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PRESIDENT'S MESSAGE

Mike Toner, Univ. of Wisconsin-Madison

If you look in the ACUTA Constitution you will notice one of the four stated goals of the Association is "To provide a clearinghouse of information pertaining to all phases of telecommunications." This is quite a goal. A lot of people must know about it because rarely does a week go by that I don't get at least one call requesting information on who has a telecommunications planning committee, who is putting together specs on a new switch, or who has this or that switch cut over and working. Up to this point in time all referrals to these questions have been made from word of mouth and rumor file. In an effort to be more precise and constructively helpful, we would like to change all that.

During the next year one of the major projects of the executive board is to develop an extensive working data base that will be useful to and can be shared by all ACUTA members. In order for this data base to be constructed with meaningful information a good deal of cooperation will be requested of each ACUTA member. In the next few months you will all be sent a questionnaire to complete and promptly return to us. When completed, this data base should become a very useful tool for all of us.

Last year, among other things, the executive board studied and discussed such issues as a paid executive director, a scholarship program, the establishment of a permanent data base, and the role of regional directors. The far reaching effects of these and other areas of concern in the last few years have become very evident although the results of the decisions reached by the board have usually been influenced by the Association's current policies and objectives.

It is a recognized fact that no organization can successfully grow without some form of strategic planning. ACUTA is no different. Along with all the dramatic changes taking place in the telecommunications industry, ACUTA is emerging as a rapidly expanding organization with new and varied needs. It is becoming painfully apparent that just simply solving problems and issues as they arise is no longer the only form of management sufficient for ACUTA's best interests.

ACUTA needs to define specific long-range goals and carefully guide itself during the coming years in order to meet the growing needs of its members.

Recognizing this very important issue, we are establishing a committee to study and develop a five year plan for ACUTA to use as a guideline in the future. It is hoped that the results of this effort will be better management decisions, a more organized growth pattern and a healthier ACUTA.

For the first time this year, ACUTA will be holding two fall workshops. The first, in Nashville and hosted by Vanderbilt University, will be the site of the October 9-11 meeting. This workshop will deal with the impact and effect of the new LATAs and other associated regulatory changes as they apply to college and university voice and data networks.

The second workshop, hosted by the University of California at Berkeley, will be held on November 13-15, and will discuss Profit Center Management. This two day program, presented by Touche, Ross & Co., will deal with an in-depth study of the resale of telephone service. This session will be followed by Ruth Michalecki of the University of Nebraska, who will present an actual case history of the development of resale service at her campus, based on models that were presented by Touche, Ross at a previous seminar.

In light of what is currently happening in the telecommunications industry, both of these workshops promise to deliver timely and useful information for all ACUTA members. If you plan to attend one or both of these meetings, we strongly advise making early arrangements as space will be somewhat limited, especially in Nashville. Additional information on these workshops will be sent to you in the mail and also appear in the next issue of the newsletter.
POTPOURRI POTPOURRI POTPOURRI
—Connie Gentry, Emory University

Surprise! I’m alive and well and living in the telecommunications office at Emory. As a matter of fact, I have seriously considered selling my apartment and saving all that rent money in favor of moving my belongings to the office since I spend so much time there anyway!

Let me tell you what’s been happening so you’ll understand why I’ve not had time for this column. We installed a TDX Telemat 3032 least cost routing system. The orders for the installation were issued in September of 1982 and the system wasn’t operational until January of 1983. This was one of the classic cases of “Our equipment is working fine so it must be their problem!” The TDX equipment worked as it was supposed to but it seemed that the tie lines coming from our central office had to be equipped with custom “widgets” instead of standard “widgets” and neither TDX or Bell had ever encountered such a case before. So there we were with my life on the line because of all the hype I’d done on this wonderful new system and I couldn’t get a straight answer out of anybody! Needless to say, I prayed a lot during this time (and cursed even more!).

At the same time this was going on I finally (after four years of trying) got the go ahead to do an RFP for a consultant to come in and do a feasibility study so Emory could decide what to do about Centrex. Four years of pleading, four years of explaining why we needed to do this, four years of frustration and watching Centrex costs go higher and higher; then I’m given 28 days(!) to come up with an RFP!! Then another month to tailor the original RFP to the tastes of various administrators while they all want to know when we’re going to be able to send it out. And keep in mind that during this time I was still handling the day-to-day cases of “Hi, this is Prunella in the Glitch Research division. I have 4,000 people coming in tomorrow for a 3 day seminar on glitches and I just remembered I’m going to need 15 lines installed when can you have them put in?”. It was at this time I seriously considered becoming a waitress and/or a nun but didn’t feel qualified for either position!

