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March 24, 1980

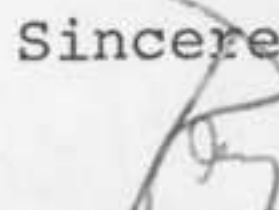
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AND DISTRICT OF COLUMBIA  
\*\* ADMITTED IN ILLINOIS

Mr. William G. McGowan, Chairman  
MCI Telecommunications Corporation  
1150 - 17th Street, N.W.  
Washington, D.C. 20036

Dear Bill:

Enclosed is a faint copy of George Cook's notes concerning your meeting with deButts in March 1973. I think you will be pleased to read the part that says "Mr. McGowan said that he had ample funds...."

Sincerely

  
Raymond C. Fay  
RCF/eh  
enclosure

AF95 0934

Mr. Lilley out of town on Monday

Mr. Lindholm - 9:15 - 195 B'way Bld.  
10:00 EPC meeting

Mr. Owens - 9:00 AM Stock Exchange  
10:00 EPC meeting

*copy with Lindholm, Owen  
see 2/5  
CIB 1570 52 210459 219*



Notes for discussion, March 5, 1973

Mr. William G. McGowan, Chairman of MCI, met with Mr. deButts and me on Friday morning, March 2, pursuant to his request. The meeting lasted from about 9:40 to about noon.

McGowan made it clear that he was running MCI and that Mr. Goeken would be playing a lesser role. I drew from this the impression, confirmed from other statements he made, that he would be more contentious and litigious. He made no bones of the fact that he had his lawyers busy developing antitrust theories that could be applied to Bell. In this connection, he opened up the discussion by mentioning the fact that he presumed we were familiar with the recent Supreme Court decision in Otter Tail which his lawyers were busily reviewing. Mr. deButts said that he looked to his counsel on those things.

McGowan said he wanted to clear the air as to his overall philosophy, that he couldn't accept or live with the doctrine of competitive necessity or with our LRIC position. He added that they would insist on full cost justification for our private line rates. He seemed to indicate that they would find it difficult to match our costs, and in turn our prices, over time and emphasized that they would be stressing non-price factors in their sales promotion (e.g., differences in packaging of services, etc.).

He said that MCI was beginning to start selling and would cover, before long, as many as 21 cities. He didn't regard any other SCC seriously. Mr. deButts said we had no choice but to take them all seriously and mentioned Datran and Southern Pacific. McGowan said that Datran was not constructing and only had a letter of intent. He doubted that they would ever get their head above water.

McGowan then got around to our February 26 Hi/Lo filing and said his studies showed that a very large percentage of customers would have their rates reduced by about 30 percent and that this would cost him revenues. Moreover, he said the timing was bad. deButts said that he wasn't going to get into any discussion of price levels, but overall the rate adjustments were a wash. McGowan said not on the routes they plan to serve. deButts said they couldn't have it both ways; if there was to be competition some of our rates obviously would have to go up and some down; you can't have competition and expect the existing rate structures to continue.

McGowan said they wanted cost justification and we wouldn't let him see our costs. deButts said there were cost references in our filing. He also explained the running procedural dispute with the FCC over pre-filing requirements which we couldn't agree with. McGowan said they would demand copious



data and we had better be prepared to supply it. He further said that they will fight Hi/Lo at the FCC acceptance line and not wait for tariff hearings. deButts said it looked like they wanted two hearings and not one.

McGowan said he thought that they had better relations with the FCC than us and added that they had a number of friends in the Congress. He returned to the timing of the Hi/Lo filing and said that he wasn't especially worried about the specific level of the rates which we filed and repeated that he was going to emphasize non-price factors. deButts asked what then did he want us to do, sit on our hands?

McGowan didn't reply directly but turned to the value added or "Packett" filing and said that putting both Hi/Lo and that together was troubling. He displayed a surprisingly hostile attitude about value added carriers, much more so than with respect to Hi/Lo. He mentioned Ross Perot and seemed quite concerned. (Apparently he thinks Perot has some scheme to use part of a line for his own business and peddle the rest to others). He said this wasn't fair competition, since he proposed to build his own facilities and went on at some length. deButts said there were growing requests and requirements, including some from FCC, for this kind of service and the FCC would have to decide who was and who wasn't a value added carrier or whether they were carriers at all.

In this connection, McGowan also said he wasn't interested in leasing intercity facilities from us and planned to build his own. deButts said that this surprised him a bit and that he thought others would lease. I got the impression that he thought leasing, after Hi/Lo became effective, would make Datran a viable competitor and that he didn't like that.

McGowan said that other things - all when added up - were bothering him too. He again mentioned that he had lawyers who were knowledgeable around Washington and with Justice. He said his antitrust lawyers told him that the Associated Companies must treat him just like Long Lines. He added that there could be no distinction between a specialized carrier and a common carrier in general. deButts said this sounded like a major shift from the FCC's decision. You started as experimental, became regional, then specialized, and before you are even in service on your new routes you seem to be attempting to push out the limits of the FCC decision.

McGowan claimed that some of our companies were refusing to allow terminations at other than customer premises and said we couldn't make this stick. deButts said that's what our tariffs generally say.



McGowan complained about Associated Company practices and quoted one instance where he said an Associated Company wrote an MCI customer stating its unwillingness to give MCI, a competing carrier, direct access to the switched network. He said we better be careful what Associated Company personnel, not familiar with antitrust considerations, are saying. He went on to say that this will force us to tighten central control and that will raise its own dilemmas.

The subject of local loops was not raised at all in this context, leaving me with the feeling MCI's new management was striking out for much bigger game.

McGowan then turned to speeches made by Bell people, including deButts, and said he, deButts, was underestimating the effect of his words.

McGowan said that he had ample funds and that he could spend it on construction or litigation; he preferred to spend it on construction. But to make his point he said that he was advised that the FCC made reversible error in Docket 19129 (the message telephone rate case) in not deciding the cross-subsidy issues there and not in the private line case and that unless matters changed, MCI would appeal that rate increase. deButts said he heard threats like that before and wouldn't be coerced. He said that if MCI had any specific grievances he would be happy to have them looked into and as far as local loops are concerned it was our policy to treat them with the same dispatch we do for all our customers. We would do what we have to but McGowan would find that we wouldn't be coerced by threats of law suits or attacks on our MTS rates.

The discussion then turned to a few personal amenities, deButts said he appreciated hearing McGowan's personal views. The meeting broke up about noon.

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After the meeting, Mr. deButts asked me to brief Lilley, Lindholm, Owens and Garlinghouse. He stressed that nothing with MCI could be treated as business as usual. We need to

reemphasize to the Companies - with respect to loop arrangements - that our policy is to process orders with the same speed and efficiency that we process orders from our own customers. He urged that Garlinghouse accelerate his antitrust orientation program for the companies. He further suggested that Garlinghouse, Lilley and perhaps Greber should also brief selective companies -- e.g., Illinois, Southwestern, perhaps New York -- as soon as possible. The other companies, especially where MCI is coming on line should hear this the first opportunity all are together.

G.V.C.