

ORIGINAL

BEFORE THE PUBLIC SERVICE COMMISSION

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In re: Petition by BellSouth Telecommunications, Inc., pursuant to Florida Statutes §364.051(4), to Recover 2005 Tropical System Related Costs and Expenses

DOCKET NO. 060598-TL

DATED: November 17, 2006

COMMISSION CLERK

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that the one correct copy of STAFF'S REVISED DIRECT TESTIMONY OF CHARLESTON J. WINSTON has been furnished to the following by electronic and U. S. Mail this 17th day of November, 2006:

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DOCUMENT NUMBER-DATE

10566 NOV 17 06

FPSC-COMMISSION CLERK

DOCKET NO. 060598-TL: Petition to recover 2005 tropical system related costs and expenses, by BellSouth Telecommunications, Inc.

WITNESS: Revised Direct Testimony Of Charleston J. Winston,
Appearing On Behalf Of the Staff of the Florida Public Service
Commission

DATE FILED: November 17, 2006

DOCUMENT NUMBER-DATE

10566 NOV 17 06

1 REVISED DIRECT TESTIMONY OF CHARLESTON J. WINSTON

2 Q. Please state your name and business address.

3 A. My name is Charleston J. Winston and my business address is 2540 Shumard Oak
4 Blvd., Tallahassee, Florida, 32399.

5
6 Q. By whom are you presently employed and in what capacity?

7 A. I am employed by the Florida Public Service Commission as a Professional
8 Accountant Specialist in the Division of Regulatory Compliance and Consumer
9 Assistance.

10

11 Q. How long have you been employed by the Commission?

12 A. I have been employed by the Florida Public Service Commission since January,
13 1986.

14

15 Q. Briefly review your educational and professional background.

16 A. I have a Bachelor of Science degree in Accounting and Finance from the
17 University of South Carolina. I was promoted to a Regulatory Analyst Supervisor of the
18 Orlando district office in May of 1999 and held that position until the Orlando office was
19 closed in 2005.

20

21 Q. Please describe your current responsibilities.

22 A. Currently, I am a Professional Accountant Specialist with the responsibilities of
23 planning and managing the most complex audits of regulated companies, affiliate
24 company transactions, multi-layered cost allocation, cross-subsidization issues, anti-
25 competitive behavior, predatory pricing, and fraud. I also am responsible for creating

1 audit work programs to meet a specific audit purpose and assisting the field audit
2 supervisor in reviewing staff reports and work papers for compliance with audit
3 standards.

4
5 Q. Have you presented testimony before this Commission or any other regulatory
6 agency?

7 A. Yes. I testified in the United Telephone Company Rate Case, Docket No. 910980-
8 TC and the Southern States Rate Case, Docket No. 950495-WS.

9
10 Q. What is the purpose of your testimony today?

11 A. The purpose of my testimony is to sponsor the staff audit report of BellSouth
12 Telecommunications, Inc. (Company) which addresses the Company's amended petition
13 to recover 2005 tropical system related costs and expenses, Audit Control Number 06-
14 255-1-1. This audit report is filed with my testimony and is identified as Exhibit CJW-1.

15
16 Q. Did you prepare or cause to be prepared under your supervision, direction, and
17 control this audit report?

18 A. Yes, I was the audit manager of this audit.

19
20 Q. Please describe the work performed in the audit.

21 A. We began the audit on September 12, 2006 and plan to issue the audit report
22 concurrently with the filing of this testimony. Our overall objective in the audit was to
23 verify the numbers filed in the amended petition to the original source documentation,
24 such as invoices, work orders, and timesheets. As part of any audit, we must also analyze
25 the accounting process for recording the particular costs.

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Q. Please describe your specific audit procedures for this audit.

A. We attempted to verify the amounts included in BellSouth's amended petition by requesting a list of work orders so we could pull a sample of invoices. Instead, the company provided a listing of costs which we used. We requested the company provide supporting documentation on sample items. We requested Board of Directors' meeting minutes, Management meeting minutes, and company budgets to determine whether BellSouth had plans to incur these expenditures prior to being impacted by the storms in 2005. We verified the number of customer access lines included in the direct testimony of Kathy K. Blake. We also verified the number of wholesale lines to be assessed and determined who are the major CLECs that control these lines. We reviewed information regarding the 75 spans of cable that the petition stated were replaced due to damage caused by Hurricane Rita. We requested a list of exempt management employees that were working during the storms with total overtime per employee per storm, in an effort to determine the total amount of exempt management overtime included in the storm cost recovery request.

