

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C.**

| | | |
|--|---|----------------------|
| In the Matter of |) | |
| Applications for Consent |) | |
| to the Transfer of Control of Licenses and |) | |
| Section 214 Authorizations from |) | CC Docket No. 98-141 |
| |) | |
| AMERITECH CORPORATION, |) | |
| Transferor |) | |
| to |) | |
| SBC COMMUNICATIONS INC., |) | |
| Transferee |) | |

**AFFIDAVIT OF A. LEE BLITCH
ON BEHALF OF AT&T CORP.**

A. Lee Blitch, being first duly sworn on oath, deposes and state as follows:

1. I am Regional Vice President for the Local Services Division of the Pacific Region of AT&T Communications of California, Inc. ("AT&T"). I am responsible for management and supervision of AT&T's entry into the local telephone markets in California, Hawaii and Nevada. In 1995, I held the position of Regional Vice President to manage and supervise AT&T's entry into the market for local telephone service in Texas. I held that position until February 1996 when I moved to the position that I currently hold.

2. This affidavit describes my experience on behalf of AT&T with Pacific Bell ("Pacific") and the impact of the acquisition of Pacific by SBC Communications, Inc. ("SBC"). Specifically, this affidavit addresses the claim, made by SBC in support of its application for consent to transfer of control of licenses and Section 214 authorizations

FCC DOCKET CC NO. 98-141
AFFIDAVIT OF LEE BLITCH

from Ameritech to SBC, that the April 1, 1997 acquisition of Pacific has been good for its customers and good for competition. See Affidavit of James S. Kahan (“Kahan Aff.”) at ¶¶ 92-105 (“[A]s a result of the SBC-PacTel merger, consumers have benefited, employees have benefited, California has benefited and competition has benefited”). To the contrary, competition in local markets in California remains virtually non-existent, and the conduct of the new SBC/Pacific serves as the principal reason why consumers in California still do not have a realistic choice of local service providers. As the Staff of the California PUC recently concluded, SBC/Pacific has failed to comply with its duties under the Telecommunications Act of 1996 and, quite simply, “has not opened its market.”¹ The Staff’s conclusions squarely undercut Mr. Kahan’s claims that the SBC/Pacific merger has benefited competition in California.

3. In fact, based upon my experience with Pacific over the last several years, it is my opinion that the acquisition by SBC has resulted in *greater* intransigence toward local service competition on the part of Pacific. There has been a marked increase in aggressiveness both toward competitive local exchange carriers (“CLECs”) and toward Pacific’s hostage monopoly subscribers. Thus, while I agree with Mr. Kahan’s general conclusion that “there is every reason to believe” that the SBC’s proposed acquisition of Ameritech Corp. (“Ameritech”) would bear results similar to those from the SBC-Pacific merger, I do not share his view that those results are likely to be salutary, either for

¹ California Public Utilities Commission Telecommunications Division Final Staff Report, Pacific Bell and Pacific Bell Communications Notice of Intent to File Section 271 Application for InterLATA Authority in California (Oct. 5, 1998) (“Final Staff Report”) at 2 (emphasis added) (the relevant portions are attached hereto as Exhibit A)

FCC DOCKET CC NO. 98-141
AFFIDAVIT OF LEE BLITCH

Ameritech's subscribers or the state of for local exchange competition in Ameritech's region.

4. I have observed an evolving change in the positions, posture, and actions of Pacific since its acquisition by SBC, in Pacific's role as an incumbent local exchange carrier ("ILEC") and supplier of wholesale services and products to competitive local exchange providers. These changes have increased the difficulty for AT&T and other new entrants of establishing business plans and introduce service in California. This affidavit describes two illustrative such changes: SBC/Pacific's decision to renege on the joint-implementation obligations in the Interconnection Agreement ("ICA") regarding Operations Support System ("OSS") interfaces; and SBC/Pacific's attempts to increase CLEC costs by requiring that CLECs obtain independent intellectual property licenses to use unbundled elements.

