

Item 16. Coverage Waiver.

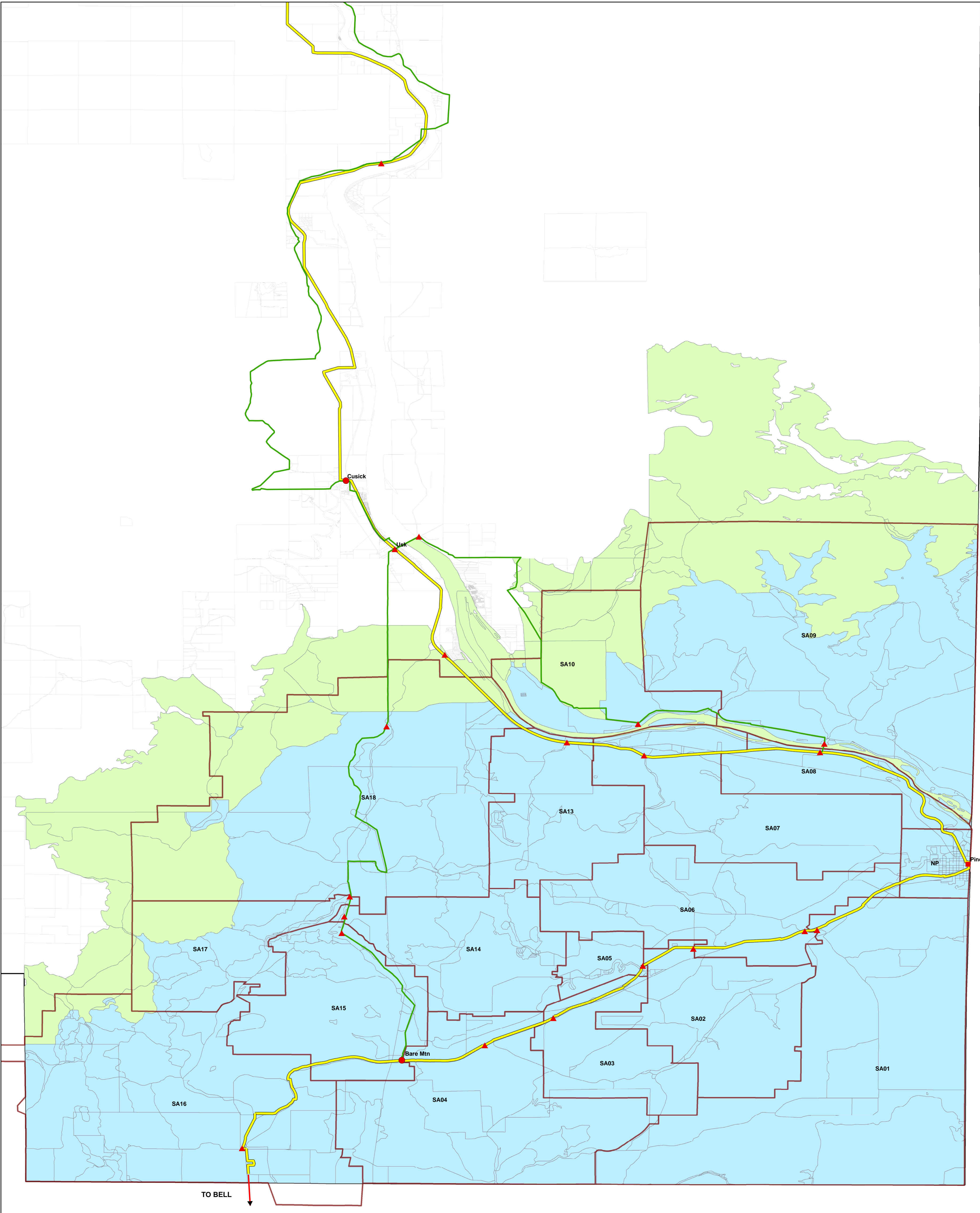
Public Utility District No. 1 of Pend Oreille County, WA (the “District”) respectfully requests a coverage waiver for the following 49 census blocks:

