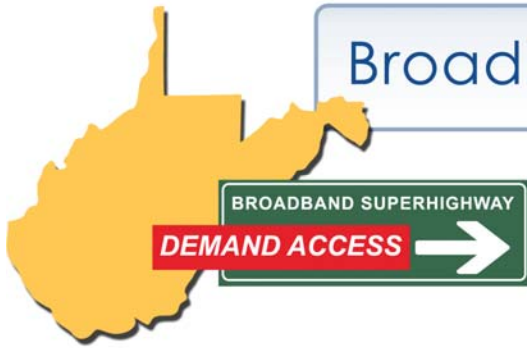


## Broadband FAQ



The state of West Virginia received a \$126 million federal grant through the American Recovery and Reinvestment Act of 2009 for development of a high-speed Internet program known as the West Virginia Statewide Broadband Infrastructure Project.

The National Telecommunications and Information Administration (NTIA) and the Recovery Accountability and Transparency Board (RATB) advise President Obama on broadband policies and oversee administration of the grants.

In its application, the state indicated it intended to build "middle mile" Internet infrastructure that would benefit government agencies and schools, as well as 110,000 businesses and 700,000 households. To accomplish these goals would require an open-access model in which the Internet infrastructure is used by all carriers at a nominal rate that covers normal operating costs.

The state, under the direction of Commerce Secretary Kelley Goes, instead promoted a "last mile" program that benefits only Frontier Communications a publicly traded corporation, the successor to Verizon of West Virginia. The plan will not serve West Virginia as it strives to meet the job creation needs of the 21<sup>st</sup> century. The final plan will only serve approximately 1,000 points of interest instead of the 110,000 businesses or the 700,000 homes that the state initially stated the plan would serve.

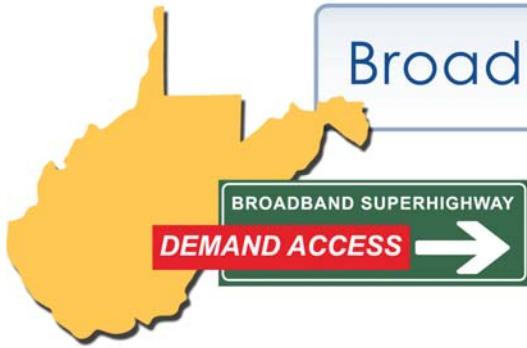
- **What is the issue?**

The State Plan will build only "last mile" infrastructure that will provide access to high-speed Internet for certain government and school locations; however, many of the end users will not be able to afford the service. Despite the fact that the State Plan gives Frontier as much as \$69 million in taxpayer money, the state has not established a reduced rate schedule for Internet access in exchange. In fact, Frontier will be able to use its existing rates, which are much higher than in surrounding markets. Think about it. Taxpayers are being asked to provide \$69 million in free money, then to pay artificially high rates for the privilege. Mister, I know of a bridge in Brooklyn ...

- **Why is the State Plan wrong for West Virginia?**

The State Plan is woefully inadequate because it does not assure "middle mile" access to everyone. The funding the state contemplates earmarking for Frontier addresses only "last mile" technology. It's nothing more than \$69 million in corporate welfare. It does not provide the open access that will create a competitive marketplace like in other states.

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The current arrangement will impede job growth. West Virginia will not be able to compete in the global marketplace if it does not have adequate high speed Internet at a competitive cost. For example, a DS3 circuit in Pittsburgh will cost a customer \$500 per month; in Elkins, that same circuit will cost nearly \$10,000 per month.

Unlike in other states that received similar grants, the West Virginia incumbent carrier, Frontier, will own all of the equipment, all of the assets paid for by the taxpayer-funded grant, and can charge whatever it wants for access.

Neither local businesses, nor consumers nor schools will see a reduction of price. But the shareholders of Frontier will see a multimillion dollar increase in capital. We're faced with the absurd prospect of providing technology to schools and state agencies that can't then afford to pay what Frontier charges. What good is access to a service you can't afford? It's like telling someone who's jobless that he has "access" to a five star resort.

- **Does Frontier's reputed offer to spend \$250 million on broadband in West Virginia resolve the issue?**

No. Frontier's announcement is deceptive and self-serving.

Until there is a specific commitment on paper to use the NTIA grant for "middle mile" technology that promotes access and competition for ALL carriers, Frontier's vague statement is little more than smoke and mirrors. The state needs to regain control of this project before it gets hijacked any further.

