December 15, 2006

Ms. Marlene H. Dortch, Secretary
Federal Communications Commission
445 12th Street, S.W., TW-A325
Washington, D.C. 20554

Re: *Ex Parte* Notice

In the Matter of AT&T and BellSouth Corporation Application for Consent to Transfer of Control, WC Docket No. 06-74

In the Matter of Federal-State Joint Board on Universal Service Seeks Comment on the Merits of Using Auctions to Determine High-Cost Universal Service Support, WC Docket No. 05-337

In the Matter of Petition of Cingular Wireless LLC for Designation as an Eligible Telecommunications Carrier in the Commonwealth of Virginia, CC Docket No. 96-45

In the Matter of Rural Health Care Support Mechanism; Petition for Reconsideration or, in the Alternative, Clarification Filed by National LambdaRail, Inc., WC Docket No. 02-60

Dear Ms. Dortch:

On Wednesday, December 13, 2006, Daniel Mitchell, Karlen Reed and Rick Schadelbauer with the National Telecommunications Cooperative Association (NTCA), met with Donald Stockdale, Jeremy Marcus, Renée Crittendon, Marcus Maher, Amy Bender, and Nicholas Alexander of the Wireline Competition Bureau. We discussed issues in the above-referenced proceedings and NTCA reiterated its concerns about stranded investments that may arise from reverse auctions and cited to the utility industry as an example of stranded investments.

In exchange for their regulated monopoly status, investor-owned utilities were compelled to serve as providers of last resort. This required them to construct sufficient generating capacity to serve all customers within their service territory. These investments were prudently incurred under the regulations in place at the time the investments were made, and typically had long payoff periods. As states moved toward introducing competition into electric markets, these providers' customers were placed at risk. Consequently, the generating capacity built to serve those customers lost to competitors was no longer needed, and thus "stranded." Unlike other commodities, electricity cannot be stored or transported over long distances for sale in other markets due to transmission losses.

Professor Dale Lehman, writing in support of NTCA's concerns, cautioned the Commission about the potential for stranded investments and used what happened in the electric industry as a forecast for the telecommunications industry. Stranded costs in the electric industry resulted from "costs for power plants built to meet customer demand for electricity prior to the start of retail competition, which cannot be recovered in the competitive marketplace." Ex Parte Attachment A, p. 14.

Professor Lehman recognized that "Reverse auctions potentially render the incumbent's network less valuable … Resolution of this issue is of political, legal, and economic importance." *Ibid*. He cites to the significant rises in stranded costs that arose in Texas resulting from the sale of electric generating assets as an example of the volatility of market-based estimates. Ex Parte Attachment B, p. 4. As Professor Lehman observed, "Volatility of market-based USF support will impact future rural investment. It also is incompatible with any capping of USF levels, since