530519702003072	530519702003203	530519702003071	530519702003140
530519702003079	530519702003994	530519702003088	530519702003142
530519702003080	530519702003997	530519702003171	530519702003190
530519702003100	530519704001024	530519702003179	530519702003191
530519702003110	530519704001025	530519704001027	530519702003077
530519702003111	530519704001026	530519704001169	530519704002051
530519702003131	530519704001051	530519702003073	530519704001160
530519702003134	530519704001068	530519702003078	530519704001166
530519702003141	530519704001996	530519702003132	530519704001150
530519702003177	530519704001070	530519702003996	530519702003046
530519702003192	530519702002133	530519704001172	
530519702003193	530519702002134	530519704001173	
530519702003194	530519702002160	530519702003139	

Each of these census blocks is partially served by a RUS borrower, Pend Oreille Telephone Company (POTC). POTC’s service area boundaries do not coincide with census block boundaries. The District designed its last-mile network to reach as much of the population as possible, meaning that where a census block was served partially, but not entirely, by POTC, the District ensured its last-mile network would cover the portion of the census block not served by POTC. See also the attached map depicting the demarcation between the POTC service area and the District’s proposed last-mile network, overlaid on the census block boundaries.

As of the 2000 Census, approximately 208 household units are contained in the above-referenced census blocks. The District reasonably believes that the proposed last-mile network will reach approximately one-half of those 208 household units, with the remainder being covered within the POTC service area.

