WC 05-259

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of	)	
	)	
Petition of Qwest Corporation	)	
for Waiver of Depreciation Regulation	)	
Pursuant to 47 C.F.R. § 1.3	)	

RECEIVED
AUG - 8 2005
Federal Communications Commission
Office of the Secretary

To: Wireline Competition Bureau

ERRATUM TO PETITION FOR WAIVER OF QWEST CORPORATION

Qwest Corporation ("Qwest") hereby submits this Erratum to correct the caption contained in the Petition for Waiver it filed on July 22, 2005. In support of its submission, Qwest states as follows.

On July 22, 2005, pursuant to Sections 1.1105.4.b and 1.1110 of the Rules of the Federal Communications Commission ("Commission")[1] and the Wireline Competition Bureau's Common Carrier Services Fee Filing Guide, Qwest submitted a Petition for Waiver to the Mellon Bank in Pittsburgh, Pennsylvania, along with a completed Form 159 and a check to cover the applicable filing fee of $6,840.[2] Qwest also submitted its Petition to the Office of the Secretary on July 22, 2005.[3] Subsequent to the submission of its Petition, based on an inquiry from a Commission staff person, Qwest realized that its Petition contained an incorrect caption.

[1] 47 C.F.R. §§ 1.1105.4.b, 1.1110.

[2] Attached to this Erratum are copies of the first page of Qwest's Petition, as stamped as received by the Mellon Bank, the Form 159 and the check for the filing fee.

[3] Attached to this Erratum is copy of the first page of Qwest's Petition, as stamped as received by the Office of the Secretary.

The Petition for Waiver Qwest filed on July 22, 2005 included the following caption:

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	)

Qwest wishes to replace the previous caption with the following correct one (which is also reflected in this Erratum):

In the Matter of	)
	)
Petition of Qwest Corporation	)
for Waiver of Depreciation Regulation	)
Pursuant to 47 C.F.R. § 1.3	)

The caption appears on the cover page and page one of Qwest's Petition for Waiver. In order to replace the caption in the easiest way possible for the Commission, Qwest is providing a complete substitute version of the Petition filed on July 22, 2005, but which reflects the new caption on the cover page and page one. The Petition is the same in all other respects, including as to content and attachments. The Petition with the corrected caption also reflects the following annotation on both the cover page and signature page (13): "(With Corrected Caption, As Submitted July 28, 2005)".

Qwest requests that the corrected Petition for Waiver being submitted today in connection with this Erratum be substituted for the one filed on July 22, 2005, and associated with the Form 159 and the check previously provided (to the Mellon Bank) to cover the relevant filing fee. The certificate of service attached to this Erratum indicates that Qwest is submitting to the Office of the Secretary today (based on a conversation Qwest staff had with Bill Caton,

Deputy Secretary) an original and four copies of this Erratum (including attachments), along with an original and four copies of the corrected version of its Petition for Waiver.

Qwest regrets any inconvenience it may have caused the staff of the Commission in filing this Erratum. Any questions as to this Erratum can be directed to the undersigned.

Respectfully submitted,

QWEST CORPORATION

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Its Attorneys

Of Counsel,
James T. Hannon

July 28, 2005

WC 05-259

STAMP & RETURN COPY

Before the
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Washington, DC 20554

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JUL 22 2005

Federal Communications Commission
Office of Secretary

PETITION FOR WAIVER OF QWEST CORPORATION

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Of Counsel,
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July 22, 2005

ERRATUM ATTACHMENT
(July 22, 2005 Petition for Waiver, With Corrected Caption)

Before the
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Washington, DC 20554

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PETITION FOR WAIVER OF QWEST CORPORATION

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July 22, 2005
(With Corrected Caption, As Submitted July 28, 2005)

TABLE OF CONTENTS

Page

I. INTRODUCTION AND SUMMARY 3

II. BACKGROUND 4

A. Waiver Requirements 4

B. Regulation Of Depreciation Practices 5

III. STEPS THAT QWEST INTENDS TO TAKE TO COMPLY WITH THE COMMISSION'S WAIVER REQUIREMENTS 8

A. Below-The-Line Adjustment 9

B. Depreciation Factors And Rates 9

C. Low-End Adjustments, Exogenous Cost Adjustments, And Above-Cap Tariff Filings 10

D. Information Submission On Depreciation Accounts 10

E. Good Cause 10

IV. WAIVER OF THE COMMISSION'S DEPRECIATION RULES WOULD BE IN THE PUBLIC INTEREST 11

V. CONCLUSION 12

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In the Matter of	)
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Petition of Qwest Corporation	)
for Waiver of Depreciation Regulation	)
Pursuant to 47 C.F.R. § 1.3	)

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

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[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]

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[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

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[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

[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

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Of Counsel,
James T. Hannon

Its Attorneys

July 22, 2005
(With Corrected Caption, As Submitted July 28, 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

CERTIFICATE OF SERVICE

I, Ross Dino, do hereby certify that I have caused the foregoing **ERRATUM TO PETITION FOR WAIVER OF QWEST CORPORATION (INCLUDING ATTACHMENTS AND RE-SUBMITTED JULY 22, 2005 PETITION FOR WAIVER, WITH CORRECTED CAPTION)** to be 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 28, 2005