Then we come to the problem of our fantastic new gymnasium. After 40 years of having a converted airplane hangar as a gym, money was donated to erect a new building. The University, in its infinite and often amazing wisdom, chose John Portman as the architect. Mr. Portman, you may recall, is more famous for his hotels with their soaring atria, hanging gardens, etc., than he is for his gymnasiums. For two years I worked primarily with one individual planning the phone service for this building; then 15 days before the building is to be occupied a new athletic director is hired along with a facilities coordinator and I have three people telling me different things about phone service. Waitressing and Running were beginning to look more attractive!

Four days ago the P.E. people moved into their $20 million plus building which looks, in my own personal opinion, like a Babylonian ziggurat on the outside and a hotel on the inside, and which has no telephone service. I’m working on it!

I haven’t even covered such wonderful things as wading through 8 consultant’s proposals, getting Bell to do a cable and wiring inventory, Centrex rate stabilization contracts, dealing with ABI’s concerted effort to sell us a couple of Dimension 2000’s, etc., etc. See you next month....

NOMINEES TO BE ELECTED AT ACUTA CONFERENCE

The following members are running for the office of Vice President and Secretary.

VICE PRESIDENT

JOHN SLEASMAN, Director of Administrative Services at Cleveland State University, Cleveland, Ohio. Position includes the responsibility for the Telecommunications Department.

John has a Masters in Economics, has been married for 9 years and has two children, Elizabeth, 4 and Jeff who is 2 years old.

He belongs to many professional organizations including University Risk Management & Insurance Assoc.; NACUBO; and Colleges & Universities Personnel Assoc. He served on a special financial task force for the Cleveland Heights School Board and is President of Hope Lutheran Church.

John joined ACUTA in 1974 and has been one of the more active members. In fact, your editor wonders how we would get along without the many talents of this person. He has served as Finance Chairman during this time. Among many other things, he developed a budget format, a conference accounting format and clarified our IRS status setting up the controls to be used in submitting our annual IRS reports. He was Chairman of a special membership task force to determine criteria for membership to ACUTA, and for the past two years has been the Secretary.

John has agreed to serve as Vice President, if elected. ACUTA is indeed fortunate to have such a dedicated member...

SECRETARY

KIA MALOTT, Associate Director of Service Enterprises, Southern Illinois University at Carbondale. Position includes responsibility for the Telecommunications System.

Kia has a Ph.D. in Education Administration, is married and has 2 children.

He has served on many interesting task forces including: Governor’s Office of Manpower & Human Development and the Criminal Justice Standard Task Force on Courts for the First Judicial Circuit, and others.

An active member of ACUTA since 1978, we are pleased that Kia was willing, if elected, to serve our organization as Secretary.
I am going to share some interesting news with all of you that came from Keith Nyquist of Michigan State University. Keith was responding to my request for information from various member institutions either entering or considering entering the Resale environment. I will quote from Keith’s letter:

"...Several of the colleges and universities in Michigan have actively been pursuing the Public Service Commission in an attempt to alleviate current restrictions on the resale of Long Distance services. The latest response from Michigan Bell and the PSC is that they would not oppose a proposal to allow measured WATS (Michigan has Full Business Day Intrastate WATS) for resale. They also stated they have no intention of giving FBD WATS or FX the same latitude. Their reasoning is that the cost of providing FX and FBD WATS is not covered by the current rates. Our second choice was to see if Off-Peak WATS (effective from 11pm to 7:59am Monday thru Friday and from Friday 11pm to Sunday 5pm) would be included as a "measured" service offering. We have not, as of today (May 25, 1983) had a formal response to this question. However, preliminary information would tend to indicate a denial to be forthcoming based on similar reasoning.

The following table is a synopsis of current costs which substantiate our reasoning for the following table is a synopsis of current information would tend to indicate a denial to this question. However, preliminary not, as of today (May 25, 1983) had a formal response to this question. However, preliminary information would tend to indicate a denial to be forthcoming based on similar reasoning.

