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**VIRGINIA TOBACCO INDEMNIFICATION
AND COMMUNITY REVITALIZATION COMMISSION**

701 East Franklin Street, Suite 501
Richmond, Virginia 23219

Technology Committee Meeting
Wednesday, April 26, 2006
5:00 p.m.

Sheraton Richmond West Hotel
Richmond, Virginia

1 **APPEARANCES:**

2 The Honorable Clarke N. Hogan, Chairman

3 The Honorable Kathy J. Byron, Vice Chairman - Southside

4 Mr. Thomas W. Arthur

5 The Honorable Patrick Gottschalk, Secretary of Commerce and Trade

6 Mr. L. Jackson Hite

7 The Honorable Edward Owens

8 The Honorable Thomas C. Wright, Jr.

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10 COMMISSION STAFF:

11 Mr. Ned Stephenson, Acting Executive Director

12 Mr. Timothy Pfohl, Grants Program Administration Manager

13 Ms. Britt Nelson - Grants Coordinator, Southside Virginia

14 Ms. Sara Griffith - Grants Coordinator, Southwest Virginia

15 Ms. Stephanie Wass, Director of Finance

16

17 OFFICE OF THE ATTORNEY GENERAL

18 Mr. Francis N. Ferguson, Deputy Attorney General, Counsel for the

19 Commission

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1 **APPEARANCES: (cont'd)**

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3 OTHERS PRESENT:

4 Mr. Ron Flannery, LENOWISCO, PDC

5 Mr. Jim Kelly, Bristol Virginia Utilities

6 Mr. Neil Noyes, U. S. Department of Commerce

7 Mr. Tad Deriso, General Manager, Mid-Atlantic Broadband Cooperative

8 Mr. John Miller

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1 MR. STEPHENSON: Delegate Hogan is about ten
2 minutes away, and he asked us to go ahead and start the meeting.

3 MR. OWENS: All right, then, we'll call the
4 meeting to order.

5 Ned, would you do the roll call?

6 MR. STEPHENSON: Mr. Arthur?

7 MR. ARTHUR: Here.

8 MR. STEPHENSON: Vice Chairman Byron?

9 DELEGATE BYRON: (No response.)

10 MR. STEPHENSON: Mr. Hite?

11 MR. HITE: Here.

12 MR. STEPHENSON: Chairman Hogan?

13 DELEGATE HOGAN: (No response.)

14 MR. STEPHENSON: Mr. Montgomery?

15 MR. MONTGOMERY: (No response.)

16 MR. STEPHENSON: Mr. Owens?

17 MR. OWENS: Here

18 MR. STEPHENSON: Vice Chairman Thompson?

19 MR. THOMPSON: (No response.)

20 MR. STEPHENSON: Senator Wampler?

21 SENATOR WAMPLER: (No response.)

22 MR. STEPHENSON: Delegate Wright?

23 DELEGATE WRIGHT: Here.

24 MR. STEPHENSON: We will have a quorum as
25 soon as Delegate Hogan and Delegate Byron are here.

1 MR. OWENS: Then we'll wait on the Minutes.
2 Let's go ahead and start with the presentation.

3 MR. DERISO: Quickly, I thought I'd give you a
4 quick update of MBC and where we're at, what are our accomplishments,
5 what we've done, and kind of give you a status report of how the project is
6 going. As of today, we are 85 percent complete with the network. We've got
7 some very good construction. In one week we had actually 45 miles of fiber
8 built, and it's been averaging about 10 to 12, and we're making very, very
9 good progress. We're still looking at the late second quarter turnaround and
10 full operations of the MBC network.

11 The VFP, the shelter manufacturers. Duffield has completed all
12 their shelters. The next several pages will show you some of the examples
13 of, photographs of the buildings.

14 The first one you see is the Virginia Lakeside College Park, and
15 that's what our shelter building looks like. All the site work has been
16 completed, concrete pads have been poured, and that's what you'll see in
17 what we call the Node Shelter.

18 The second page shows you a front view and has two separate
19 doors within that shelter building. The dimensions are 12' by 20'. The door
20 on the left is for the MBC equipment, and that's where all of our fiber
21 terminates and our battery equipment and Nortel Electronics on the right-
22 hand side, that's the Co-Location Shelter. That's where members of MBC
23 and telecom providers will have their equipment housed to serve the park.

24 The following page is a map, that's entitled MBC-Progress
25 Map. I believe you've had access to this in a previous handout or packet of

1 some sort. The red lines are complete, and the blue is still under
2 construction. Several of the routes, particularly Brookneal and Amelia and
3 Prince Edward headed east, those are part of our Phase II project, and they're
4 currently undergoing design and evaluation right now.

5 The next page is entitled Grants Management, and what I want
6 to highlight here is that we have had some very good successes keeping our
7 construction and capital projects under budget. For the RBI South Grant,
8 EDA is 50 percent, and we're approximately 1.3 million dollars under
9 budget. For the north project, which is primarily the northern part of our
10 project, which is most of electronics, we're approximately 41,000 under
11 budget; and for Phase 2, which incorporates a lot of the additional fiber,
12 fiber resources and additional fiber built, we estimate we'll be about 282,000
13 under budget as of this week. That number can fluctuate.

14 The next page is Sales Report, and we've had some very, very,
15 good success talking to members who are looking at MBC, doing business
16 with us by expanding broadband services in Southside. This is updated from
17 the last package you received. We have 12 new Class B members. A Class
18 B member is a telecom service provider, whether they're an ISP or an
19 exchange carrier or wireless company. Those are companies that signed up
20 and said we're ready to go, and we're ready to go to MBC, and our Board has
21 accepted their application, and we're now going full forward in getting them
22 interconnected to the network. Then they can expand coverage to provide
23 broadband and telecom services to our residential and business customers.

24 We also have one new Class D member, and that's a very large
25 pharmaceutical company and employs about 700 people. They've signed a

1 contract with MBC to allow us to provide backup data and recovery and
2 storage for one of their facilities. We'll probably have a press release on that
3 in the next couple of weeks. We expect to continue to see more and more
4 positive developments from MBC and from the companies that are in our
5 region.

6 Also, we have a first circuit order, Peoples Mutual Telephone
7 Company, that's located in Gretna, Virginia. That will affect about 6,200
8 people in Northern Pittsylvania County, which is their service territory. We
9 were able to turn this up on a project that Technology Committee funded
10 several years ago, the Danville-to-Gretna fiber link. That's being put into the
11 MBC network. They have gone live, and that circuit is tested, and it's up and
12 running. We have a little bit of press coverage from a local Danville radio
13 station, a couple of newspapers. That's very good news, and it's also revenue
14 that's coming into MBC.

15 As an update, we have 52 companies on our list who we are
16 looking to choose our network to expand.

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18 NOTE: At this point Delegate Hogan arrives.

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20 MR. DERISO: The next page is a Funnel Report,
21 and this shows what we see as estimated revenue coming in for the next 12
22 months based on non-recurring charges, up-front fees and recurring charges
23 on a monthly and annual basis. I'll go into more detail after the meeting, if
24 any of you have any questions on that.

25 MR. HITE: What is your revenue stream on this?

1 MR. DERISO: About 24, 000 per year for one
2 circuit.

3 MR. ARTHUR: Is RACO your construction
4 company doing the wiring?

5 MR. DERISO: Yes.

6 MR. ARTHUR: Do they just do it when they can,
7 or something? I mean, they got up to the Pittsylvania County/Halifax line,
8 and there's nothing after that for a long time. I don't think they've done
9 anything in Pittsylvania County.

10 MR. DERISO: Most of Pittsylvania County is
11 completed. Gretna to Altavista, we did that. East and west you may have
12 seen crews, it wasn't Rayco east and west of Danville.

13 MR. ARTHUR: Do they pull off when they want
14 to, because of the way we're paying them, would we get it cheaper if they do
15 it when they don't have anything else to do?

16 MR. DERISO: No, when you see a crew stop and
17 you'll see a reel of cable on the road, that's because we're usually waiting for
18 a permit or poles to be completed to make ready, or waiting for something to
19 happen. What happens with the crews is that each day the construction
20 supervisor goes out, and they look at how much work can be completed,
21 how long the reels of cable are, and then they'll work until they can't work
22 anymore, and then they reach a stopping point. If you look around
23 Lynchburg, there's some blue around the node sites near the airport, and
24 that's because the ADP poles have, they have to have existing utility
25 companies, including the telephone and the cable, they have to lower theirs

1 so we can put ours up, and we're trying to find some creative ways around
2 that, but it just takes a long time to work with that particular company.

3 MR. ARTHUR: Do you think you're going to
4 finish it all in March?

5 MR. DERISO: Not March, it's already April. If
6 you'll look at the map, the inner ring, look from Danville to Lynchburg over
7 to Farmville and South Boston and back to Danville, that's what we mean by
8 inner ring. We're looking at a June 3rd date for full turn up and operation of
9 the inner ring, starting in Danville and going north to Lynchburg, east
10 through Appomattox, Farmville, south to Keysville, South Boston and back
11 to Danville. That's the inner ring, and that will be completed.

12 The rest of the network, we're looking for July the 7th. We do
13 have some permit issues. We've had a big delay on this bridge here, and we
14 got notice we can start on May 20th.

15 DELEGATE HOGAN: What you're saying is
16 everything on this sheet will be done by the 7th of July and turned on?

17 MR. DERISO: With the exception of Brookneal,
18 Halifax to Brookneal, the fiber that goes into Amelia, Farmville east, goes
19 into Amelia and from Farmville east, the blue line, especially the blue line,
20 Farmville east to Burkeville and to Amelia, that's all part of Phase II.

21 DELEGATE HOGAN: Does that go to Halifax?
22 Those two pieces will not be done?

23 MR. DERISO: That's right, that's part of Phase II,
24 that's currently undergoing construction and design right now. The
25 engineering should be completed in the next two and a half to three weeks,

1 and then that'll be let out for construction bids. Shouldn't have any major
2 permit issues, probably three or four months.

