

A CASE STUDY



HOW SBC DEVOURED PAC BELL: IMPLICATIONS FOR THE MIDWEST IF SBC TAKES OVER AMERITECH

Job Losses, Higher Rates, Poorer Service, Lawsuits,
and a Whole New Texas Culture May Follow

TRA COSTA TIMES

SBC axes 350 jobs in East Bay

June 21, 1997

by GEORGE AVALOS
TIMES STAFF WRITER

Baby Bell begins reduction

OCTOBER 24, 1997

S ANGELES TIMES

PERSONAL TECHNOLOGY

Customer Service Complaints Soaring at PacBell

countdown has yet to start and clear when the clock will start

word of the shutdown of the and advanced communi- activities jobbed employees and kids wondering what they

TELECOM TALK

according to TURN. Meanwhile, complaints about the state's other big local phone provider, long-maligned GTK, have been on the decline, a PUC official said—al-

our customers, they'll go some- where else. Lonnie Lowther did. This summer, after moving to a new house in Marlborough, Calif.

takeover by SBC Communications. The consumer groups don't pin the blame on SBC, but say the situation has not improved since the Texas takeover in April. Pacific Bell to service problems for approv-

the PUC or- to revamp the collection me- ers. The sector- blated by WI

San Francisco Chronicle

Thursday, August 14, 1997

Pac Bell Hangs Up Competitors

seller companies say

San Jose Mercury News

Pac Bell tactics attacked

State consumer panel

San Francisco BUSINESS TIMES

MAY 15-21, 1998

EDITORIAL

Latest SBC buy is bad call for ratepayers

As a tool for prying open the rusty monopoly



On May 11, Texas-based SBC announced plans to take over Ameritech, the Midwest's local phone company. Californians know what it's like to be taken over by SBC.

In the year since it acquired Pac Bell, SBC has established a clear track record here. Unfortunately, it includes job losses, higher rates, poorer service, lawsuits, and a whole new Texas culture that puts profits and litigation first, and the needs of consumers and workers at the bottom of the list.

If the California experience is any indication of what will happen, then virtually everyone in the Midwest - consumers, workers, and government officials alike - should thoroughly study the details of the proposed SBC takeover of Ameritech and understand its potential impact.

One item is worth noting. When SBC took over Pac Bell, it took complete control immediately. Referring to the takeover, one news headline said the old Pac Bell was "...like the Titanic. It hit an iceberg and went down in an hour."

So when an article in this document refers to "Pac Bell's" activities, please know that everything Pac Bell does is SBC-sanctioned, SBC-controlled, and SBC-approved. There is no independence from Texas in the California phone company, nor will there be in the Midwest if SBC is allowed to acquire Ameritech.

Please read and see for yourself. And please know that every newsclip in this document is dated *after* the SBC/Pac Bell merger. Once you read this, you'll conclude that it is not in *anyone's* best interests to let SBC into the Midwest.

Copies of this research report are available for your use. If you would like to order one, please contact: Anna Evashko, Californians for Telecommunications Choice, Box 512466, Los Angeles, CA 90051
Phone: 800 256-1240

This information was compiled by Californians for Telecommunications Choice, a non-profit grassroots group that promotes competition for local phone service in California. We encourage you to share this notebook with others for the purpose of educating consumers and government officials about SBC's predatory tactics.

Congress of the United States

Washington, DC 20515

May 28, 1998

The Honorable William E. Kennard
Chairman
Federal Communications Commission
1919 M Street, N.W.
Washington, D.C. 20554

Dear Chairman Kennard:

We write to urge your careful review of the proposed merger between SBC Communications and Ameritech. As members of the California Congressional Delegation, we have serious reservations about the potential impact this merger may have on our state.

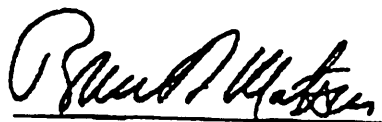
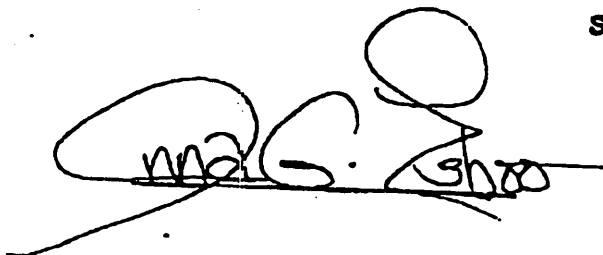
Last year, the Federal Communications Commission approved the merger of SBC and Pacific Bell. Since then, the California Public Utilities Commission (CPUC) has reported a major increase in customer complaints. Further, the Office of Ratepayer Advocate at the CPUC has reported aggressive efforts to charge consumers more for services. These reports raise concerns about the effects further mergers may have on competition and on customer service in California.

When Congress passed the Telecommunications Act of 1996, our intent was to open local phone markets and provide consumers the benefit of competition. We continue to remain strongly committed to this goal. The recent spate of mergers, however, seem to run at odds with competition. While the Telecommunications Act did not preclude the merger of any of the Baby Bells, clearly its purpose was not to further reinforce their existing monopoly nor assist in their reconsolidation.

Mr Chairman, we ask that before allowing any further mergers to occur, the FCC carefully review the results of the prior merger between SBC and PacBell and take into consideration the potential impact any future merger may have on California.

Thank you for your careful consideration of our views.

Sincerely,



Lynn C. Wolney
Lucille Rachel Miller

John S. Savelly
Rayne With

Justin Miller

Barbara Lee

John Coffin

Ray Anderson

Pete Stock

Robert Jones

Nancy Pelosi

John

Bob Filner

George E. Brown

Harold Brown

Tom Lamb

Sam Tan

JOB LOSSES

"SBC axes 350 jobs in East Bay"

Contra Costa Times, 6/21/97

"SBC is building a disposable work force. We have not seen any job creation since the merger."

*Margie Marks, Communication Workers of America
Contra Costa Times, 12/8/97*

Key to winning approval of the SBC/Pac Bell merger was SBC's promise to create more than 1000 new jobs in California.

It didn't exactly work out that way.

Within three months of the merger, between 800 and 1200 jobs were transferred from the San Francisco area to San Antonio, Texas. SBC refused to discuss the exact number of jobs that were relocated, but Texas economists cited a likely \$150 million windfall for the local economy there - at California's expense.

SBC claims it has created new jobs in other areas, such as repairmen and customer service, but the local union head says otherwise. "SBC is building a disposable work force. We have not seen any job creation since the merger," according to Margie Marks of the Communication Workers of America.

It's one more way in which SBC hasn't exactly lived up to its promises.

June 21, 1997

CONTRA COSTA TIMES

SBC axes 350 jobs in East Bay

Baby Bell begins reducing cable business as result of merger

By GEORGE AVALOS
TIMES STAFF WRITER

SAN RAMON — About 350 Pacific Bell workers in San Ramon who fashioned and deployed a futuristic communications network are among those whose jobs are being jettisoned by Pac Bell parent SBC Communications, SBC disclosed Friday.

Another 220 jobs in San Jose, 220 in San Diego and some jobs elsewhere face the SBC ax because the company is retrenching its efforts to provide TV service that would compete with cable TV.

SBC and Pac Bell executives in San Ramon are expected to announce the move to find a job within SBC or Pacific Bell, or leave the company altogether. But it's entirely possible that many will find work, said John Britton, a Pacific Bell spokesman.

"We have jobs available for most of these people," Britton said. He wouldn't say how many.

Another potential bright spot: For the employees, the three-month countdown has yet to start and it's not clear when the clock will start ticking.

Still, word of the shutdown of the broadband and advanced communications activities jolted employees and left hundreds wondering what they would do next, according to workers in San Ramon.

"There's a real somber mood around here," said one Pacific Bell employee.

See SBC, Page C3

CONTRA COSTA TIMES

SBC axes 350 jobs in East Bay

June 21, 1997

By GEORGE AVALOS
TIMES STAFF WRITER

SAN RAMON — About 350 Pacific Bell workers in San Ramon who fashioned and deployed a futuristic communications network are among those whose jobs are being jettisoned by Pac Bell parent SBC Communications, officials disclosed Friday.

The San Ramon employees hold many of the 800 jobs that SBC intends to dump because the company has decided to exit much of its fledgling

cable TV business. Another 220 jobs in San Jose, 220 in San Diego and some jobs elsewhere face the SBC ax because the company is retrenching its efforts to provide TV service that would compete with cable TV.

SBC and Pac Bell executives informed employees of the SBC move to eliminate the broadband network operation. Workers will have 90 days

Baby Bell begins reducing cable business as result of merger

to find a job within SBC or Pacific Bell, or leave the company altogether. But it's entirely possible that many will find work, said John Britton, a Pacific Bell spokesman.

"We have jobs available for most of these people," Britton said. He wouldn't say how many.

The pending reductions come as SBC attempts to cut costs in the wake

month countdown has yet to start and it's not clear when the clock will start ticking.

Still, word of the shutdown of the broadband and advanced communications activities jolted employees and left hundreds wondering what they would do next, according to workers in San Ramon.

"There's a real somber mood around here," said one Pacific Bell

of its April 1 merger with Pacific Tele- sis Group, Pac Bell's parent. To finance the necessary consolidations and operational combinations, SBC said this week that it will undertake writedowns and swallow a charge against earnings of \$1.9 billion to \$2.3 billion during 1997.

Another potential bright spot: For many of the employees, the three-

See SBC, Page C5

SBC

FROM PAGE C1

employee. "It was frustrating to see it end."

Other employees said they didn't expect to be working for the company six months from now. Some expressed concern that executives were monitoring employee phone lines.

Broadband employees were especially upset because they came to Pac Bell inspired by the company's sweeping vision of new communications systems. Pac Bell had championed an advanced phone network that could carry voice, computer data and video

"It was frustrating to see it end."

— Employee

signals to workers through fiber-optics and coaxial.

"The grand scheme was to build out the entire state and we bought into that dream," one employee said. "The network was designed to be world class and (the San Jose network) was world class."

Pacific Bell will shut down the San Jose cable TV system over the next few months. The 8,000 Pac Bell video customers in that area are getting free ser-

vice during the transition, Britton said.

For now, many employees are hopeful that SBC will actually follow through on its promises to find jobs for workers who are being dismissed. In meetings this week, company executives vowed to place employees internally.

No commitments have been made, though, about the type of jobs that will be available, or the pay.

The status of hundreds of jobs in Pacific Bell's Internet, long-distance, wireless and other units are also murky.

Despite the pending job cuts, SBC intends to keep its promise to increase Pacific Bell's employment levels by 1,000 by the spring of 1999, according to SBC spokesman Larry Solomon.

CONTRA COSTA TIMES
August 14, 1997

Pac Bell cuts jobs in Bay Area

By George Avalos
TIMES STAFF WRITER

Pacific Bell telemarketing jobs in the Bay Area are being moved to Texas and Missouri, as the phone company's parent, SBC Communications Inc., continues to whittle down some Pac Bell operations, union officials confirmed Wednesday.

Separately Pacific Bell disclosed it will close an undetermined number of directory assistance offices in Northern California as part of a quest to modernize the phone company's

Telemarketing, 411 face big slashes

411-related operations. Two Bay Area offices are being shut, and union leaders fear some East Bay offices that house directory assistance operations may also close.

Unfazed workers for Pacific Bell reported Wednesday that phone company executives have told them that SBC would close a telemarketing center in San Francisco and move the work out of California. Local

regulators allowed it to buy Pacific

as our business grows — particularly in areas with high-growth potential like (wireless phones) and long-dis-

tance — and as a result of our

merger," said Phil Quigley, PacTel's chairman. "At the same time, we'll be consolidating some positions."

Pac Bell has announced some big hiring initiatives, including the creation of 350 jobs to help install and repair phone lines. But union officials disputed the notion that Pacific Bell has evolved into a job magnet.

"We are still waiting for the 'new job' opportunities the merger is supposed to create," said Margie Marks, president of Communications Work-

Telesis Group, at that time the parent of Pacific Bell. The \$17 billion marriage, the first-ever merger between two Baby Bells, created a telecommunications colossus in California and the Southwest.

"We'll continue to add more jobs as our business grows — particularly in areas with high-growth potential like (wireless phones) and long-dis-

See SBC, Page C5

SBC

FROM PAGE C1

ers Local 9410. "So far, we have only seen our jobs taking a fast track out of the state of California."

In recent weeks, SBC has ordered job cuts in varied areas, according to several sources. The job reductions include:

- 800 jobs related to Pac Bell's cable television initiative. These include 350 jobs in San Ramon.

- Potentially hundreds of middle-management jobs in public relations, finance, marketing, planning, investor relations and administrative functions.

- About 50 jobs in a unit to help Pacific Bell employees process disability paperwork.

Union officials say about 350 jobs will be lost through the telemarketing center shutdown. Roughly 60 people remain at the facility, the union's Marks said, and they have two months before the center closes.

Directory-assistance workers likewise are wondering where their jobs are going. Pacific Bell has already decided to close centers in San Bruno and Napa by late 1998 and move the work to San Francisco. But more locations may close, according to the union. "Nothing is confirmed, but there are rumors that the Pleasanton office is also on the hit list," said Kathleen Kinchius, president of Local 9415.

Business

THE SAN DIEGO UNION-TRIBUNE - WEDNESDAY, JULY 9, 1997

PacTel to lose jobs in Bay Area

*SBC consolidates
management to Texas*

ASSOCIATED PRESS

SAN ANTONIO — SBC Communications, which purchased Pacific Telesis Group in April, has begun a consolidation that could hit hard in San Francisco, while tripling the size of its corporate operations in San Antonio.

Between 800 and 1,200 management positions will be relocated to San Antonio in the next few months, the *San Antonio Express-News* reported yesterday, citing an unidentified source inside SBC.

At SBC, the nation's largest regional Bell phone company, officials would not confirm the number of people involved in the relocation, although it will be "sizable," said Horace Wilkins, the company's regional president for South Texas.

Larry Solomon, SBC spokesman, said the affected jobs are in administrative services such as marketing, planning and finance, but he would not say how many of the jobs involve people based in San Francisco.

He said various positions are moving to San Antonio, St. Louis or cities within California, but he did not elaborate.

"There's going to be some movement between the states," he said. "We're not providing any numbers."

The moves stem from SBC's \$16.5 billion merger with San Francisco-based PacTel, the parent company of the Pacific Bell and Nevada Bell phone companies. The consolidation means elimination of some jobs and creation of others, Solomon said.

SBC will begin meeting with employees over the coming weeks, and will likely continue relocation moves until the end of the year, Solomon said.

An internal announcement issued Monday to SBC employees quoted Charles Foster, president of SBC operations and head of the merger transition, as saying the "majority of employees won't be affected by these moves, but some will see their job(s) or (their location)s change."

San Antonio-based SBC is the parent company for Southwestern Bell, which provides local phone service in Texas, Oklahoma, Arkansas, Kansas and Missouri.

The consolidation affects operations for Southwestern Bell, Pacific Bell and Nevada Bell.

There was no immediate estimate on the cost of the consolidation.

"This is a business decision," Wilkins said. "Texas is a good place to do business. San Antonio has been an excellent place for us to do business."

SBC will maintain four headquarters offices in California overseeing international, long-distance, Internet, and administrative services, but most of the company's high-level decision-making will take place in San Antonio.

The company has said the international business will be based in San Francisco, but the California headquarters sites of the other three business units have not yet been announced.

SBC moved its corporate headquarters, along with some 500 executives, to San Antonio in 1992.

San Antonio business leaders hailed word of SBC's latest plan, saying it could inject at least \$150 million into the economy.

Staff Writer Elizabeth Douglass contributed to this report.

San Francisco Examiner

Main News

Sports Business Style Commentary

Examiner Home

The Grid

Tuesday, June 3, 1997 • Page C 1

©1997 San Francisco Examiner



SBC defends its job claims

But PUC official says declaration of promises kept is premature By: Louis Trager

OF THE EXAMINER STAFF

A state regulator is challenging a claim by SBC Communications Inc. that it has fulfilled its promise to create 1,000 new California jobs at Pacific Telesis Group.

But the company Tuesday stuck to its guns.

The pledge was a major selling point of SBC's takeover of San Francisco-based PacTel from the time it was first proposed in April 1996.

SBC promised to add 1,000 to PacTel's planned head count for April 1999. The state Public Utilities Commission, in approving the deal, accepted that formula.

Because the improved economy has increased demands for its services, PacTel passed the goal in the first quarter of this year - more than two years early. As a result, San Antonio-based SBC said late last month that it had carried out its jobs commitment and needed only to ensure that employment stood no lower in April 1999.

However, while it was selling the merger, SBC had said that the 1,000 jobs would result from the merger of the two companies.

