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*DOCKET NO. 060644-TL: Petition to recover 2005 tropical system related costs and expenses, by Embargo Florida, Inc.*

*WITNESS: Direct Testimony Of Iliana H. Piedra, Appearing On Behalf Of the Staff of the Florida Public Service Commission*

*DATE FILED: November 20, 2006*

*11/11/08 9.15.08*  
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DOCUMENT NUMBER-DATE

**10630 NOV 20 08**

FPSC-COMMISSION CLERK

1 DIRECT TESTIMONY OF ILIANA H. PIEDRA

2 Q. Please state your name and business address.

3 A. My name is Iliana H. Piedra and my business address is 3625 N.W. 82nd Ave.,  
4 Suite 400, Miami, Florida, 33166.

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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 1985.

14

15 Q. Briefly review your educational and professional background.

16 A. In 1983, I received a Bachelor of Business Administration from Florida  
17 International University with a major in accounting. I am also a Certified Public  
18 Accountant licensed in the State of Florida.

19

20 Q. Please describe your current responsibilities.

21 A. Currently, I am a Professional Accountant Specialist with the responsibilities of  
22 planning and directing audits of regulated companies, and assisting in audits of  
23 affiliated transactions. I am also responsible for creating audit work programs to meet  
24 a specific audit purpose.

25

1 Q. Have you presented expert testimony before this Commission or any other  
2 regulatory agency?

3 A. Yes. I testified in the City Gas Company of Florida rate case, Docket No.  
4 940276-GU, the General Development Utilities, Inc. rate cases for the Silver Springs  
5 Shores Division in Marion County and the Port LaBelle Division in Glades and  
6 Hendry Counties in Docket Nos. 920733-WS and 920734-WS, respectively, and the  
7 Florida Power and Light storm Docket No. 041291-EL.

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

10 A. The purpose of my testimony is to sponsor the staff audit report of Embarq  
11 Florida, Inc. which addresses the Company's Petition for authority to recover  
12 prudently incurred storm restoration costs related to the 2005 storm season. The Audit  
13 Control Number is 06-277-4-1. This audit report is filed with my testimony and is  
14 identified as Exhibit IHP-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 in charge of the audit.

19

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

21 A. We verified the amounts included in Embarq's petition dated September 25,  
22 2006, Exhibit KWD-2 and KWD-3 by performing the following procedures. The net  
23 effect on the filing for salaries were the overtime wages. We selected a sample of the  
24 detail provided for the dollar amounts included in the filing and traced these amounts  
25 to time sheets. We verified the percentage of pension, taxes, workmen's compensation

1 and benefits to the trial balance.

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3 The company removed contractor costs that related to capital additions from  
4 the filing. We reconciled the detail of the non-capital contractor costs to the filing,  
5 selected a sample, and traced the supporting documentation to invoices. The accruals  
6 were tested by sorting the files by invoice date and selecting a sample of outstanding  
7 accruals. We determined that the company did not reverse the total amount of invoices  
8 for prior periods. However, we determined that the accrual at the end of period was  
9 not sufficient to cover invoices paid in periods after the filing. No adjustment is needed  
10 to the filing since the company understated the payables at the end of February 2006.

11  
12 Material costs were traced to the accounts payable detail and a sample was  
13 selected and traced to invoices. It was determined that these items were for storm  
14 related costs. Some items were purchased from an affiliate company. In response to  
15 our questions, the company claimed that these items were at original invoice cost, and  
16 that overheads and incremental costs were not included in the filing. We reviewed the  
17 original invoices to the affiliate.

18  
19 Line 15 on Exhibit KWD-2 includes recovery for buildings, generators, fuel,  
20 line card repair & repair. We traced these amounts to the accounts payable detail. A  
21 sample was selected and traced to invoices.

22  
23 Line 23 on KWD-2 references average annual storm expense. We reviewed the  
24 details supporting this and recomputed the average.

25

1 We traced the intrastate factors to a company report of interstate/intrastate  
2 splits.

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4 We recalculated the carrying costs and interest calculations and traced the cost  
5 rates to the company calculations. The calculations were reconciled to the trial balance  
6 and interest rates were traced to the Wall Street Journal.

7  
8 Line 33 on KWD-2 includes a factor for uncollectible revenue. We reviewed  
9 the calculation of the uncollectible rate and traced the components to the annual report.

10  
11 Embarq included the total storm-related expense Salary, Contactor Costs, and  
12 Generators, and Fuel expense in its filing. It then reduced these costs by the related  
13 budget amounts. Our second objective was to verify the accuracy of this adjustment.  
14 In order to accomplish this objective, we reviewed the company support for the budget  
15 exclusions and the program used to extract these numbers from the budget system.

