

Larry J. Sparrow
President-Carrier Markets



GTE Telephone Operations

600 Hidden Ridge, HOE041.57
P.O. Box 152092
Irving, TX 75015-2092
214 718-5658

June 5, 1996

Mr. R. H. Shurter
Vice President-Southern States & National
Local Access & Infrastructure Management
AT&T Communications
One Oak Way Room 4EC101
Berkely Heights, NJ 07022

Dear Ron:

Thank you for your June 4, 1996, letter regarding our meeting to discuss general business issues between AT&T and GTE. I look forward to our time together and view our meeting as a great opportunity to calibrate our existing relationship and explore ways of improving it. The current business environment is much different than what we both faced just a year ago, and it is providing us significant challenges in discovering win/win solutions. I think the slides you provided as attachments appropriately frame the items for discussion.

In order to make our meeting as productive as possible, I am proposing several items for you to contemplate regarding issues which appear on the agenda and would like to add a couple of issues as well. By doing this, I think we can both focus a little better on the business relationship as a whole and have some candid dialogue about the prospects of improving it.

The first issue I would like to discuss is access price. You have asked GTE to consider a reduction in the level of access charges over the next several years. The customer perspective slide provided is very clear and helpful in crystallizing your viewpoint. As we have stated over the last year, we are currently only making mandatory reductions in access price. Clearly we have an impasse on this issue, as any reductions GTE would make impact the entire carrier industry and have a greater impact on GTE revenue streams than just the reduction in the cost to AT&T. I would be very interested in hearing from AT&T at the meeting of any ideas that may be plausible which could allow us to make reductions. By this I mean, is AT&T open to considering term commitments of switched traffic, any expanded revenue opportunities in ancillary services, or any other creative ways to allow us to move forward with reductions with the likelihood of offset? Absent this type of approach, we simply are not going to be able to have substantive dialogue to move us beyond previous discussions on this topic.

Mr. R. H. Shurter
June 5, 1996
Page 2

Next, on the issue of local negotiations, I think it's pretty clear from the correspondence I have seen this week, it is GTE's position that all discussions and agreements are properly the domain of the GTE Program Office. However, realizing that we put the item on the agenda initially, I am sensitive to the need to have the discussion in the context of the larger business relationship as opposed to any specific negotiation. Considering what I have just stated with respect to access price, I think some of the same issues sit around establishing, from our view, realistic cost and pricing models in the resale and unbundling environment. Public statements regarding discounts in the range of 25%-35%, as well as TSLRIC as the costing/price model, create significant levels of consternation and make coming to any type of agreement difficult, if not impossible.

I think we should also spend some time discussing the agency/alliance project initiative and try to discover how that effort could possibly play into a more positive long term relationship. I would be interested in hearing your views on this issue and how it interplays with the other issues we are dealing with.

Finally, I would like to have a brief discussion on the recent flurry of AT&T advertising which is targeted at GTE. While I certainly understand that AT&T views GTE as a real competitor in the long distance business, we are very disappointed with the tone of the advertising campaign and have questions on the source and veracity of the data AT&T is using. I know we have posed several inquiries as to the data being used, but as of this writing, we have not seen a response.

I look forward to a very productive meeting on these business issues. I want to assure you that we are sensitive to the AT&T concerns. Our account team is working very proactively to address each and every one of the AT&T issues. The issues facing our firms today are extremely complex. But, I believe that working together and keeping the dialogue open in meetings such as this, will enable us to work through these challenges and expand our mutual business interests. Please call me if you have any questions at 214/718-5658.

Sincerely,


Larry J. Sparrow
President-Carrier Markets

LJS:km

000674

AGBR 000290