If Frontier is truly going to devote \$250 million to broadband in West Virginia, what does it need with \$69 million of the taxpayers' money? Any national company can stash X amount of money in an escrow account, or establish a line of credit. Will they actually spend this money, and will they spend it in a way that benefits the market? It proves nothing, and it's beside the point.

Frontier is a publicly traded company and pays its stockholders an annual dividend of over 9%. At the same time the state is providing the company a \$69 million gift. Frontier stockholders should pay for this infrastructure.

The State Plan must be re-examined and altered to assure the public interest and fairness to competing carriers.



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- **Has the state responded to Citynet's letters of protest to NTIA and RATB?**

Yes. But the response written by Legislative and Policy Director James Pitrolo misses the point entirely. Instead of negotiating price concessions from Frontier in exchange for its \$69 million windfall, state officials apparently believe that other carriers should approach Frontier with hat in hand, and if they're not satisfied with the result, well, they can always file a protest. Requiring the state to fulfill its fiduciary responsibility and exercise some due diligence on this project apparently is too much to ask.

- **What was the basis for Citynet's FOIA requests? What does Citynet believe the documents reveal?**

We believe the documents clearly highlight flaws in the State Plan, revealing it to be in sharp contrast not only to the state's original application but also to the intended use of NTIA funding. Again, we believe the funding's purpose is to assure open access and a competitive marketplace, not to create a monopoly for a single carrier.

- **The Administration claims that the U.S. Commerce Secretary and other federal officials describe West Virginia's plan as a model for other states. Is this accurate?**

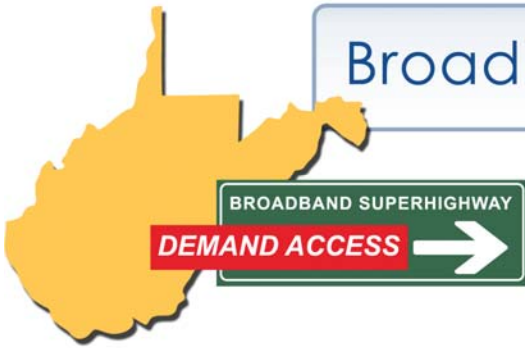
No. West Virginia's plan is unique only in the sense that the NTIA grant was intended to address broadband access on a statewide basis. No other state's application contemplated so broad a scope; however, the end result will not produce the intended goals. Now, under the State Plan, we're in danger of becoming a model of how NOT to administer federal funds.

- **What is the intended use for the remainder of the \$126 million NTIA grant?**

As we understand it, \$30 million will be spent on a wireless system to assist public safety and other first responders \$20 million will be spent for engineering. Consultants will get \$20 million for services that are not well-defined. An additional \$8.1 million will be spent to run a fiber optic cable between Green Bank Observatory and West Virginia University in Morgantown.

The state should wipe the slate clean and redevelop its plan for high-speed Internet under the \$126 million federal stimulus grant. This would include every item but the wireless project for public safety. This is too important of an opportunity for the state to blow it on a plan that has not been well thought out, and which would restrict competition and undermine prospects for economic growth.

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- **Isn't this all just "sour grapes" because Citynet's application for NTIA funding was denied?**

No. Characterizing our concerns in such a manner is another attempt to divert attention from the issues. It's just more smoke and mirrors.

Sure, we were disappointed initially. However, we quickly came to believe awarding the grant through the state administration represented a "Solomon's Choice" – a compromise that could work to the betterment of the entire state, and could truly become a model for the rest of the country. In fact, Citynet even presented the Council with its own detailed plan to jump-start discussion on this complicated topic. Secretary Goes, insisting the state needed just a "simple plan," refused to listen. The Council never gave Citynet a fair opportunity to present its solution.

Nevertheless, we participated willingly and enthusiastically in the process. That is, until it became clear to us that the State Plan is going down the wrong road, a road with potentially disastrous consequences for our children's future.

- **Why is this project so important to our state?**

A generation ago, the late Robert C. Byrd, the late Jennings Randolph and others brought the interstate highway system to West Virginia. This generation brought workers' compensation reform, tax reform and litigation reform. But what about Generation Next? Our children and grandchildren these days start working with computers almost as soon as they learn to walk. They won't miss out on 21<sup>st</sup> Century technology, the information superhighway. Because if that technology and the jobs that go with it are not available here, they will go elsewhere to find them. They'll leave West Virginia in their rear-view mirrors. And who could blame them?

