com seeks cost recovery, and will explain that his
20 theories of cost recovery are not only inapplicable to price regulated
21 telecommunications companies, but contravene the specific terms of §364.051(4)(b),
22 Florida Statutes.

23

1 **Q. Are you sponsoring any exhibits in connection with your rebuttal testimony?**

2 A. Yes. I am sponsoring the following exhibits:

3 Exhibit RME-15 Analysis of Cost Allocations - Total

4 Exhibit RME-16 Analysis of Cost Allocations – July

5 Exhibit RME-17 Support for Cost Allocations – July

6 Exhibit RME-18 Analysis of Cost Allocations – August

7 Exhibit RME-19 Support for Cost Allocations – August

8 Exhibit RME-20 Analysis of Cost Allocations – September

9 Exhibit RME-21 Support for Cost Allocations – September

10

11 **Q. Mr. Buckley states that the Commission should disallow \$40,000 (total company)**
12 **of GT Com’s request for recovery of costs related to repair, restoration and**
13 **repair of its Alligator Point facilities pursuant to Staff Audit Finding No. 1. Does**
14 **GT Com agree with this assessment?**

15 A. No. While I agree with Mr. Buckley’s testimony that the purpose of §364.051(4)(b)
16 is to make the company whole again, I disagree with his conclusion that the
17 Commission should disallow Alligator Point project costs to the extent that such costs
18 exceed replacement of the exact facilities destroyed by Hurricane Dennis. Section
19 364.051(4)(b) does not require existing facilities to be repaired or replaced with the
20 same exact facilities. Instead, it more broadly specifies recovery of costs and
21 expenses “relating to repairing, restoring, or replacing” facilities damaged by
22 Hurricane Dennis if they “are reasonable under the circumstances.” For example,
23 although moving cable inland on Alligator Point could be considered an improvement

1 to GT Com's system, the cost is recoverable because it "relates to" hurricane repairs
2 and as explained on pages 11 through 13 of my direct testimony, was more than
3 reasonable under the circumstances. GT Com's use of fiber, a carrier system and
4 smaller copper in lieu of an exact replacement of existing copper cable similarly
5 relates to repairing, restoring or replacing damaged facilities, and is similarly
6 reasonable under the circumstances as explained on pages 12 and 13 of my Direct
7 Testimony, even though the total project cost \$40,000 more than if GT Com had
8 simply moved and replaced the existing facilities. In no event, however, should GT
9 Com's prudent choice of replacement materials cause it to recover less than if it had
10 opted to replace the exact facilities damaged by Hurricane Dennis.

11
12 **Q. Mr. Buckley also states that the Commission should disallow \$35,941 (total**
13 **company) of GT Com's request for recovery of costs related to employee benefits**
14 **pursuant to Staff Audit Finding No. 2. Does GT Com agree with this**
15 **assessment?**

16 **A.** GT Com is still investigating the benefit levels addressed in Staff Audit Finding No.
17 2. Given the short time period within which this docket must be completed, GT Com
18 is willing to accept Staff's proposed adjustment.

19
20 **Q. Finally, Mr. Buckley states that the Commission should disallow \$28,080 (total**
21 **company of GT Com's request for recovery of amounts allocated to overhead**
22 **expenses pursuant to Staff Audit Finding No. 3. Does GT Com agree with this**
23 **assessment?**

1 A. No. Both Mr. Buckley and Mr. Larkin addressed GT Com's cost allocations.
2 Accordingly, I would like to explain how GT Com allocated costs to various work
3 orders.

4 Charges are "cleared" to work orders in a five step process. I will first
5 summarize the process, and then provide a more detailed explanation.

6 To summarize, the first step involves identifying non-productive time such as
7 vacations and holidays and allocating it to various accounts including TPUC
8 (Telephone Plant Under Construction). The second step involves allocation of
9 benefits to the correct accounts, again including TPUC. The next step in the process is
10 to allocate Vehicle and Other Work Equipment expenses, followed by allocation of
11 the capitalized portion of Engineering and Plant Operation Administration expenses.
12 The final step is to take the results of steps one through four and allocate those dollars
13 to individual work orders. GT Com completes this five-step process when it closes
14 its books each month.

15 My Exhibit RME-15, Analysis of Cost Allocations – Total, provides a
16 summary of the result of this allocation process for the months of July, August and
17 September 2005, the time during which GT Com incurred hurricane repair costs.
18 Exhibit RME-16, Analysis of Cost Allocations – July, provides a summary of the
19 result of the allocation process for July only. Exhibit RME-17, Support for Cost
20 Allocations – July, provides detailed information from GT Com's cost allocation
21 journal in support of the July allocation. Exhibits RME-18, Analysis of Cost
22 Allocations – August; RME-19, Support for Cost Allocations – August; RME-20,
23 Analysis of Cost Allocations – September; and RME-21 Support for Cost Allocations

1 – September likewise summarize and provide support for the allocation of expenses
2 incurred during those months.

3
4 **Q. Please provide a detailed explanation of each of the five steps in the process by**
5 **which charges are cleared to work orders.**

6 Step 1: As payrolls are processed and employees are paid, any pay associated with
7 time reported as non-productive is accumulated until month end. During the month
8 end cost allocations process these dollars are allocated to operating expense and work
9 orders using the same percentage in which the productive labor dollars are allocated.
10 The portion allocated to work orders is temporarily charged in a TPUC “clearing”
11 account to be later allocated to individual work orders.

12 Step 2: Next, benefit expenses that have been accumulated during the month
13 in special benefit accounts are cleared to both expense and TPUC clearing account as
14 part of end of month cost allocations process. These dollars are allocated based on
15 the total labor by account including non-productive labor allocated in step 1 above.

16 Step 3: This step accumulates all vehicle and other work equipment expenses
17 for the month that have been charged to the appropriate Part 32 account. Charges to
18 these accounts would include such items such as fuel, maintenance (oil change, tires,
19 etc.) and lease payments. These accounts are then cleared to other Part 32 expense
20 accounts and the TPUC clearing account based on labor hours.

21 Step 4: The final allocation before charges are assigned to individual work
22 orders is the allocation of the engineering and plant administration operations
23 expenses to the TPUC clearing account. Only the portion to be charged to work

1 orders is cleared from these expense accounts based on the portion of direct labor
2 hours (engineering hours for engineering and plant hours for plant administration) to
3 total work orders to total labor hours.

4 Step 5: After steps one through four above are completed and the total
5 overhead, benefits, vehicle, other work equipment, engineering and plant
6 administration operations expense allocated to TPUC have been accumulated in the
7 TPUC clearing account, these total dollars are then allocated to individual work
8 orders. This step is completed in two parts. First, the dollars identified in step one
9 and two above are allocated to individual work orders based on direct labor dollars to
10 individual work orders to total labor dollars to all work orders. Next, the dollars
11 identified in steps three and four above are allocated to individual work orders based
12 on direct labor hours charged to work order to total labor hours to all work orders.

13 This detailed explanation and accompanying exhibits provide full support for
14 GT Com's cost allocations.

15
16 **Q. Turning to Mr. Larkin's testimony, do you agree with Mr. Larkin's basic theory**
17 **that the Commission should review GT Com's Petition in light of his proposed**
18 **"incremental cost recovery methodology"?**

19 A. Absolutely not. Mr. Larkin argues that the Commission should permit recovery only
20 of costs that he believes "exceed costs already considered and reflected in rates, rate
21 caps or other costs which should be capitalized or recovered through insurance" and
22 asserts that the Commission should use "the principles which underlie the cost
23 recovery for storm damages" that the Commission used in certain electric utility

1 cases. Mr. Larkin relies primarily on the Commission's decisions in two cases, both
2 of which were brought by an electric utility pursuant to the Commission's traditional
3 rate base, rate of return regulation of its rates, under entirely different statutory
4 authority: Docket 041291-EI (Florida Power & Light Company's ("FPL") Petition
5 for Authority to Recover Prudently Incurred Storm Restoration Costs Related to 2004
6 Storm Season that Exceed Storm Reserve Balance) and Docket No. 060038- EI
7 (FPL's Petition for Issuance of a Storm Recovery Financing Order). However, Mr.
8 Larkin fails to explain why he believes the Commission can or should apply rate base,
9 rate of return principles of rate regulation to GT Com, which is not subject to such
10 regulation, or why the Commission's exercise of its authority under Chapter 366 has
11 any relevance to a case brought pursuant to §364.051(4)(b), Florida Statutes. The fact
12 is that those cases are completely irrelevant.

