Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of Application by Verizon New Jersey, Inc., Bell Atlantic Communications, Inc. (d/b/a Verizon Long Distance), NYNEX Long Distance Company (d/b/a Verizon Enterprise Solutions), Verizon Global Networks Inc., and Verizon Select Services Inc. for Authorization to Provide In-Region, InterLATA Service in New Jersey	**CC Docket No. 01-347**

Declaration

of

LEE L. SELWYN

on behalf of the

State of New Jersey
Division of the Ratepayer Advocate

January 14, 2002

DECLARATION OF LEE L. SELWYN

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DECLARATION OF LEE L. SELWYN

Introduction and Summary

Lee L. Selwyn, of lawful age, declares and says as follows:

1. My name is Lee L. Selwyn; I am President of Economics and Technology, Inc. ("ETI"), Two Center Plaza, Suite 400, Boston, Massachusetts 02108. ETI is a research and consulting firm specializing in telecommunications and public utility regulation and public policy. My Statement of Qualifications is annexed hereto as Attachment 1 and is made a part hereof.

2. I have participated in proceedings before the Federal Communications Commission ("FCC" or "Commission") dating back to 1967 and have appeared as an expert witness in hundreds of state proceedings before more than forty state public utility commissions. I have submitted testimony in several Section 271 consultative proceedings, including those in Pennsylvania, California and Minnesota, as well as in the New Jersey state proceeding.

3. With respect to the New Jersey state proceeding, I was asked by the State of New Jersey Division of the Ratepayer Advocate ("Ratepayer Advocate") to examine the testimony and other evidence being proffered by Verizon New Jersey ("VNJ" or "Company") in support of its Application for authority, pursuant to Section 271 of the *Telecommunications Act of 1996* ("TA96" or "Act"), to enter the in-region long distance market; to provide an assessment of the Company's claims as to the current state of competition in the New Jersey local telecommunications market; to provide an analysis of the potential impact upon competition in New Jersey's interLATA long distance market that would result from Verizon New Jersey's entry into the long distance market while the Company continues to maintain overwhelming dominance of the local telephone service market in the state; and to provide an opinion as to whether "the requested authorization is consistent with the public interest, convenience, and necessity."

4. On October 22, 2001, I filed a Declaration on behalf of the Ratepayer Advocate before the New Jersey Board of Public Utilities ("Board" or "NJBPU") in BPU Docket No. TO01090541, *In the Matter of the Application of Verizon New Jersey, Inc. for FCC*

Authorization to Provide In-Region, InterLATA Service in New Jersey ("state proceeding"). A copy of that Declaration and the attachments thereto is annexed hereto as Attachment 3 and is made a part hereof.[1]

5. In this Declaration, I respond specifically to the evidence and arguments offered by Verizon Declarant William E. Taylor with respect to the current level of local competition in the New Jersey residential exchange service market and his "explanations" for the lack thereof. I also update certain information that was included in the October 22, 2001 submission before the NJBPU. As in my October 22, 2001 Declaration, I conclude here that despite long-standing legislative and regulatory efforts at both the federal and state levels to facilitate and encourage the development of effective competition in the local telecommunications market, New Jersey's dominant incumbent local exchange carrier, Verizon New Jersey, persists in maintaining overwhelming dominance of both the residential and business segments. Specifically, I first show that Verizon New Jersey has failed to satisfy the "Track A" requirement that it demonstrate the presence of "one or more unaffiliated competing providers of telephone exchange service ... to residential ... subscribers."

6. In my October 22, 2001 Declaration, I examined the impact upon competition in the New Jersey interLATA long distance market in the event that Verizon New Jersey is permit-

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1. On November 17, 2001 and subsequent to the date at which my Declaration in the state proceeding was filed, the NJBPU announced that it would be issuing an order in Docket TO00060356 reducing rates for key unbundled network elements ("UNEs"). The summary order was issued by the Board on December 17, 2001, the final order has not been issued as of the filing date of this Declaration.

ted to offer this service while still maintaining its current level of overwhelming dominance in the local service market, and demonstrated that unless a serious and substantial change in the competitive local services landscape were to emerge quickly and irreversibly, Verizon New Jersey will soon come to dominate and ultimately monopolize the adjacent, currently highly competitive, long distance market as well. This analysis was based upon a model that I developed to project BOC long distance market penetration levels based upon the BOC's share of the *local* residential exchange service market coupled with the BOC's ability, under Section 272(g) of the 1996 *Act*, to engage in "joint marketing" of its local and long distance services to so-called "in-bound" customers who initiate a contact with the BOC for the specific purpose of ordering *local* service. Based upon Verizon New Jersey's current 98.6% share of the New Jersey residential exchange service market, the model projects that at the end of five years following its receipt of Section 271 in-region interLATA authority, Verizon's share of the New Jersey residential long distance market will approach 71%. In this supplemental Declaration, I have compared the projections made by the model with actual data on residential long distance market penetration as reported by Verizon for New York and Massachusetts and by Southwestern Bell for Texas, and show that *in each and all of these cases* the model has actually *under-projected* the achieved BOC market penetration levels. Accordingly, the predictive power of the model is shown to be *conservative* and in any event is fully borne out by actual empirical experience in states in which Section 271 authority has been granted. Once Verizon New Jersey has attained its sought-after interLATA entry, the Company's incentive to comply on an ongoing basis with the "competitive checklist" will rapidly dissipate, threatening the sustainability of the small amount of competition that has developed thus far. And as long as Verizon New Jersey continues to control the overwhelming share of the local exchange service market, its ability to engage in "joint marketing" of local and long distance service — particularly in the residential segment — will enable Verizon New Jersey to rapidly remonopolize the long distance market in New Jersey, resulting in higher prices in the future for what is today a highly competitive service. For all of these reasons, approval of Verizon New Jersey's Section 271 Application is not in the public interest, and Verizon's Application should thus be rejected.

Verizon New Jersey has failed to make a *prima facie* showing that there is residential facilities-based competition in New Jersey, as required by Section 271(c)(1)(A).

7. In its Application,[2] Verizon New Jersey seeks to reduce the arguments and evidence that have been offered by the Ratepayer Advocate and others to mere critiques of the "level of competition" made with the primary purpose of "generat[ing] delay in order to maintain a competitive advantage."[3] However, such a characterization serves only to diminish the significance of the utter lack of local competition in New Jersey. Congress has clearly recognized that mere satisfaction of the Section 271(c)(2)(B) checklist does not transform the

2. Verizon Brief, at 3.

3. It is, of course, not at all clear exactly what "competitive advantage" Verizon NJ ascribes to the Ratepayer Advocate, who in no sense "competes" with Verizon NJ nor derives any "competitive advantage" from any "delay" in 271 approval that might result from its comments herein. Indeed, *premature* entry by Verizon NJ into the interLATA services market, in the absence of competition in the New Jersey *local* telecommunications market, may delay the *benefits* of effective competition for New Jersey consumers and lead to diminished competition in the long distance market as well.

highly concentrated local service market into one subject to effective competition, nor does it immediately or even *necessarily* lead to a diminution or elimination of the incumbent BOC's market power. And for so long as the BOC continues to dominate and exercise market power in the local exchange market, it has the potential to extend that dominance and market power into the adjacent long distance market. Allowing in-region interLATA entry under such conditions will serve only to enfeeble such competition as presently exists, will further discourage capital investment in CLEC ventures and thereby serve to diminish competition overall, and as such does *not* serve the public interest, convenience and necessity.

8. The FCC has defined "facilities-based carriers" as embracing those that utilize BOC-provided unbundled network elements, UNE platforms, as well as those that own their own network assets.[4] The *Act* requires that there must be competing providers serving subscribers using those facilities as a threshold condition for a "Track A" application. The FCC has interpreted the "providing" requirement to mean that the competing carrier must be "in the market and operational (i.e., accepting requests for service and providing such service for a fee)."[5] Yet even this minimal requirement is not satisfied in New Jersey.

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4. *Application of Ameritech Michigan Pursuant to Section 271 of the Communications Act of 1934, as amended, To Provide In-Region, InterLATA Services In Michigan*, CC Docket no. 97-137, Memorandum Opinion and Order, 12 FCC Rcd 20543, ("Michigan 271 Order") at para. 101; *Joint Application by SBC Communications Inc., et al., for Provision of In-Region, InterLATA Services in Kansas and Oklahoma*, CC Docket No. 00-217, 16 FCC Rcd 6237, ("Kansas/Oklahoma 271 Order") at para. 41-42.

5. *Michigan 271 Order* at para. 75; *Application of Verizon New England Inc., et al., for Authorization to Provide In-Region, InterLATA Services in Massachusetts*, Memorandum (continued...)

9. Verizon clearly understands and recognizes the enormous attractiveness of the New Jersey local service market to competitors. As Verizon's Declarant William E. Taylor observes, "[a]s of 1999, New Jersey had the second highest per capita income in the U.S,"[6] and "is also the most densely populated state in the country."[7] However, despite the fundamental attractiveness of the New Jersey local telecommunications market to competitors, there is no evidence of even one operational company providing *facilities-based residential service to subscribers for a fee*, the minimal requirement for a "Track A" Application.

10. As both the Department of Justice and this Commission[8] have recognized, granting 271 authority under those circumstances creates significant competitive concerns. The Department of Justice has previously outlined those concerns in the affidavit of Dr. Marius Schwartz:

> BOC entry [into in-region interLATA long distance], however, also raises potential concerns. The principal risk of authorizing premature BOC entry is that doing so will result in significantly less BOC cooperation, than could be induced by an appropriate entry standard, in providing good access at cost-based prices to the various functions and services of a BOC's local

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5. (...continued)
Opinion and Order, CC Docket No. 01-9, 16 FCC Rcd 8988, ("Massachusetts 271 Order") at para. 225.

6. Taylor, at para. 36.

7. *Id.*, at para. 37.

8. *In the Matter of Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as amended*, First Report and Order, 11 FCC Rcd 21905 ("*Non-Accounting Safeguards Order*"), at para. 11.

> networks needed by entrants wishing to offer local or integrated services. These requisite "wholesale local services" include interconnection, unbundled network elements, and discounted local service for resale. Securing efficient access to these services of the BOC's ubiquitous networks would be critical for some time to the development of competition in local and integrated services. A BOC's monopolistic withholding of such access cooperation would be a potent and destructive form of rivalry: it would raise competitors' costs, degrade their quality, and deny consumers the benefit of new products. And if facilities-based local competition fails to develop, BOC entry could pose a growing threat to long-distance competition, since today's established access arrangements will increasingly require changes over time.
>
> Authorizing premature BOC entry would prematurely reduce a BOC's cooperation incentives for two main reasons: (a) the BOC stands to gain if it can leverage its local market power into the newly opened markets for long-distance and integrated services; and (b) the BOC is emboldened to stiffen its resistance to local competition having secured its coveted long-distance authority.[9]

Schwartz cites two main incentives for Verizon New Jersey to engage in anticompetitive behavior, leveraging local market power into long distance and integrated market power and the removal of the incentive to open their networks.

11. These incentives remain as long as there is no viable facilities based residential competition in New Jersey. Any claimed amount of competition in the *business* segment

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9. Affidavit of Marius Schwartz, *Competitive Implications of Bell Operating Company Entry Into Long_Distance Telecommunications Services*, May 14, 1997, Attached at Tab C to Evaluation of the United States Department of Justice, *Application of SBC Communications Inc. et al., Pursuant to Section 271 of the Telecommunications Act of 1996 to Provide In-region, InterLATA Services in the State of Oklahoma*, CC Docket No. 97-121, FCC filed May 16, 1997, at para. 8-9.

would have no effect upon the market power of Verizon New Jersey in the *residential* market or on the ability of Verizon New Jersey to extend that market power into the adjacent long distance market. The *Act* specifically and expressly establishes "Track A" requirements with respect to both residential and business facilities-based entry, *and does not permit Verizon to infer the presence of residential facilities-based entry from the fact of business facilities based entry*. Nor does it permit Verizon to escape this requirement by offering *excuses* for the lack of entry into the residential segment, excuses that are themselves premised upon speculative theories and erroneous facts and assessments regarding pricing policies that Verizon alleges have been imposed *upon it* by the New Jersey BPU. The close-to-imperceptible quantity of facilities-based residential lines purportedly being served by CLECs in New Jersey provides compelling evidence of Verizon New Jersey's success in resisting competition in the local residential market.[10]

12. In its *1997 Oklahoma Order*, the Commission found that, "the term 'subscribers' suggests that persons receiving the service pay a fee."[11] Yet in his December 20, 2001 Declaration, Dr. Taylor never even addresses the issue of whether the cited CLEC residential facilities-based lines represent *subscribers* as the FCC has defined the term. In fact, Dr.

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10. In fact, this Commission has found that, without residential competition, any determination with respect to *business* service is unnecessary. *Application of SBC Communications Inc. et al., Pursuant to Section 271 of the Telecommunications Act of 1996 to Provide In-Region, InterLATA Services in the State of Oklahoma*, Memorandum Opinion and Order, 12 FCC Rcd 8685, ("1997 Oklahoma 271 Order"), at para. 13.

11. 1997 Oklahoma 271 Order, at para. 14.

Taylor avoids the term *subscribers* altogether when referring to residential access *lines* counted by Verizon as CLEC residential customers.[12] There may be good reason for this. According to Verizon's own overstated figures,[13] the number of residential customers currently being served over CLEC-owned facilities or UNE-P constitutes 0.0196% — i.e., *less than two one-hundredths of one percent* — of the total New Jersey residential market.[14] This astoundingly small percentage of customers being served over UNE-P or CLEC-owned facilities is consistent with the provision by some CLECs of residential service without charge to their employees and/or to users on a trial basis by CLECs that may be in the process of examining the potential for entry into the New Jersey local residential service market. And although Verizon New Jersey proffers even this minuscule facilities-based CLEC residential market share as "satisfying" Track A, it has provided no bills or other evidence that the 850 or so residential lines it ascribes to facilities-based CLECs are being provided by those CLECs *for a fee*.

13. Moreover, even the extraordinarily minute quantities being claimed by Verizon as "facilities-based CLEC residential lines" appear to have been on the decline. In the state proceeding, Verizon New Jersey President Dennis Bone testified that there were 280

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12. By estimating "lines," Verizon attempts to count the number of end user dial tone connections, as opposed to "subscribers," which indicates a customer receiving service *for a fee*.

13. See my October 22, 2001 Declaration at paras. 33-35 for an examination of the veracity of methods used by Verizon NJ to estimate competitor's access lines.

14. Verizon Brief, at 8.

residential lines being served via CLEC-owned facilities.[15] However, that quantity now appears to have decreased to about 50.[16]

14. In addition, the Commission has defined the term "competing providers" to include only carriers that constitute an

> actual commercial alternative to the BOC. Consistent with this interpretation, we note that the Joint Explanatory Statement states that '[t]he requirement that the BOC 'is providing access and interconnection' means that the competitor has implemented the agreement and the competitor is operational.'[17]

Despite Verizon's assertion that "each [purported residential CLEC] appears to be actively offering service to substantial numbers of residential customers in New Jersey today,"[18] Verizon fails to demonstrate that these CLECs are actually providing facilities-based services

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15. Declaration of Dennis M. Bone on behalf of Verizon New Jersey, State Proceeding, Attachment 101, Table 1.

16. In its Brief herein at pp. 7-8 and citing the Taylor Declaration at paras. 24-27, Verizon cites four carriers that it claims served "approximately 850 residential lines over their own facilities (including platforms)." Yet at Table 1 of Attachment 1 to the Taylor declaration, Dr. Taylor puts the number of UNE-P lines (i.e., excluding the true *facilities-based* CLEC lines) at 800. Using high school algebra-level mathematics, one can calculate the redacted value for lines using CLEC-owned facilities at approximately 50. [i.e., 850 owned and platform lines minus 800 platform-only lines). While there has apparently been a small increase in the use of UNE platform lines since the filing of Verizon's Application with the New Jersey BPU last Fall, the total of 850 (Track A) facilities-based lines represents slightly less than two one-hundredths (2/100ths) of one percent (0.0196%) of the 4.34-million residential lines currently being served by Verizon New Jersey.

17. *1997 Oklahoma 271 Order*, at para. 14

18. Verizon Brief, at 12.

for a fee to residential customers. First, no evidence has been presented, nor has the assertion been made, that any of the purported "residential facilities-based CLEC providers" are currently *enrolling customers*. Without this, and as Verizon itself noted, the relevant question under Track A of whether there is a carrier "in the market and operational (i.e., accepting requests for service and providing such service for a fee)" has not even been addressed by the Verizon filing.[19] Second, as the Ratepayer Advocate discovered in the New Jersey state proceeding, many of the collocation arrangements cited by Verizon New Jersey as evidence of facilities-based competition were, in fact, in the process of being disconnected.[20] Under those circumstances, such collocation data cannot be used as evidence of "operational" competition, since they cannot be considered "operational."

Verizon seeks to obliterate evidence of its own anticompetitive and discriminatory behavior by its attempts to assert both the presence of residential facilities-based local competition while simultaneously ascribing to the New Jersey Board of Public Utilities responsibility for alleged barriers preventing local competition from developing.

15. In the state proceeding, Verizon had sought to attribute the lack of residential competition to "strategic planning" on the part of CLECs who, Verizon claimed, were deliberately slow-rolling their local entry so as to buttress their opposition to Verizon's

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19. Verizon Brief at 13, citing the *Michigan 271 Order* at para. 75 and the *Massachusetts 271 Order* at para. 225.

20. Declaration of Lee L. Selwyn, October 22, 2001, Attachment 2: Verizon New Jersey response to RPA Data Request #27.

interLATA authority.[21] Of course, that theory would not explain why CLECs that are *not* also interexchange carriers (such as cable television operators) are staying out of the New Jersey residential market, since they would have no direct interest in forestalling Verizon's interLATA entry (and might even support it if in fact it would have the effect of incenting Verizon to actually open its network to competition). So in the current filing with the Commission, Verizon's theory *du jour* is that the lack of residential competition is due to what it characterizes as "low residential basic exchange rates" that Dr. Taylor claims "have been a cornerstone of the Board's telecommunications policy in New Jersey since divestiture."[22] Dr. Taylor argues that the low residential basic line charge in New Jersey discourages CLEC entry. In support of that contention, he provides factually erroneous and misleading data about New Jersey residential prices and price levels. First, he asserts that "Verizon New Jersey's *flat rate* service, including local usage, is priced at only $8.19 per month, and adding the FCC subscriber line charge brings total recurring charges to about $12.50 per month in New Jersey."[23] The actual Verizon New Jersey residential SLC is $5.00 per month ($6.21 for additional lines),[24] making the correct rate, including the SLC, $13.19 (and $14.40 for additional lines). Virtually all Verizon New Jersey residential customers also subscribe to touch tone service, which adds another $1.00 to their monthly bill, bringing the "basic" monthly rate to $14.19 ($15.40 for additional lines). Then, although

21. Dr. Taylor reiterates this same notion in his Declaration herein, at para. 19.

22. Taylor, at para. 23.

23. *Id.*, emphasis in original.

24. Verizon FCC Tariff No. 1, Section 4.1.7.4.

conceding that the FCC's USF Cost Model "is not necessarily an accurate measure of true costs," Dr. Taylor compares a $17.00 cost result from that Model to the "about $12.50" monthly rate as the basis for his theory regarding the unattractiveness of the New Jersey residential market.

16. Of course, few if any customers actually pay *only* the $13.19 basic monthly rate; most place at least some toll calls, subscribe to optional calling plans like Verizon New Jersey's Selective Calling Service, order touch tone and vertical features, or utilize switched access services when placing *or receiving* calls that are carried by IXCs (including calls to toll-free numbers). A competitor considering entry into the New Jersey residential market would be far more interested in the *overall* revenue that he can expect to obtain from New Jersey customers rather than how *individual rate elements* have been defined by Verizon. Dr. Taylor addresses this point, although somewhat backhandedly, by referring to (but not actually providing) an analysis that he alleges was undertaken by his firm, NERA, that found that, for vertical services and toll, "over 45 percent of residential customers have monthly bills of $15.00 or less."[25] Dr. Taylor provides no details as to the nature of the "representative sample" of Verizon New Jersey bills from which this data was allegedly extracted; more significantly, however, he never actually adds these toll and vertical services expenditures to the $8.19 basic monthly charge and the $5.00 Subscriber Line Charge. Dr. Taylor's "45% less than $15" factoid thus more accurately translates into "45% less than $28.19." Moreover, from Dr. Taylor's own description of his study's results, we learn

25. Taylor, at fn. 30.

(inferentially) that fully 55 percent of the residential customers in New Jersey have monthly telephone bills *above* that same $28.19 level, making New Jersey quite an attractive market for competition even with the "low" "basic line charge."

17. At para. 25, Taylor claims that "competitors run a higher risk of capturing unprofitable, low-revenue customers — despite efforts to attract the most profitable customers — when they compete for residence [sic] than for business customers." Inasmuch as Dr. Taylor and Verizon have long advanced arguments suggesting that competitors engage in "cream-skimming" and even in the cited text Dr. Taylor persists in contending that competitors will expend their "efforts to attract the most profitable customers," the "risk" to which he refers is obviously overblown. Even accepting Dr. Taylor's citation to a likely overstated $17 *cost* that Verizon ostensibly incurs in providing residential service in New Jersey, it is difficult to understand why competitors would not be attracted to a market in which *at least 55%* of customers spend in excess of $28.19.

18. In his further efforts to divert the blame for the present dearth of residential competition away from Verizon, Dr. Taylor now suggests — possibly for the first time — that yet another explanation for the low level of competitive activity in the residential *local* market in New Jersey is due to the small size of New Jersey's local calling areas and the correspondingly large amount of intraLATA toll calling. Incredibly and without any support whatsoever, Dr. Taylor then goes on to attribute the small local calling areas to the same

"regulatory decision [of the New Jersey Board] to establish very low basic rates."[26] This patently untrue claim is belied by Verizon New Jersey's persistent *resistance* to efforts by the Ratepayer Advocate to enlarge the size of New Jersey local calling areas and to eliminate toll routes that are, in some cases, as short as just a few miles.

19. While obviously aware of the interaction between the small local calling areas and the low *basic* exchange service rate, Dr. Taylor fails entirely to recognize this interaction when undertaking to "compare" New Jersey residential exchange service rates with those in other states. He asserts (at para. 23) that "New Jersey's retail residential exchange rate is the lowest in the nation" but also admits (at para. 27) that "New Jersey had the fourth largest intraLATA toll market in absolute terms." He notes that Verizon's *overall* share of the intraLATA toll market fell to about 62 percent by the end of 2000,"[27] but doesn't even provide the *residential-only* intraLATA toll IXC penetration rate, which is the only relevant issue for the discussion in which he is engaging.[28] More significantly, Dr. Taylor seems to be suggesting that if a CLEC were to provide residential exchange service, it could only expect to provide intraLATA toll to 62% of its residential customers. In fact, CLECs are likely to be the PIC for the overwhelming majority of their residential customers, such that the toll revenues generated by those customers would typically flow to the CLEC as well.

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26. *Id.*, at para. 27.

27. *Id.*, para. 29, emphasis supplied.

28. It is likely that the share loss for Verizon is far greater in the business segment than in the residential segment due to the incorporation of both interLATA and intraLATA toll into many business volume-based pricing plans.

20. Finally, Dr. Taylor's analysis of residential revenues is seriously flawed, since it excludes all customers whose "local bills do not show line-item detail."[29] The "study" upon which Dr. Taylor and Verizon rely is not being provided with Verizon's Application, and there is thus no basis for the Commission to determine whether this "exclusion" produces a systematic bias in the results that are being alleged. For example, Dr. Taylor's study may thus be excluding all customers purchasing vertical services as part of a service package, a popular residential option,[30] and as such would be significantly understating average residential revenue.

21. The contention being made by Verizon New Jersey in its brief — that New Jersey is not an attractive market for CLECs based on demographic data — would be almost laughable if the consequences of this misrepresentation were not so serious. Verizon contends that "[t]he fact that New Jersey lacks a significant major urban population therefore means that it is inherently less likely than other, more urban States to attract competitive local carriers."[31] From this assertion, one might be led to conclude that the authors of Verizon's Brief have never even been to New Jersey. According to data from the US Census Bureau, in 1990, the

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29. Taylor, at fn. 30.

30. In fact, examination of the local service packages being offered by Verizon in New Jersey indicate that Verizon New Jersey feels no competitive threat at all. The "Call Manager" package of vertical services, which retails in Massachusetts for $13.91 with no set-up charge, is priced at $16.99 with a $10 set up fee in New Jersey. This evidence itself is sufficient to indicate that there is sufficient demand for vertical features even when the price point is significantly above cost.

31. Verizon Brief, at 78.

New Jersey population was 89.4% urban, a percentage exceeded only by California.[32] New Jersey is one large, continuous urban area, making the size of individual municipalities irrelevant. In addition, the State's location in the midst of the New York Megalopolis makes it a natural place for CLECs operating in either the New York City or Philadelphia metropolitan areas to expand into New Jersey, especially since many New Jersey customers could be served by switches already installed in either of those two markets. The decidedly upscale bedroom communities and the densely-populated counties[33] in northern New Jersey as well as in the Philadelphia area would clearly support competitive entry in the residential market, if such entry were not being so effectively blocked by Verizon. The utter lack of competitive entry in New Jersey — and in the residential market in particular — cannot be "blamed" on the Board's policies, on New Jersey's geography, or on its demographics. The Commission must not permit Verizon to succeed in shirking its own critical role in creating the present anticompetitive climate and passing the "blame" to others and to other factors.

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32. http://www.census.gov/population/censusdata/urpop0090.txt

33. For example, the population density of Hudson County, directly across the Hudson River from Manhattan, is 12,956 persons per square mile, US Census Bureau, 2000. http://quickfacts.census.gov/qfd/states/34/34017.html

Empirical evidence supports the contention that premature BOC entry would significantly harm the long distance market, and the Commission should delay Verizon New Jersey's entry into the interLATA market until there is viable local residential competition.

22. At paragraphs 79-90 of my October 22, 2001 Declaration submitted in the state proceeding, I discussed the model that I had developed of Verizon market share growth in the New Jersey residential long distance market following its receipt of interLATA authority. I noted, by virtue of the joint marketing opportunity permitted by Section 272(g) and its resulting ability to preferentially and preemptively "recommend" ("sell") Verizon Long Distance service to in-bound customers contacting Verizon New Jersey to order *local* telephone service, that after five years and as long as Verizon New Jersey continues to overwhelmingly dominate the New Jersey local residential market, Verizon Long Distance will have captured some 71% of New Jersey residential customers.

23. The market share projections contained in the model can now be compared with actual BOC market penetration results as reported by BOCs in states where in-region interLATA entry has been authorized. On the basis of these empirical results, my model's projections are actually proving to be *conservative*, since the BOCs have in each case achieved *even greater residential long distance PIC penetration* than the model had projected. Verizon Corporation press releases dated from February 2001 and October 2001 provide information on Verizon's experience in providing long distance service in New York and Massachusetts.[34] Approximately 12 months after receiving Section 271 authority in New

34. Copies of these Verizon Press Releases are provided in Attachment 2 hereto.

York, Verizon reported a New York residential market share of 20%. This number is consistent with my predictions for New Jersey based upon far less competitive conditions than are present in New York. In addition, Verizon's New York long distance market penetration continued to grow at a rate *higher* than the rate that the model had predicted. After 21 months of providing long distance service in New York, Verizon reported a New York long distance residential market share of 31.7%. Based upon the level of competition in New Jersey (significantly less than the level of competition in New York at the time of Verizon New York interLATA entry), the model predicts that 21 months following interLATA entry, Verizon New Jersey would be able to leverage its local market power into a long distance market share of about 30%, *which is less than the actual 31.7% that has been reported by Verizon in New York.*

24. Verizon's experience in New York is not anomalous. Ten months after receiving 271 authority in Massachusetts, Verizon reported a long distance market share of 17.9%; my model predicts Verizon New Jersey interLATA PIC penetration at only 16.4% after ten months. In Texas, where SBC received interLATA authority in June of 2000, SBC reported that after ten months it had acquired a market share of 19%[35] (again, my model predicts penetration for Verizon in New Jersey of only 16.4%). SBC subsequently stopped releasing long distance market share figures on a state-by-state basis, making further state-level comparisons no longer possible. If anything, based upon the figures Verizon is reporting for New York and Massachusetts and that SBC had reported for Texas, it appears that my

35. A copy of the SBC Press Release is provided in Attachment 2 hereto.

estimate that Verizon New Jersey will control 71% of the long distance market after five years was extremely conservative. Absent effective competition in the local market, Verizon's continued dominance of the New Jersey local market will diminish competition and potentially result in remonopolization of the New Jersey long distance market as well.

The consumer benefits that Verizon seeks to attribute to BOC interLATA entry are misleading and miscalculated.

25. In its effort to satisfy the Section 272(d)(3) "public interest" requirement, Verizon cites various studies undertaken by the Telecommunications Research and Action Center ("TRAC") purporting to estimate consumer savings in New Jersey based upon a prior TRAC study of savings "enable[d]" by Verizon New York's entry into the long distance market.[36] These studies purport to estimate total statewide consumer savings in New Jersey at between $22- and $167-million annually. The TRAC study is not credible, nor is Verizon's characterization of its results because, as I shall show, those results are not based upon a fair or consistent comparison of Verizon and IXC long distance pricing.

26. Both the theory and the methodology of the TRAC studies are seriously flawed.[37]

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36. Verizon Brief, at 106.

37. No detailed methodology is provided by TRAC in its New Jersey-specific study. However, TRAC indicates that the methodology used was the same as that used in the 1999 and 2001 studies for New York. Thus, I have examined and relied upon the methodology presented in the New York study cited at footnote 103 of Verizon's Brief in reaching my conclusions about TRAC's analysis. Telecommunications Research & Action Center (TRAC),

(continued...)

First, the TRAC Study purports to determine a “range” of savings based upon a “low-end” and a “high-end” estimate. The low-end estimate compares the *best* Verizon long distance rate for consumers with *assumptions* made by TRAC (and apparently without any specific evidentiary basis) regarding the particular calling plans that TRAC had believed that residential customers likely subscribed to before switching to Verizon for long distance service.

27. TRAC’s so-called “high-end” estimate is derived from a “comparison” of the *best* Verizon long distance plan with *industry average* rates.[38] These *industry average* rates were determined by calculating a simple arithmetic average of the prices being charged by the “highest priced competitor” with those being charged by the “lowest priced competitor” within each of the service “baskets” examined by TRAC. This approach virtually *guarantees* erroneous and overstated results, since clearly not all rate plans for all companies are intented or designed to be attractive to all customers. Because individual customers exhibit decidedly varying calling habits, there will inevitably be some extremely high competitive rates in each calling basket that are essentially irrelevant for any customer whose calling habits would clearly not justify acceptance of such a plan. As an example, TRAC's “Basket 18” includes a highest priced competitor at $349.37 and a lowest priced competitor at $101.27. When averaged, the non-Verizon price-out for this basket is $225.32, which TRAC then compares

37. (...continued)
15 Months After 271 Relief: A Study of Telephone Competition in New York, April 25, 2001. (“TRAC New York Study”).

38. TRAC New York Study, at Table 1.

with the "lowest priced Verizon" plan at $138.42. On the basis of this "comparison," TRAC ascribes a net "savings" of $86.90 (i.e., $225.32 minus $138.42) for customers in this basket, which it then *causally attributes* to Verizon's long distance entry. Of course, that "average savings" would arise only if the distribution of customers across the full range of prices in the basket were uniform, i.e., where the customer is assumed to be as likely to purchase the most expensive (i.e., the $349.37) service as the least expensive (i.e., the $101.27) service. This *critical underpinning* of the TRAC methodology is obviously absurd, because customers are far more likely to select providers and plans at the low end of the range than at its mid-point. Thus, TRAC is comparing the lowest priced Verizon plan with an *average* inflated by pricing plans that would never have even been considered, let alone adopted, by customers. If the Verizon plan were compared with the *lowest priced competing service* instead of the *average* of the highest and lowest, TRAC predicts that the New York savings would actually have actually been a *negative $1,368,500*.[39] Thus, Verizon's pricing plans, when appropriately applied to consumers based upon their actual calling requirements and assuming reasonably rational and informed customer behavior, indicate that Verizon's entry into the long distance market provides consumers with *no competitive gain whatsoever*. By comparing the *industry average* pricing plan to the *best* pricing plan being offered by Verizon in New York, TRAC *virtually guarantees* that Verizon's offerings will portray "significant savings." Yet if the same TRAC methodology were used to compare a consumer's most beneficial AT&T, MCI or

39. *Id.* In the above example for Basket 18, the result for that basket would have been a negative $37.15, i.e., the Verizon "best" pricing plan is actually $37.15 *above* the lowest priced IXC plan.

Sprint rate plan with that same "industry average," the IXC services would present the same — or even greater — "consumer benefit" as TRAC ascribes solely to Verizon's offerings.

28. TRAC's "low-end estimate" compares the most advantageous Verizon plan with the most advantageous plan being offered by an arithmetic average of the corresponding AT&T and MCI offerings (rather than the entire IXC industry) specifically. TRAC compares Verizon's lowest price plan for a particular customer group with the lowest rates for MCI and AT&T for this customer group.[40] Under this approach, TRAC ignores entirely the pricing plans offered by all other IXCs, many of which have more favorable rates for some customers than either MCI or AT&T. However, even after narrowing a consumer's choices to AT&T, MCI or Verizon, TRAC further ensures that its "savings" calculation is further inflated by then averaging the AT&T and MCI "savings." By performing this arithmetic sleight-of-hand, "savings" from Verizon's entry jump from $21-million (comparing Verizon rates to AT&T rates for all customers) to $79-million (when averaging in MCI's higher rates).[41] In addition, later applications of this same study contain the notation that "[t]he predictions of savings drop when TRAC assumes that the consumers affected were more likely to be customers of AT&T or WorldCom as those consumers were most likely already subscribers to a cost-efficient calling plan."[42]

40. TRAC New York Study, at Table 2.

41. *Id.*

42. http://trac.policy.net/relatives/17340.pdf, page 11.

29. Thus, it appears that for the numbers in both the "low-end estimate" and the "high-end estimate," TRAC compares the *optimal* Verizon long distance plan with a less-than-optimal plan being offered by a *composite* Verizon competitor. Finally, there is little or no indication that Verizon actually markets its plans so as to realize the hypothetical savings cited by TRAC. If Verizon markets and sells its long distance service to in-bound local service customers using Verizon New Jersey local service representatives, it is much more likely that those individuals will be given a "hierarchy" of calling plans to "recommend," offering a different service plan option (such as a plan with no monthly fee) only when a customer rejects the plan originally offered. Any long distance carrier would be able to use the same bogus TRAC methodology to claim millions of dollars in savings for consumers. Such claims by Verizon, therefore, hardly constitute a consumer benefit arising from Verizon's entry into the long distance market.[43]

Conclusion

30. The factual evidence presented by Verizon New Jersey in support of its Section 271 Application is both inaccurate and misleading, and should be rejected by the Commission. Verizon cannot escape the undeniable *fact* that there is no viable facilities-based competition for residential exchange service in New Jersey at this time, irrespective of who or what is to blame. Verizon grossly understates the actual level of residential revenue it presently realizes

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43. Verizon also cites (but does not provide) a study by Dr. Jerry A. Hausman of MIT. There is, however, insufficient information available to verify the validity of Dr. Hausman's methodology. To the extent that his results are analogous to those of the TRAC study, it is likely that flaws similar to those cited in the TRAC study exist.

from existing prices and pricing policies, and fails entirely to explain why that level of revenue — which by Dr. Taylor's own study is shown to exceed $28.19 per month for more than half of Verizon New Jersey's residential subscribers — is not sufficient to incent widespread competitive entry in a densely populated, relatively low-cost, heavily-urbanized state with the second-highest per-capita income in the nation. Verizon's efforts to shift responsibility for the lack of entry to the New Jersey Board of Public Utilities are unfair and misplaced, because Verizon's own resistance to calling area expansion has materially contributed to the existing local/toll rates and rate relationships. Verizon's entrenched dominance of the New Jersey residential market will enable Verizon to similarly come to dominate the residential long distance market as well, as amply demonstrated and confirmed by actual experience in the other 271 jurisdictions, and as such to diminish competition therein and ultimately to increase prices for consumers. Finally, even Verizon's attempts to portray a "public interest" benefit from its interLATA entry rest upon specious and invalid comparisons by TRAC, derived from a "study" whose credibility is highly questionable. For all of the reasons set forth herein and in my October 22, 2001 Declaration filed with the New Jersey Board, I conclude that Verizon's entry into the New Jersey interLATA market at this time would be contrary to the public interest, and should be rejected.

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of Application by Verizon New Jersey, Inc., Bell Atlantic Communications, Inc. (d/b/a Verizon Long Distance), NYNEX Long Distance Company (d/b/a Verizon Enterprise Solutions), Verizon Global Networks Inc., and Verizon Select Services Inc. for Authorization to Provide In-Region, InterLATA Service in New Jersey	CC Docket No. 01-347

COMMONWEALTH OF MASSACHUSETTS)
) ss.
COUNTY OF SUFFOLK)

AFFIDAVIT OF LEE L. SELWYN

LEE L. SELWYN, of lawful age, certifies as follows:

1. I am President of Economics and Technology (ETI), Two Center Plaza, Suite 400, Boston, Massachusetts 02108. I am authorized to verify the statements contained in the foregoing Declaration, prepared on behalf of the State of New Jersey Division of Ratepayer Advocate.

2. The foregoing Declaration was prepared based upon my review of the testimony being proffered by Verizon New Jersey in support of its Application for authority, pursuant to Section 271 of the *Telecommunications Act of 1996* ("TA96" or "Act"), to enter the in-region long distance market in New Jersey, and various other pertinent documents. The statements made in the foregoing Declaration are true and correct to the best of my knowledge, information and belief.

I certify that the foregoing statements made by me are true to the best of my knowledge, information and belief. I am aware that if any of the foregoing statements made by me are willfully false, I am subject to punishment.

Lee L. Selwyn

Subscribed and sworn to before me this 14th day of January, 2002.

Ellen B Wasserman
Notary Public

My commission expires 3/31/06.

ELLEN B. WASSERMAN
NOTARY PUBLIC
MASSACHUSETTS

Attachment 1:

Statement of Qualifications

DR. LEE L. SELWYN

Dr. Lee L. Selwyn has been actively involved in the telecommunications field for more than twenty-five years, and is an internationally recognized authority on telecommunications regulation, economics and public policy. Dr. Selwyn founded the firm of Economics and Technology, Inc. in 1972, and has served as its President since that date. He received his Ph.D. degree from the Alfred P. Sloan School of Management at the Massachusetts Institute of Technology. He also holds a Master of Science degree in Industrial Management from MIT and a Bachelor of Arts degree with honors in Economics from Queens College of the City University of New York.

Dr. Selwyn has testified as an expert on rate design, service cost analysis, form of regulation, and other telecommunications policy issues in telecommunications regulatory proceedings before some forty state commissions, the Federal Communications Commission and the Canadian Radio-television and Telecommunications Commission, among others. He has appeared as a witness on behalf of commercial organizations, non-profit institutions, as well as local, state and federal government authorities responsible for telecommunications regulation and consumer advocacy.

He has served or is now serving as a consultant to numerous state utilities commissions including those in Arizona, Minnesota, Kansas, Kentucky, the District of Columbia, Connecticut, California, Delaware, Maine, Massachusetts, New Hampshire, Vermont, New Mexico, Wisconsin and Washington State, the Office of Telecommunications Policy (Executive Office of the President), the National Telecommunications and Information Administration, the Federal Communications Commission, the Canadian Radio-television and Telecommunications Commission, the United Kingdom Office of Telecommunications, and the Secretaria de Comunicaciones y Transportes of the Republic of Mexico. He has also served as an advisor on telecommunications regulatory matters to the International Communications Association and the Ad Hoc Telecommunications Users Committee, as well as to a number of major corporate telecommunications users, information services providers, paging and cellular carriers, and specialized access services carriers.

Dr. Selwyn has presented testimony as an invited witness before the U.S. House of Representatives Subcommittee on Telecommunications, Consumer Protection and Finance and before the U.S. Senate Judiciary Committee, on subjects dealing with restructuring and deregulation of portions of the telecommunications industry.

In 1970, he was awarded a Post-Doctoral Research Grant in Public Utility Economics under a program sponsored by the American Telephone and Telegraph Company, to conduct research on the economic effects of telephone rate structures upon the computer time sharing industry. This work was conducted at Harvard University's Program on Technology and Society, where he was appointed as a Research Associate. Dr. Selwyn was also a member of the faculty at the College of Business Administration at Boston University from 1968 until 1973, where he taught courses in economics, finance and management information systems.

Dr. Selwyn has published numerous papers and articles in professional and trade journals on the subject of telecommunications service regulation, cost methodology, rate design and pricing policy. These have included:

"Taxes, Corporate Financial Policy and Return to Investors"
National Tax Journal, Vol. XX, No.4, December 1967.

"Pricing Telephone Terminal Equipment Under Competition"
Public Utilities Fortnightly, December 8, 1977.

"Deregulation, Competition, and Regulatory Responsibility in the Telecommunications Industry"
Presented at the 1979 Rate Symposium on Problems of Regulated Industries - Sponsored by: The American University, Foster Associates, Inc., Missouri Public Service Commission, University of Missouri-Columbia, Kansas City, MO, February 11 - 14, 1979.

"Sifting Out the Economic Costs of Terminal Equipment Services"
Telephone Engineer and Management, October 15, 1979.

"Usage-Sensitive Pricing" (with G. F. Borton)
(a three part series)
Telephony, January 7, 28, February 11, 1980.

"Perspectives on Usage-Sensitive Pricing"
Public Utilities Fortnightly, May 7, 1981.

"Diversification, Deregulation, and Increased Uncertainty in the Public Utility Industries"
Comments Presented at the Thirteenth Annual Conference of the Institute of Public Utilities, Williamsburg, VA - December 14 - 16, 1981.

"Local Telephone Pricing: Is There a Better Way?; The Costs of LMS Exceed its Benefits: a Report on Recent U.S. Experience."
Proceedings of a conference held at Montreal, Quebec - Sponsored by Canadian Radio-Television and Telecommunications Commission and The Centre for the Study of Regulated Industries, McGill University, May 2 - 4, 1984.

"Long-Run Regulation of AT&T: A Key Element of A Competitive Telecommunications Policy"
Telematics, August 1984.

"Is Equal Access an Adequate Justification for Removing Restrictions on BOC Diversification?"
Presented at the Institute of Public Utilities Eighteenth Annual Conference, Williamsburg, VA - December 8 - 10, 1986.

"Market Power and Competition Under an Equal Access Environment"
Presented at the Sixteenth Annual Conference, "Impact of Deregulation and Market Forces on Public Utilities: The Future Role of Regulation"
Institute of Public Utilities, Michigan State University, Williamsburg, VA - December 3 - 5, 1987.

"Contestable Markets: Theory vs. Fact"
Presented at the Conference on Current Issues in Telephone Regulations: Dominance and Cost Allocation in Interexchange Markets - Center for Legal and Regulatory Studies Department of Management Science and Information Systems - Graduate School of Business, University of Texas at Austin, October 5, 1987.

"The Sources and Exercise of Market Power in the Market for Interexchange Telecommunications Services"
Presented at the Nineteenth Annual Conference - "Alternatives to Traditional Regulation: Options for Reform" - Institute of Public Utilities, Michigan State University, Williamsburg, VA, December, 1987.

"Assessing Market Power and Competition in The Telecommunications Industry: Toward an Empirical Foundation for Regulatory Reform"
Federal Communications Law Journal, Vol. 40 Num. 2, April 1988.

"A Perspective on Price Caps as a Substitute for Traditional Revenue Requirements Regulation"
Presented at the Twentieth Annual Conference - "New Regulatory Concepts, Issues and Controversies" - Institute of Public Utilities, Michigan State University, Williamsburg, VA, December, 1988.

"The Sustainability of Competition in Light of New Technologies" (with D. N. Townsend and P. D. Kravtin)
Presented at the Twentieth Annual Conference - Institute of Public Utilities Michigan State University, Williamsburg, VA, December, 1988.

"Adapting Telecom Regulation to Industry Change: Promoting Development Without Compromising Ratepayer Protection" (with S. C. Lundquist)
IEEE Communications Magazine, January, 1989.

"The Role of Cost Based Pricing of Telecommunications Services in the Age of Technology and Competition"
Presented at National Regulatory Research Institute Conference, Seattle, July 20, 1990.

"A Public Good/Private Good Framework for Identifying POTS Objectives for the Public Switched Network" (with Patricia D. Kravtin and Paul S. Keller)
Columbus, Ohio: *National Regulatory Research Institute*, September 1991.

"Telecommunications Regulation and Infrastructure Development: Alternative Models for the Public/Private Partnership"
Prepared for the Economic Symposium of the International Telecommunications Union Europe Telecom '92 Conference, Budapest, Hungary, October 15, 1992.

"Efficient Infrastructure Development and the Local Telephone Company's Role in Competitive Industry Environment" *Presented at the Twenty-Fourth Annual Conference, Institute of Public Utilities, Graduate School of Business, Michigan State University, "Shifting Boundaries between Regulation and Competition in Telecommunications and Energy"*, Williamsburg, VA, December 1992.

"Measurement of Telecommunications Productivity: Methods, Applications and Limitations" (with Françoise M. Clottes)
Presented at Organisation for Economic Cooperation and Development, Working Party on Telecommunication and Information Services Policies, '93 Conference "Defining Performance Indicators for Competitive Telecommunications Markets", Paris, France, February 8-9, 1993.

"Telecommunications Investment and Economic Development: Achieving efficiency and balance among competing public policy and stakeholder interests"
Presented at the 105th Annual Convention and Regulatory Symposium, National Association of Regulatory Utility Commissioners, New York, November 18, 1993.

"The Potential for Competition in the Market for Local Telephone Services" (with David N. Townsend and Paul S. Keller)
Presented at the Organization for Economic Cooperation and Development Workshop on Telecommunication Infrastructure Competition, December 6-7, 1993.

"Market Failure in Open Telecommunications Networks: Defining the new natural monopoly," *Utilities Policy*, Vol. 4, No. 1, January 1994.

The Enduring Local Bottleneck: Monopoly Power and the Local Exchange Carriers, (with Susan M. Gately, et al) a report prepared by ETI and Hatfield Associates, Inc. for AT&T, MCI and CompTel, February 1994.

Commercially Feasible Resale of Local Telecommunications Services: An Essential Step in the Transition to Effective Local Competition, (Susan M. Gately, et al) a report prepared by ETI for AT&T, July 1995.

"Efficient Public Investment in Telecommunications Infrastructure" *Land Economics*, Vol 71, No.3, August 1995.

Funding Universal Service: Maximizing Penetration and Efficiency in a Competitive Local Service Environment, Lee L. Selwyn with Susan M. Baldwin, under the direction of Donald Shepheard, A Time Warner Communications Policy White Paper, September 1995.

Stranded Investment and the New Regulatory Bargain, Lee L. Selwyn with Susan M. Baldwin, under the direction of Donald Shepheard, A Time Warner Communications Policy White Paper, September 1995

"Market Failure in Open Telecommunications Networks: Defining the new natural monopoly," in *Networks, Infrastructure, and the New Task for Regulation*, by Werner Sichel and Donal L. Alexander, eds., University of Michigan Press, 1996.

Establishing Effective Local Exchange Competition: A Recommended Approach Based Upon an Analysis of the United States Experience, Lee L. Selwyn, paper prepared for the Canadian Cable Television Association and filed as evidence in Telecom Public Notice CRTC 95-96, Local Interconnection and Network Component, January 26, 1996.

The Cost of Universal Service, A Critical Assessment of the Benchmark Cost Model, Susan M. Baldwin with Lee L. Selwyn, a report prepared by Economics and Technology, Inc. on behalf of the National Cable Television Association and submitted with Comments in FCC Docket No. CC-96-45, April 1996.

Economic Considerations in the Evaluation of Alternative Digital Television Proposals, Lee L. Selwyn (as Economic Consultant), paper prepared for the Computer Industry Coalition on Advanced Television Service, filed with comments in FCC MM Docket No. 87-268, In the Matter of Advanced

Television Systems and Their Impact Upon the Existing Television Broadcast Service, July 11, 1996.

Assessing Incumbent LEC Claims to Special Revenue Recovery Mechanisms: Revenue opportunities, market assessments, and further empirical analysis of the "Gap" between embedded and forward-looking costs, Patricia D. Kravtin and Lee L. Selwyn, In the Matter of Access Charge Reform, in CC Docket No. 96-262, January 29, 1997.

The Use of Forward-Looking Economic Cost Proxy Models, Susan M. Baldwin and Lee L. Selwyn, Economics and Technology, Inc., February 1997.

The Effect of Internet Use On The Nation's Telephone Network, Lee L. Selwyn and Joseph W. Laszlo, a report prepared for the Internet Access Coalition, July 22, 1997.

Regulatory Treatment of ILEC Operations Support Systems Costs, Lee L. Selwyn, Economics and Technology, Inc., September 1997.

The "Connecticut Experience" with Telecommunications Competition: A Case in Getting it Wrong, Lee L. Selwyn, Helen E. Golding and Susan M. Gately, Economics and Technology, Inc., February 1998.

Where Have All The Numbers Gone?: Long-term Area Code Relief Policies and the Need for Short-term Reform, prepared by Economics and Technology, Inc. for the Ad Hoc Telecommunications Users Committee, International Communications Association, March 1998.

Broken Promises: A Review of Bell Atlantic-Pennsylvania's Performance Under Chapter 30, Lee L. Selwyn, Sonia N. Jorge and Patricia D. Kravtin, Economics and Technology, Inc., June 1998.

Building A Broadband America: The Competitive Keys to the Future of the Internet, Lee L. Selwyn, Patricia D. Kravtin and Scott A. Coleman, a report prepared for the Competitive Broadband Coalition, May 1999.