Q. Please review the audit findings in the audit report.

A. **Audit Finding 1**

Audit Finding 1 addresses the company's refusal to provide information to the auditors. Because the company's amended petition was based on incremental costs above budgeted costs, we requested Board of Directors' meeting minutes, Executive Management meeting minutes, the Construction Budgets and the annual budgeted amounts for storm/hurricane damage to assist in the analysis of the budget formulation process. BellSouth refused the audit staff request for several reasons, such as the requests

1 were irrelevant, overly broad, unduly burdensome, oppressive, and not reasonably
2 calculated to lead to the discovery of admissible evidence. We contacted the company
3 representative in an effort to discuss what we needed and how soon we could get the
4 information and the company never responded. In order to evaluate incremental costs we
5 must validate the amounts in the budgets. One way of analyzing the budgeted items is to
6 gather materials on the process that went into the preparation of the budget. These items
7 requested were to be used to assist in determining the accuracy of the budget forecasting.
8 Because of the expedited nature of this docket, we did not have time to pursue legal
9 follow-up to the company's refusal to provide information. After the original testimony
10 was filed, the company provided the audit staff with additional information regarding the
11 2005 and 2006 budgets. The audit staff reviewed this information but did not have time
12 to pursue additional information needed.

13
14 **Audit Finding 2**

15 Audit Finding 2 discusses the company's amended petition (Page 8) where it
16 stated that the company replaced 75 spans of cable. In response to audit document
17 requests, the company stated that only 37 spans of cable were replaced. The other 38
18 spans of cable were repaired.

19
20 **Audit Finding 3**

21 Audit Finding 3 discusses the costs included in the petition that the company was
22 not able to support during the audit. We requested supporting documentation regarding
23 the costs included in the petition. ~~The company was not able to provide this information~~
24 ~~in a timely manner so we were unable to verify the requested costs.~~ The petition was filed
25 by the company on September 1, 2006. We believe that the company should have known

1 that it would be expected to provide documentation to support its filing and should have
2 been able to provide this information quickly. ~~The company has not provided this needed~~
3 ~~documentation as of the filing of this testimony, therefore, we have not been able to verify~~
4 ~~the requested costs.~~ The company provided the requested sample information subsequent
5 to the filing of the original testimony. The audit staff reviewed this information provided
6 and is satisfied with the supporting documentation.

7
8 **Audit Finding 4**

9 Audit Finding 4 discusses the revenue impact of the revised number of retail
10 access lines as filed in the company's amended petition.

11
12 **Audit Finding 5**

13 Audit Finding 5 discusses that the amended petition includes approximately
14 797,300 unbundled loops in service and that this amount does not agree to Schedule 8
15 filed with this Commission. The company provided reasons as to this difference,
16 however, audit staff remains unconvinced that these two filings should be different.
17 Therefore, audit staff recommends using the method contained in the Periodic Filing as
18 this is consistent over time and not devised to support a specific docket.

19
20 **Audit Finding 6**

21 Audit Finding 6 discusses the exempt management overtime included in the
22 petition. BellSouth provided the audit staff with documents explaining the Company's
23 Policies and Procedures concerning employment labor laws regarding overtime for all
24 employees. However, the company did not provide numerical or monetary values that we
25 could use to determine the appropriate amount of exempt management overtime included

1 | in the petition. We requested additional information ~~but have not~~ and received it as of
2 | on October 20, 2006, after the filing of this testimony. We ~~were not able to verify~~
3 | reviewed the detail supporting the total amount of exempt management overtime
4 | indicated by the Company. ~~included in the storm cost recovery request based on the~~
5 | ~~supporting documentation provided. Therefore, we were unable to verify the exempt~~
6 | ~~management overtime included in BellSouth's petition. However, we have questions~~
7 | regarding this detail and were not able to reconcile the company schedule to the overtime
8 | amount included in the filed amended petition.
9 |

10 | Q. Does this conclude your testimony?

11 | A. Yes, at this time it does. However, if the company provides thorough responses,
12 | in a timely manner, I may file supplemental testimony to address the responses.