13
14 **Q. Please explain why the FPL cases upon which Mr. Larkin relies are irrelevant to**
15 **GT Com's request in this docket.**

16 A. FPL is a monopoly provider subject to traditional rate base, rate of return regulation,
17 of its rates, under which the Commission determines revenue requirements and sets
18 rates that permit FPL to recover specific categories of prudently incurred costs and a
19 reasonable rate of return on its investment. Accordingly, FPL's normal operating and
20 maintenance costs are already reflected in the company's base rates, and FPL is said
21 to "recover" those costs by charging the rates set by the Commission.. Unlike FPL,
22 however, GT Com's revenue and rates are not established by the Commission to
23 allow GT Com the opportunity to recover its prudently incurred costs and a

1 Commission-established return. Unlike FPL, GT Com's prices for various services
2 are limited by both statute and competitive market forces. As such, under price cap
3 regulation, there is no revenue requirement established by the Commission which
4 includes recovery of in-house labor or other costs. These costs may or may not be
5 "recovered" by GT Com through GT Com's local rates in any given year, particularly
6 since GT Com, unlike FPL, is not a monopoly service provider and its customers may
7 elect to take service from a different company. Further, unlike FPL, GT Com has
8 been under price regulation since 1996 and the last rate case for the former St. Joseph
9 Telephone Company, which served the area damaged by Hurricane Dennis, was well
10 over 20 years ago. Accordingly, unlike FPL, GT Com's current rates do not have any
11 particular costs or expenses "built in" and clearly do not (and were never intended to)
12 "recover" any part of the repair costs necessitated by the spate of increased hurricane
13 activity experienced in Florida in recent years.

14 Additionally, unlike FPL, GT Com's recovery is governed by §364.051(4)(b),
15 Florida Statutes, which – unlike the statutes that governed FPL's requests –
16 specifically permits recovery of "intrastate costs and expenses relating to repairing,
17 restoring, or replacing the lines, plants, or facilities damaged by a named tropical
18 system" subject only to the limitations expressed therein, which do not include an
19 inquiry regarding a company's rates, budgets, or rate of return, incremental costs,
20 how a particular cost or expense may be treated for accounting purposes, or any
21 similar issue. Although I am not a lawyer, I can find nothing in the statute that
22 supports Mr. Larkin's proposed "incremental cost recovery methodology" or his
23 attempt to apply rate base, rate of return regulation rate regulation theories to GT

1 Com's request for cost recovery under §364.051(4)(b), Florida Statutes. From a
2 layman's perspective, it seems like the Legislature had the option to incorporate the
3 traditional rate base concepts and precedents involving electric utilities into the
4 statute and obviously chose not to do so.

5
6 **Q. Mr. Larkin also mentions dockets involving Progress Energy, Gulf Power and
7 Sprint. Are those dockets at all relevant to this proceeding?**

8 No. Like FPL, Progress Energy and Gulf are rate base, rate of return regulated
9 monopoly electric utilities subject to different statutes. Moreover, the Gulf dockets
10 were simply settlements regarding which there was never an evidentiary hearing.

11 The Sprint docket is similarly inapplicable. Not only did Sprint file its
12 petition well before ^{Section 364.051(4)(b) became effective} ~~the legislature enacted §364.0512(4)(b)~~, but Sprint also elected to
13 stipulate with Public Counsel, prior to filing its petition, that it would seek only
14 incremental costs. Accordingly, neither Sprint's request nor the Commission's
15 approval of that request "sets forth a policy" on incremental cost recovery as Mr.
16 Larkin suggests or otherwise bears any relationship to GT Com's request for recovery
17 of costs pursuant to the clear language of §364.051(4)(b), Florida Statutes.

18
19 **Q. On pages 4-5 of his testimony, Mr. Larkin asserts that normal operating costs
20 are considered "in the process of establishing rate caps" so that "when utilities
21 collect revenues from ratepayers, they are collecting, in effect . . . operating and
22 maintenance expenses necessary to run and operate the utility in addition to a**

1 **profit. These normal operating and maintenance expenses are considered to be**
2 **recovered through the rate caps established.” Is he correct?**

3 A. No. Mr. Larkin’s statements are applicable only to rate base, rate of return regulation
4 of the rates of monopoly utilities, and reflect a serious misunderstanding of price cap
5 regulation. Contrary to Mr. Larkin’s assertions, price cap regulation does not
6 establish prices based on a telecommunications company’s costs plus a profit.
7 Rather, price cap regulation resulted in GT Com’s rates being frozen at 1995 levels
8 until 2000, after which the Company was permitted to increase basic rates once per
9 year by a small amount (no more than a change reflecting inflation minus one
10 percent), and nonbasic rates by a larger amount, regardless of whether the Company
11 is “recovering” its costs or making a profit. Importantly, GT Com’s services also
12 became subject to competition, resulting in downward pressure on its rates such that
13 GT Com has not been able to increase its rates to the full extent permitted by law.
14 Further, as stated above, the last rate case for the former St. Joseph Telephone
15 Company, which served the area damaged by Hurricane Dennis, was well over 20
16 years ago.

17
18 **Q. Mr. Larkin objects to GT Com’s accumulation of all hurricane repair costs in its**
19 **work orders. Please explain why this is the correct approach under**
20 **§364.051(4)(b), Florida Statutes.**

21 A. The statute plainly permits GT Com to “recover its intrastate costs and expenses
22 relating to repairing, restoring or replacing the lines, plants or facilities damaged by a

1 named tropical system” such as Hurricane Dennis. GT Com’s work orders
2 appropriately include all such costs and expenses.

3
4 **Q. Mr. Larkin also argues that certain expenses should be capitalized or charged**
5 **against the reserve for depreciation. What is the significance of such accounting**
6 **decisions in the context of this docket?**

7 A. None whatsoever, for several reasons.

8 First, Section 364.051(4)(b) specifically permits GT Com to recover the cost
9 of *replacing* lines, plants and facilities. Mr. Larkin is well aware that such
10 replacement costs are, by definition, capital costs. Mr. Larkin’s objection to GT
11 Com’s recovery of the cost of replacing capital assets demonstrates that his real
12 disagreement is with the terms of the statute, which specifically permits recovery of
13 replacement costs as well as repair costs. See, for example, pages 12 and 13 of his
14 testimony, where he argues that various costs should not be recovered because they
15 constitute replacement rather than repairs.

16 Second, GT Com’s rates are capped by statute and are not set by the
17 Commission. The accounting treatment of an expense is important only in
18 connection with the Commission’s ratemaking proceedings for monopoly rate base,
19 rate of return utilities because the accounting treatment determines whether and to
20 what extent the expense will be included in the company’s rate base, and thus, in the
21 revenue requirements and rates set by the Commission to permit the company to earn
22 a specified rate of return. Further, any expense that FPL, for example, does not
23 recover through a storm reserve surcharge is booked to rate base, where it will be

1 used to determine if FPL is earning within its permitted range of return (and
2 therefore, whether it is “recovering” the cost), and upon which the Commission will
3 set rates in the future. None of these concepts are applicable to competitive
4 businesses or relevant to recovery under §364.051(4)(b). The Commission cannot,
5 except under compelling circumstances not at issue here, implement a general rate
6 increase, regardless of how GT Com books the costs and expenses of repairing,
7 replacing or restoring the lines, plants and facilities damaged by Hurricane Dennis.
8 In the absence of rate base, rate of return regulation, and for purposes of hurricane
9 cost recovery under §364.051(4)(b), it simply does not matter whether a particular
10 cost is capitalized or expensed.

