Exhibit No. ____ (LLS-10)

"Fee for Service" Implementation Documents

(As provided in Verizon NW Response to WUTC Staff Data Request No. 250)

Earl A. Goode
President

9-2-99
Rob McCoy:
Please review this and share your thoughts / recommendations regarding the current direction by 9-16-99.
Thanks,
John Appel

GTE Information Services Incorporated

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D/FW Airport, TX 75261-9810
972 453-7901
Fax: 972 453-6039

September 1, 1999

SEP 02 1999

To: Dan O'Brien
SVC06C06

Re: **Fee For Service**

Dear Dan:

In connection with our telephone conversation of last Friday, I have summarized the background on the above subject which was initiated in 1998 as a result of the merger integration with Bell Atlantic.

- When merger planning began last year, the relationship between carrier and publishing company was identified as one showing difference between Bell Atlantic (BA) and GTE. In track with the Bell companies generally, BA had moved toward a fee for service approach for its publishing operations.

- A merger team was formed to examine the affiliate/carrier relationship in detail. The fundamental distinction identified in BA/GTE operations was the publishing rights model followed by GTE, which contrasted with the fee for service orientation of BA.

- Clearly this distinction is a merger issue and will need to be resolved at the appropriate time. For example, in Pennsylvania, where both companies now operate, after merger, publishing rights could be applicable to one set of exchanges while fee for service would apply to exchanges "next door".

- Cambridge Strategic Management Group was commissioned by BA/GTE directory group to review approaches taken by each company and recommend the best alternative for Newco to follow. A copy of this analysis is attached for your review. One of the contributing factors to the selection of Cambridge Strategic Management Group was the fact that both BA and GTE had previously used them for other activities and they had experience and knowledge with both companies.

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- This work has recently been reviewed by both GTE regulatory and legal. It's my understanding that the regulatory group concurs with the recommendations and the legal review would indicate no apparent issues with its implementation.

- Based on the above, a service contract was prepared in July 1999 that is consistent with the recommendations and is also consistent with agreements within BA. Currently it awaits the appropriate corporate review before further meetings with Network Services. It was my understanding this was sent to your shop for review. In light of our discussion on Friday I thought it would be helpful to provide you this summary as well as the attached study. I am also sending copies to Jim Attwood and John Appel to ensure that all interested parties are up to speed.

Dan, as I told you on the phone, we certainly wish to do what is in total Newco's best interest. With all that is on everyone's plate, our timing is undeniably poor. However, we have no choice but to deal with this issue.

I look forward to meeting with you to review this information and discuss next steps as well as with Jim or John, if you think that's appropriate.

Sincerely,

Earl

Earl A. Goode

Attachment

c: John Appel, HQE04H14
Jim Attwood, SVC06A20
Quen Bredeweg, HQE04E58
Paul Shuell, SVC06C11
Larry Whitman, HQE04G04

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INTRACOMPANY CORRESPONDENCE

GTE Service Corporation

Reply To

December 13, 1999

SVC03A01
Irving, TX

To: Barry A. Johnson - HQW03D57 - Irving, TX

Subject: DIRECTORY REVENUE – FEE FOR SERVICE PROPOSAL

We have reviewed the Fee for Service proposal in which the majority of Directory Revenues would effectively be shifted from the telephone operating companies to the directory companies with respect to potential debt rating impacts. We conclude that although the proposal would negatively impact the financial performance ratios of the domestic GTE Telephone Operating Companies (GTOCs), the change will most likely have minimal negative impacts on their bond ratings assuming there is a dollar for dollar shift in dividend responsibility.

A dollar for dollar shift in dividend responsibility would allow the proposal to be neutral with respect to the GTOCs' net cash flow, which is a critical consideration in bond rating analysis. Despite the neutrality to net cash flow, the proposal will still have significant negative implications for the GTOCs' coverage ratios. Interest coverage will decline in the range of 0.4 to 1.6 times and funds from operations interest coverage will decline in the range of 0.3 to 1.0 times, depending on the GTOC, as a result of the revenue shift. However, coverage ratios are currently near historically high levels. Consequently, our analysis concludes that, even after the proposed revenue shift, the GTOCs' financial ratios will continue to support existing bond ratings from Standard & Poor's, Moody's, and Duff & Phelps.

Moody's does, however, have GTE and the GTOCs on ratings watch for possible upgrade as a result of the GTE / Bell Atlantic merger. The proposed revenue change could offset the positive financial implication that Moody's expects from the merger. It is presently expected that each of the GTOCs would receive a one-notch and in some cases two-notch ratings improvements from Moody's upon completion of the merger. The ratings improvements could reduce borrowing costs by 3 to 6 basis points resulting in up to a $600,000 per year ($2.9 million present value) decrease in interest expense associated with the $1 billion financing plan for 2000. The implications for financing plans in subsequent years are similar, although the amount of financing is expected to be smaller. Our risk assessment concludes that one-notch improvement in ratings from Moody's are still likely to

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happen with only up to $59,000 in present value on the $1 billion financing plan for 2000 at risk. The chances for two-notch improvements, however, are greatly diminished putting $152,000 to $190,000 in present value on the $1 billion financing plan at risk.