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DOCKET NO. 060598-TL: Petition to recover 2005 tropical system related costs and expenses, by BellSouth Telecommunications, Inc.

WITNESS: **Revised Direct Testimony Of Charleston J. Winston**,
Appearing On Behalf Of the Staff of the Florida Public Service
Commission

EXHIBIT CJW-1: Revised Audit Report



FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE
BUREAU OF AUDITING

Tallahassee District Office

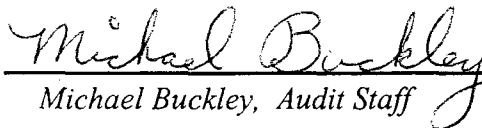
BellSouth Telecommunications, Inc.


AUDIT TO VERIFY 2005 STORM COSTS


DOCKET NO. 060598-TL

AUDIT CONTROL NO. 06-255-1-1

REVISED NOVEMBER 17, 2006


Michael Buckley, Audit Staff


Gennarro Jackson, Audit Staff


Charleston Winston, Audit Manager



Lynn M. Deamer, Audit Supervisor

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**DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE
AUDITOR'S REPORT**

October 23, 2006

**TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED
PARTIES**

We have performed the procedures enumerated later in this report to meet the agreed upon objectives set forth by the Division of Competitive Markets and Enforcement in its audit service request. We have applied these procedures to the petition prepared in support of Docket 060598-TL by BellSouth Telecommunications, Inc. (BellSouth or Company) to recover its intrastate costs and expenses relating to repair, restoration, and replacement of facilities damaged by the 2005 tropical systems.

This audit is performed following general standards and field work standards found in the AICPA Statements on Standards for Attestation Engagements. This report is based on agreed upon procedures which are only for internal Commission use. There is confidential information associated with this audit.

OBJECTIVES and PROCEDURES

Objective: - To verify the amounts included in BellSouth's petition dated September 1, 2006.

Procedures: - Audit staff requested the Company to provide support for certain costs but did not receive a response in time to verify these costs. We reviewed the Company's incremental expenses included in its petition and its actual expenses. We selected a judgmental sample and reviewed the supporting documentation provided.

Objective: - To determine if the amounts sought for recovery were costs budgeted prior to the subject storm.

Procedures: - We reviewed highly summarized budgets for 2004 and 2005. We reviewed financial statements for the Parent Company, BellSouth Corporation, for 2004 and 2005. ~~The company denied audit staff access to the Board of Directors Meeting Minutes, Executive Management Minutes, and construction budgets. The company stated that there are no annual budgeted amounts for storm/hurricane damage.~~

Objective: - To verify access lines included in BellSouth's amended petition dated September 20, 2006.

Procedures: - We compared access lines included in the amended petition to the number of access lines reported in Schedule 8 filed with the Commission. These numbers did not match and we requested further reconciliation from the Company. The Company reconciled Retail Residential and Business lines in the Petition filed in this docket to lines reported in Schedule 8 filed with this Commission. (Audit Finding 4). The Company could not reconcile unbundled loops to Schedule 8. (Audit Finding 5).

Objective: - To verify whether or not 75 spans of cable that were replaced gave BellSouth additional capacity.

Procedures: - We requested documentation for a judgmental sample of the company's 75 spans of cable expenses. We inquired as to whether any of the 75 spans of cables included upgrades. See Audit Finding 2 for more information.

Objective: - To determine the total amount of exempt management overtime included in the storm cost recovery request.

Procedures: - Staff obtained a copy of BellSouth's Overtime Pay Policy for Non-Exempt Employees. ~~Audit staff requested additional information regarding exempt management but did not receive a response from the Company in time to include in this report. We requested additional information and received it. However, we have questions regarding this detail and were not able to reconcile the company schedule to the overtime amount included in the filed amended petition.~~ See audit finding 6 for more information.

AUDIT FINDING NO. 1

SUMMARY: BellSouth did not provide requested information for Board of Director’s (BOD) Minutes, Executive Management Meetings, Constructions Budgets and annual budgeted amounts for storm/hurricane damage.

STATEMENT OF FACT: BellSouth’s Petition to recover 2005 Tropical System Related Costs and Expenses was based on incremental costs (budgeted costs less actual costs).