SBC may think it was finished fulfilling the promise by March - but it actually hadn't even started, Public Utilities Commissioner Richard Bilas said in response to a previous Examiner report.

Because the merger wasn't completed until April 1, the 1,000 jobs created during the previous 12 months don't count toward SBC's promise, said Bilas, one of two commissioners who shepherded the SBC-PacTel deal through months of hearings.

"I think they made an unfortunate and premature announcement with regard to jobs," Bilas said.

"Yes, they have 1,000 (more) people. No, those 1,000 were not the ones talked about

in the merger."

Since SBC has until 1999 to create the promised jobs, no immediate action to resolve the conflict is required, Bilas said.

The contradiction could, however, create a mess in two years if the company hasn't created 1,000 new jobs net.

Bilas is confident that SBC's growth plans will avert any dispute.

"They're going to add many jobs," he said

SBC is hopeful, too, but the company is holding to its original position on the 1,000 jobs and not making any further promises.

"As a result of the merger, we expect to grow our core businesses and develop new enterprises throughout the state," Jim Callaway, public affairs president of PacTel, said in a statement Tuesday.

"If the economy should fluctuate, we remain confident that we will still be able to grow the business and deliver on our commitment of an additional 1,000 jobs over Pacific Teles' business plan for April 1, 1999. If the state's economy continues to grow at a healthy pace, we expect to exceed our 1,000-job commitment come April 1, 1999."

Since SBC proposed last year to buy PacTel, the companies have repeatedly made the point that their deal would be much different from recent job-wrecking mergers.

Callaway reiterated that point.

"We made a commitment that our merger would increase jobs - reversing the trend of massive layoffs associated with recent corporate mergers in California," he said.

In recent months, PacTel employment has been determined less by management philosophy than by the demands of its business.

California's economy has grown faster than expected, and so has demand for additional phone lines and other telecommunications services, Callaway noted.

Therefore, after years of slashing jobs, PacTel ended up topping the promised employment total by the end of this year's first quarter, two years ahead of schedule.

On that basis, SBC declared victory.

The company said its remaining obligation was simply to ensure that it has no fewer
PacTel employment in April 1999 than the number of jobs it had in April 1996.

The state's goal of 49,586 by 1999. Their public statements claimed the 1,000 new jobs would result from the merger.

In a letter to PacTel chief executive and Chairman Philip Quigley, dated April 1, 1996 - the day the agreement was announced - SBC chief executive and Chairman Edward

Whitacre Jr wrote:

"(We) commit to you and to the people of California that the merger will increase employment by our combined companies in California by at least 1,000 over what would otherwise have been the case under previous plans if this merger had not occurred."

The companies provided the letter to the PUC in their successful bid for approval of the deal.

Bilas acknowledged that it will be tricky determining precisely which new jobs result from the deal.

"There's no way to say Job 1 is merger-related, Job 2 is normal economic circumstances," he said.

But he said California jobs like those in SBC's international operations, whose headquarters will be in San Francisco, would not have been created by PacTel alone and clearly must be considered products of the deal.

"If you're hiring linemen, that's not merger-related," Bilas said "But if you're hiring people who are related to expanded California operations and expanded operations on the Pacific Rim, those are going to be merger-related."

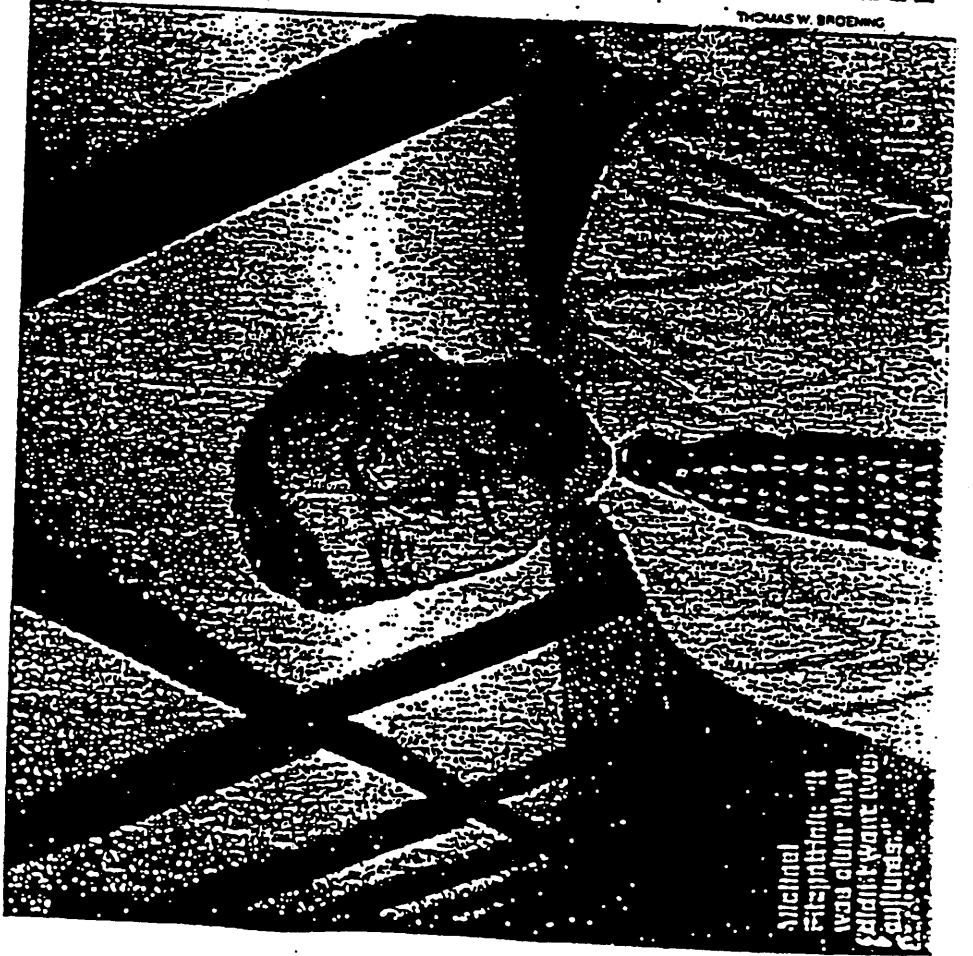
Security Magazine

Travel

Real Estate

Insurance Habitat Search Feedback

MARCH 27 - APRIL 2, 1998



Michael Fitzpatrick: "It was about 10:00 p.m. when I saw the lights."

Executive Exodus

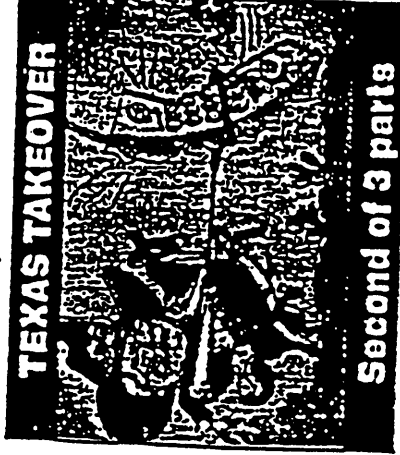
SBC puts a new face on Pacific Telesis

BY STEVE GINSBERG
and LORNA FEINMANDES

Business Times staff writers

The photo on Phil Quigley's conference-room wall shows the former Pacific Telesis CEO's six top lieutenants last spring wearing Dr. Seuss party hats and oven mitts.

Despite the wacky attire and festive occasion — marking 38 years at the company for Network Services President Martin Kaplan — nobody is smiling. The photo was taken shortly after SBC Communications completed its \$16.6 billion acquisition of Pacific last April 1. Already, a feeling of deep foreboding pervaded the company's highest ranks.



TEXAS TAKEOVER

Second of 3 parts

And for good reason: Within months, all six top executives would be gone, having either retired or quit. Kaplan, that day's guest of honor, survived, but has

Turn to page 57

SBC puts its brand on Pacific Telesis' executive ranks

Continued from page 1

gone from supervising 30,000 employees in California to overseeing 10 at SBC's San Antonio headquarters.

Kaplan's transfer is part of a clear-cutting of the management ranks at PacTel and its phone subsidiary Pacific Bell as SBC has dashed to pull its California outpost into the corporate fold. Less than a year after the acquisition, PacTel's seven highest-ranking executives are gone. Of its 36 officers, just 13 remain (see chart). Lower down the corporate ladder, insiders estimate 260 of the companies' 1,000 top managers have departed. More continue to leave.

"It was clear they didn't want two cultures," said Michael Fitzpatrick, who bailed out as CEO of PacTel Enterprises before SBC closed the unit. "The reasonable and prudent thing to do, and one of the fastest, is to put people in place who understand the (dominant) culture and who grow up in it. They selected the people who knew how to meet their criteria. Those people then brought in their own people."

Changing of the guard

After the merger, SBC Chairman Edward Whitacre dispatched his top lieutenants, Charles Foster and Royce Caldwell, to take charge of the transformation. Executives at PacTel were not alarmed at first. Foster, a graying, soft-spoken Texan, headed the merger team.

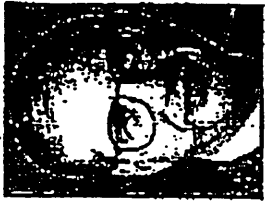
"Foster is the most gentlemanly, nicest man you would want to meet, but he would turn around and fire you the next day," said a former PacBell officer, who was fired.

With the two companies announcing their plans to combine on April 1, 1996, SBC had a year to map out plans for taking control of its California subsidiary. So within weeks of the acquisition, Foster and Caldwell were moving SBC executives in and shifting PacTel executives out. (See accompanying story.)

"Initially, they were saying, 'We'll find a job for everyone,' but within a month the tone changed, and they were saying 'either move to San Antonio or leave,'" said a high-ranking officer who left shortly after the merger.

Many division heads, some who had spent their entire careers with the company, got letters alerting them that their division would not be needed, their jobs were being done outside California and they had three months to take job offers, often in SBC's backwaters.

At least one PacTel executive said SBC was frank about its offers of lesser positions in out-of-the-way locations: "They were loyalty tests, designed to see if PacTel and PacBell executives were willing to make big sacrifices to find a place in the new hierarchy." (SBC declined to make Whitacre or any of the executives it moved to California available for this series).



Steve Welch

Winners and losers

After decades with the company, few PacTel executives were ready to forsake their Hillsborough and Marin County lifestyles for lower jobs in Austin, Topeka or San Antonio. Some, like a senior PacBell executive who was offered a job leading a small support department in Topeka, left the company instead. Others, like Gena Lalco, PacTel's controller and a 30-year company man, were shown the door.

The biggest talent loss may have been David Dorman, CEO of PacBell and Quigley's heir apparent. Unlike the many who had spent their whole careers in PacBell's monopoly, Dorman had come up through Sprint. Mary at PacBell thought he would dazzle the Texans with his renegade entrepreneurial smarts.

But Dorman's CEO post went to Ed Mueller, a three-decade SBC veteran. Dorman was instead offered the top job at a start-up business, long distance — a potential high-growth area for SBC, but one that would cut his managerial domain from 50,000 employees to about 100. Dorman accepted the offer, but colleagues said he commuted to San Antonio only briefly before leaving the company. The long-distance job was later awarded to Virginia Vann, an SBC transfer from St. Louis, who is now based in Pleasanton.

Not every PacTel or PacBell executive suffered. Seven holdovers were awarded bigger positions than they held before and got to stay in the Bay Area. Among the winners: Forrest Miller now runs SBC's \$2 billion yellow pages business. Steve Welch is president of the company's 1,700-employ-

The PacTel buyout, 1 year later: A 3-part series

- Last week Radical operations: Taking the knife to Pacific Telesis
- This week Cleaning house: An executive exodus
- In one week Culture clash: Texas collides with California

ce administrative services headquarters. Steve Hubbard runs SBC's budding, seven-state Internet business, and Diana Whitehead is the company's top technical information officer. Charles Smith, network president, Ross Ireland, vice president of network engineering, and Carmen Nava, Los Angeles external affairs president, are other PacBell holdovers thriving in the SBC culture.

At the top, however, major changes began early.

A CEO out of the loop

Announced as the No. 2 man in SBC, Vice Chairman Quigley was assigned to run California. But the ink was barely dry on the merger papers when his role was undermined — SBC moved his lieutenants out and theirs in.

"The day the merger closed, (SBC's) behavior changed considerably," said a former executive. "It made the team feel foolish to have bought into the rhetoric. On the other hand, we were thinking, 'How could (PacTel negotiators) have been so naive?'"

"It was clear from day one, they didn't want him around," said a member of PacTel's top echelon. "The trouble was, Phil refused to recognize this. He didn't get invited to top-level meetings. They were giving him the message he didn't have a role."

The messages were subtle at first, but grew strident as summer wore on. The issue reportedly boiled over at a meeting in Texas, where Whitacre and Quigley openly clashed. Quigley denies there was a blowup, though others who were present recall one.



Carmen Nava

After the 1996 merger announcement, Quigley had been a cheerleader for the deal, both inside the company and outside, with regulators, legislators and the public. A former officer said the CEO was genuinely surprised at how quickly the supposed "merger of equals" turned one-sided.

"He told me directly, I didn't realize how bad it could be — I thought we'd have more say on how things would be run," the officer said.

Quigley's powerlessness hurt morale because it fed insecurity, insiders said.

"Everyone was wondering what was going to happen to them. Phil was running around saying, 'Don't worry, I'll take care of you. This is not about losing people, this is a merger of equals,'" said an officer, who now works elsewhere. "He was in major denial."

By December, Quigley had renegotiated his contract several times and taken early retirement. Adding insult to injury, on Dec. 4, 1997, Quigley was lampooned by cartoonist and onetime PacBell employee Scott Adams, whose "Dilbert" portrayed "Phil" as a CEO who had merged with the wrong company.

Quigley retired at year-end but remains a consultant to the company. He spoke to the Business Times, but only to provide background, and said he had no regrets about the merger.

California spoils

Management changes and downsizings continue to ripple through

Turn to page 69

part because that fit Kaiser's strategy. But many experts expect the log jam to break in the current negotiations.

Preferred-provider organization (PPO) rates, hybrid point-of-service (POS) rates and premiums for small-business customers may jump even higher, industry insiders say.

Kaiser's proposed CalPERS rates include double-digit increases designed to match the jacked-up premiums other HMOs are requesting, along with "a major catch-up" element to recoup lost opportunities, insiders said.

"Kaiser feels they have not been at the market (rate) for a while. They think the market will tolerate it, but we'll see," said Barbara Wachsmann, health-care practice leader at the San Francisco outpost of the Watson Wyatt Worldwide consulting firm.

Kaiser CEO David Lawrence, M.D., last month announced a starting \$270 million projected loss for 1997 — final figures aren't in yet — and admitted Kaiser had missed a major turnaround on prices over the past year.

Officials at CalPERS declined to comment on the specifics of the ongoing negotiations. But spokesman Bill Branch acknowledged that the confidential talks have been particularly tense this time around. "It's no secret that negotiations are extra tight this year," he said.

CalPERS normally announces the results of its rate negotiations in mid-April, but that could be delayed by several months this year, Branch said.

Officials at the HIPC and the Pacific Business Group on Health, which have also begun battling Kaiser and other HMOs over their 1999 rates, expect an unusually tough fight.

"Kaiser lost a lot of money last year," the HIPC's Yates said. "We're expecting some increases this year." ■

CONSUMER COMPLAINTS SOAR

Complaints against Pacific Bell have at least doubled since the company was acquired by SBC Communications last April, Billingsley said.

PUC service quality analyst Natalie Billingsley in the SF Business Times, 2/27/98

The newsclips on the following pages speak for themselves:

- The rate of consumer complaints more than doubling after the SBC/Pac Bell merger.
- Fines and sanctions considered as remedies to force SBC/Pac Bell to get its act together.
- A statewide outcry from consumers about SBC/Pac Bell's arrogance.

But here's the quote that best sums up the outrage California consumers felt:

"I've dealt with the DMV, IRS, and INS and if you combine them all at their worst, Pacific Bell puts them to shame," said Sara Chennault, consumer from Alamo.

Is there anyone in the Midwest who thinks the SBC approach would represent an improvement over existing service?

Complaints About Pacific Bell Flood PUC

Customers irate about long delays

*By Jonathan Marshall
Chronicle Staff Writer*

Responding to a rash of complaints from irate Pacific Bell customers who are waiting as long as six weeks to get a phone line, state regulators are demanding information from the company about its service.

The California Public Utilities Commission has asked Pacific Bell to hand over data on how long it takes to install new lines and how often it meets its promises for initiating service by a given date.

Although Pacific Bell said it usually takes only five days to start service, many Bay Area consumers are waiting much longer.

