



0000110661

ORIGINAL

BEFORE THE ARIZONA CORPORATION COMMISSION RECEIVED

WILLIAM A. MUNDELL

Chairman

JIM IRVIN

Commissioner

MARC SPITZER

Commissioner

Arizona Corporation Commission

DOCKETED

SEP 27 2002

2002 SEP 27 A 10:46

AZ CORP COMMISSION DOCUMENT CONTROL



DOCKET NO. T-0000A-97-0238

IN THE MATTER OF U S WEST COMMUNICATIONS, INC.'S COMPLIANCE WITH SECTION 271 OF THE TELECOMMUNICATIONS ACT OF 1996

AT&T'S MOTION TO REOPEN AND SUPPLEMENT THE RECORD

AT&T Communications of the Mountain States, Inc. and TCG Phoenix (collectively "AT&T"), hereby move for the Commission to reopen the record in this proceeding and require Qwest Corporation ("Qwest") to supplement the record with sufficient evidence to demonstrate that Qwest and its new section 272 affiliate are in compliance with section 272 of the Telecommunications Act of 1996 ("Act")<sup>1</sup>.

I. INTRODUCTION

On April 19, 2002, Staff issued its Final Report on Compliance with Section 272. Staff concluded Qwest meets the requirements of section 272. Staff Report, Conclusions of Law, ¶ 8. The Administrative Law Judge ("ALJ") has not released a recommended order and opinion. AT&T believes that recent events require the Commission to reopen the record and call for Qwest to supplement the record on its compliance with section 272.

Sections 271 and 272 of the Act describe the requirements a Bell operating company ("BOC") must meet to obtain authority to provide in-region, interLATA long

<sup>1</sup> Qwest has announced its intention to create a completely new, separate subsidiary to establish compliance with section 272 of the Telecommunications Act. See infra at 10.

distance authority. Although the competitive checklist contained in section 271(c)(2)(B) of the Act often receives the most attention during the review of a BOC's application for in-region, interLATA long distance authority, there is no question that compliance with the safeguards contained in section 272 is mandatory. Section 271(3)(B) states that the Federal Communications Commission ("FCC") shall not approve an application unless it finds that "the requested authorization will be carried out in accordance with the requirements of section 272." The FCC has held that non-compliance with section 272 constitutes an independent ground for denying a BOC's application.<sup>2</sup> Section 272, therefore, is a critical part of any evaluation into whether a BOC's application is adequate to obtain in-region, interLATA authority.

Recent events have confirmed the continuing importance of a BOC's compliance with section 272. Qwest recently withdrew two section 271 applications at the FCC that would have, if granted by the FCC, permitted it to provide in-region, interLATA authority in the States of Colorado, Idaho, Iowa, Montana, Nebraska, North Dakota, Utah, Washington and Wyoming.<sup>3</sup> Qwest withdrew both applications one day before the statutory deadline for the FCC to either accept or deny Qwest's first application because, as explained by Qwest, "there have been questions raised regarding our plans to restate our financial statements for prior periods."<sup>4</sup> FCC Chairman Powell stated that "questions remain regarding whether Qwest has complied with the safeguards set forth by Congress

---

<sup>2</sup> *Application of BellSouth Corporation, BellSouth Telecommunications, Inc. and BellSouth Long Distance, Inc. for Provision of In-Region, InterLATA Services in Louisiana*, CC Docket No. 98-121, Memorandum Opinion and Order, FCC 98-271 (rel. Oct. 13, 1998), ¶ 322 ("*BellSouth Louisiana II Order*").

<sup>3</sup> Qwest filed its first application on June 13, 2002, for the States of Colorado, Idaho, Iowa, Nebraska and North Dakota (WC Docket No. 02-148). The second application was filed on July 12, 2002, for the States of Montana, Utah, Washington and Wyoming (WC Docket No. 02-189).