If you have any questions, please call me at (972) 507-5030 or Bob Deter at (972) 507-5037.

Gregory D. Jacobson
Assistant Vice President
– Rating Agency & Support Administration

RGD:rgd

cc: Dane E. Beck - HQC02C39 - Irving, TX
Robert G. Deter - SVC03A06 - Irving, TX
Jan L. Deur - SVC06C09 - Irving, TX
Earl A. Goode - TX29 - Irving, TX
W. Scott Hanle - TX29 - Irving, TX
Samuel D. Jones - TX29 - Irving, TX
Daniel P. O'Brien - SVC06C06 - Irving, TX
W. Jack Reagan - SVC03A03 - Irving, TX

smtp["Jones, Dee" <Dee.Jones@gtedc.gte.com>],smtp["Kelly, Jay" <Jay.Kelly@gtedc.gte.com>],Tony Brumagen@BA.RETAIL,Steve Shore@CONTRLR.PA,Jim Timmer@TEL.EXEC.BMRW,Dane Beck@CNTRLR.FIDACCTG,Barry Johnson@CONSMKT.CPM,Paul Jalbert@CPFN.BPA.BWSC,Doug Wilder@TEL.EXEC
From: "Hanle, Scott" <Scott.Hanle@gtedc.gte.com>
Cc: smtp["Vinson, Carolyn" <Carolyn.Vinson@gtedc.gte.com>],Janet Loiselle@CONSMKT.NCO,Robert McCoy@TEL.EXEC,Lori Jordan@TEL.EXEC
Bcc:
Subject: RE: Fee for Service
Attachment: Headers.822
Date: 1/26/00 4:23 PM

Doug,

Hopefully, we can clarify some of the numbers for you and satisfy or at least identify your real concerns on this issue. Under the master publishing agreement, the 2000 budget numbers were as follows:

Pub Rights (net of uncollectibles)	$ 515 M
Directory Billbacks (Regulatory Mandates, EAS, Distribution, Enhancements, etc.)	(81 M)
Net Directory Product	434 M
White Page Sales (Non-Intercompany)	75 M
Total	$ 509 M
Info Pages/NYPS Advertising	($ 103 M)

After full implementation of the Fee for Service arrangement and other pricing adjustments, the 2000 budget is as follows.

Pub Rights	-0-
Sale of Listings, B&C, etc.	$ 4 M
Directory Billbacks (Regulatory Mandates, EAS, etc.)	(48 M)
Net Directory Cost	(44 M)

White Page Sales (Non-Intercompany)		75 M
Total	$	31 M
Info Pages/NYPS Advertising		($ 86 M)

Under the Master Publishing Agreement, Network Services shared in the Directory Advertising Product, which contributed the vast majority of the $509 M of "margin." Under the Fee for Service concept, from a Network Services perspective, this product line does not exist. What is left are costs associated with regulatory requirements (i.e., EAS listings) and limited costs associated meeting the commitment to provide telephone subscribers with complete telephone listings. The remaining revenue stream to Network Services is associated with sales in the white page portion of the book. These elements net to a margin of $ 31 M.

What remains, and where I believe your real issue resides, is the cost of "Information Pages." To group this cost as part of your directory "product line" in the comparisons results in some distortion and should, at least to some degree, be separated from the Fee for Service question. This intercompany activity existed under the Master Publishing Agreement and remains under the Fee for Service concept. As we discussed on many previous occasions, "Information Pages" arises as a result of the Telecommunications Act and is a pass through from a GTE Directories perspective. We are required to charge for this service in order to be at parity with the CLEC's and to preserve our product integrity. However, I do understand your concern relative to this issue. As part of the overall shift and change in the relationship, we have reviewed the pricing of this item, along with the pricing on Network Services' yellow page advertising. Under current rates, tablished in response to concerns from both entities a couple of years o, "Information Pages" are billed at 65% of the full page ad rate in our directories. As part of this shift, we are proposing a reduction in this rate to 50% of the full page ad rate. This, along with pricing the yellow page advertising to Network Services consistently, nets to a $ 17 M reduction in costs. There is only slight additional room available in this rate without impacting the risk factors which gave rise to this issue in the first place. However, where I believe a bigger opportunity for reduction exists is in the quantity of pages currently in the directory. If we can eliminate unnecessary pages and streamline the remaining information, the appearance and functionality of the product improves, billing to Network Services would be reduced, and true costs to GTE to produce the book are reduced. Along these lines, I have asked the GTEDC Marketing Department to provide some benchmark data on the quantity of "Information Pages" in our book versus our competitors', and other RBOC's. This data should provide

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information for our meeting on Thursday. Again, we have provided for an initial reduction of $ 17 M in these charges. While there may be room for slight additional reductions based on pricing, the bigger opportunity to address this issue rests with Network Services' ability to reduce the quantities and using these pages in the most effective and efficient manner possible..

