

The Road Ahead – Part 2

BY MARYARDITO AND C.ANNE PRESCOTT

Mary Ardito is this magazine's associate editor. As a result of a staff realignment, C. Anne Prescott, formerly an associate editor, is the publication's senior editor, responsible for critical-issues planning.

Not even divestiture deters the Bell System from building a new age. (The second installment of a continuing series.)

The "divided highway" of divestiture was hardly the road the Bell System expected to travel during the restructuring of the telecommunications industry. But, like the detours the company encountered for more than a decade—as public policy steadily drove toward consensus-divestiture would not deter the enterprise. The routes change, but not the destination: providing today for the telecommunications needs of tomorrow.

Hardly had the ink dried on the Modification of Final Judgment announced January 8 than the Bell System went to work building a new avenue to a new age. Broad organizational changes in AT&T's General Departments were announced January 21. The corporation's top four executives would devote themselves as a group to corporate strategy, resource allocation, and critical issues. Day-to-day responsibilities would be handled by five executive vice presidents. Barely two weeks later, six study groups, comprised mostly of operating company presidents, were established. Their task: to begin assessing the labyrinthine issues posed by the prospect of divesting 22 local operating companies and the two-thirds of the Bell System assets they represent. The groups are studying the companies' new exchange boundaries, the centralized staff organization for the companies, personnel requirements and considerations, corporate structure, asset assignment, and access charges.

In mid-February, a planning model was unveiled to group the companies into seven regions, each roughly comparable in size with respect to assets and customers. On May 21, planning guidelines will be sent to the operating companies to help implement the Federal Communications Commission's Computer Inquiry II order. On July 1, the companies will receive planning guidelines in conjunction with the Modification of Final Judgment.

Behind these actions is the candid acknowledgment that 1982 will be "a most difficult and distracting period," as AT&T chairman C.L. Brown told a press conference preceding the company's Annual Meeting, held April 21 in Baltimore. Notwithstanding a soft economy and the imperative to raise billions of dollars for a construction program—the need to carry on business as usual, in other words—mammoth planning and implementation must move forward on several fronts: to prepare for divestiture, if the Modification of Final Judgment is approved; to be ready for the bifurcated provision in the detariffing of new terminal equipment, in

compliance with the FCC's Computer Inquiry II order; and to forestall attempts in the U.S. House of Representatives to pass "ill-timed and ill-conceived" legislation, which would undo the terms of the judgment.

THREE POSSIBLE COURSES

Clearly, the most disjunctive consideration is the legislation. But the process whereby the court acts on the judgment is equally sensitive. A torrent of public comment--requested by federal judge Harold H. Greene, whose court holds jurisdiction over the modification plan--reflects deep concern that the agreement is not in the public interest unless it is significantly altered. Most recommendations call for lifting all restrictions from the prospective exchange companies to help assure affordable rates and reliable service. Such suggestions strike at the heart of the Justice Department's intent in the agreement: to separate the regulated local exchange functions, where the Bell operating companies dominate, from prospectively competitive services to be provided by the remaining AT&T. (For its part, AT&T has suggested it would favor removing the restrictions.) Comments from competitors and companies dependent on AT&T facilities suggest a need for additional safeguards from AT&T's perceived market power or guarantees that private networks will receive interconnections. Many also voice a belief that AT&T's remaining regulated services could subsidize its competitive offerings.

After Greene hears the Justice Department's response to the comments, he could follow one of three courses, essentially. He could accept the Modification of Final Judgment as filed, reject it outright as not being in the public interest, or suggest revisions. While he's considering his decision, he could also call for expert testimony and advice or appoint a special master to delve into areas he may not be fully familiar with. (The effect of restrictions on the operating companies might be deemed such an issue.) Should the court not approve the agreement in a form agreeable to both the Justice Department and AT&T, the judgment would not go into effect; the 1956 consent Decree would remain in force, and the Justice Department could reinstitute its suit.

In the midst of acute interest in the court's decision, a number of other issues, dealing with the FCC's computer Inquiry II order, swirl in tandem: Must customer premises equipment and enhanced services still be detariffed and offered through an unregulated subsidiary by January 1, 1983? Does a Bell regulated entity still exist? Is a fully separated subsidiary still required? Does bifurcation still apply in the provision of new customer premises equipment?