<sup>4</sup> [http://www.qwest.com/about/media/pressroom/1,1720,1107\\_current,00.html](http://www.qwest.com/about/media/pressroom/1,1720,1107_current,00.html)

in section 272 of the Act.”<sup>5</sup> In a letter to the FCC withdrawing its application, Qwest’s attorney stated that, although Qwest believed its application fully satisfied the requirements of section 271, “in recent days the Commission staff has raised questions regarding the issue of whether Qwest Communications Corporation (“QCC”), the designated Section 272 affiliate, can be said to meet the requirements of Section 272 given pending restatement of its financial statements for past periods.”<sup>6</sup>

And there certainly have been significant developments since the Commission last examined the issue. On July 28, 2002, Qwest issued a press release acknowledging that it was analyzing its accounting practices.<sup>7</sup> “Based on analysis to date, the Company has determined that it has in some cases applied its accounting policies incorrectly with respect to certain optical capacity asset sale transactions in 1999, 2000, and 2001.”<sup>8</sup> Misapplied accounting policies resulted in a \$1.6 billion error.<sup>9</sup> As a result of ongoing review, Qwest still cannot certify the Company’s financial statements.<sup>10</sup>

On August 20, 2002, Oren G. Shaffer, Qwest’s Chief Financial Officer, sent a letter to Ms. Marlene Dortch, Secretary, FCC. In that *ex parte* submission Mr. Shaffer stated:

QCII’s internal investigations have now identified, with respect to the QC and QCC financial statements, (1) accounting transactions for QCC that did not comply with the requirements of GAAP, and (2) certain potential adjustments to the financial statements of QC that may be necessary to

---

<sup>5</sup> Statement of FCC Chairman Michael Powell, dated September 10, 2002. <http://www.fcc.gov/>

<sup>6</sup> Letter dated September 10, 2002, from Peter A. Rohrbach, Hogan & Hartson, L.L.P., to Ms. Marlene Dortch, Secretary, FCC, WC Docket Nos. 02-148 and 02-189.

<sup>7</sup> [http://www.qwest.com/about/media/pressroom/1,1720,1070\\_archive,00.html](http://www.qwest.com/about/media/pressroom/1,1720,1070_archive,00.html)

<sup>8</sup> *Id.*

<sup>9</sup> Rocky Mountain News, Denver, CO (July 29, 2002), at 1B. On September 22, 2002, Qwest announced that it plans to restate an additional \$950 million in revenue from mid-2000 to 2001. The Wall Street Journal (September 23, 2002), at A12. See also Qwest’s web site:

[http://www.qwest.com/about/media/pressroom/1,1720,1114\\_archive,00.html](http://www.qwest.com/about/media/pressroom/1,1720,1114_archive,00.html)

<sup>10</sup> Qwest filed its current 8-K Report with the Securities and Exchange Commission on August 16, 2002. [http://www.qwest.com/about/media/pressroom/1,1720,1091\\_archive,00.html](http://www.qwest.com/about/media/pressroom/1,1720,1091_archive,00.html)

comply with GAAP. Additional analysis is in progress regarding these matters. The paragraphs in the Declarations of Judith L. Brunsting and Marie E. Schwartz that addressed GAAP compliance for QCC and QC were believed to be true when submitted. ...In light of the developments in the ongoing internal investigation, QCII is currently unable to certify that QCC's or QC's financial statements are accounted for consistently with GAAP, and the paragraphs of the Declarations are impacted accordingly.<sup>11</sup>

Though Qwest attempted to argue that these matters did not effect its showing that it was in compliance with section 272, the FCC obviously disagreed; and, three weeks after making these admissions, Qwest pulled its applications.

The facts are clear and are not in dispute – Qwest and its section 272 affiliate are *not* in compliance with section 272. Qwest has announced its intent to create a wholly-new separate subsidiary, explicitly acknowledging the apparently irremediable shortcomings of its present section 272 affiliate. In light of these developments, the information which has recently been revealed, the new facts which will be presented by Qwest's creation of a new affiliate and Qwest's previous misrepresentations regarding its 272 compliance, the Commission should establish a process for the filing and evaluation of Qwest's new separate subsidiary.

