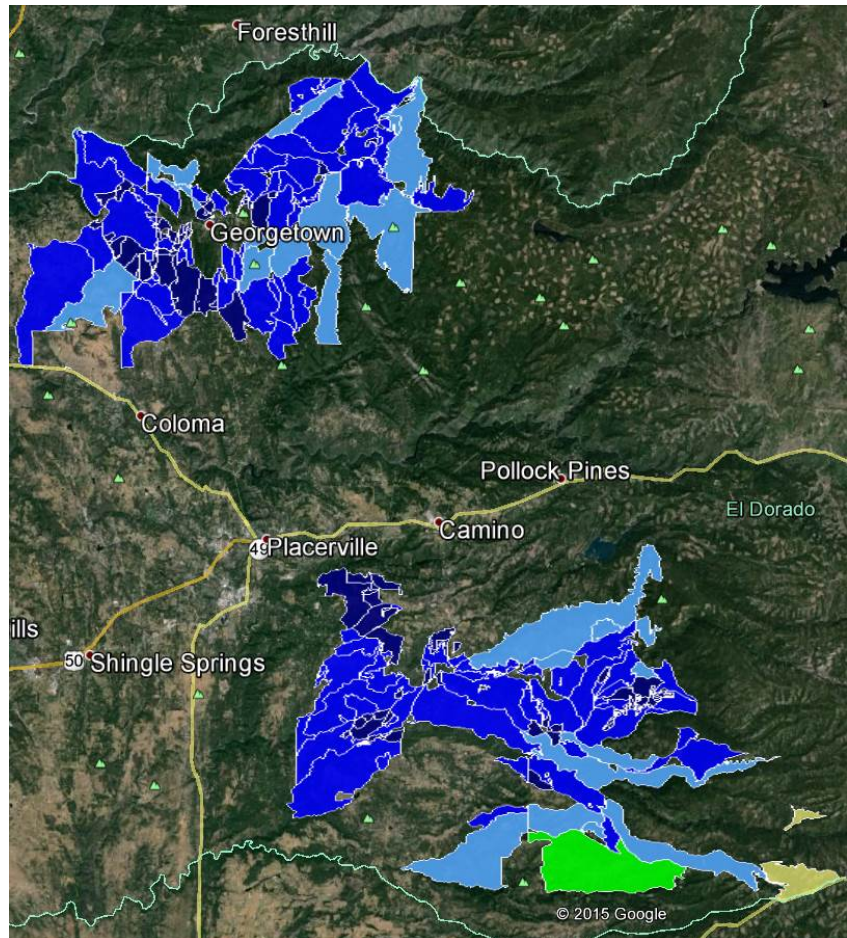


March 13, 2015

Cal.net is in the process of preparing a series of applications to the California Public Utilities Commission (“CPUC”) for grant funding through the California Advanced Services Fund (“CASF”) for broadband infrastructure and deployment projects<sup>1</sup>. If successfully funded, these projects will enable nearly 2,000 households in western El Dorado County to receive reliable high-speed Internet for the first time, at speeds up to 25 Mbps download, plus high-quality low-cost VoIP telephone service. The projects comprise various portions of the County as illustrated by the color-shaded areas in the map at right. Due to technical requirements of the CPUC, we will be submitting two separate applications:

- El Dorado North
- El Dorado South

The CASF grant project construction and funding period is essentially two years from date of grant award, but our service obligations to the CPUC extend for an additional three years. We expect to receive approval in May 2015 and commence work in June. About 85% of the work will be completed by mid-2017; final completion will occur by mid-2020.



Each grant area comprises a set of U.S. Census blocks either characterized by the CPUC or otherwise demonstrated as having insufficient broadband coverage today. As we construct our framework to service the grant-project Census blocks, we’ll also be able to leverage those resources to serve nearby non-grant areas. During the entire five-year period of the projections, an additional 2,000 customers (beyond the 2,000 funded by the grant) can be served in non-grant areas by leveraging the infrastructure built with CASF grant funds in the first two years.

The grant applications propose to utilize “fixed wireless” broadband technology only – solutions that require an end-user radio transceiver device to be affixed to a stationary object. In particular, we will use three distinct fixed-wireless technologies:

<sup>1</sup> See <http://www.cpuc.ca.gov/PUC/Telco/Information+for+providing+service/CASF/CASFGGrantLoan.htm>

- TV White Space (“TVWS”) – new technology recently authorized by the FCC that leverages unused UHF television channels in a given area for high-speed two-way digital communications. TVWS is the most effective technology available today to enable high-speed wireless data communications within thickly-forested locations. Users in such locales typically have no other alternative for high-speed Internet connectivity.
- FCC-controlled 3.65-GHz Fixed-LTE – the same LTE technology commonly used in modern cell phones, but engineered specifically for non-mobile applications to provide even higher speeds and greater reliability. This solution works through a few trees, but not in the most heavily forested areas.
- Unlicensed 5-GHz – in common use today by all Wireless Internet Service Providers. This technology is effective only in line-of sight situations, where the end-user device can see the tower location unobstructed by trees or structures.

As a result of exclusively using fixed-wireless technology, environmental impacts will be minimized. No extended trenching is required, proposed newly-constructed tower sites that may encounter environmental roadblocks can be moved to other nearby locations, and existing tower sites can be categorically exempted from California Environment Quality Act (“CEQA”) approvals. Consequently the environmental impact risks to constructing these projects in a timely manner are near nil, and some development can commence almost immediately upon grant award utilizing leased space on existing towers, while awaiting CEQA approvals on new towers. The first CEQA-approved towers would not begin construction until around October 2015. Customers can be installed immediately upon completion of any tower site, leased or newly-built.

With regard to funding levels, the maximum amount of a grant is set by statute to be 60% of total project capital costs for Census blocks considered “underserved” and 70% for “unserved” Census blocks. (An “underserved” area has broadband access that is below 6 Mbps download; an “unserved” area cannot get anything better than 768 Kbps speeds.) In our proposed grant service areas, nearly all the Census blocks are in the “underserved” category, according to CPUC data. Consequently, although we are projecting the cost of the projects to total over \$2.2 million, the amount of grant funding received will be a bit over \$1.3 million – the remainder will be funded by Cal.net. By utilizing fixed-wireless technologies, as opposed to other alternatives such as fiber-to-the-home, total costs and time-to-service are both substantially minimized.

These projects will provide full-time employment with Cal.net for an additional twelve employees. Local concrete, electrical, and crane service contractors will be used for portions of each tower construction. Specialized trades from the Sacramento area will be involved with other aspects of tower construction and installing radios and antennae on the towers.

The following table summarizes various other aspects of these projects:

	<b><u>Northern EI</u></b>	<b><u>Southern EI</u></b>	
	<b><u>Dorado</u></b>	<b><u>Dorado</u></b>	<b><u>Grant Totals</u></b>
Total Project Cost	\$1,205,773	\$1,017,512	\$2,223,285
CASF Grant Funding	\$723,464	\$610,578	\$1,334,042
Total Towers Built	8	7	15
Total Towers Leased	3	2	5
Total Eligible Customers	1569	1426	2995
Customers Added During 2-Year Project	744	680	1424
2-Year Project Take Rate	47%	48%	48%
Customers Funded by CASF	863	793	1656
CASF-Funded Take Rate	55%	56%	55%
Cost per Customer	\$1,186.78	\$1,119.37	\$1,153.08
Non-CASF Project Customers Added	272	229	501
Total New Customers per Project Area	1016	909	1925
Ending (5-Year) Take Rate	65%	64%	64%