The audit staff requested to review the BOD Minutes, Executive Management Meetings, Constructions Budgets and annual budgeted amounts for storm/hurricane damage to assist in the analysis of the budget formulation process. BellSouth refused the audit staff requests. The following table shows the audit request with the associated company response. This is a normal request when evaluating budgeted information.

Document Request No.	Audit Request	Company Response
6	“Please provide copies of your Board of Directors’ Minutes from 2003 to 2006.”	<i>BellSouth objects to this Audit Document/Record Request on that basis that it is irrelevant, overly broad, unduly burdensome, oppressive, and not reasonably calculated to lead to the discovery of admissible evidence.</i>
7	“Please provide copies of all minutes from executive management meetings from 2003 to 2006.”	<i>BellSouth objects to this Audit Document/Record Request on that basis that it is vague, ambiguous, overly broad, imprecise, or utilizes terms that are subject to multiple interpretations that are not properly defined or explained for purposes of the Audit Document/Record Request.</i>
8	“Please provide copies of all constructions budgets from 2005 to 2010.”	<p><i>BellSouth objects to this Audit Document/Record Request to the extent it requests construction budgets on that basis that it is irrelevant, overly broad, unduly burdensome, oppressive, and not reasonably calculated to lead to the discovery of admissible evidence because BellSouth’s Petition is limited to 2005 storm recovery expenses and BellSouth’s construction budgets are “capital” budgets and do not include an expense component.</i></p> <p><i>Notwithstanding and without waiving the above objections, please see BellSouth’s response to Audit Request No. 1 regarding BellSouth’s expense budget baseline.</i></p> <p><i>See Note 1 below</i></p>

9	"Please provide copies of all supporting documents for annual budgeted amounts for storm/hurricane damage from 2003 to 2010."	<p><i>BellSouth objects to this Audit Document/Record Request to the extent it requests construction budgets on the basis that it is irrelevant, overly broad, unduly burdensome, oppressive, and not reasonably calculated to lead to the discovery of admissible evidence because BellSouth's Petition is limited to 2005 storm recovery expenses and BellSouth's construction budgets are "capital" budgets and do not include an expense component.</i></p> <p><i>Notwithstanding and without waiving the above objections, BellSouth states that the requested documentation for annual budgeted amounts for tropical storm/hurricane damage from 2003 to 2010 does not exist because BellSouth does not include funding for tropical storm/hurricane damage restoration in its budget setting process.</i></p>
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Note 1

On October 31, 2006 the company provided the audit staff with its Florida Capital Budgets for 2005 and 2006 as a supplemental response. Audit staff reviewed what was provided but did not have time to pursue additional information.

AUDITOR'S OPINION: An analysis of the budgeted amounts has to be done to validate the amounts in the budgets. Since the incremental amount is derived by subtracting the budgeted amount from the actual expenditures, the basis for the budgeted amounts must be reviewed before the incremental amount can be accepted. The items requested above were to be used to determine the accuracy of the budget forecasting. The audit staff could not verify the incremental amounts included in the company's petition.

AUDIT FINDING NO. 2

SUMMARY: BellSouth's petition stated that 75 spans of cable were replaced. But, in its response to an audit request, only half of the cable spans were replaced and the other spans of cable were repaired.

STATEMENT OF FACT: In the petition by BellSouth Telecommunications, Inc., pursuant to Florida Statutes §364.051(4), to Recover 2005 Tropical System Related Costs and Expenses, page 8, the company stated it had to replace 75 spans of cable due to Hurricane Rita. In the company's first response to an audit request, it stated only a few spans of cable were replaced and the other spans of cable were repaired.

In the company's subsequent response, the company changed its response and stated that a total of 37 spans of cable had been replaced. According to the company:

Upon completion of the initial review of the damage caused by Hurricane Rita, BellSouth believed that 5 spans of aerial cable required replacement and 70 spans required repair. However, after further review and inspection, it was later determined that an additional 32 of the 70 spans of cable, originally thought to only require repair, actually required replacement. Thus, the total amount replaced was 37 spans of cable. In any event, the cost of replacement of these spans is irrelevant because the costs are excluded from BellSouth's Petition as capital costs. The 38 spans that were eventually repaired did not involve any betterment or upgrade of the network.