16  
17 The third objective was to verify the number of UNE loops and determine  
18 which relate to major Competitive Local Exchange Companies. To do this, we  
19 obtained the detail of the forecasted number of lines used in the filing. The detail  
20 contained the breakdown of UNE loops which satisfied the analyst. We performed an  
21 analytical review to determine the reasonableness of the forecast. The forecasted lines  
22 decreased more than in prior years for total lines. However, this decrease would not  
23 have an effect material enough to change the 50 cent rate.

24  
25 The fourth objective was to verify the net book value of the destroyed assets

1 included in Embarq's petition. To do this, we obtained detailed lists of the assets  
2 replaced during the hurricane. The extraordinary capital loss was reconciled to  
3 schedules of assets, depreciation, cost of removal and salvage. The methodology for  
4 computing the depreciation, cost of removal and salvage were reviewed. We also  
5 reviewed the extraordinary contractor costs by tracing the hours to supporting  
6 documentation and the rates to the contract.

7  
8 The fifth objective was to reconcile the amounts in Exhibit KWD-2 to KWD-3.  
9 We traced and referenced all numbers in the filing. We also traced them to supporting  
10 documentation.

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11  
12 Q. Please review the audit disclosures in the audit report.

13 A. Staff was asked to compute carrying costs differently than was done in the  
14 company filing. This computation is included in Audit Finding 1. The computation  
15 decreases carrying costs. However, the decrease would not have an effect material  
16 enough to change the 50 cent rate.

17  
18 Q. Does this conclude your testimony?

19 A. Yes, it does.  
20  
21  
22  
23  
24  
25

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*DOCKET NO. 060644-TL*: Petition to recover 2005 tropical system related costs and expenses, by Embarq Florida, Inc.

*WITNESS*: **Direct Testimony Of Iliana H. Piedra**, Appearing On Behalf Of the Staff of the Florida Public Service Commission

*EXHIBIT IHP-1*: Audit Report



**FLORIDA PUBLIC SERVICE COMMISSION**

***DIVISION OF REGULATORY COMPLIANCE & CONSUMER ASSISTANCE  
BUREAU OF AUDITING***

*Miami District Office*

**EMBARQ FLORIDA, INC. DECLASSIFIED**

**2005 STORM RECOVERY**

**AS OF DECEMBER 31, 2005**

**DOCKET NO. 060644-TL  
AUDIT CONTROL NO. 06-277-4-1**

Handwritten signature of Iliana Piedra in cursive.

***Iliana Piedra, Audit Manager***

Handwritten signature of Gabriela Leon in cursive.

***Gabriela Leon, Audit Staff***

Handwritten signature of Yen Ngo in cursive.

***Yen Ngo, Audit Staff***

Handwritten signature of Ruth Young in cursive.

***Ruth Young, Audit Staff***

Handwritten signature of Kathy L. Welch in cursive.

***Kathy L. Welch, District Audit Supervisor***



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

**November 18, 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 attached schedules prepared by Embarq Florida, Inc. in support of its filing for storm recovery.

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.

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**OBJECTIVES AND PROCEDURES:**

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**Objective:** To verify the amounts included in Embarq's petition dated September 25, 2006, Exhibit KWD-2 and KWD-3.

**Procedures:** The net effect on the filing for salaries were the overtime wages. We selected a sample of the detail provided for the dollars included in the filing and traced the amounts to time sheets.

We verified the percent of pension, taxes, workmen's compensation and benefits multiplied by payroll dollars to the trial balance. The actual percentages for pension, benefits, and workmen's compensation were higher than the filing. However, because the utility has already exceeded the cap, there is no change to the recovery amount.

Contractor costs that related to capital additions were not included in the filing. The detail of the non-capital contractor costs were reconciled to the filing. A sample was selected and traced to invoices. We requested information about refunds or disputed items. The accruals were tested by sorting the files by invoice date and selecting a sample of outstanding accruals. We determined that the utility did not reverse the total amount of invoices for prior periods. However, we determined that the accrual at the end of period was not sufficient to cover invoices paid in periods after the filing. No adjustment is needed to the filing since the utility costs already exceed the cap.

Material costs were traced to the accounts payable detail and a sample was selected and traced to invoices. It was determined that these items were for storm related costs. Some items were purchased from an affiliate company. In answer to our questions, the company states that these items were at original invoice cost, and that overheads and incremental costs were not included in the filing. The original invoices to the affiliate were reviewed.

