

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

**T**en 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 BY TONY BERLING

**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!**

# UNION PROBLEMS

**"The company is intimidating employees. It's just a constant harassment about the selling they are expected to do?"**

*Judy Beal, President of CWA Local 9509,  
quoted in the San Diego Union Tribune  
06/26/98*

SBC's forcing workers to sell unwanted features to consumers has been well-established.

Even worse, SBC has dramatically reduced the training given to new workers, resulting in an incredible 30% error rate. In the old days a new employee was trained for six weeks and then spent six months in the field with a seasoned co-worker.

SBC's plan for new employees includes only three weeks of training and no time in the field working with an experienced colleague. These new employees make mistakes at a 30% rate. No wonder consumer complaints are soaring!

A phone company is only as good as its workforce. Given SBC's emphasis on increasing sales and cutting training time, it's average workers - and consumers - who get short-changed.

SAN FRANCISCO CHRONICLE

## Pacific Bell Workers Protest Forced Overtime

**Inadequate training also charged**

By *Carolyne Zinke*  
*Chronicle Staff Writer*

About 20 Pacific Bell employees demonstrated outside their Mountain View work yard yesterday in protest over such issues as 10-hour work weeks, harassment

levels have been minimized, about half the workers out of Mountain View have less than a year's experience, said Louis Roach Jr., president of the Communications Workers of America Local 9509.

In years past, new employees were trained for six weeks and rode with seasoned workers for six months before working alone, workers said.

But newly hired workers now receive only three weeks training before they are sent into the field. At a recent, their mistake of

back and fix it," said Paul West, a 29-year employee.

Workers also say managers intimidate new employees by threatening to suspend them if they do not finish each day's workload.

In some cases, the employees end up working from 8 a.m. until 11 p.m. to complete their tasks. Many have quit for these reasons, workers said.

One new employee, who declined to give his name, said he fell 30 feet from a telephone pole but did not report it because he feared

an emergency, but not as standard practice," West said. "We've got to hire more people or train the ones we've got correctly."

Chris Thompson, a Pacific Bell spokesman, declined to address specific complaints yesterday, saying workers should take problems to their supervisors or labor unions.

He did acknowledge that the "gigantic demand" for telecommunications services, and more notably the increase in weather-related calls for service, has resulted in a

would be complaints. The fact that we've not seen complaints is a tribute to these workers and they're to be congratulated."

Yesterday's protest came amid one of Pacific Bell's biggest hiring sprees in decades, after years of downsizing. More workers are needed to keep up with growing customer demand for home-office and Internet lines.

A heavy workload has persisted for several years, with workers putting in nearly seven days a week under mandatory overtime.

MARCH 7, 1998

# Union-Tribune.

## Employees say PacBell pressures them to sell

By Deborah Solomon, STAFF WRITER

Faced with mounting complaints from employees, the Communications Workers of America is preparing to confront Pacific Bell about "pressure tactics" and stressful conditions it says workers face at the company.

Union representatives from across the state are meeting today to compile data they say reflect the increased pressure PacBell employees face in the wake of the company's merger with SBC Communications Inc.

It's the latest in a string of reports and complaints detailing the demands PacBell places on its customer service representatives. Many of those representatives say they face constant monitoring, intimidation from superiors and pressure to sell services that customers don't need or want.

"The company is intimidating employees. It's just a constant harassment about the selling they are expected to do,"

said Judy Beal, president of San Diego's CWA Local 9509.

Employees who spoke to the *Union-Tribune* said they face sales quotas and are expected to follow the unofficial motto: "Offer high and watch them buy. Offer low, no place to go."

Representatives say they are instructed to offer the most expensive packages upfront, instead of assessing the customers' needs first and then making suggestions. Workers say the pressure comes from managers, whose pay is tied to sales. Representatives can receive bonuses, but their salaries are not affected by sales.

Employees say managers constantly monitor them as they talk to customers and routinely send messages telling them to pitch a specific feature, such as Caller ID.

"It's just crazy. It's gotten to the point where a customer calls in and says 'no' to a product and we're supposed to hound them to death until they give in," said Sharon Bogisich,

a PacBell customer service representative in San Jose. "There's big pressure. We're constantly being watched and monitored."

Pacific Bell says that it has not put any pressure on employees and that those who have complained are in the minority.

"We have a handful of employees who don't like the fact that we're asking them to be more than order takers," said John Britton, a PacBell spokesman. "It's definitely a minority of employees. I'm sure there are some who feel like they're being monitored like a hawk, who feel uncomfortable and don't like it. There are some that don't want to change their habits . . . some peoples' personalities take to that real easily and some don't."

See PACIFIC BELL on Page C-3

# Pacific Bell

## Union plans to confront company over pressures

*Continued from C-1*

But a report compiled by the Office of Ratepayer Advocates, an independent arm of the state Public Utilities Commission, says a high-stress atmosphere permeates the company and affects more than a minority of workers. The Ratepayer Advocates report documents several instances where PacBell employees were instructed to sell services that a customer didn't want, and, in some cases, could not afford. If reps didn't make a sale on every call or pitch additional features, the report found, workers were chastised by managers.

Pacific's service representatives work in a very stressful environment in which they must offer optional services or products to all types of callers in every customer contact situation," the report stated.

Those who work for the company say the stress level in the office has reached an all-time high.

"We're watched like hawks," said one sales rep who didn't want to be identified for fear of retribution. "Everyone is on the hot seat and the stress level in the office is at a point where someone could go postal."

Earlier this month, Ratepayer Advocates asked the PUC to issue a cease-and-desist order against the

company. At least four other consumer groups and unions have filed letters in support of the request.

"I talk to the reps every day and I hear them crying every day," said Alicia Ribiero, president of the Telecommunications International Union, which represents PacBell workers in Northern California. "It's pretty bad. The company's motto is 'Sell, sell, sell.' They're putting pressure on service reps so even if the rep doesn't want to rip off the customer, they do it because the manager is pushing them."

That "push" is evidenced by a letter some PacBell service reps in San Diego received from a manager earlier this month. In the letter, entitled "WHAT DOES IT TAKE???", the manager reprimands team members for "not doing their part" to meet a daily quota of product and service sales.

"Yesterday we had 18 reps and only 5 reps had any (removal of Caller ID blocking). I realize that it's hard to convince our customers to remove the blocking. If we convinced them to add it, then we can convince them to remove it," the letter states.

PacBell's Caller ID sales have been hurt by blocking, which prevents a Caller ID box from displaying the number of an incoming call.

To rectify the situation, the manager writes, "Effective next week, I will be sitting with each one of you that seems to need additional coaching. I will be doing both desk-side monitoring for coaching purposes (evaluative and disciplinary purposes) and supervisory monitor-

ing."

According to PacBell workers, customer service reps are supposed to sell \$151 worth of features and products every day. Workers who handle "new connection" calls are supposed to sell \$250 worth of services per day. While workers are not fired for failing to meet the quotas, they say they're harassed and intimidated by their superiors.

"We have some reps who don't quote the full price of service because they are afraid of not getting enough people to sign up," Ribiero said.

Employees say they are also instructed to "overcome objections" and not let callers off the phone until they've ordered a service.

"Customers have the right to say no, but we talk the customers into the services and then they get stuck with \$150 phone bills," Bogisich said. She said the workers are even told to pitch expensive, additional services to Universal Lifeline Telephone Service customers — a low-income program for people who can barely afford basic phone service.

PacBell's Britton said while it's true that teams have sales goals, there are no quotas and employees are not forced to sell services to people who don't want them.

"Different individuals hear things differently," Britton said. "One of the things we've been doing is trying to monitor feedback to make sure people aren't hearing things wrong. We're only interested in ethical sales . . . We don't want people unhappy with us."

# San Francisco Chronicle

NORTHERN CALIFORNIA'S LARGEST NEWSPAPER

FRIDAY, FEBRUARY 27, 1998

## Pac Bell Under Fire For 'Aggressive' Sales Practices

By Ilana DeBare  
Chronicle Staff Writer

Pacific Bell is asking its service representatives to take a new and more aggressive role in sales — which some of the representatives say goes too far.

The new program requires phone company service reps to pitch products such as Caller ID and call forwarding every time a customer inquires about billing or service.

A small union representing 550 Pacific Bell workers asked state regulators this week to look into the new sales campaign, which union officials called "sleazy."

Pacific Bell is "forcing service representatives to engage in unethical, deceptive and high-pressure sales tactics in order to avoid poor performance ratings and discipline," said Alicia Ribeiro, a 20-year phone company employee who is president of the Telecommunications International Union.

Pacific Bell officials defended the new sales tactics as legal and even helpful to

PAC BELL; Page B2 Col. 1

## PAC BELL: Union Says Sales Practices Too Aggressive

From Page B1

consumers. "We have simply asked our people to inform customers about our products and services, so they can convey what we have to offer and how it can improve their daily lives," said spokesman John Britton. "Our sales practices are lawful and ethical. Pacific Bell has zero tolerance of sales abuses of any kind."

The TIU's complaint is not the first time that Pacific Bell has come under fire for overly aggressive sales practices. In 1986, state regulators forced Pacific Bell to refund more than \$40 million to consumers because of what it called a "a misguided and irresponsible sales policy which ... emphasized sales over service."

But the new charges come at a time of big changes for the phone company — in the wake of the 1998 opening-up of the local phone market to competition, and Pacific Bell's acquisition by SBC Corp. in 1997.

TIU leaders said the company began stepping up the sales pressure on service representatives shortly after the SBC merger.

Service representatives handle customer calls on such matters as billing errors, new phone lines,

and requests for changes in phone service. Pacific Bell has 4,300 service representatives who handle more than 3.3 million calls a month from 9.6 million residential customers around California.

In the past, TIU officials said, service representatives would sell products such as call forwarding primarily to customers who called up and requested them.

But now, these representatives are directed to promote such products to all customers — even those who call because they're having trouble paying their phone bills.

Service managers face the loss of 15 percent of their salary if they don't meet performance targets, which include sales goals.

And service representatives can earn extra money and prizes if they hit certain sales levels.

"People have been told that if they don't offer products to every single contact, they can face one-day, three-day and five-day suspensions," Ribeiro said. "At one time, we had the liberty to ask customers, 'How can we help you?' Now it's: 'Mr. Customer, buy our stuff.'"

Pacific Bell managers claimed that most of their service representatives like the new program. "All I'm being asked to do is tell people what the products are," said Kristine Terlinde, who has worked as a customer service representative for one and a half years. "I'm not going to make cus-

tomers get something they don't want."

Regulators with the California Public Utilities Commission said they have not received a significant number of consumer complaints about Pacific Bell's sales practices.

But The Utility Reform Network, a San Francisco-based consumer group, slammed the program as bad news for customers who have a simple service question and are unprepared for a sales pitch.

"People who don't know any better are going to end up with a lot of stuff in their bills that they don't really want," said Regina Costa of TURN.

# Pacific Bell Workers Protest

## Inadequate training also charged

By *Carolyn Zinko*  
Chronicle Staff Writer

About 20 Pacific Bell employees demonstrated outside their Mountain View work yard yesterday in protest over such issues as 100-hour work weeks, improper training of new hires and poor management.

The workers — representing 120 service technicians who serve customers from Atherton to Sunnyvale — claim that their staffing

levels have been mismanaged. About half the workers out of Mountain View have less than a year's experience, said Louie Rocha Jr., president of the Communications Workers of America Local 9423.

In years past, new employees were trained for six weeks and rode with seasoned workers for six months before working alone, workers said.

But newly hired workers now receive only three weeks training before they are sent into the field alone. As a result, they make so many mistakes that more experienced technicians are increasingly being sent back to fix the repairs.

"If you're a customer having something done, there's a 30 percent chance we'll have to come

back and fix it," said Paul West, a 29-year employee.

Workers also say managers intimidate new employees by threatening to suspend them if they do not finish each day's workload.

In some cases, the employees end up working from 8 a.m. until 11 p.m. to complete their tasks. Many have quit for those reasons, workers said.

One new employee, who declined to give his name, said he fell 20 feet from a telephone pole but did not report it because he feared being suspended. He said he became sick one day and vomited on the job, but was told to keep working. When he went home anyway, he was suspended, he said.

"We accept forced overtime in

## Forced Overtime

an emergency, but not as standard practice," West said. "We've got to hire more people or train the ones we've got correctly."

Chris Thompson, a Pacific Bell spokesman, declined to address specific complaints yesterday, saying workers should take problems to their supervisors or labor unions.

He did acknowledge that the "gigantic demand" for telecommunications services, and most notably the increase in weather-related calls for service, has resulted in a "tremendous" amount of overtime.

"Clearly, we wouldn't like to see that happening — it takes a toll," he said. "But we need to keep customers in service or there

would be complaints. The fact that we've not seen complaints is a tribute to (the workers) and they're to be congratulated."

Yesterday's protest came amid one of Pacific Bell's biggest hiring sprees in decades, after years of downsizing. More workers are needed to keep up with growing customer demand for home-office and Internet lines.

A heavy workload has persisted for several years, with workers putting in nearly seven days a week under mandatory overtime, and only four days off per month, said Rocha.

That is a violation of their labor contract and creates on-the-job

PROTEST: Page A15 Col. 1

## PROTEST: Pac Bell Workers

From Page A11

stress and safety hazards, he said.

El Niño-related service demands have only exacerbated the problems, they said.

The peaceful demonstration at the Pacific Bell yard on Pioneer Way yesterday morning was timed to coincide with early contract negotiations set to begin on Monday. The worker- three-year contract

expires August 8.

Workers with more than five years experience make \$21.67 per hour, while new employees start at \$9 an hour, West said.

During the past two years, the phone company has added more than 6,000 employees. From 1992 to 1995, the number of lines the phone company installed annually doubled to 362,000. Last year 800,000 new lines were installed.

SECTION

D

WEDNESDAY

FEBRUARY 25, 1998

CC

# BUSINESS

## SMALL BUSINESS

### Union Isn't Buying PacBell's Incentives for Sales Force

■ **Telecom:** Group says plan encourages workers to practice deceptive marketing, an accusation the company denies.

By ELIZABETH DOUGLASS  
TIMES STAFF WRITER

Pacific Bell is pushing to expand a sales incentive plan that one employee union charges is already pressuring employees to sell services that customers don't need or want.

The accusation comes as the phone company moves to begin offering incentives to customer service representatives based on each person's total sales.

Under the new plan, PacBell sales employees would be rewarded for making goals for selling customers higher-profit services, such as voicemail, caller ID, call-waiting, call-forwarding and other

Please see PACBELL, D7

### PACBELL

Continued from D1 add-on features.

It would be an expansion of incentive plans that were applied to PacBell sales managers and offices after the phone company was bought by SBC Communications of Texas in April.

But PacBell maintains that the sales goals do not encourage unethical sales practices.

"Pacific Bell and SBC do not tolerate unethical sales practices," said Steve Dimmitt, PacBell's vice president of consumer marketing. "Southwestern Bell has had incentives in its territory for years, and we've proven that it does not drive unethical behavior."

The Telecommunications International Union, which represents about 550 PacBell service representatives in Northern California who are participating in the sales incentive plan, disagrees. On Tuesday, the union launched a public advertising and leafletting cam-

paign to warn consumers and try to derail the incentive plan.

In addition, the union said it plans to file a formal complaint with state regulators urging them to investigate the plan, calling it a deceptive sales program very similar to a PacBell program halted by regulators in 1986.

"In our mind, the company is doing it all over again," said Alicia Ribeiro, president of the TIU's Local 103. "They are pressuring employees to shove this stuff down the customer's throat."

Representatives of the state Public Utilities Commission were not available for comment Tuesday. But one consumer group seconded the concern raised by the union.

"What we've heard from consumers basically supports what the labor union said," said Barry Fraiser of the Utility Consumers' Action Network in San Diego.

The union is running advertisements in Bay Area and national

newspapers under the headline, "Has someone you know been victimized by PacBell's high-pressure sales tactics?"

In the text, the union claims that job security and pay "now depend on meeting unrealistic sales quotas set by PacBell managers who can lose up to 15% of their salaries if quotas are not met."

PacBell conceded that it had instituted a plan a year ago that put 15% of managers' salaries "at risk" and that the payment of the 15% is based on performance goals, including broad revenue goals.

The company also set sales goals for each office, and then added incentives for groups of employees. The TIU and the other union involved, the Communications Workers of America, both signed off on those plans. But when the company pushed to add sales incentives for individual workers, the TIU balked.



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

**T**en 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 \_\_\_\_\_

PUBLIC MEDIA CENTER PHOTO BY TODD PICKERING

**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!**

# SEEKING HIGHER RATES

"Since SBC swallowed up Pac Bell, it has lived up to its ruthless reputation; it has barraged the California Public Utilities Commission with rate increase requests, trampled the privacy rights of California customers and cut services needed by low-income and minority customers," Costa said. ... "SBC is trying to take advantage of deregulation to raise prices on essential services, tighten its vice grip on local telephone service and thwart competition."

*CA consumer advocate Regina Costa quoted in Business Wire  
5/11/98*

## PacBell wants to be freed of most state regulation

### Proposal is assailed by consumer groups

By Paul Crabtree  
STAFF WRITER

Pacific Bell is asking state regulators to dismantle most of the regulatory power they exercise over phone rates and, in turn, over potential company profits.

In exchange, the largest California provider of local telephone service promises to freeze basic residential phone rates for three years. The basic rate is now \$11.25 per month.

PacBell recently filed its proposal with the California Public Utilities Commission, seek-

ing to streamline regulations and discard provisions that link all rates and rate reductions for consumers with company profits and performance.

Consumer advocates said PacBell's proposal is a brazenly bad deal for consumers and pledged this week to protest the filing and call for open hearings.

"The costs of telecommunications services have been falling rapidly over the last few years, just as the cost of computers has gone down," said Barry Fraser, staff attorney for Utility Consumers Action Network, a San Diego watchdog group.

"No way can I conceive the cost of basic service increasing in a way that would require a rate increase, anyway, so for PacBell to promise a freeze is an unnecessary piece

of fluff," he said.

Fraser said PacBell's intent is to avoid sharing revenues with consumers, as required under the current regulatory system, and to keep the state commission from reviewing its books.

"This is much less a guarantee of no rate increase for customers and more a guarantee for no rate decrease for PacBell," Fraser said. "They don't want rates to go down, and they want to maintain the same level of profits while the costs of supplying the service decrease."

PacBell's proposal takes aim at complex regulatory formulas that measure productivity and rate of return. The formula includes a revenue-sharing mechanism that demands PacBell adjust rates and give rebates to con-

# PacBell wants to be freed of most state regulation

## *Proposal is assailed by consumer groups*

By Penni Crabtree  
STAFF WRITER

Pacific Bell is asking state regulators to dismantle most of the regulatory power they exercise over phone rates and, in turn, over potential company profits.

