

MARCH 2007



REVIEW OF

# Special Construction Practices

FOR

# Major Florida ILECs

By Authority of  
The State of Florida  
Public Service Commission  
Division of Competitive Markets and Enforcement  
Bureau of Performance Analysis



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# **Review of Special Construction Practices for Major Florida ILECS**

## **1.0 Background**

Special Construction activities are generally required when a customer requests regularly tariffed services requiring the company to construct or modify its facilities to meet the request. Section A5, of each company's General Subscriber Service Tariff or General Exchange Tariff, describes the conditions under which special construction charges apply. Special construction regulations protect the companies from undue risk and costs associated with the construction of these facilities.

The regulations allow incumbent local exchange providers to recover excessive costs due to the construction of customer-requested facilities, and provide a standard method for determining the project's estimated costs. Sections 2.0 through 4.0 further describe the methods and procedures used by each company to process special construction project requests. Section 5.0 provides a summary of staff's contract sampling results, and offers areas of improvement in each company's special construction processing.

## **2.0 AT&T**

### **2.1 Activities Requiring Special Construction**

AT&T applies special construction charges when suitable facilities are not available to meet a customer order for service, or when facility forecast agreements are entered into with the customer, and one of the following conditions exist:

- ◆ The company has no other requirement for the facilities to be constructed for the customer.
- ◆ The customer requests a specific type of facility or route other than what the company would normally use to provide the requested service.
- ◆ The customer requests the construction of more facilities than is necessary to meet the initial order for service or the agreed upon forecast for services.
- ◆ The customer requests an expedited construction schedule resulting in added cost to the company.
- ◆ The customer requests temporary facilities to be constructed.
- ◆ The cost to construct line extension facilities for an individual customer exceeds the five year exchange revenue.



- ◆ The customer prematurely terminates a concentration of network facilities provided specifically for its use.
- ◆ The customer requests rearrangements of facilities where additional construction is required.

If projects contain more than one of the special construction conditions listed above, the charges for each condition are reflected in the project design and in the nonrecurring costs. In conditions where the customer is required to pay special construction charges to provide the necessary facilities, the company retains ownership of the installed facilities and is responsible for continued maintenance.

## **2.2 Company Procedures**

Section A5.2.1.D of the AT&T General Subscriber Service Tariff states that the company will establish an objective date for the installation of facilities that will be provided to the customer. The company states it will make every reasonable effort to meet the established due date. However, a shortage of equipment, labor, or other factors may cause delays. In the event delays beyond the control of the company cause the scheduled completion date to be missed, the company will establish a new due date and the customer will be notified. For company delays that could have been circumvented, the customer is credited the amount of interest accrued on all prepaid items.

Section A5.2.2.A.1 of the General Subscriber Service Tariff states that the customer must provide written approval of all liabilities and charges prior to the start of construction. Section A5.2.2.D.1 states that the customer has the option to have charges billed on estimated or actual costs. However, if the customer does not notify the company of their choice prior to construction beginning, estimated costs will be billed. Under the estimated cost methodology, construction liabilities and charges are developed, specified in the written agreement, and charged to the customer. Under the actual cost methodology, estimated charges are specified in the agreement and are later adjusted to reflect the actual costs, including cost of preparation and processing.

### **2.2.1 Non-Recurring Charges**

One or more of the following nonrecurring charges will apply to each special construction project, based on the type of construction required and the scope of the project:

1. Quotation Preparation - applicable for a detailed quotation of charges prior to placing an order for service requiring special construction; the quotation is valid for 90 days and identifies all costs for the project; the quote provided will be within plus or minus 10 percent, unless the customer deviates from the original request; the quotation preparation charge is applicable whether the customer accepts or not.
2. Case Preparation - applicable when the customer receives the quote and places an order for service requiring special construction; this charge contains administrative expense such as preparation, processing, gross receipts tax, and other taxes associated with the proposal.

3. Termination - applicable when a customer contracts to pay recurring charges for special construction facilities, and terminates the contract prior to the expiration period. Upon termination, the remaining recurring charges are due in a lump sum payment, and reflect costs for special construction that are not yet captured during the pre-empted contract period.
4. Cancellation - applicable if the customer cancels the order prior to the start of service; the cancellation charge includes all nonrecoverable costs to the company up to and including the time of cancellation.
5. Rearrangements and/or Removals - applicable when the company is requested to move, change, rearrange, or remove existing plant and no specific charge is quoted in the tariff; this charge is made to defer the costs incurred to the company requesting the change and is often used in joint use pole conditions.
6. Expediting Construction - applicable when a customer requests construction to be expedited and the company incurs additional costs. The charge is equal to the difference between estimated cost of expedited construction and the same work without expediting.
7. Optional Payment Plan - allows customers to pay an optional nonrecurring charge when requesting special construction of facilities using a type of facility other than that normally used, a route other than what the company normally uses, or a service that involves extraordinary conditions or circumstances; the optional payment plan must be made in writing before special construction begins and will result in a lower recurring charge for special construction.
8. Supporting Structures on Private Property/Pole Attachment Fees - applicable when the costs of planning and building supporting structure on private property, such as poles, conduit, trenching, backfilling, and associated costs; ownership and maintenance of the supporting structure on private property is the responsibility of the customer or the property owner.
9. Service Entrance Facilities - applicable when the property owner or customer requests a special route, network location, network arrangement, or duplicate facility and a nonrecurring charge is required to apply the additional cost above that which would have normally been incurred if the special request was not required.
10. Temporary Services - applicable when facilities are constructed to provide service to a customer for less than the minimum service period, or less than one month, or facilities are constructed and the newly placed plant will be relocated or removed prior to the end of the normal plant service life.

