

AUDIT FINDING NO. 1

**DECLASSIFIED**

*MM 9-15-08*

*060644-TL*

**CONFIDENTIAL**

**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													15,265,046
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																					2,680,581
Difference																					(1,730,105)
<b>Intrastate Calculation</b>																					
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	0.74429553																				
Month Beginning Bal 2/1/07	13,564,456																				
Per Company	14,852,166																				
Difference	-1,287,710																				

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	2007 Feb	2007 Mar	2007 Apr	2007 May	2007 Jun	2007 Jul	2007 Aug	2007 Sep	2007 Oct	2007 Nov	2007 Dec	2008 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)	351,268
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)	
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													417,838
Difference													(66,570)

(66,570)  
 (1,796,675)

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