In exchange, the largest California provider of local telephone service promises to freeze basic residential phone rates for three years. The basic rate is now \$11.25 per month.

PacBell recently filed its proposal with the California Public Utilities Commission, seek-

ing to streamline regulations and discard provisions that link all rates and rate reductions for consumers with company profits and performance.

Consumer advocates said PacBell's proposal is a brazenly bad deal for consumers and pledged this week to protest the filing and call for open hearings.

"The costs of telecommunications services have been falling rapidly over the last few years, just as the cost of computers has gone down," said Barry Fraser, staff attorney for Utility Consumers Action Network, a San Diego watchdog group.

"No way can I conceive the cost of basic service increasing in a way that would require a rate increase, anyway, so for PacBell to promise a freeze is an unnecessary piece

of fluff," he said.

Fraser said PacBell's intent is to avoid sharing revenues with consumers, as required under the current regulatory system, and to keep the state commission from reviewing its books.

"This is much less a guarantee of no rate increase for customers and more a guarantee for no rate decrease for PacBell," Fraser said. "They don't want rates to go down, and they want to maintain the same level of profits while the costs of supplying the service decrease."

PacBell's proposal takes aim at complex regulatory formulas that measure productivity and rate of return. The formula includes a revenue-sharing mechanism that demands PacBell adjust rates and give rebates to cus-

tomers when profits reach a certain threshold.

PacBell has never reached that level, so potential rebates are a moot point for consumers, said PacBell spokesman Eddie Reeves. Meanwhile, he said, the regulations have a chilling impact on future investment in consumer products and services.

"These regulations have an effect on the next generation of services, technologies for which there is not a market yet," Reeves said, "but we have to make the investment to bring them to market."

Reeves pointed to a recent teaming between the regional Bells and companies such

See PACIFIC BELL on Page C-3

## Pacific Bell

### Says state regulations discourage investment

*Continued from C-1*

as Microsoft and Compaq Computer to establish standards and provide high-speed Internet access over asymmetrical digital subscriber lines, or ADSL.

"These regulatory measurements cause uncertainty about recouping investment and making a decent return on new technologies," Reeves said. "The regulations hurt consumers, because they

are a disincentive for bringing new services to the marketplace."

Some industry watchers said they doubt PacBell will have difficulty finding investment dollars for new services such as ADSL. And the prospect of more deregulation, while the local exchange market remains dominated by PacBell, is alarming, said a spokeswoman for the utility commission's Office of Rate Payer Advocates.

PacBell's proposal came late last week as part of the company's New Regulatory Framework filing, documents that PacBell and GTE, the established local monopolies, are required to give the commission every three years.

The filings allow the commission

to measure PacBell's performance, profits and productivity and to make rate adjustments based on its findings.

Although PacBell had not reached the profit threshold that requires rebates to consumers in its 1995 filing, this year it probably will, said Kelly Boyd, telecommunications analyst with the Office of Rate Payer Advocates.

"In 1995, PacBell was very close, and we believe a review of their earnings in 1998 will result in sharing revenues with consumers," said Boyd.

"A three-year price freeze for basic service in return for no regulation doesn't seem like a very good deal for consumers," Boyd added.

"USA TODAY hopes to serve as a forum for better understanding and unity to help make the USA truly one nation."

—Allen H. Neuharth  
Founder, Sept. 15, 1982



David Mazzarella  
Editor  
Karen Jurgensen  
Editor of the  
Editorial Page  
Thomas Curley  
President and Publisher

Today's debate: LOCAL PHONE RATES

## Prices rise as monopolies thwart phone competition

**OUR VIEW** In case after case, Baby Bells resist opening markets. Their customers pay the bill.

In 1993, Electric Lightwave Inc., a video and data service in Vancouver, Wash., became the first company west of the Mississippi to crack a local phone monopoly.

It wasn't easy. US West Communications, one of six mammoth "Baby Bell" companies that control local phone service across the nation, first urged state regulators to deny ELI a license. Then it tried to dodge legal requirements giving the upstart access to its lines.

The telecom lost those battles. But according to ELI, it hasn't stopped fighting, sometimes in underhanded ways. ELI claims its customers find their calls are blocked, get an inordinate number of busy signals and face sudden disconnections. Many blamed ELI and stopped service.

So, on June 30, ELI started fighting back. It filed the first-ever antitrust suit against a regional Bell, claiming US West used its monopoly control of the local loop to sabotage ELI's business.

US West denies the charges. And it likely will take take years before a court decides who's right.

In the meantime, consumers in the Northwest, as elsewhere, continue to wait for real competition for telephone service to take off. And despite an overhaul of federal telecommunications law intended to promote it, that's likely to take years, too, thanks to Baby Bell stonewalling.

The big promise of the Telecommunications Act of 1996 was more choice and lower prices for consumers, something like the 22% drop in long-distance rates since AT&T's breakup in 1984. Local rates have gone up an average 53% since then.

The act was meant to spur the big long-distance companies, MCI, Sprint and AT&T, to jump into the \$100 billion local phone market to break up those monopolies. Meanwhile, the regional monopolists, once they opened their markets, would get federal permission to compete in the \$100 billion long-distance business.

Eighteen months later, consumers have no new choices and no rate relief. Indeed, the Baby Bells and GTE, another local phone monopolist, say they need \$10 per month increases over five years.

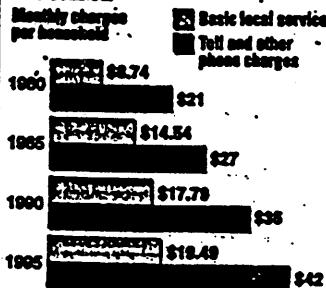
What has happened? AT&T, MCI and Sprint are running into the same obstacles that ELI faced with US West.

The regional Bells and GTE won federal court orders blocking the Federal Communications Commission from setting pricing guidelines for competitors to lease access to their systems. That's forced new local entrants to seek such pricing guidelines from 50 different state regulatory commissions, whose orders also are under attack by GTE.

The result is hardly surprising. In buying services for resale from SBC, formerly Southwestern Bell, Brooks Fiber

### High cost of reaching out

The cost per minute of long-distance and international calls has dropped by nearly half since the mid-1990s. During the same period, however, local calls and subscriber charges have doubled.



Source: Bureau of Labor, BLS. By Maria O'Brien, USA TODAY

Optic had to pay \$19.13 a month — \$5 more than SBC's basic residential service.

When AT&T and MCI tried to enter Ameritech's Midwest market, the Communications Workers of America found that Bell used less-trained workers to handle their competitors' orders, leading to higher error rates and long processing delays.

When MCI tried to hook its equipment onto Nynex's system, its applications were rejected 14 times due to "space limitations," a claim Nynex never certified with New York's regulators as required by the 1996 Telecom Act.

And merger talks between AT&T and SBC broke off last month after SBC balked at accepting proposals to immediately open its market to competition.

Long-distance carriers say such obstruction costs them plenty. MCI attributes a large chunk of a projected \$800 million loss on local service to such tactics. And AT&T this week blamed problems in opening local exchanges for a 36% drop in earnings.

But the biggest loss is to consumer choice and pocketbooks. Local phone monopolies' earnings are twice those of long-distance companies, with one dollar in five going for profit. Real competition would cut those earnings and save the average phone customer \$100 a year, their potential competitors estimate.

The FCC is struggling to put competition back on track.

Last week, it approved the \$23 billion merger of Nynex and Bell Atlantic on condition the two regional Bells open their markets under FCC oversight. That could give Northeast callers a break.

As for the rest of the country, the FCC has created a task force to investigate uncompetitive practices. But to punish violators, the FCC will need Congress to give it additional powers. Otherwise, the regional Bells will challenge every action before state regulators and the courts.

It's a game they play too well, raking in monopoly profits at the expense of potential competitors, consumers and progress.

# PUC looks at Pac Bell billing

## Inquiry questions service record

By George Avalos  
TIMES STAFF WRITER

Skeptics have roasted Pacific Bell for moving too slowly to install or fix phone lines. On Wednesday, state officials ordered an inquiry to determine whether Pac Bell overcharges customers once technicians do show up.

The investigation into Pacific Bell's billing practices for repairs or installations is the latest incident to raise questions about the phone company's customer service record following the acquisition of Pac Bell's parent by San Antonio, Texas-based SBC Communications.

For several months, a growing number of customers have complained Pac Bell has failed to provide satisfactory service. Many customers say Pac Bell takes too many days to install or fix a phone line.

The gripes have intensified sufficiently that the California Public Utilities Commission is investigating multiple facets of the company's service operations. Pac Bell could face penalties or be ordered to change its procedures.

"We warned the PUC three years ago that these problems were coming," said Regina Costa, an official with The Utility Reform Network, also known as TURN. "It can be frustrating to get phone service or repairs from Pac Bell."

The latest look into Pac Bell's fees for repairs or installations stems from a dispute between Berkeley resident Wilson Ogg and Pac Bell over a bill for work undertaken at his home during a phone line installation. The PUC reviewed the dispute and faulted Pac Bell.

"Pacific Bell made an error and now the commission wants to check if this is happening in many cases," said Tim Sullivan, an adviser to PUC Commissioner Henry Duque.

In a statement, Pacific Bell promised to cooperate.

"While the company does not agree with the commission on certain aspects of its decision, Pacific Bell intends to work with the PUC Consumer Services Division to address any concerns it may have," Pac Bell said.

The PUC also wants to ensure Pac Bell's billing, service and disconnection procedures don't confuse consumers.

"Under Pacific Bell's current practices, there is significant potential for customers requesting repair or in-

---

# PUC

---

FROM PAGE C1.

stallation service to be left uncertain about their rights and obligations, the nature of the work that needs to be done and the charges that will apply," the PUC stated.

PUC officials said confusion could surface because it may not be clear how Pac Bell will charge for the work.

For example, if a customer complains the phone does not have a dial tone, Pac Bell will dispatch a technician. If the problem is outside the residence, Pac Bell is responsible for the repair and would charge a rate set by the PUC. If the problem is inside the

location (a faulty wire is an example) the customer is responsible; in this case, the price would be set by the market and the customer could choose any firm to fix the flaw.

Pac Bell was ordered by the PUC to work with the commission's staff to make necessary adjustments to its billing activities, record keeping and procedures to inform customers about the nature and prices of repairs and installations. The PUC wants the changes made during the next three to four months.

Consumer groups claim this is part of a pattern of uneven service by Pac Bell. Among the problems that have surfaced:

■ Pac Bell has taken weeks to install primary phone lines in some homes. The company earlier this

month said it has reduced the waiting time to about 3.5 days. Secondary lines also took weeks to install, but that work is being done in about 8.5 days. Repairs take two days.

■ Even after a line is installed, the phones might not work. That's because Pac Bell is finding some areas don't have enough gear to handle new lines. Pac Bell is scrambling to upgrade its network to meet the unprecedented demand for lines.

■ A TURN study charged that Pac Bell is inconsistent in answering calls at its customer service center. Pac Bell said it has a good record. But the company conceded in documents filed at the PUC that it doesn't count against its service record the number of times a customer encounters a busy signal when calling the center.

# Pac Bell will hike its online rates 10%

■ Service will cost \$21.95 per month, but some new features will be added

By George Avalos  
TIMES STAFF WRITER

Online customers will have to pay more to use Pacific Bell's Internet system starting in August, but the telephone company will offer new goodies it hopes will convince people to stick with the service.

For \$21.95 a month, Pacific Bell Internet customers will be able to connect to the Internet for 150 hours. The new rate would be about 10 percent higher than the \$19.95 a month Pac Bell Internet now charges.

The move by the Baby Bell follows a trail blazed by America Online Inc., which in April carried out a similar price change to \$21.95 a month. Several other online companies followed suit by raising their rates.

In 1996, AOL unleashed the trend toward relatively cheap rates for unlimited monthly service by introducing a \$19.95 flat monthly rate as a way to attract online novices.

## Faster access

But the cost of maintaining online networks, coupled with consumer demand for faster access and enhanced features, have made it tougher for Internet companies to continue providing unlimited access for less than \$20 a month.

Also, the cheap rates encouraged customers to remain connected to the Net for hours or even days at a time.

Pac Bell hopes by adding new services, the company will lose few of its 190,000 customers in California, said Ed Callan, vice president of consumer marketing for Pacific Bell Internet Services.

"We think the higher rates are part of a bigger picture," Callan said. "We are introducing a new pricing plan along with value added features. We're offering a personal home page, extra e-mail boxes, and access at 56 kilobits."

One industry watcher, Gregg McVicar of Walnut Creek, said these sorts of price increases underscore the direction of the online market.

"I always felt the \$20 rate was a little lean if the company was going to provide really excellent Internet service," said McVicar, who teaches multimedia technology classes at Hayward State University in Concord.

## Upgrading networks

To offer relatively fast, reliable connections to the Internet, companies will have to spend more to upgrade their networks.

"All that stuff costs money," McVicar said. "I heard that Pacific Bell was stretched really thin on their customer service, and so were many of the other Internet service providers."

Pac Bell Internet also said it would slash its monthly rates for high-speed ISDN access to the Internet by 40 percent.

The new rate will be \$29.95, down from \$49.95. Those rates are on top of Pac Bell's monthly charge of about \$32 for the ISDN connection itself.

The company's moves may be closely watched by the industry. Pacific Bell has the nation's 12th-largest Internet service and California's third-largest. AOL is the largest in both cases.



THE SAN DIEGO UNION-TRIBUNE • THURSDAY, FEBRUARY 19, 1988

## PacBell sales strategy brings confusion over basics

By Penni Crabtree  
 STAFF WRITER

Pacific Bell has come up with a whole new meaning for basic service that some consumers may find confusing, costly and anything but basic.

The local phone service provider recently launched an aggressive campaign to sell customers a new array of prepackaged, optional features — dubbed The Basics — that can cost an extra \$6.30 to \$24.95 a month on top of the basic flat-rate service.

In the process, some angry PacBell employees allege the company is misleading consumers about what constitutes basic service, pressuring sales people to use hard-sell tactics to fill "quotas" and pushing more cost-

ly packages on consumers who don't use or need them.

About 600 PacBell employees have called or written to the Communications Workers of America Local 9509 with concerns about PacBell's latest marketing tactics, said CWA President Judy Beal. The local union, which represents 31,000 workers, including about 2,000 PacBell workers, plans to file a complaint this week with the California Public Utilities Commission.

"PacBell service representatives feel strongly about the service they give to customers, and now they are being told that it's sales, sales, sales," said Beal. "We aren't so stupid as to think that you don't sell products; it's too competitive out there not to. But

there are ethical ways of doing it."

PacBell officials deny there is anything questionable about the new sales strategy. The increased emphasis on sales of optional features is prompted by rapidly changing technology and increased competition, said Steve Dimmitt, vice president of consumer marketing for Pacific Bell.

"Through market research, we've found that customers see the phone as much more than dial tone, and they need to use it to manage their lives and their time," said Dimmitt. "We've put together packets of features that work well together, and we're offering a good deal on them."

Some PacBell employees, who asked not to be identified, said the company's corporate

climate and marketing emphasis has changed dramatically — and not for the better — since Texas-based SRC Communications purchased it for \$16.5 billion last May.

The employees say the new marketing strategy reminds them of sales practices that got PacBell in trouble with the CPUC in the 1980s, which resulted in fines and a cease-and-desist policy that wasn't lifted until 1990. Optional phone features, which include Call Waiting, Caller I.D. and Three-Way Calling, have always been major revenue generators for local phone service providers. At PacBell, such features have been offered in the past to residential and business consum-

## PacBell

### Confusion and concerns over 'Basics' offering

Continued from C-1

ers either individually or in packages. In January, PacBell repackaged and repriced the optional phone features, and began offering them as The Basics, The Basics Plus, The Essentials, and The Works. The company's declared goal is to introduce every customer to the packages, and PacBell service representatives are instructed to pitch the offerings whenever a customer calls in.

PacBell employees said they don't dispute the value for customers who are heavy users of such features. What they object to is the way they are supposed to offer the packages, and to whom.

Some PacBell service representatives said the term "basics" is intentionally misleading, because California consumers have always regarded "basic" as the basic, flat rate for dial tone that is

for select customers, but not all.

"They are great for customers who need them, but if I have a little old lady calling in who uses a single, \$6 optional feature, I have a problem selling (her) a \$12 package," said the PacBell service representative, who also asked not to be identified. "But they (management) are telling me there has to be a package she needs."

PacBell employees aren't the only ones with doubts. Michael Shames, executive director of the Utility Consumers Action Network, a San Diego watchdog group, said PacBell is "treading a fine line on what the CPUC terms 'improper marketing activities.'"

"In California, monopoly customers have learned to understand that basic means the no-frills, flat rate for service," said Shames. "And the reason PacBell is using this term is exactly because they know people will be confused or misled into thinking this is basic."

According to a Pacific Bell service representative training manual, 1998 is "the start of a new strategy . . . introducing customers to a new requirement of

what makes up basic services."

The manual states that PacBell's marketing department will work with ad agencies to develop an "image" for The Basics, and cautions that "what now constitutes basic service is critical to the success of you and our company."

PacBell officials denied that the new marketing strategy is confusing, and said service representatives clearly differentiate the optional features from flat-rate service.

Dimmitt conceded there is resistance among a "minority" of sales representatives to the marketing strategy and the company's increased emphasis on sales.

He said PacBell may set up different customer service areas for employees who are not geared to sales, as they have done in states such as Texas. No service representative has been fired for not making sales, nor are there quotas for individual representatives, said Dimmitt.

Since the launching of the Basics campaign, sales of packaged optional features are up 40 percent — proof that consumers are eager for more services, said Dimmitt.

See PACBELL on Page C-2

**Worse Than El Nino: Consumers Call Proposed SBC Merger a Disaster**

**Business Wire via Dow Jones**

**SAN FRANCISCO—(BUSINESS WIRE)—May 11, 1998—TURN, California's utility watchdog, is warning residents of the Midwestern states currently served by Ameritech that Ameritech's proposed merger with SBC could be more disastrous than El Nino.**

**Regina Costa, TURN's Telecommunications Director, likened SBC to "a mudslide engulfing everything in its path. The benefits telephone competition was supposed to bring consumers are buried under a ton of empty promises, while SBC's expansion is out of control."**

**"Since SBC swallowed up PacBell, it has lived up to its ruthless reputation; it has barraged the California Public Utilities Commission with rate increase requests, trampled the privacy rights of California customers and cut services needed by low-income and minority customers," Costa said.**

**Costa added that the theory of the break-up of the Bell System was that huge, monopoly control over essential phone services is bad for the country. Deregulation was supposed to open up the local phone market to competition, but that hasn't happened yet. Instead, SBC is trying to take advantage of deregulation to raise prices on essential services, tighten its vice grip on local telephone service and thwart competition, Costa said.**

**For a detailed press release on the subject, contact Mindy Spatt, TURN's Media Director, at 415/929-8876 x306.**

**CONTACT: The Utility Reform Network  
Mindy Spatt, 415/929-8876 x306  
[turn@turn.org](mailto:turn@turn.org)**

**17:11 EDT MAY 11, 1998**

**Copyright (c) 1998 Business Wire  
Received by NewsEDGE/LAN: 5/11/98 4:20 PM**

# AMERITECH'S SELLOUT

Pac Bell's senior management received millions for selling the company to SBC. But it was peanuts compared to the \$40+ million that will go to a handful of Ameritech's executives.