11
12 **Q. Mr. Larkin also takes issue with GT Com’s recovery of particular expenses**
13 **incurred relating to the repair, restoration, or replacement of the Company’s**
14 **lines, plants and facilities. Do you agree with his positions?**

15 A. No. I will respond to each concern below.

16 Alligator Point project (Work Orders Nos. 2005796, 2005797 and 2005861)

17 GT Com incurred costs to move the location of cable inland and replace
18 existing 900-pair copper cable with less expensive fiber cable, replace existing 600-
19 pair copper cable with less expensive 50-pair cable, and install a new carrier system
20 to enable the use of fiber cable. The total project cost \$40,000 more than if GT Com
21 had simply moved and replaced the existing facilities.

22 While Mr. Buckley argues that the Commission should disallow only the
23 additional \$40,000 cost of using more expensive replacement materials, Mr. Larkin

1 argues that the Commission should disallow *all* costs, totaling \$286,386, because they
2 are either replacement costs or an upgrade. As noted above, Mr. Larkin's suggestion
3 that replacement costs cannot be recovered contravenes the clear language of
4 §364.051(4)(b), and should be rejected. His suggestion that the entire cost of
5 replacement fiber cable and the carrier system should be disallowed simply because
6 they do not constitute an exact replacement of damaged or destroyed facilities should
7 similarly be rejected. Further, as I explained in response to Mr. Buckley's proposal to
8 disallow a portion of this project, §364.051(4)(b) does not require an exact
9 replacement of existing facilities, but broadly permits recovery of costs and expenses
10 "relating to repairing, restoring, or replacing" facilities damaged by Hurricane Dennis
11 if they "are reasonable under the circumstances." GT Com's use of fiber, a carrier
12 system and smaller copper in lieu of an exact replacement of previously-existing
13 copper cable is extremely reasonable under the circumstances.

14 If the Commission is inclined to limit recovery to the cost of replacing
15 facilities that were damaged or destroyed, it should review the entire project rather
16 than carve out an individual item like the carrier system or fiber cable for separate
17 review. GT Com's choice of replacement materials was prudent under the
18 circumstances and at a minimum, the Commission should permit recovery of at least
19 the cost GT Com would have incurred had it replaced the exact facilities damaged by
20 Hurricane Dennis.

21 Pedestals, weed killer and ant killer

22 Mr. Larkin asserts that pedestal replacement costs should be capitalized,
23 removal costs should be charged to the Reserve for Depreciation, and the costs of

1 weed and ant killer should be disallowed. As I explained above, however,
2 §364.051(4)(b) specifically permits recovery of all costs and expenses relating to
3 replacing GT Com's plant and facilities - which of course includes pedestal
4 replacement - without regard to the accounting treatment of any such item.
5 Moreover, as my Direct Testimony clearly indicated, the amount requested by GT
6 Com includes costs to repair those pedestals where possible in addition to the cost to
7 replace those that could not be repaired. Finally, the initial application of pest and
8 weed control compound to a newly-installed or rehabilitated pedestal when placing it
9 in service is a necessary component of the cost of repairing, restoring or replacing the
10 pedestal rather than normal maintenance because it is necessary in order to preserve
11 the new cable connections from damage and intrusion by pests and weeds. However,
12 if additional applications are necessary after the pedestal is placed in service, the
13 additional expense would be considered normal maintenance. No such normal
14 maintenance expenses are included in GT Com's request.

15 Benefits and Overhead

16 For the reasons set forth above, the Commission must reject Mr. Larkin's
17 arguments that GT Com's costs "were incorporated in rates charged ratepayers." I
18 have already addressed his concerns regarding overhead, benefits and allocations in
19 response to Mr. Buckley's testimony.

20 Carrying Costs and Taxes

21 Mr. Larkin does not object to GT Com's request for a carrying charge.
22 Rather, he disagrees with the amount of GT Com's request, arguing that his suggested
23 cost disallowances would result in decreased cost recovery and a correspondingly

1 lower carrying charge. I have already addressed Mr. Larkin's specific erroneous
2 disallowance suggestions above.

3 Mr. Larkin objects to GT Com's request for recovery of income taxes on two
4 grounds, arguing first that storm expenses are deductible so there should be no
5 income taxes due on such costs. Mr. Larkin is incorrect. GT Com must report as
6 income and pay taxes on any and all revenue it eventually receives from the customer
7 surcharge sought in this docket. This tax effect must be included in the calculation of
8 hurricane costs in order for the Company to fully recover such costs.

9 Mr. Larkin also argues that GT Com's inclusion of carrying charges (interest)
10 in the amount upon which it calculated income taxes is "illegitimate." Again, Mr.
11 Larkin is incorrect. GT Com calculated its total costs and expenses relating to
12 repairing, restoring, and replacing the lines, plants, and facilities damaged by
13 Hurricane Dennis, and applied its average cost of short term debt to that figure in
14 order to determine the cost of debt associated with borrowing that amount. GT Com
15 then added this amount to previously-calculated hurricane costs. GT Com must
16 report this interest income and pay taxes on it to the extent that it is included in GT
17 Com's recovery. Accordingly, GT Com correctly multiplied the resulting total by its
18 composite federal and state income tax rate to determine the additional taxes that it
19 will incur if permitted to recover such costs.

20
21 **Q. Finally, Mr. Larkin argues that the Commission should offset any future**
22 **increase in High Cost Loop Support payments that GT Com may receive against**
23 **the cost recovery sought in this docket. Please comment.**

1 A. The Commission should not offset any increase in High Cost Loop Support
2 payments for several reasons. First, the amount by which such support may increase,
3 if at all, is speculative at this point. High Cost Loop Support is available only to the
4 extent that GT Com's average loop cost *exceeds* the national average cost per loop for
5 2005. The national average is determined from actual costs reported retroactively on
6 a quarterly basis by telecommunications companies throughout the country.
7 Companies (including GT Com) will not file their last 2005 cost report until July of
8 this year. The 2005 national average cost per loop and the amount of support
9 available for distribution (and therefore information regarding the amount of
10 increased support, if any, that GT Com receive) will not be determined until some
11 time after October 1, 2006, well after the Commission's decision in this docket. GT
12 Com would not begin to receive such support until 2007. Section 364.051(4)(b)
13 permits GT Com to recover all intrastate costs and expenses relating to repairing,
14 restoring or replacing the lines, plants or facilities damaged by Hurricane Dennis,
15 without regard to funds that may or may not be received by GT Com two years later.

16 Second, even if the actual increase in 2007 High Cost Loop Support was
17 known, it would have to be adjusted to eliminate support attributable to the dollar
18 amount of any expenses disallowed for cost recovery in this docket. Public Counsel
19 cannot have it both ways by claiming that certain costs are not recoverable as
20 hurricane expenses, yet insist that the Commission deduct from GT Com's request
21 any increased High Cost Loop Support it attributes to those same expenses.

22 Third, although GT Com incurred hurricane expenses in 2005, as noted above
23 it will not begin receiving 2005 High Cost Loop Support, if any, until 2007, two years

1 after the damage was incurred. Offsetting a possible increase in High Cost Loop
2 Support against hurricane expenses therefore penalizes GT Com by forcing it to bear
3 the additional interest cost attributable to the delay between the Company's payment
4 of costs and its receipt of support payments.

5 Finally, GT Com must report any such payments as revenue when received
6 and therefore must pay income taxes thereon. Offsetting a possible increase in High
7 Cost Loop Support against hurricane expenses further penalizes GT Com to the extent
8 of the taxes it must pay on such support payments.

