State of Florida

Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: June 24, 2005

TO: Director, Division of the Commission Clerk & Administrative Services (Bayó)

FROM: Division of Competitive Markets & Enforcement (Mann, Bulecza-Banks, Casey, Moses, Salak, Wright)
Office of the General Counsel (Teitzman, Keating, Rojas)

RE: Docket No. 050374-TL – Petition for approval of storm cost recovery surcharge, and stipulation with Office of Public Counsel, by Sprint-Florida, Incorporated.

AGENDA: 07/05/05 – Regular Agenda – Proposed Agency Action - Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Edgar

CRITICAL DATES: 09/22/05 (Florida Statute 364.051 Requires the Commission to Act Upon the Petition within 120 days after filing.)

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\CMP\WP\050374.RCM.DOC

Case Background

On May 25th, 2005, Sprint-Florida, Incorporated (Sprint / Company) filed a Petition for Approval of Storm Cost Recovery Surcharge and Stipulation (Stipulation) with the Florida Public Service Commission (Commission). The Stipulation involves an agreement between Sprint and the Office of the Public Counsel (OPC) regarding the maximum amount of costs that should be considered as relevant for surcharge recovery as a result of the 2004 Hurricanes: Charley, Frances, Jeanne, and Ivan. The Stipulation, which is included as Attachment 1, indicates that it is contingent upon approval in its entirety. It also states that if the Stipulation is not accepted and approved without modification by an order not subject to further proceedings or judicial review, then the Stipulation would be considered null and void and of no further force and effect.

Between mid-August and late September of 2004, Hurricanes Charley, Frances, Jeanne, and Ivan struck Sprint's service territory causing damage to Sprint's telecommunications systems. The Stipulation provides that $30,319,521 incurred for storm restoration are the maximum costs to be considered for recovery from Sprint-Florida basic wireline customers. The remaining storm restoration costs are to be assessed against non-basic Sprint customers. The major components of the petitioned amount include wages, external contractors, and equipment either damaged or destroyed by the hurricanes of 2004. Based on Sprint's calculations and line counts, residential and single wireline business customers would pay a $0.93 per month surcharge for a period of 24 months.

Staff used the Stipulation as its starting point for review of Sprint's hurricane-related expenses. Staff does not take issue with the direct hurricane-related expenses identified in the Stipulation between Sprint and the OPC. Staff does question the appropriateness of the carrying costs that have been included in the filing. The carrying costs and taxes used by Sprint reflect interest, a return, and income tax expense on the return. Sprint included a total of $6,712,822 in carrying costs and taxes. Of that amount, $3,069,192 is included in the Sprint/OPC Stipulation of $30,319,521. These carrying costs relate to the August 2004 through July 2005 period. Additional carrying charges of $3,641,810 have been embedded in Sprint's calculation to arrive at its proposed monthly surcharge of $0.93 for the period August 2005 through July 2007.

Per Florida Statute 364.051, the Commission must act on Sprint's petition within 120 days after filing. To expedite the processing of this docket, the factual issues are being addressed in this recommendation including: the number of access lines to be used in calculating the maximum monthly surcharge; the level of interest or carrying costs subject to collection, if any; and whether the Stipulation should be accepted. Attachment 2 contains confidential information that the Commission may rely on in reaching its decision.

A Proposed Agency Action (PAA) Order will be issued based on the Commission's vote on this recommendation establishing a maximum amount of Sprint storm related costs. Subsequent to the Commission vote, briefs will be filed by the parties. While the prehearing officer has not yet approved the briefing issues, the following are the issues tentatively reached by the parties:

1. Do the costs incurred by Sprint as a result of the 2004 hurricanes constitute a compelling showing of a substantial change in circumstances pursuant to Section 364.051(4), Florida Statutes?

2(a). If Issue 1 is answered in the affirmative , how much, if any, of the costs set forth in the stipulation may be recovered from Sprint's basic local service customers?

2(b). If any costs are determined to be recoverable, how should these costs be recovered?

This Commission has jurisdiction over this matter pursuant to Sections 364.01, 364.051(4), 364.051(5).

Discussion of Issues

Issue 1: Should a present value methodology be used to calculate the number of access lines for purposes of determining the maximum storm recovery surcharge?

