BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition by Embarq Florida, Inc.,	)	Docket No. 060644-TL
Pursuant to Florida Statutes 364.051(4), to	)	
Recover 2005 Tropical System Related Costs	)	
And Expenses	)	
	)	

EMBARQ'S SUPPLEMENTAL RESPONSES TO THE COMPETITIVE CARRIERS OF THE SOUTH'S FIRST SET OF INTERROGATORIES (NOS. 1-2) AND FIRST REQUEST FOR PRODUCTION OF DOCUMENTS (NO. 2)

Pursuant to Rule 28-106.206, Florida Administrative Code, and Rules 1.340, 1.350, and 1.280(b), Florida Rules of Civil Procedure, by and through undersigned counsel, Embarq Florida, Inc. (hereinafter "Embarq") hereby submits the following Supplemental Responses to The Competitive Carriers of the South's (hereinafter "CompSouth's") First Set of Interrogatories and First Request for Production of Documents, which were served on Embarq on November 15, 2006. Embarq incorporates by reference the general and specific objections set forth in its Response to CompSouth's First Set of Interrogatories and First Request for Production of Documents served on CompSouth on November 30, 2006.

Interrogatory	Prepared by	Title
1-2	Kent W. Dickerson	Director – Cost Support

INTERROGATORIES

1. For the most recent TELRIC studies performed by Embarq for Florida, provide a listing, by USOA investment account, of all Annual Cost Factors ("ACFs," sometimes referred to as Annual Charge Factors or investment-to-cost factors) used to convert investment to annual cost.

    a. For each ACF, provide a listing of all capital and non-capital (expense) components that comprise that ACF. Provide both a descriptive label (e.g. "depreciation") and a numeric value for each component for each ACF.
    b. Describe in detail how each component of the ACFs was calculated, including a description of all data relied upon and a description of the calculations involved.
    c. For each ACF component that was calculated using data from multiple periods of time (whether used to calculate an average over multiple time periods, to conduct a trend analysis, or for any other use), provide the beginning date and ending date of the data used. For example, if the depreciation expense component of the ACF for a given USOA investment account was calculated based on an average of the yearly depreciation amounts for 1996 through 2005, the response would be "Account xxx, Depreciation, January 1, 1996 through December 31, 2005."

    Supplemental Response: Notwithstanding and without waiving its previously filed objections, Embarq provides the following response:

    Embarq's most recent relevant TELRIC cost study is the cost study associated with FPSC Docket Number 990649B-TP, which provided the data used to establish rates for unbundled loops. The factors provided in response to this question reflect the commission-approved annual charge factors. The ACF factors were developed based on calendar year 2000 investment and expense amounts.

    a. Please see attached document UNE Expense Factors ACF Module Documentation.

    b. See response to a. above.

    c. Not applicable.

2. In the last Embarq UNE cost case before the Commission (Docket 990649B-TP), Kent W. Dickerson, in his Direct Testimony at pages 20-21, stated,

"The direct maintenance expenses associated with UNE capital investments are applied in the UNE cost study process by including a direct maintenance expense component in the Annual Charge Factor. The Annual Charge Factor development is explained in detail in the ACF section of the documentation. Using the relationship of Florida-specific 2000 direct maintenance to the associated gross capital investment, the direct maintenance expense loadings shown in the Annual Charge Factor Module were developed. By applying these Florida-specific direct maintenance loadings to the corresponding forward-looking capital investments, an estimate of the forward looking direct maintenance is included in the UNE cost study".

    a. In the development of its Annual Charge Factor, did Embarq include expenses and tasks associated with inspecting and reporting on the condition of plant investment to determine the need for repairs?

    b. In the development of its Annual Charge Factor, did Embarq include expenses and tasks associated with restoring the condition of plant investment damaged by storms, floods, fires or other casualties?

Supplemental Response: Notwithstanding and without waiving its previously filed objections, Embarq provides the following response:

    a. The ACF would reflect those costs associated with Embarq's normal course of business pertaining to inspecting and reporting on the condition of plant that are expensed as plant specific maintenance. As explained in response to DR 1 above, the ACFs used in Embarq's current UNE price development were computed based on expense to investment relationships derived from Embarq's 2000 General Ledger. As such those factors cannot and do not reflect the extraordinary level of tropical storm damage incurred in 2005.
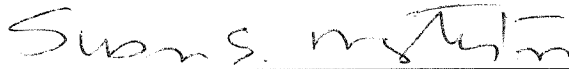
    b. No. See a. above.

PRODUCTION OF DOCUMENT REQUESTS

1. In the last Embarq UNE cost case before the Commission (Docket 990649B-TP), Kent W. Dickerson, in his Direct Testimony at pages 20-21, stated, "The direct maintenance expenses associated with UNE capital investments are applied in the UNE cost study process by including a direct maintenance expense component in the Annual Charge Factor. The Annual Charge Factor development is explained in detail in the ACF section of the documentation." Produce the ACF section of the documentation referenced in Mr. Dickerson's testimony.

   Response: Notwithstanding and without waiving its previously filed objections, Embarq provides the following response:

   Please see attached document UNE Expense Factors, ACF (Annual Charge Factor) Module.

   DATED this 11th day of December 2006.

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Response to
POD #2

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VII. UNE Expense Factors

B. ACF (Annual Charge Factor) Module

1. Definition

The Annual Charge Factor (ACF) is a rate which converts an investment amount into an annual recurring cost that includes capital recovery, return income, ad valorem taxes, and direct maintenance expenses. A monthly recurring cost is obtained by dividing the annual recurring cost by twelve.

ACFs are developed in the module for each type of plant included in the TELRIC studies (i.e. digital switching, circuit equipment, and underground metallic cable etc). They, therefore, reflect the unique attributes of the underlying asset such as varying economic and tax lives, maintenance expenses, and salvage values.