3 DELEGATE WRIGHT: Mr. Chairman, the money
4 is already there to complete the project, the Phase II part of the money is
5 already there to complete the project?

6 MR. DERISO: Yes, that's correct.

7 DELEGATE WRIGHT: In Amelia, what was the
8 final decision? TDS, did that work out as far as accomplishing what they
9 were going to do, or --

10 MR. DERISO: -- Yes, we have a node facility
11 planned, putting it in the Amelia County Industrial Park. I don't know or
12 remember if that's called Number 1 or Number 2.

13 DELEGATE WRIGHT: Yes.

14 MR. DERISO: We will have a shelter building
15 there. TDS could not accommodate our fiber, and right now they don't see a
16 need or why they need to be connected to the MBC network. I've had many
17 meetings with the general manager.

18 DELEGATE WRIGHT: That also has been
19 funded?

20 MR. DERISO: Yes. We're currently spending
21 dollars on the design and permits.

22 MR. OWENS: How did you get the funds for E-
23 Dan? Have funds been spent on that?

24 MR. DERISO: No dollars have been spent on E-
25 Dan. The Commission has paid a hundred percent for E-Dan. and all we're

1 doing is taking over the operation of E-Dan. We're not spending a penny on
2 that network.

3 DELEGATE HOGAN: Any more questions for
4 Tad at this point? All right. Tad, would you stick around, because I think we
5 might have some questions when we get to the last mile part.

6 DELEGATE WRIGHT: I apologize for being a
7 few minutes late, Delegate Byron is right behind me.

8 MR. DERISO: I'll go through these last couple of
9 slides, and they're mostly about operations management. This is very
10 functional, and what it takes to run a network such as this. I put this slide in
11 here for your edification to see what type of functions we have to do and the
12 responsibility to run the regional backbone initiative, and we can talk about
13 it later.

14 Now, if you'd look at this second map it shows the green circle
15 around South Boston, along with a black circle that represents 120 mile
16 radius, and a little jagged blue line which represents a two-hour drive. I
17 wanted to show this because our operations center will be in Riverstone Park
18 in South Boston with technicians that we're partnering with, a local
19 company, for any type of repair or response issues. Strategically it's
20 probably the best place we can be in Southside, because it covers every
21 single foot of our fiber and every one of our node locations.

22 The last map you have, or actually a diagram of the network,
23 you can see how our network integrates with the larger network, or the Phase
24 II money, that's what you funded for the dark fiber in Northern Virginia.
25 That's how that integrates into the network. I wasn't able to show our

1 connection into Southwest, but that basically happens on the far left-hand
2 side, where you can see Floyd, Virginia, and the telephone cooperative, and
3 that's our connection to the Southwest.

4 That concludes my remarks. Any additional questions? If not,
5 I'll be here.

6 MR. STEPHENSON: The Chairman had asked
7 me to describe to you a potential grant. I need to give you a little history to
8 bring you up to speed. When the first grant was made to MBC, it was
9 contemplated that MBC would be a virtual company, if you will, and simply
10 on contract with these cable companies, and that it would not have any
11 employees or operating expenses. That was a noble approach, and it has not
12 worked out exactly that way. There have been considerable conversations in
13 recent months between MBC and some of the commissioners about the
14 necessity for MBC to have some operating funds. The Commission has
15 been generally reluctant to provide grants to MBC for operations. MBC has
16 indicated it would be willing to borrow funds and set up its operations so as
17 to repay over a period of time those funds. Not knowing what the
18 Committee wants to do, your Staff has invited a conversation with a group
19 called the Virginia Community Capital Incorporated. It is a newly formed
20 community development bank that was seeded with 15 million dollars from
21 the Commonwealth. Their purpose is to make loans for community
22 development. We've had some conversations with Virginia Community
23 Capital, Inc., where they have indicated that they might be a possible lender
24 to MBC. However, because of MBC's status, it would be necessary for the
25 Commission to buy down that risk. So, I would like to present to you this

1 afternoon the concept that you might consider capitalizing the Virginia
2 Community Capital, Inc. to some degree to induce them to make a loan to
3 MBC over a period of a couple of years for MBC's operating purposes.
4 That's one possible route, and it really depends on whether or not the
5 Committee and the Commission wants to begin to supply operating
6 resources to MBC.

7 DELEGATE HOGAN: This is something we're
8 going to have to decide rather quickly. Most of us have some idea MBC at
9 some point will require some operating monies to make it work. The notion
10 that they can run this business as far as expenses the first day out of the
11 block, I think we hoped it would, but I'm not sure. I'm certainly not
12 surprised that that's happened, in the context of other businesses that I have
13 seen, and I don't know of many businesses that are profitable from the first
14 day it opens its door.

15 There are a couple of ways to handle it, and we might get Tad
16 back up here in a minute to talk about this. We could give them a grant for
17 an operating budget, which we've done in the past under some
18 circumstances, and that's an option.

19 We could loan them the money ourselves, or find some other
20 entity to loan the money, then obviously we'd have to make some
21 commitment, as pointed out, because they don't have much of a credit rating
22 at this point.

23 I guess the fourth is just to tell them no, we won't give you any
24 money.

25 I can see their perspective. I can see problems and the merits

1 with any of those proposals for them. The difference may not be as large as
2 we might think they are, but that's something we've got to deal with.

3 Now, Tad, do you want to speak for just a minute about why
4 you need the money, how long you're going to need it, what you're going to
5 use it for?

6 MR. DERISO: What we'd like to do with the
7 operational funds is we would invest, the Tobacco Commission has invested
8 over 30 million dollars of capital to build this network, EDA has invested
9 over 6 million dollars, and we've got almost a 37-million dollar project. We
10 can get money and build fiber all day long and do all that, and that's fine and
11 wonderful, but we don't have any money to put gas in the generators. We
12 don't have any money to pay for the network locators. We have all these
13 operational costs and things that are associated with running a business.
14 That's what we're lacking at this time. We've made pretty good headway
15 with what we have and where we are so far. But, we're at a point where
16 we've got to make, or it's our responsibility to the Board of Directors to
17 advise them and start some planning for this, that or the other. Our fiscal
18 year ends June 30th, and we're at a very critical stage in MBC's life, because
19 we have to decide how we're going to operate this thing moving forward. As
20 you all know, from looking at the packets, that Adesta and MBC have
21 mutually agreed to part ways on the operational side of the house. We felt
22 we could do this on a much more cost- effective manner doing it in-house
23 and partnering with local companies, such as DCR Communications in
24 South Boston, which has been a very large technical resource for us. At the
25 end of the day, what we've estimated is about 1½ million dollars a year in

1 operational costs, and increasing about three or four percent a year, based on
2 all those factors. If you look at all the reports in accordance with our
3 mission statement, it is that we operate our business in a way to make this
4 financially independent. We don't depend on external funding resources.
5 I'm very, very confident we're going to get there, and get there within two to
6 three years, but it's not going to happen on day one. What I don't want to do
7 is spend all these resources and not be able to pay our bills.

8 Just to give you an idea on the Funnel Report. As of today,
9 we've estimated about 670,000 in a formula that we would come up with
10 annual recurring revenue over the next 12 to 24 months, somewhat likely to
11 be developed, based on percentages of initial companies that said yes, I need
12 certain A, B, C, and I'm willing to pay X dollars for those. When we talk
13 about these operational dollars we have to be accountable for results. Our
14 Board of Directors is very adamant about being frugal with the dollars we
15 have and for operational dollars to have a great deal of accountability for
16 those dollars, and that's why when we discuss the opportunity for MBC to
17 enter into a loan agreement with a third party resource, we felt that was
18 really a creative way to do it, because we may not necessarily want to draw
19 down the full amount of money, based on how successful we are in selling
20 our services in the region.

21 That's kind of where we stand right now. I don't have a detailed
22 list for our funding, but I'd be glad to talk to you later on about that. That's
23 basically where we stand. We have done a great deal of work so far, and
24 we're excited to be in the region, and looking forward to moving to the next
25 level. We'll need to hire some additional folks to work in South Boston and

1 get this network operational and operating at the next level. I'll be glad to
2 answer any and all questions.

3 DELEGATE HOGAN: Let me say one thing.
4 There's another issue, and you probably remember when we originally made
5 a grant to MBC one of the contingencies we placed on it was to have them
6 contract with a network operator that we approved. At that point that was
7 Adesta. Now you have decided you don't want to work with Adesta
8 anymore. The truth is, though, at this point we approve another arrangement
9 for them, or we can take this network back. That would require us to vote to
10 approve this change if we so agree. If you don't agree, this is the time to
11 deal with it. Those two problems, the two are not directly related, they're not
12 exactly identical, and they are directly related.

13 MR. HITE: What happened to Adesta?

14 DELEGATE HOGAN: I'm sure Tad could give
15 you more details on that, but they had different ideas about who ought to do
16 what and how this would all go together. They couldn't work around it.

17 MR. HITE: Was it a management problem?

18 DELEGATE HOGAN: Why don't you speak to
19 that, I know you're somewhat leery about it, and it's very important these
20 folks understand what happened, because it is a pivotal piece of our grant.

21 MR. HITE: Was it a legal problem?

22 DELEGATE HOGAN: I don't think it was a legal
23 issue. Mr. Ferguson is on the MBC Board. Frank, why don't you take that?

24 MR. FERGUSON: I think, if I recall correctly, it
25 was the unanimous opinion of the Board that we should move away from the

1 Adesta agreement. I think that's a fair statement. He can tell you the reason
2 for it, but I think in the long run MBC and this whole investment would be
3 better for it, near-term operational.

4 DELEGATE HOGAN: Let's be clear, we're
5 responsible for this, and we're going to have to vote on it, and we'll have to
6 make a recommendation to the full Commission. Whether or not they can
7 move away from Adesta without our permission is debatable, and whether
8 they can enter into another agreement with another company without our
9 permission is absolute. We have to approve that network operator, and it's
10 our responsibility to say we are comfortable with that. That's all part of it.
11 Let's listen, and we'll ask some questions. This is something we'll have to
12 deal with, no matter what happens.