Recommendation: No. A simple average of Sprint's projected access lines should be used. Staff further recommends that if a surcharge is assessed on customers, the surcharge should cease once the total hurricane-related expenses are recovered. (Mann, Wright, Casey, Bulecza-Banks)

Staff Analysis: As part of the Stipulation, there was no agreement as to the number of access lines to which a surcharge would be allocated. To determine the maximum storm recovery surcharge, Sprint forecasted the number of access lines at December 2005, and December 2006.

Sprint then applied a present value formula to the access lines for 2005 and 2006. The resulting access lines were then averaged together and the basic access line percentage of 82.4 applied, resulting in 1,360,998 access lines. Under Sprint's methodology, a factor was used in the present value calculation as a means to incorporate the carrying costs and taxes on the outstanding balance of hurricane-related expenses for the period August 2005, through July 2007.

As a result of applying a present value methodology to the projected access lines, $3,641,810 in carrying costs are included in Sprint's proposed two-year recovery period. As these costs and taxes are embedded in the proposed storm recovery surcharge, Sprint has actually proposed the recovery of $33,961,331. ($30,319,521 maximum from the stipulation plus $3,641,810 in additional carrying costs.)

Staff believes that to properly calculate the maximum storm recovery surcharge, Sprint's projected 2005 and 2006 access lines should be averaged together, without applying the present value methodology. The basic access line percentage of 82.4 would then be applied to the average. If carrying costs or interest is to be allowed for recovery purposes, that amount should be calculated based on the outstanding monthly balance beginning with the costs incurred in August 2004. The appropriate level of carrying costs is addressed in Issue 2.

Staff believes that applying a present value methodology to determine the number of projected access lines is an inappropriate way to determine carrying costs. To properly calculate the maximum storm recovery surcharge, the total hurricane-related expenses, including any applicable carrying costs net of taxes, would be divided by the average projected access lines over a maximum two year collection period.

It should be noted that Sprint filed for a two-year collection period. Staff recommends that if a surcharge is approved, the surcharge would cease once Sprint collected its total hurricane-related expenses. Determination of the appropriate collection period, if any, will be addressed in the second recommendation filed in this docket.

Issue 2: What is the appropriate rate to be used in calculating the carrying costs, if any, on the amount of storm-related costs?

Primary Recommendation: Primary staff recommends that Sprint be allowed to recover interest on the outstanding balance of storm damage costs at the applicable average 30-day commercial paper rate. (Mann, Casey, Bulecza-Banks)

Alternative Recommendation: Alternative staff recommends that no carrying charges be included in the amount of storm-related costs. (Wright, Casey, Bulecza-Banks)

General Analysis: The Sprint/OPC stipulation included carrying costs on the expenses Sprint incurred from August 2004 to January 2005. The carrying costs were calculated through July 2005 based on the premise that Sprint would begin recovering the storm-related expenses in August 2005. To calculate the carrying charges, Sprint applied a future value factor to the expenses incurred from August 2004 through January 2005.

In addition to the carrying cost included through July 2005, Sprint embedded the carrying costs for the period August 2005 through July 2007, through a present value calculation applied to its projected access lines.

To calculate the carrying charges, both on the future and present value methodologies, Sprint applied a weighted cost of capital rate used in previous filings with the Commission. Although previously adopted in a docket, at that time, the best data available was Sprint's proposed cost rate.[1] Subsequently, the rate was rejected by the Commission and a lower rate approved. Based on Sprint's methodology, it has included $6,712,822 of carrying charges over the period August 2004 through July 2007. (Line 11, column 1 on Attachment 2)

While staff does not believe it is appropriate to allow Sprint to apply a weighted average cost of capital, if the Commission were to entertain inclusion of such, at a minimum, the most recent weighted average cost of capital approved by the Commission should be used.

Primary Staff Analysis: Primary staff believes that the appropriate rate to be used to calculate the carrying costs is the average 30-day commercial paper rate. Primary staff acknowledges that Sprint has incurred hurricane-related expenses and has been funding the net of tax amount of those expenses since August 2004. As a result, primary staff believes that Sprint should be allowed carrying costs on the outstanding net of tax balance beginning August 2004, and continuing through July 2007. Using the average 30-day commercial paper rate results in total carrying costs of $776,441. (Line 11, column 4 on Attachment 2)

Application of the average 30-day commercial paper rate to net-of-tax balances is to recognize a source of cost-free capital to Sprint. Sprint was allowed to take a federal tax deduction for the storm expenses when incurred, and the amount of these deductions will eventually be paid back as the surcharge is collected, but this temporary timing difference results

[1] Since the number of access lines is confidential, we cannot disclose this rate as one could use the rate to calculate the number of access lines.

in a source of cost-free capital to Sprint. Applying the average 30-day commercial paper rate to the net-of-tax balances when calculating Sprint's storm related expenses allows this tax benefit to flow through to Sprint customers.

