

Penetration to break even is the percent of total households in the Treviso Bay development that would need to subscribe to Embarq services in order for Embarq to recover its costs to build the requested facilities. This occurs when the cumulative net present value equals \$0 in [REDACTED] after initial build. With Treviso Bay's bulk agreement with Comcast to provide data and video along with Comcast's ability to provide voice services, actual Embarq penetration in Treviso Bay would be much lower than this mathematically calculated penetration rate.

Subscribers to break even are the mathematically calculated number of subscribers from the Treviso Bay subdivision that would need to subscribe to Embarq service in order for Embarq to recover its cost of building the network to provide service to these customers. It is calculated as the number of housing units where Embarq service is available times the percent of penetration to break even as discussed above.

Revenue Ala Carte Sub is the revenue per subscriber line for those customers expected to purchase basic service based on actual data from customers in the surrounding Naples area. Data is based on analysis of October 2006 revenues for all Naples Residential customers. It includes the average R1 access line rate, Custom Calling Feature revenue purchased on an ala carte basis, other access line-based revenues (directory listing, Messageline, Inside Wire maintenance, and CPE warranty), Subscriber Line Charge, and average toll and access revenue per residential line. It also includes the \$2.25 increase in residential access line rates due to the November 2006 rate rebalance.

Revenue Bundle Sub is the revenue per subscriber line for those customers expected to purchase a bundle of Embarq services offering based on actual data from customers in the surrounding Naples area. Data is based on analysis of October 2006 revenues for all Naples Residential customers. It includes the average R1 bundle access line rate, other access line-based revenues (directory listing, Messageline, Inside Wire maintenance, and CPE warranty), Subscriber Line Charge, and average toll and access revenue per residential line. It also includes the \$2.25 increase in residential access line rates due to the November 2006 rate rebalance.

Percent buying Bundle is the percent of residential customers that would buy a bundle of services under normal market conditions where no exclusive agreement for data and video exists within the Naples area. The percent is calculated based on October 2006 study

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- SEC
- OTH

response to question 8, our current breakeven analysis is based on conservative estimates.

6. How were the "Cash Expenses" in Attachment 7 calculated?

Response: Cash expenses are based on analysis of customer expenses drawn from Embarq Florida actual data. The cash expenses include network maintenance expense, property taxes, and other retail-related expenses such as billing, customer service, sales and marketing, general support, and uncollectible revenue.

Maintenance expenses for fiber, copper, and circuit investments are a percent of capital investment based on Embarq Florida actual maintenance expense factors. Property tax expense is based on the actual level of property taxes paid by Embarq in Florida. Other retail-related expenses including customer service, billing, sales, and marketing expense are calculated based on a Florida retail cost study.

7. How was the "Income Tax" in Attachment 7 calculated?

Response: Income tax is based on the expected total income tax rate. Expected income is calculated as revenue less cash expenses less tax depreciation. This amount is then multiplied by the composite income tax factor of 38.58% for federal and state taxes. The federal tax rate is 35% and the state tax rate is 5.50%. The actual calculation is 35% plus (5.5% times (1- 35%)) to adjust for the state tax deduction from federal tax.

8. Explain Embarq's understanding and definition of "break even" in Attachment 7. For example, explain if "break even" refers to Embarq recovering its costs within a certain time period?

Response: "Break even" is the financial point at which Embarq would be economically neutral after incurring the costs for building out the Treviso Bay development, i.e. the point where Embarq would recover its costs. It is defined as when the cumulative net present value of cash flows equal zero within [REDACTED]. The net present value is calculated as all cash flows discounted at the cost of capital and summed for [REDACTED]. The cash inflows are expected revenues from customers. Cash outflows include all new capital expenditures and expenses. The analysis conservatively does not reflect the additional costs or lower revenue of the following items:

- higher cost of capital that would be required for capital cost to build to a development that is expected to be uneconomical
- the cost of Embarq's existing network that will be partially consumed by building to this development
- expected decline in revenue per subscriber due to overall competitive pressures in the future
- the impact of customers disconnecting service in the future

9. Explain how Embarq determined the number of subscribers it needs to break even in Attachment 7.

Response: This is the mathematically computed number of subscribers that Embarq would need to recover its costs. It is the number of subscribers required for the cumulative net present value of cash flows to be zero within [REDACTED] at projected revenues and costs based on analysis of Florida data. Embarq will not be able to achieve this level due to the exclusive agreements to provide data and video services from a provider who also offers voice services.