5. Further, since its acquisition by SBC, Pacific's strategy toward its monopoly local subscribers has been not, as suggested by Mr. Kahan, to increase customer service and enhance customer value, but rather to foist additional services on its retail customer base, increase prices dramatically on ancillary services, and allocate any cost savings not to its monopoly subscribers but to subsidize competitive offerings. This more aggressive consumer strategy is directly correlated to the SBC takeover, and has garnered SBC/Pacific Bell more criticism that I had seen of Pacific prior to the merger.

6. Specifically, with regard to SBC's claim that the acquisition of Ameritech will enhance customer value, this affidavit describes:

FCC DOCKET CC NO. 98-141
AFFIDAVIT OF LEE BLITCH

- (a) SBC/Pacific's proposal that its sharing of productivity gains, which was halted in 1995, remain in abeyance, notwithstanding substantially increased revenues and profits;
- (b) SBC/Pacific's plan to increase revenues from monopoly phone subscribers through the aggressive marketing of vertical features and substantial increases in the prices of ancillary services;
- (c) SBC/Pacific's attempt to use its monopoly subscriber base to cross-subsidize competitive offerings, such as intraLATA toll; and
- (d) SBC/Pacific's intransigence about improving Pacific Bell's abysmal record for customer service.

7. In sum, my experience with Pacific since its acquisition by SBC appears to be similar to that of Commissioner Walsh of the Texas Public Utilities Commission ("Texas PUC") who, in his May 21, 1998, comments on SBC's state Section 271 application in Texas, noted:

I find that Southwestern Bell has not yet met the requirements for in-region interLATA authority under Section 271. In regard to the issue about Track A, whether there is a competing facilities-based provider to satisfy Track A I think is debatable, given the minuscule number of residential and business customers served. ... **So does whether any of these providers is or can become a true competitive alternative to Southwestern Bell in light of Southwestern Bell's lack of cooperation and efforts to frustrate the CLEC's efforts to enter the market.** ... The record is replete with examples of Southwestern Bell's failure to meaningfully negotiate, reluctance to implement the terms of the arbitrated agreements, lack of cooperation with customers and evidence of behavior which obstructs competitive entry. As a result, we do not have an open market today with Section 271 as an incentive. The very real danger is that if Southwestern Bell were granted 271 relief now, they would have no incentive to cooperate with CLECs, and the local market in Texas might never be competitive. ... **If the 14 points are ultimately met, and if Southwestern Bell is able to adjust its corporate culture to treat the**

FCC DOCKET CC NO. 98-141
AFFIDAVIT OF LEE BLITCH

CLECs as valued customers rather than annoying competitors, then the reservations concerning the public interest may also be removed.

Project No. 16251 – Investigation into Southwestern Bell Telephone Co.’s Entry Into In-Region InterLATA Service, (May 21, 1998) at 186-188 (emphasis added) (the relevant portions are attached hereto as Exhibit B).

I. CONTRARY TO ITS CLAIMS, SBC’S ACQUISITION OF PACIFIC HAS NOT INCREASED COMPETITION IN CALIFORNIA

8. Although SBC asserted prior to its acquisition of Pacific that the merger would promote competition in California, and although its current application asserts such benefits did in fact occur, the facts as determined by the Staff of the California Public Utilities Commission (“California PUC”) squarely contradict SBC’s assertions and are devastating to its claims. After an extensive six month inquiry into Pacific’s compliance with Section 271 of the Act -- including five weeks of collaborative workshops -- the Staff concluded that

[l]ocal competition is floundering at the present time: the resale market is moribund with only a handful of new orders coming in. The so-called “UNE-platform,” in which a competitor provides service using combinations of unbundled elements, is not yet a viable method of entry. At the present time, it is almost impossible for a residential customer to find an alternative carrier.

Final Staff Report at 10. As for the cause of the dismal state of local competition, the Staff concluded that SBC/Pacific had failed to comply with numerous items of the competitive checklist in Section 271 and with several “key overarching issues required by the Act,” including “Operations Support Systems (OSS), collocation, and Section 272 requirements.” *Id.* at 1.

