

June 1, 2001

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PricewaterhouseCoopers LLP
1301 Avenue of the Americas
New York NY 10019-6013
Telephone (646) 471 4000
Facsimile (646) 394 1301

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
445 12th Street, S.W.
Room TWB-204
Washington, D.C. 20554

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JUN 1 2001

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

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Dear Ms. Salas:

Re: Ex Parte:

In re: Application of GTE Corp. and Bell Atlantic Corporation For Consent to Transfer Control of Domestic and International Sections 214 and 310 Authorizations and Application to Transfer Control of a Submarine Cable Landing License, CC Docket No. 98-184

The enclosed materials are being filed pursuant to Verizon Communications, Inc.'s ("Verizon") obligations under Appendix D, Section XXII, Paragraph 56 (e) of the above referenced docket to obtain independent examinations of its compliance with the merger conditions and its controls over compliance with the merger conditions. The accompanying material includes:

- Report of Management on the Effectiveness of Controls Over Compliance with the Merger Conditions
- Report of Independent Accountants on the Report of Management on the Effectiveness of Controls Over Compliance with the Merger Conditions
- Report of Management on Compliance with the Merger Conditions
- Report of Independent Accountants on the Report of Management on Compliance with the Merger Conditions

Paragraph 56(e) requires that these examination reports be made publicly available. Therefore, their distribution is not limited. Please place a copy of the attached independent accountant's report in the Ex Parte file of the above referenced proceeding.

Very truly yours,

By 
PricewaterhouseCoopers LLP

Enclosure:

- cc: Ms. C. Matthey
- Mr. H. Boyle
- Mr. A. Dale
- Mr. M. Stephens

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**Report of Management on the Effectiveness of
Controls over Compliance with the Merger Conditions
May 31, 2001**

Management of Verizon Communications Inc. ("Verizon") is responsible for establishing and maintaining effective internal controls over the Company's¹ compliance with the conditions set forth in Appendix D (the "Merger Conditions") of Federal Communications Commission's ("FCC's") Memorandum Opinion and Order in CC Docket No. 98-184 approving the Bell Atlantic/GTE Merger.² The internal controls are designed to provide reasonable assurance to the Company's management and Board of Directors that the Company is in compliance with the Merger Conditions.

Management's assertions that follow do not relate to internal controls over compliance with Conditions I (Separate Affiliate for Advanced Services) and VIII (Collocation, Unbundled Network Element and Line Sharing Compliance) and XIII (Offering of UNEs) of the Merger Conditions.

The Company's internal controls have been designed to comply with the Merger Conditions. There are inherent limitations in any control, including the possibility of human error and the circumvention or overriding of the internal controls. Accordingly, even effective internal controls can provide only reasonable assurance with respect to the achievement of the objectives of internal controls. Further, because of changes in conditions, the effectiveness of internal controls may vary over time.

The Company has determined that the objectives of the internal controls with respect to compliance with the Merger Conditions are to provide reasonable, but not absolute, assurance that compliance with the Merger Conditions has been achieved.

¹ The word "Company" or "Companies" used throughout this assertion refers to the Verizon telephone companies operating as incumbent local exchange carriers ("ILECs"), collectively as follows: Contel of Minnesota, Inc. d/b/a Verizon Minnesota, Contel of the South, Inc. d/b/a Verizon Mid-States, GTE Alaska Incorporated d/b/a Verizon Alaska, GTE Arkansas Incorporated d/b/a Verizon Arkansas, GTE Midwest Incorporated d/b/a Verizon Midwest, GTE Southwest Incorporated d/b/a Verizon Southwest, The Micronesian Telecommunications Corporation, Verizon California Inc., Verizon Delaware Inc., Verizon Florida Inc., Verizon Hawaii Inc., Verizon Maryland Inc., Verizon New England Inc., Verizon New Jersey Inc., Verizon New York Inc., Verizon North Inc., Verizon Northwest Inc., Verizon Pennsylvania Inc., Verizon South Inc., Verizon Virginia Inc., Verizon Washington, DC Inc., Verizon West Coast Inc., Verizon West Virginia Inc., provided that, with regard to the Micronesian Telecommunications Corporation, these assertions only apply to Merger Conditions IV, XIV, XVII, XVIII, XIX, XXI, XXII, XXIII, XXIV, and XXV (see Merger Conditions, n.3).

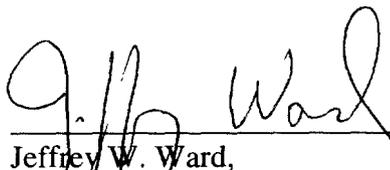
² *Application GTE Corp, and Bell Atlantic Corp. for Consent to Transfer Control of Domestic and International Sections 214 and 310 Authorizations and Application to Transfer Control of a Submarine Cable Landing License*, CC Docket No. 98-184, Memorandum Opinion and Order, FCC 00-221 (rel. June 16, 2000).

**Report of Management on the Effectiveness of
Controls over Compliance with the Merger Conditions**

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The Company has assessed its internal controls over compliance with the Merger Conditions, exclusive of conditions listed in the second paragraph of this report. Based on this assessment, the Company asserts that for the period June 30, 2000 through December 31, 2000 (the "Evaluation Period"), its internal controls over compliance with the Merger Conditions were effective in providing reasonable assurance that Company has complied with the Merger Conditions.

Verizon Communications Inc.



Jeffrey W. Ward,
Senior Vice President - Regulatory Compliance

Dated: May 31, 2001

Report of Independent Accountants

PricewaterhouseCoopers LLP
1301 Avenue of the Americas
New York NY 10019-6013
Telephone (646) 471 4000
Facsimile (646) 394 1301

To the Board of Directors of Verizon Communications Inc.:

We have examined management's assertion, included in the accompanying Report of Management on the Effectiveness of Controls Over Compliance with the Merger Conditions (the "Assertion"), that Verizon Communications Inc. (the "Company") maintained effective internal controls over compliance with Appendix D (the "Merger Conditions"), as discussed in the following sentence, of the Federal Communications Commission's (the "FCC") Memorandum Opinion and Order in Common Carrier Docket No. 98-184 approving the Bell Atlantic/GTE Merger¹, during the period from June 30, 2000 to December 31, 2000. At the direction of the FCC, the Company's internal controls over compliance with Conditions I, VIII and XIII of the Merger Conditions are not addressed in the accompanying management's Assertion and are not reported upon herein. The Company's management is responsible for maintaining effective internal control over the Company's compliance with the Merger Conditions. Our responsibility is to express an opinion on management's Assertion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included obtaining an understanding of the Company's internal controls over compliance with the Merger Conditions, testing and evaluating the design and operating effectiveness of the internal controls, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the Company's internal controls over compliance with the Merger Conditions to future periods are subject to the risk that the internal controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's Assertion that the Company maintained effective internal controls over compliance with the Merger Conditions, other than for Conditions I, VIII and XIII, during the period from June 30, 2000 to December 31, 2000 is fairly stated, in all material respects.