## II. ARGUMENTS

### A. The State's Role in Review of a BOC's Application.

The FCC has stated in the past that it relies on the states to develop a comprehensive record for any BOC application brought before it for review under sections 271 and 272:

---

<sup>11</sup> Ms. Brunsting and Ms. Schwartz were the Qwest witnesses on section 272 in the Arizona proceeding, and the information filed in Arizona is obviously also impacted. A copy of Mr. Shaffer's August 20, 2002, letter is attached to AT&T's Motion as Exhibit A.

In requiring the Commission to consult with the states, Congress afforded the states an opportunity to present their views regarding the opening of the BOC's local networks to competition. In order to fulfill this role as effectively as possible, state commissions must conduct proceedings to develop a comprehensive factual record concerning BOC compliance with the requirements of section 271 and the status of local competition in advance of the filing of section 271 applications.<sup>12</sup>

The Staff's recommendation and the record before the ALJ are based on an outdated record that has been shown to be inadequate for Qwest to obtain in-region, interLATA authority. With respect to section 272, the FCC no longer must give the record developed before this Commission any weight in any future application filed by Qwest.

In the *Ameritech Michigan Order*, the Commission determined that, because the Act does not prescribe any standard for Commission consideration of a state commission's verification under section 271(d)(2)(B), it has discretion in each section 271 proceeding to determine that amount of weight to accord to the state commission's verification. The Commission has held that, although it will consider carefully state determinations of fact that are supported by a detailed and extensive record, *it is the Commission's role to determine whether the factual record supports the conclusion that particular requirements of section 271 have been met.*<sup>13</sup>

In light of the new facts, new information and new issues that such a filing will contain, this Commission should reopen the record, take additional evidence and compile a new record that would support a finding that Qwest is in compliance with section 272 before Qwest submits an application to the FCC. Otherwise, the FCC will be required to

---

<sup>12</sup> *Application of Ameritech Michigan Pursuant to Section 271 of the Communications Act of 1934, as amended, to Provide In-Region, InterLATA Services in Michigan*, CC Docket No. 97-137, Memorandum Opinion and Order, FCC 97-298 (rel. Aug. 19, 1997), ¶ 30 ("*Ameritech Michigan Order*").

<sup>13</sup> *Application by Bell Atlantic New York for Authorization Under Section 271 of the Communications Act To Provide In-Region, InterLATA Service in the State of New York*, CC Docket No. 99-295, Memorandum Opinion and Order, FCC 99-404 (rel. Dec. 22, 1999), ¶ 20 (footnotes omitted) (emphasis added).

make a decision without a fully-developed state record and without a state commission recommendation.

B. It is Appropriate For This Commission to Determine Whether Qwest has Corrected the Problems.

AT&T has clearly demonstrated the need for the Commission to reopen the record to take new evidence and develop a new record. The FCC agrees as well.

We fully acknowledge and are sensitive to limitations on state commissions' resources for purposes of developing their recommendation on a BOC's 271 application. We believe, however, that in making its recommendation on a BOC's section 271 application, a state commission may assist us greatly by providing factual information. When a BOC files a subsequent application in a state, it is important for the state commission to provide the factual information gathered and relied upon by the state commission concerning changes that have occurred since the previous application was filed. *Thus, for subsequent applications, we encourage state commissions to submit factual records, in addition to their comments, demonstrating that: (1) the BOC has corrected the problems identified in previous applications; and (2) there are no new facts that suggest the BOC's actions and performance are no longer consistent with the showing upon which this Commission based any determination that the statutory requirements for certain checklist items have been met.*<sup>14</sup>

The Commission should reopen the record and advise Qwest that it must file testimony and supporting documentation with this Commission for the Commission's review before it makes a recommendation.

C. Internal Controls are Necessary to Determine Compliance with Section 272.

Qwest is proposing to create a new section 272 affiliate. However, creating a new affiliate will not, by itself, demonstrate compliance. Qwest must demonstrate, *inter alia*, that adequate and reliable internal controls are in place.

