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August 26, 2002

Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, SW, Room TWB-204
Washington, DC 20554

Re: *Application by Qwest Communications International, Inc. for Authorization To Provide In-Region InterLATA Services in the States of Colorado, Idaho, Iowa, Nebraska, and North Dakota (Dkt. No. 02-148)*

Application by Qwest Communications International, Inc. for Authorization To Provide In-Region InterLATA Services in the States of Montana, Utah, Washington, and Wyoming (Dkt. No. 02-189)

Dear Ms. Dortch:

Enclosed at the staff's request is additional information concerning the applicability of section 272 to Qwest's pending applications. As demonstrated in the attached verified letter of Oren G. Shaffer, Qwest Communications International Inc.'s (QCII) recently appointed Vice Chairman and Chief Financial Officer, to the best of our knowledge, and subject to the statements made in the attached letter, Qwest Communications Corporation (QCC) and Qwest Corporation (QC) maintain their books, records and accounts in the manner prescribed by the Commission, including maintaining them in accordance with Generally Accepted Accounting Principles (GAAP). QCII's current accounting review is thus consistent with QCII's substantial showing on the question before this Commission: whether 271 authority "will be carried out in accordance with the requirements of section 272." 47 U.S.C. § 271(d)(3)(B). The answer is that it will.

Mr. Shaffer also states in his attached letter that QCII is fully committed to maintaining its books, records and accounts, and those of its affiliates, in accordance with GAAP. As is well known, QCII is currently engaged in a comprehensive review of past accounting decisions. This review incorporates the views of new QCII management, including Mr. Shaffer, and the company's new auditors, KPMG LLP (KPMG).

As a result of that review, certain past accounting decisions are under review as set forth in public disclosure filings made by Qwest on July 28, and August 8, Mr. Shaffer reconfirms that none of the transactions under review involve dealings between QC, the BOC, and QCC, the



section 272 affiliate.¹ Qwest is meeting the requirements of section 272, which are intended to “discourage and facilitate the detection of improper cost allocation and cross-subsidization between the BOC and its section 272 affiliate,” and to “ensure that BOCs do not discriminate in favor of their section 272 affiliates.”² Thus, none of the transactions under review implicate the concerns underlying section 272.

As described in the declaration of Ms. Schwartz attached to its 271 applications and cited in Mr. Shaffer’s August 20 letter filed in these proceedings, QCII takes its obligations regarding affiliate transactions between QC and QCC very seriously. As a part of its state reviews, it undertook a special verification designed to ensure that all dealings between QC and QCC conform with the requirements of section 272 and GAAP. In late 2001, QCII engaged KPMG to independently test its compliance with certain aspects of section 272 and the Commissions rules and regulations (specifically sections 272 (b)(2), 272 (b)(5) and 272 (c)(2), and C.F.R. section 32.27) in this regard. Following that review in 2001, KPMG found certain discrepancies, all but one of which had previously been identified by Qwest, and the net financial impact of which was actually to the disadvantage of QCC.³ Furthermore, following that review, Qwest implemented further controls and retained KPMG in December of 2001 to conduct yet another review to verify that the discrepancies it had previously identified had been corrected and that controls were reasonably designed to prevent and detect non-compliance going forward in the transactions between QC and QCC.⁴ KPMG confirmed these points⁵ and all nine of the state commissions in the states included in Qwest’s filings have agreed. Based on the corrections made and these additional controls, and the additional analysis that has occurred in connection with the current review, we can affirm that the transactions between QCC and QC have been, and are, accounted for in accordance with GAAP.

More specifically, with respect to QC, section 272(c)(2) requires that it will “account for all transactions with an affiliate described in subsection (a)” — *i.e.*, the section 272 affiliate — “in accordance with accounting principles designated or approved by the Commission.”⁶ As just noted, the additional controls referenced above were designed to ensure that QC accounts for its transactions *with QCC* in accordance with GAAP. As Mr. Shaffer confirms in his attached letter

¹ On July 28, 2002 when Qwest was in a position to report that restatement may be necessary, it identified four issues: optical capacity sales by QCC to third parties, certain equipment sales by QCC to third parties, accounting for telecommunications services in transactions between QCC and third party carriers, and QwestDex directory publishing matters. The company also is evaluating whether restatement of financial statements for past periods would be required in connection with certain other matters. None of these matters relate to transactions between QCC and QC, and therefore none implicate section 272.

² *SBC Arkansas-Missouri Order*, 16 FCC Rcd 20719, ¶ 122 (2001).

³ *See, e.g.*, Declaration of Marie E. Schwartz ¶ 25 (June 13, 2002).