Auditor's Opinion: We picked a sample of the spans repaired from a listing of contractual services and requested supporting documents for these costs. ~~The incremental amounts included in the Company's petition for the repaired thirty-eight spans could not be verified since the requested sample has not been provided as of October 19, 2006.~~ BellSouth provided the requested documentation after the original audit report was issued. The audit staff has reviewed the information provided and is satisfied with the supporting documentation.

AUDIT FINDING NO. 3

SUMMARY: BellSouth did not provide the requested supporting documentation for the sample items of expenses for Contractual Services, Materials, Salary, Wages and Benefits and Supplies.

STATEMENT OF FACT: We reviewed a company prepared listing of Contractual Services, Materials, Salary, Wages & Benefits, and Supplies. We selected a sample of items. We requested the Company provide supporting documentation for these items. A summary of this request is shown below:

Request No.	Subject	Date of Request	Date to Provide	Amount of Sample
28	Contractual Services	10/10/06	10/13/06	\$8,455,536
29	Materials	10/11/06	10/13/06	\$1,668,849
30-31	Salary, Wages & Benefits	10/11/06	10/13/06	\$9,950,178
32	Supplies	10/11/06	10/16/06	\$1,040,689

The Company filed its original petition on September 1, 2006. The Company should have been ready to support its petition at that time. It is standard in any audit of a company petition to request copies of invoices to support costs. As of October 19, 2006 the above responses have not been provided.

AUDITOR'S OPINION: The incremental amounts in the company's petition are mainly derived from the difference between actual amounts and budgeted amounts. ~~An audit of the above sample amounts would have provided some assurance that the actual amounts are correctly stated. Presently, the audit staff cannot provide any assurance that the petition amounts are correctly stated at this time.~~

BellSouth provided the requested documentation after the original audit report was issued. The audit staff has reviewed the information provided and is satisfied with the supporting documentation.

AUDIT FINDING NO. 4

SUMMARY: BellSouth provided a schedule to audit staff to support the Access Lines reported in the Petition filed in this Docket for June 2006. It does not agree to the Schedule 8 of the Periodic Reports filed with this Commission in accordance with Rule 25-4.0185 Florida Administrative Code.

STATEMENT OF FACT: The Company states in the Amended Direct Testimony of Kathy K. Blake that BellSouth had approximately five million retail access lines in service. The total amount BellSouth is seeking to recover is \$34.6 million.

In response to the difference in Access Lines reported, the Company states: The residential numbers are easily reconciled as both reports use the same parameters to define a retail residence line. The June 2006 Schedule 8 reports 3,413,404 retail residence lines and response 1 (for 2006) reports 3,413,192 lines, a difference of only 212 lines (less than .01%). While the line count numbers are pulled from the same source file, the methodology used for each report is slightly different. The Schedule 8 data is pulled from a network planning resource tool and the line count totals provided for response 1 is pulled from a more general billing database.

The reason BellSouth used the general billing database instead of the network planning resource tool is because it was determined that in applying a recovery surcharge it was more appropriate to use a database that has a direct link to customer accounts and how BellSouth actually bills its customers rather than a network planning tool. As discussed more fully below, there are certain instances where the two systems count services differently because the systems' focus of data is different. BellSouth believes that following the billing system when applying a line item billing charge is more appropriate than a network planning resource tool.

The difference in the numbers produced by the two systems (212 lines) is insignificant. One reason for the difference is because the computer logic built in to each system has a different focus. The network planning resource tool, which reports Schedule 8 data in accordance with the Commission's Schedule 8 requirements, allows network to determine line counts on an exchange by exchange basis

and customers for services they have ordered. It also applies various regulatory fees, including the proposed line item charge, to customers' bills. It provides line counts based on uniform service ordering codes ("USOC") for each service that is being billed.

The business line count totals reported on the June 2006 Schedule 8 and the totals reported in response 1 of Document Request No. 3 can not be reconciled because the methodology used to provide the line count totals for each report is different. Schedule 8 counts the in-service retail business lines, while the numbers provided in response 1 counts the voice-grade equivalent retail business lines or access loops depending on which is appropriate for the services purchased by the customer. Thus, a basic business line or business trunk will be counted as one line in both methodologies. However, the two reports differ when dealing with more complex services. With respect to station lines versus network access registers ("NARs"), Schedule 8 count station lines while under BellSouth's proposal, the line item charge would be applied on the number of NARs in service. The reason BellSouth is proposing to count NARs instead of station lines is because NARs indicate an access point to the network for those more complex services, such as Centrex. BellSouth's proposal also counts ISDN lines differently than they are reported in Schedule 8. In Schedule 8, BellSouth reports each ISDN line as one line. Under its proposal, BellSouth will apply the line item charge on each active voice channel (also known as a B-Channel) of an ISDN line. A PRI-ISDN line can have up to 23 active B-Channels. BellSouth is able to review its customer records and determine how many B-channels have been activated and will apply the line item charge to each active channel. The following table highlights the differences between the two counts.