FCC DOCKET CC NO. 98-141
AFFIDAVIT OF LEE BLITCH

9. In particular, the staff came to “five key conclusions” regarding SBC/Pacific’s performance to date. First, it concluded that interconnection agreements are not “function[ing] as business contracts,” but as “playing fields for constant litigious behavior.” Id. at 2-3. Second, the Staff found that SBC/Pacific “treats CLECs as competitors rather than as wholesale customers.” Id. at 3-4. Third, the Staff found that SBC/Pacific had not opened its markets but instead had erected “barriers to robust competition . . . through the policies and procedures it has adopted.” Id. at 4-5. Fourth, the Staff found that Pacific/SBC “designs solutions only to meet perceived legal requirements of Section 271” rather than “emphasiz[ing] solutions which truly open the local market to competition.” Id. at 5. Finally, the Staff found that Pacific/SBC must provide quantitative support for its claims that its OSS operate at parity with its own systems, and may not merely “commi[t] to undertake future action.” Id. at 6.

10. These conclusions amply demonstrate that, since the merger, the new SBC/Pacific remains far short of complying with its statutory duties and of meeting its boasts that the merger has provided significant competitive benefits to the local telephone markets in California. Pacific’s pre-merger efforts to open California markets were far from perfect, but the merger plainly has had little beneficial effect on these efforts, and California’s markets are no more open now than before SBC’s acquisition of Pacific.

11. Indeed, as I show in the next part, the acquisition of Pacific by SBC has resulted in an even greater unwillingness to implement local service competition. In my view, the incidents I describe are directly the consequence of SBC’s anticompetitive attitude and of policies orchestrated by SBC after the merger. In particular, I found it very revealing to compare the California PUC Staff’s conclusion that the new Pacific/SBC

“treats CLECs as competitors rather than as wholesale customers” (*id.* at 3) with the parallel complaints voiced against SBC by the Texas PUC. *See supra* Paragraph 7 (statement of Texas PUC Commissioner Walsh that SBC must “adjust its corporate culture to treat the CLECs as valued customers rather than annoying competitors”). This anti-wholesaler attitude has grown noticeably since the merger, and there is every reason to believe that there will be a strengthening of that same attitude in the Ameritech region if SBC’s acquisition is permitted to proceed.

II. PACIFIC’S PERFORMANCE OF ITS OBLIGATIONS TO FACILITATE LOCAL EXCHANGE COMPETITION HAS DETERIORATED MARKEDLY SINCE ITS ACQUISITION BY SBC IN APRIL 1997

12. As a result of SBC’s merger with Pacific, Pacific’s performance and level of cooperation with respect to its obligations as a wholesale provider of telecommunications facilities, services and support has worsened substantially. This is a likely indication of the experience that Ameritech’s competitors and consumers will have in a post SBC-Ameritech environment.

13. In my view, one of the most disruptive aspects of the acquisition of Pacific by SBC was that all of the Pacific personnel with whom AT&T had dealt during the negotiation, arbitration and early implementation of the ICA were replaced by new people. The change in personnel often was accompanied by either a wholesale change in position on numerous topics, or, at the least, the need by AT&T to reargue the points it had previously made with Pacific. Moreover, the new personnel are not empowered to act and must continually adjourn negotiations in order to obtain concurrence from SBC. This has resulted in numerous delays in moving ahead with AT&T’s business objectives.

14. In this section, I describe two examples of changes in Pacific's position following its acquisition by SBC that have impeded competitive entry in California.

A. OSS Joint Implementation Agreements

15. Few requirements of the Act are more fundamental than the requirement that AT&T be able to place orders with Pacific – whether for resale, unbundled elements, number portability and/or interconnection. 47 U.S.C. §§ 251(c)(3) and 271(c)(2)(B)(ii); see also 47 C.F.R. §§ 51.313, 51.319(f). Under the ICA, Pacific is to provide this ordering capability using a variety of OSS, collectively referred to as the “interfaces.” To permit parity operations, these interfaces must be electronic, not manual, for most order types. “For those functions that the BOC itself accesses electronically, the BOC must provide equivalent electronic access for competing carriers.” In the Matter of the Application of Ameritech of Michigan, FCC 97-298 (Aug. 19, 1997) at ¶ 137; see also Local Competition Order, 11 FCC Rcd at 15767; Local Competition Second Reconsideration Order, 11 FCC Rcd at 19739. These electronic interfaces are sophisticated computer systems to which both AT&T and Pacific connect their existing, legacy systems. To ensure that both users have continuous access to the systems, the Interconnection Agreement requires that both parties participate equally in developing specifications, business rules, and technical requirements for each change to the interfaces. Absent such agreement, chaos would ensue, and – without such mutual assent – orders intended to flow through the system would fail to work as needed.

