

2-3-1984

Telephone Divestiture: identifying Consumer Concerns

Senate Committee on Energy and Public Utilities

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SUBJECT HEARING
CALIFORNIA LEGISLATURE
SENATE COMMITTEE ON ENERGY AND PUBLIC UTILITIES

TELEPHONE DIVESTITURE:
IDENTIFYING CONSUMER CONCERNS



MUSEUM OF SCIENCE AND INDUSTRY
HALL OF ECONOMICS AND SCIENCE, SEMINAR ROOM
700 STATE DRIVE
LOS ANGELES, CALIFORNIA

FRIDAY, FEBRUARY 3, 1984
9:30 A.M.

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PUBLIC HEARING
CALIFORNIA LEGISLATURE
SENATE COMMITTEE ON
ENERGY AND PUBLIC UTILITIES

In the matter of:)
TELEPHONE DIVESTITURE: IDENTIFYING)
CONSUMER CONCERNS.)
_____)

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HALL OF ECONOMICS AND SCIENCE, SEMINAR ROOM
700 STATE DRIVE
LOS ANGELES, CALIFORNIA

FRIDAY, FEBRUARY 3, 1984

9:40 A.M.

ORIGINAL

EMILY L. JONES
Shorthand Reporter

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GOLDEN GATE UNIVERSITY

MEMBERS PRESENT

SENATE COMMITTEE ON ENERGY AND PUBLIC UTILITIES

Chairman Herschel Rosenthal

Paul Fadelli, Associate Consultant

Patricia Stearns, Committee Secretary

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P R O C E E D I N G S

--oOo--

CHAIRMAN ROSENTHAL: Good morning. I want to welcome everyone here today to the first hearing that the State Legislature will hold on telephone issues since the federal regulatory and court decision set the nation on a new course of communications. After one month, it's probably a little bit early to determine the full ramifications of this breakup, but as Chairman of the Senate Committee with jurisdiction over telephone issues, I believe it certainly is not too soon to explore what problems may be developing that could hinder the relationship between Californians and their telephones.

Before I call the first set of witnesses, I want to say what I hope this hearing will not be. We're not here to discuss the ramifications of the future broad telecommunications policy or the merits or demerits of telephone divestiture and deregulation. Those are topics for another place and time. We are here to see how the average consumer is adjusting to the transition into a new telephone system and how the phone companies and the State are helping to ease that adjustment.

Judge Harold Greene, who oversaw the AT&T Divestiture case, once said, "The whole basis of antitrust law is that competition will drive prices down and will ultimately benefit the consumer. Nobody has given any good reason why that shouldn't be true, in the telephone industry at least for the future."

We are here today to see if it can be true with the telephone industry, to see if economic theory measures up to

1 the most important test: consumer satisfaction.

2 We have a variety of witnesses today who may be able
3 to shed some light on these concerns. We have representatives
4 from State agencies, consumer groups and industry; and
5 hopefully I'll be able to have some actual telephone consumers
6 from the audience question industry representatives about some
7 points we may have missed in the hearing.

8 As I usually like to do in hearings, instead of
9 calling up one person at a time and then you hear a lot of
10 duplication, I prefer panel situations in which there's not
11 only some presentation, but perhaps some cross-fertilization.

12 Panel I, Department of Consumer Affairs, Tom Cecil,
13 Chief of the Division of Consumer Affairs; and from the Public
14 Utilities Commission, Mike Doyle, Assistant Commission
15 Representative, PUC Los Angeles office. You may begin.

16 MR. DOYLE: Tom asked me to lead off.

17 CHAIRMAN ROSENTHAL: Fine.

18 MR. DOYLE: We'd like to thank Senator Rosenthal
19 and the Members of the Committee for the opportunity to share
20 the information that we have with you, and hopefully we'll
21 leave this auditorium with some information that may prove
22 useful to us in the regulatory work that we do.

23 I'm Mike Doyle, and I do represent the California
24 Public Utilities Commission in Southern California. We have
25 an office at 107 South Broadway, a regional office, with
26 perhaps maybe a half a dozen satellite-type offices throughout
27 the Southern California area. We have offices in places --
28 world communications such as El Centro. We have Downey,

1 El Monte -- several other places in Southern California.

2 Normally the Commission in its dealings with the
3 consumers uses the California Public Utilities Commission
4 Consumer Affairs branch as a gage, as a finger on the pulse of
5 the public, if you will, to find out how the public is
6 reacting to actions on the federal level and the State
7 level as well.

8 Oddly enough, the California PUC Consumer Affairs
9 branch has not experienced any dramatic increase in any
10 consumer inquiries at all on communications, and I attribute
11 this to the fact that there's been such a plethora of informa-
12 tion going around that the consumers are actually suffering
13 from an acute case of information indigestion. They just
14 frankly have too much -- are too afraid, if you will, to even
15 contact the PUC on inquiries as to how the divestiture or
16 telephone communications will be handled in the future.

17 My job is to go out to the communities -- and I want
18 to emphasize something here. I represent the people of
19 Southern California to the Commissions in San Francisco as well,
20 because we are headquartered in San Francisco. My job is to go
21 out to the communities, and I go out to the communities, such as
22 Needles and Barstow and Poway and Borrego Springs. So, my
23 job is to make sure the Commission's aware of what the concerns
24 of the people are.

25 And basically, I gave a speech last week, or the week
26 before, in Redlands, out by the San Bernardino area, and it
27 seems to me that the small business community is more concerned
28 at this juncture with what the divestiture will bring and how

1 it will impact them. They were very concerned in several areas
2 that I spoke on relative to the access charges, both of the
3 federal access charges that have been, as you know, postponed
4 to some time in 1985.

5 They're also concerned of the possibility of an
6 intrastate access charge which would have been assessed by the
7 California Public Utilities Commission. The California Public
8 Utilities Commission elected not to levy any access charge of
9 intrastate telecommunications. So, they're very pleased with
10 that.

11 But the problem they're facing right now is at the
12 federal level. They're concerned that if the FCC does implement
13 an access charge, that they will not be able to pass these
14 charges on to their customers, if you will.

15 We function in many areas in Southern California,
16 but one thing that really came to my mind on Wednesday in the
17 Harold Examiner, I happened to read Senator Rosenthal's
18 article in the Harold Examiner, and the article focused on,
19 in my estimation, the problem of disseminating information to
20 the public, which is specifically my job in Southern
21 California.

22 I probably went to 250 to 300 town hall meetings
23 throughout the last three or four years. My job is to make sure
24 that the information that gets to the public is given to them
25 in such a way that they can understand it, because quite frankly,
26 we find the utilities in the State of California lacking in
27 clarity as far as their informational bill stuffers are
28 concerned.

1 Pacific Bell, though, in recognition of this problem --
2 because you had to be almost a Philadelphia lawyer to understand
3 some of these bill stuffers -- our Deputy Director Joseph
4 Bodiwitz, who is in the business of regulation, received one
5 from Pacific Tel&Tel a few months ago, and he couldn't
6 understand what they were trying to say. But we understand
7 now that Pacific Bell has taken the job of preparing these bill
8 stuffers, these informational brochures, away from the
9 attorneys and put them into the hands of their marketing people.

10 On March 1 of this year, in response to Assemblywoman
11 Gwen Moore's directive, we are compiling right now a list of
12 charges that all telecommunications companies will assess, and
13 they'll be mailed to every subscriber of telecommunications
14 services. And it's very clear; it's very basic. And the
15 Commission is reviewing those before they go out, which I think
16 is extremely important, because there's no sense in communi-
17 cating if they don't get the message, if they don't understand
18 what you're trying to communicate.

19 We're working right now with the universal telephone
20 service bill that the Legislature recently passed.
21 Implementation of that bill is going to present some humongous
22 problems to the California PUC, because quite frankly, no matter
23 what product we come out with, we're not going to be able to
24 please all the people in the State of California. Only God and
25 fools may claim to perfection. My agency stands on neither
26 side.

27 We are endeavoring to keep information flowing to the
28 consumers. We are available at any time, seven days a week,

1 Monday nights through Sunday nights, Saturday and Sunday in
2 the daytime, for any consumer group that needs information from
3 our Agency. We will be there.

4 I don't want to take up any more of your time. I
5 know Tom is anxious to get on with his presentation. Thank
6 you very much.

7 SENATOR ROSENTHAL: Let me ask a couple of
8 questions. You say that you are available to answer questions.
9 Does anybody know what your phone number is?

10 MR. DOYLE: Our address appears on the back of
11 every utility bill that goes out in the State: 107 South
12 Broadway. It's on the back of the bill.

13 Our telephone number is 620-2570. We do not have the
14 telephone number on the back of the bill, though. We do have
15 the address on all bills, all utilities that are regulated by
16 this Agency: electric, gas and telecommunications. The address
17 107 South Broadway does appear on the bill.

18 CHAIRMAN ROSENTHAL: Interestingly enough, I had
19 the same concerns that you've expressed about the information
20 that goes out to the consumer. I suggested many months ago
21 that they needed to get ahold of somebody who knew how to sell
22 soap, and then you could explain to people what you were
23 talking about.

24 Even the term "divestiture," I mean, it's not a term
25 that the average person understands; or LATAs -- nobody knows
26 what you're talking about.

27 MR. DOYLE: Well, my instructions from the
28 President of the Commission and the other Commissioners are

1 that we're not to use terms like that --

2 CHAIRMAN ROSENTHAL: Okay.

3 MR. DOYLE: -- when I explain the telecommunica-
4 tions problems in California.

5 CHAIRMAN ROSENTHAL: What kind of authority does
6 the PUC have over telephone equipment and repairs?

7 MR. DOYLE: On telephone equipment that has been
8 deregulated, the option right now is for the consumer to make
9 a decision right now as to whether or not they want to purchase
10 their own equipment or continue in a leasing operation with the
11 particular utility, say, General Telephone or Pacific Bell.

12 On the repairs, the utility has to file tariffs with
13 covering charges, but some of the charges for repairs would
14 indicate to me that the telecommunications industries are not
15 that interested in going into someone's home to make a repair
16 of the telephone. I believe it's something like \$60 an hour,
17 \$15 for every 15 minutes, which indicates to me that they're
18 not really going after that kind of business.

19 My wife, unbeknownst to me, went shopping one
20 Saturday and came home with an \$8 telephone which works
21 perfectly well. I could get several telephones and still be
22 under the \$60 limitation for repairs; so, I do not envision my
23 family, at least, ever getting the telephone company to come
24 out. I'll buy the phones.

25 CHAIRMAN ROSENTHAL: Why are the FCC rates for
26 rental and the sale of telephones so much higher than they were
27 last year, when the State PUC had jurisdiction? Do you have
28 any thoughts on that?

1 MR. DOYLE: I really don't know. But the FCC
2 is controlling the rates right now, and I believe they'll be
3 controlling them for something like two years. I'm not at all
4 sure of that, but I think it's something like two years.

5 But regardless of what level of rates for sale of this
6 equipment is set by the FCC or the telecommunications companies,
7 they're competent in that area now. And if I go out
8 and get an \$8 phone, I'm not going to have General Telephone
9 sell me a phone for \$29 or \$30. It doesn't make sense.

10 So, at least you have competition coming into play
11 in a very positive way in this aspect, in this area of regula-
12 tion, or telecommunications, I should say.

13 CHAIRMAN ROSENTHAL: Now, one of the other
14 concerns that I've heard expressed is the debate concerning
15 local measured rate versus the flat rate, and which system the
16 PUC believes would be best for the consumers in the long run.

17 MR. DOYLE: Well, as you know, measured rates and
18 flat rates differ in that flat rates you get an unlimited amount
19 of calls in a particular local calling area. Of measured
20 service, the minute you pick up the phone, you're on the meter,
21 so to speak. We believe that we're moving towards measured
22 service, cost-base pricing. Whether or not we'll achieve that,
23 I do not know. It seems that cost-base pricing is the only
24 economically reasonable and feasible way to go.

25 Our concern is -- and I believe Assemblywoman Moore
26 addressed this, too, in her UTS Bill -- how measured service
27 increases will affect members of the rural community.
28 Assemblywoman Moore, if memory serves, specifically declined

1 to use a means, an economic-means test, as the sole criteria
2 for getting universal telephone service, and the Commission
3 will be addressing UTS here in Los Angeles, en banc, on
4 March 13th and 14th, both days -- at 9:30 a.m., and on the 13th
5 at 7:00 p.m. We're welcoming the public to come in and share
6 their views with the Commissioners. All five Commissioners
7 will be there is my understanding.

8 CHAIRMAN ROSENTHAL: I've introduced a bill to
9 study the subject as well; so, you'll probably be asked to
10 comment on that at some point, or somebody from PUC.

11 Okay. May we hear now from Tom Cecil.

12 MR. CECIL: Thank you, Senator. I Appreciate,
13 as well, the opportunity to appear before you today. I'm Tom
14 Cecil, Director of the Department of Consumer Affairs and
15 Chief of the Division of Consumer Services. Part of the
16 Division consists of a Complaint Assistance Unit with offices
17 in both Los Angeles and Sacramento, as well as a Public
18 Information office and Legal Services office in addition to
19 the Legal units.

20 As with the PUC, the Department of Consumer Affairs
21 has not experienced any radical increase at all in terms of
22 inquireies from consumers in general. And I think I could con-
23 cur with the former opinion that people are just simply
24 inundated and perhaps are taking Andy Griffith's suggestion of:
25 your phone kept working on January 1st, so don't worry about
26 it.

27 Frankly, I was so confused back in December that, when
28 I waited to see if it was going to keep working, and it did,

1 that I haven't done anything yet.

2 I would imagine, however, that as the new billings
3 start to come out, the number of inquiries that the Department
4 of Consumer Affairs is going to be receiving will increase
5 substantially. There really won't be, in terms of
6 general consumer complaints, any radical shift in the way the
7 Department of Consumer Affairs has handled those inquiries
8 in the past to the new divested environment.

9 There are a number of things that we, at the Department
10 of Consumer Affairs, are attempting to do to educate consumers,
11 and specifically those parties who are responsible for fielding
12 inquiries of consumers, meaning "complaint handlers."

13 On February 10th, which is a week from today, we will
14 be having our first workshop on divestiture and the practical
15 ramifications to the consumers. We have been encouraged to do
16 that by a number of consumers organizations, and we're pleased
17 that we're going to have the opportunity next Friday to bring
18 together people from industry, the Public Utilities Commission
19 and consumer groups, to talk about how you select your service;
20 how you select long-distance carriers; whether you should
21 purchase or lease a phone; and how to handle billing inquiries.
22 If that is a successful workshop, and worthwhile, then perhaps
23 we'll take that down to Los Angeles, San Francisco, San Diego.