2. Detailed Network Element Diagram

Not applicable.

3. Major Determinants of Cost

The ACF calculation is a three-step process. First, the annual direct costs per dollar of gross investment for each year of the economic life of the asset is determined. These costs, net of any tax benefits, are discounted back using Sprint's weighted cost of capital. The ACF is then calculated by taking the average of all of these discounted costs. Therefore, the ACF represents the average of the annual levelized direct costs for each dollar of investment in a given asset.

4. Inputs (Input Workbook, ACF Worksheet)

The input workbook contains all of the necessary inputs for the ACF Module. Those inputs are stored in a worksheet entitled ACF.

Column A. Row #

Column B. Description

Column C. -

      Item A. Rate of Return

            Input value equal to the overall weighted cost of capital.

Item B. Debt Ratio
Input value.

Item C. Equity Ratio
Input value.

Item D. Debt Cost
Input value.

Item E. Federal Income Tax Rate
Input value.

Item F. State Income Tax Rate
Input value, state specific.

Item G. Composite Income Tax Rate
For description, see Income Tax Worksheet, Item M.

Item H. Ad Valorem Tax Rate
Input value, state specific.

Column C. Maintenance Expenses
Maintenance expenses as a percent of average investment.

Column D. Book Life (Years)
The economic life of each plant category.

Column E. Salvage Value
Value of the asset at the end of its book life, stated as a percent of original value. A negative net salvage value indicates that the cost of removal is greater than the salvage.

Column F. Tax Life (Years)
The tax depreciation life of each plant category.

When the Sprint TELRIC UNE Model is run, all loads to input files are pulled into the ACF module for final cost study calculations. The resulting charge factors developed by the module are posted back into this input worksheet to be applied to network investments in the remaining element specific modules of the Sprint TELRIC UNE Model. These results should be reviewed as to their reasonableness by comparing them to previously performed studies.

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5. Outputs

The ACF module workbook contains all of the calculated outputs (ACF factors). The output/results file of this module calculates and stores annual charge factors for each of the classes of plant.

a. Summary Worksheet
This worksheet compiles the ACF for each of the classes of plant found in the study.

Column A – Row #
Provides the worksheet row number.

Column B – Description
Lists the categories of plant under study.

Column C – Economic Rate First Cost
Represents the annual straight-line depreciation rate without considering the affect of salvage value or cost of removal. These rates are calculated on the "ROR" worksheet of this module.

Column D – Economic Rate Future Salvage
Accounts for the affect of future salvage value or cost of removal over the life of the asset. These rates are calculated on the "ROR" worksheet of this module.

Column E – Total Economic Rate Depreciation
This is the sum of the "Economic Rate Future Salvage" and the "Economic Rate First Cost" (Column C + Column D).

Column F – Rate of Return
Represents the total cost of the investment less depreciation and salvage/cost of removal. The total cost of investment represents the annual cost of carrying the investment, which includes return of invested capital, return on invested capital, and the cost or benefit of removal or salvage value respectively. The rate of return is calculated on the "ROR" worksheet of this module.

Column G – Income Tax
Accounts for the affect of state and federal income taxes on the return on investment. This factor takes in consideration the affects differences in

Economic and tax depreciation as well as the company's capital structure. The income tax rate is calculated on the "Income_Taxes" worksheet of this module.

Column H – Maintenance Expenses
This factor represents the annual maintenance expense for each dollar of investment. The Maintenance Expense Factor is based on actual maintenance expense activity recorded in the general ledger of the company.

Column I – Ad Valorem Taxes
Accounts for the annual property tax paid by the company on investments located in the state under study.

Column J – Annual Charge Factor
This is the sum of columns E through I of this worksheet.

b. Rate of Return Worksheet
This worksheet arrives at the rate of return portion of the annual charge factor.

Column A – Row
Provides the worksheet row number.

Column B – Description
Lists the categories of plant under study.

Column C – Economic Life (Years)
This column lists the life by which the asset is depreciated in the study.

Column D – Salvage Value
This column lists the cost of removal or value of the retired asset as a percent of gross investment.

Column E – Economic Depreciation First Cost
This column calculates the straight-line depreciation rate without regard to any future salvage value or cost of removal.

Column F – Economic Depreciation Net Salvage
This column calculates the straight-line depreciation rate of the salvage value or cost of removal.

Column G – Total Economic Depreciation Rate
This is the sum the straight-line depreciation rate of the asset and the straight-line depreciation rate of the salvage value/cost of removal appearing in columns E and F, respectively.

Column H – Investment Annual Cost
Investment Cost represents the annuity needed to recover $1 of investment and the associated salvage value or cost of removal.

Column I – Rate of Return Annual Cost
Rate of return is the difference between the total investment cost appearing in column H and total Economic depreciation appearing in column G.

c. Income Taxes Worksheet
Column A – Row #
Provides the worksheet row number.

Column B – Description
Lists the categories of plant under study.

Column C – Economic Life (Years)
This column lists the life by which the asset is depreciated in the study.

Column D – Total Economic Depreciation Rate
This is the sum the straight-line depreciation rate of the asset and the straight-line depreciation rate of the salvage value/cost of removal and is calculated in the ROR worksheet.

Column E – Salvage Value
This column lists the cost of removal or value of the retired asset as a percent of gross investment.

Column F – Tax Life (Years)
This column lists the appropriate tax life for each class of plant.

Column G – PV Tax Depreciation
Present value of tax depreciation is equal to the present value of the annual tax depreciation. Since tax depreciation is not straight line, a table appearing on the Tax_Dep worksheet is used to calculate the present value.

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