9

10 **Q. Please summarize your rebuttal testimony.**

11 A. GT Com has provided support for all amounts requested, with the exception of
12 benefits as noted above. Accordingly, GT Com is willing to accept Staff's proposed
13 benefits adjustment. The Commission should reject Mr. Larkin's attempts to impose
14 traditional concepts of rate base, rate of return rate regulation on price regulated
15 telecommunications companies and to deviate from the plain language of
16 §364.051(4)(b), Florida Statutes.

17

18 **Q. Does this conclude your rebuttal testimony?**

19 A. Yes.

1 BY MS. RULE:

2 Q Mr. Ellmer, have you prepared a summary of your
3 direct and rebuttal testimony?

4 A Yes, I have.

5 Q Would you please provide your summary.

6 A Yes. Good morning, Commissioners. GT Com is a small
7 incumbent telephone company that serves approximately 47,000
8 lines in the Florida Panhandle. We were hit pretty hard by
9 Hurricane Dennis last year and sustained a lot of damage for a
10 small company. We're here today asking permission to add a
11 surcharge of 50 cents a month over the next year for a total
12 of \$6 per customer. This won't cover all our costs but it will
13 certainly help.

14 The 2005 statute that we have filed this case under
15 authorizes an incumbent telephone company to petition the
16 Commission to recover its intrastate costs to repair, restore
17 and replace its lines, plants and facilities that were damaged
18 or destroyed by a named tropical storm. The statute caps
19 recovery at 50 cents per line per month for a period of 12
20 months.

21 GT Com incurred a total of \$463,710 in intrastate
22 costs to repair, restore and replace its lines, plants and
23 facilities that were damaged or destroyed by Hurricane Dennis.
24 However, because GT Com serves only 46,861 access lines, the
25 most it can recover of this amount is \$281,166.

1 I've grouped GT Com's costs and expenses into six
2 different work orders discussed in my testimony. Two work
3 orders cover general hurricane repairs in Franklin and Gulf
4 Counties where most of the damage occurred, and to a lesser
5 extent Okaloosa and Walton Counties. Most of the cost
6 associated with these two work orders was incurred to repair
7 and replace cable and pedestals that were damaged or destroyed.
8 As we discovered the full extent of hurricane damage, we
9 realized that there was quite a lot of damage in Indian Pass
10 and on Alligator Point and that these areas would require
11 substantial restoration. Hurricane Dennis washed out parts of
12 the coastline road in the Indian Pass area, which uncovered and
13 damaged fiber optic cable that we had buried in the
14 right-of-way. We had to bore a tunnel beside the road, replace
15 the damaged cable and then splice it to the undamaged cable.
16 These costs are included in a single work order.

17 However, the worst damage occurred on Alligator
18 Point. As you can see in the pictures in my Exhibit RME-5,
19 Hurricane Dennis demolished a lot of the coastline road and
20 destroyed GT Com's buried cable along with it. Because the
21 damage was so extensive, we were essentially starting from
22 scratch and had to decide on the most reasonable long-term
23 network solution to serve this area. The remaining three work
24 orders captured the cost of this project.

25 In the end, we were able to move the facilities

1 further away from the water and we replaced the copper
2 facilities that had been destroyed with a combination of copper
3 and fiber, along with the electronics necessary to make the
4 fiber work. This ended up costing approximately \$40,000 more
5 than if we had simply replaced exactly the same materials. But
6 we believe it would not have been reasonable or prudent to
7 simply replace the old facilities. Fiber provides a more
8 reliable network, higher quality service, cuts down on routine
9 repairs and is less prone to noisy line issues that we
10 continuously experience along the coast. We were able to bring
11 this project in at a reasonable cost using technology that is
12 consistent with the way GT Com builds networks today.

13 This is the first case you will decide under Section
14 364.051(4)(b), Florida Statutes. It's very different from the
15 storm cases you've seen over the last couple of years and
16 should be treated differently for two reasons.

17 First, the statute is clear. It states very plainly
18 that we can recover our intrastate costs and expenses relating
19 to repairing, restoring or replacing the lines, plants or
20 facilities that were damaged by Hurricane Dennis. It doesn't
21 say that GT Com can only recover net cost or depreciated costs
22 or after-tax costs or incremental costs. It says costs. And
23 that's exactly what we're asking for: GT Com's out-of-pocket
24 costs and expenses relating to repairing, restoring and
25 replacing our lines, plants and facilities that were damaged or

1 destroyed by Hurricane Dennis.

2 The second reason that this case is different from
3 others that you've considered recently is that GT Com is a
4 price-regulated competitive company, not a fully regulated
5 monopoly electric utility company. We have not been under rate
6 base rate of return regulation for over ten years, and our last
7 rate case was about 20 years before that.

8 The Commission has not set a revenue requirement for
9 GT Com and has not established rates that include recovery of
10 any particular level of cost or any particular level of profit.
11 These concepts simply aren't applicable to competitive
12 price-regulated telephone companies. Our rates are limited by
13 statute and by competitive market forces.

14 In any given year our revenues may cover all our
15 expenses and produce us a profit or may be less than our
16 expenses and produce a loss. Because we are a price-regulated
17 company subject to full retail competition we cannot file rate
18 cases to increase our rates if our revenues don't cover our
19 costs.

20 For these two reasons you should reject Public
21 Counsel's incremental cost proposal, which is nothing more than
22 an attempt to impose rate base rate of return regulation on
23 GT Com despite the clear terms of the statute. Thank you.

24 MS. RULE: We'd tender the witness for
25 cross-examination.

1 CHAIRMAN EDGAR: Thank you.

2 Mr. Beck.

3 MR. BECK: Thank you, Madam Chairman.

4 CROSS EXAMINATION

5 BY MR. BECK:

6 Q Good morning, Mr. Ellmer.

7 A Good morning.

8 Q Mr. Ellmer, in addition to your responsibilities as
9 Regional Controller for GT Com, you're also responsible for
10 interfacing with the Public Service Commission, are you not?

11 A Yes, sir. I'm Director of State Regulation,
12 Regulatory Operations.

13 Q Approximately how long have you been, been doing
14 that?

15 A The regulatory? Since 2001, I believe, was when I
16 officially took the duties.

17 Q Prior to 2001 was some other person responsible for
18 dealing with the Public Service Commission?

19 A Yes, sir.

20 Q Who was that?

21 A Linda Bordelon.

22 Q Okay. But you have been actively involved with the
23 Public Service Commission even before 2001, have you not?

24 A Yes, sir. Yes, sir.

25 Q How long does that go back?

1 A Since I've been in the business. I've been with
2 GT Com or its predecessor company St. Joseph Telephone for 20
3 years.

4 Q Okay. Have you testified before in other proceedings
5 before the Commission?

6 A Yes, sir.

7 Q What proceedings have you testified in?

8 A The one that I remember specifically was Docket
9 820537, the access docket, and I was testifying then on behalf
10 of Indiantown Telephone.

11 Q Okay. So that was over 20 years ago?

12 A Yes, sir.

13 Q Okay. Have you ever testified about price caps
14 before the Commission?

15 A No, sir.

16 Q Okay. Mr. Ellmer, let me ask you to turn to your
17 rebuttal testimony at Page 9.

18 A Yes, sir.

19 Q Okay. One of the changes you made before your
20 testimony was moved into the record this morning was about the
21 date of the Sprint agreement as it relates to the passing -- or
22 the legislation; is that right? Didn't you make a change on
23 Line 12 of Page 9?

24 A Yes, sir. Yes, sir. Yes, sir.

25 Q Okay. Your original testimony said that Sprint filed

1 its petition well before the Legislature enacted the statute,
2 did it not?

3 A Yes, sir.

4 Q Okay. That's not true, is it?

5 A No, sir. As I explained in my deposition, that was
6 an assumption on my part that was, you pointed out to me was
7 incorrect.