These non-recurring charges are not listed in the company's Local Exchange tariff, but are quoted to the customer for approval. For instance, if a customer goes no further than to

receive a quote for the project, only the quote preparation charge will apply. If the customer proceeds with the project after the quote is reviewed, the non-recurring quote preparation charge is applied to reduce the remaining project costs. However, other non-recurring charges may apply, based on the specific project. For instance, if the customer approves the project, but after the company has completed engineering and other phases of the project decides to cancel, additional non-recurring charges would apply.

### **2.2.2 Recurring Charges**

Monthly recurring charges may be charged the customer, based upon the project complexity and negotiations between the customer and company. In some cases a combination of non-recurring and recurring charges can be negotiated rather than having all project charges assessed at once. However, recurring charges will always be applicable to special construction in the following conditions:

- ◆ A customer uses fewer facilities than originally forecasted and less than 70 percent of the cable pairs placed is utilized (underutilization charge).
- ◆ A customer orders more facilities than required to satisfy the demand projected in the initial liability period and the customer orders service activation of 70 percent of the cable pairs placed (excess capacity charge).
- ◆ A customer requests a facility route or type other than that which the company would utilize for service (charges for route or type other than normal).
- ◆ A customer's request results in the company leasing transmission or other equipment from private vendors (lease charges).
- ◆ A customer requests service that involves extraordinary conditions (excess costs).

Special construction recurring charges are not included in a tariff, and are determined based on the difference between pre-paid non-recurring costs and the remaining project costs spread over a contractual period. The terms and conditions of a combination of recurring and non-recurring charges is generally completed in a contractual agreement outlining the remaining liability and termination charges.

### **2.3 Contract Agreement Forms**

An Authorization Letter identifies the estimated costs determined by AT&T's Engineering and Construction department and notes that work will not begin without the customer's return of the signed authorization letter and advance payment. The Authorization Letter specifies that the special construction quote is valid for 30 days and that the customer must notify the company within 30 days or the work order will be cancelled. If the customer wants to continue after 30 days, the quote is reviewed for currency and any additional work scope or costs are included in a revised quote. The Authorization Letter also notes that the customer may need to coordinate construction activities with other utility companies.

Another contract, the Contract Service Arrangement, is generally used in business market situations where special service arrangements or special construction is required. This type of



contractual arrangement is typically requested through AT&T sales representatives and forwarded to Network Engineering for developing the project cost quote. The Network department provides the Finance-Cost Matters organization labor and material costs to complete the scope of work requested, and then calculates the construction charges to be billed to the customer. Depending upon negotiations with the customer, the special construction charge is billed as either a recurring or nonrecurring charge and included in the Contract Service Agreement.

#### **2.4 Process Flow and Timing**

A special construction request is received by AT&T through its sales representatives or is forwarded to AT&T's Network Engineering organization to determine the appropriate scope of work and costs associated with the customer's request. Network Engineering contacts the customer for any additional information and makes a field visit to determine the appropriate work scope and costs.

After work scope, costs, and overheads are developed, an Authorization Letter is prepared for the customer's approval. At the time the Authorization Letter is prepared, an internal SN-454-SH form is completed to document the final charges and overheads for the special construction project. This internal form provides the final charges presented to the customer in the Authorization Letter. The SN-454-SH form also provides:

- ◆ Reimbursement expenses by account,
- ◆ Overhead amounts calculated into the formulas,
- ◆ Billing address information for final billing in the event an advanced payment is not collected,
- ◆ Originating code or responsibility code for the district performing the work, and
- ◆ Organization codes and expense dollars by account for distribution and credit of reimbursements within the company.

Once the Authorization Letter is prepared, it is mailed to the customer or delivered in-person by an account representative, to present the conditions of the agreement with the customer. Only after receipt of the signed letter and advance payment of charges from the customer will actual work begin.

When AT&T's Payment Remittance Office receives the Authorization Letter and payment, it copies the check and Authorization Letter and forwards them to the Plant Accounting Billing Group. The Plant Accounting Billing Group notifies Network Engineering that the Authorization Letter and payment have been received. Network Engineering then completes all drawings, schedules the project work, releases the job order to be worked, and monitors the completion of the project. As Network Construction and service technicians complete the project work, actual costs are reported against the job order.