24 As of yet, the response has been rather unimpressive
25 to our invitation, despite sending over 400 invitations. But
26 I think in large part that's because I think the staff members
27 in the Legislature aren't used to R.S.V.P.ing (sic), especially
28 when it's in their own building. So, hopefully we'll have a

1 good turnout.

2 The second thing that the Department of Consumer
3 Affairs has done is put together some informational bulletins,
4 a copy -- samples of which I have with me today to leave with
5 you for people who do inquire about how to purchase a phone.
6 But, again, we have not had a great demand for those type of
7 publications.

8 Last Monday, I believe, we filed with PUC comments
9 relative to universal telephone service; and again, we have
10 copies of the document that Marie Shibuya-Snell has filed with the
11 PUC relative to the types of criteria that should be examined
12 in determining who qualifies for subsidized -- for Lifeline
13 service. And I think it's our position that the service and
14 criteria should be as simple and straightforward as possible.
15 We are in favor of self-certification in terms of who legally
16 is entitled to such service, but obviously we intend to
17 participate in the hearings that the PUC will be having later
18 this year.

19 In addition, Assembly Bill 1425, which went into
20 effect on November 1st of last year, deals with Disclosure at
21 point of sale by retailers of telephone equipment. What we
22 originally thought was going to be a rather straightforward
23 project has turned into something of a complex nightmare for
24 us at the Department of Consumer Affairs. And I have with me
25 today a draft of what we are referring to as a business
26 information bulletin. And basically, what we are going to be
27 attempting to do within the next few weeks is get out an
28 easy-to-understand description of what AB 1425 mandates to a

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1 retailer of phone equipment. And it's my understanding that we
2 have worked out, at least tentatively, with the California
3 Retailers Association to distribute it for us, once we've got
4 the final draft completed.

5 An interesting thing about AB 1425, of course, is
6 that if you're requiring disclosures by retailers if they are
7 purchasing equipment that is substantially prepackaged at the
8 point of manufacturer, the problem arises: what happens if the
9 disclosures are not on the package? Do you expect the retailer
10 to disclose by slapping a label in addition to the original
11 packaging to comply with California law? We're not sure, but
12 we, in this case, are intending to transmit this informational
13 bulletin to every manufacturer across the United States. So,
14 hopefully -- and I'm sure, abundantly sure, that many manu-
15 facturers across the United States are not aware of the new
16 law. And I can assure you from the preliminary investigation
17 of advertising that is going on in the State of California,
18 specifically newspaper advertising, we have yet to find any
19 advertisement that complies completely with AB 1425.

20 What we will have in place within the next few weeks
21 is a system tying into our word processing at the Department
22 of Consumer Affairs, working in conjunction with the litigation
23 unit to monitor the advertisement, sending out letters under the
24 Director's signature advising the advertiser or the manufacturer
25 or the retailer that they are out of compliance. We will also
26 have a follow-up system in place to make clear what is necessary
27 to achieve compliance.

28 I think in many instances it's simple ignorance of

1 the law, but it will remain to be seen whether it is deliberate
2 or whether they will voluntarily rectify their advertising.

3 And that pretty much sums up what the Department is
4 doing.

5 CHAIRMAN ROSENTHAL: Does the Department have
6 staff specifically assigned to answer consumer problems or
7 questions from individuals or from the groups?

8 MR. CECIL: Absolutely.

9 CHAIRMAN ROSENTHAL: And you've designated some
10 people who have the answers.

11 MR. CECIL: We have in place, and we have had
12 for a number of years, specific personnel within the
13 Complaints Assistance Unit. Those people are fairly well
14 skilled in a variety of areas, because they can handle numer-
15 ous inquiries. In addition, we have attempted to bring our
16 Public Education Office, up to speed on this issue, because
17 they, as well, get calls.

18 So, the answer to your question is yes.

19 CHAIRMAN ROSENTHAL: What about the possibility,
20 as we move farther into this full arena, of the Department
21 getting somewhat involved in public service announcements in
22 terms of the radio and television? Has there been any thought
23 given to that approach?

24 MR. CECIL: Absolutely. I'm not sure when the
25 Department initiated or reinitiated PSAs, but that is something
26 that we do on an ongoing basis. We have had a couple of
27 PSAs related to the divestiture, as I recall, in October and

28 / / / / /

1 November. And those are usually scheduled on a monthly
2 basis. The one problem we have with PSAs is that we have
3 no feedback as to how often they'll run. We've had
4 inquiries from the Governor's office as to why there
5 aren't things on the radio. And, you know, obviously it's
6 the TV stations discretion as to whether they run
7 them.

8 But, yes, it has been given some thought, and we
9 would certainly like to see more exposure.

10 CHAIRMAN ROSENTHAL: Well, it's very possible
11 that there may be more questions raised as people start
12 looking at their new bills, and they just got the bills for
13 January, and we would like some comments about that when the
14 Telephone Company is up here.

15 I think that takes care of --

16 MR. FADELLI: The workshops.

17 CHAIRMAN ROSENTHAL: He indicated that there
18 would be one workshop, and depending upon the kind of response,
19 it ought to be something on a moving vehicle on the State, so
20 that the workshop can take place in various communities.

21 MR. CECIL: Yes. We would really like to have
22 it in a number of locations simply because the rules of the
23 game change a little bit as you move around the State.

24 Originally I had hoped to have Sacramento as the last,
25 thinking by then we might be able to put on the best
26 performance. But just because of time and delays in getting
27 everything worked out, it turns out Sacramento is going to be
28 first.

1 And as I said, I think there is a definite need to
2 move into the Southern California area, the Bay area, because
3 we had some specific questions --

4 CHAIRMAN ROSENTHAL: Well, as the Members of the
5 Committee and a number of us from Southern California, as we
6 begin to get inquiries in our District offices -- as you say,
7 there are very few at the moment, but I think that very
8 soon we'll probably be inundated with questions about the
9 bills and so many pieces of paper and what it all means.

10 At any rate, thank you very much, and I hope that
11 you'll stick around for a little while in case some questions
12 come up that you may want to refer back to.

13 MR. DOYLE: Senator, my apologies. I misspoke
14 myself on those dates for the Commission meeting on the UTS
15 bill. Those dates should be March 14th and 15th. I think I
16 said 13th and 14th.

17 CHAIRMAN ROSENTHAL: March 14th and 15th.

18 Very good. Thank you very much.

19 MR. CECIL: Thank you.

20 CHAIRMAN ROSENTHAL: I hope you'll stick around
21 for a little while. Some questions may come up that we'd like
22 to refer back to you.

23 (Mr. Cecil displays some printed material.)

24 CHAIRMAN ROSENTHAL: Yes, we'd like to have
25 those.

26 The second Panel will be Consumer Action with Ken
27 McEldowney, and Confederation of California Consumers, Mary
28 Solow. Welcome.

1 MR. MC ELDOWNNEY: We didn't prearrange this
2 like the other Panel did.

3 CHAIRMAN ROSENTHAL: Well, that's all right.
4 Whichever, it doesn't matter.

5 MR. MC ELDOWNNEY: I think I want to touch on a
6 couple of things that the other people said: your question
7 in terms of the rates on lease equipment and things like that.

8 What happened is that the FCC made a determination
9 that there should be one rate across the country, and so what
10 that meant was that in California, where our rates had been
11 lower for leased equipment, we suffered an increase; whereas,
12 in other parts of the country, there was a decrease.

13 Consumer Action is a membership organization that's
14 based in the Bay area, but particularly on telephone issues,
15 we have been working pretty much around the State and also
16 across the country over the last two years. We sort of got
17 started on it two years ago when we discovered that Pacific
18 Telephone representatives were deceptive in terms of telling
19 people how they had to start service. They were telling people
20 that they had to come to the Phone Center Store to start service,
21 which was not true. And then, if you press them and finally
22 asked whether or not there was any way of doing it over the
23 phone, they basically told you yes, but it would cost you twice
24 as much. This, also, was not true.

25 This was sort of our introduction to telephone
26 issues, and we've been working on it very closely ever since,
27 --and it's one, we think perhaps, of the major issues
28 that's going to be facing consumers in the years

1 to come: 200, 200, 200, 200, 200.

2 I wanted to talk on sort of a number -- several differ-
3 ent areas -- in no particular order today. The first thing
4 we are becoming concerned about is the whole area of what are
5 known as resellers, which are companies that will lease lines
6 from the phone company and then resell time on that line to
7 either residential or business customers; and we're particularly
8 concerned now, as we're getting toward equal access. And
9 there's going to be a lot of publicity in the media, both in
10 terms of the phone company, Pacific, but also in terms of
11 long-distance carriers. I think there's going to be a lot of
12 confusion.

13 I had just received a complaint yesterday from a
14 reseller that's evidently based down here in the Santa Ana
15 area that had signed up a number of people at a very high
16 initial rate and then evidently ceased doing business. Part
17 of our concern is that, particularly in terms of resellers,
18 they're not considered to be common carriers. And the fear we
19 have is they sort of fall through the cracks. As far as we
20 can tell, they're not regulated by the PUC; they're not
21 regulated by the FCC. And there may be some sort of need
22 for some type of legislation, even though we do realize that
23 the resellers may not be around for that long as the rates
24 that the phone company is allowed to charge them for the use
25 of those lines goes up.

26 But we're concerned during this interim period of
27 time that there be maybe some type of Performance Bond for
28 resellers to make sure that when they contract with the

1 customer, that they are required to perform as they specify,
2 and that there's something in terms of promises and claims that
3 they make. And we think that probably there is need for
4 regulation or legislation that goes beyond that, that just
5 covers other business firms. That's one area of our concern.

6 The second area of our concern has to do with
7 Lifeline, which had been touched on earlier by both Tom and
8 also the person from the PUC. We very strongly supported
9 AB 1348, and I submitted our testimony, our comments. We have
10 some concerns, because we think it doesn't go far enough. We
11 have a situation now in which with Lifeline that people will
12 be guaranteed a monthly rate not more than half of the fixed
13 rate. But the concern that we have -- the major rate, rather --
14 the concern that we have is that people may not be able to get
15 phones in the first place.

16 When making some calls, you have a situation which,
17 if your credit is not as high as Pacific may want, you can be
18 required to put down an \$80 deposit; the installation charge
19 now is \$23 to turn your phone on, and the PUC staff wants to
20 increase that to \$35. This is if you have modular equipment in
21 your home. If you don't, it's going to cost \$50 to install.

22 On top of that, for the next two years, it's possible
23 to lease a phone from AT&T, but after that there's no require-
24 ment that they continue to lease. So, there's a concern that
25 on top of all this, we have to add the cost of a phone.

26 And I must disagree with the person from the PUC.
27 We have been getting complaints about the inexpensive phones.
28 They basically say that the sound quality often is very low,

1 that they end up breaking very easily, or they cease to work
2 after a month or so.

3 We are very, very concerned, particularly about
4 senior citizens who are on Lifeline and who find that leasing
5 is not readily available -- it's not available at all right now
6 from Pacific -- and being forced to go out and buy one of
7 these inexpensive phones that they think is going to work,
8 and it's not going to work, and they're going to be without
9 phone service.

10 What we are advocating -- and I guess part of our
11 questions we're not sure are covered by AB 1348 -- that there
12 be some sort of Lifeline installation rate for people who
13 qualify for Lifeline so that they don't have to pay that full
14 cost which will range between 23 and \$50; and that Pacific be
15 required to continue to lease basic equipment. Again, whether
16 it's going to be limited just to people who are on Lifeline
17 or broader, that we think if you're talking about Lifeline,
18 there has to be three components: one is monthly rate; one is
19 the cost of installation; and three is availability of leased
20 phones.

21 This sort of goes into the next thing which has
22 to do with the sort of quality of phones, as was also men-
23 tioned earlier, AB 1425, which was passed last year, which
24 was referencing Disclosure information. Several things
25 that we're concerned about, and I think Tom touched on
26 one which was the thing about what happens with prepackaged
27 phones, whether or not consumers will get that information
28 that they need there. Another concern that we have is

1 mail order phones which you get from the East coast; the
2 whole area in terms of the phones you buy from catalogs, but
3 again, that may be outside the area. It seems that there's
4 very possibly a number of loopholes in that law. It seems
5 like it will probably guarantee that there's Disclosure about
6 the 35 and \$40 phones that are being sold by Sears, that are
7 being sold by AT&T, but probably there won't be that type of
8 Disclosure for the inexpensive phones people buy through
9 newspaper ads and mail order. And we're wondering whether or
10 not that's an area that needs to have some additional
11 information, particularly, I think, because you have a situation
12 where people have been accustomed to the quality of the phones
13 that they have in their home right now. And I think they assume
14 that what will happen is the new phones that they buy, whether
15 they cost \$10 or \$50, will have that same quality. And in fact,
16 we have been getting complaints, as I mentioned before, that
17 those phones are breaking down.

18 Sort of leading into the next area, I guess one of
19 the things I wanted to say is that we also have not gotten
20 any sort of radical increase in the number of inquiries or
21 complaints on the part of people. I think the part that has
22 been touched on before is that it's just started; people are just
23 beginning to get their new bills. We expect that the first
24 range of problems that we receive, we've got people moving into
25 the area or people are moving from one home to the next and
26 are suddenly having to go through a lot more complicated
27 procedure than they did before.

28 We did a phone survey in the Bay area to find out

1 whether Pacific Telephone was giving people the information
2 they needed in terms of how to start service and how they get
3 phones, and we found that with just a few exceptions that they
4 were being given the basic information they needed in terms
5 of how to start service; whether or not long-distance would
6 come automatically with that; and the availability of leased
7 or purchased phones. But I think this is an area that we're
8 going to monitor over the months to make sure that, not only in
9 the Bay area, but in other parts of the State, that this
10 information is provided to people, because it seems very
11 crucial.

12 In my mind, the biggest problem we're going to be
13 facing with divestiture is equal access, and this is the
14 procedure that's going to be going into effect starting this
15 summer in which Pacific will have to provide for the long-
16 distance carriers equal access to their lines. And what that
17 means, our understanding is that very soon the long-distance
18 carriers are going to be doing advertising, some maybe even
19 door-to-door.

20 Let me step back a second. What's going to happen is
21 across the country each of the operating companies are going to
22 be required to have at least two offices that are equal access
23 by the summer of this year. What that's going to mean is that
24 the different long-distance companies are going to be competing
25 to try to get customers to sign up as the primary long-distance
26 carrier.

