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August 4, 2006

BY ELECTRONIC MAIL AND U.S. MAIL

Frances Nichols Anglin
Public Utility Commission of Oregon
550 Capitol Street NE #215
PO Box 2148
Salem, OR 97308-2148

Re: In the Matter of the Petition of Qwest Corporation for Waiver of Certain Accounting Rules and Orders

Dear Ms. Nichols Anglin:

I am enclosing herewith for filing an original and five copies of Qwest Corporation's Petition for Waiver of Certain Accounting Rules and Orders. With this Petition, Qwest asks the Commission to open a docket to approve a Memorandum of Understanding between Qwest and Staff and to grant other relief as requested in the Petition.

Thank you for your attention to this matter.

Sincerely yours,

Lawrence Reichman

LR:dmp
Enclosures
cc: Alex Duarte
Don Mason
Phil Grate
Michael Weirich
Phil Nyegaard

[13141-0061/PA062160.021]

BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON

DOCKET ______________

In the Matter of the Petition of Qwest Corporation for Waiver of Certain Accounting Rules and Orders	QWEST CORPORATION'S PETITION FOR WAIVER OF CERTAIN ACCOUNTING RULES AND ORDERS

I. PETITION

Qwest Corporation ("Qwest") respectfully petitions the Commission for a waiver of the application of certain Commission rules and orders that pertain to accounting practices. Generally, Qwest seeks the Commission's permission to discontinue Oregon jurisdictionally specific accounting and to maintain one set of accounting records, following rules and procedures of the Federal Communications Commission ("FCC") (referred to herein as the "MR" basis of accounting). Specifically, Qwest petitions the Commission: (1) to waive the application of OAR 860-027-0050 to the extent it requires Qwest to maintain accounting records different from those it maintains according to the MR basis of accounting; (2) to permit Qwest to utilize the MR basis of accounting for all Oregon regulatory reporting purposes; (3) to relieve Qwest of the obligation to utilize the depreciation and salvage rates established in Commission Order No. 96-117, entered May 3, 1996, in Docket No. UM 767; (4) to permit Qwest to utilize the depreciation and salvage rates that it utilizes now and will utilize in the future for the MR basis of accounting; and (5) to waive the requirement of any other Commission order to the extent that such order requires Qwest to maintain accounting records different from those it maintains on the MR basis of accounting. This petition is supported by the Memorandum of Understanding between Commission Staff and Qwest (the "MOU"), attached hereto as Exhibit A.

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II. DISCUSSION

The basis for Qwest's petition is described in detail in the MOU. This discussion will summarize the relief requested and the basis for this petition.

A. Accounting Guidelines for Qwest

Historically, Qwest has maintained accounting records on two bases in Oregon. MOU, ¶ 1. Qwest has utilized the "MR" basis of accounting, following rules and procedures of the FCC. *Id.* Qwest has also maintained accounting records according to the "JR" basis of accounting, which reflects accounting standards and estimates that deviate from MR accounting and instead follow accounting standards and estimates prescribed by this Commission in its in rules and orders. *Id.* JR accounting is intended to support rate-of-return ratemaking determinations by the Commission. *Id.*

Since Qwest's election under ORS 759.405, effective December 30, 1999, to opt out of rate-of-return regulation and, instead, to be subject to price cap regulation under ORS 759.410, Oregon JR accounting is no longer necessary or relevant to support rate-of-return ratemaking. MOU, ¶ 2. Consequently, maintaining JR accounting records places an unnecessary burden on Qwest. *Id.* Accordingly, Qwest and Staff have agreed that Qwest should be relieved of the requirement to maintain JR accounting records and, instead, be permitted to follow MR accounting for all Oregon regulatory reporting purposes. MOU, ¶ 3.

Specifically, Qwest and Staff agree that Qwest should be granted a waiver of OAR 860-027-0050, to the extent that it requires Qwest to maintain accounting records different from those it maintains on the MR basis of accounting. MOU, ¶ 4. Qwest and Staff also agree that Qwest should be granted a waiver of Order No. 96-117, to the extent it requires Qwest to maintain depreciation and salvage records different from those it maintains on the MR basis of accounting. *Id.* Further, Qwest and Staff agree that Qwest should be granted a waiver of any other OPUC order to the extent that such order requires Qwest to maintain accounting records different from those it maintains on the MR basis of accounting. *Id.* Neither Qwest nor Staff has

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identified any such order, but Qwest makes this request so that it does not inadvertently violate any Commission order when it implements the relief requested in this petition.

Qwest notes that OAR 860-027-0050 does not specifically provide for a waiver from its requirements, nor does Division 027 generally provide for waivers. Nevertheless, based upon Qwest's election under ORS 759.405 and the alternative processes delineated in the MOU, Qwest thinks that a waiver of these requirements is appropriate in this instance. Qwest understands that Staff agrees this is the case.

B. Current and Future Depreciation and Salvage Rates for Financial Reporting Purposes

Order No. 96-117 establishes the depreciation and salvage rates that Qwest uses for JR accounting. The MOU sets forth the depreciation and salvage rates that Qwest currently uses for MR accounting. MOU, ¶ 5. Qwest and Staff agree that Qwest may use MR depreciation rates, as such rates may be changed from time-to-time, in place of the rates established in Order No. 96-117, and that the Commission should approve the use of such rates. *Id.*

Qwest has filed a petition with the FCC requesting a waiver of certain FCC rules that regulate Qwest's depreciation rates, methods, and practices for MR accounting purposes. MOU, ¶ 6. A copy of the FCC petition is attached to the MOU as Exhibit 1. Qwest also requested the FCC to waive other sections of the FCC's rules so that the net book costs on Qwest's regulated books are the same as those on its financial books going forward. *Id.* If the FCC grants the requested waiver, Qwest will record a below-the-line adjustment to bring its net book costs on its MR (*i.e.* FCC) books into agreement with its financial (*i.e.* SEC) books, and will use the same depreciation factors and rates for MR (*i.e.* FCC) and financial (*i.e.* SEC) purposes going forward. MOU, ¶ 8. The specific service lives and factors Qwest used for financial reporting purposes at the time Qwest filed its FCC petition are set forth in Attachment B to the Declaration of R. William Johnston, Qwest's Vice President and Assistant Controller, which is attached to the FCC petition. MOU, ¶ 9.

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Qwest will report to Staff changes in the depreciation rates it uses for FCC reporting and will provide supporting information regarding such changes. MOU, ¶ 10. Staff will review this information and, within 30 days, will indicate its approval or disapproval of these rates for use in cost studies. *Id.*

C. Reservation of Rights

By agreeing to the MOU, Staff does not relinquish its right to challenge the rates in future Commission proceedings, nor does it relinquish its right to request that Qwest perform a depreciation study in the future. MOU, ¶ 11.

There will be no presumption that the MR depreciation rates used for FCC reporting, the "FR" depreciation rates used for SEC reporting, or any other set of rates must be used for any future TSLRIC or TELRIC cost studies. MOU, ¶ 12.

III. RELIEF REQUESTED

Based upon the foregoing and the terms of the MOU, Qwest Corporation respectfully requests that the Commission issue an order that:

1. Approves the Memorandum of Understanding between Qwest and Staff;
2. Waives the application of OAR 860-027-0050 to the extent it requires Qwest to maintain accounting records different from those it maintains according to the MR basis of accounting;
3. Permits Qwest to utilize the MR basis of accounting for all Oregon regulatory reporting purposes;
4. Relieves Qwest of the obligation to utilize the depreciation and salvage rates established in Commission Order No. 96-117, entered May 3, 1996, in Docket No. UM 767;
5. Permits Qwest to utilize the depreciation and salvage rates that it utilizes now and will utilize in the future for the MR basis of accounting; and

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6. Waives the requirement of any other Commission order to the extent that such order requires Qwest to maintain accounting records different from those it maintains on the MR basis of accounting.

