

ORIGINAL



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September 29, 2005

Ms. Beth W. Salak, Director
Division of Competitive Markets & Enforcement
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

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COMMISSION
CLERK

undocketed

Re: Data Request Seeking Storm-Related Information

Dear Ms. Salak:

Attached please find Verizon Florida Inc.'s response to your storm-related data request dated September 14, 2005. Verizon considers the information in Attachment A to be confidential as it contains proprietary information that could be used by competitors to gain an unfair competitive advantage. Therefore, this filing is made under a Claim of Confidentiality pursuant to F.S. 364.183(1) and Rule 25-22.006(5). Verizon understands the information must be kept confidential until returned to Verizon.

If you have any questions regarding this response, please contact Doug Baker of my staff at 813-483-2511.

Sincerely,

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David M. Christian

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Confidential
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FPSC-COMMISSION CLERK

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FPSC-COMMISSION CLERK

**Florida Public Service Commission
Storm Recovery Data Request
Dated September 14, 2005**

Response of Verizon Florida Inc.

- 1. Does your company have a storm reserve? If so: a) when was the storm reserve established; b) is the reserve funded; c) what is the present balance of the reserve; and d) have any charges ever been made against the reserve, and if so, when and for how much?**

Please refer to Verizon's response to the House Utilities and Telecommunications Committee 2005 Interim Project Data Request, question 6.

- 2. Did your company ever have a storm reserve in the past? If so, please describe and why it was discontinued.**

No.

- 3. Please identify the storm damage costs that your company has incurred over the past decade, by year and storm.**

Please refer to Verizon's response to the House Utilities and Telecommunications Committee 2005 Interim Project Data Request, question 20 and related attachment.

- 4. Does your company maintain storm damage insurance? If not, has it ever and please indicate the dates of coverage.**

Please refer to Verizon's response to the House Utilities and Telecommunications Committee 2005 Interim Project Data Request, questions 1 and 2.

- 5. Is your company self-insured regarding storm damage?**

Please refer to Verizon's response to the House Utilities and Telecommunications Committee 2005 Interim Project Data Request, question 4.

- 6. If the Commission approves future storm-related recovery, what wording should be used on the bill to describe the storm-related charges?**

If the Commission were to approve a future storm-related recovery charge for Verizon, then the Company would work with Staff to determine the most appropriate way to communicate that recovery charge to its customers. One possible approach would be to clearly identify the charge as a separate line item on the customer's bill, similar to the current charges on Verizon bills identified as "911 State/County Charges" or "Telecommunications Relay Service". Additional information regarding the storm-related recovery charge could be provided in the form of a bill message – this information would likely be dependent on the particular circumstances of the situation, and could

**Florida Public Service Commission
Storm Recovery Data Request
Dated September 14, 2005**

include such items as the storm(s) involved, the amount that has been approved for recovery, and the time period in which the recovery will occur.

- 7. Please provide your accounting practices, procedures, and policies as they relate to recording storm damage (capital and expenses).**

Please refer to Verizon's response to the House Utilities and Telecommunications Committee Data Request 2, questions 1 and 2.

**Utilities & Telecommunications Committee
2005 Interim Project
Data Request for Telecommunications Providers**

Company Name: Verizon

- 1. On a separate sheet of paper, provide a detailed description of Verizon's risk management program for hurricanes and other catastrophic events.**

Verizon purchases varying levels of insurance coverage for virtually all of its assets in Florida, including buildings and their contents, outside plant transmission & distribution facilities, and cellular assets, including cellular towers. These insurance policies provide "all risk" coverage, and protect against natural catastrophic events including windstorms, earthquakes and floods.

It is important to note that when a hurricane threatens Verizon's service area, Verizon activates its Emergency Operations Center. Teams of key employees participate in conference calls to coordinate and plan Verizon's emergency response for protecting assets and ensuring business continuity. Activities include:

- providing regular updates on the expected path and intensity of the storm
- inspecting roofs, storm drains and sump pumps to ensure they are safe and operational
- installing flood gates and sand bagging facilities in flood prone areas
- deploying generators, batteries and fuel for use in the event of power loss
- setting up staging areas for materials and equipment so that damaged facilities can be repaired/replaced quickly.

Once the hurricane has passed damage assessments are performed and communicated. Personnel are deployed as needed to repair damaged facilities and to re-establish service that was interrupted by the storm.