Qwest's witness, Marie E. Schwartz, during the Colorado section 272 proceedings, stated one of the reasons why internal controls are important: "Internal

---

<sup>14</sup> *BellSouth Louisiana II Order*, ¶ 21 (emphasis added).

controls ... help ensure that no unauthorized information sharing takes place between the BOC and the 272 Affiliate.”<sup>15</sup> Ms. Schwartz further stated that reliable and adequate internal controls are a consideration in determining compliance with section 272 requirements:

The company’s efforts to correct occasional discrepancies in a timely manner through accounting controls should also be a consideration in determining whether the BOC is in compliance with section 272 requirements. The ability to find and correct errors is evidence that the company’s controls are in place and working. As noted in the FCC’s order approving Southwestern Bell’s Texas application, the FCC says that, “In its application, SWBT demonstrates that it has implemented internal control mechanisms reasonably designed to prevent, as well as detect and correct, any noncompliance with Section 272.”<sup>16</sup>

Qwest and QCC witnesses placed much reliance upon the internal controls as an FCC-recognized safeguard and testified as to their adequacy and reliability. These past statements subsequently have been rebutted by Mr. Shaffer’s statements.

Qwest’s chief financial officer, Mr. Oren Shaffer, recently admitted to the United States Securities and Exchange Commission (“SEC”) “that the company needs to enhance certain internal controls.”<sup>17</sup> Mr. Shaffer further acknowledged to the FCC that these “new internal controls that are needed will be identified and implemented” subject to a “thorough analysis of accounting practices for past periods” which “*is expected to*

---

<sup>15</sup> Rebuttal Affidavit of Marie E. Schwartz, July 9, 2001, at 9. (Schwartz Colorado Rebuttal).

<sup>16</sup> Schwartz Colorado Rebuttal, at 16-17. Quoting from, *Application by SBC Communications Inc., Southwestern Bell Telephone Company, and Southwestern Bell Communications Services Inc. d/b/a Southwestern Long Distance Pursuant to Section 271 of the Telecommunications Act of 1996 to Provide In-Region, Inter-LATA Services in Texas*, CC Docket No. 00-65, Memorandum Opinion and Order, FCC 00-238, (rel. June 30, 2000), ¶ 398 (“SBC-Texas Order”).

<sup>17</sup> Oren Shaffer’s Statement to the SEC, Qwest 8-K (Aug. 16, 2002) at 12. *Also see*, <http://ccbn.tenkwizard.com/filing.php?repo=tenk&ipage=1836956&doc=1&total=&attach=ON&TK=Q&CK=1037949&FG=0&FC=000000&NK=FFFFFF&SC=ON&TCI=FFFFFF&T2=FFFFFF&LK=1870AF&AL=FF0000&VL=1870AF>

*take several months before it is completed.*<sup>18</sup> Mr. Shaffer's letter to the FCC was dated August 26, 2002, which means the "thorough analysis" is unlikely to be completed before October 26. Once the recommendations on the additional needed internal controls are received it will take a certain amount of time to properly implement them, have management review them for effectiveness and then submit them to Qwest's independent auditor for an attestation. Thus, Qwest and its new section 272 subsidiary could not possibly be compliant in the near future.

Furthermore, as AT&T has previously pointed out to this Commission, numerous instances of failure to timely accrue, timely bill for services and meet the terms of the intercompany agreements demonstrate a lack of internal controls.<sup>19</sup> As AT&T stated in its Brief, "*If proper internal controls had been put in place first, payments could have been made timely. It is only because internal controls, processes and training had not been accomplished before Qwest began dealing with QCC that it became necessary to have a transition and declare QCC the section 272 affiliate on March 26, 2001, essentially to clean up the mess and reflect some semblance of compliance with section 272.*"<sup>20</sup>

Qwest has previously argued that controls are in place.<sup>21</sup> No doubt, Qwest will again argue that controls will be in place for its new 272 subsidiary and such are effective and adequate and are evidence of compliance with section 272. However, Qwest should be required to make a demonstration to this Commission that adequate internal controls are, in fact, in place and working.

---

<sup>18</sup> *Ex parte* letter dated August 26, 2002, from Oren G. Shaffer, Executive Vice President and Chief Financial Officer, Qwest, to Ms. Marlene Dortch, Secretary, FCC, at 2 (WC Docket Nos. 02-0148 and 02-189).