Bringing Broadband to Rural America: Investment and Innovation In the Wake of the Telecom Act, Lee L. Selwyn, Scott C. Lundquist and Scott A. Coleman, a report prepared for the Competitive Broadband Coalition, September 1999.

Dr. Selwyn has been an invited speaker at numerous seminars and conferences on telecommunications regulation and policy, including meetings and workshops sponsored by the National Telecommunications and Information Administration, the National Association of

Regulatory Utility Commissioners, the U.S. General Services Administration, the Institute of Public Utilities at Michigan State University, the National Regulatory Research Institute at Ohio State University, the Harvard University Program on Information Resources Policy, the Columbia University Institute for Tele-Information, the International Communications Association, the Tele-Communications Association, the Western Conference of Public Service Commissioners, at the New England, Mid-America, Southern and Western regional PUC/PSC conferences, as well as at numerous conferences and workshops sponsored by individual regulatory agencies.

Attachment 2:

Verizon and SBC Press Releases regarding Residential Long Distance Market Shares in New York, Massachusetts and Texas

InvestorBriefing

April 23, 2001 | No. 225

Strong Growth in Data, Wireless and Long Distance Highlights SBC's First-Quarter Results

Economy Impacts Outlook for Remainder of 2001

SAN ANTONIO, April 23, 2001 — SBC Communications Inc. (NYSE: SBC) today reported that its primary growth drivers — data, wireless and long distance — performed strongly during the first quarter. Highlights included:

- 39.9 percent growth in data revenues
- A net gain of 854,000 subscribers at Cingular, SBC's nationwide wireless joint venture with BellSouth
- 2.2 million long-distance lines in Texas, Oklahoma and Kansas; SBC entered the Texas long-distance market in July 2000, and the two other states in March of this year

As expected, the timing of SBC's investments in its growth initiatives during 2000 impacted first-quarter expense and earnings comparisons. The slowing U.S. economy also dampened growth. First-quarter earnings were $1.7 billion, or $0.51 per diluted share, before one-time items, compared with $1.9 billion, or $0.56 per diluted share, in the first quarter a year ago. Operating revenues for the quarter, including results from Cingular, increased 4.7 percent to $13.1 billion.

First-quarter revenue growth was adversely impacted by SBC's sale of Ameritech's security-monitoring business. Excluding results from this divestiture as well as shifts in directory publishing dates and the pro forma effect on the year-ago quarter of the Cingular venture, first-quarter revenues increased 6.7 percent.

Primarily because of weakening U.S. economic conditions, SBC expects earnings per share for 2001, before one-time items, in the $2.35 to $2.40 range.

"The economy is having a greater impact on our business than we projected," said Edward E. Whitacre Jr., SBC chairman and CEO. "We handled the first-quarter revenue shortfall well, thanks to very disciplined expense management. Going forward, we are determined not to lose sight of our larger strategic mission — including fully developing our broadband capabilities and obtaining long-distance relief in our states as quickly as possible — and we will not compromise our long-term future to preserve near-term projections.

"Broadband is the foundation for a host of new value-added services, and we will continue to pursue it aggressively," Whitacre said. "Long distance complements our broadband strategy, and this year we have the potential to increase our long-distance opportunity from two states to eight states. Looking ahead, we will continue playing to our strengths, and our adjusted game plan for 2001 should yield a much more stable and predictable growth profile for the future."

FIRST-QUARTER RESULTS

(Dollars in millions, except per-share amounts. Results exclude one-time items. First-quarter 2001 results include proportionate Cingular results. First-quarter 2000 not restated.)

(Volumes in thousands)	1Q01	1Q00	Change
Total operating revenues	$13,144	$12,553	4.7%
EBITDA	$ 5,164	$ 5,291	-2.4%
Earnings before extraordinary item	$ 1,739	$ 1,910	-9.0%
Diluted earnings per share	$ 0.51	$ 0.56	-8.9%
Data revenues	$ 2,127	$ 1,521	39.9%
Wireless subscriber revenues	$ 1,688	$ 1,500	12.5%
Domestic wireless subscribers[1]	20,535	17,294	18.7%
Proportionate international revenue[2]	$ 1,795	$ 1,464	22.6%

1 – Represents total Cingular pro forma subscribers in both periods.

2 – Amounts for 2000 have been restated to exclude investments that have been sold or are no longer accounted for under the equity method.

Revenue *and* Expense *trends*

SBC achieves significant sequential expense and margin improvement, strong results in major growth drivers — data, wireless, long distance

SBC's first-quarter financial performance was defined by: (1) continued strong results in its major growth drivers — data, wireless and long distance; (2) solid expense management as total operating expenses declined 6.1 percent from fourth-quarter 2000 levels; and (3) lower-than-expected revenue growth due to a weakened U.S. economy and increased competition, particularly in the Ameritech region.

In the first quarter:

- Data revenues increased 39.9 percent.
- Cingular Wireless recorded a net subscriber gain of 854,000, compared with a pro forma gain of 695,000 in the first quarter a year ago.
- Total long-distance lines in Texas, Kansas and Oklahoma increased to 2.2 million, up from 1.7 million at the end of the fourth quarter. SBC began selling long-distance services in Texas in July 2000, and in Kansas and Oklahoma this March.
- Compared with the first quarter a year ago, cash operating expenses increased 9.9 percent, reflecting the timing of investments in major growth drivers in 2000. However, from fourth-quarter 2000 levels, cash operating expenses declined 7.1 percent, and SBC's EBITDA margin increased 50 basis points. These sequential improvements occurred despite the fact that first-quarter results included significant expenses to support Cingular's national branding campaign, launched in January, as well as expenses for initiatives to integrate SBC's and BellSouth's formerly separate wireless operations.
- Wireline cash operating expenses declined 7.2 percent, and the company's wireline EBITDA margin increased to 38.8 percent, up 420 basis points from fourth-quarter levels.
- Revenues grew 6.7 percent excluding the impact of the sale of Ameritech's security monitoring business, directory publishing date shifts and the year-ago pro forma effect of Cingular. Wireline revenues increased 5.0 percent compared with the first quarter a year ago.

REVENUE DYNAMICS

SBC's lower than-expected first-quarter revenue growth in both residential and business markets was caused principally by a weakened U.S. economy, increased competitive inroads and the divestiture of Ameritech's security monitoring business.

SBC has experienced the impacts of a slower economy across its regions, with impacts in February and March being more severe than in the previous months and more severe than the company had anticipated. Across the company, inward call volumes to service centers declined with access line growth trends, particularly in residential markets. Broader economic trends — including housing starts, layoffs and bankruptcies — mirror SBC's business indicators. In California, the largest state in SBC's in-region territory, the macroeconomic impact on access line growth was exacerbated by California's energy crisis and the failure of many dot-com and high-tech startups.

AN IMPORTANT YEAR

SBC is confident in its long-term growth strategies — in data, DSL, wireless and long distance — and its focus is on building platforms in these high-potential areas that are capable of driving sustainable growth in 2002 and the years ahead.

SBC also believes that 2001 is an important year in the telecommunications industry's transformation and in its own development.

- SBC, which started this year providing long distance in two states, hopes to end the year as a long-distance provider in eight states, including the two largest in this country — Texas and California. Long distance is a linchpin to having a full set of products in both the residential and business markets.

SBC Major Revenue Growth Drivers

- Data
- Wireless
- Long Distance

- SBC also has made rapid progress in broadband and believes that in the quarters ahead it has the opportunity to expand substantially its DSL customer base. Demand for broadband services is robust, and SBC plans to be aggressive in expanding its DSL growth platform.
- At the same time, while SBC has made substantial progress on service quality issues at Ameritech, finalizing those efforts while improving the regulatory and competitive climate in the region will require continued effort.

YEAR 2001 PRIORITIES

In light of these opportunities and commitments, SBC's priorities in 2001 are:

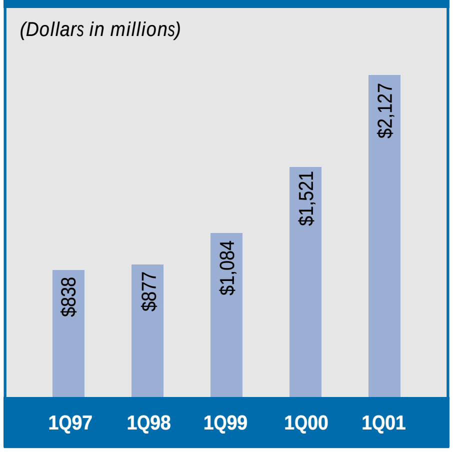
- Aggressive execution of major growth drivers — data services, mass market broadband (DSL), nationwide wireless and long distance.
- Superior customer service — SBC believes that delivering the market's best customer service provides a critical competitive edge and forms a foundation for future growth initiatives.
- Financial strength — SBC views its financial strength and flexibility as key strategic assets. It is committed to enhancing its already strong balance sheet and solid cash flow through disciplined expense management and investment strategies designed to yield returns well in excess of the cost of capital.

Data *growth*

SBC's wireline data revenues grew 39.9 percent in the first quarter — driven by high-speed transport, network integration and Internet services

In the first quarter, SBC extended its strong growth record in wireline data. Total data revenues increased 39.9 percent compared with the first quarter a year ago and exceeded $2.1 billion dollars — nearly double SBC's data revenue stream just two years ago.

SBC Data Revenues



Data revenues represented 21 percent of SBC's total wireline revenues in the quarter, up from 16 percent in the first quarter a year ago.

SBC's first-quarter data growth highlights included:

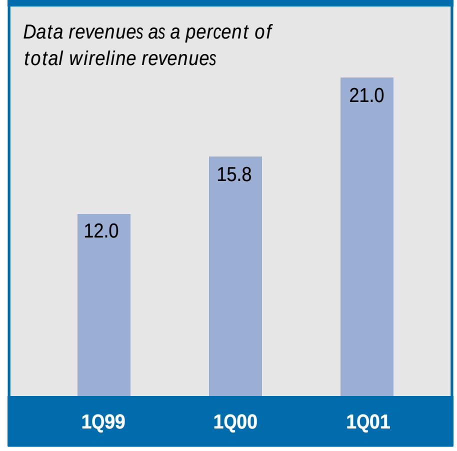
- Core data transport products, including DS3s and ATM, sustained their strong growth rates.
- SONET revenues also continued their strong growth, as demand from enterprise customers for high-bandwidth solutions continues to expand rapidly.
- Revenues from integration services were up as well, as enterprise companies continue to turn to SBC for a range of network analysis, planning and security solutions.
- Strong growth in Internet services revenues also continued as SBC and its subsidiary Sterling Commerce expanded e-business solutions for the small-business market while SBC added to its Web-hosting operations. SBC currently hosts the Web sites of more than 21,000 businesses, nearly double its total a year ago.

DATA GROWTH INITIATIVES

SBC continues to drive growth by migrating customers to higher-speed services and longer-term commitments and by expanding capabilities in attractive market segments. For example, in the first quarter SBC:

- Launched GigaMAN service in the Southwestern Bell and Pacific Bell regions. The service, which provides high-bandwidth LAN links within a metropolitan area, already has proven very successful in the Ameritech region.
- Expanded sales of its "OnLine Office" bundle of DSL, Internet access, e-mail accounts and Web-hosting services for small businesses. This high-value package helps a wide range of businesses participate more easily in the e-economy through informational Web sites, online catalogs and transaction tools. Sales of OnLine Office have increased dramatically during the past two quarters due in part to mainstreaming the product's sales force to include more than 4,000 general sales people.

Revenue Mix



- Continued to see strong results from its major sales and marketing alliance with Cisco Systems, which was launched in the second quarter of 2000.
- Launched its second Internet Data Center (IDC). The newest center, in Irvine, California, follows the successful opening of its sister IDC in Dallas in the third quarter of last year. In addition, SBC launched its new WebHosting.com line of dedicated hosting products. SBC acquired a controlling interest in the parent company of WebHosting.com in the third quarter of last year.
- Moved to increase its international data capabilities by developing a frame relay service to Mexico, which is expected to be available in the second quarter, and by adding three virtual border crossings along the Rio Grande region of Texas, which should further increase the sale of private lines to Mexico.

SBC Data Revenues

(Dollars in millions)

	1Q01	1Q00	Change
Data transport	$1,534	$1,190	28.9%
Advanced services	$ 593	$ 331	79.4%
Total data revenues	$2,127	$1,521	39.9%

DSL *growth*

Total DSL subscribers reach 954,000 at end of quarter; systems advances improve provisioning, quality of customer experience

In the first quarter, SBC made substantial advances in broadband, further strengthening its position as the nation's leading provider of DSL services.

SBC views DSL as a key growth platform for the future — capable of delivering a host of entertainment, information and time management services as well as high-speed Internet access to both residential and business customers. During the past few months, SBC's conviction that DSL holds huge potential as a strategic growth driver has been reinforced by market research.

During the first quarter, SBC:

- Expanded its DSL in-service subscriber base to 954,000.
- Achieved significant improvements in provisioning, operating efficiency and overall customer experience. Due date intervals now average less than 10 business days, and 90 percent of orders are completed on or before their original due dates.
- Further broadened its addressable market through its Project Pronto network build-out. At the end of first quarter, SBC was able to reach 21.7 million customer locations, or more than 50 percent of the company's customer base with its DSL service, up from 12.9 million locations just one year ago.

"Over the past two quarters, SBC has elevated the quality of customers' broadband experience," said Ed Whitacre. "While we are only two years into broadband and still have considerable work to do, demand is strong, per-customer financial metrics are improving, and we are confident in our business model — which is every bit as promising as wireless was in its first years. SBC plans to continue to be aggressive in expanding its DSL growth platform."

> *"Over the past two quarters, SBC has elevated the quality of customers' broadband experience. While we are only two years into broadband and still have considerable work to do, demand is strong, per-customer financial metrics are improving, and we are confident in our business model — which is every bit as promising as wireless was in its first years."*
>
> EDWARD E. WHITACRE JR.
> CHAIRMAN AND CEO

CUSTOMER GROWTH

SBC's emphasis in the first quarter has been on improved operating efficiencies and enhanced quality for the overall customer experience — both critical foundations for aggressive growth in DSL.

Gross install levels in the first quarter were consistent with results in the fourth quarter, and SBC's net subscriber gain of 187,000 represents a solid extension of recent momentum in light of two factors. Database reconciliations made possible by enhancements to automated systems added to the number of disconnects attributed to this quarter. In addition, during the first quarter, SBC changed its bundled offer of a DSL-ready Compaq PC plus Internet access over DSL, launched in July 2000, so that customers purchased the PC from Compaq rather than as part of a seamless offer. This change resulted in significantly slower sales of the bundle. Excluding the impact of these two factors, SBC's daily net gain in subscribers would have been in the 3,500 – 4,000 range, as expected.

Market trends continue to be positive. The company's most recent research found that in the competitive broadband marketplace SBC maintains its composite leading position in five key service areas — Dallas, Houston, Los Angeles, San Francisco and San Antonio.

Going forward, SBC anticipates volatility in quarterly customer growth numbers as it completes the transition of its customer base to automated systems and as a limited number of ISP (Internet Service Provider) resellers and DSL providers work their way through widely reported financial difficulties. Because more than 80 percent of its DSL customer base obtains Internet access service directly from an SBC entity or affiliate, SBC has limited exposure to ISP financial failure. Nevertheless, a few ISPs' restructuring or closing operations in a quarter could significantly distort that quarter's growth statistics. Over time, SBC expects to continue to be the DSL provider for many of these ISPs' customers — including temporarily displaced customers — whether these ISPs successfully restructure, transition their customers to more stable ISPs or cease operations altogether.

STRONG DEMAND

Demand for DSL services continues to be robust and is expected to grow significantly over the next few years. At the end of 2000, there were more than 6 million U.S. residential customers accessing the Internet through a broadband connection and that number is expected to grow to more than 28 million customers in 2004, according to industry analyst firm Gartner Dataquest. Other recent independent studies have projected even higher totals for residential and small-business customers combined.

Moreover, customers who adopt broadband are passionate in their commitment to the service. Broadband Watch, a new survey sponsored by SBC Communications designed to check the pulse of today's broadband users, found that residential DSL users spend an average of 25 hours a week online, compared with just 7.5 hours with dial-up Internet service. Broadband Watch, which surveyed customers in SBC's 13-state region, also found that DSL service and the PC have already become the two most important household technologies for customers. Nearly all respondents (96 percent) consider their high-speed Internet access to be an important household technology, more significant than the microwave (88 percent), remote control (87 percent), VCR (81 percent), cable TV (70 percent), and their garage door opener (59 percent).

Looking ahead, the research found that there is growing anticipation for emerging high-speed Internet access products and services. More than two-thirds of the respondents expressed interest in future applications and content such as distance learning (71 percent), video-on-demand (70 percent), videoconferencing (69 percent) and home networking (66 percent).

SUSTAINED DSL LEADERSHIP: MAJOR FOCUS AREAS

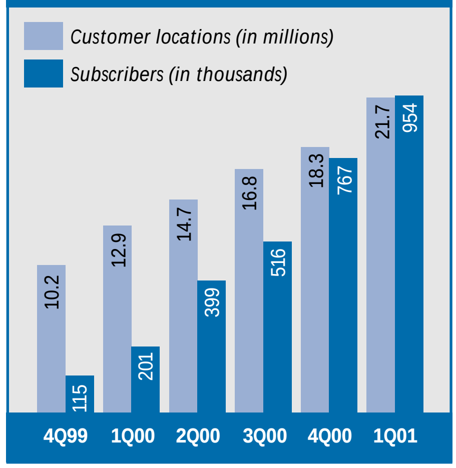
In addition to continued expansion of its customer base, SBC continues to make excellent progress in areas that are critical to realizing the tremendous potential of its DSL platform:

Improved Financial Metrics — Improved provisioning and added scale already have improved significantly the economics of DSL, and SBC expects continued advances over the next two years. During the past six months, SBC's DSL subscriber acquisition costs have declined more than 25 percent. Going forward, expenses are expected to decline further due to additional process improvements and declining costs for modems and other DSL equipment. At the same time, per-customer revenue growth is expected to be driven by new revenue-generating applications and by a shift in subscriber mix to higher-revenue business customers who purchase premium speeds and multiple IP services.

Expanded Addressable Market — SBC continues to move rapidly with Project Pronto, and the central thrusts of this deployment for its DSL service are reaching more potential customers and moving many more customers into the 14,000-feet-and-under zone. This zone offers superior financial characteristics and a greatly enhanced overall broadband customer experience. Because of regulatory delays, SBC was behind plan in remote terminal deployment in 2000, which impacted both the pace and the initial economics of its DSL initiative.

At the end of first quarter, SBC's total potential broadband customer base reached 21.7 million locations, up from 12.9 million locations just one year ago. SBC has deployed DSL enabling equipment in nearly 1,300 of its central offices, representing more than 90 percent of the company's targeted level for this aspect of Project

DSL Growth



Pronto, and all of these central offices have capacity to support new orders. In addition, SBC now has nearly 3,000 Broadband Neighborhood Gateways in service but has suspended their DSL-related deployment in Illinois due to regulatory issues in that state.

Enhanced Customer Experience — SBC continues to make good progress making DSL easier, faster and more efficient to install. In the first quarter, nearly 70 percent of new subscribers used self-install. Over the past six months, the percentage of automated order flow-through at SBC's data subsidiary has more than doubled. These process improvements combined with the success of self-installs has enabled SBC to reduce average due date intervals more than 50 percent since September. A key to further enhancing customers' broadband experience is the availability of new applications, and SBC expects to begin trials of several in the coming months.

Wireless *growth*

Cingular adds 854,000 subscribers in quarter to reach 20.5 million, service revenues increase 14.8 percent

Cingular Wireless delivered strong growth in the first quarter as it introduced new services and launched a national campaign establishing its new brand. A joint venture of SBC and BellSouth, Cingular is the United States' second-largest wireless provider, has 20.5 million subscribers and covers markets encompassing a total population of 192 million. SBC owns 60 percent of the joint venture.

Cingular first-quarter highlights include:

- An 854,000 net gain in subscribers, compared with a 695,000 pro forma net gain in the first quarter a year ago and 814,000 subscribers added in the fourth quarter of 2000. Cingular's cellular and PCS customer base grew 18.7 percent from pro forma levels at the end of the first quarter a year ago.
- A 14.8 percent increase in wireless service revenues to $3.1 billion, compared with pro forma results for the first quarter of 2000.
- An 84,000 increase in subscribers at Cingular Interactive. Over the past year, Cingular Interactive's customer base has more than doubled. Cingular Interactive, formerly BellSouth Wireless Data, provides advanced two-way messaging, customized content services and transaction applications to customers throughout the United States, and it covers more than 93 percent of the urban business population.

Cingular Focus

- **20.5 million subscribers**
- **192 million POPs**
- **43 of top 50 U.S. markets**
- **$3.3 billion in revenues (1Q01)**
- **$972 million EBITDA (1Q01)**
- **SBC ownership – 60 percent**

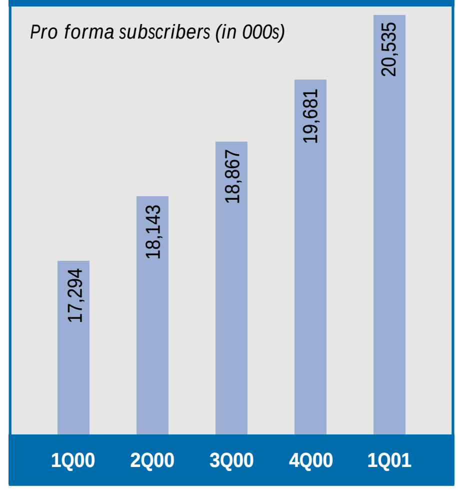
Cingular's first-quarter EBITDA margin was 31.7 percent, up more than 300 basis points from fourth-quarter 2000 levels and down from a pro forma 35 percent in the first quarter a year ago. This lower EBITDA margin was driven primarily by higher levels of gross subscriber additions as well as higher cash expenses for marketing and advertising related to Cingular's national branding campaign and for merger-related and integration initiatives. Cingular began operation in the fourth quarter of last year and kicked off its branding initiative in January.

NEW SERVICES, MARKET EXPANSION

In addition to its strong subscriber growth, during the past three months Cingular took important steps to expand its growth potential:

- In January the company launched its nationwide brand with high-profile and highly effective mass media advertising.
- To broaden its geographic reach, in early March, Cingular launched service in the Seattle and Spokane markets with an all-digital GSM (global system for mobile communications) network and 50 stores, more than any other carrier in this market.
- Also in the first quarter, Salmon PCS, of which Cingular is an 85 percent non-controlling equity owner, was a winner of spectrum in the recent 1900 MHz band auction covering approximately 77 million POPs; 28 million of these POPs are in markets where Cingular currently has no presence. The additional spectrum has the potential to add capacity in major existing Cingular markets such as Atlanta, Boston, Dallas, Houston and Washington, D.C., as well as in new markets including Denver, Minneapolis and Pittsburgh.

Cingular: Total Domestic Wireless Subscribers



- In early April, Cingular advanced its integration and customer service objectives by announcing plans to consolidate and streamline customer service functions. New, multifunctional regional centers will replace small centers and will handle inbound and outbound customer service, collections, credit, activations, roaming and technical support. Cingular also is consolidating regional distribution centers into a single, more efficient facility.
- In March, the company announced "Cingular Wireless Internet Express," the first operational standards-based General Packet Radio Service (GPRS) in the United States. The service provides customers in Cingular's GSM markets with faster wireless access to e-mail, Internet, games and other services.
- Cingular also announced the launch of the first Hispanic wireless Internet portal offered by a wireless carrier in the United States. Cingular already is a leading wireless provider in nine of the country's top 10 Hispanic metropolitan area markets.

Cingular pro forma financial statements are available in the Investor Relations section of SBC's Web site.
www.sbc.com

Long-Distance *growth*

SBC launches long-distance service in two states, ends first quarter with 2.2 million lines in Texas, Kansas and Oklahoma

In the first quarter, SBC sustained its strong growth in the Texas long-distance market, launched service in two additional states — Kansas and Oklahoma — and won state commission approval to file with the FCC (Federal Communications Commission) to enter the Missouri market. SBC is the first of the former regional Bell companies to gain long-distance approvals in multiple states.

SBC views interLATA long distance as a key growth driver for the future — adding to its bundles of services for residential and small-business customers and greatly expanding its ability to deliver packages of data services for larger enterprises with more sophisticated communications requirements.

SBC's long-distance business model is built on positive economics — combining increased revenues per customer with an attractive cost structure. The company's long-distance support systems for billing and customer service are already in place, its mix of sales channels is efficient, and SBC has an attractive nationwide transport alliance with Williams Communications Group, the United States' largest next-generation long-distance network.

WINNING WITH CUSTOMERS

SBC's Southwestern Bell Long Distance unit began marketing services in Texas on July 10, 2000. At the end of the first quarter, less than nine months after launch, it had won more than 2.1 million lines. Southwestern Bell has approximately 10 million access lines in Texas, and the state's total long-distance market is estimated at $7.7 billion annually.

In March, Southwestern Bell Long Distance added to its array of services for customers in Texas with its introduction of SuperMexico "block-of-time" monthly plans that offer calls to neighboring Mexico for flat, highly competitive rates. According to the FCC, Mexico is the second most frequently called international destination by U.S. consumers. Currently more than 50 percent of Southwestern Bell Long Distance international calls are placed to Mexico, making it the most called country by the company's subscribers in Texas.

On March 7, the company launched long-distance service in Kansas and Oklahoma, and on a percentage basis its initial sales pace in these states has been comparable to its early growth in Texas. Southwestern Bell has more than 3 million access lines in the two states.

Southwestern Bell's flagship offer in Kansas and Oklahoma is a stand-alone basic rate of 10 cents a minute. Customers who purchase Southwestern Bell long distance as part of a "Simple Solutions" package of vertical calling services receive a rate of 8 cents a minute. The company also offers calling-card services, international calling and a range of plans for business customers.

MISSOURI APPLICATION, ADDITIONAL STATES

On April 4, SBC formally asked the FCC for permission to offer long-distance services in Missouri. The filing followed unanimous endorsement of SBC's application by the Missouri Public Service Commission in March. SBC expects the FCC to rule by July.

SBC continues to make good progress in additional states and expects to gain approvals for long-distance launches in California, Nevada and Arkansas this year. Independent systems testing is under way in each of the Ameritech states, and based on current progress, Michigan is expected to be the first of those states to file an application with the FCC.

Long-Distance Market Estimates
(SBC's in-region, 12-state)

Region	Estimated total long-distance market revenues
SOUTHWESTERN BELL	
Texas, Kansas, Oklahoma	$8.7 billion
Missouri, Arkansas	$2.0 billion
PACIFIC BELL/NEVADA BELL	
California, Nevada	$16.9 billion
AMERITECH	
Illinois, Indiana, Ohio, Michigan, Wisconsin	$21.2 billion
TOTAL 12-STATES	$48.8 billion

International *growth*

Increases in customers and revenues expand platforms for growth and value creation

In the first quarter, SBC's broad international holdings continued to generate strong gains in customers and revenues, expanding their growth platforms for the future.

First-quarter highlights from SBC's directly held international investments, excluding the impacts of divestitures during the past year, include:

- 55.4 percent growth in total wireless subscribers to 34.9 million
- 4.4 percent growth in total landline access lines to 38.2 million
- 18.3 percent growth in total revenues to $10.7 billion

Equity income from SBC's international holdings declined primarily because of the sale of assets during the past year.

SBC International Highlights

(Dollars in millions) *(Volumes in 000s)*	1Q01	1Q00	Change
Equity income	$ 177	$ 199	-11.1%
Total access lines	38,239	36,611	4.4%
Total wireless customers	34,855	22,423	55.4%
Total revenues	$10,720	$ 9,065	18.3%
Proportionate access lines	6,644	6,595	0.7%
Proportionate wireless customers	4,401	2,917	50.9%
Proportionate revenues	$ 1,795	$ 1,464	22.6%

Amounts for 2000 have been restated to exclude investments that have been sold or are no longer accounted for under the equity method.

GROWTH INITIATIVES

During the first quarter, the companies in which SBC is an investor continued to generate solid growth, particularly in wireless and data services, and they took important steps to expand their growth potential. First-quarter highlights include:

- Telecom Americas, the Latin American joint venture among SBC, Mexico's América Móvil and Bell Canada International, acquired an equity interest in the São Paulo State cellular company Tess. Tess serves approximately 940,000 subscribers in the Brazilian State of São Paulo excluding the Metropolitan São Paulo region — an area with a population of 18.4 million.
- Belgacom's wireless operation reached more than 3.6 million subscribers at the end of March, up 385,000 during the past three months.
- TDC announced that it plans to accelerate the rollout of ADSL broadband service in Denmark so that more than 95 percent of Danish households will have the opportunity to sign up for ADSL within the next 17 months.

NORTH AMERICAN GROWTH PLATFORM

SBC's international alliances with and investments in Telmex, América Móvil, Bell Canada and Williams Communications Group form a high-potential North American growth platform. Telmex is Mexico's premier telecommunications company. América Móvil, Latin America's largest wireless communications provider, owns Telcel in Mexico and telecommunications investments in several countries throughout the region. Bell Canada is the largest communication provider in Canada. Williams has completed the United States' largest next-generation network connecting 125 U.S. cities.

Core *growth*

Vertical service features in service increased 17.2 percent; VGEs grew 17 percent

A solid core business continues to be the foundation for SBC's major growth strategies. In the first quarter, SBC's core operations — which include wireline voice, switched access, vertical services, directory and wholesale services — delivered essentially flat revenue growth, reflecting a weakened U.S. economy and declines in access revenues largely due to slightly reduced minutes of use and regulatory mandated price decreases. First-quarter core revenues exclude the impacts of shifts in directory publication dates as well as the sale of Ameritech's security monitoring business.

First-quarter highlights include:

- 17 percent growth in VGEs (voice grade equivalents) to 107 million. Traditional access lines increased slightly to 61.3 million.
- 17.2 percent growth in vertical service features, and more than 20 percent growth in total household penetration of packages.
- Directory revenues excluding the impacts of shifts in publication dates increased 2.7 percent.

SBC VGE Line Growth

(in thousands)	1Q01	1Q00	Change
Business VGEs	64,154	52,053	23.2%
Residence VGEs	42,279	38,722	9.2%
Other VGEs	625	730	-14.4%
Total VGEs	107,058	91,505	17.0%

SBC Communications Inc.
Consolidated Statements of Income (Unaudited)

(Dollars in Millions, Except per Share Amounts)

	Three Months Ended		
	3/31/01	3/31/00	% Change
Operating Revenues			
Landline local service	**$ 5,568**	$ 5,124	8.7%
Wireless subscriber	**54**	1,500	—
Network access	**2,603**	2,665	-2.3%
Long distance service	**793**	803	-1.2%
Directory advertising	**830**	882	-5.9%
Other	**1,342**	1,579	-15.0%
Total Operating Revenues	**11,190**	12,553	-10.9%
Operating Expenses			
Operations and support	**6,083**	7,214	-15.7%
EBITDA*	**5,107**	5,339	-4.3%
Depreciation and amortization	**2,448**	2,263	8.2%
Total Operating Expenses	**8,531**	9,477	-10.0%
Operating Income	**2,659**	3,076	-13.6%
Interest Expense	**459**	356	28.9%
Interest Income	**178**	24	—
Equity in Net Income of Affiliates	**401**	200	—
Other Income (Expense) – Net	**106**	17	—
Income Before Income Taxes	**2,885**	2,961	-2.6%
Income Taxes	**1,021**	1,139	-10.4%
Income Before Extraordinary Item	**1,864**	1,822	2.3%
Extraordinary Item, net of tax	**(10)**	—	—
Net Income	**$ 1,854**	$ 1,822	1.8%
Basic Earnings Per Share:			
Income Before Extraordinary Item	**$ 0.55**	$ 0.54	1.9%
Net Income	**$ 0.55**	$ 0.54	1.9%
Weighted Average Common Shares Outstanding (000,000)	**3,377**	3,396	-0.6%
Diluted Earnings Per Share:			
Income Before Extraordinary Item	**$ 0.55**	$ 0.53	3.8%
Net Income	**$ 0.54**	$ 0.53	1.9%
Weighted Average Common Shares Outstanding with Dilution (000,000)	**3,413**	3,432	-0.6%
Diluted Earnings Per Share Before Goodwill Charges:			
Income Before Extraordinary Item	**$ 0.57**	$ 0.57	—
Net Income	**$ 0.57**	$ 0.57	—

*EBITDA = Earnings Before Interest, Taxes, Depreciation and Amortization.

SBC Communications Inc.

Consolidated Statements of Income – Normalized (Unaudited)

(Dollars in Millions, Except per Share Amounts)

	Three Months Ended		
	3/31/01	3/31/00	% Change
Operating Revenues			
Landline local service	**$ 5,568**	$ 5,124	8.7%
Wireless subscriber	**1,688**	1,500	12.5%
Network access	**2,592**	2,665	-2.7%
Long distance service	**793**	803	-1.2%
Directory advertising	**830**	882	-5.9%
Other	**1,673**	1,579	6.0%
Total Operating Revenues	**13,144**	12,553	4.7%
Operating Expenses			
Operations and support	**7,980**	7,262	9.9%
EBITDA*	**5,164**	5,291	-2.4%
Depreciation and amortization	**2,408**	2,192	9.9%
Total Operating Expenses	**10,388**	9,454	9.9%
Operating Income	**2,756**	3,099	-11.1%
Interest Expense	**483**	356	35.7%
Interest Income	**79**	24	—
Equity in Net Income of Affiliates	**188**	200	-6.0%
Other Income (Expense) – Net	**136**	17	—
Income Before Income Taxes	**2,676**	2,984	-10.3%
Income Taxes	**937**	1,074	-12.8%
Income Before Extraordinary Item	**1,739**	1,910	-9.0%
Extraordinary Item, net of tax	**(10)**	—	—
Net Income	**$ 1,729**	$ 1,910	-9.5%
Basic Earnings Per Share:			
Income Before Extraordinary Item	**$ 0.52**	$ 0.56	-7.1%
Net Income	**$ 0.51**	$ 0.56	-8.9%
Weighted Average Common Shares Outstanding (000,000)	**3,377**	3,396	-0.6%
Diluted Earnings Per Share:			
Income Before Extraordinary Item	**$ 0.51**	$ 0.56	-8.9%
Net Income	**$ 0.51**	$ 0.56	-8.9%
Weighted Average Common Shares Outstanding with Dilution (000,000)	**3,413**	3,432	-0.6%
Diluted Earnings Per Share Before Goodwill Charges:			
Income Before Extraordinary Item	**$ 0.54**	$ 0.58	-6.9%
Net Income	**$ 0.53**	$ 0.58	-8.6%

The first quarter of 2001 reflects 60% proportional consolidation of Cingular actual results plus the residual wireless properties we hold that have not yet been contributed to Cingular. First quarter 2000 results reflect the historical results of our wireless businesses that have been or will be contributed to Cingular.

*EBITDA = Earnings Before Interest, Taxes, Depreciation and Amortization.

Normalized 2001 net income excluded the following special items:
Pension settlement gains of ($330) related to management employees, primarily resulting from a voluntary retirement program net of costs associated with that program.
Combined charges of $205 related to impairment of our cable operations.

Normalized 2000 net income excluded the following special items:
Pension settlement gains of ($161) primarily related to employees who terminated employment during 1999.
A charge of $132 related to in-process research and development from the March 2000 acquisition of Sterling.
Costs of $117 associated with strategic initiatives and other adjustments resulting from the merger integration process with Ameritech.

SBC Communications Inc.

Consolidated Statements of Income – Normalized (Unaudited)

(Dollars in Millions, Except per Share Amounts)

	Three Months Ended		
	3/31/01	3/31/00	% Change
Wireline			
Operating Revenues			
Local service	**$ 5,564**	$5,128	8.5%
Network access	**2,603**	2,688	-3.2%
Long distance service	**748**	763	-2.0%
Other	**1,192**	1,046	14.0%
Total Operating Revenues	**10,107**	9,625	5.0%
Operating Expenses			
Operations and support	**6,182**	5,408	14.3%
EBITDA*	**3,925**	4,217	-6.9%
Depreciation and amortization	**1,967**	1,787	10.1%
Total Operating Expenses	**8,149**	7,195	13.3%
Operating Income	**1,958**	2,430	-19.4%
Interest Expense	**333**	317	5.0%
Other Income (Expense) – Net	**15**	22	-31.8%
Income Before Income Taxes	**$ 1,640**	$2,135	-23.2%
Wireless**			
Operating Revenues			
Subscriber Revenues	**$ 1,688**	$1,500	12.5%
Other	**343**	326	5.2%
Total Operating Revenues	**2,031**	1,826	11.2%
Operating Expenses			
Operations and support	**1,455**	1,173	24.0%
EBITDA*	**576**	653	-11.8%
Depreciation and amortization	**287**	279	2.9%
Total Operating Expenses	**1,742**	1,452	20.0%
Operating Income	**289**	374	-22.7%
Interest Expense	**142**	39	—
Equity in Net Income of Affiliates	**7**	1	—
Other Income (Expense) – Net	**35**	(35)	—
Income Before Income Taxes	**$ 189**	$ 301	-37.2%

**The first quarter of 2001 reflects 60% proportional consolidation of Cingular actual results plus the residual wireless properties we hold that have not yet been contributed to Cingular. First quarter 2000 results reflect the historical results of our wireless businesses that have been or will be contributed to Cingular.

Directory			
Operating Revenues	**$ 824**	$ 871	-5.4%
Operating Expenses			
Operations and support	**440**	482	-8.7%
EBITDA*	**384**	389	-1.3%
Depreciation and amortization	**9**	8	12.5%
Total Operating Expenses	**449**	490	-8.4%
Operating Income	**375**	381	-1.6%
Interest Expense	**—**	3	—
Other Income (Expense) – Net	**5**	5	—
Income Before Income Taxes	**$ 380**	$ 383	-0.8%
International			
Operating Revenues	**$ 70**	$ 61	14.8%
Operating Expenses	**75**	89	-15.7%
Operating Income (Loss)	**(5)**	(28)	82.1%
Interest Expense	**1**	70	-98.6%
Equity in Net Income of Affiliates	**177**	199	-11.1%
Other Income (Expense) - Net	**107**	138	-22.5%
Income Before Income Taxes	**$ 278**	$ 239	16.3%

*EBITDA = Earnings Before Interest, Taxes, Depreciation and Amortization.

SBC Communications Inc.
Consolidated Balance Sheets (Unaudited)

(Dollars in Millions, Except per Share Amounts)

	3/31/01	12/31/00
Assets		
Current Assets		
Cash and cash equivalents	**$ 551**	$ 643
Accounts receivable – net of allowances for uncollectibles of $1,008 and $1,032	**9,315**	10,144
Prepaid expenses	**999**	550
Deferred income taxes	**612**	671
Notes receivable from Cingular Wireless	**9,138**	9,568
Other current assets	**1,099**	1,640
Total current assets	**21,714**	23,216
Property, Plant and Equipment – at cost	**121,365**	119,753
Less: Accumulated depreciation and amortization	**73,815**	72,558
Property, Plant and Equipment – Net	**47,550**	47,195
Intangible Assets – Net of Accumulated Amortization of $557 and $746	**5,022**	5,475
Investments in Equity Affiliates	**11,399**	12,378
Other Assets	**11,640**	10,387
Total Assets	**97,325**	$ 98,651
Liabilities and Shareowners' Equity		
Current Liabilities		
Debt maturing within one year	**$ 10,643**	$ 10,470
Accounts payable and accrued liabilities	**13,770**	15,432
Accrued taxes	**2,645**	3,592
Dividends payable	**867**	863
Total current liabilities	**27,925**	30,357
Long-Term Debt	**16,561**	15,492
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	**7,288**	6,806
Postemployment benefit obligation	**9,811**	9,767
Unamortized investment tax credits	**302**	318
Other noncurrent liabilities	**4,622**	4,448
Total deferred credits and other noncurrent liabilities	**22,023**	21,339
Corporation-obligated mandatorily redeemable preferred securities of subsidiary trusts	**500**	1,000
Shareowners' Equity		
Common shares issued ($1 par value)	**3,433**	3,433
Capital in excess of par value	**12,105**	12,125
Retained earnings	**19,333**	18,341
Guaranteed obligations of employee stock ownership plans	**(21)**	(21)
Deferred Compensation – LESOP	**(33)**	(37)
Treasury shares (at cost)	**(2,933)**	(2,071)
Accumulated other comprehensive income	**(1,568)**	(1,307)
Total shareowners' equity	**30,316**	30,463
Total Liabilities and Shareowners' Equity	**$ 97,325**	$ 98,651

SBC Communications Inc.

Consolidated Statement of Cash Flows (Unaudited)

(Dollars in Millions, Increase [Decrease] in Cash and Cash Equivalents)

	Three months ended 3/31/01	3/31/00
Operating Activities		
Net income	**$ 1,854**	$ 1,822
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**2,448**	2,263
Undistributed earnings from investments in equity affiliates	**216**	(152)
Provision for uncollectible accounts	**230**	211
Amortization of investment tax credits	**(16)**	(18)
Deferred income tax expense	**649**	352
Gain on sale of investments	**(129)**	(191)
Extraordinary item, net of tax	**10**	—
Changes in operating assets and liabilities:		
Accounts receivable	**574**	408
Other current assets	**(386)**	(508)
Accounts payable and accrued liabilities	**(2,468)**	(581)
Other – net	**(1,032)**	(657)
Total adjustments	**96**	1,127
Net Cash Provided by Operating Activities	**1,950**	2,949
Investing Activities		
Construction and capital expenditures	**(2,807)**	(2,349)
Investments in affiliates	**1,158**	(103)
Proceeds from short-term investments	**510**	—
Dispositions	**244**	215
Acquisitions	**—**	(3,663)
Other	**1**	1
Net Cash Used in Investing Activities	**(894)**	(5,899)
Financing Activities		
Net change in short-term borrowings with original maturities of three months or less	**(84)**	4,867
Issuance of long-term debt	**2,238**	—
Repayment of long-term debt	**(980)**	(526)
Early extinguishment of corporation-obligated mandatorily redeemable preferred securities of subsidiary trusts	**(500)**	—
Purchase of treasury shares	**(1,065)**	(284)
Issuance of treasury shares	**90**	60
Dividends paid	**(859)**	(834)
Other	**12**	29
Net Cash Provided by (Used in) Financing Activities	**(1,148)**	3,312
Net increase (decrease) in cash and cash equivalents	**(92)**	362
Cash and cash equivalents beginning of year	**643**	495
Cash and Cash Equivalents End of Period	**$ 551**	$ 857

SBC Communications Inc.
Supplementary Financial and Operating Data (Unaudited)

(Dollars in Millions, Except per Share Amounts)

	Three Months Ended		
	3/31/01	3/31/00	% Change
Capital Expenditures	**$ 2,807**	$ 2,349	19.5%
Dividends Declared Per Share[1]	**$0.25625**	$0.25375	1.0%
End of Period Common Shares Outstanding (000,000)	**3,369**	3,400	-0.9%
Pretax interest coverage[1,4]	**6.8**	9.4	-27.3%
Net cash flow to average total debt[2]	**11.8%**	11.2%	62 BP
Funds from operations interest coverage[3]	**9.7**	11.1	-13.0%
Debt Ratio	**46.9%**	46.7%	21 BP
Total Employees	**216,180**	208,380	3.7%
Access Lines Served (000)	**61,254**	61,154	0.2%
Residence	**36,568**	37,517	-2.5%
Business	**24,061**	22,907	5.0%
Other	**625**	730	-14.4%
Voice Grade Equivalents (000)[4]	**107,058**	91,505	17.0%
Residence	**42,279**	38,722	9.2%
Business	**64,154**	52,053	23.2%
Other	**625**	730	-14.4%
Resold Lines (000)	**1,597**	1,562	2.2%
Access Minutes of Use (000,000)	**69,388**	69,475	-0.1%
Cingular Wireless (Pro Forma)[5]			
Wireless Voice Customers (000)	**20,535**	17,294	18.7%
Net Adds (000)	**854**	695	22.9%
POPs (000,000)	**192**	192	—
SBC International[6]			
Total customers of SBC International's affiliates			
Access Lines (000)[5]	**38,239**	36,611	4.4%
Wireless (000):			
Subscribers	**34,855**	22,423	55.4%
Net Adds	**4,111**	3,842	7.0%
Total Revenues	**$ 10,720**	$ 9,065	18.3%
SBC's proportionate interest of SBC International's affiliates			
Access Lines (000)[5]	**6,644**	6,595	0.7%
Wireless (000):			
Subscribers	**4,401**	2,917	50.9%
Net Adds	**383**	350	9.4%
Total Revenues	**$ 1,795**	$ 1,464	22.6%

[1]Normalized pretax income and interest, excluding the 60 percent proportional consolidation of Cingular interest.
[2]Net cash flow equals funds from operations (cash flow from operations before working capital changes) less dividends paid.
[3]The sum of funds from operations and cash paid for interest on debt divided by interest incurred on debt.
[4]Prior year amounts restated to conform with current period reporting methodology.
[5]Amounts represent the 100% pro forma results of Cingular Wireless as if Cingular had existed for all periods presented.
[6]Amounts for 2001 and 2000 include our investments accounted for under the equity method in 2001. Amounts for 2000 have been restated to exclude investments no longer accounted for under the equity method.

SBC Investor**Briefing**

SBC *Investor Briefing* is published by the Investor Relations staff of SBC Communications Inc. Requests for further information may be directed to one of the Investor Relations managers by phone (210-351-3327) or fax (210-351-2071).

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Verizon Communications Posts Strong Results For Fourth Quarter and 2000

Feb 01, 2001

High-Growth Services Fuel Revenue Gains; Company Meets Financial Goals and Delivers Adjusted EPS of 77 Cents for Quarter, $2.91 for Year

YEAR-END HIGHLIGHTS

- 540,000 DSL (digital subscriber line) customers vs. 500,000 target
- 1.4 million New York long-distance customers vs. 1 million target
- 1.2 million net new U.S. wireless customers in quarter, 27.5 million total
- Data revenues grow 30 percent for the year
- 108.8 million access line equivalents (ALEs), with data circuits as measured in ALEs growing 60 percent
- Telecom package sales increase 71 percent year-over-year
- Proportionate international wireless customers grow 47 percent to 8.1 million

Verizon Communications announced today that fourth quarter 2000 reported earnings of 70 cents per diluted share, on net income of $1.9 billion, increased 11.1 percent from 63 cents, or $1.7 billion, in fourth quarter 1999. For 2000, reported earnings per share (EPS) were $4.31, or $11.8 billion, a 45.1 percent increase from $2.97, or $8.3 billion, in 1999. Reported results for all periods incorporate the net after-tax effect of gains, charges and other adjustments described below.

Adjusted EPS for fourth quarter 2000 of 77 cents, or $2.1 billion, increased 2.7 percent from 75 cents, or $2.1 billion, in fourth quarter 1999. For the year, adjusted EPS rose 2.5 percent to $2.91, or $8.0 billion, from $2.84, or $7.9 billion, in 1999, in line with the company's previously announced financial targets. Adjusted results for fourth quarter 1999 include results of the U.S. wireless properties of Vodafone Group Plc that became part of Verizon Wireless as of April 2000.

Continuing strong demand for high-growth services such as wireless and data, and solid volumes for voice services, drove a 6.7 percent increase in adjusted consolidated revenues from current operations, to $16.9 billion, from $15.8 billion in fourth quarter 1999. Full-year adjusted consolidated revenues from current operations grew 7.2 percent, to $63.4 billion from $59.2 billion in 1999. Adjusted revenues in all periods exclude revenues from certain significant operations sold in 1999 and 2000.

"Our solid operating performance in 2000 confirms both the validity of our business model and our ability to execute on it," said Verizon Chairman and Co-CEO Charles R. Lee.

"Last year, we completed two major transactions that gave us the scale as well as the financial strength and flexibility to deliver sustained, profitable growth in competitive markets. We integrated organizations without missing a beat and made full use of our new capabilities. We started a long-distance operation in New York that established a new model for simplicity and value and won more than 20 percent of the consumer market; we worked through numerous industry-wide challenges to begin meeting the tremendous demand for broadband services; we formed Verizon Wireless and became the U.S. wireless industry leader; and we did all this while maintaining both service quality and the level of growth in our telecom business. In 2001, we will build on these successes and further expand into the high-growth markets of the future," Lee said.

Verizon President and Co-CEO Ivan Seidenberg said, "As our results indicate, our investments in new services are starting to deliver significant revenue growth. We plan to further expand our market opportunities by working through the long-distance approval process this year in Massachusetts, Pennsylvania and New Jersey -- which together represent a $14 billion-a-year market in voice long-distance alone -- and we'll continue to make the investments that unlock the full potential of our networks to serve a data-centric world.

"Verizon is distinguished from its peers by its experience and its success with competition. Verizon and its predecessor companies accelerated top-line growth every year for the past few years while operating in the most competitive wireline and wireless markets in the country. We're well positioned in 2001 to further transform our growth profile and move into our target ranges of 8 - 10 percent revenue growth and $3.13 - $3.17 earnings per share," Seidenberg said.

EDITOR'S NOTE: Verizon will provide details of its plans for 2001 in a meeting with the investment community on Wednesday, Feb. 7 from 8 a.m. to 12:30 p.m. The meeting will be available to all investors through a Webcast at www.verizon.com/investor. The company will also Webcast its 9 a.m. conference call this morning on fourth-quarter and 2000 results at the same Web address.

Revenue, Expense, Capital

Nearly 40 percent of Verizon's adjusted consolidated revenues for both the fourth quarter and the year were generated from high-growth data, wireless, long-distance, DSL and international services. In the fourth quarter, revenues from these services totaled approximately $6.6 billion, and for the year totaled more than $23.6 billion.