Primary staff does not agree with Sprint's methodology for calculating the carrying costs for the period August 2005, through July 2007. As mentioned in Issue 1, calculating the carrying costs through a present value calculation that incorporates a weighted cost of capital factor and is applied to the access lines does not result in a reasonable level of carrying costs. Primary staff believes that a 30-day commercial paper rate should be used. The average 30-day commercial paper rate has historically been used by the Commission for refunds to customers, and also used in recovery clauses, such as fuel, purchased gas adjustment, and energy conservation. Primary staff believes that allowing Sprint to apply a monthly average 30-day commercial paper rate to the outstanding balance is the most appropriate alternative.

In Docket No. 041272-EI, Petition for Implementation of a Storm Cost Recovery Clause for Recovery of Extraordinary Expenditures Related to Hurricanes Charley, Frances, Jeanne, and Ivan by Progress Energy, the Commission approved the application of the average 30-day commercial paper rate net of tax to the unamortized balance of storm damage restoration costs.

There are other alternatives that the Commission could consider in determining the appropriate rate, if any, to use in calculating carrying costs. As this is a case of first impression, the Commission may want to obtain additional information regarding the appropriateness of allowing carrying costs for price-cap companies. To obtain this information, the Commission could require the parties to include a discussion on this issue in the briefs that will be filed to support their positions on the legal and policy issues in this docket.

The Commission could approve the methodology proposed by Sprint, which provides for the recovery of carrying costs based on a weighted cost of capital over the period August 2004 through July 2007. The Commission could also approve Sprint's carrying cost methodology, but use the most recently Commission-approved cost of capital rather than the rate used by Sprint. Another alternative would be to allow Sprint to apply its proposed weighted cost of capital, or the most recently-approved cost of capital, during the period August 2004 through July 2005, and apply an average 30-day commercial paper rate to the outstanding balance of expenses during the proposed collection period, August 2005, through July 2007.

While all the previously mentioned alternatives are viable, primary staff does not believe it would be appropriate to allow Sprint to recover carrying costs based on Sprint's proposed weighted average cost of capital. The weighted average cost of capital used by Sprint has been rejected by the Commission in a previous case. While primary staff does not believe it is appropriate to allow the application of a weighted cost of capital, if a weighted cost of capital were to be used, primary staff suggests that the most recent Commission-approved weighted average cost of capital would be more appropriate.

Alternative Staff: Alternative staff does not believe Sprint should be allowed any carrying costs. Unlike traditional rate-base regulated utilities, Sprint is a price-regulated price cap companies. As such, the Commission should not be reviewing cost of capital issues as done with rate-base regulated utilities. As stated in Section 364.051(1)(c), Florida Statutes, "Each company subject to this section shall be exempt from rate base, rate of return regulation...." Under this scenario, inclusion of a return or interest amount on the Sprint storm related expenses may not be proper.

Other telecommunications carriers, both local exchange carriers and competitive local exchange carriers incurred hurricane expenditures during 2004. While one might argue that in a competitive environment, customers could switch carriers to avoid any possible surcharge, Sprint operates in more rural areas where competition is not as robust as in other areas. As indicated in the Commission's 2004 Annual Report to the Florida Legislature on the Status of Competition in the Telecommunications Industry in Florida, the Competitive Local Exchange Companies (CLEC) share of access lines in Sprint operating territories is 8 percent, as compared to BellSouth and Verizon with CLEC shares of 22 percent and 11 percent, respectively.

Many businesses in Florida were impacted by hurricane-related costs. Recouping those expenditures is dependent on numerous factors, but most notably, the ability of businesses to increase prices when operating in competitive environments. The more competition, the less likely businesses will be able to increase prices. As Sprint is not faced with the same level of competitive pressures as other Incumbent Local Exchange Companies (ILECs), Sprint's customers may be unable to switch carriers to avoid any surcharge.

By eliminating the carrying costs, hurricane expenditures would total $27,248,509 (Line 8, column 5 on Attachment 2) rather than Sprint's expenditures of $33,961,331 (Line 8, column 1 on Attachment 2), for a difference of $6,712,822. (Line 11, column 1 on Attachment 2)

Issue 3: Should the Commission approve the Sprint/OPC Stipulation and Settlement as filed?