Upon completion of the project, Engineering summarizes actual costs and closes the job order. The completed job order data then credits the appropriate Network costs back to the district and overheads are credited to the various corporate accounts. Depending on whether the customer elected actual costs or estimated costs, a true-up of costs is provided and the customer may be billed for any additional costs experienced during the completion of the special construction project.

## **2.5 Pricing Components**

By their nature, the costs for each special construction project are different. Depending upon the service provided and the complexity of the scope of work performed, the costs of materials, labor, and overheads involved may differ. Thus, a special project is necessary to capture the costs incurred to provide these services to ensure the general customer base does not incur the expense involved with providing certain facilities to individual customers or companies.

AT&T states that components for special construction generally include material, engineering labor, plant labor, outside contractor labor, and overheads. Special construction charges are developed by estimating the appropriate component costs to complete the scope of work and including appropriate overhead costs. Rates and charges vary depending on the type of labor and materials used for the scope of work completed.

Section A5 of AT&T's General Subscriber Tariff documents the liabilities and charges for special construction. Section A5.2.1.a.2 imposes the use of special construction charges requiring a written agreement signed by the customer. Section A5.2.2 provides applicable tariff liabilities, charges, and payments for special construction. Section A5.2.2 provides for special construction charges for requested rearrangements of facilities.

## **2.6. Tracking Construction Status**

AT&T states that special construction completion timeframes differ due to customer requested timeframes, project size and scope, order time for equipment, and scheduling of the project. After the signature and receipt of payment for any special construction charges, AT&T places the job in its Outside Plant Construction Module to track the completion of each portion of the project. Once a portion of the project is completed, the AT&T technician or contractor records the completion of that portion of work into the Outside Plant Construction Module. Network Engineering monitors the status of each special construction project and closes the project when all work is completed.

## **3.0 Embarq**

### **3.1 Activities Requiring Special Construction**

Embarq's A5 General Exchange Tariff is similar to much of AT&T's General Services Subscriber Service Tariff for the conditions requiring special construction charges. Section A5.B.2 of the General Exchange Tariff provides a list of the conditions requiring special construction. When one or more of the following conditions arise, special construction charges apply:

- ◆ The company has no other requirement for the facilities constructed for the customer.
- ◆ The customer requests a specific type of facility or route other than what the company would normally use to provide the requested service.
- ◆ The customer requests the construction of more facilities than is necessary to meet the initial order for service or agreed upon forecast for services.
- ◆ The customer requests an expedited construction schedule resulting in added cost to the company.
- ◆ The customer requests temporary facilities to be constructed.
- ◆ The cost to construct line extension facilities for an individual customer exceeds the five year exchange revenue.

Embarq states that the types of custom work activities requiring a prepayment to be collected prior to construction include:

- ◆ Moves,
- ◆ Relocations,
- ◆ Make-ready work for CATV and CLECs,
- ◆ Temporary construction trailers,
- ◆ Excess construction charges to reach a customer beyond allowable tariffed limits, and
- ◆ Line extensions within real estate subdivisions before individual service applications have been received.

Each of these activity types require a Keep Cost Reimburse project number for the billable custom work. While the customer makes payment for custom billable work, the company maintains ownership of the facilities and is responsible for ongoing maintenance upon installation.

### **3.2 Company Procedures**

Section A5 of Embarq's General Exchange Tariff and Section E14 of its Access Service Tariff put forth the conditions and types of charges that apply to special construction activities. While specific charges are not documented for construction activities, the types of charges and when they apply are provided within these tariffs.

Section A5.B.3 of the Embarq General Exchange Tariff states that, unless otherwise specified in the tariff, the company will retain ownership of specially-constructed facilities. Section A5.B.4 requires the establishment of a due date for the installation of facilities that will be provided to the customer in the agreement. The company states that it will make every reasonable effort to make the established due date. However, a shortage of equipment, components, labor, or other factors may cause a delay. In the event delays beyond the control of



the company cause the scheduled completion date to be missed, the company will establish a new due date and the customer will be notified. For delays that could have been circumvented by the company, the amount of interest accrued on all prepaid items will be credited to the customer's account.

Section A5.B.7.a states that the customer must provide written approval of all liabilities and charges prior to the start of the construction. In Section A5.B.7.b, Embarq's tariff states that the company will require the customer to make advance payment for the estimated costs of the special construction subject to nonrecurring charges. Partial payments will be requested as costs are incurred, and the customer's account will be credited accordingly. Section A5.B.7.c states that when the facilities are provided, billing of recurring charges for special construction starts on the contract service date or the in-service date, whichever is earlier.

Section A5.B.7.d.1 and .2 state that the customer has the option to have charges billed on either estimated costs or actual costs. Embarq's process is similar to AT&T's in that if the customer does not notify the company of its' preference prior to construction beginning, the estimated cost methodology will be billed. Under the estimated cost method, construction liabilities and charges are developed based on estimated costs and provided in a written agreement between the customer and the company. This predetermined amount is billed to the customer after the project has been completed. The actual cost methodology estimates the charges specified in the agreement and later adjusts billing to reflect the actual construction costs, including preparation and processing charges.