<sup>19</sup> AT&T's Brief on Section 272 of the Act (Aug. 23, 2001) at 11-13.

<sup>20</sup> AT&T's Brief at 26. (emphasis added) (footnote omitted).

<sup>21</sup> Qwest Brief at 33.

D. The Scope of Commission Review

The only remaining issue is to establish an acceptable and adequate procedure for reviewing Qwest's filing with this Commission. AT&T recommends that any procedure contain five essential components: 1) Qwest should file testimony and exhibits demonstrating that Qwest and its section 272 affiliate are in compliance with section 272; 2) discovery must be permitted on Qwest's filing; 3) competitive local exchange carriers ("CLECs") and other interested parties must be given an opportunity to file comments; 4) Qwest should have an opportunity to reply; and 5) the Staff should supplement its Report on Qwest's compliance with section 272 before this Commission makes any recommendation on Qwest's compliance with sections 271 and 272.

AT&T believes that a reasonably expeditious schedule can be agreed to for conducting this review, assuming that Qwest's initial filing is not incomplete and it responds timely to discovery.

1. Qwest Must File Additional Testimony To Support Compliance with Section 272.

Qwest has failed to demonstrate compliance with section 272. Indeed, it has acknowledged that, contrary to its previous representations to this Commission, it is not in compliance with legal requirements. It must file a new case that documents the corrective measures it has taken to bring it into compliance with section 272.

Qwest has publicly admitted that questions have been raised regarding Qwest's plans to restate its financial statements. Recent newspaper articles discuss a proposed solution.

Steve Davis, Qwest's senior vice president of policy and law, said Tuesday that Qwest's financial uncertainties made it impossible for the company to show that its applications complied with generally accepted accounting principles (GAAP).

\* \* \*

He said Qwest has a plan that will allow it to refile the applications by the end of September. The company, which already is in the long-distance business outside its 14-state local-service territory, will create a new long-distance subsidiary only for the 14-state region, which includes Minnesota. That subsidiary will comply with GAAP because it will not be affected by any Qwest financial statement, he said.<sup>22</sup>

In short, Qwest is proposing to create a new section 272 affiliate. Creating a new affiliate will not, by itself, demonstrate compliance with section 272. Qwest must demonstrate, for example, that adequate internal controls are in place, the BOC and section 272 affiliate operate independently, intercompany service contracts have been posted to the Company's web site, and new intercompany agreements are reduced to writing and were entered into at arm's length. These are just a few of the compliance issues.<sup>23</sup> Section 272 identifies a list of structural, transactional and discrimination safeguards that must be met. 47 U.S.C. § 272(b) and (c). The FCC has implemented regulations that impose additional safeguards. *Qwest cannot rely on findings made with respect to QCC to demonstrate compliance by its new 272 affiliate.*

Qwest is ignoring the fact that the BOC also must be in compliance with Generally Accepted Accounting Principles ("GAAP"). Creating a new subsidiary may

---

<sup>22</sup> Star Tribune, Minneapolis, MN (Sept. 11, 2002), at D1.

<sup>23</sup> The new section 272 affiliate must also obtain a certificate of authority to provide intrastate long distance service. Qwest has also indicated that the new section 272 affiliate will resell long distance services, presumably services it obtains from QCC. This raises additional issues, for example, must QCC make available to third-parties services on the same terms and conditions it makes available to the new section 272 affiliate if QCC uses Qwest's facilities to resell the service to the section 272 affiliate?

resolve the section 272 affiliate's GAAP problems but it will not resolve Qwest's problems complying with GAAP. In any event, there are a multitude of factual issues that must be resolved before compliance with section 272 can be demonstrated.

Qwest should be required to file testimony that demonstrates compliance with section 272. The testimony should address each of the structural, transactional and discrimination safeguards of section 272 contained in the Act and FCC regulations.

2. Discovery

Parties must be provided an opportunity to conduct discovery. Results of discovery in earlier proceedings raised a host of issues. In fact, as a result of discovery, many shortcomings in Qwest's case were discovered, necessitating corrective measures and the instituting of internal controls by Qwest. A rush to create a new subsidiary creates the possibility for shortcomings, deficiencies and noncompliance issues.