[Five options for addressing this issue are addressed below.]

Primary Recommendation: No, the Commission should not approve the Petition for Approval of Storm Cost Recovery Surcharge and Stipulation with Office of Public Counsel, by Sprint-Florida, as filed. If the primary recommendation in Issue 2 is adopted and the average 30-day commercial paper rate is to be used, staff recommends that Option 4 be approved, which applies the commercial paper rate to the period August 2004 through July 2005, and the proposed recovery period of August 2005 through July 2007. If the alternate recommendation in Issue 2 is approved, then staff recommends that Option 5 be approved to reflect no carrying charge. (Mann, Casey, Bulecza-Banks)

Alternative Staff Recommendation: Yes, the Commission should approve the Stipulation, as filed, which establishes the maximum recoverable expenses of $30,319,521. Alternative staff further recommends that the Commission apply an average 30-day commercial paper rate to the outstanding balance of expenses for the period August 2005, through July 2007. This results in a total expense of $30,887,418 (Option 2). (Wright, Casey, Bulecza-Banks)

General Analysis: The Stipulation between Sprint and the OPC establishes that the total intrastate hurricane-related expenses to be considered are $33,048,980. Staff agrees that this amount represents a reasonable level of Sprint's intrastate hurricane-related expenses. The difference between the amount Sprint and the OPC have agreed would be potentially subject to recovery, and the amount recommended by primary and alternative staff, relate to the amount of carrying costs subject to recovery. In the Stipulation, carrying costs for the period August 2004, through July 2005, and income taxes, have been added to the total expenses for a total cost amount of $36,773,728. ($33,048,980 expenses plus $3,724,748 in carrying costs and taxes) Taking 82.4 percent of these costs attributable to basic service, the total proposed recoverable cost is $30,319,521. (Line 6, columns 1 and 2 on Attachment 2) This amount reflects the costs agreed to between Sprint and the OPC.

To arrive at the $0.93 access line surcharge, Sprint applied a present value methodology to its access lines for purposes of embedding carrying costs for the period August 2005, through July 2007, as discussed in Issue 1. As shown on Attachment 2, $3,641,810 in additional carrying costs have been included for potential recovery over the 24-month recovery period. OPC and Sprint did not agree to a particular surcharge. The applicability of a surcharge will be addressed in the second recommendation to be filed in this docket at a later date.

Options Considered

Staff considered five options based upon changes to the carrying costs as presented in the petition. Each of the calculations associated with the five options are presented in Attachment 2.

All options presented in this recommendation begin with a Sprint-calculated, Florida storm related cost of $44,321,665. This amount results from taking all operational costs during the period August 2004, through January, 2005, and deducting Sprint's normal costs of operations. Since the $44,321,665 figure represents interstate and intrastate costs, Sprint identified the specific intrastate costs by using an intrastate jurisdictional factor of 74.6%, resulting in a net figure of $33,048,980. (Line 1, columns 1-5 on Attachment 2)

Option 1: Approve the Stipulation between Sprint and the OPC and allow Sprint to include carrying costs for the August 2005 through July 2007 period based on Sprint's proposed weighted cost of capital.

While the Commission could approve the Stipulation and agree that the weighted cost of capital should be used to calculate the carrying costs attributable to the period August 2005, through July 2007, staff does not believe the weighted cost of capital should be used to calculate the carrying costs. As discussed in Issue 2 in both the primary and alternative staff analyses, staff believes it is more appropriate to use the average 30-day commercial paper rate as this rate is used in other Commission applications, including customer refunds and cost recovery clauses.

Option 2: Approve the Stipulation between Sprint and the OPC and allow Sprint to include carrying costs for the August 2005, through July 2007, period based on the average 30-day commercial paper rate.

Staff, the OPC, and Sprint met to discuss the carrying costs included for the period August 2005, through July 2007. In that meeting, Sprint proposed, and the OPC agreed, that it would be acceptable to apply an average 30-day commercial paper rate, rather than Sprint's proposed weighted cost of capital for the period over which the surcharge, if any, is collected. Sprint's proposed weighted cost of capital would still be used to calculate the carrying charges for the period August 2004 through July 2005. By changing the weighted cost of capital to an average 30-day commercial paper rate, the total carrying charge decreases from $3,641,810 to $567,897, a difference of $3,073,913 for the 24-month recovery period. (Line 7, columns 1 and 2 on Attachment 2)

Option 3: Use the intrastate storm cost of $33,048,980 and add storm related expenses incurred from February 2005, through May, 2005, and allow interest calculated using the average 30-day commercial paper rate on the net-of-tax balances.