- 2. Is commercial property insurance available on Verizon's facilities? Yes**
 - a. If yes, what types of facilities are covered by this insurance?**

The insurance essentially covers all buildings and their contents, all transmission and distribution facilities, and all cellular assets, including cellular towers. Verizon obtained transmission and distribution insurance in Florida for the first time on June 1, 2005. Previously the insurance was not deemed to be affordable and cost effective.

b. What is the deductible for this insurance?

The windstorm deductibles are as follows:

- \$10M per occurrence for buildings having a total insured value equal to or greater than \$5M
- \$2M per occurrence for buildings having a total insured value less than \$5M
- \$30M per occurrence and in the aggregate for transmission and distribution facilities

3. What types of facilities does Verizon have where insurance is not economically available? None

- a. **For these facilities, when was the last time Verizon inquired about the insurance rates for these facilities? N/A**
- b. **What was the rate quoted at that time? N/A**
- c. **Approximately how much insurance coverage would be provided for the rate quoted? N/A**
- d. **What was the deductible required for the insurance coverage that would be provided? N/A**

4. Does Verizon have a self-insurance program for property damage?

Verizon self-insures part of the property risk in that it pays for any losses that:

- Fall within the policy deductible
- Exceed the coverage limits of the policy
- Are excluded or not specifically covered by the policy.

5. If Verizon has a self-insurance program, what types of facilities does this program cover?

Verizon self insures certain portions of losses as described in the response to Question 4.

6. Does Verizon have a reserve for property damage?

Verizon does not carry or accrue a reserve account for property damages in Florida.

- a. **If so, what is the annual accrual to this reserve?** N/A
- b. **If so, how is the annual accrual determined?** N/A
- c. **If the reserve is determined by a regulatory agency, when was the reserve amount last determined? In your response, please include the relevant docket and order numbers.** N/A

7. If Verizon has a reserve for property damage, what types of expenses are charged to this reserve?

Verizon does not carry a reserve for property damages of any kind in the State of Florida.

8. Are there any restrictions as to what types of costs can be charged to the property insurance reserve account? If so, what is the source of these restrictions? N/A

9. Prior to 2004, has Verizon ever had a negative balance in its property insurance reserve? If so, how was this negative balance addressed? N/A

10. Describe the damage that generally happens to above ground feeder and distribution facilities during a catastrophic event. Cable damaged/pulled down by fallen trees; Cable damaged by power lines falling on cable; Pole broke or leaning due to fallen tree; Terminals damaged due to cable being pulled from splice due to strong winds and tree damage; Remote switches/DLC's lose power; and Crossboxes and DLC's damaged due to fallen trees.

11. Describe the damage that generally happens to below ground feeder and distribution facilities during a catastrophic event. Terminals and associated facilities damaged by fallen trees; Terminals and associated facilities damaged by water flow that washout and expose these facilities; and Terminals and associated equipment flood.

12. What is the approximate per mile replacement cost of the following:

- a. **Above ground feeder facilities?** Confidential information. Information to be submitted separately to staff.
- b. **Above ground distribution facilities?** Confidential information. Information to be submitted separately to staff.
- c. **Below ground feeder facilities?** Confidential information. Information to be submitted separately to staff.
- d. **Below ground distribution facilities?** Confidential information. Information to be submitted separately to staff.

- 13. In Florida, as of December 31, 2004, provide the number of access lines by customer class?** Confidential information. Information to be submitted separately to staff.
- 14. In Florida, as of December 31, 2004, how many miles of above ground feeder facilities did your company have?** Confidential information. Information to be submitted separately to staff.
- 15. In Florida, as of December 31, 2004, how many miles of above ground distribution facilities did your company have?** Confidential information. Information to be submitted separately to staff.
- 16. In Florida, as of December 31, 2004, how many miles of below ground feeder facilities did your company have?** Confidential information. Information to be submitted separately to staff.
- 17. In Florida, as of December 31, 2004, how many miles of below ground distribution facilities did your company have?** Confidential information. Information to be submitted separately to staff.
- 18. Provide a copy of Verizon's 2004 Annual Report to Stockholders.** See attached annual report.
- 19. Provide copies of Verizon's most recent ARMIS Report 43-01 for the state of Florida, which has been filed with the Federal Communications Commission.** See attached ARMIS Report 43-01 for Verizon Florida which was filed with the FCC.

20. On a separate sheet of paper, fill in a table like the one below with Verizon's hurricane related expenses. If there were multiple storms in a year, please use a separate line for each storm.