27 The problem that we have is our understanding is
28 Pacific is going to be sending out a form of a ballot in which

1 people will be electing which long-distance carrier they want
2 to be their primary carrier. At the same time, the long-
3 distance carriers are going to be soliciting those same people,
4 asking them to sign up with them as the primary carrier,
5 basically giving them power of attorney to negotiate with
6 Pacific on selecting AT&T or MCI or Sprint.

7 One of the problems we have is we think that people
8 are going to be very confused by this being swamped with
9 information; plus, one of the problems we have is we don't know
10 what's going to happen in terms of people, let's say, that sign
11 up with Pacific. Say they want AT&T. They return a coupon
12 that MCI sent them and also return a coupon that Sprint sent
13 them. And what's going to happen in that kind of situation?
14 One of the problems is that since it's going to be turning --
15 the switch is happening in exchange areas, you can have a
16 situation in a given city in which there will be equal access
17 on one side of the street and not equal access on the other
18 side of the street. People have equal access on one side of
19 the street go across to a pay phone or from a neighbor's house
20 to make a phone call, and not be able to use the same type of
21 system as on the other side. But the larger problem really is
22 one that is that Pacific has decided alone, of all the operating
23 companies across the country, that for those two offices,
24 let's say, with the number of offices that start 1184, that if
25 people have not chosen a primary area at some point in time,
26 that they will not be able to complete a long-distance phone
27 call. They'll get a tape recording. That's one of the things;
28 whether they get a tape recording or whether that's going to be

1 Operator intercept, what's going to happen, that's unclear.
2 But in the other companies across the country, the decision
3 has been made that for the people who do not choose the long-
4 distance carrier, that they will use AT&T as a carrier of last
5 resort, which has been authorized by Judge Greene.

6 It appears that Pacific is not going to do that, and
7 we're extremely concerned because you have a situation in which
8 a large number of customers do not make a long-distance call
9 in a given month, and you're going to have a situation in which
10 someone has a death in the family, someone has an accident, or
11 whatever, and tries to contact relatives or friends outside
12 the area and will not be able to complete a long-distance call.
13 That's an area that we're very concerned with right now, and
14 we're going to be trying to work with Pacific on that to make
15 sure that that's not what goes into effect.

16 Another area of concern that I think there's a real
17 need for education is that the whole thing in terms of who is
18 regulating, who do the consumers go to for complaints. It's
19 going to be a mess, because you're going to have a situation
20 which for intra-long-distance calls you go to the PUC; for
21 interstate long-distance calls you go to the FCC in Washington
22 D.C.; if you have a dispute about your bill for phones you
23 order by mail, it's going to be the Post Office; and for other
24 areas, it's going to be the District Attorneys at the FHE
25 office. And this is happening really in an area in which
26 people traditionally have always been able to go to the PUC
27 with their complaints regardless of what the complaint was.
28 So, I think it's very important that there be a real educational

1 program that's done.

2 One of the real concerns we had was in terms of --
3 and I think it's something you touched on in your opening
4 statement -- was in terms of the benefits of competition.
5 One of the problems that we're having, I think, is that it's
6 unclear who is going to be serving other than Pacific, and who
7 is going to be serving other than AT&T; and by this I'm talking
8 about small businesses and I'm talking about residential
9 customers.

10 We were just forced to -- our office was just forced
11 to move, and what that meant was that we were a case study
12 for this Committee hearing. We found and kind of contacted
13 outside vendors for the buyer/lease equipment. The contacts
14 that we were given by other organizations of people that they
15 worked with are no longer with those companies. Once they
16 learned that we only wanted three lines and four phones, we
17 had trouble getting people to call back. I think -- and
18 there's a similar type problem in terms of long-distance. It's
19 very clear that on the Los Angeles/San Francisco quarter, that
20 there's going to be a lot of competition.

21 Who is going to be -- how will people in Modesto,
22 who want to call Fresno, how are they going to be benefitted
23 by competition? I tend to think they won't. I received some
24 indication that MCI is going to try to sign up people there,
25 but I think that it's -- they're not going to get the
26 benefits, and it also seems like there's going to be a similar
27 problem in terms of leasing and purchasing of phones.

28 I guess the only other things I wanted to say

1 was that I'm very glad you're going to be holding hear-
2 ings on measured versus flat service. It's a very
3 major concern that we have. And across the country is a
4 situation in which consumer groups have been up in arms in
5 terms of measured service. And I think the problem is,
6 and our position just now is, that it seems like it makes
7 sense for there to be some type of measured service for
8 computers, but not for voice-activated phone calls; that it
9 seems intolerable to us that you have a situation in which
10 every phone call is a long-distance phone call, and there's
11 no way for anyone to maintain any sort of control over their
12 phone bill.

13 Thank you very much for this opportunity.

14 CHAIRMAN ROSENTHAL: Thank you. You've indicated
15 that you're in favor of regional consumer panels. Could you
16 elaborate why you think this is a good idea?

17 MR. MC ELDFOWNEY: What do you mean exactly when
18 you say that?

19 CHAIRMAN ROSENTHAL: Well, as a Member of the
20 Pacific Bell Consumer Advisory Panel --

21 MR. MC ELDFOWNEY: Uh-huh.

22 CHAIRMAN ROSENTHAL: -- I've been told that
23 you've been outspoken on those regional consumer panels. And
24 I just wanted to know what your thoughts are on these panels
25 with respect to consumer telephone issues.

26 MR. MC ELDFOWNEY: Well, I think there's a
27 couple of things. I think I'm talking about two different
28 things here. One is that I think it's very valuable for there

1 to be a mechanism whereby there can be more interaction
2 between consumers and industry in a large number of different
3 areas. We had been working -- we have set up in San Francisco
4 a series of consumer-banking panels that have been dealing with
5 sort of areas such as check-hold banking and things like that.
6 And also in the area of telephones, I think that there's a
7 real advantage in terms of the industry getting the direct
8 impact, input from consumer leaders on a number of different
9 areas. So, I think that there is real value to it in that
10 regard.

11 CHAIRMAN ROSENTHAL: All right. Let me just
12 indicate that the Consumer Panel here is really only half
13 of what we anticipated. There were two individuals who were
14 going to be here, but I understand that they may be in San
15 Francisco appearing at a PUC hearing.

16 MR. MC ELDFOWNEY: Right.

17 CHAIRMAN ROSENTHAL: And that was Sylvia Siegel
18 from TURN and Harvey Rosenfield from CalPIRG. And so we're
19 depending upon the two of you to cover for them as well.

20 Mary Solow?

21 MS. SOLOW: Thank you, Senator Rosenthal. I'm
22 delighted to be here today to talk about the divestiture of
23 AT&T. I'm President of the Consumer Federation of California
24 which is a statewide federation of about 100 organizations
25 and numerous individuals working for programs of consumer
26 protection and education. We've long been involved with
27 problems of telephones, going back to the initial need to have
28 a Lifeline in the State of California.

1 First of all I want to publically breathe a sigh of
2 relief now that the FCC has postponed the recent access charge
3 decision that would have probably shifted billions of dollars
4 in the telephone network plant costs from the long-distance
5 companies to the local companies to the local consumers.

6 The Consumer Federation applauded the passage of
7 HR 4102 in the House of Representatives which would have
8 eliminated a \$2 monthly access charge for each residential
9 phone-user. This access charge ordered by the FCC would have
10 increased to \$8 monthly by 1990. A milder Senate version also would
11 have delayed the access charge. While we believe that this
12 may have been a campaign issue to postpone this access to
13 saddle consumers with the extra costs of telephone service,
14 we still believe we must work to completely cancel the access
15 charge, and I think we're also going to have to work in
16 California to stop any attempt to have an intrastate access
17 charge being imposed.

18 At the present time, about 95 percent of Californians
19 have telephone service. We believe that there's an urgent
20 need to preserve universally affordable telephone service
21 and we believe that this battle against unreasonable local
22 rates must be fought in the hearing rooms of our PUC. And if
23 local charges escalate, the poor, the elderly, the handicapped,
24 the rural customer -- those on fixed incomes -- may lose basic
25 phone services and access to emergency medical services and
26 outside assistance, if they don't have the means of communi-
27 cating their situations.

28 This past year we supported passage of AB 1348 by

1 Assemblywoman Gwen Moore to codify the PUCs regulations
2 requiring a Lifeline of telephone service for the residential
3 user. I just recently received notice, and it's been commented
4 here today, that the PUC has instituted a procedure to imple-
5 ment this bill to determine who should qualify for universal
6 telephone rates, how should eligibility for service be
7 established and what should be the characteristics of a class
8 of universal telephone service.

9 We believe that a permanent subsidy mechanism must
10 be created to the low-income subscriber. For the poor,
11 California should create standards which include a simple
12 self-certification procedure based on existing national
13 eligibility criteria and a prohibition on the use of measured
14 for Lifeline plans. This is something that I think is very
15 important to get into, because I think it's going to show how
16 we work with low-income residents.

17 Also, we might be able to seek some kind of mechanism
18 to allow low-income residents to recover a portion of Lifeline
19 cost from the universal service.

20 I think it also might be necessary, as Ken just
21 outlined, to look at high-cost rural areas, to offer support
22 to keep their costs from significantly exceeding the national
23 average.

24 The Consumer Federation also would support legislation
25 to establish meaningful citizen-participation programs. We
26 have long favored legislation to assist citizens in fighting
27 back against the rising cost of utilities by establishing
28 Citizen Utility Boards.

1 At the present time the Consumer Federation is
2 supporting a proposal before the PUC to establish a Pacific
3 Tele-CUB. We are concerned that the telephone companies --
4 and I don't just refer to Pacific -- are seeking rate increases
5 which contain their entire wish list of accumulated desires.
6 Mostly they vaguely attribute these increases to changes, such
7 as divestiture and/or federal regulation. Much of what we're
8 hearing is what we have heard before.

9 Local measured service I'd like to begin with. This
10 is the big local rate design because it has been since the
11 mid-seventies in most states. We oppose this policy of local
12 measured service by distance and time, putting a pay phone
13 in every home. I recently have been teaching some classes
14 at University High School in the Senator's District, and my
15 latest number of classes that I have taught have been to some
16 of the students on telephone deregulation. And I must say
17 that when the students found that they might not be able to
18 talk for hours on the phone every afternoon to do their home-
19 work, they became very interested in telephone deregulation
20 very, very fast.

21 We oppose any reduction in the Lifeline rate of 30
22 calls per month for the residential ratepayer. Proposals by
23 both General and Pacific have tried to decrease the number of
24 calls allowed per month, and the PUC has, I think, been very
25 helpful in trying to say that that is not something that can
26 be done at this time.

27 Also, we are against proposals to raise local pay
28 phone charges from a dime to a quarter.

1 The Consumer Federation is also concerned by policies
2 of the new telephone companies that would bypass the local
3 network to avoid paying access charges thereby driving up
4 local rates. Also, we need to work for state policies, I
5 believe, that would allow the PUC more authority to protect
6 the consumers against any tampering with the basic telephone
7 rate.

8 In the scramble to rewire California, a number of
9 other issues are emerging which we believe will affect the
10 consumer. We need to work toward equal access. At this time,
11 AT&Ts competitors have inferior connections into local phone
12 systems, because they have not been part of the nationwide
13 system largely owned by AT&T. I recently heard of consumers
14 having trouble dialing into one of the new companies only to
15 find all circuits are full, and they have to dial again and
16 again and again. And I understand there's equipment now that
17 lets you automatically replace the call over and over again.
18 And this is something the once-wonderful universal system
19 had, and the good system that we had doesn't seem to be in
20 operation any more for a lot of people. Now it takes 23 digits
21 to dial a number, I understand, over MCI, and only 10 or 11
22 digits to use AT&T long-distance. I think this is something
23 we're going to have to follow very closely and make sure that
24 equal access does come about on schedule.

25 In addition, competitors can only serve those custo-
26 mers with touch-tone type phones, not rotary-dial phones,
27 because their computers are activated by the tones.

28 Now consumers have the choice of whether to rent a

1 telephone instrument or to purchase one. While there is a FCC
2 registration number on every phone sold guaranteeing that the
3 phone will be compatible with the phone system, renegade
4 phones could cause electrical hazards, and the consumer could
5 be liable for such damage.

6 Already the calls are coming in from consumers who
7 have bought nationally advertized cheap phones, phones that
8 don't work, phones that are completely incapable of doing what
9 they want. Cordless phones are giving many problems, and there
10 are many that believe they have been oversold in the community
11 and the system can't incorporate cordless phones at this point.
12 Consumers are reporting they sent off for equipment which
13 doesn't work, which isn't compatible, and which, in the case
14 of cordless, is noisy and uneven. Some phones have a lower
15 ringer-equivalency number that expresses the amount of power
16 required for ringing. In some cases, after four or five rings,
17 the instruments could go silent for all the phones on that
18 network.

19 If the purchase phone breaks down, have we made any
20 preparations for what will take place? Now consumers no longer
21 will be able to take their broken phones to Ma Bell for
22 repair. If the phone doesn't work, is it the fault of Ma Bell,
23 who might own the instrument, or the local company which
24 controls the line?

25 I read an article recently in the New York Times
26 describing how divestiture seemed to be that each part of the
27 phone system would disclaim any responsibility for a line that
28 didn't work and refer the customer from one company to the

1 other. Who was responsible for the repair could be a very
2 costly decision, and at this time I would think that it would
3 be advisable to advise consumers that they should have an
4 extra phone, maybe one of the \$8 phones they mentioned, as
5 a backup, to make sure that it's not the phone that's not
6 working accurately.

7 Very little has been said about the durability of the
8 new phones which seem to have about a six-year life span for
9 some of the quality models. I'm not even talking about the
10 cheap phones. Compared to the phones of yesteryear, with the
11 life of 30 to 40 years, the new phones just aren't as durable.

12 Finally, I'd like to express my concern about some
13 of the advertising I've heard from Pacific: "Relax,"
14 "Keep cool," "Let Pacific do it." I've already received some
15 complaints from consumers calling Pacific and getting the
16 run-around when asked about questions about long-distance
17 service, about whether to buy or rent a phone. And I think
18 this is something -- even the PUC sent out a press release
19 which I received last fall urging consumers in Pacific
20 Telephone's area to buy their instruments because it would be
21 cheaper. If you relax and keep cool, you're going to be
22 saddled with a much higher phone if you decide to do that.
23 And I think that some of the advertising has not really been
24 too help the consumer.

25 Many of the problems, I think, of divestiture
26 haven't shown up yet. They're going to show up when someone's
27 line stops working and the consumer finds himself or herself
28 saddled with very high repair costs, not knowing who repairs

1 the line, who is responsible, and not knowing whether it's
2 the telephone or whether it's the wire that is going to be
3 responsible.

