

REDACTED

has an exclusive bulk arrangement with the developer for video and data services. In these two developments, in addition to its provision of video and data services to 100 percent of the residents through its exclusive arrangement with the developers, Bright House also offers its voice telephone service.

14. Embarq placed facilities in both of these developments in advance of the 2006 Florida legislative change which allowed ILECs to seek COLR relief. Because of Bright House's advantage resulting from the exclusive arrangements in these developments, only [REDACTED] percent of residents in these two developments have chosen to subscribe to Embarq's voice telephone services (see Exhibit KWD-2). Because the facts and circumstances of Sawgrass Bay are nearly identical to those in these other developments (i.e. Bright House has bulk agreements with the developers for video and data, and the ability to provide voice service as an add-on), there is every reason to expect that a similarly low percentage of Sawgrass Bay residents would choose to subscribe to Embarq's voice telephone service. For purposes of analyzing whether Embarq's provision of service to Sawgrass Bay would have any opportunity to be economic, we

CMP 1 therefore assumed that Embarq would *at best* garner a [REDACTED] percent share of the residents' voice telephone services.

COM _____

CTR _____

ECR _____

GCL _____

OPC _____

RCA _____

SCR _____

SGA _____

SEC _____

OTH _____

Embarq's Provision of Service to Sawgrass Bay Would Be Uneconomic

15. Attached to my affidavit as Exhibit KWD-3 is an analysis of the net present value (NPV) impact if Embarq were required to place its facilities to serve the Sawgrass Bay development, given the impact of the exclusive arrangement between Bright House and the developer discussed previously. The key elements of this analysis

DOCUMENT NUMBER-DATE
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18. In addition to the costs associated with constructing the facilities that would be required to serve the Sawgrass Bay development, the NPV analysis also reflects the ongoing maintenance costs for the facilities and the retail costs of serving the small number of Embarq voice service customers it would expect to garner in Sawgrass Bay. These maintenance and retail costs are based on Embarq's Florida specific experience and data.

19. Embarq's expected incremental capital costs of constructing facilities total [REDACTED] to provide service to the 1,109² customer locations planned by the developer during the first ten years. The [REDACTED] is comprised of [REDACTED] to serve 590 locations in the Sawgrass Bay subdivision and [REDACTED] to serve 519 locations in the Greater Lakes subdivision.

20. Embarq's estimate of the revenues it would be expected to garner if it were to place facilities to provide service to the Sawgrass Bay development were based on the following assumptions:

- A penetration rate of [REDACTED] percent of the units in the development.
- An average of [REDACTED] lines for each customer who purchases Embarq's voice telephone service. This assumption is based on Embarq's actual experience in the two similar developments of Overlook at Parkside and Victoria Park (see Exhibit KWD-2).
- A bundle penetration of [REDACTED] percent of the customers purchasing Embarq voice service. This assumption is based on Embarq's

² The 1,109 units are planned to be constructed in several phases during the first ten years of the project. Subsequent phases will result in a total of 1,241 units in the development when fully complete.

actual penetration for residential bundles in the Clermont exchange.

- Revenue per customer access line of [REDACTED] for bundled customers and [REDACTED] for ala carte customers. These assumptions are based on Embarq's actual revenue metrics for residential customers in the Clermont exchange.

21. The financial implications to Embarq if it were required to construct the necessary voice telephone network to serve Sawgrass Bay are presented on Exhibit KWD-3. This exhibit provides a standard financial analysis of the Net Present Value (NPV) cash flows over a 10-year period and demonstrates the grossly unworkable finances that would result if Embarq were required to serve the development. Based on the estimated costs to provide facilities to serve Sawgrass Bay, and the estimated revenues that would be generated from the small number of customers who would choose to purchase Embarq's voice services, the NPV analysis demonstrates that it would be uneconomic for Embarq to serve this development. Specifically, the exhibit demonstrates negative cumulative (over ten years) cash flows totaling [REDACTED] for the entire development, comprised of [REDACTED] for the Sawgrass Bay subdivision (see Exhibit KWD-3, page 2) plus [REDACTED] for the Greater Lakes subdivision (see Exhibit KWD-3, page 4).