The answer to most of these questions--except for the bifurcation issue--is a resounding yes. "The Modification of Final Judgment is not law yet, but the FCC's decisions are, so we must comply," says L.L. Hendrickson, AT&T director-strategic planning. "However, if the court approves the divestiture agreement

substantially as proposed, the FCC might postpone the effective date of bifurcation to dovetail with the effective date of divestiture. This would postpone bifurcation and possibly cancel it, depending on what happens to the regulation of customer premises equipment after divestiture. But the commission may decide to maintain its position, so we have to be ready to operate by FCC rules when the Computer Inquiry II order takes effect the first of next year."

Under the Computer Inquiry II order, Bell's regulated companies cannot acquire any new customer premises equipment, and the new equipment must be sold or leased through a separate unregulated subsidiary. At the heart of bifurcation—and of the divestiture proposal as well—lies the assumption that states would no longer have regulatory jurisdiction over new customer premises equipment. Divestiture planning presumes *all* customer premises equipment, both existing and new, will be assigned to the unregulated part of AT&T; bifurcation under Computer Inquiry II requires that existing customer premises equipment in the regulated Bell companies be assigned to the prospective subsidiary and detariffed over time. State commissions, however, strongly maintain that their jurisdiction continues over both current and prospective offerings of customer premises equipment and that the FCC is acting illegally. The Modification of Final Judgment doesn't address the jurisdictional issue at all. An appellate court is expected to rule on the jurisdictional question raised in Computer Inquiry II by year-end; meanwhile, all the FCC's Computer Inquiry II decisions prevail, Hendrickson says.

Accordingly, AT&T is moving ahead with plans to form a separate and detariffed unregulated subsidiary. A capitalization plan for the arm's-length unit will be filed by July 2, as the FCC requires; the commission, in turn, will rule on the plan within six months. An FCC decision is still pending on AT&T's request to approve the capitalization plan for the so-called XYZ corporation, a branch of the prospective fully separated subsidiary and owner of the planned Advanced Communications Service. (The corporation will be officially named when it opens for business.) AT&T has requested a ruling by May 31.

And, despite the possibility of bifurcation, AT&T intends to continue managing all terminal equipment as one line of business. "We hope to see embedded customer premises equipment move into the separate subsidiary if divestiture is approved," Hendrickson says. "Though we have to live with uncertainty now, we're going ahead with what we believe is the consensus, as expressed by the Justice Department and supported by the Administration and Senate."

Efforts are also being made to avoid splitting installation and maintenance forces. AT&T has submitted a plan to the FCC to have the regulated entity install and maintain the subsidiary's detariffed business equipment for up to 18 months after bifurcation takes effect. Regulated entities would also provide installation and maintenance for equipment in-service or in-inventory before January 1, 1983. If customers purchase new equipment, however, the prospective subsidiary would

provide maintenance through service centers. Eventually, AT&T hopes to move all installation and maintenance functions for business customers to the subsidiary by January 1, 1984.

ASSET ASSIGNMENT

Despite the changes that FCC rulings require, a bramble of other issues attends divestiture. Thorniest of the issues are asset assignment and exchange boundaries/access charges. Both affect local rates and the financial well-being of the local companies and the remaining AT&T.

Under the divestiture agreement, AT&T would assign all equipment from telephones to switchers--between the interexchange, intraexchange, and terminal equipment parts of the business. All the assets will be assessed at book value. Though the agreement doesn't require that these assets be valued--only assigned--an accurate determination of book value is crucial to rate making.

The higher the value of the assets, the higher the local rates must be to earn the return on investment that regulators allow." How we identify the existing assets and assign them between AT&T and the operating companies is critical to all concerned," says Charles H. McCarthy, director asset transfer in AT&T's planning and financial management organization. "We're talking about a substantial number of items, but their book value can't be addressed until we establish procedures to identify the items to be assigned."

The asset assignment study group must also wrestle with what should happen to 11 billion dollars worth of inside wiring. The Modification of Final Judgment is clear on the subject: All inside wire remains with the operating companies. But the Computer Inquiry II order says nothing about the status of embedded inside wire; planners are now analyzing whether to assign new inside wiring to the prospective detariffed/unregulated subsidiary.

