

**Verizon Communications Inc.  
Separate Advanced Services  
Affiliate Requirements**

**Independent Accountants' Report on  
Applying Agreed-Upon Procedures**

**April 15, 2004**

**Separate Advanced Services Affiliate Requirements  
For the Period from January 1, 2003 to December 31, 2003**

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## **INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES**

To the Management of Verizon Communications Inc. and  
the Federal Communications Commission:

We have performed the procedures listed in Appendix A, which were agreed to by the management of Verizon Communications Inc. ("Verizon") and the Federal Communications Commission ("FCC"), (collectively, the "Specified Parties") solely to assist you in evaluating management's assertion that Verizon complied with the separate advanced services affiliate requirements of Paragraph 12, Section I (the "Separate Advanced Services Affiliate Requirements") of the FCC's Memorandum Opinion and Order in Common Carrier Docket No. 98-184<sup>1</sup> approving the Bell Atlantic/GTE Merger (the "Merger Conditions") during the period from January 1, 2003 through December 31, 2003. Verizon is responsible for compliance with the Separate Advanced Services Affiliate Requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Specified Parties. Consequently, we make no representation regarding the sufficiency of the procedures listed in Appendix A, either for the purpose for which this report has been requested or for any other purpose.

The procedures performed and the related findings are documented in Appendix A. For purposes of this agreed-upon procedures engagement certain terms are defined in Appendix B. The procedures and the results of performing such procedures are not intended to be an interpretation of any legal or regulatory requirements.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on Verizon's compliance with the Separate Advanced Services Affiliate Requirements. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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*1 Application of GTE Corporation, Transferor, and Bell Atlantic Corporation, Transferee, 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, 15 FCC Rcd 14032, 14143 (2000).*

This report is intended solely for the information and use of the Specified Parties in relation to the Separate Advanced Services Affiliate Requirements and is not intended to and should not be used by anyone other than the Specified Parties. However, this report is a matter of public record and its distribution is not limited.

*Mitchell & Titus, LLP*

New York, New York  
April 15, 2004

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1. We inquired of Verizon management about the procedures used by the ILECs and the Corporate Compliance Officer to identify, track, respond, and take corrective action on any complaints relating to alleged noncompliance with the Separate Advanced Services Affiliates Requirements and Verizon management indicated that complaints sent by competitors to the FCC and Verizon's Agent of Service are received through facsimile, e-mail or overnight mail. Once a complaint is received, a copy is forwarded to Verizon's legal department and a designated regulatory complaint organization. After Verizon's legal department has performed the review, Verizon files a response with the FCC in accordance with the FCC's rules. If there is a valid complaint of noncompliance with the Separate Advanced Services Affiliates Requirements, the controls implemented by the ILECs and the Corporate Compliance Officer to identify, track, respond, and take corrective action on that complaint are documented in the Merger Compliance Status Database. This database incorporates tasks that need to be completed to comply with various Merger Conditions including the Separate Advanced Services Affiliate Requirements. Based upon the database, a Merger Compliance Status Report is prepared and presented monthly to the Corporate Compliance Officer.

We inquired of Verizon management whether there were any FCC formal or informal complaints or written complaints to a state commission from competitors, involving alleged noncompliance with the Separate Advanced Services Affiliate Requirements. Verizon management indicated that there have been no FCC formal or informal complaints nor written complaints made to a state regulatory commission from competitors (including complaints related to the provision or procurement of goods, services, facilities, and information, or in connection with the establishment of standards), involving alleged noncompliance with the Separate Advanced Services Affiliate Requirements filed since the Merger Closing Date that were open as of December 31, 2002 or any new complaints thereafter filed up to the date of this report.

2. We inquired of Verizon management about those states in which B A/GTE has ceased offering a 25 percent Operating Support System (OSS) discount charges for unbundled loops used in the provision of Advanced Services. Verizon management indicated that, on March 15, 2003, Verizon ceased offering a 25 percent OSS discount on the recurring and nonrecurring charges for unbundled loops used in the provision of Advanced Services in New Jersey. On February 26, 2003, Verizon notified William Maher of the FCC that Nevada was inadvertently omitted from its March 22, 2002 notice of the list of states where Verizon would cease providing the OSS discount. Verizon ceased providing the OSS discount in Nevada on April 15, 2002.