13 Tad, why don't you talk about that?

14 MR. DERISO: Sure. You all remember when we
15 initially did this, probably a year and a half ago. Our arrangement was for a
16 turn-key project. The design engineering, construction, project management,
17 network monitoring, maintenance, operation, sales and marketing, the whole
18 kit and caboodle. There was a construction contract which you all funded
19 for \$15,101,210. That went toward construction and the physical spot in the
20 ground and the electronics. There was a separate contract, which was for the
21 network operations contract, which called for Adesta to perform all the
22 functions that we talked about to actually run and operate and market and
23 sell the network. At the end of the day I think MBC and Adesta have a
24 difference of opinion as to how the network could be run. The price tag for
25 just the operation piece for the Adesta part was well outside any budget that

1 we could ever afford for MBC. If you remember, we had a meeting in
2 Roanoke almost two years ago, and at that time we asked the Technology
3 Committee for 5 million dollars over the next two years to cover operational
4 costs under our existing contract with Adesta, and at the time that was not
5 done. We pulled back and said, well, the way this works is that the company
6 will market itself and bring enough revenue in the business to allow that to
7 happen. Fourteen months continued to develop, and meeting after meeting,
8 and we felt the needs of MBC and the needs of our region could be much
9 better served by MBC doing things internally. By internally, I mean myself
10 and part of our Board taking responsibility for the operations of MBC. The
11 initial plan called for seven people for what we call technical technicians,
12 and they would be scattered throughout Southside, and each person would
13 have a hundred miles that they would be responsible for. Each person would
14 ride that route every single day and look at the fiber in the air and look at the
15 ground and see if anything was happening. They would know the route, and
16 they would check on stuff and be there and locate the network and do all
17 these great things. That's wonderful if you have a lot of money to spend, but
18 the problem is MBC, like any entity, is that we have a lot to do with a
19 limited amount of resources. We were not willing to go to bat for a large
20 amount of money when we felt that the way that other telephone
21 cooperatives in Virginia operate and the way that other companies have to
22 operate is that you have to take what you have and make it make sense. We
23 felt the number of network people in the field was overkill for what we
24 needed. We felt that building a brand new network operation center and
25 staffing that with seven or eight people, 24/7, full-time, 365 days out of the

1 year, was overkill, based on what we actually needed to perform the project.
2 We plan to benchmark with other telephone companies in the region, and
3 most everyone else outsources those functions, and they do it much more
4 cost effectively. At the end of the day the revenue you pull in needs to match
5 the revenue that's being pulled out. That's what we tried to focus on in
6 accomplishing our mission. The existing agreement did not work, and we've
7 had multiple meetings with Adesta, and we all came to a conclusion sitting
8 around a conference table, that Adesta does a great job of construction and
9 engineering, and the other part is something they would have to hire
10 additional people for and find those skill sets. We felt that because it doesn't
11 exist today, and we felt that if they have to hire those skill sets, why not
12 MBC hire those skill sets directly. And that way we would have
13 accountability for results, and we'd just take control of that. That's basically
14 where all that came from. The Board and Adesta agreed to dissolve the
15 services agreement for the project. As of today we have not done any
16 additional contracts for services. You'll see in your handout today, does that
17 show who does what?

18 MR. STEPHENSON: No, it's not in the packet.

19 MR. DERISO: Let me pass this out. This is what
20 we call our Operational Plan, and it's basically saying what is every single
21 duty that has to be completed for the MBC network to be successful. We
22 benchmarked those against what our contract called for and how that same
23 function was going to be handled in the future. You can see that a lot of the
24 operational costs that we're going to incur in the previous model never
25 included items such as electricity, network locates, and the various things

1 that go into continuing to run a network. We would still have those costs
2 regardless if we had Adesta under contract. We broke it down between the
3 network operations costs and general administrative costs. It breaks it down
4 for all the functions that we do on a daily basis, planned maintenance, which
5 is stuff we do on a bi-weekly or monthly basis, and then reactive
6 maintenance.

7 One of the big issues we have and we're very focused on is
8 reliability of the network. We are 100 percent committed that the amount of
9 money that's been spent on MBC and the resources that have employed are
10 integral to our network to remain a first-class network. We have a plan in
11 place where, if something happens at 2:00 in the morning, that the systems
12 that we have, or the networks monitoring systems, we have an alarm system.
13 We've got it set up where the network technicians from our local company
14 that when the alarm goes off people will be on call for those types of
15 services. The company that built the network, RACO, is on call 24/7, and
16 they do this work for Alltel in North Carolina. They do this reactive
17 maintenance. This is what is termed emergency maintenance, and they will
18 be our arms and legs in the field. We don't need to hire private splicers, we
19 don't need to buy trucks and a lot of equipment. It's basically just a
20 partnership with people in the local Southside community who can help us.
21 One of the best resources we have is the Buggs Island Telephone
22 Cooperative. Their general manager and I have known each other for many
23 years, and their ability to take a portion of our network on a 30 to 40 mile
24 radius of Buggs Island and take ownership for that. So if we have an outage
25 we'll make a phone call to these folks at Buggs Island and say we've got a

1 fiber cut on this pole or at this location. Then they go out and investigate
2 and start repairing the service. So really, from operations and maintenance,
3 it's not about the network operations center, and it's not about how 20 people
4 in a building at 2:00 in the morning, but it's about our strategic partnerships.
5 MBC or the Board decided that was the best option we would have
6 available, working with local companies, and working with outsource
7 companies that can do it much more efficiently and much cheaper than we
8 can. What we will be judged on at the end of the day is our ability to
9 respond to the maintenance outages and maintenance problems. That's the
10 plan we have in place, because we don't want to hire 10 or 15 people to run
11 the network. This is designed in a redundant fashion. So, if fiber is cut at
12 2:00 in the morning it's not going to be the end of the world. So we'll have
13 those services covered. We'll have multiple paths in and outside the
14 network. From our perspective, that's what's going to be key to this whole
15 thing.

16 Why we're asking for operational funds is to have that ability to
17 continue to serve the network, right now get it through the completion, and
18 then continue to maintain and operate it in an aggressive manner.

19 MR. OWENS: How much money do you need to
20 wrap this up?

21 MR. DERISO: What we're asking for is two
22 million dollars over two years. The first year, based on revenues, we are 1.5
23 million dollars in costs and about 350,000 in projected revenue for year one.
24 That starts July 1 this year to June 30, 2007.

25 In the second year we estimate revenues of 900,000, and costs

1 are 1.5 or 1.6. I think it goes down to 600,000 --

2 MR. OWENS: -- In this Funnel Report you didn't
3 anticipate a grant such as this?

4 MR. DERISO: The Funnel Report doesn't have
5 anything to do with operational funds.

6 MR. OWENS: Right. But did you anticipate
7 paying the money back?

8 MR. DERISO: After year two, which would be
9 fiscal year '08 or '09, we're hoping to be cash positive after mid-year three.

10 MR. OWENS: How many people do you
11 anticipate hiring?

12 MR. DERISO: Two additional people. Network
13 operations manager, which we are in desperate, desperate need of. Right
14 now my responsibilities are network operations manager, sales, janitor,
15 community relations, you name it. Our administrative assistant does the
16 work of about three people in Danville, and we're stretched with that. Now
17 that we're getting the network completed, we'll have to have more publicity.
18 We'll have to meet people, talking about how to get connected to the
19 network. Abbott Labs, it took us about three months to figure that out and
20 get connected. A network manager and network technician and using the
21 various resources around the region as needed.

22 MR. OWENS: Have you identified local
23 contractors to perform all these functions already?

24 MR. DERISO: Yes. Network monitoring is a
25 function that we've probably got eight or nine companies that have said they

1 want to do it. Anybody like Nortel that provides our equipment, some of our
2 members in north central Virginia that have existing facilities. We can set it
3 up to have a circuit monitoring for 24/7, and when the alarm goes off it
4 pages the pager and does the same thing. There are lots of ways we can do
5 that.

6

7 NOTE: At this point Delegate Byron arrives.

8

9 DELEGATE BYRON: The blue areas under
10 construction don't have connection points. For example, Halifax and
11 Brookneal under construction. All the other framework interconnects
12 somewhere else. What happens to the ones that end?

13 MR. DERISO: That's what we call contributory
14 connections. Eventually those will be routed in some form or fashion back
15 into the network, and that's just a matter of funding. We looked at how do
16 we get Brookneal connected and Amelia and Buckingham connected in the
17 most cost-effective manner, and the quickest way we can get them
18 connected. With Brookneal we bring it back to the node. We can go up to
19 Appomattox and continue to take it 501 back to Lynchburg, or we can take
20 in on 40 to Gretna. Those are ways we can do it. We also have limited
21 capital dollars, which the Commission has.

22 DELEGATE HOGAN: I think his point is that
23 under this map he's pointing out the routes of service, three different routes,
24 but we must serve these routes, regardless, and provide these services we're
25 looking forward to. It's also our hope that MBC can provide enough revenue

1 to meet our original expectations, whatever that was.

2 MR. DERISO: It's our hope that we continue to
3 build fiber for five or ten years and that we continue to expand and continue
4 to build redundancy, and we would like to be able to do that.

5 DELEGATE WRIGHT: You said the contract
6 originally with Adesta was for 15 million, is that correct?

7 MR. DERISO: That's correct, for construction.

8 DELEGATE WRIGHT: At the time you all parted
9 ways had they completed their obligations for the 15 million? If not, what's
10 the difference in money, or where is that?

11 MR. DERISO: The 15 million was strictly for the
12 construction piece, fiber and electronics. That has nothing to do with
13 operational services and those types of things. When we parted ways on the
14 contract, we kept the construction contract intact, we did not touch that
15 contract. The services contract is separate, so we got rid of the old one and
16 came in with a revised agreement, and we've mutually agreed it isn't working
17 out at all, so that's why we want to go a different way.

18 DELEGATE WRIGHT: How far along are you in
19 this Phase II?

20 MR. DERISO: Most likely RACO, our local
21 contractor, Dewberry and Davis, our engineering firm in Danville, they'll be
22 in charge of the design and permitting.