This report is intended solely for the information and use of the Company and the FCC and is not intended to be and should not be used by anyone other than these specified parties. However, the report is a matter of public record and its distribution is not limited.



May 31, 2001

¹ Application GTE Corp. and Bell Atlantic Corp. for Consent to Transfer Control of Domestic and International Sections 214 and 310 Authorizations and Application to Transfer Control of a Submarine Cable Landing License, CC Docket No. 98-184, Memorandum Opinion and Order, FCC 00-221 (rel. June 16, 2000).

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Report of Management on Compliance with the Merger Conditions

May 31, 2001

Management of Verizon Communications Inc. ("Verizon") is responsible for ensuring that Verizon complies with the conditions set forth in Appendix D ("Merger Conditions") of the Federal Communications Commission's ("FCC's") Memorandum Opinion and Order in CC Docket No. 98-184 approving the Bell Atlantic/GTE Merger.¹

Management's assertions that follow do not relate to compliance over Conditions I (Separate Affiliate for Advanced Services) and VIII (Collocation, Unbundled Network Element and Line Sharing Compliance) and XIII (Offering of UNEs) of the Merger Conditions.

Management has performed an evaluation of Verizon's compliance with the requirements of the Merger Conditions for the period from June 30, 2000 through December 31, 2000 (the "Evaluation Period"). Based on this evaluation, we assert that Verizon concludes it has complied with all requirements of the Merger Conditions in all material respects. The Company notes below instances where it failed to comply with every provision of Conditions IV, V, VI, XI, XII, and XIX. As summarized below, Verizon provides further information regarding compliance with the Merger Conditions.

Promoting Equitable and Efficient Advanced Services Deployment

I. Separate Affiliate for Advanced Services

As provided in paragraph 57 of the Merger Conditions, compliance with this condition is addressed in a separate agreed-upon procedure engagement performed by PricewaterhouseCoopers LLP.

II. Discounted Surrogate Line Sharing Charges

The provisions of this Condition will apply only if the FCC line sharing rules are overturned on a final and non-appealable judicial decision.

¹ *Application GTE Corp, and Bell Atlantic Corp. for Consent to Transfer Control of Domestic and International Sections 214 and 310 Authorizations and Application to Transfer Control of a Submarine Cable Landing License, CC Docket No. 98-184, Memorandum Opinion and Order, FCC 00-221 (rel. June 16, 2000).*

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III. Loop Conditioning Charges and Cost Studies

The Companies² complied with the requirements of this condition. In particular, the Companies filed with state commissions in the District of Columbia, Delaware, Idaho, Indiana, Michigan, Missouri, Nevada, Oregon, Pennsylvania (former GTE area only), South Carolina, Virginia, Wisconsin and West Virginia (states that had not already started or completed cost proceedings), within 180 days following the Merger Closing Date, cost studies and proposed rates for conditioning loops. The Companies made available interim loop conditioning rates for xDSL loops via amendments to interconnection agreements for all telecommunications carriers in those states where rates had not been approved by a state commission. These rates are subject to true up once a state has approved the individual state-level cost studies. The Companies did not charge for conditioning of eligible loops less than 12,000 feet and obtained telecommunication carrier authorization prior to proceeding with any conditioning that would result in charges to the telecommunications carrier.

IV. Non-discriminatory Rollout of xDSL Services

Verizon complied with the requirements of this condition except as specified in provision d below. In particular:

- a. Verizon classified wire centers as either urban or rural within 90 days of the Merger Closing Date, and consulted with the relevant state commission regarding this classification, if the commission chose to engage in such consultations.
- b. Verizon identified by state the ten percent of urban wire centers with the greatest number of low-income households (the Low Income Urban Pool), and the ten percent of rural wire centers with the greatest number of low-income households (the Low Income Rural Pool).
- c. Verizon verified as of 180 days after the merger closing date, in each state where xDSL has been deployed in at least 20 urban or 20 rural wire centers, that at least ten percent of those wire centers are from the Low Income Urban Pool or the Low Income Rural Pool, respectively.

² The word "Company" or "Companies" used throughout this assertion refers to the Verizon telephone companies operating as incumbent local exchange carriers ("ILECs"), collectively as follows: Contel of Minnesota, Inc. d/b/a Verizon Minnesota, Contel of the South, Inc. d/b/a Verizon Mid-States, GTE Alaska Incorporated d/b/a Verizon Alaska, GTE Arkansas Incorporated d/b/a Verizon Arkansas, GTE Midwest Incorporated d/b/a Verizon Midwest, GTE Southwest Incorporated d/b/a Verizon Southwest, The Micronesian Telecommunications Corporation, Verizon California Inc., Verizon Delaware Inc., Verizon Florida Inc., Verizon Hawaii Inc., Verizon Maryland Inc., Verizon New England Inc., Verizon New Jersey Inc., Verizon New York Inc., Verizon North Inc., Verizon Northwest Inc., Verizon Pennsylvania Inc., Verizon South Inc., Verizon Virginia Inc., Verizon Washington, DC Inc., Verizon West Coast Inc., Verizon West Virginia Inc., provided that, with regard to the Micronesian Telecommunications Corporation, these assertions only apply to Merger Conditions IV, XIV, XVII, XVIII, XIX, XXI, XXII, XXIII, XXIV and XXV (see Merger Conditions, n.3).

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- d. Verizon filed the third quarter and fourth quarter status reports demonstrating compliance with this condition. The third quarter report was filed on January 8, 2001, twelve calendar days later than required in the Merger Conditions due to an administrative error. Internal controls for the quarterly reporting of deployment status were reviewed and enhanced during early January 2001.

Ensuring Open Local Markets

V. Carrier-to-Carrier Performance Plan (Including Performance Measurements)

The Companies complied with the requirements of this condition except as specified in Attachment A. In particular, the Companies carried out the following activities:

- a. On July 31, 2000, the Companies proposed an additional performance sub-measure to address the provisioning of line sharing, which was accepted by the Common Carrier Bureau of the FCC on September 19, 2000.
- b. On October 2, 2000 the Companies provided the FCC with two months of performance measurement data (July and August 2000 data) for each of the required states in the 17 measurement categories identified in Attachments A-1a and A-1b of the Merger Conditions. Such performance measurement data were based on information contained in the operating support systems used by the Companies for pre-order, order, provisioning, maintenance and repair, network performance and billing. This information is then used to calculate the performance measurement data in accordance with the performance measurement business rules as defined in Attachments A-2a and A-2b of the Merger Conditions. The Companies' application of these performance measurement business rules and calculation of performance measurement data is complete and accurate, with the exception of the items listed on Attachment A. In addition, where manual processes were used to enter information into the underlying operating support systems relating to missed appointment codes, completion dates, application dates and times, appointment type codes, notification dates, disposition codes, trouble cleared date and time, and out of service indicators, such manually entered information were complete and accurate.
- c. On October 25, 2000, November 24, 2000, December 22, 2000, and January 25, 2001, the Companies provided the required monthly performance reports (in Excel for the former Bell Atlantic states and via web for the former GTE states) for each of the required states in the 17 measurement categories identified in Attachments A-1a and A-1b of the Merger Conditions. The Companies implemented the new line sharing measure for October 2000 data in the November 24, 2000 report. Such performance measurement data contained in these performance reports were based on information contained in the operating support systems used by the Companies for pre-order, order, provisioning, maintenance and repair, network performance and billing. This information is then used to calculate the performance measurement data in accordance with the performance measurement business rules as defined in Attachments A-2a and A-

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2b of the Merger Conditions. The Companies' application of these performance measurement business rules and calculation of performance measurement data is complete and accurate, with the exception of the items listed on Attachment A. In addition, where manual processes were used to enter information into the underlying operating support systems relating to missed appointment codes, completion dates, application dates and times, appointment type codes, notification dates, disposition codes, trouble cleared date and time, and out of service indicators, such manually entered information were complete and accurate.