DATED: August 4, 2006.

PERKINS COIE LLP

By ______________________________
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and

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MEMORANDUM OF UNDERSTANDING

Qwest Corporation ("Qwest") and Staff of the Public Utility Commission of Oregon ("Staff") enter this Memorandum of Understanding addressing several issues relating to (1) how Qwest may maintain its accounting records for Oregon financial reporting purposes, and (2) the depreciation and salvage rates Qwest shall use for Oregon financial reporting purposes, and related issues.

Qwest and Staff agree as follows:

ACCOUNTING GUIDELINES FOR QWEST

1. Qwest shall seek permission from the Public Utility Commission of Oregon (OPUC) to discontinue Oregon jurisdictionally specific accounting. Qwest has historically maintained accounting records on two accounting bases in Oregon. The "MR" basis of accounting follows rules prescribed by the Federal Communications Commission (FCC). The Oregon "JR" basis of accounting applies Oregon jurisdictional differences that reflect accounting standards and estimates which deviate from MR accounting and instead follow accounting standards and estimates prescribed by the OPUC in rules and orders. Oregon JR basis accounting arose during the rate of return regulatory regime that existed prior to Qwest's election under ORS 759.405 to opt out of rate of return regulation. JR accounting supported OPUC rate of return ratemaking determinations.

2. Under Qwest's election effective December 30, 1999, to opt out of rate of return regulation and to be subject instead to price cap regulation under ORS 759.410, Oregon JR accounting is no longer necessary or relevant. The statutory price cap regulation to which Qwest is now subject does not require JR accounting records or the maintenance of jurisdictionally unique accounting methods to support rate of return ratemaking. Consequently, maintaining JR accounting records places an unnecessary burden on Qwest.

3. Qwest and Staff believe the purposes for which JR accounting was established no longer exist and that Qwest's maintenance of JR accounting records is no longer warranted. Qwest and Staff agree that Qwest should be relieved of the requirement to maintain JR accounting records. Instead, Qwest should be permitted to follow MR accounting for all Oregon regulatory reporting purposes. In other words, Qwest should be allowed to maintain one set of books for both FCC and OPUC reporting purposes and that set of books should be on the MR basis.

4. Accordingly, Staff and Qwest agree that Qwest should be granted a waiver of OAR 860-027-0050, *Uniform System of Accounts for Large Telecommunications Utilities*, to the extent that it requires Qwest to maintain accounting records different from those it maintains on the MR basis of accounting. Qwest and Staff also agree that Qwest should be granted a waiver of OPUC Order No. 96-117 entered May 3, 1996 in UM 767, to the extent it requires Qwest to maintain depreciation records different from those it maintains on the MR basis of accounting. Further, Qwest and Staff agree that Qwest should be granted a waiver of

any other OPUC order to the extent that such order requires Qwest to maintain accounting records different from those it maintains on the MR basis of accounting. Qwest will submit to the OPUC the appropriate request for waiver as referenced in this paragraph. Staff agrees to fully support Qwest's waiver request before the OPUC.

CURRENT DEPRECIATION AND SALVAGE RATES FOR FINANCIAL REPORTING PURPOSES

5. The following table contains the depreciation and salvage rates Qwest currently uses for MR accounting purposes. Qwest represents that the lives used to develop these rates are within the life ranges established in 1994 and 1995 by the FCC. Qwest and Staff, by this MOU, agree to seek Commission approval for the use of MR depreciation rates, as such rates may be changed from time-to-time, in place of the rates approved in Commission Order No. 96-117. The current MR rates are listed below:

ACCOUNT NUMBER	CLASS OR SUBCLASS OF PLANT	FUTURE NET SALVAGE %	DEPR RATE %
2112	MOTOR VEHICLES	13.0	7.8
2114	SPEC PURPOSE VEHICLE	0.0	6.4
2115	GARAGE WORK EQUIP	0.0	6.6
2116	OTHER WORK EQUIP	5.0	4.9
2121	BUILDINGS	1.0	2.8
2122	FURNITURE	0.0	3.8
2123.1	OFFICE EQUIPMENT	0.0	9.3
2123.2	COMPANY COMM EQUIP	0.0	13.6
2124	GEN PURPOSE CMPTR	0.0	14.3
2211	ANALOG SW EQUIP	0.0	19.4
2212	DIGITAL SW EQUIP	2.0	8.5
2220	OPERATOR SYSTEMS	0.0	10.2
2231	RADIO SYSTEMS	3.0	6.0
2232	CIRCUIT EQUIP		
	CIRCUIT DDS	0.0	13.2
	CIRCUIT DIGITAL	0.0	10.6
	CIRCUIT ANALOG	0.0	4.6
2351	PUB TEL TERM EQUIP	6.0	3.6
2362	OTHER TERM EQUIP	0.0	12.1
2411	POLE LINES	(75.0)	9.3
2421	AERIAL CABLE MET	(9.0)	6.0
2421	AERIAL CABLE NON MET	(9.0)	8.2
2422	UNDGRD CABLE MET	(6.0)	4.5
2422	UNDGRD CABLE NON MET	(6.0)	5.5
2423	BURIED CABLE MET	(9.0)	6.8
2423	BURIED CABLE NON MET	(2.0)	4.4
2424	SUB CABLE MET	0.0	3.1
2424	SUB CABLE NON MET	0.0	5.4
2426	INTRA BLDG CA MET	(18.0)	4.9
2426	INTRA BLDG NON MET	(18.0)	6.2
2431	AERIAL WIRE	(34.0)	5.4
2441	CONDUIT SYSTEMS	(4.0)	2.1

FUTURE DEPRECIATION AND SALVAGE RATES FOR FINANCIAL REPORTING PURPOSES

6. On July 22, 2005, Qwest filed a petition with the FCC requesting a waiver of the FCC's rules that regulate Qwest's depreciation rates, methods and practices for MR accounting purposes. On July 28, 2005, Qwest submitted an Erratum to its waiver petition. In addition to those rules that directly address Qwest's depreciation practices (e.g., section 32.2000(g) of CFR Title 47), Qwest seeks waiver of other related sections of the FCC's rules so that the net book costs on its regulated books are the same as those on its financial books going forward. Qwest's petition therefore seeks waiver of sections 32.2000(a)(2), (g) and (h), 32.2007, 32.3100(c), 32.6720(j), 32.7100(a), 43.43, and any other sections of CFR Title 47 necessary to comply with the FCC's requirement that a carrier requesting waiver "adjusts the net book costs on its regulatory (MR)

books to reflect the level currently reflected in its financial books by a below-the-line write-off."[1] A copy of the petition is attached as Exhibit 1 to this Memorandum of Understanding.

7. The FCC established a comment cycle whereby interested parties could file comments on Qwest's petition on or before September 21, 2005 and reply comments on or before October 6, 2005.[2] No party filed comments.

8. Qwest met with the FCC Staff several times during the fall of 2005 under the FCC's *ex parte* rules to respond to requests for additional information about the implementation of the requested waiver. Qwest believes that it has satisfied all of the requirements necessary to be granted the waiver and expects the FCC will grant the waiver. If the waiver is granted, Qwest will record a below-the-line adjustment to bring its net book costs on its MR (*i.e.* FCC) books into agreement with its financial (*i.e.* SEC) books and will use the same depreciation factors and rates for MR (*i.e.* FCC) and financial (*i.e.* SEC) purposes going forward.

9. Attached to Qwest's FCC petition for waiver is the Declaration of R. William Johnston, Vice President and Assistant Controller. Attachment B to Mr. Johnston's declaration sets forth the service lives and factors in use by Qwest for financial reporting purposes at the time Qwest filed its petition for waiver.

