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Deloitte & Touche LLP
Two World Financial Center
New York, NY 10281-1414
USA

Tel: +1 212 436 2000
Fax: +1 212 436 5000
www.deloitte.com

June 13, 2005

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Ms. Marlene H. Dortch, Secretary
Federal Communications Commission
Office of the Secretary
9300 East Hampton Drive
Capitol Heights, MD 20743

RE: Section 272 Biennial Report for Verizon Communications Inc. EB Docket No. 03-200

Dear Ms. Dortch:

Pursuant to paragraph 31 (e) of the "General Standard Procedures for Biennial Audits Required Under Section 272 of the Communications Act of 1934, As Amended, for the Period January 3, 2003 through January 2, 2005" in the above referenced matter, enclosed are 2 copies of Volumes 1, 2 and 3 of the Deloitte & Touche LLP Independent Accountants' Report on Applying Agreed-Upon Procedures, with the following appendices:

- Appendix A - Results of Agreed-Upon Procedures
- Appendix B - General Standard Procedures
- Appendix C - Comments from Verizon Communications Inc.

This document will also be filed electronically through the Federal Communications Commission's Electronic Comment Filing System.

Very truly yours,

Deloitte & Touche LLP

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Verizon Communications Inc.

Section 272 Biennial Agreed-Upon Procedures Report
For the Period January 3, 2003 to January 2, 2005

Volume 1

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Pursuant to paragraph 31 (e) of the "General Standard Procedures for Biennial Audits Required Under Section 272 of the Communications Act of 1934, As Amended, for the Period January 3, 2003 through January 2, 2005" in the above referenced matter, Deloitte & Touche LLP is filing our Independent Accountants' Report on Applying Agreed-Upon Procedures with the following appendices:

- Appendix A - Results of Agreed-Upon Procedures
- Appendix B - General Standard Procedures
- Appendix C - Comments from Verizon Communications Inc.

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Very truly yours,

Deloitte & Touche LLP

cc: Connecticut Department of Public Utility Control
D.C. Public Service Commission
Delaware Public Service Commission
Maine Public Utilities Commission
Maryland Public Service Commission
Massachusetts Dept. of Telecom and Energy
New Hampshire Public Utilities Commission
New Jersey Board of Public Utilities
New York Public Service Commission
Pennsylvania Public Utility Commission
Rhode Island Public Utilities Commission
Vermont Public Service Board
Virginia State Corporation Commission
West Virginia Public Service Commission
Verizon Communications Inc.

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(A) *Attachments A-3 and A-4 are included in Volumes 2 and 3, respectively*

Deloitte.

Deloitte & Touche LLP
Two World Financial Center
New York, NY 10281-1414
USA

Tel: +1 212 436 2000
Fax: +1 212 436 5000
www.deloitte.com

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

To the Management of
Verizon Communications Inc.
New York, NY

We have performed the procedures enumerated in Appendix B, which were agreed to by the management of Verizon Communications Inc. ("Verizon") and the Joint Federal/State Oversight Team (collectively, the "Specified Parties"), solely to assist these Specified Parties in evaluating Verizon's compliance with the requirements of section 272 of the Communications Act of 1934, as amended ("Section 272 Requirements") during the period from January 3, 2003 through January 2, 2005. Verizon management is responsible for Verizon's compliance with the Section 272 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 these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described in Appendix B either for the purpose for which this report has been requested or for any other purpose.

The procedures performed and the results obtained are documented in Appendix A. These procedures and the results of performing such procedures are not intended to be an interpretation of any legal or regulatory rules, regulations, or 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 Section 272 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.

This report is intended solely for the information and use of the Specified Parties and is not intended to be and should not be used by anyone other than the Specified Parties.

Deloitte & Touche LLP

June 13, 2005

Appendix A enumerates the results of procedures performed in connection with the Bell Operating Companies ("Verizon BOC")[1] and Incumbent Local Exchange Carriers ("ILEC")[2] of Verizon Communications, Inc. (collectively referred to as the "Verizon BOC/ILEC" or the "Company" or "Management"), and the section 272 affiliates[3]. Appendix B enumerates the Agreed-Upon Procedures to be performed.

<u>OBJECTIVE I.</u> Determine whether the separate affiliate required under section 272 of the Act has operated independently of the Bell operating company.

1. We inquired of management whether there have been any changes in the certificate of incorporation, bylaws, and articles of incorporation of the section 272 affiliates covered in this Biennial Audit, and whether there have been any legal and/or "doing business as" (DBA) name changes since the last engagement period.

   Management indicated that amendments were made to the articles of incorporation of TELUS Communications Inc. ("TCI") and TELUS Communications (Quebec) Inc. ("TCQI").

   We obtained and inspected the articles of incorporation and related amendments for TCI and TCQI noting the amendments were made to establish a new class of non-redeemable preferred shares and a special class of redeemable subordinate class B preferred shares, respectively.

   We inquired of management whether any section 272 affiliates were established or formed since the last engagement period and management indicated the following:

   > *"By reviewing the definition of a "Verizon Section 272 Affiliate" in the 2001/2002 Verizon General Standard Procedures for Biennial Audits and the 2003/2004 Verizon General Standard Procedures for Biennial Audits, there has not been a new section 272 affiliate established or formed since the last engagement period."*

2. We obtained and inspected Verizon's corporate entities' organizational charts. We confirmed with legal representatives of the Verizon BOC/ILEC, section 272 affiliates, and Verizon Communications, the legal, reporting, and operational corporate structure of

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[1] For the purposes of this document, Bell Operating Companies refers to Verizon New York, Inc.; Verizon New England, Inc.; Verizon – Washington, D.C., Inc.; Verizon – Maryland, Inc.; Verizon – Virginia, Inc.; Verizon – West Virginia, Inc.; Verizon – New Jersey, Inc.; Verizon – Pennsylvania, Inc.; Verizon – Delaware, Inc.

[2] For the purposes of this document, Incumbent Local Exchange Carrier refers to Verizon California, Inc.; Verizon Florida, Inc.; Verizon Hawaii, Inc.; Verizon Mid-States (Contel of the South, Inc.); Verizon North, Inc.; Verizon Northwest, Inc.; Verizon South, Inc.; Verizon Southwest (GTE Southwest, Inc.); Verizon West Coast, Inc.; Puerto Rico Telephone Company; The Micronesian Telecommunications Corp. In addition, for the purpose of this engagement, Verizon Advanced Data Inc. ("VADI"), and Verizon Advanced Data Inc. – Virginia ("VADI – VA") are to be treated as ILECs after the September 26, 2001 order, *Bell Atlantic/GTE Merger*, 16 FCC Rcd 16915 (2001). VADI is considered a nonregulated affiliate.

[3] For the purposes of this document, the section 272 affiliates are Bell Atlantic Communications, Inc. (d/b/a Verizon Long Distance) ("VLD"); NYNEX Long Distance Company (d/b/a Verizon Enterprise Solutions) ("VES"); Verizon Global Networks, Inc. ("GNI"); Verizon Global Solutions, Inc. ("GSI"); Verizon Select Services Inc. (formerly GTE Communications Corp.) ("VSSI"); Codetel International Communications Inc. ("CICI"); TELUS Communications Inc. ("TCI"); TELUS Communications (Quebec) Inc. ("TCQI")

the section 272 affiliates. We obtained written confirmations from the legal representatives noting that:

- VLD is owned by Verizon Communications Inc.
- VES is owned by Bell Atlantic Worldwide Services Group, Inc., which in turn is owned by NYNEX Corporation, which is owned by Verizon Communications Inc.
- GNI is owned by Verizon Communications Inc.
- VSSI is owned by GTE Corporation, which in turn is owned in part by NYNEX Corporation and by Verizon Communications Inc. NYNEX Corporation is owned by Verizon Communications Inc.
- GSI is owned by Bell Atlantic International, Inc., which in turn is owned Bell Atlantic Global Wireless, Inc., which is owned by Verizon Investment, Inc., which is owned by Verizon Communications Inc.
- CICI is owned by GTE Corporation, which in turn is owned by NYNEX Corporation and by Verizon Communications Inc. NYNEX Corporation is owned by Verizon Communications Inc.
- TCI is a Canadian corporation which is wholly owned by TELUS Corporation, a publicly traded Canadian Corporation. Until December 14, 2004, Verizon held an equity interest in TELUS Corporation of 20.6% overall (composed of 25.1% of its voting stock and 15.3% of its non-voting stock.) TCI has assumed the assets and business of TCQI and TCQI no longer provides telecommunications services. No Verizon employees serve on the Board of Directors of TCI, and TCI does not report to any Verizon entity or individual. Until December 14, 2004, two of TELUS Corporation's 12 Directors were Verizon employees.

  With the closing of the sale of Verizon's equity interest in TELUS on December 14, 2004, Verizon ceased to have any equity interest in TELUS Corporation and all Verizon employees resigned from the Board of Directors of TELUS Corporation.

3. We inquired of management to identify and document which entities performed operating, installation and maintenance ("OI&M") functions over facilities either owned by each section 272 affiliate, or leased from a third party by each section 272 affiliate for the period from January 3, 2003 to March 30, 2004. Management indicated the following:

   - GSI employees and third party contractors performed OI&M on facilities either owned or leased by GNI.
   - GNI employees, GSI employees and third party contractors performed OI&M on facilities either owned or leased by VSSI.
   - GNI employees, GSI employees and third party contractors performed OI&M on facilities either owned or leased by GSI.
   - TCI/TCQI itself or an unaffiliated contractor of TCI/TCQI provided all operation, installation, and maintenance functions on the transmission facilities and switching equipment owned by the Company (TCI/TCQI), or leased by the

Company from unaffiliated entities.

- CICI itself provides all operation, installation, and maintenance functions on the transmission facilities and switching equipment owned by the Company (CICI), or leased by the Company from unaffiliated entities.
- VLD and VES do not have any facilities nor do they perform any OI&M functions for anyone.

a.) We obtained management's definition and interpretation of operation, installation and maintenance ("OI&M") functions and management indicated the following:

> *"Verizon's management has included the following guidance in its Affiliate Transaction Policy. This guidance, which is based on para. 158 of FCC Docket 96-149, is Verizon's definition of OIM. Like the FCC's order, Verizon's instructions for compliance with this requirement rely on the common meaning of the words in the FCC's rules. Specific cases are reviewed by counsel.*
>
> *'Under the 272 regulations, the FCC prohibits Verizon's ILECs and any Verizon affiliate, other than another Section 272 affiliate, from performing operation, installation or maintenance (O,I or M) functions associated with switching or transmission facilities owned or leased by a Section 272 Affiliate. An ILEC and Section 272 Affiliate may not have joint ownership of transmission and switching facilities or the land and buildings where those facilities are located. A Section 272 Affiliate may not perform operations, installation, or maintenance functions associated with switching or transmission facilities owned or leased by the ILECs.*
>
> *After the FCC modified its rules to eliminate the OI&M rule, Verizon retained this description of the OI&M rule but stated that OI&M functions may be shared after the required changes to the cost allocation manual were made and submitted to the FCC and contracts were executed.'"*

b.) We inquired of management whether or not any of the OI&M services were being performed by the Verizon BOC/ILECs and/or other non-section 272 affiliate(s) on facilities either owned by the section 272 affiliate or leased from a third-party by the section 272 affiliate for the period prior to March 30, 2004. Management indicated the Verizon BOC/ILECs do not perform OI&M functions on facilities either owned or leased from a third-party by the section 272 affiliates.

c.) We inquired of management whether or not any of the OI&M services were being performed by the section 272 affiliate on facilities either owned by the Verizon BOC/ILECs or leased from a third-party by the Verizon BOC/ILECs for the period prior to March 30, 2004. Management indicated section 272 affiliates do not perform OI&M functions on facilities either owned or leased by the Verizon BOC/ILECs.

4. We inquired of management to identify and document which entities performed operating, installation and maintenance ("OI&M") functions over facilities either owned by each section 272 affiliate, or leased from a third party by each section 272 affiliate as of January 2, 2005. Management indicated the following:

- GNI and non-affiliate third party contractors perform OI&M on facilities either owned or leased by GNI and VSSI.

- VLD, VES, and GSI do not own or lease any facilities.

- VSSI does not have any BOC/ILEC or non-section 272 affiliate performing OI&M functions upon the switching and transmission equipment owned or leased by VSSI.