- d. The Companies provided official notice of performance measure implementation to the Secretary of the FCC within ten business days of initial reporting.
- e. The Companies posted the necessary performance measurement reports on a single Website on December 25, 2000.

VI. Uniform and Enhanced Operational Support Systems and Advanced Services Operational Support Systems

The Companies complied with the requirements of this condition except as specified in Attachment B. The Companies published a Plan of Record on September 28, 2000 including all of the requirements of paragraph 19 of the Merger Conditions addressing Verizon's plans for implementing Uniform Electronic Operational Support Systems ("OSS") Interfaces and Business Rules within the Bell Atlantic Service Areas and separately within the GTE Service Areas. The Plan of Record also addresses how the Companies will implement uniform transport and security protocols, but not business rules, across the merged Bell Atlantic/GTE Service Areas. In addition, the Companies (1) completed the collaborative process specified in the Plan of Record; (2) filed for any necessary state approvals for change management adoption; and (3) offered to develop and deploy electronic bonding interface within 12 months of an executed contract.

Beginning 30 days after Merger Closing date, the Companies provided 25% discounts on recurring and nonrecurring charges for unbundled local loops used to provide advanced services to all carriers during the Evaluation Period unless a carrier proactively chose not to accept the discount, except as described in Attachment B. The primary notification of this discount was posted on Verizon's Wholesale Website on July 28, 2000. The discount remained in effect in all states as of December 31, 2000. One CLEC has chosen not to accept this discount. Verizon has procedures in place so that merger discounts are not applied to this account. Participating CLECs are required to certify quarterly that they are using the unbundled loops for which they are receiving the discount in the manner specified in the terms and conditions of the offering. These terms and conditions and process for certification are posted on the Verizon Wholesale Internet Website.

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VII. OSS Assistance to Qualifying Competitive Local Exchange Carriers

The Companies complied with the requirements of this condition. In particular, the Company adopted measures for assisting qualifying telecommunications carriers in using the Companies' OSS. On or before September 28, 2000, the Company informed telecommunications carriers of the self-certification process allowing telecommunications carriers to assert that they qualify for assistance and of the availability, free of charge, of OSS expert teams. In addition, the Company made available OSS support teams and held training forums to discuss training and procedures that would be beneficial to qualifying telecommunications carriers. The Company provided notice of such training and procedures to qualifying Competitive Local Exchange Carriers on October 29, 2000.

VIII. Collocation, Unbundled Network Elements and Line Sharing Compliance

As provided in paragraph 56 of the Merger Conditions, compliance with this condition is addressed in a separate attest engagement performed by Arthur Andersen LLP.

IX. Most-Favored-Nation Provisions for Out-of-Region and In-Region Arrangements

The Companies complied with the requirements of this condition. In particular, the Companies made available to requesting telecommunications carriers in the former Bell Atlantic and GTE service areas interconnection arrangements, unbundled network elements, or provisions of an interconnection agreement (including an entire agreement) as follows:

- a. The Companies made available any interconnection arrangement or unbundled network element that the Company, when acting as a competitive local exchange carrier outside its incumbent service area, obtained from an incumbent local exchange carrier after the merger closing date that was not previously made available by the non-Verizon incumbent (during the Evaluation Period, Verizon did not enter into any applicable agreements).
- b. The Companies made available any in-region interconnection arrangement or unbundled network element that was voluntarily negotiated by the Companies with a requesting telecommunications carrier after the merger (during the Evaluation Period, there were no requests to adopt post-merger agreements from another state).
- c. The Companies made available any in-region interconnection arrangement or unbundled network element that was voluntarily negotiated by Bell Atlantic or GTE with a requesting carrier prior to the merger, but limited to the states within the same pre-merger Bell Atlantic or GTE serving areas, respectively.

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These offers were on the same terms exclusive of price and state-specific performance measures and restricted to terms governed by 47 U.S.C. Section 251(c).

Where a competing carrier sought to adopt, in an in-region Company service area, any agreements, provisions or unbundled network elements that resulted from an arbitration arising in another Verizon service area after the merger closing date, the Merger Conditions require that the Companies allow other parties to submit the arbitrated agreements, provisions, or unbundled network elements to immediate arbitration in the "importing" state without waiting for the statutory negotiation period of 135 days to expire, where the state consented to conducting arbitration immediately. During the Evaluation Period, there were no such arbitration requests.

The Merger Conditions require each Verizon out-of-region local exchange affiliate to post on its Internet web site all of its agreements entered into with non-affiliated incumbent local exchange carriers. There were no agreements requiring posting to the Internet Website during the Evaluation Period.

X. *Multi-State Interconnection and Resale Agreement*

The Companies complied with the requirements of this condition. In particular, the Companies made available a generic multi-state interconnection and resale agreement covering all BA/GTE service areas no later than 60 days after the Merger Closing Date.

XI. *Carrier to Carrier Promotions: Unbundled Loop Discount*

The Companies complied with the requirements of this condition except as specified in Attachment B. The Companies provided the required unbundled loop discounts to all carriers unless the carrier proactively chose not to accept the discount, except as described in Attachment B. Notification of the discount was posted on the Wholesale Internet Website on July 28, 2000. As of December 31, 2000, one CLEC has chosen not to accept this discount and the Companies have procedures in place so that the discount does not get applied to this account. The Offering Window for unbundled loops used for residence service remained open as of December 31, 2000 for all states except New York, which had already received approval to provide in-region, interLATA services prior to the Merger Closing Date. The Companies did not meet the 50 percent or 80 percent maximum offering specified in Attachment E of the Merger Conditions in any state as of December 31, 2000. Participating CLECs are required to certify quarterly that they are using the unbundled loops for which they are receiving the discount in the manner specified in the terms and conditions of the offering. These terms and conditions and process for certification are posted on the Verizon Wholesale Internet Website.