16. In the course of negotiating the ICA with AT&T in 1996, Pacific readily agreed that any change to the interfaces would require joint-management, joint-

FCC DOCKET CC NO. 98-141
AFFIDAVIT OF LEE BLITCH

maintenance, and joint-operation. Further, any changes to that system – crucial to the operations of the Entrant and the Incumbent – would require joint-implementation.

Accordingly, Pacific and AT&T agreed that:

no interface will be represented as either generally available or as operational until end-to-end functionality testing, as agreed to in a Joint Implementation Agreement or other mutually acceptable document are completed to the satisfaction of both parties. The intent of the end-to-end functionality testing is to establish, through the submission and processing of test scenarios, that transactions agreed to by AT&T and Pacific will successfully process, in a timely and accurate manner, through both Parties' support of OSS as well as the interfaces.

ICA, App. C, ¶ 3 (emphasis added).

17. In the event that the parties could not achieve a satisfactory agreement to accommodate interface changes, the ICA provided a dispute resolution mechanism. ICA, Att. 11, App. C, ¶ 4.

18. Immediately prior to the acquisition by SBC, Pacific proposed a system change to the Resale Mechanized Interface (“RMI”). In this proposal, Pacific assured AT&T that the CLECs using the interface would not need to do any programming work or make systems modifications to prepare for the new version of RMI. In that letter, Pacific asserted: “A major issue that needs to be understood is that there are no changes to the existing NDM specifications from a CLEC perspective.” (Emphasis added).

19. On April 23, 1997, however, after the merger with SBC, Pacific representatives met with AT&T to review a letter and attachments that revealed that Pacific in fact intended to make significant modifications to the interface – changes that would materially affecting the ordering ability of the CLECs using the interfaces. AT&T protested the unilateral implementation of these changes, and AT&T and Pacific engaged in negotiations to determine appropriate specifications, business rules and testing plans for

FCC DOCKET CC NO. 98-141
AFFIDAVIT OF LEE BLITCH

the new version of RMI. Despite these efforts, and the obvious requirements of the ICA's joint-implementation obligations, Pacific refused to agree to enter into any Joint Implementation Agreement ("JIA") with AT&T.

20. AT&T was compelled to institute an arbitration proceeding to resolve this issue, and meanwhile continued to seek solutions with Pacific that would preclude unilateral system changes. These discussions postponed the arbitration. During these discussions, Pacific took the peculiar position that the JIA obligations were only triggered by testing of new or changed systems, not implementation of these systems. This argument would have permitted Pacific to unilaterally implement untested changes to the interface without notice or agreement of the parties most affected by those changes.

21. Pacific's intransigence on this issue led AT&T to reinstitute arbitration on December 17, 1997 that was not set for hearing until April 27, 1998. Ultimately, after an initial day of hearings on the JIA arbitration, AT&T and Pacific (along with other industry participants) agreed in August 1998 to a Change Management Process which will be used to manage future changes to the OSS interfaces. While the Change Management Process is acceptable to AT&T, and embodies the spirit of the JIA language contained within the ICA, Pacific agreed to the process only after lengthy delays and actual initiation of arbitration. It is my belief that had SBC not taken over Pacific, the development of a JIA and a Change Management Process would have been significantly faster and more efficient, and would not have required AT&T to institute arbitration proceedings.