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3. We inquired of and confirmed with Deloitte & Touche LLP that it had conducted an audit of the Advanced Services OSS discount provisions of Paragraph 25 of the Merger Conditions for the period January 1, 2003 through December 31, 2003. According to Deloitte & Touche LLP, there were no exceptions noted in Verizon's compliance with Paragraph 25 of the Merger Conditions. Deloitte & Touche LLP's audit report dated March 11, 2004 was filed with the FCC on March 17, 2004.
  
4. We obtained and inspected the ILECs' and the Separate Data Affiliate's organizational charts as of December 31, 2003. We confirmed with legal representatives of the ILECs and the Separate Data Affiliates the legal, reporting, and operating corporate structures of the Separate Data Affiliates and the separate Advanced Services office/division, the ownership of the Separate Data Affiliates and the entities to which the Separate Data Affiliates and the separate Advanced Services office/division report.

We obtained written confirmation from Verizon's legal representative that Verizon Advanced Data Inc. ("VADI") is a Delaware corporation. VADI has one issued and outstanding share of common stock, which is owned by Verizon Ventures III Inc., a Delaware corporation. Verizon Advanced Data – Virginia Inc. (VADI-VA) is a Virginia corporation. VADI-VA has one issued and outstanding share of common stock, which is owned by VADI. Management indicated that VADI and VADI-VA report to the management of Verizon Services Group ("VSG"), which reports to the management of Verizon.

We obtained written confirmation from Verizon's legal representative that Verizon Avenue Corporation ("VAC") is a Delaware corporation. VAC has one issued and outstanding share of common stock, which is owned by Verizon Investments, Inc. Management indicated that VAC reports to the management of Verizon Services Corp., which reports to the management of Verizon.

We obtained written confirmation from Verizon's legal representative that the separate Advanced Services office/division is comprised of personnel who interface with Verizon's wholesale organization to procure certain components used to provide Advanced Services, such as line sharing. The personnel (excluding contractors) of separate Advanced Services office/division are employed by VADI, Verizon Services Corp., VSG, Verizon Corporate Services Group Inc., Verizon Advanced Data Services Inc., and certain ILECs. The separate Advanced Services office/division is not a legal entity and therefore, has no legal structure or ownership. Management also indicated that separate Advanced Services office/division reports to the Senior Vice-President-Network Services of Verizon North Inc.

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5. We obtained the Competitive Local Exchange Carrier (“CLEC”) guidelines from Verizon management, which describes the interfaces, processes, and procedures used by the separate Advanced Services office/division within the ILECs and by the Separate Data Affiliates, for pre-ordering, ordering, provisioning, and repair and maintenance of Advanced Services. We inquired of Verizon management and management indicated that the Advanced Services office/division within the ILECs uses the same interfaces, processes and procedures as those used by CLEC, which are contained in the CLEC guidelines for pre-ordering, ordering, provisioning, and repair and maintenance of Advanced Services. The CLEC guidelines are located on the following websites:

<http://www22.verizon.com/wholesale/clecsupport/region/1,16830,East-,00.html>

<http://www22.verizon.com/wholesale/clecsupport/region/1,16830,West-,00.html>

<http://www22.verizon.com/wholesale/local/order/1,19410,,00.html>

We confirmed with Verizon management that the same interfaces, processes and procedures were made available to unaffiliated providers of Advanced Services. Refer to the websites stated above for guidelines.

We inquired of Verizon management whether the separate Advanced Services office/division “waits in line” for collocation space similar to unaffiliated carriers. Verizon management indicated that the separate Advanced Services office/division is part of the ILECs and therefore does not collocate with itself. The ILECs reserve space for their future use, as needed, on terms “no more favorable” than those of unaffiliated carriers. According to Verizon management, the ILECs and unaffiliated carriers both have “first-come-first served” rights to obtain such space.