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On November 21, 2000, the Chief Counsel of the Pennsylvania Public Utilities Commission, Bohdan Pankiw, sent a letter to the Common Carrier Bureau regarding the discounts that the Companies provided for unbundled network element rates in Pennsylvania under Condition XI. The Companies had applied the discounts to the "pre Global Order" UNE rates that were in effect prior to the current rates, as provided in Attachment D to Appendix D of the Merger Order, which expressly provides that the "current price" to be used in calculating the promotional discount in Pennsylvania is the rate in effect "prior to implementation of discounts required in the PA 'Global Order' issued September 30, 1999." The letter dated November 21, 2000 stated that, in the view of the Pennsylvania Public Utilities Commission, the UNE rates set forth in Verizon's Pennsylvania 216 tariff, are permanent, TELRIC-based rates and not promotional or market-opening discounts. As a result, the Common Carrier Bureau sent a letter to the Companies on December 21, 2000, stating that Verizon should apply the Condition XI discounts to the current rates. Although Verizon believes that it acted in good faith compliance with the terms of the Merger Order by calculating the discounts as expressly set forth in Attachment D, Verizon voluntarily agreed that, effective February 1, 2001, it would apply the full statewide average discount of 25 percent to the current rates in Pennsylvania.

XII. Carrier to Carrier Promotions: Resale Discount

The Companies complied with the requirements of this condition except as specified in Attachment B. The Companies provided the required resale discounts to all carriers unless the carrier proactively chose not to accept the discount, except as described in Attachment B. Notification of the discount was posted on Verizon's Wholesale Internet Website on July 28, 2000. As of December 31, 2000, one CLEC has chosen not to accept this discount and the Companies have procedures in place so that the discount is not applied to this account. The Offering Window remained open in all states for residential resold lines as of December 31, 2000. Verizon implemented the resale discount in New York at 1.1 times the standard wholesale discount, as allowed by the Merger Conditions. The Companies reached the 50 percent maximum number of resold lines as defined in Attachment E of the Merger Conditions for Alabama and South Carolina during December 2000. The Companies provided notification to CLECs in those states on January 09, 2001. The notification was posted on the Verizon Wholesale Website.

XIII. Offering of UNEs

As provided in paragraph 56 of the Merger Conditions, compliance with this condition is addressed in the separate attest engagement performed by Arthur Andersen LLP.

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XIV. Alternative Dispute Resolution through Mediation

The Companies complied with the requirements of this condition. In particular, the Companies implemented, subject to state commission approval and participation, an alternative dispute resolution mediation process to resolve carrier-to-carrier disputes regarding the provision of local services, including disputes relating to interconnection agreements. The Companies posted the new alternative dispute resolution process on their Internet Websites on July 17, 2000. During the Evaluation Period, there were no requests for alternative dispute resolution mediation.

XV. Access to Cabling in Multi-Unit Properties

The Companies complied with the requirements of this condition. In particular, the Companies conducted a cabling access trial to identify procedures and associated costs required to provide telecommunications carriers with access to cabling within Multi-Unit Dwelling premises where the Companies control the cables. Specifically, Verizon conducted this trial to determine the feasibility of permitting CLECs to perform their own cross-connect work when accessing or interconnecting to Verizon house and riser cabling. Where appropriate and consistent with state law and regulation, the Companies offered property owners and developers, in writing, the option to build a single point of interconnection at a minimum point of entry when property owners or other parties own or maintain the cabling beyond the single point of interconnection. Where appropriate and consistent with state law and regulation, the written offer was available to building owners and developers starting on or before July 17, 2000.

Prior to merger close and during the entire Evaluation Period, in the following jurisdictions, pursuant to tariff and/or law and/or in accordance with Verizon nondiscriminatory practice, this form of cabling installation was done routinely without the need for property owner approval, and, therefore, no written notice of option needed to be provided to building owners: Alabama, California, District of Columbia, Delaware, Idaho, Illinois, Indiana, Kentucky, Maryland, Michigan, Missouri, North Carolina, Nevada, Ohio, Oregon, Pennsylvania, South Carolina, Texas, Virginia, Vermont, Washington, Wisconsin and West Virginia. In addition, in the jurisdictions of Connecticut, Massachusetts and New York, Verizon has an effective house & riser tariff that requires a single point of interconnection at the point that house & riser cabling in the building begins. Thus, in these three jurisdictions, this form of cabling installation is already done routinely without the need for property owner approval or consent, and, therefore, no written notice of option need be provided to building owners.

Methods and procedures were communicated requiring that written notification, subject to any state approval and consistent with any relevant state laws or regulation,

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be provided to building owners and developers in those situations not excluded above, i.e., in Florida, Hawaii, Maine, New Hampshire, New Jersey and Rhode Island, starting with cabling installation jobs where engineering work began after merger closing date, i.e., beginning July 1, 2000.

In December 2000, while not required by the Merger Condition, Verizon amended its Methods and Procedures to provide that, in any State, in any instance in which Verizon installs new cable in a new or retrofitted campus environment, Verizon will notify the campus owner that the owner may elect to have Verizon install cable in a manner that will permit a telecommunications carrier a single point of interconnection at the minimum point of entry for the entire campus. This option may be selected instead of the Verizon standard of a single point of interconnection at the minimum point of entry of each building on the campus (or other Verizon standard in that State).

Fostering Out-of-Territory Competitive Entry

XVI. Out-of-Territory Competitive Entry

During the Evaluation Period, Verizon was not required to meet any investment or customer milestones for this condition.

Improving Residential Phone Service

XVII. InterLATA Services Pricing

Verizon complied with the requirements of this condition. In particular, Verizon had in effect during the Evaluation Period a long distance offering that did not include mandatory, minimum monthly or flat rate charges for interLATA service.

XVIII. Enhanced Lifeline Plans

The Companies complied with the requirements of this condition. In particular, the Companies offered, on or before July 30, 2000, to file a tariff for an Enhanced Lifeline plan comparable to the Ohio Universal Service Assistance (USA) Lifeline plan in the areas of subscriber eligibility, discounts and eligible services. The offer was made by letter to each state commission in the Company's service area and copies of the offer letters were filed with the FCC. The offer was accepted and implemented in Delaware.

XIX. Additional Service Quality Reporting

The Companies complied with the requirements of this condition except as specified in Attachment C. In particular, the Companies:

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- a Filed with the Reporting Management staff of the FCC for the public record the first quarterly NARUC retail service quality report, which provided data for the 3rd Quarter of 2000, on December 27, 2000. The report containing data for 4th Quarter of 2000 was made available on February 19, 2001. A copy of each report for a state was included on an Internet Website or provided to the relevant state commission. Upon agreement between the Company and the FCC staff, PricewaterhouseCoopers LLP was requested to perform procedures and report on the completeness and accuracy of eight NARUC White Paper service quality measures, as listed below, included on the quarterly NARUC Service Quality Reports:
- 1) Line 100, Number of Orders for Basic Service
 - 2) Line 110, Number of Orders Completed within 5 Working Days
 - 3) Line 120, Number of Orders Delayed over 30 Days
 - 4) Line 135, Number of Missed Installation Commitments
 - 5) Line 210, Number of Initial Trouble Reports
 - 6) Line 270, Number of Repairs Out-of-Service Equal to or Greater than 24 Hours
 - 7) Line 280, Average Repair Interval (Hours)
 - 8) Line 290, Number of Missed Repair Commitments

The eight NARUC retail service quality data were based on information contained in the operating support systems used by the Companies for installation, and maintenance and repair. This information was calculated in accordance with the definitions in the NARUC Service Quality White Paper. The application of these definitions and the Companies' calculation of these data are complete and accurate, except as listed on Attachment C.