B. New requirements for third-party software licenses prerequisite to leasing UNEs

22. Another example of a stark change in positions is the stance taken by Pacific on third party software licenses. Prior to the merger, Pacific never demanded that AT&T obtain and pay for third party software licenses prior to being able to use the OSS interface or purchase UNEs. Indeed, the topic was not raised once during months of negotiations. However, since the merger, Pacific's position now is that CLECs must obtain and pay for third party software licenses. This position was most recently expressed during Collaborative Workshops held before the CPUC on Pacific's state Section 271 application. Were SBC/Pacific Bell to prevail in its position and require CLECs to independently obtain myriad licenses from third-parties with whom they have no bargaining leverage, local competition would cease to be a realistic possibility.

23. In its October 5, 1998 Final Staff Report, the CPUC staff rejected SBC/Pacific's position and recommended that SBC/Pacific be required to negotiate blanket licenses with its vendors and recapture any marginal costs in the UNE pricing. Final Staff Report at 96-98.

II. PACIFIC'S EXPLOITATION OF ITS POSITION AS LOCAL PHONE MONOPOLY IN CALIFORNIA UNDER SBC OWNERSHIP

A. Pacific's Exploitation Of Its Monopoly Consumer Base To Subsidize Its Competitive Offerings Under SBC Ownership

24. Mr. Kahan urges that "[w]e can look at the facts rather than the rhetoric when assessing the actual impact of the SBC-PacTel merger." Kahan Aff. ¶ 93. The SBC/Pacific merger track record demonstrates that the impact of the merger is to increase

the sale and price of ancillary services – not to extend savings and efficiencies – to the acquired firm’s monopoly local service subscribers and to use those revenues to price-squeeze competitors in adjacent, competitive markets such as toll and, eventually, long distance.

1. Pacific Previously Abandoned its Commitment to Distribute the Benefits of Increased Productivity to its Monopoly Subscribers, and the SBC Acquisition has not Improved Consumers’ Position

25. In 1989, on its own investigation and with the support of Pacific, the California Public Utilities Commission implemented an incentive-based regulatory framework for Pacific (the “new regulatory framework,” or “NRF”). The NRF imposed a price cap indexing mechanism that was calculated to reduce basic rates to ensure that efficiencies in pricing and productivity were shared with the ratepayers. Further, the decision maintained strictures to prevent the cross-subsidization of competitive offerings with monopoly services and other anticompetitive behavior. See generally In the Matter of the Application of Pacific Bell for Authority to Increase Intra-state Rates and Charges, D. 89-10-031 (October 12, 1989).

26. Because the incentive based ratemaking plan permitted Pacific greater profit potential, Pacific supported the “sharing” of productivity gains in connection with the adoption of a rate-cap regulatory mechanism. Id. at 89; see also id. at 218-238. The goal of this rate-cap plan was to reduce effective rates on the monopoly services and to create incentives to increase the productivity of the local monopolies.

27. Only six years into the application of the NRF, Pacific sought reprieve from its obligation to share savings from productivity with its monopoly subscribers. On the

FCC DOCKET CC NO. 98-141
AFFIDAVIT OF LEE BLITCH

Second Triennial Review of the NRF, Pacific petitioned to remove the consumer savings portion of the rate regulation. Pacific claimed that it had not realized adequate rewards from incentive-based regulation, and that – at any rate – competition in the local exchange market would render such incentives unnecessary. Second Triennial Review of NRF, Decision 95-12-052 (December 20, 1995) at 11). Pacific abandoned its commitment to lower rates and proposed merely to hold them static. Impressed by Pacific’s claim that “[t]he LECs envision fierce competition in the local exchange market in the immediate future” (id. at 41), and concerned about the projected nadir in Pacific’s historically strong profits, the CPUC eliminated the productivity factor and capped rates for Pacific’s monopoly services at the 1995 level (id. at 51).

28. Now – in 1998 – neither of the conditions claimed by Pacific in 1995 have come to pass. There is no meaningful penetration in the local exchange market by competitors, and the combined SBC/Pacific has reported record revenues and profits on record line and service growth in 1997 (see 1997 SBC Annual Report), a trend that appears to be increasing, rather than diminishing over time. See SBC, Investor Briefing, SBC Grows Second Quarter Earnings Per Share 18 Percent (July 16, 1998) (available at www.sbc.com/Articles/1998q2.pdf).