6. We inquired of Verizon management about the functions performed and information provided to process either retail or wholesale customer orders for Advanced Services through the separate Advanced Services office/division. Verizon management indicated that the functions performed by the separate Advanced Services office/division related to the processing of customer orders for Advanced Services are (i) the receipt of information necessary to process either retail or wholesale customer orders for Advanced Services and (ii) placing of such orders with the ILECs through interfaces made available to CLECs for line sharing and other facilities and services. The ILEC business units that receive Advanced Services orders from customers are as follows:

- Enterprise Solutions Group;
- Business Solutions Group; and
- Consumer Sales Service Center.

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The customer information, concerning an order, provided by the separate Advanced Services office/division to the ILEC business units is as follows:

- Customer name and address;
- Service requested;
- Requested or tentative installation date;
- Customer or contact name;
- Customer location access information; and
- Billing telephone number.

According to Verizon management, in addition to the processing of customer orders, the only other function performed by the separate Advanced Services office/division, with respect to wholesale Advanced Services components obtained from the ILECs is placing maintenance and repair orders with the ILECs, with respect to orders for Advanced Services.

The other customer information, concerning a maintenance and repair order, provided by the separate Advanced Services office/division to the ILEC business units is as follows:

- Reporting telephone number;
- Cleared time;
- Trouble found; and
- Remarks, if required.

The ILEC business units that receive the above information are as follows:

- Enterprise Solutions Group;
- Business Solutions Group; and
- Consumer Sales Service Center.

7. We obtained from Verizon a schedule indicating the total number of Advanced Services pre-order inquiries and the total number of Advanced Services facilities orders submitted to the ILECs by the Verizon's retail operations within the ILECs, the separate Advanced Services office/division, and the Separate Data affiliates, by state. We obtained from Verizon a schedule indicating the total number of pre-order inquiries and facilities orders that were submitted using the interfaces available to CLECs. According to the schedule, the total number of Advanced Services pre-order inquiries and facilities order represents 100% of the total number of pre-order inquiries and facilities orders for each of the Verizon retail operations within the ILECs, separate Advanced Services office/division, and Separate Data Affiliates.

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8. We inquired of Verizon management as to which Operation, Installation, and Maintenance (OI&M) services were made available to unaffiliated Advanced Services providers and whether the ILECs continue to make those OI&M available.

According to Verizon management, the following OI&M services were made available to unaffiliated Advanced Services providers pursuant to the Merger Conditions prior to September 26, 2001 and the ILECs continue to make available such OI&M services:

- Installation of Advanced Services equipment as described in Merger Condition I, Paragraph 4(a)(5);
  - Connection of Advanced Services equipment located in collocation space with telecommunications services are network elements as described in Merger Condition I, Paragraph 4(a)(6) and 4(g)(1);
  - Testing of an Advanced Services circuit after the network components and telecommunications services utilized to provision the service have been connected as described in Merger Condition I, Paragraph 4(g)(2); and
  - Repair and maintenance of Advanced Services equipment located in virtual collocation space as described in Merger Condition I, Paragraph 4(k).
9. We inquired of Verizon management as to which OI&M services, at the customer premises, are provided by the ILECs for their own retail operations in each Verizon state, with respect to the offering of Advanced Services, and Verizon management indicated that these OI&M services are inside wiring, consumer premises equipment installation and configuration. We inquired of Verizon management and management indicated that the foregoing OI&M services were made available to unaffiliated providers of Advanced Services.
10. We inquired of and confirmed with Deloitte & Touche LLP that it had conducted an audit to determine whether the ILECs provided the enhanced OSS interfaces for provisioning Advanced Services, as discussed in Paragraph 18 of the Merger Conditions for the period January 1, 2003 through December 31, 2003. According to Deloitte & Touche LLP, there were no exceptions noted in Verizon's compliance with Paragraph 18 of the Merger Conditions. Deloitte & Touche LLP's audit report dated March 11, 2004 was filed with the FCC on March 17, 2004.

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11. We obtained Verizon's Annual Compliance Report dated March 11, 2004 for the period January 1, 2003 through December 31, 2003.

