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Mr. Thomas M. Dorman
Executive Director
Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40602

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COMMISSION

Dear Mr. Dorman:

As we have discussed, Verizon's separate advanced services affiliate, Verizon Advanced Data Inc. (VAD), will soon cease providing service in Kentucky, and will return to Verizon South Inc. (Verizon South) the assets associated with these services. This letter provides additional detail on the reintegration plan.

The assets VAD uses to provide intrastate advanced services (*i.e.*, Multimedia Data Service, Frame Relay, and Asynchronous Transfer Mode) originally belonged to Verizon South. They were transferred to VAD only because the FCC required Verizon to establish a separate advanced service subsidiary as a condition of the merger between GTE Corporation and Bell Atlantic Corporation. *In the Matter of GTE Corporation, Transferor, and Bell Atlantic Corporation, Transferee, for Consent to Transfer Control*, 15 FCC Rcd 14032, Memorandum Op. and Order (2000) (Federal Merger Order). Verizon notified the Commission of VAD's intent to begin providing service in a June 29, 2000 filing, and informed the Commission of the asset transfer from Verizon South to VAD in a September 22, 2000 letter.

In a January 9, 2001 opinion, the United States Court of Appeals for the District of Columbia vacated the FCC's reasoning supporting the structural separation condition. *Association of Comm. Enterprises v. F.C.C.*, 235 F. 3d 662 (D.C. Cir. 2001) (Ascent Decision). The Federal Merger Order gives Verizon the right to return VAD's assets to Verizon South as a result of the Ascent Decision. The reintegration of advanced services operations into Verizon South will be effected in accordance with transition obligations established by the FCC in the event that the FCC's separate entity requirement was reversed on appeal, as has now occurred. Federal Merger Order, App. D, at para. 12 (2000). Verizon has obtained the FCC's permission to immediately begin such reintegration. *In the Matter of GTE Corporation, Transferor, and Bell Atlantic Corporation, Transferee, For Consent to Transfer Control*, Order, DA 01-2203, CC Docket 98-184, para. 2, n. 5 (Sept. 26, 2001) (Reintegration Order).

Verizon South would not have transferred its customers to VAD but for the Federal Merger Order. The reintegration is in the public interest because it conforms Verizon's operations to the Ascent Decision, reduces customer confusion and returns Verizon's operations to the basic model existing before the entry of the Federal Merger Order. Customers will not be harmed in any manner and, in fact, will benefit by being returned to their provider of choice before a federal regulatory agency intervened and changed that relationship.

Within the next month, Verizon South plans to file tariffs adopting VAD's rates (which were originally Verizon's South's rates). At the same time, VAD will withdraw its tariffs. Verizon South's adoption of VAD's rates will help ensure a seamless transition back to pre-Federal Merger Order operations.

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Assets will be returned at net book value, consistent with accepted affiliate pricing conventions. In addition, Verizon South will apply the appropriate avoided cost discount to eligible advanced services and will make available any unbundled elements pursuant to Section 251© of the Act and applicable FCC orders.

Because VAD is a competitive local exchange carrier, it understands that Commission approval is not required for VAD to cease operations and transfer its assets back to Verizon South. See *Exemptions for Providers of Local Exchange Service Other than Incumbent Local Exchange Carriers*, Admin. Case No. 270 (Jan. 8, 1998).

Please contact me if you have any questions.

Sincerely,

Larry D. Callison

For

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