

REDACTED

ORIGINAL  
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- ◆ A customer's request results in the company leasing transmission or other equipment from private vendors (lease charges), or
- ◆ A customer requests service that involves extraordinary conditions (excess costs).

### 3.3 Contract Agreement Forms

Embarq procedures state that its Regional Network Planning Outside Plant Pricing Tool is used to provide timely quotes for special construction requests through its National Customer Service operations. However, the Florida operations uses the Project Administration and Costing System to enter the quantity and description of materials and equipment required to complete a project cost quote and track all projects. After the detailed quote is prepared, it is mailed to the customer for approval. When the customer approves the estimated charges quoted and the company receives prepayment, the special construction project is begun. This process is generally followed for simple residential applications.

For business market accounts, an Individual Case Basis Agreement is used to document special services or arrangements requested by the customer that are not offered under Embarq's tariffs. This agreement specifies the term, service, rates, applicable tariff information, termination liability, recurring and nonrecurring charges, and other specific cost information pertinent to the agreement. The agreement is signed by both customer and company representatives and each party retains a copy of the agreement.

### 3.4 Process Flow and Timing

Embarq's National Customer Services Method and Procedure 002-001-510 provides the standard system-wide procedures for preparation and distribution of documents required for customer requested work activities such as moves, excess construction, facility relocation, and make-ready work. According to Embarq's documentation, the company has recently made extensive revisions to the Keep Cost Recovery process to assist the Field Team Engineering and Network Cost Recovery organization in recouping charges applicable to each state's tariff. The procedure was effective September 23, 2005, and the most current issue of this procedure is dated April 14, 2006. This procedure requires all custom work activities to be captured in a Keep Cost Recovery format.

The company also implemented a process to outsource the creation of invoices and payment collection through an outside adjustment company in June 2004. Embarq made the change to improve overall turnaround time for completing estimated invoices to the customer, and to create one source for payment handling to reduce the risk of misplaced payments.

[REDACTED]

Once a customer contacts the Field Team Engineer with a custom work request, the engineer schedules a meeting with the customer to review and discuss the proposed project and scope of work. This process includes a site visit during which the customer is informed that they will be notified within five working days with a verbal quote. The engineer then creates a quotation of estimated project costs through the Work Activity and Keep Cost Recovery module in the Project Administration and Costing System.

Embarq uses unit-based pricing tables for the assigned labor types and material quantities for the scope of work requested, and states that hourly rates and charges are discouraged for most construction activities, but are recommended for maintenance type work. Overheads are included in all special construction requests.

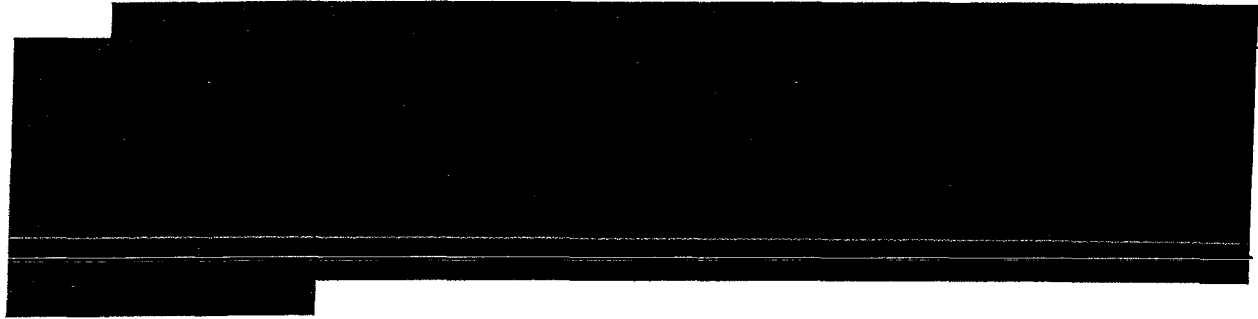
### 3.6 Tracking Construction Status

As described in previous sections of this report, Embarq's Engineering and Construction personnel meet with the customer to review the special construction work requested. At this time, the proposed timeline and other pertinent information regarding the customer's request are captured. Within five working days of the meeting, a written estimate is provided to the customer. The advance payment of project costs must be received by the company prior to beginning any construction. Each Work Activity and Keep Cost Recovery project is created and approved in the Project Administration and Costing System, and the system is used to track and control all phases of the project's cycle.

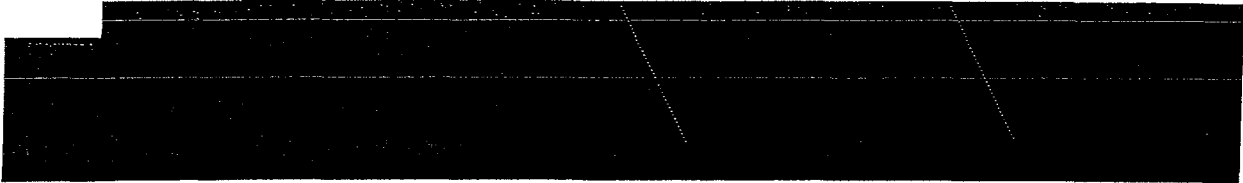
## 5.0 Special Construction Sample Results

### 5.1 Sampling Results

On average, [REDACTED] new special construction projects monthly, [REDACTED] and Embarq averages about [REDACTED]. To more closely examine the Special Construction process in each company, staff completed a sample of each company's 2006 project files and contracts. The sample taken was limited to specific districts within the company. The measures shown in Exhibit 1 help gauge comparative company performance in completing special construction projects during 2006.