Pend Oreille County PUD Proposed Network Serving Areas

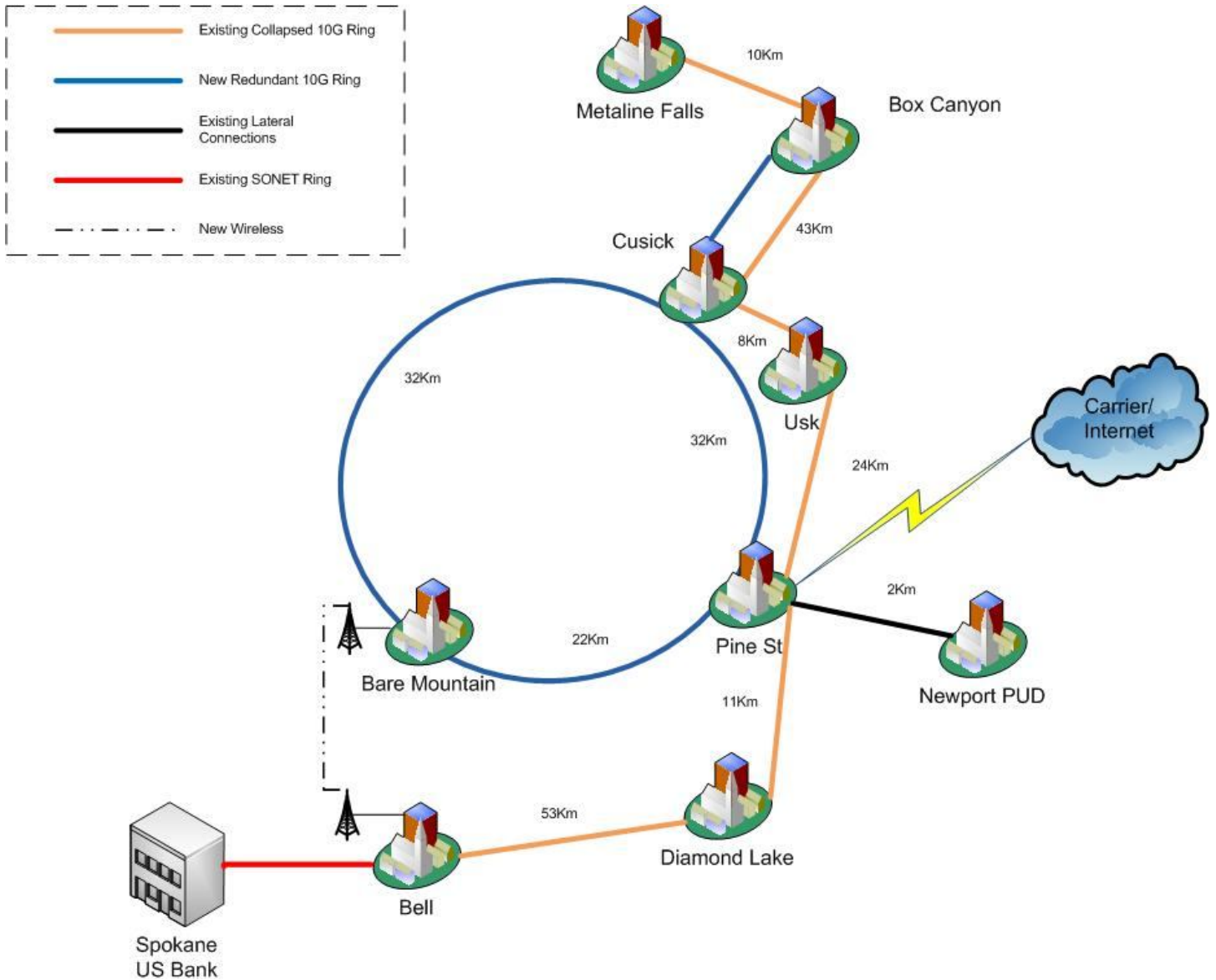


- Legend**
- Existing Backbone
 - Redundant Backbone
 - Cabinet
 - POP
 - VPOP
 - Location
 - County Boundary
 - Parcel
- Census Block**
- NO
 - YES
- Serving Area**
- NP
 - SA01
 - SA02
 - SA03
 - SA04
 - SA05
 - SA06
 - SA07
 - SA08
 - SA09
 - SA10
 - SA11
 - SA12
 - SA13
 - SA14
 - SA15
 - SA16
 - SA17
 - SA18