During discussions with Sprint and OPC, Sprint brought to the attention of staff that it had incurred additional storm related expenses of $3,711,000 since February, 2005. The proposed stipulation includes hurricane-related expenses from August 2004, through January 2005, and these additional proffered expenses were not taken into consideration. However, staff performed an analysis including the additional $3,711,000, which resulted in net hurricane related costs of $30,363,016 to be allocated over the 24 month recovery period. (Line 8, column 3 on Attachment 2) Staff started with the Sprint intrastate storm related costs of $33,048,980, then added the intrastate additional costs of $2,767,152 ($3,711,000 x 74.6%), then calculated interest from August 2004, through July 2007, using the average 30-day commercial paper rate on the net-of-tax balances.

Staff rejected this option based on the fact that these "new" costs were not included in Sprint's petition, not included in the stipulation, and staff has not reviewed these costs. Furthermore, given the fact that the Sprint/OPC stipulation was signed on May 25, 2005, staff believes that many, if not all of the additional costs Sprint incurred since January 2005, could have been included in the stipulation by the signatories, but were not.

4) Use the intrastate storm cost of $33,048,980 and allow interest calculated using the average 30-day commercial paper rate on the net-of-tax balances.

This option begins with the Sprint intrastate storm cost of $33,048,980. To this figure, staff adds interest from August 2004, through the end of the recovery period, July, 2007, using the average 30-day commercial paper rate. As above, staff recognized the net-of-tax benefits and made appropriate adjustments resulting in a reduction to the total hurricane related expenses. This option results in a net Sprint storm related expense of $28,024,950, if recovered over the 24 month recovery period.

5) Use the intrastate storm cost of $33,048,980 but allow no return or interest on the amount.

If the Commission approves the alternative staff recommendation in Issue 2, Option 5 would, by default, be the appropriate option. If this option were used and no carrying cost or interest were included, Sprint's hurricane-related expenses would total $27,248,509. (Line 8, column 5 on Attachment 2)

Primary Staff Analysis: If the primary recommendation in Issue 2 is adopted and the average 30-day commercial paper rate is to be used, staff believes that Option 4 would provide the most equitable means for Sprint to recover storm related expenses incurred during the 2004 Hurricane season. If the alternate recommendation in Issue 2 is approved, then Option 5 should be approved to reflect no carrying charges and taxes. Therefore, primary staff recommends that the Commission should not approve the Petition for Approval of Storm Cost Recovery Surcharge and Stipulation with Office of Public Counsel, by Sprint-Florida, as filed.

Alternative Staff Analysis: Alternative staff believes that the Stipulation between Sprint and OPC should be approved and that the Commission should approve the application of an average 30-day commercial paper rate for purposes of calculating the carrying costs attributable to the period August 2005, through July 2007. (Option 2) Stipulations involve give-and-take that result in a compromise. However, alternative staff believes the average 30-day commercial paper rate is more appropriate and should be used during the recovery period. Therefore, alternative staff recommends that the Commission approve the Stipulation, which establishes the maximum recoverable expenses of $30,319,521. Alternative staff further recommends that the Commission apply an average 30-day commercial paper rate to the outstanding balance of expenses for the 24-month recovery period from August 2005 through July 2007.

Issue 4: Should this docket be closed?

Recommendation: No, this docket should remain open. Pursuant to Uniform Rule 28-106.111, Florida Administrative Code, "Unless otherwise provided by law, persons seeking a hearing on an agency decision which does or may determine their substantial interests shall file a petition for hearing with the agency within 21 days of receipt of written notice of the decision." If no protest is filed the Order from this recommendation will become final upon the issuance of a Consummating Order. Thereafter, this Docket should remain open to address the remaining issues. Parties will be submitting briefs on the outstanding policy and legal issues. If a timely protest is filed, staff recommends that the Commission require that any party filing the protest should be required to prefile testimony with the protest. Additionally, staff recommends that rebuttal testimony should be due no later than 10 days after the receipt of prefiled testimony. If necessary, an administrative hearing should be held as expeditiously as possible. Additionally, staff believes the Commission can render a bench decision at the conclusion of the hearing or convene a Special Agenda conference if necessary to meet the statutory time limitation and with proper notice. (Rojas, Teitzman)