23 DELEGATE WRIGHT: Adesta is doing the actual
24 construction?

25 MR. DERISO: No, Adesta doesn't do any

1 construction, they are strictly a project management company.

2 MR. OWENS: You already are doing the
3 engineering in Phase II?

4 MR. DERISO: That is being engineered and
5 permitted right now.

6 MR. OWENS: This is the process you're going
7 through for Phase II now?

8 MR. DERISO: This will probably be in a month
9 and a half to two months for that work.

10 DELEGATE HOGAN: You're advertising?

11 MR. DERISO: Yes, open to all.

12 DELEGATE WRIGHT: Would an audit show that
13 we got everything that we paid for?

14 MR. DERISO: Yes. Part of the arrangement we
15 have with Adesta is what we call retainage. We hold back on every single
16 invoice five percent of the money that was paid. Even when they complete a
17 link like Keysville to Farmville or Prince Edward County, we complete a
18 hundred percent, we're still holding back five percent of the money. What
19 we do is we have our inspectors in the field, and they go out to have what
20 they call a punch list. They look at the fiber, the poles, the ground, the feeds,
21 make sure the fiber is terminated, test results, a hundred percent just like it
22 was supposed to be, meets contract specifications. Then we have to accept
23 it. Once we accept it, they do all the work and everything is done, then we
24 pay that five percent in retainage back to them.

25 MR. OWENS: Phase II is 9.79?

1 MR. DERISO: Yes.

2 MR. OWENS: You're projecting coming in at
3 282,000 under budget?

4 MR. DERISO: That's my projection. That's based
5 on the savings we've had from the generators, I think we're, on that item, 45
6 to 50 thousand under budget. On the site preparation work, we're 40 to 50
7 under budget that, stuff we've already contracted for. It's like any grant with
8 the Tobacco Commission, we don't keep that money, it just sits in the budget.

9 MR. OWENS: I asked that, because we're
10 running, I think, behind schedule, correct?

11 MR. DERISO: Somewhat.

12 MR. OWENS: Behind what's projected?

13 MR. DERISO: Yes.

14 MR. OWENS: The reason we're doing it is
15 because of what?

16 MR. DERISO: The reason what?

17 MR. OWENS: The reason why we're behind
18 schedule?

19 MR. DERISO: The permits, VDOT, various ones.
20 To give you an example, the City of Danville, we had a deal with the city for
21 all their existing power poles. Early on Danville, once we started doing the
22 permitting, found out that there was going to be a lot of make-ready pole
23 replacements, and we looked at the cost of that and the time involved in
24 replacing 150 power poles versus going to VDOT and twisting their arms
25 and getting it placed in the median. We had some redesigns and reroutes. In

1 any large construction projects you're going to have that kind of delay.

2 DELEGATE HOGAN: Are you about 60 days
3 behind?

4 MR. DERISO: I think it runs from January to
5 March, or May 1, that's the last one we had.

6 DELEGATE HOGAN: Now you're saying what?

7 MR. DERISO: July.

8 DELEGATE HOGAN: A full network?

9 MR. DERISO: Yes. July 7th. By June 3rd we
10 hope all the fiber will be placed. We're still working as far as the liquidated
11 damages with our contracts. Those are the dates we have set. We've had
12 some permits that have been a year since they looked at, Dewberry has
13 submitted in March of '05 an AEP, and just getting around to them last
14 month.

15 DELEGATE HOGAN: Any more questions? I
16 think it's important that we ask these questions and get answers to do this
17 deal, and we need to take time, and we'll take the time if we need to get more
18 information. If you're not comfortable with it, then we'll take the time to do
19 it. These folks are under pressure to get the network up, but if we have to
20 delay, we'll delay. I want everybody to feel comfortable with this and feel
21 like we're getting the information in order to make this decision. If we don't
22 feel like doing that today, we won't do it.

23 DELEGATE WRIGHT: I know I've got this
24 information here, but maybe you ought to summarize a little bit about what
25 we're going to talk about and --

1 DELEGATE HOGAN: -- I think he's given us an
2 update on what's going on, where they are, how far along, and all that sort of
3 thing. We've also heard about the contract they've had with Adesta. They're
4 going to cancel that. Basically, they're here asking for two things. By our
5 original agreement we have to approve their network operator, and Adesta,
6 who we approved, now wants to go to someone else, and we have to approve
7 that. The second thing is they need some access to operating money. There
8 are two or three ways to do that. We can basically sign on a loan for them,
9 and they would be responsible for paying it back; actually, we'd give them
10 an outright grant. Ned has set up, or we've identified somebody that would
11 loan the money if we undersign it, but we don't have to do that. Those are
12 the two issues that are really before us. Both of those are critical to moving
13 the project forward, and they are important pieces, and we have to make sure
14 we are comfortable with them before we do it.

15 DELEGATE WRIGHT: Mr. Chairman, it seems to
16 me perhaps due diligence wasn't done in Adesta's hiring, and a job
17 description wasn't made clear. If we agree with the next operator and Adesta
18 is gone, we're going to have to --

19 DELEGATE HOGAN: -- We'll ask them to find
20 four or five people and let us take a look at them and approve that
21 arrangement.

22 DELEGATE WRIGHT: We have to agree that we
23 don't want this to happen again. We need this problem solved. I'd ask Ned
24 for his comment on this, as far as Adesta goes and loaning the money, versus
25 a --

1 MR. STEPHENSON: -- As far as Adesta goes, it's
2 simply a condition of the grant. When it was first made to MBC that you
3 have to approve the operator, and the Committee did approve Adesta, and
4 now they're going to take a different route, as far as MBC and the operator.
5 MBC felt obligated to come back and put the issue back on the table, and
6 that's what they've done. As far as the loan to MBC, MBC as it stands, is not
7 a bankable company in the marketplace, and they cannot borrow funds. We
8 felt like, because the Commission was reluctant to give grant operating
9 funds, that it would be a little more palatable and a little more responsible if
10 the Commission would use its funds to buy down the risk for a responsible
11 lender, in this case the Virginia Community Capital, Inc., to be MBC's
12 lender, and hold MBC responsible for that loan and repayment of the loan
13 back as it should, and that the Commission could be the catalyst or the co-
14 signer, if you will, or endorse this loan transaction. Further, it would keep
15 the Tobacco Commission from being in a lending relationship with MBC.
16 We felt maybe that was not a good posture for us to be in.

17 DELEGATE WRIGHT: Would the Tobacco
18 Commission have any role in what loan would be appropriate and which
19 may not?

20 MR. STEPHENSON: That was part of the
21 thinking, that once the Tobacco Commission chose to buy down the risk, we
22 would turn the lending relationship over to a negotiation between the lender
23 and MBC, and the Tobacco Commission would not be a party to that
24 relationship, except to say our recommendation is that a lender provides
25 operating loans to MBC from now, and not to exceed April of 2008, and that

1 those loans be fully repaid over a period not to exceed ten years. Whatever
2 other arrangements they wanted to make between them, what kind of credit
3 facilities, collateral, and all those things, we would stay out of that. We just
4 want the loan fully repaid in the ten-year period.

5 DELEGATE WRIGHT: Would there be any
6 guidelines, or should we put those in place?

7 MR. STEPHENSON: Other than the two that I
8 mentioned, no disbursement beyond April of '08 and fully paid inside ten
9 years, the other terms of the loan are between the borrower and the lender.

10 DELEGATE WRIGHT: So the money could be
11 spent specifically, is there a specific purpose of the loan?

12 MR. STEPHENSON: We did not name any, you
13 probably could if you wanted to.

14 DELEGATE WRIGHT: If we're going to sign a
15 blank check, then it seems to me that we would want to have that made clear,
16 so there wouldn't be any problems later on.

17 MR. STEPHENSON: It's clear that the
18 Commission would bear the risk in this transaction, because otherwise
19 Virginia Community Capital could not and would not make this loan to
20 MBC, so we've got to bear the risk in the early days. There is a reasonable
21 expectation that MBC can pay that loan. By their accounting, with respect
22 to the grants already outstanding, MBC is already a million five-plus ahead
23 of the cost that we thought we were going to incur on the project, anyway.
24 That money accrues to the benefit of the Commission.

25 DELEGATE WRIGHT: I wasn't talking

1 specifically about whether the money would be repaid or not, but if there
2 was different management at MBC for some reason and we found the money
3 being borrowed for something other than what we thought it was intended
4 for.

5 MR. STEPHENSON: I think the answer there is
6 that's what the MBC Board is for, to govern that company and to manage it,
7 keep track of what management is doing, rather than using the Commission
8 in that role.

9 DELEGATE HOGAN: I agree with that. I think
10 what Ned has said is correct. I think we want to see the articulation of the
11 agreement between Virginia Capital, Inc. and MBC and make sure that it
12 meets the concerns of the Commission. Basically, if we borrow the money
13 we're really backing this. We're going to co-sign it and say we're responsible
14 for it. It's supposed to be used for operations. What it's going to be used for,
15 I think it's important for us to make sure that that is the place that it's going.

16 DELEGATE WRIGHT: That's actually what I was
17 talking about. I believe that an arm's length relationship with MBC, I don't
18 mean actually managing it because it's a separate entity, but we do have
19 some relationship on what they do, and I know there are some limitations. I
20 just wanted to voice my concerns about this.

21 MR. STEPHENSON: I believe that's true. Frank,
22 would you care to comment?

23 MR. FERGUSON: I'm speaking in sort of a dual
24 role here, as your counsel and as your representative on the MBC Board, if
25 you will. The reason I'm the person for the Commission on the Board is

1 because I'm not on the Commission. There is concern that we maintain
2 some distance between the management of MBC and the management of the
3 Commission. If they become too much enmeshed, then the risk or the
4 constitutional operations of the Commission on the one hand and the
5 corporate operation, if you will, of MBC on the other. Having said that, I
6 think that either a direct loan to them, I'm not sure I see a legal problem with
7 the direct loan. I'm not saying it's the best policy or that there's a better way
8 to do it, but what I am saying is I don't, sitting here and hearing this for the
9 first time, I'm not sure that I'm troubled by that loan arrangement. It frankly
10 is not much different from a grant arrangement. It's actually better, because
11 you have a chance to get the money back. You can certainly put conditions
12 on the loan to an extent, and the extent concern would be micro-managing
13 the operations by MBC, or overly articulating those conditions. If that
14 happens, then you might have a problem. I think Ned touched on that. So,
15 I'll stop at this point.