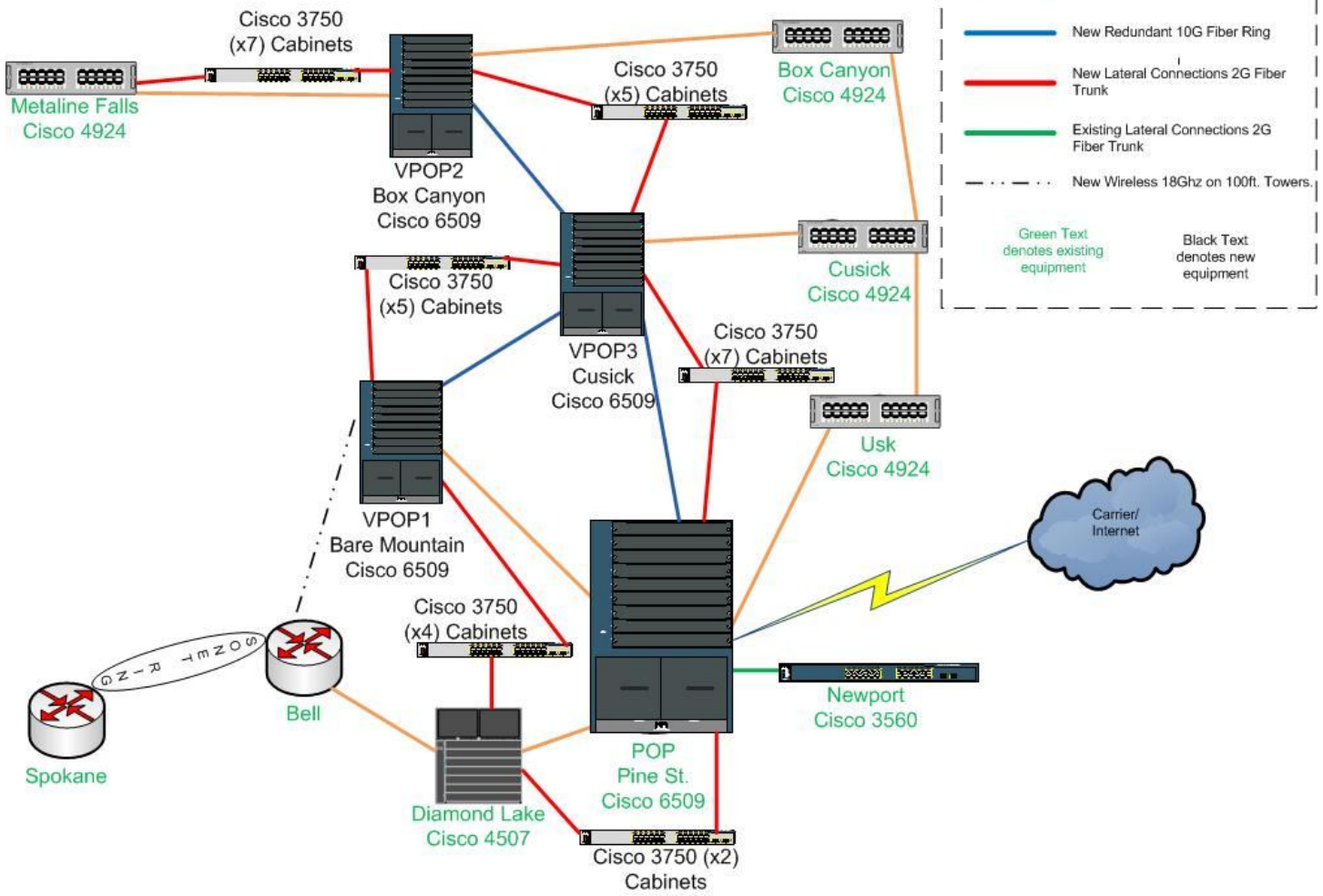
Public Utility District No. 1 of Pend Oreille County, WA

Section F. – Technology Strategy

30. Attached are two network diagrams. One is a physical overview of the infrastructure and the interconnectivity between each location. Please note the distances listed between each major location. The second drawing is a more detailed logical view of the interconnection of devices and media types. Note the legend for reference on new equipment versus existing equipment.



CORE INFRASTRUCTURE



37. Management Team Resumes:

Following the successful implementation of our 4000 plus strand-mile fiber optic network we have learned that it is not the handful of people that plan the deployment, it is the entire District that supports the inception, execution, and operation of the facilities. There are 8 Customer Service Representatives (CSR), there are 15 linemen, 7 technicians, 12 operators/dispatchers working 24/7, and various management members that support the development of the next generation utility, broadband. Specifically assigned to manage the Community Network System broadband facilities are:

Joe Onley

Community Network Systems Manager
23 Years with Pend Oreille Public Utility District
13 Years involving broadband deployments
Bachelor Science Electric Engineering, Gonzaga University 1986