These Ameritech executives have no excuses. They've seen what SBC has done to California's consumers and workers, and they can be certain the same scenario will play out in the Midwest. Shame on them for selling out their workers, their customers, and their region for their own personal gain.

Newspaper editorials from the Midwest rightly focus on SBC's anti-competitive behavior and the negative impact on consumers. But as this book has demonstrated, there are many, many chapters in the sad tale of an SBC takeover.



San Francisco  
BUSINESS TIMES

MAY 15-21, 1998

EDITORIAL

## Latest SBC buy is bad call for ratepayers

As a tool for prying open the musty monopoly worlds of local telephone service and electricity, the carrot is clearly falling.

Time to bring in the stick.

Offered the enticement of moving into cable TV, long distance and other digital-age industries two years ago in return for giving up their local phone monopolies, telephone companies have opted instead to move in with each other.

SBC Communications' announcement this week that it will purchase Chicago-based Ameritech in the largest non-financial merger in U.S. history is the latest, but certainly not the last, in a spate of phone-company mergers. Ma Bell may be gone, but her offspring seem bound to follow in her footsteps.

While big doesn't automatically equal bad, the evidence so far is that the mergers are hindering, not helping, the goal of finally introducing competition into a lingering bastion of monopoly. Rather than investing in bold new ventures, phone companies have taken the safer option of simply buying pools of existing customers and trying to sell them a grab-bag of add-ons. Innovation has often been an early casualty: Pilot ventures by PacBell into cable TV and fiber optics were thrown overboard as soon as SBC took the company over a year ago.

At the same time, SBC and other local phone titans have dug in their heels against competitors both large and small who want to move into local phone service.

It's time to go back to the drawing board. Federal antitrust authorities should call a halt to this and other mergers until the emerging phone behemoths provide persuasive evidence that acquisitions are as good for business and residential phone customers as they are for phone company shareholders.

As if to prove they will take a back seat to no one in protecting their monopolies, California's big utilities have presented their bill for deregulation: \$1.1 billion, more than double what was expected.

And no prizes for guessing who they want to pick up the tab. Typically, Pacific Gas & Electric Co. and its two southern brethren plan to have their cake and eat it as well. Through deregulated subsidiaries, they are aggressively pursuing new business elsewhere, while insisting in California that it is the ratepayers who should bear the costs of competition. New companies, of course, will have to turn to their shareholders for such funds.

It's not too late for California's legislators and regulators to fine-tune the rules. If the utilities are reluctant to dive into the pool of true competition, maybe they need a healthy push. ■

---

## LOS ANGELES TIMES EDITORIALS

---



MARK H. WILLES, *Publisher*  
DONALD F. WRIGHT, *President and Chief Executive Officer*  
MICHAEL PARKS, *Editor and Senior Vice President*  
JANET CLAYTON, *Editor of the Editorial Pages and Vice President*

---

# Dial 'M' for Mega-Merger

**F**or whom is bigger better? That is one of the questions looming over the proposed mega-merger of SBC Communications, the owner of Pacific Bell, and Ameritech Corp. Combined, they could dominate local telephone markets across the country and squeeze out lesser competitors. Consumers could find themselves in the end stuck with higher bills.

No wonder the merger is causing static in the already tangled line of telephone deregulation. At face value, the proposed merger appears at odds with the stated goals of the deregulation that began with the breakup of Ma Bell: to spur competition and create better deals for consumers. Long distance service has generally gotten cheaper, but not local phone rates, especially for residential users. Critics fear the SBC-Ameritech combination would merely expand the companies' lock on local service.

SBC Communications—the former Southwestern Bell—and Ameritech were among the seven regional phone companies, known as Baby Bells, created when AT&T was broken up under a 1984 consent decree. AT&T and other carriers got control of long distance service. The Baby Bells got near exclusive control of local service.

Some of the defects in the 1984 action, including the Baby Bells' local-service

strangleholds, were supposed to be answered by passage of the Telecommunications Act of 1996. Local phone companies would be allowed to enter cable ventures and the long distance business only if they could prove that competitors, including long distance carriers, had adequate access to their local phone exchanges. But there's been a standoff on this front. And two years after the telecom act, the Baby Bells have pretty much abandoned their cable ventures. Many have flung themselves into mergers instead—SBC with Pacific Telesis Group, Bell

Atlantic with Nynex Corp. Now SBC is at it again, this time with Ameritech.

SBC and Ameritech are pursuing a "national-local" strategy. The idea is to nab local service in the top 30 national markets and use it as a springboard for national Internet access and wireless communications services and long distance competition. They say the merger is about more competition, not less.

But the companies combined would dominate access to about 40% of the nation's local phone lines and operate in 18 states, including California. The companies' spin on the deal is that it is "Viagra for competition." But Viagra is proving to have some unpleasant side effects—and the consequences of this merger may include more than just the advertised corporate vigor.

---

*SBC and Ameritech say the merger is about more competition, not less. But they would dominate access to about 40% of local phone lines.*

---

**The Dallas Morning News**

Tuesday, May 12, 1998

Burl Osborne, *Publisher*Jeremy L. Halbreich, *President and General Manager*Ralph Langer, *Executive Vice President & Editor*Gilbert Bailon, *Vice President & Executive Editor*Stuart Wilk, *Managing Editor*Rena Pederson, *Vice President/Editorial Page Editor**Senior Vice Presidents*J. William Cox, *Operations and Administration*Richard Starks, *Sales and Marketing**Vice Presidents*Sergio H. Salinas, *Advertising*Jeffrey A. Beckley, *Circulation*Barbara Van Pelt, *Development*Harry A. Greaves Jr., *Finance*Frank Tyler, *Production*Grover D. Livingston, *Information Management*Ellen Silva Wilson, *Human Resources*Nancy Barry, *Community Services***EDITORIALS****Phonopoly***SBC expansion looks too much like big old days*

**I**f there were any doubt before, SBC Communications Inc.'s latest expansion attempt confirms that the Baby Bell is all grown up — and looks entirely too much like its Ma Bell parent.

Indeed, it may be time for state and federal regulators to do something about old family habits.

SBC's \$62 billion Mother's Day deal to acquire Ameritech Corp. threatens to undo the myriad consumer benefits gained by AT&T's court-ordered breakup in 1984.

The end of the old Ma Bell was a landmark in antitrust regulation and consumerism. Ma Bell had ruled local telephone competition with a vise-like grip and had exercised an equally unbreakable bear hug on long-distance telephone service.

SBC says any comparisons to the old Ma Bell are "purely off target." But if allowed to acquire Ameritech, SBC would enjoy the nation's largest local telephone monopoly since the days when Ma Bell ruled. SBC already controls Pacific Telesis Group, the dominant local phone company on the West Coast. Adding Ameritech, the Midwest's Baby Bell would create a monolith of more than 57 million local lines, about one-third of the nation's total, in 13 key states.

The merger would trim the seven original Baby Bells to four. Geographically, US West, another of the Baby Bells, would stand as the sole buffer to SBC's control of virtually all local service in rapidly growing states west of the Mississippi River.

In the years since the AT&T breakup, consumers have benefited from the development of cellular phones and other business and residential telecommunications services. Competition breeds choices.

The Telecommunications Act of 1996 was supposed to generate still more competition. Long-distance service providers such as AT&T and MCI would be allowed to offer local phone service. Similarly, local service providers such as SBC's progeny, Southwestern Bell, would be allowed to offer long-distance service.

But local markets aren't open to outside competitors, and SBC is using the enormous buying power of its rising stock price to add local service providers to an ever-widening sphere of influence. Consumer groups fear that limited choices will mean higher prices.

For the sake of preserving the spirit of telecommunications competition, state and federal regulators should carefully scrutinize the SBC-Ameritech deal.

## Editorials

# And then there were four

In the 14 years since the Bell telephone system was dismantled, much has changed for Americans and their telephone service. But one thing remains unchanged. The vast majority of Americans have virtually no choice when it comes to who provides telephone service to their homes.

The announcement that SBC Communications Inc. wants to buy Ameritech Corp. in a \$56.6 billion stock swap hardly seems likely to encourage more competition, at least in the short run.

It's a gawdy move, the largest merger in the telecommunications arena, dwarfing WorldCom's \$37 billion purchase of MCI Communications. With Ameritech's five states and 21 million lines, SBC would control 57 million phone lines—almost one-third of all the phone lines in the U.S.

Alas, Ameritech was about to go head-to-head in St. Louis with SBC for local customers. Now folks in St. Louis won't see that competition in the local phone market. Competition, for those who may recall, was the whole point of breaking up Ma Bell in 1984.

In the breakup, long-distance provider AT&T was separated from the original seven "Baby Bells," which were granted monopoly rights to provide local telephone service in their own specific geographic regions. Fierce competition in long-distance service

among AT&T, MCI and Sprint has driven down those prices overall and provided a variety of calling plans customized for personal needs.

But the Baby Bells began eyeing each other—Bell Atlantic bought Nynex, SBC swallowed Pacific Tele-  
sis—and diversifying into other businesses. Now the seven babies will be reduced to four, while competition for local residential service hasn't appeared.

To a large extent, competitors like WorldCom, Teleport Communications and LCI simply have chosen to go after the more lucrative business, rather than residential, customers. But some competitors complain that Ameritech has resisted leasing facilities to them at prices that make it feasible to get into the home market. SBC's record in this regard is less than encouraging. It has resisted efforts to open up its service area to competition, fighting in the courts and through regulators.

Perhaps news of this merger will have a salutary effect. It might wake up Congress to the news that the 1996 Telecommunications Act, allowing the Baby Bells to compete in long-distance service in exchange for opening their local markets to competition, has not achieved that goal. Competition has to be the watchword for Congress and for the regulators who must pass muster on the Ameritech-SBC deal.

May 18, 1998

**CRAIN'S**  
CHICAGO BUSINESS

## Open up local phone biz, or block SBC-Ameritech

And then there were four.

In light of SBC Communications Inc.'s proposed \$55-billion acquisition of Ameritech Corp., it appears that only four Baby Bells will be left soon, down from the seven that emerged from the 1984 breakup of AT&T Corp.

Undoubtedly, the consolidation of these two telecom giants makes financial and operational sense, generating unprecedented growth opportunities and cost savings for the new company.

But it is extremely unlikely that this huge link-up, and other Baby Bell marriages expected to follow, will foster greater competition and lower prices for corporate and residential phone users. Left unchecked, the SBC-Ameritech union will reek of monopoly, especially since adding Ameritech will give the aggressive SBC about one-third of the country's 178 million phone lines, the lifeblood of the telecommunications industry.

It is up to federal and state regulators to protect the public's interest. Indeed, as a condition of approving this merger, the Federal Communications Commission (FCC) must compel SBC to open up its markets to serious local phone competition.

To do that, the FCC must force SBC to sell competitors needed access to its transmission lines at an affordable rate—one that will enable other telecom companies to enter the market, cover their costs and still offer needed price competition. The agency also must push SBC to provide additional cooperation and business support to competitors, such as selling switching capacity at reasonable costs and offering necessary maintenance and operating support.

Moreover, regulators must not be fooled by SBC's audacious claim that it's fostering competition because, once the merger is approved, it plans to enter markets now served by the remaining Baby Bells. Rather than falling for that line, regulators must ask: How does having a virtual lock on the telecommunications business in California, Texas and the Midwest make for more competition?

News of the SBC-Ameritech deal is cheering investors and Wall Street analysts. But residential and corporate consumers are worried about the size of their monthly phone bills and the quality of service. Regulators can allay those concerns by making sure the local phone markets are open to meaningful competition. Do that, or kill this deal.



# EDITORIAL PAGE

MILWAUKEE JOURNAL SENTINEL

WEDNESDAY, MAY 13, 1988

## OUR OPINION

### Bigger Baby Bell not necessarily better

Maybe it's like Godzilla, in that size is everything. At least that's the argument being advanced by San Antonio-based SBC Communications Corp. to justify its proposed buyout of Chicago-based Ameritech Corp., creating the nation's largest local phone company. As SBC officials claim, this may be the wave of the future, necessitated by the bigger-is-better economics of the rapidly changing telecommunications industry.

But consumers and watchdog groups still have reason to be nervous about the \$56.6 billion acquisition of Ameritech — the Baby Bell that serves Wisconsin, Illinois, Michigan, Indiana and Ohio — if for no other reason than size.

It wasn't long ago — 1984 — that AT&T, the

mega-company that spawned the seven Baby Bells, was dismantled under court order, ostensibly for the purpose of spurring competition. Mergers have since shrunk the litter to five; if SBC swallows Ameritech, that would leave only four Baby Bells.

If competition is the objective, how can fewer companies possibly be better? Until this development, Ameritech's strategy had been to go it alone during a time when the industry was consolidating. SBC, meanwhile, has seemed intent on becoming one of the world's largest telecommunications companies, exhibiting a voracious appetite. Last year, it acquired the Baby Bells in California and Nevada.

Buying Ameritech would give SBC control of nearly one-third of the nation's 178 million telephone lines. In the words of Edward Whitacre

Jr., chairman and chief executive officer of SBC, the purchase transforms SBC "from a regional company into a new kind of company that uses its premier networks to focus on national-local and global markets."

But that's the problem: Ameritech is a regional company; its corporate offices are just down the interstate. Now those same decisions will be made in Texas and be subject to a much broader agenda.

SBC officials argue that they're not creating another Ma Bell. They're right, in that Ma Bell controlled every element of phone service — local and long-distance service, the phones, the lines, everything.

But for the consumer, trying to cope with an increasingly bewildering marketplace, that's little consolation.



**THE BLADE**

# PAGES OF OPINION

Toledo, Ohio

SUNDAY, MAY 17, 1998

Section B, Page 6

## One big busy signal

MAY 17, 1998

**W**AS the federal government for real when it ordered the breakup of the AT&T corporation in 1984 in the name of ending a monopoly and promising that competition would lower prices?

Or were the politicians and their minions bought off by big business, which saw opportunities to create, over time, new monopolies immune to local control or accountability, that become cash cows primarily for new CEOs with a yen for empire disguised as benevolence toward shareholders?

*If SBC gobbles up Ameritech, it will underscore the flaws of the Telecommunications Act of 1996*

The proposed purchase of Ameritech Corp. by SBC Communications — a veritable PAC-man in the industry today — should not be approved by state and federal regulators.

The Telecommunications Act of 1996, designed to create competition in existing markets, has been having the reverse effect of encouraging monopoly. SBC has been the lead shark. Having gobbled up Pacific Telesis Group earlier, it is now after Ameritech. Another competitor, Bell Atlantic, has gobbled NYNEX. And if this deal goes through, what had been seven Baby Bells will be reduced to four. How does that help competition or the consumer?

The financiers understand the situation clearly, and the picture they see is not the image painted when the act was touted. It is that regional phone companies can't focus on the region, but must go national. Hmmm.

It sounds an awful lot like the bill of goods the American government was sold on airline deregulation, when cities such as Toledo, Flint, and Grand Rapids lost airline service and passengers began traveling to and through hubs instead. Now the airlines are providing less service, less reliable service (ask anyone who flies Northwest), and less safe service (witness the frayed wires exposed to fuel on 737s).

What government officials and Congress, apparently bought and paid for by industry

lobbyists, have forgotten, is that public utilities — gas, electricity, telephone — cease to provide the service the public deserves when they are tossed to gladiators in the market arena.

Ameritech has been dogged by lousy service in Ohio. Will SBC make that better? Ameritech customers in Ohio and elsewhere have been having a terrible time getting accurate numbers from information — all of which is now long distance — and get charged 50 cents for the inconvenience. Will SBC make that better? Ameritech has removed most of its service staff from this area, leaving recorded messages — in themselves rudely distancing — many of them irrelevant, to deal with customer complaints. Will SBC make that better?

The question for regulators to ask of this deal is, who is it better for? We're sure it isn't consumers, average people who rely on their telephones to stay in touch with family and friends. And why should regulators be about making it better for SBC's CEO Edward Whitacre, Jr., and Ameritech CEO Richard Notebaert, their bank accounts, and their golden parachutes?

Consumers still await the lower bills and expanded choices the 1996 act promised.

All they will get from the consummation of these nuptial banns will be the locking-out of competition in the territories SBC and Ameritech are already in. And they'll only stick their corporate toes in the chilly water of new markets, like nocturnal foxes, to grab the plumpest chickens in the henhouse.

Frankly we're sick of seeing monopolies merge with other monopolies and be told that this is not only competition but something that's good for us.

The Telecommunications Act of 1996 is not what it seemed to be, and Congress would do well to undo it. There is bipartisan support for the change from Senate Commerce Committee Chairman John McCain (R., Ariz.), and Rep. Edward Markey (D., Mass.), of the House Telecommunications Committee.

If this deal is approved it will make it hard for regulators not to approve the next, and the next, and the one after that. The phone systems must show they can provide quality service before they begin to covet the green of the other guy's grass.

# EDITORIALS

*"Let the people know the facts  
and the country will be saved."*

ABRAHAM LINCOLN

## Calling for a merger

It's understandable if Hoosiers feel a bit overwhelmed by the wave of mergers that has swamped the nation in recent weeks.

The four largest corporate mergers in history — involving banks, insurers, carmakers and now phone companies — have been announced since April 6. Last week, SBC Communications announced plans to buy Ameritech, the largest phone provider in Indiana, to create a company that would service a third of the nation's phone lines.

The deal surely will enrich stockholders, but it might not be so beneficial to consumers. And the plan bears close scrutiny

from state and federal regulators because it further reassembles pieces of the old AT&T, which was broken into seven regional companies and a long distance service by a federal judge in 1984.

In 1996, Congress and the president deregulated the telecommunications industry, one purpose of which was to spur competition for local phone service. It has not worked out that way.

**Regulators need to ensure that competition would be enhanced, not harmed, by the SBC-Ameritech merger.**

Ameritech still has a monopoly in Marion County and other areas of Indiana, where it provides 2 million phone lines. While the arrangement has proven quite profitable for Ameritech — nearly 38 percent return on equity in 1997 and around 39 percent return in the previous two years — Hoosiers have seen few benefits.