10. How many times has Embarq applied Rule 25-4.094, F.A.C. (Advance Rule) and Embarq's General Exchange tariff Section A5, Gi (Tariff), to a developer prior to this Petition?

- (a). For the period 1971 – 1995, provide the total number of times the Advance Rule and Tariff were used.

Response: Embarq does not have any information regarding whether/how many times the Advance Rule and tariff were used between 1971 – 1995.

- (b). For the period 1996 – present, for each use of the Advance Rule and Tariff, provide the beginning year, the developer, the name of the development, county, the amount of the deposit, and the amount of the deposit returned to the developer, if applicable.

Response: To the best of our knowledge, Embarq has not used the Advance Rule and Tariff prior to this application at Treviso Bay during the period from 1996 – present. During that time frame Embarq (and its predecessor companies) generally worked with the developers of new subdivisions to coordinate the timing and placement of facilities in the most economic fashion for the Company while at the same time meeting its COLR obligations. Only in the last several years has Embarq encountered situations where a developer expects the Company to cable an entire subdivision even though the developer has entered into exclusive agreement(s) with another provider and wants Embarq facilities only as a fallback. This current environment has economic parallels for the telco to the 1970's where subdivisions were platted, land subdivided, and roads put in but build out of homes was very sporadic and slow. In both cases, there was/is the potential for significant stranded investment by requiring facilities and infrastructure be placed throughout an entire subdivision where realistically there was/is little immediate or even perhaps long term potential for paying subscribers.

11. The Advance Rule predates local telephone competition. Please explain why this rule is appropriate for Embarq to use in the Treviso Bay Development.

The Advance Deposit Rule was adopted specifically to protect local exchange companies from uneconomic investment. The rule and tariff provides financial protection for Embarq when it is required to build a network that they would not normally build under current facts and circumstances. Given that Treviso Bay has entered into a bulk agreement with Comcast to exclusively provide data and video services and that Comcast also provides voice services, Embarq would not normally build any additional network facilities in these circumstances. By receiving a deposit computed upon the number of subscribers needed to recover its cost of the developer requested facilities, Embarq would be protected from an uneconomic investment.

- (f). Explain how Embarq's method to calculate the deposit amount and potential refunds conforms with the method described in Section A5, Gi of Embarq's tariff.

Response: Under tariff section A5, Gi the deposit should be the difference between facilities requested and facilities normally provided. Given the facts and circumstances of Treviso Bay, Embarq would not build the requested facilities absent the required deposit. The cash deposit provides a performance guarantee that Embarq will recover its cost of placing facilities. Under current circumstances, Embarq expects a small percent of customers, so the deposit was calculated based on number of subscribers required to recover Embarq's costs less those expected. Embarq would begin to refund the deposit if and when actual subscribers are higher than expected subscribers. This method of deposit and refunds protects Embarq from uneconomic investment.

15. Section A5, Gi of the General Exchange tariff states in part, "[Q]uarterly refunds will be made during the first five years after construction completion or until such time as the deposit is depleted if prior to the five years." When does Embarq consider construction to be complete, e.g., when all Embarq's facilities are installed or when some portion of the facilities are installed? Please explain your answer.

Response: Construction is complete when network facilities are installed and suitable and capable of providing service to a household when requested.

16. Explain how Embarq calculated the deposit amount of \$685,631 referenced in Attachment 6 of its Petition for Declaratory Statement. Please provide a worksheet showing all the calculations.

Response: The deposit calculation is shown on Attachment No. 1. The subscribers to break even are the total that Embarq would need to recover its cost within [REDACTED] using the cost and revenue assumptions based on the facts and circumstances at Treviso Bay. The expected subscribers is the total housing units times a