David Grabel and his wife ordered two phone lines for their new home in Redwood City six

weeks before they moved. But the Grabels didn't get their first phone line until three weeks after they moved in. And that was after they waited at home hours for technicians to show up.

"We have an infant, so having a phone when we took possession of the house was important to us," he said. "When you have a little one running around you really want a phone for emergencies."

Grabel said they finally gave up

ever getting a second line, for his home office. "I'm laughing now but my wife is still fuming."

The PUC said it has noticed a marked increase in complaints in the past few months. Customers usually complain to PUC commissioners only after they have exhausted all other remedies, said Timothy Sullivan, telecommunications adviser to PUC Commissioner Henry Duque. "So we are just

PAC BELL: Page A13 Col. 1

Complaints About Pacific Bell Flood PUC

Customers irate about long delays

By Jonathan Marshall
Chronicle Staff Writer

Responding to a rash of complaints from irate Pacific Bell customers who are waiting as long as six weeks to get a phone line, state regulators are demanding information from the company about its service.

The California Public Utilities Commission has asked Pacific Bell to hand over data on how long it takes to install new lines and how often it meets its promises for initiating service by a given date.

Although Pacific Bell said it usually takes only five days to start service, many Bay Area consumers are waiting much longer.

David Grabel and his wife ordered two phone lines for their new home in Redwood City six

weeks before they moved. But the Grabels didn't get their first phone line until three weeks after they moved in. And that was after they waited at home hours for technicians to show up.

"We have an infant, so having a phone when we took possession of the house was important to us," he said. "When you have a little one running around you really want a phone for emergencies."

Grabel said they finally gave up

ever getting a second line, for his home office. "I'm laughing now but my wife is still fuming."

The PUC said it has noticed a marked increase in complaints in the past few months. Customers usually complain to PUC commissioners only after they have exhausted all other remedies, said Timothy Sullivan, telecommunications adviser to PUC Commissioner Henry Duque. "So we are just

PACBELL; Page A13 Col. 1

PacBell facing possible probe over service

BY STEVE GINSBERG

Business Times staff writer

Disturbed by rising complaints about Pacific Bell, Public Utilities Commission staff are recommending the agency launch a formal investigation into the company's service.

The five PUC commissioners are expected to consider the staff recommendation at their Feb. 27 meeting. A probe could last several months and carry penalties, said PUC service quality analyst Natalie Billingsley. The investigation would focus on Pacific Bell but look at service by other carriers as well.



Natalie Billingsley

Turn to page 49

Complaints against PacBell double; PUC starts to move

Continued from page 1

Complaints against Pacific Bell have at least doubled since the company was acquired by SBC Communications last April, Billingsley said. More than 100 complaints have been filed. The PUC is most concerned about reports of delays in installing or repairing service, utility staff failing to appear at appointments and difficulties in contacting a live person at PacBell's business office. The complaints peaked last summer and early fall.

Any investigation could carry high stakes for PacBell and its corporate parent.

SBC wants to get permission for PacBell to enter the lucrative long-distance market and is expected to formally file a request next month.

Commissioner Jesse Knight, who heads the PUC's telecommunications proceedings, said service quality will be one issue commissioners look at in reviewing PacBell's application for flexibility in pricing and profits.

"The complaints were a surprise," said Knight, who met with SBC CEO Edwin Whitacre on Feb. 17 to discuss PacBell's long-distance aspirations. "We want to see how they are addressing them. They have made strides to improve their performance and in some areas are exceeding PUC standards. But at this point I can't



Ed Whitacre

say 'yea' or 'nay' on their getting into long distance. I'll take a look at all the data."

Billingsley said increased demand spurred by the strong economy, combined with changes stemming from the SBC

merger, may be responsible for the higher number of complaints.

"Many people at PacBell took buy-out packages at a time when demand for new services (for instance, second phone lines) was growing radically," she said. "They have attempted to add installers and the guys in the trucks, but turnover rate there is high, with about 80 percent washing out. They have to be careful with who they hire, because these people go into your home."

Pacific Bell staunchly defends its current service levels, claiming it has vastly improved in the last six months by hiring 2,000 new technicians since the SBC takeover.

"We take service levels seriously and are concerned that the PUC is looking into it, but we think the situation has been fixed," said PacBell spokesman John Britton.

"A year ago we were getting out to repair lines in five to six days," he said. "Now, despite the flooding and wettest winter in a century, we have cut repairs to two days. We still are on a five-day installation for new lines and we're not happy with that. We're looking to cut that to two days." ■



Jesse Knight

PERSONAL TECHNOLOGY

Customer Service Complaints Soaring at PacBell

TELECOM TALK

KAREN KAPLAN

Local telephone competition may be arriving—albeit slowly—in California, but it doesn't seem to be having the desired effect on customer service at Pacific Bell.

Complaints about the state's dominant local phone provider, which has traditionally had a strong service record, have been soaring. The state Public Utilities Commission received 1,536 complaints about Pacific Bell's service quality in the first seven months of this year, compared with 819 complaints during the same period last year, according to figures compiled by The Utility Reform Network, a consumer watchdog group in San Francisco.

Complaints about missed service appointments also skyrocketed, from 24 last year to 460 this year,

according to TURN. Meanwhile, complaints about the state's other big local phone provider, long-maligned QTE, have been on the decline, a PUC official said—although the agency has not compiled specific numbers.

PacBell admits it suffered a string of service problems earlier this year, when unprecedented demand for additional phone lines for fax machines and Internet connections had service workers scrambling. Then, repairing damage from floods in April and May put technicians on overdrive and caused more service delays.

But those were aberrations in Pacific Bell's otherwise admirable customer service record, said John Britton, the company's director of media relations in San Francisco. He noted that J.D. Power & Associates ranked PacBell second among 13 local phone companies in customer satisfaction in a poll released in August.

"We are no longer a monopoly," Britton said. "If we don't satisfy

our customers, they'll go somewhere else."

Lonnie Lowther did. This summer, after moving to a new house in Martinez, Calif., she badgered Pacific Bell customer service agents for six weeks to get her phone service started. After a series of vague excuses and an unexpected and fruitless visit by a PacBell technician on the Fourth of July, she called AT&T.

"The AT&T lady gave me her name and number and said, 'If you have any problem, call me,'" said Lowther, who works in the accounts receivable department of Crockett Electric in Martinez. "I couldn't get that at Pacific Bell."

AT&T, MCI and other companies now compete in the local phone business by reselling Pacific Bell service, but they have not pursued residential customers aggressively.

Consumer watchdog groups contend the problems are the result of extensive layoffs at PacBell over the last few years, as well as the distraction of the \$16.5-billion

takeover by SBC Communications. The consumer groups don't pin the blame on SBC, but say the situation has not improved since the Texas-based company took over in April. The PUC required Pacific Bell to report customer service problems as one of its conditions for approving the merger.

Late last month, the PUC ordered Pacific Bell to revamp the estimates, bills and collection notices it sends customers. The action resulted from a complaint by Wilson Ogg, a Berkeley attorney who had a second line installed in his home. At a PUC hearing, an administrative law judge pronounced Ogg's notices indecipherable, said

commission spokeswoman Kyle DeVine. "It says in big, bold letters that you have to pay the total bill or be disconnected, then way at the bottom in utility-ese it says you only have to pay for basic service," DeVine said. "We want them to clean up their bills and get their notices right."

Pacific Bell has 60 days to offer improvements on repair notices and 90 days to revamp its bills and disconnection warnings, she said. The commission also ordered a six-month investigation into whether the confusion causes PacBell to overcharge for repair and installation work.

Britton said PacBell would comply with the PUC's order, but insisted that "we don't think there's any problem here or that any changes are necessary."

The PUC's action was followed by a complaint from two consumer watchdog groups. TURN and the Utility Consumer Action Network asked the commission to fine PacBell at least \$13 million for failing to answer phone calls and meet service appointments at the levels required by the PUC. The company says it hasn't violated the rules.

Karen Kaplan covers technology, telecommunications and aerospace. She can be reached at karen.kaplan@latimes.com

PAC BELL

From Page 1
seeing the tip of the iceberg."

Sullivan met with Pacific Bell's general manager for Northern California service operations on June 6 to talk about deteriorating service.

The PUC staff is preparing a report for the commissioners. "It's certainly an area we can't ignore," said Bill Schulte, director of the PUC's consumer services division.

Pacific Bell concedes it has minor problems, which it blames on summer demand for new lines as people move and add second lines for faxes, Internet access and talkative teenagers. Pacific Bell says the number of lines in its service territory is growing 12 percent to 14 percent per year.

Spokesman Ho Blair said the company aims to serve customers within four days, but now takes an average of five working days to install a new line.

"We realize it's been an imposition for some customers," he said. "We are bringing in additional technicians and hope to eliminate the extra delay."

Blair said the problem is not specific to any area. Other company officials have told the PUC the problem is worse in the South Bay, where demand for additional lines is soaring among affluent and Internet-savvy customers.

Pacific Bell acknowledged last winter that it had a problem catching up with customer demand for new lines, but said it was busy hiring and training new technicians.

The company still is, according to William Quirk, assistant to the vice president at Communications

'I've dealt with the DMV, IRS and INS and if you combine them all at their worst, Pacific Bell puts them to shame'

— SARA CHIENNAULT, ALAMO

Workers of America International. "They've been working diligently to get additional people on the payroll," he said.

Pacific Bell hasn't been diligent enough for many customers, however. Sara Chennault, an art student living in Alamo, placed her order for her first phone line on May 28. She's still waiting.

Twice company technicians scheduled appointments, then broke them without calling. She was put on hold for long stretches and cut off while trying to reach customer service.

"I've truly never dealt with such incompetence," she said. "I've dealt with the DMV, IRS and INS and if you combine them all at their worst, Pacific Bell puts them to shame."

William Mandel, editorial director of a public relations firm in San Francisco, recently moved from Sonoma to San Rafael. Six weeks in advance, he ordered phone lines for himself, his wife and his computer. He confirmed the new numbers and installation date four times, then had stationery printed and notified friends of the new numbers.

On the day of the move, Pacific Bell told him the numbers weren't available, and it could not honor the installation date. Later his wife stayed home all day waiting for a technician who never showed.

Mandel said one technician told him, "You'd think that now that we have competition, things would get better. But this place just isn't the same."

Businesses are having troubles getting new lines, too. Brian McConnell owns Pacific Telephony Design in San Francisco, which sells telephone equipment via an Internet catalog. He recently moved offices within the city and requested five ordinary phone lines.

After he moved, an installer showed up to say the phone company had temporarily run out of lines to string into his office.

While McConnell waited for his new numbers, Pacific Bell proceeded to forward some voice calls from his old number to a fax line. It forwarded other voice calls to someone else's home. Then it disconnected all of his numbers.

McConnell said he lost a lot of money during the more than two weeks he was unreachable by phone. It didn't help his reputation as a seller of phone systems to have his own one wrecked.

"I can guarantee one thing — the instant we have an alternative (to Pacific Bell), I will switch all of our service over faster than you can say, 'Sayonara.'"

Cast of characters

What's happened to PacTel/PacBell's 35 officers since merger

Name	Pre-merger	Post-merger
Phil Quigley	CEO PacTel	Retired, got \$10 million-plus package
David Dorman	CEO PacBell	CEO PointCast (Sunnyvale)
Michael Fitzpatrick	CEO PacTel Enterprises	CEO E-Tek Dynamics (San Jose)
William Downing	CFO PacTel	Retired
Jim Moberg	Executive VP, human resources	Retired, consulting for SBC
Richard Odgers	Executive VP, general counsel	Consulting for SBC, retires 3/31
Robert Barada	VP corporate strategy	Retired
Betsy Bernard	President, PacBell Com.	President, Avimex (Novato)
James Hamasaki	VP, general counsel PacTel Legal Group	Retired
Thomas Moulton Jr.	VP gov. relations	Same job
Eugene Sherman	VP external affairs	Retired
Diana Whitehead	VP, chief information officer	CIO SBC (San Ramon)
Paul White	VP, general counsel PacTel	VP PacBell legal
Lee Camp	CEO, president PacTel Enhanced Services	Same job
Lyn Daniels	CEO, president Mobile Services	President Arch Communications (Boston)
Forrest Miller	CEO, president Pacific Bell Dir.	Same job, but has 7 states
Michael Ashby	CFO PacTel Enterprises	CFO, Ascend Communications
Terry Mulready	PacTel Enterprises CEO for IS	Retired
MacLellan King	President Nevada Bell	Retired
Martin Kaplan	President Network Svcs. Group	SBC EVP merger transition (Texas)
Robert Lee	President PacBell Business Communications Services	Retired
Lee Bauman	VP Local Competition	Retired
Thomas Cross	VP Organizational Development	Retired
Peter Darbee	CFO PacBell	VP, CFO Advanced Fibre Communications Inc. (Petaluma)
Elizabeth Fetter	President Industry Markets Grp.	VP U.S. West (Denver)
John Gueldner	VP Regulatory	Retired
William Hannigan	VP Business Sales	VP SBC Marketing (Texas)
Timothy Harden	VP Broadband Development	VP, general mgr. of indus. ops. SBC
Ross Ireland	VP Network Engineering	VP network engineering and planning, SBC (San Ramon)
John Polumbo	President Consumer Communications Services	President Pacific Bell Mobile Services (wireless)
Michael Rodriguez	VP Human Resources	Same job
John Seymour	VP Local Competition Impl.	Retired
Charles Smith	VP Network Operations	President PacBell Network Services (Los Angeles)
Randall Strahan	VP Service Operations	Retired
Stephen Welch	VP Procurement	President SBC Administrative Services

☞ Denotes still with PacBell or SBC

WEDNESDAY, JULY 23, 1997

Pac Bell May Pay for Service Delays

PUC staff readies recommendation for refunds by utility

By Jonathan Marshall
 Chronicle Staff Writer

The California Public Utilities Commission staff is preparing to recommend sanctions against Pacific Bell for long delays in installing new lines and making repairs, sources said yesterday.

Hundreds of witnesses are said to be ready to testify, if need be, about service delays. "We can't wait any longer," one commission source said. "We haven't seen any improvement."

If Pacific Bell fails to get its act together, staffers say they will recommend that the PUC make the utility refund some of its installation or monthly service fees to customers.

In addition, two consumer groups yesterday charged that Pacific Bell is greeting many of its customer service calls with busy signals or long waits.

In a filing with the PUC on June 30, attorneys for Pacific Bell claimed the local phone company answered more than 80 percent of all calls to its business offices within 20 seconds, for the months of April and May.

That standard, among others, was required by the PUC in its March 31 decision approving the acquisition of Pacific Bell by SBC Communications Inc. The commission warned of unspecified penalties for failing to meet the service quality goal.

But the Utility Reform Network in San Francisco and the Utility Consumers Action Network

in San Diego said yesterday the utility's claims of compliances don't stand up under scrutiny.

Tom Long, a telecommunications attorney for TURN, tried calling Pacific Bell's 800 number several times this month in an informal test of the company's response time. A third of his calls led to a recorded message about "unexpectedly high call volume," followed by a busy signal.

UCAN never managed to get through to Pacific Bell's customer service representatives within 20 seconds during its own survey period, from July 7 to July 18. The reality is that Pacific Bell has a new call waiting service here, quipped UCAN executive director Michael Shames. "You call for service and wait, and wait, and wait."

Long said the two groups are calling on the PUC to make Pacific Bell "explain the discrepancy between the real world of customers and their claims."

Neither organization conducted

a scientifically valid survey, they conceded. And their results for July may not be comparable to April and May.

"July and August are the busiest months in our business office," said Pacific Bell spokesman John Britton. "It's kind of like going to a shopping center and trying to find a parking place during Christmas season."

William Schulte, director of the PUC's consumer services division, said the commission hasn't yet done any tests of its own to check on Pacific Bell's service claims. "It's something we probably will do based on what (TURN and UCAN) have alleged," he said.

Schulte said the commission is looking at a range of service problems, including missed service calls and long waits for installation of first and second lines. One member of the Redwood City planning commission only got a second line installed after being promised that

it would be up and running in April, he said.

Pacific Bell's Britton said some of the problems stemmed from a backlog of work built up in April, when a group of service technicians brought in from Canada on temporary assignment returned home.

Since January, Pacific Bell has hired 2,000 people, including field and customer service representatives to deal with soaring demand for telephone services. It has 200 new training to answer customer calls.

In its latest filing with the PUC, Pacific Bell said it met 99 percent of its service commitments — meaning its line technicians showed up when they said they would.

But Schulte said, "I've handled so many complaints from private citizens and public agencies that my frustration level is at the breaking point."