<table>
<thead>
<tr>
<th>TIME</th>
<th>DDD</th>
<th>FBD WATS</th>
<th>MEAS WATS</th>
<th>Off-Peak WATS</th>
</tr>
</thead>
<tbody>
<tr>
<td>8pm-5pm</td>
<td>35.2c</td>
<td>18.8c</td>
<td>29.2c</td>
<td>N/A</td>
</tr>
<tr>
<td>5pm-11pm</td>
<td>24.0c</td>
<td>18.8c</td>
<td>29.2c</td>
<td>N/A</td>
</tr>
<tr>
<td>11pm-8am</td>
<td>17.1c</td>
<td>18.8c</td>
<td>29.2c</td>
<td>14.6c</td>
</tr>
</tbody>
</table>

*Full State WATS, includes 4 area codes.

**Full State-applicable 11pm-7:59am Monday thru Friday and 11pm Friday to 5pm Sunday. Based on 155 hours/month average line usage.

FX lines will vary in cost, obviously, with the amount of usage. Typical costs currently being seen are in the range of 6.5c to 7.0c per minute.

There are several variables which will ultimately effect the outcome of any savings potential:

1. Will Michigan Bell include DDD in their $182 million rate increase just passed?
2. What effect will the AT&T and Bell Operating Companies split on 1/84 have on "resale" as a whole?
3. Will time of day routing be mandatory to restrict higher cost services to optimal time periods only?
4. Will the InterLATA access charge be applied?
5. What do we intend to do with income from resale?
   a) Pass it along as a discount to users.
   b) Use it to improve/increase service to those being served.

There may be more questions to be answered, but I see these as major concerns prior to any venture into the resale market for Michigan State University. ".../s/ Keith Nyquist

I would agree with Keith. Resale or Sharing of Long Distance Services is not a program to enter lightly or without very thorough study, looking at all the potential problems and opportunities. Neither is this a venture that is right for all colleges and universities. You need to look at your situation, in your location, and base your decision on what is right for you. Be prepared to do a lot of planning and selling of your plan. Then be prepared to defend your action because you will probably have to!

Thanks Keith for a special insight, I certainly appreciate your views and your sharing them with us.

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Speaking of Resale--If you are even vaguely considering this, don't miss the ACUTA Fall Workshop being held in Nashville, Tennessee in October. Joe Massey of JMK Associates out of Atlanta, Georgia, will discuss the LATA structures and the impact they will have on our networks, and our resale operations. Is anyone else starting to feel like you would just as soon know what is coming with the new rates? This will be an excellent opportunity to exchange information with others and find out (even though ignorance might be bliss, who can afford it), what the new LATA Structure will mean to us....

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Special Request: Do any of you know anyone using a special "smart operator's console" in lieu of a Centrex System Operator's Console, for the operator's positions. We would like our consoles to provide us with some special information that our Centrex System cannot provide. This deals specifically with the operator's performance and the associated statistics that lets a supervisor know what is happening at the console level. In this day of electronic marvels, it would seem to me there is someplace there is a console with a mini/micro behind it, that could provide special stats and/or usage data, but still work behind the Centrex System. If anyone knows of such a device, please let me know.

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At the recent ICA convention, Dr. Lee Selwyn, President of Economics & Technology, Inc., recommended that large telecommunications users begin to plan their own migration strategies to counter pricing plans and marketing programs expected to be adopted by AT&T. Plans designed to encourage purchase of American Bell's Dimension System 85 and the Horizon or ComKey systems. He also urged telecommunications managers to take a more active role in monitoring and participating in the regulatory process as he sees this process remaining an important part of the industry for some time to come.

Also at the ICA convention, American Bell announced plans for its Communications Management Inst (CMI) scheduled to begin operation in the fall at their national sales training center in Callaway Gardens, Georgia. Two courses will be offered: Networking in the 80's and Office Information Management Resources. Each will last 3½ days and tuition will be about $200.00 per day. You can get a class schedule and further information by calling: (500-222-4884).

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Do you ever get a request for a lock for a telephone set?? If so, Telok is a metal unit that which when locked in place holds down the same buttons as the receiver does. It can be permanently attached to your phone. If interested, contact: THE TELOK CO., 1120 Vine Street, Chesterton, IN 46304 (219-926-8736)....
DISCONNECTING THE BELL SYSTEM

...Written by David Stamps

THE OFFICE OF THE MINNEAPOLIS news bureau where I work uses a device called a Dataspeed 40 to send copy to our editorial office in New York. It consists of a data terminal with a CRT screen, a keyboard, a printer, and a telephone that links it to an identical machine in New York. Most of the people who happen into the office make the same mistake.