FUTURE RATES UPDATES

10. In the future, when Qwest changes the rates it uses for reporting depreciation to the FCC, Qwest will send Staff a copy of the complete package of information that Qwest provides to the FCC to report such changes and a copy of any final stipulation with exhibits showing the salvage and depreciation rates employed, if and to the extent any such stipulation exists. Within 30 days from receipt of the package, Staff will indicate its approval or disapproval of the rates for its use in cost studies by (1) sending a written notice to Qwest and (2) a note by Staff to the UM 767 file.

RIGHT TO REVIEW AND CHALLENGE RATES

11. Staff, by agreeing to this Memorandum of Understanding, does not relinquish its right to review and challenge the rates in future Commission dockets. Nor does Staff relinquish the right to request that Qwest perform a depreciation study in the future.

DEPRECIATION RATES FOR COST STUDIES

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[1] *In the Matter of 1998 Biennial Regulatory Review – Review of Depreciation Requirements for Incumbent Local Exchange Carriers; United States Telephone Association's Petition for Forbearance from Depreciation Regulation of Price Cap Local Carriers*, Report and Order in CC Docket No. 98-137, Memorandum Opinion and Order in ASD No. 98-91, 15 FCC Rcd 242, 252-53, para. 25 (1999).

[2] DA 05-2337 issued by the FCC August 22, 2005 in WC Docket No. 05-259.

12. Under the requested waiver of OAR 860-027-0050, *Uniform System of Accounts for Large Telecommunications Utilities*, OPUC Order No. 96-117, and any other OPUC order to the extent that such order requires Qwest to maintain accounting records different from those it maintains on the MR basis of accounting, there will be no presumption that the MR depreciation rates used for FCC financial reporting, the FR depreciation rates used for SEC financial reporting, or any other set of depreciation rates must be utilized in Total Service Long Run Incremental Cost (TSLRIC) or Total Element Long Run Incremental Cost (TELRIC) studies on an ongoing basis. In future TSLRIC and TELRIC proceedings, each party will be free to present its arguments as to the appropriate depreciation rates that should be applied in these cost studies. No party is precluded from advocating FCC (MR) depreciation rates, SEC (FR) depreciation rates, or any other rates it believes are appropriate.

AGREED:

Staff of the Public Utility Commission of Oregon

By: Phil Nyegaard, administrator, Telecommunications Division

Dated 8/3/06

Qwest Corporation

By: A.K. Mason

Dated 8/2/2006

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of	)
	)
Petition of Qwest Corporation for	)
Waiver of Depreciation	)
Regulation under 47 C.F.R. §§ 32.2000(g)(h)	)
And 43.43 Pursuant to 47 U.S.C. § 160	)

PETITION FOR WAIVER OF QWEST CORPORATION

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QWEST CORPORATION

Of Counsel,
James T. Hannon

July 22, 2005

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And 43.43 Pursuant to 47 U.S.C. § 160	)

PETITION FOR WAIVER OF QWEST CORPORATION

Qwest Corporation ("Qwest"), pursuant to Section 1.3 of the Federal Communications Commission's ("Commission") Rules[1] and the requirements established in the Commission's *Order* denying the United States Telephone Association's ("USTA") Petition for Forbearance from Depreciation Regulation of Price Cap Local Exchange Carriers,[2] respectfully submits this petition requesting that the Commission grant Qwest a waiver of the Commission's rules which regulate Qwest's depreciation rates, methods and practices. In addition to those sections of the Commission's rules that directly address Qwest's depreciation practices (*e.g.*, § 32.2000(g)), other related sections of the Commission's rules that affect the calculation of net book cost must

[1] 47 C.F.R. § 1.3.

[2] *In the Matter of 1998 Biennial Regulatory Review – Review of Depreciation Requirements for Incumbent Local Exchange Carriers; United States Telephone Association's Petition for Forbearance from Depreciation Regulation of Price Cap Local Exchange Carriers*, Report and Order in CC Docket No. 98-137, Memorandum Opinion and Order in ASD 98-91, 15 FCC Rcd 242 (1999) (hereafter referred to as the "*USTA Depreciation Order*"). *Also see In the Matter of 1998 Biennial Regulatory Review – Review of Depreciation Requirements for Incumbent Local Exchange Carriers; Ameritech Corporation Telephone Operating Companies' Continuing Property Records Audit, et al.; GTE Telephone Operating Companies Release of Information Obtained During Joint Audit*, Second Report and Order in CC Docket No. 99-137 and Order in CC Docket No. 99-117 and AAD File No. 98-26, 16 FCC Rcd 4083 (2000) ("*Second Report and Order*"), wherein the Commission declined to adopt an alternative approach that would provide price cap local exchange carriers ("LECs") with relief from the Commission's depreciation requirements and left the waiver standard established in its *Order* denying USTA's Forbearance Petition in place.

be waived if Qwest is to ensure that the net book costs on its regulated books mirror those on its financial books going forward.[3] Therefore, this petition requests waiver of Sections 32.2000 (a)(2),[4] (d)(1),[5] (g)[6] and (h),[7] 32.3100(c),[8] 32.6720(j),[9] 32.7100(a),[10] 32.2007,[11] and 43.43[12] and

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[3] Failure to waive related sections of the Commission's rules would result in the anomalous situation of Qwest adjusting the net book costs on its regulated books to reflect those on its financial books on the implementation date -- but not keeping those amounts on its regulated and financial books in agreement on a going-forward basis.

[4] For financial reporting purposes Qwest classifies the proceeds from certain customer-initiated special construction projects as revenue, while these amounts are recorded as contra capital for regulated accounting purposes. *See* 47 C.F.R. §§ 32.2000(a)(2) and 32.7100(a).

[5] Section 32.2000(d)(1) requires carriers to account for and keep their telecommunications plant accounts at original cost (*see* 47 C.F.R.§ 32.2000(d)(1)) while "SFAS No. 144 requires companies to recognize an impairment loss when the carrying value of an asset is not recoverable from undiscounted cash flows." *See In the Matter of Financial Accounting Standards Board, Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets*; Order, 18 FCC Rcd 10005 (2003).

[6] Section 32.2000(g) directly addresses "depreciation accounting." *See* 47 C.F.R. § 32.2000(g).

[7] Section 32.2000(h) directly addresses "amortization accounting." *See* 47 C.F.R. § 32.2000(h).

[8] Section 32.2000(g)(2)(ii) requires companies to account for the cost of asset retirements as part of the net salvage estimates included in the calculation of depreciation rates and costs associated with cost of removal are charged to Account 3100(c). *See* 47 C.F.R. § 32.3100(c). Under SFAS No. 143, the normal cost of removal is charged to expense. In addition, to the extent that a legal obligation exists to remove an asset, SFAS No. 143 requires that the fair value of the obligation be capitalized as part of the carrying value of the asset and depreciated over the remaining life of the asset.

[9] Section 32.6720(j) requires that short term disability costs be expensed while Qwest capitalizes such costs under Generally Accepted Accounting Principles ("GAAP") to the extent these costs are associated with capitalized wages and salaries.

[10] For financial reporting purposes Qwest classifies the proceeds from certain customer-initiated special construction projects as revenue, while these amounts are recorded as contra capital for regulated accounting purposes. *See* 47 C.F.R. §§ 32.2000(a)(2) and 32.7100(a).

[11] Section 32.2007 requires amounts identified as "goodwill" to be amortized on a straight line basis over the remaining life of acquired plant while SFAS No. 142 states that goodwill should not be amortized. Qwest (*i.e.*, Qwest Corporation, the regulated entity) does not have any goodwill on its books at the current time and, therefore, is not amortizing goodwill in accordance with Section 32.2007. However, waiver of this section is required in order to ensure that Qwest's net book costs on its regulated books remain the same as on its financial books in the future.

any other sections of the Commission's rules necessary to comply with the Commission's requirement that a carrier requesting waiver "adjusts the net book costs on its regulatory books to the level currently reflected in its financial books by a below-the-line write-off."[13]

A grant of this petition would serve the public interest by waiving depreciation regulations that are no longer appropriate or necessary and by allowing Qwest to eliminate unnecessary costs and compete more effectively. As Qwest demonstrates below, good cause is shown to grant this waiver petition.