PacBell challenged on customer service

By Elizabeth Douglass
STAFF WRITER

Two consumer watchdog groups yesterday stepped up their criticism of Pacific Bell's customer service performance, filing paperwork with state regulators challenging the phone company's claims that it has fixed its earlier problems.

The two groups, San Diego's Utility Consumers' Action Network (UCAN) and The Utility Reform Network (TURN) in San Francisco, yesterday said their own small surveys of PacBell's customer service lines showed the company out of line with state requirements.

Meanwhile, staff members at the California Public Utilities Commission are said to be preparing to recommend sanctions against PacBell for long delays in installing new lines and making repairs.

Hundreds of witnesses are said to be ready to testify, if need be, about service delays. "We can't wait any longer," one commission source said. "We haven't seen any improvement."

If PacBell fails to get its act together, staffers say they will recommend that the PUC make the utility refund some of its installation or monthly service fees to customers.

Barry Fraser, an attorney with UCAN, said his group made a series of calls to PacBell customer service from July 7 to July 18 and found that none of the calls was picked up by a live operator within 20 seconds of the customer's last menu selection — the state bench mark for that type of service.

In several instances, calls were never answered at all, giving a busy signal instead, Fraser said. A smaller test by TURN in San Francisco also turned up substandard response times, he said.

Although UCAN and TURN admit their survey does not pass muster as scientific data, Fraser added, "We think this means there are some significant problems with the way they handle customer service."

PacBell has acknowledged that its service staff has been stretched thin by rising demand for second phone lines and other services, but the company said it has been hiring steadily and has met state requirements since April.

PacBell, which merged with Texas-based SBC Communications on April 1, agreed to merger conditions mandating that PacBell meet state service minimums for two consecutive months — or face PUC fines.

Recently, PacBell filed a report saying it met those requirements and kept service response above state minimums for April, May and June.

UCAN and TURN aren't convinced, though.

"We're putting the commission on notice that we suspect (PacBell's) filing as not being accurate, and that we intend to conduct further investigation," said Fraser at UCAN. "Customer service has got to improve — that's just something that's got to happen for competition to actually work."

A dispatch from the San Francisco Chronicle was used in this report.

BUSINESS

Business after 5:00 PM (510) 418-4811
WEDNESDAY July 23, 1987

The Oakland Tribune

Pac Bell faces public outcry

By Victoria Collier
STAFF WRITER

Martinez resident Lonnie Lowther doesn't want to hear that Pacific Bell has more than 5,000 pieces of paper to process each day as an excuse for why it has taken more than a month to get her phone service activated.

"Maybe they have one customer too many," said Lowther, who has decided to switch from Pac Bell to long-distance giant AT&T Corp. for her local service because of her exasperating experience.

Lowther, who moved from one residence to another in the same city on June 22, still does not have local service and has been told she may have to wait three more weeks. She said Pac Bell, which is in charge of

Continued from E-1

switching service because it owns the local network, told her it lacked the authority to use her new line because it was assigned to a different phone company.

Lowther really doesn't care what the reason is. She just wants a working phone in her house and to be treated decently in the process. "I was disconnected so many times," she said, detailing long waits and rude representatives.

Complaints like Lowther's are behind the decision of two consumer groups to file a legal protest late Monday with the California Public Utilities Commission over what the group says is poor customer service.

Phone: Groups file protest with PUC

The Utility Reform Network, which is based in San Francisco, and its San Diego counterpart, the Utility Consumers Action Network, say Pac Bell makes its customers wait too long on its toll-free service line. The groups say Pac Bell is supposed to meet a 20-second response time but failed to do so based on surveys by both groups.

Pac Bell spokesman John Britton said the company has exceeded its response time in more than 80 percent of the cases for the past three months. He said Pac Bell has hired 2,000 people since January and about 200 new customers service representatives are now in training. He also said no customer should be treated re-

ally — no matter how many orders the company must process.

TURN telecommunications attorney Tom Long said he got a busy signal after a recorded message told him the delay was due to a high call volume. "What we can't test, but warrants more serious investigation ... is how long it takes customers to get service, to get a line," Long said, referring to cases like Lowther's.

PUC officials said the consumer affairs division started keeping detailed track of the complaints in May. They plan to submit the results along with a recommendation to the commission.

Please see Phone, E-2

Pac Bell center too often busy, groups say

By GEORGE AVALOS
TIMES STAFF WRITER

"Due to unusually high call volumes, we are unable to answer your call." — Recording on Pacific Bell residential service line.

Some people have become accustomed to hearing this type of a recording when trying to get through to America Online or TCI Cablevision. But on Thursday — and for at least the past few weeks — that recording frequently has been the result of calls to Pacific Bell's residential service center by people attempting to order phone installations, repairs or other services.

Two consumer groups Thursday charged that Pacific Bell, a unit of

San Antonio, Texas-based SRC Communications Inc., has failed to provide adequate service to people attempting to get through Pac Bell's customer service lines. According to the groups, Utility Customers Action Network and The Utility Reform Network, Pac Bell doesn't answer phones quickly enough, or not at all.

"There is a serious problem in how customers are being served by Pacific Bell," said Thomas Long, a staff counsel with TURN. "There seems to be a serious issue here. Pacific Bell may need to be penalized to force them to meet those standards."

Officials at Pacific Bell disagree.

They say the company is providing more-than-adequate phone service. Pac Bell has filed papers with the state Public Utilities Commission that certify it met or exceeded the PUC's benchmarks for good customer service through its California territory including the Bay Area. One requirement demands that Pac Bell answer four out of every five calls within 20 seconds.

"I can tell you that the company has exceeded its goal to answer 80 percent of the calls within 30 seconds," said John Britton, a Pac Bell spokesman. "This information is documented and we stand by that."

See PAC BELL, Page C2

Pac Bell

FROM PAGE C1

A growing number of customers this year, including Tralee Gallagher of Martinez, have complained that Pacific Bell waited weeks before coming out to install a first phone line in a home. Pac Bell has increased staffing in hopes it can improve its sluggish response to installation requests. Gallagher said her phone was installed after she complained repeatedly.

- UCAN and TURN dispute that assessment. UCAN has conducted tests that it believes bolster's the assertions of the two advocacy groups.

- During a recent two-week period, UCAN initiated numerous phone calls to Pac Bell's residential service

center in a random test of the phone response at the facility. The calls were made at all hours — day and night, every day of the week.

According to UCAN's tests, calls frequently never got through to a live Pacific Bell representative. UCAN determined that few calls were completed within 20 seconds. Of course, one issue that's open to interpretation is when to begin running the 20-second clock. UCAN and TURN intend to release details of their study next week.

"We will request that the PUC open up an investigation into how Pacific Bell provides this customer service," said Barry Fraser, staff attorney with UCAN.

Thursday, the Times placed 20 calls during the course of the day to the residential service center's toll-free 800 number. Ten calls were placed in

the morning and 10 in the afternoon.

The results were mixed. Once connected, customers must wade through several menu options before reaching a live person. In six of the 20 cases, the call eventually reached a live operator, although in these instances, the total time elapsed reached about three minutes.

In 14 of the cases, the calls reached the following recording: "Due to unusually high call volumes, we are unable to answer your call. We regret any inconvenience this may cause."

UCAN officials wonder whether Pacific Bell's purchase in April by SBC has eroded Pac Bell's customer service.

"We suspect they are moving people around and spreading out fewer live people to answer those calls," Fraser said. "That could lead to people being on hold for a longer time."

Pac Bell Faces Fine for Lousy ISDN Service

By Jonathan Marshall
Chronicle Staff Writer

Pacific Bell faces a possible fine of \$515,000 and other sanctions stemming from long-standing problems with its ISDN service.

ISDN, a digital voice and data service, is used by more than 100,000 California customers for clear phone connections and fast Internet access. ISDN stands for Integrated Services Digital Network.

Last month, a judge at the California Public Utilities Commission proposed the half-million-dollar fine, ruling that the phone company had violated a commission order to report on customer-satisfaction levels and underreported serious service problems.

The judge also proposed that, in the future, Pacific Bell waive its \$125 installation fees for customers who have problems with their line hookups. That would just apply when overall customer satisfaction fell below certain minimum levels.

The five-member PUC will consider

PAC BELL

From Page D1

the proposed sanctions at its next public meeting on May 21. The item tops its general agenda.

Pacific Bell spokesman John Britton called the recommended fine "outrageous," saying the company did not hurt any customers, but merely was unintentionally late in filing some paperwork.

He also said Pac Bell has doubled the number of ISDN service technicians in the past year and slashed repair times.

Last spring, the PUC granted Pacific Bell a large rate increase for business and residential ISDN service; residential rates, for example, jumped \$5 to \$29.50 per month. In response to widespread consumer complaints of poor service, however, the PUC required Pacific Bell to file customer-satisfaction survey results.

But the phone company missed its Sept. 1, 1997, reporting deadline and later supplied results only for business customers. Its initial report also was rosier than data that it later verified as accurate.

Two Pacific Bell witnesses later blamed the reporting breakdown on a "misunderstanding," but neither could explain further why the company failed to comply.

Administrative law Judge Kim Malcolm also noted in her ruling that the commission expected Pacific Bell to improve service quality to the point where 10 percent or fewer customers reported "poor" or "terrible" problems with line installation or maintenance.

But in Pacific Bell's surveys from last July — two months after its rate increase went into effect — 48 percent of residential customers complained of poor or terri-

ble installation and 24 percent complained similarly of substandard maintenance.

Pacific Bell's record has since improved but not up to the commission's standard. In December, the latest month for which figures are available, 16 percent of residential customers said they experienced poor or terrible installation and more than 12 percent said they had lousy line maintenance.

"Their service last year was deplorable," said Barry Fraser, a staff attorney for Utility Consumer Action Network in San Diego. "To their credit, they did improve late last year, but that was only after we filed a motion for sanctions because of incredibly bad service."

Robert Larribeau, San Francisco-based chairman of the California ISDN Users' Group, said an unscientific poll of ISDN users last winter confirmed widespread dissatisfaction with Pacific Bell's service. Among respondents, 46 percent said they experienced poor or terrible installation and 23 percent said they suffered equally bad maintenance.

Larribeau said he personally tried to get a line reconfigured last year and spent months trying to iron out mistakes made by the phone company. He only succeeded by going around the customer service department to a higher-level manager he knows personally.

"I don't think they've made any real magic breakthroughs" in service, Larribeau concluded.

SLEAZY MARKETING TECHNIQUES

“The ... result of the new SBC/Pac Bell sales program is to convert employees who have long been the customer service arm of Pac Bell into an aggressive, sleazy sales force, while deceptively promoting a continuing customer service role to the public and the [state regulators].”

*Alicia Ribetro, president of Local 103 of the TIU
(Telecommunications International Union),
in a letter to the California Public Utilities Commission.*

Imagine a sales program that's so offensive your own employees take out full-page ads in newspapers to criticize it.

That's what happened to SBC/Pac Bell this year. Workers were so offended at the sleazy tactics they used their own money to denounce it. Here are the main gripes:

- Customer service workers - who are supposed to handle consumer problems — were turned into aggressive sales people whose job it was to sell added features (such as Caller ID and Call Waiting) to anyone who called in.
- As a result of the new program, SBC/Pac Bell actually sold Caller ID to a sight-impaired person!
- SBC actually tried to make telemarketing calls to people with unlisted numbers, even though these people pay extra money to SBC/Pac Bell to avoid these specific types of sales calls!
- SBC tried to re-name its service packages to try to squeeze more money out of consumers. A new “basics” service package included some non-basic features that added \$5 - \$6 a month to consumers' bills.

As a result, the Office of Ratepayer Advocates wants a cease and desist order for SBC's “unethical” phone service pitches.

Is this the type of service/harassment Ameritech customers want?

Pac Bell's Practices Under Fire

By Jonathan Marshall
Chronicle Staff Writer

Pacific Bell came under withering fire from a state regulatory office yesterday for allegedly running roughshod over consumer interests.

The Office of Ratepayer Advocates, a consumer advocacy division of the California Public Utilities Commission, yesterday asked the commission to bar "harmful and misleading" sales and marketing practices by the telephone company. These include high-pressure sales of services like Caller ID and lax policing of customer privacy.

Pacific Bell's practices "compromise the safety, privacy, financial integrity and basic consumer protections and customer-service requirements" of California law, the consumer office said in a report to the commission, which it also forwarded to several state legislators and independent consumer groups.

But William Schulte, director of the PUC's consumer services division, said his office examined its own records and found no complaints about the issues raised by the Office of Ratepayer Advocates. He said he would defer to ORA on the matter.

Another source within the PUC said

PACIFIC BELL: Practices Under Fire

From Page B1

some complaints have come in from labor unions and employees within Pacific Bell, but not consumers.

John Britton, a spokesman for Pacific Bell, said of ORA, "These people are out of control. This is stuff that's been raised by others and already found wanting by the commission."

ORA staffers said they uncovered a pattern of abuses during visits to a Pacific Bell residential service order center in April and May. After monitoring customer calls, they alleged the following problems:

■ Pac Bell's service representatives allowed callers who were not the subscriber of record to make changes to accounts in violation of the law and at the expense of customer privacy and security.

■ Service representatives subjected callers to "aggressive and misleading" sales pitches to drop Caller ID blocking on their lines. Pacific Bell's Caller ID service becomes more valuable as fewer customers block it.

■ Phone company agents marketed packages of expensive custom calling features with names like "Essentials" and "Basic Saver Pack," which could mislead customers into thinking they were necessary or available at no extra cost. The PUC barred similar sales practices in a 1988 order, the ORA report charged.

■ Pacific Bell made little attempt to screen callers who requested Universal Lifeline Telephone Service, available to low-income residents for rates as low as \$3 a month. Pacific Bell had little incentive to police the program because it recoups lost revenue by tapping a special state fund.

In February, the Telecommunications International Union filed similar charges with the PUC. It claimed that Pacific Bell was forcing service representatives to "engage in unethical, deceptive and high-pressure sales tactics" for high-value services like Caller ID.

Britton denied the charges, noting that Pacific Bell cannot afford to abuse its customers as competition grows in the California telecommunications market.

San Jose Mercury News

SANTA CRUZ/MONTEREY EDITION
35 CENTS

Serving Northern California Since 1851

FRIDAY
JUNE 5, 1998

WWW.MERCURYCENTER.COM

Pac Bell tactics attacked

■ **Hard sell:** State consumer panel wants cease-and-desist order for what it calls unethical phone service pitches.

BY REBECCA SMITH
Mercury News Consumer Writer

Consumer advocates for the state Public Utilities Commission want to slap Pacific Bell with a cease-and-desist order, charging Thursday that the phone company uses unethical, high-pressure sales tactics to push its phone products, sometimes violating privacy law.

The complaint, lodged by the Office of Ratepayer Advocates, asks the commission to order Pacific Bell to change its sales procedures, notify customers that it has been deceptive and cooperate with PUC efforts to determine whether refunds to customers are warranted.

Asking the commission to intervene is a rare move by the advocacy unit, consisting of roughly 100 analysts, engineers and lawyers charged by the Legislature with representing consumers in PUC proceedings. But the advocates say Pac Bell's practices are offensive enough to warrant immediate intervention.

The PUC investigation came after a number of complaints from consumer organizations, even though the commission hadn't received any complaints from customers about Pac Bell's sales techniques.

See PAC BELL, Back Page

ALLEGATIONS AGAINST PACIFIC BELL

■ That Pac Bell treats every call from a phone customer as a marketing opportunity, and that the aggressive pitches to sell customers a variety of phone services are sometimes deceptive.

■ That the phone company doesn't tell customers that they can block Caller ID.

WHAT'S NEXT

The PUC will hear the complaint. It could act immediately, or do nothing.

Agency urged to target high-pressure sales tactics

■ PAC BELL

from Page 1A

"Someone needs to look at what the Office of Ratepayer Advocates is doing with tax resources," said Pac Bell spokesman John Britton. "There are no victims here. We aren't getting complaints. The PUC isn't getting complaints."

PUC President Richard Bilas said he had not had a chance to read the petition, filed late Thursday, but said "there's no question we will act on it. We'll read and respond accordingly." If the commission approves the order, it could require anything from a change in Pac Bell's business plan to substantial fines.

'A marketing organization'

Pacific Bell, which services 17.4 million phones in the state, says it is simply doing what other companies do — trying to sell its wares.

"If what we're doing is wrong, then they ought to tell McDonald's to stop saying, 'Do you want fries with that burger?' and stop Nordstrom from saying, 'Would you like a tie with that shirt?'" Britton said. "We're a marketing organization too."

But Office of Ratepayer Advocates investigators concluded the phone company systematically crosses the line between appropriate behavior and deceptive sales practices.

ing with account holders before pitching products and making service changes.