A major economic concern--pre-empting asset assignment valuation in customers' minds--is the setting of local exchange rates and access charges. The divestiture agreement would alter the definition of an exchange and perhaps the configuration of local exchange rates for years to come.

"The Modification of Final Judgment requires that an exchange must be larger than what we now call exchanges for the purpose of rating local calls," Hendrickson says. "We're calling these larger areas local access and transport areas to differentiate them from today's exchange. A separate local access and transport area must be defined for each major metropolitan area and surrounding territory. Within this area, calls that we now think of as local may continue to be local. The difference is that calls we now think of as long distance may become local, too. Of course, since we are moving toward measured service for all calls,

the difference between exchange and long distance calls is disappearing." A "high community of interest" would determine exchange boundaries, Hendrickson says; a cluster of cities bordering state lines might be part of the same exchange. Calls within such an area would become *intraexchange*; calls outside the area, *interexchange*.

New exchange boundaries might also determine calling patterns and rate plans, affecting Independent and Bell companies alike. "Local rates won't rise because the Modification of Final Judgment is being implemented," Hendrickson says, "but competition drives prices to costs, and that trend will continue." In initially setting access charges, he adds, the deciding factor will be "how to arrive at _ figure that provides the operating companies the revenue they need to make up for the long distance subsidy they lose, so that customers could continue to receive attractive service in terms of cost and quality." Hendrickson also predicts that access charges and local rates must change over time to reflect the changes in technology, costs, and competition that the operating companies will face.

Capturing the growth in new intraexchange services and retaining leadership in the local distribution portion of the interexchange market are the twin challenges that would face the local companies in a divested world. Equally exacting, however, are the tasks of organizing the structures and placing the people who would make the missions work. "When you come right down to it," observes William L. Weiss, Illinois Bell president, who sits on the corporate structure and asset assignment task forces, "a viable future depends most on good managers."

The future also relies on enlisting the participation of employees at all levels who are "unafraid to accept new challenges" and "eager to take advantage of new opportunities," as AT&T chairman C.L. Brown characterized Bell System men and women in the 1981 *Annual Report*. Securing their trust and commitment results, in large measure, from timely, accurate information that relates directly to their own concerns. To that end, managers rated their companies as excellent in providing enough details in the first few days after the Modification of Final Judgment was announced. According to a management study on the information needs and concerns about the prospective divestiture, a majority of operating company managers also agreed that follow-up information was balanced.

CONSIDERING EMPLOYEES' NEEDS

And their information needs will not diminish. About half said they wanted more information on local plans for divestiture. Not surprisingly, managers said they are most concerned that they continue working for a company that cares about them and for whom they are proud to serve. It was with this knowledge that the personnel considerations study group in mid-March pledged quick, thorough answers to the myriad questions surrounding the divestiture proposal. Three weeks later, the group released 11 recommendations to guide restructuring.

"Employees have a right to know how divestiture will affect them personally, and they deserve to know it as soon as possible," says Kenneth J. Whalen, AT&T executive vice president who heads the study group. The group's six subcommittees "have met frequently and worked intensively to make certain that we've asked the right questions and identified all the areas that need to be addressed. Each day brings us one day closer to divestiture, if the Modification of Final Judgment is approved, some personnel decisions may have to wait until we learn if the judgment is approved. Why make decisions about regionalization activities, for example, when we don't even know if there will be regions?"

"And if divestiture is approved, it's also probable that some decisions wouldn't be made until we were closer to the time of divestiture--decisions regarding the size of organizations. But our underlying goals remain constant: to make the right decisions at the appropriate time, and to make every effort to consider employees' preferences, given the needs of the business."

Perhaps at no other time have the needs of the business been so multi-faceted, so Byzantine, so compelling. But overarching them all is one most fundamental need—the challenge of vision, of seeing the enterprise not only in terms of its past but also in terms of the promise and new dimensions of the Information Age. In the last analysis, perhaps external constraints are far less worrisome than internal ones--those limitations on one's own thinking and imagination.

As AT&T's chairman told this year's graduates of the pace university-AT&T graduate business administration program, "our most pressing people-concern in the years ahead won't be whether we have enough career opportunities to meet employee expectations, but whether we have enough people who can think as big as the Information Age_and then lead us there."