"What do you do with that computer?" they ask.

"It isn't a computer," we tell them. "It's a smart telephone. We rent it from the phone company. And what we do with it is simply this: We can type up to three pages of text and do some very limited editing before sending it off to our editors.

One day, however, after an unsuccessful attempt to change the ribbon on the printer, our Dataspeed 40 wouldn't do even that. There was a horrid noise as letters flew off the flexible print carriage, which normally whirs like a fan belt but wouldn't budge. Inside the printer little metal letters lay scattered about. We called Northwestern Bell and reported the bad news. Our Dataspeed 40 looks like it's about Dataspeed 27.

The phone company sent a repairman who managed to undo the damage in fairly short order. Since he seemed to know his way around a Dataspeed, we asked him, "Just what would it take to make his telephone computer? Or at least a real word processor that can do complete text editing?"

He opened up the cover on the Dataspeed and pointed to an empty slot in a cage containing printed circuit boards. "If you write to the Teletype company in Illinois, where they make these, you can get the board that will make your Dataspeed a very nice word processor," he said. "Then it will probably do all the things you want and more. But you have to get it from them, not us, because by the time the phone company can't rent word processors--just like telephones."

Teletype is a subsidiary of Western Electric, the manufacturing arm of AT&T; the Dataspeed is one of a series of communications terminals it has been making for years. And for years the difference between its terminals and word processors has been growing less distinct, until, as our repairman pointed out--that difference is not a technical one but a legal one.

If you can understand that, then you can appreciate why the most significant event shaking up the computer industry today is not a technological breakthrough in Silicon Valley but a legal maneuver underway in Washington, D.C. To be more precise, it is two separate legal actions going on now. One, the result of an agreement with the Justice Department, provides for dividing AT&T into several different units; that division also requires Ma Bell to divest itself of its 22 local U.S. operating companies. The other development, the conclusion of an inquiry underway at the Federal Communications Commission since 1976, will let one of AT&T's remaining pieces get into deregulated businesses--selling not just telephone but word processors and computers and, in the probable near future, smart telephones that do the work of all three.

The first effect of these actions occurred on January 1 of this year: American Bell, Inc., was born. The event was heralded with television advertisements that began as soon as the ball dropped on Times Square. On the following Monday, every major newspaper in the country carried a memo from American Bell president Archie McGill to ABI employees. "Today marks the beginning of a journey," it read in part. "...there is no precedent in American business for what we are about to do. Bottom line: As of today, our number-one priority is to help give American business a much-needed shot in the arm."

WITH THE FEDERAL GOVERNMENT STILL SORTING OUT THE DETAILS OF Deregulation AND DIVESTITURE, THE PHONE COMPANY OF THE FUTURE IS ON HOLD.

To us in the news bureau, the most noticeable harbinger of change was that on the first working day of this new telephone era, our Dataspeed stopped working. We called Northwestern Bell and were told we'd have to call American Bell for repairs. The repairman who arrived was the same one who had fixed our printer a year before. Then he wore jeans, a flannel shirt, and a utility tool belt. Now he wore a suit and tie and carried his tools in an attache case.

"I'm a computer repairman now," he explained.

"Is that because you've been transferred to American Bell?" we asked.

"No, I still work for Northwestern Bell."

"So the Dataspeed has been transferred to American Bell, right?" (We were beginning to catch on.)

"No, that won't happen until January 1, 1984. In the meantime, Northwestern Bell still leases the Dataspeed and contracts for the repair work. But if you want to buy a Dataspeed of your own, you have to go to American Bell. And pretty soon they might sell you a personal computer, too," he added.

"So in January of '84 you'll go back to dressing like a phone repairman and work for Northwestern Bell?"

"No," he said, "we'll all look like computer repairmen by then because Judge Greene has ruled that Northwestern Bell can start selling equipment again in 1984, just like American Bell. Maybe even computers, too!

CONFUSING? VERY.

If what our repairman told us was not exactly accurate, he's to be forgiven. Most people, including a few who work for AT&T, were confused about what happened on that day. Many are still unclear about the effects of deregulation and divestiture--which is which, and which means what for Bell, for the customers, for the competition!

