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June 10, 1996

Mr. Donald W. McLeod
Vice President
Regulatory and Government Affairs - East
Local Competition/Interconnection Program Office
GTE Corporation
HQE01E63
600 Hidden Ridge
P.O. Box 152092
Irving, Texas 75015

Dear Don:

I want to get back to you on your recent letters of June 3 and June 5, and on your related comments in our Executive Team conference call of last Tuesday. Those letters and comments reflect in our view a serious and perhaps fundamental misunderstanding on your part of the process in which we have engaged GTE, under the Telecommunications Act of 1996.

In reply to your letters of June 3, and to your related comments in our Executive Team conference call of June 4, I will state for the record that AT&T denies, disagrees with and rejects the host of claims and characterizations contained in those letters and comments. At the same time, and on a personal note, Don, I regret any misunderstandings between us, and remain committed to work with you toward a negotiated agreement.

In our letter to Tom White dated March 11, to which you gave GTE's response on March 12, we engaged GTE in negotiations pursuant to the Act, in order to secure our interconnection and related rights and, correspondingly, to secure your compliance with the interconnection and related obligations imposed on GTE under the Act. Certainly, we have attempted to conduct the negotiations in a businesslike manner, and in the hope of achieving as complete as possible a negotiated agreement.

AGBR 000308
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But the essential character of our present negotiations is what I have described. Your June 3 reference to our negotiations as "settlement negotiations" that are "privileged and are not admissible in evidence" reflects a basic misunderstanding of the statute-based process in which we are engaged. The requests and explanations we have communicated to GTE are consistent with our rights and your obligations under the Act, and are otherwise reasonable. We believe that in some cases, GTE responses have been reasonable, but in many they have not. We have documented our requests and your responses. We will continue to do so for statute-based purposes. At the same time, again, we will strive with you to reach a complete agreement.

We believe that our interconnection, resale, unbundling and related requests have been abundantly clear and known to GTE from the outset, as I indicated in my earlier correspondence. We are after all engaged with the largest telephone company in North America, and one which is intimately familiar with what's needed to serve local markets. You observed us in the federal legislative process that preceded enactment of the governing Act, and were aware of our stated needs for local market entry. Also before enactment, you were engaged in local market entry negotiations with us in California. There can not seriously have been any new elements or surprises for you in our April 18 matrix. Yet in your June 3 letter you appear to suggest that GTE had no notion of AT&T needs until you obtained the matrix.

In that same letter, Don, you focus on quantitative responses rather than qualitative progress in the negotiations. You must in truth acknowledge that we have a very long way to go and a short time to get there. If you set your sights on day 135 as our only deadline, you effectively insure that we'll never reach the timely agreement that we both want to accomplish.

In our discussion of TSR at Executive Team meetings on May 15 and May 30, GTE explained the complexity of its effort to screen out of some forty or so filed tariffs those services it would make available to AT&T at a discounted (wholesale) rate for resale, and those that it would not make available, at a discount or at all. We explained that the statute contemplates no such screening process, and in fact applies a much simpler requirement -- that you make available for resale all of your retail service offerings, at a wholesale rate that reflects your retail price less avoided costs.

However, given the complexity/difficulty claims of GTE representatives, and the costs-for-pricing and pricing concerns emphasized by your representatives, we sought to facilitate progress on other technical and provisioning matters by suggesting that cost/price issues be set for subsequent consideration and, in the event of an ultimate impasse, for disposition in arbitration proceedings.

You have yourself cited progress in the negotiation of technical and other provisioning matters. Indeed, we have observed in the negotiations process that GTE can essentially give us everything we've asked for if the price is right. We will

AGBR 000309

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work with you in an effort to resolve price issues, and will consider the offering you have promised for the end of this week. But our point has been and remains that business and technical issues on which agreement has been reached or can be reached should not and cannot properly be held hostage to an agreement on price. That appears unfortunately to be the very purpose of your June 5 letter, and it is a purpose with which we cannot agree.

If price remains the issue for GTE, and a critical issue for AT&T as well, and if in fact we do not achieve agreement on some or most or any pricing and costs-for-pricing issues, then those issues (and any others on which we cannot agree) will be determined, under the governing Act, by "an outside third party" through arbitration at the State Commissions, under guidelines promulgated by the FCC.

It remains our hope to avoid, or minimize the scope of, any arbitration proceedings under the Act. But we are required by the Act, for any arbitration proceedings that may result, to document our case, our requests, our positions, and your responses to same. We will take and use notes as appropriate to that end. Please, Don, don't be distracted by note takers on either side of the table. Let's try to stay focused on the substance of what we need to get AT&T into your local markets, and on your timely delivery – for a price of course as contemplated by the 1996 Act – of what we need to do so. Let's you and I build off past misunderstandings to a closer, more positive and results-oriented relationship, and get as far down the negotiations road together as we can. Keep in mind that even if you and I achieve optimal results at the national level, there will remain issues for closure at the state level. And our affected regional colleagues will require time to conclude those issues.

I hope we make real progress toward negotiated resolution of all or most outstanding items. You have identified for yourself the same objective.

Very truly yours,



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C. Nicholas
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AGBR 000310

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D. W. McLeod
June 10, 1996
Page 4

Blind Copy to:

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AGBR 000311

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