8 Q So had the legislation been passed but the effective
9 date hadn't come into place when the Sprint agreement was
10 filed?

11 A That's correct. Yes.

12 MR. BECK: I'm going to ask Mr. Poucher to hand out
13 an exhibit for identification.

14 CHAIRMAN EDGAR: Mr. Beck, you want to give it a
15 title?

16 MR. BECK: It's on the cover. I don't have the
17 cover, unfortunately.

18 CHAIRMAN EDGAR: Okay. Sprint-Florida Petition for
19 Approval of Storm Cost Recovery Surcharge and Stipulation.

20 MR. BECK: Yes, please.

21 CHAIRMAN EDGAR: And this will be numbered
22 Exhibit Number 6.

23 (Exhibit 6 marked for identification.)

24 BY MR. BECK:

25 Q Mr. Ellmer, do you have Exhibit 6 for identification

1 before you?

2 A Yes, sir.

3 Q And is that the Sprint petition and the stipulation
4 that, that you mentioned in your testimony?

5 A Yes, sir.

6 Q Okay. The petition was filed on May 25th, 2005, was
7 it not?

8 A Yes, sir.

9 Q And is that also the date that the stipulation was
10 signed by the parties?

11 A Yes, sir.

12 Q Okay. When did the statute become effective?

13 A I believe it was sometime in June of 2005.

14 Q And so when you say that Sprint filed its petition
15 well before the statute became effective, it's May 25th as
16 compared to June; is that right?

17 A Yes, sir.

18 Q So would you agree that, that Sprint knew what the
19 new statute said when it signed this agreement?

20 A Yes, sir. But I would also like to point out that
21 the statute specifically relates to storms after the statute or
22 after June 1st, 2005, I believe, and these were for 2004
23 damages.

24 Q All right. Okay. Could you please turn on
25 Exhibit 6 for identification, turn to Exhibit B, Page 1 of 2.

1 A Okay.

2 Q And do you have the page that says "Sprint Florida
3 Hurricane Cost Recovery, April 22nd, 2005"?

4 A Yes, sir.

5 Q What I'd like to do is go down and compare and
6 contrast the type of expenses that Sprint included and excluded
7 and compare that to what GT Com is doing in this case, if I
8 could.

9 A Okay.

10 Q Okay. Do you see at Lines 8 through 12 there are
11 certain costs that are listed for Sprint? Do you see them?

12 A Yes, sir.

13 Q Okay. And the first one is wages and benefits
14 capital and expense. GT Com is asking for that in this case as
15 well; right?

16 A Yes, sir.

17 Q And the second one is external contractors capital
18 and expense. Is GT Com requesting those sorts of expenses in
19 this case?

20 A Yes, sir.

21 Q And so on. It goes material capital, buildings,
22 generators, et cetera, and overhead capital and expense. My
23 question is is GT Com requesting those same types of expenses
24 in this case?

25 A Yes, sir.

1 Q Okay. Now below that beginning on Line 15 of the
2 Sprint page we're looking at there are exclusions. Do you see
3 them?

4 A Yes, sir.

5 Q Okay. Sprint excluded wages and benefits associated
6 with regular time and budget overtime. Is that different from
7 what GT Com is doing in this case?

8 A Yes.

9 Q You're not doing any such exclusions in your
10 petition.

11 A That's correct.

12 Q Sprint excluded contractor capital costs associated
13 with normal construction. Do you see that?

14 A Yes.

15 Q Has GT Com excluded that?

16 A No, sir.

17 Q The next line is contractor expense budget. Sprint
18 excluded that; right?

19 A Yes.

20 Q Is GT Com excluding those sorts of expenses in this
21 case?

22 A No, sir.

23 Q Okay. Material capital cost, is GT Com making that
24 exclusion in this case?

25 A No, sir.

1 Q Okay. Building, general, fuel, line card, et cetera,
2 capital costs, is GT Com excluding those sorts of costs in this
3 case?

4 A No, sir. And the reason being, the way our reading
5 of the statute, to us it's clearly cost. It doesn't -- we
6 believe the statute and the Legislature had they wanted to
7 exclude costs, they were quite capable of writing that into the
8 statute.

9 Q Okay. And overhead capital and expense, is that an
10 exclusion GT Com is making in this case?

11 A No, sir.

12 Q Sprint also excluded the average annual storm
13 expenses that it incurred in the past. Do you see that?

14 A Yes, sir.

15 Q Okay. GT Com is not making an offset or exclusion
16 for that, is it?

17 A No, sir.

18 Q Okay. So Sprint had total costs before its
19 exclusions of \$148 million. Do you see that?

20 A Yes.

21 Q And they excluded \$103 million to come up with a
22 total less exclusions of about \$44 million. Do you see that?

23 A Yes.

24 Q The figure you're requesting in this case before
25 separations is essentially equivalent to the \$148 million

1 Sprint has listed on before exclusions, is it not?

2 A Yes, sir.

3 Q Okay. And then from that both Sprint and GT Com
4 have, separated have intrastate costs; is that right?

5 A Yes.

6 Q Okay. Now could you turn to the settlement itself,
7 which is page, on Page 5 of the settlement and stipulation, I
8 should say. I want to ask you to look at Paragraph 20.

9 A Page 5?

10 Q Yes. Page 5. And it's Paragraph 20 at the bottom of
11 Page 5 of the stipulation.

12 A Yes.

13 Q Okay. Do you see where it says, "The parties
14 acknowledge and accept that their agreement to exclude certain
15 charges is reasonable under the circumstances"? Do you see
16 that?

17 A Yes, sir.

18 Q And isn't the term "reasonable under the
19 circumstances" contained in the statute under which you're
20 applying?

21 A Yes, sir, I believe so.

22 Q Okay. Mr. Ellmer, let me give you a hypothetical.
23 Suppose GT Com had recovered \$100,000 through insurance for
24 hurricane damages. In fact, you've not received any insurance
25 proceeds in this case, have you?

1 A No, sir, we have not.

2 Q But suppose that you had received \$100,000. Do you
3 think GT Com would be entitled under the statute to recover
4 that \$100,000 again through a surcharge?

5 A No, sir. And had we recovered any expenses from
6 insurance, we would not have included them because the
7 insurance, in our view, is a specific contract arrangement that
8 we make with the insurance company to cover extraordinary items
9 and would not be included in any petition we would make
10 subsequent.

11 Q But, Mr. Ellmer, the statute doesn't have any
12 exclusion for insurance proceeds under which you're proceeding,
13 does it?

14 A No, sir. But I believe that would be classified
15 under what I would consider reasonable, as the statute
16 requires.

17 Q Okay. So you believe the Commission has the power,
18 had you asked for that, they would have had the power to offset
19 your request by insurance proceeds because it would be
20 unreasonable to do otherwise; would you agree with that?

21 A To, to the limited insurance recovery, yes, I agree.

22 Q Okay.

23 A Because that's a known, quantifiable directly
24 associated recovery.

25 Q And you'd agree with that even though the statute

1 doesn't specifically allow offsets for insurance proceeds.

2 A Yes. As I stated, that would be reasonable in my
3 view.

4 Q Now GT Com expects to recover some hurricane costs
5 through the interstate High-Cost Fund, does it not?

6 A The hurricane costs will be included in our amounts
7 we report. Yes, sir.

8 Q Could you take a moment and just briefly describe the
9 High-Cost Funds that GT Com receives and how that works?

10 A I can try. The High-Cost Fund or USF referred to is
11 a federally mandated fund that allows rural companies such as
12 GT Com to recover costs in excess of the national average cost
13 per loop, and it is administered by USAC, which is Universal
14 Service Administrative Company, I believe.