- CICI performs its own operations, installation, and maintenance functions, or contracts with unaffiliated third parties to perform some of these functions except for that as of January 2, 2005 and since June 4, 2004, which is the date of the first provision of the service, Verizon Dominicana, a non-section 272 affiliate, has been performing the following for CICI:

  - Switching translation, maintenance, and provisioning service (call server operation)

  - Web-billing collection platform service.

- As of December 14, 2004 Verizon ceased to have any equity interest in TCI/TCQI.

a.) We inquired of management and management indicated the Verizon BOC/ILECs do not perform OI&M functions on facilities either owned or leased from a third-party by the section 272 affiliates. A non-section 272 affiliate, Verizon Dominicana, provides services described above to CICI.

b.) We inquired of management and management indicated section 272 affiliates do not perform OI&M functions on facilities either owned or leased by the Verizon BOC/ILECs.

5. We inquired of management to determine whether the Verizon BOC/ILECs performed any research and development (R&D) activities on behalf of the section 272 affiliates during the period from January 3, 2003 to September 30, 2004 (the "Audit Test Period"). Management indicated that the Verizon BOC/ILECs did not perform any research and development activities on behalf of the section 272 affiliates.

6. We obtained the balance sheet and detailed fixed asset listing, including capitalized software, as of September 30, 2004 for the following section 272 affiliates:

- GNI
- GSI
- VSSI (separate balance sheets and fixed asset listings for accounting entities: CARD, GTELD, CLEC, Strategic Markets)
- VLD and VES (balance sheets are combined)

We compared the fixed asset balances in the balance sheets to the totals listed in the detailed fixed asset listings and noted the following:

- For GNI, we noted the fixed assets amount in the balance sheet was $191,777,323 more than the total amount in the detailed fixed asset listing. We inquired of management and management provided a reconciliation of the difference. The difference was attributed to construction in progress ("CIP") amounts included in the balance sheet but not maintained in the asset management system.

- For GSI, we noted the fixed assets amount in the balance sheet was $1,630,082 more than the total amount in the detailed fixed asset listing. We inquired of management and management provided a reconciliation of the difference. The difference was attributed to construction in progress ("CIP") amounts included in the balance sheet but not maintained in the asset management system.

- For VSSI-CARD and VSSI-GTELD, we noted no differences

- For VSSI-CLEC, no fixed assets were listed on balance sheet

- For VSSI-Strategic Markets, we noted the fixed assets amount in the balance sheet was $489,901 more than the total amount in the detailed fixed asset listing. We inquired of management and management provided a reconciliation of the difference. The difference was attributed to capitalized computer software amounts included in the balance sheet but not maintained in the asset management system.

- For VLD and VES, we noted the fixed assets amount in the combined balance sheet was $3,242,145 more than the total amount in the detailed fixed asset listings. We inquired of management and management provided a reconciliation of the difference. The difference was attributed to journal entry accrual amounts included in the balance sheet but not yet posted in the asset management subledger.

We reviewed the detailed fixed asset listings for each of the section 272 affiliates, except the VSSI-CLEC accounting entity for which we were not provided a fixed asset listing as the division had no fixed asset amounts on the balance sheet, to verify that the detailed listing includes a description and location of each item, date of purchase or acquisition, price paid and recorded, and from what BOC/ILEC or affiliate purchased or transferred (if purchased from a nonaffiliate, then indicate "Nonaffiliate"). We noted the following:

- For GNI of 54,783 asset items, we noted 201 assets with a total net book value of $5,318,074 did not have a location identifier. Also, 241 assets with a total net book value $264,489 did not have an asset description.

- For GSI of 688 asset items, we noted 212 assets with a total net book value of $760,761 did not have a location identifier.

GNI, GSI, VLD, VSSI-CARD and VSSI-Strategic Markets each acquired assets during the Audit Test Period. VES, VSSI-GTELD and VSSI-CLEC did not acquire any assets during this period. From the detailed fixed asset listings for GNI, GSI, VLD, VSSI-CARD and VSSI-Strategic Markets, we selected a statistically valid random sample of 95 transmission and switching facilities, including capitalized software, and the land and buildings where those facilities are located, out of a population of 10,327 items that were added during the Audit Test Period. We requested the title and/or other documents, which reveal ownership, for the sample selected. Management provided invoices and where applicable, the supporting reconciliations to the amount stated on the detailed fixed asset listings, as support for ownership. We noted the following:

- For 86 out of 95 items selected, we inspected the invoices and noted that the assets were billed to the appropriate section 272 affiliate. We also noted the invoice cost agreed to the detailed fixed asset cost amount.

- For the remaining 9 out of 95 items selected, we inspected the invoices and noted that the assets were billed to the appropriate section 272 affiliates. For each of these items, management provided reconciliations from the documents supporting ownership to the amount stated on the detailed fixed asset listings.

- For all 95 sample items we noted no items jointly owned by the Verizon BOC/ILECs and the section 272 affiliate.

<u>OBJECTIVE II</u>. Determine whether the separate affiliate required under section 272 of the Act has maintained books, records, and accounts in the manner prescribed by the Commission that are separate from the books, records, and accounts maintained by the Bell operating company.

1. We obtained the separate general ledgers maintained for VLD, VES, GNI, VSSI and GSI as of the end of the Audit Test Period and matched the title on the general ledgers with the names on the certificates of incorporation and/or related amendments and noted no differences.

   We reviewed the general ledgers of VLD, VES, GNI, VSSI and GSI and did not identify special codes which link the above section 272 affiliates' general ledgers to the general ledgers of the Verizon BOC/ILECs.

2. We obtained the financial statements (income statement and balance sheet) as of the end of the Audit Test Period for the following section 272 affiliates:

   - GNI
   - GSI
   - VSSI (separate income statements and balance sheets for accounting entities: CARD, GTELD, CLEC, Strategic Markets)
   - VLD and VES (financial statements are combined)

3. We obtained a list of lease agreements as of September 30, 2004 for GNI, GSI, VSSI, VLD and VES under which the section 272 affiliate was either the lessor or lessee. In all cases, the section 272 affiliates were the lessee. We identified 20 leases where the annual obligation listed for the lease agreement was $500,000 or more. We selected all 20 leases for testing and obtained a copy of the lease agreement, and noted the terms and conditions.

   We obtained a lease accounting assessment prepared by management indicating the accounting treatment for each sampled lease and noted that each lease selected for testing was accounted for in accordance with GAAP.

   We also obtained and inspected the Company's lease accounting policies and noted such policies were consistent with GAAP.

<u>OBJECTIVE III</u>. Determine whether the separate affiliate required under section 272 of the Act has officers, directors, and employees that are separate from those of the Bell operating company.

1. We inquired of management and management indicated that each of the section 272 affiliates and each of the Verizon BOC/ILECs maintain separate boards of directors, separate officers and separate employees.

   We obtained a list and formal confirmation from the Corporate Secretary's Office of names of directors and officers for the Verizon BOC/ILECs and the section 272 affiliates, including the dates of service for each Board member and officer for the Engagement Period. We compared the list of names of directors and officers of each Verizon BOC/LEC with the list of names of directors and officers of each section 272 affiliate. We noted that there were no directors or officers who served simultaneously as a director and/or officer of any Verizon BOC/ILEC and any section 272 affiliate during the Engagement Period.

2. We obtained a list of names and social security numbers of all employees of the section 272 affiliates and of the Verizon BOC/ILECs for the Engagement Period. We designed and executed a program which compared the names and social security numbers of the employees on the section 272 affiliates' lists to the names and social security numbers of the employees on the Verizon BOC/ILEC's lists. We noted that there were no names appearing on both lists simultaneously.

OBJECTIVE IV. Determine that the separate affiliate required under section 272 of the Act has not obtained credit under any arrangement that would permit a creditor, upon default, to have recourse to the assets of the Bell operating company.

1. We requested from management copies of each section 272 affiliates' debt agreements/instruments and credit arrangements with lenders and major suppliers of goods and services. Major suppliers are those having $500,000 or more in annual sales as stated in the agreement. We obtained copies of the section 272 affiliates' debt agreements/instruments and noted that some of the debt agreements/instruments in the form of promissory notes were with a related party, Verizon Global Funding. We did not note any language indicating guarantees of recourse to the Verizon BOC/ILEC's assets, either directly or indirectly through another affiliate.

2. We obtained the lease agreements where the annual obligation is $500,000 or more used in Objective II, Procedure 3. We reviewed these lease agreements and did not note any language in the agreements indicating recourse to the Verizon BOC/ILEC's assets, either directly or indirectly through another affiliate.

3. We mailed out and requested positive confirmations for 19 of the 20 debt instruments, leases, and credit arrangements maintained by each section 272 affiliate in excess of $500,000 of annual obligations identified in Objective II Procedure 3 and for a judgmental sample of 16 debt instruments, leases and credit arrangements that are less than $500,000 in annual obligations to loan institutions, major suppliers and lessors to verify the lack of recourse to Verizon BOC/ILEC's assets. One of the leases identified in Objective II Procedure 3 represented a sublease arrangement to a master lease included in the confirmation sample and accordingly a confirmation was not sent for this item. We sent 17 confirmations confirming non-recourse for the 35 selected sample items as some confirmations covered more than one arrangement. Responses were received for 6 of the 17 confirmations representing 24 of the sample items. All the positive confirmations returned from loan institutions, major suppliers and lessors attested to the lack of recourse to the Verizon BOC/ILEC's assets.

<u>OBJECTIVE V</u>. Determine whether the separate affiliate required under section 272 of the Act has conducted all transactions with the Bell operating company on an arm's length basis with the transactions reduced to writing and available for public inspection.

<u>OBJECTIVE VI</u>. Determine whether or not the Bell operating company has accounted for all transactions with the separate affiliate in accordance with the accounting principles and rules approved by the Commission.

1. We requested, obtained and included in our working papers a written narrative from management describing the procedures used by the Verizon BOC& ILEC to identify, track, respond, and take corrective action to competitor's complaints with respect to alleged violations of the section 272 requirements.

   We requested of management to provide (1) a list of all FCC formal complaints, as defined in 47 CFR 1.720; FCC informal complaints, as defined in 47 CFR 1.716 and any written complaints made to a state regulatory commission from competitors involving alleged noncompliance with section 272 for the provision or procurement of goods, services, facilities, and information, or in the establishment of standards which were filed during the engagement period and (2) a list of outstanding complaints from the prior engagement period. Management indicated that there have been no FCC formal and informal complaints and no written complaints made to a state regulatory commission from competitors alleging noncompliance with section 272 relating to the provision or procurement of goods, services, facilities, and information, or in the establishment of standards which were filed during the engagement period. Management also indicated there were no complaints open as of January 2, 2003 alleging noncompliance with section 272 relating to the provision or procurement of goods, services, facilities, and information, or in the establishment of standards.

2. We requested and obtained from the Verizon BOC/ILECs and each section 272 affiliate current written procedures for transactions with affiliates. We compared these procedures with the FCC rules and regulations indicated as Objective V & VI "standards" in the General Standards Procedures for Biennial Audits Required Under Section 272 of the Communications Act of 1934, as amended. We noted the Company's written procedures included the FCC Rules and Regulations indicated as standards above, and noted no differences.

3. We requested and obtained a narrative describing how the Verizon BOC/ILECs and each section 272 affiliate disseminate the FCC rules and regulations and raise awareness among employees for compliance with the affiliate transaction rules. We reviewed the narrative provided by management and noted the type and frequency of training, literature distributed, company's policy, and nature of the supervision received by employees responsible for affiliate transactions. The following represents the narrative provided:

   "All Section 272 affiliate employees are required to attend Section 272 compliance training. The Affiliate Transaction Compliance Office conducts training sessions by conference call or face-to-face sessions as follows:

   - *VLD - As needed as determined by management.*
   - *VES - As needed as determined by management.*

- *GNI - New hires are trained as part of their orientation and refresher training is given to existing employees annually.*
- *VSSI - New hires are trained as part of their orientation and refresher training is given to existing employees as needed as determined by management.*
- *GSI – All employees are trained annually.*
- *TELUS/TELUS (Quebec) –As needed as determined by management.*
- *CICI –As needed as determined by management.*
- *BOC/ILECs - Training is part of new employee orientation for the BOC/ILEC. In addition, all other affiliates (Non-272 affiliates) are trained upon request of a functional organization.*

The Section 272 affiliate transaction policy training includes: an overview of the Telecommunications Act of 1996; identification of the Section 272 affiliates; the consequences of non-compliance with the rules; the structural, accounting and nondiscriminatory compliance requirements; information sharing; and joint marketing.