### **3.2.1 Non-Recurring Charges**

Embarq, like AT&T, uses the following nonrecurring charges that apply to each special construction project based on the type of construction required and the scope of the project. Section A5.B.9.a of the General Exchange Tariff describes the applicable nonrecurring charges below for special construction:

- ◆ Quotation preparation,
- ◆ Case preparation,
- ◆ Termination,
- ◆ Cancellation,
- ◆ Rearrangements and/or removals,
- ◆ Expediting construction,
- ◆ Optional payment plan,
- ◆ Supporting structures on private property,
- ◆ Pole attachments,
- ◆ Special routing of service entrance facilities, and
- ◆ Temporary facilities.

### **3.2.2 Recurring Charges**

Embarq's General Exchange Tariff, Section A5.B.9.b for recurring charges, is similar to AT&T's General Subscriber Service Tariff, Section A5.2.2.F.2. This tariff states that recurring charges are applicable to Embarq special construction under the following conditions:

- ◆ A customer uses fewer facilities than originally forecasted and less than 70 percent of the cable pairs placed is utilized (underutilization charge),
- ◆ A customer orders more facilities than required to satisfy the demand projected in the Initial Liability Period and the customer orders service activation of 70 percent of the cable pairs placed (excess capacity charge),
- ◆ A customer requests a facility route or type other than that which the company would utilize for service (charges for route or type other than normal),
- ◆ A customer's request results in the company leasing transmission or other equipment from private vendors (lease charges), or
- ◆ A customer requests service that involves extraordinary conditions (excess costs).

### **3.3 Contract Agreement Forms**

Embarq procedures state that its Regional Network Planning Outside Plant Pricing Tool is used to provide timely quotes for special construction requests through its National Customer Service operations. However, the Florida operations uses the Project Administration and Costing System to enter the quantity and description of materials and equipment required to complete a project cost quote and track all projects. After the detailed quote is prepared, it is mailed to the customer for approval. When the customer approves the estimated charges quoted and the company receives prepayment, the special construction project is begun. This process is generally followed for simple residential applications.

For business market accounts, an Individual Case Basis Agreement is used to document special services or arrangements requested by the customer that are not offered under Embarq's tariffs. This agreement specifies the term, service, rates, applicable tariff information, termination liability, recurring and nonrecurring charges, and other specific cost information pertinent to the agreement. The agreement is signed by both customer and company representatives and each party retains a copy of the agreement.

### **3.4 Process Flow and Timing**

Embarq's National Customer Services Method and Procedure 002-001-510 provides the standard system-wide procedures for preparation and distribution of documents required for customer requested work activities such as moves, excess construction, facility relocation, and make-ready work. According to Embarq's documentation, the company has recently made extensive revisions to the Keep Cost Recovery process to assist the Field Team Engineering and Network Cost Recovery organization in recouping charges applicable to each state's tariff. The procedure was effective September 23, 2005, and the most current issue of this procedure is dated April 14, 2006. This procedure requires all custom work activities to be captured in a Keep Cost Recovery format.

The company also implemented a process to outsource the creation of invoices and payment collection through an outside adjustment company in June 2004. Embarq made the change to improve overall turnaround time for completing estimated invoices to the customer, and to create one source for payment handling to reduce the risk of misplaced payments. ■

Once a customer contacts the Field Team Engineer with a custom work request, the engineer schedules a meeting with the customer to review and discuss the proposed project and scope of work. This process includes a site visit during which the customer is informed that they will be notified within five working days with a verbal quote. The engineer then creates a quotation of estimated project costs through the Work Activity and Keep Cost Recovery module in the Project Administration and Costing System.

The Project Administration and Costing System allows engineers various options for pricing work-related activities and providing timely quotes for special construction. Once the user is signed into the system, a new or revised quote can be entered. The engineer enters the quantity and description of materials and equipment required to complete the quote. After the engineer completes the input process, including the addition of project overheads, the quote is produced in an Excel format. One copy of the quote is presented to the customer, while the original quote is saved by the engineer for later viewing or printing.

The Network Cost Recovery organization approves all Keep Cost Recovery work activities and provides the engineer notification of when customer payments are received. Network Cost Recovery also creates the customer invoice, based on the billing information provided by the engineer, and forwards all invoice requests to the outsource agent for billing. The outsource agent then creates and mails customer invoices within 24 hours. The mailed invoice instructs the customer on several methods for making the required pre-payment and provides a centralized payment remittance address. The invoice also informs the customer that if payment is not received within 30 days, the service order and work activity will be cancelled.

The outsource agent notifies Network Cost Recovery daily of any payments received, and the Work Activity is updated in the Project Administration and Costing System. The engineer receives notification of the payment being received through the Project Administration and Costing System and completes the approval process to begin work on the project. The engineer can then approve and release the special construction project for scheduling and work completion. The Engineering Manager, or other manager appointed by fiscal policy, gives the final approval of each project.