I. INTRODUCTION AND SUMMARY

As a "dominant carrier", with revenues exceeding $7.403 billion,[14] Qwest's depreciation rates, methods and practices are subject to Commission regulation.[15] Smaller incumbent local exchange carriers ("ILECs") are subject to reduced regulation while CLECs, IXCs and other carriers competing with Qwest are not subject to the Commission's depreciation regulations at all.

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[12] Section 43.43 directly addresses depreciation reporting requirements. *See* C.F.R. § 43.43.

[13] *See USTA Depreciation Order*, 15 FCC Rcd at 252-53 ¶ 25. For example, Section 32.27 requires that asset transfers between the regulated entity and its affiliates be recorded at the higher of fair market value and net book cost when assets are sold to an affiliate and the lower of fair market value and net book costs when the regulated entity purchases assets from an affiliate. (*See* 47 C.F.R. § 32.27) For financial reporting purposes, Qwest accounts for all asset transfers between affiliates at net book cost.

Currently, there is a difference between Qwest's regulated and financial books of approximately $6 million as a result of such asset transfers in the past between Qwest and its affiliates. Qwest asks that it be allowed to adjust its regulated books by this amount to bring them into agreement with its financial books. Qwest is not requesting a waiver of Section 32.27 going forward but will ask the Commission for appropriate relief on an individual case basis as necessary in order to ensure that the net book costs recorded on its regulated books are the same as on its financial books.

[14] *See Public Notice*, Annual Adjustment of Revenue Thresholds, 20 FCC Rcd 8551 (2005).

[15] The fact that Qwest continues to be classified as a dominant carrier in its 14-state service area inevitably leads to regulation of its depreciation rates and practices under the Commission's existing rules. *See* 47 C.F.R. §§ 32.11 and 43.43.

The Commission's current rules largely ignore the fact that depreciation rates have no effect on Qwest's interstate prices under price cap regulation. Nor do the rules acknowledge that Qwest faces significant competition in the provision of local exchange service in most markets of any size in its service area and that Qwest's competitors are exempt from depreciation regulation. The Commission's asymmetrical depreciation regulations, though less burdensome than in the past,[16] still represent a costly burden on large price cap carriers such as Qwest with no corresponding benefits.

In declining to forbear from applying depreciation regulations to price cap LECs in its USTA Depreciation Order, the Commission established a waiver process by which price cap ILECs such as Qwest could obtain a waiver of the depreciation rules if they voluntarily satisfied certain conditions.[17] In this petition, Qwest explains how it intends to satisfy the Commission's waiver requirements and requests that the Commission grant Qwest a waiver of the depreciation rules provided Qwest voluntarily takes the steps laid out in this petition.

II. BACKGROUND

A. Waiver Requirements

In its *USTA Depreciation Order*, the Commission found that it would be appropriate to grant a waiver of the depreciation rules for certain price cap incumbent LECs if certain conditions were met.[18]

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[16] In its *USTA Depreciation Order* the Commission streamlined its depreciation rules for price cap carriers.

[17] *See USTA Depreciation Order*, 15 FCC Rcd at 252-53 ¶ 25. And *see* Section II(A) herein which lists the Commission's waiver requirements. It should be noted that the Commission fully considered state concerns in formulating and adopting its depreciation waiver requirements. *Id.* at 255 ¶ 28.

[18] *Id.* at 252-53 ¶ 25.

> Specifically, we find that such a waiver may be approved when an incumbent LEC, voluntarily, in conjunction with its request for waiver: (1) adjusts the net book costs on its regulatory books to the level currently reflected in its financial books by a below-the-line write-off; (2) uses the same depreciation factors and rates for both regulatory and financial accounting purposes; (3) foregoes the opportunity to seek recovery of the write-off through a low-end adjustment, an exogenous cost adjustment, or an above-cap filing; and (4) agrees to submit information concerning its depreciation accounts, including forecast additions and retirements for major network accounts and replacement plans for digital central offices. Finally, the waiver request must comply with section 1.3 of the Commission's rules.[19]

The first four requirements basically ensure that Qwest will be unable to pass through any depreciation expense increase to ratepayers if Qwest is granted the freedom to select its own depreciation and service lives.[20] The last condition -- that the waiver comply with Section 1.3 of the Commission's rules -- is the traditional "good cause" test that the Commission is required to apply in evaluating waiver requests. This test requires that the Commission find that "special circumstances warrant a deviation from the general rule and such deviation will serve the public interest."[21]

B. Regulation Of Depreciation Practices

Depreciation regulation is a holdover from cost-based rate-of-return regulation. Given the capital-intensive nature of telecommunications, depreciation is one of the largest, if not the largest, category of expenses that carriers incur. Under traditional rate-of-return regulation, changes in depreciation expense have a direct impact on rates in subsequent rate cases and tariff filings. As a result, under rate of return regulation, the Commission had an obligation to monitor

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[19] *Id.* (footnotes omitted).

[20] *Id.* at 253-55 ¶¶ 26-28.

[21] *WAIT Radio v. FCC*, 418 F.2d 1153 (D.C. Cir. 1969), *cert. denied*, 409 U.S. 1027 (1972) and *Northeastern Cellular Telephone Co., L.P. v. FCC*, 897 F.2d 1164, 1166 (D.C. Cir. 1990). *Also see In the Matter of United States Telephone Association Petition for Waiver of Part 32 of the Commission's Rules*, Order, 13 FCC Rcd 214 (1997).

depreciation rates and service lives to ensure that customers were not subject to unjust and unreasonable rates.

With the advent of price cap regulation in 1991, depreciation became much less important.[22] However, depreciation expense continued to play a minor role through the sharing mechanism and the low-end adjustment that were triggered by rates-of-return above or below certain specified levels.[23] Any reasonable justification for continuing to regulate depreciation practices of price cap LECs, such as Qwest, ceased to exist with the elimination of price cap sharing[24] and the low-end adjustment (*i.e.*, for carriers with pricing flexibility).[25]

In recent years, the Commission has addressed depreciation both in biennial regulatory review proceedings and in response to USTA's forbearance petition. But it has been reluctant to eliminate the depreciation rules or to forbear from regulating price cap LECs despite the

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[22] The Commission's price cap order laid out a methodology for changing access charge rates that was largely based on productivity changes and overall inflation rather than changes in the costs that an individual company incurred. As such, changes in depreciation expense and other costs had little, if any, direct affect on prices. The only direct cost adjustments allowed under price cap regulation are "exogenous cost" adjustments from which depreciation rate changes are excluded. *In the Matter of Policy and Rules Concerning Rates for Dominant Carriers*, CC Docket No. 87-313, Second Report and Order, 5 FCC Rcd 6786, 6787-89 ¶¶ 5-20, 6809 ¶¶ 182-87 (1990) ("*LEC Price Cap Order*"); Erratum, 5 FCC Rcd 7664 (1990); Order on Reconsideration, 6 FCC Rcd 2637, 2662-76 ¶¶ 58-85 (1991). *See also* 47 C.F.R. § 61.45.

[23] *See LEC Price Cap* Order, 5 FCC Rcd at 6801-07 ¶¶ 120-65 (which discuss the adoption of the sharing mechanism and low-end adjustment).

[24] *See In the Matter of Price Cap Performance Review for Local Exchange Carriers; Access Charge Reform*, CC Docket Nos. 94-1, 96-262, Fourth Report and Order and Second Report and Order, 12 FCC Rcd 16642, 16649 ¶¶ 10-11 (1997).

