

Appendix B

Verizon Retail End-User Uncollectible Study DescriptionGeneral

Verizon reports retail end user revenues on Form 499-Q to USAC each quarter. These retail revenues include revenues derived from the activation and provision of interstate, international, and intrastate telecommunications and non-telecommunications services for the filing period. However, only revenues reported on data line 420 (interstate and international) are the basis for the universal service assessment obligation. The universal service obligation is charged to telecommunications carriers the second quarter after the reporting period. Thus, the second quarter Form 499 revenues that were reported to USAC on August 1st formed the basis for the universal service assessment for the fourth quarter 2002.

FCC reporting guidelines do not allow for the inclusion of any uncollectible amounts in the Form 499 reports. As a result, universal service assessments for all carriers are assessed based on their reported interstate and international retail revenues. However, some of the reported revenue upon which the assessment is based will not actually be collected. Thus, in order accurately to determine the universal service charges that are necessary and in order to fully recover the universal service assessment, carriers must account for these uncollectibles.

In order to determine the appropriate uncollectible levels, Verizon has developed an analysis process that compares all retail revenues (local, intrastate, and interstate) to uncollectible revenues for the same period as the assessment base in order to develop an uncollectible factor. If the assessment is based on second quarter reported revenues, second quarter uncollectible figures also will be used. By using data from the same quarter, the uncollectible factor is consistent with the revenue base used to calculate the assessment. The uncollectible factor then is used to appropriately adjust the quarterly per-line FUSF surcharge. See Attachment I for the uncollectible factor development used in the fourth quarter's FUSF surcharge filing.

Determination of Revenue Base

Verizon performs a Retail End-User Uncollectible Study on a quarterly basis by extracting end-user revenue detail as recorded in Verizon's financial reporting systems. Attachment II shows the revenue accounts included in the revenue base used to develop the uncollectible factor. In general, these revenues are all retail services and include a broader base of revenues (local, intrastate, and interstate) than just interstate revenues, as follows:

- all local accounts including residential, business, directory assistance, customer premise, private line, and other miscellaneous local billing;
- the subscriber line charge and FUSF Fees;
- message toll and private line end-user billing, and;
- directory listing and other miscellaneous non-regulated amounts charged to end users.

The actual revenues included in the uncollectible revenue base for this study are shown in Attachment III (Verizon – East) and Attachment IV (Verizon – West).

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Development of Retail Uncollectible Revenues

Verizon records uncollectible revenues as a credit to Account 1181—Accounts Receivable Allowance—and as a debit to Account 5300—Uncollectible Revenue. These revenues become uncollectible only after each account is handled individually through an account receivable collection process after which the account is deemed uncollectible and is accounted for accordingly. This process consists of sending notices if the customer does not pay the monthly statements, allowing an interval for a customer response, disconnection if no response is received, and issuance of a final bill. Once the final bill is rendered, the customer account enters a collection phase that may last up to six months. If payment is not made within the six-month period, the account is deemed uncollectible and charged to Account 5300.

The end-user uncollectible amounts shown on Attachment V were extracted from the Uncollectible Revenue Account 5300. The data extracted represent uncollectible revenues for retail lines of business only. Wholesale or other non-retail uncollectible revenues were not included. Because the fourth quarter assessment was based on revenues from the second quarter 2002, the uncollectible revenue data used in this filing reflect end user amounts that were booked as bad debt, or uncollectible, during the second quarter 2002. While these revenues became uncollectible and were charged to the appropriate account during the second quarter, they represent amounts actually billed and booked in prior months. Actual second quarter uncollectibles based on revenues generated for that quarter will not be known until some future date after delinquent customers go through the accounts receivable collection process, at which time the account is determined to be uncollectible.

The retail market uncollectible factor is developed quarterly by dividing the Account 5300 end-user uncollectible revenue amounts for the retail lines of business by the total retail revenues. Only end user retail revenues and corresponding uncollectible retail amounts for the same retail services are included in the determination of the uncollectible factor for the FUSF rate calculation.