In fact, the company recently scored poorly in one measurement of service, the speed with which disrupted phone lines are restored. In Indiana, it took Ameritech more than twice as long to restore residential service in 1997 as in 1994, and restoration of business service took three times as long.

SBC executives have said the merger would enable the company to compete with other local phone providers in some major markets such as New York City. But out-of-state competition would do little for Hoosiers.

The merger derby is being run these days for three major reasons. Corporate marriages drive up stock prices and lower costs of operating, which pleases shareholders. Executives believe that to compete in the global market their companies must grow larger. And mergers have a way of begetting mergers. Whether out of corporate peer pressure or self preservation, companies often seek out partners to keep up with rivals who are merging.

Such a scenario is possible in the phone industry, where little brothers U.S. West and Bell South may feel pressured to keep up with their Baby Bell siblings who already have merged or plan to merge.

But first the SBC takeover of Ameritech must be approved. Federal regulators have promised a thorough examination of the plan, a process that could take up to 18 months.

Regulators need to ensure that competition would be enhanced, not harmed, by the merger. They should examine the plan closely. This is one deal that can't be phoned in.

# Competition on hold?

## SBC Communications' plan to acquire Ameritech is a get-busy signal for regulators

The proposed deal between SBC Communications Inc. and Ameritech Corp. warrants the closest scrutiny. It may be simplistic to suggest that the old Ma Bell monopoly is being reconstructed, but enough of the once-dominant local-phone system is being glued back together to justify concern about lack of competition.

Investigators, however, may very well determine that the opposite will ensue from the mammoth SBC acquisition of Ameritech and other mergers that have become all the rage in the deregulated telecommunications industry, which is changing so rapidly that neither politicians nor consumers can grasp all of the implications.

All the more reason, then, for the Federal Communications Commission and the Justice Department to take a hard look at whether the SBC-Ameritech alliance will hurt customers, as consumer advocates expect, or produce the benefits predicted by SBC Chairman and Chief Executive Edward E. Whitacre.

Ohio's interest in the fate of the deal goes beyond its ability to serve Whitacre's ambitions for San Antonio-based SBC. Ameritech, after all, swallowed up the old Ohio Bell phone company and continues to maintain state headquarters in Cleveland. SBC has promised to retain the Ameritech name and

offices in Chicago and other Midwest states, to make no job cuts and to continue to make charitable donations and remain involved in community projects.

Nevertheless, this merger and two others previously announced would reduce the number of so-called Baby Bells, spun off by court order from the old AT&T Corp., from seven to four. Whitacre, however, dismissed concerns that the Bell System was being rebuilt, since any new grouping would lack AT&T's long-distance business and would have to compete with scores of rivals for business and cellular customers.

Yet it is in the area of local calls that consumers have had to wait longest for the competition promised by the break-up of the Bells in 1984 and the Telecommunications Act of 1996. Potential competitors have accused Ameritech, for instance, of erecting barriers when they seek access to its lines.

But Whitacre says SBC-Ameritech would go outside of its 13-state joint territory to offer local service to business and residential customers in 30 major cities. Presumably, Whitacre then would be prepared to entertain competition on his own turf, disarming fears of monopoly raised by his \$56.6 billion takeover of Ameritech.

"USA TODAY hopes to serve as a forum for better understanding and unity to help make the USA truly one nation."

—Allen H. Neuharth  
Founder, Sept. 15, 1982



David Mazzarella  
Editor  
Karen Jurgensen  
Editor of the  
Editorial Page  
Thomas Curley  
President and Publisher

Today's topic: Phone mergers

# Consumers still on hold for benefits of competition

**OUR VIEW** SBC-Ameritech merger shows we're moving in the wrong direction.

When President Clinton signed the Telecommunications Act of 1996, Judge Harold Greene had high hopes for the new law, but he was worried by one thing.

The man who oversaw the breakup of AT&T into a long-distance carrier and seven regional Bell operating companies wondered whether the law had sufficient safeguards against mergers and acquisitions to prevent the re-emergence of a new phone monolith.

"I'd hate to see the AT&T monopoly reconstituted in some form," Greene said then. "It would be like I'd wasted the past 18 years."

The proposed \$56.6 billion merger this week of two of those Bells — Texas-based SBC and Illinois-based Ameritech — added a big exclamation point to the judge's concerns.

Greene's stewardship of AT&T's breakup led to a competitive long-distance market and regulated, monopolized local ones. He kept tabs on what businesses the regional Bells and their mother would get into in order to prevent them from squelching potential competitive technologies and businesses.

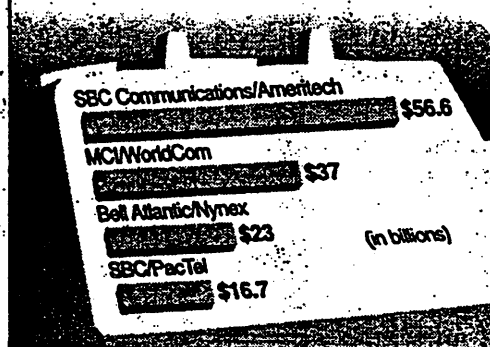
The Telecommunications Act supplanted that measured supervision with rules most people, including Greene, thought would open up the service markets and promote fierce competition among the local Bells, long-distance carriers and cable TV companies. Each, seeking growth and profit, would get into the others' businesses: consumers would get new products and potentially lower prices.

It hasn't happened. Local Bells, rather than opening their markets to competitors, have successfully sued to protect them. Result: After two years, local competitors serve a bare 1% of the Bells' 178 million customers. AT&T spent \$5 billion attempting to get in and couldn't make a dent. Cable companies have mounted no serious threat.

Meanwhile, mergers and buyouts have wrung the number of regional Bells down from seven to four. Before going after Ameritech, SBC swallowed up PacTel, the Bell for California and Nevada. Bell Atlantic, the local company for the Middle Atlantic, merged

## Coming together

Since the 1996 Telecommunications Act, there has been a move to merge phone companies, with three of the deals involving regional firms. The new companies and 1997 revenues:



Source: USA TODAY research

By Jerry Mosamak, USA TODAY

with New York and Northeast carrier Nynex.

And proposed mergers and buyouts in other sectors indicate less an interest in head-to-head competition than establishing or preserving monopolies elsewhere in the telecom universe. If approved, WorldCom's proposed \$37 billion merger with MCI could gain virtual control of the network lines for the Internet. The \$1.1 billion merger of American Sky Broadcasting and Primestar would result in cable firms owning a potentially major competitor. Federal regulators this week wisely sued to halt that deal on antitrust grounds.

SBC argues that the merger enables the company to compete in global markets while kick-starting competition here. It promises regulators that it will start local phone service in 30 cities in other regional Bell markets — but only if its Ameritech deal is approved.

That approach has it backward. SBC has demonstrated little desire to compete. It sold off its cable service when it couldn't make inroads against competitors. And this deal will cut out competition that Ameritech's cellular service provided in St. Louis.

Consolidation today, competition tomorrow could put off forever the services consumers should have gotten yesterday.

It's been two decades since Greene took on dismantling AT&T. Except for long distance, though, most consumers remain hostages of monopolists. Will tomorrow never come?

# ANTI-COMPETITIVE BEHAVIOR

**“How SBC Keeps Rivals Away - Excess Charges...High Rates...  
Legal Attacks”**

*Business Week Commentary Column, 7/21/97*

California was one of the states where real competition for local phone service began to occur - at least temporarily. Several companies, including AT&T, MCI, and Sprint, recruited thousands of consumers to switch local service away from SBC/Pac Bell.

But switching customers became a painful process, taking weeks and even months. The experience with SBC/Pac Bell was so bad that most competitors have retreated from the market. As a result, SBC/Pac Bell still controls 99% of the market in its service territory.

And in July, the California Public Utilities Commission staff issued a report saying that SBC/Pac Bell had fulfilled only three of fourteen checkpoints required by federal law to demonstrate that it had opened its market to competition.

A *Business Week* editorial (5/25/98) sums it up best:

“...SBC is notorious among the Bells for tying up the vaguely written Telecom Act in the federal courts in a successful attempt to block the act’s provisions for generating competition in the local phone markets. SBC has also effectively kept AT&T from competing efficiently in local service in its home market...”



# Pac Bell Hangs Up Its Competitors

## Smaller companies say customers are having trouble switching

By Jonathan Marshall  
Chronicle Staff Writer

More than a year and a half after regulators opened the state's local phone service market to competition, only 1 percent of Pacific Bell's customers have switched carriers.

By now, Californians should be sorting through piles of attractive offers for cheaper service or more convenient billing. Instead, AT&T, MCI, Sprint and many other companies have put their marketing campaigns for local residential service in California on hold.

Frustrated competitors say Pacific Bell's incompetence and obstruction have thwarted their goal of bringing better and cheaper service to the state's \$10.5 billion local phone service market. They claim Pacific Bell has botched or delayed thousands of customer orders to switch carriers, disrupting service and fouling up bills.

Pacific Bell says it is working harder than any other Baby Bell to open the market but can't help competitors succeed if they don't have the commit-

PAC BELL: Page A15 Col. 1

## In Search Of Better Service

Ken Braun, an Internet service provider, was given the run-around when he switched from Pac Bell to AT&T. See Page A15.

# PAC BELL: Customers' Switch-Over Woes

From Page 1

ment and the patience to invest more in local facilities and marketing.

A brief experiment marketing local service in Sacramento, which began in December, quickly convinced AT&T that it couldn't count on Pacific Bell to switch customers reliably. Some customers lost dial tones. Thousands of others had to wait weeks for their account to

change hands, during which period they didn't know where to turn to for billing, repairs or service questions.

"We had a large marketing campaign set up for California but stopped it all March 26 because the backlog of orders had gotten so bad we felt the AT&T brand name was being damaged," said Steve Huel, AT&T's business planning director.

MCI Communications similarly

stopped its residential marketing in May, citing the hurdles Pacific Bell put in its way.

In a speech last month, MCI President Timothy Price recalled that Pacific Bell gave his company two options for sending in orders last fall — "an inoperable electronic interface that was loaded with software bugs; or when it was clear that system was ridiculous, they suggested we fill out paper forms which they changed on a biweekly basis."

At the heart of the problem is an arcane side of the telephone business known as OSS — short for Operations Support Systems, not the World War II spy agency. These systems process orders, send out bills and track customer service requests. Errors or bottlenecks, either on Pacific Bell's or its competitors' end, can cause delayed orders, disconnected lines, billing errors and slow repairs.

By Pacific Bell's own admission, it grossly underestimated the number of customers who wanted to switch service and overestimated the productivity of workers who process those orders. But it also blames competitors for clogging its processing center with incomplete or inaccurate orders.

Now, a year and a half after the state Public Utilities Commission opened the local market to competition, the phone company has yet to devise an all-electronic system for taking orders from its competitors. It says it won't have one until next year.

But Lee Bauman, vice president for local competition at Pacific Bell, said the company has switched more than 100,000 customer lines over to competitors. This year it has also more than quadrupled, to 700, the number of employees who process such orders.

James Ellis, general counsel of Pacific Bell's San Antonio parent, SBC Communications, said the combined company will spend \$1.2 billion this year opening its networks to competitors. "No other company in any industry has ever spent so much to invite competitors to take their customers," he claimed.

Bauman conceded that continuing problems with Pacific Bell's ordering systems still handicap competitors reselling its local service. But he said AT&T, MCI and other companies have found their own information systems inadequate to the task of handling a big influx of new local customers.

"It's a very, very large challenge for them," he said. "What's bad is they are trying to make the public and regulators believe Pacific Bell is holding back competition by not getting things done."

Pacific Bell has an incentive to cooperate with its rivals, Bauman

said, because the federal Telecommunications Act of 1996 gave Bell companies the right to offer lucrative long-distance service once they open local markets to competition.

Pacific Bell's adversaries, in turn, have a stake in persuading regulators that the company doesn't yet deserve entry into the long-distance market. Otherwise, noted one competitor at an industry conference in May, "They'll be able to offer pricing packages for both local and long-distance services that will be very frightening. I'm talking about prices that (competitors), at this stage, will not be able to match."

For the time being, however, there's little chance the PUC will give Pacific Bell the right to enter the long-distance market, said Jack Lutz, head of the commission's telecommunications staff.

A recent investigation by a PUC administrative law judge found no evidence of malicious intent by Pacific Bell to thwart competition. But it found plenty of evidence that the competitive playing field isn't yet level.

The judge recommended that the commission set and enforce clear timetables for Pacific Bell to get its systems in order — or be subject to fines and other sanctions.

"The Commission cannot tolerate continued delay in bringing the benefits of competition to California ratepayers," he wrote.

## TELEPHONE TRIALS

A brief history of local phone competition:

**1995**  
■ **JULY 24:** California Public Utilities Commission orders Pacific Bell to prepare for the start of local competition by Jan. 1, 1996.

**1996**  
■ **JANUARY 1:** CPUC opens California market to local competition.

■ **FEBRUARY 8:** President Clinton signs the Telecommunications Act, opening local markets nationwide to competition.

■ **SEPTEMBER 19:** MCI begins marketing local service in all of Pacific Bell's territory.

■ **DECEMBER 9:** AT&T begins marketing local service in Sacramento.

**1997**  
■ **MARCH:** AT&T stops marketing residential service.

■ **MAY:** MCI stops marketing residential service.

■ **JUNE 10:** Sprint begins marketing in the Bay Area.

■ **AUGUST:** Sprint stops marketing.

— Jonathan Marshall



# Locking Out The Phone Competition

## Rivals say Pac Bell is delaying access to equipment

By Jonathan Marshall  
Chronicle Staff Writer

**T**he promise of lower bills and better phone service in California lies locked up in 10-by-10 foot wire cages.

At the cavernous Pacific Bell central office on 611 Folsom St. in San Francisco, which serves customers in the South of Market area, a forest of austere wire cages rise to the ceiling on the first floor. They house high-tech equipment that competitors such as MCI, Teleport Communications Group, Northpoint Communications and Covad Communications use to process voice and data calls.

But these and other angry competitors say Pacific Bell has stalled or even blocked their requests to place more cages and equipment in its 535 California central offices, where all customer telephone lines converge.

"It's a life or death issue for us," said Steve Gorosh, general counsel of Northpoint, a San Francisco-based phone company that offers high-speed data services, called digital subscriber lines. "But the whole issue is really about consumers, not competitors. It's about whether consumers have a choice."

More than two years after the 1996 Telecommunications Act mandated increased local competition, fewer than 4 percent of customer lines in Pacific Bell's service territory have switched to a Pac Bell competitor — even though more than two dozen rival carriers are active in the state.

Critics say a big reason for the disappointing pace of competition is Pacific Bell's resistance to "colocation" — the siting of competitors' equipment in its buildings. Colocation is usually the only way phone companies can get access to customers' lines to offer "facilities-

based" competition, using their own hardware.

Without colocation, competitors can only resell Pacific Bell's generic service under their own brand name. For consumers that means no significant price breaks or extra features, such as intelligent call forwarding. MCI, AT&T and others have tried resale, only to abandon it as unprofitable and unresponsive to consumer desires for new and better services.

"Colocation is the cornerstone of facilities-based competition," said Michael Morris, regional vice president for Teleport Communications Group, a local phone company recently purchased by AT&T. "It's critical to being able to provide higher quality service than the incumbent monopoly, which is what competition is all about."

TCG has filed an arbitration suit  
PAC BELL: Page B2 Col. 1

# PAC BELL: Rivals Say They're Being Locked Out

From Page B1

against Pacific Bell, charging the big phone company with breaking an agreement promising to open up its central offices — or prove that genuinely it has no space.

Covad Communications in Santa Clara, which sells digital subscriber lines, slapped Pacific Bell in May with an antitrust suit in the U.S. District Court in San Francisco, charging restraint of trade and other crimes under the Sherman Act.

In a follow-up complaint last month to the Federal Communications Commission, Covad said Pacific Bell had barred its equipment from 50 central offices that serve nearly a third of all California consumers. Yet in at least 20 of those offices, Pacific has installed DSL equipment of its own, Covad said.

Where Pacific Bell has allowed Covad to install equipment, it charged as much as \$100,000 to build each 10-by-10 cage. Pacific Bell often spent more than five

months to deliver the cages — and then failed to make available such basic items as power cables, power outlets and cage keys, Covad charged.

Competitors concede that space is limited and Pacific Bell cannot fulfill every request for collocation. But the 1996 Telecommunications Act said state regulators must confirm that space shortages are real before local phone monopolies can deny collocation. Pacific Bell has received no such confirmation.

The fault lies in part with the California Public Utilities Commission. "We don't have a process set up for evaluating space within individual offices," acknowledged Jack Leutzka, director of the PUC's telecommunications division. "We need to get this done. . . . (Collocation) isn't the sole impediment to local competition, but it's pretty crucial."

Leutzka said Pacific Bell has much at stake, now that the PUC is reviewing its application to enter

the long-distance market. Unless the issue of collocation is solved, Leutzka said, regulators will be reluctant to give Pacific Bell that authority.

Tim Hardin, vice president of industry operations for SBC Communications, parent of Pacific Bell, said Pac Bell has set up 328 collocation cages in its offices for 22 competitors and is building another 264, making California the leading state for collocation.

Hardin admitted that Pacific Bell told competitors earlier this year that 59 central offices were off limits. But after howls of criticism, the company resurveyed the offices, freed up space and narrowed the list of overcrowded offices to 13.

"We have an all-out effort underway to find space for collocation," he said. "We are putting in new stairways, taking out walls and clearing some administrative spaces out of our offices."

Jim Greenberg, chief network

officer of Denver-based Rhythms NetConnections, said Pacific Bell is working with Rhythms on innovative ways to assure competitive services without collocation — for example, by running customer lines from the central office to a neighboring building where Rhythms has space.

But he said Pacific Bell, like other Bell companies, needs a big push from regulators to speed up the process so competitors don't have to wait four months or more for service. "I ran a data networking group at Sprint and it took us less than 30 days" to set up a collocation cage, he said.

Northpoint's Gorosh said despite Pacific Bell's recent efforts he still hasn't gained access to critical offices in Oakland, Palo Alto, San Jose and Walnut Creek — places consumers are hungering for broadband data services.

"The bottom line is I'm still not in offices I applied for a year ago," he complained.

# PUC Criticizes PacBell Bid for Long-Distance

■ **Telecommunications:** The company is falling short in opening its local phone market to competitors, the agency says in a report.

By ELIZABETH DOUGLASS  
TIMES STAFF WRITER

Striking a blow to Pacific Bell's aggressive push into new markets, state regulators late Friday said the company has not opened its local phone market enough to win entry into the long-distance business.