Field forces complete work order and service order activity associated with the project and actual labor and materials are charged to the Keep Cost Recovery project number. After all activity is completed on the project, the engineer details the final project charges and closes the project. The project close document is forwarded to Network Cost Recovery, where it determines whether a refund or additional invoice is required. If no additional billing is required, Network Cost Recovery closes the Work Activity and Keep Cost Recovery project.

If a refund is required, Network Cost Recovery requests an additional invoice from the outsource agent and completes an upload of costs into the Project Administration and Costing System. The outsource agent receives the invoice preparation request and sends the additional invoice to the customer for payment. Upon receipt of payment, the outsource agent sends the



payment file to the company Treasury and notifies Network Cost Recovery of the payment receipt.

### **3.5 Pricing Components**

Embarq uses approved master contractors and competitively bid master contracts in each operating district. It awards the contract bid to the lowest provider for the area that meets Embarq Corporation requirements. Therefore, each estimate for custom work may be different based on the type and scope of work and the district location costs for the different types of work requested.

Embarq uses unit-based pricing tables for the assigned labor types and material quantities for the scope of work requested, and states that hourly rates and charges are discouraged for most construction activities, but are recommended for maintenance type work. Overheads are included in all special construction requests.

### **3.6 Tracking Construction Status**

As described in previous sections of this report, Embarq's Engineering and Construction personnel meet with the customer to review the special construction work requested. At this time, the proposed timeline and other pertinent information regarding the customer's request are captured. Within five working days of the meeting, a written estimate is provided to the customer. The advance payment of project costs must be received by the company prior to beginning any construction. Each Work Activity and Keep Cost Recovery project is created and approved in the Project Administration and Costing System, and the system is used to track and control all phases of the project's cycle.

## **4.0 Verizon**

### **4.1 Activities Requiring Special Construction**

Verizon's General Services Tariff, Section A5, specifies the general conditions and charges associated with special construction requests. Section A5.1 lists the general conditions where special construction may apply. The primary types of activities where special construction may be required are as follows:

- ◆ Public highways,
- ◆ Private property,
- ◆ Special types of construction,
- ◆ Underground service entrances,
- ◆ Rearrangements of existing plant, and
- ◆ Construction required for temporary service.

Verizon indicates that special construction of network facilities is required when a customer asks Verizon to provide a tariffed service and the company is unable to do so without performing additional construction to build out, modify, rearrange, or relocate its switched network facilities for their sole benefit. Special construction charges are not in place of tariffs, but are construction charges billed in addition to the services requested by the customer. Verizon is normally paid in advance for special construction projects prior to beginning construction, but

may assess its special construction costs to the customer through a monthly recurring or one-time nonrecurring charge.

#### **4.2 Company Procedures**

Verizon has two different processes for implementing special construction projects. A Custom Work Order/8P process is used for the vast majority of its smaller special construction projects, and an Individual Case Basis process is used for larger business customers with special construction needs. These two processes are used to identify applicable special construction charges, complete the customer cost quote, collect customer authorization, track the project status to completion, and complete customer billing.

Verizon's procedures indicate that its 8P special construction process is administered by Outside Plant Engineering via an engineering work order. Additional non-billable work, such as plain old telephone service extended beyond limits specified in the tariff, is handled through the issuance of a service order and regular billing methods.

The 8P special construction process is generally initiated by a customer request for service, which requires existing network services to be extended, modified or relocated. These requests are received through Verizon's Outside Plant department. Once requests are received and Verizon determines special construction charges will apply, the Outside Plant department prepares a cost quote for the customer.

The Outside Plant department is the primary interface with the customer to determine the construction scope and determine appropriate project costs. It contacts the customer to gather additional information necessary to determine the project scope, design and costs. It then determines the material, labor, and other costs associated with the scope of work to be completed. The Outside Plant department then presents the customer with a Letter of Intent to Pay for signature and pre-payment. Once the agreement is signed and the pre-payment is received from the customer, Outside Plant establishes an Engineering Work Order to be used by field forces to schedule labor, order material, and construct the facilities required.

The Individual Case Basis process is used for complex and competitive business market service requests requiring special construction. In these cases, the Verizon Integrated Custom Cost System is used to generate quotes for contracts. The web-based intranet tool generates the quotes for specialized Individual Case Basis contract services, and Marketing and Sales representatives deliver and explain the contract to the customer. After the contract is signed and costs are paid, the construction project begins, and is completed by Outside Plant Engineering through an Engineering Work Order.

#### **4.3 Contract Agreement Forms**

Verizon uses an application form to document the detailed costs for completing a special construction quote requested by the customer. The description of the work to be completed, applicable charges, termination liabilities, and billing responsibilities are included on the application form. Both parties must sign and date the agreement before the start of construction. Verizon also maintains the right to assign the application to any sub contractors for completion. The application cannot be modified or rescinded except by the written authorization of both parties.

#### **4.4 Process Flow and Timing**

For ICB special construction projects, Marketing and Sales contacts the customer and determines the scope of work that the customer requests. Marketing inputs the customer request through the Construction Network Engineering tracking system. The customer specific pricing costs and inputs are developed and entered into the agreement. Marketing and Sales representatives then present the final costs to the customer, and explain the terms outlined in the agreement.

