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EX PARTE

<u>Electronic Filing via ECFS</u>

November 17, 2006

Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th 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 November 17, 2006, Melissa Newman and Phil Grate, in person, and Timothy Boucher, Betty Knapp and Glenda Weibel, by telephone, all of Qwest, and Jim Hannon, by phone, representing Qwest, met with Don Stockdale, Al Lewis, Deena Shetler, Jay Atkinson and Amy Bender of the Wireline Competition Bureau regarding the above-captioned proceeding.

The attached documents were used as the basis for discussion.

Sincerely,

/s/ Melissa E. Newman

Attachments (2)

Copy to:
Don Stockdale
Al Lewis
Deena Shetler
Jay Atkinson
Amy Bender

Qwest Depreciation Waiver

WC Docket No. 05-259

November 17, 2006

Qwest
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Qwest Depreciation Waiver Petition
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- There is no possibility of over recovery by any carrier in the federal jurisdiction following the adoption of FAS 143 in conjunction with the waiver prescription process.
  - The FCC's waiver guidelines clearly indicate that only price cap carriers such as Qwest can take advantage of the depreciation waiver prescription process.
  - Costs of removal that will be expensed under FAS 143 have no impact on rates under the FCC's price cap plan.

- *Louisiana Public Service* limits the scope of any FCC depreciation waiver to the interstate jurisdiction.

- State jurisdictions can and will prevent Qwest from over recovering cost of removal charges.
  - Cost of removal is irrelevant in states that do not rely on rate-of-return regulation because cost of service does not determine rates.
  - Cost of removal is relevant in states that rely on rate-of-return regulation but is subject to regulatory control and oversight.

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- In jurisdictions that rely on a rate-of-return regulation, state commissions can and will prevent carriers that adopt FAS 143 from over recovering cost of removal.
  - In jurisdictions that prescribe state-specific depreciation lives and methods, a carrier cannot adopt FAS 143 for state purposes without state commission approval.
  - In rate-of return regulated jurisdictions, a carrier that has adopted FAS 143 cannot raise rates to recover the cost without a ratemaking proceeding.
  - Regulators scrutinize depreciation lives and accounting methods during ratemaking proceedings.
  - State regulators can and do impose adjustments to operating income and rate base to prevent cost over recovery in rate-of-return ratemaking proceedings.

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Consequences of a Write-Up

- The Potential Problem
  - A carrier that is (or could become) cost-of-service regulated and is granted a waiver that yields a write-up of net plant.
  - If no remedial action is taken, the carrier could recover the write up in rates, thereby effecting an “over recovery” of rate base.

- The Nebraska Solution
  - Qwest sought a waiver of state-specific accounting rules so that it could use the same books it does for FCC reporting.
  - Because Nebraska-prescribed depreciation has been greater than FCC depreciation, the waiver results in a write-up of net plant.
  - Nebraska’s solution was to condition approval of the waiver on a standing, perpetual rate base adjustment equal to the write-up.
  - In any future cost-of-service litigation, the adjustment protects ratepayers by reducing rate base by the amount of the write-up.

BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

In the Matter of the Petition for Declaratory Order Regarding Applicability of Certain Accounting Requirements or, in the Alternative, Application for Waiver of Certain Accounting Requirements.	)))))))	Application No. C-3684 GRANTED Entered: November 8, 2006

BY THE COMMISSION:

On August 25, 2006, Qwest Corporation (Qwest) of Denver, Colorado, filed a Petition for Declaratory Order Regarding Applicability of Certain Accounting Requirements or, in the Alternative, Application for Waiver of Certain Accounting Requirements (hereinafter referred to as the Petition for Waiver). Notice of the Petition for Waiver was published in the Daily Record, Omaha, Nebraska, on September 1, 2006. No protests or interventions were filed.