The California Public Utilities Commission staff issued a report saying PacBell's "aft application has multiple "short-comings" and that the company complies with only three of the 14 requirements that must be met before getting clearance to go into long-distance.

In the report, the PUC found that PacBell was providing rivals with adequate access to telephone poles, phone numbers and number-dialing capability. However, the company is falling short in providing space for competitors to connect to PacBell equipment, and providing an equal system

Please see PACBELL, D8

# PACBELL: PUC Finds 'Shortcomings'

Continued from D1  
for service ordering, repair and billing.

While the report is preliminary, it nonetheless sends a strong signal to PacBell that it is not close to complying with federal requirements for expansion.

A PacBell spokesman on Friday denied that the PUC report is a disappointment to the company, which has maintained that it has complied with all the rules and should quickly be allowed into long-distance.

"I don't think it's a proper characterization to say that this report is a rejection of our application," said Eddie Reeves, a PacBell spokesman. "There's no doubt that we have a lot of work to do—and it's certainly not going to be a two-inch putt—but I don't think it's more than we can do."

PacBell, the state's largest phone company, filed a 5,200-page draft application with the PUC at the end of March. By the time other phone companies, consumer groups and others had weighed in, the PUC's reading material on the issue had grown to 16,500 pages.

The phone company, a subsidiary of San Antonio-based SBC Communications Inc., will have a chance to rectify its shortcomings through a series of "collaborative workshops" scheduled for later this month at the California PUC.

"This is typical of what's happening across the country with all of the Baby Bells," said Jeffrey Kagan, president of Kagan Telecom Associates, an Atlanta-based consulting firm. "They are taking their best shots and filing applications and finding out after the fact that they have fallen short."

For months, consumer groups

and competing phone companies have argued that PacBell's long-distance application was premature and that the company is still resisting competition.

To those opponents, the PUC's report was a vindication.

"I think it's encouraging that by and large, they found that Pacific has failed to comply with the law, and that's what we've been saying all along," said Regina Costa, a telecommunications analyst at The Utility Reform Network, a San Francisco-based consumer advocacy group. "This is a company that has fought competition tooth and nail."

Long-distance carrier MCI Communications Corp. also applauded the report.

"The PUC told Pacific Bell to go back to the drawing board," said Jim Lewis, MCI's senior vice president for policy. "I'm not surprised by it, because I know they're not ready."

Under the 1996 Telecommunications Act, local phone companies are allowed to sell long-distance phone service, but only after they prove that their monopoly local phone market is sufficiently open to rivals.

To help regulators assess a company's progress toward opening their markets, federal regulators created a 14-point checklist of issues that must be resolved in order to declare a local phone market "competitive."

But so far, every Baby Bell company's application for long-distance has been rejected by regulators—including applications by other SBC subsidiaries.

In PacBell's case, the PUC concluded that it has complied with only a few of the requirements and

still falls short in several categories. The staff also cited "competitive behavior" at PacBell according to a release summarizing the report.

Now, the action will shift: a series of workshops, where PacBell, the PUC, consumer groups and rival phone companies will meet to hash out solutions to the issues raised in the report. The PUC will issue a final report later in the year, and state commissioners will vote on the matter by November. The PUC's decision will be forwarded to the Federal Communications Commission, which has the final say on the application.

Times staff writer Jennifer Oldhaug contributed to this report.

# San Francisco Chronicle

SATURDAY, JULY 11, 1998

## PUC Says Pac Bell Falls Short

### Company criticized for not opening market

By Jonathan Marshall  
Chronicle Staff Writer

Pacific Bell suffered a setback in its push to enter the lucrative long-distance market yesterday as state officials criticized its failure to open the local phone market to competition.

A report by the telecommunications staff at the California Public Utilities Commission said Pacific Bell has met only three of 14 criteria that federal law says it must satisfy before winning the right to sell long-distance service.

The 1996 Telecommunications Act held out the long-distance market as a carrot to entice the Bell companies, including Pacific Bell, to open up their local markets. But AT&T, MCI and numerous other competitors complain that Pacific Bell and other local monopolies have impeded them at every turn.

The staff report, while commending Pacific Bell for improving its record, said the company still falls far short of complying with the 1996 act.

As the summer progresses, Pacific Bell will work with the PUC's staff, competitors and consumer advocates to find solutions to the disputes. The PUC will issue a final judgment in November. A critical ruling would kill Pacific Bell's chances of getting final approval from the Federal Communications Commission anytime soon.

The PUC's staff said Pacific Bell's biggest shortcomings involve electronic systems to streamline customer billing, repairs and service changes. Many of Pacific Bell's systems for dealing with competitors aren't yet automated and are thus prone to error. AT&T and MCI shut down their sales of local service to residential customers last year in part because ordering foul-ups jeopardized their brand reputation.

The staff also said Pacific Bell has not allowed competitors to house their equipment in all its offices, an essential precondition for competition.

Pacific Bell spokesman Eddie Reeves put a positive face on the report. "We think this is good news," he said. "At long last we get a definitive road map of exactly what we need to do to get the commission's support for our long-distance application."

Reeves said Pacific Bell is optimistic that it can work out any problems before

the PUC votes in November on its petition. But Jack Leutza, director of the PUC's telecommunications staff, said he wasn't so sure. "I think there will be some points that will be difficult to meet (by November)," he said. "There are technical issues that make it a challenge."

Pacific Bell's competitors were even more pessimistic. "We don't believe they are far along at all in meeting any of the points set forth in the Telecommunications Act," AT&T spokesman James Peterson said. "We don't believe they are ready technologically or behaviorally."

MCI Vice President Jim Lewis agreed. "They have miles to go before they sleep," he said.

Consumer watchdogs are also skeptical of Pacific Bell's record. Tom Long, an attorney for The Utility Reform Network in San Francisco, said only a tiny fraction of residential customers in California are now served by competitors.

"I don't see that Pacific Bell is truly cooperating with competitors," he said. "I think they are throwing up roadblocks in a clever way." Pacific Bell's parent company, SBC Communications, noted in a report last month that it has lost 635,000 of its more than 17 million California phone lines to competitors. It also said that Pacific Bell and Nevada Bell have spent more than \$620 million on measures to open their local markets.

"Taken together, these data demonstrate that barriers to entry into the local market ... have been eliminated," the company declared.

Recently, however, the Texas Utilities Commission rejected SBC's cation to offer long-distance service

SBC has sued in federal court to turn portions of the 1996 act that from offering long-distance service three-judge panel of the 5th Circuit of Appeals heard its arguments on day. The case, which is likely to go U.S. Supreme Court, will take mon decide.

The San Diego  
**Union-Tribune.**

A Copley Newspaper

SUNDAY, JANUARY 11, 1998

# SBC wages a guerrilla-like assault on telecom act

By Seth Schiesel, NEW YORK TIMES NEWS SERVICE

By persuading a federal judge to strike down vital elements of the Telecommunications Act of 1996 and by agreeing last Monday to acquire Connecticut's main telephone company for \$4.4 billion, SBC Communications is clearly emerging as the iconoclast of the telecommunications industry.

## ANALYSIS

The Dec. 31 court ruling, which could be a bonanza for SBC and the other Bells, will probably be stayed from going into effect soon and could well end up in the Supreme Court. And regulators could reject SBC's takeover of the Connecticut company, Southern New England Telecommunications.

It is becoming clear, meanwhile, that SBC and its chairman, Edward Whitacre Jr., are aiming not just to push the boundaries of telecommunications regulation but to attack the very foundation of the regulations.

By seeking a path into the long-distance market through what appears to be any means necessary, SBC, the parent company of Southwestern Bell and Pacific Bell, seems to be trying to remake communications law and to create a revolution in how regulators think about local vs. long-distance telephone companies.

The telecommunications act requires that the five local Bell telephone companies — Ameritech, Bell Atlantic, BellSouth, SBC and US West — convince the Federal Communications Commission that their local networks are open to potential competitors before being allowed to offer long-distance service to customers in their regions.

The FCC has rejected all three petitions it has ruled on. So for average consumers, the telecommunications landscape appears little changed from before the act's passage: one choice of local phone company, many choices of long-distance carrier and too many bills each month.

AT&T has the most to lose from the entry of the Bells into the long-distance business, but on Monday even C. Michael Armstrong, AT&T's chairman, took some swipes at the law.

"We have a telecom act that is currently not operational," Armstrong said in a conference call. "The

industry and the government need to step back in the midst of all this and discuss alternatives to accomplishing opening markets, having choice and creating local competition."

The Bells, however, have been downright angry, convinced that the FCC and particularly its former chairman, Reed Hundt, who stepped down last fall, did not treat them fairly.

But SBC's response, choosing to work largely outside the system set up by the act rather than within it, has been particularly hostile.

Ameritech, for instance, withdrew its first application to sell long-distance service in Michigan in order to fine-tune it. (The petition was rejected anyway.) Bell Atlantic and US West have not filed with the commission to offer long-distance service.

BellSouth is using what looks like a strategy of attrition. First, it filed a long-distance application for South Carolina that appeared to be dead on arrival. Mere days after the Justice Department recommended in November that that petition be rejected, the company filed for Louisiana.

If BellSouth wants to batter a hole through what it sees as a wall of regulatory opposition to the Bells' entering the \$80 billion long-distance market, SBC seems determined to parachute behind the wall and blow the whole thing up from behind.

Since SBC's long-distance application for Oklahoma was rejected last July, the company has not filed again. Instead, the company filed a lawsuit against the FCC and the government.

The most recent court ruling agreed with SBC's complaint that the application procedure established by the act for the Bells to get into long-distance formed an unconstitutional fetter on their right to operate a legal business.

Judge Joe Kendall of the U.S. District Court in Wichita Falls, Texas, has not finished the procedural paperwork of the case, so it is unclear when the ruling would take effect. Most analysts and industry executives expect the decision to be stayed, either by Kendall or by a higher court.

SBC, last Wednesday, took one of the first steps toward selling long-distance service, submitting to Oklahoma regulators the rates it plans to charge in that state. That same day, Kendall added Bell Atlantic to SBC and US West as Bells to which his ruling applies, even as the Justice Department joined AT&T, MCI and Sprint in asking the judge to suspend the ruling pending appeals.

Kendall rejected Ameritech's bid to be added to the case because Ameritech asked to be included after the decision was issued on Dec. 31. However, in the wake of any appellate ruling upholding the decision, the ruling would probably be held to apply to all five Bells equally.

If the ruling is not stayed, the Bells could start selling long-distance service within as little as a month.

That would destroy the essential rationale of the act, which was to have the Bells convince the government that their systems are available to competitors before, not after, getting into long-distance services.

Buying long-distance and local service from one company could be convenient for consumers, but an

**By seeking a path into the long-distance market through what appears to be any means necessary, SBC seems to be trying to remake communications law.**

all-distance offering from the Bells without a competing offering from big long-distance carriers was not what Congress had in mind.

That is also why SBC's planned acquisition of SNET, the dominant local phone company in Connecticut, is so provocative.

Last summer, SBC was negotiating to merge with AT&T, the No. 1 long-distance carrier. But those talks fell apart amid denunciations of such a deal by Hundt. So, SBC has gone after smaller fish in its quest for a way into the long-distance business.

As a non-Bell company, SNET has been allowed to sell long-distance service without going through the rigorous FCC review so reviled by the Bells. And it has done quite well, persuading about 40 percent of its 2.2 million local customers to also use SNET long distance.

The question is: since SBC is not allowed into the long-distance market in its home territory, should it be allowed to get into long distance elsewhere by acquiring a non-Bell company outside its region?

The FCC has never considered such a proposal, according to senior people close to the commission.

The long-distance carriers are sure to argue that SBC should have to meet a standard for opening SNET's Connecticut network as stringent as that for SBC's home region. SBC will counter that SNET did not have to meet that standard when it was independent and that there is no reason for the bar to be raised solely because of a change in corporate control.

The Texas decision could make that entire debate moot by allowing the Bells to sell long-distance services wherever they please. But there is little chance that the appeals will be finished soon, especially since Kendall's decision was based in part on a rare interpretation of the Constitution.

But for now, the foundations of telecommunications regulation are crumbling. And SBC is smiling.

# The Oakland Tribune

FRIEND OF THE PEOPLE IT SERVES

WEDNESDAY April 22, 1998

## Study: PacBell blocking market

By Sandra Ann Harris  
BUSINESS WRITER

Pacific Bell wants to get into the long-distance business, but according to a new study the telephone giant should be kept out because it hasn't fully opened its local markets to competition.

"The Bells agreed to welcome rivals into their local markets in exchange for entry into in-state long distance when the Telecommunications Act was enacted more than two years ago ... (but) competition remains stifled and consumers do not have a choice," said Mark Phigler of the Walnut Creek-based Americans for Competitive Communications.

The Walnut Creek group joins a vocal chorus of consumer advocates and long-distance carriers who say Pacific Bell is keeping competitors at bay in its local market so state regulators shouldn't allow the company to offer long-distance service.

A spokesperson for Pacific Bell, which is owned by San Antonio-based SBC Communications Inc., could not be reached for comment Tuesday.

But when it filed an application last month with the California Public Utilities Commission seeking permission to enter the long-distance market, the company said it

had already laid the foundation for fair competition.

The study conducted by Americans for Competitive Communications disagreed.

It concluded that Pacific Bell has failed to meet eight of the 14 requirements for open competition set by the Federal Communications Commission when it passed the act in 1996.

Furthermore, critics note that Pacific Bell still serves more than 99 percent of the state's local residential customers as one of the strongest indicators that competition is not thriving in the local market.

Before competitors can effectively compete, Pacific Bell needs to make its electronic database of customers available to competitors, set rates for the use of its lines as well as iron out other problems involving network features, such as 411 operator assistance calls and call routing, the advocacy group said.

"The purpose of this act was lower prices, more choices and new innovations and that's what we're trying to push," Phigler said. "We really think those things should happen, especially the innovation."

Phigler's group is an independent advocacy group for small businesses founded by Phigler 18 months ago to track compliance with Telecommunications Act and keep its members informed about industry changes.

The report also looked at local telephone carriers in 24

other states and concluded that they have failed to open up their markets to competition from long-distance companies.

MCI Communications Corp., AT&T and ICG Telecom Group Inc. also complained about the inability to effectively crack Pacific Bell's grip on the local market.

TUESDAY, JANUARY 13, 1998

## Probe SBC monopoly, legislator tells Justice

### Firm said to thwart local competition

By Heather Fleming  
BLOOMBERG NEWS

WASHINGTON — An influential member of Congress has asked the U.S. Justice Department to investigate allegations that San Antonio-based SBC Communications Inc. is using its monopoly power to thwart development of local telephone competition in its seven-state region.

SBC, the parent company of San Francisco-based Pacific Bell, and the other regional Bells said they would open their markets in an agreement that led to passage of the 1996 Telecommunications Act, but SBC is now going back on its word, said Rep. Edward Markey of Massachusetts.

As a result, Markey, the senior Democrat on the House telecommunications subcommittee, wrote to the Justice Department's chief antitrust enforcer, Joel Klein, saying he wanted Justice to "take a closer look at allegations of anti-trust abuse and monopoly power within SBC's local telephone market."

The Telecommunications Act requires the Bells to prove to federal regulators that they've fully opened their markets to competitors before they can offer customers long-distance service in their regions.

SBC is challenging in court this portion of the act. The company argues that it has been unfairly

kept out of the long-distance market by the Federal Communications Commission's enforcement of the law.

SBC's court challenge reneges on the promise to open markets, and "the SBC lawsuit itself is ample evidence of the company's clear intent to use every legal and regulatory device at its disposal to maintain its monopoly position," Markey wrote.

"Allegations that we have not opened our markets ignore the facts," SBC said in a statement. The company said it had spent about \$1 billion to open its network and had signed more than 270 agreements to connect its phone network to competitors' networks.

A Justice Department spokesman said the agency would review Markey's letter and follow up accordingly.

"FCC enforcement provisions and antitrust statutes remain in effect" despite the court suit, Markey said. "These remedies can and must be exercised by the government to further the intent of Congress to break down the local telephone monopoly from coast to coast."

Denver-based U S West Com-

munications Group and New York-based Bell Atlantic Corp. signed on to SBC's court challenge, although Markey's letter targets SBC alone. A third Bell company, Ameritech, also tried to join the suit, but the trial judge denied the request.

In a Dec. 31 decision, a federal judge in Texas agreed with SBC that the Telecommunications Act discriminates against the Bells because other local phone companies, such as GTE Corp. and Southern New England Telephone Co., aren't held to the same restrictions. The Justice Department, FCC and long-distance companies AT&T Corp., MCI Communications Corp. and Sprint Corp. are appealing the decision.

If the Texas court's decision is upheld, Markey said, he also wants Justice to consider reinstating the 1982 consent decree, known as the Modified Final Judgment or MFJ, that broke up the Bell System and created SBC and the other Bell companies. Under the MFJ, the Bells were blocked from entering other lines of business, including long-distance. The Telecommunications Act conditions replaced the MFJ ban.



# Daily News

THURSDAY, NOVEMBER 20, 1997

## Local phone monopolies doing disservice

### Pac Bell, GTE among companies making it tough for new providers

CONSUMERS are the biggest winners from competition. And few illustrations of this truth have been more impressive than the stunning growth of long-distance telephone competition since the end of AT&T's monopoly.

More than 700 providers now compete so intensely that customers changed carriers 50 million times in 1995. Long-distance rates have fallen more than 70 percent in the past decade, adjusted for inflation, with long-distance companies passing \$51 billion in savings on to customers in the past five years alone.

This success inspired lawmakers to enact the Telecommunications Act of 1996 to extend competition to the entire telecommunications industry.

However, the introduction of competition in the \$100 billion-a-year local phone market (15 percent of global telecommunications services) has been undercut by the existing local phone monopolies, including Pacific Bell and GTE in California, who are delaying, disrupting and discriminating

against new competitors, but this story has been crowded out of the headlines by the battle for MCI.

Regional monopolies have used a wide variety of delaying tactics. In order for customers to enjoy the benefits of local competition in their area, it is important for fully automated Operations Support Systems (all the computerized and automated systems that enable new competitors to share information, process orders, and handle requests of new customers) to be in place. Despite a Jan. 1, 1997, deadline from the FCC, not one of the local phone monopolies across the nation has yet implemented a fully automated OSS. The courts also have been dragged into the stall.

For example, one local monopolist has 25 separate lawsuits in 19 states challenging their Telecommunications Act implementation rulings.