29. Despite the fact that Pacific faces no meaningful competition in its monopoly markets (the only ones that would be subject to the productivity factor) and is not even arguably facing financial duress, SBC/Pacific’s most recent application to the CPUC sought not only to extend the reprieve from productivity sharing, but to abandon price regulation altogether. In its February 1998 application for a Third Triennial Review of the NRF, Pacific urged that the “GDP-PI minus X index formula approach to price

regulation, which was suspended in 1995, should be permanently eliminated.” Application of Pacific Bell for Third Triennial Review, A.98-02-003 at 4. In exchange for a commitment to lift this and other price regulations on monopoly services, Pacific pledged to retain the cap on basic residential service prices for three more years. Id. at 5.

30. In light of SBC/Pacific’s deteriorating commitment to consumers – to reduce rates, then only to hold them flat, and now to permit increasing them -- Mr. Kahan’s boast that “prices for local service have remained unchanged” (Kahan Aff. at ¶ 93) obscures the basic facts. Further, only basic rates remain flat (for now): SBC is engaged in determined efforts to exploit its customer base with aggressive marketing and higher pricing of ancillary services over which SBC/Pacific commands substantial market power.

2. SBC/Pacific has Aggressively Sought to Exploit the Monopoly Base by Aggressively Marketing and Raising Prices on Ancillary Services

31. In its 1997 Annual Report, SBC notes that in Texas “Southwestern Bell leads the industry with an average of 2.27 vertical features per line,” compared to California’s paltry 0.73 features per line. SBC 1997 Annual Report at 12. To increase the penetration of vertical features in California to produce \$100-\$200 million in additional annual revenue, SBC planned to “shar[e] the expertise gained in the Southwestern Bell markets” to increase revenue on these services “through a combination of promotion, sales skills, training, packaging, third-party sales and strategic pricing changes.” Id.

32. SBC/Pacific has embarked on this mission with a vengeance and has earned an almost universal rebuke for its heavy-handed exploitation of customers and employees in an attempt to pitch new business.

FCC DOCKET CC NO. 98-141
AFFIDAVIT OF LEE BLITCH

33. In its quest to increase penetration of vertical features among its monopoly subscribers, SBC/Pacific seemed to realize no limits. In June, 1998, after a several month investigation, the Commission's Office of Ratepayer Advocates ("ORA") concluded that Pacific had engaged in improper sales practices in violation of State law and Commission policy to the detriment of its residential customers. Petition of the ORA for Order that Pacific Bell Cease All Improper Practices, I.90-02-047 (June 4, 1998) ("ORA Report") (appended hereto as Exhibit C).

34. In its report, ORA cited Pacific – and Pacific alone² -- for extensive violations of customer service standards and abusive marketing tactics. In its observation, ORA found:

- That Pacific call service representatives gave private information and CPNI to persons who were not the subscribers of record;
- That Pacific call service representatives did not inform customers – contrary to law – about options for blocking caller ID services;
- That Pacific misleadingly labeled costly, customer calling feature packages with names like "Essentials," "Basic," and "Basic Plus" to increase sales to unwitting consumers;
- That Pacific did not adequately screen consumers for lifeline subsidies --that go directly to Pacific – and had provided such subsidies to its own employees (instead of the Pacific-subsidized employee discounts).

35. These practices, ORA claimed, "included violations of law and inappropriate application of Commission policies to such an extent that not only should the Commission

FCC DOCKET CC NO. 98-141
AFFIDAVIT OF LEE BLITCH

order that these practices cease immediately, but also should consider innovative policies that will prevent their recurrence.” ORA Report at 10.

36. Apparently, Pacific’s own employees agree with ORA’s assessment. On Monday, August 10, 1998 hundreds of unionized Pacific Bell workers went on strike to protest the “new ethic” of customer service imposed on Pacific by SBC. This walkout was in connection with Pacific’s refusal to bargain after its employees complained about Pacific “forcing employees to use high-pressure sales tactics to coerce customers into buying customer-calling features.” PacBell Hit By One-Day Walk Out, Contra Costa Times (Aug. 11, 1998).

