ORIGINAL

Embarq Florida, Inc.
Docket No. 060763-TL
December 13, 2006

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DIRECT TESTIMONY

OF

KENT W. DICKERSON

Q. Please state your name, occupation and business address.

A. My name is Kent W. Dickerson and I am employed by Embarq Corporation in the capacity of Director – Cost Support. My business address is 5454 W. 110th Street, Overland Park, KS 66211. In that capacity I am responsible for directing Embarq's activities relating to developing and implementing economic cost study methods and practices designed to provide information useful in analyzing the costs of network components, and retail and wholesale services.

Q. Please describe your educational background and business experience.

A. I have 21 years of experience with Embarq and its predecessor, Sprint's Local Telephone Division, having joined United Telephone Midwest Group (ultimately an Embarq subsidiary) in September, 1985 as a Staff Accountant in the Carrier Access Billing area. Thereafter, I moved through a progression of positions and responsibilities within the Finance and Regulatory departments.

Since 1994, I have managed a work group which performs economic cost of service studies for retail and wholesale services, Unbundled Network Elements (UNEs) and specialized cost recovery programs (e.g. Federal number portability, Federal and

State High Cost Assistance Programs). I received a Bachelor of Science degree from the University of Missouri – Kansas City in 1981 with a major in Accounting. I am a Certified Public Accountant in the State of Missouri. Prior to joining Embarq, I was employed as a Corporate Income Tax Auditor II for the Missouri Department of Revenue and also worked for Kansas Power and Light (now Western Resources) in the Tax and Internal Audit areas.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to support Embarq's position requesting a waiver of its carrier-of-last-resort obligations in the Treviso Bay development under the provisions of section 364.025(6)(d) of the Florida Statutes. My testimony provides the following:

1. An explanation of the physical layout and engineered construction of telephone plant that would be required in order for Embarq to offer voice telephone service to the various customer and building locations within the Treviso Bay development where no Embarq facilities currently exist.
2. A financial analysis which demonstrates the negative and unworkable financial results which Embarq will predictably incur, unless it is granted the requested waiver of its carrier-of-last-resort obligations in the Treviso Bay development under the provisions of section 364.025(6)(d) of the Florida Statutes.

Q. Please describe the telephone plant construction required for Embarq to offer voice telephone service within Treviso Bay.

A. To assist in explaining the construction of new telephone plant required unless Embarq's waiver is granted, I have prepared an aerial map exhibit (Exhibit KWD-1) attached to this testimony and will reference it in my description. Under the COLR obligations, Embarq would be required to place enough facilities within Treviso Bay to provide service to every subscriber regardless of what the realistic expected penetration rates are for Embarq's services. Were Embarq to be required to construct facilities to offer voice service within the Treviso Bay development the Central Office switch used would be Embarq's existing central office 5ESS switch located at [redacted] (CLLI NPLSFLXCDS0). As depicted by the yellow line on the aerial map exhibit, individual fibers within an existing fiber cable, which routes 12,000 feet from the central office switch to the entrance of Treviso Bay, would be used. From this point, Embarq would have to construct a new fiber cable for approximately an additional 6,000 feet in order to complete a fiber cable connection between the switch and a newly placed Digital Loop Carrier device.

As just mentioned a new Digital Loop Carrier device would be required in accordance with the 12,000 feet Carrier Serving Area industry engineering standards. Embarq would then need to construct copper cable connections from the centrally located DLC device to each of the distribution areas indicated on the aerial map. Finally, Embarq would be required to construct drop wire and NIDs at each customer location and connect the drop to a pair of copper distribution cable wires to complete a voice path between the central office switch and each customer location.

Q. Based on the construction requirements you have described, and the acts described in the testimony of Michael DeChellis, is the construction of voice telephone plant within Treviso Bay economic?

A. No. In order to understand the financial viability of being required to construct the necessary voice telephone network just described, I have prepared the attached exhibit KWD-2. This exhibit provides a standard financial analysis of the Net Present Value (NPV) of cash flows over a 20-year period, thereby demonstrating the grossly unworkable finances (i.e. negative cumulative cash flows of $[redacted]) were the Commission to deny the relief requested by Embarq. The NPV of cash flow analysis reflects incremental capital construction of $[redacted] over the first 6 years reflective of the developer's plans to construct 1200 customer locations during this same period. Additionally, the analysis reflects the consumption of $[redacted] existing capital in the form of existing fiber cable, switch termination equipment and interoffice transport network bandwidth consumption for carrying voice traffic.

Key to the analysis is the expected [redacted]% voice service penetration discussed in the Testimony of Mr. DeChellis. The revenue assumed in my analysis is likely optimistic at best in that it assumes this [redacted]% of customers who purchase Embarq's services will purchase higher end bundles of voice services at the average Embarq penetration experience for the overall Naples market. Similarly, both the revenue per customer buying stand alone residential service and an average amount of a la carte features, as well as the revenue per customer purchasing a bundle, were set based on the actual average experience for each from the Naples market.

The retail costs of serving these customers was set based on Embarq Florida specific experience and data, as was the maintenance costs of the telephone plant. Despite these generous assumptions, the revenue generated from the expected [redacted]% customer penetration is, predictably, grossly insufficient for Embarq to recover its capital costs and incremental operating expenses and instead yields negative NPV cash flows for each year, twenty years into the future.

I would note the analysis does not include additional, predictable negative cash flow impacts from such realities as customer churn and future price declines in voice services. 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 invested capital of $[redacted] and associated operating expenses.

Q. Does this conclude your testimony?

Yes.

Treviso Bay - Voice Network Construction

Exhibit KWD-1

REDACTED

Exhibit KWD-2

Embarq - Florida
Treviso Bay NPV Cash Flow Analysis

Key Assumptions:	
1 New Capital (shown Yrs 1-6)	[redacted]
2 Consumed Capital (shown Yr 1)	
3 Total Capital	
4 Reinvested Capital (new DLC Yr 11)	
5 Penetration	
6 Subscribers	
7 Revenue - Ala Carte Sub	
8 Revenue - Bundle Sub	
9 Percent Buying Bundle	
10 Revenue Per Sub - Avg	
11 Maintenance	
12 Capital Cost	

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16	Year 17	Year 18	Year 19	Year 20
13 Demand Units - Year End	[redacted]																			
14 Demand Units - Mid-Year																				
15 Capital Expenditures																				
16 Revenue																				
17 Cash Expenses																				
18 Income Tax																				
19 Cash Flow - In(Out)																				
20 Cumulative Cash Flow - In(Out)																				
21 Discount Rate @ 8.12%																				
22 NPV By Year																				
23 Cumulative NPV																				