For 8P projects, Verizon initiates a construction project after receiving a customer request for services requiring special construction. The Outside Plant department determines the labor hours, material units, contractor costs, and construction schedule for completing the project. Upon receiving the signed Letter of Intent and pre-payment in Engineering, Outside Plant Engineering revisits the job details for accuracy and submits the work order package for management approval. Upon approval, the Outside Plant department issues the internal work order for the construction project.

#### **4.5 Pricing Components**

For Individual Case Basis projects, the Verizon Individual Case Basis Contract Costing System is used to determine special construction project costs for complex business and competitive requests. This model contains the direct costs and overhead loadings to estimate total costs for each project. The model includes loadings for depreciation, cost of money, return on equity, composite income tax, property tax, gross receipts loadings, company-specific expense factors, software factors, and other data to determine the overhead costs of each project. Based on the basic material, labor, and overheads input to the model, the additional loadings are applied to the final project costs and the final quote is completed. From there, the agreement is prepared and presented to the customer for approval, pre-payment is received, the construction is completed and any additional billing is completed.

#### **4.6 Tracking Construction Status**

Verizon completion timeframes for Individual Case Basis projects are estimated and presented to the customer prior to signing the contract agreement. For 8P projects, Verizon engineers establish the in-service date and the all-work-completed date based on estimated project work schedules. For both types of projects, the customer may request a specific in-service date, the requirements of each job determine when service is available. The job requirements, type of construction, scope of work, and other factors impact the timing of each project.

For uniquely complex or critical projects, Verizon conducts weekly status calls on every construction project and updates the established work schedule electronically. Such projects may be assigned project managers and specific engineers.

## **5.0 Special Construction Sample Results**

### **5.1 Sampling Results**

On average, AT&T handles approximately 86 new special construction projects monthly, Verizon averages about 24 monthly, and Embarq averages about ■. To more closely examine



the Special Construction process in each company, staff completed a sample of each company's 2006 project files and contracts. The sample taken was limited to specific districts within the company. The measures shown in **Exhibit 1** help gauge comparative company performance in completing special construction projects during 2006.

<b>Special Construction Project Sample Results</b>			
<b>Reviewed Items</b>	<b>AT&amp;T</b>	<b>Embarr</b>	<b>Verizon</b>
Number of Special Projects Reviewed	30	█	32
Number of Residence/Business Projects Opened	1 Residence 29 Business	██████████	2 Residence 30 Business
Projects Closed	10 *	█	18
	17*	█	14
Number and Percent of Projects Exceeding the Quote	20 of 30 67%	██████████	11 of 32 34%
Percent of Dollars Exceeding the Quote	20.4%	██████████	8.6%
Average Amount Exceeding the Quote	\$1,774	██████████	\$2,905
Number and Percent of Projects Less Than the Quote	8 of 30 26.7%	██████████	18 of 32 56.3%
Percent of Dollars Less Than the Quote	-35.0%	██████████	-39.5%
Average Amount Less Than the Quote	\$7,619	██████████	\$8,127
Net Dollars and Percent Less Than the Quote	-\$25,550 (-14.7%)	██████████	-\$114,335 (-30.9%)
Customer Signatures on Agreements	18 of 30 60%	██████████	30 of 32 94%
Quote to Customer Signature Average	14 Days	██████████	32 Days
Quote to Construction End Average Days	126 Days	██████████	77 Days
Construction Begin to End Average Days	85 Days	██████████	46 Days
Construction Projects Exceeding 120 Days	6 of 30 20%	██████████	3 of 32 9%

\* One project was miscoded and two were abandoned after the customer received a quote

**EXHIBIT 1**

*Source: DocumentRequest-2*

Overall, sample results show, that AT&T had the highest percentage of projects exceeding the amount quoted to its customers (67%). AT&T had the highest percentage of dollars exceeding the quoted amount (20.4%) and the second highest percentage of projects below the amount quoted to the customer (-35%). AT&T also had the second highest percent of customer signatures on special construction agreements (60%), and led the companies with the



highest percent of construction projects open more than 120 days (20%). Additionally, AT&T had the longest average interval between the beginning and end of construction projects (85 days), and the longest interval between the quote date and the completion of construction (126 days).

Embarq showed the highest percent of projects below the customer quoted amount (█%) and the lowest percentage of customer signatures on special construction contracts (█%). Embarq also tied Verizon with the lowest percent of construction projects exceeding 120 days (█%).

Verizon had the second highest percentage of projects less than the customer quoted amount (56.3%) and the highest percent of dollars below the customer quoted amount (-39.5%). Verizon also had the highest net percent of project dollars below the quoted amount (-30.9%). Verizon also had the highest percentage of contracts signed by customers (94%) and the longest quote to signature interval (32 days) of all three companies. Additionally, Verizon had the second longest average interval from the customer quote date to the end of construction (77 days) and the second highest construction begin to end date average (46 days).

Sections 5.2 through 5.5 discuss specific areas where each company can review and improve the special construction process.

