

REDACTED

ORIGINAL

EMBARQ FLORIDA, INC.  
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1 *Embarq's NPV of Cash Flows*

2

3 **Q. Starting at page 26 of his testimony Mr. Wood begins a series of Q&As pertaining**  
4 **to the NPV of cash flows analysis presented in your direct testimony. Do you agree**  
5 **with Mr. Wood's criticisms and conclusions?**

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7 **A.** Of course I do not, but more importantly I can easily explain why Mr. Wood is  
8 incorrect. Looking first at Mr. Wood's criticisms regarding Embarq's [REDACTED] % voice service  
9 penetration projection at page 26 of his testimony, he complains that Embarq's market  
10 share data analysis does not ensure "...the "right" answer for the Treviso Bay area will  
11 be [REDACTED] %".

12

13 Embarq agrees that this estimate might not prove to be precisely the "right" answer  
14 given it is projection of a future outcome (which Embarq hopes to never suffer). It is  
15 extremely telling however, that [REDACTED] market  
16 penetrations provided in the "Embarq - Florida Market Share Analysis Summer 2006"  
17 table (see Embarq response to Staff Date Request 3) [REDACTED]

18 [REDACTED]! Thus it is not necessary, or even advisable to  
19 identify what the exact penetration of Embarq's voice only services might be, absent the  
20 requested COLR relief, [REDACTED]

21 [REDACTED] result in negative, and harmful economic losses to Embarq. Obviously  
22 Embarq is convinced of this negative result, or it would have gladly gone forward with  
23 the construction and operation of a profitable network in Treviso Bay

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2 **Q. On page 32, line 21, Mr. Wood claims that Embarq's NPV of cash flows analysis is**  
3 **"suspect" because it produces a negative NPV at year 10 using a 100% penetration**  
4 **assumption. Is Mr. Wood's conclusion correct?**

5 A. Not at all. Mr. Wood's testimony indicates his apparent lack of understanding of the  
6 general realities of a wireline carrier's financial returns for serving residential customer  
7 markets.

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9 First, Mr. Wood conveniently does not mention that his hypothetical 100% penetration  
10 NPV run produces a positive result somewhere between year [REDACTED]

11 [REDACTED]

12 [REDACTED]

13

14 Second, Mr. Wood makes further erroneous claims that this [REDACTED] year NPV payback  
15 period exceeds the useful life of the underlying assets. In reality, the bulk of these fiber  
16 and copper cable assets, when deployed in markets sufficiently open to competition,  
17 will be economically and physically useful well beyond [REDACTED] years. Mr. Wood also  
18 ignores that Comcast's 100% bulk contract of high speed data and video results in no  
19 revenue or cash generation for Embarq from these services, which further explains why  
20 the NPV payback period falls between [REDACTED] years.

21

22 **Q. Are there other errors evidenced in Mr. Wood's calculations?**

23 A. Yes, several. Mr. Wood claims that customer density of the Treviso Bay development is