Staff Analysis: Pursuant to Uniform Rule 28-106.111, Florida Administrative Code, "Unless otherwise provided by law, persons seeking a hearing on an agency decision which does or may determine their substantial interests shall file a petition for hearing with the agency within 21 days of receipt of written notice of the decision." If no protest is filed the Order from this recommendation will become final upon the issuance of a Consummating Order. Thereafter, this Docket should remain open to address the remaining issues. If a timely protest is filed, staff recommends that the Commission require that any party filing the protest should be required to prefile testimony with the protest. Additionally, staff recommends that rebuttal testimony should be due no later than 10 days after the receipt of prefiled testimony. If necessary, an administrative hearing should be held as expeditiously as possible. Additionally, due to the expedited nature of this proceeding, staff believes the Commission can, with proper notice, render a bench decision at the conclusion of the hearing or convene a Special Agenda Conference in order to meet the statutory deadline.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition by Sprint-Florida, Incorporated)
pursuant to s. 364.051(4), F.S., for Recovery of)
Costs associated with Hurricanes)
Charley, Frances, Jeanne, and Ivan)
)

STIPULATION

Sprint-Florida, Incorporated ("Sprint") and the Office of the Public Counsel (OPC), pursuant to s. 120.57(4), F.S., enter into this Stipulation regarding the amount of costs incurred by Sprint in Florida on account of hurricanes Charley, Francis, Jeanne and Ivan. The parties do not agree on the issue of whether Sprint's incurring of these costs meets the threshold for recovery under section 364.051(4), Florida Statutes. However, this Stipulation is intended to: (1) narrow the disputed issues in this proceeding by agreeing to the amount of relevant costs incurred by Sprint to the extent that the Commission may find that the criteria in section 364.051(4), F.S. are otherwise met; and (2) establish a framework for briefing the threshold issue. To this end, the parties have entered into this Stipulation of the factual record and procedure upon which this matter shall be considered.

WHEREAS the parties are receptive to a compromise concerning the amount of relevant costs which Sprint will seek to recover from customers in this proceeding, recognizing that the parties disagree as to whether such costs meet the threshold for recovery at all under section 364.051(4), Florida Statutes, and

WHEREAS to avoid the time, expense and uncertainty associated with adversarial litigation regarding establishing the amount of hurricane-related costs incurred the Parties entered into negotiations designed to reach an agreement on those issues, and

WHEREAS, for the purposes of this Stipulation the Parties have agreed to certain categories of hurricane-related costs that should be excluded from recovery;

NOW THEREFORE, Sprint and OPC agree and stipulate to the following:

1. During the six-week period of August 13, 2004 to September 25, 2004 one Category 2 and three Category 3 or above Hurricanes struck Florida causing billions of dollars of damage and affecting the provision of telecommunications and utility services to millions of Florida residents. (See map attached as Exhibit A)

2. Sprint serves 104 exchanges in its service territory throughout Florida, including exchanges serving the cities of Port Charlotte, Winter Park, Ocala, Tallahassee, Ft. Walton Beach, Naples and Ft. Myers. Sprint provides service to approximately 2.1 million retail residential and business customer lines in its Florida service territory.

3. On August 13, 2004, Hurricane Charley came ashore at Charlotte Harbor as a Category 4 storm, with maximum wind speeds up to 145 miles per hour.

4. Hurricane Charley inflicted damage on Sprint's facilities in Sprint's Winter Garden, Winter Park, Naples, Ft. Myers, and Avon Park districts, at its peak, rendering out of service 282,000 Sprint customers and 651 Sprint network elements (or 40% of Sprint's network elements in the exchanges within these districts).

5. On September 5, 2004, Hurricane Frances came ashore at Sewell's Point as a Category 2 storm, with maximum wind speeds up to 105 miles per hour.

6. Hurricane Frances inflicted damage on Sprint's facilities in Sprint's Ft. Walton Beach, Tallahassee, Ocala, Winter Garden, Winter Park, Naples, Ft. Myers and Avon Park districts, at its peak rendering out of service 200,000 Sprint customers and 521 Sprint network elements (or 19% of Sprint's network elements in the exchanges within these districts).

7. On September 16, 2004, Hurricane Ivan came ashore at Gulf Shores, Alabama as a Category 3 storm, with maximum wind speeds up to 130 miles per hour.