(Continued)
DISCONNECTING THE BELL SYSTEM (Continued)

An example of the extent to which this unprecedented development in American business history has been misunderstood is evident in the way two major newspapers reported Federal Judge Harold Greene's August 1982 ruling (the very one referred to by our reporter). The New York Times proclaimed, "Judge will accept basic AT&T pact but requires changes," while the Washington Post headlined the news that the AT&T plan for breakup was rejected.

Some of that confusion can be traced back to the unpredictable rapid advances in technology that followed the consent decree of 1956, the decision that ended a six-year antitrust case filed against Bell by the Justice Department. Under the terms of that decree, Bell essentially agreed to stay out of the computer business in return for the privilege of retaining a regulated monopoly on telephone service.

The job then fell to the FCC to determine the difference between a computer and a phone. The phone, it ruled, handled basic communications, the transmission of data, while the computer specialized in data processing, which changed the data in transmitting it. That happened to be the same year Bell Labs scientists won the Nobel Prize for inventing the transistor, and from then on, computer technology consistently outdistanced the FCC's ability to make such clear distinctions.

It is said that the phone company never loses a court case. But if the 1956 consent decree was a victory for AT&T, it was one it soon regretted. Thanks to the semiconductor, which AT&T's Bell Labs had also helped to invent, the computer revolution began to gather real momentum in 1960's.

By the mid-Seventies companies like Rolm Corporation were selling computerized PBXs (public branch exchanges, old Bell terminology for a switchboard) that competed fiercely against Bell. In addition to providing basic call handling, the new PBXs provided such services as least-cost routing of calls and automatic dialing--things not provided by Bell's electromechanical central office switches. Bell was slow to respond with its own computerized switch, so Rolm and others gained a foothold into that part of Bell's telephone business.

The way for the PBX makers--now known as the interconnect industry--to tie into the Bell system had been cleared by another legal battle, which ended in 1968 with the Carferfone decision. That ruling allowed radio phone to connect to a telephone, even though Bell had argued that equipment connections could damage the phone network.

The very next year, MCI, another upstart, challenged Bell's monopoly on long-distance service and won approval to build and operate a private-line network between Chicago and St. Louis. Meanwhile, as these cracks grew in Bell's phone-service monopoly, it was forced to sit back and watch while IBM, Wang, and a host of start-up companies earned huge profits by selling office automation equipment. In the very markets Bell was banned from entering.

By the 1970s, when Bell began leasing its Data-Two communications terminals, the FCC found itself in the ticklish position of legally man-
DISCONNECTING THE BELL SYSTEM (Continued):

celebrated. And, as concern mounted over how the
government could make sure Baby Bell would indeed
be fully separated from its mother, it became likely that either Congress or the Justice
Department would play a wild card on top of the
FCC’s Computer Inquiry II.

In January of 1982, that is precisely what happened. The Justice Department announced that it
had dropped its antitrust suit against Bell; AT&T announced that it would divest itself of
its 22 local phone companies while keeping Long Lines, Western Electric, and Bell Labs. That
agreement, which modified the 1956 consent de-
cree, also lifted those restrictions that barred
AT&T from competing in deregulated markets.

After eight years of litigation and an estimated
$360 million in legal fees (the government spent
$15 million), Bell surprised everyone but it-
self by agreeing to do what it had maintained
the entire time it would never do—give up its
phone service monopoly in return for the chance
to enter the computer market with its new, de-
regulated, and no longer forcibly separated en-
tity, American Bell.

The ensuing chaos gave rise to a host of attempts
to define and predict exactly what was going on
with the various newly created and restructured
entities and, not least of all, to keep them
straight. One short-term effect of deregulation/
divestiture was the appearance of a whole new
crop of acronyms intended either to clear up or
point out the confusion—RAT&T, REAP, Remai-
ning AT&T was referred to endearingly as RAT&T and the
cast of local Bell companies were christened
TOMS: "The Other Mothers."

Right after AT&T struck its deal with the Jus-
tice Department, another acronym describing the
local phone companies surfaced for a short time.
That was WACOS, for wire and cable operators.
Under the terms of the original agreement, the
local companies were left with little else.
AT&T would keep its lucrative long-distance busi-
ness through Long Lines, but would keep another
big money-maker: Yellow Pages. And, with the ben-
efit of years of research and product background
through Bell Labs and Western Electric, it would
start out with a strong foothold in the deregu-
lated businesses—like office automation—tar-
geted by its American Bell subsidiary. The 22
Bell Operating Companies, or BOCs, as the tra-
ditional, official acronym has them, would get
local phone service—a long-term money loser
for Bell.