Employees are provided with written documentation on the Affiliate Transactions Policy, global e-mails are sent to disseminate 272 regulatory information and target letters are sent to specific organizations. To support this communications effort, the Senior VP-Regulatory Compliance sent a letter to the "Top 300" senior managers on September 20, 2004 emphasizing the importance of complying with Section 272 obligations. In these communications the senior managers are asked to assure their organizations are aware of, and follow, the rules. Summaries of the Section 272 rules or links to the internal corporate affiliate web sites were included in the correspondence. Further, letters were sent to Group Presidents and equivalent VPs in April 21, 2003 from the Senior Vice President-Regulatory Compliance, which focused on Section 272 obligations as it coincides with organizational and functional changes. In addition, on January 12, 2004, letters were sent to Codetel International Communications Inc., TELUS Communications Inc., TELUS Communications (Quebec) Inc., and Puerto Rico Telephone Company from the Group Senior Vice President – International Operations focusing on the obligations under Section 272 and the FCC affiliate transaction rules.

The importance of adhering to all affiliate regulations, including Section 272, was emphasized through corporate-wide emails sent to all employees on July 31,2003 and July 23, 2004. In order to further explain the rules, a website address was provided to locate Verizon's Affiliate Transaction Policy.

Training efforts began shortly after the passage of the Telecommunications Act on Section 272 and continued through 2004. During 2003 and 2004, just under 2,500 employees attended training sessions sponsored by the affiliate organizations.

The Affiliate Transactions Policy is also located on the Company's intranet website. The Affiliate Interest Compliance Office Hotline is available to answer questions employees may have on the subject.

There is an Affiliate Interest Compliance Office Hotline, and each business unit is assigned a specific Compliance Officer who is required to answer any questions employees may have on the subject. In addition, each business unit has an attorney who can be reached to answer questions relative to transactions with Section 272 affiliates."

We conducted interviews with employees responsible for the development and recording of affiliate transactions costs in the books of record of the carrier. The employees interviewed had the following job titles: Senior Staff Consultant – Retail Markets, Senior Staff Consultant – Product Management/Product Development, National Account Manager – Billing Services, Manager – Accounting, Manager – Financial Planning & Analysis, Specialist – Billing, Senior Staff Consultant – Sales Support, Director – Real Estate Operations. Each of these individuals also completed a questionnaire surrounding their awareness of the FCC rules and regulations. Through the employees interviewed and questionnaires completed by employees, we noted that the employees demonstrated knowledge of the FCC rules and regulations.

4. a.) We obtained and examined a listing of all written agreements for services and for interLATA and exchange access facilities between the Verizon BOC/ILEC and each section 272 affiliate which were in effect for during the Audit Test Period. There were 509 total agreements and amendments examined. Of those, there were 388 which were still in effect as of the end of the Audit Test Period. Attachment A-1 lists all agreements that terminated during the Audit Test Period and the termination date. Attachment A-1 also lists the 64 agreements which terminated prematurely, and the reason for termination provided by management.

We inquired of management and management provided instances where services were provided between the Verizon BOC/ILEC and section 272 affiliate at some point during the period January 3, 2003 to January 2, 2005 without a written agreement between the parties. The following represents management's response:

"The following services were provided during the engagement period before written agreements were executed.

- *Amendment No. 45 to Sales and Marketing Agreement [East] and Amendment No. 10 to the Sales and Marketing Agreement [West] added conference connection service as a telephone company provided service to VES and VLD. Only one conference bridge was sold [East] before the amendment was executed. Subsequent sales were halted until the agreement was executed. Service was effective August 4, 2004. An agreement was executed December 20, 2004.*

- *Amendment No. 2 to the Commission Agreement for the Provisioning of Automated and Live Operator Services added per call compensation for payphones. VSSI has been paying the telephone companies per call compensation per the FCC requirements, however the service was inadvertently omitted a written agreement. Service was effective May 2, 2002. The amendment was executed May 3, 2004.*

- *Amendment No. 16 to the General Services Agreement added terms to cover long distance account settlement services. The telephone companies provided these services to VES and VLD. Service was effective June 30, 2000. The amendment was executed February 28, 2005.*

- *Miscellaneous Administrative Functions provided at some point during engagement period without a written agreements:*

    - *Agreement for 272 web posting teams to copy ILEC-272 contracts onto a CD ROM and send to the public inspection offices to improve regulatory compliance accuracy. Service was effective March 11, 2003.*

    - *Agreement covering support by one director to negotiate a contract with a third party provider of satellite video services. Service was effective September 15, 2003.*

    - *Agreements to cover a small number of VSSI employees that were housed in ILEC space in WA, CA and FL facilities. Service was effective June 30, 2000, October 28, 2002 and June 29, 2001, for WA, CA and FL, respectively.*

    - *A "mentoring" agreement covering two managers at VGNI that spent a total of 12 hours as mentors [ad hoc personal development coaches] for ILEC employees. [Note: the employees worked for a non-regulated affiliate when the arrangement was established.] Service was effective May 1, 2003.*

    - *A service agreement, plus two amendments to cover Intranet access services available to certain VSSI, VGNI, VES and VLD employees Service was effective June 30, 2000 for the Service Agreement and Amendment 1. Amendment 2 was effective August 1, 2002.*

- *An agreement to cover limited services with the Telus Corporation was executed retroactively in January 2005. Verizon's share in Telus was sold on December 14, 2004.*

    - *Amendment No. 1 to Definitive Agmt. For Directory Assistance and SOW for U.S. Directory Assistance Services covered the ILECs with Telus Communications Inc. Service was effective August 5, 2004. A contract was executed January 17, 2005.*

- *In addition, the items below disclosed in the prior audit were provided for some period in 2003/2004 without a contract. These were remediated prior to the issuance of the last audit report and were considered when Verizon reached the Consent Decree with the FCC in 2004.*

    - *Amendment No. 2 to the Billing Services Agreement, provided to VES and VLD, added Fraud Management Service. Service was effective April 1, 2002.*

- *Amendment No. 4 to the Billing Services Agreement, provided to VES and VLD, added Message Ready Service for CIC Codes 06224 & 00015; Adds Call Recording Service for CIC Code 05483. Service was effective April 1, 2002.*

- *Agreement For Operational Readiness Testing (ORT) Services, provided to VES and VLD sets the terms, conditions and guidelines for the provision of testing services VLD will provide to the ILEC (Service was effective November 22, 2002). Statements of Work cover ORT planning, test case development, preparation and execution of the testing and provision of various reports associated with such testing related to Mass Market rollouts (Service was effective December 12, 2002). Includes Rate Table, and Statement of Work (SOW) No. 2 covers Enterprise Advance User Acceptance Testing (UAT) SOW for testing services that VLD will provide to LEC including planning, test case development, preparation and execution of testing and provision of various reports associated with UAT (Service was effective November22, 2002).*

- *As part of post-9/11 reconstruction activities, VGNI provisioned Frame Relay circuits for Verizon NY." Service was effective September 14, 2001.*

b.) We obtained and examined a listing of all written agreements, amendments and addenda for services and for interLATA and exchange access facilities between the Verizon BOC/ILEC and each section 272 affiliate that became effective during the Audit Test Period. Forty-eight statistically valid random selections were made from a population of 240 total written agreements. Copies of each selected agreement, amendment, and addenda were obtained and are included in the workpapers. We were subsequently notified by Verizon that five additional amendments became effective during the Audit Test Period and were not included in the population provided. As an alternative to reselecting the sample items, we tested three of the additional amendments individually against the procedure and obtained copy of the written amendment and included in the workpapers.

5. Using the sample of the agreements, amendments and addenda obtained in Procedure 4b, we viewed each company's web site on the internet and compared the prices and terms and conditions of services and assets shown on this site to the agreements provided in Procedure 4b above.

For each individual web posting comparison for accuracy, we completed "Form 1 – Assessing Individual Web Postings" (columns D and E) as provided in the General Standard Procedures. We noted no instances where an agreement contains an item(s) that does not agree with the corresponding item on the internet. Taking those instance(s), or lack thereof, where an agreement contains an item(s) that does not agree with the corresponding item on the internet, we developed the error rate as a percentage by utilizing Form 1 (columns D and E) and summarized the results on "Form 2 – Summary of Web Posting Completeness and Accuracy Results" (columns B and C) at Attachment A-2 to this report.

Using the same sample as above, we obtained a list of the principal places of business (BOC headquarters) where these agreements are made available for public inspection. Using a judgmental sample of locations agreed to by the Joint Oversight Team, we visited the following locations to determine whether the same information is made available for public inspection at the principal place of business (BOC headquarters) of the Verizon BOC/ILECs:

- Verizon Virginia, Inc. - Richmond, VA (3 agreements inspected)
- Verizon New Jersey, Inc. - Newark, NJ (16 agreements inspected)
- Verizon New England, Inc. - Boston, MA (8 agreements inspected)
- Verizon California, Inc. - Thousand Oaks, CA (10 agreements inspected)
- Verizon North, Inc. - Westfield, IN (11 agreements inspected)

We noted no instances where an item in the sampled agreement did not agree with the corresponding item in the agreement at the public inspection site.

For each of the 51 sampled agreements, amendments and addenda obtained in Procedure 4b, we documented in the working papers the dates when the sample agreements were signed and/or the services were first rendered (whichever took place first) and the dates of posting on the internet. Of the 51 sampled items, 13 instances were noted where posting took place after ten days of signing of agreement or provision of service (whichever took place first), we also inquired of management as to the reasons for the late postings. Management indicated the following:

- *The following late postings were due to administrative errors. Three of the four late postings in this group were associated with international Section 272 affiliates (CICI, GSI and TCI). Three were effective in 2003 and only one in 2004.*

Section 272 Affiliate	*Name of Agreement*	*Post Date*	*Effective Date*	*Execution Date*
CICI	*Memorandum of Understanding**	*10/28/2003*	*9/17/2003*	*9/17/2003*
GSI	*Wholesale Marketing & Sales Amendment #3***	*1/9/2003*	*12/10/2003*	*12/10/2003*
VSSI	*Amendment #3 to the Billing Service Agreement****	*7/31/2003*	*5/7/2003*	*5/7/2003*
TCI	*Amendment #1 to Directory Assistance*	*2/18/2005*	*8/5/2004*	*1/17/2005*

**Tariff telephone service provided by Puerto Rico Tel to CICI. There was confusion regarding some missing information about the posting.*

*** After execution, contract was misplaced and upon recovery it was immediately posted.*

****The amendment updated the list of Verizon telephone companies and certain state references in the agreement and had not effect on terms and conditions. Confusion re: posting resulted from personnel changes. New personnel are now aware of the requirement, and a process has been put into place to notify posting personnel of agreement execution.*

- *Circumstances associated with the following postings are described in Verizon's response to "services without a contract" included in the audit report under Objective V/VI, Procedure 4. Four of the five agreements were posted within the 10 days once the agreement was executed.*

Section 272 Affiliate	*Name of Agreement*	*Post Date*	*Effective Date*	*Execution Date*
GNI	*Service Agreement E-Web+**	*8/25/2004*	*6/30/2000*	*8/17/2004*
VES	*Services Agreement E-Web+**	*8/20/2004*	*6/30/2000*	*8/17/2004*
VES	*MOU Reconciliation Billing Agreement*	*11/3/2004*	*7/1/2003*	*9/9/2003*
VLD	*Amendment #45 to Sales and Marketing Agreement+***	*12/15/2004*	*8/4/2004*	*12/20/2004*
VES	*Amendment #10 to Sales and Marketing Agreement+***	*12/15/2004*	*8/4/2004*	*12/20/2004*

+ These agreements were posted within 10 days once the contract or amendment was executed.

** The sample includes two instances of the same agreement provided to two of our Section 272 affiliates.*

*** These are amendments on the same issue, written against different base contracts. One covers the Verizon East [BOCs] and one the Verizon West [ILECs] telephone companies.*

- *The following postings were posted within the 10 days once the amendment was executed. In each case the service was already available through a posting on the Section 272 web site. All occurred in 2003. Per the Consent Decree various remedial steps were taken to improve processes in mid 2004.*

Section 272 Affiliate	*Name of Agreement*	*Post Date*	*Effective Date*	*Execution Date*
VLD	*Amendment #4 to Billing Service Agreement**	*6/5/2003*	*4/1/2002*	*6/17/2003*
VLD	*Amendment #40 to Marketing and Sales Agreement***	*6/23/2003*	*1/1/2003*	*6/23/2003*
VLD	*Amendment #7 to Sales and Marketing Agreement***	*12/4/2003*	*1/1/2003*	*12/2/2003*
GNI	*Amendment #3 to 10 County Center, Greensburgh NY****	*8/15/2003*	*7/31/2003*	*8/11/2003*

** Added Message Ready Service for two additional Carrier Identification Codes ("CIC") and Call Recording Service for one CIC. This was considered in the 2001/ 2002 audit and associated Consent Decree Negotiations.*

*** Rate updates only to service.*

**** Renewal of an existing agreement already on the website.*

We requested, obtained from management and documented in the working papers the procedures the company has in place for posting these transactions on a timely basis.