### **5.2 Projects Costing More Than the Quoted Amount**

Sample results show that AT&T and Verizon led in the percentage of projects completed that exceeded the quoted amount. AT&T had 20 of 30 projects (67%) exceeding the customer quoted amount, Verizon had 11 of 32 (34%) projects exceeding the quoted amount, and Embarq had █ of █ projects (█%) exceeding the customer quote. Although the Embarq sample had only █ projects over the customer quoted amount, it averaged the highest overrun amount per project, at \$█ per project. AT&T averaged \$1,774 per project exceeding the quoted amount and Verizon averaged \$2,905 per project.

Cost overruns of 10% to 20% are covered under contractual agreement by █ and Verizon. Contract language includes a clause stating that the customer is liable for costs exceeding the quote by the specified percentage. This clause allows the company to recoup cost overruns beyond its control, which may occur in any special construction project. However, Verizon and █. AT&T does not include such a clause in its contractual agreements and does not attempt to recoup project costs exceeding the quoted amount.

Staff believes AT&T and Verizon should determine why project costs often exceed quoted amounts and make necessary adjustments to reduce the percentage of projects exceeding quoted amounts. AT&T should also consider adding contract language protecting itself from cost overruns beyond its control to ensure that appropriate overrun costs are captured. Staff also believes █ and make necessary adjustments to resolve any problem identified. In cases where justifiable cost overruns occur, companies should inform the customer and recoup the additional special construction costs.

### **5.3 Projects Costing Less Than the Quoted Amount**

All three companies offer their customers the option of using estimated or actual cost methodologies for special construction projects. If the customer selects the estimated quotation methodology as most customers do, and projects are completed at a cost less than the quoted amount, the customer may have overpaid for the project. If this condition exists, companies should evaluate the frequency of these events and the impact of inaccurate quotes on customers. On the other hand, if the customer has selected the actual cost methodology for the special construction project, the customer is refunded the difference between the quoted amount and the actual costs.

Staff's sample shows that Embarq and Verizon led in the percentage of projects whose final costs are less than the quoted amount, with █% and 56.3% respectively. However, with Embarq's █ open projects and Verizon's 18 open projects, it is likely that the reason for these high percentages is that not all charges were made to open projects at the time staff reviewed them.

Verizon and AT&T led in the percent of dollars below the quoted amount by -39.5% and -35% respectively, while Embarq has the lowest percent under the quoted amount at █%. Verizon and AT&T also have the highest average amounts per project under the customer quote amount, with \$8,127 and \$7,619 respectively. Verizon's percentage of net dollars below the customer quote amount was highest, at -30.9%. This percentage is considerably above that of AT&T or Embarq.

Staff believes Verizon and AT&T should examine special construction projects where the actual costs fall short of estimates, and make appropriate adjustments to resolve any problem identified. Each company should evaluate whether quotes that fall below project costs are due to efficient construction, whether proper charges are being made in a timely manner, and whether all appropriate costs are made to projects. Otherwise, these companies may not be capturing all project costs appropriately and could make future inaccurate quotes.

### **5.4 Construction Projects Over 120 Days**

The special construction process relies on many components, one of which is the length to complete construction projects. AT&T representatives indicate that the company attempts to complete a project within 120 days from its approval. However, staff's sample indicates that six (20%) of the sampled projects exceeded the 120 day threshold. In addition, AT&T's average construction beginning-to-end interval was 85 days, exceeding Verizon's average by 39 days and █ by █ days. AT&T's quote-to-construction-end interval was also the highest of the three companies at 126 days. While there are always operational and circumstantial differences between companies, the sample indicated to staff that the length of AT&T's construction process causes customer delays not experienced by the other two incumbent local exchange providers.

Staff believes AT&T should evaluate the length of its current special construction process, identify methods to reduce project completion intervals, and implement necessary improvements to reduce project completion intervals.

### **5.5 Customer Signatures on Contracts**

To evidence the customer's agreement with the quoted estimate, and to give authorization to proceed with the construction project, an Authorization Letter or Contract is completed between the company and the customer. These legal instruments, in addition to the customer's payment of the company quoted amount for the construction, evidence both parties' agreement to complete the project. [REDACTED]

Staff's sample showed that [REDACTED], while AT&T and Verizon maintained 60% and 94% signature rates respectively. AT&T representatives indicate that a signed agreement between the customer and the company are important, but that there are instances where the contract is not returned with the customer's payment as procedures specify. In these cases the customer payment signals the approval to begin construction, but does not provide the added assurance of a signed agreement.

[REDACTED]

Staff understands AT&T's and Embarq's positions regarding signed agreements between the parties, and how this process can improve the company's responsiveness to its customers. However, in a court of law, or before a regulatory body, a written contract between parties may be necessary to protect the company's interest. Therefore, staff believes AT&T and Embarq would be well served to identify a standard methodology for implementing a signed written agreement between the company and customer. Perhaps the companies may consider at which risk levels a signed agreement is not required and at which risk levels the companies should require written contractual agreements between the parties. Or the companies may consider a simpler form of contract for less risky conditions and a more comprehensive contractual agreement for more risky conditions. In either case, these decisions should be communicated through company procedures and employee training.