- b Provided, through an Internet Website or directly to the relevant state commission, quarterly local service quality data from Table 1, ARMIS Report 43-05. The first report, which provided data for the 3rd Quarter of 2000, was made available on November 15, 2000. The report containing data for 4th Quarter of 2000 was made available on February 14, 2001.
- c Proposed, on July 31, 2000, business rules to the Common Carrier Bureau for reporting service quality to Genuity and other companies as specified in paragraph 53 of the Merger Conditions. On September 19, 2000, the Common Carrier Bureau approved four of the five proposed business rules and requested that the Company consider proposing revisions to one of the proposed rules by September 29, 2000.
- d Reported to the Commission, to Mitchell & Titus, LLP, the independent auditor engaged to perform the Genuity Merger Compliance Engagement, and to PricewaterhouseCoopers LLP, the independent auditor engaged to perform the Merger Compliance Engagement, service quality data described in Table 1 of ARMIS Report 43-05 showing the service level provided to Genuity compared to other companies for Special Access and High Capacity services. Reports were issued monthly beginning August 29, 2000, reflecting the business rules approved by the Common Carrier Bureau on September 19, 2000. Such service quality data were based on information contained in the operating support systems used by the

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Companies for installation, and maintenance and repair. This information was then used to calculate the service quality data in accordance with the relevant business rules. The Companies' application of these business rules and calculation of the service quality data are complete and accurate, except as listed on Attachment C. In addition, where manual processes were used to enter information in the underlying operating support systems relating to missed appointment codes, completion dates, disposition codes, trouble cleared date and time, and out of service indicators, such manually entered information was complete and accurate.

- e Proposed, on September 29, 2000, a revised business rule to the Common Carrier Bureau for the remaining service quality measure. On January 26, 2001, Verizon resubmitted its September 29, 2000 proposal, providing additional clarification as requested by the Common Carrier Bureau. On February 12, 2001, Verizon provided additional clarification in response to an additional Common Carrier Bureau request. The Common Carrier Bureau has not yet approved this proposal.

Ensuring Compliance with and Enforcement of These Conditions

XX. NRIC Participation

The Companies complied with requirements of this condition. In particular, the Companies continued to participate in the Network Reliability and Interoperability Council (NRIC) during the Evaluation Period.

XXI. Compliance Program

Verizon complied with the requirements of this condition. In particular, Verizon filed its Compliance Program with the FCC on August 29, 2000 and appointed a senior corporate officer as Regulatory Compliance Officer to oversee implementation of, and compliance with, the Merger Conditions. Verizon provided timely and accurate reports to the Commission as required by the Conditions, including Verizon's annual compliance report, which disclosed all compliance issues known at the time, and consulted with the Commission staff on an ongoing basis regarding Verizon's compliance. Verizon provided accurate and timely notices to the Commission pursuant to specific notification requirements of the Merger Conditions.

XXII. Independent Auditor

Verizon complied with the requirements of this condition. In particular, Verizon engaged independent auditors deemed acceptable by FCC prior to the Merger Close Date as follows:

- a. Genuity Audit – Mitchell & Titus, LLP
- b. Advanced Services agreed-upon procedures engagement – PricewaterhouseCoopers LLP

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- c. General Merger Conditions Audit (except conditions I, VIII and XIII) – PricewaterhouseCoopers LLP
- d. General Merger Conditions Audit (conditions VIII and XIII) – Arthur Andersen LLP

The auditors selected have not been instrumental during the past twenty-four months in designing all or substantially all of the systems and processes under examination in the attestation engagement.

The independent auditors submitted preliminary audit programs to the FCC for review on a timely basis and informed the FCC of all matters required under the Merger Conditions during the Evaluation Period. Verizon granted the independent auditors access to all relevant books, records, operations, and personnel.

XXIII. Enforcement

There has been no determination that Verizon failed to comply with the Merger Conditions during the effective period of any condition, and hence no enforcement action has been required.

XXIV. Sunset

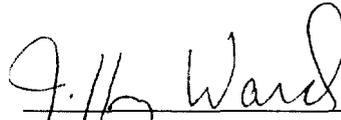
There was no sunset of a Merger Condition during the Evaluation Period.

XXV. Effect of Conditions

Verizon followed the guidance of this condition in interpreting and applying the Merger Conditions and the relationship to state law.

Report of Management on Compliance with the Merger Conditions
May 31, 2001

Verizon Communications Inc.

Handwritten signature of Jeffrey W. Ward in cursive script.

Jeffrey W. Ward,
Senior Vice President - Regulatory Compliance

Dated: May 31, 2001

Attachment A

Report of Management on Compliance with the Merger Conditions

Condition V – Carrier-to-Carrier Performance Plan (Including Performance Measurements)

May 31, 2001

Systems Development - Pre-Ordering Domain Due to delayed system development, performance data for retail for July was not available. Retail simulations began in August. July and August Electronic Data Interchange (EDI) and Web GUI results are live production response times and not simulations. EDI simulations began in September (East³ PO-1-06).

Systems Development - Provisioning Domain Due to delayed system development, the data required to calculate these metrics for Extended Enhanced Loop (EEL) could not be captured during the Evaluation Period. This was corrected for the South⁴ states with February 2001 data. This will be corrected for the remaining states with May 2001 data (East PR-4-01, 4-02, PR-5, PR-6-01).

Long-term System Enhancements - Ordering Domain Confirmations resent due to Verizon error were not included in the calculation, which is required according to Attachment A-2a of the Merger Conditions. The capability to differentiate between confirmations resent due to Verizon error and confirmations resent due to missed appointments or request duplicates is under development (East OR-1).

Long-term System Enhancements - Maintenance Domain Disaggregated line counts were not accurately captured from July through mid-December. This was corrected with a December 15, 2000 system release (East MR-2, North⁵ states only).

Data Extraction - Ordering Domain Confirmation timeliness, for faxed Access Service Request (ASR) orders, was reported using the date and time the representative entered the request into the system from July through December. Attachment A-2a of the Merger Conditions requires the use of the date and time the fax was received. This will be corrected for July 2001 data (East OR-1-12, 2-12, North states only). As a result of an August 19, 2000 system release, daily confirmation information was not transmitted in the extract file and complex orders were not correctly identified in the data extract file. This impacted August through December. This was corrected with March 2001 data (East OR-1, North states only). Private lines and EELs were not correctly classified as Specials. This impacted Resale and UNE from July through December. This is scheduled to be corrected with May 2001 data (East OR-1-02, 1-04, 1-06, 2-02, 2-04, 2-06). Not all CLEC ASR service order activity was being captured for July through

³ The word "East" used throughout this Attachment refers to the service areas of the former Bell Atlantic local exchange carriers, except the state of New York.