[25] *See In the Matter of Access Charge Reform; Price Cap Performance Review for Local Exchange Carriers; Interexchange Carrier Purchases of Switched Access Services Offered by Competitive Local Exchange Carriers; Petition of U S West Communications, Inc. for Forbearance from Regulation as a Dominant Carrier in the Phoenix, Arizona MSA*, CC Docket Nos. 96-262, 94-1, CCB/CPD File No. 98-63, CC Docket No. 98-157, Fifth Report and Order and Further Notice of Proposed Rulemaking, 14 FCC Rcd 14221, 14304 ¶ 162 (1999).

shrinking role of depreciation.[26] Even though the Commission has continued to claim that depreciation regulation is still needed under price cap regulation due to the existence of a number of ongoing factors (*e.g.*, low-end adjustment, recalculation of the productivity factor, etc.), it has acknowledged that depreciation regulation should be eliminated "[a]s soon as robust competition exists in local exchange markets."[27]

In its *USTA Depreciation Order*, the Commission reduced filing requirements for price cap LECs.[28] Unfortunately, that *Order* did nothing to eliminate carrier accounting, tracking and "back-office" work efforts necessary to comply with the Commission's depreciation regulations.[29] In the same *Order*, the Commission denied USTA's Forbearance Petition concluding, among other things, that "USTA has not demonstrated that the local exchange market is sufficiently competitive to make depreciation prescription unnecessary."[30] However, in denying USTA's Forbearance Petition, the Commission established a waiver process under which it claimed "price cap incumbent LECs can [could] obtain substantially the same regulatory relief from depreciation requirements [as from forbearance] if certain conditions are met."[31] The conditions that the Commission established effectively required price cap LECs to waive any

[26] The 1996 Act gave the Commission the discretion to prescribe depreciation rates. Prior to this amendment, Section 220(b) of the Act required the Commission to prescribe depreciation rates. Moreover, Section 10 of the 1996 Act allowed the Commission to forbear from regulating depreciation if certain conditions are met.

[27] *In the Matter of 1998 Biennial Regulatory Review – Review of Depreciation Requirements for Incumbent Local Exchange Carriers,* Notice of Proposed Rulemaking, 13 FCC Rcd 20542, 20547-48 ¶ 7 (1998).

[28] *USTA Depreciation Order*, 15 FCC Rcd at 245-51 ¶¶ 7-21.

[29] The Commission primarily reduced its own workload by eliminating the need to prescribe specific depreciation rates in those cases "where carriers select[ed] depreciation factors from within the prescribed ranges for all of its accounts." *Id.* at 247 ¶ 12.

[30] *Id.* at 265-66 ¶ 54.

[31] *Id.* at 243 ¶ 2.

rights that they might have to recover depreciation reserve deficiencies arising from uneconomically-long service lives that the Commission prescribed in the past.

Subsequently, a number of large price cap LECs, excluding Qwest, submitted a proposal to the Commission that would have allowed for an above-the-line amortization of depreciation reserve deficiencies and ensured that such amortizations would have no impact on interstate price caps or interstate rates.[32] After reviewing comments on the proposal, the Commission declined to adopt the incumbent LECs proposed revisions to its waiver process and maintained the status quo.[33] To date, no other price cap LEC has requested a waiver of the depreciation rules under the standard that the Commission adopted in the *USTA Depreciation Order.*

III. STEPS THAT QWEST INTENDS TO TAKE TO COMPLY WITH THE COMMISSION'S WAIVER REQUIREMENTS

In his attached declaration, Mr. Bill Johnston, Qwest's Vice-President and Assistant Controller, outlines the steps that Qwest intends to take to satisfy the waiver requirements that the Commission adopted in the *USTA Depreciation Order.*[34]

[32] *See In the Matter of 1998 Biennial Regulatory Review – Review of Depreciation Requirements for Incumbent Local Exchange Carriers; Ameritech Corporation Telephone Operating Companies' Continuing Property Records Audit, et al.; GTE Telephone Operating Companies Release of Information Obtained During Joint Audit*, Further Notice of Proposed Rulemaking, 15 FCC Rcd 6588 (2000).

[33] *See Second Report and Order*, 16 FCC Rcd 4083. States retain jurisdiction over depreciation charges for intrastate telephone plant and equipment and are free to develop depreciation rates and service lives for their own regulatory purposes. See *Louisiana Public Service Commission v. FCC*, 476 U.S. 355, 375-76 (1986). Each of the 14 states in Qwest's service area has established depreciation service lives that are different from those prescribed by the Commission.

[34] *See* Declaration of R. William Johnston.

A. Below-The-Line Adjustment

As Mr. Johnston states, "Qwest (the ILEC) will record a below-the-line adjustment to bring the net book costs on its Part 32 'regulated' books into agreement with its SEC 'financial' books."[35] Mr. Johnston also notes that "Qwest's proposed waiver request incorporates the effects of numerous Statements of Financial Accounting Standards ("SFAS") and Generally Accepted Accounting Principles ("GAAP") that have not been adopted for federal regulatory accounting purposes including SFAS Nos. 142, 143 and 144."[36] Please see Attachment A of Mr. Johnston's Declaration for an example of what such an adjustment would look like using January 1, 2005 data and estimates for August 31, 2005.[37]

B. Depreciation Factors And Rates

If Qwest is granted a waiver of the Commission's depreciation rules, Mr. Johnston states that "going forward from implementation, Qwest will use the same depreciation factors and rates for 'regulatory' (*i.e.*, FCC) and 'financial' (*i.e.*, SEC) purposes."[38] Please see Attachment B of

[35] *Id.* at 3.

[36] *Id.* at 3. For example, Qwest's proposed waiver request incorporates the effect of SFAS No. 143 which Qwest adopted for financial reporting purposes as of January 1, 2003. *See In the Matter of Statement of Financial Accounting Standards Board; Statement of Financial Accounting Standards No. 143, Accounting for Asset Retirement Obligations*, Order, 17 FCC Rcd 25552 (2002). "SFAS 143 requires companies to record liabilities for asset retirement obligations at fair value in the period that the obligation is incurred and to increase the liability over the life of the related asset through periodic charges to expense. The fair value of the retirement obligation is also capitalized as part of the carrying value of the asset and is depreciated over the remaining life of the asset. This accounting is followed only when the company determines that it has an actual legal obligation associated with an asset retirement." *Id.* at ¶ 1. The Commission found that SFAS No. 143 "would conflict with the Commission's current accounting rules" and notified affected carriers that they should not adopt SFAS No. 143 for federal regulatory accounting purposes. *Id.* at 25553 ¶ 2.

[37] Declaration of R. William Johnston at Attachment A.

[38] *Id.* at 3.

Mr. Johnston's Declaration for the service lives and factors that Qwest currently uses for financial reporting purposes.[39]

C. Low-End Adjustments, Exogenous Cost Adjustments, And Above-Cap Tariff Filings

If Qwest is granted a waiver of the depreciation rules, Mr. Johnston states that "Qwest agrees to refrain from seeking recovery of the below-the-line adjustment (referenced above) 'through a low-end adjustment, an exogenous adjustment, or an above-cap filing.'"[40]

D. Information Submission On Depreciation Accounts

Mr. Johnston states that "Qwest 'agrees to submit information concerning its (Qwest Corporation's) depreciation accounts, including forecast additions and retirements for major network accounts and replacement plans for digital central offices.' Qwest views this requirement as a commitment to periodically (*i.e.*, no more than once a year) submit a limited amount of information 'about network retirements and modernization plans' to assist the Commission in identifying realistic ranges for service lives and salvage factors for major plant accounts. In making this commitment, Qwest assumes that the Commission will only request the minimum amount of information that is necessary to perform its regulatory functions and will not burden Qwest with additional filing requirements."[41]

E. Good Cause

As the Commission noted in the *USTA Depreciation Order*, satisfaction of the above requirements should alleviate any concerns that the Commission may have "about the adverse impacts that could occur when carriers are given the freedom to select their own depreciation

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[39] *Id.* at Attachment B.