One new entrant was faced with ordering service from the local monopolist electronically, over a system so flawed that it didn't work, or by manually filling out paper forms, which changed on a biweekly basis

(providing the irony of a telecom company that can't figure out how to take orders electronically). And interconnection requests have been denied for such ambiguous reasons as undocumented "space limitations" (although such denials legally must be justified to relevant state regulatory bodies).

Disruption also has been used against entering rivals. One provider rejected service orders because they were allegedly sent to the wrong address, when that address had been used for years. But the "right" address was just a different entrance to the same building, and rather than informing the company to send the order to a different address, it just refused the order.

Rivals, who must use monopolists' local lines, also have found their calls blocked or suddenly disconnected, their lines unaccountably busy, and customers lost due to the resulting poor service.

Local providers also have discriminated against competitive rivals. They can access their customer service online, but competitors must fax information requests (to numbers that sometimes change without notice) with responses taking up to 10 days. They also have used this customer information monopoly to target customers who are considering switching providers for special retention efforts before they are even able to switch (e.g., using changeover orders as sales leads, a marketing advantage no competitor can match).

Switching from current local providers can require installation fees of up to \$187, compared to \$5 to change long-distance carriers. Local monopolists install their own customer service orders quickly, but competitors' customers can wait more than three weeks without regular use of their phone.

These and other abuses make it clear that local phone monopolists across the nation are conducting an extensive campaign to maintain their captive customers by keeping competitors out, in defiance of the Telecommunications Act's attempt to pry open their markets.

But the competitive obstacles they have erected have come at a high price to phone users, who have been denied the benefits of competition in one of the most important and dynamic markets in America.

These obstacles must be removed and "new and improved" ones prevented (as local phone monopolists have at least proved very ingenious in finding ways to block competition) if Americans are to reap the price, service and technological advances this industry has to offer. This requires prompt, effective action by federal and state regulatory authorities to ensure the level playing field necessary for open competition.

Phone users, with every call they make, will be the big winners.

*Gary M. Galles is a professor of economics at Pepperdine University in Malibu.*

GARY M. GALLES



Local View

## SBC deserves the chutzpah nomination

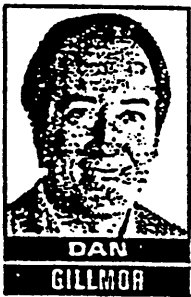
**J**UST over a week ago, SBC Communications Inc.'s Pacific Bell subsidiary breathlessly told the world it had signed an "interconnection agreement" with its counterpart in the Midwest, Ameritech. The deal, the company proclaimed, underscored its "commitment to opening its markets to competitors."

When they hand out nominations for the 1998 Chutzpah Award, this announcement will deserve a close look. Like so much of what SBC and the other local phone monopolies claim these days about promoting competition, there was much less to this deal than met the eye — and virtually nothing in it, despite the florid rhetoric, for residential customers.

**Local phone monopolies have all but thwarted the letter and spirit of the law.**

Not that this was anything new: Two years after Congress passed and President Clinton signed the 1996 Telecommunications Act, amid huge fanfare about promoting a truly competitive market, the local phone monopolies

have all but thwarted the letter and spirit of the law. A little history: When AT&T agreed to split itself into pieces in the early 1980s, it spun off what were called the "Baby Bell" local phone companies around the country, creating a total of seven regional companies. Two mergers — Bell Atlantic's acquisition of Nynex in the Northeast and SBC's acquisition of Pac Bell's parent, Pacific Telesis — have brought the number of big regional carriers down to five.



DAN GILLMOR

SBC controls local phone service in most of California, Nevada, Arkansas, Kansas, Missouri, Oklahoma and Texas. It probably ranks as the worst of a very bad batch, and its bad faith is becoming legendary.

The AT&T breakup order barred the Baby Bells from offering long-distance service, and barred AT&T, which kept its long-distance operations, from the local market. In subsequent years, AT&T faced a good deal of competition from MCI, Sprint and other long-distance carriers. The local phone companies — the Baby Bells and hundreds of smaller independent carriers — remained effectively immunized from serious local competition.

A social contract was part of the equation: The local phone companies had to offer dial tones at what most people agree has been less than the actual cost of providing the line. We call this "universal service," and to get it we've forced phone companies to subsidize local connections with other rates.

But the local monopolies mostly blocked progress. Through a variety of laws, regulations and corporate strategies, and with the help of compliant state regulators, they milked customers while making only marginal improvements in service. In the latter category, consider that ISDN digital phone service is more than a decade old, but barely used because of phone company incompence and recalcitrance.

The record hasn't been universally terrible. Pac Bell did offer relatively low ISDN rates, at least compared with extortionate ISDN charges in the rest of the country, but until recently did little to promote the service. And a few phone companies launched cable TV systems, competing with another batch of consumer-unfriendly local monopolies; one was Pacific Bell, which installed a cable TV system in a portion of San Jose.

But widespread competition never even rose to the level of a sick joke. And that was one reason for the 1996 telecom legislation, which Congress passed after marathon negotiations among the local phone companies, long-distance carriers, cable TV operators, computer companies and other telecommunications companies. Consumers were going to enjoy a free-for-all competitive scene for all of their telecom services.

To promote actual competition for local phone service, the Federal Communications Commission set up a multi-point test for local phone companies trying to sell long-distance service. The test required the local companies to demonstrate first that they were opening up their own systems to outside competition.

SBC, like the other local monopolies, played an intimate role in the back-room dealing that created the 1996 legislation, and like the other regional phone companies it signed off on the result. SBC profusely praised the law after it was passed; according to the Washington Post, the company's chief executive told Wall Street analysts he was "happy with" the "clear and reasonable pathways" the law laid out for his company's entry into the long-distance market.

How did SBC respond to the law? For starters, it applied for permission to offer long-distance service in Oklahoma. To prove it faced competition for local service, it claimed that a company called Brooks Fiber was offering local service in SBC's market. Actually, as the FCC noted after checking this out, Brooks had hooked up a few businesses and a grand total of four employees' homes — hardly what any reasonable observer would call genuine competition. The FCC tossed the ap-

plication.

Meanwhile, SBC asked a federal court to toss what it had called those "clear and reasonable" pathways. It called the requirements an unconstitutional "bill of attainder," or punishment imposed by the legislature. Two weeks ago a federal judge in Texas, offering the astonishing opinion that the local phone monopolies hadn't been proved to be acting like monopolies, ruled in



**The phone  
companies  
have stalled  
almost com-  
pletely in offer-  
ing fast data  
connections.**

favor of the company. Since then several other regional phone companies have asked to be included in that decision, allowing them to enter the long-distance market without even the pretense of opening their own areas to local competition. The decision is under appeal.

San Jose residents learned how much they could trust SBC last spring, just after SBC took over Pac Bell. The issue was what would happen to Pac Bell's cable television service in the city.

San Jose neighborhoods had suffered torn-up streets and other inconveniences as Pac Bell installed miles of fiber-optic lines. For some people, though, the result was worth it: real competition for cable TV customers' wallets, and a huge improvement over the service provided by the incumbent cable operator, the notorious TCI.

An SBC spokesman, carefully noting that all Pac Bell operations were under review, all but assured San Jose residents that his company would maintain the cable operation. "There should be no concern — things in San Jose are the same as they were before the merger," he

told the San Jose Mercury News in mid-May 1997.

On June 19, SBC pulled the plug on its San Jose cable operation. So much for a willingness to compete. So much for keeping promises.

Even before the 1996 law was successfully (if only for the moment) challenged, it was fairly clear that the desired competition wasn't taking place. And SBC hasn't been the only villain among the local phone monopolies.

Another mega-regional phone company, BellSouth, said last week it would challenge AT&T's planned buyout of Teleport, a company that is competing for local business customers in a few cities. AT&T's clout plus Teleport's expertise could produce an interesting competitor — but BellSouth can't stand that possibility.

I keep hoping that the telopolies, as networking pioneer Bob Metcalfe aptly calls them, will one day find themselves undermined by smarter competitors. In particular, I'd like to see Internet-based phone services capture more of the market.

The phone companies have stalled almost completely in offering fast data connections. Even the cable-TV folks are moving faster, which is saying something.

Congress has much to answer for in this fiasco. It passed a law that was either ineffective in promoting competition, or unconstitutional. Either way, the consumer is getting the shaft.

We don't necessarily have to wait for Congress to fix the problem. Now that the Department of Justice, Federal Trade Commission and others in officialdom have rediscovered monopolists in the technology business, they could do consumers another service: a serious antitrust investigation of the local phone companies.

---

*Dan Gillmor's column appears each Sunday, Tuesday and Friday. Join an online issues discussion by clicking on "Forum" on Dan's Web page (<http://www.mercurycenter.com/columnists/gillmor>). Or write Dan at the Mercury News, 750 Ridder Park Dr., San Jose, Calif. 95190; e-mail: [dgillmor@sjmercury.com](mailto:dgillmor@sjmercury.com); phone (408) 920-5016; fax (408) 920-5917.*

May 15, 1997  
San Diego Daily Transcript  
Page A-1

# Groups Accuse PacBell Of Hampering Efforts Of Potential Competitors

By DAN GALLAGHER  
*Daily Transcript Staff Writer*

On the heels of a major overhaul of the nation's telephone rates by the Federal Communications Commission, new "consumer" groups in California are sprouting up, accusing Pacific Bell of keeping its network closed to competitors who want to enter the lucrative local service market.

But Pacific Bell, who until last year held a virtual monopoly on local telephone service in the state, points to the fact that it has signed on at least 20 companies to provide such service over its networks in the state, putting it ahead of the other Baby Bells in opening up local phone service markets.

The action stepped up on Tuesday as a new group composed of small businesses and private citizens, and led by a San Diego attorney, began airing television ads in Northern California challenging PacBell to stop restricting customers from switching local carriers. The group, called Californians for Telecommunications Choice (CTC), also took out large newspaper ads in a Bay Area publication.

Anna Evashko, an attorney who runs her own practice out of a San Diego office, claims that PacBell limits how many customers can switch local service each day, although it is able to switch "tens of thousands" daily. She also says that PacBell's monopoly hampers other businesses from competing effectively because of the high cost of special services, such as ISDN lines.

"We feel they are digging in their feet to keep people from switching," Evashko said. "What we want to have happen is what's happened in the airline and long distance industries, where they are clamoring for customers and business."

But many of these groups may have an alternative purpose, which is to keep PacBell out of the long-distance market. CTC receives funding from AT&T, Brooks Fiber and GST, all potential competitors to PacBell in the long-distance market, according to Evashko. According to the Telecommunications Act of 1996, the regional Bell's may not enter the long-distance markets until meeting a 14-point checklist which shows it has opened up its local markets. PacBell's entry into this market may be delayed if regulators are persuaded that it has not met the criteria.

Another group, Americans for Competitive Telecommunications (ACT), which is based in San Francisco, has issued a report claiming that PacBell meets only four of the

*Please Turn to Page 12A*

*Continued From Page 1A*  
criteria. The president and founder of ACT, Mark Phigler, previously worked in the marketing divisions of both AT&T and Pacific Telephone and Telegraph. PacBell officers say ACT is almost completely funded by competing long-distance companies.

Phigler did not return phone calls for comment.

"They have been trying for years to keep PacBell from entering the long-distance competition, and this is just an easy way to do that," said Craig Watts, spokesman for regulatory affairs at Pacific Teleasia.

At hearings going on at the California Public Utilities Commission this week, several companies,

including AT&T, are testifying that PacBell has delayed them from effectively signing up local customers. According to an AT&T spokeswoman, customers who want to switch over to AT&T's network must wait several weeks before the switch is activated.

For Evashko, though, it is an issue of getting as many competitors as possible into the arena, which she says PacBell has delayed. It currently takes PacBell approximately three days to process the paperwork and make the switch for a customer moving to another provider, Watts said. The company meets this timetable in about 97 percent of the cases, Watts said. Evashko said she has

talked to people for whom it has taken more than 10 days.

"This is a pocketbook issue for the small business person because they have begun to see their long-distance rates come down but feel there is nothing they can do about their local service rates," Evashko said.

According to Watts, the only reason anyone is delayed in switching is if they do not submit the proper authorization materials. The company also has an electronic system in place which would streamline the process of taking switch orders, but Watts said hardly any of the local service providers are using it.

[gallagher@eddt.com](mailto:gallagher@eddt.com)

# LAWSUITS, LAWSUITS, LAWSUITS

**“Southwestern Bell said they have 4,000 people working on local competition. Fifteen of them are engineers, and 3985 are lawyers.”**

*Manning Lee, Vice-President of Teleport, Austin American Statesman,  
8/17/97*

When the 1996 Telecommunications Act was passed by Congress, CEO Ed Whitacre said the Act was, “Good for consumers, good for SBC, and good for our shareholders.”

About one year later, SBC filed suit to have the Act declared unconstitutional.

This is a familiar pattern. Whether it's suing a Public Utilities Commission when it makes a decision SBC doesn't like, or suing the Federal Communications rules about wiring public schools and libraries, or suing to stop local competition, SBC is a company that loves the courtroom.

Two national publications have observed:

- “SBC has long been one of the most territorial and litigious of the Bells.” (*Business Week*, 7/21/97)
- (SBC) is also the most pugnacious and is earning a reputation among critics as a company that will do almost anything to thwart the competition promised by the Telecommunications Act of 1996.” (*New York Times*, 7/21/97)

San Antonio Express-News, Thursday, July 3, 1997, Page 1E

## SBC sues to strike Telecom Act

U.S. government named with FCC as defendants in  
action filed in Wichita Falls

# SBC sues to strike Telecom Act

## U.S. government named with FCC as defendants in action filed in Wichita Falls

By VICKI VAUGHAN

EXPRESS-NEWS BUSINESS WRITER

SBC Communications Inc. threw a hardball at the federal government Tuesday, filing a lawsuit claiming part of the Telecommunications Act of 1996 is unconstitutional and discriminatory.

The suit, filed in Wichita Falls, names the United States and the Federal Communications Commission as defendants.

SBC claims in the suit the Telecommunications Act is unconstitutional because it discriminates against SBC and the other five Baby Bell telephone companies by having different rules for them. SBC is the largest of the Baby Bells that were created in the 1984 breakup of American Telephone and Telegraph.

SBC's action made it clear the San Antonio-based telecommunications giant hasn't given up its desire to become a major provider of long-distance service, possibly by merging with AT&T Corp.

The challenge comes less than a week after SBC-AT&T merger talks broke down in the face of strong opposition from federal regulators. Both SBC and AT&T chairmen have since blasted regulators.

The Telecommunications Act of 1996 lets SBC and other Baby Bells offer long-distance services in their local telephone territories if they first satisfy federal requirements. So far, the FCC hasn't allowed any regional Bell company to offer long-distance service within its designated territory. That is the part of the Act that SBC is challenging, its lawyers said.

Jim Ellis, SBC's general counsel, said the purpose of the lawsuit is "to increase competition" by permitting SBC and other Bell operating companies to provide long-distance services.

"We believe that our customers want us to provide long-distance service," Ellis said. "We are going to go forward on all fronts to obtain that capability as promptly as possible."

Ellis said it's as if the federal government "were to tell USAA (the insurance and financial giant), 'you can only sell insurance in Texas, but every other insurance company in the country is free to sell in Texas and the nation.'"

"We only want the right to be treated like every other company in the United States," Ellis said. "We do not want to be singled out and discriminated against."

Janee Briesemeister, a senior policy analyst with Consumers Union in Austin, said there's a good reason some telephone companies are treated differently than others.

"SBC was a monopoly phone company, that's why," she said. "It is true that GTE and some of the smaller companies get different treatment, but they are smaller companies. The Baby Bells are large, multibillion, multistate companies, which have just grown larger since the Telecom Act. Witness the merger of SBC and Pacific Telesis."

Long-distance provider MCI Communications Corp. called the case "absurd."

"We trust the federal court will recognize this action for what it

is: a desperate attempt by an entrenched local monopoly to avoid opening its local telephone market to competition," said Jonathan Sallet, chief policy counsel for MCI.

SBC holds a monopoly on local phone service in Texas and six other states. It added California and Nevada in April when it merged with another Baby Bell, Pacific Telesis Group.

However, regulators recently denied SBC's request to enter the long-distance business in Oklahoma, a state served by its Southwestern Bell Telephone Co. subsidiary.

Ellis said SBC will challenge that decision today in the District of Columbia Court of Appeals.

SBC's lawsuit against the FCC was filed in U.S. District Court in Wichita Falls because "the docket is considered to be fast there and the judge (Joe Kendall) is used to handling complex cases," Ellis said, adding that he is hopeful the case could be tried in three to six months.

SBC has hired a big legal gun to plead its case. Constitutional scholar Laurence Tribe, a professor at Harvard Law School, will likely argue SBC's case, Ellis said.

Critics of a possible SBC-AT&T merger said a combination would stifle competition. In mid-June, FCC Chairman Reed Hundt said the merger was "unthinkable" because of its potential for monopoly.

*The Associated Press contributed to this report.*

# San Jose Mercury News

PENINSULA EDITION  
15 CENTS

Serving Northern California Since 1851

FRIDAY  
JANUARY 9, 1999

## Official assails efforts to skirt telecom law

BY RORY J. O'CONNOR  
Mercury News Washington Bureau

WASHINGTON — A senior Clinton administration official blasted local phone companies for adopting "a litigious strategy" to skirt the landmark 1996 Telecommunications Act intended to promote competition in the telephone industry.

"This town would litigate the Ten Commandments," said Larry Irving, assistant secretary of Commerce for communications and information. "So it's no surprise that they would litigate the (1996 Telecommunications Act)."

At the same time, he sharply criticized a Texas judge for ruling that the law unconstitutionally required local phone companies to foster greater competition on their own turf before they can enter the long-distance market.

In a press conference on telecommunications issues Thursday, Irving said the administration is close to releasing an official policy paper on governance of the Internet, with an emphasis on control by the private sector and opposition to international regulation of the Internet.

He also said the administration "has no plan" at present to address skyrocketing cable TV rates, which are increasing at between two and four times the rate of inflation.

But he said the administration is concerned about the increased ownership concentration of radio stations and would oppose any similar concentration of ownership of television stations that might reduce the "diversity of voices" and minority ownership.

Irving reserved his sharpest criticism for companies like Texas-based SBC Corp., parent of Pacific Bell, which provides local phone service in most of California. SBC was one of two companies that won a ruling in federal district court in Texas on Dec. 31, striking down key

prohibitions in the telecommunications law as unconstitutional.

Irving said the decision by U.S. District Judge Joe Kendall of Wichita Falls, Texas, "disrupted the incentive structure" created by Congress to force local Bell companies to open their networks for use by competitors as a condition of being allowed into the long-distance business. That decision faces appeals from the government and from competitors.