For each individual web posting comparison for completeness, we completed "Form 1 – Assessing Individual Web Postings" (columns G and H) as provided in the General Standard Procedures. Taking those instance(s) where the internet did not contain sufficient details, we developed the error rate as a percentage by utilizing Form 1 (columns G and H) and summarized the results on "Form 2 – Summary of Web Posting Completeness and Accuracy Results" (columns D and E) at Attachment A-2 to this report. We noted no instances where the internet did not contain sufficient details.

We obtained copies of these public postings and included such in the working papers.

6. We obtained a listing and amounts of all nontariffed services rendered by month by Verizon BOC/ILECs to each section 272 affiliate during the Audit Test Period. From the listing, we determined which of these services are made available to the section 272 affiliates and not made available to third parties, and which services are made available to both the section 272 affiliates and to third parties.

a.) From the services not made available to third parties, we selected a statistically valid sample of 95 items. For each transaction in the sample, we requested the Fully Distributed Cost ("FDC") and the Fair Market Value ("FMV") unit charges for the services, copies of the Verizon BOC/ILEC invoice and journal entries for the Verizon BOC/ILEC. To determine whether these transactions were recorded in the books of the Verizon BOC/ILECs in accordance with part 32.27 of the Commission's rules, we compared unit charges to FDC or FMV as appropriate. We noted the following:

- For 93 of the 95 transactions, we compared the unit charges in the invoice to FDC and FMV, and noted for 92 transactions the unit charges were priced at the higher of either FDC or FMV. We noted one transaction where the unit charge was the lower of FDC or FMV.

- For 2 of the 95 transactions, management could not provide support for FMV for comparison to FDC. Both of these transactions represented services whose annual aggregate value of service is less than $500,000. We noted none of the 95 transactions were dated after September 27, 2004.

- Based on the documentation provided for the sample transactions (invoices and journal entries), we noted no chain transactions.

- No instances were noted where differences existed between the amount recorded in Verizon BOC/ILEC financial records and the amount charged in accordance with the affiliate transaction rules.

For each of the sample transactions, we obtained the Journal Voucher and Accounts Payable screen prints in order to compare the amount recorded in the section 272 affiliate books for those services and the amount the section 272 affiliate paid for the same services. We noted no differences.

b.) From the services made available to both the section 272 affiliates and to third parties, we selected a statistically valid sample of 95 items. For each transaction, we compared the amounts recorded for the sampled services in the books of the Verizon BOC/ILEC with the amounts recorded for the sampled services in the books of the section 272 affiliate, and noted the following differences:

Service	Provider	Month/ Year	section 272 Affiliate	Amount per BOC/ILEC Books	Amount per section 272 Affiliate Books	Differences
General Business	Connecticut	February 2003	VLD	$ 114.45	$ 114.00	$ 0.45
General Business	Maine	June 2003	VLD	1,446.59	1,447.00	(0.41)
Payphone	New York	December 2003	VSSI	276,588.34	276,588.33	0.01
Payphone	Maine	May 2004	VSSI	38,218.12	38,218.11	0.01
Payphone	Washington, D.C.	July 2004	VSSI	12,617.09	12,617.10	(0.01)
Payphone	West Virginia	April 2004	VSSI	16,656.00	16,655.54	0.46

We inquired of management regarding the above differences and management indicated such were due to rounding.

<u>We compared the amount recorded in Verizon BOC/ILEC books to the amount paid by the section 272 affiliate and noted the following:</u>

- For 50 of the 95 selections, the amounts recorded in the Verizon BOC/ILEC books were the same as the amount the section 272 affiliate paid.

- For 39 of the 95 selections, the service provided was a payphone related service which is not paid through check or wire transfer payment methods. For payphone related services, the Verizon BOC/ILEC does not issue invoices to section 272 affiliates. Alternatively, the section 272 affiliate tracks the revenue generated, calculates the commission payment due to the Verizon BOC/ILEC based on the affiliate agreements, remits payment and issues a statement detailing the payment on a monthly basis. We obtained the worksheets showing the calculation made by section 272 affiliates and agreed such amounts to the amounts recorded in the Verizon BOC/ILEC books.

- For 6 of the 95 selections, payment was not yet made.

We also determined if the transaction was billed to the section 272 affiliate at rates in an interconnection agreement under section 252(e) or at the rates in a statement of generally available terms under section 252(f), or at prevailing price, as provided in part 32.27 (c) and (d) of the Commission's rules. We compared a particular type of service within an invoice with the price available in the publicly filed agreements and noted the following:

- For 47 of the 95 selections, the unit charge for the service selected agreed to the respective publicly filed agreement.

- For 39 of the 95 selections, the service provided was a payphone related service which is not invoiced to the section 272 affiliates. We obtained the worksheets showing the calculation made by section 272 affiliates and agreed rates to the respective section 272 affiliate agreements.

- For 2 of the 95 selections, no specific rates for the service were provided in the publicly filed agreements.

- For 3 of the 95 selections, the publicly filed agreement indicated the rate as "to be determined."

- For 3 of the 95 selections, the invoice did not provide rate detail.

- For 1 of the 95 selections, we noted a difference where the rates charged for certain services provided in California were provided at a 12% discount from the rates included in the publicly filed agreements.

7. Using the listing obtained in Procedure 6 of services rendered by month by Verizon BOC/ILECs to each section 272 affiliate during the Audit Test Period, we determined if any of the services rendered include operations, maintenance, or installation (OI&M) functions.

   a.) We examined the listing and inquired from management and noted that none of the services provided in response to Procedure 6 is an operations, maintenance, or installation (OI&M) service.

   b.) As none of the services provided in response to Procedure 6 is an operations, maintenance, or installation (OI&M) service, there are no matters to disclose for this procedure.

8. We requested and obtained a listing and amounts of all services rendered by month to the Verizon BOC/ILEC by each section 272 affiliate during the Audit Test Period. We selected a statistically valid sample of 95 selections and compared the unit charges to tariff rates, PMP, FDC, or FMV, as appropriate, to determine whether these services were recorded in the books of the Verizon BOC/ILEC in accordance with the affiliate transactions rules. We noted the following:

- For 85 of the 95 selections, the unit charge for the service selected was charged in accordance with affiliate transaction rules.

- For 10 of the 95 selections, item selected for testing represented a credit amount.

Comparison of Amount Recorded in Verizon BOC/ILEC Books to Amount Paid

- For 63 of the 95 selections, the amounts recorded in the Verizon BOC/ILEC books were the same as the amount the Verizon BOC/ILECs paid.

- For 11 of the 95 selections, payment was not yet made.

- For 10 of the 95 selections, item selected for testing represented a credit amount.

- For 6 of the 95 selections, invoices were rescinded due to services billed in error.

- For 5 of the 95 selections, the payment documentation could not be located.

9. Using the balance sheet and detailed fixed asset listing, including capitalized software, as of the end of the Audit Test Period for each section 272 affiliate obtained in Objective I, Procedure 6, we noted the following:

   a.) No items were purchased or transferred from the Verizon BOC/ILECs to the section 272 affiliates during the Audit Test Period.

   b.) We noted 1,480 items were transferred from GSI to GNI on September 30, 2004. We noted that the GNI detailed fixed asset listings indicated the assets were transferred from GSI. We inquired of management and management indicated none of the assets were originally transferred to GSI from any Verizon BOC/ILEC.

   c.) No items were purchased or transferred from the Verizon BOC/ILECs, either directly or through another affiliate, during the Audit Test Period.

10. We inquired and management indicated that GSI, GNI, VLD, VES, VSSI, CICI, TCI and TCQI did not sell or transfer any assets to a Verizon BOC/ILEC during the Audit Test Period.

11. We requested and obtained a list of all invoices by month for the engagement period where assets and/or services charged to a section 272 affiliate are priced pursuant to section 252(e) or statements of generally available terms pursuant to section 252(f). We selected a statistical sample of 36 invoices from the population of 177 invoices. For each invoice selected, we compared the price the Verizon BOC/ILEC charged the section 272 affiliate to the stated price in the publicly-filed agreements or statements.

    For 20 of the sampled invoices, we noted the price the Verizon BOC/ILEC charged the section 272 affiliate equaled the stated price in the publicly-filed agreements or statements. We noted 16 of the sampled invoices include the following for services provided in California which were priced at a 12% discount compared to the prices stated in the publicly filed agreement or statements:

- DS1 Clear Channel
    - Unit rate on the invoices - $22.00. Retail rate as per agreements - $25.00
- DS1 Special Access Line
    - Unit rate on the invoices - $213.84. Retail rate as per agreements - $243.00
- DS1 Special Access Line
    - Unit rate on the invoices - $237.60. Retail rate as per agreements - $270.00
- DS1 Special Transport Mile
    - Unit rate on the invoices - $28.4944. Retail rate as per agreements - $32.38
- DS1 Special Transport Term
    - Unit rate on the invoices - $44.00. Retail rate as per agreements - $50.00

Management indicated the 12% discount should not have been applied to DS1 services sold under this resale arrangement in California. Verizon actually applied the discount to all customers purchasing under these arrangements.

12. We inquired of management and management indicated that no part of the Verizon BOC/ILECs' Official Services network has been transferred or sold to a section 272 affiliate since January 3, 2003.

<u>OBJECTIVE VII</u>. Determine whether or not the Bell operating company has discriminated between the separate affiliate and any other entity in the provision or procurement of goods, services, facilities, and information, or the establishment of standards.

1. We obtained the Verizon BOC/ILECs' written procurement procedures, practices, and policies. We reviewed these policies for any stated purchasing preferences, and found Verizon deviated from their non-preferential sourcing policies in emergency situations and for requests for service that required a highly specialized or specific goods or services. We noted the Verizon BOC/ILECs disseminate requests for proposals (RFPs) to affiliates and third parties through eSource per their policies and procedures.

   The following represents a summary of the bidding and selection processes of the Verizon BOC/ILECs based on written procurement procedures, practices, and policies obtained from management:

   > Suppliers of products and services are selected without discrimination based upon the best combination of total cost, quality, and service when matched to the requirements of Verizon. All sourcing for Verizon and affiliates goes through Verizon Corporate Sourcing which will utilize Cross Functional Teams (CFTs), a Sourcing Process Leader (SPLs), Contract Administrator (CAs), and all policies and procedures specified in the Verizon Sourcing Policy and Procedures. CFTs are made up of individuals representing the user organizations impacted by the product or service to be procured. CFT's are utilized as a key control and responsibilities of CFT members are developed and listed in the Responsibility Matrix. SPLs have ultimate responsibility for leading the strategic sourcing process and for ensuring the overall integrity of the process. CAs are part of the Strategic Sourcing Team.
   >
   > CAs and/or SPLs are responsible for contract administration, which includes contract formation and management from the development through the termination of the contract. Requirements are provided in the Verizon Affiliate Transaction policy for all procurement services provided by Verizon Sourcing to Verizon Affiliates. Proper approvals, authorizations, and policies have to be addressed and obtained before procuring products and services related to network, safety & environmental control, ergonomic, hazardous/environmentally sensitive materials, and computer products and materials. Verizon Corporate Sourcing is responsible for developing and maintaining information about suppliers who may potentially be eligible to receive a Request for Proposal (RFP) or Request for Quote (RFQ). CFTs are responsible for selecting suppliers to receive an RFP/RFQ and awarding business to suppliers. The SPL is responsible for developing a preliminary sourcing strategy prior to forming CFT, and after it is reviewed the SPL and CFT are responsible for developing the RFP based on the Scope of Work/Generic Requirements.
   >
   > All suppliers invited to quote must receive the same information with the same set of directives. Each RFP must be sent to a minimum of three suppliers. The suppliers selected must be made in a fair, consistent, and non-discriminatory manner, which the CFT must disclose along with a rationale for their inclusion. E-source is the vehicle designated for the issuance of Request of Information (RFI), RFP and RFQ. The CFT must review the responses to ensure that there is a competitive pool of suppliers available for negotiations, while the CFT leader will facilitate the discussions that result in the determination of a short list of suppliers who meet Verizon's requirements. The team leader must also ensure that data used to eliminate

suppliers is comparable and consistent from supplier to supplier. Any additional requests made to suppliers must be distributed to all suppliers so that they have an opportunity to any additional information or advantage given. When the short list of suppliers is complete and the negotiation strategy is formed, the negotiation team must provide the same opportunities for all suppliers through the negotiation process. CFT must come to a consensus about awarding business to a supplier and all analysis must be documented for review. If a consensus can not be reached, the issue must be escalated to higher management.