Of course, the BOCS weren’t being cast off as
complete beggars. Together they would take with
them $87 billion of AT&T’s $145 billion in assets.
The dollar size alone made the divestiture per-
haps the most significant business story of the
past 50 years. But despite the local phone com-
panies hefty grubstake, concern over the future
health of the BOCs was voiced almost immedi-
ately. In the past, about 35 percent of Bell’s long-
distance revenues had gone to subsidize local
phone service. Without that subsidy, it was
clearly pointed out, local rates could shoot up
as much as 250 percent. And without any money-
making loc al services, would Bell be able to
figure out how could the local phone companies continue to provide affordable phone service?

It began to appear that divestiture could have
profound social, as well as business, effects.
For example, there are areas of Texas where a
phone company’s rate base can be spread out over
several thousand sparsely populated miles. Local
phone rates there may be as high as most customers
are willing to go, even if they represent only a
fraction of the real cost of providing service.
If the rates went up, some customers would un-
doubtedly cancel phone service. If the rates would
have to go up for those customers who remain in
the rate base. A few more cancel, and...what
happens to the concept of universal telephone
service, the Public Utilities Commission in Texas
and others wanted to know.

Universal phone service is a doctrine considered
close to sacred by public utilities commissions
and, at least in the predivestiture era, by phone
companies themselves. It is why Bell was granted
a service monopoly in the first place. It is
why some long-distance rates were allowed to be
artificially high, so that local rates might stay
artificially low. And it was concern over this
very issue that prompted the next major reversal
in the ongoing tangle of negotiations between
AT&T and the Justice Department.

In August of 1982 the judge announced his list of
ten modifications to the January decree, in-
tended to insure that the final breakout would
serve the public interest. In doing so he an-
nounced some good news for the local operating
companies.

When the 1982 consent decree was signed on August
26, it incorporated Judge Greene’s changes, which
gave back some of AT&T’s money-making businesses
to the local phone companies. One choice piece
is the call waiting service, another, PBXs. Other
licenses—will go to the operating companies;
it’s expected to become a large profit generator
in the next decade. And, starting next January,
the door will be open for the local BOCs to com-
pete with American Bell by selling equipment
directly to customers (“maybe even computers!”
as our Data speed repairman pointed out)—if they
should choose to enter that deregulated business.

It was that August ruling that prompted the
Washington Post and the New York Times to run
conflicting headlines. Over half a year later, the
judge’s ruling still has some of Bell’s competitors scratching their heads.

"I can understand giving Yellow Pages back to
the operating companies," said the president of
a company that sells Rolm PBXS. "But for the
local phone company to sell equipment cheaper
than me, or cheaper than American Bell, there’s
only one way I can do it. It has to sell below
cost and make up the difference with profits
from some other operation. That is unfair
subsidization. It’s like we (the taxpayers)
spend millions and millions of dollars to get
nowhere and to give the phone company everything it wanted in the process."

The final terms of the divestiture are not ex-
pected to be hammered out until very close to
D-Day—January 1, 1984. Judge Greene is scheduled
to issue another ruling as to the terms of di-
vestiture this spring, possibly as early as this
month. That ruling will be based on AT&T’s
471-page filing in December outlining its plan
for breakup to comply with the judge’s August
1982 changes. Additional modifications may be
made after that, but most observers feel that
no more major surprises will be announced—at

(Continued)
DISCONNECTING THE BELL SYSTEM (Continued):

least for a couple of years, while the new phone companies have a chance to try things out.

DURING THESE NEXT TRANSITION years, what effects will be felt by Bell's competitors and customers? For customers, the consensus is that long-distance service will get cheaper while local service gets more expensive.

Just how much local phone rates may go up isn't known. Somehow that 35-percent subsidy that used to come from long-distance--and that was 35 percent of a lot of money--has to be made up. The FCC is currently considering an access charge to be paid to the local phone companies. The question is, by whom? The long-distance companies--MCI, AT&T's own Long Lines division--all rely on the local phone company switch in order to make connections with the end-user, the long-distance customer. At the same time, the customer relies on the local Bell for his link to long-distance service. Who should pay for the privilege of that vital connection--the customer or the long-distance carriers? At this writing, the FCC is leaning strongly toward an access charge to be levied entirely on the customer. That would be another $7 per month in addition to the regular monthly service cost, which is already predicted to rise.