FUSF Rate Development

Verizon utilized the uncollectible factors described in the previous section to adjust the quarterly USAC contribution obligation that would be recovered by the per-line FUSF surcharge. Verizon's fourth quarter FUSF Surcharge Tariff Filing included the following uncollectible calculations :

<u>Description</u>	<u>4th Quarter USF Obligation</u>	<u>Uncollectible Calculation</u>	<u>4th Quarter FUSF Uncoll.</u>
Verizon-East	\$49,357,798	$(1/1 -.0195) \times \text{obligation}$	\$ 981,619
Verizon-West	\$22,071,517	$(1/1 -.0216) \times \text{obligation}$	\$ 487,270

Please refer to the attached schedules for a detail of accounts and amounts included in the uncollectible study.

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Attachment I

Verizon Local Exchange Companies
Summary of Retail Markets Revenue Base / Uncollectible Revenue
For the Quarter Ending, June 30, 2002

			(000's)			
<u>Description</u>		<u>Reference</u>	2nd Quarter Retail Markets Base / Uncollectibles			
<u>Line</u>			<u>April</u>	<u>May</u>	<u>June</u>	<u>Total</u>
<u>Verizon - East</u>						
1	Revenue Base	Attachment III	\$ 1,539,758	\$ 1,532,935	\$ 1,524,547	\$ 4,597,240
2	Uncollectibles	Attachment V	<u>31,432</u>	<u>28,480</u>	<u>29,775</u>	<u>89,667</u>
3	VZ-East % Uncollectible	Ln 2 / 1				<u>1.95%</u>
<u>Verizon - West</u>						
4	Revenue Base (a)	Attachment IV	\$ 751,942	\$ 757,900	\$ 753,715	\$ 2,263,557
5	Uncollectibles	Attachment V	<u>17,413</u>	<u>16,638</u>	<u>14,789</u>	<u>48,840</u>
6	VZ-West % Uncollectible	Ln 5 / 4				<u>2.16%</u>

Footnote:

- a) This row includes \$162,697 in the 2nd quarter's financial data for properties repositioned. The amount was included to match the revenue base with actual uncollectibles for the reporting period.

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Attachment II

Verizon Local Exchange Companies
FCC Accounts Included in Retail Revenue Base / Uncollectible Revenue
Source: Retail Revenue Accounts Extracted from Financial Reporting System(s)

<u>FCC Account</u>	<u>Account Description</u>	<u>Note</u>
5000	Basic Local Service Revenue	(1)
5001	Basic Area Revenue	(1)
5002	Optional Extended Area Revenue	(1)
5004	Other Mobile Service Revenue	(1)
5040	Local Private Line Revenue	(1)
5050	Customer Premise Revenue	(1)
5060	Other Local Exchange Revenue	(1)
5069	Other Local Exchange Revenue Settlements	(1)
5080	Network Access Revenue	(2) End-user Billing only
5081	End User Revenue (SLC & USF Fees)	(1)
5082	Switched Access Revenue	(2) End-user Billing only
5083	Special Access Revenue	(2) End-user Billing only
5084	State Access Revenue	(2) End-user Billing only
5100	Long Distance (LD) Message Revenue	(1)
5110	Unidirectional LD Revenue	(1)
5111	LD Inward-only Revenue	(1)
5112	LD Outward-only Revenue	(1)
5120	LD Private Private Network Revenue	(2) End-user Billing only
5121	Subvoice Grade LD Private Network Revenue	(2) End-user Billing only
5122	Voice Grade LD Private Network Revenue	(2) End-user Billing only
5123	Audio Program Grade LD Private Network Revenue	(2) End-user Billing only
5124	Video Program Grade LD Private Network Revenue	(2) End-user Billing only
5125	Digital Transmission Grade LD Private Network Revenue	(2) End-user Billing only
5126	LD Private Network Switching Revenue	(2) End-user Billing only
5128	Other LD Private Network Revenue	(2) End-user Billing only
5129	Other LD Private Network Revenue Settlements	(2) End-user Billing only
5160	Other LD Revenue	(1)
5230	Directory Revenue	(1)
5240	Rent Revenue	(2) UNE Rent
5260	Miscellaneous Revenue	(2) End-user Billing only
5280	Non-regulated Operating Revenue	(2) End-user Billing only

Note:

- 1) Unless otherwise noted, the entire account balance is included in the uncollectible study.
- 2) Wholesale Revenues are not part of the Retail Uncollectible Study.