Sandi Snow

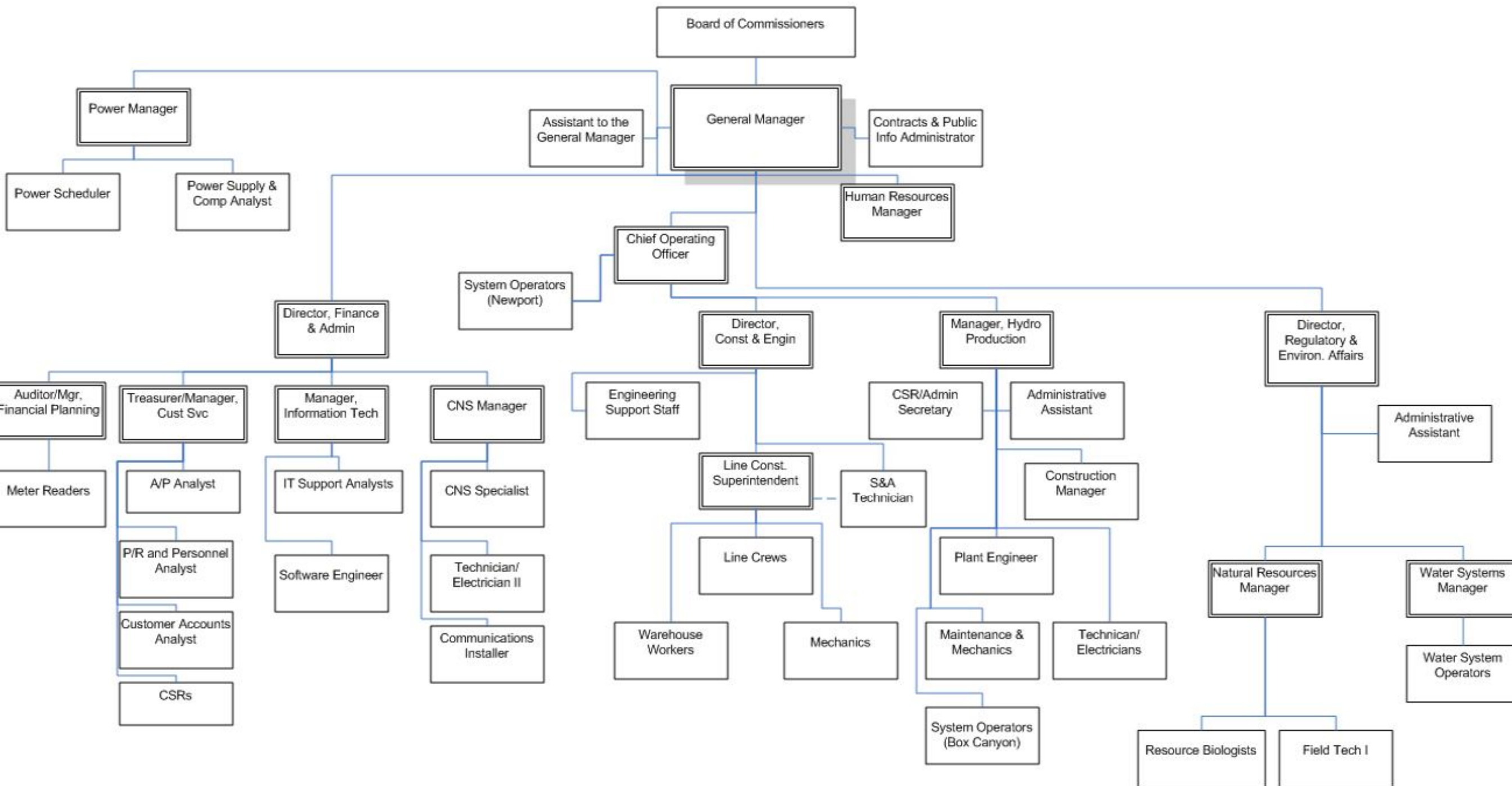
CCNA, Network Specialist
4 Years with Pend Oreille Public Utility District
4 Years involving broadband deployment
CCNA, Cisco Certified Network Associate
MCSE, Microsoft Certified Systems Engineer
MED, Masters of Education, Washington State University 1989

Brain Marsengill

Technician
10 Years with Pend Oreille Public Utility District
10 Years involving broadband deployments
IBEW 77 Member

Pend Oreille PUD #1

Organizational Overview





Submit Application - Infrastructure Programs
Project Budget - Joe Onley

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BTOP Eligibility and

Characteristics

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Instructions

Please complete those funding source columns and line items and that are applicable to your application. If you are filing a joint application (both BIP and BTOP), then use this form to complete your BIP budget and then use Upload #15, JOINT APPS ONLY: Additional Budget for the BTOP Budget.