16 MR. STEPHENSON: On that point, Frank, I think
17 that it's the position of the Commission Staff that the Commission is a grant-
18 making organization. We do not have the Staff or the software or the
19 capacity to be in a lending or leveraging posture.

20 MR. FERGUSON: I would agree, and I
21 understand that.

22 MR. STEPHENSON: That's where that's coming
23 from, and we felt it was best that the Commission not become a lender.

24 MR. FERGUSON: That's certainly a reasonable
25 and appropriate arrangement. That doesn't enter into the legality of the

1 relationship between MBC and the Commission.

2 MR. HITE: What is Virginia Community Capital?

3 MR. STEPHENSON: Virginia Community
4 Capital, Inc., otherwise known as VCCI, is a 501 C3 created by the General
5 Assembly and capitalized by the Assembly with 15 million-plus dollars and
6 commissioned with the purpose of being a community development bank in
7 the Commonwealth. They conduct themselves as a responsible lender. They
8 need to get repaid when they make a loan, because their seed capital is
9 pressured. We have talked with VCCI, and they are willing to become the
10 lender in this relationship, but they cannot bear the risk of MBC, so the Staff
11 has suggested that the Commission could buy down the risk by providing
12 funds for VCCI to lend to MBC. You've got to understand that if MBC fails
13 our money is lost, because the Commission will bear the risk. If MBC is
14 successful, as it believes it will be, those Commission dollars will be repaid
15 to VCCI, and VCCI will continue to use them for additional community
16 development loans in the tobacco regions for other borrowers, with the
17 money to come back as you may wish.

18 MR. HITE: Who runs VCCI?

19 MR. STEPHENSON: VCCI is run by a lady by
20 the name of Jane Henderson, and she is President of Virginia Community
21 Capital, Inc. It has a small Board, and they were just created some 90 days
22 ago, and they're now getting started.

23 MR. HITE: Do you think that's the right way to
24 go?

25 MR. STEPHENSON: I do, I think it's the right

1 vehicle, provided that this Commission is ready to step over the line and
2 bear the risk of operational expenses for MBC. You may not be ready to
3 take that step, but if you are, I believe this would be the proper vehicle.

4 MR. OWENS: But at what rate?

5 MR. STEPHENSON: Rates, terms and conditions
6 to be negotiated between the borrower and the lender. The Commission
7 would not be involved in that, unless you wish us to, as Delegate Wright has
8 suggested, I think. They're bringing to the table personnel, software and
9 lending expertise, a deed of trust, security agreements, all of the mechanics
10 that are necessary to be a loan-servicing agent.

11 DELEGATE HOGAN: Getting down to brass
12 tacks, right now this 37 million dollar asset that Tad spoke of, we can decide
13 at practically any time we're not happy with the way this project is going and
14 take that asset back. I'd be absolutely opposed to allowing or helping MBC
15 to take a loan where that position changes. So, to the extent that we're
16 giving Virginia Capital the money to lend to them, that's all the security
17 Virginia Capital needs, they've got our cash, and they have zero risk, and
18 there is no reason for this asset of MBC's to then be provided as security.
19 We don't want that encumbered, because we want that if these people fail.

20 MR. FERGUSON: That portion that's funded by
21 the EDA grant, I don't know if another lender would be able to come in and
22 have a secured position.

23 DELEGATE HOGAN: I'm saying I think it would
24 be a mistake for us to take a second to anyone in relationship to this grant.
25 Why would we want to put ourselves in that position?

1 DELEGATE WRIGHT: You mentioned that there
2 was an alternative, and do it ourselves?

3 MR. STEPHENSON: An alternative, we would be
4 in a similar relationship to the Department of Business Assistance, Small
5 Business Financing Authority that we've talked to, and they appeared willing
6 to enter into some transactions, and the details would have to be worked out.
7 The alternative would be to just make a grant to MBC, just as we've done
8 for the other 30 million.

9 DELEGATE HOGAN: If we loaned somebody
10 else the money we co-signed. We can grant them the money, or we can do
11 nothing. That's actually the four options we have.

12 MR. OWENS: If we do nothing, they would just
13 fold.

14 DELEGATE HOGAN: If we do nothing, we will
15 stop the project at this point, and that has some consequences for the project,
16 if we're not comfortable with the other option.

17 MR. HITE: And the other one would be to co-
18 sign, that's one of the options?

19 MR. STEPHENSON: I think, to be accurate, the
20 Staff's recommendation is that if it's the will of the Commission to take on
21 the operational costs and risks, this mechanism is our recommended
22 structure.

23 MR. OWENS: It's a little more than co-signing,
24 we're going to take money we manage and give a grant or underwrite the risk
25 to Virginia Capital.

1 DELEGATE HOGAN: I guess my question is, if
2 we're going to give them 2 million dollars, what are they going to charge
3 interest for? Other than doing paperwork, they're taking no risk. They're
4 going to run some paperwork. If it's a one-percent loan I guess that's okay,
5 but it better not be six.

6 MR. STEPHENSON: The seed capital was
7 provided, or they're newly capitalized for the purpose of a development
8 bank, but they are not a risk lender.

9 DELEGATE WRIGHT: In the interest of getting
10 all the information, would Frank be willing to brief us further on this?

11 MR. FERGUSON: In terms of a full disclosure on
12 this option, I think it's important, or at least as I understand it, assuming
13 everything goes well with the loan and that it's paid in the time frame we've
14 talked about, paid off in ten years, that then leaves that two million dollars
15 sitting at VCCI. Then it's my understanding it would then potentially
16 convert to a revolving fund that would be used for loans for our service area.

17 MR. STEPHENSON: That is correct, and as the
18 dollars are paid by MBC they re-deploy in the tobacco region in other loans
19 to other entities of interest to the Tobacco Commission.

20 MR. HITE: Why wouldn't the Tobacco
21 Commission take the money back?

22 MR. STEPHENSON: It is contemplated that
23 would be built into the agreement. You could if you asked for it. It's an on-
24 call basis, if you call the money it comes back.

25 MR. HITE: That looks like the thing to do, put the

1 money up and get it back.

2 MR. STEPHENSON: The Staff is of the mind that
3 there's likely to be other occasions down the road when the Commission
4 needs a lender to get things done, and this would be a way to do that.

5 MR. HITE: I would think the on-call would be the
6 best.

7 MR. STEPHENSON: The Staff has been trying to
8 provide this Committee with a vehicle to get you where you need to be if
9 you want to take on the operations.

10 MR. HITE: Do you think this is the best vehicle
11 we can use?

12 MR. STEPHENSON: I do, yes, for many reasons,
13 not the least of which is to keep the Commission out of the lending business.

14 DELEGATE WRIGHT: I do respect the Staff's
15 hard work, but what will be the cost to the Tobacco Commission for this
16 money going through the, what would it cost to handle the loan, or what
17 would it cost us?

18 MR. STEPHENSON: The cost to the Tobacco
19 Commission would be the number of dollars in the grant that you made to
20 Virginia Capital, Inc., say the two million dollars. If you want to do that,
21 that money would leave our books and go to Virginia Capital's books as seed
22 capital in which to make loans and so forth. That money could either come
23 back or be used for other loans. You would in essence be providing
24 additional capital to Virginia Community Capital.

25 DELEGATE WRIGHT: The administrative costs

1 on the loans would be covered by the interest?

2 MR. STEPHENSON: We have agreed with
3 Virginia Community Capital that all they would charge would be adequate to
4 defer their administrative costs. They don't have any costs of funds.

5 DELEGATE WRIGHT: I would agree that we
6 have the call and an agreement on what the money is to be used for once the
7 loan is granted and for them to have an understanding on the administrative
8 costs and so forth.

9 DELEGATE HOGAN: But if they say it's six
10 percent that's going to cover the administrative costs, that's not something,
11 I'd like to know if it's three, two one or what.

12 MR. STEPHENSON: We've had discussions with
13 VCCI about the rate being adequate to cover administrative costs, and we're
14 not trying to fix that number, we certainly can fix that number as part of the
15 deal.

16 DELEGATE HOGAN: I'd like to know that.

17 MR. ARTHUR: I have an interest in that cost, too.
18 If we're going to cost our contractors five or six percent, then we're hurting
19 ourselves in the long run.

20 MR. STEPHENSON: A complete understanding
21 with VCCI that we would, we're talking in terms of one or two percent.

22 DELEGATE HOGAN: If we're going to make a
23 grant of two million dollars to Virginia Community Capital, I would support
24 the on-call provision, but the two million, if they're going to loan to MBC
25 over a period of two years, and then they're going to start to get that loan

1 repaid, what are they going to do with the unspent balance over two years?

2 MR. ARTHUR: Loan it out and make more
3 money.

4 MR. STEPHENSON: The Commission could call
5 the dollars back periodically, or leave it in place for VCCI to make other
6 loans in the tobacco region.

7 DELEGATE HOGAN: During the two-year
8 period when the money is going out, and it's not all going out at one time,
9 why do we lend it all at one time?

10 MR. STEPHENSON: The Staff could --

11 DELEGATE HOGAN: -- My question is, if we're
12 going to guarantee the loan, why do we have to front the money in this
13 agreement? I want to know if the Tobacco Commission has an obligation
14 under this loan? What I'm really trying to understand is, in the context of, or
15 as Mr. Arthur said, putting the contractor in --

16 MR. FERGUSON: Mr. Chairman, if I could
17 redirect things sort of, and sort of short-circuit the discussion, it seems to me
18 there are several questions about the mechanism, and I need a little time to
19 talk to Ned and to go over this a little before I can give final advice to the
20 Committee. It seems to me that the threshold question in any event is
21 whether you wish to take on the obligation in some manner assuring them of
22 the operational costs, whether it's through a grant, a direct loan or a third
23 party, and may be tied together. I would suggest that if there are some
24 questions that don't have answers immediately it might be worth spending
25 some time talking about that.