After SPL has verified adherence to all applicable policies he/she must draft a Memo of Understanding (an internal document that outlines and summarizes the terms and conditions negotiated with the vendor) and forward it to the Contract Administrator. If the user organization needs the product/service immediately, a letter of intent can be drafted in the interim. SPL must ensure suppliers have adequate insurance, and are financially stable. Verizon's policies further monitor end users adherence to sourcing policies.

If a product or service is procured in an emergency situation, which is defined as "those network/computer/environmental/safety situations that are service affecting to the external customers of Verizon or where the safety and well being of Company employees or the public could be adversely impacted," then the user organization must complete a memorandum containing details of the emergency and procurement information and submit it to Verizon Corporate Sourcing for approval if Verizon Corporate Sourcing had to be by passed because of the emergency situation.

In other specific situations when the product is technical in nature or designed to exact specifications set by the customer, a supplier is designated as the sole source for the product. The sole source must be utilized unless there is a business reason for not utilizing the supplier. If the identified supplier cannot be utilized, the customer must be advised and participate where appropriate in the identification process for an alternate supplier.

In instances where the internal customer is time constrained and requires a product/service over $25,000 Verizon Corporate Sourcing would implement the Enhanced Speed Model which addressed the needs of the user while preserving integrity and required controls. The Enhanced Speed Model incorporates all major functions of the sourcing policies and procedures, without using CFT or the negotiating team, and the RFP may be sent to a minimum of two suppliers. Finally, the sourcing process should comply with all State regulations.

2. We requested from management the Verizon BOC's procurement awards to each section 272 affiliate during the Audit Test Period. We inspected bids submitted by each section 272 affiliate and third parties, noted terms, and discussed with Verizon BOC representatives how selections were made. We compared this practice with the Verizon BOC written procurement procedures and noted no differences. The following procurement awards were provided :

- Competitive bid - Agreement between VSSI and Telesector Resources Group a.k.a. Verizon Service Group for Telecommunication Services. Verizon received five responses to the Request for Proposal ("RFP"). Only two vendors (VSSI and an unaffiliated vendor) met the RFP requirements and responded with a required Voice Flat Rate Quote. VSSI was the lowest bidder.

- Competitive bid - Agreement between TCI and Telesector Resources Group a.k.a. Verizon Service Group for 611 Contingency Planning. Verizon received eight responses to the RFP. Seven suppliers delivered face-to-face presentations and four suppliers were selected for revised proposals. The three lowest bidders were chosen to provide service (TCI and two unaffiliated entities).

- Emergency bid - Agreement between TCI and Telesector Resource Group a.k.a. Verizon Group for Directory Assistance Contingency Planning. This was a closed bid process because the existing contract was about to expire and TCI was the service provider capable of providing operator assistance for anticipated volume of calls.

3. We obtained a list of all goods (including software), services, facilities, and customer network services information, excluding CPNI as defined in section 222(f)(1) of the Act, and exchange access services and facilities inspected in Objective IX, made available to each section 272 affiliate by the Verizon BOC/ILECs. From a statistically valid sample of 25 items from this list, we inquired and obtained copies of the media used by the Verizon BOC/ILECs to inform unaffiliated entities of the availability of the same goods, services, facilities, and information at the same price, and on the same terms and conditions and found that all services and agreements to provide services were made available to unaffiliated entities through use of the Verizon website.

4. We requested and obtained a list from the Verizon BOCs of all unaffiliated entities who have purchased the same goods, as the section 272 affiliates, (including software), services, facilities, and customer network services information (excludes CPNI) from the Verizon BOCs (except for exchange access services, and interLATA services that are the subject of other procedures), during the Audit Test Period. We also inquired of management and management indicated that payphone related services and Billing and Collection ("B&C") services are the only two services that the BOCs provide to section 272 affiliates and unaffiliated entities. Management also indicated that VSSI was the only section 272 affiliate which received payphone related services from the Verizon BOCs during the Audit Test Period; and VSSI, VES and VLD were the only section 272 affiliates which received B&C services from the Verizon BOCs during the Audit Test Period.

   The extent of payphone related services purchased by unaffiliated parties during the Audit Test Period totaled $13,228,840. The list of payphone related services provided by Verizon BOCs included:

   - Recommendation and/or selection of a long distance carrier as the Presubscribed Interexchange Carrier ("PIC") on Verizon payphones for 0+/00- operator service calls (""0+/00-")
   - Routing of 1+ interLATA coin calls from Verizon payphones to a long distance carrier and counting and collection of associated cash ("1+")
   - Marketing and point-of-sale advertising of a dial around service
   - Sales of prepaid calling cards

The extent of B&C purchases by unaffiliated parties during the Audit Test Period totaled $296,082,312. The list of B&C services included:

- Message Ready Service
- Invoice Service
- Pay-Per-Call Billing Service
- Call Recording Service
- End-Users Communications Service
- SubCIC Service
- Supplemental Services
- Direct Bill Preparation and Distribution Services (not provided to unaffiliated entities)
- Directory Publishing Service (not provided to unaffiliated entities)
- Wireless Premium One Bill Service (not provided to unaffiliated entities)

a.) We requested and obtained a list of billed items related to the payphone related services and Billing and Collection services provided to unaffiliated entities by month during the Audit Test Period. We selected a statistically valid sample of 95 billed items provided to unaffiliated entities for the same goods (including software), services, facilities, and customer network services information (excludes CPNI), and excluding local exchange services, that were purchased by the section 272 affiliates. The selection of samples contained four billed items or samples related to the payphone related services and 91 billed items or samples related to B&C services.

<u>Payphone Related Services</u>
The payphone related services selected provided to unaffiliated entities were 0+/00-, 1+, and sales of prepaid calling cards. The same services were provided to VSSI. We requested and obtained the written agreements for the above mentioned payphone related services for VSSI and also the corresponding unaffiliated entities. We compared the rates, terms and conditions of VSSI's written agreements for 0+/00-, 1+, and sales of prepaid calling cards with the agreements for the unaffiliated parties. We noted the following differences:

- <u>0+/00- services</u>
  The commission rates for calls routed from Verizon BOC payphones were different for the different entities under each agreement. The VSSI commission rate varies from 55-60% of gross revenue, while unaffiliated entity commission rates ranged from 49-52% or the agreement did not mention rates. Differences were also noted in the number of days available for each entity to pay the invoices, the duration of the contract and the number of days available for each entity to provide access to records under an audit.

- <u>1+ services</u>
  The commission rates for calls routed from Verizon BOC payphones were different for the different entities under each agreement. The VSSI agreement calls for a payment of 78% commission rate while an unaffiliated entity agreement calls for 43% rate. Differences were also noted for which party bears the cost of auditing of records, unaffiliated entities sometimes provide their own equipment to be installed on payphones, and the number of days available for each entity to pay the invoices.

- Sales of prepaid calling cards
  The commission rates were different for the different entities under each agreement. The VSSI commission rate varies from 5-10% while for unaffiliated entities commission rates range from 10-35%. Differences were also noted for the supply, installation, and maintenance of unaffiliated company vending machines (VSSI does not use vending machines), the length of the contract and also the reimbursement to the Verizon BOC of commission audit costs.

Billing & Collection Services
The sample selected included 91 items related to the Billing and Collection services provided to unaffiliated entities. A total of 22 unaffiliated parties were identified from the samples who received Billing and Collection services which were also provided to section 272 affiliates. The B&C services provided to each of the unaffiliated entities were covered by individual agreements (22 agreements in total). The B&C services were provided to only three section 272 affiliates during the Audit Test Period (VES, VSSI and VLD) and are covered by one agreement which was the common agreement for all section 272 affiliates. We examined the common section 272 B&C agreement with each of the 22 individual agreements from the unaffiliated entities to compare the rates, terms and conditions of the items purchased under the Billing and Collection contracts.

Terms and Conditions
The terms and conditions of the section 272 affiliate agreement was compared with all of the 22 agreements for unaffiliated entities. We noted the following differences:

- 2 out of the 22 unaffiliated parties had different provisions under the late payment charges section in that the unaffiliated entities agreements had no provision for 60 days advance notice

- 18 out of the 22 unaffiliated parties had different provisions related to the extension/renewal and automatic extension/renewal provisions.

- Under the section for the Occurrence of an Event of Default, one of the unaffiliated party agreements had 60 days from the date of a default notice to cure the Event of Default while the other entities including the section 272 affiliate had 30 days

- Under the section for Termination Without a Cause, one of the unaffiliated entity agreements had no provision regarding the services that are offered pursuant to tariff in applicable jurisdictions

- Under the section for Carrier Identification Codes ("CICs"), two differences were noted. One of the unaffiliated entity agreements had an extra provision under the section and another unaffiliated entity agreement had provision under the section for Verizon to administer and provide separate Purchase of Accounts Receivable reports and Ancillary Bills for each of Carrier's CICs, Access Carrier Name Abbreviations and/or Alternate Billing Entity Codes.

- Under the Assignment section, all of the 22 unaffiliated entities had a provision stated as follows "With the Exception of collateral agreement, entity may assign all or part of its rights and obligations to a subsidiary or affiliate of the entity without VERIZON's consent, but with written notification to VERIZON." This provision is different from the section 272 affiliate agreement which states "VERIZON AFFILIATES shall not assign this Agreement, in whole or in part, without the prior written consent of VERIZON; provided, however, that VERIZON AFFILIATES may assign all or part of its rights and obligations to a subsidiary or affiliate of VERIZON AFFILIATES without VERIZON's consent, but with written notification to VERIZON."

Rates

Of the B&C services provided, seven services were provided to the unaffiliated entities. The rate for each service under B&C for the section 272 affiliate agreement was compared with the rates for the unaffiliated entities receiving the same service. We noted the following differences:

- Message Ready Service

  For the Message Ready Service under B&C, we noted 22 unaffiliated entities were subscribed to the service. We noted the following differences in rates under the Message Ready Service:

  - Different discount provisions were noted under "SA1.2 Non-Detail Credit and Miscellaneous Records." The discount provision related to OADA discount for CICs 00636, 00811, 00899.

  - Different rates were noted under all 22 unaffiliated entities under "SA1.4 Bill Rendering Rate."

- Invoice Service

  For the Invoice Service under B&C, we noted three unaffiliated entities were subscribed to the service. We noted the following differences in rates under the Invoice Service:

  - Different rates were noted for all the three unaffiliated entities under "SA2.2 Bill Rendering Rate" ranging from $1.10 and $1.25 per bill (based on region) for the unaffiliated entities to $1.15 and $1.30 per bill for section 272 affiliates.

  - Under "SA2.4 Complementary Services," differences were noted for the three unaffiliated entities for CIC(s).

  - Also a provision found in the section for "SA2.4.4 Quality Control Review Per Invoice All Verizon Billing Regions $3.00" which was not found under the section 272 agreement.

- Pay-Per-Call Billing Service

  For the Pay-Per-Call Billing Service under B&C, we noted eight unaffiliated entities were subscribed to the service. We noted the following differences in rates under the Pay-Per-Call Billing Service:

  - Different rates were noted for all eight unaffiliated entities under "SA3.4 Bill Rendering Rate" ranging from $1.10 and $1.25 per bill (based on region) for the unaffiliated entities to $1.15 and $1.30 per bill for section 272 affiliates.

- An additional provision for rates was found under "SA3.5 Message Processing Rate" for five of the unaffiliated entities.

- Seven of the unaffiliated entities did not have the following provision under SA3.7 Exchange Carrier Memorandum (EC Memo) or Recourse Adjustment- "With Enquiry service: For all Billing regions- No charge."

- Call Recording Service
  For the Call Recording Service under B&C, we noted one unaffiliated entity had subscribed to the service. We noted no differences.

- End-Users Communications Service
  For the End-Users Communications Service under B&C, we noted 16 unaffiliated entities were subscribed to the service. We noted no differences.