■ Pacific Bell failed to disclose to new customers that they have two call-blocking options (complete and selective) and used "misleading language and coercive tactics to try to talk customers into changing their blocking status."

■ The sales practices lead to longer wait times on incoming calls to order centers.

Monitoring contacts

The conclusions contained in the report were reached after PUC staffers visited Pacific Bell call centers in Sacramento and Oakland to monitor customer contacts.

Commission staff members say their requests for visits were discouraged by Pacific Bell. They gained access after the intervention of Bilas, said Elena Schmid, head of the ratepayer advocacy division.

"It shouldn't have happened that way, but Pacific Bell put up as many roadblocks as it could," Schmid said.

The sales pitches observed by PUC staffers showed the phone company's aggressive techniques, said PUC analyst Kelly Boyd. She cited a call from an elderly woman who was seeking lifeline service — publicly subsidized phone service for the poor — after previously be-

ing disconnected for nonpayment. Instead of signing her up for the service at \$5.67 per month, the customer representative sold her several special calling features, a local toll plan and deluxe inside wiring protection.

"Before she makes a call, she'll be paying \$30.47 per month for service," said Boyd. "It was unconscionable."

The allegations reinforce a previous complaint lodged in February by the San Jose local of a union representing Pacific Bell customer service representatives.

"This backs up what we've been saying for months," said Alicia Ribero, president of Telecommunications International Union Local 103. Ribero said the atmosphere changed at call centers after Texas-based SBC, parent company of Southwestern Bell, took control last year.

"Now the sales reps are under all this pressure to sell, sell, sell with monthly quotas," she said.

SBC's 1997 annual report is clear about its sales goals. It says Southwestern Bell leads the industry with an average of 2.27 features per line, such as priority ringing, compared with only 0.73 features sold per line in California.

"The goal is to increase this average to 1.15 features by 2000," says the shareholder report, through "promotion, sales skills training, packaging, third party sales and

strategic pricing changes." The head of the PUC's complaint division said it has no complaints on file about unethical sales practices — but added that PUC codes nevertheless could have been violated.

The average person, for example, wouldn't know that it's a violation of PUC code to make changes to an account or provide information to someone not verified as the subscriber.

PUC investigators visited the state's three other phone companies — Citizent's, Roseville and GTEC — but didn't find any sales, marketing or privacy problems.

Unlike Pacific Bell's heavily scripted sales encounters, the other phone companies adhere mostly to a customer-oriented approach.

"GTEC screens callers for account information and does not aggressively market services on all customer contacts," says the petition.

"It used to be the phone companies mirrored each other. Not anymore," said Boyd. "At Pacific Bell, people were getting all kinds of services they didn't even know they were ordering."

Britton said the phone company just wants consumers up to speed on all the new features. "If consumers don't like it, they can stunk it," he said. "They don't need a lot of pushy people at ORA standing up for them."

SAN DIEGO UNION TRIBUNE
JUNE 6, 1998

PacBell accused of customer abuses

Company calls claims it misleads consumers 'rehash' of old charges

By Deborah Solomon
STAFF WRITER

Pacific Bell has been misleading customers and waging an aggressive sales campaign in an attempt to meet internal quotas on products and services, an independent arm of the state Public Utilities Commission alleges.

The PUC's Office of Ratepayer Advocates said PacBell is violating state law and invading customers' privacy with its sales tactics. It asked the PUC to issue a cease and desist order against the company.

In a report Thursday, Ratepayer Advocates said PacBell failed to notify customers that they could block Caller ID, something they are required to do by law. The report also said that PacBell used "misleading package selling techniques" to sign customers up for higher-priced calling plans.

Pacific Bell blasted the Ratepayer Advocates' report, saying the findings were unfounded and had already been dismissed by the utilities commission.

"This is just a rehash of things that people have already made allegations about," said John Britton, a PacBell spokesman. "The PUC's consumer services division has looked at these issues and not found anything. I would say that someone needs to take a serious look at what ORA (Office of Ratepayer Advo-

icates) is doing with taxpayers' resources."

Bill Schulte, director of the consumer services division, said his office has not received any complaints from customers about aggressive or illegal marketing practices.

Schulte said his office looked into the issue earlier this year, but found no problems and handed the investigation to Ratepayer Advocates.

"ORA decided there were still some significant, broad service issues so we deferred it to them," Schulte said.

In its report, Ratepayer Advocates said PacBell misleads customers by offering rate packages with confusing names. Rate plans with the word "basic" in them actually tack on an extra \$9 to

\$20 per month, but "are named and marketed in a manner which may mislead customers into thinking they are part of basic service."

Ratepayer Advocates said customers' privacy is also at risk because PacBell fails to obtain "sufficient customer identification" before releasing account information to callers who have not been established as the subscriber.

"Pacific (Bell's) practices compromise the safety, privacy, financial integrity and basic consumer protections," Ratepayer Advocates said in a letter to the PUC.

The commission will either hold hearings on the complaint or ask an administrative law judge to review the issue, Schulte said.

PUC calling Pac Bell on sales tactics

Company allegedly pressures, misleads

By Wendy Tanaka
OF THE EXAMINER STAFF

Consumer advocates asked state regulators Thursday to order Pacific Bell to cease and desist from alleged harmful and misleading sales practices of its Caller ID and custom-calling services.

The Office of Ratepayer Advocates, the consumer arm of the state Public Utilities Commission, issued a report to PUC commissioners stemming from its 2½ month investigation into Pac Bell's sales practices.

ORA's report alleged the following:

▶ Pac Bell doesn't give customers enough information about Caller ID blocking options. The report said the company violates PUC regulation by not disclosing to new customers that there are two Caller ID blocking options — complete and selective — and aggressively solicits customers to switch to selective blocking.

▶ Pac Bell's titles for custom-calling services, which are not included as part of customers' basic monthly rates, are deceptive because they make the services appear fundamental. The optional calling features have been named "The Essentials," "Basic Saver Pack," and "Basic Saver Plus." These options, ORA claims, add between \$9 and \$20 to customers' monthly phone bills. In addition,

these services are marketed "to all customers in all contact situations."

In her letter to PUC commissioners, ORA director Elena Schmid wrote, "These time-consuming sales techniques negatively impact (Pac Bell's) ability to timely answer business office calls, to adequately inform customers about service arrangements, service offerings and options, and aspects of emergency and basic telephone service."

ORA's investigation was launched, in part, because the Telecommunications International Union (TIU), which represents 550 Pac Bell workers, asked the PUC earlier this year to look into the company's new sales practices campaign.

At the time, TIU president Alicia Ribiero, reportedly said Pac Bell is "forcing service representatives to engage in unethical, deceptive and high-pressure sales tactics in order to avoid poor performance ratings and discipline."

Pac Bell denied ORA's allegations.

"Not one commission order has been violated, and there aren't (any consumers) complaining to the commission or Pacific Bell," said Pac Bell spokesman John Britton. "What we have is a subjective interpretation by a few people with no valid data to support it." Although ORA asked the commission to act immediately on its cease-and-desist request, there is no specified deadline for the agency to review ORA's findings.

FEBRUARY 26, 1998

Consumer Groups, Union Criticize PacBell Sales Practices

■ **Telecom:** Documents filed with state regulators detail aggressive promotions. Company calls tactics fair.

By ELIZABETH DOUGLASS
TIMES STAFF WRITER

Pacific Bell has embarked on an aggressive sales campaign that tracks revenue by the hour, directs service employees to push sales on every call, and encourages them to deny customers certain caller ID blocking options in apparent violation of a state mandate, according to internal company documents.

A PacBell official said such practices are common and do not encourage unethical marketing, adding that the

company is not violating state rules. But critics contend that these incentives encourage PacBell salespeople to sell higher-priced services to consumers who don't need or want them.

The documents, which a PacBell labor union said it filed late Tuesday with state regulators, paint a picture of nonstop sales promotions and quota updates, along with regular sales notices laden with slogans like "Offer high, watch'em buy!!! Offer low, nowhere to go!!!"

Under internal names like "Basics Blastoff," "Ride the Wave" and "Splash Cash," PacBell is offering cash and prizes to managers and service employees who meet quotas for selling high-profit products such as caller ID, call waiting and call forwarding.

Such practices appear to be related. Please see PACBELL, D7

PACBELL

Continued from D1
tively new for PacBell, but are more common for SBC Communications of Texas, which acquired PacBell last year and has instituted the new sales program.

Steve Dimmitt, PacBell's vice president for consumer marketing, did not dispute the authenticity of the documents, and said SBC has routinely used such sales practices in its traditional markets in Texas, without complaint.

"We don't believe it's a problem," Dimmitt said. He added that state regulators have not received any customer complaints about PacBell's sales efforts.

But Michael Sukhov, telecommunications analyst at the Office of Ratepayer Advocates, an independent arm of the state Public Utilities Commission charged with protecting consumers, said his office is "aware of and concerned about the allegations." He said the agency will look into the matter as part of its evaluation of a PacBell application for a new calling service.

The company's largest labor

union, the Communications Workers of America, has tentatively approved the incentive plans. But a smaller union, the Telecommunications International Union, filed the documents with regulators and has asked state regulators to investigate the new sales practices.

"The inevitable and planned result of the new SBC/PacBell sales program is to convert employees who have long been the customer service arm of PacBell into an aggressive, sleazy sales force, while deceptively promoting a continuing customer service role to the public and the [state regulators]," said Alicia Ribeiro, president of Local 103 of the TTU, in a letter to the California Public Utilities Commission.

Ribeiro and others say the company critiques employees based on sales performance, and that its biggest emphasis is on selling add-on services, including a new feature package called "The Basics."

Consumer groups complain that the company named the higher-cost package so that customers might confuse it with "basic service," a low-cost phone service with no extras.

PacBell said the advertising is not meant to confuse customers. "For us to pull the wool over our customers' eyes only hurts us, and we won't do it," said PacBell's Dimmitt.

Another big sales push involves caller ID, sources say. The service, priced normally at \$6.50 per month, displays a caller's phone number on a special screen as the phone rings.

After a contentious fight over caller ID, California mandated that phone companies also offer all customers ways to prevent their phone number from being disclosed to caller ID subscribers.

One of the blocking options, called per-line or "complete" blocking, allows customers to have all outgoing calls protected from caller ID machines. Another option, "selective blocking," allows callers to block their number on a per-call basis.

In privacy-conscious California, an estimated 53% of all phone customers have complete blocking.

Now, the labor union and others say PacBell is telling employees not to offer customers complete blocking and to convince others to switch to selective blocking.

Pacific Bell wants to solicit unlisted

■ Company says even those with unpublished numbers would be delighted to hear about its add-on services

By George Avalos
TIMES STAFF WRITER

People with unlisted telephone numbers could start getting unsolicited calls from Pacific Bell salespeople who want to hawk new services under a plan disclosed Monday by the phone company.

Some advocacy groups believe Pacific Bell's proposal could violate the privacy rights of customers. After all, some people pay for unlisted numbers so they can avoid the drumbeat of dinner-hour and weekend calls from companies that market a

variety of services.

"The main reason people get an unlisted phone number is to protect their privacy," said Beth Givens, director of the Privacy Rights Clearinghouse. "It surprises me Pacific Bell doesn't see the illogic to tele-market their own customers who have unlisted phone numbers."

Pac Bell, though, says it believes its customers with unlisted numbers would be pleased to hear a phone company sales pitch about services such as caller ID, call waiting and three-way calling.

A Pacific Bell survey of its new customers with unlisted phone numbers found about 56 percent agreed to a follow-up call on products and services, according to documents

See UNLISTED, Back Page

Unlisted

FROM PAGE A1

filed with state regulators.

"The customers indicated they appreciated the goodwill," Al Swan, Pacific Bell's executive director-regulatory, wrote in a letter to the state Public Utilities Commission. The follow-up call to customers, Swan wrote, also "gave them the time to ask questions about Pacific Bell services." Pac Bell hasn't decided if it would actually use unlisted numbers as a marketing database, and the FUC must approve the plan.

Pacific Bell says it figures a telephone installation creates a business relationship that it can parlay into sales of add-on services to residential customers.

"We think many customers with unlisted numbers would look forward to hearing from Pacific Bell about new technologies that would actually enhance their privacy," said John Britton, a company spokesman.

Still, Pac Bell, which serves almost all of California, must tread with delicacy in pursuing its proposal. Many California communities — and the Bay Area in particular — are hotbeds of privacy, according to a 1997 study by Survey Sampling Inc.

Nationwide, about 30 percent of residential phone customers have unlisted numbers. In the East Bay, 71 percent of the residential numbers are unlisted, the study found. The rate is 72 percent in the Sacramento area, 69 percent in Santa Clara County and 64 percent in San Francisco, Survey Sampling reported. Pac Bell wasn't specific about how many of its estimated 8.3 million residential customers have unlisted

numbers, although Britton said the ratio is about "50-50."

The telecommunications landscape, however, has changed as competition and deregulation have brought in new players and new products. Pac Bell could be attempting to extract as much profit as possible from add-on services to supplement revenues from its unprofitable basic phone service, which is offered at a below-cost, subsidized price.

Caller ID, with about 800,000 California subscribers, is one example of the potential new revenue sources. Residential customers pay \$6.50 a month and business users \$7.50. Over a year, that could generate about \$62 million if everyone paid \$6.50. Customers have signed up at a fast clip for caller ID, which allows users to see the phone number at which an incoming call originates.

Despite the opportunity to harvest handsome profits, Pacific Bell vowed not to violate the privacy rights of its customers.

"We will not telemarket people who don't want to hear from us," Britton said. "We will put them on a 'do not call, do not disturb list,' if that's what they want."

That's not enough to soothe some consumer advocates in California. They say Pac Bell, under the direction of its owner, San Antonio, Texas-based SBC Communications, is on a mission to expand the ranks of its enhanced-services customers as quickly as possible.

"They want to push caller ID to the max," said Regina Costa, a telecommunications researcher with The Utility Reform Network. "Pacific Bell has been trying to get access to confidential telemarketing records for a long time."

Pac Bell pushing a new Caller ID

Sales practices raising eyebrows among some PUC staff members

BY JON HEALEY
Mercury News Staff Writer

Pacific Bell is urging customers not to sign up for the maximum level of privacy protection as it prepares to launch a new, more revealing Caller ID service — one that will present the callers' names as well as their numbers.

The company also has told its sales force not to offer new customers the option of automatically defeating Caller ID unless they ask for it. Some staff members at the California Public Utilities Commission say this practice appears to violate state regulations, but Pac Bell officials say they are in compliance.

Caller ID has long been the most controversial add-on from Pac Bell because of the perceived threat to privacy. People who have the service and a special display device can learn the phone numbers of callers, making

it more difficult to call anonymously or from a number you don't want disclosed.

Yet Pac Bell is now moving aggressively to sell Caller ID as the centerpiece of a package of enhanced services, such as call waiting or call answering. The company is giving employees bonuses based on their sales of these services, while threatening supervisors with pay cuts if they do not meet sales targets.

Steve Dimmitt, Pac Bell's vice president for consumer marketing, tied the new practices to the advent of competition in the local phone market. "As you move into a competitive world, you focus more on marketing the products and services that you have," he said.

But Dave Otto, a telecommunications analyst, said Pac Bell's push had more to do with profits than competition. At present, the residential phone market is hardly a hotbed of competition, as Pac Bell still controls more than 99 percent of the lines into people's homes.

Customer choices

California was one of the last states to permit Caller ID, as the PUC required Pac Bell to mount an extensive and costly public education campaign before offering the service. That campaign, completed in June 1996, required Pac Bell to give existing customers two options: they could select complete Caller ID blocking, which would keep their

numbers secret automatically, or selective blocking, which would reveal their numbers to anyone with Caller ID and a display device.

Either feature can be deactivated on a call-by-call basis.

Sales of the \$6.50-a-month service have been lackluster at best, with only about 7 percent of Pac Bell's customers signing up for it. By contrast, Dimmitt said, close to 50 percent of the customers in other states served by SBC Communications Inc., Pac Bell's parent company, have Caller ID.

One reason for the poor performance in California is that an unusually high number of people signed up for complete blocking, which in part reflected the high percentage of unlisted phone numbers in the state. When the service was introduced in July 1996, 62 percent of all home phone lines were blocking their numbers. As a result, more than half of the calls from residents reveal nothing to those with Caller ID.

To make Caller ID more attractive to customers, Pac Bell is seeking the PUC's permission to add the caller's name to the phone number displayed by Caller ID. This feature, if approved, is slated to begin March 21.

It also has asked the PUC's approval for a service, automatic call rejection, that would block calls

from phone lines that did not disclose their number. That service, which already is in place in several other states, would begin March 26 if approved by the PUC.

Pac Bell also has worked on several fronts to reduce the use of complete Caller ID blocking, and has lowered it to about 50 percent of its customers.