Qwest seeks to discontinue maintaining Nebraska jurisdictionally specific accounting records on two accounting bases in Nebraska. One basis of accounting follows rules prescribed by the Federal Communications Commission (FCC). The other basis of accounting applies Nebraska jurisdictional differences that reflect accounting standards and estimates which deviate from FCC accounting and instead follows accounting standards and estimates unique to Nebraska. In its Petition, Qwest states the three Business Activity Codes (BACs) used to account for Nebraska jurisdictional differences are BAC 0178 J Depreciation Rate Differences, BAC 0179 J Depreciation Amortization Differences, and BAC 0289 J Postretirement Cap Reversal. The sum of the retained earnings balances in BACs 0178, 0179 and 0289 as of January 1, 2006 is a debit of $6,866,657.34 on Nebraska's "JR" intrastate books. This debit is the result of a net credit to assets and liabilities and is included in the calculation of rate base in a rate of return rate case.

O P I N I O N A N D F I N D I N G S

As presented, the Commission understands Qwest's Petition for Waiver to be limited in nature to keeping accounting records unique to Nebraska for depreciation accounts identified above. In response to some concerns by Commission staff, Qwest states:

1. The requested waiver would allow Qwest to keep one set of books for Nebraska instead of two.

2. The requested waiver would preserve the accumulated difference between FCC and “JR” balance sheet balances for any future rate case.

3. The waiver contemplates and provides for the possibility of a Qwest rate case in Nebraska.

4. In the event of a rate case, the proposed qualifications on the requested waiver should preserve the ability of both the Staff to propose and the Commission to impose the depreciation lives and rates that Staff believes are appropriate.

Accordingly, Qwest, in response to Commission staff concerns, requests the Commission accommodate those concerns regarding the ability to use a Nebraska specific rate base for a future cost-of-service rate case. Upon review of Qwest’s commitments we find that a waiver should be granted as provided in this Order.

First, we require Qwest to continue to account for differences should a cost-of service rate case be filed. Qwest must preserve the accumulated difference between FCC and JR balance sheet balances for any future rate case. The differences between the balance sheet balances on the FCC and JR books on January 1, 2006, are set forth in Attachment A to this Order. In the event Qwest is involved in a cost-of-service rate case in Nebraska at some future time, the balance differences identified in Attachment A will be included as an adjustment to the rate base that will serve to reduce Qwest’s rate base by $6,866,657.34 which the Commission understands is an intrastate calculation.

In addition, no party would be prevented from proposing a pro forma adjustment to the test year cost of service analysis in such future rate case that incorporates the effect of using different depreciation rates than the rates Qwest uses for FCC accounting. Such rates would be used on a prospective basis.

Further, this waiver will have no effect on Qwest’s obligation to comply with FCC rules pertaining to accounting under the Uniform System of Accounts for telecommunications companies or jurisdictional separations procedures. Qwest committed to continue to maintain accounting records in accordance with FCC requirements and will continue to calculate results of operations separated between interstate and intrastate jurisdiction in Nebraska as required by the FCC. In addition, Qwest will continue to prepare and file Automated

Reporting Management Information System (ARMIS) reports as required by the FCC.

We also find that Qwest must continue to account for its operations and investments on a Nebraska-specific basis.

Finally, the grant of this waiver is purely discretionary in nature. The Commission retains its ability to modify the limitations imposed herein, to impose other requirements associated with this waiver, or to terminate this waiver if it deems appropriate.

Subject to the waiver conditions described herein and any hereinafter imposed by the Commission, Qwest may cease keeping JR books relative to the depreciation accounts referenced herein effective January 1, 2006. Further, the grant of this request will relieve Qwest of it obligation to file depreciation studies pursuant to Docket No. C-664.

O R D E R

IT IS THEREFORE ORDERED by the Nebraska Public Service Commission the Petition for Waiver is granted to the extent provided herein.

IT IS FURTHER ORDERED that the waiver granted herein may be further limited, modified or terminated at the discretion of the Commission.

MADE AND ENTERED at Lincoln, Nebraska this 8th day of November, 2006.

NEBRASKA PUBLIC SERVICE COMMISSION

COMMISSIONERS CONCURRING:

Chairman

ATTEST:

Executive Director