- SubCIC Service
  For the SubCIC Service under B&C, we noted ten unaffiliated entities were subscribed to the service. We noted one unaffiliated entity had no provision in the contract regarding the rates for this service.

- Supplemental Services
  For the Supplemental Services under B&C, we noted three unaffiliated entities were subscribed to the service. We noted that two of the unaffiliated entities had no provision regarding the rates for supplemental services.

Amount Section 272 Affiliate Billed by BOC

We requested and obtained from management the amounts billed by the BOC for B&C services and payphone related services provided to section 272 affiliates. The aggregate amount billed to VES, VLD and VSSI for the B&C services during the Audit Test Period totaled $308,402,773. The aggregate amount paid in commission by VSSI for the payphone related services during the Audit Test Period totaled $43,989,342. We inquired of management whether the VSSI commission payments for payphone related services represent the amount billed by the BOC and management indicated the following:

> *"The BOC/ILEC by way of Public Communications does not issue invoices to VSSI for the payphone services. Instead, VSSI tracks the revenue generated, calculates the commission payment due to the BOC/ILEC based on our affiliate agreements, remit payment and issue a statement detailing the payment on a monthly basis. "*

These commission payments by VSSI were considered as amounts billed by the BOC as the BOC does not issue invoices to VSSI for the payphone related services.

Amount Recorded by BOC

Management was unable to provide the amount recorded by the BOC. Management indicated the following:

> *"Verizon doesn't journalize by the individual bill, only by the bill cycle, which includes all bills that were processed during that bill cycle as a total.*

Verizon East records revenue and receivable amounts in its billings systems at a detail customer level. These amounts are summarized at a financial account code level as they pass to the BOC/ILEC's general ledger systems. These amounts are aggregated on the books of the BOC/ILEC's to various FCC USOA accounts. There are internal control functions in place between the billing systems and financial systems to ensure all billed levels are recorded. Receivable collection systems maintain currently due and past due balances from customers regardless of whether the customer is an affiliate or not. There is also match off process in place whereby the expenses recorded by the affiliate correspond to the revenue booked by the BOC/ILEC. This process is used to eliminate intercompany revenue and expenses."

We inquired of management regarding the source of the population of billed items (related to payphone related services and B&C) selected for this procedure and determined that the sampled items were pulled from billing systems which are fed directly to the general ledger.

Amount Paid by section 272 Affiliate
We requested and obtained from management the aggregate amounts paid by the section 272 affiliates for B&C and payphone related services during the Audit Test Period. Management provided the following totals:

- Billing and Collection – (BOC): VLD/VES $301,316,311 and VSSI $723,338
- Payphone related services (BOC/ILEC) –The paid dollars contain both BOC and ILEC transactions: VSSI $ 49,287,043.

We noted that the amount billed by BOCs for B&C services were more that the amount paid for services by the section 272 affiliates. Additionally, the amount received in commissions for payphone related services by BOCs was less than the amount paid by VSSI.

We inquired of management regarding the differences between the amount billed and amount paid. Management indicated that the amount paid for payphone related services included both BOC/ILEC and so amount paid was more than the amount received in commissions by the BOCs alone. With respect to the amount billed being more than the amount paid by section 272 affiliates for B&C services, management indicated that the differences between the two amounts can be attributed to billing disputes, timing of invoices and when they are recognized, and accruals established by the section 272 affiliate.

b.) We requested and obtained a list of local exchange services billed to the section 272 affiliates by Universal Service Order Code ("USOC") for the randomly selected month of March 2004. The list included the rates billed by USOC, by state. We selected a statistically valid sample of 95 USOCs that were billed to the section 272 affiliates by the Verizon BOC from the list of local exchange services. We requested and obtained the applicable tariff document, by state. We compared the rates charged per USOC by state for the 95 selections to the applicable tariff rate found under the tariff agreements for each state. We noted the following:

- For 76 out of the 95 samples, rates charged agreed with the applicable tariff rate.

- For 13 out of the 95 samples, the USOC service represented a $0 rated service associated with a billed product offering. $0 rated USOCs are not listed in the tariffs so comparison to the tariffs could not be performed.

- For 2 out of the 95 samples, rates charged were different from the applicable tariff rates as follows:

State	Bill Date	USOC	Description	Bill Rate	Tariff Rate
Rhode Island	3/24/04	XMF	Tie Line Channel/s	$15.78	$20.50
Massachusetts	3/23/04	RXR	Main Line/s	$7.80	$7.20

- For 4 out of the 95 samples, management was unable to provide a tariff reference or management was unable to locate the applicable USOC's in tariff agreements.

We compiled a list of 43 invoices on which the 95 USOC samples appeared and randomly selected 25 samples from the list of invoices. For the sample of invoices, we performed the following:

Amount Section 272 Affiliate was Billed by BOC and Paid
We documented the amount billed by the BOC for the 25 invoices. We noted the following from documenting the amounts paid:

- Twelve out of the 25 invoices were paid on time, and we noted no differences between amounts billed and paid
- Two invoices represented credit balances and did not require payment
- One invoice had a zero balance and did not require payment
- Three invoices had previous balances billed along with the current balance and the section 272 affiliate payment screens noted that only the current balances were paid.
- One invoice was not paid as of the month of March 2004 (month randomly selected in the procedure), but was paid in April 2004 one month after the due date.
- Verizon was unable to provide payment screens for 6 of the 25 invoices.

Amount Recorded by BOC
Management was unable to provide the amount recorded by the BOC. Management indicated the following:

> *"Verizon doesn't journalize by the individual bill, only by the bill cycle, which includes all bills that were processed during that bill cycle as a total.*
>
> *Verizon East records revenue and receivable amounts in its billings systems at a detail customer level. These amounts are summarized at a financial account code level as they pass to the BOC/ILEC's general ledger systems. These amounts are aggregated on the books of the BOC/ILEC's to various FCC USOA accounts. There are internal control functions in place between the billing systems and financial systems to ensure all billed levels are recorded. Receivable collection systems maintain currently due and past due balances from customers regardless of whether the customer is an affiliate or not. There is also match off process in place whereby the expenses recorded by the affiliate correspond to the*

> *revenue booked by the BOC/ILEC. This process is used to eliminate intercompany revenue and expenses."*

We inquired of management regarding the source of the population of billed items (related to local exchange services) selected for this procedure and determined that the sampled items were pulled from billing systems which are fed directly to the general ledger.

5. We inquired of management how the Verizon BOC disseminates information about network changes, the establishment or adoption of new network standards, and the availability of new network services to each section 272 affiliate and to unaffiliated entities. Management indicated the following:

> *"Verizon provides public notice regarding network change, and the establishment and adoption of new network standards in accordance with the Commission's network disclosure rules. See 47 C.F.R. Sections 51.325-51.335. Network disclosure for Verizon is made via the Internet website (www.verizon.com/regulatory). When network changes are made with less than six months notice, the network disclosures are distributed to interconnecting carriers in accordance with Section 51.333.*
>
> *The local operating companies do not and will not disclose to the 272 affiliates or any other affiliated or unaffiliated telecommunications carriers, any information about planned network changes until appropriate notice has been given. These methods are the same throughout the Verizon territory".*

We noted no differences in the manner in which information regarding network changes, establishing or adopting new network standards, and the availability of new network services is disseminated to each section 272 affiliate and to unaffiliated entities.

6. At the service call centers observed in Procedure 7, we obtained and inspected scripts that Verizon BOC's customer service representatives recite to new customers calling to establish new local telephone service or to move an existing local telephone service to another location within BOC in region territory. In addition, we obtained the script that is used in Verizon's Consumer Call Centers' Voice Response Unit. We observed that the scripts contain language informing the consumer of his/her choice of providers and that these providers, along with the interLATA service affiliates, are identified to consumers. In addition, we obtained and inspected the written content of the Verizon BOC website for on-line ordering of new service or to move existing service local telephone service. We determined that the language in the script specifically informed the consumer of his/her right to choose a service provider and that these other interLATA service providers, along with the interLATA service affiliate were identified to the consumers.

7. We obtained a complete listing, as of the end of the Audit Test Period, of all Verizon BOC sales and support customer service call centers.

   a.) We requested of management and were provided a list of Verizon BOC call centers responding to inbound callers requesting to establish new local telephone service or to move an existing local telephone service to another location within the BOC in-region territory. From this listing, we identified and grouped each call center by type of customers, viz., "Consumer" or "Business." Using a random number generator, we selected six Consumer call centers and four Business call centers. We listened to 1,438 calls to obtain the required sample of 100 calls in total (60 Consumer and 40 Business), or 10 calls per call center, in which the customer service representatives attempted to market the section 272 affiliate's interLATA service to callers requesting to establish new local telephone service or to move an existing local telephone service.

We noted one call into the Binghamton Consumer Call Center where the Verizon representative clearly informed the caller of her right to choose a long distance provider, but when the caller asked for "help with that" the representative began to market Verizon Long Distance without informing the caller of a list of other providers.

We also noted one call into the Manhattan Business Call Center where the Verizon representative clearly informed the caller of his choice of long distance providers, but failed to communicate to the caller the representative's ability to read a list of other providers of long distance to the caller.

For the remaining 98 calls in the sample for both Consumer and Business Centers, when applicable, we noted the equal access message was conveyed clearly to the caller and the customer service representative did not attempt to influence the caller to obtain the interLATA services of the section 272 affiliate prior to providing the equal access message. Further, we noted no cases for these remaining 98 calls, when applicable, in which the Verizon Representative did not inform the caller of his right to select the interLATA services provider or did not inform the caller of other providers of interLATA services.

The following represents a breakdown of the nature of the remaining 98 calls:

- For 64 calls, the equal access messages were conveyed, as well as the clarity of the equal access message delivered during the observed call.

- For 15 calls, the customer demanded Verizon service or another specific long distance provider after the Verizon representative communicated choice of service providers, but before Verizon Long Distance was marketed to such customers and before the Verizon representative communicated that a list of providers is available to read to the caller.

- For nine calls, the customer requested new service but before equal access message was read the customer states that no long distance service is needed.

- For five calls, the customer stated that no long distance was needed after the Verizon representative stated there was a choice of providers but before marketing of Verizon Long Distance and before the Verizon representative communicated that a list of providers is available to the caller

- For three calls, the customer demanded Verizon Long Distance Service before Verizon Long Distance was marketed and before the Verizon representative recited the equal access message. The Verizon representative confirmed with the caller of a choice of providers at the end of the call. The caller acknowledged the choice and requested Verizon as the Long Distance Provider.

- For one call, the customer informed the Verizon representative that they would call back after the Verizon representative has communicated choice of service providers, but before the marketing of Verizon Long Distance and before the Verizon Representative communicated that a list of providers is available to read to the caller.

- For one call, the customer requested new service, but after the Verizon representative reviewed the customer's account, determined and communicated to customer that she was not eligible for long distance because of a past due balance.

b.) We obtained a list of four call centers that might incidentally respond to inbound callers requesting to establish new local telephone service or to move an existing local telephone service to another location within the BOC in-region territory (such as sales and service centers that usually receive customer inquiries from existing customers). We noted that the listing did not include any consumer call centers. Using a random number generator, we selected two Business call centers, and listened in to 20 calls per center. We listened to a total of 40 incoming calls to the two business call centers selected for this procedure. Of the 40 incoming calls, we did not find any instances of caller requests to establish new local telephone service or to move an existing local telephone service.

c.) We obtained from Verizon the ten phone numbers which channel into the Consumer Call Centers. We performed test calls to each phone number provided. The test calls were performed subsequent to January 2, 2005, the end of the engagement period. We inquired of management and management indicated that no changes had been made to the VRU systems in place during 2004 and subsequent to January 2, 2005. We noted the following based on test calls performed:

- For eight of the phone numbers provided for Delaware, Maryland 301 Area Code, Maryland 410 Area Code, New England (for Maine, Vermont and Massachusetts), New York (down state), New York (up state), Virginia and West Virginia, the equal access script was heard before reaching a Consumer Service Representative from Verizon.

- For the phone number provided for New Jersey, a caller is directed to a 'Welcome Center' which collects personal information from the caller in order to run a brief credit check for past due bills. After proceeding through the 'Welcome Center', we heard the equal access script before being connected to a Consumer service representative.

- For the phone number provided for Pennsylvania, we noted during the first call placed the VRU was not recited before a Verizon Representative was reached. We performed three additional calls to the Pennsylvania Call Centers and the equal access script was recited for each of these calls.

