



ORIGINAL Public Service Commission

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COMMISSION
CLERK

DATE: November 20, 2006
TO: Rick Wright; Division of Competitive Markets and Enforcement
FROM: Denise Vandiver; Bureau Chief of Auditing *D*
RE: **Docket No. 060644-TL; Company Name:** Embarq Florida, Inc.; **Audit Purpose:** 2005 storm costs; **Audit Control No.:** 06-277-4-1

Attached is the final audit report for the utility stated above. I am sending the utility a copy of this memo and the audit report. If the utility desires to file a response to the audit report, it should send the response to the Division of Commission Clerk and Administrative Services. There are confidential work papers associated with this audit.

Attachment

cc: Division of Regulatory Compliance and Consumer Assistance (Hoppe, District Offices, File Folder)
 ✓ Division of Commission Clerk and Administrative Services (2)
 Division of Competitive Markets and Enforcement (Harvey)
 General Counsel
 Office of Public Counsel

Ms. Susan S. Masterton
 Embarq Florida, Inc.
 P.O. Box 2214
 Tallahassee, FL 32301

- CMP _____
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FLORIDA PUBLIC SERVICE COMMISSION
DIVISION OF REGULATORY COMPLIANCE & CONSUMER ASSISTANCE
BUREAU OF AUDITING

Miami District Office

EMBARQ FLORIDA, INC.

2005 STORM RECOVERY

AS OF DECEMBER 31, 2005

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

Iliana Piedra, Audit Manager

Gabriela Leon, Audit Staff

Yen Ngo, Audit Staff

Ruth Young, Audit Staff

Kathy L. Welch, District Audit Supervisor

TABLE OF CONTENTS

AUDITOR'S REPORT	PAGE
I. PURPOSE	1
II. OBJECTIVES AND PROCEDURES.....	2
III. AUDIT FINDINGS	
1. CARRYING COSTS	4
IV. EXHIBITS	
1. EXHIBIT NO. KWD - 2.....	6
2. EXHIBIT NO. KWD - 3.....	7

**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 Economic Regulation 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.

OBJECTIVES AND PROCEDURES:

Objective: To verify the amounts included in Embarras'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. We recalculated all costs using the Wall Street Journal rate based on the analyst's request. See audit finding number 1.

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

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

SUBJECT: CARRYING COSTS

SUMMARY:

STATEMENT OF FACT:

Confidential

EFFECT ON THE GENERAL LEDGER:

EFFECT ON THE FILING:

Exhibit to Audit Finding No. 1

Confidential

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)		

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)		<u>\$ 17,274,081</u>
23	Carrying Cost Before Recovery			<u>\$ 2,680,581</u>
24	Subtotal	(Row 22 + Row 23)		<u>\$ 19,954,663</u>
25	Intrastate Factor			<u>0.74429553</u>
26	Intrastate Subtotal	(Row 24 * Row 25)		<u>\$ 14,852,166</u>
27	Interest During Recovery Period		5.23%	<u>417,838</u>
28	Intrastate Cost (before uncollectible and FL reg. assessment fee)	(Row 26 + Row 27)		<u>\$ 15,270,004</u>
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)		<u>\$ 15,468,151</u>
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)		