⁴ *See, e.g.*, Declarations of Marie E. Schwartz ¶¶ 23-27 (June 13, 2002 and July 12, 2002); the following exhibits attached to both Schwartz Declarations: MES-272-3 (KPMG LLP Report, November 9, 2001 (with cover brief and November 15, 2001 Schwartz affidavit)) and MES-272-4 (Jacobsen KPMG Declaration, December 14, 2001); Declaration of Judith L. Brunsting ¶¶ 58-61 (June 13, 2002), Declaration of Judith L. Brunsting ¶¶ 59-62 (July 12, 2002) and exhibit JLB-272-17 (Affidavit of Judith L. Brunsting, November 15, 2001) attached to the June 13, 2002 and July 12, 2002 Declarations of Judith L. Brunsting..

⁵ *Id.*

⁶ 47 U.S.C. § 272(c)(2). The “accounting principles designated or approved by the Commission” in this context are GAAP. *See Accounting Safeguards Order* ¶¶ 44, 108; 47 C.F.R. §§ 32.1, 32.12.

(at p.1), the transactions between QCC and QC have been, and are, accounted for in accordance with GAAP.

With respect to QCC, section 272(b)(2) similarly requires a section 272 affiliate to “maintain books, records, and accounts in the manner prescribed by the Commission which shall be separate from the books, records, and accounts maintained by the Bell Operating Company of which it is an affiliate.” Section 272(b)(2) was implemented in tandem with section 272(c)(2), and the Commission has likewise chosen to prescribe GAAP as the appropriate way of maintaining such books, records, and accounts.⁷ As stated above, the transactions between QCC and QC have been, and are, accounted for in accordance with GAAP. Mr. Shaffer also confirms that subject to the restatement of financial reports for prior periods to reflect appropriate beginning balances, QCC maintains its books, records, and accounts in the manner prescribed by the Commission, including maintaining its books, records, and accounts in accordance with GAAP. This satisfies QCC’s obligations under section 272(b)(2).

Qwest regrets any confusion that may have been caused by the August 20, 2002 letter from Mr. Shaffer. As QCII has noted in that letter, it cannot presently certify the financial statements of QCII⁸ or QC until its pending accounting review is completed. However, that is *not* because of any failure of either entity to follow GAAP with respect to QC-QCC transactions, or any failure to maintain books, records and accounts in accordance with GAAP today or in the future. Rather, as Mr. Shaffer explains in his attached letter, that is because the beginning balances for the current quarter are derived from prior quarters and must include a cumulative effect with respect to data for *past* transactions that QCII will restate. Until the scope of any restatements is resolved, the pendency of such restatements will impact current accounts in that respect.

The August 20, 2002 letter from Mr. Shaffer, indicated that the June 13, 2002, and July 19, 2002 declarations of Ms. Brunsting and Ms. Schwartz were “impacted accordingly.” None of the information provided in the August 20, 2002 letter, or in the attached letter, makes the language in those declarations incorrect. However, Qwest said that the declarations were “impacted accordingly” because if those declarations had been submitted today, we would add to them the discussion in the preceding paragraph which can be summarized as follows: “QCII is unable to certify its current financials because the beginning balances for the current quarter are derived from prior quarters and must include a cumulative effect with respect to data for past matters requiring a restatement of QCII’s financial reports.”

Qwest meets the requirements of section 272 today, and will do so upon and after approval of its pending applications under section 271. In short, the recent accounting issues identified in QCII’s August 20 letter do not affect QCII’s showing that “the requested

⁷ *Accounting Safeguards Order* ¶ 170. The Commission has phrased its incorporation of GAAP for section 272 affiliates somewhat more broadly than for BOCs under 47 U.S.C. § 272(c)(2). The Commission has determined that its requirement of GAAP for the section 272 affiliate is designed to “result in a uniform audit trail” in its transactions with the BOC. *Id.* The main reason the Commission required the section 272 affiliate to comply with GAAP was to create accounting uniformity and a uniform audit trail to facilitate enforcement of the affiliate transaction rules with respect to transactions between the BOC and the section 272 affiliate.

⁸ The financials of QCC are reported in the financial statements of QCII.

authorization will be carried out in accordance with the requirements of section 272.” 47 U.S.C. § 271(d)(3)(B). Indeed, this commitment is demonstrated by the comprehensive analysis underway. QCII is committed to following GAAP and is committed to maintaining books, records and accounts in accordance with GAAP both now and in the future.

Section 272 involves a “predictive judgment regarding the future behavior of the BOC.” *Ameritech Michigan* ¶ 347. The record here permits the Commission to make that judgment with respect to Qwest. The record establishes that QCC and QC meet the requirements of section 272(b)(2) and (c)(2), respectively. To the best of our knowledge, and subject to the statements made in the attached letter, QCC and QC maintain their books, records and accounts in the manner prescribed by the Commission, including maintaining them in accordance with GAAP. Additionally, the Commission can rely on the extensive and successful efforts by the company to ensure that the transactions between QC and QCC are accounted for in accordance with GAAP. None of the accounting issues being discussed effect the transactions between QC and QCC, and it is those transactions that are the focus of section 272. The Commission can also rely on the strong commitment of Qwest and its current management and auditors to see that books, records and accounts in general are maintained in accordance with GAAP. And it can rely on the current inquiry into past accounting periods, and the commitment to make any appropriate restatements, as further support for a conclusion that QCC and QC will maintain books, records and accounts in accordance with GAAP upon the BOC’s receipt of section 271 authority. QCII has demonstrated its compliance with, and commitment to, section 272. And as the Commission has repeatedly noted, the upcoming biennial audit requirements of section 272(d) provide further assurance of QCII’s continued compliance.⁹

Respectfully submitted,

A large, stylized handwritten signature in black ink, appearing to read 'R. Steven Davis', is written over the typed name.