FOR CUSTOMERS, THE CONSENSUS IS THAT LONG-DISTANCE SERVICE WILL GET CHEAPER WHILE LOCAL SERVICE GETS MORE EXPENSIVE.

There's another wrinkle to this issue. For a few very large business customers, the long-distance companies may offer special lines that hook directly to an office and bypass the local phone company altogether. Just how the arrangement would work and what effect it might have on revenues to the local company isn't known.

Although the means of charging for local access remains a question, the fact of fair access for all long-distance carriers is cast in stone. That was one term of divestiture that provided MCI and Sprint with a major victory: By 1986, all long-distance companies have to be treated equally by the local phone companies. None will be the days when a customer has to press twenty digits on a Touch-Tone phone in order to use MCI. Now the customer will choose his long-distance service every time he dials. For example, he might dial a three-digit access code--perhaps 112 for Long Lines; 113 for MCI, 114 for Sprint--and his call will be routed automatically to the carrier of his choice. Also, customers with rotary-dial phones will be able to access the other carriers, something that hasn't been possible up to now.

For most small-business and private-phone users, long-distance options will get both cheaper and more plentiful. By this spring, the alternatives to Bell for customers in 22 U.S. cities will include not only MCI and Sprint, but also a company called Combined Network Inc. Combined Network is one of several new resellers of long distance that have sprung up (some of them for a very short time) since the FCC first ruled that Bell did not have a monopoly on long distance.

According to Melvyn Goodman, executive vice president of Combined Network, there are more potential resellers who have just been waiting to see what shape the divestiture would take. "And things look pretty positive right now," says Goodman, who predicts that more resellers will swarm into the market soon.

"Resellers are a little like people who charge their friends $25 to use their WATS line," says a former Bell salesman. Unlike MCI and Sprint, which own and operate their own phone networks, the resellers don't own their lines (although they do have to buy and install switching equipment, which can run several million for a switch with the capacity to handle enough customers to make the proposition worthwhile). The resellers lease their phone line from Bell or MCI, and then subscribe enough customers to get the maximum traffic and minimum lease price on that line. When they pass the discount on to their subscribers, the cost may be as much as 30 percent below Bell and 15 percent below MCI and Sprint.

Combined Network's Goodman notes that even before the announced divestiture, deregulation had already given the resale business a lot of impetus. "But divestiture has got more people than ever thinking about alternatives to Bell," he says, "and that can only mean more business for us."

The other main area of competition Bell is plunging into is the office equipment market. To succeed there Bell must regain some of the ground it has lost to the interconnect companies. "He who controls the switch controls the customer," Archie McGill has said. In some form or another, so have many other people who want to sell word processors and personal computers. "The telephone people and the computer people are battling for the office of the Future." Northern Telecom's president, Edmund Fitzgerald, told Fortune magazine shortly before last year's consent decree was announced. "Since nobody will win the whole office and each product will have to talk to the others, the key to the battle is controlling the switchboard."

In other words, he who controls the switch may not actually control the customer, but he will have a lot of leverage over that customer's choice of what electronic office equipment to buy.

In the past ten years the leading PBX makers--Northern Telecom, Rolm, and GTE--found an unexpected ally in helping them to sell their own switches: AT&T.

AT&T in most states raised prices on Centrex, its central office switching service, as an incentive for customers to upgrade to its Dimension PBX. Many Bell salesmen told customers that Centrex was a dead technology; if they upgraded to Dimension, Bell said, they would be in line for its next generation digital PBX, the Antelope. Some public utilities commissions thwarted this strategy (called, by the way, the Installed base migration, or IBM, strategy) telling Bell it must price its newer Dimension products to reflect the price increases it was putting on Centrex service. As a result, Bell often sold a customer on the logic of installing a PBX rather than keeping his leased Centrex service only to see that customer buy his PBX from the other guy.

(Continued)
DISCONNECTING THE BELL SYSTEM (Continued):

"Bell was really good at accelerating interest in PBXs and that was very good for our business," says Jim Phillips, vice-president of marketing for Communications Corporation of America, a Dallas-based interconnect company. In its thirteen-year history, CCA has become one of the largest of the interconnects, last year doing a $30-million business selling not only Northern Telecom PBXs but also phone equipment from the newer entrants Mitel, Nippon Electric Company, and Harris Corporation.