As to the last issue you raised relative to the Bell Atlantic arrangement, your information is not correct. Bell Atlantic is currently under a Fee for Service arrangement in all states except New York and Maine, which they are working to address.

Hopefully, this clarifies the issues and addresses your concerns, or at least identifies them more specifically. I believe with some adjustment on both sides, we can alleviate the remaining issue.

> -----Original Message-----
> From: Doug Wilder [SMTP:doug.wilder@telops.gte.com]
> Sent: Tuesday, January 25, 2000 3:14 PM
> To: 'Jalbert, Paul'; Hartnett, Kelly; Jones, Dee; Kelly, Jay;
> Carolyn.Vinson@gtedc.gte.com; Barry Johnson; Dane Beck; Jim Timmer; Steve
> Shore; Tony Brumagen
> Cc: Janet Loiselle; Lori Jordan; Robert McCoy
> Subject: re: Fee for Service
>
> Before we have this meeting, I would like some help. I have heard all
> the
> legal reasons and favorable comparisons to Bell Atlantic on the piece
> parts
of the fee for services. Taken individually they may make sense, but I'm
> struggling with the big picture when I look at Network Services, after the
>
> change.
>
> If I'm not mistaken (please advise me if I am) - using round numbers, NS >
currently has about $600M of revenues - $525M from Directories and about
> $75M
> from third parties on listing sales, etc. With this goes $170M of expense
>
> for Info pages, enhancements and something called MIPs. So NS has $600M
> of
> revenues generating about $430M of operating income.
>
> After fee for services, NS is left with about $75M of revenues and $140m

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> or
> expenses for an operating loss of $65M. Apparently, all of the $525M of > revenues from Directories goes away and only about $30M of expenses. This
> is
> where I struggle. I can't understand how we can accept an operating loss on
this, particularly when the revenues are from a third party and the
> expenses
> are intercompany. The operating loss is driven primarily because we are > paying about $100M for Info pages.
>
> Looked at another way, we are getting $75M for our listings from other
> parties and paying Directories about $40M to support this revenue stream
> and
> another $100M for Info pages. I know there is an argument that Info pages
>
> supports other revenue streams (local revenue), but $100M is more than all
> of
> our other promotion dollars.
>
> Bottom line. I know it is intercompany, but I have a hard time accepting
> an
> operating loss for NS and over a 2% reduction in NS operating margin. I
> had
> asked everybody I talked to in the beginning to look at Info pages for
> this
> very reason. What I'm hearing is minor changes and that is the way Bell > Atlantic does it.
>
> Barry , or whoever, first - please correct me if my facts are wrong and
second - how can we support an operating loss at NS looking at the big
> picture vs. the piece parts. Steve Shore is following up with Bell
> Atlantic,
> because my initial discussions with them was that they do not have an
> operating loss and they did not believe they are on fee for service in
> most
> of their territories outside NY. But I was talking at a high level, so it
>
> requires follow up.
>
> ---------- Original Text ----------
>
> From: "Vinson, Carolyn" <Carolyn.Vinson@gtedc.gte.com>, on 1/25/00 1:43
> PM:
> To: smtp["'Jalbert, Paul'" <P.Jalbert@hq.gte.com>],smtp["Hartnett, Kelly"

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> <Jay.Kelly@gtedc.gte.com>],smtp["Jones, Dee"
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> Brumagen@BA.RETAIL@TXIRV,Jim Timmer@TEL.EXEC.BMRW@TXIRV,Doug
> Wilder@TEL.EXEC@TXIRV,Barry Johnson@CONSMKT.CPM@TXIRV
Cc: smtp["Truett, Sandy" <Sandy.Truett@gtedc.gte.com>],smtp["Taylor, Dawn"
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> Lister@CNTRLR.FIDACCTG@TXIRV,Lori Jordan@TEL.EXEC@TXIRV,Sherry
> Chancelor@TEL.EXEC.BMRW@TXIRV
>
>
> In order to finalize the budget shifts associated with fee for service, we
> are trying to set up a meeting preferably Friday morning or Thursday
> afternoon at Directories.
>
> Please check your calendars to see if you would be available to attend on
> either of these dates, and let my assistant, Carolyn Vinson
> (carolyn.vinson@gtedc.gte.com), know as soon as possible.
>
> Thank you,
>
> Scott Hanle
>
>

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