Discovery will help to verify Qwest has properly done its job.<sup>24</sup>

3. CLEC and Intervenor Testimony

The opportunity for CLEC and intervenor testimony is critical. This was demonstrated by the initial review of Qwest's compliance with section 272. The Commission is required to develop an adequate record. Uncontested and untested assertions by Qwest do not result in an adequate record.

---

<sup>24</sup> Qwest created a new section 272 affiliate as a result of the merger. AT&T must point out that it was the creation of the present section 272 affiliate, QCC, and the transition to it that caused many of the problems for Qwest. In a rush to create the new section 272 affiliate and conduct business with it, transactions were not recorded and some transactions were not posted to the web for over six months, far longer than the ten days required by the FCC.

4. Qwest Reply Testimony

Qwest is the applicant. Qwest has the burden of proof at all times.<sup>25</sup> It is entitled to reply to the CLECs and intervenors.

5. Staff Report

A fresh Staff evaluation and report on Qwest's new separate subsidiary is imperative. It is appropriate for the Staff and the Commission to review corrective measures and make a decision based on a new record that Qwest is now in compliance with section 272. The FCC is required by law to consult with the state commission on any application. 47 U.S.C. § 271(d)(B). However, the states are given only 20 days to review the applications. The Staff and the Commission have an opportunity to review the Qwest's corrective measures without the time constraints imposed by the FCC.

**III. CONCLUSION**

Qwest has withdrawn its application at the FCC because it could not demonstrate compliance with section 272. Qwest's own public statements indicate that it needs to take positive steps to rectify the problems and implement internal controls. Qwest has publicly discussed ways to resolve its deficiencies; however, Qwest has stated that it does not intend to go back to the states for state review of the proposed solutions.<sup>26</sup> That is not for Qwest to decide. The FCC has relied on the records made at the state level regarding BOC compliance with section 272 and the public interest to make its determination. The FCC has stated that states should review whether the BOC has corrected deficiencies found in prior applications and should submit a factual record to document the corrections. No reason has been presented why that process should be changed. If

---

<sup>25</sup> *Ameritech Michigan Order*, ¶ 43.

<sup>26</sup> "Davis said Qwest will not have to go through more hearings at the state level in order to refile its applications with the FCC." *Star Tribune*, Minneapolis, MN (Sept. 22, 2002), at D1.

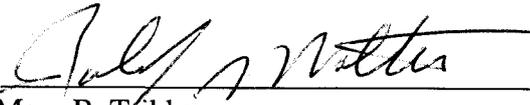
anything, Qwest's previous misrepresentations underscore the importance of following that process again.

AT&T's motion is supported by and is consistent with prior FCC orders. The procedures AT&T proposes also are reasonable.

AT&T respectfully requests that the Commission reopen the record on Qwest's compliance with section 272, order Qwest to file testimony that reflects the corrective measure taken and documents its compliance, adopt the procedures set forth in AT&T's Motion, and adopt other reasonable procedures for conducting its review.

Dated this 26<sup>th</sup> day of September, 2002.

**AT&T COMMUNICATIONS  
OF THE MOUNTAIN STATES, INC.  
AND TCG PHOENIX**

By:   
Mary B. Tibby

Richard S. Wolters  
AT&T Law Department  
1875 Lawrence Street, Suite 1575  
Denver, CO 80202  
(303) 298-6741

August 20, 2002



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

**Re: Ex Parte Statement  
Applications of Qwest Communications International Inc. for  
Authorization Under Section 271 of the Communications Act  
WC Dockets No. 02-148 and 02-189**

Dear Ms. Dortch:

This letter provides information regarding ongoing analysis of the accounting policies and practices of Qwest Communications International Inc. ("QCII") and its affiliates. QCII is analyzing these matters in consultation with its new auditors, KPMG LLP ("KPMG"), and, in addition, has underway a review of its internal controls. Based on such work, this letter updates and corrects information contained in the above-referenced application related to compliance 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." *SBC Communications Inc.*, 16 FCC Rcd 6237, para. 122 (2001). QCII's analysis to date has found that transactions between Qwest Communications Corporation ("QCC"), its Section 272 affiliate, and Qwest Corporation ("QC"), the BOC, have been, and are, accounted for in compliance with GAAP. Note that in 2001 Qwest put in place additional controls that KPMG, the independent auditor, verified were reasonably designed to ensure such compliance. Nothing in the accounting review to date indicates errors have occurred in this area.

