

## The Road Ahead – Part 5

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Divestiture is that away AT&T's *Plan of Reorganization* has been filed and the Bell System heads into the last remaining miles before reaching a New Age.

When all was said and one and written, when all the meetings were adjourned and all the conference calls ended, when the last of the millions of numbers had been verified yet again, the end proved worthy of the means. AT&T's *Plan of Reorganization* was exactly what its authors had promised it would be. "A precise blueprint-- a road map--describing as comprehensively as possible how we intend to conform to the terms" of the Modification of Final Judgment, as AT&T chairman C.L. Brown described it. Not a "how-to" manual, he said. Not "an exhaustive, comprehensive enumeration of the minutiae of the divestiture process."

Few surprises lay waiting for eager readers. Many major steps on the road to divestiture already had been announced: the proposed seven-region structure for the 22 operating companies to be divested and the establishment of a central staff organization to serve many of their technical development needs and to act as a central point of contact for national-defense communications and emergency preparedness; the naming of designated chief executive officers for the regions; and the formulation of 161 local access and transport areas, the new boundaries determining rate plans and calling areas that introduce into managerial lexicons the concepts of intraexchange and interexchange calling.

But far from being anticlimactic, publication of the *Plan* capped the midpoint of the divestiture-planning process: Conceived and finalized fewer than 400 days after Bell's breakup was announced, the plan will be implemented in less than another 400 days, presuming it is approved in the Spring by the Department of Justice and the U.S. district court. Thus, when the 471-page document was released December 16, 1982, it became both a milestone and a steppingstone.

As a milestone, it represented the first of four planning phases in the reorganization process. The second phase culminated in the distribution of divestiture implementation guidelines to the operating companies, Long Lines, Bell Laboratories, and Western Electric. Updated versions of these guidelines, containing a complete list of specific activities that must be completed by January 1, 1984 -- the date of divestiture -- will be distributed in February and April, 1983. The last two phases of the process also will occur in 1983: the step-by-step implementation of the guidelines, and a gradual cutover of the new framework on a trial basis later in the year.

The eventual divestiture will proceed according to the same principles on which the plan was formulated namely, that service will be provided at the same or better levels than have been the Bell System's hallmark; that the integrity of the investment of AT&T's 3.2

million share owners will be preserved; that employment security and continued career opportunity will be ensured; and that the divested companies will be launched with all the management, financial, technical, and physical resources necessary to help them flourish in the regions where they will operate.

Three major elements of the divestiture process were announced for the first time in the plan: the financial arrangements whereby AT&T will launch the companies with the debt ratios specified in the Modification of Final Judgment, the specific stock ownership and transfer provisions, and the particulars on the asset split between AT&T and the soon-to-be divested operating companies.

To divest the companies with a 45-percent debt ratio (50 percent for Pacific Telephone), AT&T pledged in the plan to assume some of the interest and principal payments of operating-company long-term debt and, if necessary, to assume some of the one billion dollars in short-term advances it has loaned to the companies. AT&T also unveiled an incentive program of sorts, allowing the companies to achieve less than the required maximum debt ratio. Based on the companies' anticipated level of earnings and financing through December 31, 1983, AT&T will commit itself to removing a specific amount of debt, even if the result is a lower debt ratio than mandated.

Of the keenest interest to AT&T's share owners was the plan's explanation of how divestiture will affect their investment. Essentially, the plan calls for stockholders to receive one share of common stock in each of the seven newly created regional companies for every 10 shares of AT&T stock owned as of a record date in December, 1983. Shares owned in the regional companies will be in addition to the AT&T shares investors already own. The 1-for-10 distribution ratio was selected so that regional company shares would be traded in a price range appropriate to their eventual listing on major stock exchanges, according to Virginia A. Dwyer, AT&T vice president and treasurer.

Because more than 100 million shareowner transactions are expected to be processed for the regional companies and AT&T during 1984 and because an unprecedented 22 million shareowner accounts will exist at divestiture AT&T will set up and operate a wholly owned subsidiary to provide a full range of record-keeping and other shareowner services for AT&T and, on a fee basis, for the regional companies. At divestiture, each regional company will have an estimated 2.7 million share owners, about a half-million less than AT&T, because AT&T investors holding less than 10 shares at divestiture will receive cash for their shares. The regional companies will have the second largest body of investors of any domestic corporation, exceeded only by AT&T. Next in size to the regions will be General Motors, with 1.1 million.