The costs for generators, ice, fuel, and building were traced to the accounts payable detail. A sample was selected and traced to invoices.

We obtained the costs of each storm by year and more detail for one year. We recomputed the average but no further work was done.

We traced the intrastate factors to supporting documentation.

We recalculated the carrying costs and interest calculations and traced the cost rates to the utility calculations. The calculations were reconciled to the trial balance and interest rates traced to the Wall Street Journal.

The calculation of the uncollectible rate was reviewed. Components were traced to the annual report.

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**Objective:** To determine what plans, if any, Embarq had to incur these expenditures prior to being impacted by the referenced named storms. If any of these expenditures had been planned prior to the subject storms, determine the estimated budget.

**Procedures:** Embarq included the total expense for the months effected for Salary, Contactor Costs, and Generators, and Fuel expense in its filing. It then reduced these costs by the budget for those areas for those months. We reviewed the company support for budget excluded and reviewed the program used to extract these numbers from the budget system.

**Objective:** To verify the number of UNE loops and determine which relate to major Competitive Local Exchange Companies.

**Procedures:** We obtained the detail of the forecasted number of lines used in the filing. The detail contained the breakdown of UNE loops which satisfied the analyst. We performed an analytical review to determine the reasonableness of the forecast. The forecasted lines decreased more than prior years for total lines. However, the decrease would not have an effect material enough to change the 50 cent rate.

**Objective:** To verify the net book value of the destroyed assets included in Embarq's petition.

**Procedures:** We obtained detailed lists of the assets replaced during the hurricane. The extra-ordinary capital loss was reconciled to schedules of assets, depreciation, cost of removal and salvage. The methodology for computing the depreciation, cost of removal and salvage were reviewed. We also reviewed the extraordinary contractor costs by tracing the hours to supporting documentation and the rates to the contract.

**Objective:** To reconcile the amounts in Exhibit KWD-2 to KWD-3.

**Procedures:** We traced and referenced all numbers in the filing. We also traced them to all supporting documentation provided.

**AUDIT FINDING NO. 1**

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**SUBJECT: CARRYING COSTS**

**SUMMARY:** Carrying costs would decrease by \$1,796,675 using the analyst's methodology and a correction in interest rates but the decrease is not material enough to change the cap rate.

**STATEMENT OF FACT:** The utility calculated carrying costs from July 2005 to January 2007 using its weighted average cost of capital and taxes on the equity portion. We were requested to compute the carrying cost using the 30-day commercial paper rate instead of the company methodology. The calculation can be found on the following page. The alternate methodology reduces the carrying costs from July 2005 to January 2007 by \$1,730,105.

In addition, the calculation of carrying costs from February 2007 did not use the average commercial interest rate for September 1, 2006. The interest rate change and the change in the beginning balance brought forward because of the changes made to July 2005 to January 2007, result in a decrease in carrying costs of \$66,570.

The total decrease in carrying costs is \$1,796,675. This decrease is not material enough to decrease the cap rate of 50 cents per access line.

**EFFECT ON THE GENERAL LEDGER:** There is no effect on the general ledger.

**EFFECT ON THE FILING:** Total costs would be reduced by \$1,796,675 but this decrease is not low enough to change the cap.