1 DELEGATE HOGAN: We don't want to assume
2 the operational responsibility.

3 MR. ARTHUR: I think they have a plan that
4 sounds workable.

5 DELEGATE HOGAN: Do you want to entertain a
6 motion to say, or how about this? That we will support, or we'll guarantee a
7 loan in the amount of two million to support MBC's operating budget for the
8 next two years.

9 MR. HITE: I'll move the motion --

10 MR. ARTHUR: -- Not necessarily.

11 DELEGATE HOGAN: Let's leave that out.

12 MR. ARTHUR: Just to guarantee the operational
13 expenses, by whatever mechanism we choose.

14 MR. HITE: It'll be a loan for the operational
15 support.

16 DELEGATE HOGAN: The operating shortfall for
17 the next two years.

18 MR. HITE: I'll make that motion, and assuming
19 what Frank said, that we need to get a little more information.

20 MR. FERGUSON: I want to think through a little
21 more than I have said, our choice may be a little more limited, or there might
22 be a slight correction. There is a constitutional provision that talks about
23 lending credit to the Commonwealth, and I've got to make sure we don't run
24 afoul of that. I need to talk to Ned and make myself comfortable about that.

25 MR. STEPHENSON: The issue for the entity who

1 is going to accept the guarantee from the Commission is whether or not they
2 view the Commission's guarantee as adequate to induce them to take the
3 risk. The Commission is an unusual creature, and the market lender may not
4 accept the Commission's guarantee because of the uncertain future of the
5 Commission.

6 DELEGATE WRIGHT: Would you consider in
7 your motion just limiting your loan for this limited purpose? That way it
8 won't be so broad.

9 DELEGATE HOGAN: I don't object to that.

10 MR. ARTHUR: If we don't do it, we might as well
11 stop the program.

12 DELEGATE WRIGHT: You may decide a grant,
13 and here you're saying loan, are we limiting ourselves to consider --

14 DELEGATE HOGAN: -- Well, who wants to
15 restate the motion?

16 MR. HITE: I understood it the first time.

17 MR. FERGUSON: Mr. Chairman, let me see. As I
18 understand the conflict at this point, the Committee is recommending to the
19 Commission to approve the provision of two million dollars over the next
20 two years for operating expenses for MBC, in whatever manner may
21 ultimately be decided, whether it be by a loan or a grant.

22 MR. HITE: I so move.

23 DELEGATE WRIGHT: I'll second it.

24 DELEGATE HOGAN: It's been moved by Mr.
25 Hite and seconded by Delegate Wright. Any more discussion? All in favor

1 say aye? (Ayes.) Opposed, like sign? (No response.)

2 MR. STEPHENSON: When are we going to get
3 the Committee together?

4 DELEGATE HOGAN: I think we might have a
5 substitute motion to incorporate Mr. Hite's motion with that vehicle by
6 tomorrow morning if we get a chance to figure that out, and the substitute
7 motion will include certain guidelines that will be more specifically to give
8 these guys the authority to do it under certain circumstances. Is there any
9 objection to that? I think we've got the gist of the substitute motion, it's not
10 really any different.

11 All right. The next question is, do we approve or not approve
12 changing the network operator from ADESTA to a new arrangement that
13 MBC enters into the contract the way Tad described it. That's something we
14 probably don't need a motion for, but if we don't approve it, or we probably
15 don't have to make an affirmative motion to approve it. What I'm saying is,
16 that if you don't like it we can say we reject your change of the network
17 operation and direct you to find another way to do it. But if you're happy the
18 way they're planning to do it, that's fine, and if you're not happy, you need to
19 say that.

20 MR. ARTHUR: They have proven that they can
21 get the job done, and so far with their plan I think it's workable. I have no
22 problem with it, let's go forward.

23 DELEGATE HOGAN: Is anyone uncomfortable
24 where we are? I want everybody to be comfortable and understand what's
25 going on.

1 DELEGATE BYRON: I'll just say I haven't had a
2 chance to hear the whole thing, but from what I'm reading you certainly have
3 proven by your actions what you're doing. The question is whether or not
4 you have the capability to do all this. I'm a small-business person, and I
5 know you can increase the load, and you've got to be capable of performing
6 all these tasks. I was late and didn't hear the whole presentation and what
7 you told the Committee, and I hope what you've told them gives them the
8 confidence to do this.

9 MR. ARTHUR: They're on schedule and under
10 budget.

11 MR. OWENS: If they're under budget, I give them
12 credit for that.

13 DELEGATE BYRON: You're talking about
14 adding staff, has that changed?

15 MR. DERISO: Our plans are to add two staff, and
16 that will be a network operations manager and a network operations
17 technician. Those two people will be working for MBC, working on the
18 network. The biggest change from what we've done in the past, we can do it
19 ourselves and do it much more cost-effective. The problem we've had is
20 going to the new operations and the, going from construction to operations.
21 It frees us from a large agreement of hiring many people. The existing
22 contract with Adesta, we would hire all these new people, and then they'd
23 send us an invoice each month for all those people. The problem is that if
24 they're going to hire these folks, why not MBC hire them? We don't have a
25 margin and overhead that we have to carry to benefit someone else's salaries

1 and benefits, and we've got all that covered. From that perspective it won't
2 slow us down at all and allows us to be much more flexible in how we run
3 and operate MBC. Then our main focus is to work with our local providers
4 and local people in Southside to make things happen. Buggs Island
5 Telephone Cooperative would be a big partner of ours covering certain
6 geography as far as fiber maintenance, restoration, and those types of issues.
7 South Boston is centrally located for us to cover the network. Many of our
8 other members provide those types of services today to their companies. As
9 far as network monitoring, there are probably eight or ten choices that we
10 can do in setting up the PC in our office 24/7 that would send out a pager
11 alert if something happens, all the way up to contracting with Nortel in
12 Raleigh. We're always concerned about the response times in our networks
13 and doing it efficiently, and that's the plan that I mentioned earlier.

14 DELEGATE HOGAN: I don't think we're going to
15 know how good a job they do operating the network until it runs for a little
16 while. As long as we maintain our ability to reach in and maintain
17 continuous operations, I'd be very happy about this. I think we've got a good
18 enough system to go out there and make things work. I just think everybody
19 needs to know what's going on, and that's where we are.

20 MR. ARTHUR: Until such time as it is proven
21 they can't do it, then, they've done good so far.

22 MR. HITE: If not MBC, then who?

23 DELEGATE HOGAN: We hope we don't have to
24 do that. That might be a question we'll have to answer later, but not now,
25 hopefully. Does anyone else have any other questions? We've made the

1 motion we needed to make, and we answered that, and we wanted to get in
2 the proper posture by tomorrow morning.

3 Any other questions for Mr. Deriso or Committee members?

4 DELEGATE WRIGHT: Mr. Chairman, we may
5 want to stay around and discuss the last mile, because to me that's really the
6 issue.

7 DELEGATE HOGAN: I hope you would.

8 MR. DERISO: Thank you, Mr. Chairman.

9 DELEGATE HOGAN: All right. We have a
10 quorum plus one. Do I have a motion that we approve the Minutes of our
11 last meeting? So moved and seconded, all those in favor say aye? (Ayes.)
12 All right.

13 I guess our first obligation is to finish these pieces that Tad just
14 talked about and get that in place and have all that running. This last mile
15 issue is as complicated as it gets. Perhaps unlike the rest of the project,
16 probably it will require different approaches in different areas, but it may be
17 best by trying several different approaches by area. When you talk to
18 somebody about this last mile piece, it seems like you get a different answer
19 when you talk to different people. I think we've got to put three or four last
20 mile projects out there and see how well each one works before we come up
21 with a last mile solution for all of Southside. That conversation about this
22 last mile will probably take as much work as we have done so far in terms of
23 looking at this overall project.

24 DELEGATE WRIGHT: I know at one time it was
25 discussed, and it was going to be worked out.

1 DELEGATE HOGAN: I don't know that I'd say
2 that, and as far as the total last mile solution. Where is Tad on this? I
3 wouldn't say it's been turned over.

4 DELEGATE WRIGHT: I just wanted to make it
5 clear that it was my understanding that after we've gone to all this expense of
6 30-some million dollars, I want to make sure that every area has assurances
7 that at the end of this everybody will have service, because if we don't, we'll
8 be in a terrible position. I just want to make sure no area is left out, that one
9 area would have service and maybe four or five years down the road before
10 the other areas have it. I hope the plan is that within a reasonable period of
11 time everyone will have it. If not, then we're going to have a problem.

12 DELEGATE HOGAN: All right, any more
13 discussion on that? All right.

14 MR. FAIN: My name is Sandy Fain, I'm Vice
15 President of Marketing for eTown Communications. Mr. Chairman, what
16 I'm going to try to do here is convince people to start a conversation on a
17 unified approach that is multi-technology. It's not quite the concept that you
18 were suggesting, and I hope I'll be able to provide you or pique your interest
19 enough that you allow me so we can start that conversation. My ultimate
20 objective is just to get the conversation started.

21 I'm here tonight largely because of what you have already done
22 and the conversation you've just had. Creation of the MBC backbone
23 network, from our point of view, is a unique aspect. We don't know of any
24 other network in the country, optical network in the country that is purposely
25 built to connect so many small communities. That network, from our

1 perspective, creates a unique opportunity to create a unified last mile, or I
2 would prefer first mile structure, that in effect creates what I would call an
3 optical neighborhood, not necessarily a network entirely based on fiber
4 optics, but has as its foundation fiber optics. What that does is make a 20-
5 county community appear as if all the residents and businesses are all next
6 door to one another. That changes the way social activities get done,
7 business gets done, and people communicate, as opposed to what is
8 happening in small-town America across the country now, as a result of both
9 national policy and a changing industry structure. It's where each small
10 town is looking to solve its problem because it's being left behind throughout
11 the country. Each small town creates its own solution, and it becomes a
12 hodgepodge of different network solutions, market segments are different,
13 and there are different applications. What we're saying is an appropriate way
14 to take advantage of this and what you need to do is to establish a unified
15 way of connecting all areas and putting the right technology in the right
16 place for the right application.

