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**Ed Henry**  
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***EX PARTE***

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April 5, 2006

Marlene H. Dortch  
Secretary  
Federal Communications Commission  
445 12<sup>th</sup> Street SW  
Washington, DC 20554

RE: *In the Matter of Petition of Qwest Corporation for Waiver of Depreciation Regulation Pursuant to 47 C.F.R. § 1.3 – WC Docket No. 05-259*

Dear Ms. Dortch:

On April 5, 2006, Ed Henry and Melissa Newman, representing Qwest, met with Steve Morris, Richard Kwiatkowski, Fatina Franklin, Amy Bender, and Ronald Kaufman of the Wireline Competition Bureau to discuss the above-captioned Petition for Waiver. During the meeting, Qwest discussed the waiver approval requirement for several CFR Part 32 sections that affect the calculation of depreciation rates and net book costs. The attached document, which originally was filed as an *ex parte* on August 11, 2005, was used to facilitate the discussion.

Please contact me at 202.429.3122 if you have any further questions.

Sincerely,

/s/ Ed Henry

Enclosure

Copy (*via email*) to  
Steve Morris ([steve.morris@fcc.gov](mailto:steve.morris@fcc.gov))  
Richard Kwiatkowski ([richard.kwiatkowski@fcc.gov](mailto:richard.kwiatkowski@fcc.gov))  
Fatina Franklin ([fatina.franklin@fcc.gov](mailto:fatina.franklin@fcc.gov))  
Amy Bender ([amy.bender@fcc.gov](mailto:amy.bender@fcc.gov))  
Ronald Kaufman ([ronald.kaufman@fcc.gov](mailto:ronald.kaufman@fcc.gov))



**Request for Waiver of  
FCC Depreciation Requirements**

**August 11, 2005**

# Depreciation Waiver Request

- **Background**
- **Waiver Conditions**
- **Affected Part 32 Sections**
- **Adjustment Calculation**
- **Review of Information Provided**

# Depreciation Waiver Request Background

- **1998 Biennial Review – Depreciation**
  - **USTA petition for forbearance**
  - **FCC response - ‘USTA Depreciation Order’**
    - **Denied USTA’s request**
    - **Reduced some filing requirements**
    - **Established waiver process**
- **2000 Petition of Price Cap LECs (except Qwest)**
  - **Requested depreciation relief but did not agree to satisfy all conditions as stated**
  - **FCC denied request but re-affirmed waiver conditions**

# Depreciation Waiver Request Conditions

**In its response to the USTA forbearance request, the FCC established the following conditions that, if met, would satisfy the requirements for a waiver of the depreciation rules.**

1. Adjust the net book costs on regulatory books to the level reflected on financial books through a below-the-line write-off
2. Use the same depreciation factors and rates for both regulatory and financial accounting purposes
3. Agree to not seek recovery of the write-off
4. Agree to submit information concerning depreciation accounts
5. Comply with section 1.3 – Commission's traditional waiver standard

# Depreciation Waiver Request

## Affected Part 32 Sections

**The following sections of Part 32 affect the calculation of net book cost and depreciation reporting:**

- 32.3000(g) and (h) - Calculation of depreciation rates and amortization
- 32.2000(a)(2) and 32.7100(a) - Proceeds from customer initiated construction projects
- 32.2000(d)(1) - Accounting for plant in service at cost
- 32.2000(g)(2)(ii) and 32.3100(c) - Accounting for asset retirements and cost of removal
- 32.6720(j) - Short term disability costs
- 32.2007 - Goodwill
- 43.43 - Depreciation reporting
- 32.27 - Asset transfers between affiliates

# Depreciation Waiver Request

## Net Book Cost Calculation – Part 32 Variance from GAAP

Description	Part 32 Section	FCC Requirement	GAAP Requirement
Proceeds from special construction projects	2000(a)(2);7100(a)	recorded as contra capital	recorded as revenue
Accounting for plant in service	2000(d)(1)	maintain original cost	recognize an impairment loss when carrying value of the asset is not recoverable from discounted cash flows (FAS 144)
Accounting for retirements and cost of removal	2000(g)(2)(ii);3100(c)	cost of retirement is included in net salvage estimate used in calculation of depreciation rate; cost of removal is charged to accumulated depreciation	cost of removal is charged to expense; if a legal obligation exists to remove an asset, the fair value of the obligation is capitalized and depreciated over remaining life of asset (FAS 143)
Short term disability costs	6720(j)	short term disability costs are expensed	short term disability costs are capitalized to the extent they are associated with capitalized wages and salaries
Goodwill	2007	goodwill is amortized over remaining life	goodwill is not amortized (FAS 142)
Asset transfers between affiliates *	27	When BOC sells asset to affiliate, recorded at the higher of FMV and net book cost. When BOC purchases asset from affiliate, recorded at the lower of FMV and net book cost.	all asset transfers are recorded at net book cost

\* - At this time, Qwest is not seeking a waiver of section 32.27 going forward but will ask the Commission for appropriate relief on an individual case basis as necessary.

# Depreciation Waiver Request

## Calculation of the Adjustment

<b>Date (1)</b>	<b>Net Plant Financial Reporting</b>	<b>Net Plant FCC Reporting</b>	<b>Increase/(Decrease) to FCC Net Plant (2)</b>
August 31, 2005	\$14,965,748	\$14,584,500	\$381,248

### Notes:

1 – The data included in the adjustment is an estimate based on January through June 2005.

2 – The increase to FCC net plant is primarily due to differences in the depreciation rates that are used for regulatory and financial reporting purposes. The current FCC rates are higher than those used for financial reporting. The existing FCC rates were established between 1995 and 1997 when accumulated depreciation was much less than it is today. Since the financial reporting rates are updated annually and based on a higher level of accumulated depreciation, they are lower than the FCC rates.

# Depreciation Waiver Request

## Review of Information Provided

**As part of the waiver request process, Qwest has provided the following:**

- Declaration stating that we will satisfy the conditions set forth by the Commission
- Details of the estimated adjustment calculations
- Rationale for granting waiver of specific Part 32 sections that will ensure net book cost parity going forward
- Specific depreciation parameters used in calculating financial statement rates

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**Qwest believes that if it takes the steps outlined in its petition, it will have satisfied all of the conditions required to receive a waiver of the Commission's depreciation rules**