One method has been not to tell new customers about complete blocking — a policy that apparently has been in place since Pac Bell ended its customer education campaign in 1996.

Dimmitt said that new customers are told about their blocking options later, when Pac Bell sends them a follow-up letter confirming their order. The company is now discussing with the PUC how that part of the letter should be phrased, he said.

Mary Purcell, a regulatory analyst for the PUC, said the commission's staff believes that federal and state law and PUC regulations require Pac Bell to give new customers the same information about caller ID that existing customers received in 1996. But Dimmitt said Pac Bell fulfilled all its obligations by conducting the customer-education campaign.

A second effort by Pac Bell has

been to convert people with complete blocking to selective blocking. In a document Pac Bell gave to employees, service representatives were advised to tell customers who had complete blocking, "I find that Selective Call Blocking gives me greater control over my privacy. Since it's free, shall I go ahead and change that for you?"

Blocking discouraged

Calls to Pac Bell on Friday found that customer service representatives were, indeed, discouraging customers from signing up for complete blocking. For example, three representatives warned that consumers with complete blocking would not be able to get through to friends or family members who had automatic call rejection.

That's not entirely true. People with complete blocking can get through to someone with automatic call rejection by unblocking their number for that call. They merely need to punch "32" before keying in the phone number.

Dimmitt defended the push for selective blocking, saying that it gives customers "the most choice and freedom."

Tom Long of The Utility Reform Network, a consumer advocacy group based in San Francisco, said that consumers have complained to TURN about Pac Bell refusing to give them complete blocking or trying to talk them out of it. Citing internal company documents gathered by the Telecommunications International Union, Long said, "It appears that Pac Bell is working to undermine California's efforts to protect customer privacy."

Has someone you know been victimized by PacBell's high pressure sales tactics?

Ten years after PacBell was slapped with multimillion dollar fines for forcing extra-cost services on unsuspecting customers including the elderly and those with limited English, the company is at it again.

PacBell, now owned by out-of-state telecommunications predator Southwestern Bell Communications, is pressuring its employees to use hard-sell techniques to get customers to buy unnecessary and extra-cost services like Call Waiting, Call Return, Call Forwarding, 3-Way Calling and Caller ID for residential phone lines.

Employee job security and pay now depends on meeting unrealistic sales quotas set by PacBell managers who can lose up to 15% of their salaries if quotas are not met.

IF YOU OR SOMEONE YOU KNOW IS THE VICTIM OF PACBELL'S HIGH-PRESSURE SALES TACTICS, CALL (408) 441-6122.

That number is your direct connection to the Telecommunications International Union, the trade union that represents PacBell service



representatives who are resisting management pressure to join in the company's program of high-pressure sales tactics.

We want to be of genuine service to you, the customer, not a boiler-room operation set up to sell-sell-sell.

If you want information about your phone service, we'll be happy to help you make an informed choice. But we won't sell a sight-impaired man Caller ID service he can't use, as recently happened.

To learn more about this problem, call or mail the coupon at right.

The Telecommunications International Union has said no to this program of customer rip-offs. We want you to know...

- Since PacBell sold out to SBC, hard-sell has become the rule in Customer Service Centers. Abuses that led to multimillion dollar fines against PacBell in 1986 are happening again.
- Targets include those residential customers who have the least information about their phone service...and the most trust in their phone company.
- If you suspect that you or someone you know has been victimized, call the TIU Telephone Consumer Watch at (408) 441-6122 today.

Telecommunications International Union
Attn: Telephone Consumer Watch
1590 Old Oakland Road, Suite B213
San Jose, CA 95131

Thank you for alerting me to SBC/PacBell's aggressive sales tactics. Most vulnerable are those households that still think of the telephone company as a service, not a sales force. The Customer Service Representatives who belong to the TIU are resisting the revival of questionable sales programs involving individual incentives and management surveillance. Tell me more about the problem and how I can protect the people I care about.
[] I enclose my report of a suspected sales abuse.

NAME _____

ADDRESS _____

CITY _____ STATE _____ ZIP _____

PHOTO: JEFFREY CHAFFIN; PHOTO BY TONY BIRKBEING

If you think your phone service rep is crossing a line — they probably are. TIU workers want no part of sleazy sales tactics. Join with us and together we'll get SBC/PacBell to cut it out!

SLEAZY MARKETING TECHNIQUES

“The ... result of the new SBC/Pac Bell sales program is to convert employees who have long been the customer service arm of Pac Bell into an aggressive, sleazy sales force, while deceptively promoting a continuing customer service role to the public and the [state regulators].”

*Alicia Ribetro, president of Local 103 of the ITU
(Telecommunications International Union),
in a letter to the California Public Utilities Commission.*

Imagine a sales program that's so offensive your own employees take out full-page ads in newspapers to criticize it.

That's what happened to SBC/Pac Bell this year. Workers were so offended at the sleazy tactics they used their own money to denounce it. Here are the main gripes:

- Customer service workers - who are supposed to handle consumer problems — were turned into aggressive sales people whose job it was to sell added features (such as Caller ID and Call Waiting) to anyone who called in.
- As a result of the new program, SBC/Pac Bell actually sold Caller ID to a sight-impaired person!
- SBC actually tried to make telemarketing calls to people with unlisted numbers, even though these people pay extra money to SBC/Pac Bell to avoid these specific types of sales calls!
- SBC tried to re-name its service packages to try to squeeze more money out of consumers. A new “basics” service package included some non-basic features that added \$5 - \$6 a month to consumers' bills.

As a result, the Office of Ratepayer Advocates wants a cease and desist order for SBC's “unethical” phone service pitches.

Is this the type of service/harassment Ameritech customers want?

Pac Bell's Practices Under Fire

By Jonathan Marshall
Chronicle Staff Writer

Pacific Bell came under withering fire from a state regulatory office yesterday for allegedly running roughshod over consumer interests.

The Office of Ratepayer Advocates, a consumer advocacy division of the California Public Utilities Commission, yesterday asked the commission to bar "harmful and misleading" sales and marketing practices by the telephone company. These include high-pressure sales of services like Caller ID and lax policing of customer privacy.

Pacific Bell's practices "compromise the safety, privacy, financial integrity and basic consumer protections and customer-service requirements" of California law, the consumer office said in a report to the commission, which it also forwarded to several state legislators and independent consumer groups.

But William Schulte, director of the PUC's consumer services division, said his office examined its own records and found no complaints about the issues raised by the Office of Ratepayer Advocates. He said he would defer to ORA on the matter.

Another source within the PUC said

PACIFIC BELL: Practices Under Fire

From Page B1

some complaints have come in from labor unions and employees within Pacific Bell, but not consumers.

John Britton, a spokesman for Pacific Bell, said of ORA, "These people are out of control. This is stuff that's been raised by others and already found wanting by the commission."

ORA staffers said they uncovered a pattern of abuses during visits to a Pacific Bell residential service order center in April and May. After monitoring customer calls, they alleged the following problems:

■ Pac Bell's service representatives allowed callers who were not the subscriber of record to make changes to accounts in violation of the law and at the expense of customer privacy and security.

■ Service representatives subjected callers to "aggressive and misleading" sales pitches to drop Caller ID blocking on their lines. Pacific Bell's Caller ID service becomes more valuable as fewer customers block it.

■ Phone company agents marketed packages of expensive custom calling features with names like "Essentials" and "Basic Saver Pack," which could mislead customers into thinking they were necessary or available at no extra cost. The PUC barred similar sales practices in a 1986 order, the ORA report charged.

■ Pacific Bell made little attempt to screen callers who requested Universal Lifeline Telephone Service, available to low-income residents for rates as low as \$3 a month. Pacific Bell had little incentive to police the program because it recoups lost revenue by tapping a special state fund.

In February, the Telecommunications International Union filed similar charges with the PUC. It claimed that Pacific Bell was forcing service representatives to "engage in unethical, deceptive and high-pressure sales tactics" for high-value services like Caller ID.

Britton denied the charges, noting that Pacific Bell cannot afford to abuse its customers as competition grows in the California telecommunications market.

San Jose Mercury News

SANTA CRUZ/MONTEREY EDITION
35 CENTS

Serving Northern California Since 1851

FRIDAY
JUNE 5, 1998

WWW.MERCURYCENTER.COM

Pac Bell tactics attacked

■ **Hard sell:** State consumer panel wants cease-and-desist order for what it calls unethical phone service pitches.

BY REBECCA SMITH
Mercury News Consumer Writer

Consumer advocates for the state Public Utilities Commission want to slap Pacific Bell with a cease-and-desist order, charging Thursday that the phone company uses unethical, high-pressure sales tactics to push its phone products, sometimes violating privacy law.

The complaint, lodged by the Office of Ratepayer Advocates, asks the commission to order Pacific Bell to change its sales procedures, notify customers that it has been deceptive and cooperate with PUC efforts to determine whether refunds to customers are warranted.

Asking the commission to intervene is a rare move by the advocacy unit, consisting of roughly 100 analysts, engineers and lawyers charged by the Legislature with representing consumers in PUC proceedings. But the advocates say Pac Bell's practices are offensive enough to warrant immediate intervention.

The PUC investigation came after a number of complaints from consumer organizations, even though the commission hadn't received any complaints from customers about Pac Bell's sales techniques.

See *PAC BELL*, Back Page

ALLEGATIONS AGAINST PACIFIC BELL

■ That Pac Bell treats every call from a phone customer as a marketing opportunity, and that the aggressive pitches to sell customers a variety of phone services are sometimes deceptive.

■ That the phone company doesn't tell customers that they can block Caller ID.

WHAT'S NEXT

The PUC will hear the complaint. It could act immediately, or do nothing.

Agency urged to target high-pressure sales tactics

■ PAC BELL

From Page 1A

"Someone needs to look at what the Office of Ratepayer Advocates is doing with tax resources," said Pac Bell spokesman John Britton. "There are no victims here. We aren't getting complaints. The PUC isn't getting complaints."

PUC President Richard Bilas said he had not had a chance to read the petition, filed late Thursday, but said "there's no question we will act on it. We'll read and respond accordingly." If the commission approves the order, it could require anything from a change in Pac Bell's business plan to substantial fines.

'A marketing organization'

Pacific Bell, which services 17.4 million phones in the state, says it is simply doing what other companies do — trying to sell its wares.

"If what we're doing is wrong, then they ought to tell McDonald's to stop saying, 'Do you want fries with that burger?' and stop Nordstrom from saying, 'Would you like a tie with that shirt?'" Britton said. "We're a marketing organization too."

But Office of Ratepayer Advocates investigators concluded the phone company systematically crosses the line between appropriate behavior and deceptive sales practices.

■ There are no victims here. We aren't getting complaints. The PUC isn't getting complaints. ■

— Pac Bell spokesman John Britton

ing with account holders before pitching products and making service changes.

■ Pacific Bell failed to disclose to new customers that they have two call-blocking options (complete and selective) and used "misleading language and coercive tactics to try to talk customers into changing their blocking status."

■ The sales practices lead to longer wait times on incoming calls to order centers.

Monitoring contacts

The conclusions contained in the report were reached after PUC staffers visited Pacific Bell call centers in Sacramento and Oakland to monitor customer contacts.

Commission staff members say their requests for visits were discouraged by Pacific Bell. They gained access after the intervention of Bilas, said Elena Schmid, head of the ratepayer advocacy division.

"It shouldn't have happened that way, but Pacific Bell put up as many roadblocks as it could," Schmid said.

The sales pitches observed by PUC staffers showed the phone company's aggressive techniques, said PUC analyst Kelly Boyd. She cited a call from an elderly woman who was seeking lifeline service — publicly subsidized phone service for the poor — after previously be-

ing disconnected for nonpayment. Instead of signing her up for the service at \$6.67 per month, the customer representative sold her several special calling features, a local toll plan and deluxe inside wiring protection.

"Before she makes a call, she'll be paying \$30.47 per month for service," said Boyd. "It was unconscionable."

The allegations reinforce a previous complaint lodged in February by the San Jose local of a union representing Pacific Bell customer service representatives.

"This backs up what we've been saying for months," said Alicia Ribero, president of Telecommunications International Union Local 103. Ribero said the atmosphere changed at call centers after Texas-based SBC, parent company of Southwestern Bell, took control last year.

"Now the sales reps are under all this pressure to sell, sell, sell with monthly quotas," she said.

SBC's 1997 annual report is clear about its sales goals. It says Southwestern Bell leads the industry with an average of 2.27 features per line, such as priority ringing, compared with only 0.73 features sold per line in California.

"The goal is to increase this average to 1.16 features by 2000," says the shareholder report, through "promotion, sales skills training, packaging, third party sales and

strategic pricing changes."

The head of the PUC's complaint division said it has no complaints on file about unethical sales practices — but added that PUC codes nevertheless could have been violated.

The average person, for example, wouldn't know that it's a violation of PUC code to make changes to an account or provide information to someone not verified as the subscriber.

PUC investigators visited the state's three other phone companies — Citizen's, Roseville and GTEC — but didn't find any sales, marketing or privacy problems.

Unlike Pacific Bell's heavily scripted sales encounters, the other phone companies adhere mostly to a customer-oriented approach.

"GTEC screens callers for account information and does not aggressively market services on all customer contacts," says the petition.

"It used to be the phone companies mirrored each other. Not anymore," said Boyd. "At Pacific Bell, people were getting all kinds of services they didn't even know they were ordering."

Britton said the phone company just wants consumers up to speed on all the new features. "If consumers don't like it, they can stand up," he said. "They don't need a lot of pushy people at ORA standing up for them."

PacBell accused of customer abuses

Company calls claims it misleads consumers 'rehash' of old charges

By Deborah Solomon
STAFF WRITER

Pacific Bell has been misleading customers and waging an aggressive sales campaign in an attempt to meet internal quotas on products and services, an independent arm of the state Public Utilities Commission alleges.

The PUC's Office of Ratepayer Advocates said PacBell is violating state law and invading customers' privacy with its sales tactics. It asked the PUC to issue a cease and desist order against the company.

In a report Thursday, Ratepayer Advocates said PacBell failed to notify customers that they could block Caller ID, something they are required to do by law. The report also said that PacBell used "misleading package selling techniques" to sign customers up for higher-priced calling plans.

Pacific Bell blasted the Ratepayer Advocates' report, saying the findings were unfounded and had already been dismissed by the utilities commission.

"This is just a rehash of things that people have already made allegations about," said John Britton, a PacBell spokesman. "The PUC's consumer services division has looked at these issues and not found anything. I would say that someone needs to take a serious look at what ORA (Office of Ratepayer Advo-

ates) is doing with taxpayers' resources."

Bill Schulte, director of the consumer services division, said his office has not received any complaints from customers about aggressive or illegal marketing practices.

Schulte said his office looked into the issue earlier this year, but found no problems and handed the investigation to Ratepayer Advocates.

"ORA decided there were still some significant, broad service issues so we deferred it to them," Schulte said.

In its report, Ratepayer Advocates said PacBell misleads customers by offering rate packages with confusing names. Rate plans with the word "basic" in them actually tack on an extra \$9 to

\$20 per month, but "are named and marketed in a manner which may mislead customers into thinking they are part of basic service."

Ratepayer Advocates said customers' privacy is also at risk because PacBell fails to obtain "sufficient customer identification" before releasing account information to callers who have not been established as the subscriber.

"Pacific (Bell's) practices compromise the safety, privacy, financial integrity and basic consumer protections," Ratepayer Advocates said in a letter to the PUC.

The commission will either hold hearings on the complaint or ask an administrative law judge to review the issue, Schulte said.

PUC calling Pac Bell on sales tactics

Company allegedly pressures, misleads

By Wendy Tanaka
OF THE EXAMINER STAFF

Consumer advocates asked state regulators Thursday to order Pacific Bell to cease and desist from alleged harmful and misleading sales practices of its Caller ID and custom-calling services.

The Office of Ratepayer Advocates, the consumer arm of the state Public Utilities Commission, issued a report to PUC commissioners stemming from its 2½ month investigation into Pac Bell's sales practices.

ORA's report alleged the following:

► Pac Bell doesn't give customers enough information about Caller ID blocking options. The report said the company violates PUC regulation by not disclosing to new customers that there are two Caller ID blocking options — complete and selective — and aggressively solicits customers to switch to selective blocking.

► Pac Bell's titles for custom-calling services, which are not included as part of customers' basic monthly rates, are deceptive because they make the services appear fundamental. The optional calling features have been named "The Essentials," "Basic Saver Pack," and "Basic Saver Plus." These options, ORA claims, add between \$9 and \$20 to customers' monthly phone bills. In addition,

these services are marketed "to all customers in all contact situations."