The Commission's implementation of Section 272(b)(2) also requires that QCC maintain its books, records, and accounts in accordance with GAAP. See *Implementation of the Non-Accounting Safeguards of Sections 271 and 272, First Report and Order and Further Notice of Proposed Rulemaking*, 11 FCC Rcd 21905, para. 170 (1996). QCII's internal investigations have now identified, with respect to the QC and QCC financial statements, (1) accounting transactions for QCC that did not comply with the requirements of GAAP, and (2) certain potential adjustments to the financial statements of QC that may be necessary to comply with GAAP. Additional analysis is in progress regarding these matters. The paragraphs in the

Declarations of Judith L. Brunsting and Marie E. Schwartz that addressed GAAP compliance for QCC and QC were believed to be true when submitted. See Declaration of Judith L. Brunsting (QCC) ¶ 29 (June 13, 2002 - Docket No. 02-148); Declaration of Judith L. Brunsting (QCC) ¶ 29 (July 12, 2002 - Docket No. 02-189); Declaration of Marie E. Schwartz (QC) ¶¶ 48, 85-86 (June 13, 2002 - Docket No. 02-148); and Declaration of Marie E. Schwartz (QC) ¶¶ 47, 84-85 (July 12, 2002 - Docket No. 02-189). In light of the developments in the ongoing internal investigation, QCII is currently unable to certify that QCC's or QC's financial statements are accounted for consistently with GAAP, and the paragraphs of the Declarations are impacted accordingly.

It is important to note that the focus of Section 272 is on the relationship between the BOC and the Section 272 affiliate. The GAAP issues identified here do not implicate the Act's concerns regarding improper cost allocation, cross-subsidization and discrimination. As a result, these matters do not affect Qwest's showing that the requested authorization will be carried out in accordance with the requirements of Section 272. Similarly, these matters do not implicate QC's compliance with the market-opening obligations under Section 271.

Qwest takes its obligation to be in compliance with GAAP seriously, and is committed to compliance with GAAP in all circumstances. When Qwest completes its analysis, it expects to restate the QCII financial statements for prior periods and to implement all necessary additional controls designed to ensure QCC's and QC's compliance with GAAP with respect to all financial reporting, as it has already done with respect to transactions between QCC and the BOC.

Respectfully submitted,



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

cc: William F. Maher, Jr.  
Michelle Carcy  
Michael Carowitz  
John Rogovin  
Debra Weiner  
Richard Welch

## CERTIFICATE OF SERVICE

I certify that the original and 10 copies of AT&T's Motion to Reopen and Supplement the Record in Docket No. T-00000A-97-0238 were sent by overnight delivery on September 26, 2002 to:

Arizona Corporation Commission  
Docket Control – Utilities Division  
1200 West Washington Street  
Phoenix, AZ 85007

and a true and correct copy was sent by overnight delivery on September 26, 2002 to:

Maureen Scott  
Legal Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, AZ 85007

Mark A. DiNunzio  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, AZ 85007

Ernest Johnson  
Director - Utilities Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, AZ 85007

Christopher Kempley  
Arizona Corporation Commission  
Legal Division  
1200 West Washington Street  
Phoenix, AZ 85007

Jane Rodda  
Administrative Law Judge  
Arizona Corporation Commission  
400 West Congress  
Tucson, AZ 85701-1347

and a true and correct copy was sent by U. S. Mail on September 26, 2002 to:

Thomas F. Dixon  
WorldCom, Inc.  
707 – 17<sup>th</sup> Street, #3900  
Denver, CO 80202

Terry Tan  
WorldCom, Inc.  
201 Spear Street, 9th Floor  
San Francisco, CA 94015