15 The process is we, on June 30th of every year we
16 report our prior year cost and investment to USAC, who then
17 takes our report with every other company in the nation,
18 consolidates them, scrubs them or audits them, if you will, and
19 then reports the results to the FCC. I believe the due date is
20 October 1st, but I'm not 100 percent certain on when they have
21 to report it, but it's sometime in the October, November time
22 frame. And then the FCC approves or rejects the calculations
23 or makes adjustments. And the fund is capped, so even if -- so
24 what happens, and I'm not sure exactly in the process where
25 this happens, if it's at the FCC or at the USAC before they

1 submit it, the national average cost per loop is adjusted from
2 actual to some number to ensure that the fund does not exceed
3 the cap. Does that help?

4 Q That's a little longer than I --

5 A I'm sorry.

6 Q But thank you for that explanation.

7 So there's basically a -- is there basically a
8 two-year delay between the time that expenses are incurred and
9 the time you receive reimbursement from the USAC?

10 A Yes, sir. We would file 2005 costs June of '06 and
11 start receiving the funds in January of '07.

12 Q What is the general -- how much support do you
13 receive from USAC each year approximately?

14 A I believe I provided that in a late-filed from my
15 deposition. Just a moment.

16 In 2004 we received approximately \$3.9 million. In
17 2005 we received \$4.7 million. And in 2006 based on what we
18 know today we're projecting to receive approximately
19 \$4.4 million

20 Q Okay.

21 A And I would, if I could, earlier this week I was
22 actually at a meeting with our consultants working on the
23 June 30th filing for the '05 actual data, and based on what we
24 know today and what the national average cost per loop is
25 today, which we fully expect it to increase, we will actually

1 see a decrease in 2007 receipts. I don't have the numbers. I
2 think I gave all my copies to Mr. Hoffman.

3 Q That sounds like a redirect exhibit.

4 A Pardon?

5 Q That sounds like a redirect exhibit.

6 A Yes. Probably. I probably screwed him up.

7 Q Now the number in the \$4 million range, that's
8 specific to the St. Joe territory, is it not?

9 A Yes, sir. I'm sorry.

10 Q Because GT Com has three areas in Florida: One in
11 Perry?

12 A Yes. Perry and then one in, we call it the Florella
13 area, but it serves Laurel Hill and Paxton in Florida.

14 Q Okay. And then there's the area of St. Joe that goes
15 from what, about Alligator Point --

16 A St. Joe encompasses all of Gulf, Franklin, Liberty
17 and Calhoun Counties, parts of Bay County including Tyndall Air
18 Force Base, Gadsden County including Chattahoochee, and Jackson
19 County, parts of Jackson County.

20 Q Okay. Now the \$4 million figure you gave us is
21 specific to the St. Joe area; right?

22 A Yes, sir.

23 Q And it's also only the High-Cost Loop Support that
24 you receive as well, is it not?

25 A It's total USF receipts is what I provided.

1 Q Do you not also receive other, others like carrier
2 common line?

3 A Yes. The -- I think I referred to it as ICLS,
4 interstate common line support, and local switching support.
5 And that -- those are all -- because when I -- my understanding
6 of what staff was asking me at the deposition was my USF
7 receipts.

8 Q Right. But what I'm asking, what's the total, just
9 to get an order of magnitude, what is the total amount St. Joe
10 receives from USAC, not just limited to High-Cost Loop Support?

11 A I really couldn't tell you off the top of my head. I
12 don't remember.

13 MR. BECK: Okay. Madam Chairman, I wonder if I might
14 have another exhibit identified. It's Universal Service
15 Monitoring Report, Common Carrier Docket Number 98-202, 2005?

16 CHAIRMAN EDGAR: It will be Exhibit Number 7.

17 (Exhibit 7 marked for identification.)

18 BY MR. BECK:

19 Q Mr. Ellmer, do you have the exhibit before you?

20 A Yes, sir.

21 Q Okay. And this is a document that shows the amount
22 that GT Com has received and expects to receive for certain
23 time periods for total High-Cost Support, is it not?

24 A Yeah. I'll take your word for it. Yes, sir.

25 Q Well, if you look at the bottom of the page, there's

1 a number 3-201 at the bottom of the page. It shows Florida
2 companies there.

3 A Yes.

4 Q For total High-Cost Support payments by study area.

5 A Yes.

6 Q There's three entries for GTC, Inc., are there not?

7 A Yes, sir.

8 Q And that would correspond to the three study areas
9 that we discussed a little bit ago.

10 A Yes.

11 Q If you look at Line 210339, which is the third of the
12 three --

13 A Yes.

14 Q -- entries for GTC, do you see where it shows for
15 that company 2004 support of \$7.3 million?

16 A Yes, sir.

17 Q And for 2005 \$8.578 million?

18 A Yes, sir.

19 Q Does that sound about right to you for the total
20 amount that GT Com receives from USAC?

21 A Subject to check, yes, sir, that sounds right.

22 Q Okay. And then the other two entries would be
23 amounts that you receive in addition to that based on the other
24 study areas; is that right?

25 A Yes, sir.

1 Q Okay. Now as I understand it, you expect your
2 payments from the High-Cost Loop Support to be approximately
3 \$121,000 higher on account of the hurricane costs you're
4 seeking to recover in this case; is that right?

5 A Yes, sir. To the extent that that was calculated
6 using only -- taking the, I believe it was the last filing we
7 prepared and doing nothing but adding those dollars to the
8 appropriate lines in the formula, the result, the end result
9 was an increase of the amount, yes.

10 Q All right. You won't know the precise amount until
11 2007, will you?

12 A No, sir.

13 Q Okay. Now earlier we discussed a little bit that you
14 thought it would be appropriate for the Commission to offset
15 hurricane costs by insurance proceeds, had you, had you
16 received any; is that right?

17 A Yes, sir.

18 Q You do expect to receive proceeds from the High-Cost
19 Fund on account of your hurricane expenses; is that right?

20 A To the extent that they're not impacted by the
21 national average cost per loop and all the other factors beyond
22 my control, yes, I would assume I would get something.

23 Q Okay. Do you believe -- putting aside the question
24 of you don't know the precise amount and the two-year delay in
25 getting the money, do you see any difference between that and

1 the insurance proceeds, that it's appropriate to offset your
2 request by those amounts?

3 A Yes. Because in my view the insurance proceeds are
4 the result of a specific contractual arrangement. The
5 High-Cost Loop Support is speculative because I do not know the
6 amount and won't know the amount. And even when I start
7 receiving an amount in January, it can and has historically
8 been adjusted up or down throughout the year. So I cannot
9 possibly tell you -- in my mind the speculative and unknown
10 nature of that and the fact that it's -- there's no guarantee.
11 The FCC can change the rules tomorrow; highly unlikely, I'll
12 concede, but theoretically they can change the rules tomorrow
13 and I get nothing. So to hold me, in my view, responsible for
14 an adjustment that's unknown and beyond my control versus one
15 that I specifically went out and pursued to get in the
16 contractual arrangement, I don't think they're comparable.

17 Q You'd agree you realistically expect to receive
18 additional money from the High-Cost Fund on account of your
19 hurricane charges, do you not? You know, I understand you
20 dispute the amount and you don't like the timing difference,
21 but you realistically expect to get it, do you not?

22 A I expect to receive some funds from High-Cost Loop
23 Support in 2007, yes, sir.

24 Q And you think it's reasonable or you, the company,
25 think it's reasonable to collect that amount from customers in

1 a surcharge and then get it again from the High-Cost Fund; is
2 that correct?

3 A I don't see -- and I'm trying to answer you yes or no
4 and I guess I can't because I don't agree with the premise of
5 the question. I don't -- because there's no guarantee in the
6 USF. There's -- I'm -- I guess I understand what you're
7 saying, but, no, I do not agree with the concept.

8 Q Mr. Ellmer, let's go to Page 15 of your rebuttal
9 testimony.

10 A Of my rebuttal?

11 Q Rebuttal, please.

12 A Okay.

13 Q Okay. Beginning at Line 3, you take exception to
14 certain comments that Mr. Larkin makes in his testimony about
15 income taxes; is that right?