[40] *Id.* at 3.

[41] *Id.*

lives and procedures."[42] In adopting its four-part waiver standard the Commission has articulated "the special circumstances that warrant a deviation from the general rule."[43] In addressing each of the Commission's requirements with "particularity" and agreeing to implement these requirements on a voluntary basis, Qwest has demonstrated that there is "good cause" for the Commission to grant Qwest's waiver request.[44]

IV. WAIVER OF THE COMMISSION'S DEPRECIATION RULES WOULD BE IN THE PUBLIC INTEREST

Continued application of the Commission's depreciation rules to Qwest is not necessary to ensure that Qwest's rates and practices are just, reasonable and not unreasonably discriminatory. A grant of this waiver petition would not have a detrimental effect on Qwest's interstate rates since depreciation expense plays no part in determining rates under price cap regulation. Qwest's rates are capped based on the price cap formula which adjusts rates based on inflation, productivity change and other factors -- but rarely on actual cost changes.[45] As such, the Commission's depreciation rules provide no protection to consumers in a price cap environment.[46]

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[42] *USTA Depreciation Order*, 15 FCC Rcd at 257-58 ¶ 35.

[43] *WAIT Radio v. FCC*, 418 F.2d at 1157; *Northeastern Cellular v. FCC*, 897 F.2d at 1166.

[44] 47 C.F.R. § 1.3.

[45] The Commission's price cap methodology does allow a carrier's price cap to be adjusted for certain exogenous cost changes that are beyond the control of LECs. However, cost changes in depreciation rates are classified as "endogenous" and have no effect on price cap levels or interstate rates. *LEC Price Cap Order*, 5 FCC Rcd at 6808-09 ¶ 182.

[46] With the elimination of price cap sharing and the low end adjustment (for those carriers such as Qwest who have qualified for pricing flexibility), the last vestiges of rate of return regulation have been eradicated at the federal level. As such, any direct links that may have existed between depreciation expense and customer prices have been severed. Furthermore, in adopting its depreciation waiver process and in other instances the Commission has essentially conceded that regulating depreciation practices of price cap carriers is not necessary in today's regulatory environment. *USTA Depreciation Order*, 15 FCC Rcd at 244-45 ¶¶ 4-5.

Prices of Qwest's interstate services will continue to be constrained by price cap regulation regardless of whether the Commission grants Qwest's waiver petition or not. Previously, prior to the elimination of sharing and the low end adjustment, critics could argue that Qwest's prices might be higher in the absence of depreciation regulation. Such arguments are no longer valid now that these last links to rate of return regulation have been removed from price cap regulation. In summary, Qwest's depreciation expenses have no direct impact on its interstate rates or price cap levels. Furthermore, the Commission has many regulatory tools at its disposal if it decides to challenge the lawfulness of Qwest's interstate rates -- depreciation regulation is not necessary to protect consumers.

A grant of this petition would allow Qwest to reduce its administrative costs and, thereby, compete more effectively. The Commission should find that a grant of this waiver petition serves the public interest because it would eliminate unnecessary and inappropriate regulation that is being applied to Qwest.[47] With growing competition, Qwest must be relieved of the burden of unnecessary and costly depreciation regulation.

V. CONCLUSION

As demonstrated in the forgoing sections of this Petition, the Commission should find that Qwest's proposal satisfies the criteria for waiver that the Commission established in the USTA Depreciation Order and that it is in the public interest to waive its depreciation regulations

[47] Also, a waiver would allow Qwest to focus its investment decisions on the economic lives of telecommunications plant rather than prescribed service lives which may or may not be realistic.

for Qwest. As such, Qwest requests that the Commission grant this Petition to take effect as of September 1, 2005, but no later than January 1, 2006.

Respectfully submitted,

QWEST CORPORATION

By: ______________________________

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James T. Hannon

July 22, 2005

DECLARATION OF R. WILLIAM JOHNSTON

1. My name is R. William ("Bill") Johnston. I am employed by Qwest Services Corporation[1] as Vice-President and Assistant Controller and have held that position since June 2003. In that capacity I am responsible for all areas of corporate accounting for Qwest and its subsidiaries, including: corporate books; revenue and fixed asset accounting; accounting standards, policies, methods and procedures; and regulatory accounting. I have been employed by Qwest and its predecessor U S WEST for almost 17 years. During that time, I have held numerous positions in accounting and related areas including representing Qwest's interests on financial and accounting matters before the Federal Communications Commission, implementation of the 1996 Telecommunications Act, accounting policies and standards, financial due diligence for domestic and international mergers and acquisitions, and federal financial regulatory advocacy. Before joining U S WEST in September 1988, I was employed by Arthur Andersen, a large certified public accounting firm, for over nine years in the audit division. I received a Bachelor of Science degree in Business Administration from the University of Nebraska at Omaha and became a Certified Public Accountant in 1979.

2. The purpose of this declaration is to describe the steps that Qwest Corporation (hereinafter referred to as "Qwest") intends to take to satisfy the FCC's requirements for obtaining a waiver of its depreciation rules. These steps are contingent upon a grant of Qwest's waiver petition and would be implemented to take effect on the first day of the month following approval of Qwest's waiver petition, unless the Commission directs Qwest to use another date.

3. In order to satisfy the FCC's waiver requirements, Qwest intends to take the following steps:

> --First, Qwest (*i.e.*, the ILEC) will record a below-the-line adjustment to bring the net book costs on its Part 32 "regulated" books into agreement with its SEC "financial" books. It should be noted that Qwest's proposed waiver request incorporates the effects of numerous Statements of Financial Accounting Standards ("SFAS") and Generally Accepted Accounting Principles ("GAAP") that have not been adopted for federal regulatory accounting purposes including SFAS Nos. 142, 143 and 144. In order to demonstrate what such an adjustment would look like, I have prepared an example using data as of January 1, 2005 and estimates for August 31, 2005. (*See* Attachment A.)
>
> --Second, going forward from the date of implementation, Qwest will use the same depreciation factors and rates for "regulatory" (*i.e.*, FCC) and "financial" (*i.e.*, SEC) purposes. I have attached a table containing the service lives and factors that Qwest

[1] Qwest Services Corporation was created to provide "centralized services" solely to members of the Qwest corporate family and does not provide any services to unrelated third parties.

currently uses for financial reporting purposes. (*See* Attachment B and appended pages B-1 and B-2 for state detail.)

--Third, if the Commission grants Qwest's petition for waiver of the depreciation rules and related Commission rules, Qwest agrees to refrain from seeking recovery of the below-the-line adjustment (referenced above) "through a low-end adjustment, an exogenous adjustment, or an above-cap filing."

--Fourth, Qwest "agrees to submit information concerning its (Qwest Corporation's) depreciation accounts, including forecast additions and retirements for major network accounts and replacement plans for digital central offices." Qwest views this requirement as a commitment to periodically (*i.e.*, no more than once a year) submit a limited amount of information "about network retirements and modernization plans" to assist the Commission in identifying realistic ranges for service lives and salvage factors for major plant accounts. In making this commitment, Qwest assumes that the Commission will only request the minimum amount of information that is necessary to perform its regulatory functions and will not burden Qwest with additional filing requirements.

4. It is my opinion that a grant of Qwest's waiver petition will serve the public interest by relieving Qwest of unnecessary and costly depreciation requirements and, thereby, allowing Qwest to compete more effectively.

I certify that the foregoing is true and correct to the best of my information and belief.