EMBARQ FLORIDA, INC.  
 RECALCULATION EXTRAORDINARY STORM COST  
 2005 STORM SEASON

Actual Carrying Costs	Jul-05	Aug-05	Sep-05	Oct-05	Nov-05	Dec-05	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-06	Jan-07	Total
Prior Balance		1,099,362	2,368,404	2,960,445	5,107,163	9,597,229	13,987,696	14,819,177	15,469,689	15,529,698	15,592,723	15,657,497	15,724,694	15,794,473	15,864,429	15,934,034	16,003,945	16,074,162	16,144,687	
Current Month Exp.	1,097,830	1,263,941	583,806	2,133,595	4,464,867	4,348,727	778,705	593,575												
Avg. 30-Day Commercial Int. Rate	3.350%	3.535%	3.715%	3.910%	4.120%	4.255%	4.405%	4.520%	4.655%	4.870%	4.985%	5.150%	5.325%	5.315%	5.265%	5.265%	5.265%	5.265%	5.265%	5.265%
Carry Cost	1,532	5,100	8,236	13,122	25,199	41,740	52,776	56,937	60,009	63,025	64,775	67,197	69,778	69,956	69,605	69,911	70,217	70,525	70,835	950,476
	1,099,362	2,368,404	2,960,445	5,107,163	9,597,229	13,987,696	14,819,177	15,469,689	15,529,698	15,592,723	15,657,497	15,724,694	15,794,473	15,864,429	15,934,034	16,003,945	16,074,162	16,144,687	16,215,522	
Per Company																				
Difference																				2,680,581
Intrastate Calculation																				(1,730,105)
Total Expense	15,265,046																			
Carrying Costs	950,476																			
Asset Restoral Cost	2,607,274																			
Exclude Avg Annual Sun Cost	(598,240)																			
	18,224,556																			
Intrastate Factor	0.74428553																			
Month Beginning Bal 2/1/07	13,564,456																			
Per Company	14,852,166																			
Difference	(1,287,710)																			
	2007	2007	2007	2007	2007	2007	2007	2007	2007	2007	2007	2008								
	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Total							
Monthly Beginning Bal.	13,564,456	12,289,433	11,018,442	9,758,209	8,505,655	7,260,679	6,019,493	4,784,875	3,555,516	2,327,810	1,101,205	(124,723)								
Commercial Int. Rate 9/01/06	5.265%	5.265%	5.265%	5.265%	5.265%	5.265%	5.265%	5.265%	5.265%	5.265%	5.265%	5.265%								
Interest During Recovery	59,514	53,920	48,343	42,814	37,319	31,856	26,411	20,994	15,600	10,213	4,832	(547)								
Subtotal Intrastate Cost	13,623,970	12,343,353	11,066,785	9,801,023	8,542,974	7,292,535	6,045,903	4,805,868	3,571,116	2,338,023	1,106,037	(125,271)	351,268							
Total Access Lines	1,829,905	1,816,707	1,794,309	1,776,197	1,758,272	1,745,585	1,729,112	1,714,472	1,704,811	1,695,914	1,687,608	1,685,210								
Recovery Per ACL	0.7387562	0.7387562	0.7387562	0.7387562	0.7387562	0.7387562	0.7387562	0.7387562	0.7387562	0.7387562	0.7387562	0.7387562								
Billed Amount	(1,351,854)	(1,342,104)	(1,325,557)	(1,312,177)	(1,298,934)	(1,289,562)	(1,277,392)	(1,266,577)	(1,259,440)	(1,252,867)	(1,246,731)	(1,244,959)								
Percentage of Uncollectible	1.0810%	1.0810%	1.0810%	1.0810%	1.0810%	1.0810%	1.0810%	1.0810%	1.0810%	1.0810%	1.0810%	1.0810%								
Uncollectible Amount	14,614	14,508	14,329	14,185	14,041	13,940	13,809	13,692	13,615	13,543	13,477	13,458								
Florida Regulatory Fee	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%								
	2,704	2,684	2,651	2,624	2,598	2,579	2,555	2,533	2,519	2,506	2,493	2,490								
Net Recovery	(1,334,536)	(1,324,911)	(1,308,577)	(1,295,368)	(1,282,295)	(1,273,042)	(1,261,029)	(1,250,352)	(1,243,306)	(1,236,818)	(1,230,760)	(1,229,011)								
Ending Balance	12,289,433	11,018,442	9,758,209	8,505,655	7,260,679	6,019,493	4,784,875	3,555,516	2,327,810	1,101,205	(124,723)	(1,354,282)								
Per Company	13,582,360	12,316,645	11,061,749	9,814,592	8,575,073	7,339,404	6,110,363	4,886,642	3,664,633	2,443,787	1,223,678									
Difference	(1,292,927)	(1,298,203)	(1,303,540)	(1,308,937)	(1,314,394)	(1,319,911)	(1,325,488)	(1,331,126)	(1,336,823)	(1,342,582)	(1,348,401)	(1,354,282)								
Carrying Cost per Company																				
Difference																				417,838
																				(66,570)
																				(1,796,675)

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Docket No. 060644-TL  
 Exhibit IHP-1 (Page 7 of 9)  
 Audit Report

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Affidavit of Kent W. Dickerson  
 Exhibit No. KWD - 2  
 Storm Costs & Extraordinary Recovery  
 Page 1 of 1