8. Hurricane Ivan inflicted damage on Sprint's facilities in Sprint's Ft. Walton Beach and Tallahassee districts, at its peak rendering out of service 46,000 Sprint customers and 292 of Sprint's network elements (or 42% of Sprint's network elements in the exchanges within these districts).

9. On September 25, 2004, Hurricane Jeanne came ashore at Hutchinson Island as a Category 3 storm, with maximum wind speeds up to 120 miles per hour.

10. Hurricane Jeanne inflicted damage on Sprint's facilities in the Tallahassee, Ocala, Winter Garden, Winter Park, Naples, Ft. Myers and Avon Park districts, at its peak rendering out of service 161,000 Sprint customers and 414 Sprint network elements (or 19% of Sprint's network elements in the exchanges within these districts).

11. In the 12 years prior to 2004, Sprint's total company storm-related costs in Florida totaled less than $11 million (including approximately $4 million in capital costs). These costs were the result of 15 named tropical storms and 2 tornadoes.

12. Network elements made operational after one storm were again damaged by a subsequent storm. The cumulative equivalent impact on Sprint of these four storms resulted in rendering 1,878 (or 67%) of Sprint's network elements and 691,000 Sprint customers out of service.

13. The total costs of repairing Sprint's system and restoring service has reached $148 million through January 2005.

14. The 1886 hurricane season was the busiest on record for the continental United States. Seven hurricanes were recorded to have hit the U.S.: one Category 2 hurricane into

Texas and Louisiana in June, two Category 2 hurricanes into northwest Florida in June, one Category 1 hurricane into northwest Florida in July, one Category 4 hurricane into Texas in August, one Category 1 hurricane into Texas in September, and one Category 3 hurricane into Louisiana in October.

15. The next busiest hurricane season for the United States was 1985 with six hurricanes making landfall.

16. On August 22, 1893, four hurricanes occurred simultaneously: Storm no. 3 approaching Nova Scotia, Canada; Storm No. 4 between Bermuda and the Bahamas; Storm No. 6 northeast of the Lesser Antilles; and Storm No. 7 west of the Cape Verde Islands. Storm No. 4 would end up making a direct hit on New York City as a Category 1 hurricane two days later and Storm No. 6 ended up hitting Georgia and South Carolina as a Category 3 hurricane (the "Sea Islands Hurricane") and killing 1,000 to 2,000 people.

17. The only other known date with four hurricanes occurring at the same time was September 25, 1998, when hurricanes Georges, Ivan, Jeanne and Karl were in existence. Of those four hurricanes, only Georges made landfall in Florida.

18. FPSC Order No. 24178 (Final Order Granting Rate Increase to Central Telephone Company of Florida issued February 28, 1991), Order No. PSC- 93-0005-AS-TL (Order Approving Settlement and Implementing Revised Rates for Central Telephone Company of Florida issued January 4, 1993) and Order No. PSC-92-0708-FOF-TL (Final Order Reducing Revenue Requirement of United Telephone Company of Florida issued July 24, 1992) do not include any provision for a reserve to recover costs due to storm damage.

19. For the sole purpose of this Stipulation, and without prejudice to the right and ability of any party to assert how and whether any costs associated with future storms should be recovered, the parties adopt and agree to the following:

a. Sprint will exclude the following costs from any recoverable amount: normal capital project costs; regular time labor (salary and hourly); budgeted overtime labor; contractor budget levels; capitalized material; capitalized building repairs, generators, fuel, line card repair and return; overheads; revenue credits and other uncollectibles and lost revenue.

b. Sprint will also exclude from any recoverable amount estimated insurance recoveries, less deductibles, and an amount representing average annual storm expense credits.

c. In addition, Sprint will include only extraordinary capital reconstruction costs, so that the recovery amount includes only capital costs to the extent the cost of reconstruction exceeds the normal material and labor cost of construction, the costs attributable to extraordinary contractor premium rates, and excluding the normal cost of removal expense applicable to retired assets due to 2004 hurricane damage.

20. The parties acknowledge and accept that their agreement to exclude certain charges is reasonable under the circumstances. The Parties further agree that the willingness of each of them to enter this Stipulation is contingent upon the approval of this Stipulation in its entirety.

21. The parties agree that the total amount of relevant costs related to hurricanes Charley, Francis, Jeanne and Ivan is $44.3 million, of which $36.8 million is attributable to the

intrastate jurisdiction. These costs represent incremental costs to Sprint associated with storm recovery. A summary of these costs is set forth in Exhibit B to this Stipulation.