R. Steven Davis

Senior Vice President, Policy and Law

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See, e.g., BANY Order ¶ 412; SBC-Texas Order ¶ 406.



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Oren G. Shaffer
Executive Vice President
Chief Financial Officer

August 26, 2002

Ms. Marlene Dortch
Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

**Re: Applications of Qwest Communications International Inc.
WC Docket Nos. 02-148 and 02-189**

Dear Ms. Dortch:

On behalf of Qwest Communications International Inc. ("QCII"), this serves as a supplement to my letter dated August 20, 2002. Subject to the restatement of financial reports for prior periods to reflect appropriate beginning balances, Qwest Communications Corporation (QCC) and Qwest Corporation (QC) maintain their books, records, and accounts in the manner prescribed by the Commission, including maintaining their books, records, and accounts in accordance with Generally Accepted Accounting Principles (GAAP).

As the Commission has found, section 272 is designed to "discourage and facilitate the detection of improper cost allocation and cross-subsidization between the BOC and its section 272 affiliate," and to "ensure that BOCs do not discriminate in favor of their section 272 affiliates." *See, e.g., Arkansas/Missouri 271 Order*, 16 FCC Rcd 20719, para. 122 (2001). The transactions between QCC, the section 272 Affiliate, and QC, the BOC, have been, and are, accounted for in accordance with GAAP. QCC and QC are committed to continue these policies going forward.

In my August 20 letter, I wrote that QCII is unable to certify that QCC's or QC's financial statements are accounted for consistently with GAAP. The reason for this is that QCII anticipates restatement of financial statements for prior periods. Financial statements are cumulative in nature. Each time QCII issues a financial statement the current statements contain beginning and prior year balances that reflect past accounting

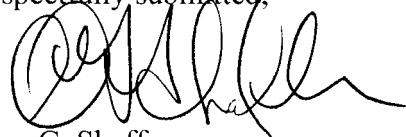
judgments or interpretations under GAAP. I am unable to certify the current financial statements, because they build on the past financial statements which I have indicated that QCII will be restating. Similarly, as a part of the ongoing review, we are analyzing whether any adjustment to QC's past financial statements is necessary. This inability to certify current financial statements does not indicate any issue with the manner in which QCC and QC are conducting business today or accounting for transactions on a going-forward basis. None of the transactions under review are between QCC and QC. QCC and QC are accounting for transactions in accordance with GAAP for their current and future operating activities.

In my August 20, 2002 letter, I indicated that the declarations of Marie E. Schwartz and Judith L. Brunsting referenced in that letter were "impacted accordingly." For the foregoing reasons, those declarations were correct when written and the information that I have provided does not make them incorrect. I used the term "impacted accordingly" because if those declarations had been submitted today, we would add to them the discussion in the preceding paragraph about the incorporation of beginning balances in the financial statements from past periods which can be summed up as follows: "QCII is unable to certify its current financials because the beginning balances for the current quarter are derived from prior quarters and must include a cumulative effect with respect to data for *past* matters requiring a restatement of QCII's financial reports."

To the best of our knowledge, and subject to the statements made in the preceding paragraphs, QCC and QC maintain their books, records, and accounts in the manner prescribed by the Commission, including maintaining them in accordance with GAAP.

QCII has new management and a new independent auditor, KPMG LLP. It is the policy of QCC and QC to comply with GAAP and these companies are committed to compliance with GAAP. As QCII has indicated publicly, Qwest is conducting a thorough analysis of accounting practices for past periods, and restatements for those periods will be made. This analysis is among other things a comprehensive analysis by both internal and external experts to ensure that QCII's accounting practices are transparent and comply with GAAP, and that any new internal controls that are needed will be identified and implemented. This review of past accounting practices is ongoing and is expected to take several months before it is completed. Once the ongoing analysis is concluded, audited restated financial statements will be filed.

Respectfully submitted,

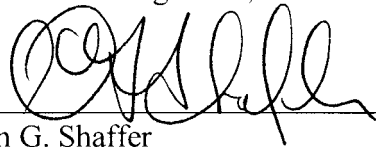


Oren G. Shaffer
Vice Chairman and Chief Financial Officer
Qwest Communications International Inc.

VERIFICATION

I declare under penalty of perjury that the foregoing is true and correct.

Executed on August 26, 2002.



Oren G. Shaffer