A	B	C	D	E
Row	Description	Calculation	Cost	Extraordinary Cost
8				
9	Hurricane related cost:			
10	Wages & Benefits		\$ 32,250,961	
11	External Contractors Expense & Capital		17,287,467	
12	Extraordinary Asset Restoral Costs		2,607,274	
13	Material Capital & Expense		2,910,263	
14	Overheads Expense & Capital		2,880,790	
15	Buildings, Generators, Fuel, Line Card Repair & Return		2,003,986	
16	Total Hurricane related cost	(Sum Rows 10 to 15)	\$ 59,940,742	
17	Exclusions:			
18	Wages associated w/ regular time and budget OT		\$ 28,347,670	
19	Contractor Expense Budget & Capitalized Contractor Costs		8,508,685	
20	Capitalized Material Cost		1,584,276	
21	Overheads Expense & Capital		2,880,790	
22	Buildings, Generators, Fuel, Line Card Repair & Return Budget		747,000	
23	Average Annual Storm Expense		598,240	
24	Total Exclusions	(Sum Rows 18 to 23)	\$ 42,666,661	
25				
26	Extraordinary Cost	(Row 16 - Row 24)	\$ 17,274,081	
27	Carrying Cost Before Recovery		2,680,581	
28	Subtotal	(Row 26 + Row 27)	\$ 19,954,663	
29	Intrastate Factor		0.74429553	
30	Intrastate Subtotal	(Row 28 * Row 29)	\$ 14,852,166	
31	Interest During Recovery Period		5.23%	417,838
32	Intrastate Cost (before uncollectible and FL reg. assessment fee)	(Row 30 + Row 31)	\$ 15,270,004	
33	Uncollectible	(Row 35 * 1.081%)	1.081%	167,211
34	Florida Regulatory Assessment Fee	(Row 35 * 0.2%)	0.20%	30,936
35	Total Intrastate Extraordinary Cost	(Sum Rows 32 to 34)	\$ 15,468,151	
36	Average Total Access Lines and UNE Loops			
37	Per Month Recovery Rate Per Line	((Row 35 / Row 36) / 12)		
38				
39	<u>Recovery limited to \$0.50 per line for 12 months per 364.051(4)(b) 5, Florida Statutes:</u>			
40	Capped Recovery Rate Per Month Per Line	Per 364.051(4)(b) 5	\$	0.50
41	Intrastate Billed Amount	(Row 36 * Row 40 * 12)		
42	Less: Uncollectible	(Row 41 * 1.081%)		
43	Less: Florida Regulatory Assessment Fee	(Row 41 * 0.2%)		
44	Intrastate Net Recovery	(Row 41 - Row 42 - Row 43)		
45	Unrecovered Intrastate Extraordinary Balance	(Row 32 - Row 44)		

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Affidavit of Kent W. Dickerson  
 Exhibit No. KWD - 3  
 Summary Extraordinary Storm Costs & Recovery  
 Page 1 of 1

A	B	C	D	E
Row	Description	Calculation		Extraordinary Cost
8				
9	Extraordinary Hurricane Related Cost			
10	District Storm Extraordinary Company Labor & Benefits			\$ 3,903,291
11				
12	Extraordinary Contractor Expense over Budget			8,778,783
13				
14	Asset Restoral Extraordinary Cost			2,607,274
15				
16	Extraordinary Material Expense			1,325,987
17				
18	Extraord. Buildings, Generators, Fuel, Line Card Repair & Return			1,256,986
19				
20	Average Annual Storm Expense			(598,240)
21				
22	Extraordinary Cost	(Sum Rows 10 to 20)		\$ 17,274,081
23	Carrying Cost Before Recovery			\$ 2,680,581
24	Subtotal	(Row 22 + Row 23)		\$ 19,954,663
25	Intrastate Factor			0.74429553
26	Intrastate Subtotal	(Row 24 * Row 25)		\$ 14,852,166
27	Interest During Recovery Period		5.23%	417,838
28	Intrastate Cost (before uncollectible and FL reg. assessment fee)	(Row 26 + Row 27)		\$ 15,270,004
29	Uncollectible	(Row 31 * 1.081%)	1.081%	167,211
30	Florida Reg. Fee	(Row 31 * 0.2%)	0.20%	30,936
31	Total Intrastate Extraordinary Cost	(Sum Rows 28 to 30)		\$ 15,468,151
32	Average Total Access Lines and UNE Loops			
33	Per Month Recovery Rate Per Line	((Row 31 / Row 32) / 12)		
34				
35	<u>Recovery limited to \$0.50 per line for 12 months per 364.051(4)(b) 5, Florida Statutes:</u>			
36	Capped Recovery Rate Per Month Per Line	Per 364.051(4)(b) 5		\$ 0.50
37	Intrastate Billed Amount	(Row 32 * Row 36 * 12)		
38	Less: Uncollectible	(Row 37 * 1.081%)		
39	Less: Florida Regulatory Assessment Fee	(Row 37 * 0.2%)		
40	Intrastate Net Recovery	(Row 37 - Row 38 - Row 39)		
41	Unrecovered Intrastate Extraordinary Balance	(Row 28 - Row 40)		