

Donald W. McLeod  
Vice President-Local  
Competition/Interconnection



GTE Telephone  
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June 3, 1996

Mr. R. Reed Harrison III  
Vice President  
AT&T  
Local Infrastructure & Access Management  
Room 4ED103  
One Oak Way  
Berkeley Heights, N. J. 07922

Dear Mr. Harrison:

Your letter of May 30, 1996 to Michael Esstman has been referred to me for response as the head of the GTE Executive Negotiating Team for local competition and interconnection. Quite frankly, I was surprised and concerned by the allegations made in your letter and appalled by your characterization of GTE's attitude towards negotiations with AT&T as "indifferent." I believe you have seriously misinterpreted and mischaracterized GTE's actions, intentions and statements. As to your specific allegations, I will respond to each below.

Paragraph 1: You indicate "minimal progress" on GTE's part in responding to AT&T's request and towards resolution of critical issues. However, as you admit in your letter, it took AT&T 37 days (until our April 18, 1996 meeting) to present GTE with a comprehensive matrix outlining AT&T's interconnection and resale requirements. As of May 30, GTE has responded to roughly 390 of the approximately 475 items presented in the matrix. Stated another way, GTE has responded to over 80 percent of AT&T's requests within 42 days of receiving this delineation of your request. I think this is significant progress by anyone's standards, and reflects the tremendous amount of time and effort that GTE personnel have devoted to our negotiations.

Paragraph 2: You indicate the GTE Executive Team has still not told you what services will be made available for resale. This a misstatement of the facts. Our team outlined the categories of offerings in the GTE retail tariffs that will be excluded from resale or will be offered without a discount. We have also agreed to provide a listing of all general retail offerings, by state, provided to subscribers. When excluded categories are overlaid on GTE's listing of retail offerings, which are available in published tariffs, AT&T could readily determine what services will be available for resale. What's really at issue here is the listing of services that are at or below cost and which GTE believes it is not required to resell under the Telecommunications Act of 1996 (the "Act"). In fact, the Florida Legislature, for example, has passed a law prohibiting the resale of below-

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cost services. However, GTE is currently reevaluating its position on below cost services based upon the concerns you voiced.

Paragraph 3: I'm sorry you don't feel that I provide a strong leadership focus on the interconnection needs of AT&T. I'm personally disappointed that you didn't come to me first to voice your dissatisfaction. Despite your views, I have been charged with the executive responsibility to negotiate interconnection arrangements for GTE and I intend to continue to carry out that responsibility. I notified you of long standing vacation plans at our first meeting and discussed them on other occasions long before we scheduled the meeting on May 30, 1996. In fact, I informed you at our first face-to-face meeting on April 2, 1996, and during at least one other meeting prior to our meeting on May 15, that I would be out of the office from May 23, 1996 until the first week of June. Apparently you forgot. I did not mention this again when the May 30 meeting was scheduled because I believed you were aware of it. In addition, I did not consider my absence from that meeting to be of great concern to GTE because I have empowered a very competent team to negotiate on behalf of GTE in my absence. You and your team were advised in our first meeting that Meade Seaman, GTE's Program Office Director, was fully empowered to act on my behalf anytime I was not available. Your decision to circumvent Meade is a personal choice you have apparently made which is beyond GTE's control.

Paragraph 4: You indicate you have encountered "very deep and fundamental problems" in our efforts over the past months to negotiate local interconnection arrangements and go so far to say that you "perceive unwillingness by GTE to engage in bona fide interconnection negotiations and resulting delay in the negotiations - and in AT&T's entry into local markets." This a very serious charge and is totally without merit.

Since receiving AT&T's detailed request on April 18, GTE has devoted considerable time and expense to respond to over 80 percent of your requests. We have spent more time with AT&T, yet have made less progress, than with any of the other competing LECs GTE is negotiating with. Frankly, I think the progress that has been made by our teams is quite amazing, given that many of AT&T's requests are extreme and unreasonable.

A few examples of the difficulties GTE has encountered with AT&T include (1) AT&T's proposal that GTE price unbundled network elements at TSLRIC, without any consideration of recovery of joint and common costs or a reasonable profit. Recovery of joint and common costs is required to run a financially solvent firm, is expressly contemplated by the Act and is the approach recommended by the Oregon Commission

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Staff; (ii) AT&T's position on "avoided cost", which stubbornly fails to acknowledge that GTE will incur significant "new costs" in preparing services for resale, which should be included in an avoided cost calculation, as well as AT&T's proposal to subtract additional avoided costs for supposed "network and operational inefficiencies", which you have not substantiated, a position that had already been rejected by the California Commission;— (iii) requesting unbundled network elements with the clear objective of avoiding access charges; and (iv) conditioning AT&T's willingness to enter into an agreement on new operational interfaces AT&T has insisted upon, but which AT&T has not exhibited a willingness to pay for. Clearly AT&T has not approached our negotiations with the intent of reaching a negotiated settlement agreement. On the contrary, it appears that AT&T is seeking to compel GTE to underwrite its entry into the local service business, a situation clearly not contemplated by the Act. From reports in the media, many other ILECs are having a similar experience in negotiations with AT&T. This causes me to doubt AT&T's willingness to negotiate in good faith.