4 When a new technology or a hot new industry comes
5 down the road there can almost be too much choice. We saw this
6 in the explosion of solar energy after we experienced our
7 energy crisis, when there was such a disparity in the quality.
8 But the industry must shake out, and consumers must shop,
9 very, very carefully. Some of these problems, though,
10 certainly make me want to reach out and punch someone. All
11 I can say is that it's the beginning of something which we're
12 going to have to live with, and I think that it's a time for
13 consumers to look around very carefully and to shop around and
14 to ask a lot of questions.

15 Earlier testimony was talking about how there really
16 hadn't been much interest or excitement among consumers in
17 this issue; however, I want to tell you I speak quite often
18 to organizations and groups, and it always comes down to
19 telephones: How do I get my telephone fixed? What should I
20 do? And people, I think, can use as much information they can
21 be given at this time, because I think there is a tremendous
22 choice to be made about a system that usually has worked very
23 well for us in the past, and the decisions that consumers have
24 to make now are somewhat without precedent. And I think that
25 any leadership that this Committee can do, that the Consumer
26 Movement of California can do, that the telephone companies
27 can do, will be very well-received by the people of the
28 State of California.

1 CHAIRMAN ROSENTHAL: Let me ask a couple of
2 questions. Should the consumer buy their own
3 instrument?

4 MS. SOLOW: If you take a look at the price of
5 the instrument and see how much it's going to cost, it can
6 be --

7 If you're paying rent on a \$29 instrument in your
8 home, you can easily pay that out within a very short period
9 of time. The one problem that you might have is if something
10 goes wrong with that instrument. But if the telephone
11 company is going to charge you \$60 an hour just to come out
12 there, it's not necessarily something which is to your
13 advantage.

14 I think it would be easier to buy my own instrument
15 and have a spare in case something goes wrong with it, and take
16 it in to where I bought it. I think that when a consumer buys
17 an instrument, I think that that person has to be very care-
18 ful about warranties, about whether or not it's compatible,
19 about what happens if it breaks down. If I could find someone
20 that would fix my phone and give me a reasonable warranty, I
21 think I would prefer to purchase a phone, under the circum-
22 stances, because the rental of the phone and the charges are
23 going to be just tremendous.

24 MR. MC ELDOWNNEY: One thing I wanted to add about
25 that was we've done a bunch of counseling to particularly
26 senior citizens on this issue, and the thing that's been very
27 interesting to us, I think, is that for them they understand
28 that they're going to probably be paying more in terms of

1 continuing to lease it, but there's a security to them in terms
2 of knowing that they're leasing a phone, and knowing that if it
3 breaks down, that they don't have to go out and buy one.

4 So, I think, though it's sort of intellectually,
5 for a number of people, it makes a lot of sense to a lot of
6 people to buy their phone. I think large segments of the
7 population, ~~that~~ for a bunch of emotional reasons, it makes
8 sense for them to continue leasing. And so sometimes I'm
9 bothered by -- like when the PUC or someone says, "Buy your
10 phone." I think what it does is it increases anxiety for
11 people, and makes the whole divestiture seem even more of a
12 threat to them.

13 CHAIRMAN ROSENTHAL: If you were to itemize the
14 three most important decisions that a consumer would face in
15 the next few months, as we're going through this process, what
16 would they be?

17 MS. SOLOW: I think it would be selecting --
18 if you lived in Pacific Telephone -- I happen to live in
19 General Telephone, Senator, so some of the problems you have
20 in divestiture do not apply if you lived inside another system.
21 And I might just say, this is a problem in itself, because
22 people that are in General Telephone, ~~and the~~ many other
23 telephone companies in California, are probably going through
24 some of the same anxieties because they don't realize where
25 the buck stops, where the changes stop. And many of the things
26 that Pacific Telephone is doing are being emulated by other
27 telephone companies.

28 Certainly if you live in Pacific Telephone, the choice

1 of a long-distance carrier is going to be probably one of the
2 major things you're going to have to do, because if you don't
3 designate a long-distance carrier, you may not have long-
4 distance very soon.

5 I think that rapidly escalating phone prices are going
6 to be another problem where the consumer is going to find
7 that the bill is going to go up double or triple or whatever.

8 I think that the decision about an instrument is
9 also very important.

10 MR. MC ELDFOWNEY: Those would be my three, too.

11 CHAIRMAN ROSENTHAL: Long-distance, phone
12 prices, instruments.

13 MS. SOLOW: Also, I think one of the major
14 problems that I see coming up is: What is going to happen to
15 the high-cost rural areas of California? I live in the city,
16 and we have a lot of competition for our telephone buck, but
17 in the harder-to-reach areas of California, I would be very
18 concerned that rural prices did not escalate and become
19 unreasonable. I think that is a major -- should be a major
20 concern of your Committee, because I think the rural users of
21 the telephone may have some special problems as well.

22 CHAIRMAN ROSENTHAL: Thank you very much. I hope
23 that you'll stick around. There may be some cross-questions.

24 MS. SOLOW: Thank you.

25 MR. MC ELDFOWNEY: I have a statement here from
26 a Gray Panther. Should I just give it to you? She was unable
27 to stay to give it.

28 CHAIRMAN ROSENTHAL: Yes. We'll produce that as

1 part of the testimony.

2 Panel No. 3, AT&T, we have Earl Forshee, Communica-
3 tions Assistant Vice-President; Evelyn Copeland, Branch
4 Manager of the AT&T Information Systems. Pacific Bell, we
5 have Doug Cambern, Assistant Vice-President for External
6 Affairs, Pacific Telesis. General Telephone, we have George
7 Bevins, Vice-President of Customer Relations; and Sprint,
8 Craig Welch, Director of Corporate Communications.

9 Anybody can start. Identify yourselves so our recorder
10 knows who's speaking.

11 Why don't we -- let's start in the order that I've
12 introduced them, perhaps go with AT&T, first.

13 MR. FORSHEE: Thank you very much. It is a
14 pleasure to be able to appear before your Committee, Senator,
15 and express AT&T Communications' viewpoint on these matters,
16 and we hope that our comments will be helpful to you. I will
17 restrict my comments to the subject matter contained in your
18 invitation to the Committee as you had requested earlier in
19 this morning's meeting. And I have some prepared comments,
20 and you may feel free to interrupt at any point if you wish.

21 Certainly the public, the telecommunications and
22 AT&T Communications have gone through major changes in recent
23 months: the separation of local exchange companies, and the
24 birth of a new long-distance carrier, AT&T Communications, are
25 major events that were conceived and implemented with the
26 public good in mind.

27 AT&T Communications went through tremendous internal
28 / / / / /

1 changes to make itself ready for this new environment.

2 In the one-month period since divestiture, AT&T
3 Communications continues our tradition of providing excellent
4 telecommunications service.

5 In your hearing announcement, you had established
6 several questions, and I have some answers to those. The
7 first question: "How successful have new billing procedures
8 been? Have they been confusing?" To our best understanding,
9 customer confusion seems to be minimal concerning billing
10 arrangements. I believe I support the comments made earlier
11 by Members of the PUC and consumer interests. The separation
12 of the local exchange companies, though, have made it necessary
13 for AT&T Communications to implement new procedures for the
14 billing of its services.

15 Pacific Bell provides the consumer's billing service
16 for AT&T Communications at this present time for a fee under
17 an approved California Public Utilities Commission tariff.
18 This method of billing customers for AT&T Communications
19 services has been operational since November of 1983.

20 Pacific Bell's customer billing package includes a
21 separate page for the AT&T Communications portion of customer
22 charges. The page also identifies a Pacific Bell toll-free
23 number for billing inquiries.

24 Similarly, for business customers, AT&T Communica-
25 tions -- excuse me. I've turned an extra page. I beg your
26 pardon.

27 Pacific Bell is under instruction to refer customers
28 to AT&T Communications is appropriate. When Pacific Bell

1 transfers customer account records to AT&T Communications in
2 the third quarter of 1984, AT&T Communications will answer
3 customer questions for services it provides through our own
4 telephone number that will be printed on the customer's bill.

5 As a measure of success in the current billing
6 routine, I have a regulatory group that takes referrals from
7 the California Public Utilities Commission, and it's my
8 understanding through the first five weeks, approximately, of
9 the year, we've received one residential inquiry on billing
10 matters. And that, to me, is some measure of success in our
11 current billing arrangement, vis-a-vis, the public's under-
12 standing.

13 Additionally, AT&T Communications has an Account
14 Inquiry Center which answers questions directly from business
15 account customers. The Account Inquiry Center has received
16 few customer complaints. The type of questions that we are
17 receiving today concern billing adjustments, and these are the
18 type of customer inquiries that we have been receiving over
19 the years, anyway, in our industry.

20 Question No. 2: "How successful have the toll-free
21 numbers been to customers? How many have used the service?
22 What seems to be the most common complaints?" For residence
23 customers in AT&T Communications, toll-free residential
24 assist telephone number 800-222-0300 has been operational since
25 March of 1983. We believe that this number has been helpful
26 to residential customers. We receive approximately 600 to
27 800 calls a day on this telephone number. Customers are able
28 to obtain our number from referrals, also from the local

1 exchange company, from Directory Assistance, from telephone
2 operators, and telephone directories, which have now been
3 published with our new number.

4 Additionally, we have some internal studies that con-
5 firm this report. We find that in the western region, that
6 AT&T Communications is ahead of the other AT&T regions in the
7 country, and all of our internal studies confirm that we
8 believe the customers generally are receiving the divestiture
9 impact relatively well, and that our region has the issue of
10 customer communication pretty well under control.

11 Now, for business customers, AT&T Communications has
12 received few complaints from its business customers concerning
13 billing. There is a toll-free number, 800-222-0400, where
14 our business customer's service orders are handled. AT&T
15 Communications is experiencing an increase in calls concerning
16 service orders delayed because of our recently extended
17 schedules. This is the result of introduction of new com-
18 puter systems in some of our own new procedures. We believe
19 this to be a temporary condition. While we recognize that this
20 may temporarily inconvenience the customers, we are making every
21 effort to keep our customers informed about their service
22 requests until they are completed.

23 In order to process repair questions, we have
24 established a toll-free number, 800-222-3000, for use by the
25 general public. Repair questions most frequently referred
26 to this number concern wide-area telephone service, 800
27 service, and the more traditional long-distance service.
28 Approximately half of these calls are made by people having

1 difficulty reaching other companies' advertised 800 numbers.

2 AT&T Communications has received letters of accommo-
3 dation from both residential and business customers for the
4 assistance that AT&T Communications customer representatives
5 have given them.

6 Question No. 3: "How has your company changed to
7 cope with the new consumer concerns? What changes are planned
8 for the future?" As previously mentioned, we have reacted
9 to our customers' concerns by establishing toll-free numbers
10 for business and residence customers. We also plan to provide
11 a toll-free number to resolve billing questions when customer
12 account records have been transferred to us from Pacific Bell
13 in the third quarter.

14 Also, just this week, AT&T Communications has
15 established a new toll-free number to handle questions
16 regarding our calling cards.

17 To respond to the needs of our business customers,
18 since October 1983, we have established four new centers in
19 California. A Residence Service Center has also been
20 established, and we plan to add more residence offices in
21 the future to handle the more than seven million residence
22 accounts.

23 We have also established interdepartmental teams to
24 evaluate our customers' service, and to take action as
25 necessary. Our operators have been trained to refer customers
26 with questions to the correct contacts.

27 Finally, we have instituted a customer-appeals
28 process which is designed to resolve questions that are brought

1 to the attention of the California Public Utilities Commission.
2 It was that process that brought in the one residential
3 inquiry on billing that I referred to a little earlier ago.

4 Question No. 4: "How has advertising affected the
5 consumer's state of confusion?" Our advertising has stimulated
6 consumer-awareness that AT&T Communications is the AT&T
7 company which provides long-distance services, and also pro-
8 vides operator services. We've used several forms of mass
9 media to minimize customer confusion.

10 Question No. 5: "How has the public responded to
11 new equipment leasing and purchasing procedures?" Of course,
12 AT&T Communications is in the transmission services business.
13 We refer general questions concerning customer equipment
14 purchases or leasing arrangements to the yellow pages.
15 However, there is some customer confusion concerning the
16 differences in the services that AT&T Communications provides,
17 and what other AT&T companies provide. Where appropriate, we
18 refer questions to AT&T Information Systems for resolution.

19 Question No. 6: "Are consumers aware of new long-
20 distance selection procedures?" Consumers presently are being
21 informed on their bill that they may choose a company other
22 than AT&T Communications to provide their long-distance
23 service. In the future we would expect that the long-distance
24 competing carriers would each be approaching the customer
25 body overall with additional information. And I believe the
26 customer's level of awareness will increase over a period of
27 time.

28 In summary, AT&T Communications has gone through

1 major changes. We have learned from these experiences and we
2 continue to learn from these experiences, and we're continuing
3 to pursue our major goal of customer satisfaction.

4 CHAIRMAN ROSENTHAL: There's been a reference
5 to the Andy Griffith commercials that tell the customers not
6 to do anything. Are you going to continue to run them?

7 (Reporter interruption.)

8 CHAIRMAN ROSENTHAL: Let's stop for just a
9 couple of minutes. She needs some time to change the tape.
10 We'll take a five-minute break.

11 (Brief recess.)

12 CHAIRMAN ROSENTHAL: I think we're ready to
13 reconvene. Mr. Forshee -- is that the way you pronounce your
14 name? -- I started to ask you, just before we had a little
15 break, about the Andy Griffith's commercials which tell the
16 customers to do nothing. I assume they're still running. Are
17 you going to continue to run them, or are you not? What
18 reaction have you received from them?

19 MR. FORSHEE: Yes, sir. As it turns out, that
20 particular commercial is sponsored by AT&T Informations
21 Systems, and the other company is available here, and that
22 perhaps we can clear that up right here.

23 CHAIRMAN ROSENTHAL: Okay.

24 MS. COPELAND: Senator, we have completed
25 the series of runs at this time on the Andy Griffith campaign.

26 CHAIRMAN ROSENTHAL: Oh, I see. So, anybody
27 who hasn't seen it before, won't see it again.

28 MS. COPELAND: Unless they're reruns.

1 CHAIRMAN ROSENTHAL: Let me come back to
2 Mr. Forshee. What's the Warranty policy for equipment pur-
3 chased through AT&T?

4 MR. FORSHEE: Again, sir, I would recommend that
5 question to Information Systems.

6 CHAIRMAN ROSENTHAL: All right.

7 MS. COPELAND: That depends on the type of
8 equipment that they're buying, Senator. It depends on the
9 Warranty period. It varies with the item of equipment.

10 CHAIRMAN ROSENTHAL: Well, can you give us some
11 sort of an idea what we're talking about? Mention a couple
12 of pieces of equipment, and tell us how long the Warranty is.