## **6.0 Company Comments**

This section presents company comments regarding the content of the report. Each company is allowed to present comments regarding any issues that staff has presented within the report. Each company's comments have been entered verbatim from their written statement presented to staff.

### **6.1 AT&T**

After reviewing the Report, AT&T Florida is mainly concerned with the amount associated with the eight (8) projects which indicate AT&T Florida's actual costs were less than



the estimated special construction amount billed to its customers. Staff indicated that AT&T Florida had billed customers \$60,953.55 more than the actual costs, which averaged \$7,619 per project. It should be noted that almost 90% of the amount billed identified by staff is associated with two (2) projects that are still in progress; and therefore should not be considered when evaluating the difference between estimated amount billed and actual costs for the project. In addition, the engineering costs associated with the projects are included in the cost estimates, but actual costs of engineering are not reported to the total costs of each project when an estimate of billing cost is used. After reviewing the other six projects that were indicated as being billed more than the actual costs, AT&T believes that based on the details of each project only four (4) projects were billed more than the estimated costs, which averaged \$176.42 per project instead of \$7,619. Of the remaining two (2) projects, one was a job issued to replace another job included in the sample; therefore, the original job should have been marked as abandoned. The remaining project currently indicates actual expenditures greater than the estimated billed costs and should not be considered to have been billed more than the estimated costs.

As for the projects that were over the amount billed, there are various business reasons for costs that exceed the original estimated amount. Additional un-billable work may be added to the job, extraordinary costs for transfer and rearrangement may be encountered that was unforeseen at the time the estimate was provided to the customer. Regardless of the reason, each one of these jobs will be analyzed to gain insight into any area that may need additional focus.

## **6.2 Embarq**

The Keep Cost Recovery (KCR) process is primarily utilized to address simple business and residential special construction related situations as well qualifying requests from government entities. A slightly different guideline within the KCR process is utilized for handling requests from government entities because pre-payments are not normally necessary and the respective entity has their own relocation agreement and cost acceptance forms that must be completed and authorized by a specific representative. An Individual Case Bases[is] (ICB) Agreement is utilized by the business markets group for customer requested specialized services or arrangements not offered under Embarq's Tariffs. The ICB agreement is typically associated with situations incorporating a monthly recurring cost and sets forth the terms and conditions of the service, which includes a termination liability.

Special construction projects differ significantly in design and complexity due to their uniqueness. Therefore, estimated costs are based on the facts and circumstances known at the time the applicant is interviewed and the respective engineer's initial evaluation of the site scenario. Additionally, for a number of reasons including inherent unforeseen obstacles encountered during construction e.g., 1) boring activity due to underground obstructions like other utilities, rocks, water, landscaping, etc., 2) customer requests for design changes after the construction activity begins, 3) Embarq initiated enhancements and/or reinforcements to the facilities that are not directly associated with the customer's request for service, 4) modifications to existing outside plant facilities and 5) custom designed facilities, cost overruns on a work order/activity can occur. The special construction process captures all costs recorded to the work order/activity number assigned to the project, but all costs captured may not be passed on to the customer for the reasons and circumstances described herein.



Cost under runs can also occur as the costs end up being based on the actual work performed. Also, in some cases certain costs may be shared by the Company due to the facilities changes actually providing a direct benefit to the Company such as being able to improve the quality of a facility resulting from its relocation or going from an aerial to an underground facility, etc. Other examples contributing to under runs are, 1) cable is buried shallower than initially estimated resulting in lower labor costs, 2) Company overheads adjusted monthly, 3) labor associated with trenching, 4) the extent of boring and splicing labor, etc. Embarq takes every reasonable step to ensure customer impacting construction estimates include all factors and circumstances known at the time they are initiated. As indicated by Staff in the draft report, the percentage of final costs being less than the quoted amount appeared to be high; however, with Embarq's 22 open projects this was likely the result of all associated charges not being posted to these open projects at the time staff reviewed them. The process utilized by Embarq to initiate the work activity, track and true up the costs, and track customer payments ensures any customer overpayments are refunded.

The process currently utilized by Embarq's engineers for capturing, quoting, and documenting the costs along with obtaining authorization to proceed with the necessary work via mailing the customer an invoice and their payment of same as authorization to proceed with the work does support an expeditious response to customer requests. However, Embarq appreciates the feedback from Staff pertaining to effectively communicating the applicable terms and conditions associated with special construction situations to customers as well as securing and retaining signed customer authorizations as a standard. Therefore, Embarq will identify the necessary tools to incorporate this into our existing KCR process as soon as the details can be worked out.

### **6.3 Verizon**

With regard to Section 5.0, staff's report states that Verizon should determine why some project costs either exceed or fall short of quoted amounts and make necessary adjustments "to recoup the additional special construction costs" or "resolve any problem identified." Verizon's current procedures already provide for this activity.