16 A Yes, sir.

17 Q Would you agree that casualty losses are deductible
18 for income tax purposes?

19 A Yes, sir.

20 Q Okay. And would you agree that interest is
21 deductible for income tax purposes?

22 A Yes, sir.

23 Q Okay. You've taken the amount of your costs from the
24 hurricane damage and then you gross them up for income taxes;
25 is that right?

1 A Yes, sir. And --

2 Q Go ahead.

3 A -- I guess the, the logic or my reasoning behind that
4 approach was that the expenses were in '05. I am not going
5 to -- assuming the Commission approves my petition, we will not
6 receive those revenues or that reimbursement or recovery until
7 '06 and '07, at which point for tax purposes they become a
8 revenue and are subject to taxes.

9 Q So you get the tax deduction in one year and then
10 revenue in another year when it's taxable; is that right?

11 A Yes, sir.

12 Q Okay. Now you don't dispute that GT Com is going to
13 get the benefit of the casualty loss deduction from the
14 hurricanes on its taxes; is that right?

15 A GT Com does not file a tax return.

16 Q The parent company will get the benefit.

17 A To the extent the parent company pays taxes, I would
18 agree there would be some benefit from the expenses on my
19 statements, yes.

20 Q Okay. Would you agree that as a general principle
21 that if an item is tax deductible, it's not appropriate to
22 gross it up for taxes?

23 A If you were -- again, I'm struggling trying to answer
24 yes or no.

25 If you were, had the recovery in the same year as the

1 expense, I would agree. The fact that there is a lag -- I
2 guess my argument is the, or one of my arguments is you can't
3 argue that you can take the benefit of the taxes when I get it
4 in '05 and not give me the benefit of the taxes I'll pay on
5 that number in '06 and '07. It's, it's a two-way street, I
6 guess, in my view.

7 Q You're treating the income you get as if there's no
8 tax deduction at all, aren't you, by grossing up items that are
9 for taxes, items that are tax deductible?

10 A I'm trying to remember the -- can you --

11 Q Well, I'm just --

12 A Is that the exhibit in my testimony?

13 Q I'm just asking the question.

14 A Oh. Could you repeat the question?

15 Q Let me ask it in a different way, different way. The
16 fact that there's a casualty loss deduction for, in the income
17 tax code for corporations as well as the fact that there's an
18 interest deduction has no effect at all on your request for
19 recovery in this case; is that right?

20 A To the extent -- the costs I'm requesting to
21 recover -- I'm not sure I'm following your question. I'm
22 sorry.

23 Q You're grossing up any revenue you might get for
24 taxes; is that right?

25 A Yes, sir.

1 Q Okay. And the idea is that when you get revenue,
2 it's taxable and you're going to have to pay taxes on it, so
3 you increase the amount you collect so there's enough to pay
4 the taxes; is that right?

5 A Yes, sir. That's the --

6 Q Okay. And so you're treating these items as if there
7 were no tax deduction at all because you're treating it just
8 purely as revenue without considering the deductions that the
9 company gets; is that right?

10 A I guess I'm looking at it as I have costs and the
11 statute says recovery of costs, and then this is an additional
12 cost I'll incur. The premise of your question, yes, I guess I
13 agree with it.

14 Q And so that you're requesting -- you're treating the
15 revenues you get as if there were no tax deduction at all for
16 casualty losses or interest; is that right?

17 A Yes, sir.

18 Q Mr. Ellmer, you've been the primary liaison between
19 the company and GT Com since 2001, I believe you said?

20 A Yes.

21 Q Okay. You're aware, are you not, that there are a
22 number of hurricane cases in the electric industry that were
23 going on in the Commission in the last two years, are you not?

24 A Peripherally, yes, sir.

25 Q Okay. At the time you filed your testimony in this

1 case had you reviewed any of the orders issued by the
2 Commission in the Florida Power & Light hurricane cases?

3 A No, sir.

4 Q Either for 2004 or 2005?

5 A No, sir.

6 Q How about for Progress Energy? Did you look at any
7 of those proceedings at all?

8 A No, sir.

9 Q Gulf Power Company's, had you looked at that?

10 A No, sir.

11 Q Okay. How about Sprint? Had you looked at that by
12 the time you filed?

13 A I had looked at it briefly, yes, sir. But it was a
14 different section of the statute, so I wasn't -- I didn't pay
15 that much attention to it.

16 Q As you sit here today, have you reviewed the filings
17 by the electric companies or any of the orders by the
18 Commission on the storm costs?

19 A No. Because in my view they're regulated monopoly
20 utilities and I'm not. I'm not sure they apply.

21 Q But you've not looked at them?

22 A No. No. Sorry.

23 Q And you've not reviewed the electric statutes and the
24 basis that underlies any of those decisions?

25 A No, sir.

1 Q Okay. And that would be true right now, not just
2 when you filed your testimony. You've still not looked at any
3 of those items?

4 A That's correct. Yes, sir.

5 Q Are you familiar with the normal capital adjustment
6 that's been discussed?

7 A No, sir, not off --

8 Q Okay. Could you tell me what it is? Do you know
9 what the normal capital adjustment is that the Commission has
10 used in other hurricane cases?

11 A No, sir.

12 Q Okay. Mr. Ellmer, GT Com has to recover its costs in
13 order to stay in business, does it not?

14 A We hope so, yes, sir.

15 Q And you have to pay for capital assets like any other
16 company does?

17 A Yes, sir.

18 Q And you have depreciation like other companies do; is
19 that right?

20 A Yes, sir.

21 Q And you have income statements?

22 A Yes, sir.

23 Q You mentioned, I believe, in your summary that under
24 your price cap regulation you could lose money or make money;
25 is that right?

1 A Yes, sir.

2 Q Has GTC lost money in the last ten years, GT Com
3 Florida operations?

4 MS. RULE: Chairman, at the risk of unduly
5 interrupting, I'd like to caution the witness to not verbalize
6 the information if it happens to be confidential. If not,
7 please excuse the interruption.

8 BY MR. BECK:

9 Q Is GT Com profitable, Mr. Ellmer?

10 A Yes, sir. You know, there's many definitions of
11 profitable, I guess is where I was struggling.

12 Q Did GT Com earn a profit in 2005, even considering
13 the hurricane costs, including them?

14 A Yes, sir.

15 Q Would you characterize GT Com's earnings as about the
16 same as a regulated company, greater than or less than? Could
17 you choose one of those three?

18 A No, sir, because I honestly don't know. I don't look
19 at -- if you're saying do I compare GT Com to regulated
20 utilities --

21 Q Right.

22 A -- I don't do that. Sorry.

23 Q So you don't have an opinion about whether the amount
24 the company is earning is about the same as a regulated company
25 or greater than or less than?

1 A No, sir.

2 Q Okay. Mr. Ellmer, let's go to Page 4 of your
3 rebuttal testimony, if we could.

4 Beginning on Page 4 of your testimony, you start
5 discussing some of the ways that your allocations work to your
6 work orders; is that right?

7 A Yes, sir.

8 Q And on Line 6 of Page 4 you start off, it says, "To
9 summarize, the first step involves identifying nonproductive
10 time such as vacations and holidays and allocating it." Do you
11 see that?

12 A Yes, sir.

13 Q Okay. How is a hurricane a cause of GT Com incurring
14 nonproductive time such as vacations and holidays?

15 A To the extent that I allocate costs per FCC Part 32,
16 I mean, that's just one of the costs I allocate is
17 nonproductive time. It's vehicles, it's other work equipment,
18 engineering gets allocated. It's just part of the process.
19 Are you saying did I take a vacation because of a hurricane
20 hit? No, sir, we didn't. I would have like to have.

21 Q Those are costs that make their way into the work
22 orders that form the basis of your request in this case, are
23 they not?

24 A Yes. They're normal cost allocation procedures. And
25 so, therefore, yes, those are costs and they're normal costs to

1 the business.