Year	Storm	Beginning Storm Reserve Balance (If Any)	Storm Accrual (If Any)	Storm Recovery Expense	Ending Storm Reserve Balance
1992-1995	No records available	Verizon does not maintain a storm balance reserve	N/A	N/A	N/A
1996-2003	No significant losses reported	Verizon does not maintain a storm balance reserve	N/A	N/A	N/A
2004	Hurricane Charley	Verizon does not maintain a storm balance reserve	N/A	See Attachment	N/A
2004	Hurricane Frances	Verizon does not maintain a storm balance reserve	N/A	See Attachment	N/A
2004	Hurricane Ivan	Verizon does not maintain a storm balance reserve	N/A	See Attachment	N/A
2004	Hurricane Jeanne	Verizon does not maintain a storm balance reserve	N/A	See Attachment	N/A

Contact Information

Name: Woody Simmons
Telephone: 850/222-6304
E-Mail: Woodrow.simmons@verizon.com

QUESTION 20 ATTACHMENT

Verizon Communications Inc.

2004 Hurricane Losses and Estimated Recoveries - Florida

(\$ in Millions)

<u>Hurricane</u>	<u>Gross Loss</u>	<u>Net Loss</u>
Charley	\$11.0	\$0.0
Frances	\$12.6	\$0.6
Ivan	\$2.7	\$1.6
Jeanne	<u>\$18.7</u>	<u>\$0.6</u>
Total	<u>\$45.0</u>	<u>\$2.8</u>

Reasons why Gross Loss significantly exceeds Net Loss (i.e., estimated insurance recovery)

Uninsured losses:

Transmission and distribution property (poles, cables, etc.) was not insured in 2004.

Discretionary upgrades

Salvage / residual value of damaged property

Extra expenses that were incurred, but not necessary to continue operations

Storm preparation costs in areas that did not face a direct threat.

Deductible:

There is a minimum deductible of 5% of the total insured value of each location.

Insurance policies carry a minimum deductible ranging between \$1M and \$10M per event depending on type of property damage.

**Utilities & Telecommunications Committee
Telecommunications Company
Data Request 2**

Company Name: Verizon

1. How does your company account for hurricane related operating expenses?

Verizon accounts for hurricane related operating expenses in accordance with Generally Accepted Accounting Principles (GAAP). These expenses can be identified and tracked within the Verizon financial system as necessary.

2. How does your company account for hurricane related capital costs?

Verizon accounts for hurricane related capital costs in accordance with Generally Accepted Accounting Principles (GAAP). Damaged property is removed from the books with a debit to accumulated depreciation and a credit to the particular capital account. Newly placed equipment is added to the books as a debit to the capital account. There is no profit and loss impact from capital costs..

3. In what states is your company able to obtain insurance on its outside plant?

Verizon has obtained limited amounts of insurance on its outside plant (\$30M of coverage in excess of \$30M self-insured retention) for the following states/jurisdictions as a whole:

Delaware, Connecticut, Florida, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Texas, Vermont, Virginia, Washington D.C, West Virginia.

It is likely Verizon could have obtained coverage for outside plant in other jurisdictions but the cost of such insurance was deemed to outweigh the benefits.

4. Other than hurricanes, what other perils make it difficult for telecommunications companies to obtain insurance on their outside plant?

Other perils that make it difficult to obtain insurance on outside plant are ice storms, earthquakes, severe storms and floods.

5. Have state regulators in states other than Florida addressed the issue of telecommunications companies not being able to obtain insurance on their outside plant?

To the best of our knowledge no other states have addressed the issue of telecommunications companies not being able to obtain insurance on outside plant.

a. If yes, in what manner has this issue been addressed?

- 6. If a catastrophic insurance fund for the telecommunications industry was established effective July 1, 2006, will your company be able to recover your costs associated with the fund through your current rates? Why or why not?**

Verizon's current rates are governed by the provisions of Chapter 364.051, which does not specifically provide for recovery of costs associated with a catastrophic insurance fund.

- 7. If a catastrophic insurance fund for the telecommunications industry was established effective July 1, 2006, will your company be able to recover the costs associated with the fund through a surcharge on customer bills? Why or why not?**

Verizon does not have legislative or regulatory authority to initiate a surcharge on customer's bills for recovery of costs associated with a catastrophic insurance fund. Senate Bill 1322, passed in 2005, does allow Verizon to petition the Public Service Commission to recover incurred storm damages from its customers (limited to no more than 50 cents per month per line for 12 months), but does not specifically address recovery of costs associated with a catastrophic insurance fund.

In addition, given that the amounts that Verizon can recover through the provisions of SB 1322 are limited, and therefore may not fully reimburse Verizon for its uninsured losses from a catastrophic storm, any catastrophic insurance fund that may be established for the telecommunications industry should account for the difference between actual storm losses and the limited amount that can be recovered through current law.