K. Megan Doberneck  
Covad Communications Company  
7901 Lowry Blvd.  
Denver, CO 80230

Bradley Carroll  
Cox Arizona Telcom, L.L.C.  
20401 North 29th Avenue  
Phoenix, AZ 85027-3148

Michael M. Grant  
Gallagher and Kennedy  
2575 East Camelback Road  
Phoenix, AZ 85016-9225

Traci Kirkpatrick  
Davis Wright Tremaine LLP  
1300 S.W. Fifth Avenue  
Portland, OR 97201

Michael W. Patten  
Roshka Heyman & DeWulf, PLC  
400 North Fifth Street, Suite 1000  
Phoenix, AZ 85004-3906

Joyce Hundley  
United States Dept. of Justice  
Antitrust Division  
1401 H Street NW, Suite 8000  
Washington, DC 20530

Daniel Pozefsky  
Residential Utility Consumer Office  
2828 North Central Ave., #1200  
Phoenix, AZ 85004

Mark N. Rogers  
Excell Agent Services, L.L.C.  
2175 W. 14th Street  
Tempe, AZ 85281

Mark P. Trincherro  
Davis Wright Tremaine  
1300 SW Fifth Ave., Suite 2300  
Portland OR 97201-5682

Brian Thomas  
Vice President – West  
Time Warner Telecom, Inc.  
223 Taylor Avenue North  
Seattle, WA 98109

Penny Bewick  
New Edge Networks  
3000 Columbia House Blvd., Suite 106  
Vancouver, WA 98661

Andrea P. Harris  
Senior Manager, Regulatory  
Allegiance Telecom, Inc.  
2101 Webster, Suite 1580  
Oakland, CA 94612

Karen L. Clauson  
Eschelon Telecom, Inc.  
730 2nd Avenue South, Suite 1200  
Minneapolis, MN 55402

Joan S. Burke  
Osborn Maledon, P.A.  
2929 N. Central Avenue, 21<sup>st</sup> Floor  
Phoenix, AZ 85067-6379

Eric S. Heath  
Sprint Communications Company L.P.  
100 Spear Street, Suite 930  
San Francisco, CA 94105

Charles Kallenbach  
American Communications Services, Inc.  
131 National Business Parkway  
Annapolis Junction, MD 20701

Jeffrey W. Crockett  
Snell & Wilmer, LLP  
One Arizona Center  
Phoenix, AZ 85004-0001

Todd C. Wiley  
Gallagher & Kennedy, P.A.  
2575 East Camelback Road  
Phoenix, AZ 85016-9225

Michael B. Hazzard  
Kelley, Drye & Warren, LLP  
1200 19th Street, NW, Fifth Floor  
Washington, DC 20036

Andrew Crain  
Qwest Corporation  
1801 California Street, Suite 4900  
Denver, CO 80202

Daniel Waggoner  
Davis Wright Tremaine  
2600 Century Square  
1501 Fourth Avenue  
Seattle, WA 98101-1688

Janet Livengood  
Regional Vice President  
Z-Tel Communications, Inc.  
601 S. Harbour Island Blvd., Suite 220  
Tampa, FL 33602

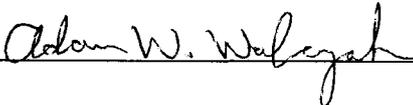
Timothy Berg  
Fennemore Craig, P.C.  
3003 North Central Ave., #2600  
Phoenix, AZ 85012

Charles W. Steese  
Qwest Corporation  
1801 California Street, Suite 4900  
Denver, CO 80202

Raymond S. Heyman  
Randall H. Warner  
Roshka Heyman & DeWulf  
Two Arizona Center  
400 N. Fifth Street, Suite 1000  
Phoenix, AZ 85004

Bill Haas  
Richard Lipman  
McLeodUSA Telecommunications  
Services, Inc.  
6400 C Street SW  
Cedar Rapids, IA 54206-3177

Diane Bacon, Legislative Director  
Communications Workers of America  
Arizona State Council  
District 7 AFL-CIO, CLC  
5818 N. 7th Street, Suite 206  
Phoenix, AZ 85014-5811

  
\_\_\_\_\_