2 Q So in essence you're trying to seek through a
3 surcharge some cost that you classify as nonproductive time
4 such as vacation and holidays; is that right?

5 A Yes, sir. To the extent that those are part of the
6 costs that were determined in my books of operation.

7 Q In your testimony you've discussed a number of the
8 work orders, and I'd like to discuss one of them. And you
9 describe it, I think, on Page, bottom of Page 6 and 7 of your
10 direct testimony, and that's the Work Order 838.

11 A Okay.

12 Q Your work orders start with the number 2005 if
13 they're 2005 work orders, do they not?

14 A Yes, sir.

15 Q And then they have three numbers after that?

16 A Yes.

17 Q What I'd like to do is I'm going take you through
18 some detail to discuss your Work Order 838.

19 A Could you repeat the page number? I'm sorry.

20 Q Bottom of Page 6 of your direct testimony, I believe,
21 is where you generally described it.

22 A Okay.

23 Q Could you just give me a very general description of
24 what are the costs that are included in your Work Order 838?

25 A Work Order 838 was primarily the cost of repairing

1 and restoring and minor replacement of damaged facilities. It
2 was both contract labor, company labor, materials. And the
3 biggest, I guess, repair, replacement, restore was damaged
4 pedestals as a result of the rising water. We had to go in and
5 everywhere where we had water damage rehab the pedestals.

6 Q Okay. Now could you turn to your Exhibit Number 10.
7 I think that's attached to your direct testimony.

8 A Okay.

9 Q Okay. Exhibit Number 10 is a "Map of Work Order
10 Costs to Petition Amounts" that you provided with your direct
11 testimony, is it not?

12 A Yes, sir.

13 Q Okay. And on that exhibit you have a number of rows
14 for different expenses, and the second to the last row toward
15 the top is for Work Order 838; is that right?

16 A Yes, sir.

17 Q And the total amount that, that you've accumulated in
18 this work order is \$185,740; is that right?

19 A Yes, sir.

20 Q And we would see that amount by going to this
21 exhibit, looking at the column "Total" and looking at the row
22 that applies to Work Order 838; is that right?

23 A Yes, sir.

24 Q Okay. And that amount of \$185,000 is comprised of
25 some of the other amounts shown in the other columns; is that

1 right?

2 A Yes.

3 Q For materials it's \$31,534?

4 A Yes, sir.

5 Q For labor it's, total it's \$79,171; is that right?

6 A Yes, sir.

7 Q Benefits of \$49,775?

8 A Yes, sir.

9 Q And other overhead of \$25,260.

10 A Yes, sir.

11 Q If we added up those four numbers I gave you, that
12 would bring us to the total of \$185,740; is that right?

13 A Yes, sir.

14 Q And this is one of the work orders whose costs you're
15 seeking to recover in this proceeding.

16 A Yes, sir.

17 Q Okay. Now that \$185,000 figure contains allocations,
18 does it not?

19 A Yes, sir.

20 Q Okay. And you have those allocations shown on your
21 Exhibit 15 attached to your rebuttal testimony; is that right?

22 A Yes, sir.

23 Q Do you have Exhibit 15 in front of you?

24 A Yes, sir.

25 Q Okay. On Exhibit 15, Page 1 of 5, on the right-hand

1 side there's a number of columns for work orders. Do you see
2 that?

3 A Yes, sir.

4 Q And there's a column for Work Order Number 838. Do
5 you see that?

6 A Yes, sir.

7 Q The total amount shown for Work Order 838 is
8 \$95,521.13; is that right?

9 A Yes, sir.

10 Q Okay. That \$95,000 of allocation is part of and is
11 included in the \$185,000 figure that we discussed a moment ago,
12 is it not?

13 A Yes, sir.

14 Q Okay. So of the Work Order 838 for \$185,000, over
15 half of it is comprised of allocations; is that right?

16 A Yes, sir.

17 Q Okay.

18 A In the math. But I would like to, you know, point
19 out that some of those allocations were benefits and plant
20 management of the work crews, so --

21 Q Well, let's go through that, if we could.

22 A Okay.

23 Q Some of the allocations.

24 A Okay.

25 Q There's a description, the first column or I guess

1 it's actually the second column from the left, there's a column
2 called "Account Description." Do you see that?

3 A Yes, sir.

4 Q Okay. The first series of rows there are listed as
5 vehicle expenses. Do you see that?

6 A Yes.

7 Q Okay. What are those?

8 A Those are the normal expenses we record in Part 32,
9 vehicle expense, such as lease payments, maintenance, fuel for
10 vehicles. Those would be probably the three biggest items.

11 Q Okay. Are these expenses that you would incur with
12 or without a hurricane?

13 A Yes, sir.

14 Q Okay. The next series of, of account description is
15 tools and other work equipment. Do you see that?

16 A Yes, sir.

17 Q What's that?

18 A That's repair and maintenance of tractors, trenchers,
19 tools, minor tools that are bought and replaced. You know,
20 when a tech loses a screwdriver, we replace it. Fuel for the
21 tractors, trenchers.

22 Q Are these types of expenses you include -- that GT
23 Com incurs whether or not you have a hurricane?

24 A Yes, sir.

25 Q Okay. The third area is provisioning expense. Do

1 you see that?

2 A Yes.

3 Q Could you describe briefly what that is?

4 A That's the cost of my warehouse group that, you know,
5 they maintain and manage the inventory and distribute the
6 inventory and --

7 Q And are these costs that you incur regardless of
8 whether there's a hurricane or not?

9 A Yes, sir.

10 Q Okay. And the total amount for those that were
11 allocated to Work Order 838 is \$21,947; is that right?

12 A Yes, sir.

13 Q Okay. The next series are engineering expenses. Do
14 you see them?

15 A Yes.

16 Q Very briefly, what are those?

17 A That is the nondirect assigned engineering expense
18 associated with -- when an engineer charges time to a work
19 order, the draftsmen, the clerical staff, their supplies are
20 then allocated to the work order based on their time.

21 Q Okay. Would you, would GT Com incur those expenses
22 whether or not there's a hurricane?

23 A Yes, sir.

24 Q You saw that question coming, didn't you?

25 A I had a hunch.

1 Q And the total amount allocated to the work order is
2 \$7,855 for that Work Order 838; is that right?

3 A Yes, sir.

4 Q You have another series of accounts called plant
5 operation administration.

6 A Yes.

7 Q What's that?

8 A That is the, again, the time for my director of
9 operations, the plant district managers, support staff,
10 supplies, et cetera. And there again, their time is allocated
11 to work orders based on the percent of their direct reports
12 time to work orders.

13 Q These are costs that GT Com incurs whether or not
14 there's a hurricane, aren't they?

15 A Yes, sir.

16 Q And you allocated \$15,943 to Work Order 838 from
17 that, did you not?

18 A Yes, sir.

19 Q Okay. The next series of accounts are -- and if we
20 could just do them all together, if we could. They're
21 basically G&A types.

22 A Yes.

23 Q Briefly, what are those?

24 A It's -- benefits will be the largest portion. I'll
25 have to refresh my memory. It's benefits, payroll taxes, that

1 type of expense.

2 Q Okay. And you've allocated \$49,774 to Work Order 838
3 for those expenses; is that right?

4 A Yes, sir.

5 Q And these are expenses that GT Com would incur
6 whether or not there's a hurricane, are they not?

7 A Yes, sir.

8 (Transcript continues in sequence with Volume 2.)

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1 STATE OF FLORIDA)
2 COUNTY OF LEON)

CERTIFICATE OF REPORTER

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I, LINDA BOLES, RPR, CRR, Official Commission Reporter, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript constitutes a true transcription of my notes of said proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorneys or counsel connected with the action, nor am I financially interested in the action.

DATED THIS 29th DAY OF JUNE, 2006.

Linda Boles
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