According to the Annual Compliance Report; Condition I, Separate Affiliate for Advanced Services, Section I – Compliance Summary:

The Company [Verizon] complied with the requirements of this condition as described herein. Verizon operated in compliance with the requirements of paragraph 12 of Condition I, which govern certain aspects of Verizon's provisioning of Advanced Services after the sunset of the Separate Affiliate requirement<sup>2</sup>.

According to Verizon management and pursuant to the Merger Conditions, Appendix D, Section XXI, paragraph 55, the Annual Compliance Report was filed with the FCC on March 11, 2004.

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<sup>2</sup> On September 26, 2001, the FCC accelerated the sunset of the separate affiliate merger condition. Verizon ceased applying the separate affiliate merger rules imposed by Condition I of the Merger Conditions to Verizon Advanced Data Inc. as of September 27, 2001. Concurrent with the sunset of the separate affiliate merger condition, Verizon began operating under paragraph 12 of the Merger Conditions.

**Appendix B**

**Verizon Communications Inc.  
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**Definition of Terms**

For the purposes of this agreed-upon procedures engagement, the following terms are defined:

1. **Separate Data Affiliate(s)** – Verizon Advanced Data Inc.; Verizon Advanced Data – Virginia Inc.; Verizon Select Services Inc.; Verizon Select Services – Virginia Inc.; Verizon Global Networks Inc.; NYNEX Long Distance Company d/b/a Verizon Enterprise Solutions; and Verizon Avenue Inc.

For the period January 1, 2003 through December 31, 2003, all of the procedures listed in Appendix A were applied to the following Separate Data Affiliates: Verizon Advanced Data Inc.; Verizon Advanced Data – Virginia Inc.; and Verizon Avenue Inc. No procedures were applied to the following Separate Data Affiliates: Verizon Select Services Inc.; Verizon Select Services – Virginia Inc.; Global Networks Inc.; and Verizon Enterprise Solutions. The management of all Separate Data Affiliates provided operational management representation letters to Mitchell & Titus, LLP.

2. **ILECs (Incumbent Local Exchange Carriers)**– Verizon Delaware Inc; Verizon Washington D.C. Inc.; Verizon Maryland Inc.; Verizon New Jersey Inc.; Verizon Pennsylvania Inc.; Verizon Virginia Inc.; Verizon West Virginia Inc.; Verizon New York Inc.; Verizon New England Inc.; Verizon California Inc.; Verizon Florida Inc.; Verizon Hawaii Inc.; Verizon North Inc.; Verizon Northwest Inc.; Verizon South, Inc.; GTE Southwest Incorporated d/b/a Verizon Southwest; Contel of the South, Inc. d/b/a Verizon Mid-States, Verizon West Coast Inc.; and any successor or assign of such company that provides wireline telephone exchange service and that is an affiliate of Verizon.

Note: The term ILECs does not include GTE Alaska Incorporated, GTE Minnesota, Inc. and GTE Arkansas Incorporated, which have been sold or are pending sale.

3. **Bell Atlantic/GTE Service Area** as used in the Merger Conditions does not include those states and service areas where Bell Atlantic/GTE will not have incumbent local telephone operations after Merger Closing Date and after execution of planned sales of local exchange properties. Specifically, the Bell Atlantic GTE Service Area does not include any local exchange properties in the states of Alabama, Arkansas, Kentucky, Missouri, and New Mexico.

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4. **Advanced Services** – means intrastate or interstate wireline telecommunications services, such as ADSL, IDSL, xDSL, Frame Relay, and asynchronous transfer mode (ATM) that rely on packetized technology and have the capability of supporting transmissions speeds of at least 56 kilobits per second in both directions. This definition of advanced services does not include (1) data services that are not primarily based on packetized technology, such as ISDN, as well as comparable dial-up services such as Internet Protocol Routing Service and CyperPOP, (2) x.25-based and x.75-based packet technologies, or (3) circuit switched services (such as circuit switched voice grade service) regardless of the technology, protocols or speeds used for the transmission of such services. Notwithstanding the other provisions of Merger Condition I, Verizon retains the right to invest in any technology or asset as long as it is not used to provide Advanced Services.