

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1274

In the Matter of)	
)	ORDER
QWEST CORPORATION)	
)	
Petition for Waiver of Certain Accounting)	
Rules and Orders.)	

DISPOSITION: WAIVER GRANTED; MEMORANDUM OF UNDERSTANDING ADOPTED.

On August 4, 2006, Qwest Corporation (Qwest) filed a petition with the Public Utility Commission of Oregon (Commission) for a waiver of the application of certain Commission rules and orders that pertain to accounting practices. The petition includes a signed Memorandum of Understanding (MOU) between Qwest and the Commission staff (Staff) relating to accounting practices and depreciation rates. Specifically, Qwest petitions the Commission to:

1. Waive the application of Commission rules or orders requiring Qwest to maintain accounting records different from those it maintains according to the Monthly Reporting (MR) basis of accounting;
2. Permit Qwest to use the MR basis of accounting for all Oregon regulatory reporting purposes; and
3. Relieve Qwest of the obligation to utilize depreciation rates established in docket UM 767 and instead use the MR accounting basis depreciation and salvage rates.

At its September 5, 2006 Public Meeting, the Commission adopted Staff's recommendation to grant the petition to waive certain rules and orders pertaining to accounting practices and adopt the MOU relating to depreciation rates and Oregon financial reporting. The Staff Report, as well as a copy of Qwest's petition and the MOU, is attached as Appendix A.

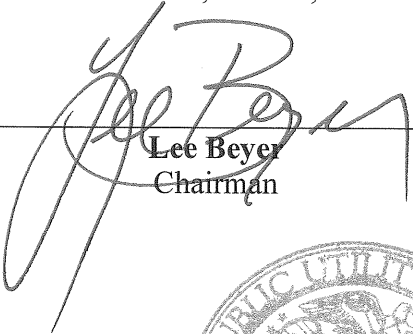
ORDER

IT IS ORDERED that:

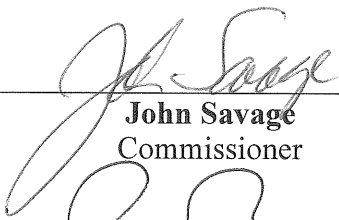
- 1) The Memorandum of Understanding between Qwest Corporation and Staff, as presented in Appendix A, is adopted.
- 2) The application of OAR 860-027-0050, to the extent it requires Qwest to maintain accounting records different from those it maintains according to the Monthly Reporting basis of accounting, is waived.
- 3) Qwest Corporation is permitted to utilize the Monthly Reporting basis of accounting for all Oregon regulatory reporting purposes.
- 4) Qwest Corporation is not required to utilize the depreciation and salvage rates established in Order No. 96-117, docket No. UM 767.
- 5) Qwest Corporation is permitted to utilize depreciation and salvage rates that it utilizes now, and will utilize in the future, for the Monthly Reporting basis of accounting with updates filed with the Commission.
- 6) All requirements set forth in previous orders compelling Qwest Corporation to maintain accounting records different from those it maintains on the Monthly Reporting basis are waived.
- 7) The Commission reserves the right to review and challenge the depreciation and salvage rates in future dockets.
- 8) The Commission reserves the right to require Qwest Corporation perform a depreciation study in the future.

- 9) The Commission reserves any party's right to present its arguments as to the appropriate depreciation and salvage rates to apply to Total Service Long Run Incremental Cost or Total Element Long Run Incremental Cost studies.


Made, entered, and effective SEP 11 2006.



Lee Beyer
Chairman



John Savage
Commissioner



Ray Baum
Commissioner



A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-014-0095. A copy of any such request must also be served on each party to the proceeding as provided by OAR 860-013-0070(2). A party may appeal this order by filing a petition for review with the Court of Appeals in compliance with ORS 183.480-183.484.

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: September 5, 2006

REGULAR X CONSENT _____ EFFECTIVE DATE _____ N/A _____

DATE: August 15, 2006

TO: Public Utility Commission

FROM: Cynthia Van Landuyt ^{CV}

THROUGH: Lee Sparling ^{EB for} and Phil Nyegaard ^{PN}

SUBJECT: QWEST CORPORATION: (Docket No. UM 1274) Petition for Waiver of Certain Accounting Rules and Orders and Adoption of a Memorandum of Understanding Between Qwest and OPUC Staff.