Total adjusted U.S. Telecom revenues grew 3.3 percent for the quarter, to $10.9 billion, while Telecom provided competitors with nearly 3.5 million switched wholesale lines and 804,000 unbundled loops at the end of the year, double the number of lines and three times the number of loops in service at the end of 1999. For the year, Telecom revenues grew 3.9 percent to $43.3 billion. Regulatory rate reductions totaled $200 million in the fourth quarter and $850 million for the year (up sharply from $500 million in 1999).

Verizon's consolidated adjusted expenses for the quarter and the year increased 8.4 percent over the respective prior-year periods, due primarily to investment in high-growth wireless, data and long-distance services.

Adjusted fourth quarter expenses for U.S. Telecom rose 4.9 percent over fourth quarter 1999, with cash expenses up 3.6 percent. The company's largest business continued to exercise strong expense control: excluding costs associated with the DSL and long-distance businesses, Telecom's quarterly expenses increased only 2.5 percent, with cash expenses growing less than 1 percent. For the year, adjusted Telecom expenses rose 4.4 percent, with cash expenses increasing 3.6 percent; excluding DSL and long-distance costs, full-year expenses grew only 2.5 percent, and cash expenses grew 1.4 percent.

Verizon also achieved approximately $535 million in annual merger-related expense savings in 2000, making substantial progress toward its target of saving $2 billion a year in expenses by the end of 2003 through synergies resulting from the Bell Atlantic-GTE merger and the formation of Verizon Wireless. These savings were realized through various means, including the re-negotiation and termination of contracts, the integration of information systems, the integration of call centers and operator service centers, and the use of best practices to improve processes.

The company's capital expenditures for the year were $17.6 billion, with almost 50 percent invested in data and wireless infrastructure.

Highlights of Operations

DSL:

- Verizon added 190,000 DSL lines in the fourth quarter, 46 percent more than in the third quarter. The 540,000 lines in service at the end of the year represent an increase of more than 500 percent over the number in service at the end of 1999.

- Verizon Online, the company's Internet service provider, ended the year with approximately 847,000 subscribers, a 21 percent increase since the end of 1999.

- Verizon equipped approximately 500 central offices for DSL in 2000 and ended the year with approximately 1,850 equipped offices, 30 percent more than a year ago. An average of 60 percent of the access lines in those offices qualify for DSL, making the service available to 45 percent of Verizon's access lines and households, nearly 29 million and 14 million respectively.

- During the quarter, the company completed the acquisition of OnePoint Communications Corp. and launched Verizon Avenue, which provides bundled voice, data and video services to residents of multi-dwelling unit buildings in high-growth, densely populated urban and suburban markets around the country.

Data:

- Verizon ended 2000 with data circuits in service equivalent to 45.9 million voice-grade lines, 60 percent more than at the end of 1999. Combined with 62.9 million voice-grade lines, Verizon ended the year with 108.8 million total access line equivalents in service, 20 percent more than at the end of 1999 (comparisons adjusted for access line sales in 2000).

- Demand for digital high-capacity facilities and services remained strong through the fourth quarter. Verizon installed more than 2 million inter-office fiber links in 2000, ten times the number installed in 1999. The number of frame relay circuits, cell relay circuits and Primary Rate Interface ISDN (Integrated Services Digital Network) lines in service grew 47.9 percent, 80.5 percent, and 35 percent respectively since the end of 1999.

- Fourth-quarter revenues for data services, including high-capacity, high-speed local transport services, continued their strong growth over prior periods, with full-year revenues growing 30 percent over 1999.

Long Distance:

- Verizon's long-distance unit continued its strong growth and ended the year with 4.9 million customers nationwide, 44 percent more than a year ago, making Verizon the nation's fourth-largest provider of long-distance services. During the quarter, Verizon signed up an additional 240,000 new subscribers in New York, and the company ended the year with approximately 1.4 million New York subscribers, including some 78,000 businesses, that use Verizon Long Distance on 1.7 million lines. Verizon now serves more than 20 percent of New York's residence long-distance customers, with average revenue per consumer customer in line with industry averages, and more than 12 percent of the business market.

- Of the 240,000 customers added in the quarter, almost 95,000 came back to Verizon from other carriers for their intraLATA toll calling, increasing the total number of "win-back" customers to 326,800, almost 41 percent more than at the end of the third quarter. As of the end of the year, 97 percent of Verizon's New York long distance customers purchase local, intraLATA toll and long-distance usage from Verizon.

- In addition, the number of Verizon-wide customers purchasing vertical services such as Caller ID and Home Voice Mail in packages, often with basic service, grew 71 percent over fourth quarter 1999. Revenues from service packages totaled nearly $740 million for the year. On Jan. 8, 2001, Verizon introduced The Big Deal, a group of packages that in New York bundle long-distance service at 8 cents a minute with a variety of basic and value-added services.

- On Jan. 16, 2001,Verizon re-submitted its filing for federal approval to offer long-distance service in Massachusetts, where Verizon serves 4.7 million access lines and the long-distance market is a $2 billion-plus annual opportunity. The Federal Communications Commission's decision is due by mid-April. Verizon has also filed with the Pennsylvania Public Utility Commission to begin its 100-day review of the company's proposed long-distance application to the FCC. The PUC will use the 100-day period to review the evidence that Verizon has opened its network to competitors and determine whether to support the company's application to the FCC, which Verizon then plans to file.

Verizon Wireless:

- Verizon Wireless added 1.2 million net new customers during the fourth quarter, 5.9 percent more net additions than in fourth quarter 1999, with the total number of customers growing 15.6 percent year-over-year to 27.5 million. Penetration of covered POPs increased to 13.5 percent from 11.7 percent a year ago. The penetration gain in 2000 of 1.8 percentage points represents an increase from the 1.6 point gain in 1999.

- More than 99 percent of fourth-quarter net customer additions were contract customers, up from 62 percent in fourth quarter 1999. Driving the strong growth in contract customers were the company's national and regional Single Rate calling plans. Also contributing to this increase was New Every Two, the industry's first handset upgrade plan, aimed at increasing loyalty and keeping customers current with the latest technology.

- More than half of Verizon Wireless customers now subscribe to CDMA (Code Division Multiple Access) digital services, and generate more than 80 percent of the company's busy-hour usage, compared to 65 percent at mid-year. More than 750,000 customers subscribe to the company's data services, including Mobile Web Internet access, up more than 50 percent from 500,000 at the end of the third quarter.

- Wireless revenues for the quarter grew to $4.1 billion, up 16.7 percent from fourth quarter 1999, with average monthly service revenue per subscriber increasing 3 percent. For the year, revenues grew 19.3 percent to $14.2 billion.

- Quarterly operating income rose 35 percent to $405 million, with operating cash flow increasing 13.3 percent to $1.2 billion. For the year, operating income rose 25.5 percent, to $1.8 billion, and operating cash flow grew 14.9 percent to $4.7 billion. Operating cash flow margin was 32.4 percent for the quarter and 35.6 percent for the year.

- During the quarter, Verizon Wireless agreed to acquire Price Communications Wireless, a wholly owned subsidiary of Price Communications [NYSE: PR], for $1.5 billion in Verizon Wireless stock and $500 million in net debt. The transaction is conditioned upon completion of the Verizon Wireless initial public offering. The deal will significantly expand the company's footprint in the Southeastern U.S. and add some 500,000 customers.

- Verizon Wireless was the winning bidder for 113 licenses in the FCC's recently concluded auction of 1.9 GHz spectrum. The company added capacity for growth and advanced services in markets including New York, Boston, Los Angeles, Chicago, Philadelphia, Washington, D.C., Seattle and San Francisco, for a total price of approximately $8.8 billion. Verizon Wireless now has spectrum in all 50 of the top 50 Metropolitan Service Areas in the United States.

Information Services:

- Operating income from Verizon's directory publishing and electronic commerce operations for the year rose 2 percent to $2 billion. Strong cost control and merger-related synergies limited expense increases to less than 1 percent over 1999. Revenues totaled $4.1 billion for the year, a 1.4 percent increase over 1999, with revenues from SuperPages.com, Verizon's Internet directory service, growing 75 percent.

International:

- Revenues from consolidated international operations grew 19.2 percent over fourth quarter 1999 to $540 million, with proportionate international revenues exceeding $1.5 billion. For the year, consolidated revenues of $2 billion grew 15.3 percent over 1999, with proportionate revenues reaching $6.1 billion.

- International revenue growth was driven primarily by continued worldwide demand for wireless services. The number of proportionate international wireless customers served by Verizon investments increased 2.6 million to more than 8.1 million, a 46.6 percent increase over fourth quarter 1999. A number of Verizon's wireless investments reached major customer milestones, as Taiwan Cellular exceeded 5 million subscribers and EuroTel Praha reached 2 million, and Omnitel Pronto Italia in Italy closed in on the 15-million mark.

Reported Results

Reported net income for fourth quarter 2000 of $1.9 billion, or 70 cents per share, reflects the net after-tax effect of charges which, after offsetting adjustments, totaled $198 million, or 7 cents per share. These include a net gain on the sale of wireless properties for regulatory reasons which partially offset charges for transition costs related to the Bell Atlantic-GTE merger and other special items, including Verizon's share of certain restructuring charges at two international equity investments, and the write-off of its investment in NorthPoint Communications Corp. as a result of the deterioration in NorthPoint's business, operations and financial condition.

Reported fourth-quarter 1999 net income of $1.7 billion, or 63 cents per share, reflects net after-tax effects of charges which, after offsetting adjustments, totaled $342 million, or 12 cents per share. These include Bell Atlantic-NYNEX merger charges, net losses of Genuity (which was separated from Verizon in 2000 through an initial public offering), and a mark-to-market accounting adjustment related to notes issued by Bell Atlantic in 1999 that are exchangeable into shares of NTL Inc. and Cable & Wireless plc. This adjustment is a non-cash gain or loss, subject to limitations, depending on the share prices of NTL and Cable & Wireless. These charges were partially offset by gains including gains from asset sales.

Reported net income for 2000 of $11.8 billion, or $4.31 per share, reflects the net after-tax effect of gains, charges and other adjustments totaling approximately $3.8 billion, or $1.40 per share. The gains, which total approximately $6.3 billion, or $2.32 per share, include net gains on wireline and wireless asset sales, mark-to-market accounting adjustments related to the exchangeable notes, non-cash gains resulting from the acquisition of the assets of Cable & Wireless Communications by NTL Inc. and Cable & Wireless plc; and conforming accounting adjustments. Offsetting charges, which total approximately $2.5 billion after taxes, or 92 cents per share, include charges for merger and transition costs related to the Bell Atlantic-NYNEX and Bell Atlantic-GTE mergers, Genuity net losses and other items.

Reported net income for 1999 of $8.3 billion, or $2.97 per share, reflect the net after-tax effect of gains, charges and other adjustments totaling $365 million, or 13 cents per share, for special items including gains from asset sales, mark-to-market accounting adjustments, Genuity net losses, merger transition charges and other adjustments.

NOTE: This press release contains statements about expected future events and financial results that are forward-looking and subject to risks and uncertainties. For those statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. The following important factors could affect future results and could cause those results to differ materially from those expressed in the forward-looking statements: materially adverse changes in economic conditions in the markets served by us or by companies in which we have substantial investments; material changes in available technology; the final outcome of federal, state, and local regulatory initiatives and proceedings, including arbitration proceedings, and judicial review of those initiatives and proceedings, pertaining to, among other matters, the terms of interconnection, access charges, universal service, and unbundled network element and resale rates; the extent, timing, success, and overall effects of competition from others in the local telephone and intraLATA toll service markets; the timing and profitability of our entry into the in-region long-distance market; our ability to combine former Bell Atlantic and GTE operations, satisfy regulatory conditions and obtain revenue enhancements and cost savings; the profitability of our entry into the nationwide broadband access market; the ability of Verizon Wireless to combine operations and obtain revenue enhancements and cost savings; our ability to convert our ownership interest in Genuity Inc. into a controlling interest consistent with regulatory conditions, and Genuity's ensuing profitability; and changes in our accounting assumptions that may be required by regulatory agencies, including the SEC, or that result from changes in the accounting rules or their application, which could result in an impact on earnings.

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Verizon Communications Reports Solid 3Q Earnings And Provides Outlook for Remainder of 2001

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Oct 30, 2001

Company Posts Continued Quality Growth in Wireless Sector, DSL; Increased 2001 Long-Distance Sales Goal Reached in Nine Months

THIRD-QUARTER HIGHLIGHTS

- 752,000 new wireless customers, for 28.7 million total, with continued reduced customer churn, high percentage of contract sales and 20 million digital customers
- 6.9 million long-distance customers nationwide, reaching previously announced, increased year-end targets
- Long-distance approval in Pennsylvania, a $3 billion annual revenue opportunity
- 135,000 net new DSL (digital subscriber line) customers for a third-quarter total of 975,000 and a current total of more than 1 million
- 52 percent growth in data circuits as measured in access line equivalents (ALEs); total ALEs in service grew more than 20 percent to 128.5 million
- Continued industry-leading cost control, with second consecutive quarter of cash expense reductions in the Domestic Telecom segment
- 18.1 percent data transport revenue growth over third quarter 2000
- 2.0 million increase, to 9.1 million total, in proportionate international wireless customers, a 28.6 percent increase over third quarter 2000

Verizon Communications today reported adjusted third-quarter net income of $2.04 billion, or adjusted diluted earnings per share (EPS) of 75 cents, which includes a 3-cent-per-share impact related to the Sept. 11 terrorist attacks in New York City and at the Pentagon. This represents a 2.8 percent increase from $1.98 billion, or 73 cents per share, in the third quarter 2000.

Adjusted net income for the first nine months of 2001 was $6.1 billion, or $2.23 per share, compared to nine-month 2000 adjusted net income of $5.9 billion, or $2.13 per share.

"Verizon has come through a difficult experience in a strong financial and operational position," said Verizon Chairman and Co-CEO Charles R. Lee. "Verizon's depth of management talent and technical skill enabled us to respond with incredible speed to restore service and respond to this national crisis. At the same time, the breadth and scale of our company allowed us to continue to grow revenues in key areas of our business during the quarter, while we once again demonstrated industry-leading cost control."

Lee added, "Our view for the remainder of this year is shaped by the economic outlook, and we continue to take the appropriate steps to manage through the declining economy and to position ourselves for the recovery. We have adjusted our capital investment spending in 2001 to reflect this, while maintaining our investments in service quality and growth initiatives. Planning for the possibility of a prolonged economic weakness, we took steps earlier to reduce our cost structure in a way that has become ingrained in our business. This has given us the ability to continue to pursue growth opportunities and move forward with our long-distance applications and regulatory reform initiatives."

Verizon President and Co-CEO Ivan Seidenberg said, "Our focus on execution is solidifying Verizon's leadership position in a dynamic industry. In long distance, we had another successful quarter. We have already met previously increased year-end sales targets, and customers in Pennsylvania are responding enthusiastically to last week's long-distance launch in that state. In DSL, we have continued to focus on improving operations. In the past quarter, we have cut the average installation interval in half, and we recently unveiled an aggressive sales promotion. In wireless, we had a very strong, profitable quarter as we continued to keep our eye on the fundamentals of the business and quality customer growth."

"Looking ahead, these extraordinary times have lent new clarity to critical issues facing our industry, and we will work closely with federal and state regulators to create meaningful and necessary industry change." Referring to the policy goals recently outlined by Federal Communications Commission Chairman Michael Powell, Seidenberg said, "We are encouraged that Chairman Powell's agenda recognizes the key industry issues, including the need for a better wireless spectrum allocation process and a broadband policy that removes the barriers to deployment and supports even more investment in high-speed technology."

CONSOLIDATED RESULTS

Consolidated adjusted revenues for the quarter grew 3.7 percent, to $17.0 billion from $16.4 billion in third quarter 2000. Nine-month consolidated revenues were $50.2 billion, up 7.7 percent from $46.6 billion in the first nine months of 2000. Revenues for the earlier period do not include first-quarter revenues from the Vodafone properties that were contributed to Verizon Wireless in April 2000; including those revenues, the nine-month increase would have been 5.2 percent.

Consolidated adjusted expenses increased 3.7 percent and cash expenses increased by 2.9 percent over third quarter 2000. Excluding the effects of the Sept. 11 attacks, merger-related expense savings and cost-control measures enabled the company to hold increases in cash expenses to 1.5 percent while continuing to invest in high-growth capabilities and services.

For the second consecutive quarter, Verizon's largest business unit, Domestic Telecom, decreased its cash expenses over the prior-year period; through the first nine months of 2001, cash expenses decreased 1.7 percent, to $17.9 billion from $18.2 billion in the first nine months of 2000. Third quarter 2001 cash expenses decreased 0.8 percent to $6.1 billion, including expenses to restore services in the World Trade Center area and at the Pentagon, and decreased 3.1 percent excluding this impact.

HIGHLIGHTS OF OPERATIONS

LONG DISTANCE:

- Verizon Long Distance, the nation's fourth largest long-distance provider, added approximately 850,000 customers in the quarter and ended the quarter with 6.9 million customers nationwide. The third-quarter increase includes approximately 160,000 retail customers in Hawaii not previously counted as part of the base. Excluding Hawaii, this is a more than 50 percent increase over third quarter 2000.

- With 2,132,000 customers in New York and 475,000 customers in Massachusetts, more than 38 percent of long-distance customers come from Verizon's newest long-distance markets. Verizon now has 31.7 percent in-franchise market share in New York and 17.9 percent in-franchise market share in Massachusetts.

- On Oct. 23, Verizon announced that it had begun marketing long-distance services in Pennsylvania, where Verizon serves about 7 million access lines and the long-distance market is an estimated $3 billion annual revenue opportunity.

- Verizon is now offering long-distance service to approximately 54.5 percent of the former Bell Atlantic's access lines and more than two-thirds of all Verizon access lines nationwide. Verizon is now able to offer long distance in Massachusetts, Connecticut, New York and Pennsylvania, as well as 36 other states formerly served by GTE Long Distance.

- On Oct. 18, Verizon notified state regulators in Maine that it plans to file a long-distance application with the FCC by year's end. The company is also working closely with state regulators in New Hampshire, Vermont, Rhode Island and New Jersey, where similar notices were filed earlier this year.

DSL:

- Verizon added 135,000 DSL lines in the third quarter and ended the period with approximately 975,000 lines in service -- a 625,000-line year-over-year increase. Average installation intervals have been cut in half, resulting in improved customer satisfaction.

- On Oct. 17, Verizon announced it had surpassed a total of 1 million DSL customers, representing 85 percent year-to-date growth, and the company is targeting 1.2 to 1.3 million DSL subscribers by year-end.

- Approximately 32.8 million of Verizon's 62.0 million access lines nationwide are DSL-qualified. Verizon recently extended the reach of its DSL service to an additional 3.5 million lines, as the company continues to add capacity in its central offices to meet continued strong demand. Approximately 2,050 central offices are equipped to provide DSL.

- Also on Oct. 17, Verizon Online, the company's Internet service provider, unveiled a fourth-quarter sales promotion for DSL service, including a three-month introductory rate of $29.95 per month. The promotion also includes a free modem, installation kit and digital camera.

- Verizon Online, which is the Internet service provider (ISP) to more than 1 million subscribers, reported a nearly 37 percent increase over third quarter 2000 customer totals.

DATA AND TELECOM:

- Data Services revenues grew to nearly $1.8 billion, driven by 18.1 percent growth in data transport services over third quarter 2000.

- The 52 percent third-quarter growth in data circuits as measured in ALEs marked Verizon's fourth consecutive quarter of more than 50 percent growth. Data circuits now account for more than half of Verizon's 128.5 million ALEs.

- On Oct. 23, Verizon and Microsoft announced that they were exploring ways to extend the reach of Verizon services through the use of select Microsoftâ.NET and WindowsâXP services.

This would provide customers with remote access to features of Verizon's call services, such as Caller ID and voice mail, any time, anywhere and from virtually any device.

- Sales of packages of domestic wireline telecommunications services -- combining Caller ID, voice mail and other features -- increased 53 percent in the third quarter 2001 compared to the third quarter 2000.

VERIZON WIRELESS:

- Verizon Wireless added 752,000 net new customers during the third quarter 2001, with the total number of customers growing 12.2 percent over the prior year to 28.7 million. Penetration of covered POPs, which have been adjusted to reflect updated census and network coverage data, increased to 13.0 percent.

- Nearly 94 percent of Verizon Wireless' total base is made up of contract customers. Retail contract gross additions increased 7 percent year-over-year. Retail net additions of contract customers increased 36 percent over the prior year.

- Total churn decreased to 2.2 percent, down year-over-year and sequentially.

- With the largest digital base in the U.S., Verizon Wireless ended the quarter with 20 million digital customers, 69 percent of total subscribers. These customers generate more than 90 percent of the company's busy-hour usage.

- Average usage per subscriber increased 36 percent to 274 minutes a month, with digital usage of approximately 370 minutes a month.

- Service revenues for the quarter grew 13.2 percent to $4.2 billion, with service revenue per subscriber increasing 1 percent to more than $49, the fifth consecutive quarter of a year-over-year increase in service revenue per subscriber. Total revenues were $4.5 billion, up 12.0 percent. Quarterly operating income rose 19.9 percent to $688 million, with operating cash flow increasing 12.3 percent to $1.6 billion.

- Industry-leading operating cash flow margin remained strong at 39 percent for the quarter.

- Verizon Wireless ended the quarter with 1.2 million subscribers to its Mobile Web and Mobile IP data services.

- This month the company introduced its 1XRTT high-speed Express Network for select enterprise customers and developers in the Philadelphia area. From laptops and PDAs, these subscribers are using the network's advanced high-speed data rates to access corporate intranets and the Internet. The company expects to consistently deliver 40-60 Kbs (kilobits per second) speeds, significantly higher than with alternative wireless technologies, when it rolls out Express Network to key markets around the country, including New York, in the fourth quarter.

INTERNATIONAL:

- Revenues from consolidated international operations grew 17.5 percent over third quarter 2000 to $597 million. Operating income increased $96 million to $125 million, while operating cash flow increased 78 percent to $210 million compared to third quarter 2000.

- Total proportionate revenues increased $76 million over third quarter 2000 to $1.5 billion. Proportionate operating income of $350 million and proportionate operating cash flow of $618 million increased 15.9 percent and 17.9 percent, respectively, compared to third quarter 2000.

- The number of proportionate international wireless customers served by Verizon investments increased by 2.0 million to 9.1 million, a 28.6 percent increase over third quarter 2000. Verizon's international wireless investments reported strong customer gains, including Omnitel, now with 16.7 million subscribers; EuroTel Praha with 2.9 million; and Stet Hellas with 2.0 million.

- Verizon's new global network is progressing on plan. During the third quarter, Verizon Global Solutions Inc. added additional locations -- including London, Paris, Amsterdam, Brussels, Frankfurt and Dusseldorf -- to its network, which now links the U.S. and major commercial and financial centers around the world. Also during the quarter, Verizon rolled out high-speed global private-line service.

INFORMATION SERVICES:

- Revenues from Verizon's directory publishing and electronic commerce operations were $1.1 billion in the third quarter, an increase of 14.6 percent from third quarter 2000 due to operational growth and shifts in directory publication dates.

- Revenues from SuperPages.com, Verizon's Internet directory service, grew 63.6 percent over third quarter 2000, as Information Services carried out its strategy to bundle print and online services.

REPORTED RESULTS

For the third quarter of 2001, Verizon reported consolidated net income of $1.9 billion, or 69 cents a diluted share, compared to $3.5 billion, or $1.27 per share, during the third quarter 2000. Current-quarter net income includes transition costs and mark-to-market adjustments for financial instruments totaling $165 million, or 6 cents a share. Third quarter 2000 included net income reported on sales of assets of approximately $1.3 billion, or 47 cents a share. Assets sold included certain non-strategic wireline properties, which were reported in operating income, and overlapping wireless properties that were sold for regulatory reasons and which were reported as an extraordinary item. In third quarter 2000, the company also recorded a gain of $245 million, or 9 cents a share, for a mark-to-market adjustment for notes issued in 1998 that are exchangeable into shares of Cable & Wireless plc and NTL Inc., and transition costs of $65 million, or 2 cents a share.

Reported net income for the first nine months of 2001 was $2.4 billion, or 89 cents a share, compared to $9.9 billion, or $3.60 a share, in the first nine months of 2000.

Reported operating revenues rose 2.8 percent in the third quarter 2001, to $17.0 billion, compared to the third quarter 2000. For the first nine months of 2001, Verizon's revenues rose 4.9 percent, to $50.2 billion, compared to the first nine months of 2000.

2001 OUTLOOK

Verizon anticipates a continued financial impact related to the Sept. 11 terrorist attacks and to the ongoing economic downturn in the fourth quarter 2001.

In the fourth quarter, the company is targeting the following:

- Quarterly revenue growth of approximately 3 percent

- EPS -- including a fourth-quarter impact from Sept. 11 restoration efforts of approximately 3 cents -- of 77 to 80 cents

- Capital expenditures of $4.5 to $4.7 billion

The company is updating the following year-end 2001 financial targets accordingly:

- Annual revenue growth of 4 to 5 percent; previous target was 5 to 6 percent

- EPS of $3.00 to $3.03, including impacts of approximately 6 cents from the Sept. 11 attacks; excluding the impacts, EPS in the range of $3.06 to $3.09, which is in line with previous targets. Additionally, the company estimated the impact of FAS 142, a Financial Accounting Standard that will be implemented next year relating to the amortization of goodwill, to be 8 cents a share on an annual basis.

- Capital expenditures of $17.0 to $17.2 billion; previously $17.5 billion

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NOTE: This press release contains statements about expected future events and financial results that are forward-looking and subject to risks and uncertainties. For those statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. The following important factors could affect future results and could cause those results to differ materially from those expressed in the forward-looking statements: the duration and extent of the current economic downturn; materially adverse changes in economic conditions in the markets served by us or by companies in which we have substantial investments; material changes in available technology; an adverse change in the ratings afforded our debt securities by nationally accredited ratings organizations; the final outcome of federal, state, and local regulatory initiatives and proceedings, including arbitration proceedings, and judicial review of those initiatives and proceedings, pertaining to, among other matters, the terms of interconnection, access charges, and unbundled network element and resale rates; the extent, timing, success, and overall effects of competition from others in the local telephone and toll service markets; the timing and profitability of our entry and expansion in the national long-distance market; our ability to combine former Bell Atlantic and GTE operations, satisfy regulatory conditions and obtain revenue enhancements and cost savings; the profitability of our broadband operations; the ability of Verizon Wireless to achieve revenue enhancements and cost savings, and obtain sufficient spectrum resources; the continuing financial needs of Genuity Inc., our ability to convert our ownership interest in Genuity into a controlling interest consistent with regulatory conditions, and Genuity's ensuing profitability; our ability to recover insurance proceeds relating to equipment losses and other adverse financial impacts resulting from the terrorist attacks on Sept. 11, 2001; and changes in our accounting assumptions that regulatory agencies, including the SEC, may require or that result from changes in the accounting rules or their application, which could result in an impact on earnings.

Attachment 3:

Declaration of Lee L. Selwyn
filed October 22, 2001 in
New Jersey Board of Public Utilities
Docket No. TO01090541

Before the

STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES

In the Matter of the Application of Verizon New Jersey, Inc. for FCC Authorization to Provide In-Region, InterLATA Service in New Jersey	**Docket No. TO01090541**

Declaration

of

LEE L. SELWYN

witness for the

State of New Jersey
Division of the Ratepayer Advocate

October 22, 2001

DECLARATION OF LEE L. SELWYN

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Before the

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DECLARATION OF LEE L. SELWYN

Introduction and Summary

Lee L. Selwyn, of lawful age, declares and says as follows:

1. My name is Lee L. Selwyn; I am President of Economics and Technology, Inc. ("ETI"), Two Center Plaza, Suite 400, Boston, Massachusetts 02108. ETI is a research and consulting firm specializing in telecommunications and public utility regulation and public policy. My Statement of Qualifications is annexed hereto as Attachment 1 and is made a part hereof.

2. I have presented testimony before this Board on a number of occasions dating back to the mid-1970s. In May 1976, I submitted testimony that addressed numerous rate design issues relative to New Jersey Bell's requested rate increase in Docket 7512-1251 on behalf of

the New Jersey Retail Merchants Association. In August 1978, I submitted testimony before the Board on behalf of the New Jersey Retail Merchants Association in Dockets 7711-1136, 784-278, 784-279, concerning the pricing of New Jersey Bell's vertical services and terminal equipment. In September 1992, I submitted testimony on behalf of the New Jersey Cable Television Association in Docket T092030358, the first Plan for Alternative Regulation ("PAR") proceeding. In August 1998, I submitted rebuttal testimony on behalf of AT&T Communications of New Jersey, Inc. and MCI Telecommunications in BPU Docket TO97100808 and OAL Docket PUCOT 11326-97N, the Selex/IMC Imputation proceeding. In August and September of 2000, I submitted direct and rebuttal testimony, respectively, on behalf of the State of New Jersey Division of the Ratepayer Advocate in BPU Docket T099120934, a review of Verizon New Jersey's Competitive Telecommunications Plan and extension of the existing Plan for Alternative Regulation. My most recent appearance before the Board was in Docket No. TO01020095, the Board's review of Verizon New Jersey's second Plan for Alternative Regulation ("PAR-2"), in which I have submitted testimony on behalf of the Division of the Ratepayer Advocate addressing the overall structure of the Plan as proposed by VNJ, its Petition to Reclassify Multiline Business Services as Competitive, and the proposal by AT&T that Verizon New Jersey be reorganized into structurally separated wholesale and retail affiliates.

3. I have been asked by the State of New Jersey Division of the Ratepayer Advocate ("RPA") to examine the testimony being proffered by Verizon New Jersey ("VNJ" or "Company") in support of its Application for authority, pursuant to Section 271 of the

Telecommunications Act of 1996 ("TA96" or "Act"), to enter the in-region long distance market, to provide an assessment of the Company's claims as to the current state of competition in the New Jersey local telecommunications market, to provide an analysis of the potential impact upon competition in New Jersey's interLATA long distance market that would result from Verizon NJ's entry into the long distance market while the Company continues to maintain overwhelming dominance of the local telephone service market in the state, and to provide an opinion as to whether "the requested authorization is consistent with the public interest, convenience, and necessity." In addition to my review of the Application, testimony and supporting exhibits filed by Verizon NJ in this proceeding, I have also reviewed the Company's responses to data requests propounded by the Ratepayer Advocate and by other parties. Copies of the Verizon NJ responses to which I will refer are provided in Attachment 2 to this Declaration.

4. In this Declaration, I show that despite long-standing legislative and regulatory efforts at both the federal and state levels to facilitate and encourage the development of effective competition in the local telecommunications market, New Jersey's dominant incumbent local exchange carrier, Verizon NJ, persists in maintaining overwhelming dominance of both the residential and business segments, as demonstrated by Verizon NJ's failure to provide any evidence of the geographic distribution of competition as alleged in its Petition. Additionally, the lack of permanent cost-based UNE rates, real-world testing of OSS and enforcement remedies, and a state universal service fund must be considered by the Board in assessing whether Verizon's Petition meets public interest standards. Moreover, without the necessary

competitive safeguards, Verizon NJ cannot now or in the future meet the requirements of the Section 271(c)(2)(B) 14-point "Competitive Checklist" as long as it is permitted to pursue its wholesale and retail operations on an integrated basis. Finally, I examine the impact upon competition in the New Jersey interLATA long distance market were Verizon NJ permitted to offer this service while still maintaining its current level of overwhelming dominance in the local service market, and show that unless a serious and substantial change in the competitive local services landscape were to emerge quickly and irreversibly, Verizon NJ will soon come to dominate and ultimately monopolize the adjacent, currently highly competitive, long distance market as well. Once VNJ has attained its sought-after interLATA entry, the Company's incentive to comply on an ongoing basis with the "competitive checklist" will rapidly dissipate, threatening the sustainability of the small amount of competition that has developed thus far. And as long as VNJ continues to control the overwhelming share of the local exchange service market, its ability to engage in "joint marketing" of local and long distance service — particularly in the residential segment — will enable VNJ to rapidly remonopolize the long distance market in New Jersey, resulting in higher prices in the future for what is today a highly competitive service. For all of these reasons, approval of VNJ's Section 271 Application is not in the public interest, and the Board should recommend to the FCC that Verizon's Application be rejected.

The 1996 federal Telecommunications Act and its subsequent interpretations by the FCC grant a state commission broad authority, in reviewing a Section 271 application, regarding inquiries into the state of competition and the compliance of the BOC with the terms and conditions of Sections 271, 272, 251 and 252.

5. Section 271(d)(2)(B) expressly directs the FCC to engage in consultation with state commissions prior to acting on a BOC''s Section 271 application:

> Before making any determination under this subsection, the Commission shall consult with the State commission of any State that is the subject of the application in order to verify the compliance of the Bell operating company with the requirements of subsection [271](c).

While the specific consultative role assigned by the federal statute to the state commissions is with respect to Section 271(c), the FCC has expanded the states' role to also include an examination as to the extent of competition and related public interest concerns. As the FCC has recognized:

> Unless such competition emerges, one of the ultimate goals of the 1996 Act, telecommunications deregulation, cannot be realized, at least not without risking monopoly prices for consumers. It is often easy to lose sight of the fact that deregulation will affect not only federal regulation of the telecommunications industry, but state regulation as well. Indeed, because regulation of the prices that consumers pay for local telecommunications services is a matter of state control, Congress's goal of deregulation will be most strongly felt at the state level.[1]

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1. *In the Matter of Application of Ameritech Corp. Pursuant to Section 271 of the Communications Act of 1934, as amended, to Provide In-Region, InterLATA Services in Michigan,* CC Docket No. 97-137, *Memorandum Opinion and Order,* Rel. August 19, 1997 (*Michigan 271 Order),* at para. 19, 12 FCC Rcd 20543.

The FCC has strongly encouraged states to go beyond merely addressing checklist items, to provide it with a comprehensive analysis of local competition in the state, noting that:

> ... this information will be valuable to our assessment of the public interest, and it is information which the state commissions are well-situated to gather and evaluate. Accordingly, ... we suggest that the relevant state commission develop, and submit to the Commission, a record concerning the state of local competition as part of its consultation. In particular, state commissions should, if possible, submit information concerning the identity and number of competing providers of local exchange service, as well as the number, type, and geographic location of customers served by such competing providers. We recognize that carriers may view much of this information as proprietary and that different states have different procedures for obtaining and handling such information. Nevertheless, we encourage states to develop and submit to the Commission as much information as possible, consistent with state procedural requirements.[2]

The FCC has remarked unfavorably in its review of Section 271 applications when the state PUC has elected *not* to provide this comprehensive analysis.[3] Moreover, the FCC has made clear that it will not do the BOC's homework for it — that is, it will not "conduct an inquiry into the status of local competition ... in order to determine whether competing carriers are, in fact, providing the type of service described in section 271(c)(1)(A)" — since "the ultimate burden of proof with respect to factual issues remains at all times *with the BOC*."[4]

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2. *Id.*, at para. 34.

3. See, *In the Matter of Application by BellSouth Corporation, et al. Pursuant to Section 271 of the Communications Act of 1934, as amended, to Provide In-Region, InterLATA Services in Louisiana*, CC Docket No. 97-231, *Memorandum Opinion and Order*, Rel. February 4, 1998 ("*Louisiana 271 Order*"), at para 12.

4. *Michigan 271 Order*, at para. 43, 12 FCC Rcd 20543, 20567, emphasis supplied.

6. In addition to addressing the Section 271(c)(2)(B) "competitive checklist," the state commissions' consultative role thus also includes Section 271(d)(3)(C), which requires an affirmative finding that "the requested authorization is consistent with the public interest, convenience, and necessity." Moreover, since intrastate interLATA services are regulated by state commissions, in making its public interest assessment a state commission can certainly be guided by applicable state statutes even, *and especially*, if the state statute differs from — and perhaps even exceeds — the corresponding federal requirement. It would make no sense for Congress to expressly assign to the states a consultative role in the Section 271 process if the state commissions were confined solely to a minimalist review of the checklist items.

7. In addition to the duties that the New Jersey Board of Public Utilities (Board) holds with respect to Sections 271 and 272, the Board is clearly also bound by the requirements of Title 48 and of the New Jersey statutes regarding, *inter alia*, nondiscriminatory treatment of competing providers,[5] imputation of the tariff rates of noncompetitive services used by the

5. N.J.S.A. 48:2-21.19(e): "... [t]he following safeguards shall apply to the offering of any competitive service by a local exchange telecommunications company: (1) the local exchange telecommunications company shall unbundle each noncompetitive service which is incorporated in the competitive service and shall make all such noncompetitive services separately available to any customer under tariffed terms and conditions, including price, that are identical to those used by the local exchange telecommunications company in providing its competitive service; ... (4) nothing in the act shall limit the authority of the board, pursuant to R.S. 48:3-1, to ensure that local exchange telecommunications companies do not make or impose unjust preferences, discriminations, or classifications for noncompetitive services."

ILEC in providing competitive services,[6] cost allocation,[7] and prohibitions against cross-subsidization of competitive services by customers of noncompetitive services.[8] This Board has the obligation to carefully review the Verizon filing so that all New Jersey consumers not only benefit from deregulation, but that indeed they do not become captive to a new unregulated monopoly. Nothing in the federal statute precludes a state commission from applying its own principles in *advising* the FCC as to whether the public interest requirement has been satisfied. The FCC, in its *1997 Michigan 271 Order*, concluded that the Congressional intent with respect to the 1996 Act was to ensure that each state commission fulfilled the task of advising and assisting the FCC on a variety of issues raised in Section 271 filings. The *Michigan 271 Order* makes this broad role clear:

> In requiring the Commission to consult with the states, Congress afforded the states an opportunity to present their views regarding the opening of the BOC's local networks to competition. In order to fulfill this role as

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6. N.J.S.A. 48:2-21.19(e)(2) "... the rate which a local exchange telecommunications company charges for a competitive service shall exceed the rates charged to others for any noncompetitive services used by the local exchange telecommunications company to provide the competitive service."

7. N.J.S.A. 48:2-21.18(d): "The board shall have the power to require an independent audit or such accounting and reporting systems from local exchange telecommunications companies as are necessary to allow a proper allocation of investments, costs or expenses for all telecommunications services, competitive or noncompetitive, subject to the jurisdiction of the board."

8. N.J.S.A. 48:2-21.16(a)(3): "Ensure that rates for noncompetitive telecommunications services do not subsidize the competitive ventures of providers of telecommunications service."; 48:2-21.18(c): "No local exchange telecommunications company may use revenues earned or expenses incurred in conjunction with noncompetitive services to subsidize competitive services."

> effectively as possible, state commissions must conduct proceedings to develop a comprehensive factual record concerning BOC compliance with the requirements of section 271 *and the status of local competition* in advance of the filing [at the FCC] of section 271 applications.[9]

8. In addition to proper attention to the public policy concerns of the New Jersey telecommunications community — including ratepayers and CLECs — with regard to the specific requirements of the 1996 Act, Verizon New Jersey, as an incumbent local exchange carrier, is obligated to comply fully with Sections 251 and 252. The Section 271(c)(2)(B) "competitive checklist" essentially reiterates and refers to the Section 251/252 duties applicable to all ILECs, but in the case of Bell Operating Companies, Section 271 presents the *additional* compliance incentive in the form of the promise of in-region long distance entry. Thus, the Board should consider the full extent of Verizon NJ's compliance with Sections 251/252 in general and with the Section 271(c)(2)(B) checklist items in particular, both as such compliance presently exists and as it is likely to be maintained on an ongoing basis into the future. In the *Non-Accounting Safeguards Order*, the FCC clearly recognized the capacity of a BOC to backslide on checklist compliance after it receives Section 271 authority:

> Moreover, we need to ensure that the market opening initiatives of the BOCs continue after their entry into the long distance market. It is not enough that the BOC prove it is in compliance at the time of filing a section 271 application; it is essential that the BOC must also demonstrate that it can be relied upon to remain in compliance. This may be demonstrated in various ways. For example, we must be confident that the procedures and processes requiring BOC

9. *Michigan 271 Order*. at para 30, 12 FCC Rcd 20543, 20559., emphasis supplied.

> cooperation, such as interconnection and the provision of unbundled network elements, have been sufficiently available, tested, and monitored. Additionally, we will look to see if there are appropriate mechanisms, such as reporting requirements or performance standards, to measure compliance, or to detect noncompliance, by the BOCs with their obligations. Finally, the BOC may propose to comply continually with certain conditions, or we may, on a case-by-case basis, impose conditions on a BOC's entry to ensure continuing compliance. The section 271 approval process necessarily involves viewing a snapshot of an evolving process. *We must be confident that the picture we see as of the date of filing contains all the necessary elements to sustain growing competitive entry into the future.*[10]

Thus, as part of its determination as to Verizon NJ's compliance with the Section 271(c) requirements of the 1996 Act, the Board must consider evidence that the snapshot view of the checklist items contains everything necessary to ensure Verizon NJ's *continued* compliance. Such a consideration must not be limited to a cursory review of Verizon's current standing with respect to the Section 271(c) checklist items, but must also include the plans of Verizon NJ and its affiliates' provision of services to CLEC customers, possibilities of remonopolization of the long distance market, and a level playing field for all competitive providers.

9. The FCC has recognized the significant potential for a BOC, after receiving Section 271 authority, to engage in significant anticompetitive behavior, harming the intrastate interLATA market:

> A BOC may have an incentive to discriminate in providing exchange access services and facilities that its affiliate's rivals need to compete in the interLATA telecommunications and information services markets. For

10. *Michigan 271 Order*, at para 22, 12 FCC Rcd 20543, 20555, emphasis supplied.

> example a BOC may have an incentive to degrade services and facilities furnished to its affiliate's rivals, in order to deprive those rivals of efficiencies furnished to its affiliate's rivals, in order to deprive those rivals of efficiencies that its affiliate enjoys. Moreover, to the extent carriers offer both local and interLATA services as a bundled offering, a BOC that discriminates against the rivals of its affiliates could entrench its position in local markets by making these rivals' offerings less attractive.[11]

The presence of effective competition in the local exchange service market would not necessarily eliminate these incentives, but it would assuredly undermine a BOC's ability to engage in the kind of anticompetitive and discriminatory conduct that the FCC here describes.

10. In this context, the Section 271(c)(2)(B) "competitive checklist" is more than merely a "carrot" designed to incent the BOCs to comply with the more general market-opening requirements of Sections 251 and 252. Rather, the arrival of effective competition lies at the core of the national telecommunications policy that is embraced in the 1996 Act. Section 271 thus cannot be divorced from its public interest roots, which stem from the interLATA "line of business restriction" imposed by the *Modification of Final Judgment* ("MFJ"), the 1982 Consent Decree entered into by the former Bell System and the US Department of Justice in settlement of the 1974 *U.S. v. Western Electric et al* antitrust case.[12] Under the MFJ, BOCs were prohibited from offering interLATA services *expressly to prevent them from extending*

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11. *In the Matter of Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as amended, First Report and Order*, 11 FCC Rcd 21905 ("*Non-Accounting Safeguards Order*"), at para. 11.

12. *U.S. v. Western Electric Co. et al.*, 552 F. Supp. 131 (D. D.C., 1982), *aff'd sub nom. Maryland vs. U.S.*, 460 U.S. 1007 (1983); and *Modification of Final Judgment*, sec. VIII.B.

their market power in the local exchange market to monopolize the (then potentially) competitive long distance market. And in fact competition in the long distance market has thrived — and as a result prices have sharply decreased — in the nearly two decades since the MFJ first went into effect in January 1984. The principle underlying Section 271 generally is that once there is sufficient competition in the *local* service market, it will then no longer be possible for a BOC to extend its local monopoly into the adjacent long distance market. The existence of but a single facilities-based competitor somewhere in any state — one of the threshold conditions that a BOC must satisfy to obtain Section 271 approval[13] — is clearly not by itself sufficient to constrain the incumbent BOC's exercise of market power. And indeed, if a BOC is authorized to offer in-region interLATA services while still maintaining an effective monopoly in the local market despite the nominal presence of one or a few "competitors," "the requested authorization" would clearly *not* be "consistent with the public interest, convenience, and necessity" as required by Section 271(d)(3)(C).

The absence of approved TELRIC-based UNE rates and real-world evidence that CLECs are being afforded nondiscriminatory access to Verizon New Jersey's operations support systems separately and collectively preclude a finding of Checklist item (2) compliance at this time.

11. Checklist item (2) requires that Verizon NJ provide nondiscriminatory access to network elements in accordance with the requirements of Sections 251(c)(3) and 252(d)(1). Section 251 (c)(3) requires Verizon NJ, as the ILEC, to provide nondiscriminatory access to network elements on an unbundled basis at any technically feasible point on rates, terms and

13. Section 271(c)(1)(A).

conditions that are just, reasonable and nondiscriminatory.[14] The absence of approved TELRIC-based UNE rates, real-world evidence that CLECs are being afforded nondiscriminatory access to Verizon NJ's OSS separately and collectively preclude a finding of Checklist item (2) compliance at this time.

Permanent TELRIC-based UNE rates have not as yet been adopted by the Board.

12. Section 252(d)(1) requires that a state commission's determination of the just and reasonable rates for network elements shall be based upon the cost of providing the network elements.[15] The FCC has determined that prices for unbundled network elements must be based upon the total element long run incremental cost ("TELRIC") of providing those elements.[16] Therefore, the Board's examination of Checklist item (2) necessarily requires a finding that UNE rates in New Jersey are TELRIC compliant. In fact, in order for the Board to recommend approval of Verizon's filing to the FCC, it must be assured that UNE rates are cost-based pursuant to TELRIC methodology. For New Jersey, this presents a factual and legal impossibility, and thus the Board has no basis for a recommendation that the FCC approve Verizon NJ's Section 271 Application as filed.

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14. 47 U.S.C. 251(c)(3).

15. 47 U.S.C. 252(d((1).

16. *Local Competition First Report and Order*, 11 FCC Rcd at 15844-46, paras. 674-679; 47 C.F.R 51.501 *et. seq*.

13. In 1998, the Board identified, acknowledged, and accepted as fact that the absence of cost-based UNE rates in New Jersey remained a barrier to entry in the local exchange service market.[17] Implicit in this finding, therefore, is the conclusion that Verizon NJ could not provide other carriers wishing to compete in the New Jersey local exchange service market with nondiscriminatory access to VNJ network elements. Indeed, the UNE rates that had been set by the Board in the Generic Order[18] were remanded by the United States District Court for the District of New Jersey for a new determination by the Board as to TELRIC compliant rates.[19] The Court remanded based upon its finding that the Board's "... assignment of numeric percentages to models ... were flawed ..." Such flaws amounted to "arbitrary and capricious rulemaking."

14. In the recently litigated proceeding as required by the Court's remand, *I/M/O the Board's Review of Unbundled Network Element Rates, Terms, and Conditions of Bell Atlantic New Jersey*, BPU Docket No. TO00060365, this Board has not as yet issued an Order that

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17. *Status of Local Competition: Report and Action Plan*, BPU Docket No. TX98010010 (July 1998), at 43 ["... the Board finds that until OSS and UNE issues have been addressed and are no longer "barriers to entry," the Board cannot determine that either pricing issue (i.e., Une rates and capped local service rates) raised in this proceeding is [sic] [not] a "barrier to competition." The Board further finds that OSS and UNE access are of such significance that no other issue can be argued to affect mass local market entry in the residential market until OSS and UNE issues are resolved.]

18. *I/M/O Investigation Regarding Local Exchange Competition for Telecommunications Services*, BPU Docket No. TX95120631 (December 2, 1997) ("*Generic Order*").

19. *AT&T, et. al. v. Bell Atlantic-New Jersey Inc., et.al.*, Civ. No. 97-5762 (D.C.N.J. June 6, 2000).

can be implemented and market-tested to determine whether this barrier to market entry no longer exists in New Jersey's local exchange service market. Only then would it be fair to conclude that Verizon NJ is providing UNEs consistent with the requirements of Section 271 of the 1996 Act.

15. It is well recognized that the FCC will reject a Section 271 application if basic TELRIC principles are violated or if the state commission makes clear errors in factual findings on matters so substantial that the end result falls outside the range that the reasonable application of TELRIC principles would produce.[20] There can be no doubt that the current UNE rates in New Jersey fall within this definition. As this is a threshold issue for the FCC to consider in evaluation of a Section 271 application, and because there is no argument that the Board-approved TELRIC compliant rates are not yet implemented, Verizon NJ's application for Section 271 approval cannot merit Board or FCC consideration. Contrary to Verizon NJ's assertion, it does not follow that this threshold criterion can be set aside — or satisfied — by the true-up mechanism it asserts to offer CLECs. Indeed, there is not even the suggestion by Verizon NJ that such rates as it negotiates *ad hoc* are TELRIC-compliant. Those rates can only reflect what a burdened CLEC is willing to sign onto without any hope of actually providing service on that basis. This truth is borne out by the persistent monopoly status of the New Jersey local service market.

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20. *In the Matter of the Application by Bell Atlantic New York for Authorization Under Section 271 of the Communications Act To Provide In-Region, InterLATA Service in the State of New York,* CC Docket No. 99-295, *Memorandum Opinion and Order,* Rel. December 22, 1999) at para. 81. (*New York 271 Order*)

Verizon NJ has not yet demonstrated, by real-world experience, that it is providing CLECs with nondiscriminatory access to OSS.

16. The nondiscriminatory provision of access to operations support systems (OSS) and the ability of competing carriers to combine unbundled network elements are integral components of a BOC's obligation to provide nondiscriminatory access to network elements as required by checklist item (2). The importance of nondiscriminatory access to OSS systems to the development of meaningful local competition has been consistently and repeatedly acknowledged by the FCC. The ability of competitors to place orders for installation of service to their customers, as well as for maintenance, repair and billing functions, are linked directly to Verizon NJ's OSS systems. The FCC has noted that without nondiscriminatory access to a BOC's OSS systems. “a competing carrier ‘will be severely disadvantaged, if not precluded altogether, from fairly competing' in the local exchange market.”[21] Its importance thus cannot be overstated.