13 MS. COPELAND: Off the top of my head -- I
14 represent the business side of the house and, for example,
15 for an item of equipment that we have, the Merlin, the
16 Warranty period is a year.

17 CHAIRMAN ROSENTHAL: I see.

18 MR. CAMBERN: Maybe I can help a little, Senator.
19 I'm Doug Cambern, representing Pacific Bell. Prior to the
20 time of divestiture, when we were making the equipment avail-
21 able to our customers, for an in-place telephone that is
22 already installed in your home, the Warranty period was 90
23 days. For an instrument that you would come into a phone
24 service for, or a Service Center for and purchase, the
25 Warranty was six months. That is for the standard residential
26 telephones that most of us have in our homes.

27 CHAIRMAN ROSENTHAL: Okay. Now, I don't know
28 whether to ask you this question or not. Does AT&T plan to

1 raise the cost of making a long-distance information call to
2 seventy-five cents as been indicated?

3 MR. FORSHEE: Information call, we would assume
4 to be Directory Assist?

5 CHAIRMAN ROSENTHAL: Yes.

6 MR. FORSHEE: The matter of Directory Assistance
7 is presently under investigation in the rate proceeding that
8 we are part of over at the Public Utilities Commission. It's
9 a relatively complicated question, and I'll try and be as
10 brief as I can.

11 The issue for AT&T Communications at this particular
12 time is that the access charge tariff that has been
13 established for our gaging access to the network for the pur-
14 pose of Directory Assist establishes a relatively high charge
15 to AT&T for that access. Subsequently, if that access charge
16 tariff remains at that level, AT&T Communications will have to
17 raise its Directory Assistance charge level. We have appealed
18 that in our testimony that has been filed before the Commission,
19 and there will be hearings on the 6th of March on that matter,
20 and that remains, in that case, an open question. But we
21 would hope, in fact, to be able to lower the access charges
22 to more of the level or closer to the cost Pacific Bell has
23 indicated is the true cost of Directory Assistance, in which
24 case we wouldn't have quite the problem that we have at this
25 instant.

26 CHAIRMAN ROSENTHAL: One other thing that has
27 come up in my District office; for example, what's going to
28 be the policy with regard to providing equipment to the

1 deaf, or the handicapped individuals -- I mean, the non-deaf
2 handicapped?

3 MR. FORSHEE: Yes. We, at AT&T, have filed a
4 tariff with the Public Utilities Commission, and I believe it
5 basically takes over the same equipment and responsibilities
6 that existed in the Pacific Telephone tariff prior to divesti-
7 ture. If it would be convenient for you, I can obtain a
8 copy of that tariff and refer that on to you.

9 CHAIRMAN ROSENTHAL: How would that information
10 get out to the consumers?

11 MR. FORSHEE: I believe from the point of view
12 of the consumers, there's been effectively no change in the
13 status as a function of divestiture. It just means that since
14 Pacific Telephone no longer has that tariff in their name, or
15 Pacific Bell, now that AT&T has taken over the tariff for the
16 handicapped equipment.

17 CHAIRMAN ROSENTHAL: I see. All right, Miss
18 Copeland, would you like to make your presentation?

19 MS. COPELAND: Thank you, Senator. AT&T
20 Information Systems is the provider of equipment for residence
21 and business telecommunication needs. We were initially
22 formed in 1983 as a result of the Federal Communications
23 Commission's computer inquiry tool. During this period of
24 transition in change, we continued to strive to provide high
25 quality customer service. In answer to your questions: "How
26 successful have the new billing procedures been, and have they
27 been confusing?" at the present time, consumers receive a
28 Pacific Bell bill which separately details equipment charges.

1 However, in the March/April time frame, we will start sending
2 our customers a totally separate bill for equipment for
3 residence and business equipment. They will be notified in
4 advance of those changes to avoid confusion.

5 "How successful have the toll-free assistance phone
6 numbers been to consumers, and how many have used the
7 services?" At the beginning of January, our customers did
8 encounter some delays in reaching us. However, the problem has
9 been resolved at this time. We maintain the same nationwide
10 sales and services numbers that we had in 1983. These toll-
11 free numbers have been helpful to residents since divestiture.

12 We have received approximately 31,000 calls per day in
13 our 18 locations throughout California; that's business and
14 residence customers. The most frequent inquiry that we get
15 pertains to: "How does divestiture impact me as a consumer?
16 How has the company changed to cope with the new consumer
17 concerns, and what changes are planned for the future?" In
18 order to help our customers and employees adjust to divesti-
19 ture, we had a preliminary practice period during November and
20 December. This allowed us to smooth customer interfaces and
21 use our new operating procedures. We have available a
22 Customer Inquiry procedure to respond to customer concerns in
23 a timely manner. There are changes that will occur as we
24 move forward, and we will notify our customer of these changes
25 as soon as they're finalized. An example of this would be the
26 changing of our Phone Center hours and days of operations.

27 "How does advertising affect the consumer's state of
28 confusion?" Our advertising in Consumer Information has

1 included mailers, radio spots, TV, newspapers, to minimize
2 customer confusion. We have also internally had a pre-active
3 customer-calling program, and our system technicians have
4 provided on-sight information to our customers.

5 Because of the complexity of divestiture, it is
6 reasonable to expect that it will be a while longer before
7 all of our customers understand the different roles and
8 services provided in our new environment. We will continue
9 to use mass advertising, face-to-face meetings, provide
10 stickers with the appropriate numbers to call, to insure that
11 our employees not only answer questions, but continue to
12 educate our customers.

13 "How has the public responded to the new equipment
14 leasing and purchasing procedures?" As was stated earlier,
15 there has been some confusion, but in general our customers
16 have responded most favorably to the availability of a full
17 range of products, payments, or leasing options. These
18 alternatives allow each customer to select the products and
19 plans that best meet their individual needs.

20 As I mentioned earlier, there was some customer
21 confusion during the first two weeks of January; however,
22 we have noticed a significant decrease in the last two weeks.
23 We've made every effort to make this a smooth transition for
24 our customers, and we will continue to manage through this
25 process.

26 CHAIRMAN ROSENTHAL: How will rural equipment
27 be handled if you don't have a local Equipment Center nearby?

28 MS. COPELAND: We have mail that can be used.

1 But we have 100 Phone Centers throughout California.

2 CHAIRMAN ROSENTHAL: In some areas of the rural
3 California, I'm reminded by one of the Senators: "I represent
4 15 counties up north, and I can't get from one place to
5 another in a day." How are we going to take care of those
6 people in the rural areas? Obviously your Phone Equipment
7 Centers are going to be where most people are.

8 MS. OSTERGARD: Senator, I'm Sue Ostergard of
9 AT&T Information Systems. I represent primarily the residential
10 side. We do have, as Evelyn mentioned, 100 customer centers
11 throughout the State, in addition to Direct Delivery Service.
12 A customer calling and asking for equipment, we will send
13 out -- for example, like with a carrier like UPS -- that
14 equipment will be delivered in one to two days. So, if they
15 are in one of those remote areas, either for repair or for
16 getting new equipment, that is a way of providing equipment to
17 them.

18 As you may also know, AT&T is distributing its equip-
19 ment through other clear party, if you will, retail vendors,
20 so it may be available to them in other retail locations.

21 MR. CAMBERN: Senator, in addition to repre-
22 senting Pacific Bell, I also represent Pacific Telesis group,
23 and effective the first of the year, a new unit of the PacTel
24 group, Pacific Telecommunications, went into business offering
25 residential and business equipment to consumers. Their plan
26 for delivery contemplates no more than two, and in most cases --
27 in many cases -- the next-morning delivery, utilizing, I
28 believe, Purolater Courier, as our current carrier.

1 CHAIRMAN ROSENTHAL: Okay. Why don't we, since
2 you've just answered a question, Mr. Cambern -- why don't you
3 make your presentation.

4 MR. CAMBERN: As I stated, Senator, I represent
5 Pacific Bell, as well as the Pacific Telesis group, and we
6 appreciate the opportunity to address this Committee on how
7 the divestiture of the telephone system in California has
8 impacted customers, and how we have attempted or how we have
9 responded to customer concerns.

10 I recognize and commend you on the quick action of
11 the Committee in following up on this very vital consumer
12 issue. I'd like to point out that your action was so quick
13 that we have not had sufficient time to fully assess customer
14 problems and services during January 1984. And unless other-
15 wise indicated in my testimony, this lack of time results in
16 some of the information being based on our own perception of
17 facts. I will focus on the questions that you asked in your
18 invitation to us.

19 The first of the questions was -- this has already
20 been answered by the others -- "How successful have the new
21 billing procedures been? Have they been confusing?" I'd like
22 to identify the new billing procedures before discussing
23 their success. Most Pacific Bell customers are now receiving
24 one monthly telephone bill which is segmented into three
25 parts: Pacific Bell's, AT&T Information Systems and AT&T
26 Communications. This was made possible through our contractual
27 arrangement by Pacific to bill for AT&Ts long-distance
28 internal equipment charges. Similar billing services have been

1 offered to other long-distance companies, but as of now, they
2 have not seen fit to request our service.

3 If AT&T is the customer's long-distance company, then
4 only one bill is received and only one monthly payment is
5 made; and that is to us. Pacific Bell will also handle any
6 question concerning AT&Ts long-distance charges. Rental
7 charges on any equipment leased from AT&T will be shown on
8 Pacific Bell's bill through April 1984. And as indicated by
9 the AT&T representative, after that date, AT&T will bill the
10 customer directly for any leased equipment that they have from
11 them.

12 Customers are provided with telephone numbers on
13 the bill to call if they have any questions on our billing
14 policies, including payment dates. Questions regarding
15 charges and credit, those arrangements will remain the same.

16 We started sending out the new segmented format with
17 our October 1984 bills so that our customers would have three
18 months prior to the actual date of divestiture to get used to
19 the format.

20 We also provided notice of our new billing procedures
21 through bill inserts and brochures and pamphlets that were
22 made available to all of our customers.

23 A majority of questions received by our toll-free
24 Let's Talk operators, right after the bill was introduced in
25 October, concerned the new segmented bill. We believe that the
26 combination of bill inserts and availability of Let's Talk
27 has eliminated most confusion as to the new billing procedures
28 and that the cut over to these procedures has been successful.

1 Your other question: "How successful have the toll-
2 free assistance phone numbers been to consumers? How many
3 have used the service, and what seems to be the most common
4 complaint?" First, if I can, a little background information,
5 again, on these toll-free assistance numbers. The Let's Talk
6 Response Bureau for Pacific Telephone Nevada Bell went out
7 Monday, September 20, 1982. Customers have been advised of the
8 numbers through advertisements initiated by AT&T and nationwide
9 magazines and newspapers, such as Time, Newsweek, Forbes and
10 the Wall Street Journal. The number has also been printed in
11 company publications and bill inserts, such as Openline, to
12 advise employees and customers of the availability of the
13 Bureau for their use. The purpose of the Bureau is to give
14 Pacific Bell an opportunity to be open and honest with our
15 customers in connection with changes due to divestiture. We
16 feel this program has been very successful. Any means of
17 communications that can clarify the changes brought on by
18 divestiture has to benefit our customers and ultimately
19 ourselves.

20 One measure of the success of the program is the
21 volume of calls received from customers. Only 1,921 calls
22 were received in the three and a half months of operation
23 in 1982. This increased dramatically to a total of almost
24 87,000 in 1983. And the increase in the number of calls as
25 divestiture approached is in my written testimony which I
26 will submit to you. But it did increase dramatically,
27 culminating in December with 21,594 calls. However, in
28 January, the volume is subsiding, as I have indicated in my

1 testimony. The first week we had 7,000 calls -- and I'm
2 rounding these figures -- 5,000 the second week, 3,000 the
3 third week and 2,000 the fourth week.

4 The vast majority of the calls are in the form of
5 questions, not complaints. The sample token of calls taken
6 during January 1984 produces the following breakdown:
7 39 percent of the calls were specifically billing questions,
8 precisely the same type of questions that we have been
9 receiving to our service reps in the past; 24 percent were
10 questions on equipment; 16 percent were questions on long-
11 distance and 21 percent were miscellaneous topics.

12 In the category of specific billing questions, the
13 customers were asking about charges on their existing bill, or
14 wanted to place an order for service. In this case, the
15 representatives referred the customer to the appropriate
16 business office to complete the transaction.

17 Equipment questions dealt with how, where and who
18 the customer should contact to purchase or repair their
19 telephone equipment. Our representative explained the
20 procedures and referred the customer to the appropriate
21 business number. Incidentally, all of these numbers appear
22 on the telephone bill in the form of 800 numbers. I think as
23 our customers get the experience, they will call these
24 numbers as a natural choice.

25 Customers inquiring about long-distance were concerned
26 about how to get a long-distance carrier, and whether they must
27 have touch-tone service to complete a long-distance call.

28 In the miscellaneous categories, questions

1 really covered the gamut: rate case service areas, stock and
2 questions about the Pacific Telesis group.

3 The question: "How is your company changing to cope
4 with new consumer concerns, and what changes are planned
5 for the future?" Probably the biggest change in our company
6 with respect to new consumer concerns is the total emphasis
7 emphasis we are placing on keeping our customers aware of
8 changes in our operation. We have always been responsive to
9 consumer concerns. The breakup of the Bell System has created
10 such potential confusion that an all-out effort to keep
11 customers aware of changes is absolutely necessary.

12 Some of our efforts toward this goal are as follows --
13 I'll describe them, and I have a package, Senator, of the
14 materials that we use, the communications materials that we
15 actually use -- bill inserts on our rate case, discussion of
16 access changes and a description of our new service areas;
17 Openline customers' newsletter directed to residence customers
18 telling them in broad terms about the changes they will be
19 faced with; Pacific Bell Preview, a customer newsletter for
20 business customers; Let's Talk, which I've already described
21 to you for divestiture-related questions; and corporate
22 advertising through brochures, such as telephone service that
23 glues the whole society together -- and we're attempting to
24 make a mole hill out of a mountain -- employee information,
25 such as a brochure called Discussing Divestiture, which sup-
26 plied out employees with the necessary information for
27 answering questions from relatives and friends, was distributed
28 in November. We have 100,000 employees. They are the people

1 that received the questions, not all of them over the tele-
2 phone as a call to the telephone company. We made a conscious
3 effort to equip them to answer the questions of their friends
4 and neighbors. Sponsorship and a seminar in partnership with
5 the Golden Gate University on deregulation and its customer
6 impact was held in June of 1983. Mr. McEldowney participated
7 in that seminar with us, and many speeches by volunteer
8 speakers and executives to whatever group we could assemble
9 to listen to our message were made during the months prior
10 to divestiture. And many, many talk show and media opportu-
11 nities to discuss what was happening to us and ultimately how
12 it would impact our customers.