Stocks for the regional companies will begin to be traded even before divestiture is finalized -- in November or December, 1983 -- because "when issued" trading will allow investors to buy or sell regional-company stock before receiving the actual stock certificates. In fact, the volume of certificates for regional-company stock is expected to be so mammoth that initial distribution is not likely to be completed until February, 1984,

Dwyer says. "When issued" trading before divestiture also gives the marketplace time to set a value on regional-company stock.

AT&T stock will start when-issued trading sometime in December. Such trading will reflect the assumed distribution of regional-company stock so that AT&T shares can be traded without the value of the regional companies. To help give investors some idea of the value of both regional-company and AT&T stock after divestiture, the boards of directors of the companies will declare 1984 dividends at about the same time that when-issued trading begins.

No one can accurately predict the market price of either the regional companies' or AT&T's stock after divestiture, says Anthony A. Parra, AT&T division manager-security analysis and investor relations. However, the price of AT&T shares initially will be lower than AT&T's current market price of 60-plus dollars, because 75 percent of AT&T's 146 billion dollars in assets will stay with the operating companies upon divestiture.

Decisions on which assets go to which entity from multi-million-dollar electronic switchers down to the vans and cars in each garage- will be based on predominant use, according to the plan. Facilities used to provide local exchange service and access will stay with the operating companies. Equipment used predominantly to provide interexchange switching and transmission will be assigned to AT&T. Multifunction network facilities will be shared for a limited period of time after divestiture.

Asset assignment cannot be finalized, however, until the federal court and the Department of Justice approve the boundaries of 161 local access and transport areas. All but eight of the LATA boundaries have received the Justice Department's approval.

LATA-boundary approval is one of several critical aspects of divestiture that are independent of the approval of the plan. One such aspect has been dubbed by the media as a "wild card" in AT&T's future- the Supreme Court's action on appeals of the Modification of Final Judgment. The 22 appeals challenge, among other things, the U.S. district court's power to enforce the transfer of assets the Consent Decree requires if state regulatory agencies oppose the transfer. To help expedite the Supreme Court's decision, AT&T asked the court in late December to consider the appeals without oral argument or to schedule oral arguments during the current court term, which ends in the Summer.

The FCC moved AT&T and the companies a step closer to divestiture in late December by adopting guidelines for access charges- another vital element of divestiture independent of the plan's approval. Access charges will permit the companies to recover the interstate costs of exchange access. Access charges at divestiture will replace the current division-of-revenues process and existing access-related tariffs for other common carriers, such as the exchange network facilities for interstate access (ENFIA) tariffs. They will be vital to the operating companies, representing 35 to 40 percent of their start-up revenue, and the biggest expense for AT&T's prospective interexchange entity.

The FCC's thorniest issue was to decide who pays for the fixed costs of providing customers with access to the network the so-called non-traffic-sensitive costs that don't vary with customer usage, says William R. Stump, AT&T assistant vice president-federal regulatory matters. Under current rate structures, these costs are absorbed in long distance rates. The result, of course, is long distance rates priced higher than they would be if local customers paid the full cost of their local loops.

Though the FCC's order was still to be issued as *Bell Telephone Magazine* went to press, it was expected to call for a five-year transition period during which exchange access costs would shift gradually from carriers to local customers. The FCC also created a universal-service fund to be supported by interexchange carriers to offset otherwise high charges to residents living in high-cost rural or thinly populated areas.

The FCC's plan also includes a 1.4 billion dollar "premium-access" surcharge to be paid only by AT&T. The FCC imposed the charge to be reduced by 25 percent each year until it's eliminated at the end of four years because it believes that AT&T will have better access to the operating companies' local loops than other carriers. During the years when AT&T will pay the premium charge, the operating companies will implement the provisions for equal access for all interexchange carriers that are required by the Modification of Final Judgment.

At the heart of the FCC's access-charge plan is the decision to have both customers and carriers initially pay for part of the fixed costs of access. Residence customers will pay a minimum of two dollars per month per line, business customers will pay a minimum monthly flat-rate charge of four dollars per line, and carriers will pay about the same on a minutes-of-use basis. However, because charges to customers don't fully cover the average access cost of four dollars per line, operating companies may add usage charges for customers, Stump says, or raise customers' flat-rate access fee. However, no customer line will be charged more than the total cost of equivalent private-line access, the FCC said, to help prevent network bypass.

Beginning at divestiture, then, customers will see two different charges on their bills -- one for local service and another for local-loop access to the interexchange network. Customers will have assumed the full fixed cost of access -- currently, about seven dollars per line -- through a combination of flat- and usage-based fees at the end of five years; at that time, the FCC will decide whether usage fees can be eliminated over the next two years so that all customers will pay a flat rate for access to the network. As customers pick up the charges for fixed access costs, the rates for AT&T's interexchange services could be expected to drop, Stump says, perhaps by as much as 35 to 40 percent, all things being equal.