⁴ The word "South" used throughout this Attachment refers to the service areas of Verizon Delaware Inc., Verizon Maryland Inc., Verizon New Jersey, Inc., Verizon Pennsylvania Inc. (former Bell Atlantic only), Verizon Virginia Inc. (former Bell Atlantic only), Verizon Washington DC Inc., and Verizon West Virginia, Inc.

⁵ The word "North" used throughout this Attachment refers to the service areas of Verizon New England Inc., and Verizon New York Inc., except for the state of New York.

Attachment A

Report of Management on Compliance with the Merger Conditions Condition V – Carrier-to-Carrier Performance Plan (Including Performance Measurements)

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December. Service order activity was correctly reported beginning in January 2001(West⁶ OR-1-12). All electronic rejects were not identified accurately resulting in an overstatement of electronic rejects in the numerator of the metrics. This affected UNE and Resale from July through December. This was corrected with April 2001 data (West OR-2).

Data Extraction - Maintenance Domain A Network Operations Results Database (NORD) system change was required to use manually entered receipt date/time when vendor meets and other specific required changes were made in receipt date/time. This impacted July through December. The system change was effective in March 2001 (East MR-4). Virtual collocation trouble reports were included in the maintenance metrics, causing an over reporting of the specials troubles in both the numerator and denominator. This affected July through December. This was corrected with February 2001 data (East MR-2, 4, 5). Both UNE 2 wire analog loop (non-designed) and UNE 2 wire analog loop (designed) were identified by the same service code, resulting in both product types being reported as UNE Loop (non-designed) from July through October. This was corrected with November data (West MR-2-01). ILEC access line count was understated in the denominator of the metric. This affected UNE Port from July through December. This was corrected with April 2001 data (West MR-2). CLEC line count was understated and ILEC line count was overstated in the denominator of the metric due to a data feed error. This affected Specials from July through December. This will be corrected with May 2001 data (West MR-2). Certain CLEC trouble reports were not categorized accurately across the Specials, Trunks and UNE Transport products. This affected July through December. This was corrected with April 2001 data (West MR-2, 3, 4, 5).

Data Extraction - Provisioning Domain An Integrated Services Digital Network (ISDN) class of service Universal Service Order Code (USOC) was classified as POTS when it should have been classified as Complex. In addition, the line count methodology being applied was incorrect. This affected July through December. Both of the above were corrected with February 2001 data (East PR-3, 4, 5, 6, South states only). Three EEL products ordered via a Local Service Request (LSR) and billed in Customer Records Information System (CRIS) had not been included in the PR metrics captured by Service Order Relational Database (SORD) for July through December. This was corrected with February 2001 data (East PR-4, South states only). Data performance and observations for 2-wire digital and 2-wire xDSL were switched on the input file for July and August. This was corrected with September data (East PR-4-10). A portion of DS1 and DS3 retail orders was not captured in the metric from July through December. This was corrected for Connecticut and Rhode Island with April 2001 data and will be corrected

⁶ The word "West" used throughout this Attachment refers to the service areas of the former GTE local exchange carriers.

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Report of Management on Compliance with the Merger Conditions Condition V – Carrier-to-Carrier Performance Plan (Including Performance Measurements)

May 31, 2001

for the remaining states with May 2001 data (East PR-4-01, 4-02, 5-03, 6-01). Orders for certain resale and retail non-designed circuits were counted as designed circuits. This affected July through December. This was corrected with April 2001 data (East PR-4-01, 4-02, 5-03, 6-01). Administrative orders associated with DSL line sharing were not excluded from the retail metrics. This impacted November and December. This will be corrected with May 2001 data (East PR-4-02, 4-04, 4-05, 5, 6). The Connecticut Hot Cut results for UNE incorrectly reported New York State performance from July through December. This was corrected with April 2001 data (East PR-9). A modification to the coordinated conversion/hot cut script affected the ability to measure activity accurately in July and August. This was corrected with September data (West PR-9-01). In some instances, CLEC and ILEC data were not differentiated correctly when extracted from National Order Collection Vehicle (NOCV). This affected Resale, UNE and Trunks from July through December. This will be corrected with May 2001 data (West PR-3, 4, 5, 6, 9).

Data Extraction - Billing Domain In some instances files were overlaid by subsequent files in the Billing Repository beginning in December. This will be corrected with June 2001 data (East BI-2). Two CLECs using the electronic delivery options for Customer Billing Service System (CBSS) standard billing format were not included in the record count from July through December. This correction is under development (West BI-2).

Data Calculation - Maintenance Domain New Jersey line counts did not include 2-wire digital ISDN service from July through December. This was corrected with January 2001 data (East MR-2, 3). Verizon Advanced Data, Inc. (VADI) data were not excluded from CLEC aggregate results. This impacted UNE Specials for November and December. This was corrected with January 2001 data (East MR-2-01, 4-01, 4-08, 5-01, North states only).

Data Calculation - Provisioning Domain Certain types of disconnect orders were incorrectly included in the calculations from July through October. This was corrected with November data (East PR-4, 5). Results from July through December did not include DS1/DS3 ASR UNE ordered products. This was corrected with February 2001 data (East PR-3, 4, 5, 6). Subscriber missed appointments were under reported due to a program error. This affected July through December. This will be corrected with July 2001 data (East PR-3, 4, 5). Certain non-dispatched migration orders for Resale POTS and UNE Platform were excluded incorrectly from the denominator of the metric due to a table error. Additionally, certain dispatched migration orders were given the incorrect appointment type code causing them to be incorrectly excluded from the denominator of the metric. This impacted July through December. This was corrected with April 2001 data (East PR-3). In six states UNE Platform orders that did not have circuit IDs were captured as UNE Port orders. This affected July through November. This was corrected with December data (West PR-3, 4, 5, 6). The calculation used to determine on time

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performance did not account for all completions that occurred more than an hour before the commitment time. This affected July through December. This was corrected for January 2001 data (West PR-9-01).

Data Calculation - Pre-Order Domain Retail Address Validation (ADV) transaction time was incorrectly excluded from the calculation of total retail Telephone Number Availability TNA/ADV transaction time. This affected July through November. This was corrected with December data (East PO-1-05, South states only). Verizon only reported Common Object Request Broker Architecture (CORBA) activity for Massachusetts from September through December. Verizon received applications for CORBA from a total of 6 CLECs at various times throughout the Evaluation Period. Verizon cannot determine prior to January 1, 2001 if any of the activity for states other than Massachusetts was production or test only. Therefore, Verizon cannot determine whether CORBA should have been reported in states other than Massachusetts (East PO-1, PO-2). Electronic Bonding results were incorrectly included in the total from September through December. This was corrected with February 2001 data (East PO-2).

Data Calculation - Network Performance Domain The Connecticut results incorrectly reported New York State performance from July through December. The results were accurately reported with March 2001 data (East NP-1-04). From July through October, CLEC activity with due date extensions resulting from CLEC milestone misses were incorrectly excluded. In addition, from July through December only certain caged arrangements were included in the calculations of the physical collocation metrics. All caged, cageless and adjacent arrangements are included beginning with January 2001 data (West NP-2).