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Attachment III

Verizon - East
Retail Market Revenue for Local Exchange
Companies

Source: VZ Financial Reporting System

<u>Description</u>	End User Retail Revenue (000's)			
	Apr-02	May-02	Jun-02	2nd QTR
1 Total Basic Calling Service	\$ 691,533	\$ 689,049	\$ 681,952	\$ 2,062,534
2 Other Local	375,489	368,942	373,987	1,118,418
3 State / Interstate Access (a)	335,306	334,289	334,809	1,004,404
4 State / Interstate Toll	99,071	102,666	90,885	292,622
5 Ancillary	38,359	37,989	42,914	119,262
6 Total Operating Revenues	<u>\$ 1,539,758</u>	<u>\$ 1,532,935</u>	<u>\$ 1,524,547</u>	<u>\$ 4,597,240</u>

Note:

a) Amounts include end user subscriber line charges and FUSF surcharges.

b) FCC Accounts included in above categories:

- Total Basic Calling Service & Other Local - Accounts 5000 - 5069
- State / Interstate Access - Accounts 5080 - 5084
- State / Interstate Toll - Accounts 5100 - 5160
- Ancillary - Accounts 5230 - 5280

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Attachment IV

Verizon - West

Retail Market Revenue for
Local Exchange Companies

Source: VZ Financial Reporting System

Description	End User Retail Revenue (000's)			
	Apr-02	May-02	Jun-02	2nd QTR
1 Total Basic Calling Service	\$ 353,411	\$ 353,182	\$ 351,296	\$ 1,057,889
2 Other Local	115,952	116,741	116,541	349,235
3 State / Interstate Access (a)	153,397	154,291	153,130	460,818
4 State / Interstate Toll	27,244	28,167	27,336	82,747
5 Ancillary	\$ 46,734	\$ 51,405	\$ 52,032	\$ 150,171
6 Total Operating Revenues	\$ 696,739	\$ 703,787	\$ 700,334	\$ 2,100,860
7 Plus Properties Repositioned (b)	55,203	54,113	53,381	162,697
8 Total Operating Revenues	\$ 751,942	\$ 757,900	\$ 753,715	\$ 2,263,557

Notes:

- a) Amounts include end user subscriber line charges and FUSF surcharges.
- b) Properties were sold in Alabama, Kentucky, and Missouri during the year. As a result, financial data that had been included in the tariff's filing uncollectible factor relating to these properties was included in this table to make the revenue base consistent with the uncollectibles included in the study.
- c) FCC Accounts included in above categories:
 - Total Basic Calling Service & Other Local - Accounts 5000 -5069
 - State / Interstate Access - Accounts 5080 - 5084
 - State / InterstateToll - Accounts 5100 - 5160
 - Ancillary - Accounts 5230 - 5280

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Attachment V

**Verizon - Local Exchange Companies
Retail Uncollectible Revenue**

Source: Acct. 5300--Financial Reporting System

<u>Description</u>	Retail Uncollectibles (000's)			
	April	May	June	Total
Verizon - East	\$ 31,432	\$ 28,480	\$ 29,775	\$ 89,687
Verizon - West	\$ 17,413	\$ 16,639	\$ 14,788	\$ 48,840

Note:

- 1) The above uncollectibles extracted from Account 5300 represent retail revenues only; to be consistent with the revenue base, any non-retail revenues are not included in the company's extraction.
- 2) The amounts in this table include uncollectibles from the enterprise, general business, consumer, and public lines of business.