Embarq showed the highest percent of projects below the customer quoted amount ([REDACTED]%) and the lowest percentage of customer signatures on special construction contracts ([REDACTED]%). Embarq also [REDACTED] with the lowest percent of construction projects exceeding 120 days ([REDACTED]%).





Special Construction Project Sample Results			
Reviewed Items	[REDACTED]	Embargo	[REDACTED]
Number of Special Projects Reviewed	[REDACTED]	[REDACTED]	[REDACTED]
Number of Residence/Business Projects Opened	[REDACTED]	[REDACTED]	[REDACTED]
Projects Closed	[REDACTED]	[REDACTED]	[REDACTED]
Number and Percent of Projects Exceeding the Quote	[REDACTED]	[REDACTED]	[REDACTED]
Percent of Dollars Exceeding the Quote	[REDACTED]	[REDACTED]	[REDACTED]
Average Amount Exceeding the Quote	[REDACTED]	[REDACTED]	[REDACTED]
Number and Percent of Projects Less Than the Quote	[REDACTED]	[REDACTED]	[REDACTED]
Percent of Dollars Less Than the Quote	[REDACTED]	[REDACTED]	[REDACTED]
Average Amount Less Than the Quote	[REDACTED]	[REDACTED]	[REDACTED]
Net Dollars and Percent Less Than the Quote	[REDACTED]	[REDACTED]	[REDACTED]
Customer Signatures on Agreements	[REDACTED]	[REDACTED]	[REDACTED]
Quote to Customer Signature Average	[REDACTED]	[REDACTED]	[REDACTED]
Quote to Construction End Average Days	[REDACTED]	[REDACTED]	[REDACTED]
Construction Begin to End Average Days	[REDACTED]	[REDACTED]	[REDACTED]
Construction Projects Exceeding 120 Days	[REDACTED]	[REDACTED]	[REDACTED]
* One project was miscoded and two were abandoned after the customer received a quote			

EXHIBIT 1

Source: DocumentRequest-2

Sections 5.2 through 5.5 discuss specific areas where each company can review and improve the special construction process.

**5.2 Projects Costing More Than the Quoted Amount**

Sample results show that [REDACTED] led in the percentage of projects completed that exceeded the quoted amount.



Embarq had [redacted] of [redacted] projects ([redacted]%) exceeding the customer quote. Although the Embarq sample had only [redacted] projects over the customer quoted amount, it averaged the highest overrun amount per project, at \$ [redacted] per project. [redacted]

Cost overruns of [redacted] are covered under contractual agreement by Embarq [redacted]

Staff believes [redacted]

### 5.3 Projects Costing Less Than the Quoted Amount

All three companies offer their customers the option of using estimated or actual cost methodologies for special construction projects. If the customer selects the estimated quotation methodology as most customers do, and projects are completed at a cost less than the quoted amount, the customer may have overpaid for the project. If this condition exists, companies should evaluate the frequency of these events and the impact of inaccurate quotes on customers. On the other hand, if the customer has selected the actual cost methodology for the special construction project, the customer is refunded the difference between the quoted amount and the actual costs.

Staff's sample shows that Embarq [redacted] led in the percentage of projects whose final costs are less than the quoted amount, with [redacted]% and [redacted] respectively. However, with Embarq's [redacted] open projects [redacted] it is likely that the reason for these high percentages is that not all charges were made to open projects at the time staff reviewed them.

[redacted] Embarq has the lowest percent under the quoted amount at [redacted]%. [redacted]

[redacted] percentage of net dollars below the customer quote amount was highest, at [redacted]%. This percentage is considerably above that of [redacted] or Embarq. [redacted]

Each company should evaluate whether quotes that fall below project costs are due to efficient construction, whether proper charges are being made in a timely manner, and whether all appropriate costs are made to projects. Otherwise, these companies may not be capturing all project costs appropriately and could make future inaccurate quotes.

#### 5.4 Construction Projects Over 120 Days

The special construction process relies on many components, one of which is the length to complete construction projects.

average construction beginning-to-end interval was exceeding |  
by days.

#### 5.5 Customer Signatures on Contracts

To evidence the customer's agreement with the quoted estimate, and to give authorization to proceed with the construction project, an Authorization Letter or Contract is completed between the company and the customer. These legal instruments, in addition to the customer's payment of the company quoted amount for the construction, evidence both parties' agreement to complete the project.

and signature rates respectively. and maintained

Staff understands

[REDACTED]