13 We plan to continue the Consumer Advisory Panel.
14 Once again, this is the outfit that Mr. McEldowney is involved
15 with. It's a 12-member group of community leaders who
16 advise us of how our policy will affect our customers. This
17 Panel rotates its bi-monthly meetings around the State and
18 reports regularly to a branch of our own Board of Directors.
19 We're expanding this operation in '84 to include a regional
20 panel in the northern area to insure that rural interests
21 are represented as well.

22 We're also going to continue our Consumer Advisory
23 Council, which is a group of consumer leaders formed to
24 address a single issue. The formation of our seventh such
25 Council is underway, and this Council will address the topic
26 of Customer Complaints. These Councils are disbanded after
27 making their recommendation to the Board of Directors.

28 Company changes for the future will depend on the

1 eventual resolution of such issues as access charges and the
2 intra-service area, or intra-LATA toll-free competition
3 issue that is currently before the Commission.

4 One thing is certain, we will not lessen our attempts
5 to keep our customers aware of changes, and may very well
6 intensify them even more as need for such activity develops.

7 Another plan change is that all directories published
8 in January '84 and afterwards will include information on
9 Pacific Bell, how to do business with us, in an attempt to
10 clarify the service area boundaries.

11 One indication of how far we will go in helping our
12 customers adapt to a post-divestiture environment is shown
13 in our handling of the 611 trouble calls. Even though
14 telephone sets are no longer the responsibility of Pacific
15 Bell, we are encouraging our customers to call 611 and then
16 we will attempt to lead them through the processes necessary
17 to isolate the problem, whether it's in the instrument,
18 whether it's in the inside wiring, or whether it's in our
19 switching facilities, and guide our customers so that we can
20 either take care of it or refer them to the appropriate
21 organization that has the responsibility for accomplishing
22 those repairs.

23 We are doing everything possible to insulate the
24 customer from the potential of a \$40 service charge that
25 happens when we come out and find really the problem is not
26 in the area that we have responsibility for and our tariff
27 forces us to bill that charge.

28 "How does advertising affect the consumer's state of

1 confusion?" We feel that the type of advertising described
2 in the answer to the preceding questions has helped to
3 alleviate confusion in the minds of customers. The only
4 reasonably accurate way to measure this confusion would be
5 through before-and-after surveys of our customers, whether
6 they are very, very expensive; and we have elected not to
7 embark on that endeavor.

8 The decrease in the number of inquiries to Let's Talk
9 during the first four weeks of January is also an answer to
10 your second question.

11 "How is the public responding to new equipment
12 leasing and purchasing procedures?" In general, our perception
13 is that the public has responded well to new equipment leasing
14 and purchasing procedures. We've used various types of
15 advertising to inform customers of these procedures, including
16 Openline bill inserts, brochures and media publications. We
17 also sent two pieces of information concerning the purchase
18 of equipment to residence customers with the mailing special
19 in November of '82, and repeated the offering January of '83.
20 And we've already discussed the other efforts of either
21 Commission to encourage people to purchase their instruments.

22 "Are consumers aware of new long-distance selective
23 procedures?" We've not provided consumers in California with
24 complete details as to long-distance selection procedures to
25 use after equal access becomes available. We will not have
26 equal access, and equal access is the same dialing procedure
27 for all long-distance carriers until September of 1984. And
28 at that time, two areas will have this capability.

1 Because of all the other changes that took place
2 on January 1, '84, and because of the possibility of further
3 change in these procedures, we're waiting until the second
4 quarter of '84 to start our Consumer Awareness Program on
5 equal access. That's for long-distance selection.

6 At the present time, we're telling customers that they
7 will have to make a choice about carriers sometime late in
8 1984. Until then, they can select a new long-distance
9 carrier or continue with their current carrier until they hear
10 from us. Our Openline bill insert for December '83 showed a
11 picture of the service areas within California, explained that
12 we will handle long-distance within the service areas, and
13 stated that any other type of long-distance service will be
14 handled by the long-distance company of your choice.

15 We also stated that in the future, when dialing
16 procedures change, we will advise you well in advance. We
17 will insure that California consumers will be completely aware
18 of new long-distance selection procedures at least three months
19 in advance, at the time when they will actually have to make
20 a selection.

21 Again, let me thank you, Senator, for the opportunity
22 to address the Committee, and I will certainly attempt to
23 answer any questions you or others might have.

24 CHAIRMAN ROSENTHAL: Well, like many others, I
25 just received my new telephone bill.

26 MR. CAMBERN: You're a good customer.

27 CHAIRMAN ROSENTHAL: And I just ran some totals,
28 and something doesn't quite work out. That may be a computer

1 problem.

2 But let me ask a couple of questions, because right
3 now, for example, it's all on one -- you know -- we get a bill
4 from Pacific Bell --

5 MR. CAMBERN: Yes.

6 CHAIRMAN ROSENTHAL: -- and you've included the
7 long-distance callings and service area calls. Everything's
8 right here.

9 MR. CAMBERN: Yes.

10 CHAIRMAN ROSENTHAL: I guess one of my concerns
11 is -- and it may be a concern for the companies as well toward
12 the future -- if, in fact, people will eventually get three
13 bills from telephone companies. If you decide, for example,
14 that you're not going to continue to do the total billing so
15 that everybody gets one phone bill, I think you might be
16 in for some interesting problems. Because the person getting
17 ready to pay bills decides, "Well, I can't pay all three
18 of them, so this month I'll pay this one, and the next month
19 I'll pay this one, and some other month I'll pay the third
20 one," and for each one of you, that may be creating a future
21 problem. And I don't know whether it's going to be possible,
22 for example, for you to -- for Pacific Bell to continue to
23 include on one bill, whatever the service happens to be,
24 whether that's a profitable operation for you, whether it
25 makes sense for you to do it, or whether you have some other
26 ideas.

27 MR. CAMBERN: Well, we just concluded, I believe,
28 a three-year contract, or consummated a three year contract,

1 with AT&T Communications where we have agreed to bill for them
2 and negotiate inquiries on their calls for a three-month
3 period. And I believe the value of that contract was \$900
4 million. That service is being provided in a fashion that is
5 not a burden on the local telephone customers. But one of the
6 specific requirements of the modified final judgment, or the
7 consent decree, was that if we made an offer, as an example,
8 to AT&T Communications to include their charges on our bill,
9 that the same offer must be made to the other carriers under
10 the same terms. How that evolves in the future is a matter of
11 choice. I think that we're sort of creatures of habit.

12 My wife, because she likes credit cards, pays five
13 gas bills a month, because she's got Shell and Chevron and a
14 whole bunch of the other credit cards -- potentially a problem.
15 But I think that the transition that we're involved in now
16 is very quickly going to level out as people become accustomed
17 with the new procedures.

18 CHAIRMAN ROSENTHAL: Let me tell you one other
19 thing, too. You go through the bill and you get to the end
20 and then you find out the description of what it's all about.
21 And it just seems to me that maybe for a period of time a
22 description ought to be on the top, so that people at least
23 become much more familiar with what the individual sheets are.
24 I don't know whether you've given that some thought or not.

25 MR. CAMBERN: No, we haven't. If we have, I'm
26 not aware of it and that's an interesting suggestion, Senator.
27 Let me pursue it. We always put the total on the back of
28 the bill because that's the bad news.

1 CHAIRMAN ROSENTHAL: And you have that boxed
2 and that's fine, because that's the thing that says, "Please
3 make your check payable for that amount." But people then
4 look at some of the other things; they don't know what it
5 is until they get to the end of the bill, and that's back here.

6 The other thing, too, you indicated -- and I remember
7 seeing some identification of what our service area or LATA
8 was. It might make sense to do that again, not just the one-
9 time kind of a thing, so people begin to be aware of that
10 service area concept, and maybe even a map for the person in
11 their individual districts as to what that service area is.

12 MR. CAMBERN: Yes. We're thinking about using
13 the telephone directory as the medium for giving the visual
14 information out. Of course, your bill will indicate the charges
15 within the service area will be in the Pacific Bell portion
16 of the bill. The charges between service areas will either
17 be on the AT&T portion, or a bill rendered by one of the other
18 15 carriers that have been licensed to provide intrastate
19 service within California.

20 CHAIRMAN ROSENTHAL: Do you think the telephone
21 customer is already aware of what a service area is?

22 MR. CAMBERN: Absolutely not. Absolutely not.
23 When we give you these figures of the number of people that
24 have called Let's Talk, we have to constantly remind ourselves
25 we're talking about a base of eight million customers; and
26 frankly, we're talking about customers that infrequently have
27 the necessity or the requirement to assess the telephone
28 company. When they get to us, we can explain it, or attempt

1 to explain what's going on. But many, many customers, until
2 we reach the point where some sort of declaration is going to
3 have to be made, carrier designation, unless they're avid
4 readers of the newspaper, some probably may not even realize
5 the dynamics of what's been going on in our industry.

6 CHAIRMAN ROSENTHAL: Finally, let me touch upon
7 another subject that I've had some interest in and which is
8 already in existence in one part of the State. What's your
9 opinion of the Tele-CUB issue?

10 MR. CAMBERN: We are not supporting Tele-CUB.
11 Our position on the issue is that we feel there has been, and
12 will continue to be, adequate consumer input to the regulatory
13 process. It appears to be redundant to a process that's
14 already in place. It's establishing a new level, a new
15 hierarchy. If people feel that consumers have not been
16 adequately represented before the Commission in the past, I
17 would submit that they check the figures on their bill and
18 compare those figures to elsewhere in the United States.
19 Although telephone service on a national basis is a bargain,
20 it's a particular bargain in California, mainly because of
21 the activity of the Commission. And I think candidly because
22 of the intervening efforts of the consumer groups that have
23 been effective in making their point of view known.

24 We were the first company to have Lifeline service,
25 and certainly the consumer groups which -- don't misunderstand
26 me -- are responsible interveners by and large have had an
27 impact.

28 CHAIRMAN ROSENTHAL: Okay. Consumers may have

1 some questions later in the proceedings.

2 General Telephone, George Bevins, Vice-President of
3 Customer Relations.

4 MR. BEVINS: Thank you, Senator, for the
5 opportunity of being here. Again, like my colleagues here,
6 we compliment your quick response to issues of concern to our
7 consumers. We, too, have had some difficulty compiling
8 January's reports, but we do have a few stats here.

9 Ours may not be as impressive or as great as some
10 of the others, because we haven't been effected quite
11 extensively as has our associates in the industry. In fact,
12 I wonder whether everyone is really familiar with the areas
13 that are served by the General Telephone. Maybe just for the
14 record -- we are up in the Los Gatos, Nevado, Morgan Hill,
15 Reedley, Fowler, Lindsey, kind of spotty up there, coming
16 down through Santa Barbara; we skip down to the area of West
17 Los Angeles and Santa Monica/Malibu areas, then south into
18 Long Beach and out into the desert area of Palm Springs and
19 San Bernardino and good old Eagle Mountain. But that's
20 roughly our territory, and we have roughly about two and a
21 half million customers. And their service hasn't been greatly
22 affected by the divestiture.

23 On January the 2nd, they continued to be served in
24 much the same fashion as they were prior to the divestiture
25 date of January 1st of '84.

26 CHAIRMAN ROSENTHAL: Which many of them have
27 indicated wasn't very good to begin with.

28 MR. BEVINS: Well, I hope that's not true.

1 Let me get this in the record. What I meant was they
2 can continue to purchase telephones or rent them just as they
3 were prior to that date, and they still make long-distance
4 phone calls in the same fashion as they were prior, in that
5 they have a choice of their carriers for long-distance. And
6 unless they indicate that they want another carrier, they will
7 continue doing it in the fashion that they always have. So,
8 the impact has not been quite as great.

9 The greatest impact to us seems to have been more in
10 the area of customers wondering just what they had to do, and
11 especially in view of the advertising and the media and all
12 of the attention that was focused on it. So, we got a lot
13 of questions in my Department. In Custom Relations we handle
14 a lot of those questions.

15 Some of the major ones I've listed here, the ten-
16 most-frequently-asked questions in order of priority is,
17 as you mentioned earlier: "Do I have to buy my phone now, or
18 can I wait until later? Can I buy the one I'm leasing now,
19 and if I do, who will maintain it?" And as you mentioned
20 earlier: "Is it better to buy or lease?" So, these are
21 questions that are continually coming up. "Do I have to make
22 a choice in long-distance companies? Which one is cheaper?
23 How will these long-distance companies bill? What are the
24 different long-distance companies? Will my local service
25 charges go up or down? Do I have to have touch-call service
26 in order to use AT&T long-distance, or one of the others?
27 Can I still call out of my service area if I don't choose a
28 toll vendor or carrier?"

1 The first three questions I mentioned are perhaps
2 the most frequently asked, and in my testimony, along with
3 that, I have a copy of the 20-most-frequently-asked questions,
4 along with the answers, for anybody here that wants a copy.
5 Just see me.

6 I believe that these questions pretty well sum up
7 the customer's concerns that have been expressed in the last
8 30 days since divestiture.

9 To address specifically the questions that you
10 included in your invitation, first, "How successful have new
11 billing procedures been, and have they been confusing?" We
12 have made very few changes in our billing. We do have long-
13 distance intra-LATA separated from the long-distance that
14 would be billed to AT&T, so that's easily identified. We're
15 not aware of any problems that have been created as a result
16 of that. We haven't had any questions on that point.

17 On the second question: "How successful have toll-
18 free assistance phone numbers been to the consumers, and how
19 many have used the service, and what seems to be the most
20 common complaint?" Well, we just covered most of those points
21 there, but generally we believe that our assistance lines have
22 been most successful based on the numbers of calls which
23 sharply increased during December and January. But at the
24 same time, interestingly, complaints referred to us by the
25 Public Utilities Commission dipped about 25 percent over what
26 the normal number was. So, it indicates that the toll-free
27 assistance lines are allowing us to get in on the complaints
28 somewhat earlier than before we had them.

1 The technical assistance number that we've identified
2 is 800-221-6030, and that's a number that our customers can
3 call if they wonder about whether the trouble is in their
4 telephone or perhaps in the line or central office, and they
5 want some assistance in determining tests that they could
6 run before they come down to the Phone Mart or perhaps buy
7 another telephone. Or, if they're engaged in wiring their
8 own home, or putting in the modularized jacks, they can get
9 help through that number.