17. The Board's review of Verizon NJ's Section 271 filing must therefore require an analysis of the adequacy of the Company's provision of access to the critical OSS functions of pre-ordering, ordering, provisioning, maintenance and repair, and billing. In prior Section 271 petitions, the FCC has analyzed whether the BOC has met the nondiscrimination standard for each OSS function using a two step process, where it examines:

21. *Id.* at para. 83.

(1) whether the BOC has deployed the necessary systems and personnel to provide sufficient access to each of the necessary OSS functions and whether the BOC is adequately assisting competing carriers to understand how to implement and use all of the OSS functions available to them; and

(2) whether the OSS functions that the BOC has deployed are operationally ready, as a practical matter.[22]

18. When performing the second half of the inquiry, the FCC examines performance measurements and other evidence of commercial readiness to ascertain whether the BOC's OSS is handling current demand and will be able to handle reasonably foreseeable demand volumes.[23] Moreover, the FCC has stated that, in evaluating whether a BOC's OSS functions are operationally ready, evidence drawn from *actual commercial usage* was deemed the most probative form of evidence.[24]

22. *Id.* at para. 87.

23. *Id.* at para. 89.

24. *In the Matter of the Application by SBC Communications, Inc. Southwestern Bell Telephone Co., and Southwestern Bell Communications Services, Inc. d/b/a Southwestern Bell Long Distance, pursuant to Section 271 of the Telecommunications Act of 1996 To Provide In-Region, InterLATA Service in Texas*, CC Docket No. 00-65, *Memorandum Opinion and Order*, June 30, 2000 at ¶ 102. (*Texas 271 Order*).

19. However, Verizon NJ's filing fails to provide any evidence of "actual commercial usage" from which this Board can assess the true ability of Verizon NJ's OSS systems to handle a realistic level of foreseeable demand in a thriving competitive market. Verizon NJ's failure to provide *actual commercial usage data* falls short of and is inconsistent with its filings made in other jurisdictions. In New York, Verizon provided *actual commercial usage data* pertaining to provision of nondiscriminatory access to its application interfaces for all of the pre-ordering functions that it provides to itself.[25] Commercial usage data was also provided on the operations of Verizon-New York's maintenance and repair functionalities, with carriers performing more than 40,000 maintenance transactions per month.[26] Moreover, in Pennsylvania, the Section 271 review process provided a three-month window for the collection of *actual commercial usage data* to assist the Pennsylvania PUC in its consultative review of Verizon's Section 271 filing in that state.[27]

20. Verizon NJ's alleged compliance with this checklist item relies primarily on the *draft* report of the independent third-party testing performed by KPMG to support its assertions that it has met the requirement of providing nondiscriminatory access to OSS – a report based upon the actions of a pseudo-CLEC, and lacking any real-world verification or validation.

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25. *Id.* at paras. 130, 133.

26. *New York 271 Order* at para. 214.

27. *Consultative Report on Application of Verizon Pennsylvania, Inc. for FCC Authorization to Provide In-Region, InterLATA Service in Pennsylvania*, Docket No. M-00001435, *Procedural Order*, Pennsylvania Public Utility Commission (November 29, 2000) at 12.

The FCC has indicated that absent data on actual commercial usage, it will consider the results of carrier-to-carrier testing, independent third party testing, and internal testing in assessing the commercial readiness of a BOC's OSS.[28] Here, Verizon NJ relies upon mainly one of these three criteria cited by the FCC to be considered if actual commercial usage data is not provided. With the dearth of competitive entry by CLECs in New Jersey, this Board cannot place any substantive value upon the results of the third party independent testing to indicate how Verizon NJ's OSS would respond to real-world competitive entry levels.

21. Moreover, the performance data provided by Verizon NJ in its Performance Measurements Declaration is equally unreliable due to the fact that there were no enforcement mechanisms in place during the time period that this data was collected. Thus, Verizon was not assessed any penalties for any failures in meeting the Carrier-to-Carrier guidelines, and was basically given a free pass. The Performance Assurance Plan approved by the Board on October 12, 2001, which will implement penalties that Verizon NJ will incur for failure to meet the performance measurements, will not become effective until November 1, 2001.[29] Verizon NJ's current filing therefore lacks any evidence of its performance under the new plan and the plan's ability to provide the proper incentive for Verizon NJ to not discriminate against competitive carriers in its provision of OSS. Once again, this is inconsistent with Verizon's filings in other jurisdictions, where a Performance Assurance Plan was already in

28. *New York 271 Order*, at para. 89.

29. *In the Matter of the Board's Investigation Regarding the Status of Local Exchange Competition in New Jersey — Performance Standards Remedies*, BPU Docket No. TX98010010 - Item 4B, October 12, 2001 BPU Agenda Meeting.

place and where performance data was available for review by the PUC in its assessment of Verizon's filing.[30]

22. This void in Verizon NJ's filing, coupled with the lack of actual commercial usage data, serves only to underscore the inability of the Board to develop a full record such as that sought by the FCC upon which it could provide a well-reasoned recommendation as to Verizon NJ's satisfaction of this checklist requirement. Therefore, the Board must recommend to the FCC that Verizon's petition be denied at this time.

Verizon's Section 271 Petition does not include detailed information on the geographic distribution of competitive activity.

23. Mr. Bone's Declaration does not adequately demonstrate that competition exists for CLECs in all areas of the state. Mr. Bone attempts to prove the geographic distribution of competition in New Jersey by including exhibits to his Declaration that state the number of CLEC facilities-based and resold lines by area code.[31] However, the numbers cited in Mr. Bone's exhibits still do not rise to the level of what Verizon NJ is required to prove in order to gain Section 271 approval.[32] Absent evidence that each and every geographic area in

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30. In Pennsylvania, the PUC recognized the importance of the need for enforcement remedies, and required that Verizon put one in place as a precondition to its recommendation that Verizon's petition be approved.

31. Bone (Verizon NJ), Declaration, Attachment 101, Exhibit 2 & 3.

32. For example, Mr. Bone states that 280 residential lines are served by CLECs using

(continued...)

New Jersey is sufficiently open to competition, approval of this application runs the risk of ignoring the vital importance of New Jersey ratepayers who face a single unregulated monopoly carrier, Verizon NJ. Prior to approval of Verizon New York's Section 271 authority, the New York PSC investigated the extent of competition in each geographic area of New York State.[33] The NYPSC accomplished this by dividing New York State into seven regions,[34] and for each region the Commission listed the ILECs and CLECs serving that region along with the number of access lines (business and residence) they each serve. As a result, the detailed data in the New York PSC's annual report provides a basis for determining whether consumers in every region of that state receive the benefits of competition. In engaging in this type of analysis prior to the grant of Section 271 approval, the NYPSC was able to definitively determine whether *all* consumers would benefit from Verizon's entry into the interLATA market. In New Jersey, however, unless Verizon's filing contains detailed and specific competitive information regarding each geographic region of New Jersey, the Board

32. (...continued) their own facilities, 400 residential lines using UNE-P, and approximately 59,000 resold residential lines. Bone (Verizon NJ), Declaration at para. 8. Mr. Bone also states that "CLECs are serving business and residential customers in *each* area of the State." *Id.*, emphasis supplied. In fact, the residential line figures he cites may well be contained within a single area code, which would mean that in other areas of the state, no residential competition is present. Additionally, neither Exhibits 2 nor 3 pertain to residential customers. Hence, no evidence regarding the geographic distribution of competition, as it pertains to residential customers, has been provided by Verizon NJ in its filing.

33. *See* New York Public Service Commission, Analysis of Local Exchange Service Competition in New York State, as of December 31, 2000.

34. The regions included New York Metro, Albany, Binghamton, Buffalo, Poughkeepsie, Rochester, and Syracuse. New York Metro was further divided into Manhattan; Bronx; Staten Island, Brooklyn, and Queens; Long Island; and Northern.

cannot fully determine whether *all* New Jersey consumers would benefit from Section 271 approval or whether consumers would be harmed by approval of Verizon's application. As filed, Verizon's application provides scant evidence that there is substantial facilities-based competitive entry outside of a few core urban wire centers in New Jersey. Unfortunately, due to the aggressive procedural schedule being demanded by Verizon together with Verizon's failure to provide responsive answers to the Ratepayer Advocate's discovery requests, Verizon NJ necessarily fails to establish a strong case as to the geographic distribution of competition in the local residential markets.

The existence of a state universal service plan has been recognized by other jurisdictions as critical to supporting a determination that Section 271 approval is in the public interest.

24. The Board in *I/M/O Investigation Regarding Local Exchange Competition For Telecommunications Services*, Docket No. TX95120631, intended to address the issue of the effects of local competition on Universal Service that was to result in a decision by the Board.[35] Evidentiary hearings regarding the Universal Service issue were bifurcated into two portions.[36] Evidentiary hearings on the first portion were held on September 15, 16 and

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35. New Jersey Board of Public Utilities, *I/M/O Investigation Regarding Local Exchange Competition For Telecommunications Services*, Telecommunications Decision and Order at 4, Docket No. TX95120631, (December 2, 1997) ("*Local Competition Proceeding*").

36. The first portion addressed the establishment of mandated discounts to schools, libraries, and hospitals in addition to the definition of advanced telecommunications capability and the establishment of levels of discounts for schools, libraries, and health care providers. See Initial Brief on Behalf of the Division of the Ratepayer Advocate on Universal Service, at (continued...)

18, 1997, and hearings on the second portion were held on October 27-31, 1997, and on November 6-7 and 24-25, 1997. Initial briefs were filed on the Universal Service issue on December 5, 1997, and reply briefs were filed on December 15, 1997. To date, the Universal Service phase of the Local Competition proceeding is still pending before the Board. Basically, this means that the Board has not as of this date decided to institute a state Universal Service Fund. The Ratepayer Advocate contends that the establishment of a state Universal Service Fund is essential to satisfying the public interest requirement of Section 271 because such a program ensures the availability of affordable service to all of the state's low income ratepayers and the benefits of competition to those persons in high cost geographic areas.[37] To date, 25 states have have instituted universal service plans,[38] and six of those states, namely Connecticut, Kansas, Oklahoma, New York, Pennsylvania and Texas, have received Section 271 approval. In fact, the Pennsylvania PUC, in evaluating Verizon PA's Section 271 application, considered its ruling that had created a state Universal Service Fund relevant to the Section 271 application.[39] Accordingly, in the absence of a Board decision

36. (...continued)
5. The second portion addressed the Universal Service Fund costs for all universal service elements associated with policy issues, and a determination of the price and support levels of Universal Service. *Id.*

37. *See* Brief and Appendix on Behalf of The Division of the Ratepayer Advocate on Universal Service Policy Issues, at 3.

38. *See*, State Universal Service Fund Summaries, www.neca.ord/susfa.htm, visited 10/22/01.

39. *See* Pennsylvania Public Utility Commission Consultative Report, at 8.

on Universal Service in New Jersey, Verizon is unable to satisfy the public interest requirement of Section 271.

Verizon's Section 271 Petition fails to meet the public interest standard because the combined effects of the lack of competition in New Jersey's local telecommunications market, coupled with Verizon's ability, upon obtaining Section 271 authority, to jointly market local and long distance services, will permit the Company to become an unregulated dominant monopoly in the interLATA long distance market.

25. The MFJ had prohibited the divested BOCs from offering interLATA long distance services. This *structural remedy* was adopted in order to prevent the BOC local service monopolies from using their monopoly market power in the local services market to block competition in the adjacent long distance market. Section 271 was adopted as a *replacement* for the MFJ long distance line of business restriction, and established a process by which BOCs could enter the "in-region" long distance market provided that they implemented a series of specific measures that would have the effect of irreversibly opening their previously monopolized local telecommunications markets to competitive entry. To the extent that the *local* market itself becomes competitive, the BOCs' ability to exert market power in the adjacent long distance market would be attenuated. Conversely, however, to the extent that competition *fails to develop* in the local services market, the BOC will then have both the incentive and the ability to exert market power in, and ultimately to remonopolize, the adjacent long distance market.

Lack of effective competition in the New Jersey local service market

26. While various Verizon NJ declarants offer testimony purporting to demonstrate that Verizon NJ has fully complied with all of the fourteen requirements set forth in the Section 271(c)(2)(B) "competitive checklist," the minimal level of competitive penetration that presently exists in New Jersey, even taking Mr. Bone's figures at their face value, belies those contentions. If the local service market were "irreversibly opened to competition" as Verizon NJ contends, CLECs would be flocking to New Jersey — one of the most lucrative telecommunications markets in the nation — rather than running from it. There is thus no basis upon which the Board may reasonably determine that all competitors have fair, nondiscriminatory, and mutually open access to exchanges currently subject to the modified final judgment and interexchange facilities, including fair unbundling of exchange facilities.

27. Significantly, the level of residential CLEC market penetration in New Jersey is one of the lowest in the entire country. Mr. Bone has identified some 59,000 residential lines being provided by CLECs via resale of bundled VNJ services, and another 280 that he portrays as "facilities-based." Taken together, both groups of CLEC customers account for only 1.35% of the 4.34-million residential access lines that are currently being served *at retail* by Verizon New Jersey. Indeed, the "facilities-based competition" in the residential market — the existence of which must be affirmatively demonstrated as a specific precondition for Section 271 authority as required at Section 271(c)(1)(A) of the federal Act — accounts for only 0.0065% of the total residential access line market in Verizon NJ's service territory. Moreover, inasmuch as this figure of 280 was apparently gleaned by Verizon NJ from its

E911 database (which identifies a customer as being served by a CLEC when the CLEC furnishes the switching facilities), there is no showing that any of these 280 residential lines utilize CLEC-provided *outside plant facilities* rather than UNE-loops obtained from Verizon NJ and resold as part of the CLEC retail service. Hence, Verizon NJ has failed to demonstrate, as it is required to do, that "such [facilities-based] telephone exchange service may be offered by such competing providers either exclusively over their own telephone exchange service facilities or *predominantly over their own telephone exchange service facilities* in combination with the resale of the telecommunications services of another carrier."[40] The absence of verification of a competing facilities-based provider of residential service is by itself fatal to the Verizon New Jersey Section 271 application, and is by itself a basis for that application to be denied.[41]

28. When state commissions expend the time and effort necessary to develop a record such as the FCC recommends, the FCC has consistently given more weight and consideration to the state commission recommendations.[42] Indeed, the Board's consultative role

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40. 47 CFR 271(c)(1)(A), emphasis supplied.

41. The FCC appears to have determined that a CLEC's use of UNEs constitutes "facilities-based" competition. Even if, in fact, these 280 "facilities-based" plus 400 UNE-P CLEC residential lines are being furnished "by such competing providers ... exclusively over their own telephone exchange service facilities," the infinitesimal fraction of the total New Jersey residential access line market that this one (or more) CLEC(s) would be serving hardly demonstrates the existence of an "irreversible" competitive presence. It defies reason to imagine that even one firm — let alone more than one — could survive very long with so minute a customer and revenue base in this market segment.

42. *Texas 271 Order*, at para 11.

unambiguously embraces Section 271(c)(1)(A) and thus *requires* that the Board examine the status of competition in New Jersey and make a finding as to the presence of a facilities based residential and business provider. Moreover, although Section 271(c)(1)(A) requires that VNJ demonstrate the presence of at least one facilities-based provider in each of the residential and business segments — which Verizon NJ has not complied with in its filing — this nominal test for the presence of local competition must be read in the broader context of the Section 271(d)(3)(C) "public interest" requirement: Clearly, the purpose of requiring the presence of local competition as a prerequisite to interLATA entry was to assure that the incumbent BOC would not be capable of using its local market dominance to remonopolize the adjacent long distance market. In the instant matter, the claimed existence of only 280 residential subscribers that, according to VNJ, are ostensibly being served in some unspecified manner by a facilities-based carrier in unspecified geographic areas, cannot possibly offer any assurance that VNJ's market power is in any material sense attenuated by the existence of competition or that VNJ would be unable to leverage its control of in excess of 99.99% of the New Jersey facilities-based residential service market to regain effective monopoly control of the in-region long distance market with respect to this major customer segment.

29. As I have previously explained, the notion underlying Section 271 of the 1996 federal *Act* is that once the local exchange market becomes competitive such that consumers have a real choice with respect to local service provider, no one local service provider will possess a monopoly in this segment and thus be capable of leveraging that monopoly to similarly monopolize and dominate the adjacent long distance market. Consequently, in its

September 5, 2001 Section 271 filing with this Board, Verizon NJ undertakes, through the declaration of Dennis Bone, President of Verizon NJ, to demonstrate the presence of significant competition in the New Jersey local service market. Mr. Bone claims that Verizon NJ is currently operating in a market where CLECs are positioned to serve most if not all existing customers. Were that the case — which as I shall show it clearly is not — Verizon NJ could presumably claim that its service area was significantly and irreversibly opened to competition. The validity of Mr. Bone's methods for determining levels of competition and CLEC competitive potential is therefore integral to this proceeding. As I shall demonstrate, the various claims and assertions advanced by Mr. Bone serve only to confirm Verizon NJ's current, ongoing and overwhelming dominance of the New Jersey local service market, and in that regard his testimony fails to make a showing regarding the sustainable presence of local competition for the reasons I discuss below.

30. Given the immense amount of capital that has been invested by firms seeking to enter the New Jersey local services market and the effort that has been expended by these firms to pursue that goal, if Verizon NJ had truly "opened its network" to competitive access and entry, we should be observing far more competitive activity than even Mr. Bone's exaggerated account seeks to portray. Indeed, even Mr. Bone concedes that Verizon NJ's share of the local service market in its operating areas in New Jersey may be as high as 93.3%,[43] and asks the Board to accept the idea that a mere 6.7% level of competitive penetration after more than five and a half years following enactment of the 1996 Act constitutes

43. Bone (Verizon NJ), Declaration at 7.

an effectively competitive market. If Verizon NJ's network were truly open and accessible to CLECs, the competitive nature of the local service market in New Jersey would not even be a matter of dispute or debate. Mr. Bone himself thus provides compelling evidence that competitors do *not* have fair, nondiscriminatory, and open access to Verizon NJ exchanges and network facilities.

31. The most clear and direct way to measure a CLEC's market penetration is to count the access lines that it is actually serving. An "access line" for this purpose is a physical voice-grade equivalent facility providing dial tone to an end user customer. In fact, Verizon NJ has offered no evidence of the actual number of access lines currently being furnished by facilities-based CLECs and has thus resorted to various types of "shadow" evidence that Mr. Bone undertakes to "interpret" as conveying far more market intelligence than it actually does.

32. One such "shadow" approach that Verizon NJ has employed is to extract certain information from the carrier E911 database that Verizon NJ is responsible for managing,[44]

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44. In this regard and as an aside, Verizon NJ's use of the carrier E911 data base to extract market information is in itself evidence of an abuse of its monopoly position. Apparently, Verizon is able to obtain extremely granular market data about its competitors' activities from this data source that it exclusively controls. By mining the E911 database and assuming that it is sufficiently accurate for the conclusions being drawn by Mr. Bone to be valid, Verizon apparently can identify the quantity of access lines being provided by each of its CLEC competitors in each exchange area — the type of information that Verizon characterizes as "CLEC proprietary data" in both its prefiled evidence as well as in responses to data requests. While this information is not being furnished to Verizon's competitors or the Ratepayer

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and to integrate those results with other “shadow” data to which Verizon NJ has access, such as the number, location, and carrier for interconnection trunks and collocation arrangements. Through discovery, however, it is apparent that each of Mr. Bone's methods involve assumptions or distortions that seriously inflate this important competitive indicator.

33. Mr. Bone initially portrays the E911 database as a “conservative” source of CLEC access line counts. By summing all numbers entered in the database identified by CLEC NXX codes, and then adding the number of UNE-P access lines, Mr. Bone claims to present what he characterizes as a “highly conservative calculation” of CLEC facilities-based lines.[45] When queried in discovery, however, it becomes clear that Mr. Bone made no attempt to determine the actual occurrence of any theory that would justify characterizing this estimate as “conservative,” much less “highly conservative.” Mr. Bone could produce no practices manual or other documentation detailing CLEC procedures for entering information into the E911 database.[46] More importantly, however, while Mr. Bone contends that the E911

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44. (...continued)
Advocate, Verizon is apparently making liberal use of the very same “CLEC proprietary” market data for its own competitive and strategic purposes, such as its use in this proceeding to buttress is efforts to obtain Section 271 authority. Inasmuch as Verizon does not make this information available to its competitors nor the Ratepayer Advocate while at the same time utilizing it for its own purposes, the practice is on its face competitively unfair, and likely violates the express prohibition, set out at Section 222(b) of the federal Act, that “[a] telecommunications carrier that receives or obtains proprietary information from another carrier for purposes of providing any telecommunications service shall use such information only for such purpose, and shall not use such information for its own marketing efforts.”

45. Bone (Verizon NJ), Declaration, attachment 101, at 3.

46. Verizon NJ Response to RPA-26.d.

database is a listing of access lines,[47] in fact Verizon New Jersey's own E911 database entries exceed its access line count by nearly 450,000.[48] In response to a Ratepayer Advocate data request, Mr. Bone states that he made no attempt to explain or account for CLEC practices with respect to the treatment of Direct Inward Dialing (DID) numbers assigned to customers, which would typically exceed the actual number of access lines that the customer obtains from a CLEC.[49] Contrary to Mr. Bone's speculation, the quantity of CLEC-associated numbers in the E911 database could well be significantly greater than the actual number of CLEC access lines in service.[50] If in fact the "CLEC E911 number

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47. Verizon NJ Response to RPA-26.b.

48. See Verizon NJ Response to RPA-26.c. Verizon NJ gives the number of its customers' E911 entries at 7,186,000, yet its total access lines are given as only 6,740,457. Bone (Verizon NJ), Declaration, at para. 7, footnote 4.

49. Verizon NJ Response to RPA-26.d.

50. This is due to common business communications arrangements such as DID, where each station line "behind" a PBX is assigned its own unique 7-digit telephone number. A DID customer will obtain a block of numbers from its local carrier, ILEC or CLEC, and that quantity of individual numbers will typically be a multiple of the quantity of physical access lines (PBX trunks) that are being provided to that customer. For example, FCC rules relating to surcharges for Local Number Portability ("LNP") allow an ILEC to apply nine (9) LNP charges for each PBX trunk or equivalent; thus, in the case of a T-1 trunk containing 24 individual voice channels, the FCC LNP rules contemplate 24 x 9, or 216 PBX stations "behind" the single T-1 facility. 47 CFR Part 52, subpart 33(i). Although carriers do not necessarily report all DID numbers to the E911 data base, their individual practices in this regard are not uniform and, in any event, are not known and were not even researched by Mr. Bone or by Verizon NJ. Verizon NJ Response to RPA-26.d. DID numbers would require E911 presence if the customer's PBX was capable of identifying the calling station line on outgoing calls. While this "Identified Outward Dialing" ("IOD") capability is by no means universally present, the CLEC has no consistent means of determining the capabilities of individual customers' PBXs and, in an abundance of caution, may include all of the numbers

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counts" that Mr. Bone interprets as CLEC *access lines* include DID numbers, the CLEC market share figures that he presents based thereon would be seriously exaggerated. Moreover, a CLEC will typically include its own customer in the E911 database where the CLEC provides the *switch*, even if Verizon is the underlying provider of the access line facility connecting the customer's premises with the CLEC switch. Hence, when combined with the lack of correspondence between E911 listings and CLEC customer access lines, the E911 database count is not a reliable indicator of the amount of CLEC-provided facilities in the New Jersey market.

34. Another "shadow" approach that Mr. Bone uses to estimate CLEC competitive potential is to offer the number of completed collocation arrangements as an indicator of both the existence of and potential for facilities-based competition.[51] Mr. Bone cites 1,000 collocations in VNJ wire centers,[52] and thus asserts that a significant number of CLECs are positioned to directly compete with Verizon NJ.[53] The strength of potential competition, however, is mitigated significantly when the number of failing CLECs is considered.

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50. (...continued) in the DID number block in the E911 entry for that customer. Pending FCC rules would require PBXs to have the IOD capability for E911 purposes at least with respect to a limited number of PBX station lines. *In the Matter of Revision of the Board's Rules to Ensure Compatibility with Enhanced 911 Emergency Calling Systems*, CC Docket 94-102, 9 FCC Rcd 6181, at para. 60.

51. Bone (Verizon NJ), Declaration at para. 6.

52. *Id.*

53. *Id.*

According to Verizon NJ's own records, a full 232 collocations — more than 23% of the total cited by Mr. Bone — currently have a payment due to Verizon NJ for the collocation space that is more than 30 days past due.[54] Additionally, Verizon NJ has also admitted that it has received discontinuation orders for 391 existing collocation arrangements.[55] Thus, as none of the discontinuation orders are currently past due,[56] fully 62% of the 1,000 current collocation arrangements that Mr. Bone claims to exist pose no serious competitive threat to Verizon NJ, since they are unlikely to have a long-term potential for survival. Again, Verizon's support for purported local competition in New Jersey falls short.

35. Moreover, some (albeit an unspecified number) of the collocation arrangements cited by Mr. Bone are undoubtedly associated with "data CLECs," i.e., carriers providing Digital Subscriber Line (DSL) services. As has been demonstrated with respect to CLEC entry into the local voice telephone service market, entry into these other service areas is also proving to be expensive, due to high fixed costs associated with acquiring the necessary facilities. A compelling demonstration of the prevailing dearth of confidence in the data CLECs' ability to successfully develop their networks and even to expand into voice-over-IP service can be seen in the decision last year by Verizon to pull out of its plans to acquire a 55% stake in NorthPoint Communications. Following this decision, a Verizon spokesperson claimed that the Company had "several other ways" of gaining customers in the DSL markets outside of

54. Verizon NJ Response to RPA-27.a.i.

55. Verizon NJ Response to RPA-27.a.iii.

56. Verizon NJ Response to RPA-27.a.iv.

Verizon's traditional territory.[57] In March 2001, AT&T acquired the *physical assets* of NorthPoint for about $135-million, less than 10% of the pre-Verizon-merger market value of NorthPoint as a going concern, and only about "'25 cents on the dollar' ... for NorthPoint's 'hard assets.'"[58] In fact, certain data CLECs, such as Covad and Rhythms NetConnections, are already operating under Chapter 11 protection.[59]

36. A June 18, 2001 *New York Times* analysis of the fiber optic long-haul "backbone" market underscores the utter lack of competition at the *local* distribution end of the information superhighway:

> There is a glut of capacity of high-speed, long-haul information pipelines, but a shortage of the high-speed local-access connections that consumers and businesses need to connect to the Web. It is as if superhighways stand nearly empty while traffic backs up at the Holland and Lincoln tunnels.
>
> Few people have fast Internet connections, and prices are rising for those who do. ...[60]

Ironically, while the demand for bandwidth is clearly present and growing, the ILEC-controlled local access monopoly is working effectively to block that demand from ever

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57. "Citing Declining Operations, Financial Results, Verizon Backs Away From Takeover Of NorthPoint," *TR Daily*, November 29, 2000.

58. *Telecommunications Reports*, March 26, 2001; *TR's Last-Mile Telecom Report,* August 8, 2000.

59. *TR Daily*, August 2, 2001; August 15, 2001.

60. "Once-Bright Future of Optical Fiber Dims," *New York Times*, June 18, 2001, p. A1.

reaching the overabundant supply. Given the tens of billions of dollars that have been invested in backbone fiber, one would certainly expect that, were realistic competitive opportunities actually available in the local service market, at least some of that investment capital would have been and would even today be deployed in this direction. The fact that the local ILEC bottleneck persists, and that investors are running away from pursuing local service entry as fast as they can, speaks volumes about the actual state of local competition both nationally and more specifically in New Jersey, where demand for Internet access is extremely high.[61]

37. Indeed, one need look no further than the recent actions of SBC and Verizon for confirmation of the extreme difficulties that entrants confront in competing with ILECs in the local services market. SBC, in its Joint Application for approval of its merger with Ameritech,[62] and Verizon, in its Joint Application for approval of its merger with GTE,[63]

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61. One might even go so far as to theorize an affirmative business strategy on the part of SBC, Verizon and the other RBOCs to deliberately withhold the availability of high-speed Internet access so as to enfeeble the backbone fiber optic network providers to the point where, following their attainment of Section 271 authority, the RBOCs will be in a position to purchase those backbone network assets at fire-sale prices.

62. *In re: Applications of Ameritech Corp., Transferor, and SBC Communications, Inc., Transferee, for Consent to Transfer Control of Corporations Holding Board Licenses and Lines Pursuant to Sections 214 and 310(d) of the Communications Act and Parts 5, 22, 24, 25, 63, 90, 95, and 101 of the Board's Rules*, CC Docket No. 98-141, ("SBC/Ameritech Merger Application"), at Sec. II.A.1.

63. *Applications of GTE Corporation and Bell Atlantic Corporation, Description of the Transaction, Public Interest Showing and Related Demonstrations*, CC Docket No. 98-184 (October 2, 1998) ("Bell Atlantic/GTE Merger Application"), Declaration of Jeffrey C. Kissell, at para. 14.

each represented that following their respective mergers the two mega-ILECs would each commit to pursuing "out-of-region" entry in various local exchange service markets. SBC had identified thirty such markets (of which 12 would be in what would become Verizon territory),[64] while BA/GTE (Verizon) committed to enter twenty-one markets, of which eleven would be in the expanded 13-state SBC region.[65] Although various parties and their experts, including myself, expressed serious doubts as to the legitimacy of these so-called "commitments," both sets of joint applicants insisted that their respective "national local strategies" would be aggressively pursued and would result in a significant enhancement of local competition throughout the country.[66]

38. In its Orders approving the two mergers, the FCC undertook to put some teeth into what were in other respects "soft" commitments on the part of the two sets of merger parties with respect to their out-of-region local entry plans. In its *SBC/Ameritech Order*, the Commission *required* the promised entry, and indicated that the post-merger SBC would be fined as much as $39.6-million for each of the 30 out-of-region markets that it did not enter.[67] In the *BA/GTE Order*, the FCC similarly imposed the threat of fines if BA/GTE

64. SBC/Ameritech Merger Application, Attachment A: "New Markets for the New SBC"

65. Bell Atlantic/GTE Merger Application, Declaration of Jeffrey C. Kissell, at para. 14.

66. *Id.*, at para. 15; SBC/Ameritech Application, Affidavit of James S. Kahan, at para. 27.

67. SBC/Ameritech Merger Order, FCC 99-279, October 6, 1999, at Appendix C, para. 59(d). "If an SBC/Ameritech Out-of-Territory Entity fails to satisfy any of the 36 separate requirements for each out-of-territory market on or before the deadlines set forth in

(continued...)

failed to invest at least $500-million in out-of-region CLEC activities, or provide service as a CLEC to at least 250,000 customer lines, by the end of 36 months following the merger closing date.[68]

39. As it has turned out, of course, the skepticism of various commentators and the concerns of the FCC with respect to the veracity of these out-of-region local entry "commitments" were well-founded. Earlier this year, both SBC and Verizon announced that they had each abandoned or drastically scaled-back their out-of-region local entry plans.[69]

40. In the five-year period following enactment of TA96, various mergers have been approved among large incumbent LECs that have reduced the number of Regional Bell Operating Companies (plus GTE) from eight to four. At the time that each of these mergers was first announced publicly, these large carriers had in each case promised that their combination would further the pro-competitive purposes of the Act. Based upon the competitive entry data set forth above, it is clear that, both in New Jersey and on a national scale, these mergers have done nothing but create larger, better financed fortress bottleneck

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67. (...continued)
Subparagraph c, SBC/Ameritech shall make a one-time contribution of $1.1 million for each missed requirement (up to a total contribution of $39.6 million per market and $1.188 billion if SBC/Ameritech Out-of-Territory Entities fail to satisfy all 36 requirements in all 30 markets) to a fund to provide telecommunications services to underserved areas, groups, or persons."

68. *BA/GTE Merger Order*, at paras. 43-48.

69. *TR Daily*, January 15, 2001, March 21, 2001.

monopolies. Indeed, the RBOCs' resistance to the market opening conditions of the Act has proven so successful that the competitive local exchange carrier industry now stands on the verge of collapse.[70]

41. Competitive LECs have become marginalized because they do not own the strategic assets necessary to compete, and must instead rely upon the ubiquitous Bell network, a network that remains largely closed to new entrants, Sections 251 and 252 notwithstanding. There has been carnage among CLEC stocks, and numerous competitive LECs have filed or are on the verge of filing for bankruptcy.[71] From a financial perspective, many CLECs operating within New Jersey are experiencing a major economic downturn. The optimistic tone of the Bone declaration would have one believe that CLECs are stronger than they have ever been in their ability to capture market share, when in fact just the opposite is true.

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70. *See*, e.g., *In the matter of Joint Application of Onepoint Communications Corp. and Verizon Communications for Authority Pursuant to Section 214 of the Communications Act of 1934, as Amended, to Transfer control of Authorizations to Provide Domestic Interstate and International Telecommunications Services as a Non-Dominant Carrier*, CC Docket No. 00-170, AT&T's *Petition to Deny Joint Applications*, October 23, 2000.

71. As discussed above, NorthPoint filed for bankruptcy on January 16, 2001. Another DSL provider, HarvardNet, pulled out of the DSL market in December 2000. HarvardNet decided to restructure its business to focus on Web hosting, citing the capital intensive nature of the DSL market, as well as the “recent dramatic downturn in the financial markets” as reasons for discontinuing its DSL service. “DSL Providers NorthPoint, HarvardNet Cut Jobs,” *TR Daily*, December 7, 2000. Additionally, and as previously mentioned, Covad and Rhythms have now also filed for Chapter 11 protection.

42. The fact that CLECs can expect to encounter substantial difficulty in raising capital is reflected in the recent sharp drop in their overall market capitalizations. This past August (2001), CLEC analysts at Morgan Stanley Dean Witter noted that the market capitalization of CLECs as a group had fallen by 65.8% since January 1, 2001.[72] This figure does not account for the drop-off in CLEC stock prices that began in the fourth quarter of 2000 and that have continued since the Morgan Stanley report was issued. As illustrated in Table 1 below, many of the carriers identified by Mr. Bone have experienced a precipitous drop — in the range of 65% — in stock price and market capitalization over the past 24 months.

43. As Table 1 confirms, the situation has certainly not improved for CLECs over the past year. The dramatic decreases in CLEC share prices indicate that (1) investors have less confidence in these companies' ability to succeed with business plans premised upon competing with ILECs; and (2) the companies themselves now will have much more difficulty attracting capital with which to pursue their business plans. Telecommunications is an industry requiring a substantial amount of up-front investment, and a lack of capital with which to pursue market entry will surely adversely impact a carrier's ability to gain market

72. Morgan Stanley Dean Witter, Equity Research: North America, Industry: Competitive Local Exchange Carriers (CLECs), August 14, 2001, at 1. In an earlier report issued by MSDW, its analysts indicated that "[u]nlike the last two CLEC market corrections, we do not believe that the current one is likely to end with the entire group rocketing back because, over the next six months, we expect news headlines to be peppered with reports of additional bankruptcies." Morgan Stanley Dean Witter, Equity Research: North America, Industry: Competitive Local Exchange Carriers (CLECs), November 7, 2000, at 2.

TABLE 1
CLEC Market Capitalization

	September 30, 1999			October 16, 2001			
		In Millions			In Millions		
Company	**stock price**	**Shares out-standing**	**Market Cap**	**stock price**	**Shares out-standing**	**Market Cap**	**% change from 9/30/99 to 10/16/01**
Adelphia	$ 28.00	51.4	$ 1,439.7	$ 0.96	134.5	$ 127.8	-91%
Allegiance	$ 63.00	64.9	$ 4,086.5	$ 5.79	113.7	$ 727.9	-82%
AT&T Corp	$ 47.44	3195.6	$ 151,592.9	$ 19.20	3530.0	$ 70,600.0	-53%
Commonwealth Tele	$ 44.00	22.1	$ 972.8	$ 40.94	23.3	$ 931.0	-4%
Connectiv	$ 19.63	87.3	$ 1,712.6	$ 23.25	88.7	$ 2,080.0	21%
CoreCom	$ 37.19	72.1	$ 2,679.4	$ 0.08	98.4	$ 7.8	-100%
CTC Communications	$ 16.44	14.6	$ 239.2	$ 5.58	26.9	$ 138.5	-42%
CTCI	$ 47.00	19.9	$ 936.5	$ 14.14	18.5	$ 268.0	-71%
Focal	$ 23.94	60.6	$ 1,451.7	$ 0.59	61.8	$ 34.0	-98%
Global Crossing	$ 26.50	794.8	$ 21,061.4	$ 1.14	887.3	$ 7,276.0	-65%
GST Telecomm Inc	$ 7.03	37.7	$ 265.2	$ -		$ -	-100%
Northpoint	$ 24.31	125.2	$ 3,044.9	$ -		$ -	-100%
ICG Communications	$ 15.56	47.3	$ 736.8	$ -		$ -	-100%
Level 3 Communications	$ 52.22	341.1	$ 17,810.6	$ 3.31	368.3	$ 1,080.0	-94%
Worldcom	$ 76.88	1880.2	$ 144,541.8	$ 14.03	2960.0	$ 41,000.0	-72%
RCN	$ 49.69	76.2	$ 3,785.4	$ 3.10	97.3	$ 293.9	-92%
Sprint	$ 54.25	785.2	$ 42,597.4	$ 23.60	973.4	$ 22,800.0	-46%
Time Warner	$ 21.38	81.3	$ 1,736.7	$ 11.00	114.3	$ 1,270.0	-27%
Winstar Comm Inc	$ 39.06	54.9	$ 2,145.9	$ -		$ -	-100%
XO Comm/Nextel	$ 61.38	315.5	$ 19,360.8	$ 0.71	429.8	$ 275.1	-99%
Total CLEC			$ 422,198.2			$ 148,910.0	-65%

Source: carrier 10Q reports, www.thedigest.com/stocks/

TABLE 2
RBOC Market Capitalization

	September 30, 1999			October 16, 2001			
		In Millions			In Millions		
Company	**stock price**	**Shares out-standing**	**Market Cap**	**stock price**	**Shares out-standing**	**Market Cap**	**% change from 9/30/99 to 10/16/01**
BellSouth	$ 43.25	1885.0	$ 81,526.3	$ 39.40	1,880	$ 73,800.0	-9%
Ameritech	$ 67.88	1177.0	$ 79,888.9	-	-	-	-
SBC	$ 52.00	1967.0	$ 102,284.0	-	-	-	-
SBC post merger	-	3144.0	$ 182,172.9	$ 43.87	3,360	$ 148,400.0	-19%
Bell Atlantic	$ 69.50	1552.8	$ 107,918.6	-	-	-	-
GTE	$ 77.75	1002.2	$ 77,921.1	-	-	-	-
Verizon	-	2555.0	$ 185,839.7	$ 52.21	2,710	$ 141,700.0	-24%
US West	$ 59.19	485.0	$ 28,703.2	-	-	-	-
Qwest	$ 36.47	747.0	$ 27,242.2	-	-	-	-
Qwest post merger	-	1232.0	$ 55,945.3	$ 23.69	1,660	$ 40,200.0	-28%
Total RBOC			$ 505,484.2			$ 404,100.0	-20%

Note: US West 9/30/99 shares outstanding represents last reported shares outstanding of US West in April 1998
Source: Daily Stock Price Record, NYSE, Oct.-Dec. 1999, Standard & Poor's 2000, carriers 10Q reports

share, and may well drive some companies out of business or into Chapter 11 (as it did for NorthPoint, Covad, Rhythms, and HarvardNet).

44. Lest there be any doubt that Wall Street's recent treatment of telecom stocks has been directed specifically at CLECs rather than at the telecommunications industry as a whole, RBOC shares have been performing quite respectively in light of current stock market conditions. As is shown in Table 2, RBOC stocks have been fairly well insulated from the recent downturn in the market, with total RBOC market capitalization declining only 20% as a whole over the past 24 months. Investors and analysts thus remain far more confident that Verizon and the other RBOCs will be successful in preserving their market positions and associated revenue streams, which obviously would include preserving their existing stranglehold over local service markets and, if provided the opportunity, the long distance market as well. In fact, industry officials and financial analysts indicate that they do not expect the capital markets to open up anytime soon for most cash-starved CLECs, which is likely to force more CLECs to sell assets or go into bankruptcy.[73]

45. Approval of Verizon NJ's entry into the long distance market *prior to the development of effective, price-constraining competition in the local market* exposes consumers and competitors in New Jersey to several serious risks:

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73. "Facing "Fight of Our Lives', Nation's CLECs Seek to Ramp up Support in Congress, On Wall Street", *Telecommunications Reports*, December 11, 2000.

(1) The risk that — over and above the continued monopolization of the *local* market — Verizon LD would be able to utilize its joint marketing relationship with Verizon NJ to extend VNJ’s local monopoly into the adjacent long distance market, thus *reducing* the level of competition that presently prevails with respect to long distance service.

(2) The risk that the “incentive” for Verizon to open its market to competition, currently provided by the Section 271 “carrot,” will evaporate if interLATA authority is obtained. Thus, the Company may “backslide,” slowing or reversing altogether the market-opening measures it had pursued in order to satisfy the Section 271(c)(2)(B) “Competitive Checklist,” unless the Board adopts effective self-enforcing mechanisms that provide an ongoing incentive for Verizon NJ to remain in full compliance with all checklist items.

(3) The result: Entry by new carriers into the New Jersey local market would be discouraged, existing competitive local service providers (CLECs) would exit the market, long distance carriers would also exit the market as Verizon NJ's long distance market share grows, and prices for both local and long distance service would inevitably increase.

The competitive advantage available exclusively to Verizon through "joint marketing" of local and long distance service will reduce long distance competition and produce increased prices for long distance service for New Jersey consumers.

46. The *source* of Verizon NJ's ability to exercise market power in the long distance market *while it holds a near-monopoly in the local market* stems from its opportunity, under Section 272(g) of the *Telecommunications Act of 1996*, to engage in "joint marketing" of its long distance and local services. In my view, the "joint marketing" provision only implies the right of a BOC and its long distance affiliate to *collaboratively* ("jointly") participate in marketing activities with respect to their respective local and long distance offerings. It does not, and should not be interpreted to, permit the long distance affiliate to effectively *transfer* virtually all of its long distance service sales and marketing activities to the BOC affiliate by, for example, contracting for services of the affiliate's employees to perform the sales and marketing functions. A BOC's ability to engage in joint marketing of its own local services with its affiliate's long distance service is found in Sections 272(g)(2) and (3) of the federal *Act*:

> 272(g)(2): BELL OPERATING COMPANY SALES OF AFFILIATE SERVICES- A Bell operating company may not market or sell interLATA service provided by an affiliate required by this section within any of its in-region States until such company is authorized to provide interLATA services in such State under section 271(d).
>
> 272(g)(3): RULE OF CONSTRUCTION- The joint marketing and sale of services permitted under this subsection shall not be considered to violate the nondiscrimination provisions of subsection (c).

The "nondiscrimination provisions" being referred to here are found at subsection (c)(1) of Section 272:

> (c) NONDISCRIMINATION SAFEGUARDS- In its dealings with its affiliate described in subsection (a), a Bell operating company--
>
> (1) may not discriminate between that company or affiliate and any other entity in the provision or procurement of goods, services, facilities, and information, or in the establishment of standards.

But subsection 272(c)(2), which is *not* superseded by subsection 272(g)(3) and thus applies to joint marketing as well, states that a Bell operating company

> (2) shall account for all transactions with an affiliate described in subsection (a) in accordance with accounting principles designated or approved by the Board.

Hence, the *Telecommunications Act* does not so much *permit* BOC joint marketing of its affiliate's long distance service, but rather does not expressly prohibit it. Rather, the Act merely sanctions the operation of BOCs, having satisfied the requirements of Section 271, to enter into the long distance arena and to jointly market its (local) services with those of its long distance affiliate, subject to all of the separate affiliate provisions set forth at Section 272(b), which require that VNJ's long distance affiliate:

> (1) shall operate independently from the Bell operating company;
>
> (2) shall maintain books, records, and accounts in the manner prescribed by the Commission which shall be separate from the books, records, and accounts maintained by the Bell operating company of which it is an affiliate;

(3) shall have separate officers, directors, and employees from the Bell operating company of which it is an affiliate;

(4) may not obtain credit under any arrangement that would permit a creditor, upon default, to have recourse to the assets of the Bell operating company; and

(5) shall conduct all transactions with the Bell operating company of which it is an affiliate on an arm's length basis with any such transactions reduced to writing and available for public inspection.

By utilizing Verizon NJ customer service personnel to "jointly market" its long distance services, Verizon LD is able to preempt competing IXCs by reaching inbound customers at the time they contact Verizon NJ to order *local* service.

47. As I shall discuss in more detail below, several FCC rulings have expanded the "joint marketing" concept to expressly permit BOCs with Section 272 long distance affiliates to preemptively "recommend" ("sell") their own affiliate's long distance service to *local service* customers who contact them initially to order *local* service or for other purposes related solely or primarily to matters involving *local* service. Only in those instances where the "inbound" local service customer expressly asks about other long distance providers can the BOC service representative then offer to read a (lengthy) list of non-affiliated interexchange carriers (IXCs) that also provide such services. Experiences in both New York and Texas, the first two states in which BOCs have obtained Section 271 authority, confirm the extraordinary marketing advantage, *available solely to BOCs*, stemming from their use of this "inbound channel", an advantage that has not been overlooked by Wall Street. Upon receiving interLATA authority, Verizon NJ will be able to engage in this same type of unfair use of subscriber information or unfair use of customer contacts generated by the local

exchange telephone company's provision of local exchange telephone service, activities that conflict with the competitive checklist, and which would be harmful to competition in the intrastate interLATA long distance market. As a February 8, 2001 Credit Suisse First Boston ("CSFB") report commented:

> We've been watching this industry for almost 20 years and we have never seen consumer share gained at the rate of VZ in NY and SBC in TX (the former 20% share in 12 mos and the latter 18% share in 6 months).[74]

In considering whether approval of Verizon NJ's application would be in the public interest, it is essential that the Board recognize that what is being sought here by Verizon is not simply the right to enter yet another isolated line of business, but the right to *integrate* local and long distance service into a single package, to make the two services essentially indistinguishable from the consumer's perspective, and to leverage its dominance of the local market to similarly come to dominate the long distance market as well. CSFB makes the point profoundly clear in its comparison of (pre-merger) GTE's approach to selling long distance services through a separate CLEC affiliate vs. Verizon's and SBC's ability to offer long distance services directly to their ILEC customers:

> In stark contrast to Verizon's huge and quick 20% consumer LD share gains in NY State, LD subscribership was flat in the GTE franchise areas in '00 despite GTE's benefitting from similar pre-established branding and billing relationships. The difference is that GTE has not leveraged the inbound channel and also had been running its LD effort through its "CLEC", in effect forcing customers to switch to the GTE CLEC both their local service from GTE's ILEC and their

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74. "VZ: Analyst Mtg Provides Comprehensive '01 Outlook," Credit Suisse First Boston, 09:47am EST, 8-Feb-01 ("*CSFB Report*").

> LD service from another LD customer. Not very successful if you ask us and certainly worthy of change given the empirical evidence that VZ's and SBC's use of the inbound channel and separate LD sub (but not bundled with local) have been extraordinarily successful.[75]

48. As the CSFB report observes, this preemptive use of the "inbound channel" by both Verizon and SBC to "sell" their long distance service to *new* local service customers has been the principal explanation for their extraordinary success in acquiring customers in the first year in which they have been permitted into the long distance business. Indeed, SBC has apparently been sufficiently satisfied with its market performance that it has recently elected to *increase* its interstate long distance rates in Texas. As reported in the *Ft. Worth Star-Telegram*, February 2, 2001:

> Southwestern Bell announced it was raising the interstate rate on its flagship plan from 9 cents a minute to 10 cents a minute for new customers seven months after entering the long-distance market in Texas. Current subscribers will see no change in their domestic U.S. calling charges, said Shawn Ramsey, a San Antonio-based spokeswoman for Southwestern Bell, a unit of SBC Communications.
>
> Ramsey defended the increase, which doesn't require approval by the state's Public Utility Board, by saying the plan is superior to many offered by the major long-distance services. "We beat the pants off of them," she said. "We've got great rates any way you slice or dice it." Asked if the higher rate reflects a need to boost profits, she said: "We've been in the market about eight months now. We've learned a lot and made a number of changes that reflect what we've seen. And we've changed our plan accordingly."[76]

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75. *Id.*

76. "SW Bell raises interstate rate; current subscribers unaffected; PUC approval not needed," *Ft. Worth Star-Telegram*, February 2, 2001:

49. Indeed, at least with respect to these types of sales at the time of the initial local service contact, the BOC need spend little if any resources actually advertising or otherwise marketing its long distance services. The inbound caller has already made the contact with "the phone company" for basic telephone service and, unless that customer is a student of telecommunications industrial organization and regulation, he or she is as likely as not to accept the BOC's "recommendation" as the only and obvious choice.

50. There is nothing "speculative" about the enormous and unique value of the sales and marketing services that Verizon LD intends to purchase from Verizon NJ. The value of the "inbound channel" to SBC's long distance business in Texas has been recognized by securities analysts[77] and has been graphically demonstrated by the recent moves by SBC in Texas to *increase* its interLATA long distance rates.

> SBC Communications, Inc., offered evidence today that increases in long distance rates don't necessarily dampen demand, especially if long distance is part of a service bundle. SBC tested that theory in Oklahoma and Kansas after it won FCC permission to offer interLATA services in those states, said Randall Stephenson, the company's senior vice president–finance.
>
> "We entered Oklahoma and Kansas in the March time frame with a higher price point than we entered Texas with [in July 2000], and we're seeing penetration rates very comparable to what we saw in Texas," he said. "That product seems to sustain the price increase very well."[78]

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77. CSFB report, *supra*, footnote 74.