Executed on July 22, 2005.

R William Johnston

R. William Johnston
Vice-President and Assistant Controller
Qwest Services Corporation

Qwest Corporation Net Plant Below-The-Line Adjustment
($000)

Date	Financial Reporting Net Plant [1]	FCC Reporting Net Plant	Increase/(Decrease) to FCC Net Plant [3]
	a	b	c=a-b
January 1, 2005	16,049,186	16,049,227	(41)
August 31, 2005 [2]	14,965,748	14,584,500	381,248

Notes:

[1] The Financial Reporting Net Plant includes the effects of several differences in GAAP versus Part 32 accounting treatment as well as the effects of different depreciation parameters. Accounting differences other than the differences associated with depreciation parameters include:

Implementation of SFAS 142, Accounting for Goodwill and Other Intangibles
Implementation of SFAS 143, Accounting for Conditional Asset Retirement Obligations
Implementation of SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets
Capitalization of short-term disability
Accounting for contributions in aid of construction

[2] August data is an estimate based on January through June experience.

[3] The increase in the adjustment from January to August is primarily due to differences in the depreciation rates that are used for regulatory and financial reporting purposes. While FCC service lives are generally longer than those used for financial reporting purposes, the FCC depreciation rates that are currently being used by Qwest are higher than those used for financial reporting purposes. This is a result of the fact that the current FCC deprecation rates were established between 1995 and 1997 when the level of accumulated depreciation was significantly less than it is today. Conversely, financial reporting rates are recalculated annually, incorporating the current higher level of accumulated depreciation resulting in lower rates.

6/16/2005
XREF: 13
PRES: 2004, 09, 02
PROP: 2004, 09, 02

COMPANY: QWEST CORPORATION
STATE: QWEST CORPORATION

2005 PARAMETER REPORT

CATEGORY	FIRST ELG YEAR	PROJECTION LIFE YEARS	AVG. NET SALV. %	FUTURE NET SALV. %	CURVE SHAPE PARAMETERS c	G	S	COMMENTS
2112 MOTOR VEHICLES			11	7				
2112 PASSENGER CARS	1900	7	10.8	7	BELL CURVE GM	2.5		
2112 LIGHT TRUCKS	1900	9	10.8	7	BELL CURVE GM	2.5		
2112 HEAVY TRUCKS	1900	11	10.8	7	BELL CURVE GM	2.5		
2113 AIRCRAFT	1900	7	75	62	BELL CURVE GM	5.0		
2114 SPEC PURPOSE VEHICLES	1900	11	0	0	BELL CURVE GM	2.5		
2115 GARAGE WORK EQUIP	1900	11	0	0	BELL CURVE GM	2.5		
2116 OTHER WORK EQUIP	1900	11	0	0	BELL CURVE GM	2.5		
2121 BUILDINGS			0	0				
2121 LARGE BUILDINGS	1900	40	0	0	BELL CURVE GM	3.0		
2121 OTHER BUILDINGS	1900	30	0	0	BELL CURVE GM	3.0		
2122 FURNITURE	1900	7	0	0	BELL CURVE GM	2.5		
2123.1 OFFICE EQUIPMENT	1900	7	0	0	BELL CURVE GM	2.5		
2123.2 COMPANY COMM EQUIP			0	0				
2123.2 STAND ALONE	1900	7	0	0	BELL CURVE GM	3.0		
2123.2 PBX & KEY INTRASYSTEMS	1900	7	0	0	BELL CURVE GM	3.0		
2124 GEN PURPOSE CMPTR	1900	5	0	0	BELL CURVE GM	2.5		
2212 DIGITAL SW EQUIP	1900	10	0	0	BELL CURVE GM	2.5		
2220 OPERATOR SYSTEMS	1900	10	0	0	BELL CURVE GM	2.5		
2231 RADIO SYSTEMS	1900	10	0	0	BELL CURVE GM	2.5		
2232 CIRCUIT DDS	1900	9	0	0	BELL CURVE GM	2.5		
2232 CIRCUIT DIGITAL	1900	10	0	0	BELL CURVE GM	2.5		
2232 CDB 1998 TO CURRENT	1900	9	0	0	BELL CURVE GM	2.5		
2232 CIRCUIT ANALOG	1900	7	0	0	BELL CURVE GM	2.5		
2362 OTHER TERM EQUIP	1900	8	0	0	BELL CURVE GM	1.0		
2411 POLE LINES			0	0				
2411 POLE LINES	1900	24	0	0	BELL CURVE GM	3.0		
2411 TOWERS	1900	24	0	0	BELL CURVE GM	3.0		
2421 AERIAL CABLE MET	1900	15	0	0	BELL CURVE GM	3.0		
2421 AERIAL CABLE NON MET	1900	20	0	0	BELL CURVE GM	3.0		
2422 UNDGRD CABLE MET	1900	15	0	0	BELL CURVE GM	3.0		
2422 UNDGRD CABLE NON MET	1900	20	0	0	BELL CURVE GM	3.0		
2423 BURIED CABLE MET	1900	20	0	0	BELL CURVE GM	3.0		
2423 BCB 1998 TO CURRENT	1900	16	0	0	BELL CURVE GM	3.0		
2423 BURIED CABLE NON MET	1900	20	0	0	BELL CURVE GM	3.0		
2424 SCB 1998 TO CURRENT	1900	15	0	0	BELL CURVE GM	3.0		
2424 SUB CABLE MET	1900	20	0	0	BELL CURVE GM	3.0		
2424 SUB CABLE NON MET	1900	20	0	0	BELL CURVE GM	3.0		
2426 INTRA BLDG CABLE MET	1900	20	0	0	BELL CURVE GM	3.0		
2426 NCB 1998 TO CURRENT	1900	15	0	0	BELL CURVE GM	3.0		
2426 INTRA BLDG CABLE NON MET	1900	20	0	0	BELL CURVE GM	3.0		
2431 AERIAL WIRE	1900	8	0	0	BELL CURVE GM	1.0		
2441 CONDUIT SYSTEMS	1900	57	0	0	BELL CURVE GM	5.0		
2441 CSA 1998 TO CURRENT	1900	50	0	0	BELL CURVE GM	5.0		