10 We also have the Consumer Action line which we have
11 publicized through bill inserts, and it's in the front of all
12 of our directories now. It has been since November of '83.
13 That was gradually introduced over a period of a year as new
14 directories came out, and that number is 800-982-6347.

15 Then we've introduced just within the last few
16 months an Information line which our customers can call if
17 they have questions about access charges, or the rate case
18 that we have in progress right now. And they've been provided
19 in bill inserts, materials, newspaper ads, and have been
20 provided in talks and on brochures that are handed out in
21 our Phone Marts.

22 We've received about 2,000 calls in December, and
23 about 2800 calls in January, on the Action line and the
24 Technical Assistance lines there. So, our customers are
25 aware, and they are using these numbers.

26 Question 3 on "How is your company changed to cope
27 with new consumer concerns? What changes are planned for the
28 future?" All of our efforts have been directed to minimize

1 the effect of the divestiture, and we've also been, and still
2 try to be, the complete telephone company to our customers.
3 Our customers, as we mentioned earlier, can still today lease
4 or purchase their telephones just as they were doing prior to
5 the divestiture. Our prices in telephones from the Phone
6 Marts are \$14 to \$300, which is quite a range; and we have 28
7 Phone Marts that are located throughout our serving area.

8 In addition to that, we have several Convenience
9 Centers which people, that are not located near a Phone Mart,
10 can go to a place that may be nearer to them and have their
11 telephones checked over, or purchase new ones.

12 We also have Custom Services available from our
13 electronic offices.

14 As far as any changes are concerned, last year we
15 introduced a separate division of our company to serve the
16 business customer. I see our company responding much more
17 quickly to our customers' concerns than in the past. I think
18 that's a good trend, and we will certainly emphasize that and
19 encourage it in the future.

20 Prices for all of our services will continue to
21 reflect the cost of providing those services. We're adding
22 to our product lines in the future enhanced computer-generated
23 services like Electronic Mail, remote Call Forwarding, 3-Way
24 Calling; and our Custom Services packet: switching, shopping
25 and banking by telephone. And we're also working with the
26 county Consumer Affairs Department to establish a Consumer
27 Advisory Task Force in order to gain more information and
28 input on the matters that are affecting our customers.

1 On the fourth question as to how our advertising
2 effected the customer's state of confusion, we've published
3 very descriptive brochures and ads covering the ten geograph-
4 ical service areas in California, and the intent of access
5 charges. We've published the service areas on a big map, and
6 we have copies of those ads that are available in the packet
7 that we can hand out. We will continue to do that and try
8 to educate our customers to the fact that we do have very
9 clearly identified service areas. We hope that our advertising
10 has been successful and tending to quiet the fears and
11 eliminating some confusion, because it has been quite evident
12 that there has been confusion.

13 We've emphasized in our advertising the \$4 billion
14 five-year Service Improvement and Modernization program that
15 we've had in progress.

16 CHAIRMAN ROSENTHAL: Let me ask a question about
17 that. I know that you've had a program of changing over your
18 equipment, because there have been some problems in that
19 area. Have the recent developments made this more difficult
20 or easier?

21 MR. BEVINS: You mean in the field of the
22 electronics?

23 CHAIRMAN ROSENTHAL: Right. In other words, has
24 this whole program of divestiture, and what it is you're going
25 to be able to earn your money on, made it more difficult to
26 attain the technical changes that you've been working on?

27 MR. BEVINS: Well, we've made every effort to
28 try to prevent anything from interfering with our Service

1 Improvement program. That's a commitment we've made to our-
2 selves and to our customers, and we're depending on a cost-
3 base pricing as a means to accomplish this. And that has been
4 the major influence in our major rate case that's pending
5 before the Commission right now. So, we trust that we will
6 be able to continue successfully with the conversion of all
7 of our electromechanical switches to function without any
8 interference in our schedule.

9 CHAIRMAN ROSENTHAL: Let me just -- one further
10 question in terms of your program of advertising. What do
11 you think about Pacific Bell saying if you have a problem, call
12 them? Do you want your customers calling them?

13 MR. BEVINS: We have never ever suggested that
14 if our customers have problems to call Bell.

15 CHAIRMAN ROSENTHAL: Okay. I'm just being a
16 little facetious.

17 In their advertising, they say that if you have any problems
18 with your telephone, any telephone customer, you know,
19 "call us." I just wondered what the other companies thought
20 about that kind of advertising.

21 MR. BEVINS: Well, we have thought more about
22 ways of communicating with our customer than we have in the
23 past, and hence, we have these three 800 numbers that a year
24 ago didn't exist. We feel quite proud about our Consumer
25 Action line in that, when a call comes in to that group, it is
26 not passed on to someone else, but we remain the follow-up
27 point for the resolution of whatever problem is brought to our
28 attention. So, we are just about 98 percent effective in

1 making sure that our customers are not having continued
2 follow-up problems in the same area.

3 CHAIRMAN ROSENTHAL: Now that AT&T has taken over
4 control of the phone equipment, what is your policy now
5 regarding repairs?

6 MR. BEVINS: If the customer is still renting
7 from us, we continue repair just as we had previously, with
8 one exception: that if a customer, under the rental basis,
9 wants us to come out, we have a \$10 visit charge, and we will
10 fix it on premise. We do let them know they can avoid that
11 charge by bringing their telephone down to the Phone Mart.

12 CHAIRMAN ROSENTHAL: I see. Thank you.

13 Yes, did you want to comment?

14 MS. OSTERGARD: Perhaps this is the time to
15 clarify the AT&Ts repair procedures, because there was some
16 misunderstanding previously.

17 CHAIRMAN ROSENTHAL: Will you identify yourself?

18 MS. OSTERGARD: Yes. I'm Sue Ostergard with AT&T
19 Information Systems. I have the responsibility for residential
20 Phone Centers in Southern California.

21 On repairs for residence service, if the customer is
22 leasing from us, the set itself is maintained at no charge,
23 as it was in the past. If they bring the set into the Phone
24 Center store, we swap it out; if they want to do it via mail,
25 we swap it out; if they do require a premise visit, there is
26 a one-time charge, as in this case of AT&T, to go to that
27 premise, to go to the customer to make the repair.

28 CHAIRMAN ROSENTHAL: Now, their charge is \$10.

1 What is yours?

2 MS. OSTERGARD: Depending on what the problem is,
3 there would normally be a \$15 amount.

4 CHAIRMAN ROSENTHAL: And how does that --
5 Is that the same, regardless of whether it's rural
6 or urban in both your cases?

7 MS. OSTERGARD: That's correct. Now, it's
8 related to the time it takes to repair it; depending on the
9 problem, the price could change.

10 Our warranty on equipment that has been sold in
11 place is the 90 days that Mr. Cambern mentioned, or we would
12 honor the 180, if that was what was in effect previously.
13 New equipment that they would buy from us, it would be a
14 period of one year. So, you really have to look at each
15 individual case to really assess what is the cost-forming
16 maintenance on a set, because in most cases, there is no
17 charge associated with that.

18 We do have agencies, in addition, throughout the
19 State, where things can be picked up or dropped off, that
20 would help in those more rural locations.

21 CHAIRMAN ROSENTHAL: Thank you.

22 Do you have a long record there of the number of --

23 MR. BEVINS: I am on Question 4. You asked
24 six questions, so --

25 CHAIRMAN ROSENTHAL: So, there's just two more
26 questions to answer?

27 MR. BEVINS: Yes.

28 CHAIRMAN ROSENTHAL: Okay.

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1 MR. BEVINS: The fourth question we were in the
2 process of answering is to how effective the advertising has
3 been with regard to the matter of confusion. And the thrust
4 of our advertising, just to kind of summarize, is to encourage
5 our customers' confidence in us as a complete, single-source
6 telecommunications service company. And that's really the
7 thrust of our advertising. If that means some adjustments
8 in our current approach because of details and facts that
9 we're not aware of right now, adjustments will be made to
10 achieve that objective.

11 We've kind of touched on the matter of the maintenance.

12 CHAIRMAN ROSENTHAL: Right.

13 MR. BEVINS: The sixth question was: "Are
14 consumers aware of long-distance selection procedures?" And
15 I have to kind of say, at least from where I'm coming from
16 and dealing with Customer Relations and answering questions
17 of our customers -- I would have to say probably not, unless
18 they obtain more information from one of the long-distance
19 companies, they probably wouldn't be able to make a good
20 buying decision. If they call in one of our Hot lines,
21 though, and ask one of those questions I mentioned, we suggest
22 to that caller that they do a cost-comparison study of their
23 own, after contacting maybe two or three, at least, of the
24 long-distance companies, getting their prices, and then
25 comparing them with their own billing and calling patterns
26 in making their decision based on that.

27 CHAIRMAN ROSENTHAL: Fine. Thank you very much.

28 Now, representing Sprint, Craig Welch, Director of

1 Corporate Communications.

2 MR. WELCH: Thank you, Senator Rosenthal. I
3 want to express appreciation for the opportunity to speak
4 to the group today, and especially to express an additional
5 gratitude for the opportunity to listen to the testimony of
6 others at this meeting. I find that that's also very useful
7 for us. And this morning, I might add, that we've heard some
8 very wise and thoughtful consumer advice.

9 I think praise needs to be expressed to the California
10 Senate Committee on Energy and Public Utilities. And Senator
11 Rosenthal's reputation is indeed national. And I think it's
12 befitting of your recommendation that a hearing of this
13 quality is going on. And I must express admiration for the
14 setting that we're in, too. It's a beautiful campus.

15 California, of course, is a state that has a pre-
16 eminence in telecommunications. And I think to testify to
17 that, Sprint was founded in California and continues to be
18 a California-based company. We employ about 2400 Californians
19 in the State. We serve about -- well, exactly 168,549
20 home Sprint customers, and 48,265 business Sprint customers.
21 The numbers are growing very rapidly every day.

22 One of the consumer representatives wisely broke down
23 the picture that faces consumers today into three parts, when
24 you asked them what the three leading questions would be, and
25 I really want to underscore and fortify that understanding.
26 I think that if that bit of information were conveyed to
27 consumers, it would go 90 percent of the way helping to clear
28 up the confusion, the idea being that you have three areas to

1 focus upon as a consumer: your telephone equipment, your
2 local dial tone or your local system and prices for it, and
3 then the third being a long-distance option. In fact, I find,
4 in traveling around the country, the concensus is that the
5 long-distance option seems to be the easiest decision for con-
6 sumers to make. In fact, they've been able to make that
7 decision for some time and continue to be able to make that
8 decision. It's not as complicated as the equipment decision
9 many times.

10 We are in a state of transition technologically. I
11 think it's interesting to compare these times historically of
12 what went on. The telephone replaced the telegraph more than
13 100 years ago. It really was a situation where there was
14 someone who invented a better "mouse trap." And we know
15 what happens when that happens.

16 Alexander Graham Bell invented the telephone and had
17 great difficulty back during that period. You can imagine
18 the confusion of the consumers at that time, and I'm fond of
19 the story that perhaps my colleagues from the Bell companies
20 would tell better than I, that Alexander Graham Bell was
21 hauled into court at one time and indicted for fraudulently
22 selling stock in a absurd scheme of being able to communicate
23 over wire by voice. So, there was a lot of confusion at
24 that time; and yet today I don't think any of us would want to
25 go back to the time of the telegraph. And really, that's
26 what's going on today. All of the problems that we're
27 grappling with as attorneys and business people are going to
28 smooth out as this technological change evolves.

1 You know, I think some day, a few years from now, a
2 youngster is going to turn to his parents and say, "When I
3 make a phone call and I push the buttons, why do we call it
4 dialing?" And yet today we're still in a transition from
5 rotary phones to dial. I think about half of the phones in
6 the United States today are still rotary phones, and it
7 illustrates a problem that we have had in establishing and
8 growing our company over the recent years, which is in the
9 process of healing.

10 I brought along an exhibit which many people find
11 interesting. For people who want to do business in the
12 current period with Sprint or MCI or other long-distance
13 companies that do not have a touch-tone service -- and, by the
14 way, it's important for consumers to differentiate between
15 touch-tone and just a simple push-button tone; that's a
16 story that has to be told very conscientiously, and we try to
17 do that. But this is a device that replaces the mouthpiece
18 on your regular dial telephone. And on it -- in fact, I'd
19 be happy to pass it up. Thank you. On it is a small number
20 pad. The microphone is encased within that little device.
21 You see a tiny hole there that the voice goes through. We
22 make these objects available to customers who want to use our
23 service. But I think it's a good illustration of the problems
24 that people have had in using a long-distance service, and
25 we're happy to report that those are problems that will be
26 going away when we are able to obtain equal access to the
27 local operating companies.

28 I might add that I don't think anybody in America

1 needs a lecture on the benefits of competition. There are
2 going to be great benefits that will stem from that, but more
3 importantly, Sprint is very anxious to pay our fair share of
4 what it costs to interconnect to the local systems. It needs
5 to be pointed out that we are one of the best and biggest
6 customers of the local operating companies around the country
7 in the area we serve. We stand on common ground with
8 residential consumers in the interest of having local tele-
9 phone rates be fair.

10 In summary, Sprint is very committed to universal
11 service to doing everything we can to add, to maintain, to
12 sustain and protect the concept of universal service. We're
13 committed to whatever instrument public policy would create to
14 preserve that, and in addition to that, the Lifeline concept
15 or whatever would evolve in the specific case.

16 We are also very committed to quality service. We
17 have a strong reputation among the long-distance carriers for
18 quality. In addition to that, we work very hard on customer
19 service, and we send a salesperson into the field. We also
20 hire a customer service person to back that individual up so
21 that our customer has someone to talk to and take care of
22 their needs.

23 We have tried -- and this is not entirely unselfish
24 on our part -- but we have tried to make our service very easy
25 to acquire, to be a company that's easy to do business with.
26 We recently redesigned our entire structure of offering our
27 service. We haven't called it "the new Sprint," but what we
28 did was to eliminate the monthly fees that had been in

1 existence prior to that time, simplified our rate structures
2 tremendously. Anyway, all of these points are designed to
3 make us easy to do business with, and help customers under-
4 stand our company and understand that option that they have as
5 consumers.

6 CHAIRMAN ROSENTHAL: Let me ask you a question
7 here. I've heard, I guess one of the complaints is the
8 quality of the audio. And I don't know whether that applies
9 specifically to any of the companies, or to you specifically,
10 or not. Do you have any comments about that?

11 MR. WELCH: Well, I think that's a problem that
12 has evolved, because in the transition period of getting our
13 company started and with the volume of interest that there
14 has been in our system and the quality of the interconnections
15 with the local systems being what they are, this is a problem
16 that is going to be resolved as things unfold in the coming
17 months and years with the coming of equal access. While we
18 take extraordinary steps on our own part to maintain the
19 quality -- and I believe studies prove that our quality is
20 very high -- that it can only improve with the transition
21 we're going through in technology and in public policy.