78. *TR Daily*, July 25, 2001.

Clearly, Verizon LD will be able to derive measurable monetary value, in the form of higher prices for its long distance services, when that "long distance is part of a service bundle," a point underscored in a recent *Barron's* article about Verizon. There, Verizon President and co-CEO Ivan Seidenberg is cited as observing that "where Verizon is allowed to offer long distance service, the bundling increases customer loyalty and reduces the cost of churning. Indeed, Seidenberg sees bundled services as the key to Verizon's growth."[79] The value to Verizon LD of the affiliate ILECs' in-bound sales channel, made available to it through its exclusive access to Verizon NJ employees, customers, and corporate identify, can and should be identified and priced by an appropriate market pricing standard, as the New Jersey legislature has required in the New Jersey Electric Discount and Energy Competition Act ("EDECA"), as a condition for setting a transfer price for transfers of intangibles from the utility to an affiliate.[80]

51. Had significant competition for basic local exchange telephone service actually materialized, consumers would have had a meaningful choice of local exchange service providers and, as such, the condition whereby customers either must or because of habit would continue to call Verizon NJ first when they want to inquire about their service, add new service, order new features, change their directory listing, or request a change in long distance carriers would no longer apply. If the local service market were competitive, customers could and would evaluate complete packages of local and long distance, basic and

79. "The New Ma Bell," *Barron's,* September 3, 2001, at 17.

80. N.J.S.A. 48:3-49, et. seq.

optional, voice and Internet access, services from a number of competing suppliers and would not be predisposed to call the incumbent LEC — Verizon NJ in this instance — as their only perceived source of local telephone service. Under those circumstances, entrants would be routinely engaging in joint marketing of local and long distance service, and ILEC opportunities to do the same would have been reasonable and appropriate.

52. Local competition did not develop as expected by TA96. Most customers don’t have real choice as to their local carrier, and most business customers and virtually all residential customers in New Jersey do see Verizon NJ as being the only provider of local telephone service. Indeed, Verizon NJ's consumer marketing groups likely receive *several million* in-bound calls annually (which do not include calls for repair services), each one of which provides VNJ with an opportunity to “sell” long distance service to that customer.[81] Importantly, most of these callers are likely not contacting Verizon NJ for the purpose of ordering — or even inquiring about — Verizon NJ’s affiliate’s long distance services. Most are likely calling to order new or additional *local* service, change their existing *local* service, report a problem with their *local* service, inquire about a *local* service billing issue, order optional *local* service features, or move their *local* service to a new location. Each of these *in-bound* contacts provides Verizon NJ with an *opportunity* to *sell* affiliate long distance service. And although initiated by the customer for a different purpose, each of these in-

81. The Ratepayer Advocate has asked Verizon NJ to provide the exact number of such in-bound calls, but the Company has refused to do so. VNJ Response to RPA-71.b. The Ratepayer Advocate has filed a Motion to Compel production of, *inter alia*, this information, and the Board should act favorably on this Motion and require that the information be produced.

bound calls is, in the end, initiated by the caller with the intention of dealing in some manner with telephone service issues.

The potential for Verizon's improper use of its joint marketing opportunity, coupled with the nature of the financial relationship between the regulated Verizon NJ and its long distance affiliate Verizon LD violates New Jersey statutory prohibitions against cross-subsidization of competitive services and other affiliate transaction regulations, as well as Sections 272(b)(1), (3) and (5) and 254(k) of the federal *Telecommunications Act of 1996*.

53. Joint marketing, especially via the inbound channel, provides a rate regulated utility — Verizon NJ in this case — the ability to subsidize its affiliates' competitive business ventures. In the discussion that follows, I shall explain why, by virtue of its persistent and overwhelming dominance of the New Jersey *local* exchange service market together with its ability to engage in "joint marketing" of local and long distance services, Verizon NJ's entry into the interLATA long distance market could produce significant harm to ratepayers through cross-subsidization and may undermine competition in what is today a highly competitive intrastate interexchange telecommunications market and could well lead to eventual remonopolization of the long distance market by Verizon.

54. Prohibitions against cross-subsidization are found in the federal TA96 statute. Section 254(k) provides that:

> A telecommunications carrier may not use services that are not competitive to subsidize services that are subject to competition. The Commission, with respect to interstate services, and the States, with respect to intrastate services, shall establish any necessary cost allocation rules, accounting safeguards, and

> guidelines to ensure that services included in the definition of universal service bear no more than a reasonable share of the joint and common costs of facilities used to provide those services.

Section 272(a)(1) of the federal Act *requires* that, at least for the initial three years and possibly longer if extended by the FCC, a BOC operate its in-region long distance business "through one or more affiliates that (A) are separate from any operating company entity that is subject to the requirements of section 251(c); and (B) meet the requirements of subsection (b)." Section 272(b) defines the relationship between the BOC and its in-region interLATA affiliate, and requires, *inter alia*, that the separate affiliate operate independently from the BOC; that it maintain its own separate books, records, and accounts; that it have separate officers, directors, and employees; that it not obtain credit in a manner that would provide the creditor with recourse to the BOC. [82] Specifically, Section 272(b)(5) requires that the in-region interLATA affiliate:

> shall conduct all transactions with the Bell operating company of which it is an affiliate on an arm's length basis with any such transactions reduced to writing and available for public inspection.

A useful comparison can also be made to FERC's regulation of electric companies as an example for telecommunications affiliate relationships. The FERC proposes to adopt standards of conduct that will "govern the relationships between regulated transmission providers and all their energy affiliates, broadening the definition of an affiliate covered by standards of conduct. FERC proposes to apply standards of conduct that will require a

82. The full text of Section 272(b) is provided *supra* at para. 46.

separation of the transmission function from all sales functions. This includes bundled retail sales and a restriction on preferential access to transmission information for the bundled retail sales function."[83]

55. The New Jersey statutes also provide prohibitions against cross-subsidization. The Board is required under the New Jersey Telecommunications Act at N.J.S.A. 48:2-21.16(a)(3) to "[e]nsure that rates for noncompetitive telecommunications services do not subsidize the competitive ventures of providers of telecommunications service." N.J.S.A. 48:2-21.19(e) requires that where VNJ utilizes one or more monopoly services or network functions in the production of a service that is classified as "competitive," those functions be offered to competing providers on an unbundled basis, and the price of such services or functions that VNJ charges nonaffiliated competitors must be imputed into the cost of the VNJ competitive service. Finally, where the production of a "competitive" service involves corporate resources or functions that are not specifically offered by VNJ to competing providers, the fair market value of those functions should be imputed into the cost of the "competitive" service and carried as "revenue" in the rate-regulated segment of VNJ's operations.[84] Thus, any transfer pricing mechanism relating to the provision of services (such as joint marketing) by Verizon NJ to Verizon LD must be structured in such a manner as to ensure that VNJ's costs of

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83. "FERC Proposes Rulemaking: Standards of Conduct for Transmission Providers," October 3, 2001, at www.energycentral.com/sections/newsroom/nr_article.cfm?id=2406427, visited 10/4/2001.

84. As I discuss at para. 93 *infra*, N.J.S.A. 48:3-55(b) establishes such a requirement with respect to services furnished by electric utilities to their nonregulated competitive affiliates.

providing those services are fully compensated at their fair market value, and that customers of Verizon NJ rate regulated *noncompetitive* services are not being forced to pay more for those services than they would absent the joint marketing activity.

The Verizon Long Distance Marketing and Sales Agreement outlining the relationship between the Verizon Long Distance and Verizon New Jersey affiliates completely ignores the requirement under the federal Act for "arm's length" transactions.

56. A critical source of information on the type of conduct that Verizon NJ and Verizon LD plans to pursue following Verizon's receipt of Section 271 authority in New Jersey can be determined through an examination of training materials and marketing/sales scripts that will be utilized by VNJ employees in selling Verizon long distance service to Verizon New Jersey local exchange service residential and small business customers. The Ratepayer Advocate has asked for copies of this material, which can reasonably be expected to be at least under development, if not fully completed, for New Jersey. To the extent that the New Jersey material may not be available, copies of the corresponding marketing documents being used by Verizon in New York and in Massachusetts have also been requested.[85] In its responses, VNJ has refused to provide this material, thus depriving the Board of the ability to directly evaluate the potential for VNJ's violations of state and federal affiliate relationship rules following its entry to the in-region long distance market in New Jersey. The Ratepayer Advocate has filed a Motion to Compel production of, *inter alia*, these training materials and

85. *See* Verizon NJ Responses to RPA-71, RPA-72, RPA-73, RPA-74, provided in Attachment 2 to this Declaration.

marketing scripts, and the Board should act favorably on this Motion and require that the documents be produced.

57. As it turns out, publicly available evidence that supports the types of concerns I have expressed here is available on the Verizon Long Distance website in the form of the *Verizon Long Distance Marketing and Sales Agreements* between Verizon Long Distance and the various Verizon Bell operating telephone companies ("BOCs").[86] Both the New Jersey and federal statutes prohibit cross-subsidization and, in the case of Section 272(b)(5) of the federal Act, require that transactions between the Verizon long distance affiliate and the Verizon ILEC be set on an "arm's length" basis. That explicit, unambiguous requirement is clearly being entirely ignored in the Verizon Long Distance Marketing and Sales Agreement between Verizon LD and the Verizon ILECs.

58. Moreover, these Marketing and Sales Agreements address specific activities that would violate the standards that the Board has applied in previous cases with respect to negatively impacting competition, negatively impacting the rates of current customers, negatively impacting employees, and negatively impacting the provision of safe, adequate and proper service. For example, in considering RCN's Petition for approval of a corporate reorganization, the Board expressly premised its approval upon a finding that the proposed affiliate relationships "will not negatively impact competition, will not negatively impact the rates of current customers, will not negatively impact employees, and will not negatively

86. www.verizonld.com/regnotices, visited October 16, 2001, provided as Attachment 3.

impact the provision of safe, adequate and proper service."[87] Those requirements, together with the New Jersey statutory prohibitions against cross-subsidization and other anticompetitive conduct, should be applied in the instant consultative process as well. Mere satisfaction by Verizon NJ, on a current "snapshot" basis, of the "competitive checklist" is not sufficient by itself to assure that the New Jersey market has been "irreversibly opened to competition" and that the potential for cross-subsidization and anticompetitive conduct via the Verizon NJ/Verizon LD "joint marketing" and other affiliate transactions "will not negatively impact competition, will not negatively impact the rates of current customers, will not negatively impact employees, and will not negatively impact the provision of safe, adequate and proper service." Verizon NY and Verizon MA have, in fact, engaged in precisely the types of activities that, if mirrored in New Jersey, would violate both the state statutes as well as Section 272(b) of the federal statute.

Because Verizon NJ's evaluation of its costs of selling Verizon LD services will fall woefully short of capturing the full value to Verizon LD of these Verizon NJ activities, customers of noncompetitive Verizon NJ services will be forced to cross-subsidize the competitive long distance services being offered by Verizon LD, which is an express violation of N.J.S.A. 48:2-21.16(a)(3) and 48:2-21.18(c).

59. Transfers of assets and services between regulated utilities and their nonregulated affiliates are a longstanding area of regulatory concern and attention. Transfers between

87. *I/M/O the Petition of RCN Telecom Services, Inc., RCN Telecom Services of New Jersey, Inc. and RCN Long Distance Company for Authority to Merge and to Transfer Licenses as part of a Pro Forma Corporate Reorganization*, Docket No. TM00080596, June 20, 2001 ("*RCN Order*").

affiliates of the same corporate family are referred to as "controlled transactions" in the Internal Revenue Code,[88] reflecting the fact that since the same corporation "controls" both sides of the transaction, it cannot be deemed nor afforded the presumption of being at "arm's length." The FCC and some state commissions have adopted affiliate transaction rules that provide, generally, that in order to assure that customers of the ILEC's rate regulated monopoly services are not disadvantaged by such intracorporate transfers, such transactions are to be recorded at the greater of cost or fair market value for transfers from the regulated entity to its nonregulated affiliate, and at the lesser of cost or fair market value for transfers from a nonregulated affiliate to the regulated utility entity.[89] Where a service that is provided to the nonregulated affiliate is also offered, either under tariff or at established market prices (e.g., as in the case of billing and collection services), to nonaffiliated entities, that price is used as a surrogate for fair market value. However, where the service being provided is not being offered to nonaffiliated entities — and joint marketing services are a particularly important example of this — the determination of "fair market value" is far less

88. See, generally, 26 CFR 1.482.

89. There are, of course, many kinds of "transfers" that are not recorded at all, such as a transfer of an employee from one corporate unit to another, or the flow of information from the regulated entity to the nonregulated affiliate. Where "rate regulated" and "competitive" services are furnished within the *same* corporate entity — VNJ in this case — reliable tracking of these types of transfers is extremely difficult if not impossible. It is for this reason, among others, why structural separation of "monopoly" and "competitive" activities is necessary, in that shifts between separate corporate entities are more likely to be recorded than shifts within the same entity. That having been said, there is still no absolute assurance that inter-entity transactions will all be recorded and that such transactions will simulate "arm's length" conditions.

straightforward. The difficulty in developing an appropriate assessment does not, however, in any sense diminish the importance of performing this requirement.

60. Verizon Long Distance is required, pursuant to Section 272(b)(5), to post its affiliate agreements with Verizon ILECs on the Verizon LD website for public inspection. Attachment 3 to this Declaration provides copies of these agreements. Among other things, the Agreements contemplate an arrangement whereby the Verizon ILEC (e.g., Verizon New Jersey) will provide the services of its employees to market, sell, and accept orders for long distance services that are (technically) being furnished by the "structurally separated" Verizon Long Distance Section 272(a)(1) affiliate. The Agreement provides that the Verizon ILEC is to be compensated at the greater of fully distributed cost ("FDC") or Estimated Fair Market Value ("EFMV") for these services. In both New York and Massachusetts, Verizon apparently believes that FDC is higher than the Estimated FMV. In 1999, for example, Verizon NY charged Verizon Long Distance an FDC-based amount of $9.23[90] for each "contact" (i.e., "sale") made by Verizon Customer Service Representatives. Were the EFMV deemed by Verizon to be greater than the FDC, the transaction would have to have been recorded on that basis and at the higher amount, which was apparently not the case here. A "contact" is described in the Agreement as "including sales negotiation, service orders, verification of product availability, sales order status inquiry, error correction for orders

90. See Attachment 3, Affiliated Agreement Marketing and Sales Agreement (NY), eff. 12/22/1999. The footnote under "Pricing Criterion" states "Services are provided at the higher of estimated fair market value (EFMV) and fully distributed cost (FDC)." FDC is indicated in the chart as the applied pricing criterion.

initiated by Verizon, operational performance reports, sales retention attempts, and sales quality control observations."[91] For Verizon New York, this compensation amount was later decreased to $7.71 per "contact,"[92] still FDC-based, indicating that Verizon Long Distance considers even this reduced amount to exceed the Estimated Fair Market Value of the services it receives from Verizon New York.

61. Verizon New York actively markets VLD long distance service on "inbound calls" to its customer service representatives received from *local exchange service customers* where the specific purpose of the customer's call is to order *local exchange service* or to conduct some other transaction relating to local exchange service. The ability to jointly market local and long distance service to Verizon NJ's local service customer base lies at the heart of the Company's long distance entry strategy. This observation is confirmed by the fact that, as of the date of enactment of the *Telecommunications Act of 1996*, i.e., February 8, 1996, both GTE and NYNEX *were permitted to provide interLATA long distance service in New Jersey* since, at that time, New Jersey was *not* part of the pre-merger GTE or NYNEX region.[93] Entry by either NYNEX or GTE into the (then) out-of-region New Jersey long distance

91. Amendment No. 34 to Marketing and Sales Agreements (all jurisdictions), eff. 7/25/01, Appendix B, Compensation–Consumer–Sales Services, Sec. 1.

92. Amendment No. 15 to Marketing and Sales Agreement (NY), eff. 10/06/00.

93. Section 271(b)(2) provides that "A Bell operating company, or any affiliate of that Bell operating company, may provide interLATA services originating outside its in-region States after the date of enactment of the Telecommunications Act of 1996 ..." The pre-merger GTE was in fact permitted to offer in-region long distance service as of the date of enactment. Sec. 601(a)(2).

market would not, however, have afforded either of these companies any greater access to (then) Bell Atlantic's local exchange service subscriber base than would have been available to any other long distance service provider, such as AT&T, MCI, or Sprint. The permissive legislation notwithstanding, *NYNEX and GTE chose not to enter the New Jersey long distance market as an interexchange carrier upon receiving authorization from the US Congress to do so*. Instead, both GTE and NYNEX pursued merger strategies with Bell Atlantic, expressly foregoing their opportunity for *immediate* long distance entry without the opportunity to leverage the ILEC subscriber base, for *eventual* long distance entry following Section 271 approval when these firms, now merged with Bell Atlantic, could pursue precisely that fully integrated joint marketing strategy.

62. In its first two years of operation in New York State, Verizon LD is said to have acquired some two million New York customers,[94] a net gain that likely exceeds the *nationwide* net customer gain being experienced by any non-BOC interexchange carrier during the corresponding period. Most, if not all, of these customers were acquired through joint marketing efforts with Verizon NY and/or involving the use of Verizon NY employees and other resources. On the basis of the compensation amounts set out in the Verizon Long Distance Marketing and Sales Agreement, it would seem that Verizon NY was presumably compensated by Verizon LD in an amount somewhere between $16-million and $20-million.

94. CSFB Report, *supra*, footnote 74.

63. In contrast, most IXC's incur far greater customer acquisition expense, including direct mail, advertising, and incentive payments to customers agreeing to sign up for their services. I am aware of at least one analysis that has put such cost at "up to $300 to $600 in sales support, marketing and Commissions" per customer acquired.[95] On that basis, the Fair Market Value of the customer acquisition services being furnished by Verizon New York to Verizon Long Distance, for a net gain of two million customers, is in the range of $600-million to $1.2-billion. *Were the Verizon New York customer acquisition services that have been provided to Verizon Long Distance priced on the basis of an arm's length transaction accurately reflecting what Verizon Long Distance would have to have incurred to acquire this same volume of new customers, the transfer payment would have been in this $600-million to $1.2-billion range, not in the $16- to $20-million range that (presumably) was recorded on the two entities' books.*

64. The Verizon Long Distance Marketing and Sales Agreement also sets out the per-acquisition payment to be made by Verizon Long Distance to Verizon New Jersey following Section 271 approval in this state. The "per-contact" amount is given as $6.45, also based upon FDC, not fair market value.[96]

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95. See Borna, Claude, "Combating Customer Churn," in *Business and Management Practices*, Vol. 11, No. 3; Pg. 83-85; ISSN: 0278-4831, Horizon House Publications, Inc., Telecommunications Americas Edition (March, 2000).

96. Amendment No. 34 to Marketing and Sales Agreements (all jurisdictions), eff. 7/25/01, Appendix B, Compensation–Consumer–Sales Services, Sec. 1.

65. Not only is Verizon LD acquiring customers for a minute fraction of the cost that IXCs are forced to incur, it is unlikely that the FDC-based payments set out in the Verizon Long Distance Marketing and Sales Agreement actually account for all of the costs that the Verizon ILECs incur in providing services to Verizon LD in support of these “joint marketing” activities. It is also worth observing that although the transaction amounts are ostensibly based upon the “costs” of employee time and other expenses incurred by the Verizon ILECs, the “payments” are being based upon “results” rather than on the “inputs” to the sales and marketing activities that the Verizon ILECs supply to Verizon LD. That is, the Verizon ILECs, including Verizon NJ after it obtains Section 271 authority, are compensated apparently on the basis of the number of successful “contacts” where a completed sale of the Verizon LD service actually occurred, rather than on the basis of the total employee time spent in selling the Verizon LD service. It does not appear that any compensation is paid, for example, where the customer declines to select Verizon LD as his/her presubscribed interexchange carrier (“PIC”). Moreover, given the extraordinarily small amounts established in the Agreement, it seems unlikely that any compensation is being paid by Verizon LD for the “common costs” of acquiring customer information that is required for the *local service* transaction that would take place in any event.

66. In order to undertake the “joint marketing” activity on behalf of Verizon LD, the Verizon ILEC representatives must first provide a CPNI disclosure, obtain the customer’s consent to the use of the CPNI for purposes of discussing the Verizon LD offerings, make a “recommendation” of Verizon LD service, and explain the advantages of selecting Verizon

LD as the customer's PIC, and then describe and explain the various optional calling plans that are being offered by Verizon LD. Depending upon the attention of the customer, as well as the number of calling plans available, this could take a significant amount of time. In addition, the representative will likely be directed by Verizon LD to inquire as to the customer's interest in international or other special calling plans, and be informed about the calling card they will shortly receive in the mail. In my experience, it is unlikely that this discussion will take less than 6 or 7 minutes, and can often take significantly longer than that. Thus, if each instance of "joint marketing" encounter takes 10 minutes, than the FDC of that Verizon NJ representative's time would be *at least* $46.26 per hour, including all overheads and support functions, and would actually be even greater if there is no compensation for unsuccessful sales efforts. Even if "arm's length" were defined strictly in terms of cost recovery, which it obviously should not be, the transfer price based upon successful sales would certainly be far greater than the $6.45 established for Verizon NJ.

67. In addition to specific *services* that VNJ will be providing to VLD, VLD will also derive enormous benefit from its use of the Verizon brand name, a brand name that New Jersey consumers associate with "the phone company." VLD derives value each time the VNJ brand name is utilized on bills, other mailings, advertisements, directories and other uses by Verizon NJ, yet is not being required to provide any financial compensation to Verizon NJ to reflect such value. Were the long distance entity not affiliated with Verizon NJ and were thus required to enter into an arm's length agreement for the "joint marketing" and other services (including the use of the Verizon brand name and mark) that Verizon NJ would be

providing, it surely would be required to pay a license fee of some sort for the use of the Verizon brand. The absence of such an arm's length payment in the Verizon Long Distance Marketing and Sales Agreement is yet another violation of Section 272(b)(5) and N.J.S.A. 48:2-21.16(3).

Despite an express statutory requirement that Verizon NJ and Verizon LD "have separate officers, directors, and employees," the Marketing and Sales Agreement contemplates extensive use of Verizon NJ personnel to support most of Verizon LD's functions.

68. Based upon my review of the Verizon Long Distance Marketing and Sales Agreement, it would appear that Verizon LD has (in New York, Massachusetts and Pennsylvania) and will have (in New Jersey) virtually no employees of its own, relying almost entirely upon the employees of the Verizon Bell operating companies in each state to carry out its day-to-day business operations. In fact, Verizon Long Distance, which is currently the fourth largest long distance service provider in the US with some six million subscribers, nationally has only 452 employees on its own payroll.[97] It is rather incredible that *where Verizon is subject to an explicit statutory separate affiliate requirement* it seems to have no reservations about "employee sharing," yet in the current PAR-2 proceeding before this Board, where a proposal for structural separation of Verizon NJ's wholesale and retail operations is being considered, the Company has contended that such structural separation

97. *See*, "The New Ma Bell," *Barron's*, September 3, 2001, at 17; *see also*, www.verizonld.com/news/index.cfm?article=72, visited October 15, 2001.

would force it to "duplicate" employee functions in each organization because it would be prohibited from engaging in employee sharing.[98]

69. The "separate employees" requirement at Section 272(b)(3) must be read in the context of other subsections of Sec. 272(b), which also require that the long distance affiliate "*shall operate independently* from the Bell operating company (Sec. 272(b)(1))" and "shall conduct all transactions with the Bell operating company of which it is an affiliate *on an arm's length basis* with any such transactions reduced to writing and available for public inspection (Sec. 272(b)(5))." Emphasis supplied. There is no reasonable basis to conclude that the relationship between Verizon New Jersey and Verizon Long Distance as contemplated in the Verizon Long Distance Marketing and Sales Agreement comes even remotely close to "independent operation" of the two entities. The prohibition against sharing employees at Sec. 272(b)(3) cannot be cured merely by some contrived "cost allocation." And nothing in the Verizon Long Distance Marketing and Sales Agreement provides any indication that the relationship that is contemplated comes even close to being "at arm's length." In fact, in order to be "at arm's length," Verizon NJ would have to offer to provide the identical set of services *at exactly the same prices* to any *nonaffiliated* long distance service provider. Unless and until such an "offer" is forthcoming and *bona fide*, there is no basis upon which the Board can conclude that the "arm's length" requirement at Section 272(b)(5) and the prohibition against cross-subsidization of competitive services by noncompetitive services at

98. BPU Docket No. TO01020095, Panel Testimony of Kenneth Gordon and C. Lincoln Hoewing (Verizon NJ), at 40.

N.J.S.A. 48:2-21.16(3) will come even close to being satisfied by Verizon NJ if it is allowed to provide in-region long distance service.

70. Although it applies only to electric and gas utilities, the rules and regulations promulgated pursuant to EDECA expressly *prohibits* the sharing of employees (other than those involved in joint corporate oversight, governance, support systems and [support] personnel) between an electric and/or gas utility and its nonregulated competitive affiliates:

> ... an electric and/or gas public utility and its PUHC or related competitive business segments of its public utility holding company which are engaged in offering merchant functions and/or electric related services or gas related services shall not employ the same employees or otherwise retain, with or without compensation, as employees, independent contractors, consultants, or otherwise.[99]

EDECA itself also contemplates the possibility of the regulated electric utility entity being forced, in an affiliate relationship, to undertake actions that may conflict with its own business interests for the benefit of those of its affiliate. It specifically provides that:

> The board shall apply 50 percent of the net revenues earned from the offering of competitive service by an electric public utility or its related competitive business segment, or from the offering of competitive services by an electric public utility holding company or its related competitive business segment when the provision of such services and personnel, unless the board finds that the electric public utility will receive and reflect such receipt as a off set to its regulated rates the full market value for the use of such assets pursuant to a contract between the parties filed with the board by

99. N.J.A.C. 14:4-5.5(p).

> the electric public utility and subject to the provisions of this section and section 8 of this act. ...[100]

There is no reason why these same provisions, which *prohibit* the functional sharing of employees and which *require* full fair market value compensation for the regulated entity's (non-employee) services furnished to the affiliate, should not also be applied in the case of the VNJ/VLD relationship. At the very least, it provides a useful basis for the Board to determine VNJ's compliance with N.J.S.A. 48:2-21.16(3), and for the Board to implement a strict code of conduct. And there can be no question but that the basis for compensation and other provisions of the Verizon Long Distance Marketing and Sales Agreement do not come event remotely close to satisfying this standard.

By its use of "Verizon" in the names of its pricing plans and by designing product tie-ins between Verizon LD and Verizon NJ local services, Verizon NJ can blur the distinction between Verizon NJ and Verizon LD in the minds of its customers.

71. In addition to the harm to consumers from cross-subsidization, it is highly unlikely that consumers merely listening to the oral explanations of the various service options being offered by the Verizon NJ representative, and not seeing the written words themselves, will recognize or understand the distinction between "Verizon" and "Verizon Long Distance." (That is, do the words "Verizon long distance" refer to "long distance" services being offered by the local Verizon NJ operating company, or to services being offered by the "Verizon Long Distance" affiliate?) The vast majority of consumers, who are not expected to be

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100. N.J.S.A. 48:3-55(b).

intimately familiar with the Verizon corporate structure, will be unable to determine whether "long distance" is with small or capital letters. Without the benefit of the capital "L" and capital "D," it will be virtually impossible for a customer to differentiate between the idea that the regulated utility is offering long distance service, and the reality that an unregulated affiliate is offering this service. Significantly, with respect to electric and gas utilities, N.J.A.C. 14:4-5.5(k) provides that:

> ... a related competitive business segment of a public utility holding company shall not trade upon, promote, or advertise its relationship with the electric and/or gas public utility, nor use the electric and/or gas public utility's name and/or logo in any circulated material, including, but not limited to, hard copy, correspondence, business cards, faxes, electronic mail, electronic or hard copy advertising or marketing materials, unless it discloses clearly and conspicuously or in audible language that:
>
> 1. The PUHC or related competitive business segment of the public utility holding company "is not the same company as [LDC's NAME HERE], the electric and/or gas public utility";
>
> 2. The PUHC or related competitive business segment of the public utility holding company is not regulated by the Board; and
>
> 3. "You do not have to buy [RELATED COMPETITIVE BUSINESS SEGMENT'S NAME HERE] products in order to continue to receive quality regulated services from the electric and/or gas public utility."

Were a corresponding requirement in place with respect to regulated local exchange telecommunications companies, the type of potential confusion that arises from the "Verizon Long Distance" name would similarly be prohibited. The Board should mandate similar regulations in a code of conduct for telecommunications companies, as described later.

Verizon's joint marketing strategy, as reflected in the Marketing and Sales Agreement, depends critically upon its unfair use of subscriber information to achieve a unique advantage over competing long distance providers.

72. The Verizon NJ/Verizon LD Marketing and Sales Agreement serves to underscore and confirm the inescapable conclusion that the specific "joint marketing" arrangement that is to exist as between Verizon New Jersey and Verizon Long Distance will constitute unfair use of subscriber information and unfair use of customer contacts generated by the local exchange telephone corporation's provision of local exchange telephone service in violation of the competitive principles. Not only is such use "unfair" with respect to Verizon NJ's long distance competitors, it is even "unfair" in its treatment of Verizon NJ *customers*, because it is specifically intended to confuse them and to induce them to make incorrect choices in their selection of service provider.

73. Significantly, there is nothing in the Act's acquiescence in allowing a BOC and its long distance affiliate to engage in joint marketing that can be interpreted as authorizing patently anticompetitive conduct by the BOC, including *unfair* use of subscriber information or *unfair* use of customer contacts generated by the BOC's provision of local exchange telephone service. Were competition in the local market developed to the point that Verizon New Jersey was no longer the only or primary carrier for customers to call for all of their local service needs, the enormous market advantage resulting from joint marketing of Verizon local and long distances services would be mitigated if not eliminated altogether. Other local service providers would be able to leverage their own inbound channels for joint marketing as well, either for their own long distance services or through marketing agreements with large

interexchange carriers. Provision of inbound marketing services would be available from several LECs, not just Verizon, and therefore Verizon LD would not benefit from preexisting customer relationships vastly out of proportion with any other interexchange carrier marketing opportunity. It is not the joint marketing *per se* that is contrary to the public interest, it is the exploitation by the incumbent monopoly VNJ of its *local service* customer relationships to the detriment of competing *long distance* providers that undermines competition in the long distance market and that will ultimately result in higher consumer prices for long distance service.

74. FCC restrictions on the use of Customer Proprietary Network Information ("CPNI") in certain cases require that an ILEC obtain explicit consent from a customer before it may utilize information in the customer's service record to market or sell competitive services to that customer. Consequently, as part of the routine customer contact during in-bound calls, Verizon NJ representatives would typically ask the customer for his or her verbal consent to access that customer's records so that the representative could discuss the Verizon LD service offerings. The Verizon NJ representative could then use information regarding the customer's calling patterns to highlight a Verizon Long Distance calling plan as the appropriate pricing option for that customer.[101] Using this data solely for the benefit of Verizon Long Distance,

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101. Importantly, this type of calling pattern information would generally *not* be available to competing interexchange carriers, unless they individually first obtained the customer's consent for VLD to release the data to them, and then formally requested the data from VNJ. Whereas the VNJ representative is able to obtain the customer's consent and then immediately access the usage data while the customer is still on the phone, a competing

(continued...)

at a time when callers have initiated a call about other Verizon NJ services, provides a unique benefit to VNJ's affiliate that is not similarly available to any competitor of that affiliate. Indeed, such practices are expressly prohibited, in the case of electric and gas utilities, by regulations promulgated at N.J.A.C. 14:4-5.3(m) pursuant to the *New Jersey Electric Discount and Energy Competition Act* ("EDECA"): "... an electric or gas public utility shall not ... [r]equest authorization from is customers to pass on customer information exclusively to its PUHC or a related competitive business segment of its public utility holding company ..." There is no reasonable basis why the identical prohibition should not also be applied in the case of Verizon New Jersey.

Verizon's use of the inbound marketing channel to "sell" its long distance service creates a substantial potential for its remonopolization of the long distance market.

75. Through its use of the inbound marketing channel, as well as the confusion stemming from the use of the "Verizon" corporate name, as I shall demonstrate below, as long as Verizon NJ continues to maintain its present position of dominance in the *local* service market and is afforded the opportunity and ability to engage in "joint marketing" with its VLD long distance affiliate, Verizon will soon come to dominate the long distance market as well.

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101. (...continued)
interexchange carrier would be forced to undertake a series of steps, over a protracted period of time, in order to obtain the very same customer data. From a practical standpoint, it would not be feasible for a competing IXC to beneficially utilize this information even if its prospective customer willingly gave the required consent.

76. To the extent that the BOC maintains a *de facto* monopoly with respect to the provision of *local* services in part or in all of any state in which it has received Section 271(c) authorization, the effect of this preemptive joint marketing opportunity is to permit the BOC to extend its local monopoly into the adjacent, and otherwise competitive, long distance market.

77. Presumably, the principle/theory (if there is one) driving the FCC's and Congress' acquiescence in such "joint marketing" is that *if the local market is competitive* and as such if customers are given real choices as to whom they contact for local service (which is the presumption once the "Competitive Checklist" has been satisfied), the RBOC then no longer enjoys any advantage vis-a-vis CLECs with respect to selling customers long distance service either, because CLECs are also free to sell long distance service to *their* local service customers. The principle/theory breaks down, of course, if the local market is not actually competitive, i.e., if customers have no choice but to contact the BOC for local service and if the BOC retains the right to preemptively market long distance service to those customers, then other long distance providers will be blocked from addressing these customers.

78. Put another way, the larger the BOC's share of the *local* market, the greater will be its opportunity to preemptively market its affiliate's long distance service. And if customers exhibit a disproportionate propensity to select the BOC as their long distance carrier as a result of this "first to get there" opportunity, then over time the BOC's long distance market

share would also be expected to grow *directly and specifically as a consequence of its ability to preempt competing long distance carriers in signing up new customers*.

79. The proposition advanced in the preceding paragraph may be tested quantitatively by means of a dynamic model of market behavior over time. Attachment 4 to this Declaration contains the results of a model I have constructed for this purpose, along with several alternative model runs designed to examine the sensitivity of the model's results to variations in the BOC's share of the *local* market. The model was developed based upon actual experience in New York and Texas following the entry of Bell Atlantic (now Verizon) and SBC, respectively, into the in-region long distance markets in those states, modified where appropriate to reflect conditions specific to New Jersey.

80. According to the US Census Bureau, each year on average some 17% of all US households relocate to a new residence.[102] Thus, each year approximately 17% of Verizon NJ's residential customers can be expected to initiate an order for new local telephone service. In the model, I have assumed that VNJ's share of these inward service orders will correspond with its share of the local exchange service market overall. According to data provided in Mr. Bone's Declaration, CLECs currently serve some 59,000 residential customers via resale of VNJ services, and 280 residential customers ostensibly via CLEC-

102. U.S. Census Bureau, *American Housing Survey for the United States in 1999*, Table 2.9.

owned facilities.[103] VNJ, by contrast, currently serves some 4.34-million residential lines.[104] On this basis, VNJ controls fully 98.64% of the New Jersey residential local exchange service market. Thus, in any given year (and assuming that the churn rate and market share remain constant), Verizon NJ will have the opportunity to "address" 16.8% (i.e., 17% household relocation rate x 98.64% residential market share) of all residential customers in Verizon NJ's service area as a result of *customer-initiated* "inbound" contacts alone.

81. The model assumes that in approximately 82.4% of such customer-initiated contacts in which an order for new local service is placed, the customer selects Verizon Long Distance as the PIC following the "recommendation" of the VNJ service representative.[105] 28.9% of American households have at least two residential access lines,[106] and (assuming that the same relocation rate applies to these households as to the population generally) it is likely that

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103. Bone (Verizon NJ), Declaration, Attachment 101, Table 1.

104. 2000 ARMIS Report 43-08, Table 3.

105. This 82.4% Verizon Long Distance "take rate" for "inbound" local service customers was developed as follows: Verizon Long Distance claims to have captured a 20% share of the New York market in the first year in which its entry was allowed. "Verizon Communications Posts Strong Results for Fourth Quarter and 2000," Verizon News Release, February 1, 2001. On average, about 30% of residence customers change their PIC in any given year. "J.D. Powers and Associates Reports: Sprint and SNET Top Performers in Residential Long Distance Customer Satisfaction," July 29, 1999. Thus, 6% (20% of 30%) out of Verizon's 20% total long distance market share is attributable to PIC changes made by existing customers. The remaining 14% would then be attributable to inbound local service customers selecting Verizon Long Distance at the time that they placed their orders for local service. Since the overall residential relocation rate is 17%, I have estimated the "take rate" at 14%/17%, or 82.4%.

106. FCC, *Trends in Telephone Service*, August 2001, Table 8.4.

a customer with an additional line will select the same long distance carrier for both the primary line and the additional line.[107]

82. Offsetting these "captures" of customers by Verizon NJ/Verizon LD are the ongoing marketing efforts of the other IXCs. In 1999, approximately 30% of all US residential customers changed their PIC.[108] Extrapolating this to New Jersey, the model assumes that each year 30% of the customers who had Verizon NJ long distance service at the beginning of the year will switch to another IXC (which I assume to occur at mid-year, on average) sometime during the year. However, Verizon will also be marketing its long distance service to customers of other IXCs, and so the model also assumes that Verizon will capture a portion of those customers' PIC changes as well. Specifically, the model uses Verizon's long distance market share at the beginning of each year to determine what proportion of all non-Verizon PIC changes will be captured by Verizon during that year (with the exception of year 1, in which the 20% end-of-year share captured by Verizon in New York is used).

107. In fact, as discussed above, the FCC has ruled that where the contact is initiated by an *existing* BOC customer (e.g., to order an additional line or to add vertical service features), the BOC *will not be required* to offer to read the list of available IXCs. *AT&T/BA-NY Order*, at para. 15. As a result, it is likely that the customer's propensity to selected the BOC's Long Distance affiliate as the PIC would be even higher for additional lines than for the primary line, where the BOC is required to offer to read the list of IXCs. Since the model assumes the *same* "take rate" for both primary and additional lines, it likely errs on the conservative side.

108. J.D. Powers report, *op. cit.*, footnote 105.

83. Scenario 1 in Attachment 4 provides the results of this model, and demonstrates that if the current Verizon NJ *local service* market share of 98.64% is maintained throughout the five-year period covered by the model, at the end of that time Verizon Long Distance will have captured some 71% of all New Jersey residential subscribers in Verizon NJ's service territory.

84. In Scenario 2 in Attachment 4, I have changed the original assumption regarding Verizon NJ's share of the local market. Rather than holding it constant at the current 98.64% level, I have assumed that it will fall by 3% annually through the fifth year. All else remaining the same as per the original (page 1) model, this erosion in Verizon NJ's local market share (down to 84% at the end of the fifth year) will still provide Verizon NJ with a 66% share of the residential long distance market as of the end of the study period.

85. In Scenario 3 in Attachment 4, I have modeled the case where CLECs are even more successful (than in the Scenario 2 model) in capturing *local* customers. Here, I have assumed that CLECs capture 10% of residential customers in the initial year following Section 271 approval, and have assumed additional annual CLEC market share growth at half of the initial year rate for each of the next four years. At the end of the fifth year, Verizon NJ's local market share would then be 69%, but its long distance market share will still be larger than that for any IXC today, at 59%.

86. While the model attempts to address certain market dynamics, it does not consider all of them. For one, it assumes that all of the existing non-BOC IXCs remain in business during the entire period, i.e., that despite the persistent expansion of the BOC's share of the long distance market, the other carriers continue to remain profitable and continue to maintain the same type of market *and marketing* presence that they do today. The recent and precipitous decline in the value of IXC stocks would, however, suggest that Wall Street expects otherwise. Massive IXC market share losses over a short period of time are likely to result in one or more of the major IXCs exiting the market, an outcome that would be almost certain to further increase Verizon's ultimate market share.

87. There are strong parallels between the various policy initiatives taken during the 1980s that were designed to open the long distance market to entry by "Other Common Carriers" ("OCCs," defined as interexchange carriers other than AT&T) and the current policy moves toward authorizing BOC entry into the long distance market. In the earlier case, OCC entry and growth were facilitated by several factors, including the requirement that BOCs (and later extended to ILECs generally) provide "equal access" and associated dialing parity to all IXCs.[109] The current analogy to "equal access" is the Section 271(c)(2)(B) 14-point

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109. Others include (a) the requirement that *discounted* access charges apply to OCCs prior to the introduction of equal access in any central office, (b) "balloting" of BOC customers with respect to the choice of PIC and *assignment* of nonresponding BOC customers to OCCs in proportion to the selections made by responding customers, (c) adoption of an "equal charge per minute of use" rule, which deprived AT&T of any opportunity to benefit with respect to access charges paid to ILECs from its size, incumbency or scale economies relative to those of its smaller rivals, and (d) adoption of the so-called "five-mile rule," under

(continued...)

"Competitive Checklist." The remaining policy initiatives were expressly intended to jump-start long distance competition, to give the OCCs certain specific opportunities to expand their market that would overcome the enormous obstacles confronting any non-incumbent attempting to enter a market long dominated by a single firm.

88. The transition to equal access began in 1985 and was substantially complete by the end of 1988. The 1985 beginning of the transition to equal access is analogous to the initial satisfaction of the 14-point checklist. By the end of the fifth year (i.e., by the end of 1990), the non-AT&T IXCs had acquired 24.4% of presubscribed lines nationwide. As I have discussed, the model I have constructed predicts BOC shares (also in terms of presubscribed lines) in the range of 71% to 59% at the end of the fifth year following BOC long distance entry).

89. In view of the strong parallels between OCC entry in the 1980s and BOC entry today, I believe that the *results* of the earlier policy paradigm offer a useful and reasonable standard against which the current policy initiatives relative to BOC entry can be evaluated. In order to facilitate this examination, I have used the model to estimate the share of the *local*

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109. (...continued)
which all OCCs locating their points of presence ("POPs") within five miles of an ILEC access tandem would be subject to the same access charges as would AT&T (which was often collocated with the BOC), thereby eliminating any incumbency and preexisting collocation advantages that might otherwise have benefitted AT&T. AT&T was also subject to a disproportionately-applied "equal access recovery charge," forcing it to pay a relatively larger share of the costs of implementing equal access than its OCC rivals.

market that CLECs would have to acquire over the five-year period in order to limit the BOC *long distance* market share to the same 24.4% of presubscribed lines that the OCCs were able to acquire as of five years following the initiation of equal access. As Scenario 4 in Attachment 4 indicates, the CLEC market share that would be required to achieve this outcome is 21.25% as of the beginning of year 2 and through to the end of year 5. In view of the fact that by Verizon NJ's own account CLECs currently have only a 1.3% local service market share, it is virtually *inconceivable* that CLECs could achieve a local service penetration rate of 78.75% or anything remotely close to it over the coming five-year period.

90. From the foregoing discussion and analysis, it is evident that the development of effective competition for *local* services is critical to forestall remonopolization of the long distance market following Verizon NJ entry. As long as VNJ is permitted to exploit its captive relationship with the vast majority of local service customers to market and sell its affiliate VLD's long distance services, VNJ/VLD long distance shares will grow rapidly and non-BOC IXCs will suffer a precipitous decline in customers and demand. Faced with such losses, IXC costs will rise and at least some IXCs will be forced to exit the business, further exacerbating the situation and affording the BOCs an even greater opportunity to remonopolize the nation's long distance market. Therefore, before recommending approval of Verizon's filing for Section 271 authorization by the FCC, this Board has the authority and obligation to implement all measures that it believes necessary under both federal and New Jersey law to ensure full competition in the intrastate interLATA market.

As a prerequisite to any recommendation to the FCC on Verizon's Section 271 filing, the Board must require full structural separation of Verizon's wholesale and retail entities.

91. In addition to the Board's consideration of Verizon NJ's compliance with the checklist items of Section 271(c)(2)(B), the Board must consider additional principles to protect ratepayers from the potential for a speedy remonopolization by Verizon of the interLATA long distance market. The Board may impose specific requirements for long distance entry on VNJ and/or on VLD to assure that the interests of New Jersey consumers and competitors are protected. One such requirement should be structural separation of the Verizon NJ retail and wholesale (network) operations.

92. The New Jersey legislature and this Board have long been concerned with the impacts upon ratepayers and upon competition arising from transactions and other interactions between a regulated utility and its nonregulated affiliates. In previous Board investigations into affiliate transactions and corporate structures, the Board has based its determination on the grounds that the action "will not negatively impact competition, will not negatively impact the rates of current customers, will not negatively impact employees, and will not negatively impact the provision of safe, adequate and proper service."[110] These standards require that in no event may ratepayers be made worse off as a result of the affiliate relationship than in its absence. The Board should consider this public interest standard when evaluating Verizon New Jersey's application, and implement any necessary remedies to address these concerns.

110. *RCN Order.*

93. The New Jersey legislature has expressly contemplated in the *New Jersey Electric Discount and Energy Competition Act* ("EDECA") that regulated utilities must be accountable to a code of conduct in dealing with their affiliates and, to prevent any self-dealing in violation of the public interest, the Board last year adopted a specific code of conduct to govern such intracorporate relationships for electric and natural gas utilities in the state:

> ... an electric or gas public utility shall not:
>
> 1. Provide leads to its PUHC or a related competitive business segment of its public utility holding company;
>
> 2. Solicit business on behalf of its PUHC or a related competitive business segment of its public utility holding company;
>
> 3. Acquire information on behalf of or to provide to its PUHC or a related competitive business segment of its public utility holding company;
>
> 4. Share market analysis reports or any other types(s) of proprietary or non-publicly available reports, including but not limited to, market, forecast, planning or strategic reports, with its PUHC or a related competitive business segment of its public utility holding company;
>
> 5. Share customer usage or end use equipment information obtained during the course of providing electric and/or gas public utility services, including but not limited to the administration of demand-side management programs, with its PUHC or a related competitive business segment of its public utility holding company;
>
> 6. Request authorization from its customers to pass on customer information exclusively to its PUHC or a related competitive business segment of its public utility holding company;
>
> 7. Represent or imply that the electric and/or gas public utility speaks on behalf of its PUHC or related competitive business segment of its public utility holding company or that the customer will receive preferential

treatment as a consequence of conducting business with the related competitive business segment of its public utility holding company.

8. Represent or imply that its PUHC or a related competitive business segment of its public utility holding company speaks on behalf of the electric and/or gas public utility.[111]

The EDECA recognizes the significant risk to competition posed by self-dealing and discriminatory conduct as between a regulated utility and a nonregulated affiliate, and the Board, in its promulgation of rules and regulations, has taken affirmative steps to limit the exercise of a utility's market power. Telecommunications companies, like electric and gas companies, as a direct result of their status as former monopoly utilities, receive hundreds or thousands of incoming calls per day from customers either ordering new service or with respect to the customers' existing service. The utilities enjoy name recognition because every household in the utility's service area receives a monthly bill with the utility's name and logo and, because the utility's rates have traditionally been regulated, customers have an expectation that the prices for the utility's services are reasonable.

94. The specific difficulty in addressing and in preventing this type of cross-subsidization has also been addressed in the past by other state commissions. For example, the California legislature has enacted a set of conditions that a BOC must satisfy as a precondition for PUC approval of its Section 271 application that address the same types of public interest, cross-subsidization, and competitive safeguards that are addressed in the New

111. N.J.A.C. 14:4-5.3(m).

Jersey Telecommunications Act as well as in EDECA. These conditions, set out at Section 709.2(c) of the California Public Utility Code, offer a useful set of guidelines that the Board should consider in evaluating Verizon New Jersey's Application:

> No commission order authorizing or directing competition in intrastate interexchange telecommunications shall be implemented until the commission has done all of the following, pursuant to the public hearing process:
>
> (1) Determined that all competitors have fair, nondiscriminatory, and mutually open access to exchanges currently subject to the modified final judgment and interexchange facilities, including fair unbundling of exchange facilities, as prescribed in the commission's Open Access and Network Architecture Development Proceeding (I. 93-04-003 and R. 93-04-003).
>
> (2) Determined that there is no anticompetitive behavior by the local exchange telephone corporation, including unfair use of subscriber information or unfair use of customer contacts generated by the local exchange telephone corporation's provision of local exchange telephone service.
>
> (3) Determined that there is no improper cross-subsidization of intrastate interexchange telecommunications service by requiring separate accounting records to allocate costs for the provision of intrastate interexchange telecommunications service and examining the methodology of allocating those costs.
>
> (4) Determined that there is no substantial possibility of harm to the competitive intrastate interexchange telecommunications markets.

Thus, in developing its consultative recommendation to the FCC, the Board:

(1) should determine that all competitors have fair, nondiscriminatory, and mutually open access to all Verizon New Jersey exchanges, including fair unbundling of exchange facilities;

(2) should determine that there is no anticompetitive behavior by Verizon New Jersey, including unfair use of subscriber information or unfair use of customer contacts generated by Verizon New Jersey's provision of local exchange telephone service;

(3) should determine that there is no improper cross-subsidization of Verizon's intrastate interexchange telecommunications service by requiring separate accounting records to allocate costs for the provision of intrastate interexchange telecommunications service and examining the methodology of allocating those costs; and

(4) should determine that there is no substantial possibility of harm to the competitive intrastate interexchange telecommunications markets arising from Verizon's entry therein.

95. These four principles actually mirror the standards embodied in New Jersey public utility legislation. Principle (1) mirrors the requirements of N.J.S.A. 48:2-21.19(e)(1); principle (2) is similar to requirements in N.J.A.C. 14:4-5.3(m)(1) and 14:4-5.3(m)(2);

principle (3) is found in N.J.S.A. 48:2-21.18(c); principle (4) restates the policy of the State as recognized in 48:2-21.16(a)(4).