Service Description	Included in Schedule 8	Included in Response 1
Centrex station lines	Yes	No
ESSX Station lines	Yes	No

ESSX/CTX NARS	No	Yes
PRI "B" channels	No	Yes
ISDN local channels	Yes	No
Private Line Local Channels	No	Yes

Schedule prepared by Company

AUDIT OPINION: The methodology used to calculate the access lines in the petition of this docket differs from the methodology used to calculate these access lines in a filing with this Commission external to this docket. Although the Company provided reasons as to the difference, audit staff is unconvinced that these two filings should be different. Therefore, audit staff recommends using the method contained in the Periodic Filing as this is consistent over time and not devised to support a specific docket.

Class of Customer	Number of Access Lines per Schedule 8	Number of Access Lines per Response 1	Difference (A)	(A)Times \$.50 Times 12 Months
Residential	3,413,404	3,413,192	(212)	\$(1,272)
Business	1,397,955	1,553,301	155,346	\$932,076
COCOTS (Payphone) Lines	4,131	4,131	0	
TOTAL	4,815,490	4,970,624	155,134	\$930,804

EFFECT ON FILING IF FINDING IS ACCEPTED:

Decrease in Revenue if Schedule 8 is used

155,134 Access lines times \$.50 times 12 months = \$930,804

AUDIT FINDING NO. 5

SUMMARY: BellSouth's amended petition supports the unbundled loops in service, but does not agree to the number of unbundled wholesale network elements (UNEs) reported on Schedule 8 filed with the PSC in accordance with Rule 25-4.0185 Florida Administrative Code.

STATEMENT OF FACT: BellSouth Telecommunications, Inc. is an Incumbent Local Exchange Telecommunication Company that provides telecom services to both residential and business customers throughout the State of Florida. In its business to business wholesale segment, BellSouth often enters into access agreements with various competitive local exchange companies (CLECs) which authorizes those companies the rights to and/or use of BellSouth's access lines used to provide either resold or unbundled loop services to the end users.

On page 9 of the Amended Petition by BellSouth, Docket 060598 (Filed: September 20, 2006), the company proposes that a line-item charge be recovered on a per line basis for all unbundled wholesale loop network element customers which includes:

*....all unbundled wholesale loop network element
("UNE") customers (including stand-alone loops, ISDN loops, DS1
and DS3 loops (stand-alone as part of an enhanced extended loop),
xDSL loops).*

On Schedule 8 of the periodic reports filed with the Commission, the company again used the words "unbundled wholesale loop network element or UNE" to identify wholesale activity. However, in the supporting documentation provided to the audit staff as support for the amended petition, UNEs are referred to as "unbundled loop equivalents".

We asked the company to show how the 797,300 unbundled loops were calculated from the June 2006 PSC Schedule 8 in document request 26. The Company replied, "*Schedule 8 does not include stand-alone unbundled loops or unbundled loops that are part of an enhanced extended loop. Therefore, the 797,301 unbundled loops can not be calculated from Schedule 8.*"

The Company also stated that it only counts a DS-1 as 1 access line under UNE on schedule 8. In the petition, it would count as 24 voice equivalent channels..

Schedule 8 is supposed to report the active access lines. We verified the number of unbundled loops access lines to the company provided schedule. However, we could not

verify the unbundled loops access lines to Schedule 8, but we could reconcile the retail lines to the schedule (See Audit Finding 4).

AUDITOR'S OPINION: Audit Findings are provided to inform the analyst of a potential reporting inconsistency.