22. The adjustments agreed to by the Parties as set forth herein have reduced the amount for which Sprint may seek recovery by $103 million, from $148 million to $44.3 million, of which $36.8 million represents intrastate costs. These adjustments are set forth in Exhibit B to this Stipulation.

23. Sprint-Florida, Incorporated's Achieved Intrastate Return on Equity1999-2004, calculated on an intrastate book basis, is shown in Confidential Exhibit C.

24. For the purposes of this stipulation, the parties agree that 82.4% of Sprint's access lines serve basic services customers.

25. The Parties agree that this Joint Stipulation constitutes the factual record for the purposes of Sprint's petition for storm-cost recovery pursuant to s. 364.051(4), Florida Statutes. Based on this stipulation of the record, the parties stipulate that the applicable procedure for this docket, therefore, is based on section 120.57(2), Florida Statutes, related to issues not involving disputed material facts.

26. The parties stipulate that the procedure under section 120.57(2), Florida Statutes, established for this docket should provide for initial briefs to be due by July 1, 2005 and reply briefs to be due two weeks after the filing of the initial briefs, with the staff recommendation and Agenda to follow. The parties do not stipulate to a waiver of the 120 day time-frame provided in section 364.051(4), Florida Statutes.

27. No party to this Stipulation will request, support or seek to impose a change in the application of any provision hereof, including without limitation, the relevant cost amount set forth in paragraph 21 above. By stipulating to the relevant cost, OPC does not agree that Sprint

is entitled to recover that cost through additional customer charges, and OPC shall be free to advocate that Sprint is entitled to no surcharge or alternatively a lesser surcharge than that cost. Subject to the approval of the Florida Public Service Commission as set forth in paragraph 28, all parties waive any right to request further administrative or judicial proceedings regarding the establishment or implementation of this Stipulation.

28. This Stipulation is contingent upon approval in its entirety by the Florida Public Service Commission. If this Stipulation is not accepted and approved without modification by an order not subject to further proceedings or judicial review, then this Stipulation shall be considered null and void and of no further force and effect.

29. It is understood and explicitly agreed that the Parties have entered into this Stipulation for purposes of settlement and that their participation shall not prejudice the right and ability of any party to take any position in any other proceeding in any venue.

30. This Stipulation, dated as of May 25, 2005, may be executed in counterpart originals and a facsimile of an original signature will be deemed an original.

The Parties evidence their acceptance and agreement with the provisions of this Stipulation by their signatures.

Office of the Public Counsel
111 W. Madison Street, Room 812
Tallahassee, FL 32399-1400

By: ______________________
Charles J. Beck
Harold McLean

Sprint-Florida, Incorporated
1313 Blair Stone Road
Tallahassee, FL 32301

By: ____________________
Charles J. Rehwinkel
Susan S. Masterton

Maximum Amount of Sprint Storm-Related Costs

	Options	(1) Sprint/OPC Stipulation Using Sprint Factors	(2) Sprint/OPC Stipulation Using CPR[1] Beginning 08-05	(3) Using CPR[1] & adding addt'l '05 expenses	(4) Using CPR[1]	(5) Using no Carrying Charge or interest
1	Intrastate Cost	$ 33,048,980	$ 33,048,980	$ 33,048,980	$ 33,048,980	$ 33,048,980
2	Additional '05 expenses x .746			$ 2,767,152		
3	Carrying Charge/Interest Aug 2004 through Jul 2005	$ 3,724,748	$ 3,724,748	$ 375,589	$ 362,952	$0
4		$ 36,773,728	$ 36,773,728	$ 36,191,721	$ 33,411,932	$ 33,048,980
5	% Basic Access Lines	82.4%	82.4%	82.4%	82.4%	82.4%
6	**Total Basic Cost for Recovery**	**$ 30,319,521[2]**	**$ 30,319,521[2]**	**$ 29,839,663**	**$ 27,547,759**	**$ 27,248,509**
7	Carrying Charge/Interest Aug 2005 through Jul 2007	$3,641,810	$567,897	$523,354	$477,191	
8		$ 33,961,331	$ 30,887,418	$ 30,363,016	$ 28,024,950	$ 27,248,509
9	Access Lines	[redacted]				
10	Max Rate per Access Line	[redacted]				
11	Total Carrying Cost	$ 6,712,822	$ 3,638,909	$ 833,023	$ 776,441	$0

[1] Average 30-day Commercial Paper Rate
[2] These figures are the amounts included in the proposed Sprint/OPC Stipulation.