Report Mapping The BA/NYNEX data for numerator and denominator were reported rather than BA/GTE data in December (East MR-2).

Data Calculation Changes Verizon recognized that due to process changes in the DSL collaborative, the PR-4-10 metric, if reported in accordance with Attachment A-2a of the Merger Conditions, would not be meaningful. At a meeting with CCB staff members on August 17, 2000, Verizon proposed combining all DSL loop performance and, separately, all 2-wire digital performance under one performance metric. Verizon reported this metric according to its proposal beginning with July data. As part of the semi-annual review process, Verizon has recommended this change to the business rules of Attachment A-2a of the Merger Conditions (East PR-4-10). Subsequent to the filing of the BA/GTE merger measurement definitions, the PR-9-01 measure was discussed with the California collaborative and an agreement was reached. At a meeting with CCB staff members on August 17, 2000, Verizon proposed this new definition of a successful conversion to be consistent with the new California measurement. Verizon reported this metric according to this new definition beginning with July data. As part of the semi-

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Report of Management on Compliance with the Merger Conditions

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annual review process, Verizon has recommended this change to the business rules of Attachment A-2b of the Merger Conditions (West PR-9-01).

Attachment B
Report of Management on Compliance with the Merger Conditions
Conditions VI, XI and XII
May 31, 2001

Certain billing issues were identified which resulted in delays in the application of credits within the 60-day Merger Condition requirement for services provided between July and December 2000 for Merger Conditions VI, XI, and XII. These totaled approximately \$581,000. These issues have either been resolved and customers have received the discount, or are scheduled for resolution during 2001, at which time the customer will receive the discount.

Over one-half of the discount credit delays were due to complications arising from the implementation of a new Verizon billing system called ExpressTRAK. These were single-system related events due to problems with account set-up as customers converted from Verizon's (former Bell Atlantic) legacy wholesale billing system to the new system. Approximately \$372,000 (64%) of the total credit delays occurred due to this cause. ExpressTRAK is currently being deployed in only four of 33 states for Verizon.

For Condition VI, the amount of the delayed credits was approximately \$177,000. For Condition XI, the amount of the delayed credits was approximately \$131,000. For Condition XII, the amount of the delayed credits was approximately \$273,000.

In addition to credits applied outside the 60 days, certain other billing matters were noted. These included:

1. Invalid Tabling in one of Verizon's billing systems, which applied the discount to a business rather than a residence rate on certain nonrecurring charges (Condition XII).
2. Service Order codes mapped to incorrect de-averaged zone rates resulting in incorrect discount percentage application (Condition XI).
3. In some instances, the charges eligible for the discount were billed incorrectly (Condition VI, XI, XII). In some states, the billing system is not capable of assessing charges for unbundled network elements at different rate levels for different carriers in the same state (Condition VI, XI). To avoid over-billing in those states, Verizon's policy has been to bill all carriers at the lowest rate for an unbundled network element in any interconnection agreement, state approved rate, or tariff in each state (Condition VI, XI).
4. In some instances to overcome system limitations and minimize the risk of under-crediting, the Company chose to apply a higher discount to the CLECs than required by the Merger Order (Conditions VI, XI and XII).

Verizon has corrective actions in place to address the matters noted above. These are expected to complete in 2001. The financial impact of items 1 through 4 noted above is not included in the quantification of the delayed credits. Verizon has no plans to recoup under-billing from customers unless merger discounts can be accurately and correctly applied as part of that process.

Attachment C
Report of Management on Compliance with the Merger Conditions
Condition XIX (Additional Service Quality Reporting)
May 31, 2001

Data Posting For number of orders delayed over 30, 60 and 90 days in the NARUC White Paper Service Quality report, for the District of Columbia, Maryland and Massachusetts in the third quarter of 2000 and for the fourth quarter of 2000 in all former Bell Atlantic states except Pennsylvania, Rhode Island and Vermont, the results for the residence and business categories submitted were not accurate due to manual processing errors. Corrections were provided in submissions made on May 15, 2001.

Data Extraction In former GTE states, the installation measures for the third quarter 2000 and fourth quarter 2000 NARUC White Paper Reports were based on pre-tabulated results that were determined to be inaccurate in selected instances at the state level due to central office hierarchy errors. Data in an individual line of installation measures for Connecticut and New Hampshire for the 3rd Quarter 2000 NARUC report contained a manual extraction error. For the NARUC White Paper Reports, the maintenance measures in the former Bell Atlantic portion of Pennsylvania were calculated using data from Virginia, West Virginia, Maryland and Washington DC for the third and fourth quarter. In former Bell Atlantic states, the maintenance measures in the NARUC White Paper incorrectly included results for some UNE products in the basic exchange service results for the third and fourth quarter. In former Bell Atlantic states, the missed appointments maintenance measure in the NARUC White Paper Reports incorrectly excluded repeat trouble reports for the third and fourth quarter. In former Bell Atlantic states, for the August through December 2000 data months in Genuity Service Level Reports, the instances of delays due to lack of facilities were overstated by including delays due to all reasons. The results for GTE Mobilenet and Primeco were excluded in four and two states, respectively, in the December 2000 Genuity Service Level Reports due to a manual error. For five former GTE states, trouble reports were inadvertently included in the Genuity Reports for properties that were not subject to the merger condition (i.e., properties sold or to be sold). For former GTE states for the August through December data months, the average installation interval results in the Genuity Service Level Reports incorrectly included some duplicate installation orders and orders with misses attributable to customer reasons that could be excluded. All data extractions noted above were corrected in submissions provided on May 15, 2001.

Application of Business Rules In former GTE states, the Average Repair Interval measure for Genuity in the Genuity Service Level Reports included time when repair was delayed for circumstances beyond ILEC control. This was caused by the lack of circumstances-specific data in the underlying source system data used for Genuity only. In former GTE states, the average installation interval results in the Genuity Service Level Reports were computed in calendar days, not business days, due to lack of capability in the reporting system. In the average installation interval measure in the Genuity Service Level Reports, no orders/circuits were excluded as having commitment dates set by customers pursuant to the business rule provision which states that orders or circuits used in the measure are to exclude orders having commitment dates set by customers. Verizon excluded no special access orders/circuits pursuant to this business

Attachment C

Report of Management on Compliance with the Merger Conditions

Condition XIX (Additional Service Quality Reporting)

May 31, 2001

rule because all special access orders are negotiated between Verizon and the customer. To perform the calculations in accordance with these requirements would have required exclusion of all special access orders from the reports. On May 15, 2001, in a letter to the Common Carrier Bureau, Verizon has requested a change in the business rules for average installation interval to address these issues.

