Telephone Call to D. W. McLeod by R. H. Shurter (214-718-6330)

Date: July 9, 1996

Re:

I called Don to inquire what suggestions he would have on how we might start working price negotiations. We have sent them our comprehensive proposal and have not heard back. Given we had the Executive Summit scheduled for July 17, 18 and 19, I wanted to make sure we could address pricing.

Don stated that GTE couldn't agree to the TSR percent discount in our proposal and that they did not agree with the Hatfield model as a basis for TSLRIC pricing. I suggested that we need to look to where each party might begin to change their position.

I went on to explain to Don, that if GTE was prepared to negotiate and move to a negotiated price agreement, AT&T would be very responsive. I explained that we liked the structure for TSR of a baseline %, plus volume discount, plus percent for operational inefficiency. Don said he was open to volume discounts as an idea but not operational inefficiencies. I mentioned that AT&T was willing to move off the LSR total percent discount noted in our proposal and that we might find another way to care for operational inefficiencies than including it in the % LSR discount. In addition, I explained that we needed to better understand GTE's "TSLRIC" pricing model and requested they bring such data to the summit. I added that, AT&T might be open to a premium added to "TSLRIC" once we had a better understanding of how GTE developed their costs. Don said he would try to get AT&T the "TSLRIC" cost data. I suggested that Don might want to think about our conversation and call me on Monday with any additional ideas he had on how we might move the pricing discussion forward. Don thanked me for calling.

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