Paragraph 5: You state that AT&T's needs have been clear to GTE from the time of your March 11 letter. This statement is only partially true. Your March 11 letter was extremely broad and general, and provided little or no insight into the specifics that AT&T was requesting. We did not receive the list of 475 specific "requirements" or issues until April 18. Prior to that, GTE had been presented with only a small subset of issues pertaining primarily to resale in California. Although your March 11 letter and your presentation on April 2 were helpful, they were not presented as a specific request that GTE could respond to.

Paragraph 6: Here your assessment is that "progress towards resolution has been minimal" despite our joint efforts to establish processes and work teams to consider issues. I disagree. At this point, we have reached agreement on or "closed" 25 percent of the total service resale (TSR) issues and 18 percent of all issues, contingent only upon reaching a satisfactory agreement on pricing and cost recovery. I believe the failure to make greater progress is primarily a result of the unwillingness AT&T has exhibited to move off of its "demands" and negotiate in good faith.

With respect to the joint work plan you reference, we both approached this exercise with the understanding that the work plan provided interim targets or goals to accomplish the many tasks both companies have to complete within the 135 day period, but that the work plan was not "carved in stone." I believe the work plan has produced some positive results. For example, significant discussions regarding the work plan took place during the May 22, 1996 Network Operations Subject Matter Experts (SME) meeting in Irving. In fact, those discussions were responsible for the "breakthrough" you refer to later in your letter. I am distressed by your apparent view, despite our agreement to the

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contrary, that the work plan dates are deadlines rather than targets. The only deadline we have is to reach an agreement in 135 days.

I was also very disturbed by your allegation that "dates have come and gone with no input or response from GTE on critical items." I do not believe this to be the case. The work plan has only been operational for approximately two weeks. If it has been such a failure, I would suggest that we agree to not continue to employ a work plan approach. As Meade Seaman discussed at the May 30 Executive Meeting, an unbending adherence to work plan "deadlines" rather than targets will likely drive us to "agree to disagree" on many critical issues that might otherwise be resolvable. As the June 6 target date for all resale issues approaches, this is likely to be the outcome if that date is viewed as a "drop dead" date. I personally think that would be a shame, given the significant progress our respective teams have already made towards resolution of these issues.

Paragraph 7: In discussions with Meade, he indicated that while he did acknowledge the tremendous amount of work both parties have ahead, he did not say we are "way behind schedule in achieving a negotiated agreement." Here again I must emphasize two points. First, the only real deadline we face is the 135 day clock. There is still time to meet that deadline if AT&T truly desires a negotiated agreement. Second, it seems to me that if AT&T is truly interested in reaching a negotiated agreement, AT&T should consider accepting interim approaches and defer many of the longer term operational implementation issues contained in your request (which have consumed an enormous amount of both our teams' time) to an agreed to work plan to be accomplished after the contract is executed. This is the approach many of your competitors are taking, and one which expedites agreement and speed of market entry.

Paragraph 8: Your perception that GTE does not have a "sense of urgency, energy or interest" is dumbfounding. The facts are this: This week, from June 3 to June 7, we have scheduled 4 hours of Executive Team conference calls, 7 hours of Core Team conference calls, 6 hours of Pricing conference calls, 16 hours of conference calls covering collocation, interconnection, unbundling, rights-of-way, and operator services, and 12 hours of face-to-face meetings covering network operations. This alone, without even considering the time and effort that goes into preparing for these meetings and calls and following up on issues raised in these meetings and calls, is a substantial commitment of GTE time and resources.

Paragraph 9: You have properly referred to price as an "enabling issue" for GTE. It is a fundamental issue in any business transaction. If you owned a car dealership, would you ever consider agreeing with a buyer as to the model, equipment, features, color,

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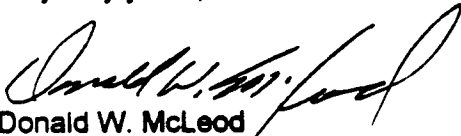
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service and timing of the delivery of a new automobile, and then allow an outside third party determine the price through litigation? I agree that our companies should "work hard and in good faith toward resolution of as many such issues as we reasonably can." In good faith, AT&T should negotiate price and not close the door prior to a bona fide offer.

I agree that given AT&T's position thus far, AT&T and GTE are unlikely to reach agreement on costing models for resale or unbundled network element pricing. For that reason, I believe a breakthrough opportunity does exist as stated in the May 15, 1996 Executive Team meeting. Rather than focusing our energies on agreeing to cost models as they relate to price, I have amended the work plan to reflect some realistic dates for GTE offer and AT&T acceptance of pricing proposals for GTE's resale and unbundled network element offerings. I have enclosed those amendments.