In her letter to PUC commissioners, ORA director Elena Schmid wrote, "These time-consuming sales techniques negatively impact (Pac Bell's) ability to timely answer business office calls, to adequately inform customers about service arrangements, service offerings and options, and aspects of emergency and basic telephone service."

ORA's investigation was launched, in part, because the Telecommunications International Union (TIU), which represents 550 Pac Bell workers, asked the PUC earlier this year to look into the company's new sales practices campaign.

At the time, TIU president Alicia Ribiero, reportedly said Pac Bell is "forcing service representatives to engage in unethical, deceptive and high-pressure sales tactics in order to avoid poor performance ratings and discipline."

Pac Bell denied ORA's allegations.

"Not one commission order has been violated, and there aren't (any consumers) complaining to the commission or Pacific Bell," said Pac Bell spokesman John Britton. "What we have is a subjective interpretation by a few people with no valid data to support it." Although ORA asked the commission to act immediately on its cease-and-desist request, there is no specified deadline for the agency to review ORA's findings.

FEBRUARY 26, 1998

Consumer Groups, Union Criticize PacBell Sales Practices

■ **Telecom:** Documents filed with state regulators detail aggressive promotions. Company calls tactics fair.

By ELIZABETH DOUGLASS
TIMES STAFF WRITER

Pacific Bell has embarked on an aggressive sales campaign that tracks revenue by the hour, directs service employees to push sales on every call, and encourages them to deny customers certain caller ID blocking options in apparent violation of a state mandate, according to internal company documents.

A PacBell official said such practices are common and do not encourage unethical marketing, adding that the

company is not violating state rules. But critics contend that these incentives encourage PacBell salespeople to sell higher-priced services to consumers who don't need or want them.

The documents, which a PacBell labor union said it filed late Tuesday with state regulators, paint a picture of nonstop sales promotions and quota updates, along with regular sales notices laden with slogans like "Offer high, watch'em buy!!! Offer low, nowhere to go!!!"

Under internal names like "Basics Blastoff," "Ride the Wave" and "Splash Cash," PacBell is offering cash and prizes to managers and service employees who meet quotas for selling high-profit products such as caller ID, call waiting and call forwarding.

Such practices appear to be related. Please see PACBELL, D7

PACBELL

Continued from D1
tively new for PacBell, but are more common for SBC Communications of Texas, which acquired PacBell last year and has instituted the new sales program.

Steve Dimmitt, PacBell's vice president for consumer marketing, did not dispute the authenticity of the documents, and said SBC has routinely used such sales practices in its traditional markets in Texas, without complaint.

"We don't believe it's a problem," Dimmitt said. He added that state regulators have not received any customer complaints about PacBell's sales efforts.

But Michael Sukhov, telecommunications analyst at the Office of Ratepayer Advocates, an independent arm of the state Public Utilities Commission charged with protecting consumers, said his office is "aware of and concerned about the allegations." He said the agency will look into the matter as part of its evaluation of a PacBell application for a new calling service.

The company's largest labor

union, the Communications Workers of America, has tentatively approved the incentive plans. But a smaller union, the Telecommunications International Union, filed the documents with regulators and has asked state regulators to investigate the new sales practices.

"The inevitable and planned result of the new SBC/PacBell sales program is to convert employees who have long been the customer service arm of PacBell into an aggressive, sleazy sales force, while deceptively promoting a continuing customer service role to the public and the [state regulators]," said Alicia Ribeiro, president of Local 103 of the TIU, in a letter to the California Public Utilities Commission.

Ribeiro and others say the company critiques employees based on sales performance, and that its biggest emphasis is on selling add-on services, including a new feature package called "The Basics."

Consumer groups complain that the company named the higher-cost package so that customers might confuse it with "basic service," a low-cost phone service with no extras.

PacBell said the advertising is not meant to confuse customers. "For us to pull the wool over our customers' eyes only hurts us, and we won't do it," said PacBell's Dimmitt.

Another big sales push involves caller ID, sources say. The service, priced normally at \$6.50 per month, displays a caller's phone number on a special screen as the phone rings.

After a contentious fight over caller ID, California mandated that phone companies also offer all customers ways to prevent their phone number from being disclosed to caller ID subscribers.

One of the blocking options, called per-line or "complete" blocking, allows customers to have all outgoing calls protected from caller ID machines. Another option, "selective blocking," allows callers to block their number on a per-call basis.

In privacy-conscious California, an estimated 53% of all phone customers have complete blocking.

Now, the labor union and others say PacBell is telling employees not to offer customers complete blocking and to convince others to switch to selective blocking.

Pacific Bell wants to solicit unlisted

■ Company says even those with unpublished numbers would be delighted to hear about its add-on services

By George Avalos
TIMES STAFF WRITER

People with unlisted telephone numbers could start getting unsolicited calls from Pacific Bell salespeople who want to hawk new services under a plan disclosed Monday by the phone company.

Some advocacy groups believe Pacific Bell's proposal could violate the privacy rights of customers. After all, some people pay for unlisted numbers so they can avoid the drumbeat of dinner-hour and weekend calls from companies that market a

variety of services.

"The main reason people get an unlisted phone number is to protect their privacy," said Beth Givens, director of the Privacy Rights Clearinghouse. "It surprises me Pacific Bell doesn't see the illogic to telemarket their own customers who have unlisted phone numbers."

Pac Bell, though, says it believes its customers with unlisted numbers would be pleased to hear a phone company sales pitch about services such as caller ID, call waiting and three-way calling.

A Pacific Bell survey of its new customers with unlisted phone numbers found about 56 percent agreed to a follow-up call on products and services, according to documents

See UNLISTED, Back Page

Unlisted

FROM PAGE A1

filed with state regulators.

"The customers indicated they appreciated the goodwill," Al Swan, Pacific Bell's executive director-regulatory, wrote in a letter to the state Public Utilities Commission. The follow-up call to customers, Swan wrote, also "gave them the time to ask questions about Pacific Bell services." Pac Bell hasn't decided if it would actually use unlisted numbers as a marketing database, and the FUC must approve the plan.

Pacific Bell says it figures a telephone installation creates a business relationship that it can parlay into sales of add-on services to residential customers.

"We think many customers with unlisted numbers would look forward to hearing from Pacific Bell about new technologies that would actually enhance their privacy," said John Britton, a company spokesman.

Still, Pac Bell, which serves almost all of California, must tread with delicacy in pursuing its proposal. Many California communities — and the Bay Area in particular — are hotbeds of privacy, according to a 1997 study by Survey Sampling Inc.

Nationwide, about 30 percent of residential phone customers have unlisted numbers. In the East Bay, 71 percent of the residential numbers are unlisted, the study found. The rate is 72 percent in the Sacramento area, 69 percent in Santa Clara County and 64 percent in San Francisco, Survey Sampling reported. Pac Bell wasn't specific about how many of its estimated 5.5 million residential customers have unlisted

numbers, although Britton said the ratio is about "50-50."

The telecommunications landscape, however, has changed as competition and deregulation have brought in new players and new products. Pac Bell could be attempting to extract as much profit as possible from add-on services to supplement revenues from its unprofitable basic phone service, which is offered at a below-cost, subsidized price.

Caller ID, with about 800,000 California subscribers, is one example of the potential new revenue sources. Residential customers pay \$6.50 a month and business users \$7.50. Over a year, that could generate about \$62 million if everyone paid \$6.50. Customers have signed up at a fast clip for caller ID, which allows users to see the phone number at which an incoming call originates.

Despite the opportunity to harvest handsome profits, Pacific Bell vowed not to violate the privacy rights of its customers.

"We will not telemarket people who don't want to hear from us," Britton said. "We will put them on a 'do not call, do not disturb list,' if that's what they want."

That's not enough to soothe some consumer advocates in California. They say Pac Bell, under the direction of its owner, San Antonio, Texas-based SBC Communications, is on a mission to expand the ranks of its enhanced-services customers as quickly as possible.

"They want to push caller ID to the max," said Regina Costa, a telecommunications researcher with The Utility Reform Network. "Pacific Bell has been trying to get access to confidential telemarketing records for a long time."

Pac Bell pushing a new Caller ID

Sales practices raising eyebrows among some PUC staff members

BY JON HEALEY
Mercury News Staff Writer

Pacific Bell is urging customers not to sign up for the maximum level of privacy protection as it prepares to launch a new, more revealing Caller ID service — one that will present the callers' names as well as their numbers.

The company also has told its sales force not to offer new customers the option of automatically defeating Caller ID unless they ask for it. Some staff members at the California Public Utilities Commission say this practice appears to violate state regulations, but Pac Bell officials say they are in compliance.

Caller ID has long been the most controversial add-on from Pac Bell because of the perceived threat to privacy. People who have the service and a special display device can learn the phone numbers of callers, making

it more difficult to call anonymously or from a number you don't want disclosed.

Yet Pac Bell is now moving aggressively to sell Caller ID as the centerpiece of a package of enhanced services, such as call waiting or call answering. The company is giving employees bonuses based on their sales of these services, while threatening supervisors with pay cuts if they do not meet sales targets.

Steve Dimmitt, Pac Bell's vice president for consumer marketing, tied the new practices to the advent of competition in the local phone market. "As you move into a competitive world, you focus more on marketing the products and services that you have," he said.

But Dave Otto, a telecommunications analyst, said Pac Bell's push had more to do with profits than competition. At present, the residential phone market is hardly a hotbed of competition, as Pac Bell still controls more than 99 percent of the lines into people's homes.

Customer choices

California was one of the last states to permit Caller ID, as the PUC required Pac Bell to mount an extensive and costly public education campaign before offering the service. That campaign, completed in June 1996, required Pac Bell to give existing customers two options: they could select complete Caller ID blocking, which would keep their

numbers secret automatically, or selective blocking, which would reveal their numbers to anyone with Caller ID and a display device.

Either feature can be deactivated on a call-by-call basis.

Sales of the \$6.50-a-month service have been lackluster at best, with only about 7 percent of Pac Bell's customers signing up for it. By contrast, Dimmitt said, close to 50 percent of the customers in other states served by SBC Communications Inc., Pac Bell's parent company, have Caller ID.

One reason for the poor performance in California is that an unusually high number of people signed up for complete blocking, which in part reflected the high percentage of unlisted phone numbers in the state. When the service was introduced in July 1996, 62 percent of all home phone lines were blocking their numbers. As a result, more than half of the calls from residents reveal nothing to those with Caller ID.

To make Caller ID more attractive to customers, Pac Bell is seeking the PUC's permission to add the caller's name to the phone number displayed by Caller ID. This feature, if approved, is slated to begin March 21.

It also has asked the PUC's approval for a service, automatic call rejection, that would block calls

from phone lines that did not disclose their number. That service, which already is in place in several other states, would begin March 26 if approved by the PUC.

Pac Bell also has worked on several fronts to reduce the use of complete Caller ID blocking, and has lowered it to about 50 percent of its customers.

One method has been not to tell new customers about complete blocking — a policy that apparently has been in place since Pac Bell ended its customer education campaign in 1996.

Dimmitt said that new customers are told about their blocking options later, when Pac Bell sends them a follow-up letter confirming their order. The company is now discussing with the PUC how that part of the letter should be phrased, he said.

Mary Purcell, a regulatory analyst for the PUC, said the commission's staff believes that federal and state law and PUC regulations require Pac Bell to give new customers the same information about caller ID that existing customers received in 1996. But Dimmitt said Pac Bell fulfilled all its obligations by conducting the customer-education campaign.

A second effort by Pac Bell has

been to convert people with complete blocking to selective blocking. In a document Pac Bell gave to employees, service representatives were advised to tell customers who had complete blocking, "I find that Selective Call Blocking gives me greater control over my privacy. Since it's free, shall I go ahead and change that for you?"

Blocking discouraged

Calls to Pac Bell on Friday found that customer service representatives were, indeed, discouraging customers from signing up for complete blocking. For example, three representatives warned that consumers with complete blocking would not be able to get through to friends or family members who had automatic call rejection.

That's not entirely true. People with complete blocking can get through to someone with automatic call rejection by unblocking their number for that call. They merely need to punch "92" before keying in the phone number.

Dimmitt defended the push for selective blocking, saying that it gives customers "the most choice and freedom."

Tom Long of The Utility Reform Network, a consumer advocacy group based in San Francisco, said that consumers have complained to TURN about Pac Bell refusing to give them complete blocking or trying to talk them out of it. Citing internal company documents gathered by the Telecommunications International Union, Long said, "It appears that Pac Bell is working to undermine California's efforts to protect customer privacy."

Contra Costa Times

Dec. 7, 1997

Newly aggressive Pacific Bell prepares for competition under eyes of wary regulators

By George Avalos
TIMES STAFF WRITER

RESPECTED. SINISTER. Canny. Bully. Tough competitor. Hardball litigant. Consumer friend. Consumer foe. Most importantly, one to watch.

No, it's not Bill Gates, at least not this time. Rather, it's SBC Communications Inc., the Texas Baby Bell that earlier this year ponied up \$16.5 billion to buy the parent of California phone company Pacific Bell. The agreement SBC and Pacific Teleis engineered was the first-ever merger of two Baby Bells.

The April 1 marriage turned the telecommunications world topsy-turvy and has become the forerunner of other mega-mergers in telecommunications. The fledgling alliances aim to create communications colossi that can straddle multiple markets.

The deal is even more important to Californians and will affect how they live, work, play and learn.

SBC and Pacific Bell believe if they can carry out their business

strategies, they will be able to speed a variety of futuristic new services and technologies to consumers and businesses alike, slash long-distance phone rates, and dish up enticing packages of products and services.

After all, SBC now owns the Golden State's primary local phone carrier, for better or worse. It holds the reins of companies that will greatly influence well into the next millennium the way people communicate via phones, the Internet or wireless gizmos.

But there's also a dark side to SBC, some say.

San Antonio, Texas-based SBC has stoked fears among consumer groups and some officials that a new information monopoly has galloped in from the Lone Star State.

SBC's critics fret that the phone company aims to crush all rivals in California's \$15 billion local phone market — and erase consumer choices. They warn that SBC already has employed high-pressure tactics to get its way. The skeptics are convinced that SBC executives are anything but just plain folks from Texas.

"They are being coy about the plans they have," said Tom Long, staff counsel with The Utility Reform Network, a San Francisco-based consumer advocacy group. "But we expect those plans to be major and detrimental to consumers."

Ed Mueller, who was named in August as Pacific Bell's president

"We want to provide one-stop shopping. We want to put all our services in one bucket."

— Ed Mueller, Pacific Bell president and chief executive officer

and chief executive officer, disputes those claims.

"I don't know why people would think poorly of us," Mueller, a 29-year SBC veteran, said during a recent interview. "We're not bad peo-

ple; we're just regular people."

What's more, Mueller believes company detractors, which include some insiders at the powerful Public Utilities Commission, have crafted a sinister mythology about SBC and Pac Bell that has no foundation.

"If somebody is critical, I'd like to hear the objective part, not the myth," Mueller said. "They say we are trying to prevent local competition. That's baloney. All we want to do is meet in the marketplace. Not in the courtrooms, not at the PUC, not in Sacramento."

SBC and Pacific Bell say their aggressiveness comes from a concern that they will lose many large business customers to competitors. They also covet California's lucrative long-distance market, and they want to offer packages of services to small businesses and residential consumers. For that reason, they say, the phone company is anxious to open its local phone business to competitors so it can invade the long-distance arena.

See SBC, Page D8

"We want to provide one-stop shopping," Mueller said. "We want to put all our services in one hucker."

To be sure, Pacific Bell's pursuit of these goals earns the company and its SBC parent praise from some observers. But SBC and Pac Bell annoyed state lawmakers with what the politicians call a legislative end-run a few weeks ago.

The friction between SBC/Pac Bell and consumer groups and state officials comes at a delicate juncture for SBC. Sometime before mid-1998, Pacific Bell and SBC are set to ask the Federal Communications Commission to let Pac Bell enter California's \$8 billion long-distance market.

Proof of viable competition

Pac Bell must first prove it faces viable competition in its local phone markets. Long-distance carriers say Pac Bell uses its monopoly to squash all resistance. Dozens of carriers, some as mammoth as AT&T, MCI and Sprint, and smaller foes such as GST, have jumped into the market, chasing primarily business clients, although some have made modest efforts to lure residential customers.

The SBC-PacTel merger also has roiled its management and rank-and-file staffs. Key holdovers from the Pacific Bell regime have resigned, including Pacific Telesis Chairman Phil Quigley; Pacific Bell CEO David Dorfman; Betsy Bernard, who headed Pac Bell's nascent long-distance efforts; and top officials from Pac Bell's Internet business.

SBC has slashed the jobs of hundreds of Pac Bell workers since April 1; even as it hired hundreds of others this year.