22. The NPV analysis reflects assumptions that result in what should be considered a "best-case" result, given the realities of Embarq's provision of service to the development. More specifically, assumptions in the following areas contribute to this NPV analysis representing a "best-case" result:

- The expected penetration of [REDACTED] for Embarq's voice services results in an optimistic view as it is higher than Embarq's actual penetration experience of [REDACTED] for two other developments with nearly identical characteristics as Sawgrass Bay. Namely, the developers have a bulk billing arrangement with Bright House Networks for the provision of video and data services to 100 percent of the customers in these markets. A penetration assumption that more closely matches Embarq's actual experience in these two other similar developments would result in lower projected revenues, and a larger negative NPV.
- The assumptions reflected in the NPV analysis for customers purchasing bundles, and the assumptions for average revenues per bundled and non-bundled customer, were set based on the actual average experience for each from the Clermont market. These assumptions result in a higher revenue amount than what would have been generated if the equivalent metrics from the two developments were utilized.
- The analysis of the capital costs necessary to serve Sawgrass Bay did not include any assumptions for consumption of existing capital such as existing fiber feeder cable, switching, transport, numbering, etc. For instance, providing service to Sawgrass Bay would utilize capacity on approximately 82,300 feet of existing fiber feeder cable, for which no costs have been included in the NPV analysis.
- The NPV analysis reflects a cost of money assumption that, while appropriate for Embarq's overall operation, is far too low if the company were required to

finance a project that produces the negative economic results as is demonstrated here.

- The NPV analysis does not include additional, predictable negative cash flow impacts from realities such as customer churn and future price declines in voice services. Bright House advertises a very competitive price of \$28.95 (see Exhibit KWD-5) for its digital phone service, a rate that may require Embarq to further consider price decreases to remain competitive. Further, since Bright House will be offering its digital phone service as an add-on where it already provides video and data services to 100 percent of the customers, its incremental costs of providing voice services likely provide room for Bright House to consider further pricing changes. Embarq would need to react, causing revenue declines from price changes and/or customer churn.

23. Thus, given the ease and magnitude with which these unworkable negative financial results (i.e. negative NPV of cumulative cash flows of [REDACTED]) are conservatively demonstrated, it is inconceivable that Embarq will ever realize the financial paybacks necessary to justify the incremental combined invested capital of [REDACTED] and associated operating expenses.

Embarq's Request for a Deposit from the Developer

Wire Center	Competitor	Cable Internet Phone	When Cable Internet Phone Offered	Development Name	Year Facilities Placed	Development Number of Lots (NSAs) Facilities Placed	Number with Embarq Service	Number of Lines	% EMBARQ Service to Total Lots Passed
Orange City	Bright House	Yes	2Q2005	Victoria Park SW	2005	297	[REDACTED]	[REDACTED]	[REDACTED]
Apopka	Bright House	Yes	4Q2004	Overlook at Parkside	2005	191			
Total						488			

Average lines per Embarq customer [REDACTED]

Embarq - Florida
Sawgrass Bay Developer Deposit Calculation - Sawgrass Bay Division

Key Inputs:	
1	New Capital
2	Housing Units 590
3	Penetration Required
4	Embarq Customer Housing Units
5	Subscriber Lines per Housing Unit
6	Revenue - Ala Carte Sub
7	Revenue - Bundle Sub
8	Percent Buying Bundle
9	Revenue Per Sub - Avg
10	Capital Cost

Deposit Needed to Recover New Capital Spend:	
Housing Units Required	
Housing Units at 20% Penetration	
Housing Unit Shortfall	
Capital Per Housing Unit	
Deposit Required	

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Year 6</u>	<u>Year 7</u>	<u>Year 8</u>	<u>Year 9</u>	<u>Year 10</u>
12 Build Units - By Year	54	57	48	50	56	50	81	64	65	65
13 Build Units - Cumulative	54	111	159	209	265	315	396	460	525	590
14 Penetration	[REDACTED]									
15 Embarq Customer Housing Units	[REDACTED]									
16 Avg Subscriber Lines per Housing Unit	[REDACTED]									
17 Subscriber Lines - Year End	[REDACTED]									
18 Subscriber Lines - Mid-Year	[REDACTED]									
19 Capital Expenditures	[REDACTED]									
20 Revenue	[REDACTED]									
21 Cash Expenses	[REDACTED]									
22 Income Tax	[REDACTED]									
23 Cash Flow - In(Out)	[REDACTED]									
24 Cumulative Cash Flow - In(Out)	[REDACTED]									
25 Discount Rate @ 8.12%	[REDACTED]									
26 NPV By Year	[REDACTED]									
27 Cumulative NPV	[REDACTED]									

**Embarq - Florida
Sawgrass Bay Developer Deposit Calculation - Sawgrass Bay Division**

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27 Cumulative NPV	[REDACTED]									

Embarq - Florida
Sawgrass Bay Developer Deposit Calculation - Greater Lakes Division

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5	Subscriber Lines per Housing Unit
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12 Build Units - By Year	22	57	47	49	45	50	50	67	66	66
13 Build Units - Cumulative	22	79	126	175	220	270	320	387	453	519
14 Penetration	[REDACTED]									
15 Embarq Customer Housing Units	[REDACTED]									
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**Embarq - Florida
Sawgrass Bay Developer Deposit Calculation - Greater Lakes Division**

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