96. An additional case also occurred in the late 1980s, and involved the marketing of an affiliate's long distance service by an independent LEC in Ohio.[112] In its decision in that matter, the Public Utilities Commission of Ohio recognized the anticompetitive and cross-subsidization implications of such an arrangement, and directed that the provision and marketing of local and long distance services by carried out by structurally separate affiliates. The Board concluded:

> After thoroughly reviewing all of the testimony and exhibits in this matter, the Commission finds that the close affiliation between UTLD [United Telephone Long Distance] and its parent company UTO [United Telephone of Ohio] creates a potential for cross-subsidization and anti-competitive practices to occur between the two companies, which would be detrimental to the customers of UTO and, therefore, is not in the public interest. However, the Commission believes that, by requiring UTLD and UTO to maintain operations that are structurally separate, the potential for these detrimental practices to occur will be minimized, if not eliminated. Therefore, the Commission concludes that UTLD's application for authority to furnish intrastate interexchange telecommunication services ... should be granted, contingent upon UTLD's and UTO's compliance with the conditions set forth below.
>
> UTLD contends that the use of common operational and managerial resources between UTO and UTLD is beneficial not only to UTLD, but to UTO's customers as well, for a number of reasons one of which is the ability of UTO to spread some of its fixed costs to UTLD. However, the Commission

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112. *In the Matter of the Application of United Telephone Long Distance, Inc. for Authority to Furnish Interexchange Telecommunications Services Within the State of Ohio*, Public Utilities Commission of Ohio, Case No. 86-2173-TP-ACE, *Summary of Finding and Order*, December 23, 1988.

> believes that the potential for abuse of this type of structure, especially between two regulated utilities, one of which is an LEC with a monopoly position in its franchised service area, far outweighs any nominal benefits which may or may not ever the realized by either company and their customers. In order to ensure against abuse of UTO's and UTLD's affiliation, it is essential that the two companies operate as totally separate and independent entities. To accomplish this, UTLD and UTO must employ separate directors, officers, and personnel. ... UTO must not share its technical resources and equipment, including, but not limited to, office furniture, data systems, central office equipment and space, and other facilities, with UTLD, unless such resources and equipment are also made available to other IXCs under like conditions.[113]

This Board should similarly consider rules that require structurally separate affiliates coupled with strong self-enforcing sanctions regarding affiliate transactions in the event that Verizon New Jersey receives Section 271 authority at this time.

97. As both a wholesale provider of essential facilities to interexchange carriers (access services) and CLECs (bundled wholesale services, Unbundled Network Elements, and various interconnection arrangements for the interchange of traffic) as well as a *retail* provider of these services competing directly with the very same interexchange and competitive local exchange carriers, Verizon NJ has both strong financial incentives and extensive opportunities to engage in a pattern of conduct that is directly inconsistent with the explicit requirements of the Nondiscrimination Safeguards of section 272(c)(1). Such conduct, which is extremely difficult to detect except through after-the-fact complaints, works to undermine the potential for local service competition at its most fundamental level and has the potential to undermine the robust competition that presently exists in the interLATA long distance market.

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113. *Id.*, at 37-38.

98. The extent to which Verizon NJ may be engaging in one or more forms of anticompetitive conduct can only be accurately assessed in terms of actual marketplace *results* rather than by an examination of individual incidents. Intense competition has developed in virtually every segment of the US telecommunications industry in which the RBOCs do not maintain some form of bottleneck control over essential facilities, either because such control has been expressly prohibited by legislative, judicial or regulatory fiat, or in which the RBOCs have themselves had minimal involvement (e.g., and at least up to now, dial-up access to the Internet). On the other hand, where RBOCs have been permitted to engage in retail operations in markets in which they also control essential facilities (e.g., local exchange service), competition has failed to develop.

99. Structural separation of those portions of Verizon NJ's operations that provide essential network resources to competing retail services from those portions of Verizon NJ's operations that are themselves involved in the retail provision of service to end user customers would prevent such anticompetitive conduct. Under structural separation, Verizon NJ-retail would be required to deal with Verizon NJ-wholesale in exactly the same manner and under the same terms, conditions, and operational interfaces as its nonaffiliated retail competitors. Structural separation of the Verizon New Jersey retail and long distance services is expressly required by the Act.

100. It will not be possible for the Board to assure that all of the specific competitive protections that are required by the New Jersey and federal statutes are being satisfied on a

continuing basis following Verizon NJ's entry into the in-region interLATA long distance business *so long as Verizon NJ is permitted to pursue its retail local and long distance business and underlying network operations on an integrated basis*. Only through full structural separation,[114] in which Verizon NJ's retail organization is required to acquire the underlying network services from a separated Verizon NJ wholesale entity on the same terms and conditions and by means of the same interfaces as its nonaffiliated retail competitors, can the Board make the affirmative determinations that it is required to do under the federal and state statutes.

The Public Interest Standard of the federal Act requires that the Board implement a strict Code of Conduct to prevent violations of the federal and state prohibitions against cross-subsidization, as well as the remonopolization of the long distance market, before the Board can issue a recommendation regarding Verizon's 271 Application to the FCC.

101. It may be possible to achieve the goal of full parity without requiring the creation of separate wholesale and retail VNJ entities, but only where a strict and effective code of conduct is in place and is subject to effective and rigorous monitoring by the Board. However, I must emphasize that the competitive benefits of formal structural separation cannot be understated. The most effective approach would clearly be outright divestiture and full separation of the monopoly and competitive business units — the method that was adopted and successfully applied when the former Bell System was split into separate local

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114. I have addressed the issue of structural separation of Verizon NJ's monopoly wholesale network functions from its competitive retail activities more fully in testimony submitted in BPU Docket TO01020095 on August 3, 2001.

and long distance corporations. The formation of separate operating companies within the Verizon corporate structure offers the benefit of relatively simple and straightforward monitoring, but in the end is still subject to capital, personnel and other resource allocation decisions that will be made at the parent company level, presumably with the goal of maximizing joint profits rather than specifically aimed at achieving true parity. This is best seen by the Verizon's continued practice of sharing employees between its local and long distance affiliates, despite the structural separation requirements of section 272.

102. An alternative approach was adopted recently by the Pennsylvania Public Utility Commission ("PA PUC")[115] as a modification to a previous ruling that had called for the formation of separate Verizon wholesale and retail corporate entities.[116] Described as "functional/structural separation," the PA PUC's approach does not require that separate corporate units be formed, but instead imposes strict accounting safeguards and a strict "code of conduct" that would govern the interactions between Verizon-Pennsylvania's wholesale network operations and its retail operations. The code of conduct that would apply for the functional/structural separation regime is in the process of being formulated.[117]

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115. *Re: Structural Separation of Bell Atlantic–Pennsylvania, Inc. Retail and Wholesale Operation*, M-00001353 (April 11, 2001).

116. *Joint Petition of Nextlink Pennsylvania, Inc. et. al., P-00991648, Joint Petition of Bell Atlantic-Pennsylvania, Inc.*, P-00991649 (September 30, 1999) ("*Global Order*").

117. "The Code of Conduct rulemaking record shall be re-opened for the purpose of receiving comments and reply comments on the appropriate Code of Conduct to be applied *in light of this Commission's determination in the instant proceeding*. This shall be done on an

(continued...)

103. Because functional/structural separation does not involve the creation of separate wholesale and retail corporate entities, the explicit *inter-company* transactions that would have been recorded on each corporation's books of accounts under formal structural separation would be replaced by *intra-company* transactions that would ordinarily be far more difficult for the Commission to monitor and audit. The PA PUC expressly recognized that "the concept of virtual structural separation involves implementing rules in accounting and operations, as well as regulations that effect a substantial separation, albeit virtual, of Verizon's wholesale and retail local exchange businesses."[118]

104. At the present time, there is no existing accounting treatment to recognize and record intracompany transfers between "Verizon's wholesale and retail local exchange businesses." Under formal structural separation, VNJ-retail as well as all nonaffiliated CLECs would be required to make *cash payments* to VNJ-wholesale for all services furnished by the wholesale entity. Under the type of functional/structural separation envisioned by the Pennsylvania PUC, currently unrecorded transfers of services and resources from VNJ's network business units to its retail organization would need to be recognized and offsetting "payment" entries would need to be made. Separate cash books would need to be maintained so as to prevent the VNJ retail operations from trading on the wholesale organization's cash

117. (...continued)
expedited basis. Until completion of the final rulemaking in the Competitive Safeguards Proceeding, we expect Verizon to fully comply with the interim Code of Conduct set forth in the *Global Order*." April 11, 2001 *Opinion and Order*, at 35, emphasis supplied.

118. *Id.*, at 30.

position and working capital. Allocations of all jointly-used resources between the two organizational units would also need to be made, and nonaffiliated CLECs would need to be afforded access to those same resources at the same prices that are recorded for intra-VNJ transfers. Moreover, in order to assure that VNJ does not deliberately *overcharge* its retail business units for such transfers and allocations, a process would need to be established to assure that all such accounting entries reflect actual costs. There are also no specific existing rules requiring accounting entries be made to reflect the value of any preferential treatment, such as the direct on-line access to electronic customer account and billing data and the "warm transfer" of an inbound call from a VNJ exchange service customer to Verizon Online or (after Section 271 authority is received) to Verizon Long Distance.[119] Indeed, due to the utter lack of any financial tracking of the costs of the "wholesale" services that Verizon's retail operation provides to its retail end user customers, new accounting devices will need to be created so that the Board can determine that the competitive VNJ retail activity is profitable and is not being cross-subsidized by the monopoly wholesale organization. CLECs are forced by the discipline of cold, hard cash to operate within the margin between their own retail price (which is necessarily dictated by VNJ's retail price) and the prices they pay to VNJ for the "wholesale" services the CLECs then furnish to their retail customers. Absent

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119. I believe and recommend that such "warm transfers" to nonregulated Verizon affiliates of inbound calls placed to VNJ be strictly prohibited, together with all other aspects of such "joint marketing" of monopoly and competitive services. Nevertheless, if VNJ is allowed to engage in these kinds of activities, VNJ should be compensated by the affiliates for the full market value of such referrals, with such compensation being flowed through to VNJ monopoly service ratepayers (including IXC and CLEC customers of access services and UNEs) as exogenous cost changes in accordance with the price cap rate adjustment mechanism, or through some other means.

the type of accounting safeguards envisioned by the Pennsylvania PUC, Verizon's retail operations confront no comparable disciplines or constraints.

105. We really don't have any experience with the type of "functional" or "virtual" structural separation that the Pennsylvania PUC has adopted. Existing accounting rules, structures and practices in use by VNJ are simply not designed to capture the kinds of intra-company transactions that would produce a parity condition relative to the *cash transactions* that surround *all* transactions between VNJ and nonaffiliated CLECs. Some of these problems might be addressed through a code of conduct (for example, by preventing a retail customer service representative from calling her friend in the Outside Plant department to clear up a problem, requiring instead that the same formal processes to which CLECs are subjected be utilized), but many transfers of value will likely go unrecorded and unrecognized. The effect of such unrecorded transfers is, of course, a *de facto* cross-subsidy for the benefit of VNJ's retail operations, a benefit that would be unavailable to nonaffiliated CLECs. Even with respect to recorded transactions, the Board will need assurance that these are fair and cost-based, and are not being "rigged" so as to create an excessive "price" for sales of services to nonaffiliated CLECs.

106. Moreover, if a less-than-formal structural separation approach is adopted by the Board, it is nevertheless critical that CLECs be afforded equal and nondiscriminatory access to the same resources, in the same manner, and in the same time frame as VNJ provides to its own retail operation. It is unreasonable to expect competition to succeed if VNJ persists in

treating its competitors as mere retail customers who happen to be purchasing relatively large quantities of services and/or certain services (UNEs) that *end user* retail customers normally don't. Functional/structural separation must financially track all transactions between VNJ's retail and wholesale divisions just as would be the case for transactions between VNJ and nonaffiliated competitors. And VNJ's retail division must not be afforded "back door" access to the Company's network systems and functions while nonaffiliated competitors are forced to "wait in line" at the "customer service counter." If the Board can accomplish these goals through functional/structural separation, the goal of achieving a competitive local telecommunications market in New Jersey may yet materialize. But, as the Pennsylvania Commission has itself recognized,[120] functional/structural separation under which Verizon is permitted to operate its network (wholesale) and retail activities under the same corporate umbrella will necessarily require far more regulatory oversight than would be necessary under formal structural separation. Strengthening the Code of Conduct to capture these additional requirements and safeguards thus becomes a critically important step.

107. I recommend that the Board focus upon *objectives* rather than on *process*, that it pursue a solution that will best achieve the overarching goal of establishing an effectively competitive local telecommunications market in New Jersey. If the Board determines that it can realize this goal through something short of formal structural separation of VNJ's wholesale and retail business units *and is prepared to accept the additional regulatory burdens and responsibilities that this approach will necessarily entail*, the Board could

120. Pennsylvania PUC *Global Order*, at 231.

certainly attempt to proceed in this manner. However, in so doing the Board should put VNJ on notice that it will expect nothing less than the same market outcome that would arise under formal structural separation, and that if this does not materialize within a set time frame (certainly not longer than twelve months from the date of the Board's Order), formal structural separation will follow.

108. The Board should consider applying a code of conduct similar to that promulgated pursuant to EDECA, and which I cited earlier at paragraph 93. The same potential for abuses of market power by the incumbent utility, as recognized in the *Electric Discount and Energy Competition Act*, are even more likely to arise in the local and long distance telecommunications market once Verizon is allowed to offer long distance service to its New Jersey customers. If the FCC grants Verizon NJ Section 271 authority, the Board should adopt and enforce limitations such as those imposed by EDECA on energy companies. Adoption by the Board of a more stringent code of conduct applicable to the VNJ/VLD provision of *intrastate* interLATA services would not be in conflict with the joint marketing that is permitted under the Act.

Conclusion

109. In considering the Verizon New Jersey Section 271 Application and in making its consultative recommendation to the FCC, the Board should recognize that the failure of meaningful and effective competition to develop in the New Jersey local services market despite years of regulatory attention and billions of dollars of investment may well be due

largely to the insurmountable barriers that perpetuation of the existing integrated Verizon New Jersey have created. Whatever solution the Board may ultimately adopt with respect to structural separation, code of conduct, or other remedial measures, it should keep the overarching goal of a competitive local telecommunications market squarely at the center of its policy focus.

110. Given the persistently slow pace at which local competition in New Jersey has been able to develop under the existing *integrated* operation of Verizon New Jersey, together with the enormous marketing advantages that Verizon New Jersey and Verizon Long Distance will acquire in selling its long distance services to what are essentially captive residential and small business subscribers, allowing Verizon New Jersey into the long distance market at this time is decidedly inconsistent with the public interest. Verizon New Jersey can and, as the experience in New York amply confirms, will use its dominance of the local market to preemptively sell its long distance services to inbound customers, and even with minimal marketing and advertising generally can be expected to rapidly increase its share of the New Jersey long distance market to the point of substantial market dominance. Rather than increasing competition in long distance services as the Company contends will arise as a result of its entry, market concentration will grow, competition will suffer, and prices to consumers will inevitably rise.

Before the

STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES

In the Matter of the Application of Verizon New Jersey, Inc. for FCC Authorization to Provide In-Region, InterLATA Service in New Jersey	Docket No. TO01090541

COMMONWEALTH OF MASSACHUSETTS)
) ss.
COUNTY OF SUFFOLK)

AFFIDAVIT OF LEE L. SELWYN

LEE L. SELWYN, of lawful age, certifies as follows:

1. I am President of Economics and Technology (ETI), Two Center Plaza, Suite 400, Boston, Massachusetts 02108. I am authorized to verify the statements contained in the foregoing Declaration, prepared on behalf of the Division of Ratepayer Advocate.

2. The foregoing Declaration was prepared based upon my review of the testimony being proffered by Verizon New Jersey ("VNJ" or "Company") in support of its Application for authority, pursuant to Section 271 of the *Telecommunications Act of 1996* ("TA96" or "Act"), to enter the in-region long distance market in New Jersey, and various other pertinent documents. The statements made in the foregoing Declaration are true and correct to the best of my knowledge, information and belief.

3. In the event that additional responses to interrogatories propounded to Verizon NJ become available, I am reserving the right to file supplemental testimony, should that be required.

I certify that the foregoing statements made by me are true to the best of my knowledge, information and belief. I am aware that if any of the foregoing statements made by me are willfully false, I am subject to punishment.

Lee L. Selwyn

Subscribed and sworn to before me this 22nd day of October, 2001.

Ellen B Wasserman
Notary Public

My commission expires 3/31/06.

NOTARY PUBLIC ELLEN B. WASSERMAN

Attachment 1:

Statement of Qualifications

DR. LEE L. SELWYN

Dr. Lee L. Selwyn has been actively involved in the telecommunications field for more than twenty-five years, and is an internationally recognized authority on telecommunications regulation, economics and public policy. Dr. Selwyn founded the firm of Economics and Technology, Inc. in 1972, and has served as its President since that date. He received his Ph.D. degree from the Alfred P. Sloan School of Management at the Massachusetts Institute of Technology. He also holds a Master of Science degree in Industrial Management from MIT and a Bachelor of Arts degree with honors in Economics from Queens College of the City University of New York.

Dr. Selwyn has testified as an expert on rate design, service cost analysis, form of regulation, and other telecommunications policy issues in telecommunications regulatory proceedings before some forty state commissions, the Federal Communications Commission and the Canadian Radio-television and Telecommunications Commission, among others. He has appeared as a witness on behalf of commercial organizations, non-profit institutions, as well as local, state and federal government authorities responsible for telecommunications regulation and consumer advocacy.

He has served or is now serving as a consultant to numerous state utilities commissions including those in Arizona, Minnesota, Kansas, Kentucky, the District of Columbia, Connecticut, California, Delaware, Maine, Massachusetts, New Hampshire, Vermont, New Mexico, Wisconsin and Washington State, the Office of Telecommunications Policy (Executive Office of the President), the National Telecommunications and Information Administration, the Federal Communications Commission, the Canadian Radio-television and Telecommunications Commission, the United Kingdom Office of Telecommunications, and the Secretaria de Comunicaciones y Transportes of the Republic of Mexico. He has also served as an advisor on telecommunications regulatory matters to the International Communications Association and the Ad Hoc Telecommunications Users Committee, as well as to a number of major corporate telecommunications users, information services providers, paging and cellular carriers, and specialized access services carriers.

Dr. Selwyn has presented testimony as an invited witness before the U.S. House of Representatives Subcommittee on Telecommunications, Consumer Protection and Finance and before the U.S. Senate Judiciary Committee, on subjects dealing with restructuring and deregulation of portions of the telecommunications industry.

In 1970, he was awarded a Post-Doctoral Research Grant in Public Utility Economics under a program sponsored by the American Telephone and Telegraph Company, to conduct research on the economic effects of telephone rate structures upon the computer time sharing industry. This work was conducted at Harvard University's Program on Technology and Society, where he was appointed as a Research Associate. Dr. Selwyn was also a member of the faculty at the College of Business Administration at Boston University from 1968 until 1973, where he taught courses in economics, finance and management information systems.

Dr. Selwyn has published numerous papers and articles in professional and trade journals on the subject of telecommunications service regulation, cost methodology, rate design and pricing policy. These have included:

"Taxes, Corporate Financial Policy and Return to Investors"
National Tax Journal, Vol. XX, No.4, December 1967.

"Pricing Telephone Terminal Equipment Under Competition"
Public Utilities Fortnightly, December 8, 1977.

"Deregulation, Competition, and Regulatory Responsibility in the Telecommunications Industry"
Presented at the 1979 Rate Symposium on Problems of Regulated Industries - Sponsored by: The American University, Foster Associates, Inc., Missouri Public Service Commission, University of Missouri-Columbia, Kansas City, MO, February 11 - 14, 1979.

"Sifting Out the Economic Costs of Terminal Equipment Services"
Telephone Engineer and Management, October 15, 1979.

"Usage-Sensitive Pricing" (with G. F. Borton)
(a three part series)
Telephony, January 7, 28, February 11, 1980.

"Perspectives on Usage-Sensitive Pricing"
Public Utilities Fortnightly, May 7, 1981.

"Diversification, Deregulation, and Increased Uncertainty in the Public Utility Industries"
Comments Presented at the Thirteenth Annual Conference of the Institute of Public Utilities, Williamsburg, VA - December 14 - 16, 1981.

"Local Telephone Pricing: Is There a Better Way?; The Costs of LMS Exceed its Benefits: a Report on Recent U.S. Experience."
Proceedings of a conference held at Montreal, Quebec - Sponsored by Canadian Radio-Television and Telecommunications Commission and The Centre for the Study of Regulated Industries, McGill University, May 2 - 4, 1984.

"Long-Run Regulation of AT&T: A Key Element of A Competitive Telecommunications Policy"
Telematics, August 1984.

"Is Equal Access an Adequate Justification for Removing Restrictions on BOC Diversification?"
Presented at the Institute of Public Utilities Eighteenth Annual Conference, Williamsburg, VA - December 8 - 10, 1986.

"Market Power and Competition Under an Equal Access Environment"
Presented at the Sixteenth Annual Conference, "Impact of Deregulation and Market Forces on Public Utilities: The Future Role of Regulation" Institute of Public Utilities, Michigan State University, Williamsburg, VA - December 3 - 5, 1987.

"Contestable Markets: Theory vs. Fact"
Presented at the Conference on Current Issues in Telephone Regulations: Dominance and Cost Allocation in Interexchange Markets - Center for Legal and Regulatory Studies Department of Management Science and Information Systems - Graduate School of Business, University of Texas at Austin, October 5, 1987.

"The Sources and Exercise of Market Power in the Market for Interexchange Telecommunications Services"
Presented at the Nineteenth Annual Conference - "Alternatives to Traditional Regulation: Options for Reform" - Institute of Public Utilities, Michigan State University, Williamsburg, VA, December, 1987.

"Assessing Market Power and Competition in The Telecommunications Industry: Toward an Empirical Foundation for Regulatory Reform"
Federal Communications Law Journal, Vol. 40 Num. 2, April 1988.

"A Perspective on Price Caps as a Substitute for Traditional Revenue Requirements Regulation"
Presented at the Twentieth Annual Conference - "New Regulatory Concepts, Issues and Controversies" - Institute of Public Utilities, Michigan State University, Williamsburg, VA, December, 1988.

"The Sustainability of Competition in Light of New Technologies" (with D. N. Townsend and P. D. Kravtin)
Presented at the Twentieth Annual Conference - Institute of Public Utilities Michigan State University, Williamsburg, VA, December, 1988.

"Adapting Telecom Regulation to Industry Change: Promoting Development Without Compromising Ratepayer Protection" (with S. C. Lundquist)
IEEE Communications Magazine, January, 1989.

"The Role of Cost Based Pricing of Telecommunications Services in the Age of Technology and Competition"
Presented at National Regulatory Research Institute Conference, Seattle, July 20, 1990.

"A Public Good/Private Good Framework for Identifying POTS Objectives for the Public Switched Network" (with Patricia D. Kravtin and Paul S. Keller)
Columbus, Ohio: *National Regulatory Research Institute*, September 1991.

"Telecommunications Regulation and Infrastructure Development: Alternative Models for the Public/Private Partnership"
Prepared for the Economic Symposium of the International Telecommunications Union Europe Telecom '92 Conference, Budapest, Hungary, October 15, 1992.

"Efficient Infrastructure Development and the Local Telephone Company's Role in Competitive Industry Environment" *Presented at the Twenty-Fourth Annual Conference, Institute of Public Utilities, Graduate School of Business, Michigan State University, "Shifting Boundaries between Regulation and Competition in Telecommunications and Energy"*, Williamsburg, VA, December 1992.

"Measurement of Telecommunications Productivity: Methods, Applications and Limitations" (with Françoise M. Clottes)
Presented at Organisation for Economic Cooperation and Development, Working Party on Telecommunication and Information Services Policies, '93 Conference "Defining Performance Indicators for Competitive Telecommunications Markets", Paris, France, February 8-9, 1993.

"Telecommunications Investment and Economic Development: Achieving efficiency and balance among competing public policy and stakeholder interests"
Presented at the 105th Annual Convention and Regulatory Symposium, National Association of Regulatory Utility Commissioners, New York, November 18, 1993.

"The Potential for Competition in the Market for Local Telephone Services" (with David N. Townsend and Paul S. Keller)
Presented at the Organization for Economic Cooperation and Development Workshop on Telecommunication Infrastructure Competition, December 6-7, 1993.

"Market Failure in Open Telecommunications Networks: Defining the new natural monopoly," *Utilities Policy*, Vol. 4, No. 1, January 1994.

The Enduring Local Bottleneck: Monopoly Power and the Local Exchange Carriers, (with Susan M. Gately, et al) a report prepared by ETI and Hatfield Associates, Inc. for AT&T, MCI and CompTel, February 1994.

Commercially Feasible Resale of Local Telecommunications Services: An Essential Step in the Transition to Effective Local Competition, (Susan M. Gately, et al) a report prepared by ETI for AT&T, July 1995.

"Efficient Public Investment in Telecommunications Infrastructure" *Land Economics*, Vol 71, No.3, August 1995.

Funding Universal Service: Maximizing Penetration and Efficiency in a Competitive Local Service Environment, Lee L. Selwyn with Susan M. Baldwin, under the direction of Donald Shepheard, A Time Warner Communications Policy White Paper, September 1995.

Stranded Investment and the New Regulatory Bargain, Lee L. Selwyn with Susan M. Baldwin, under the direction of Donald Shepheard, A Time Warner Communications Policy White Paper, September 1995

"Market Failure in Open Telecommunications Networks: Defining the new natural monopoly," in *Networks, Infrastructure, and the New Task for Regulation*, by Werner Sichel and Donal L. Alexander, eds., University of Michigan Press, 1996.

Establishing Effective Local Exchange Competition: A Recommended Approach Based Upon an Analysis of the United States Experience, Lee L. Selwyn, paper prepared for the Canadian Cable Television Association and filed as evidence in Telecom Public Notice CRTC 95-96, Local Interconnection and Network Component, January 26, 1996.

The Cost of Universal Service, A Critical Assessment of the Benchmark Cost Model, Susan M. Baldwin with Lee L. Selwyn, a report prepared by Economics and Technology, Inc. on behalf of the National Cable Television Association and submitted with Comments in FCC Docket No. CC-96-45, April 1996.

Economic Considerations in the Evaluation of Alternative Digital Television Proposals, Lee L. Selwyn (as Economic Consultant), paper prepared for the Computer Industry Coalition on Advanced Television Service, filed with comments in FCC MM Docket No. 87-268, In the Matter of Advanced

Television Systems and Their Impact Upon the Existing Television Broadcast Service, July 11, 1996.

Assessing Incumbent LEC Claims to Special Revenue Recovery Mechanisms: Revenue opportunities, market assessments, and further empirical analysis of the "Gap" between embedded and forward-looking costs, Patricia D. Kravtin and Lee L. Selwyn, In the Matter of Access Charge Reform, in CC Docket No. 96-262, January 29, 1997.

The Use of Forward-Looking Economic Cost Proxy Models, Susan M. Baldwin and Lee L. Selwyn, Economics and Technology, Inc., February 1997.

The Effect of Internet Use On The Nation's Telephone Network, Lee L. Selwyn and Joseph W. Laszlo, a report prepared for the Internet Access Coalition, July 22, 1997.

Regulatory Treatment of ILEC Operations Support Systems Costs, Lee L. Selwyn, Economics and Technology, Inc., September 1997.

The "Connecticut Experience" with Telecommunications Competition: A Case in Getting it Wrong, Lee L. Selwyn, Helen E. Golding and Susan M. Gately, Economics and Technology, Inc., February 1998.

Where Have All The Numbers Gone?: Long-term Area Code Relief Policies and the Need for Short-term Reform, prepared by Economics and Technology, Inc. for the Ad Hoc Telecommunications Users Committee, International Communications Association, March 1998.

Broken Promises: A Review of Bell Atlantic-Pennsylvania's Performance Under Chapter 30, Lee L. Selwyn, Sonia N. Jorge and Patricia D. Kravtin, Economics and Technology, Inc., June 1998.

Building A Broadband America: The Competitive Keys to the Future of the Internet, Lee L. Selwyn, Patricia D. Kravtin and Scott A. Coleman, a report prepared for the Competitive Broadband Coalition, May 1999.

Bringing Broadband to Rural America: Investment and Innovation In the Wake of the Telecom Act, Lee L. Selwyn, Scott C. Lundquist and Scott A. Coleman, a report prepared for the Competitive Broadband Coalition, September 1999.

Dr. Selwyn has been an invited speaker at numerous seminars and conferences on telecommunications regulation and policy, including meetings and workshops sponsored by the National Telecommunications and Information Administration, the National Association of

Regulatory Utility Commissioners, the U.S. General Services Administration, the Institute of Public Utilities at Michigan State University, the National Regulatory Research Institute at Ohio State University, the Harvard University Program on Information Resources Policy, the Columbia University Institute for Tele-Information, the International Communications Association, the Tele-Communications Association, the Western Conference of Public Service Commissioners, at the New England, Mid-America, Southern and Western regional PUC/PSC conferences, as well as at numerous conferences and workshops sponsored by individual regulatory agencies.

Attachment 2:

Verizon New Jersey responses to Data Requests Referred to in this Declaration

Verizon NJ response to RPA-26
Verizon NJ response to RPA-27
Verizon NJ response to RPA-71
Verizon NJ response to RPA-72
Verizon NJ response to RPA-73
Verizon NJ response to RPA-74

REQUEST: Attachment 101 footnote 3 states, "each E911 subscriber listing necessarily represents one customer access line, but may represent more than a single line."

a. Who is responsible for maintaining the E911 database?

b. Define "lines" as used in the context of this footnote.

c. Provide the total number of "lines" from all sources that are included in the E911 database, and indicate the quantity of "lines" associated with each source.

d. Provide the documents or other source materials used by the witness to determine CLEC practices for entering DID numbers into the E911 database.
   i. Do CLECs include all numbers in a DID number block assigned to a customer?
   ii. Do CLECs include CLEC numbers "ported" back to Verizon NJ (and which retain the CLEC's NXX code)?

e. Paragraph 8 states, "Based on E911 listing, competitors are serving at least 280 residential lines using their own facilities."
   i. Identify and provide the number of CLECs serving residential lines using their own facilities.
   ii. Identify and provide the number of CLECs serving residential customers using UNE platforms. Provide a breakout for of this figure by type of UNE employed by the CLEC.
   iii. Explain the discrepancy between the number of facilities based residential CLEC access lines as stated in paragraph 8 (280) and the number of residential directory listing found in Table 2 of Attachment 101 (380).
   iv. Provide all source data used or relied upon by Verizon New Jersey to develop the E911-based figures provided in Mr. Bone's declaration.

f. Paragraph 9 states, "The quantity of numbers ported using long-term number portability has increased from about 12,300 at the end of 1998 to approximately 224,700 as of June 2001." Provide:

i. The quantity of numbers ported from Verizon NJ to CLECs by month from the end of 1998.

ii. The quantity of numbers ported from CLECs to Verizon NJ by month from the end of 1998.?

RESPONSE:

a. Verizon NJ maintains the E911 database.
b. Exchange access lines
c. As explained in footnote 3 of Attachment 101 of Mr. Bone's declaration, Verizon NJ cannot determine the total number of lines represented by the number of E911 listings. As of end of June 2001, there were a total of approximately 7,186,000 Verizon NJ retail listings, 195,200 Verizon NJ listings for CLEC resale and unbundled switching customers, and 288,000 listings for CLEC facility-based customers listings in the E911 database.
d. Verizon NJ has made no determination of CLEC practices for entering DID numbers into the E911 database. Verizon NJ does not know whether CLECs include in their E-911 listings all numbers in a DID number block assigned to a customer. CLECs do not include in their E911 listings the CLEC numbers that have been ported back to Verizon NJ.
e.

1. Verizon NJ objects to this request to the extent that it seeks CLEC-specific data which is customer proprietary to each CLEC. Subject to this objection, Verizon NJ responds as follows: Based on E911 listings, the following 8 CLECs are serving residential customers using their own facilities.

[BEGIN CLEC PROPRIETARY]

[END CLEC PROPRIETARY]

ii. Verizon NJ objects to this request to the extent that it seeks CLEC-specific data which is customer proprietary to each CLEC. Subject to this objection, Verizon NJ responds as follows: The following 10 CLECs are serving residential customers using UNE-Platform.

[BEGIN CLEC PROPRIETARY]

[END CLEC PROPRIETARY]

iii. The number of facilities based residential CLEC access lines is based on CLEC listings in the E911 database, which is different from the count of residential facilities based directory listings. Any discrepency is due to the listings provided by the CLECs.

iv. Verizon NJ objects to this request to the extent that it seeks CLEC-specific data which is customer proprietary to each CLEC; and on the grounds that it is unduly burdensome and is not reasonably designed to lead to the discovery of relevant evidence. Subject to this objection, Verizon NJ responds as follows: See Verizon NJ's responses to Ratepayer Advocate requests # 17 and 20.

f.

(i) Please see Attachment RPA-26iatt.doc

(ii) Please see Attachment RPA-26iiatt.doc

Attachment RPA-26iatt.doc

26.f.i: TNs Ported from Verizon NJ to CLECs

TNs Ported to CLECs

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1998							112	2140	3184	9219	11342	12279
1999	14124	17161	20182	23595	26197	30524	33575	36711	39654	47588	57248	72935
2000	76163	79871	82711	87269	92294	105503	107631	112913	114389	120204	132758	139946
2001	160843	165407	184032	191665	211570	224737	235548					

Attachment RPA-26iiatt.doc

26.f.ii: TNs ported from CLECs to Verizon NJ

TNs Ported In to Verizon

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1998												0
1999	0	2	17	17	22	23	24	25	23	24	25	1025
2000	1085	1785	1785	1785	1786	1796	1795	1800	1800	1808	1829	1852
2001	1878	1878	2032	2049	2076	2462	4498					

VERIZON NEW JERSEY INC.
BPU DOCKET NO. TO01090541
RATEPAYER ADVOCATE REQUEST #27
WITNESS: VERIZON NEW JERSEY INC.

REQUEST: Regarding the Declaration of Dennis M. Bone:

a. Paragraph 6 states "CLECs have more than 1,000 existing completed collocation arrangements and 90 collocation arrangements in progress:

i. Provide the total number of completed collocation arrangements cited in paragraph 6 with Verizon NJ collocation accounts currently in arrears.
ii. Designate the number of these accounts belonging to companies currently operating under Chapter 11 or under any other form of bankruptcy or receivership.
iii. Indicate the number of pending disconnect orders for collocation arrangements.
iv. Indicate the number of collocation arrangements with disconnect orders that are currently in arrears.

b. Regarding paragraph 6, "CLECs have obtained approximately 1,300 NXX codes in New Jersey, representing a total of about 13 million telephone numbers." Indicate the total number of telephone numbers from these NXX codes that are associated with actual CLEC retail customers through June 2001.

RESPONSE: a)

i. Currently there are 232 collocation arrangements that are at least 30 days in arrears.
ii. There are 9 companies that have filed for bankruptcy or some form of receivership and also have accounts in the arrears
iii. There are 391 pending disconnects.
iv. None of the pending disconnect orders are currently in arrears.

b) Verizon NJ does not have this information. It is known to the CLECs.

VERIZON NEW JERSEY INC.
BPU DOCKET NO. TO01090541
RATEPAYER ADVOCATE REQUEST #71
WITNESS: VERIZON NEW JERSEY INC.

REQUEST: Please provide the following information:

a. Documents, correspondence, memoranda, business plans, marketing plans, forecasts, sales targets, and any and all other written materials including electronic as well as conventional paper correspondence and documents pertaining to the sales and marketing activities expected to be carried out jointly between Verizon NJ and Verizon Long Distance and/or by Verizon NJ on behalf of or for the benefit of Verizon Long Distance with respect to the acquisition of residential and small business customers following receipt of FCC authorization to provide interLATA services in New Jersey.

b. The number, or an estimate of this number if an actual is not available, of incoming calls received by all Verizon New Jersey customer service functions (including but not limited to customer service, billing, and repair representatives) from its customers during the calendar years 1999, 2000, and an estimated number for 2001.

c. The estimated percentage of Verizon NJ customers that will be obtained via Verizon NJ through joint marketing of local and long distance service, in the first and fifth years after Verizon Long Distance is authorized to provide long distance service in New Jersey.

d. The number of Verizon Long Distance customer service representatives employed by Verizon Long Distance on January 1, 2001 and the number of customer service representatives planned to be employed when Verizon Long Distance is authorized to provide long distance service in New Jersey and provide planning materials relied on to arrive at the budged headcount.

e. Describe and provide all materials used for training Verizon NJ customer service representatives to handle Verizon Long Distance service inquiries and orders for long distance service.

f. Describe and provide all documents pertaining to the manner in which the costs of Verizon NJ's participation in joint marketing with Verizon Long Distance will be identified and allocated to Verizon Long Distance. Indicate specifically how such costs are to be tracked, how common overhead costs will be allocated, and the specific accounting transactions or payment mechanisms that will be used to compensate Verizon NJ for any and all sales, marketing or other services it furnishes to Verizon Long Distance.

g. The compensation to be paid to Verizon NJ for each sale of Verizon Long Distance service by a Verizon representative.

h. The compensation to be paid to a Verizon NJ representative for each sale of Verizon Long Distance service by that representative. Please specify whether the compensation received by an individual representatives will in the form of money, other goods and services, or other in-kind compensation.

i. Explain how the sales of Verizon Long Distance services by Verizon NJ representatives will be monitored and tabulated by Verizon NJ, and how individual Verizon NJ representative's sales of Verizon Long Distance services will be monitored for compensation purposes.

RESPONSE: Verizon NJ objects to this request (and all subparts) on the ground that it is not relevant to this proceeding or reasonably calculated to lead to the discovery of information relevant to the Board's consideration of Verizon's 271 Checklist Compliance in New Jersey. Verizon further objects on the grounds that this request is overly broad and unduly burdensome. Notwithstanding its objections, Verizon states that much of the information requested in this interrogatory has not yet been prepared or determined for the New Jersey LD market.

VERIZON NEW JERSEY INC.
BPU DOCKET NO. TO01090541
RATEPAYER ADVOCATE REQUEST #72
WITNESS: VERIZON NEW JERSEY INC.

REQUEST: Provide the same information as requested in item (5) for Verizon New York and Verizon Massachusetts following those affiliates' respective entry into the in-region interLATA long distance market pursuant to Section 271 approval by the FCC.

RESPONSE: Verizon NJ objects to this request on the ground that it is not relevant to this proceeding or reasonably calculated to lead to the discovery of information relevant to the Board's consideration of Verizon's 271 Checklist Compliance in New Jersey. Verizon further objects on the grounds that this request is overly broad and unduly burdensome.

VERIZON NEW JERSEY INC.
BPU DOCKET NO. TO01090541
RATEPAYER ADVOCATE REQUEST #73
WITNESS: VERIZON NEW JERSEY INC.

REQUEST: Provide copies of all marketing scripts, both draft and final, that Verizon NJ representatives will use to jointly market Verizon Long Distance services. For each script, identify the customer category for which it will be used. For purposes of example only and not to limit the response to these categories, this would include scripts for (i) marketing to new customers calling to subscribe to local exchange service, (ii) marketing to existing customers calling to change or add a service, (iii) marketing to existing customers calling to change their long distance service, (iv) marketing to existing customers calling with service or billing inquiries, or (v) marketing to customers calling with a service trouble report or inquiry.

RESPONSE: Verizon NJ objects to this request (and all subparts) on the ground that it is not relevant to this proceeding or reasonably calculated to lead to the discovery of information relevant to the Board's consideration of Verizon's 271 Checklist Compliance in New Jersey. Verizon further objects on the grounds that this request is overly broad and unduly burdensome. Notwithstanding its objections, Verizon states that much of the information requested in this interrogatory has not yet been prepared or determined for the New Jersey LD market.

VERIZON NEW JERSEY INC.
BPU DOCKET NO. TO01090541
RATEPAYER ADVOCATE REQUEST #74
WITNESS: VERIZON NEW JERSEY INC.

REQUEST: Provide copies of all written materials (including materials published on a website) that Verizon will make available to callers in response to any inquiry regarding long distance service and identify the individuals, including their title and company, that supervised the creation of the written materials and the company, Verizon, Verizon NJ, or Verizon Long Distance that paid for the production of the written materials.

RESPONSE: Verizon NJ objects to this request on the ground that it is not relevant to this proceeding or reasonably calculated to lead to the discovery of information relevant to the Board's consideration of Verizon's 271 Checklist Compliance in New Jersey. Verizon further objects on the grounds that this request is overly broad and unduly burdensome. Notwithstanding its objections, Verizon states that much of the information requested in this interrogatory has not yet been prepared or determined for the New Jersey LD market.

Attachment 3:

Verizon Long Distance
Marketing and Sales Agreements
with Verizon New Jersey
and other Verizon BOC and former GTE Affiliates

Verizon Long Distance

Agreement Details:

Title: Marketing and Sales Agreement (NY)

Effective Date: 12/22/99

Provided by: New York Telephone Company (BA-NY)

Provided to: Bell Atlantic Communications, Inc. (BACI)

Details:
None

Terms and Conditions:
Under the terms of this agreement, New York Telephone Company will provide sales, ordering, customer inquiry, customer care, training, verification, and other related services in connection with marketing of BACI long distance services.

Renewal Clause:
Yes

Special Equipment:
None

Rates/Transaction Frequency/OTC* Resources:
*Operating Telephone Company
When used below, the term "TBD" means to be developed. The parties will agree upon TBD rates in writing and New York Telephone will not provide services subject to such rates before written agreements for such rates are signed by the parties.

1. Sales, Ordering and Customer Inquiry Service

	BA-NY
Employees/ Title	Consumer Service Center
Number of OTC	0-3,600
~~Rate~~	~~$9.23 per contact~~
Pricing Criterion*	FDC**
Frequency of	Daily

	BA-NY
Employees/ Title	Consumer Service Center Sales Support
Number of OTC	0-300
~~Rate~~	~~$9.23 per contact~~
Pricing Criterion*	FDC**
Frequency of	Daily

~~2. General Inquiry and Post Sales Support Service~~

Pricing Criterion*	FDC**
Frequency of Transaction	Daily

3. Other Services and Functions:
3A. Customer Correspondence

	BA-NY
Employees/ Title	Consumer Service Center Sales Support and Order Correction Clerks
Number of OTC Employees	0-300
Rate	$28.95 per correspondence
Pricing Criterion*	FDC**
Frequency of Transaction	Daily

3B. Methods and Procedures and Associated Training Development

	BA-NY
Employees/ Title	Consumer Sales & Service Specialist
Number of OTC Employees	NA
Rate	$113.63 per hour
Pricing Criterion*	FDC**
Frequency of Transaction	Occasionally

	BA-NY
Services	OTC Vendor production, material, supplies, and distribution expenses
Number of OTC Employees	NA
Rate	Actual OTC vendor cost incurred
Pricing Criterion*	Actual OTC vendor cost incurred
Frequency of Transaction	Occasionally

3C. Ongoing Training of Bell Atlantic Personnel

	BA-NY
Employees/ Title	Consumer Service Center Representatives
Number of OTC Employees	0-3,600
Rate	$70.06 per hour (pro-rated in 15 minute increments after 1 hour)
Pricing Criterion*	FDC**
Frequency of Transaction	Occasionally

	BA-NY
Employees/ Title	Consumer Service Center Sales Support and Order Correction Clerks
Number of OTC Employees	0 - 300
Rate	$77.76 per hour (pro-rated in 15 minute increments after 1 hour)
Pricing Criterion*	FDC**
Frequency of Transaction	Occasionally

	BA-NY
Employees/ Title	Consumer Service Center Assistant Manager
Number of OTC Employees	0 - 300
Rate	$78.24 per hour (pro-rated in 15 minute increments after 1 hour)
Pricing Criterion*	FDC**
Frequency of Transaction	Occasionally

3D. BACI-Channel Service Order Error Correction

	BA-NY
Employees/ Title	TBD
Number of OTC Employees	TBD
Rate	TBD
Pricing Criterion*	TBD
Frequency of Transaction	TBD

4. Third Party Verification

	BA-NY
Service/	Third Party Verification/ Consumer
Number of OTC	0-3,600
Rate	$5.93 per transaction
Pricing Criterion*	FDC**
Frequency of	Daily

5. Miscellaneous Expenses: BACI will pay Bell Atlantic all miscellaneous expenses incurred by Bell Atlantic in the provision of services in accordance with the Agreement

Pricing Criterion*	Actual expenses incurred
Frequency of Transaction	Occasionally

* Services are provided at the higher of the estimated fair market value (EFMV) and Fully Distributed Cost (FDC).
** FDC rates are fully loaded rates, which include the cost of materials and all direct and indirect miscellaneous and overhead costs.

Original Contract
Amendment 1 to Marketing and Sales Agreement (NY)
Amendment 2 to Marketing and Sales Agreement (NY)
Amendment 3 to Marketing and Sales Agreement (NY)
Amendment 4 to Marketing and Sales Agreement (NY)
Amendment 5 to Marketing and Sales Agreement (NY)
Amendment 6 to Marketing and Sales Agreement (NY)
Amendment 7 to Marketing and Sales Agreement (NY)
Amendment 8 to Marketing and Sales Agreement (NY)
Amendment 9 to Marketing and Sales Agreement (NY)
Amendment 10 to Marketing and Sales Agreement (NY)
Amendment 11 to Marketing and Sales Agreement (NY)
Amendment 12 to Marketing and Sales Agreement (NY)
Amendment 13 to Marketing and Sales Agreement (NY)
Amendment 14 to Marketing and Sales Agreement (NY)
Amendment 15 to Marketing and Sales Agreement (NY)
Amendment 16 to Marketing and Sales Agreement (NY)
Amendment 17 to Marketing and Sales Agreement (NY)
Amendment 18 to Marketing and Sales Agreement (NY)
Amendment 19 to Marketing and Sales Agreement (NY)
Amendment 20 to Marketing and Sales Agreement (NY)
Amendment 21 to Marketing and Sales Agreement (NY)
Amendment 22 to Marketing and Sales Agreement (NY)
Amendment 23 to Marketing and Sales Agreement (NY)
Amendment 24 to Marketing and Sales Agreement (NY)
Amendment 25 to Marketing and Sales Agreement (NY)
Amendment 26 to Marketing and Sales Agreement (NY)
Amendment 27 - All Jurisdictions
Amendment 28 - All Jurisdictions
Amendment 29 - All Jurisdictions
Amendment 30 – All Jurisdictions
Amendment 31 – All Jurisdictions
Amendment 32 – All Jurisdictions
Amendment 33 – All Jurisdictions
Amendment 34 – All Jurisdictions

[Amendment 35]
[Amendment 36]

Contract period: 12/22/99 to 12/21/00

A copy of the written agreement is available for public inspection Monday through Friday (except for holidays) between the hours of 9 a.m. and 4 p.m., by appointment only at:

Bell Atlantic - New York
1095 Avenue of the Americas, 34th Floor
New York, NY 10036
Contact: John Clark
Telephone #: 212-395-5022

[**Return to Current Location in Affiliated Agreements**]

Long Distance service provided by Verizon Long Distance.

About Verizon Long Distance \ Regulatory Information & Postings
Affiliated Agreements

Verizon Long Distance

Agreement Details:

Title: Amendment No. 9 to Marketing and Sales Agreement - (NY)

Effective Date: 06/07/00

Provided by: New York Telephone Company, Inc.*

Provided to: Bell Atlantic Communications, Inc. (BACI)

Details:
*d/b/a Bell Atlantic-New York (BA-NY)

Terms and Conditions:
The parties hereby delete Appendix B, Compensation - Consumer, to the Agreement and substitute the attached revised Appendix B, Compensation - Consumer. Except as set forth in this Amendment, the Agreement remains unchanged and in full force and effect.

Renewal Clause:
Yes

Special Equipment:
None

Rates/Transaction Frequency/OTC* Resources:
*Operating Telephone Company
1. Sales, Ordering and Customer Inquiry Service: including sales negotiation, service orders, verification of product availability, sales order status inquiry, error correction for

orders initiated by Bell Atlantic, operational performance reports, sales retention attempts, and sales quality control observations in accordance with the Agreement.

	BA-NY
Employees/	Consumer Service Center
Number of OTC	0-3,600
Rate	$9.23 per contact
Basis for Rate	FDC
Frequency of	Daily

	BA-NY
Employees/	Consumer Service Center Sales Support
Number of OTC	0-300
Rate	$9.23 per contact
Basis for Rate	FDC
Frequency of	Daily

* FDC means fully distributed cost. Services provided at FDC rates are provided at the higher of the estimated fair market value (EFMV) and FDC. FDC rates are fully loaded rates, which include the cost of materials and all direct and indirect miscellaneous and overhead costs.

2. General Inquiry and Post Sales Support Service: including post sales product support and customer account maintenance, sales complaints and escalations, referrals of misdirected calls and error processing support in accordance with the Agreement.

Rate	$12.25 per contact
Basis for Rate	PMR
Frequency of Transaction	Daily

* PMR means prevailing market rate.

	BA-NY
Employees/ Title	Consumer Service Center Sales Support and Order Correction Clerks
Number of OTC Employees	0-300
Rate	$12.25 per contact
Basis for Rate	PMR
Frequency of Transaction	Daily

3. Other Services and Functions:
3A. Customer Correspondence: BELL ATLANTIC will process and respond to BACI customer correspondence in accordance with the Agreement.

	BA-NY
Employees/ Title	Consumer Service Center Sales Support and Order Correction Clerks
Number of OTC Employees	0-300
Rate	$28.95 per correspondence
Basis for Rate	PMR
Frequency of Transaction	Daily

3B. Methods and Procedures and Associated Training Development: BELL ATLANTIC will develop methods and procedures as described in Appendix A to the Agreement. BACI will pay the following rate plus all production, material, supply and distribution costs, and contract labor.