AUDIT FINDING NO. 6

SUMMARY: BellSouth Telecommunications, Inc. filed a petition dated September 1, 2006, requesting an increase in local service rates based on the showing of a substantial change in circumstances in accordance with Florida Statutes § 364.051(4)(b). SP Exhibit 1 was provided as evidence to support this claim, displaying BellSouth's total storm related expenses for repairing, restoring, or replacing its lines, plants, and facilities damaged by the 2005 storms. The total on this Exhibit was approximately \$202.4 million with associated incremental costs of \$156.0 million. Of this amount, BellSouth is only seeking to recover the intrastate portion of the incremental costs of \$95.5 million as it relates to the storms. Associated costs for labor hours worked is included in this \$95.5 million as it relates to the incremental cost incurred by employee overtime hours.

STATEMENT OF FACT: BellSouth provided the audit staff with documents explaining the Company's Policies and Procedures concerning employment labor laws regarding overtime for all employees. This information was received by the audit staff, yet no numerical or monetary values was included to determine the appropriate amount of exempt management overtime included in the storm request. We requested additional information, ~~but we have not received any additional information to reasonably satisfy the audit objective.~~ and received it on October 20, 2006. The information reasonably satisfies the audit objective.

AUDIT OPINION: ~~The audit staff was not able to verify the total amount of exempt management overtime included in the storm cost recovery request based on the supporting documentation provided.~~ We requested additional information and received it. However, we have questions regarding this detail and were not able to reconcile the company schedule to the overtime amount included in the filed amended petition.

BellSouth Telecommunications, Inc.
 Florida Storm Recovery Costs for 2005 Named Storms
 Incremental Costs Incurred Through March 31, 2006
 \$ in 000s

SP Exhibit 1
 Page 1 of 1

	<u>TS Arlene</u>	<u>H. Cindy</u>	<u>H Dennis</u>	<u>H Katrina</u>	<u>H. Rita</u>	<u>H Wilma</u>	<u>Total</u>
1. Wage & Salary - Basic	\$0	\$0	\$426	\$1,035	\$28	\$13,307	\$14,796
2. Wage & Salary - Overtime	\$2,953	\$928	\$3,120	\$19,166	\$22	\$31,132	\$57,321
3. Contract Labor & Services	\$0	\$22	\$227	\$2,969	\$45	\$90,301	\$93,564
4. Materials and Supplies	\$187	\$19	\$454	\$8,640	\$29	\$17,191	\$26,520
5. Incremental Taxes on Salary & Wage Expense	\$226	\$71	\$230	\$1,446	\$4	\$2,604	\$4,581
6. Other (Fuel, Rents, Network Communications, Meals and Lodging, Capital Other)	\$171	\$63	\$275	\$1,154	\$7	\$3,915	\$5,584
7. Total Cost	\$3,537	\$1,103	\$4,732	\$34,409	\$135	\$158,450	\$202,366
Less:							
8. Capital Cost:							
a. Wage & Salary - Basic	\$0	\$0	\$426	\$1,035	\$28	\$8,273	
b. Wage & Salary - Overtime	\$0	\$0	\$110	\$267	\$7	\$2,132	
c. Contract Labor & Services	\$0	\$0	\$111	\$544	\$3	\$10,584	
d. Materials and Supplies	\$0	\$0	\$380	\$7,246	\$29	\$13,666	
e. Other	\$0	\$0	\$68	\$177	\$7	\$1,264	
Total Capital Cost:	\$0	\$0	\$1,095	\$9,269	\$74	\$35,920	\$46,358
9. Total Incremental Storm Recovery Expense	\$3,537	\$1,103	\$3,637	\$25,140	\$61	\$122,530	\$156,008
10. Intrastate Jurisdictional Factor	0.612144	0.612144	0.612144	0.612144	0.612144	0.612144	
11. Intrastate Incremental Storm Recovery Expense	\$2,165	\$675	\$2,227	\$15,389	\$37	\$75,006	\$96,499

Notes:

- Total cost on Line 7 consists of capital amounts related directly to storm restoration and incremental expense amounts.
- The intrastate jurisdictional factor on Line 10 was computed from the 2005 BellSouth-Florida ARMIS 43-01, Plant Specific and Non-Specific Operating Expenses per Ron Hilyer's Testimony.
- Costs on this worksheet include only Network Operations and do not include any other incremental costs, e.g. Customer Service, Advertising, nor do they include Cost of Removal.

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 Revised Audit Report

EXHIBIT I