STAFF RECOMMENDATION:

Staff recommends the Commission issue an order granting the petition to waive certain rules and orders pertaining to accounting practices and adopting the Memorandum of Understanding (MOU) relating to depreciation rates and Oregon financial reporting.

DISCUSSION:

On August 7, 2006, Qwest Corporation (Qwest) filed a petition with the Commission for a waiver of the application of certain Commission rules and orders that pertain to accounting practices. The petition includes a signed MOU between Qwest and the Public Utility Commission of Oregon (OPUC) staff (Staff) relating to accounting practices and depreciation rates. The petition is docketed as UM 1274.

Specifically, Qwest petitions the Commission to:

1. Waive the application of Commission rules or orders requiring Qwest to maintain accounting records different from those it maintains according to the Monthly Reporting (MR) basis of accounting.
2. Permit Qwest to use the MR basis of accounting for all Oregon regulatory reporting purposes.

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3. Relieve Qwest of the obligation to utilize depreciation rates established in docket UM 767 and instead use the MR accounting basis depreciation and salvage rates.

Accounting Practices:

Qwest's election under Oregon Revised Statutes (ORS) 759.405 to opt out of rate-of-return regulation and be subject to price cap regulation under ORS 759.410 was effective December 30, 1999. ORS 759.410(2) states:

A telecommunications carrier that elects to be subject to this section and ORS 759.405 shall be subject to price regulation as provided in this section and shall not be subject to any other retail rate regulation, including but not limited to any form of earnings-based, rate-based or rate of return regulation.

Oregon Administrative Rules (OAR) 860-027-0050, Uniform System of Accounts for Large Telecommunications Utilities, sets out the OPUC's rules on accounting practices for large telecommunications utilities. Although the Oregon rules adopt the Federal Communications Commission's (FCC) Uniform System of Accounts (USOA) as of a certain date, there are exceptions to the FCC USOA based on prior PUC orders or rules. Qwest states while under rate of return regulation, the company maintained accounting records on two bases, MR following the FCC rules and Jurisdictional Reporting (JR) following the OPUC's rules and orders which supported rate-of-return regulation. With Qwest's election under ORS 759.405, there is no longer a need to keep two sets of accounting records.

Staff reviewed the MR reports Qwest proposes to use for annual reporting purposes. The reports contain information as required in the Annual Report Form O to the OPUC with the exception of specific Universal Service Fund (USF) information. Qwest agrees to provide a report containing amounts for Federal USF distributions, contributions and collections from customers and Oregon USF distributions, contributions and collections from customers.

The MR reports also provide financial information separated between interstate and intrastate jurisdictions which is required information for the Annual Report Form I, Separated Results of Operations.

Qwest acknowledges that OAR 860-027-0050 and Division 027 generally do not provide for a waiver from its requirements. However, Qwest believes its election under ORS

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759.405 and its proposed alternative reports are adequate to fulfill its reporting requirements. Staff agrees with Qwest. See Attachment, page 6.

Depreciation:

Under rate of return regulation, the Commission approved Qwest's depreciation and salvage rates, which could be different from the FCC approved rates. These rates were used in rate cases and other dockets. Again, Qwest keeps multiple sets of records for each of the approved rates. In the case of depreciation, Qwest maintains three sets of records, JR depreciation for Oregon-specific rates, MR for FCC reporting and rates for financial reporting to the Securities and Exchange Commission (SEC).¹ As stated above, the requirement to maintain these sets of depreciation rates was based on rate-of-return regulation, which is no longer relevant after Qwest's election under 759.405.

If approved, Qwest will use the MR set of rates for reporting purposes. Qwest will send Staff a package of information regarding any future rate changes filed with the FCC. Staff will send a notice to Qwest indicating its approval or disapproval of the rates within 30 days of receipt of the package.