But Margie Marks, head of the Communications Workers of America local in San Francisco, points out that the bulk of the full-time hires are service technicians Pac Bell needed anyway to keep up with the demand for new phone lines. Other new workers are temporary replacements.

"SBC is building a disposable work force," Marks said. "We have not seen any job creation because of the merger." SBC promised the state Public Utilities Commission that the merger would directly create 1,000 jobs for Pac Bell in California. But the PUC can't punish SBC if it breaks its vow.

Pac Bell's Mueller disputes the job-killer claims. "We're not taking away from the state, we're adding to the state," Mueller said.

Yet even SBC's critics find it tough to tarnish SBC's emblem in at least one area — customer service and installations of phone lines and products. In Texas, SBC has performed well in serving customers, said Pat Wood, chairman of the Texas Public Utility Commission.

"SBC has a very low complaint rate and very high customer satisfaction," Wood said. Consumer advocates in Texas agreed that customer complaints about SBC are rare.

A customer service upgrade would come none too soon for California phone customers. Pacific Bell in 1997 has suffered a rash of self-inflicted wounds stemming from poor service.

The new hires, orchestrated largely by Mueller, combined with Pacific Bell's \$2 billion program to upgrade its phone network this year, have helped the phone company to steadily reduce complaints and installation backlogs.

PUC files show that Pac Bell in May required an average of 58 hours to repair a problem from the time a customer reported a situation. By September, Pac Bell had reduced the interval to an average of 39 hours.

Yet at the same time that Wood praises SBC's customer service record in Texas, he dishes up a measure of criticism about SBC's legislative and regulatory proclivities.

Wood describes SBC as tough, and more, in Texas. SBC is a master of using litigation, regulation, legislation and back-room maneuvering to get its way, Wood said.

"SBC is a lobbying machine, they are a marketing machine," Wood said. "They are just a machine."

At one point, SBC had about a dozen lawsuits pending against the Texas PUC, Wood said, although SBC recently dropped all but three suits. The litigation centered on Texas PUC decisions that displeased SBC.

Fears of unpleasant concoction

Some officials at the California PUC suspect SBC and Pac Bell have brewed an unpleasant concoction for the commission. Helen Mickiewicz, a PUC staff counsel, said she believes SBC might undertake a big push to corral the California commission's authority to regulate Pacific Bell.

"I'm concerned the PUC is in for a rough ride," she said. "There have been repeated rumors about SBC gunning for the commission. It's not that they want to get rid of the commission, they just want to diminish the commission's ability to regulate them."

Pac Bell's Mueller doesn't know if the company and the PUC will forge good relations.

"It's really too early to call," Mueller said. "Time will tell. Our relationship will depend on all sorts of things." Among them: how quickly the PUC lets Pac Bell offer long-dis-

tance service.

Some PUC commissioners aren't visibly worried about SBC.

"We think SBC will bring tremendous benefits to California," PUC Commissioner Jessie Knight Jr. of Orinda said. "They have conducted themselves professionally."

Ready for combat

The agency, however, is ready for combat. PUC President P. Gregory Conlon vowed.

"We have been through the legislative wars," Conlon said. "People have tried to blow us up, they have tried to shoot us, and we are still here. I would not be surprised by anything."

Jim Callaway, the principal architect of Pacific Bell's and SBC's agenda in California, certainly isn't shy about conceding that Pac Bell will be bold.

"We are very aggressive in trying to get our point across," said Callaway, president of public affairs for Pac Bell. "Sometimes we run into a decision we disagree with, and we stand up for what we believe is in the best interests of our shareholders, our employees and our customers."

No one should be surprised if SBC charges hard in 1998, said G. Mitchell Wilk, a partner with San Francisco-based utility consulting group Wilk & Associates.

"I hope SBC plays hardball," Wilk said. "They should play the game very aggressively."

Why? Wilk, a former president of the state PUC, believes California and federal regulators are attempting, mistakenly, to micro-manage competition in local and long-distance telephone markets.

"Government interference in the telecommunications market is hurting consumers," Wilk said. "The level playing fields that regulators try to create exist only in socialist economies."

So far this year, the SBC-Pac Bell act hasn't played to rave reviews in Sacramento. Assemblywoman Diane Martinez, who heads the Assembly Utilities and Commerce Committee, suggests that SBC is not forthright.

"SBC may be giving us the mushroom treatment," she said. "They are keeping us in the dark and feeding us lots of manure."

Sen. Steve Peace, chairman of the Senate Energy, Utilities and Communications Committee, is similarly irritated.

"Their conduct to date has been inappropriate, unacceptable, and those are mild words," Peace said. "But I am going to give them the benefit of the doubt. I believe in salvation."

The primary incident that angered Peace and other state lawmakers oc-

curred a few weeks ago. SBC pressed to win approval of a bill that would have intensified court scrutiny, and appeals, of PUC decisions. SBC pushed the bill through the Assembly and the Senate, but Gov. Wilson vetoed it.

"SBC was chastened, they were genuinely shocked they didn't get their legislation signed by the governor," Peace said. "They hired everybody and their aunt to get this bill passed."

According to Peace, SBC Chairman Ed Whitacre journeyed to Sacramento and promised Peace that SBC would improve its act.

"The issue was the legislation SBC wanted never had a hearing," Peace said.

"This is a mentality I find common among Texas companies," he added. "Their expectation is they are a big Texas business, and if they want something, they just get it."

An AT&T lobbyist wonders if SBC will mount another assault on the PUC in 1998.

"The PUC is doing a good job in opening up the local phone markets and the Legislature doesn't have to get involved in that," said Rich Mason, AT&T's director of government affairs. "We would be concerned about anything that would restrict the PUC's authority."

Briesmeister of the Texas consumer group says SBC coaxed the Texas Legislature in 1995 to devise a bill that established rules for local phone competition favorable to SBC. **'Profit opportunities'**

"SBC got everything it wanted from that bill, which didn't create a truly competitive telephone market," Briesmeister said. "All the bill did was create profit opportunities for SBC and made it difficult for new phone companies to enter Texas."

Sacramento won't be the only lobbying battleground, though. Under SBC's guidance, Pac Bell will become more visible among local politicians.

"We are doing more grass roots work," Callaway said. "We really believe in having managers out in our local communities. We have beefed up that part of the business."

Before the merger, Pac Bell had 75 community relations managers. It now has 150. This isn't a lobbying army, Callaway said. "The rumor is we added hordes of lobbyists. But that isn't true," he said. Callaway views them as outreach employees.

Wilk believes the key measure of SBC's performance should be its ability to improve service and offer new technologies.

"SBC is not the big bully on the block," Wilk said. "It's a respected telecommunications company and they know what their customers want."

San Francisco
BUSINESS TIMES

MARCH 20-26, 1998



RICHARD BULL

By lassoing PacTel, SBC Chairman Edward Whitacre was able to push into nation's largest telecom market.

TEXAS TAKEOVER

Merger rang hollow for many at Pacific Telesis

'PacTel was like the Titanic. It hit an iceberg and went down in an hour'

BY STEVE GINSBERG
and LORNA FERNANDES

Business Times staff writers

On the 37th floor of Pacific Telesis Center, the glass doors leading to the executive suite are locked, the wood-paneled reception desk is unattended, a bouquet of flowers sits fading.

The top-floor suite, once buzzing with high-level activity as the heart of \$10 billion Pacific Telesis, is nearly a ghost town.

The abrupt closing of PacTel's long-time executive offices is just one sign of the sweeping transformation of PacTel's operations, personnel and culture since San Antonio-based SBC Communications completed its \$16.5 billion acquisition of the company on April 1, 1997. With a speed and focus that often shocked PacTel executives

and employees, SBC has systematically dismantled large portions of PacTel and its phone subsidiary Pacific Bell, reassembling them to fit the needs of its new parent.

It's a far cry from the merger of equals heralded by SBC Chairman Edward Whitacre and PacTel CEO

The PacTel buyout, 1 year later: A 3-part series

- **This week**
Radical operations: Taking the knife to Pacific Telesis
- **Next week**
Cleaning house: An executive exodus
- **In two weeks**
Culture clash: Texas collides with California

Philip Quigley when they announced the historic coupling. Interviews with more than 50 people — current and former executives, competitors, regulators, analysts and other industry observers — instead paint a picture of a complete takeover.

PacTel's business focus has changed to reflect SBC's priorities. Of its 35 corporate officers, just 13 remain. Many back office operations have been moved wholesale from the Bay Area to San Antonio.

"PacTel is gone," said one former high-ranking officer who left the company last year. "SBC had a plan and implemented it within a month. PacTel was like the Titanic — it was a mammoth entity that hit an iceberg and went down in an hour."

It actually took about three months.

Turn to page 40

Continued from page 1

The new captains

While Whitacre was assuring PacTel executives that he didn't plan to clean house (see accompanying story, Page 40), SBC was, in fact, quickly dismantling PacTel's management ranks. A new organizational structure was announced in June and implemented in July, and there were few top spots for existing PacTel managers. New bosses from elsewhere in the SBC empire were in San Ramon and San Francisco by August.

"They considered this a merger of equals, but whoever has the gold, rules," said Gwen Edwards, PacBell VP for the health-care market group, who has remained with the company.

Edward Mueller, 29-year veteran of Southwestern Bell, emerged as president of PacBell's operational center in San Ramon. Jim Callaway, a longtime manager at SBC, heads the company's San Francisco headquarters for government and regulatory affairs.

(SBC declined requests for interviews with Whitacre, Mueller and Callaway). Below them are four regional external affairs presidents, three of them transplanted from other SBC regions.

A handful of PacTel holdovers gained increased responsibility in Internet technology, directory services and procurement, but at the top, PacTel is now firmly in the hands of SBC imports from Texas and Missouri.

All the while, a steady stream of PacTel senior executives has rolled toward the door. By the end of 1997, all seven members of the executive management group had quit, retired or moved into consulting roles, including the company's three top executives: Quigley, Pacific Bell CEO David Dorman and PacTel Enterprises CEO Michael Fitzpatrick.

Whitacre's PacBell vision

At the same time, Whitacre has sharpened PacBell's business focus to fit into his vision of SBC as a global telecommunications player. As the executive exodus shows, SBC wanted California, the nation's biggest telecommunications market, more

than it wanted Pacific Telesis.

"They didn't know the company and they didn't care to know it," said another top-ranking former executive. "They bought it because it was managed in a lousy way and thought they could clean it up. They were aiming for the (California) market."

California's residential and business connections to Asia and Latin America make it a linchpin in Whitacre's expansion into the fast-growing international arena.

Beyond that could lie entry into an even more promising market: long-distance. SBC has been the most aggressive regional Bell trying to gain regulators' permission to enter the long-distance market. It first applied to enter long distance in the Southwest and sued to speed that process. It recently filed an application to enter California's long-distance market.

The burgeoning wireless, Internet and high-speed data markets in the nation's most populous state are other potentially huge markets — ones where the market, not state regulators, will set prices.

But Whitacre's vision for PacBell is narrower than Quigley's. Pacific Bell is no longer the futuristic regional Bell, pushing technological boundaries with fiber optics, video and cable.

Quigley had already begun pulling back from those initiatives, but SBC wasted no time in pulling the plug on the costly experiments in favor of more traditional telephone operations.

Instead, the new California chiefs are focusing on improving basic telephone service, adding 2,000 techni-

PacTel by the numbers

Year	Revenues*	Income*
1993	\$ 9.244	(\$ 1.5)
1994	9.235	1.2
1995	9.042	(2.3)
1996	9.600	1.1
1997	10.100	(.224)

* In billions of dollars

PacBell's market from second lines caused in large part by the Internet explosion, the expansion into wireless and (whenever they get into) long distance in California," said Fitzpatrick, now CEO at E-Tek Dynamics.

Heading east

Operations have quickly followed executives out the door as SBC moves to slash costs.

In their merger application to the Public Utilities Commission, SBC said Pacific Telesis would continue to operate as a wholly owned subsidiary of SBC.

But since the merger, all or most of a range of PacTel administrative departments have been transferred to San Antonio or outsourced. Those include auditing, accounting, human resources, marketing, research and development, public relations and real estate management.

SBC, known as a ferocious cost-cutter, had its eye on other expenses as well.

The PacTel corporate jet was absorbed into the SBC fleet. The

expensive brown-marble executive offices at Pacific Telesis Center are being closed to save rental costs. Staff is moving to less costly SBC-owned offices South of Market Street and to San Ramon, where PacBell has long had extensive operations.

icians and investing \$300 million in new trunk lines since the merger. They have also stepped up pressure on the sales force to market lucrative add-ons like Caller ID.

"SBC will grow

Driving the cost-cutting were goals Whitacre set for integrating PacTel into SBC, said a former senior executive. Whitacre had promised shareholders that the acquisition would not dilute earnings beyond 1998, and that it would contribute to an SBC target of \$1 billion in new net income by 2000.

Bigger cost savings are expected as SBC, beefed up by the PacTel acquisition, flexes its muscles with suppliers. Steve Welch, a 30-year Pacific Bell veteran who has been given responsibility for a seven-state, 1,700-strong administrative services unit, said the goal is to shave \$500 million a year from the SBC's pre-merger costs — a decrease of 7 percent by 2000.

Renegotiating contracts with its 120 major equipment suppliers is providing the biggest savings, Welch said.

"In one renegotiated contract we will save \$12 million over two years," he said. "Right now we are running ahead of our targets."

But one local operation has been targeted for major expansion: lobbying.

Keeping its promises?

To get its acquisition approved, SBC made various promises to regulators and to the public. A year later, some have been kept; others have not.

SBC promised to put headquarters for four major SBC operations in California. Three — long distance, Internet and administrative services — have been set up, all in the Bay Area. The fourth — international — so far has not. However, directory services, a \$2 billion business SBC did not promise to locate here, has been centralized in San Francisco under Forrest Miller, a PacBell holdover.

Whitacre promised PacTel's Quigley a leadership role in the combined companies, and Quigley agreed to stay on for at least a year. But insiders say Quigley's role rapidly became irrelevant. By year-end, nine months after the merger, Quigley had left with a \$10 million retirement package.

Another promise, to create 1,000 net new jobs in California by 1998, has already been met. Despite the executive tumult and transfer of various departments, PacBell has significantly

"They bought (PacTel) because it was managed in a lousy way. They thought they could clean it up. They were aiming for the (California) market."

Beefed up by PacTel, SBC puts squeeze on suppliers

Continued from page 40

boosted its statewide employment to 53,000, an increase of about 4,000. In addition to technicians, it's been hiring extra salespeople and adding to operations like external affairs.

Merger hiccups

Long a Wall Street darling, SBC's stock has continued to soar in the past year, rising 60 percent to \$80 a share. Analysts say the PacTel acquisition was a good move for SBC, but that it was not prepared for the difficulty of merging the two companies and their divergent cultures.

"PacBell was not doing well financially — they were scattered and reactive," said Dan Taylor, director of telecommunications research at Boston's Aberdeen Group.

"SBC brings horse sense and they came in and thought they would make it work better, but it has taken longer than they had hoped."

And even with SBC's attempts to cut costs, the merger has taken a toll on Pacific Telesis' financial performance. It posted a 5.4 percent increase in revenue last year to \$10.1 billion, but net income

— which had topped \$1 billion in 1996 — plunged to a loss of \$166 million, largely due to merger-related costs.

But as telecom moves into the 21st century, both insiders and competitors expect an expanded SBC to be a dominating force.

"The merger took a lot out of them and they lost some business," said Mona Alves, whose Chat Communications Ser-

vices is installing high-speed lines for PacBell. "But SBC understands competition better than Pacific Telesis did, and they will eat people for lunch." ■

*Whitacre
promised
Quigley a
leadership role,
but insiders say
his role rapidly
became
irrelevant.*

San Francisco
BUSINESS TIMES

APRIL 3-9, 1998

Culture clash: Texans horn in on Pactel

SBC takeover gives California phone company a distinct twang

BY LORNA FERNANDES
and STEVE GINSBERG

Business Times staff writers

"Dilbert" had a place at Pacific Telesis. Penned by former Pacific Bell employee Scott Adams, the comic strip's acidic observations about working life in a big company resonated widely with his former colleagues.

"Even high-ranking managers had

the cartoons on their cubicle walls," said James Howard, who has worked at the company as a consultant and full-time employee both before and after its acquisition by SBC Communications.

But Dilbert's welcome mat was withdrawn soon after SBC moved in on April 1, 1997.

"Shortly after SBC took over," said

Howard, "it sent a flurry of men in ties and suits, and Dilbert was removed."

Dilbert's disappearance was a small sign that SBC's sweeping transformation of Pactel and PacBell would not overlook their corporate cultures. Just as the focus of the business and the executive ranks have changed, so too

Turn to page 46