"The court's decision is bad as a matter of telecommunications policy, it's bad as a matter of antitrust policy, and it's bad as a matter of law," Irving said. "It seems as if the judge hit the trifecta."

SBC, which asked permission Wednesday from Oklahoma regulators to begin offering long-distance service there, disputed Irving's contention that the decision would stifle competition and investment in local phone service.

"We think that this decision is going to bring about full competition in local and long-distance service faster than anything," said Selim Bingol, a spokesman for the company in San Antonio. "Our whole take on this suit is that if you own a telephone you win. If you own the long-distance business, or a big part of it, you might have a different view."

The company has "no timetable" yet for petitioning the California Public Utilities Commission to allow SBC to offer long-distance service to local customers in the Golden State. Any such state permission would also be subject to approval by the Federal Communications Commission.

Irving declined to call the telecommunications Act a failure, insisting the nation needs more time to see it work. He recalled the divestiture of AT&T in 1984, saying it took a decade for full competition to occur. The current lawsuits have

just "delayed the inevitable," he said.

With respect to national Internet policy, Irving said a delayed administration policy paper would be finished soon, probably by the time Congress reconvenes in February. It was set for release in November and was to address control of Internet "domain names" — addresses ending in .com, .org, .edu and the like. But the paper was held up when it became clear the domain name controversy was tightly linked with other Internet governance issues, from taxation to liability to information control.

Irving declined to discuss details of the report in advance, but said the administration will "try to be as hands-off" as possible with the Internet and make sure "as much as possible this is private-sector led."

Among his major concerns: international calls for close governmental regulation of the Internet, the possibility of censorship, and the need to assess fees to phone companies for a fund to provide full Internet access, especially for schools, libraries and rural health care facilities.

Irving criticized the cable television industry for raising prices far faster than the rate of inflation. Cable prices, deregulated in the early 1990s, have climbed two, three or even four times faster than inflation,

he said, a sign that cable companies have no effective competition.

One reason is that direct-broadcast satellite providers cannot now generally offer local broadcast programming on their services because of a complex web of copyright and license issues. That means satellite customers must use either an over-the-air antenna or, ironically, cable service to view local news and weather reports.

Another reason for the lack of competition is that telephone companies have largely abandoned their efforts to provide video programming on their own networks. For example, SBC last year halted construction of its own cable system in San Jose, saying the project proved neither technologically nor financially feasible. During the debate over the telecommunications bill, those companies and their proponents insisted they would aggressively offer such services if given the legal chance.

Irving said the administration would "look at" anything that would increase competition for TV services, including allowing satellite operators to offer local programs. Returning to rate regulation, however, is an unlikely step, he said.



# SBC Files Challenge to Telecom Law

## Texas Bell Wants Court To Strike Down Hurdles In Long-Distance Arena

SBC Communications Inc. challenged the constitutionality of a key part of last year's sweeping telecommunications law, contending it unfairly hinders efforts by the six Bell companies to enter the lucrative long-distance telephone business.

In a lawsuit filed in federal court in Wichita Falls, Texas, the company argued that the law makes it harder for the Bells to begin offering long-distance service than it does for GTE Corp. and other independent local-service providers. "This is discrimination, pure and simple," said William Dreyer, SBC's executive vice president for external affairs.

The suit comes on the heels of last week's decision by the Federal Communi-

*By Wall Street Journal staff reporters Bryan Gruley in Washington and John J. Keller and Leslie Cauley in New York.*

cations Commission to reject SBC's bid to offer long-distance service to its Oklahoma customers. The ruling "was the last straw," said Edward Whitacre, chairman and chief executive officer of the San

### Path to Long Distance

What the Baby Bells must offer to retain their markets before they can enter the long distance business.

- Ability to connect to local railroads at a reasonable cost
- Access to telephone poles, conduits and rights-of-way owned by the Bells
- Access to emergency phone services
- Use of white pages directories
- Ability of customers to switch carriers without changing their phone numbers

Source: Communications Law, 1987

Antonio, Texas, company. "We've done everything that can possibly be done to comply" with the new law, Mr. Whitacre said in an interview. "The FCC is playing games with us."

The regional Bell operating companies had been barred from offering long-distance service in their areas since the 1984 breakup of Ma Bell. But last year's telecom law scrapped the ban for carriers that show they have opened their local markets to competition. The provision applies only to SBC, the other Bells and their operating units. The FCC, with the advice of the

Justice Department, decides whether the Bells have succeeded.

Independent local carriers such as GTE are free to enter the long-distance business and have been grabbing market share from AT&T Corp. and MCI Communications Corp., even as those long-distance giants have struggled to make inroads in the local phone business. GTE has pushed aggressively into the long-distance market in the past year and has an ambitious plan to invade SBC territories adjacent to GTE's customers.

SBC asked the court to strike down the long-distance hurdles and let the Bells immediately sell long-distance service in their own regions. The company, which has hired renowned constitutional lawyer Laurence Tribe to argue its case, stressed that it isn't challenging separate portions of the law that require the Bells to open their markets to new rivals.

SBC's lawsuit is yet more evidence that Congress's attempt to open the nation's telecom markets to competition is thus far a failure. Instead of invading one another's phone, video and other communications markets, potential rivals have squared off in scores of lawsuits filed in state and federal courts across the country.

The Justice Department, which declined to comment on SBC's move, would defend the law against the company's challenge, with the help of the FCC. William Kennard, the FCC's general counsel

*Please Turn to Page 46, Column 4*

# SBC Files Challenge Against Telecom Law In Federal Lawsuit

*Continued From Page A3*

and a nominee to fill a vacant seat on the commission, said, "We are confident that Congress acted within the bounds of the Constitution in passing the telecommunications act, and we will vigorously defend the law."

Some saw the lawsuit as another effort by the Bell to quash local phone competition. "What an activist, greedy monolith they are," said Timothy Price, president of MCI, based in Washington, D.C. Referring to SBC's chairman, he said: "It's classic Whitacre: 'Read my lips - no competition.'" Mr. Price said SBC "would be better off spending its millions to improve service to its customers than to mount legal challenges to protect its monopoly."

GTE chief counsel William Barr said he sympathizes with SBC's reservations about the telecom law, but he noted that GTE, based in Stamford, Conn., doesn't have any restrictions on its business because it hasn't ever been sued by the federal government for anticompetitive conduct, as the Bells and AT&T were in the early 1980s. "We were never a part of the AT&T Bell monopoly," Mr. Barr said. "There was no past conduct proven of monopolistic practices, nor does GTE dominate any region."

AT&T, based in New York, said it hadn't seen the lawsuit. But a spokeswoman said local telephone companies "seem to be putting more energy into avoiding the intent of the telecom act than into meeting their responsibilities under the law."

### 'Split' of the Law

The challenge is curious because SBC and the other Bells lobbied aggressively for the very provisions being challenged by SBC. "Seventeen months after the telecom act was passed . . . they finally get around to reading it," MCI's Mr. Price said.

James Ellis, SBC's general counsel, said the company "from the beginning" questioned the constitutionality of the long-distance provision but supported the measure anyway in the belief that the FCC would follow the "split" of the law in deciding when to allow the Bells into the long-distance business.

The lawsuit also follows the end of merger talks between SBC and AT&T last week. Federal regulators had indicated a deal would meet fierce opposition. And this week, Mr. Whitacre publicly blasted the FCC, saying regulators had "trouble seeing the picture in Oklahoma from their desks in Washington."

SBC also feels the FCC offered little guidance as to how the company might win the FCC's blessing in the next go-round. "We need to know what the rules are," Mr. Whitacre said yesterday, "because they're adding something to it we don't see in print."

FCC officials have said SBC's application was woefully lacking; for example, the company cited as evidence of competition four residential customers of Brooks Fiber Properties Inc. — all four of whom are Brooks employees taking service on an experimental basis. Commissioner Susan Ness said yesterday that SBC's lawsuit looks like an effort "to enable it to offer long-distance service without first opening its local markets to competition."

### First Amendment Rights

The lawsuit contends the long-distance provisions infringe on the company's First Amendment right to free speech. They also violate the Constitution's equal-protection and separation-of-powers clauses, as well as the prohibition against singling out individuals for punishment, the company contends.

The SBC challenge could easily take more than a year to wend through the federal court system. Meantime, other Bell companies are studying the challenge: Atlanta-based BellSouth Corp., which also has hired Mr. Tribe, agrees that the long-distance provisions "are seriously flawed," said Walter Alford, BellSouth's general counsel. But the company is unlikely to join the challenge until after it has filed at least one long-distance application, Mr. Alford said. "Obviously if we're treated reasonably by the FCC, this whole challenge will be moot," he said.

The SBC lawsuit is the second to challenge the constitutionality of part of the telecom law. Last week, the Supreme Court struck down a portion of the law designed to keep smut off the Internet.



David Hendricks

## SBC is not winning hearts

If I were a gambler, I'd bet this aggressive lawsuit by SBC Communications against the U.S. government, the Federal Communications Commission and the unfair universe in general is just a fit of anger.

And it will blow over before too long, because the lawsuit just won't lead to anything. It may sell some newspapers in Wichita Falls, which hasn't had a local story this exciting since several UFOs were spotted near Henrietta some months back.

But the SBC lawsuit filed in that quiet North Texas city won't have much more effect, even if SBC rides it all the way to the U.S. Supreme Court.

I don't mean to make SBC look like a little child. It's a serious, vital business, and SBC is run by some of the smartest people in the world.

But look. SBC Communications this year got a taste of its true power, size and clout when it pulled off a stunning merger with another Baby Bell, the Pacific Telesis Group.

That wasn't possible except for the atmosphere of industry reform created by the passage in February 1996 of the Telecommunications Act.

Then, AT&T lured SBC into merger talks where, my goodness, SBC executives reportedly actually discussed plans that would have them step into the top positions after the largest merger ever in the history of the world, a merger with SBC's once-hated parent company.

Oh, the visions must have been stratospheric over at Houston and St. Mary's streets.

But word of those talks broke a dam of concern over competitiveness and put SBC into a strong, negative light. The talks fizzled and are off, for now, with the companies blaming the government for too many restrictions.

Then the FCC turned down SBC's application for long-distance service in Oklahoma. So much for stratospheric visions.

SBC Chairman Ed Whitacre said Monday, "There is nothing in the Telecom Act that demands a certain level of competition, only that the market is certifiably open."

OK: The market is open in theory. But in practical terms, it hasn't materialized, just as it hasn't throughout much of SBC's local-service market.

So the FCC turned SBC down. And that was in the public's best interest. One doesn't have to look past SBC's legal roadblocks to ICG Corp.'s plan to add local telephone service in San Antonio to understand how insincere SBC is about local-service competition.

The Telecommunications Act was enacted only 17 months ago. In a capital-intensive industry, that isn't enough for widespread competition to occur.

But SBC is in a hurry. It has had its feelings hurt and is going to sic its lawyers on the U.S. government.

The public, which SBC likes to say it serves, isn't going to appreciate paying taxes for U.S. government lawyers to answer SBC's three-piece-suit lead lawyer from Harvard Law School in that small, plain courtroom in Wichita Falls.

If SBC does take the case all the way to the Supreme Court and wins, which is doubtful, its customers may be all that more anxious to switch to a SBC competitor whenever that becomes possible.

# The San Diego Union-Tribune.

A Copley Newspaper

SATURDAY, JANUARY 3, 1998

## Bad Baby Bells

*Court ruling favors regional monopolies*

A federal judge in Wichita Falls, Texas, has decided he knows better than both the Congress and the president how long-distance and local phone service should be regulated.

On New Year's Eve, Judge Joe Kendall struck down certain sections of the 1996 Telecommunications Act because, to his mind, they unconstitutionally restricted the regional Bell companies from competing in the \$80 billion long-distance market. Kendall's ruling came in a lawsuit filed by SBC Communications, one of the five so-called Baby Bells, which continue to enjoy regional monopolies on local phone service throughout the country.

SBC is the parent company of Pacific Bell, which serves California; Southwestern Bell, serving Arkansas, Kansas, Missouri, Oklahoma and Texas; and Nevada Bell. Its chairman and CEO, Edward Whiteacre Jr., says the company first plans to offer long-distance service in Oklahoma before moving on to other states.

But SBC has acted in bad faith. The company actually helped write the two-year-old telecommunications law, along with the other four Baby Bells (U.S. West, Ameritech, Bell Atlantic and Bell South) and the three major long-distance carriers (AT&T, MCI and Sprint), and not once did it argue that any provision of the law was unconstitutional.

Indeed, SBC agreed, along with the

other regional Bell companies, that they would be allowed to enter the long-distance market only after opening up their local phone markets to competition. But the local phone market in San Diego and most other metropolitan areas throughout the country continue to be monopolized by SBC and the other regional Bells. And the Federal Communications Commission has yet to approve applications by SBC or any other Baby Bell company to start offering long-distance service.

SBC's lawsuit, later joined by U.S. West, contended that it was being unfairly restricted from the long-distance market, despite the fact that its local phone markets remained uncompetitive. And Judge Kendall bought the phone company's line, declaring that the telecommunications law presumed the Baby Bells guilty of anti-competitive behavior without benefit of a trial.

But a federal appeals court almost certainly will see things differently. It will recognize, as both Congress and the White House did, that, because the Baby Bells enjoy a virtual monopoly of the \$100 billion local phone market, they will be able to use their monopoly profits to gain a decided advantage in the long-distance market.

This would, of course, be a boon to SBC and the other regional Bell companies. But it would be unfair to the more than 100 long-distance carriers, who enjoy no monopoly. And it would ultimately hurt consumers.

# Laurence Tribe and the Crybaby Bells

By ROBERT H. BORK

In July, Prof. Laurence Tribe of Harvard Law School filed a remarkable lawsuit in Wichita Falls, Texas, on behalf of SBC Communications, SBC, one of the Bell operating companies created in the breakup of AT&T, is one of the largest monopoly providers of local telephone service in the U.S. SBC's suit challenges the provisions of the 1996 Telecommunications Act that—although granting SBC substantial relief from an earlier antitrust consent decree—continued the fundamental requirement that the Bell companies open their local markets to competition before they can provide long-distance service in their own regions.

This suit, which Prof. Tribe defended on this page recently, is not merely frivolous but unique. The act that SBC complains "targets" it and the other Bell companies for uniquely onerous "punishment" is the same act that SBC lobbied for a decade to obtain and whose passage it vigorously and publicly applauded only a year ago.

The 1984 consent decree that settled the government's antitrust suit required AT&T to divest the Bell companies, and barred the Bell companies from providing long-distance service or manufacturing telecommunications equipment. The prohibition was to last as long as the Bell com-

panies retained their local monopolies. The Bell companies repeatedly went to federal court seeking to gut those restrictions so they could enter the long-distance market with their local monopolies intact; they were rebuffed every time. So the Bell companies lobbied incessantly for legislation to transfer to the FCC the authority to decide whether and when they should be permitted to enter the long-distance market, arguing that Congress and the FCC—and not an unelected federal judge, should set national telecommunications policy.

The result was the 1996 Telecommunications Act. Like the consent decree, it links Bell company entry into long-distance to the elimination of their local monopolies, but allows immediate entry into long-distance outside the Bells' local monopoly regions. The act gives the FCC, not the federal courts, the authority to decide when the necessary conditions have been met in each state within a Bell company's region.

After lobbying for the act, SBC became the first Bell company to submit an application to the FCC for authority to provide long-distance service, in Oklahoma. At the time it filed that application, SBC's Oklahoma monopoly was as strong as ever. It still controlled (and controls today) more than 99% of its market there, and numer-

ous would-be competitors testified that SBC had failed to comply with the market-opening measures required by the act. The FCC denied SBC's application for failure to meet the act's most basic requirements.

Six days after that denial, SBC filed this suit and claimed, for the first time, that the act had long sought had actually been unconstitutional all along. Mr. Tribe argues that the FCC should have deferred to the views of the Oklahoma Corporation Commission. Despite voluminous contrary evidence, that state agency had recommended that SBC should be granted long-distance authority.

The title of Prof. Tribe's piece—"The FCC vs. the Constitution"—implies that the FCC is the villain. But the FCC was merely doing its duty under the act. The theory of SBC's lawsuit is an attack not on the FCC but on the Congress that enacted the statute, which SBC now alleges is unconstitutional.

And that attack is truly without legal foundation. Only twice this century has the Supreme Court invalidated an act of Congress as a bill of attainder (a law that pronounces someone guilty without a trial). In both cases, the court emphasized that a statute can be a bill of attainder only if it imposes punishment. SBC assuredly was not punished when Congress eased the

long-distance restriction that the consent decree already had put in effect, while granting SBC's wish that jurisdiction over the remainder of the restriction be shifted to the FCC.

SBC's claim under the equal-protection clause of the 14th Amendment is likewise without substance. SBC claims that the act may not continue the restrictions on the long-distance activities of the Bell companies while not covering other local exchange carriers like GTE, which also control local telephone monopolies. But courts and regulatory agencies for decades have treated GTE differently from the Bell companies, on the ground that its operations are more geographically dispersed and more rural than the Bells' and that GTE therefore poses a less severe threat to long-distance competition. Some might reasonably quarrel with that conclusion, but it was certainly not irrational—and thus not unconstitutional—for Congress to have drawn the line where it did.

In the unlikely event that its lawsuit should succeed, SBC would regret the outcome. For if SBC could somehow establish that the long-distance provisions of the act are unconstitutional, the necessary consequence would be reinstatement of the court's order, which contained more severe restrictions. Congress would not have enacted legislation to supersede the decree, and the district court would not have vacated the decree, had either thought that the statute's provisions that were designed to replace the decree were beyond Congress's power to enact. The provisions of the act about which SBC now complains are therefore not severable from the provision prospectively nullifying the consent decree, and they will stand or fall together.

If SBC is returned to the jurisdiction of the federal court, will SBC be grateful to Mr. Tribe for sparing it the "punishment" inflicted by Congress? Not likely.

*Mr. Bork, a scholar at the American Enterprise Institute, has filed affidavits on behalf of AT&T.*

# TEXAS CULTURE

**"I don't know why people would think poorly of us. We're not bad people; we're just regular people."**

*Ed Mueller, 29-year SBC veteran now running Pac Bell.  
Quoted in Contra Costa Times, 12/8/97*

The attached clips speak for themselves.

SBC's history is to ride roughshod over local executives and impose a Texas approach to running the business. That means more lawsuits, more lobbyists, aggressive sales and marketing, job loss for local workers, rate increases for consumers, and poorer service.

Here's how one Pac Bell officer summed up the California experience with SBC:

"PacTel is gone. 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."

**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  
Durham Times staff writers

**O**n 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 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

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 network.

