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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY

March 22, 1995

**EX PARTE**

William F. Caton  
Acting Secretary  
Federal Communications Commission  
Mail Stop 1170  
1919 M Street, N.W., Room 222  
Washington, D.C. 20554

Dear Mr. Caton:

Re: *CC Docket No. 94-1, Price Caps*

On behalf of Pacific Bell, please find enclosed a written ex parte presentation concerning the above-referenced proceeding. Please associate this material with this proceeding.

We are submitting two copies of this notice in accordance with Section 1.1206(a)(1) of the Commission's Rules.

Please stamp and return the provided copy to confirm your receipt. Please contact me should you have any questions or require additional information concerning this matter.

Sincerely,



Attachment

No. of Copies rec'd 0+1  
List A B C D E

**P. J. Quigley**  
Chairman, President  
and Chief Executive Officer

Pacific Telesis Center  
130 Kearny Street  
San Francisco, California 94108  
(415) 394-3990

**PACIFIC**  **TELESIS**  
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**March 22, 1995**

**Rachelle B. Chong**  
Commissioner  
Federal Communications Commission  
1919 M Street, N.W., Room 844  
Washington, D.C. 20554

Dear Commissioner Chong:

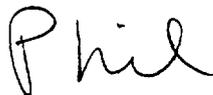
Thank you for taking the time to meet with me recently. Now that you moved to Washington, don't forget the challenges of living in California: earthquakes, storms, and an exceedingly high productivity expectation.

You may recall my reference to Intra/Interstate arbitrage created by access price differences in the State and Federal jurisdictions. In September, the California Commission announced a major reduction in our intrastate access rates. As a result, our intrastate rates went from substantially above our interstate to substantially below our interstate rates. In response, IECs so significantly changed their reported PIUs (percent interstate usages) that about 3% of our interstate switched revenues shifted to the state jurisdiction. The attached chart comparing the change in interstate and intrastate growth rates in minutes of use illustrates the effect of such a change. The ability of our end user and IEC customers to make changes that affect our interstate earnings is just one reason not to use those earnings to raise a productivity target.

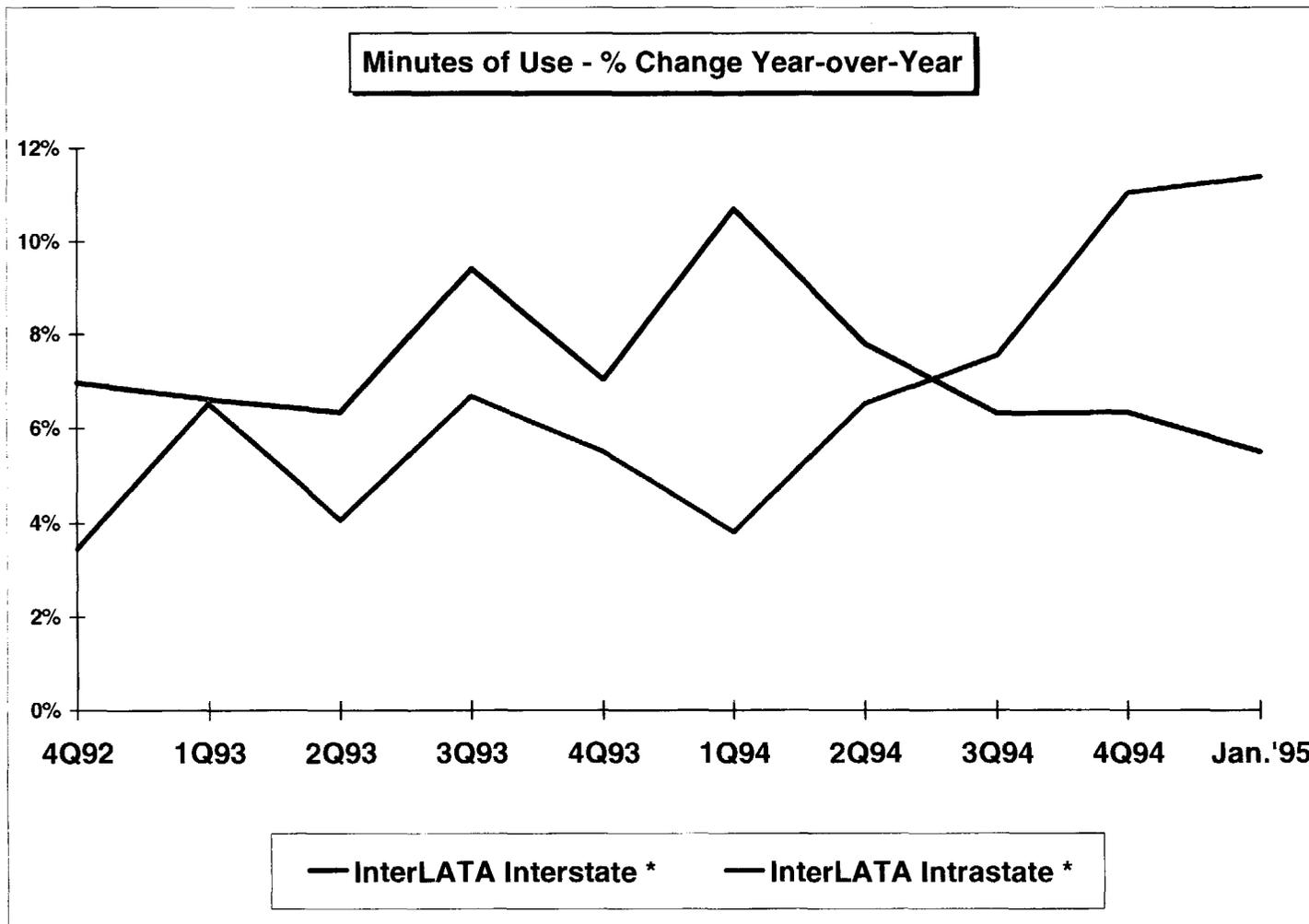
Recent information suggests that the Common Carrier Bureau may recommend only a temporary price cap plan. We are concerned that it may not contain a realistic "no sharing" option. For example, a 5% productivity factor such as the one imposed on us in California, is unrealistic. A productivity factor that compounds at 5% annually drives progressively larger revenue reductions that would seriously threaten our ability to invest in the information superhighway. Such a plan also would fail to provide investors with the assurance that we can recover our costs, or deal with increasing business risk due to competition.

The Commission should adopt a plan that lets us plan for the long term as well as attract the capital we need to make "California First".

Sincerely,



Attachment



\* Normalized for calendarization and large anomalies.