17 In the few minutes you have allowed me I'd like to introduce
18 you to eTown Communications and give you an overview of a unique model
19 we have built. The company was created several years ago specifically to
20 address advanced broadband infrastructure needs of small communities. To
21 give you an overview of that model, the guts of why it works is kind of an
22 important part. What we're asking for is to set up a separate group out of
23 this Committee and work with us and understand in more detail this model,
24 how it can be adapted to Southside to understand who we are so you'll be
25 comfortable with who we are, to include MBC, because it is the cement that

1 would allow this kind of enterprise to take place.

2 eTown communications was born out of a dilemma that
3 American small businesses face, basically a change in technology that has
4 now allowed so many different kinds of jobs to be done any place so that the
5 time and distance disadvantage that small communities are faced with
6 historically will be reduced and in many ways eliminated, so jobs that can be
7 done in Boston can be done just as easily in South Boston. A unified
8 network in this region would make it as a foundation for economic
9 development and make a different kind of place for new economy work to be
10 done.

11 Our company was formed several years ago by Brian
12 Thompson, our Chairman, and I don't have a lot of time to tell you who we
13 are and what we do, but I'll tell you this. Our management team has decades
14 of experience in designing, building and operating national networks and
15 delivering services over those networks. The members of our management
16 team have each made substantial contributions to the development of the
17 competitive telecommunications industry in this country and have been
18 credited with improving the national economies of New Zealand and Ireland.
19 We have taken our time, at the request of the Chairman of our company, to
20 focus specifically on this issue, how small-town America is going to get at
21 least as good an infrastructure if not better infrastructure than major
22 metropolitan areas are now getting. I never had it in my neighborhood in the
23 suburbs of Washington. That's what our job is.

24 We have initial networks that we are about to deploy in West
25 Virginia under a statewide program. Because we understand the

1 consequences of what has happened in the financial markets because of the
2 telecom bust and we've spent a fair amount of time with financing
3 institutions, we have a diversified plan and strategy that we would like the
4 Virginia Tobacco Commission to participate in. We want to use Virginia
5 tobacco monies to leverage and bring in money from the outside that would
6 help finance this network. Our purpose is to develop a viable network
7 center, both technically and financially viable. We've done enough work in
8 West Virginia to know, and we're confident that with a minimum amount of
9 effort in place and our ability to aggregate many small communities as if
10 they were located right next to one another at the same cost, that we can
11 produce a unique opportunity for this region. When we got together and did
12 a review of the markets and what was going on in the markets in small-town
13 America, we did a very thorough technology review. We spend a fair
14 amount of time talking with key leaders of financial institutions on Wall
15 Street and other places. Then we, as a result of that, came to a consensus on
16 basic operating principles for how a viable business would be developed in
17 the marketplace. The first principle we came up with is that base technology
18 that should be emphasized is a last mile technology that is not bandwidth
19 constrained. When you look at the technology that's available and
20 everything that's coming, we come to a bias with fiber. Fiber is not the
21 answer for everything and for everyone and every place, but it is the best
22 technology, because it will allow growth in bandwidth and serve any
23 application that will be developed in the future. We know, from all the
24 financial analysis, that it will pay for itself, based on the existing revenue
25 streams associated with it and those services. We're biased towards that, but

1 we have a network design that is purposely designed to include wireless, to
2 include even broadband in the proper places for the proper application. We
3 will see over time a change in the way wireless is being focused. Now it's
4 being used primarily as a substitute for DSL or cable modem. Its use will
5 change as the Internet begins to take hold for a whole bunch of different
6 applications. You will carry your broadband with you, and that's where
7 wireless will find its larger growth. It will also be used effectively to extend
8 beyond economic limits of the fiber base. Thirdly, we agreed the network
9 needs to be designed as an open network, particularly in small towns. We
10 have a federal policy urged by the incumbents that, or the industry, that
11 reverses 40 years open net competition. I would say that if you want to
12 compete build your own network. That policy which may be the right thing
13 for the nation is not the right thing for small-town America, which cannot
14 support multiple networks. The investment in a network is too expensive,
15 and there should be one network that all service providers use. The
16 technology allows for that. On this broadband, I want to make sure you
17 understand what I'm talking about. In this chart there is a representation of
18 the capacity of the current DSL and cable modem services. If you look at
19 that handout, and it speaks about standards, the network we have designed
20 will deliver a hundred megabytes of symmetrical capacity, so that the end
21 user can be connected to the network. It will in its initial deployment be able
22 to provide, to any customer that wants it, capacity equal to the big circuits.
23 This is not a pipe dream type service. These networks are being deployed in
24 the United States and overseas. I heard yesterday from a CEO of a company
25 in Sweden which built a network with similar designs to the one that eTown

1 has. It's a community with about 60,000 premises, and they have 50,000
2 Internet connections. They have 30 circuit providers in that network, and
3 there are 80-some different services provided on the network. The cost of
4 the service with three megabytes of capacity, and that's symmetrical up and
5 down, on that network is \$16.00 a month. The cost on the larger one is
6 \$45.00 a month. Out in Utah there is a network operating now taking on 800
7 to 1000 customers a month on a project called Utopia and they offer a 15-
8 megabyte service, and faster than cable modem services for \$35, and \$5 or
9 \$10 cheaper than cable modem. The network provides unlimited capacity
10 for television, and they have in Utah a network where people in the
11 community can produce their own content and have it shown on television.
12 We're talking about a real world environment, and we have a design for it,
13 and there are some patents pending at this time, and that further reduces the
14 cost of the fiber, making it more affordable to deploy.

15 Now, let's get to the important part. Based on these principles,
16 we designed a system that has three components, technology, enterprise
17 structure. I want to emphasize that it is a multi-technology that focuses on,
18 and it's probably more open than we at this time understand it. It's designed
19 so that a service provider can connect in one location for any customer
20 anywhere in the 20-county region, the MBC network. We have a larger
21 strategy because we have fiber in West Virginia to use the facilities that the
22 Commission is assisting in these developments. That's through Southwest
23 up through Bluefield, Virginia, West Virginia, and connect our West Virginia
24 project to the potential Southwest project so that any service provider here
25 can connect with customers in West Virginia. By doing that we make a

1 larger opportunity for more service providers to be connected to the
2 network. That's as open a network, we think, that has ever been designed.

3 The height of our business model is, one of the things we
4 decided is that we ran the numbers, and we know that in small-town America
5 these kinds of networks cannot earn a commercial return that would cause a
6 major player to invest money, and that's just a fact of life. These are large
7 companies, and they do have some limit on the amount of capital, and small-
8 town America is at the bottom of that investment queue. We've designed an
9 access company that is community-oriented and special purpose entity that is
10 access only to end-users and service providers. It has a local board made up
11 of local representatives of the area that is supervised.

12 DELEGATE BYRON: I do have a question. All
13 this is very interesting, but we have a responsibility, and I'd like to know
14 what are you bringing to us? Once we know that and how to apply it, then
15 we can understand the details and cut right to the chase, and we'll know
16 what's available and what we can do.

17 MR. FAIN: The Tobacco Commission's role
18 would be to be a participant in the financing of the network, that's what we
19 would hope. So what we would hope the Commission would want to do, for
20 the largest part, is to provide some matching funds, which we think we can
21 leverage three dollars for every dollar the Commission would put up from
22 outside sources for financing of the network. We want to leverage Tobacco
23 Commission money to build a project, which if it were done all in fiber, and
24 we don't know that it will all be done in fiber, this project will cost in excess
25 of 100 million dollars. It can pay for itself, because when you look at what's

1 spent in these small communities, but when you take a locality and what
2 they spend a year, it's quite enlightening. But we would like matching funds,
3 which we think we can accomplish that. Like I said, I believe that this
4 would pay for itself. We have studies, not the one in Southside, but for
5 similar jurisdictions, a set of communities with a population of 50,000
6 people spending 35 million dollars a year on voice
7 and --

8 DELEGATE BYRON: -- In your model, from
9 what I'm reading and what we've heard, it involves a lot of local
10 involvement, 20 percent funding from localities for studies and community
11 development and participation.

12 MR. FAIN: That's the West Virginia model. What
13 we're asking is, let's get with a group and adapt it appropriately for
14 Southside. If we look at this entire Southside region, we cannot go forward
15 with a model, we need some larger context for that, so what we want to do is
16 talk to folks and find out how do we get local representation on a reasonable
17 scale that represents everyone. Do we have a distribution mechanism to
18 distribute the free cashflow, which the access company will get back to the
19 local community, is the way the model is set up.

20 DELEGATE BYRON: You don't mean for us to
21 be the middle person?

22 MR. FAIN: No, I want to get some advice on how
23 best to approach the community. Do we work at the county level, or do we
24 work at the planning district level, or do we have to work with the lowest
25 jurisdiction?

1 DELEGATE WRIGHT: I guess the bottom line, or
2 what you're asking to do, is that your company provides us with a plan on
3 how to provide last mile services?

4 MR. FAIN: No, the bottom line, or what we want
5 you to do, is work with us to help us finance the entire model. One of the
6 steps in getting there is to develop that business plan. eTown does not own
7 the infrastructure. The infrastructure, in effect, is ultimately owned by the
8 communities, although not by the government. It's set up as a private
9 company, and assets are controlled by the private company. The free
10 cashflow from that private company goes back into the community in one of
11 two ways. That's done either through price reduction and lower the price so
12 more people can access it or connect to it through the board directing to have
13 the network expanded to more people or potentially through a distribution
14 mechanism to distribute that free cashflow back to the local communities
15 and other parties. In the eTown model we have organized ourselves as a
16 services company. We design it, we build it, and we operate it and get a
17 structurally separated entity that also delivers retail services to that market
18 and has a strong presence in the market, but it doesn't mean the network is in
19 anyway different from any other service provider.