Early in 1983, AT&T will file tariffs with the FCC that will go into effect upon divestiture; the tariffs will include interstate access charges for both customers and carriers. Also in 1983, the operating companies will file tariffs with their state regulatory commissions to recover costs attributed to intrastate access.

As the day of divestiture draws persistently closer, managers of all disciplines are readying their functions and their employees for new ways of doing business. The Corporate Divestiture Management Center at AT&T's Basking Ridge, New Jersey, headquarters lists about 100 major activities still to be completed during 1983. Overseeing this work are divestiture-planning panels representing the prospective regional companies and the AT&T General Departments- the 39-member restructure implementation board and the 115-member operations divestiture board, as well as the six presidential-level task forces defining the most critical issues.

Regional groups are equally active, planning new ways of doing business after divestiture- including, in at least the prospective Mid-Atlantic region, the establishment of a regional parent corporation to raise equity and conduct strategic and long-range planning and a regional service company to provide technical and administrative support to the region's operating companies.

Customers began learning new ways of doing business on January 1, 1983, when the main provisions of the FCC's Computer Inquiry II order -- upheld by an appellate court in mid-November -- went into effect. The FCC's decision allows AT&T to enter unregulated businesses, but only through separate subsidiaries. Consequently, customers will begin buying new phones and enhanced services from AT&T's unregulated American Bell Inc., as well as from other vendors -- but not from their local telephone companies. Customers will be able to continue leasing phones from their local companies- and, in some states, even buy them \_ but that, too, will change after divestiture. At that point, provisions of the Modification of Final Judgment take over: Customers' in-place and ininventory equipment will be owned by AT&T; only new phones will be offered by the local companies, if they choose to do so, along with local exchange and exchange access services, and the printed Yellow Pages directories. The regional holding companies will own the proposed cellular subsidiaries, which AT&T will spin off entirely to them. An array of customer-information programs, including the successful "Let's Talk" advertising campaign, will be aimed at developing customer understanding of the changes.

When divestiture occurs, the majority of Bell System employees will find themselves working in their current jobs at the same company, according to Donald E. Liebers, AT&T director-human resources planning. "Despite a reorganization of this magnitude," he adds, "employee relocations will be kept to a minimum." Commitments to rotational employees also will be honored wherever they can be. And whether employees are reassigned or remain in place, their existing benefit rights and service credit will be comparable to what they were before divestiture, according to provisions of the plan.

Though it's "too early to tell" if surpluses or shortages exist in particular job functions, Liebers says, a one year "true-up" period proposed in the plan would correct any imbalances in force or asset assignment. Employees working in the few functions that would be shared between the companies and AT&T after divestiture -- certain circuit design and assignment functions and certain operator services, for example

B would have between 51/2 and 101/2 years after divestiture to be reassigned to the entity that eventually takes over the function, according to plan provisions. Those employees would continue to carry all benefits and service credit as well.

## **FORCE-SPLIT METHODOLOGY**

AT&T and regional personnel assignment committees intend to issue guidelines by February 1, 1983, on how to develop a methodology to split forces proportionately by function. In the meantime, however, some employees are being notified now of their postdivestiture assignments. As other job assignments are finalized, employees will be notified "as soon as practicable," Liebers says.

And so, divestiture activities continue apace. In the Spring of 1983, immediately after the reorganization plan is approved, AT&T will formally incorporate the new companies anticipated in the plan B: the seven regional holding companies, the central staff organization, a cellular mobile service company, and the interexchange and customer equipment subsidiaries to be established by the operating companies and whose assets will remain with AT&T upon divestiture. Through the Summer, task forces will inventory System assets and liabilities, determining the allocations to be made at divestiture. In the Fall, with their new structures in place and operating on a test basis, the individual companies and regional holding companies will submit their plans to AT&T as their sole share owner for formal approval. As January 1, 1984, approaches, AT&T, the individual operating companies, and the regional companies will carry out the transfers, reassignments, and contract terminations required to divest all the operating companies from AT&T.

All but two companies, that is, Cincinnati Bell and Southern New England Telephone -- the latter became the first operating company to enter the unregulated equipment market in competition with American Bell -- will remain with AT&T, which holds only a minority shareholder interest in them. That means that on January 1, 1984, AT&T will be composed of American Bell Inc.; organizations devoted to interexchange services, embedded equipment, and information planning; AT&T International; Bell Labs; Western Electric; a share-owner services subsidiary; a corporate management group; and two of its former 24 telephone companies.