8. We inquired of management and management indicated that Verizon has no arrangements for incoming telemarketing and no call centers that are managed by third parties in which representatives of third-party contractors of the Verizon BOC respond or might incidentally respond to customers requesting to establish new local telephone service or to move existing local telephone service to another location within the BOC in-region territory.

9. We inquired of management and management indicated that no third party contractors provide inbound telemarketing services that would be subject to the equal access notification requirements of section 272.

10. We inquired of management and management indicated that no third party contractors provide inbound telemarketing services. Accordingly, no contracts exist between the Verizon BOC and third-party contractors to provide inbound telemarketing services.

<u>OBJECTIVE VIII</u>. Determine whether or not the Bell operating company and an affiliate subject to section 251(c) of the Act have fulfilled requests from unaffiliated entities for telephone exchange service and exchange access within a period no longer than the period in which it provides such telephone exchange service and exchange access to itself or its affiliates.

1. We inquired of management regarding the practices and processes the Verizon BOC/ILEC has in place to fulfill requests for telephone exchange service and exchange access service for the section 272 affiliates, BOC and other BOC affiliates, and nonaffiliates in each state where Verizon has been authorized to provide in region interLATA services. Management provided documentation describing the practices and processes the Verizon BOC/ILEC has in place to fulfill requests for telephone exchange and exchange access service for the section 272 affiliates, other affiliates, and nonaffiliates. Such documentation is maintained in our working papers. Management indicated that the same processes and practices are used to fulfill requests for both affiliates and nonaffiliates.

   We inquired of management regarding the Verizon BOC's internal controls and procedures designed to implement its duty to provide non-discriminatory service for fulfillment of requests for telephone exchange service and exchange access service. Management provided the following response:

   > *"Verizon's 272 affiliates are required to use the same installation and repair interfaces with the Verizon ILEC operations as are made available to nonaffiliates. ASRs and trouble tickets are processed through the same interfaces and systems for both 272 affiliates and nonaffiliates. Also, the determinations of the availability of facilities for 272 affiliates and nonaffiliates use the same systems.*
   >
   > *The systems that process installation orders apply the same standard minimum provisioning intervals (where facilities exist) and the same first-come-first-served priority to special access orders regardless of the identity of the customer. The systems that track and process the facilities checks are programmed to process orders on a first-come-first-served basis, regardless of the identity of the customer. Where facilities are required to be built or installed to provision a special access service request, Verizon performs that work on a first-come-first-served basis, regardless of the identity of the customer. Similarly the systems that track and process trouble reports process reports on a first come first service basis, regardless of the identity of the customer. Thus, at each step in the fulfillment of requests the same treatment is given to nonaffiliated customers and affiliate customers. Verizon also provides procedural guidelines for the provisioning and maintenance of these services, regardless of the identity of the customer. Employees are trained in these procedures and compliance is monitored monthly by a sampling of orders and trouble reports. Reinforcement of Verizon's commitment to customer parity is frequently a topic of review at general team meetings. Verizon sets its internal service objectives and internally measures both its provisioning and maintenance performance by geographic location, not by customer identity. Management performance evaluations and the Verizon Incentive Plan payouts are based on meeting the predetermined service objectives. Verizon requires each employee to review yearly the company's Code of Business Conduct, in which dealings with our*

competitors, customers and suppliers, both affiliate and non-affiliate are outlined.

It should be noted that different customers request different services in different locations and with different requested intervals, making the actual requested service experience different over time and across customers for reasons outside Verizon's control.

Part of the internal control environment involved extensive communication and training to assure all employees in the company are aware of the Section 272 obligations. The Section rules are summarized on the Affiliate Interest corporate web site.

To support this communications effort, the Senior VP-Regulatory Compliance sent a letter to the "Top 300" senior managers on September 20, 2004 emphasizing the importance of complying with Section 272 obligations. In these communications the senior managers are asked to assure their organizations are aware of, and follow, the rules. Summaries of the Section 272 rules or links to the internal corporate affiliate web sites were included in the correspondence. Further, letters were sent to Group Presidents and equivalents VPs in April 21, 2003 from the Senior Vice President-Regulatory Compliance, which focused on Section 272 obligations as it coincides with organizational and functional changes. In addition, on January 12, 2004, letters were sent to Codetel International Communications Inc., TELUS Communications Inc., TELUS Communications (Quebec) Inc., and Puerto Rico Telephone Company from the Group Senior Vice President – International Operations focusing on the obligations under Section 272 and the FCC affiliate transaction rules.

The importance of adhering to all affiliate regulations, including Section 272, was emphasized through corporate-wide emails sent to all employees on July 31, 2003 and July 23, 2004. In order to further explain the rules, a website address was provided to locate Verizon's Affiliate Transaction Policy.

Training efforts begun shortly after the passage of the Telecommunications Act on Section 272, continued through 2004. During 2003 and 2004, just under 2,500 employees attended training sessions sponsored by the affiliate organization."

2. We inquired of management regarding the processes and procedures followed by the Verizon BOC/ILEC used to provide information regarding the availability of facilities used in the provisioning of special access service to its section 272 affiliates, BOC and other BOC affiliates, and nonaffiliates for each state where the Verizon BOC/ILEC has been authorized to provide in-region interLATA services. Management provided documentation, which is maintained in our working papers, describing the processes and procedures followed by the Verizon BOC/ILEC used to provide information regarding the availability of facilities in the provisioning of special access service to its section 272 affiliates, BOC and other BOC affiliates, and nonaffiliates for each state where the Verizon BOC/ILEC has been authorized to provide in-region interLATA services. Additionally, management indicated the following:

"As a general matter, carriers do not get information about facility availability. The wholesale website and Firm Order Confirmation process used to place orders do not provide any information to carriers on facility availability for special access services. Account Management or Customer Service contacts may provide information in response to specific customer requests. In any event, the same type of information and timeliness of information are provided to Section 272 affiliate, other affiliates and nonaffiliates.

As additional background, during the Firm Order Confirmation (FOC) process, no specific information is provided to the customers (affiliate or nonaffiliates) about the availability of facilities over which the service is to be provided. After receipt of a complete and accurate access service request (ASR) from a carrier customer, an electronic scan of inventory databases is performed within Verizon. If electronic records indicate that appropriate facilities exist, a Firm Order Confirmation (FOC) is returned to the carrier by Verizon with either the requested due date or the standard minimum provisioning interval due date. If electronic records do not indicate that appropriate facilities exist, Verizon engineering personnel handle the request manually. If engineering personnel find appropriate facilities, the inventory database is updated and a FOC is returned to the carrier with either the requested due date or the standard minimum provisioning interval due date. If engineering personnel do not find appropriate facilities, an engineering work order (EWO) is created to install, enhance or build appropriate facilities and a FOC is returned to the carrier reflecting the time needed to complete the EWO and provision the service. While the FOC information (as specified by the industry Ordering and Billing Forum (OBF) guidelines and implemented by Verizon) does return to the customer an estimated completion date, it does not contain any information regarding the availability of facilities that might be used to provision the service. The information returned on the FOC represents the best estimate at that time and the date that the special access service will be completed. This estimate is based on an assessment of mechanized facilities inventory records and/or a manual engineering assessment of facilities, if required."

We inquired of management whether any employees of the section 272 affiliates or other affiliates have access to, or have obtained, information regarding special access facilities availability in a manner different from the manner made available to nonaffiliates. Management indicated that it is not aware of any employees of the section 272 affiliate or other affiliate carriers that have access to, or have obtained, information regarding special access facilities availability in a manner different from the manner that such information is also made available to nonaffiliates.

3. We requested of management written methodology followed by the Verizon BOC/ILEC for documenting time intervals for processing orders, provisioning of service and performing repair and maintenance services for the section 272 affiliates, BOC and other BOC affiliates, and nonaffiliates for the services described in Procedure 4 below. Management provided documentation describing how the Verizon BOC/ILEC documents time intervals for processing orders, provisioning of service and performing repair and maintenance services.

Management indicated the following:

> *"Verizon documents the time interval for the installation and repair of special access and FG-D services using the information captured by the appropriate systems that process the installation and repair of access services and by using established business rules.*
>
> *The business rules utilized by Verizon for the special access services are the business rules associated with the service quality reports required by paragraph 53 of Appendix D to the BA/GTE Merger Order released by the FCC on June 16, 2000. Management indicated the FCC Common Carrier Bureau approved those business rules and the FCC Wireline Competition Bureau subsequently approved modifications to those business rules. Management indicated that Verizon uses the same business rules to provide the same metrics for the special access services described in Procedure 4."*

Management also indicated the following:

> *"Since Verizon did not reference FG-D in any of its Section 271 affidavits, Verizon had not previously committed to make FG-D service quality performance data available as part of its commitments associated with Section 271 approval process or Section 272 obligations.*
>
> *In order to provide service quality data for FG-D in the context of this audit, Verizon has chosen to use essentially the same business rules as are being used for special access. "*

<u>Installation Intervals</u>

Management indicated that the methods used to document the installation intervals are based on the information contained in the systems and timestamps that Verizon utilizes as part of the Access Service Request ("ASR") process used for carrier orders. We noted the following time stamps are used by Verizon systems automatically to compute the installation interval: (1) the "Clean ASR Date" or "Application Date", (2) the "FOC Returned Date", and (3) the "Completion Date." The time stamps are obtained from the following relevant specific systems: CABS Automated Front End ("CAFÉ"), Exchange Access Control and Tracking ("EXACT"), Work Force Administrator ("WFA") and Automated Work Administration System ("AWAS").

<u>Repair Intervals</u>

Management indicated that total trouble reports and average repair intervals are documented based on the information contained in the systems and date/time stamps that Verizon utilizes as part of the trouble report process. The time stamps include: "Date/Time Received" and "Date/Time Cleared." The stamps are captured by WFA and AWAS.

<u>Average Time of PIC Change</u>

Management indicated that the reporting of Average Time of PIC Change is derived from information contained in the underlying Operational Support system, Xpress Electronic

Access ("XEA"), except for the former GTE Pennsylvania ("fGTE PA") jurisdiction. For the fGTE PA jurisdiction, those reports are derived from the Subscription Service ("SS") system. We noted from the documented methodology that XEA captures information in the following fields: Transaction Code, Status Indicator, Access Carrier Name Abbreviation, Carrier Identification Code, Tracking Date, Jurisdictional Indicator, State, LEC_ID, Customer Type Indicator, PIC Source Indicator and RRN. The methodology further states the following time stamps are used to compute the elapsed time between receipt and activation in the switch: (1) "The XEA Record received time stamp," "Due date with time 00:00:00" and "the switch time stamp." The stamps are captured in XEA. The SS system captures information in the following fields: Transaction Date/Time, State, Access Carrier Name Abbreviation, Carrier Identification Code, Customer Type Indicator , Jurisdiction Indicator, Billing Telephone Number, Current Customer Code, Working Telephone Number, Requested Due Date, Sent to AP Date/Time, Switch Date/Time, Sent to AC Date/Time.

4. We requested and obtained from management, for each state where Verizon was authorized to provide in-region interLATA services, the performance data maintained by Verizon BOC/ILEC during the Engagement Period, by month. These reports indicate time intervals for processing orders (on initial installation requests, subsequent requests for improvement, upgrades or modifications of service, and repair and maintenance), for provisioning of service, and for performing repair and maintenance services for the section 272 affiliates, the BOC and other BOC affiliates, and nonaffiliates, as separate groups. We requested performance data reports for the following service categories:

- Telephone exchange service, if any of the separate groups resells local service or intraLATA toll service. This does not include the selling of BOC local service or intraLATA toll service to retail customers.
- Exchange access services as submitted through an ASR for DSO, DS1, DS3, feature group D, and OCn, as individual groups. For BOC and other BOC affiliate group, exchange access measurements should cover services provided to end users on a retail basis and services provided to affiliates on a wholesale basis.
- Unbundled network elements, if any section 272 affiliate purchased unbundled network elements.
- Presubscribed Interexchange Carrier ("PIC") change orders for intraLATA toll services and interLATA services.

Management informed us that there were certain combinations of groups and metrics that would not be reported. Management indicated the following:

> For those states were Verizon has been authorized to provide in-region interLATA services:
>
> 1) Telephone Exchange Service –nonaffiliated companies do not resell local service or intraLATA toll service from the BOC. The service category does not need to be reported by any of the three groups.

2) UNE – no section 272 affiliates purchase unbundled network elements from the BOC. The service category does not need to be reported by any of the three groups.

3) PIC Changes for the BOC and Other Affiliates group is not applicable, except for fGTE PA. The service category does not need to be reported for this group.