# THE LOBBYING TIGER

## PACIFIC BELL'S NEW LEGISLATIVE TACTICS EMULATE TOUGH TEXAS PARENT COMPANY

By WENDY TANAKA  
OF THE EXAMINER STAFF

**I**N THE QUICKLY evolving telecommunications landscape, Pacific Bell is betting that the fastest road to success leads through the state Capitol. From doubling its number of lobbyists to pushing for state deregulation, Pac Bell is shedding its slow-paced utility image and emulating its aggressive, Texas-based parent company.

This past fall, San Francisco-based Pac Bell — which controls 75 percent of the California market — vigorously lobbied the California Legislature to allow utilities to challenge state Public Utilities Commission decisions.

Now it is widely expected by analysts that Pac Bell will introduce a bill in Sacramento — possibly by late February — that could vault the phone company into the nation's \$80 billion-a-year long-distance industry.

Industry experts contend that Pac Bell's new parent company, SBC Communications Inc., which took control in April, appears to be turning California's largest phone company into a lobbying tiger.

"SBC is incredibly aggressive on issues of regulation," said Mark Langner, a telecommunications analyst with Hambrecht & Quist in San Francisco. "They have more lobbyists per employee than any other (Bell company)."

Lenny Goldberg, lobbyist for The Utility Reform Network, the San

Francisco-based watchdog group, concurred, saying: "SBC is going to go after you on every level. Pacific was aggressive, but my impression is SBC is much more high profile."

Indeed, in 1995, the San Antonio, Tex.-based parent of Southwestern Bell, helped draft a law that froze phone rates in Texas and effectively prohibited the big long-distance companies, AT&T, Sprint and MCI, from offering local phone service until SBC gained the right to provide long-distance service in the state, according to a Texas PUC official.

In Oklahoma, state regulators granted SBC's request to reinvest \$30 million in tax savings rather than refund it to consumers. Industry experts say SBC has found that legislation is the fastest way to secure market dominance.

"They've focused a lot on the legislative process because if you can get something enacted in state laws, you don't have to worry about (regulatory) commissioners' interpretations," said John Laakso, acting executive director of the Public Utility Commission of Texas.

"If you've got a clear statute, you're pretty well covered," he added.

Recent SBC developments:

In April 1996, SBC became a major player in the telecommunications industry by announcing it would acquire Pac Bell's parent, Pacific Telesis Group, for \$17 billion.

In July 1997, SBC sued the Federal Communica-

[See LOBBY, B-4]



◆ LOBBY from B-1

## The lobbying tiger

tions Commission, alleging the 1996 Telecommunications Act — which deregulated the industry — was unconstitutional. SBC argued that the act prohibited the company from offering long-distance service when no such restrictions applied to phone companies outside the Bell system, such as GTE Corp. On New Year's Eve, a federal judge in Texas ruled in favor of SBC. That decision has been appealed by the FCC.

And in January, SBC agreed to buy New Haven, Conn.-based Southern New England Telecommunications Corp. (SNET), for \$4.4 billion.

According to the Telecom Act, SBC is allowed to offer long-distance service only in territories outside its current seven-state region: Texas, Oklahoma, Missouri, Kansas, Arkansas, California and Nevada.

Pretty heady stuff for a phone company that analysts called the runt of the litter in 1984 when "Ma Bell" AT&T spun off seven Baby Bells.

In 14 years, SBC has become the most robust offspring of the bunch. In 1996, the company posted earnings of \$3.3 billion on revenue of \$23.5 billion.

Since then, Pac Bell has doubled its number of in-house registered lobbyists and outside lobby-

ing firms to four each in California, according to filings with the secretary of state. SBC has 89 registered lobbyists in the Lone Star state, according to the Texas Ethics Commission.

Pac Bell has also more than doubled the size of its external affairs workforce, from 30 to 73. Those workers, said Pac Bell spokesman John Britton, represent the company at city council meetings and do outreach to community and neighborhood organizations.

In the fall, Pac Bell lobbied the Legislature to pass a bill that allows utilities to appeal all PUC decisions to a state appellate court. Currently, companies in California can challenge PUC policy decisions only in the state Supreme Court.

Appealing PUC decisions in lower courts is "simply a right that most states allow," said Jim Callaway, president of external affairs for the company.

Part of that lobbying effort included a letter-writing campaign. In August, Pac Bell mailed to its 45,000 employees and countless retirees a form letter in support of the bill and a list of legislators that it could be sent to, along with a stamped reply card that the company asked employees to return.

"Because we're sure you'd like to express your concern in your own words, we've left room for you to add a personalized P.S. telling your legislators how important this issue is to hardworking people like you. . . simply sign each letter, stamp the envelopes and drop

## SBC COMMUNICATIONS INC.

### The company at a glance



- ▶ HEADQUARTERS: San Antonio, Texas
- ▶ CORE BUSINESS: Local telephone service
- ▶ NUMBER OF PHONE LINES: About 32 million
- ▶ CHIEF EXECUTIVE: Edward E. Whitacre Jr.
- ▶ 1996 REVENUE: \$23.5 billion\*
- ▶ 1996 NET INCOME: \$3.3 billion\*
- ▶ NUMBER OF EMPLOYEES: 116,000\*
- ▶ MAJOR SUBSIDIARIES: Southwestern Bell, Pacific Bell, Nevada Bell and Cellular One
- ▶ SERVICE AREA: Texas, Oklahoma, Missouri, Kansas, Arkansas, California and Nevada

### Recent major developments:

- ▶ Acquired Pacific Bell's parent, Pacific Telesis Group, for \$17 billion in April 1997. The merger was the first between two Baby Bells.
- ▶ Called off merger talks with former parent AT&T Corp., the world's No. 1 long-distance company, in June 1997.
- ▶ Agreed to acquire New Haven, Conn.-based Southern New England Telecommunications Corp. for \$4.4 billion in January 1998.

\* Includes Pacific Telesis figures.

EXAMINER GRAPHICS

them in the mail. After mailing the letters, please return the postage-paid reply card to us, so we will know exactly which legislators have been contacted," reads the letter, a copy of which was obtained by The Examiner.

Nance Steffen, assistant state labor commissioner, said the letter — particularly the use of a reply card — may violate employees' rights under the state labor code.

"There's some kind of implied threat" in enclosing a postage-paid reply card, Steffen said. "It's a sub-

tle attempt to coerce employees to take a particular line of action. (Pac Bell) is going to know if you didn't do this, if you didn't return the card."

### No complaints filed

According to the labor commissioner's office, only formal complaints against employers are investigated. None have been filed against Pac Bell.

Upon reviewing similar letters that Pac Bell provided to The Examiner, Steffen said it appeared



the company had previously included reply cards in its mailings. She said her office is drafting a letter to Pac Bell explaining the labor codes and how the company can better comply with them.

"Based on what we have been provided, there is a problem, and they need to correct it," she said.

Callaway said he was not aware that the letter could have crossed any legal lines.

"That had never popped up as a potential concern or problem," he said. "There was no intent to coerce. It was clearly a letter we were using to inform our employees and for them to get involved if they chose to."

A former Pac Bell manager who spoke on condition of anonymity said he felt the letter had a more strident tone than those sent to employees in the past.

"It's not the first time we received a letter from the company urging us (to support legislation)," he said. "But it was cranked up a notch or two."

In the end, this campaign proved effective. Last September, the Legislature approved the bill, but Gov. Wilson vetoed it in October, saying it would delay competition.

Sen. Jim Brulte, R-Rancho Cucamonga, who said he'd been lobbied by Pac Bell over the issue, was not pleased by what he saw as the company's new lobbying tactics under SBC.

"They came in last year and tried to flex their muscles," said Brulte, who is vice chair of the state Senate's Energy, Utility and Communications Committee. He voted against the bill.

"There was probably incredible pressure from Texas," he added. "There was a franticness that I hadn't seen before from PacTel."

On the other hand, Assemblywoman Diane Martinez, D-Alhambra, who said she has been at odds with Pac Bell for years because of her "pro-consumer" stance, complimented the company's new lobbying efforts.

"They seem a lot friendlier than they used to be, and there's a lot more of them," said Martinez, a former Pac Bell employee who is chair of the state Assembly Utilities and Commerce Committee.

"I think SBC is much more focused than Pacific," she said.

Ironically, Pac Bell did not support the bill before SBC took over. Callaway said it was "just a different set of circumstances" that led Pac Bell to change its position.

When asked if the bill was a way for SBC to test the political waters in the state, Callaway said, "We are new to California. If you look back on last fall, it does give us a better feel for the political climate."

#### Consumers concerned

Consumer advocates say they fear Pac Bell will soon introduce a bill to the California Legislature that would deregulate the state's telecommunications industry, preempting the long-distance restrictions in the Telecom Act.

"What we think they're going to do is push a deregulatory agenda while they still have a monopoly position," said TURN's Goldberg. He said allowing companies to get into the long-distance market before there's sufficient competition in the local exchange could mean higher rates and poor service for consumers.

"You'll have the worst of both worlds with a deregulated monopoly. They'll set the rates they want and the service levels they want," Goldberg said.

Industry figures show that about \$8 billion, or 10 percent, of the nation's entire long-distance phone sales are generated in California.

Pac Bell's Callaway would not discuss any bills the company was working on.

"We're evaluating possibilities," he said. "I'm certainly not going to talk about it."

Pac Bell has said repeatedly that its local phone market has been eroded by competitors since the market opened in 1996.

But Assemblywoman Martinez said meaningful competition in the local phone market has not yet occurred.

"The promise of deregulation was competition," she said. "The promise of competition was that prices would drop, but we don't have competition; we only have deregulation."

Hambrecht & Quist analyst Langner said the Baby Bells have already introduced deregulation bills in various states — or are planning to do so — in order to protect their monopolies.

"They want to get deregulated before competition arrives," Langner said.

At the same time, he said, they are eager to offer long-distance service, which is the cash cow of the wired phone industry.

Although Langner said SBC has the strongest lobbying strategy among the Baby Bells, he wasn't convinced the company can continue to fight battles primarily on the political front.

"SBC is going to have to redirect its energy," he said. "Over the long run, companies that develop competitive strategies are going to do better. Lobbyists don't do anything in a competitive environment. It's the products, marketing, services, quality and brand name that determines winners and losers."

# California and Texas cultures collide at Pacific Telesis

Continued from page 1

is California's local phone company a much different place to work.

As soon as the companies announced their intention to merge under the SBC name in 1996, rumors were rampant that Texas cowboys with starched white shirts and steel-grip handshakes would ride in to whip the warm and fuzzy Californians into shape:

"We initially had many stereotypes about this Texas company that go back to Western cowboy industry culture," said a Pacific Bell executive who asked not to be named.

Fear of a clash of two dominant and distinct cultures rippled through the ranks. Some fears proved to be unfounded, while others, current and former employees said, have rung true. Inarguably, PacTel's new bosses have a different way of doing things.

## Less talk, more action

The PacTel of old prided itself on its communication with rank-and-file employees. It wasn't unusual for managers to come out of executive meetings and send detailed minutes to their subordinates, alerting them about the discussions and decisions that transpired. But even those who look back fondly on the old days remember that it could be a bit overwhelming.

"PacTel had a culture that was gentle, considerate, caring, conciliatory, consensus-driven and communication-rich," a current executive said. "I felt really plugged in, but then I became inundated with voice mails and e-mails. It was a slower decision-making process."



Phil Quigley

The new regime brought a sense of urgency — a drive to get things done, said current and former executives. While there is time for "hearty debate," it is limited. And executives who miss it are out of luck.

The change of style came immediately, said another former executive. At the same time, longtime California officers were rapidly replaced by unfamiliar SBC veterans. PacTel holdovers were caught off balance. No one knew where to turn with a problem.

"If I had concerns about decisions in the organizational structure ... there was no one who I trusted that I could turn to," said one former executive.

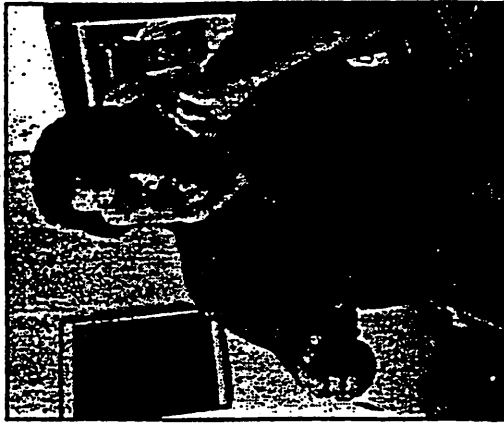
But the old style was not without flaws. Noted the executive: "PacBell used to nurture whining and sniveling among employees."

Marty Kaplan, executive vice president for the merger transition team and 38-year company veteran, contrasted SBC's top-down management style to PacBell's consensus-driven philosophy. Moreover, he said, while PacBell concentrated on cost-cutting to assuage Wall Street, SBC focuses on boosting sales.

Geography also played a role, Kaplan added. PacTel projected the progressive California climate; SBC mirrors the more conservative Texas.

## Politically incorrect?

Opinions inside and outside the com-



ROBERTA BARNES

SBC's burn-under-the-saddle Luis Wilmot.

pany differ about how far SBC will go to give its California subsidiary a Texas twang.

Pacific Telesis strove to be a model of cultural diversity. Some current and former executives contend this is not a top priority at SBC.

"All the stuff we tried to work so hard for — understanding that people aren't the same and appreciating their differences, SBC calls them brain-washing sessions," said one former vice president.

Nevertheless, SBC has not ignored powerful employee groups, including gays, women and minorities.

In California, SBC introduced domestic partner benefits for gay and lesbian employees shortly after the acquisition, although the company does not offer such benefits in the other five states where it operates. To do business with San Francisco and keep its \$7.7 million contract with the city/county, it has to offer domestic partner benefits.

Both SBC and PacBell had a gay and lesbian employee association, and the two have since combined. Current employees say SBC contributes to a variety of gay and lesbian-related causes, and sexual orientation is included under the company's nondiscrimination policy, a company spokesman said.

SBC trumpets its inclusion of women and minorities in its management ranks. Of the 70 officers at SBC, about 16 are women and 10 are minority members, according to Cassandra Carr, executive vice president of human resources, based in San Antonio. Prior to the merger, PacTel had four women among its 35 officers and four male minority members.

Three of PacBell's four woman officers left after the merger. Only Diana Whitehead, the company's chief information officer, remains.

## Men in suits, ties

Dressed-down PacBellers chafed at the prospect of buying new wardrobes after hearing rumors about SBC's but-ton-down look.

At PacBell, executives including CEO Philip Quigley often donned sweaters and casual slacks for work. Lee Jobs, formerly vice president of business operations at Pacific Bell, now chief operating officer at Connecticut's Citizen Communications, figures he wore a tie once every two weeks.

"This was a very casual company, but it changed," Jobs said. "It wasn't

an edict, but when I went to St. Louis and met with their people, I just assumed what was expected by seeing the way people were dressed."

Said a current executive, "Jokes around the office were, 'You'd better get big hair and red nails.' Employees were asking, 'What is business casual in Texas — floral dresses and pearls?'"

While many women say the stereotypes were unfounded, one former senior executive said she was given friendly advice to wear a "skirt suit" instead of pants to an upcoming function in Texas.

"I was professionally dressed in a \$1,000 designer wool pantsuit, with antique jewelry and a silk scarf," said the former high-ranking official. "I felt like we stepped back 20 years."

PacBell executives say no official or implied dress code has been imposed.

"The rumors about women not being allowed to wear pants are unfounded," said company spokesman John Dritton. "Employees dress according to what is appropriate."

#### Gifts with strides

SBC has taken strides to support women's causes on a national level.

The company most recently contributed \$10 million to the Women's Museum: An Institute for the Future, the first national museum dedicated solely to the accomplishments and contributions of women.

First Lady Hillary Rodham Clinton was present at the March 18 grand opening in Dallas of the \$25 million project. SBC's contribution marked the largest-ever corporate gift for women's causes.

"Our gift is a way to honor the women of the past and to pave the way for generations to come," said SBC's chief executive, Edward Whitacre, at the opening ceremonies.

Whitacre is among the supporters of President Bill Clinton who has found favor with the White House — and earned lodging in the famed Lincoln bedroom

SBC acknowledges having a strong lobbying arm and is also continuing to PacBell's tradition of contributing to the community and philanthropic organizations. A Texas office of external affairs decides who gets PacBell donations and while there is more red tape, SBC's corporate office believes it is a better way to keep track of the tax write-offs that accompany such contributions, company sources said.

#### Have suitcase, will travel

Employees at the California company were deeply rooted. And with appealing pensions and retirement packages, they expected to remain with the company in the Bay Area for a long time.

"The SBC lifestyle, by contrast, is one of mobility. Executives achieved their high-ranking positions by doing stints at locations throughout the SBC empire.

Ed Mueller, 30-year veteran, made his way to California as president and chief executive of Pacific Bell after stints in Missouri and Texas. Joyce Taylor, regional president for the Bay Area, leapt from Washington, D.C., to San Antonio before landing in San Francisco.

Insiders say it is not uncommon for executives to make five career relocations over the course of a 20-year stint. With all these moves, the SBC culture is tough on two-career families, and there are fewer career couples in SBC than in PacTel, according to a former PacBell executive.

Conversely, PacBell executives were accommodated and seldom left the Bay Area, although the company's operations stretched throughout the state and into Nevada. When the compa-



Ed Whitacre

nies merged, this culture clash spurred many PacBell employees to bail out because there was only one place they wanted to work: the Bay Area.

#### Show me the profits

As head of the merger team, Kaplan acknowledges the challenges and hurdles for the integration of the companies and their diverse corporate cultures.

Now, based in San Antonio, Kaplan and his team of 10 on the merger transition force are charged with accomplishing a set of goals by 2000. They include slicing duplicate departments and renegotiating contracts to benefit from the company's increased size; choosing the most efficient business practices from the Texas and California operations; and boosting revenue.

Kaplan's goal is to fully integrate the companies and deliver an additional \$1 billion in net income by the millennium, he said. About two-thirds of the work is done, and the results should begin to be visible this year.

After nearly four decades at PacTel, Kaplan wants to make sure the cultural changes pay off in dollars and cents.

"1998 is the year we have to demonstrate to the investment community that we did the right thing," Kaplan said. "1998 is the year of 'show me the money.'"

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

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

The museum contribution is in keeping with PacBell's legendary generosity, observers say. But it is not without strings.

"(SBC) is a very charitable company, but it's one of the ways they have won the hearts and minds of Texas," said Louis Wilmot, executive director for Partnership for a Competitive Texas, a consumer group that has fought rate hikes and new services in Texas. SBC almost always wins.

"They have given to the arts, to civil rights groups and other social organizations in Texas and they will give a lot in California," Wilmot said. "Then they get these groups to put pressure on the legislators who are on the right committees. They are charitable and generous for a reason."