Report of Independent Accountants

To the Board of Directors of Verizon Communications Inc.:

We have examined management's assertions, included in the accompanying Report of Management on Compliance with the Merger Conditions (the "Assertions"), that Verizon Communications Inc. (the "Company") complied with the conditions set forth in Appendix D (the "Merger Conditions"), except as noted therein, of the Federal Communications Commission's (the "FCC") Memorandum Opinion and Order in Common Carrier Docket No. 98-184 approving the Bell Atlantic/GTE Merger¹, during the period from June 30, 2000 to December 31, 2000. At the direction of the FCC, the Company's compliance over Conditions I, VIII and XIII of the Merger Conditions are not addressed in the Assertions and are not reported herein. Management is responsible for the Company's compliance with those requirements. Our responsibility is to express an opinion on management's Assertions regarding the Company's compliance based on our examination.

Except as discussed in the third and fourth paragraphs of this report, our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the Company's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Company's compliance with specified requirements.

As discussed in the first paragraph of this report, the Assertions do not address compliance with Conditions I, VIII and XIII. As required by Condition XXI, *Compliance Program*, the Company filed an annual compliance report on March 15, 2001 which included information related to Conditions I, VIII and XIII and Appendix B to the Common Carrier Docket No. 98-184. We did not perform any procedures regarding the information contained in the annual compliance report for Conditions I, VIII and XIII and Appendix B to the Common Carrier Docket No. 98-184.

The Company did not maintain historical transaction data related to the Verizon East (South) Network Performance-1 (Condition V), Verizon East Average Installation Interval (Condition XIX) and Verizon East Percentage Commitment Met (Condition XIX) measurements, and the historical transaction data for the Verizon East Provisioning-09 (Condition V) measurement was only available within a timeframe of 45 days. The unavailability of this historical transaction data prevented us from applying the procedures we considered necessary in the circumstances to test these reported measurements. Additionally, upon agreement of the FCC staff and the Company, we were requested to perform procedures over only the eight specified NARUC service quality measurements for Condition XIX as discussed in the Assertions.

We have been informed that, under the Company's interpretation of Condition IX, *Most-Favored-Nation Provision for Out-of-Region and In-Region Arrangements*, adoption of a provision in an agreement from

¹Application GTE Corp. and Bell Atlantic Corp. for Consent to Transfer Control of Domestic and International Sections 214 and 310 Authorizations and Application to Transfer Control of a Submarine Cable Landing License, CC Docket No. 98-184, Memorandum Opinion and Order, FCC 00-221 (rel. June 16, 2000).

another state that provides for interim payment of inter-carrier compensation of internet-bound traffic is not required. For the period under examination, the Company did not permit telecommunications carriers in one state to adopt into such provisions from a different state. On December 22, 2000, the FCC staff issued an opinion letter allowing requesting telecommunications carriers in one state to adopt any voluntarily negotiated provision in an interconnection agreement from another state, including arrangements for interim payment of inter-carrier compensation of internet-bound traffic. On February 20, 2001, the Company filed a letter with the FCC requesting clarification and review of the FCC staff's opinion letter. In response to the Company's request, the FCC issued a public notice on March 30, 2001 (DA 01-722) seeking comments on the Company's letter and as to whether there are grounds to waive or modify Condition IX.

Additionally, under the Company's interpretation of the requirements of Condition XI, *Carrier to Carrier Promotions: Unbundled Loop Discounts*, the Unbundled Network Element ("UNE") loop discounts should be applied to the Pennsylvania pre "Global Order" UNE rates that were in effect prior to the current rates, as provided in Attachment D to the Merger Conditions. The Company believes that the "Global Order" rates were market-opening rates and were not permanent rates to which the discount should be applied. The Company's position regarding this situation and its compliance is outlined in a letter dated October 16, 2000 to Carol Matthey of the FCC. In a letter dated November 21, 2001 from the Chief Counsel of the Pennsylvania Public Utilities Commission to the FCC, the Pennsylvania Public Utilities Commission set out that in their view, the "Global Order" UNE rates are permanent rates and not promotional or market-opening rates. The FCC staff issued an opinion letter dated December 21, 2000 to Verizon stating that Verizon should apply the Condition XI discounts to the Pennsylvania "Global Order" rates. In a letter dated February 2, 2001 to David Solomon of the FCC, the Company confirmed that they would apply the merger discount to the Pennsylvania "Global Order" rates effective from February 1, 2001.

Our examination disclosed the following material noncompliance with the Merger Conditions applicable to the Company during the period from June 30, 2000 to December 31, 2000:

- Condition IV, *Non-discriminatory Rollout of xDSL Services*, requires the Company to file the third quarterly report on xDSL deployment within 180 days of the Merger Close Date. As described in the Assertions, the Company filed the third quarterly report 12 days late.
- Condition V, *Carrier to Carrier Performance Plan*, requires the Company to provide monthly performance measurement data. As described in Attachment A of the Assertions, there were certain instances where the Company did not comply with the requirements of Condition V. Additionally, certain errors in Attachment A of the Assertions were identified subsequent to the filing of the Company's annual compliance report on March 15, 2001; therefore, those errors were not included in the annual compliance report.
- Condition VI, *Uniform and Enhanced OSS and Advanced Services OSS*, and Condition XI, *Carrier to Carrier Promotions: Unbundled Loop Discount*, require the Company to make available discounts on certain charges for unbundled local loops used to provide advanced services (Condition VI), and unbundled loops (Condition XI) to telecommunications carriers. Condition XII, *Carrier to Carrier Promotions: Resale Discount*, requires the Company to make available a discount on certain charges to resellers. As described in Attachment B of the

Assertions, there were certain instances where the Company did not comply with these requirements. Additionally, certain errors in Attachment B of the Assertions were identified subsequent to the filing of the Company's annual compliance report on March 15, 2001; therefore, those errors were not included in the annual compliance report.

- Condition XIX, *Additional Service Quality Reporting*, requires the Company to periodically report service quality data. As described in Attachment C of the Assertions, there were certain instances where the Company did not comply with the requirements of Condition XIX. Additionally, the errors in Attachment C of the Assertions were identified subsequent to the filing of the Company's annual compliance report on March 15, 2001; therefore, those errors were not included in the annual compliance report.

In our opinion, except for the effects of the procedures we did not perform regarding the information contained in the Company's annual compliance report for Conditions I, VIII and XIII and Appendix B to the Common Carrier Docket No 98-194 as discussed in the third paragraph, and our inability to apply the procedures we considered necessary to test the four performance measurements and the agreement of the FCC staff and the Company for us to perform procedures over only the eight NARUC service quality measurements as discussed in the fourth paragraph, and the instances of material non-compliance discussed in the seventh paragraph, and considering the Company's interpretation of Conditions IX and XI as discussed in the fifth and sixth paragraphs of this report, respectively, management's assertion that the Company complied with the Merger Conditions other than for Conditions I, VIII and XIII, during the period from June 30, 2000 to December 31, 2000, is fairly stated, in all material respects.

This report is intended solely for the information and use of the Company and the FCC and is not intended to be and should not be used by anyone other than these specified parties. However, the report is a matter of public record and its distribution is not limited.



May 31, 2001

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