The performance reports provided by management are included in Attachment A-3.

We noted that the performance reports provided by management included the calculated denominators, results, means and standard deviations (where appropriate) for the following performance measures:

- Firm Order Confirmation Response Time
- Average Installation Interval
- % Installation Commitments Met
- Total Trouble Reports
- Average Repair Interval
- Average Time of PIC Change

We were informed by management as to certain limitations of the data provided. Management indicated the following:

"FGD RESULTS

The 2003 and 2004 FGD non-affiliate installation and repair results for all jurisdictions included in the audit include some trunks ordered by wireless carriers that may not be FGD trunks. Verizon estimates this to be 4.0% (416 of 11,549) of all orders and 2.0 % (91 of 4,495) of all trouble tickets for all jurisdictions and all of 2003 and 2004."

In addition, we noted that with the exception of the Average Time of PIC Change performance reports, the performance results for the state of Connecticut were aggregated with the state of New York.

We compared the business rules listed in the General Standard Procedures with the Merger Condition XIX business rules as well as the business rules set out in the user requirements documents and noted no differences.

We examined the performance measurement reports provided by management and noted instances where fulfillment of requests from nonaffiliates took longer than for either the section 272 affiliates or the BOC and other BOC affiliates. We provided such instances to management and management provided the following response as explanations where fulfillment of requests from nonaffiliates took longer than for either the section 272 affiliates or the BOC and other BOC affiliates:

"Primary Interexchange Carrier (PIC) Measures

Verizon processed carrier-initiated PIC transactions (mechanical batch submissions) using the same systems and procedures for all carriers, with no manual intervention *in handling incoming files that could affect the processing interval. After passing through a series of edits and updates, a small amount of the individual transactions may fall out for manual handling after the incoming files are processed. Those that do fall out are handled in a non-discriminatory fashion, first-in-first-out, and ultimately all valid PIC transactions were sent to the switch for implementation.*

Verizon has reviewed the monthly PIC change performance submitted for the audit for each state. There are cases where the interval is longer for nonaffiliates and instances where it is shorter. Variations between months and states are expected. Batch runs come in at different times during the day and files are of different lengths. As all carriers have been informed, these variables influence the processing time as measured for this interval. Based on Verizon's review of the data submitted for the audit, there is no pattern or trend in the 2003 or 2004 data in any state that would suggest further investigation is warranted to explain differences in intervals between 272 affiliates and nonaffiliates.

Special Access and Feature Group D (FGD) Measures

As required for this audit, Verizon submitted performance measurement results for 14 jurisdictions, in most cases for 24 individual months[4] *for a range of special and switched exchange access products (DS0, DS1, DS3, OCn and FGD). In total, Verizon reported 5,413 metrics across the 14 jurisdictions. Although some data show shorter intervals for the section 272 affiliates, there are two reasons that negative inferences cannot be drawn from the data. First, the data contain relatively low volumes of switched and special access orders from Section 272 affiliates across most states. Second, the interval measurements and maintenance measurements reflect data and circumstances that mask reasons for the different results.*

Of the 5,413 individual results, 4,651 instances were in months and states with fewer than ten 272 affiliate transactions. For example, of the approximately 3,200 exchange access installation and repair interval results reported for the audit, 2,966 (over 92%) of the monthly interval results for the 272 affiliates had fewer than ten transactions (service orders or trouble tickets) in a given month; virtually all of the occurrences of ten or more installation or repair results for 272 affiliates were for DS1 service. In those states and months where the Section 272 affiliate had fewer than ten transactions per month per state for a product category, any comparison to the results for nonaffiliates is of questionable or limited statistical value. In the months with slightly higher volumes, there was generally no observable pattern of longer intervals for nonaffiliates in comparison to Section 272 affiliates. As would be expected, for each month there is variation between the Section 272 affiliate and nonaffiliate results. The data reflect expected statistical variations and, as explained below, differences in user characteristics for each transaction.

Verizon's BOCs/ILECs have established and follow practices, procedures and policies to fulfill requests from unaffiliated entities for exchange access services within a period no longer than the period in which they fulfill similar requests for the same exchange access services to their affiliates. For FGD performance and for firm order confirmation (FOC) performance for both switched and special access, there

[4] In four states (VA, MD, WV and DC) data were reported beginning in April 2003, consistent with the long distance entry date, as required for the audit.

were no trends in the data Verizon submitted where 272 affiliates were consistently receiving shorter intervals than nonaffiliates in states and months where volumes were sufficient for a meaningful comparison.

For special access (DS1) installation and repair, there were instances when the Verizon BOCs/ILECs fulfilled requests from unaffiliated entities for exchange access services within an average time period longer than the average time period in which they fulfilled requests for such exchange access services to themselves and/or their 272 affiliates in states and months with more than ten 272 affiliate transactions. However, Verizon analysis shows that these results are due to the way that the data were aggregated in the measures rather than to any discriminatory treatment. The data mask differences between 272 affiliates and nonaffiliates in the types of customer orders, types of underlying facilities, and types of troubles. When the data are disaggregated to compare performance in like circumstances, the results no longer show a different pattern between 272 affiliates and nonaffiliates.

There are several reasons that negative inferences should not be drawn from the special access installation and repair results, including (but not limited to) the variations in technology and routes on specific requests for service; customer behavior not under Verizon's control; differences in underlying facilities for the circuits ordered; and the nature of troubles reported on the circuits. Special access services are unique services and any particular service installation request or reported trouble can potentially be very different from another request or trouble. While Verizon did not analyze all of the potential combinations of possible factors affecting special access performance results for all states, for all service categories, for all months due to the very high volume of nonaffiliate orders, sufficient analysis was possible to address several likely causes of the differences. To demonstrate the effect of customer actions and other potentially anomalous events on installation and repair intervals, Verizon analyzed DS1 installation and repair transactions for 2004 in states with higher volumes for 272 affiliates where the measures show longer intervals for nonaffiliates than for 272 affiliates.

Verizon selected two of the most significant reasons for differences in installation performance — customer requested due date changes and whether the order was for a project — and identified the installation performance results as shown below. Similarly, Verizon selected two of the measurable reasons for differences in maintenance and repair performance — whether there was trouble found on the circuit or not and, if so, the nature of the underlying facilities— and identified the maintenance and repair performance results as shown below.

DS 1 Installation

For installation, Verizon has determined that several factors can have a pronounced effect on the interval calculation (as measured in days). First, customers may change the requested due date on an order by issuing a supplemental access service request (ASR) after the BOC/ILEC has returned a FOC on the initial ASR. This action typically results in a longer installation interval than was first planned by Verizon, in order for Verizon to meet the needs and requirements of the customer. Second, installations that qualify as "projects" group many circuits together and typically assign all circuits one due date, thereby potentially skewing the average installation *interval calculation when project activity is included in the average installation interval calculation.*

To test the effect of these factors, Verizon analyzed data for two states that experienced higher volumes of 272 affiliate activity (ten or more orders in a month). Verizon analyzed 2004 data in those states where there were discrepancies between 272 affiliate and nonaffiliate results.

As discussed above, there are many reasons for differences in intervals between 272 affiliates and nonaffiliates. Verizon tested two of those reasons by recalculating the installation intervals for only those circuits not classified as projects and not having due date changes requested by the customer via a supplemental ASR. The intervals for these types of orders do not exhibit the gap between 272 affiliate and nonaffiliate results that is seen in the measures submitted for the audit. This is demonstrated for New York and Massachusetts for 2004 DS1 results in Table 1 and Table 2 below.

Table 1
2004 DS1 New York Installation Intervals and Order Volumes

Month	Type	As Submitted for the Audit		Excluding Projects and Customer Due Date Requested	
		Days	Orders	Days	Orders
01/2004	272 affiliates	23.90	80	19.30	54
	Nonaffiliates	22.40	2615	14.98	1360
	Difference	-1.50		-4.32	
02/2004	272 affiliates	14.27	67	12.85	61
	Nonaffiliates	26.41	2672	13.55	1302
	Difference	12.14		0.70	
03/2004	272 affiliates	16.85	66	15.51	59
	Nonaffiliates	22.59	3333	13.84	1795
	Difference	5.74		-1.67	
04/2004	272 affiliates	19.50	52	16.68	44
	Nonaffiliates	20.65	3039	15.52	1732
	Difference	1.15		-1.16	
05/2004	272 affiliates	14.33	51	12.46	48
	Nonaffiliates	19.69	3023	15.15	1674
	Difference	5.36		2.69	
06/2004	272 affiliates	11.52	144	11.24	136
	Nonaffiliates	22.06	3231	13.89	1817
	Difference	10.54		2.65	
07/2004	272 affiliates	14.79	145	17.54	101
	Nonaffiliates	22.05	2921	14.50	1575
	Difference	7.26		-3.04	

Table 1- continued
2004 DS1 New York Installation Intervals and Order Volumes

Month	Type	As Submitted for the Audit		Excluding Projects and Customer Due Date Requested	
		Days	Orders	Days	Orders
08/2004	272 affiliates	14.04	197	13.80	66
	Nonaffiliates	22.22	3028	14.36	1751
	Difference	8.18		0.56	
09/2004	272 affiliates	26.21	186	20.17	46
	Nonaffiliates	19.91	2732	14.50	1570
	Difference	-6.30		-5.67	
10/2004	272 affiliates	19.64	247	11.27	49
	Nonaffiliates	20.71	2940	14.04	1528
	Difference	1.07		2.77	
11/2004	272 affiliates	14.93	122	12.42	53
	Nonaffiliates	21.32	2660	13.91	1530
	Difference	6.39		1.49	
12/2004	272 affiliates	14.69	120	11.86	86
	Nonaffiliates	22.27	2525	14.18	1430
	Difference	7.58		2.32	

Table 2
2004 DS1 Massachusetts Installation Intervals and Order Volumes

Month	Type	As Submitted for the Audit		Excluding Projects and Customer Due Date Requested	
		Days	Orders	Days	Orders
01/2004	272 affiliates	27.28	25	29.00	16
	Nonaffiliates	25.79	847	11.90	472
	Difference	-1.49		-17.10	
02/2004	272 affiliates	14.67	24	14.05	21
	Nonaffiliates	19.46	958	11.67	489
	Difference	4.79		-2.38	
03/2004	272 affiliates	17.55	22	14.89	19
	Nonaffiliates	18.00	1134	12.12	639
	Difference	0.45		-2.77	
04/2004	272 affiliates	12.35	17	11.31	16
	Nonaffiliates	19.41	1043	11.87	548
	Difference	7.06		0.56	

Table 2 - continued
2004 DS1 Massachusetts Installation Intervals and Order Volumes

Month	Type	As Submitted for the Audit		Excluding Projects and Customer Due Date Requested	
		Days	Orders	Days	Orders
05/2004	272 affiliates	17.62	13	17.25	12
	Nonaffiliates	20.91	1090	13.36	677
	Difference	3.29		-3.89	
06/2004	272 affiliates	18.29	21	18.21	19
	Nonaffiliates	16.76	946	12.21	646
	Difference	-1.53		-6.00	
07/2004	272 affiliates	13.50	16	14.33	15
	Nonaffiliates	17.27	980	11.62	594
	Difference	3.77		-2.71	
08/2004	272 affiliates	15.85	20	13.33	18
	Nonaffiliates	21.42	1150	12.73	595
	Difference	5.57		-0.60	
09/2004	272 affiliates	14.95	19	12.63	16
	Nonaffiliates	20.46	1154	12.56	534
	Difference	5.51		-0.07	
10/2004	272 affiliates	16.13	15	14.09	11
	Nonaffiliates	17.89	976	11.44	629
	Difference	1.76		-2.65	
11/2004	272 affiliates	11.00	27	10.15	26
	Nonaffiliates	17.96	902	11.15	578
	Difference	6.96		1.00	
12/2004	272 affiliates	11.13	24	11.18	22
	Nonaffiliates	19.03	713	13.37	511
	Difference	7.90		2.19	

The difference between the nonaffiliates' intervals and the 272 affiliates' intervals, in the chart above, narrows and often results in the nonaffiliates receiving shorter intervals. In 2004 before analysis there were 10 of 12 months in NY and 10 of 12 months in MA where the 272 affiliates' interval was of shorter duration that the nonaffiliates' interval. After analysis, nonaffiliates experienced intervals of shorter duration than 272 affiliates in five of 12 months in NY. In MA, nonaffiliates experienced shorter intervals than 272 affiliates in nine of the 12 months. And in the months where the 272 affiliate intervals were shorter than the nonaffiliate intervals,