37. Meanwhile, SBC/Pacific has been aggressively seeking to raise rates for ancillary services in which it commands substantial market power. Indeed, just this summer it sought permission from the California Commission to more than quadruple rates on directory assistance, to quintuple the cost of emergency call interruption, and to sextuple the charge for busy verification. See Four-one-one soon could mean cha-ching, cha-ching, cha-ching for Pacific Bell, Associated Press (Aug. 19, 1998).

38. Thus, the policy of “sharing the expertise gained in the Southwestern Bell markets” with California, and potentially the Ameritech region, does not bode well for consumers or regulators.

² “Observation of other NRF LECs did not result in similar concerns.” Id. at 2, n.1.

3. Since its Acquisition by SBC, Pacific has Continued to Seek Opportunities to Cross-Subsidize its Competitive Offerings with Monopoly Profits

39. While failing to sustain productivity savings for its customers, hard-selling costly ancillary services, and using customer service representatives to mislead consumers into purchasing additional products, Pacific under SBC has continued to seek opportunities to cross-subsidize its competitive offerings with any savings realized in the cost of providing basic service; it has not sought to reduce the cost of service to its basic subscribers.

40. Following the Telecommunications Act of 1996's mandate to eliminate implicit subsidies, the CPUC in 1997 and 1998 embarked on a proceeding to rebalance rates to compensate for the *now explicit* universal service subsidy being provided to Pacific and other ILECs. In this proceeding, Pacific was required to reduce revenue of \$305 million – money that it was now receiving directly from its basic service subscribers from the line-item universal service subsidy.

41. But in its response, Pacific proposed that these price reductions be allocated to its competitive offerings, not to its captive rate base. Specifically, Pacific sought to apply \$297.8 million to price reductions in business and residential toll – where competition was forcing price reductions anyway – and only \$7.4 million to monopoly switched access charges.

42. As was obvious from its proposal to the CPUC, and was confirmed in the discovery of an internal memorandum, SBC/Pacific's strategy would have permitted it to lower prices on competitive services without any offsetting revenue impact – it is the very definition of cross-subsidization.

FCC DOCKET CC NO. 98-141
AFFIDAVIT OF LEE BLITCH

43. As SBC/Pacific itself noted, its strategy before the CPUC was one to obtain competitive advantage, not to fairly reimburse subscribers for the explicit USF subsidies being added to their local bills:

Currently, we are working on regulatory procedures that offer a once in a lifetime opportunity to our business. In March 1997, we filed an application for Universal Service Rate Rebalancing (URR). This application will enable Pacific Bell to reduce toll rates \$172.5M per year in a revenue neutral process. Strategically, this will allow us to offer lower, competitive rates without negatively impacting our bottom line. ... This provides us with a competitive advantage, just prior to intraLATA presubscription, that cannot be overlooked.

USRR 001112, Memo from K. Brown & L. Rosenthal to S. Dimmitt (Aug. 18, 1997)

(Second emphasis added) (appended hereto as Exhibit D).

B. SBC/Pacific Continues To Resist Efforts By The CPUC And Others To Improve Customer Service

44. In his affidavit, Mr. Kahan states (§§ 96-97) that since its acquisition of Pacific, customer service has been maintained or improved, that J.D. Power and Associates has rated Pacific as one of the top residential local service providers, and that “[r]eports submitted to the California Public Utilities Commission document improvements in almost every service quality standard ...”

45. First, to say that SBC “maintained and improved” Pacific’s customer service standards is faint praise. In the FCC’s Trends in Telephone Service (Industry Analysis Division of CCB, February 1998), the FCC reviewed customer complaints for the year 1996, and rated Pacific worst with the highest level of complaints among local carriers. See Table 3.1. In the same report, SBC ranked just worse than the industry average, while Ameritech ranked among the best in local service complaint levels. So while SBC may take credit for raising Pacific’s abysmal customer service rating (of which there is no

FCC DOCKET CC NO. 98-141
AFFIDAVIT OF LEE BLITCH

current evidence), such a boast does not suggest that the standards achieved by Ameritech will be further improved by imposing SBC's customer-service culture to the Ameritech region.