Summary of 2005 Depreciation Lives

CATEGORY	Qwest Corporation Financial Lives	FCC - Currently Prescribed Lives													
		AZ	CO	IA	ID	MN	MT	NE	NM	ND	OR	SD	UT	WA	WY
2112 MOTOR VEHICLES															
2112 PASSENGER CARS	7	7	7	5.5	7.5	7	7	7	6	7	6.5	7	6.5	7.3	6
2112 LIGHT TRUCKS	9	8.5	8	10	8	10	8.5	11	7.35	10	11	8	9	9.6	7
2112 HEAVY TRUCKS	11	10	10		10		11		10		11.5		10.5	13.5	9.5
2113 AIRCRAFT	7														
2114 SPEC PURPOSE VEHICLES	11	15	14.5	15	15	14	16	14	14	14	14	14	14	14	14
2115 GARAGE WORK EQUIP	11	15	14.5	15	15	14	12	14	14	14	14	14	14	14	14
2116 OTHER WORK EQUIP	11	15	14.5	15	15	16	16	14	14	14	14	14	14	14	14
2121 BUILDINGS															
2121 LARGE BUILDINGS	40	50	48	50	50	50	45	53	43	51	46	38	49	51	45
2121 OTHER BUILDINGS	30	30	24	24	34	25	25	22	28	23	28	30	30	33	28
2122 FURNITURE	7	15	17	17	17.5	16	17	17	18	15	16	15	15	20	15
2123.1 OFFICE EQUIPMENT	7	10	10	10	10	15	10	15	10	13	15	10	10	15	10
2123.2 COMPANY COMM EQUIP															
2123.2 STAND ALONE	7	7	9	8	8	8	6	8	6	8	9.9	8	6	9.9	6
2123.2 PBX & KEY INTRASYSTEMS	7	7	6	8	6	8	6	8	6	8	7.8	8	6	9.5	6
2124 GEN PURPOSE CMPTR	5	6	6.5	6	6	6	6	5.5	6	6	5.5	6	6	5.8	6
2212 DIGITAL SW EQUIP	10	16	16	16	15.5	16	15	16	15	16	15	16	14.5	14.5	16
2220 OPERATOR SYSTEMS	10	8	8	8	5	8	8	8	8	8	12	8	8	12	8
2231 RADIO SYSTEMS	10	15	13	12	15	11	14	12	11	11	15	11	15	15	14
2232 CIRCUIT DDS	9	8	9	10	9	10	8	10	7	10	10	10	7	11	10
2232 CIRCUIT DIGITAL	10	11	11	11	11	11	11	11	11	11.5	11	11.5	10.5	11	11
2232 CDB 1998 TO CURRENT	9														
2232 CIRCUIT ANALOG	7	8	8	8	8	8	8	8	8	8	8	8	7	8	8
2362 OTHER TERM EQUIP	8	6	8	8	6	7	6	8	6	8	8	8	7	9	5
2411 POLE LINES															
2411 POLE LINES	24	25	23	18	18.5	18	19	18	23	18	28	18	25	28	24
2411 TOWERS	24			18		18		18		18		18			
2421 AERIAL CABLE MET	15	20	24	18	20	18	20	18	20	18	20	18	20	20	24
2421 AERIAL CABLE NON MET	20	25	25	25	25	25	25	25	25	25	25	25	25	25	25
2422 UNDGRD CABLE MET	15	25	25	25	25	25	25	25	25	25	25	25	25	25	25
2422 UNDGRD CABLE NON MET	20	25	25	25	25	25	25	25	25	25	25	25	25	25	25
2423 BURIED CABLE MET	20	20	20	21	20	22	20	21	20	21	20	21	20	20	20
2423 BCB 1998 TO CURRENT	16														
2423 BURIED CABLE NON MET	20	25	25	25	25	25	25	25	25	25	25	25	25	25	25
2424 SCB 1998 TO CURRENT	15														
2424 SUB CABLE MET	20	25	25	25	25	22	25	20	25	25	20	25	25	22	25
2424 SUB CABLE NON MET	20	25	25	25	25	25	25	25	25	25	25	25	25	25	25
2426 INTRA BLDG CABLE MET	20	20	19	20	20	20	20	20	20	20	20	20	19	20	19
2426 NCB 1998 TO CURRENT	15														
2426 INTRA BLDG CABLE NON MET	20	25	25	25	25	25	25	25	25	25	25	25	25	25	25
2431 AERIAL WIRE	8	9	7	5	7.5	5	7	5	8.5	5	11.2	5	8.5	8.7	6
2441 CONDUIT SYSTEMS	57	60	58	55	60	55	60	55	60	55	55	55	60	55	60
2441 CSA 1998 TO CURRENT	50														

Summary of 2005 Future Net Salvage Values

CATEGORY	Qwest Corporation Financial FNS %	FCC - Currently Prescribed Future Net Salvage %													
		AZ	CO	IA	ID	MN	MT	NE	NM	ND	OR	SD	UT	WA	WY
2112 MOTOR VEHICLES	7	10	10	11	11	10	14	9	15	14	13	15	12	16	8
2113 AIRCRAFT	62		56												
2114 SPEC PURPOSE VEHICLES	0	0	2	10	0	0	4	0	0	10	0	10	0	0	0
2115 GARAGE WORK EQUIP	0	-4	0	0	0	0	0	0	0	0	0	0	0	0	0
2116 OTHER WORK EQUIP	0	8	2	4	0	8	1	7	2	10	5	8	2	9	1
2121 BUILDINGS	0	-10	-10	7	-1	6	-10	3	-6	10	1	10	0	4	-9
2122 FURNITURE	0	3	1	0	0	1	0	0	0	0	0	1	0	0	0
2123.1 OFFICE EQUIPMENT	0	0	1	0	0	0	0	0	1	0	0	0	1	0	0
2123.2 COMPANY COMM EQUIP	0	-1	0	0	0	-2	0	-3	0	-1	0	0	0	0	-5
2124 GEN PURPOSE CMPTR	0	5	5	5	3	5	0	0	2	5	0	5	3	5	4
2212 DIGITAL SW EQUIP	0	3	3	0	0	3	3	3	0	0	2	0	0	0	3
2220 OPERATOR SYSTEMS	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
2231 RADIO SYSTEMS	0	-4	1	-2	-5	-3	0	-5	2	-5	3	-3	4	-3	-5
2232 CIRCUIT DDS	0	4	3	-1	-1	0	4	-1	-1	-2	0	0	0	-4	0
2232 CIRCUIT DIGITAL	0	2	4	0	4	0	2	0	0	0	0	0	0	1	2
2232 CIRCUIT ANALOG	0	-4	-2	-3	-4	0	0	-2	-5	-3	0	-3	-2	-2	-3
2362 OTHER TERM EQUIP	0	2	-4	4	1	7	0	-5	-4	-3	0	-5	3	0	3
2411 POLE LINES	0	-42	-66	-100	-109	-69	-75	-100	-93	-72	-75	-100	-56	-75	-79
2421 AERIAL CABLE MET	0	-15	-41	-24	-25	-24	-56	-20	-75	-40	-9	-30	-39	-26	-41
2421 AERIAL CABLE NON MET	0	-15	-30	-24	-25	-24	-56	-20	-75	-40	-9	-30	-39	-26	-24
2422 UNDGRD CABLE MET	0	-10	-23	-23	-20	-7	-30	-28	-32	-17	-6	-18	-21	-22	-30
2422 UNDGRD CABLE NON MET	0	-10	-12	-23	-20	-7	-30	-28	-32	-17	-6	-18	-21	-22	-14
2423 BURIED CABLE MET	0	-2	-3	-10	-4	-10	-5	-15	-10	-10	-9	-10	-10	-7	-4
2423 BURIED CABLE NON MET	0	-2	-3	-10	-4	-10	-5	-15	-10	-10	-2	-10	-10	-7	-4
2424 SUB CABLE MET	0	0	0	-5	0	-1	0	-1	0	0	0	0	0	0	0
2424 SUB CABLE NON MET	0	0	0	-5	0	-1	0	-1	0	0	0	0	0	0	0
2426 INTRA BLDG CABLE MET	0	-7	-4	-21	-1	-14	-9	-20	-5	-14	-18	-8	-3	-20	-5
2426 INTRA BLDG CABLE NON MET	0	-6	-4	-21	-1	-14	-9	-20	-5	-14	-18	-8	-3	-20	-5
2431 AERIAL WIRE	0	-41	-153	-47	-123	-72	-31	-34	-65	-100	-34	-37	-57	-124	-55
2441 CONDUIT SYSTEMS	0	-7	-10	-18	-4	-18	-10	-18	-7	-18	-4	-10	-7	-10	-7

Note: Negative values are result of cost of removal in excess of salvage.

CERTIFICATE OF SERVICE

I, Ross Dino, do hereby certify that I have caused the foregoing **PETITION FOR WAIVER OF QWEST CORPORATION** to be 1) filed with the Mellon Bank (POB 358140) in Pittsburgh, Pennsylvania, via hand delivery (accompanied with a completed FCC Form 159 and a check to cover the $6,840 filing fee), with an extra copy of the **PETITION** provided, to be stamped and returned; and 2) filed with the Office of the Secretary of the FCC, along with four copies and a fifth copy, to be stamped and returned.

Ross Dino

Ross Dino

July 22, 2005