Bell, which saw its share of the PBX market fall from 100 percent to less than 40 percent, earlier this year finally responded with a PBX that will probably help it regain a stronghold in that switch market. The new digital PBX, called the AIS/System 85, was announced in January. Analysts noted that the timing was propitious.

More important, the new PBX was announced with a whole family of data terminals that perform the kind of automated office functions our Dataspeed, with its simple line editor, cannot. These new terminals will manage office security and energy systems. They'll even correct your spelling, grammar, punctuation, and syntax, American Bell says.

The effects of a new Bell in the equipment market may be felt most strongly by the smaller interconnect firms, says CCA's Phillips, who notes that AIS plans to sell to the small business user as well as to major accounts. There are probably 2,000 interconnects in the $1 million to $4 million sales range, he estimates. "Those are the guys who might have some trouble, because with customers there is always concern whether the smaller equipment seller will be around next year. But as far as we are concerned, American Bell is just another interconnect company," he says.

With Bell Labs to back it up and $12.1 billion in assets to boost it into its second year (over half of which will come from the transfer of phone equipment from the operating companies on January 1, 1984), some might question, however, whether American Bell is "just another interconnect company."

IN THE RACE FOR CONTROL OF THE switch there's one major competitor that shouldn't be overlooked--the Bell Operating Companies. As it turns out, it's those orphan phone companies that now own that vital switch at a large number of major companies--perhaps even a majority.

According to John Malone, a consultant with the Eastern Management Group in Morris Plains, New Jersey, a study done by his firm in 1981 showed that five out of every seven lines in large telephone systems (11,000 lines and over) ended in a Centrex switch, the other two ended in a PBX.

For most of the phone companies, Centrex service is a money-maker and, for that reason, they will fight to retain their customers. If they already one operating company, Northwestern Bell, has taken an aggressive stance to assure its customers that it will keep Centrex as a viable alternative to PBXs. It has announced plans to change its old electromechanical switches over to electronic switches. So strong is the change, such as it is, that it will offer PBX-like calling features to its customers. Northwestern Bell announced about a dozen such features in January, the same week American Bell unveiled its System 85. It also hinted at some price reductions on Centrex service. And, as a dramatic attempt to position Centrex as something other than the dead-end technology Bell account reps had tried to portray it as in the past, Northwestern Bell changed the name of its central exchange service from Centrex to Centron.

If Northwestern Bell is successful in convincing customers that they should retain Centrex, and if other operating companies follow its lead, then the field of potential PBX customers, which has been growing could shrink. That would be bad news for American Bell and the other interconnects.

Then, the possibility remains that Northwestern Bell and other BOCS will get into the equipment-sales race themselves. Judge Greene's decision last August to elevate them from orphan status left the door wide open for the operating companies to sell equipment if they choose. They can manufacture several more years they can continue to buy equipment from Western Electric. Furthermore, they can make deals with any other manufacturer. With phone lines leading into every home and office in the country, it isn't hard to imagine that the operating companies might strike a company like IBM or Nippon Electric as an attractive partner.

Should something like that happen, there will be one more alternative to choose from when it comes time to trade in our Dataspeed 40 on a more state-of-the-art model. It's unlikely that we will soon. That decision rests with someone in our New York office who thinks we still compose our stories on a typewriter. He has no idea how hard it is to write on a telephone.

Nevertheless, it's pretty clear that the Dataspeed is only medium-to-lower tech as office equipment goes these days. So, on the slight chance that we might soon want to get something better, we have put the question to our local phone company. "Next year, will you be able to sell us something that's a telephone, a computer, and a word processor?"

The answer is, "We are thinking about it now and will decide in 60 days." Meanwhile, the president of the local phone company has been quoted as saying, "There are more computers born than babies and we want them all connected to us." That doesn't sound like the talk of a man who would pass up the chance to sell us a computer, but we don't know. Evidently he isn't sure either, which indicates that the bottom line to all this has happened in the past year may not be Archie McGill's "much-needed shot in the arm," but rather a great deal of market confusion spawned by an overnight abundance of telephone alternatives.

We do know that one thing will change, even if we don't make a single change in any of our phone equipment. Starting next year, we will get three different phone bills. American Bell will take over the lease of our Dataspeed. AT&T will charge us for our WATS usage, and the local phone company will bill us for local service.

How much will it all cost? That's another area that may take a few more years to sort out.

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