46. Second, while Mr. Kahan points approvingly to J.D. Power and Associates' ranking of local service providers, Mr. Kahan fails to note that the 1998 J.D. Power survey chides the takeover trend as a factor in causing customer satisfaction deterioration. It says that "[R]egional bell operating companies including Ameritech, Pacific Bell, SBC participating in merger activity have seen their overall satisfaction levels decline due to increases in the area of Corporate Image, particularly in the Corporate Reputation measure." Press Release, August 6, 1998 - 1998 J.D. Power Residential Local Telephone Service Satisfaction Study.

47. Finally, Mr. Kahan states that "[r]eports submitted to the California Public Utilities Commission document improvements in almost every service quality standard...." But what Mr. Kahan fails to reveal is that, where information reflects poorly on SBC/Pacific, such information is simply "not submitted" to the CPUC. Indeed, just this September, the California Commission fined Pacific more than \$300,000 failing to comply with customer satisfaction reporting requirements on ISDN service. The CPUC chided Pacific for submitting glib claims of improved service, while failing to present the substantive evidence that belied these claims. Further, the CPUC stated:

From the record developed in this proceeding since the filing of Pacific's application, we can only conclude that Pacific's ISDN service has been consistently neglected. D.97-03-021 found that Pacific had not been providing adequate service on the basis of its own analysis and the information provided by customers. Relying on Pacific's argument that its service could not improve without a substantial rate increase, we granted Pacific most of the rate increase it

FCC DOCKET CC NO. 98-141
AFFIDAVIT OF LEE BLITCH

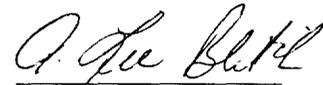
requested. ... In spite of the actions we took, Pacific's ISDN service quality deteriorated after the issuance of D.97-03-021.

In the Matter of the Application of Pacific Bell for Authority to Increase and Restructure Certain Rates of its Integrated Services Digital Network Services, D.98-09-071 (Sept. 17, 1998) at 10-11 (appended hereto as Exhibit E).

48. Contrary to Mr. Kahan's claim that the SBC takeover of Ameritech promises increases in customer satisfaction, the more likely scenario is that customer service experiences in Ameritech's region would duplicate those experienced in Pacific's – and these experiences are not promising.

I declare under penalty of perjury that the foregoing is true and accurate to the best of my knowledge and belief.

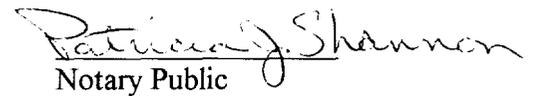
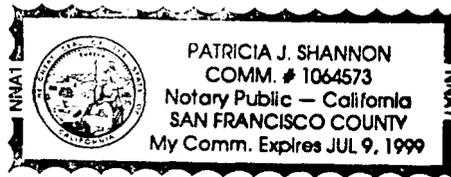
Executed on October 17, 1998



A. Lee Blich

State of California) Ss.
County of San Francisco)

SUBSCRIBED AND SWORN TO BEFORE ME this 17th day of October 1998.



Notary Public

CALIFORNIA PUBLIC UTILITIES COMMISSION
TELECOMMUNICATIONS DIVISION
FINAL STAFF REPORT

**Pacific Bell (U 1001 C) and Pacific Bell Communications
Notice of Intent to File Section 271 Application
For InterLATA Authority in California**

October 5, 1998

CALIFORNIA PUBLIC UTILITIES COMMISSION
TELECOMMUNICATIONS DIVISION
FINAL STAFF REPORT

**Pacific Bell (U 1001 C) and Pacific Bell Communications
Notice of Intent to File Section 271 Application
For InterLATA Authority in California**

October 5, 1998

This report prepared by:

**Charles Christiansen
Eve Eichwald
Phillip Enis
Karen Jones
Jonathan Lakritz
Brian Roberts**

**California Public Utilities Commission,
Telecommunications Division**