20 DELEGATE WRIGHT: You're not asking us to
21 pay you. My request would be to lay a plan on the table and have the cost
22 attached to it and let us take a look at it.

23 MR. FAIN: Well, our plan actually has a couple of
24 stages to it. Number one is you need to develop a business plan. We believe
25 it would be appropriate for the Commission to fund that plan, because it's a

1 plan for an access company and eTown would get no return from the assets
2 of that access. That plan needs to be worked through with members of the
3 Commission so it reflects the needs of the communities and that the
4 Commission understands it. We need that due diligence document in order
5 to raise the money outside to be able to bring those matching dollars.

6 DELEGATE WRIGHT: I'm not saying whether it's
7 a good or bad thing, but didn't you just say that you wanted us to provide the
8 money for you to provide a plan?

9 MR. FAIN: That's one of the things we would
10 work through with this working group about whether that's a realistic request
11 of the Commission or not. That's something we'd certainly want to bring up
12 and talk about. Ultimately what we want the working group to do is to bring
13 forward a recommendation that reflects the appropriate plan for Southside.

14 MR. OWENS: You're saying that the projection
15 for the last mile is 500 million dollars?

16 MR. FAIN: If you do it all.

17 MR. OWENS: That serves what percentage?

18 MR. FAIN: It serves the footprint of the MBC
19 network; we're looking at about 225,000 people.

20 MR. OWENS: What percent of the people would
21 be served?

22 MR. FAIN: About 40 percent. Nothing in the
23 initial deployment. The access company is set up with local representatives,
24 and it guides how that network expands over time. It's not a decision made
25 by a company from out of state, it's made by the access company.

1 DELEGATE BYRON: My concern is this, and
2 I've shared this with Ned. It appears to me that you haven't done that yet,
3 and it appears a little premature, because the members of the Committee
4 were going to meet and look at the last mile situation so that we would have
5 a feel for what challenges were ahead of us. In your mind you may know
6 already what those are, but we haven't heard a different proposal, different
7 thoughts on that. We were supposed to have a meeting with MBC and some
8 other people that were going to bring all that expertise to the table and do
9 something like a workshop, more so than looking at graphs and looking at
10 what the different things are we are going to get. We need to know what the
11 challenges are. My concern is that, while this may be a great model, I don't
12 know that we're prepared for this yet.

13 MR. FAIN: The only thing I'm asking for here is
14 that we start a working group to begin to explore the model and understand
15 it. I'm not saying as a working group that we are the only exclusive
16 members.

17 DELEGATE BYRON: I'm just saying that the
18 model needs to be brought to that study group, and I think that Committee
19 needs to meet and discuss this last mile part of where we're left hanging with
20 the Technology Committee. We haven't completed this last mile yet. The
21 Chairman has assigned myself, Delegate Wright and others to participate in
22 that. We can notify you, and it keeps coming back to that. After having
23 heard this, I still say I don't feel like we're quite prepared for that yet. I also
24 think there are things in here that I don't know we're capable of doing it as a
25 Commission yet, but I'd like to hear your thoughts on that.

1 MR. FERGUSON: There are some things that
2 need to be answered here, and you've all heard my speech about the broader
3 public purpose the easier it is to justify expenditure of public dollars. The
4 more expenditures become specific from individuals or specific businesses
5 or specific operations, the more you risk running afoul of constitutional
6 prohibitions against any private or individual concerns. That's about all I
7 can say at this point. I don't know about this, or what it might be, to be able
8 to answer. Maybe your counsel has looked at that and is prepared to address
9 that. You've all heard before that one of the legal points of view with this
10 last mile issue is are we going to be funding or wiring to people's houses. If
11 that's the case, probably you'd have to think long and hard about whether or
12 not that's a public benefit, as opposed to a private benefit. That's the
13 constitutional question. Are we doing something that generally would
14 benefit the public, or are we just benefiting individuals among the public?
15 The good news about that is you do have the ability to make that
16 determination. The courts are loath to second-guess a public body's
17 determination on that fact.

18 DELEGATE WRIGHT: Frank, do you recall a
19 conversation that you and I had about that very topic? I think we realized at
20 that time no way the Tobacco Commission could hook up everyone in that
21 fashion.

22 MR. FERGUSON: That's part of the policy
23 underlying this constitutional provision. It's virtually impossible to treat all
24 of the people equally in that kind of scenario. Having said that, though, it's
25 also true that there is certainly argument to be made that provisions of access

1 to broadband capability into the individual home level is economic growth.
2 If you've got neighborhoods or even a whole town that is wired to do this,
3 arguably, and I think probably, almost intuitively, that is an attractive aspect
4 of a community and its efforts to bring other businesses to the community
5 and foster economic development. I may not be able to give you a one
6 hundred percent accurate prediction of what some judge might say about this
7 issue, but I do think that historically the courts are not inclined to second-
8 guess legislative type bodies in making those kinds of decisions. In this
9 case, this Commission has delegated a certain amount of legislative authority
10 or quasi-legislative authority to make those kinds of determinations.

11 MR. FAIN: On the specific matter of a for-profit
12 or non-profit company, the access company is organized under a charter that
13 focuses on a non-profit objective. For other reasons, we have another flavor
14 to organize it as a normal commercial business because that will give us
15 some freedom to attract the kind of dollars that we could not as a non-profit.
16 That's one of the issues we would want to talk to you about and work
17 through.

18 MR. ARTHUR: Madam Chairperson, in my
19 opinion, and as I told these gentlemen when they were in my office, we
20 haven't set any policy, and to my knowledge this is the first time that we've
21 even focused on the last mile. We need to sit down and establish a policy.
22 In my opinion this is premature, but we may want to invite them to come and
23 explain this again after we decide how we want to do this. In my opinion,
24 and I'm trying not to be rude, and I hope you understand, we need to
25 establish what we want to do, and then we can talk about how we will want

1 to do it. As far as I'm concerned, this is way premature.

2 DELEGATE BYRON: Part of the request came
3 from the Chair of the Commission to ask them to come and present this to
4 us. I think that's been part of our hesitation, that we have not discussed the
5 details, even to the point of even knowing how we feel about the proposal,
6 because we don't know the challenges, we don't know the opportunities, we
7 don't know the people that are going to be willing, or we may be the only
8 one out there that has an interest in doing a last mile, and then, of course, we
9 can look at the cost factors and many other things. Frank and I talked about
10 the broadband and the hospitals, and that was some time ago. We've also
11 talked about schools and those issues that would bring it closer to home, and
12 those are possibilities. I think at this time it's really premature, outside of
13 acquainting us with what you have available for us. I think you've done that
14 very well. I will say that we will have future meetings, and we will have a
15 sub-committee, and other members may want to attend, and we will discuss
16 this last mile.

17 Do you have anything you want to add?

18 MR. DERISO: I'd just like to add that probably
19 the thirteen members that we have and some of the companies, I think they'd
20 have a great deal to say about the last mile and the residential and
21 commercial customers. We've talked to others that have shown an interest.
22 I'd be more than happy to assist the sub-committee in any way. We've been
23 down in the trenches in the last couple of years in Southside, and anything
24 that I can do, I'll be glad to help with any of that.

25 MR. ARTHUR: Madam Chairperson, before the

1 Chairman had to leave I had hoped that today we could get a sub-committee
2 appointed to make recommendations to the full Committee on how we
3 should proceed. Certainly I recognize that some of the model that Tad had
4 presented today, there are going to be companies that want to present some
5 last mile too, and that is a mechanism, a sub-committee to include eTown
6 and companies with Tad or whoever, so I'm just saying we should do that
7 because we have a firm picture in our mind what we want to do and how we
8 want to do it and then find out who's going to do it.

9 DELEGATE BYRON: I think you were already
10 assigned to that sub-committee.

11 MR. STEPHENSON: You and Delegate Wright, I
12 believe. It would seem appropriate, perhaps, that your Committee, too,
13 needs to be expanded to include proper players at the table for the
14 Committee to confront the entire last mile question so it can decide what it
15 wants to do.

16 DELEGATE BYRON: I would suggest that we
17 have as many people there as want to be present and/or make presentations.
18 Tad says quite a few people have been involved in the process, maybe not
19 sitting at the table, including MBC and all the other different groups, but we
20 can certainly do that.

21 All right, thank you all for coming, and we'll be talking to you
22 later.

23 Is there anything else we need to do at this point?

24 MR. STEPHENSON: I might suggest, Madam
25 Chairman, that perhaps you and Chairman Hogan could get together with

1 me, and let's fix a date and time and agenda and the items that need to be
2 covered and set about doing this properly so that we are organizing our
3 approach. It's not something we can do at the moment, but I think we can do
4 it in the next several weeks, fix that date, and we'll attack the problem in the
5 proper manner.

6 DELEGATE BYRON: In the meantime, if any
7 members are interested in being part of that, they can certainly let us know,
8 and they will be welcome.

9 Again, thank you so much for coming, and I'm sorry we
10 couldn't take it any further than that right now, but we do appreciate your
11 presentation to us.

12 Does anyone have any public comments, anyone want to say
13 anything? If not, do I have a motion to adjourn? So moved. We're
14 adjourned.

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16 PROCEEDINGS CONCLUDED.

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CERTIFICATE OF THE COURT REPORTER

I, Medford W. Howard, Registered Professional Reporter and Notary Public for the State of Virginia at large, do hereby certify that I was the court reporter who took down and transcribed the proceedings of the **Virginia Tobacco Indemnification and Community Revitalization Commission Technology Committee Meeting when held on Wednesday, April 26, 2006 at 5:00 p.m. at the Sheraton West Hotel, Richmond, Virginia.**

I further certify this is a true and accurate transcript to the best of my ability to hear and understand the proceedings.

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Given under my hand this day of May, 2006.

Medford W. Howard
Registered Professional Reporter
Notary Public for the State of Virginia at Large

My Commission Expires: October 31, 2006.