22 CHAIRMAN ROSENTHAL: Do you provide long-
23 distance and information to those who are using your service
24 for long-distance?

25 MR. WELCH: If by that you mean number --

26 CHAIRMAN ROSENTHAL: Uh-huh.

27 MR. WELCH: No, that's not a service that we
28 presently offer. We do have very active rates for our

1 customers through national 800 numbers that operate 24 hours
2 a day at no cost to our customers; and in fact, we are
3 establishing additional Hot line numbers in coming weeks to
4 satisfy those additional needs that might evolve.

5 But in general, we are very eager to help participate
6 in the dialogue, to develop the best public policy in this
7 area, and to be committed to following through in complying
8 with whatever policy evolves.

9 CHAIRMAN ROSENTHAL: What is Sprint's position
10 on automatic referral to AT&T for long-distance customers who
11 have not decided on a carrier?

12 MR. WELCH: As a general statement, we are
13 interested in competing as strongly as we can and aggressively
14 as we can for every long-distance call, however you might
15 define that. And I couldn't say anything more simply than
16 we want the business.

17 CHAIRMAN ROSENTHAL: Well, I understand. But
18 are you notifying people that they can make a choice, and how
19 do they find out that they can make a choice when they call
20 your company? We've heard when they call the other companies
21 that they're being told that at some point down the line
22 they're going to have to make a choice and what those choices
23 are. Where's the reciprocity?

24 MR. WELCH: I'm not sure that I understand the
25 question clearly. One interesting fact might be is to point
26 out that we have presently about two percent of the long-
27 distance market in the United States; a few years ago we had
28 none. And our interest is in getting as large a share of the

1 market as we can. And our very existence is to aggressively
2 go after that business in every ethical way that we can devise.

3 CHAIRMAN ROSENTHAL: Do you think there ought
4 to be an automatic referral system of some kind to ease the
5 consumer confusion in this area?

6 MR. WELCH: I'm not sure by that if I under-
7 stand what you're --

8 CHAIRMAN ROSENTHAL: Well, it just seems to me
9 that there are now a number of companies that provide basically
10 long-distance phoning. That's where the money is, okay? The
11 companies that have been doing it are notifying people to
12 "continue to use us." You're attempting to compete by
13 saying, "Instead of using them, use us; we're cheaper."

14 MR. WELCH: And better.

15 CHAIRMAN ROSENTHAL: Well, okay. "...cheaper
16 and better," Even though I can't hear you as well, you're
17 better, right?

18 MR. WELCH: I don't think that's a typical
19 question.

20 CHAIRMAN ROSENTHAL: I just wondered -- I'm
21 trying to ease consumer confusion, and one of the things that
22 we're going to be interested in, as time goes on, is the
23 ease by which consumers move into the various areas that are
24 available to them for whatever services are available. And
25 I'm just a little bit concerned that you do your part as well
26 as the other companies suggest that they're doing theirs, in
27 informing people about the alternatives.

28 MR. WELCH: I assure you, we'll be making

1 extraordinary efforts to inform them of the alternatives, and
2 I feel quite confident that the other long-distance carriers
3 will be doing the same.

4 CHAIRMAN ROSENTHAL: Okay. Well, thank you
5 very much. I want you to remain there, because we want to
6 have an open mike here now for some consumers to come up and
7 ask some questions, but as they're coming up, I do want to
8 introduce a couple of people who are sitting with me today.
9 Paul Fadelli is the Consultant to the Senate Committee
10 dealing with telecommunications issues. And Patty Stearns is
11 Secretary to the Committee. I also want to at this time
12 thank the two women sergeants who have made the arrangements
13 here for the use of the hall and the equipment convenient.
14 And also to our recorder for her contribution to what will
15 eventually be a printed report available to anybody who wants
16 it of this hearing.

17 With that, let's now open the mike, we'll say, until
18 15 or 20 minutes. And we'll be out of here probably by
19 12:30. Why don't you just come right up, anybody who wants to
20 make a comment.

21 SPECTATOR: Senator, there are two consumer
22 groups who want to make a comment. Can they make a statement?

23 CHAIRMAN ROSENTHAL: Sure. That's fine. Come
24 on up. Just don't duplicate one another. If you will
25 start off.

26 MS. JARROW: My name is Virginia Jarrow. The
27 Consumer Coalition of California wishes to thank Senator
28 Rosenthal and this Committee for the opportunity to express

1 some of the views of our members on the coming and present
2 changes in telecommunications. We are not so much concerned
3 with the base rate raises as we are with the hidden costs,
4 which are not so well hidden, of even making use of the
5 telephone.

6 We've already discussed these issues but feel that
7 the problem is being glossed over. We refer specifically to
8 the charges being requested by the telephone carriers for
9 Operator assist and Information assistance. These services
10 are being proposed at twenty-five to seventy-five cents per
11 call, yet the public is caught in a trap. Because of the
12 peculiar nature of the Southern California service, we are
13 dealing with communities interlocked into communities,
14 necessitating local books for even our own calling areas, as
15 many as five in number.

16 We cite the example of South Bay. There is within a
17 12-mile radius, the LAX directory, the South Bay directory,
18 the Inglewood-Hawthorne directory, the Gardena directory --
19 to mention a few. This would require an investment each year
20 of over \$50 for every telephone user for even local service.

21 The cost for service to the downtown and Orange
22 County and other areas could easily bring the costs of owning
23 the white page directories up to \$200 annually. That is with-
24 out counting the yellow page directories which would be an
25 additional cost. We believe that this matter must be
26 addressed, because it is of primary concern to our individual
27 users as well as the businesses who are paying to advertise
28 in this directory service, but whose options of customers are

1 being severely limited.

2 We believe that services which are essential to the
3 use of the telephone cannot be charged on a piecemeal basis
4 and in a way which limits the Southern California telephone
5 customer to a penalty service. Certainly business caught in
6 the sharp rise in costs and the loss in revenues because of
7 the limiting of business access will stop advertising in the
8 phone book.

9 This does not solve the problem for the user who,
10 unable to afford the twenty-five cents to seventy-five cents
11 per Operator assist, will have to go to the library, the local
12 telephone company, or cease to use the telephone for service
13 calls. We are aware that studies by the telephone companies
14 have addressed these issues. In the studies a very small per-
15 cent of the telephone users make the most use of Information
16 services. But with a target date of 1985 for General
17 Telephone to be receiving the double indemnity, and with
18 Pacific Telephone also seeking a revenue base other than the
19 basic rates, we feel this issue must be addressed now.

20 We are asking the Senate Committee to look into the
21 possibility of a ruling to make the access to the telephone
22 users of Information services without charge as our basic
23 television is today. It is important to the businessman who
24 is paying for advertising from which he or she is receiving
25 more and more restricted access. It is important to the
26 consumer who must have access to information. It is important
27 to the State of California who will lose tax revenues as more
28 and more people are unable to use their telephone services.

1 It is shortsighted on the part of the telephone companies.

2 We would like to see this Senate Committee introduce
3 a bill which will give open access to the Information services
4 and not cost them beyond the ability of the individual con-
5 sumer to pay. We also are speaking for our business members
6 who fear a severe loss of business as the service areas become
7 more and more insular.

8 We would also like to address ourself to the imple-
9 mentation of the program to convert hardline telephone systems
10 to jack telephones. The service is being booked as much as
11 two years down the line which makes it impossible for the
12 user to get their phones repaired as most are not skilled in
13 disconnecting the phones and making the installations. Yet, it
14 is our understanding that these phones are being sold in place,
15 and as much as \$55 is being charged to the customer to have
16 the telephone company service come out, which must then take
17 place in the residence, as the customer who has purchased the
18 phone cannot remove it from the hardline.

19 We are not familiar -- this is General Telephone that
20 handles it this way. We are not familiar with the Pacific
21 Telephone decision, but the PUC made a ruling that starting
22 in June 1982 and continuing through June 1984, the General
23 Telephone Service people would conduct a free jack conversion
24 for existing residential rate customers. This decision
25 82-06-054 was part of the residential rate base increase.

26 We were told that we would have to wait two years for
27 the service even though we asked for the conversion in July
28 of '82. We have been unable to find out how many residential

1 customers have been serviced since most of our members were
2 given the same information. We are therefore asking the
3 Senate Committee to address itself to a bill which would
4 require the utilities to fulfill their contracts with the PUC
5 and the customer, or turn that portion allocated in the rate
6 base to private vendors who would be paid for each completed
7 conversion.

8 We would also respectfully request that this same bill
9 be applied across the board to other utilities as well as we
10 are familiar with the energy program of the gas and electric
11 companies which have had only a three percent response.

12 Thank you for the opportunity to appear and express
13 the views of our members.

14 CHAIRMAN ROSENTHAL: Would someone on the
15 Panel like to comment on her testimony?

16 MR. CAMBERN: Yes, Senator. As to the recovery
17 of costs that we incur in providing directory assistance,
18 directories in some of the other services that Miss Jarrow
19 referred to, that is a cost to the business. The question
20 is: "How do you recover that cost? It's not going to go
21 away; it's not going to vanish." The approach that we and
22 General Telephone have been taking is to make the cost
23 recovery sensitive to the consumer that's actually consuming
24 the product. It's not just trying to enhance the revenue
25 of the company; it's designed to recover costs. And we're
26 looking at better ways of doing this. But frankly, the only
27 true consumer-oriented approach does seem to be, levy the
28 recovery of those costs against those that consume. And

1 that's no different than driving in a gas station. You and I
2 wouldn't pay the same amount of money for a tank full of gas
3 if I drove a Volkswagen and you drove a Cadillac; it's a
4 real problem.

5 And the point can be made that Directory Assistance
6 service, of course, produces revenue. But once again, in the
7 essence of the bottom line, our costs for providing Directory
8 assist in California, by now I would imagine it's \$185 million
9 a year. It's a significant cost.

10 As to the jack program, we had a jack program where
11 we solicited our customers to see if they wanted us to come
12 out and convert their homes to modular-type equipment. As
13 we encountered customers who said they had requested that
14 conversion, and we had not been able to make that conversion
15 because of an unavailability of force, we were selectively
16 taking a look at that, and if we had received the request, we're
17 converting without charge currently.

18 MR. BEVINS: Just in connection with the matter
19 of the jack conversion, we have been trying to meet our
20 commitments on that. We have been behind. It's my under-
21 standing that by some time midyear, we'll have the conversions
22 completed. We are doing it at no charge, and if we are called
23 out to repair a telephone that is hard wire, there is no
24 charge for our doing that, because the customer doesn't have
25 the option of unplugging it and bringing it down to the Phone
26 Mart.

27 So, if there's anyone that is faced with a situation
28 where they have to have some service on a hard-wire telephone,

1 at the time our man is on premise, he makes that conversion
2 at that particular time; so, it only happens once until we
3 get completely through the conversion program.

4 MS. JARROW: Senator Rosenthal, I'd like to
5 make a comment here that what Mr. Bevins says is interesting,
6 but this is not what our members have experienced. They have
7 been told they are going to be charged. They have been told
8 that they cannot get this program, and they have been sent
9 wall plugs, or whatever you call them, for the conversion.

10 As a matter of fact, we were too, only they were the
11 incorrect ones. They couldn't even be used with our system.
12 So, I think that there's a credibility void here. I think it
13 should be looked into. The program is not being administered.

14 MR. BEVINS: I have been provided with a copy
15 of the testimony just presented, and I tend to check into it.
16 Thank you.

17 CHAIRMAN ROSENTHAL: Thank you. The next --

18 MR. FORSHEE: Excuse me, Senator. Could I also
19 make just one comment, if I may --

20 CHAIRMAN ROSENTHAL: Sure.

21 MR. FORSHEE: -- and this compliments the
22 testimony I gave earlier when you asked a similar question
23 about Information assist charges. My recollection is that the
24 charges of AT&T occurs in the form of access charges and
25 billing and these sorts of things approach eighty cents per
26 call. That's a problem to AT&T Communications. I would agree
27 with the representative from the Consumer Coalition of
28 California, that that is something that should be examined a

1 little bit further.

2 I would also take exception to the suggestion that
3 Directory assist activity is automatic revenue-producing. We
4 at AT&T Communications could very well take that Directory
5 assist request, and that long-distance call that is made
6 subsequently could be with another carrier. We could incur
7 cost and no revenue, literally. So, it is one of the issues,
8 I think, that needs to be examined more fully in the future.

9 CHAIRMAN ROSENTHAL: The other guest, please.
10 The Gray Panthers.

11 MS. TROJAN: I'm Anne Trojan, and I represent
12 South Bay Gray Panthers. I'm President convener. I think
13 our National State Representative was here and left a state-
14 ment with you, and I just want to say that we feel -- well,
15 we call it "The Great Phone Robbery," and we look to our
16 elected representatives to do something about it. And I'm
17 sure you will.

18 Thank you.

19 CHAIRMAN ROSENTHAL: Thank you. Anybody else?
20 Anybody else? Going, going, gone.

21 Thank you very much for all of those who have had
22 input. As I indicated, we will have a printed copy of this
23 hearing as soon as we can get it, and everybody could have a
24 copy to look over. And the Committee will continue to take
25 a look at the immediate problems and to monitor ongoing
26 situations and whatever happens.

27 (Whereupon this hearing before the Senate
28 Committee on Energy and Public Utilities
in the matter of Telephone Divestiture:
Identifying Consumer Concerns was adjourned.)

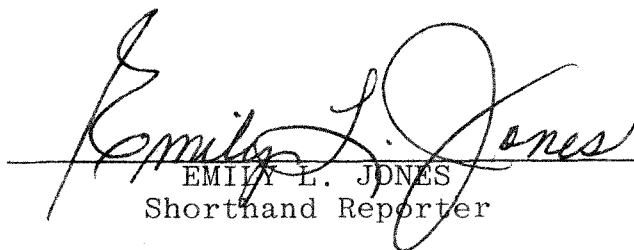
CERTIFICATE OF SHORTHAND REPORTER

I, Emily L. Jones, a shorthand reporter of the State of California, do hereby certify:

That I am a disinterested person herein; that the foregoing Public Hearing before the Senate Committee on Energy and Public Utilities was reported in shorthand by me, Emily L. Jones, and thereafter transcribed into typewritten form.

I further certify that I am not of counsel or attorney for any of the parties to said hearing, nor in any way interested in the outcome of said hearing.

IN WITNESS THEREOF, I have hereunto set my hand this the twenty-second day of February, 1984.


EMILY L. JONES
Shorthand Reporter

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