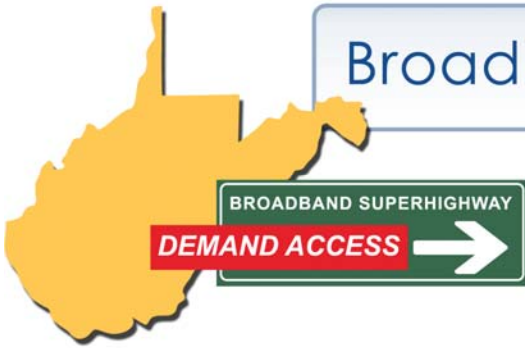
- **Why is it important to establish a competitive marketplace? As long as the technology is in place, why should we care who provides it?**

In a monopoly, consumers suffer. Prices remain artificially high, while quality declines. In a competitive marketplace, the scale is reversed. Consumers benefit from lower prices and increased quality.

West Virginia's recent experience with workers' compensation provides an excellent case study.

Under the old state-run workers compensation monopoly, West Virginia ran up hundreds of millions of dollars in unfunded liability. Business and labor both suffered. With reform and privatization, the business community realized the benefit of a predictable, rational premium

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structure, and labor benefited from workplace safety initiatives and reliable benefits when mishaps did occur. Competition between state-based and national carriers continues to drive up the quality of the insurance product, while driving down its price.

- **What happens if this project fails?**

West Virginia ranks 48<sup>th</sup> in broadband availability. Recent studies show only 60 percent of West Virginians have access to the Internet. We need 21<sup>st</sup> Century technology to compete for 21<sup>st</sup> Century jobs. If we don't reevaluate the State Plan, not only will West Virginia's economy stagnate, we'll regress. "No child left behind?" We'll be an entire state left behind.

- **Who is Citynet?**

Citynet is a competitive local exchange carrier, a CLEC that is a leading telecommunications carrier located, owned and operated in West Virginia. Citynet is known for its technologically advanced Internet Protocol-based service offerings and for enabling broadband services in underserved markets.

- **I have broadband. Why should I be concerned? The cable companies and phone companies offer broadband. Why is this important?**

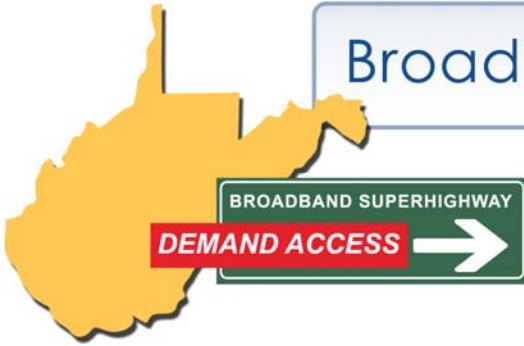
Many people in West Virginia have limited broadband but the capacity to meet the needs of the future does not exist in this state. The FCC has set a goal of 50Mbps as the standard capacity for home-based high-speed Internet. In West Virginia, we are lucky to have 1 to 5 Mbps in Internet capacity. The current broadband infrastructure in West Virginia is akin to a dirt road. Ohio, on the other hand, is building a four-lane Internet highway. Which road would allow you to put the pedal down?

Businesses will not relocate to states without high-quality, well-priced Internet service. Broadband service today is the same as water or electricity. It is an integral part of our required infrastructure.

- **Dana Waldo, a local Frontier vice president, has said if we do not move on the grant now, we have lost our chance. Why is this wrong?**

We believe that under grant rules, there is still plenty of time to rework the state's approach and instead act with prudence and deliberation. But if you're Frontier and someone is going to give you a \$69 million gift, you don't want anything to delay that gift. You want to move fast, before the light of understanding dawns on anyone.

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The state should wipe the slate clean and redevelop its plan for high-speed Internet under the \$126 million federal stimulus grant. This is too important of an opportunity for the state to blow it on a plan that has not been well thought out, and which would instead restrict competition and undermine prospects for economic growth.

- **How are other states handling this grant?**

Based on our research, neighboring states are funding projects that will provide "middle mile" infrastructure that will foster competition in the marketplace and allow open access to high-speed Internet that will meet the needs of the 21<sup>st</sup> Century. Unlike West Virginia, the other state plans will yield long-lasting results.