	BA-NY
Employees/	Consumer Sales & Service

Title	Specialist
Number of OTC Employees	NA
Rate	$113.63 per hour per employee
Basis for Rate	PMR
Frequency of Transaction	Occasionally

	BA-NY
Services	OTC Vendor production, material, supplies, and distribution expenses
Number of OTC Employees	NA
Rate	Actual OTC vendor cost incurred per employee
Basis for Rate	Actual OTC vendor cost incurred
Frequency of Transaction	Occasionally

3E. Ongoing Training of BELL ATLANTIC Personnel: Ongoing training on BACI products and services in accordance with the Agreement.

	BA-NY
Employees/ Title	Consumer Service Center Representatives
Number of OTC Employees	0-3,600
Rate	$70.06 per hour per employee (pro-rated in 15 minute increments after 1 hour)
Basis for Rate	PMR
Frequency of Transaction	Occasionally

	BA-NY
Employees/ Title	Consumer Service Center Sales Support and Order Correction Clerks
Number of OTC Employees	0-300
Rate	$77.76 per hour per employee (pro-rated in 15 minute increments after 1 hour)

Basis for Rate	PMR
Frequency of Transaction	Occasionally

	BA-NY
Employees/ Title	Consumer Service Center Assistant Manager
Number of OTC Employees	0-300
Rate	$78.24 per hour per employee (pro-rated in 15 minute increments after 1 hour)
Basis for Rate	PMR
Frequency of Transaction	Occasionally

3F. BACI-Channel Service Order Error Correction: BELL ATLANTIC will provide error processing support or direct error to location/interface for orders that are not initiated by BELL ATLANTIC in accordance with the Agreement.

	BA-NY
Employees/ Title	TBD
Number of OTC Employees	TBD
Rate	TBD
Basis for Rate	TBD
Frequency of Transaction	TBD

5. Miscellaneous Expenses: BACI will pay BELL ATLANTIC all miscellaneous expenses incurred by BELL ATLANTIC in the provision of services in accordance with the Agreement

	BA-NY
Services	Employee travel expense
Number of OTC Employees	NA
Rate	Actual expenses incurred
Basis for Rate	Actual expenses incurred
Frequency of Transaction	Occasionally

	BA-NY
Services	Employee meal expense
Number of OTC Employees	NA
Rate	Actual expenses incurred not to exceed $60/day /employee
Basis for Rate	Actual expenses incurred
Frequency of Transaction	Occasionally

	BA-NY
Services	Employee hotel expense
Number of OTC Employees	NA
Rate	Actual expenses incurred not to exceed $400/day /employee
Basis for Rate	Actual expenses incurred
Frequency of Transaction	Occasionally

Original Contract
Amendment 1 to Marketing and Sales Agreement (NY)
Amendment 2 to Marketing and Sales Agreement (NY)
Amendment 3 to Marketing and Sales Agreement (NY)
Amendment 4 to Marketing and Sales Agreement (NY)
Amendment 5 to Marketing and Sales Agreement (NY)
Amendment 6 to Marketing and Sales Agreement (NY)
Amendment 7 to Marketing and Sales Agreement (NY)
Amendment 8 to Marketing and Sales Agreement (NY)
Amendment 9 to Marketing and Sales Agreement (NY)
Amendment 10 to Marketing and Sales Agreement (NY)
Amendment 11 to Marketing and Sales Agreement (NY)
Amendment 12 to Marketing and Sales Agreement (NY)
Amendment 13 to Marketing and Sales Agreement (NY)
Amendment 14 to Marketing and Sales Agreement (NY)
Amendment 15 to Marketing and Sales Agreement (NY)
Amendment 16 to Marketing and Sales Agreement (NY)
Amendment 17 to Marketing and Sales Agreement (NY)
Amendment 18 to Marketing and Sales Agreement (NY)
Amendment 19 to Marketing and Sales Agreement (NY)

Contract period: 12/22/99 to 12/21/00

A copy of the written agreement is available for public inspection Monday through Friday (except for holidays) between the hours of 9 a.m. and 4 p.m., by appointment only at:

Bell Atlantic-New York, Inc. (BA-NY)
1095 Avenue of the Americas, 34th Floor
New York, NY 10036
Curtis Johnson
212-395-5022

[**Return to Current Location in Affiliated Agreements**]

Long Distance service provided by Verizon Long Distance.

Affiliated Agreements

Verizon Long Distance

Agreement Details:

Title: Amendment No. 15 to Marketing and Sales Agreement (NY)

Effective Date: 10/06/00

Provided by: Verizon New York Inc.

Provided to: Bell Atlantic Communications, Inc.*

Details:
*d/b/a Verizon Long Distance

Terms and Conditions:
This amendment revises terms for the provision of services and compensation for certain joint sales and marketing activities. Specifically the amendment states functions and rates for the following services to sell consumers long distance service on behalf of Verizon Long Distance: Sales, Ordering and Customer Inquiry Service; General Inquiry and Post Sales Support Service; and Other Services and Functions.

Renewal Clause:
Yes

Special Equipment:
None

Rates/Transaction Frequency/OTC* Resources:
*Operating Telephone Company
1. Sales, Ordering and Customer Inquiry Service: including sales negotiation, service orders, verification of product availability, sales order status inquiry, error correction for orders initiated by Verizon, operational performance reports, sales retention attempts, and sales quality control observations in accordance with the Agreement.

Employees/Title	Number of OTC Employees	Rate	Basis for Rate	Frequency of Transaction
Consumer Service Center Representatives	0-3600	$ 7.71 per contact	FDC	Daily

Consumer Service Center Sales Support and Order Correction Clerks	0-300	$ 7.71 per contact	FDC*	Daily

*FDC means fully distrubted cost.

2. **General Inquiry and Post Sales Support Service:** including post sales product support and customer account maintenance, sales complaints and escalations, referrals of misdirected calls and error processing support in accordance with the Agreement.

Employees/Title	Number of OTC Employees	Rate	Basis for Rate	Frequency of Transaction
Consumer Service Center Representatives	0-3600	$ 12.98 per contact	PMR**	Daily
Consumer Service Center Sales Support and Order Correction Clerks	0-300	$ 12.98 per contact	PMR	Daily

**PMR means prevailing market rate.

3. **Other Services and Functions:**
3A. Customer Correspondence: VERIZON will process and respond to BACI customer correspondence in accordance with the Agreement.

	VZ-NE
Employees/Title	Consumer Service Center Sales Support and Order Correction Clerks
Number of OTC Employees	0-300
Rate	$ 29.20 per correspondence
Basis for Rate	PMR
Frequency of Transaction	Daily

3B. Methods and Procedures and Associated Training Development: VERIZON will develop methods and procedures as described in Appendix A to the Agreement. BACI will pay the following rates plus all production, material, supply and distribution costs, and contract labor.

Employees/Title	Number of OTC Employees	Rate	Basis for Rate	Frequency of Transaction
Consumer Sales & Service Specialist	NA	$ 113.63 per hour per employee	PMR	Occasionally
OTC Vendor production, material,	NA	Actual OTC	Actual OTC	Occasionally

supplies, and distribution expenses		incurred	vendor cost incurred	

3C. Initial Training of VERIZON Incumbent Personnel: Initial training on BACI products and services and all other necessary instruction to sell to and service BACI customers in accordance with the Agreement.

3D. Initial Training of New VERIZON Personnel: Initial training on standard VERIZON initial training curriculum, in addition to BACI products and services and all other necessary instruction to sell to and service BACI customers in accordance with the Agreement.

3E. Ongoing Training of VERIZON Personnel: Ongoing training on BACI products and services in accordance with the Agreement.

Employees/Title	Number of OTC Employees	Rate	Basis for Rate	Frequency of Transaction
Consumer Service Center Representatives	0-3600	$ 70.06 per hour per employee (pro-rated in 15 minute increments after 1 hour)	PMR	Occasionally
Consumer Service Center Sales Support and Order Correction Clerks	0-300	$ 77.76 per hour per employee (pro-rated in 15 minute increments after 1 hour)	PMR	Occasionally
Consumer Service Center Assistant Manager	0-30090	$78.24 per hour per employee (pro-rated in 15 minute increments after 1 hour)	PMR	Occasionally

3F. BACI-Channel Service Order Error Correction: VERIZON will provide error processing support or direct error to location/interface for orders that are not initiated by VERIZON in accordance with the Agreement.

	VZ-NE
Employees/Title	TBD
Number of OTC Employees	TBD
Rate	TBD
Basis for Rate	TBD
Frequency of Transaction	TBD

5. Miscellaneous Expenses: BACI will pay Verizon all miscellaneous expenses incurred by Verizon in the provision of services in accordance with the Agreement

Employees/Title	Number of OTC Employees	Rate	Basis for Rate	Frequency of Transaction
Employee travel expense	NA	Actual expenses incurred	Actual expenses incurred	Occasionally
Employee meal expense	NA	Actual expenses incurred not to exceed $60/day /employee	Actual expenses incurred	Occasionally
Employee hotel expense	NA	Actual expenses incurred not to exceed $400/day /employee	Actual expenses incurred	Occasionally

Original Contract
Amendment 1 to Marketing and Sales Agreement (NY)
Amendment 2 to Marketing and Sales Agreement (NY)
Amendment 3 to Marketing and Sales Agreement (NY)
Amendment 4 to Marketing and Sales Agreement (NY)
Amendment 5 to Marketing and Sales Agreement (NY)
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Amendment 15 to Marketing and Sales Agreement (NY)
Amendment 16 to Marketing and Sales Agreement (NY)
Amendment 17 to Marketing and Sales Agreement (NY)
Amendment 18 to Marketing and Sales Agreement (NY)
Amendment 19 to Marketing and Sales Agreement (NY)

Contract period: 12/22/99 to 12/21/00

A copy of the written agreement is available for public inspection Monday through Friday (except for holidays) between the hours of 9 a.m. and 4 p.m., by appointment only at:

Verizon New York
1095 Avenue of the Americas, 34th Floor
New York, NY 10036
Curtis Johnson
212-395-5022

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About Verizon Long Distance \ Regulatory Information & Postings
Affiliated Agreements

Verizon Long Distance

Agreement Details:

Title: Amendment No. 32 to Marketing and Sales Agreement (All Jurisdictions)

Effective Date: 06/27/01

Provided by: Verizon Delaware Inc. (VDE), Verizon Washington, DC Inc. (VDC), Verizon Maryland Inc. (VMD), Verizon New Jersey Inc. (VNJ), Verizon Pennsylvania Inc. (VPA), Verizon Virginia Inc. (VVA), Verizon West Virginia Inc. (VWV), Verizon New York Inc. (VNY), and Verizon New England Inc. (VNE)

Provided to: Bell Atlantic Communications, Inc. d/b/a Verizon Long Distance (VLD)

Details:
None

Terms and Conditions:
Under this Amendment No. 32, Appendix B, Compensation – Consumer, Amendment No. 22 is deleted and replaced by Appendix B, Compensation –Consumer – Marketing Services, to this Agreement.

Renewal Clause:
Yes

Special Equipment:
None

Rates/Transaction Frequency/OTC* Resources:
*Operating Telephone Company

See attached **Exhibit** for details of services, rates and frequency. This document is in PDF format. (39KB). Click **here** for more information on PDF format.

For access to Amendments 1-26 and to the Original Contract, click on Amendment 26 below:

Amendment 26 - VNY
Amendment 26 - VNE
Amendment 26 - VDC
Amendment 26 - VPA
Amendment 26 - VNJ
Amendment 26 - VMD
Amendment 26 - VDE
Amendment 26 - VVA
Amendment 26 - VWV
Amendment 27 - All Jurisdictions
Amendment 28 - All Jurisdictions
Amendment 29 - All Jurisdictions
Amendment 30 – All Jurisdictions
Amendment 31 – All Jurisdictions
Amendment 32 – All Jurisdictions

Contract period: 12/22/99 to 12/31/01

A copy of the written agreement is available for public inspection Monday through Friday (except for holidays) between the hours of 9 a.m. and 4 p.m., by appointment only at:

Please click here for Contacts and Locations for Public Inspection Offices.

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Long Distance service provided by Verizon Long Distance.

Appendix B, Compensation – Consumer – Marketing Services

Verizon New York Inc. (VNY), Verizon New England Inc. (VNE), Verizon Delaware Inc. (VDE), Verizon New Jersey Inc. (VNJ), and Verizon Pennsylvania Inc. (VPA)

- ### Marketing Campaign Services

1. **Inbound Telemarketing Support for Targeted Consumer Marketing Campaigns** - This function involves sales negotiation and order taking for targeted markets using inbound telemarketing. The parties will agree upon specific target markets and campaigns.

	VNY	VNE	VDE	VNJ	VPA
Number of OTC* Employees	N/A	N/A	N/A	N/A	N/A
Rate	$8.14 per contact	$8.08 per contact	$7.68 per contact	$7.68 per contact	$7.68 per contact
Basis for Rate	FDC**	FDC	FDC	FDC	FDC
Frequency of Transaction	Daily	Daily	Daily	Daily	Daily

* Operating Telephone Company
** Fully Distributed Cost

2. **Inbound Telemarketing Support for Untargeted Consumer Marketing Campaigns** - This function involves sales negotiation and order taking for mass markets using inbound telemarketing. The parties will agree upon markets and campaigns.

	VNY	VNE	VDE	VNJ	VPA
Number of OTC Employees	N/A	N/A	N/A	N/A	N/A
Rate	$4.10 per contact	$4.05 per contact	$3.84 per contact	$3.84 per contact	$3.84 per contact
Basis for Rate	FDC	FDC	FDC	FDC	FDC
Frequency of Transaction	Daily	Daily	Daily	Daily	Daily

3. **Outbound Telemarketing Support for Targeted Consumer Marketing Campaigns** - This function involves sales negotiation and order taking to targeted markets using outbound telemarketing. The parties will agree upon specific target markets and campaigns.

	VNY	VNE	VDE	VNJ	VPA
Number of OTC Employees	N/A	N/A	N/A	N/A	N/A
Rate	$3.36 per contact	$3.36 per contact	$3.34 per contact	$3.34 per contact	$3.34 per contact
Basis for Rate	FDC	FDC	FDC	FDC	FDC
Frequency of Transaction	Daily	Daily	Daily	Daily	Daily

• Marketing and Order Processing Services

1. **Order Processing Services**. VZ Telcos may use third party contractors or suppliers (“Agents”) to sell VZ LD Companies’ services under the Agreement. VZ Telcos will process service orders resulting from Agent sales of VZ LD Companies’ services using systems and processes determined by VZ Telcos and agreed upon by VZ LD Companies.

	VNY	VNE	VDE	VNJ	VPA
Number of OTC Employees	N/A	N/A	N/A	N/A	N/A
Rate	$ 0.93 per order	$ 0.89 per order	$ 0.85 per order	$ 0.85 per order	$ 0.85 per order
Basis for Rate	FDC	FDC	FDC	FDC	FDC
Frequency of Transaction	Daily	Daily	Daily	Daily	Daily

2. **Order Processing Services for Multiple Dwelling Units (MDU) Agents.** VZ Telcos shall process service orders resulting from Agent sales of VZ LD Companies’ services to customers in MDUs.

	VNY	VNE	VDE	VNJ	VPA
Number of OTC Employees	N/A	N/A	N/A	N/A	N/A
Rate	$ 1.57 per order	$1.63 per order	$1.38 per order	$1.38 per order	$1.38 per order
Basis for Rates	FDC	FDC	FDC	FDC	FDC
Frequency of Transaction	Daily	Daily	Daily	Daily	Daily

3. **Internet Marketing Services.** In connection with selling VZ LD Companies' services, VZ Telcos will provide a link between VZ Telcos' websites and VZ LD Companies' website. The parties will agree upon the format and nature of the link.

	VNY	VNE	VDE	VNJ	VPA
Number of OTC Employees	N/A	N/A	N/A	N/A	N/A
Rate	$ 0.45 per hit	$ 0.43 per hit	$ 0.43 per hit	$ 0.43 per hit	$ 0.43 per hit
Basis for Rate	FDC	FDC	FDC	FDC	FDC
Frequency of Transaction	Daily	Daily	Daily	Daily	Daily

- ## Compensation for Sales of Consumer LD by Agents

1. **Compensation for Sales of Long Distance Services by Agents** – VZ Telcos may use third party contractors or suppliers ("Agents") to sell VZ LD Companies' services under the Agreement. Agents who are compensated on a per sale basis as opposed to a per hour or per contact basis are addressed in this amendment.

	VNY	VNE	VDE	VNJ	VPA
Number of OTC Employees	N/A	N/A	N/A	N/A	N/A
Rate	$ 43.78 per sale	$43.71 per sale	$43.10 per sale	$43.10 per sale	$43.10 per sale
Basis for Rate	FDC	FDC	FDC	FDC	FDC
Frequency of Transaction	Daily	Daily	Daily	Daily	Daily

- ## Incentives

a. **Paid For Incentives**. VZ LD Companies will provide paid for sporting event tickets, consumer electronics equipment, and other incentives agreed upon by the parties to VZ Telcos at no cost to VZ Telcos for use by VZ Telcos in incentive programs approved by the parties.

b. **Coordination Expenses**. VZ LD Companies will pay VZ Telcos compensation for coordination expenses related to incentive programs approved by the parties.

	VNY	VNE	VDE	VNJ	VPA
Service/Employee Title	Consumer Sales and Service Specialist (CL04)	Consumer Sales and Service Specialist (CL04)	TBD***	Consumer Sales and Service Specialist (CL04)	Consumer Sales and Service Specialist (CL04)
Number of OTC Employees	N/A	N/A	TBD	N/A	N/A
Rate	$631.56 per day	$501.76 per day	TBD	$615.77 per day	$633.57 per day
Basis for Rates	FDC	FDC	TBD	FDC	FDC
Frequency of Transaction	Occasionally	Occasionally	TBD	Occasionally	Occasionally

*** TBD means to be developed and indicates that the parties have yet to agree upon compensation in relevant service areas of the affected parties. Services will not be provided in such service areas until such agreements are reached in writings signed by the parties.

	VNY	VNE	VDE	VNJ	VPA
Service/ Employee Title	OTC Vendor material, supplies, catering, and distribution expenses	OTC Vendor material, supplies, catering, and distribution expenses	TBD	OTC Vendor material, supplies, catering, and distribution expenses	OTC Vendor material, supplies, catering, and distribution expenses
Number of OTC Employees	N/A	N/A	TBD	N/A	N/A
Rate	Actual OTC Vendor cost incurred	Actual OTC Vendor cost incurred	TBD	Actual OTC Vendor cost incurred	Actual OTC Vendor cost incurred
Basis for Rates	Actual OTC Vendor cost incurred	Actual OTC Vendor cost incurred	TBD	Actual OTC Vendor cost incurred	Actual OTC Vendor cost incurred
Frequency of Transaction	Occasionally	Occasionally	TBD	Occasionally	Occasionally

c. **Incentive Time Away From Office.** VZ LD Companies will pay compensation to VZ Telcos to cover VZ Telcos' employee time away from the office in connection with incentive programs approved by the parties.

	VNY	VNE	VDE	VNJ	VPA
Service/ Employee Title	Consumer Sales and Service Assistant Manager (CL04)	Consumer Sales and Service Assistant Manager (CL04)	TBD	Consumer Sales and Service Assistant Manager (CL04)	Consumer Sales and Service Assistant Manager (CL04)
Number of OTC Employees	0-1500	0-1500	TBD	0-1500	0-1500
Rate	$78.95 per hour per employee	$62.72 per hour per employee	TBD	$76.97 per hour per employee	$79.19 per hour per employee
Basis for Rates	FDC	FDC	TBD	FDC	FDC
Frequency of Transaction	Occasionally	Occasionally	TBD	Occasionally	Occasionally

	VNY	VNE	VDE	VNJ	VPA
Service/Employee Title	Consumer Sales and Service Manager (CL03)	Consumer Sales and Service Manager (CL03)	TBD	Consumer Sales and Service Manager (CL03)	Consumer Sales and Service Manager (CL03)
Number of OTC Employees	0-1000	0-1000	TBD	0-1000	0-1000
Rate	$109.80 per hour per employee	$78.45 per hour per employee	TBD	$96.27 per hour per employee	$99.05 per hour per employee
Basis for Rates	FDC	FDC	TBD	FDC	FDC
Frequency of Transaction	Occasionally	Occasionally	TBD	Occasionally	Occasionally

d. **Tax Gross Up**. VZ LD Companies compensate VZ Telcos to offset tax consequences for the provision of paid sporting event tickets, consumer electronic equipment, and other incentives provided by VZ Telcos to its employees in connection with incentive programs approved by the parties ("tax gross up"). VZ Telcos will determine the tax gross up based on the fair market value of the incentive provided to VZ Telcos' employees and the tax rates applicable under law.

- **Bill Media**

1. **Bill Insert**: VZ Telcos shall include inserts in local telephone company bills that promote the sale of VZ LD Companies' consumer long distance services.

	VNY	VNE	VDE	VNJ	VPA
Number of OTC Employees	N/A	N/A	N/A	N/A	N/A
Rate	$21.84 per 1000	$20.50 per 1000	$22.93 per 1000	$22.13 per 1000	$22.93 per 1000
Rate	$10.92 per 1000 for 50% of available space	$10.25 per 1000 for 50% of available space	$11.47 per 1000 for 50% of available space	$11.07 per 1000 for 50% of available space	$11.47 per 1000 for 50% of available space
Rate	$7.20 per 1000 for 33% of available space	$6.77 per 1000 for 33% of available space	$7.57 per 1000 for 33% of available space	$7.30 per 1000 for 33% of available space	$7.57 per 1000 for 33% of available space
Basis for Rates	FDC	FDC	FDC	FDC	FDC
Frequency of Transaction	Occasionally	Occasionally	Occasionally	Occasionally	Occasionally

2. **Newsletter Bill Insert:** VZ Telcos shall include in bills a newsletter containing information promoting VZ LD Companies' consumer long distance services.

	VNY	VNE	VDE	VNJ	VPA
Number of OTC Employees	N/A	N/A	N/A	N/A	N/A
Rate	$50.38 per 1000	$48.05 per 1000	$50.48 per 1000	$49.68 per 1000	$50.48 per 1000
Rate	$25.19 per 1000 for 50% of available space	$24.03 per 1000 for 50% of available space	$25.24 per 1000 for 50% of available space	$24.84 per 1000 for 50% of available space	$25.24 per 1000 for 50% of available space
Rate	$12.60 per 1000 for 25% of available space	$12.01 per 1000 for 25% of available space	$12.62 per 1000 for 25% of available space	$12.42 per 1000 for 25% of available space	$12.62 per 1000 for 25% of available space
Basis for Rates	FDC	FDC	FDC	FDC	FDC
Frequency of Transaction	Occasionally	Occasionally	Occasionally	Occasionally	Occasionally

3. **Bill Message, FYI, and Bill Imprint**: VZ Telcos shall print a message on the local portion of the customer's bill promoting VZ LD Companies' consumer long distance services. Line limitations are as follows: Bill Message and Bill Imprint (8 lines or less); FYI (40 lines or less).

	VNY	VNE	VDE	VNJ	VPA
Number of OTC Employees	N/A	N/A	N/A	N/A	N/A
Rate	$62.15 per 1000	$55.80 per 1000	$50.00 per 1000	$50.00 per 1000	$50.00 per 1000
Rate	$31.08 per 1000 for 50% of available space	$27.90 per 1000 for 50% of available space	$25.00 per 1000 for 50% of available space	$25.00 per 1000 for 50% of available space	$25.00 per 1000 for 50% of available space
Rate	$20.51 per 1000 for 33% of available space	$18.41 per 1000 for 33% of available space	$16.50 per 1000 for 33% of available space	$16.50 per 1000 for 33% of available space	$16.50 per 1000 for 33% of available space
Basis for Rates	FDC	FDC	FDC	FDC	FDC
Frequency of Transaction	Occasionally	Occasionally	Occasionally	Occasionally	Occasionally

4. **Bill Teaser:** VZ Telcos shall rubber stamp a message that promotes the sale of VZ LD Companies' consumer long distance services.

	VNY	VNE	VDE	VNJ	VPA
Number of OTC Employees	N/A	N/A	N/A	N/A	N/A
Rate	$21.15 per 1000	$20.43 per 1000	$21.95 per 1000	$21.95 per 1000	$21.95 per 1000
Rate	$10.58 per 1000 for 50% of available space	$10.22 per 1000 for 50% of available space	$10.98 per 1000 for 50% of available space	$10.98 per 1000 for 50% of available space	$10.98 per 1000 for 50% of available space
Rate	$6.98 per 1000 for 33% of available space	$6.74 per 1000 for 33% of available space	$7.24 per 1000 for 33% of available space	$7.24 per 1000 for 33% of available space	$7.24 per 1000 for 33% of available space
Basis for Rates	FDC	FDC	FDC	FDC	FDC
Frequency of Transaction	Occasionally	Occasionally	Occasionally	Occasionally	Occasionally

- **On-line Ordering**

1. **<u>On-line sales of VZ LD Companies' products and services:</u>** VZ Telcos will sell VZ LD Companies' long distance products and services on-line and facilitate on-line order input by the customer.

	VNY	VNE	VDE	VNJ	VPA
Number of OTC Employees	N/A	N/A	N/A	N/A	N/A
Rate	$3.06 per order	$2.99 per order	$2.99 per order	$2.99 per order	$2.99 per order
Basis for Rates	FDC	FDC	FDC	FDC	FDC
Frequency of Transaction	Daily	Daily	Daily	Daily	Daily

Verizon Washington, DC Inc. (VDC), Verizon Maryland Inc. (VMD), Verizon Virginia Inc. (VVA), and Verizon West Virginia Inc. (VWV)

Marketing Campaign Services
No rates have been developed for these services.

Marketing and Order Processing Services
No rates have been developed for these services.

Compensation for Sales of Consumer LD by Agents
No rates have been developed for these services.

Incentives
No rates have been developed for these services.

Bill Media
No rates have been developed for these services.

On-line Ordering
No rates have been developed for these services.

Verizon Long Distance

Agreement Details:

Title: Amendment No. 34 to Marketing and Sales Agreement (All Jurisdictions)

Effective Date: 07/25/01

Provided by: Verizon Delaware Inc. (VDE), Verizon Washington, DC Inc. (VDC), Verizon Maryland Inc. (VMD), Verizon New Jersey Inc. (VNJ), Verizon Pennsylvania Inc. (VPA), Verizon Virginia Inc. (VVA), Verizon West Virginia Inc. (VWV), Verizon New York Inc. (VNY), and Verizon New England Inc. (VNE)

Provided to: Bell Atlantic Communications, Inc. d/b/a Verizon Long Distance (VLD)

Details:
None

Terms and Conditions:
Under this Amendment No. 34, Appendix B, Compensation – Consumer, is deleted and replaced by amended and restated Appendix B, Compensation – Consumer – Sales Services.

Renewal Clause:
Yes

Special Equipment:
None

Rates/Transaction Frequency/OTC* Resources:

*Operating Telephone Company

See attached **Exhibit** for details of services, rates and frequency. This document is in PDF format (74 KB). Click **here** for more information on PDF format.

For access to Amendments 1-26 and to the Original Contract, click on Amendment 26 below:

Amendment 26 - VNY
Amendment 26 - VNE
Amendment 26 - VDC
Amendment 26 - VPA
Amendment 26 - VNJ
Amendment 26 - VMD
Amendment 26 - VDE
Amendment 26 - VVA
Amendment 26 - VWV
Amendment 27 - All Jurisdictions
Amendment 28 - All Jurisdictions
Amendment 29 - All Jurisdictions
Amendment 30 – All Jurisdictions
Amendment 31 – All Jurisdictions
Amendment 32 – All Jurisdictions
Amendment 33 – All Jurisdictions
Amendment 34 – All Jurisdictions

Contract period: 12/22/99 to 12/31/01

A copy of the written agreement is available for public inspection Monday through Friday (except for holidays) between the hours of 9 a.m. and 4 p.m., by appointment only at:

Please click here for Contacts and Locations for Public Inspection Offices.

[**Return to Current Location in Affiliated Agreements**]

Long Distance service provided by Verizon Long Distance.

APPENDIX B, COMPENSATION – CONSUMER – SALES SERVICES

Verizon New York, Inc. (VNY), Verizon New England Inc. (VNE), Verizon Delaware Inc. (VDE), Verizon Maryland Inc. (VMD), Verizon New Jersey Inc. (VNJ), Verizon Pennsylvania Inc. (VPA), Verizon Virginia Inc. (VVA), Verizon Washington, DC Inc. (VDC), and Verizon West Virginia Inc. (VWV) (together or separately referred to as VZ Telcos).

In consideration of VZ Telcos' provision of services to VZ LD Companies in accordance with the Agreement, VZ LD Companies agree to pay the following compensation to VZ Telcos in accordance with the Agreement:

1. **Sales, Ordering and Customer Inquiry Service**: including sales negotiation, service orders, verification of product availability, sales order status inquiry, error correction for orders initiated by VZ Telcos, operational performance reports, sales retention attempts, and sales quality control observations in accordance with the Agreement.

VZ Telcos	Service/ Employee Title	Number of OTC[1] Employees	Rate	Basis for Rate	Frequency of Transaction
VNY	Consumer Service Center Representatives	0-3,600	$ 7.71 per contact	FDC[2]	Daily
VNE	Consumer Service Center Representatives	0-1,600	$ 5.51 per contact	FDC	Daily
VDC	TBD[3]	TBD	TBD	TBD	TBD
VDE	TBD	TBD	TBD	TBD	TBD
VMD	TBD	TBD	TBD	TBD	TBD
VNJ	Consumer Service Center Representatives	0-2,000	$6.45 per contact	FDC	Daily
VPA	Consumer Service Center Representatives	0-2,000	$6.14 per contact	FDC	Daily
VVA	TBD	TBD	TBD	TBD	TBD
VWV	TBD	TBD	TBD	TBD	TBD

VZ Telcos	Service/ Employee Title	Number of OTC Employees	Rate	Basis for Rate	Frequency of Transaction
VNY	Consumer Service Center Sales Support and Order Correction Clerks	0-300	$ 7.71 per contact	FDC	Daily
VNE	Consumer Service Center Sales Support and Order Correction Clerks	0-300	$ 5.51 per contact	FDC	Daily
VDC	TBD	TBD	TBD	TBD	TBD
VDE	TBD	TBD	TBD	TBD	TBD
VMD	TBD	TBD	TBD	TBD	TBD
VNJ	Consumer Service Center Sales Support and Order Correction Clerks	0-165	$ 6.45 per contact	FDC	Daily
VPA	Consumer Service Center Sales Support and Order Correction Clerks	0-200	$ 6.14 per contact	FDC	Daily
VVA	TBD	TBD	TBD	TBD	TBD
VWV	TBD	TBD	TBD	TBD	TBD

[1] OTC means Operating Telephone Company
[2] FDC means fully distributed cost
[3] For purposes of this appendix, the term "TBD" or "To Be Developed" when referring to compensation terms means that the parties may agree upon compensation terms for a specific jurisdiction after execution of this Agreement. If such agreements are reached, the parties will memorialize such agreements by written amendments that are signed by the parties. VZ Telcos will provide services in any such jurisdiction only after such written amendments are signed by the parties.

2. **General Inquiry and Post Sales Support Service**: including post sales product support and customer account maintenance, sales complaints and escalations, referrals of misdirected calls and error processing support in accordance with the Agreement.

VZ Telcos	Service/ Employee Title	Number of OTC Employees	Rate	Basis for Rate	Frequency of Transaction
VNY	Consumer Service Center Representatives	0-3,600	$12.98 per contact	PMR[4]	Daily
VNE	Consumer Service Center Representatives	0-1,600	$ 8.03 per contact	PMR	Daily
VDC	TBD	TBD	TBD	TBD	TBD
VDE	TBD	TBD	TBD	TBD	TBD
VMD	TBD	TBD	TBD	TBD	TBD
VNJ	Consumer Service Center Representatives	0-2,000	$ 6.94 per contact	PMR	Daily
VPA	Consumer Service Center Representatives	0-2,000	$ 6.22 per contact	PMR	Daily
VVA	TBD	TBD	TBD	TBD	TBD
VWV	TBD	TBD	TBD	TBD	TBD

VZ Telcos	Service/ Employee Title	Number of OTC Employees	Rate	Basis for Rate	Frequency of Transaction
VNY	Consumer Service Center Sales Support and Order Correction Clerks	0-300	$12.98 per contact	PMR	Daily
VNE	Consumer Service Center Sales Support and Order Correction Clerks	0-300	$ 8.03 per contact	PMR	Daily
VDC	TBD	TBD	TBD	TBD	TBD
VDE	TBD	TBD	TBD	TBD	TBD
VMD	TBD	TBD	TBD	TBD	TBD
VNJ	Consumer Service Center Sales Support and Order Correction Clerks	0-165	$ 6.94 per contact	PMR	Daily
VPA	Consumer Service Center Sales Support and Order Correction Clerks	0-200	$ 6.22 per contact	PMR	Daily
VVA	TBD	TBD	TBD	TBD	TBD
VWV	TBD	TBD	TBD	TBD	TBD

3. **Other Services and Functions**:

3A. Customer Correspondence: VZ Telcos will process and respond to VZ LD Companies' customer correspondence in accordance with the Agreement.

VZ Telcos	Service/ Employee Title	Number of OTC Employees	Rate	Basis for Rate	Frequency of Transaction
VNY	Consumer Service Center Sales Support and Order Correction Clerks	0-300	$ 29.20 per correspondence	PMR	Daily
VNE	Consumer Service Center Sales Support and Order Correction Clerks	0-200	$ 20.50 per correspondence	PMR	Daily
VDC	TBD	TBD	TBD	TBD	TBD
VDE	TBD	TBD	TBD	TBD	TBD
VMD	TBD	TBD	TBD	TBD	TBD
VNJ	Consumer Service Center Sales Support and Order Correction Clerks	0-165	$ 17.36 per correspondence	PMR	Daily
VPA	Consumer Service Center Sales Support and Order Correction Clerks	0-200	$ 17.02 per correspondence	PMR	Daily
VVA	TBD	TBD	TBD	TBD	TBD
VWV	TBD	TBD	TBD	TBD	TBD

[4] PMR means prevailing market rate

3B. Methods and Procedures and Associated Training Development: VZ Telcos will develop methods and procedures as described in Appendix A to the Agreement. VZ LD Companies will pay the following rates plus all production, material, supply and distribution costs, and contract labor.

VZ Telcos	Service/ Employee Title	Number of OTC Employees	Rate	Basis for Rate	Frequency of Transaction
VNY	Consumer Sales & Service Specialist	Not Applicable	$113.63 per hour per employee	PMR	Occasionally
VNE	Consumer Sales & Service Specialist	Not Applicable	$113.63 per hour per employee	PMR	Occasionally
VDC	TBD	TBD	TBD	TBD	TBD
VDE	TBD	TBD	TBD	TBD	TBD
VMD	TBD	TBD	TBD	TBD	TBD
VNJ	Consumer Sales & Service Specialist	Not Applicable	$113.63 per hour per employee	PMR	Occasionally
VPA	Consumer Sales & Service Specialist	Not Applicable	$113.63 per hour per employee	PMR	Occasionally
VVA	TBD	TBD	TBD	TBD	TBD
VWV	TBD	TBD	TBD	TBD	TBD

VZ Telcos	Service/ Employee Title	Number of OTC Employees	Rate	Basis for Rate	Frequency of Transaction
VNY	OTC Vendor production, material, supplies, and distribution expenses	Not Applicable	Actual OTC vendor cost incurred	Actual OTC vendor cost incurred	Occasionally
VNE	OTC Vendor production, material, supplies, and distribution expenses	Not Applicable	Actual OTC vendor cost incurred	Actual OTC vendor cost incurred	Occasionally
VDC	TBD	TBD	TBD	TBD	TBD
VDE	TBD	TBD	TBD	TBD	TBD
VMD	TBD	TBD	TBD	TBD	TBD
VNJ	OTC Vendor production, material, supplies, and distribution expenses	Not Applicable	Actual OTC vendor cost incurred	Actual OTC vendor cost incurred	Occasionally
VPA	OTC Vendor production, material, supplies, and distribution expenses	Not Applicable	Actual OTC vendor cost incurred	Actual OTC vendor cost incurred	Occasionally
VVA	TBD	TBD	TBD	TBD	TBD
VWV	TBD	TBD	TBD	TBD	TBD

3C. Initial Training of VZ Telcos Incumbent Personnel: Initial training on VZ LD Companies' products and services and all other necessary instruction to sell to and service VZ LD Companies' customers in accordance with the Agreement.

VZ Telcos	Service/ Employee Title	Number of OTC Employees	Rate	Basis for Rate	Frequency of Transaction
VNY	N/A[5]	N/A	N/A	N/A	N/A
VNE	Consumer Service Center Representatives	0-1,600	$ 519.63 per student per day	PMR	Occasionally
VDC	TBD	TBD	TBD	TBD	TBD
VDE	TBD	TBD	TBD	TBD	TBD
VMD	TBD	TBD	TBD	TBD	TBD
VNJ	Consumer Service Center Representatives	0-2,000	$587.00 per student per day	PMR	Occasionally
VPA	Consumer Service Center Representatives	0-2,000	$525.49 per student per day	PMR	Occasionally
VVA	TBD	TBD	TBD	TBD	TBD
VWV	TBD	TBD	TBD	TBD	TBD

VZ Telcos	Service/ Employee Title	Number of OTC Employees	Rate	Basis for Rate	Frequency of Transaction
VNY	N/A	N/A	N/A	N/A	N/A
VNE	Consumer Service Center Sales Support and Order Correction Clerks	0-200	$ 553.90 per student per day	PMR	Occasionally
VDC	TBD	TBD	TBD	TBD	TBD
VDE	TBD	TBD	TBD	TBD	TBD
VMD	TBD	TBD	TBD	TBD	TBD
VNJ	Consumer Service Center Sales Support and Order Correction Clerks	0-165	$ 551.30 per student per day	PMR	Occasionally
VPA	Consumer Service Center Sales Support and Order Correction Clerks	0-200	$ 547.16 per student per day	PMR	Occasionally
VVA	TBD	TBD	TBD	TBD	TBD
VWV	TBD	TBD	TBD	TBD	TBD

VZ Telcos	Service/ Employee Title	Number of OTC Employees	Rate	Basis for Rate	Frequency of Transaction
VNY	N/A	N/A	N/A	N/A	N/A
VNE	Consumer Service Center Sales Assistant Managers	0-150	$676.17 per student per day	PMR	Occasionally
VDC	TBD	TBD	TBD	TBD	TBD
VDE	TBD	TBD	TBD	TBD	TBD
VMD	TBD	TBD	TBD	TBD	TBD
VNJ	Consumer Service Center Sales Assistant Managers	0-75	$782.49 per student per day	PMR	Occasionally
VPA	Consumer Service Center Sales Assistant Managers	0-150	$792.68 per student per day	PMR	Occasionally
VVA	TBD	TBD	TBD	TBD	TBD
VWV	TBD	TBD	TBD	TBD	TBD

[5] N/A means not applicable to this VZ Telco

VZ Telcos	Service/ Employee Title	Number of OTC Employees	Rate	Basis for Rate	Frequency of Transaction
VNY	N/A	N/A	N/A	N/A	N/A
VNE	Consumer Service Center Sales Managers	0-20	$811.15 per student per day	PMR	Occasionally
VDC	TBD	TBD	TBD	TBD	TBD
VDE	TBD	TBD	TBD	TBD	TBD
VMD	TBD	TBD	TBD	TBD	TBD
VNJ	Consumer Service Center Sales Managers	0-20	$ 936.89 per student per day	PMR	Occasionally
VPA	Consumer Service Center Sales Managers	0-20	$ 951.53 per student per day	PMR	Occasionally
VVA	TBD	TBD	TBD	TBD	TBD
VWV	TBD	TBD	TBD	TBD	TBD

VZ Telcos	Service/ Employee Title	Number of OTC Employees	Rate	Basis for Rate	Frequency of Transaction
VNY	N/A	N/A	N/A	N/A	N/A
VNE	Consumer Service Center TIPS Observers	0-20	$676.17 per student per day	PMR	Occasionally
VDC	TBD	TBD	TBD	TBD	TBD
VDE	TBD	TBD	TBD	TBD	TBD
VMD	TBD	TBD	TBD	TBD	TBD
VNJ	Consumer Service Center TIPS Observers	0-20	$ 782.49 per student per day	PMR	Occasionally
VPA	Consumer Service Center TIPS Observers	0-20	$792.68 per student per day	PMR	Occasionally
VVA	TBD	TBD	TBD	TBD	TBD
VWV	TBD	TBD	TBD	TBD	TBD

3D. Initial Training of New VZ Telcos Personnel: Initial training on standard VZ Telcos' initial training curriculum, in addition to VZ LD Companies' products and services and all other necessary instruction to sell to and service VZ LD Companies' customers in accordance with the Agreement.

VZ Telcos	Service/ Employee Title	Number of OTC Employees	Rate	Basis for Rate	Frequency of Transaction
VNY	N/A	N/A	N/A	N/A	N/A
VNE	Consumer Service Center Representatives	0-200	$34,197.13 per student	PMR	Occasionally
VDC	TBD	TBD	TBD	TBD	TBD
VDE	TBD	TBD	TBD	TBD	TBD
VMD	TBD	TBD	TBD	TBD	TBD
VNJ	Consumer Service Center Representatives	0-160	$ 41,829.00 per student	PMR	Occasionally
VPA	Consumer Service Center Representatives	0-175	$37,182.34 per student	PMR	Occasionally
VVA	TBD	TBD	TBD	TBD	TBD
VWV	TBD	TBD	TBD	TBD	TBD

VZ Telcos	Service/ Employee Title	Number of OTC Employees	Rate	Basis for Rate	Frequency of Transaction
VNY	N/A	N/A	N/A	N/A	N/A
VNE	Consumer Service Center Sales Support and Order Correction Clerks	0-20	$25,209.90 per student	PMR	Occasionally
VDC	TBD	TBD	TBD	TBD	TBD
VDE	TBD	TBD	TBD	TBD	TBD
VMD	TBD	TBD	TBD	TBD	TBD
VNJ	Consumer Service Center Sales Support and Order Correction Clerks	0-20	$25,103.30 per student	PMR	Occasionally
VPA	Consumer Service Center Sales Support and Order Correction Clerks	0-30	$24,933.56 per student	PMR	Occasionally
VVA	TBD	TBD	TBD	TBD	TBD
VWV	TBD	TBD	TBD	TBD	TBD

3E. Ongoing Training of VZ Telcos Personnel: Ongoing training on VZ LD Companies' products and services in accordance with the Agreement.

VZ Telcos	Service/ Employee Title	Number of OTC Employees	Rate	Basis for Rate	Frequency of Transaction
VNY	Consumer Service Center Representatives	0-3,600	$70.06 per hour per employee (pro-rated in 15 minute increments after 1 hour)	PMR	Occasionally
VNE	Consumer Service Center Representatives	0-1,600	$ 49.95 per hour per employee (pro-rated in 15 minute increments after 1 hour)	PMR	Occasionally
VDC	TBD	TBD	TBD	TBD	TBD
VDE	TBD	TBD	TBD	TBD	TBD
VMD	TBD	TBD	TBD	TBD	TBD
VNJ	Consumer Service Center Representatives	0-2000	$60.04 per hour per employee (pro-rated in 15 minute increments after 1 hour)	PMR	Occasionally
VPA	Consumer Service Center Representatives	0-2000	$48.85 per hour per employee (pro-rated in 15 minute increments after 1 hour)	PMR	Occasionally
VVA	TBD	TBD	TBD	TBD	TBD
VWV	TBD	TBD	TBD	TBD	TBD

VZ Telcos	Service/ Employee Title	Number of OTC Employees	Rate	Basis for Rate	Frequency of Transaction
VNY	Consumer Service Center Sales Support and Order Correction Clerks	0-300	$77.76 per hour per employee (pro-rated in 15 minute increments after 1 hour)	PMR	Occasionally
VNE	Consumer Service Center Sales Support and Order Correction Clerks	0-150	$ 54.52 per hour per employee (pro-rated in 15 minute increments after 1 hour)	PMR	Occasionally
VDC	TBD	TBD	TBD	TBD	TBD
VDE	TBD	TBD	TBD	TBD	TBD
VMD	TBD	TBD	TBD	TBD	TBD
VNJ	Consumer Service Center Sales Support and Order Correction Clerks	0-165	$54.94 per hour per employee (pro-rated in 15 minute increments after 1 hour)	PMR	Occasionally
VPA	Consumer Service Center Sales Support and Order Correction Clerks	0-200	$51.74 per hour per employee (pro-rated in 15 minute increments after 1 hour)	PMR	Occasionally
VVA	TBD	TBD	TBD	TBD	TBD
VWV	TBD	TBD	TBD	TBD	TBD

VZ Telcos	Service/ Employee Title	Number of OTC Employees	Rate	Basis for Rate	Frequency of Transaction
VNY	Consumer Service Center Assistant Manager	0-300	$78.24 per hour per employee (pro-rated in 15 minute increments after 1 hour)	PMR	Occasionally
VNE	Consumer Service Center Assistant Manager	0-90	$66.40 per hour per employee (pro-rated in 15 minute increments after 1 hour)	PMR	Occasionally
VDC	TBD	TBD	TBD	TBD	TBD
VDE	TBD	TBD	TBD	TBD	TBD
VMD	TBD	TBD	TBD	TBD	TBD
VNJ	Consumer Service Center Assistant Manager	0-75	$ 76.97 per hour per employee (pro-rated in 15 minute increments after 1 hour)	PMR	Occasionally
VPA	Consumer Service Center Assistant Manager	0-150	$ 79.20 per hour per employee (pro-rated in 15 minute increments after 1 hour)	PMR	Occasionally
VVA	TBD	TBD	TBD	TBD	TBD
VWV	TBD	TBD	TBD	TBD	TBD

3F. VZ LD Companies-Channel Service Order Error Correction: VZ Telcos will provide error processing support or direct error to location/interface for orders that are not initiated by VZ Telcos in accordance with the Agreement.

VZ Telcos	Service/ Employee Title	Number of OTC Employees	Rate	Basis for Rate	Frequency of Transaction
VNY	N/A	N/A	N/A	N/A	N/A
VNE	Consumer Service Center Sales Support and Order Correction Clerks	0-200	$14.38 per transaction	PMR	Daily
VDC	TBD	TBD	TBD	TBD	TBD
VDE	TBD	TBD	TBD	TBD	TBD
VMD	TBD	TBD	TBD	TBD	TBD
VNJ	Consumer Service Center Sales Support and Order Correction Clerks	0-165	$ 10.91 per transaction	PMR	Daily
VPA	Consumer Service Center Sales Support and Order Correction Clerks	0-200	$ 10.61 per transaction	PMR	Daily
VVA	TBD	TBD	TBD	TBD	TBD
VWV	TBD	TBD	TBD	TBD	TBD

3G. Confirmation and Investigation of Carrier Change Records: VZ Telcos will contact certain VZ LD Companies' customers (as specified by VZ LD Companies), to investigate, confirm and/or correct records relating to the selection of VZ LD Companies as the customer's preferred carrier. VZ Telcos shall perform this service only in connection with an open governmental proceeding.

VZ Telcos	Service/ Employee Title	Number of OTC Employees	Rate	Basis for Rate	Frequency of Transaction
VNY	Customer Verification Contact	Not Applicable	$23.75 per hour	PMR	Daily
VNE	N/A	N/A	N/A	N/A	N/A
VDC	TBD	TBD	TBD	TBD	TBD
VDE	TBD	TBD	TBD	TBD	TBD
VMD	TBD	TBD	TBD	TBD	TBD
VNJ	N/A	N/A	N/A	N/A	N/A
VPA	N/A	N/A	N/A	N/A	N/A
VVA	TBD	TBD	TBD	TBD	TBD
VWV	TBD	TBD	TBD	TBD	TBD

3H. Service Orders Processing: VZ Telcos will issue service orders for changes in primary interexchange carriers ("PIC changes") on VZ LD Companies' customer accounts in connection with the carrier change verification services described above.

VZ Telcos	Service/ Employee Title	Number of OTC Employees	Rate	Basis for Rate	Frequency of Transaction
VNY	Consumer Service Center Representatives	0-100	FCC No. 11, secs. 13.3.3(B)(4)(a) and 31.13.4(A)(1)	Tariff	Daily
VNE	Consumer Service Center Representatives	0-100	FCC No. 11, secs. 13.3.3(B)(4)(a) and 31.13.4(A)(1)	Tariff	Daily
VDC	TBD	TBD	TBD	TBD	TBD
VDE	TBD	TBD	TBD	TBD	TBD
VMD	TBD	TBD	TBD	TBD	TBD
VNJ	N/A	N/A	N/A	N/A	N/A
VPA	N/A	N/A	N/A	N/A	N/A
VVA	TBD	TBD	TBD	TBD	TBD
VWV	TBD	TBD	TBD	TBD	TBD

VZ Telcos	Service/ Employee Title	Number of OTC Employees	Rate	Basis for Rate	Frequency of Transaction
VNY	Consumer Service Center Sales Support and Order Correction Clerks	0-150	FCC No. 11, secs. 13.3.3(B)(4)(a) and 31.13.4(A)(1)	Tariff	Daily
VNE	Consumer Service Center Sales Support and Order Correction Clerks	0-150	FCC No. 11, secs. 13.3.3(B)(4)(a) and 31.13.4(A)(1)	Tariff	Daily
VDC	TBD	TBD	TBD	TBD	TBD
VDE	TBD	TBD	TBD	TBD	TBD
VMD	TBD	TBD	TBD	TBD	TBD
VNJ	N/A	N/A	N/A	N/A	N/A
VPA	N/A	N/A	N/A	N/A	N/A
VVA	TBD	TBD	TBD	TBD	TBD
VWV	TBD	TBD	TBD	TBD	TBD

3I. Project Management: VZ Telcos will develop and manage the process for completing all work associated with the activities described in Amendment 16 to the Agreement.