In addition, Staff does not relinquish its right to review and challenge the rates in future dockets or to request a depreciation study. For any future Total Service Long Run Incremental Cost (TSLRIC) or Total Element Long Run Incremental Cost (TELRIC) proceedings² any party can advocate for a different set of depreciation rates.

In reviewing the proposed MR rates, Staff notes that some rates are higher than the current JR rates while others are lower. No study was done to calculate the impact. With the reservation of rights noted in the MOU, Staff does not object to the use of a single set of depreciation and salvage rates for reporting purposes.

Staff recommends the Commission issue an order granting Qwest's petition for waiver of certain accounting rules and orders and adoption of the MOU between Qwest and Staff.

¹ Qwest filed a petition with the FCC for a waiver of the FCC's rules which regulate Qwest's depreciation rates, methods and practices. See attachment pages 11-32. In the petition, Qwest asks for permission to use the same depreciation rates, methods and practices for MR and financial reporting. Any adjustments to Qwest's costs would be recorded as a below-the-line adjustment.

² The typical proceedings would be to determine Unbundled Network Element (UNE) costs.

PROPOSED COMMISSION MOTION:

The Commission issue an order:

1. Adopting the Memorandum of Understanding between Qwest and Staff;
2. Waiving 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. Permitting Qwest to utilize the MR basis of accounting for all Oregon regulatory reporting purposes;
4. Relieving 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. Permitting Qwest to utilize depreciation and salvage rates that it utilizes now and will utilize in the future for the MR basis of accounting with updates filed with Staff;
6. Waiving 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.
7. Reserving Staff's right to:
 - a. review and challenge the depreciation and salvage rates in future Commission dockets
 - b. request Qwest perform a depreciation study in the future; and
8. Reserving any parties' right to present its arguments as to the appropriate depreciation and salvage rates to apply to TSLRIC or TELRIC cost studies.

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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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1 II. DISCUSSION

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

4 A. Accounting Guidelines for Qwest

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

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

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

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

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

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

10 Order No. 96-117 establishes the depreciation and salvage rates that Qwest uses for JR
11 accounting. The MOU sets forth the depreciation and salvage rates that Qwest currently uses for
12 MR accounting. MOU, ¶ 5. Qwest and Staff agree that Qwest may use MR depreciation rates,
13 as such rates may be changed from time-to-time, in place of the rates established in Order No.
14 96-117, and that the Commission should approve the use of such rates. *Id.*

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

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

5 **C. Reservation of Rights**

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

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

12 **III. RELIEF REQUESTED**

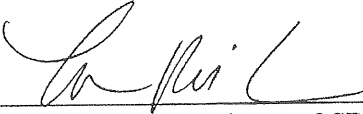
13 Based upon the foregoing and the terms of the MOU, Qwest Corporation respectfully
14 requests that the Commission issue an order that:

- 15 1. Approves the Memorandum of Understanding between Qwest and Staff;
- 16 2. Waives the application of OAR 860-027-0050 to the extent it requires Qwest to
17 maintain accounting records different from those it maintains according to the MR basis
18 of accounting;
- 19 3. Permits Qwest to utilize the MR basis of accounting for all Oregon regulatory
20 reporting purposes;
- 21 4. Relieves Qwest of the obligation to utilize the depreciation and salvage rates
22 established in Commission Order No. 96-117, entered May 3, 1996, in Docket No. UM
23 767;
- 24 5. Permits Qwest to utilize the depreciation and salvage rates that it utilizes now and
25 will utilize in the future for the MR basis of accounting; and
26

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

4 DATED: August 4, 2006.

5 PERKINS COIE LLP

6 By 
7 Lawrence H. Reichman, OSB No. 86083

8 and

9 Alex M. Duarte, OSB No. 02045
10 Qwest Corporation
11 421 SW Oak Street, Room 810
12 Portland, OR 97204

13 Attorneys for Qwest Corporation
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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

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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:

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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)

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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

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.

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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 Nye, administrator, Telecommunications Division
Dated 8/2/06

Qwest Corporation

By: A.K. M...
Dated 8/2/2006