GTE has already, and will in the future, make every reasonable effort to fulfill its duties and obligations under the Telecommunications Act of 1996. Indeed, GTE has already gone far beyond the requirements of the Act by negotiating with AT&T in a good faith effort even though AT&T did not make a bona fide request for interconnection or network elements in its March 11, 1996 letter as required by the Act. Furthermore, it is apparent that AT&T is documenting our settlement negotiations via detailed notes made during our discussions. As you are aware, settlement negotiations are privileged and are not admissible in evidence. I trust that your extensive documentation of our discussions is being done for the purpose of advancing the negotiations. In the future, I hope you will bring your concerns directly to me to expedite resolution.

Very truly yours,

  
Donald W. McLeod

DWM:sah

c: Michael B. Esstman - GTE  
Christopher D. Owens - GTE  
Connie E. Nicholas - GTE  
Meade C. Seaman - GTE  
John C. Peterson - GTE  
Ron Shurter - AT&T  
Rasul Damji - AT&T

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AT&T and GTE Negotiations  
6/3/96

ID	Task Name	Duration	Start	Finish	April							May							June							July						
					4/7	4/14	4/21	4/28	5/5	5/12	5/19	5/26	6/2	6/9	6/16	6/23	6/30	7/7	7/14	7/21												
1	TSR	21d	5/8/96	6/5/96																												
2	Operations (Features, Services)	21d	5/8/96	6/5/96																												
3	Process Flow - Operations	21d	5/8/96	6/5/96																												
4	Programming Requirements	21d	5/8/96	6/5/96																												
5	Billing - TSR	20d	6/8/96	6/31/96																												
6	Fraud Control	20d	5/6/96	5/31/96																												
7	Identify SMEs/Determine Existing Status	20d	5/6/96	5/31/96																												
8	Screening Process - TSR	11d	5/16/96	5/30/96																												
9	Testing	17d	5/8/96	5/31/96																												
10	Unbundling - OS/DA	17d	6/8/96	6/30/96																												
11	GTE Definition of Position	12d	5/8/96	5/23/96																												
12	Q&A With AT&T	12d	5/8/96	5/23/96																												
13	Closure Of Remaining Issues	5d	5/24/96	5/30/96																												
14	Unbundling - Interconnect/Transport/Loops	17d	5/8/96	6/30/96																												
15	GTE Internal Q&A	12d	5/8/96	5/23/96																												
16	AT&T/GTE Screening Process	5d	5/24/96	5/30/96																												
17	Unbundling - Signal/switching/AM	17d	6/8/96	6/30/96																												
18	GTE Internal Q&A	12d	5/8/96	5/23/96																												
19	AT&T/GTE Screening Process	5d	5/24/96	5/30/96																												
20	Unbundling - Right-of-Way	7d	6/8/96	6/16/96																												
21	Screening Process	7d	5/8/96	5/16/96																												

Project: \_\_\_\_\_ Date: 6/3/96

Task: Summary:

Progress: Rolled Up Task:

Milestone: Rolled Up Milestone:

Screening Process: Rolled Up Progress:

AT&T and GTE Negotiations  
6/3/96

ID	Task Name	Duration	Start	Finish	April			May			June			July								
					4/7	4/14	4/21	4/28	5/5	5/12	5/19	5/26	6/2	6/9	6/16	6/23	6/30	7/7	7/14	7/21		
22	Unbundling - Ancillary	17d	6/8/96	6/30/96																		
23	911/E911 Clarification	5d	5/8/96	5/14/96				5/8														
24	LNP Number Assignments-Clarification	5d	5/8/96	5/14/96				5/8														
25	Define Principles	12d	5/15/96	5/30/96					5/16													
26	Define Technical Requirements	12d	5/15/96	5/30/96					5/16													
27	Ancillary - Dialing Parity	31d	4/11/96	5/23/96										5/23								
28	Ancillary - CPM	31d	4/11/96	5/23/96										5/23								
29	Ancillary - Lifetime	31d	4/11/96	5/23/96										5/23								
30	Ancillary - Disabled	31d	4/11/96	5/23/96										5/23								
31	Billing - Unbundling	22d	6/23/96	6/21/96																		
32	Screening Process - Billing in Unbundled Environmen	7d	5/23/96	5/31/96																		
33	Link to Pricing/Operations/Billing	6d	6/14/96	6/21/96																		
34	Pricing	49d	6/8/96	7/2/96																		
35	GTE Develops and Offers TSR Price Proposal	28d	5/8/96	6/14/96																		
36	AT&T Responds to GTE's TSR Price Proposal	6d	6/14/96	6/21/96																		
37	GTE Develops and Offers Unbundling Price Proposal	35d	5/8/96	6/25/96																		
38	AT&T Responds to GTE's Unbundling Price Proposal	6d	6/25/96	7/2/96																		
39	Administrative Requirements	49d	6/8/96	7/24/96																		
40	Contract Development	33d	5/30/96	7/15/96																		
41	Final Closure and Contract Signing	8d	7/15/96	7/24/96																		

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Project: Date: 6/3/96	Task	Summary	Rollled Up Progress
	Progress	Rollled Up Task	
	Milestone	Rollled Up Milestone	