VZ Telcos	Service/ Employee Title	Number of OTC Employees	Rate	Basis for Rate	Frequency of Transaction
VNY	N/A	N/A	N/A	N/A	N/A
VNE	Consumer Sales & Service Senior Specialist	Not Applicable	$1,083.45 per day	PMR	Daily
VDC	TBD	TBD	TBD	TBD	TBD
VDE	TBD	TBD	TBD	TBD	TBD
VMD	TBD	TBD	TBD	TBD	TBD
VNJ	N/A	N/A	N/A	N/A	N/A
VPA	N/A	N/A	N/A	N/A	N/A
VVA	TBD	TBD	TBD	TBD	TBD
VWV	TBD	TBD	TBD	TBD	TBD

3J. Processing of Bill Archive and Retrieval System (BARS) Adjustments: VZ Telcos will issue adjustments to VZ LD Companies' customers for VZ LD Companies' charges in connection with the carrier change verification services described in paragraph 3G above.

VZ Telcos	Service/ Employee Title	Number of OTC Employees	Rate	Basis for Rate	Frequency of Transaction
VNY	Consumer Service Center Representatives	0-3,600	$ 33.01 per account adjusted	PMR	Daily
VNE	Consumer Service Center Representatives	0-100	$ 31.50 per account adjusted	PMR	Daily
VDC	TBD	TBD	TBD	TBD	TBD
VDE	TBD	TBD	TBD	TBD	TBD
VMD	TBD	TBD	TBD	TBD	TBD
VNJ	N/A	N/A	N/A	N/A	N/A
VPA	N/A	N/A	N/A	N/A	N/A
VVA	TBD	TBD	TBD	TBD	TBD
VWV	TBD	TBD	TBD	TBD	TBD

3K. Processing of Recourse Adjustments: VZ Telcos will issue recourse adjustments for charges on VZ LD Companies' customers accounts in connection with the carrier change verification services described in paragraph 3G above.

VZ Telcos	Service/ Employee Title	Number of OTC Employees	Rate	Basis for Rate	Frequency of Transaction
VNY	Consumer Service Center Representatives	0-3,600	$ 5.89 per account adjusted	PMR	Daily
VNE	Consumer Service Center Representatives	0-100	$ 5.62 per account adjusted	PMR	Daily
VDC	TBD	TBD	TBD	TBD	TBD
VDE	TBD	TBD	TBD	TBD	TBD
VMD	TBD	TBD	TBD	TBD	TBD
VNJ	N/A	N/A	N/A	N/A	N/A
VPA	N/A	N/A	N/A	N/A	N/A
VVA	TBD	TBD	TBD	TBD	TBD
VWV	TBD	TBD	TBD	TBD	TBD

3L. Processing of Letters of Authorization: VZ Telcos will process Letters of Authorization from VZ LD Companies' customers confirming selection of VZ LD Companies as the customer's preferred carrier. VZ Telcos shall perform this activity for VZ LD Companies only in connection with an open governmental proceeding.

VZ Telcos	Service/ Employee Title	Number of OTC Employees	Rate	Basis for Rate	Frequency of Transaction
VNY	Customer Verification Contact	Not Applicable	$ 11.00 per hour	PMR	Daily
VNE	N/A	N/A	N/A	N/A	N/A
VDC	TBD	TBD	TBD	TBD	TBD
VDE	TBD	TBD	TBD	TBD	TBD
VMD	TBD	TBD	TBD	TBD	TBD
VNJ	N/A	N/A	N/A	N/A	N/A
VPA	N/A	N/A	N/A	N/A	N/A
VVA	TBD	TBD	TBD	TBD	TBD
VWV	TBD	TBD	TBD	TBD	TBD

3M. Postal Services – P. O. Box: VZ Telcos will set up a P. O. Box for the processing of Letters of Authorization. VZ Telcos shall perform this activity for VZ LD Companies only in connection with an open governmental proceeding.

VZ Telcos	Service/ Employee Title	Number of OTC Employees	Rate	Basis for Rate	Frequency of Transaction
VNY	Customer Verification Contact	Not Applicable	Actual expenses incurred not to be less than $65.00	Actual expenses incurred	Occasionally
VNE	N/A	N/A	N/A	N/A	N/A
VDC	TBD	TBD	TBD	TBD	TBD
VDE	TBD	TBD	TBD	TBD	TBD
VMD	TBD	TBD	TBD	TBD	TBD
VNJ	N/A	N/A	N/A	N/A	N/A
VPA	N/A	N/A	N/A	N/A	N/A
VVA	TBD	TBD	TBD	TBD	TBD
VWV	TBD	TBD	TBD	TBD	TBD

3N. Postal Services - Permit: VZ Telcos will obtain a Business Reply permit for the processing of Letters of Authorization. VZ Telcos shall perform this activity for VZ LD Companies only in connection with an open governmental proceeding.

VZ Telcos	Service/ Employee Title	Number of OTC Employees	Rate	Basis for Rate	Frequency of Transaction
VNY	Customer Verification Contact	Not Applicable	Actual expenses incurred not to be less than $400.00	Actual expenses incurred	Occasionally
VNE	N/A	N/A	N/A	N/A	N/A
VDC	TBD	TBD	TBD	TBD	TBD
VDE	TBD	TBD	TBD	TBD	TBD
VMD	TBD	TBD	TBD	TBD	TBD
VNJ	N/A	N/A	N/A	N/A	N/A
VPA	N/A	N/A	N/A	N/A	N/A
VVA	TBD	TBD	TBD	TBD	TBD
VWV	TBD	TBD	TBD	TBD	TBD

3O. Postal Services - Postage: VZ Telcos will purchase postage sufficient to process Letters of Authorization. VZ Telcos shall perform this activity for VZ LD Companies only in connection with an open governmental proceeding.

VZ Telcos	Service/ Employee Title	Number of OTC Employees	Rate	Basis for Rate	Frequency of Transaction
VNY	Customer Verification Contact	Not Applicable	Actual expenses incurred	Actual expenses incurred	Daily
VNE	N/A	N/A	N/A	N/A	N/A
VDC	TBD	TBD	TBD	TBD	TBD
VDE	TBD	TBD	TBD	TBD	TBD
VMD	TBD	TBD	TBD	TBD	TBD
VNJ	N/A	N/A	N/A	N/A	N/A
VPA	N/A	N/A	N/A	N/A	N/A
VVA	TBD	TBD	TBD	TBD	TBD
VWV	TBD	TBD	TBD	TBD	TBD

3P. Account Investigation: VZ Telcos will research and provide information to VZ LD Companies relating to customers' accounts in support of VZ LD Companies' provision of customer service. VZ Telcos will process corrective orders upon VZ LD Companies' instruction (e.g., application of credits).

VZ Telcos	Service/ Employee Title	Number of OTC Employees	Rate	Basis for Rate	Frequency of Transaction
VNY	Consumer Service Center Representatives	0-3600	$ 8.25 per account	PMR	Daily
VNE	N/A	N/A	N/A	N/A	N/A
VDC	TBD	TBD	TBD	TBD	TBD
VDE	TBD	TBD	TBD	TBD	TBD
VMD	TBD	TBD	TBD	TBD	TBD
VNJ	N/A	N/A	N/A	N/A	N/A
VPA	N/A	N/A	N/A	N/A	N/A
VVA	TBD	TBD	TBD	TBD	TBD
VWV	TBD	TBD	TBD	TBD	TBD

3Q. Programming: VZ Telcos will provide the programming necessary to support the functions described in Amendment 16.

VZ Telcos	Service/ Employee Title	Number of OTC Employees	Rate	Basis for Rate	Frequency of Transaction
VNY	Customer Verification Vendors	Not Applicable	$ 150.00 per hour	PMR	Daily
VNE	N/A	N/A	N/A	N/A	N/A
VDC	TBD	TBD	TBD	TBD	TBD
VDE	TBD	TBD	TBD	TBD	TBD
VMD	TBD	TBD	TBD	TBD	TBD
VNJ	N/A	N/A	N/A	N/A	N/A
VPA	N/A	N/A	N/A	N/A	N/A
VVA	TBD	TBD	TBD	TBD	TBD
VWV	TBD	TBD	TBD	TBD	TBD

3R. Inbound and Outbound Fulfillment and Telemarketing Set Up Activities: VZ Telcos will provide fulfillment and telemarketing set up activities (e.g., creation of telephone banks, printing of letters to customers, creation of databases and processes for tracking) to support the functions described in Amendment 16.

VZ Telcos	Service/ Employee Title	Number of OTC Employees	Rate	Basis for Rate	Frequency of Transaction
VNY	Customer Verification Vendors	Not Applicable	No more than $3,500.00 per set-up	PMR	Daily
VNE	N/A	N/A	N/A	N/A	N/A
VDC	TBD	TBD	TBD	TBD	TBD
VDE	TBD	TBD	TBD	TBD	TBD
VMD	TBD	TBD	TBD	TBD	TBD
VNJ	N/A	N/A	N/A	N/A	N/A
VPA	N/A	N/A	N/A	N/A	N/A
VVA	TBD	TBD	TBD	TBD	TBD
VWV	TBD	TBD	TBD	TBD	TBD

3S. Training of Vendor Employees: VZ Telcos will train Vendor personnel as needed to perform certain functions in support of the work efforts described in Amendment 16.

VZ Telcos	Service/ Employee Title	Number of OTC Employees	Rate	Basis for Rate	Frequency of Transaction
VNY	Customer Verification Vendor Employees	Not Applicable	$ 12.00 per hour	PMR	Daily
VNE	N/A	N/A	N/A	N/A	N/A
VDC	TBD	TBD	TBD	TBD	TBD
VDE	TBD	TBD	TBD	TBD	TBD
VMD	TBD	TBD	TBD	TBD	TBD
VNJ	N/A	N/A	N/A	N/A	N/A
VPA	N/A	N/A	N/A	N/A	N/A
VVA	TBD	TBD	TBD	TBD	TBD
VWV	TBD	TBD	TBD	TBD	TBD

4. **Miscellaneous Expenses**: VZ LD Companies will pay VZ Telcos all miscellaneous expenses incurred by VZ Telcos in the provision of services in accordance with the Agreement.

VZ Telcos	Service/ Employee Title	Number of OTC Employees	Rate	Basis for Rate	Frequency of Transaction
VNY	Employee travel expense	Not Applicable	Actual expenses incurred	Actual expenses incurred	Occasionally
VNE	Employee travel expense	Not Applicable	Actual expenses incurred	Actual expenses incurred	Occasionally
VDC	TBD	TBD	TBD	TBD	TBD
VDE	TBD	TBD	TBD	TBD	TBD
VMD	TBD	TBD	TBD	TBD	TBD
VNJ	Employee travel expense	Not Applicable	Actual expenses incurred	Actual expenses incurred	Occasionally
VPA	Employee travel expense	Not Applicable	Actual expenses incurred	Actual expenses incurred	Occasionally
VVA	TBD	TBD	TBD	TBD	TBD
VWV	TBD	TBD	TBD	TBD	TBD

VZ Telcos	Service/ Employee Title	Number of OTC Employees	Rate	Basis for Rate	Frequency of Transaction
VNY	Employee meal expense	Not Applicable	Actual expenses incurred not to exceed $60/day /employee	Actual expenses incurred	Occasionally
VNE	Employee meal expense	Not Applicable	Actual expenses incurred not to exceed $60/day /employee	Actual expenses incurred	Occasionally
VDC	TBD	TBD	TBD	TBD	TBD
VDE	TBD	TBD	TBD	TBD	TBD
VMD	TBD	TBD	TBD	TBD	TBD
VNJ	Employee meal expense	Not Applicable	Actual expenses incurred not to exceed $60/day /employee	Actual expenses incurred	Occasionally
VPA	Employee meal expense	Not Applicable	Actual expenses incurred not to exceed $60/day /employee	Actual expenses incurred	Occasionally
VVA	TBD	TBD	TBD	TBD	TBD
VWV	TBD	TBD	TBD	TBD	TBD

VZ Telcos	Service/ Employee Title	Number of OTC Employees	Rate	Basis for Rate	Frequency of Transaction
VNY	Employee hotel expense	Not Applicable	Actual expenses incurred not to exceed $400/day /employee	Actual expenses incurred	Occasionally
VNE	Employee hotel expense	Not Applicable	Actual expenses incurred not to exceed $400/day /employee	Actual expenses incurred	Occasionally
VDC	TBD	TBD	TBD	TBD	TBD
VDE	TBD	TBD	TBD	TBD	TBD
VMD	TBD	TBD	TBD	TBD	TBD
VNJ	Employee hotel expense	Not Applicable	Actual expenses incurred not to exceed $300/day /employee	Actual expenses incurred	Occasionally
VPA	Employee hotel expense	Not Applicable	Actual expenses incurred not to exceed $300/day /employee	Actual expenses incurred	Occasionally
VVA	TBD	TBD	TBD	TBD	TBD
VWV	TBD	TBD	TBD	TBD	TBD

5. <u>Voice Recognition Unit Marketing.</u> VZ Telcos will solicit sales of VZ LD Companies' services through a marketing message on the VZ Telcos' VRU/ACD systems.

VZ Telcos	Service/ Employee Title	Number of OTC Employees	Rate	Basis for Rate	Frequency of Transaction
VNY	VRU Statement	Not Applicable	$ 3.77 per thousand calls	EFMV[6]	Daily
VNE	VRU Statement	Not Applicable	$ 11.85 per thousand calls	EFMV	Daily
VDC	TBD	TBD	TBD	TBD	TBD
VDE	TBD	TBD	TBD	TBD	TBD
VMD	TBD	TBD	TBD	TBD	TBD
VNJ	TBD	TBD	TBD	TBD	TBD
VPA	VRU Statement	Not Applicable	$ 8.95 per thousand calls	EFMV	Daily
VVA	TBD	TBD	TBD	TBD	TBD
VWV	TBD	TBD	TBD	TBD	TBD

6. <u>PRE-LAUNCH REFERRALS AND RECORDKEEPING</u>: Before an FCC order authorizing the VZ LD Companies to provide long distance services in a state goes into effect, the VZ Telcos may receive calls from potential long distance customers. In such cases, the VZ Telcos shall inform the customer of the unavailability of the services and offer to record the customer's interest in the VZ LD Companies' services.

VZ Telcos	Service/ Employee Title	Number of OTC Employees	Rate	Basis for Rate	Frequency of Transaction
VNY	N/A	N/A	N/A	N/A	N/A
VNE	Customer Service Representatives	0-1,600	$.83/min.	FDC	Daily
VDC	TBD	TBD	TBD	TBD	TBD
VDE	TBD	TBD	TBD	TBD	TBD
VMD	TBD	TBD	TBD	TBD	TBD
VNJ	Customer Service Representatives	0-2,000	$1.00/min.	FDC	Daily
VPA	Customer Service Representatives	0-2,000	$.81/min.	FDC	Daily
VVA	TBD	TBD	TBD	TBD	TBD
VWV	TBD	TBD	TBD	TBD	TBD

[6] EFMV means estimated fair market value

Verizon Long Distance

Agreement Details:

Title: Amendment No. 1 to Sales and Marketing Agreement, Statement of Work

Effective Date: 06/01/01

Provided by: Bell Atlantic Communications, Inc. d/b/a Verizon Long Distance (VLD)

Provided to: Verizon California Inc., Verizon Florida Inc., Verizon Hawaii Inc., Verizon Midwest, Verizon Mid-States, Verizon North Inc., Verizon Northwest Inc., Verizon South Inc., Verizon West Coast Inc., GTE Southwest Inc. d/b/a Verizon Southwest

Details:
None

Terms and Conditions:
This Amendment allows employees or agents of Verizon local companies and of VSSI whose responsibilities include selling or marketing VSSI products to also sell or market Verizon local products, in conjunction with the sale or marketing of VSSI inter-exchange products and services.

Renewal Clause:
Yes

Special Equipment:
None

Rates/Transaction Frequency/OTC* Resources:
*Operating Telephone Company

Service	Number of OTC	Rate	Pricing Criterion	Frequency of Transaction(per
Toll Optimization	N/A	$35 per INTRA	FDC*	Daily

* FDC - Fully Distributed Cost rates are fully loaded rates, which include the costs of material and all direct and indirect miscellaneous and overhead costs

Original Agreement
Amendment No. 1 to Sales and Marketing Agreement, Statement of Work

Contract period: 07/31/99 to 07/31/02

A copy of the written agreement is available for public inspection between the hours of 9 a.m. and 4 p.m., Monday through Friday, except for Holidays, at the following locations:

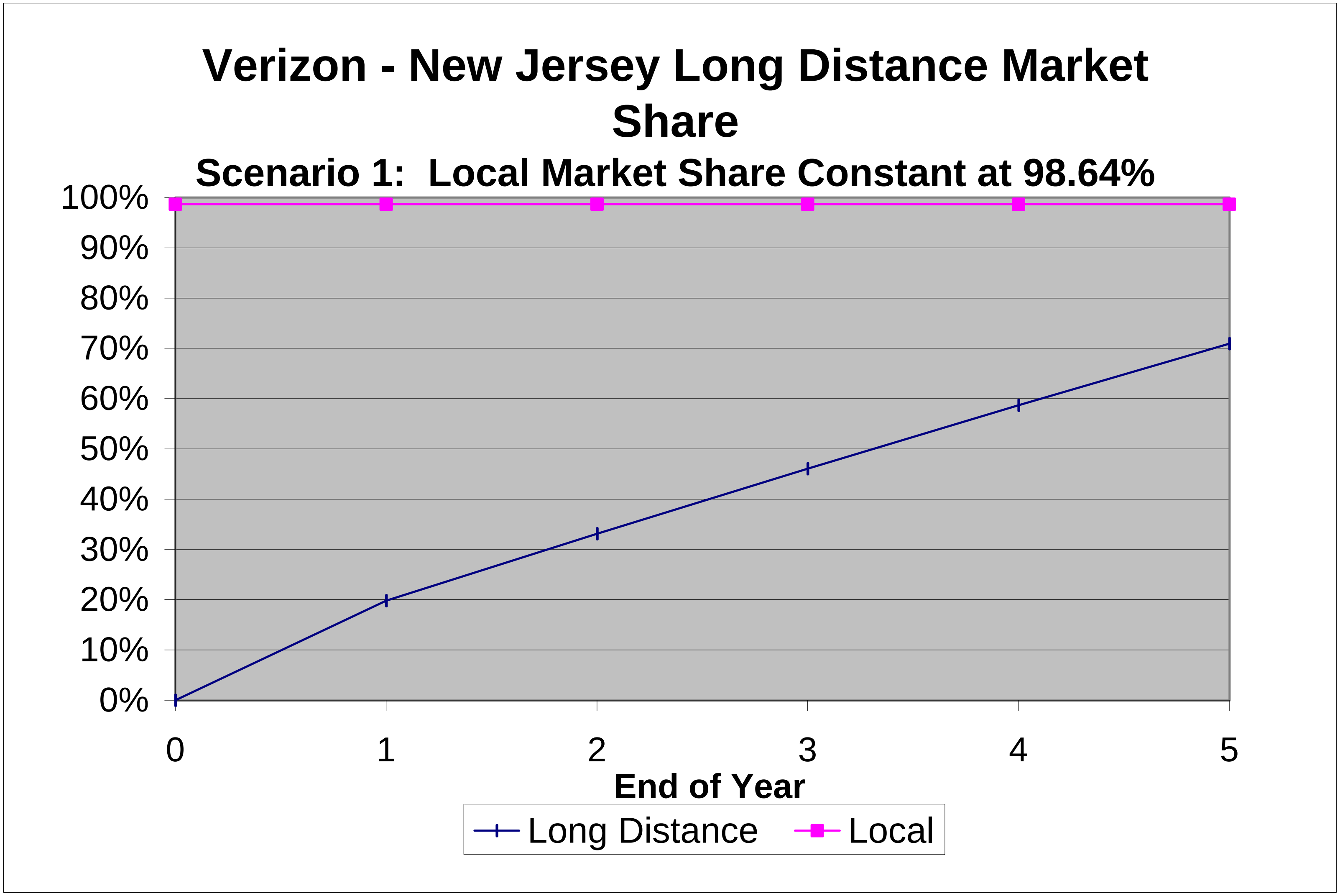
Tel. 808-546-7730

Verizon North Inc.	Glen Hatheway 19845 N. US HWY 31 Westfield, IN 46074 Tel. 317-896-8588
Verizon Southwest	Ranae Brigham 500 John Carpenter Frwy Irving, TX 75062 Tel. 972-717-7859
Verizon South Inc.	James Crawford 4100 Roxboro Road Durham, NC 27704 Tel. 919-317-5367
Verizon Northwest Inc.	Jan Howard 1800 41st Street Everett, WA 98201 Tel. 425-261-6003
Verizon Midwest	Ruth Nelson 1000 Verizon Drive Wentzville, MO 63385 Tel. 636-332-7378
Verizon West Coast Inc.	Jan Howard 1800 41st Street Everett, WA 98201 Tel. 425-261-6003
Verizon Mid-States	Kim Miller 600 Hidden Ridge Irving, TX 75038 Tel. 972-718-7396

[**Return to Current Location in Affiliated Agreements**]

Attachment 4:

Model of the Growth in Verizon New Jersey Long Distance Market Share

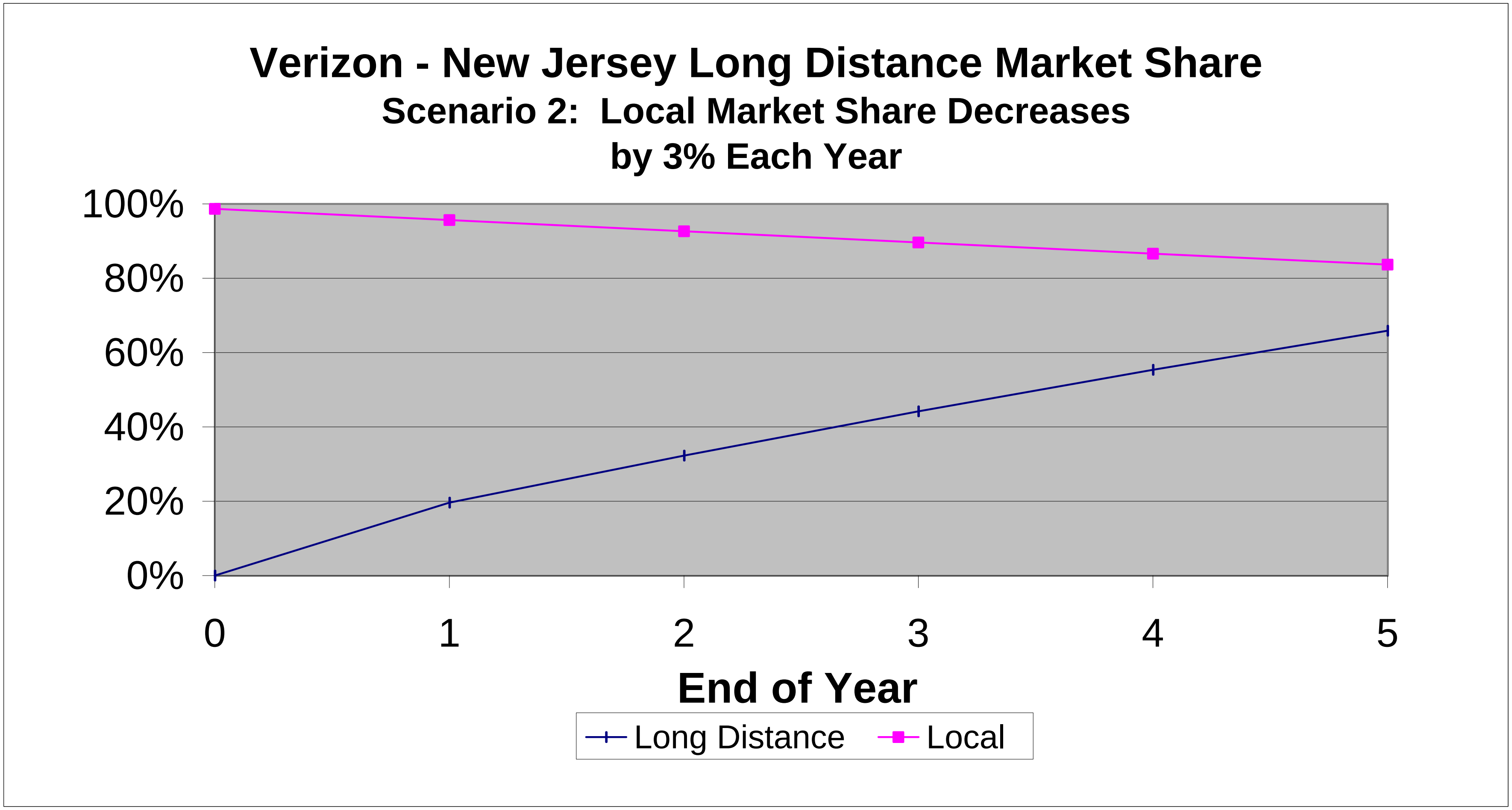


Verizon - New Jersey Long Distance Market Share
Scenario 1: Local Market Share Constant at 98.64%
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
0
1
2
3
4
5
End of Year
Long Distance
Local

Scenario 1 Results : Local Market Share Constant at 98.64%

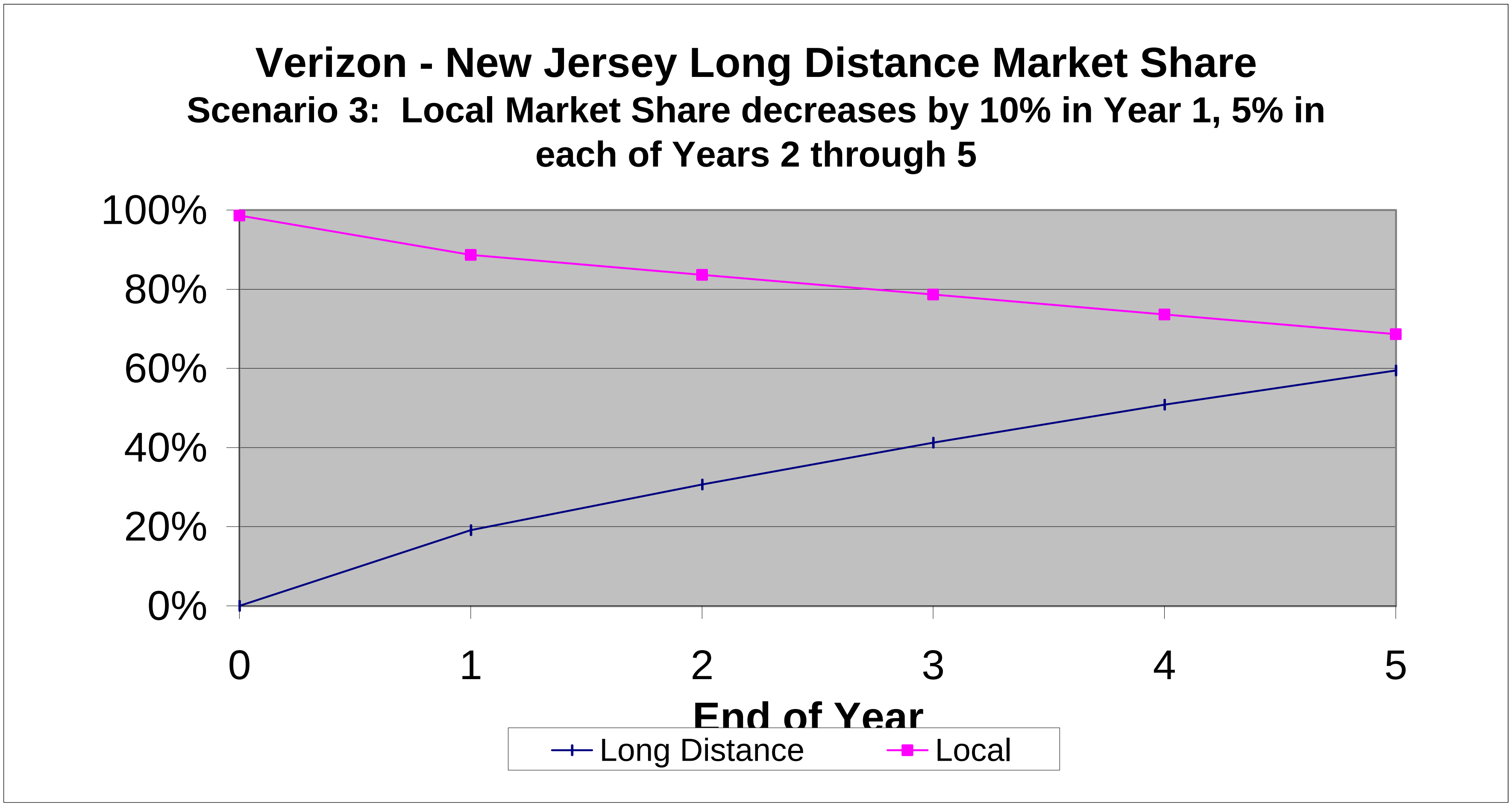
	Year 1	Year 2	Year 3	Year 4	Year 5	Line
Verizon - New Jersey local market share in Verizon - New Jersey territory, BOY	98.64%	98.64%	98.64%	98.64%	98.64%	$l = z^{(t-1)}$
Verizon - New Jersey long distance market share in Verizon - New Jersey territory, B	0%	19.81%	33.11%	46.05%	58.67%	$m = y^{(t-1)}$
Residential lines in Verizon - New Jersey territory (including competitive)	4,402,511	4,572,448	4,748,944	4,932,254	5,122,639	$n = n^{(t-1)} * f$
Verizon - New Jersey residential lines	4,342,831	4,510,464	4,684,568	4,865,393	5,053,197	o = l*n
Residential households in Verizon - New Jersey territory (including competitive)	3,415,447	3,547,283	3,684,208	3,826,419	3,974,118	p = n/(1+g)
Verizon - New Jersey residential households	3,369,147	3,499,196	3,634,265	3,774,548	3,920,246	q = o/(1+g)
Verizon - New Jersey inward residential customer orders, midyear	572,755	594,863	617,825	641,673	666,442	r = h*((l+z)/2)*p
Inward residential customer orders where customers accept ILEC long distance service on the initial contact.	471,681	489,888	508,797	528,437	548,834	s = i*r
"PIC change" residential customers switching to ILEC	204,927	210,817	365,898	528,666	699,438	t = j*m*p
Verizon - New Jersey long distance customers	676,607	700,705	874,695	1,057,103	1,248,273	u = s+t
Verizon - New Jersey long distance customers net of current year PIC changes	676,607	497,723	522,396	548,085	574,829	$v=u-(w^{(t-1)}*j)$
Verizon - New Jersey long distance customers (cumulative)	676,607	1,174,330	1,696,726	2,244,811	2,819,640	$w=v+w^{(t-1)}$
Verizon - New Jersey residential access lines with Verizon - New Jersey long distanc	872,147	1,513,711	2,187,080	2,893,561	3,634,516	$x=w*(1+g) + x^{(t-1)}$
Verizon - New Jersey long distance market share in Verizon - New Jersey territory, E	**19.81%**	**33.11%**	**46.05%**	**58.67%**	**70.95%**	y = x/n
Verizon - New Jersey local market share in Verizon - New Jersey territory, EOY	**98.64%**	**98.64%**	**98.64%**	**98.64%**	**98.64%**	z = l + e

Scenario 1 Inputs : Local Market Share Constant at 98.64%			
	Data Value	**Source**	**Line**
Verizon - New Jersey residential lines, Year 1	4,342,831	Verizon - New Jersey residential access lines, (2000 ARMIS Report 43-08, Table III)	a
Competitor residential lines, Year 1	59,680	Competitor residential lines (Declaration of Dennis M. Bone, Attachment 101).	b
Total residential lines in Verizon - New Jersey territory - Year 1	4,402,511		c = a + b
Verizon - New Jersey residential market share in Verizon - New Jersey territory, Year 1	98.64%		d = a / c
Annual Growth in Verizon - New Jersey residential market share in Verizon - New Jersey territory	0.00%		e
Annual growth in residential lines in Verizon - New Jersey territory	3.86%	Average annual growth in residential access lines in NJ (1996-2000 ARMIS Report 43-08: Table III)	f
Percentage of households with additional lines	28.90%	FCC, Industry Analysis Division, Trends in Telephone Service, August 2001, Table 8.4.	g
Local residential inward movement	17%	U.S Census Bureau, American Housing Survey for the United States in 1999, Table 2.9.	h
Percentage of inward residential customer orders where customers accept ILEC long distance service on the initial contact	82.35%	Based upon Verizon - New York's end of year long distance market share (20%).	i = (.2-(j*k))/h
Primary Interexchange Carrier (PIC) change rate	30%	News Release, J.D. Powers and Associates Reports: Sprint and Snet Top Performers in Residential Long Distance Customer Satisfaction, July 29, 1999.	j
Percentage of PIC change going to ILEC, Year 1	20%	Conservative estimate for year 1. In future years, the ILEC's share of PIC changes is its share of Verizon - New Jersey's share of the long distance market.	k


Verizon - New Jersey Long Distance Market Share
Scenario 2: Local Market Share Decreases
by 3% Each Year
100%
80%
60%
40%
20%
0%
0
1
2
3
4
5
End of Year
Long Distance
Local

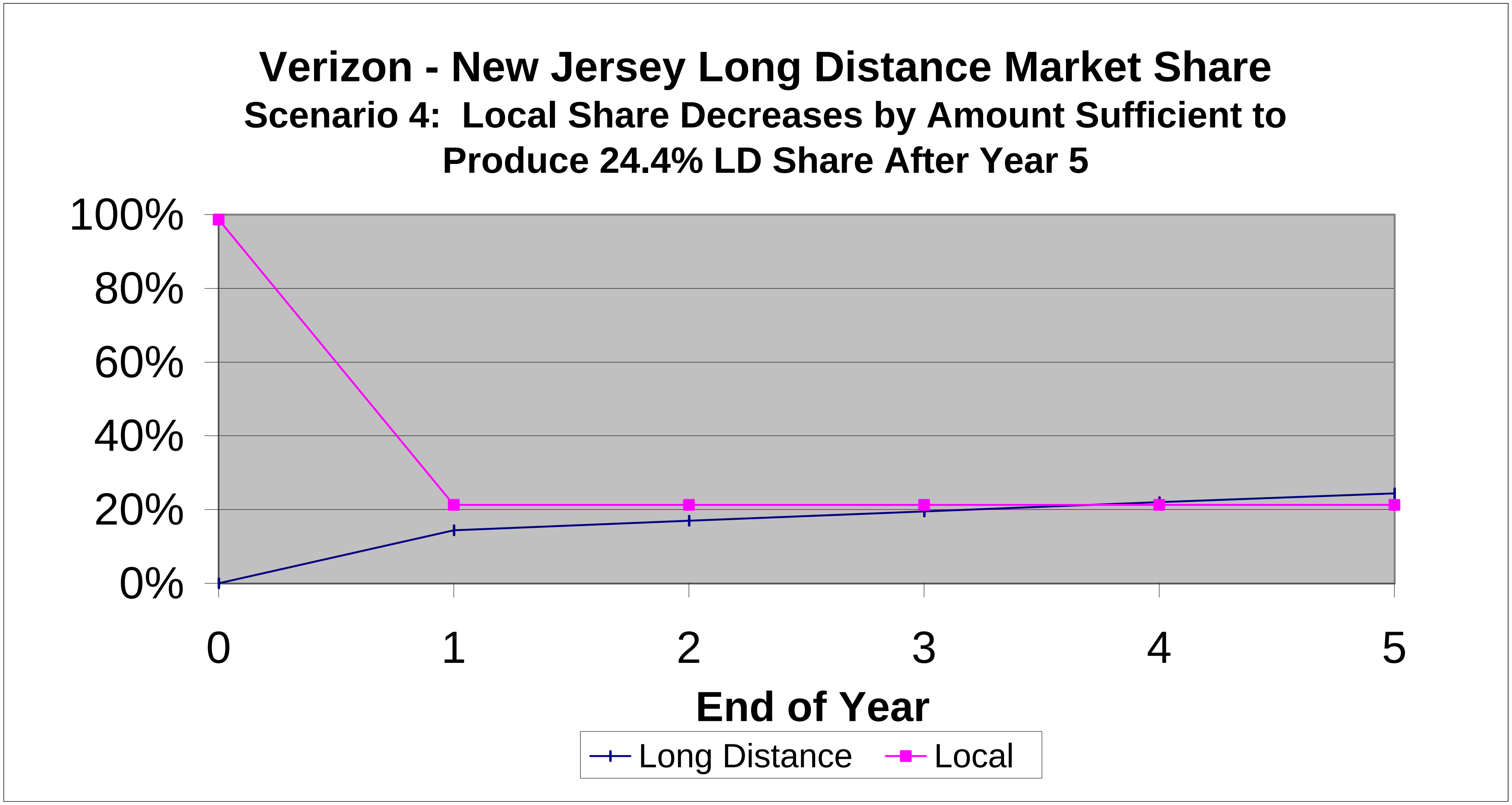
Scenario 2 Results : Local Market Share Decreases by 3% Each Year						
	Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Line**
Verizon - New Jersey local market share in Verizon - New Jersey territory, BOY	98.64%	95.64%	92.64%	89.64%	86.64%	$l = z^{(t-1)}$
Verizon - New Jersey long distance market share in Verizon - New Jersey territory, BOY	0%	19.60%	32.27%	44.19%	55.38%	$m = y^{(t-1)}$
Residential lines in Verizon - New Jersey territory (including competitive)	4,402,511	4,572,448	4,748,944	4,932,254	5,122,639	$n = n^{(t-1)}*f$
Verizon - New Jersey residential lines	4,342,831	4,373,291	4,399,632	4,421,490	4,438,480	o = l*n
Residential households in Verizon - New Jersey territory (including competitive)	3,415,447	3,547,283	3,684,208	3,826,419	3,974,118	p = n/(1+g)
Verizon - New Jersey residential households	3,369,147	3,392,778	3,413,213	3,430,170	3,443,351	q = o/(1+g)
Verizon - New Jersey inward residential customer orders, mid year	564,046	567,727	570,851	573,372	575,236	r = h*((l+z)/2)*p
Inward residential customer orders where customers accept ILEC long distance service on the initial contact.	464,508	467,540	470,113	472,188	473,724	s = i*r
"PIC change" residential customers switching to ILEC	204,927	208,583	356,674	507,282	660,281	t = j*m*p
Verizon - New Jersey long distance customers	669,435	676,122	826,787	979,470	1,134,004	u = s+t
Verizon - New Jersey long distance customers net of current year PIC changes	669,435	475,292	483,369	491,042	498,263	$v=u-(w^{(t-1)}*j)$
Verizon - New Jersey long distance customers (cumulative)	669,435	1,144,727	1,628,096	2,119,137	2,617,401	$w=v+w^{(t-1)}$
Verizon - New Jersey residential access lines with Verizon - New Jersey long distance	862,902	1,475,553	2,098,615	2,731,568	3,373,829	$x=w*(1+g) + x^{(t-1)}$
Verizon - New Jersey long distance market share in Verizon - New Jersey territory, EOY	**19.60%**	**32.27%**	**44.19%**	**55.38%**	**65.86%**	y = x/n
Verizon - New Jersey local market share in Verizon - New Jersey territory, EOY	**95.64%**	**92.64%**	**89.64%**	**86.64%**	**83.64%**	z = l + e

Scenario 2 Inputs : Local Market Share Decreases by 3% Each Year			
	Data Value	**Source**	**Line**
Verizon - New Jersey residential lines, Year 1	4,342,831	Verizon - New Jersey residential access lines, (2000 ARMIS Report 43-08, Table III)	a
Competitor residential lines, Year 1	59,680	Competitor residential lines (Declaration of Dennis M. Bone, Attachment 101).	b
Total residential lines in Verizon - New Jersey territory - Year 1	4,402,511		c = a + b
Verizon - New Jersey residential market share in Verizon - New Jersey territory, Year 1	98.64%		d = a / c
Annual Growth in Verizon - New Jersey residential market share in Verizon - New Jersey territory	**-3.00%**		e
Annual growth in residential lines in Verizon - New Jersey territory	3.86%	Average annual growth in residential access lines in NJ (1996-2000 ARMIS Report 43-08: Table III)	f
Percentage of households with additional lines	28.90%	FCC, Industry Analysis Division, Trends in Telephone Service, August 2001, Table 8.4.	g
Local residential inward movement	17%	U.S Census Bureau, American Housing Survey for the United States in 1999, Table 2.9.	h
Percentage of inward residential customer orders where customers accept ILEC long distance service on the initial contact	82.35%	Based upon Verizon - New York's end of year long distance market share (20%).	i = (.2-(j*k))/h
Primary Interexchange Carrier (PIC) change rate	30%	News Release, J.D. Powers and Associates Reports: Sprint and Snet Top Performers in Residential Long Distance Customer Satisfaction, July 29, 1999.	j
Percentage of PIC change going to ILEC, Year 1	20%	Conservative estimate for year 1. In future years, the ILEC's share of PIC changes is its share of Verizon - New Jersey's share of the long distance market.	k


Verizon - New Jersey Long Distance Market Share
Scenario 3: Local Market Share decreases by 10% in Year 1, 5% in each of Years 2 through 5
100%
80%
60%
40%
20%
0%
0
1
2
3
4
5
End of Year
Long Distance
Local

Scenario 3 Results : Local Market Share Decreases by 10% in Year 1, 5% in each of Years 2 through 5						
	Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Line**
Verizon - New Jersey local market share in Verizon - New Jersey territory, BOY	98.64%	88.64%	83.64%	78.64%	73.64%	$l = z^{(t-1)}$
Verizon - New Jersey long distance market share in Verizon - New Jersey territory, BOY	0%	19.11%	30.67%	41.24%	50.82%	$m = y^{(t-1)}$
Residential lines in Verizon - New Jersey territory (including competitive)	4,402,511	4,572,448	4,748,944	4,932,254	5,122,639	$n = n^{(t-1)}*f$
Verizon - New Jersey residential lines	4,342,831	4,053,219	3,972,227	3,878,942	3,772,537	o = l*n
Residential households in Verizon - New Jersey territory (including competitive)	3,415,447	3,547,283	3,684,208	3,826,419	3,974,118	p = n/(1+g)
Verizon - New Jersey residential households	3,369,147	3,144,468	3,081,634	3,009,264	2,926,716	q = o/(1+g)
Verizon - New Jersey inward residential customer orders, mid year	543,724	519,484	508,220	495,313	480,652	r = h*((l+z)/2)*p
Inward residential customer orders where customers accept ILEC long distance service on the initial contact.	447,773	427,810	418,534	407,905	395,831	s = i*r
"PIC change" residential customers switching to ILEC	204,927	203,368	339,020	473,353	605,929	t = j*m*p
Verizon - New Jersey long distance customers	652,699	631,178	757,554	881,257	1,001,760	u = s+t
Verizon - New Jersey long distance customers net of current year PIC changes	652,699	435,368	431,134	425,497	418,350	$v=u-(w^{(t-1)}*j)$
Verizon - New Jersey long distance customers (cumulative)	652,699	1,088,068	1,519,202	1,944,698	2,363,049	$w=v+w^{(t-1)}$
Verizon - New Jersey residential access lines with Verizon - New Jersey long distance	841,329	1,402,519	1,958,251	2,506,716	3,045,970	$x=w*(1+g) + x^{(t-1)}$
Verizon - New Jersey long distance market share in Verizon - New Jersey territory, EOY	**19.11%**	**30.67%**	**41.24%**	**50.82%**	**59.46%**	y = x/n
Verizon - New Jersey local market share in Verizon territory, EOY	**88.64%**	**83.64%**	**78.64%**	**73.64%**	**68.64%**	z = l + e

Scenario 3 Inputs : Local Market Share Decreases by 10% in Year 1, 5% in each of Years 2 through 5			
	Data Value	**Source**	**Line**
Verizon - New Jersey residential lines, Year 1	4,342,831	Verizon - New Jersey residential access lines, (2000 ARMIS Report 43-08, Table III)	a
Competitor residential lines, Year 1	59,680	Competitor residential lines (Declaration of Dennis M. Bone, Attachment 101).	b
Total residential lines in Verizon - New Jersey territory - Year 1	4,402,511		c = a + b
Verizon - New Jersey residential market share in Verizon - New Jersey territory, Year 1	98.64%		d = a / c
Annual Growth in Verizon - New Jersey residential market share in Verizon - New Jersey territory	-10% for year 1, -5% future years		e
Annual growth in residential lines in Verizon - New Jersey territory	3.86%	Average annual growth in residential access lines in NJ (1996-2000 ARMIS Report 43-08: Table III)	f
Percentage of households with additional lines	28.90%	FCC, Industry Analysis Division, Trends in Telephone Service, August 2001, Table 8.4.	g
Local residential inward movement	17%	U.S Census Bureau, American Housing Survey for the United States in 1999, Table 2.9.	h
Percentage of inward residential customer orders where customers accept ILEC long distance service on the initial contact	82.35%	Based upon Verizon - New York's end of year long distance market share (20%).	i = (.2-(j*k))/h
Primary Interexchange Carrier (PIC) change rate	30%	News Release, J.D. Powers and Associates Reports: Sprint and Snet Top Performers in Residential Long Distance Customer Satisfaction, July 29, 1999.	j
Percentage of PIC change going to ILEC, Year 1	20%	Conservative estimate for year 1. In future years, the ILEC's share of PIC changes is its share of Verizon - New Jersey's share of the long distance market.	k



Verizon - New Jersey Long Distance Market Share
Scenario 4: Local Share Decreases by Amount Sufficient to Produce 24.4% LD Share After Year 5
100%
80%
60%
40%
20%
0%
0
1
2
3
4
5
End of Year
Long Distance
Local

Scenario 4 Results : Local Share Decreases by Amount Sufficient to Produce 24.4% LD Share after 5 Years						
	Year 1	Year 2	Year 3	Year 4	Year 5	Line
Verizon - New Jersey local market share in Verizon - New Jersey territory, BOY	98.64%	21.25%	21.25%	21.25%	21.25%	$l = z^{(t-1)}$
Verizon - New Jersey long distance market share in Verizon - New Jersey territory, BOY	0%	14.39%	16.99%	19.53%	21.99%	$m = y^{(t-1)}$
Residential lines in Verizon - New Jersey territory (including competitive)	4,402,511	4,572,448	4,748,944	4,932,254	5,122,639	$n = n^{(t-1)}*f$
Verizon - New Jersey residential lines	4,342,831	971,645	1,009,151	1,048,104	1,088,561	$o = l*n$
Residential households in Verizon - New Jersey territory (including competitive)	3,415,447	3,547,283	3,684,208	3,826,419	3,974,118	$p = n/(1+g)$
Verizon - New Jersey residential households	3,369,147	753,798	782,894	813,114	844,500	$q = o/(1+g)$
Verizon - New Jersey inward residential customer orders, mid year	348,069	128,146	133,092	138,229	143,565	$r = h*((l+z)/2)*p$
Inward residential customer orders where customers accept ILEC long distance service on the initial contact.	286,645	105,532	109,605	113,836	118,230	$s = i*r$
"PIC change" residential customers switching to ILEC	204,927	153,164	187,819	224,145	262,210	$t = j*m*p$
Verizon - New Jersey long distance customers	491,572	258,696	297,424	337,981	380,440	$u = s+t$
Verizon - New Jersey long distance customers net of current year PIC changes	491,572	111,224	116,586	122,166	127,975	$v=u-(w^{(t-1)}*j)$
Verizon - New Jersey long distance customers (cumulative)	491,572	602,796	719,382	841,548	969,523	$w=v+w^{(t-1)}$
Verizon - New Jersey residential access lines with Verizon - New Jersey long distance	633,636	777,004	927,283	1,084,755	1,249,715	$x=w*(1+g) + x^{(t-1)}$
Verizon - New Jersey long distance market share in Verizon - New Jersey territory, EOY	**14.39%**	**16.99%**	**19.53%**	**21.99%**	**24.40%**	$y = x/n$
Verizon - New Jersey local market share in Verizon - New Jersey territory, EOY	**21.25%**	**21.25%**	**21.25%**	**21.25%**	**21.25%**	z

Scenario 4 Inputs : Local Share Decreases by Amount Sufficient to Produce 24.4% LD Share after 5 Years			
	Data Value	**Source**	**Line**
Verizon - New Jersey residential lines, Year 1	4,342,831	Verizon - New Jersey residential access lines, (2000 ARMIS Report 43-08, Table III)	a
Competitor residential lines, Year 1	59,680	Competitor residential lines (Declaration of Dennis M. Bone, Attachment 101).	b
Total residential lines in Verizon - New Jersey territory - Year 1	4,402,511		c = a + b
Verizon - New Jersey residential market share in Verizon - New Jersey territory, Year 1	98.64%		d = a / c
Annual Growth in Verizon - New Jersey residential market share in Verizon - New Jersey territory	0.00%		e
Annual growth in residential lines in Verizon - New Jersey territory	3.86%	Average annual growth in residential access lines in NJ (1996-2000 ARMIS Report 43-08: Table III)	f
Percentage of households with additional lines	28.90%	FCC, Industry Analysis Division, Trends in Telephone Service, August 2001, Table 8.4.	g
Local residential inward movement	17%	U.S Census Bureau, American Housing Survey for the United States in 1999, Table 2.9.	h
Percentage of inward residential customer orders where customers accept ILEC long distance service on the initial contact	82.35%	Based upon Verizon - New York's end of year long distance market share (20%).	i
Primary Interexchange Carrier (PIC) change rate	30%	News Release, J.D. Powers and Associates Reports: Sprint and Snet Top Performers in Residential Long Distance Customer Satisfaction, July 29, 1999.	i = (.2-(j*k))/h
Percentage of PIC change going to ILEC, Year 1	20%	Conservative estimate for year 1. In future years, the ILEC's share of PIC changes is its share of Verizon - New Jersey's share of the long distance market.	k