Project Information

Program: Broadband Infrastructure Programs
Funding Opportunity: Broadband Initiatives Program and Broadband Technology Opportunities Program
Funding Cycle: Summer 2009 Broadband Initiatives Program and Broadband Technology Opportunities Program

Budget

	Loan Request	Grant Request	Equity	Debt	Bond	Other
Network & Access Equipment (switching, routing, transport, access)	\$ 4,553,867	\$ 1,138,467				
Outside Plant (cables, conduits, ducts, poles, towers, repeaters, etc.)	\$ 18,155,546	\$ 4,538,889				
Buildings and Land - (new construction, improvements, renovations, lease)	\$ 1,019,520	\$ 254,880				
Customer Premise Equipment (modems, set-top boxes, inside wiring, etc.)	\$ 231,936	\$ 57,984				
Billing and Operational Support Systems (IT systems, software, etc.)	\$ 38,400	\$ 9,600				
Operating Equipment (vehicles, office equipment, other)	\$	\$				
Engineering/ Professional Services (engineering design, project management, consulting, etc.)	\$ 3,292,134	\$ 823,034				
Testing (network elements, IT system elements, user devices, test generators, lab furnishings, servers/computers, etc.)	\$ 34,400	\$ 8,600				
Site Preparation	\$	\$				
Other	\$	\$				
TOTAL BROADBAND SYSTEM	0	27,325,803	6,831,454	0	0	0

TOTAL BUDGET \$34,157,257

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APPENDIX 50-2

Business Case Relating To BIP/BTOP Application of Public Utility District No. 1 of Pend Oreille County, WA

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021			
Revenue																
Market Development (Units Passed)	0	2,705	2,291	0	431	246	276	224	453	282	322	421	264			
Yearly Units Passed																
Residential Units Passed	0	2,655	2,061	0	423	233	264	220	444	274	315	387	259			
Commercial Units Passed	0	50	230	0	8	13	12	4	9	8	7	34	5			
Total Units Passed	0	2,655	4,716	4,716	5,139	5,372	5,636	5,856	6,300	6,574	6,889	7,276	7,535			
Residential Units Passed	0	2,655	4,716	4,716	5,139	5,372	5,636	5,856	6,300	6,574	6,889	7,276	7,535			
Commercial Units Passed	0	50	280	280	288	301	313	317	326	334	341	375	380			
Total Units Passed	0	2,705	4,996	4,996	5,427	5,673	5,949	6,173	6,626	6,908	7,230	7,651	7,915			
Market Penetration																
Residential Service Options	Mn Rate	Initial	2-3 Yr	4-5 Yr	Build Year	Initial Year	2-3 Yr	2-3 Yr (+2%)	2-3 Yr (+3%)	4-5 Yr	4-5 Yr (+3%)	4-5 Yr (+5%)	4-5 Yr (+5%)	4-5 Yr (+5%)	4-5 Yr (+5%)	
Phone Basic	\$ 15.00	5%	18%	32%	0	0	236	849	944	1,804	1,930	2,117	2,209	2,315	2,445	2,532
Internet Basic	\$ 26.00	21%	31%	45%	0	0	990	1,462	1,625	1,715	2,536	2,714	2,977	3,106	3,255	3,438
Video Basic	\$ 18.00	0%	1%	8%	0	0	47	94	105	55	483	529	552	579	611	633
Security	\$ 5.00	0%	2%	3%	0	0	94	188	211	169	181	198	207	217	229	237
Residential Service Options	Max Count ----->					990	1,462	1,625	1,715	2,536	2,714	2,977	3,106	3,255	3,438	3,560
	Average	7%	13%	22%												
Commercial Service Options (Diamond)																
Commercial 1 Meg Port	\$ 421				9	9	9	9	9	9	9	9	9	9	9	9
Commercial 2 Meg Port	\$ 440				13	13	13	13	13	13	13	13	13	13	13	13
Commercial 4 Meg Port	\$ 476				0	0	0	0	0	0	0	0	0	0	0	0
Commercial 5 Meg Port	\$ 493				7	7	7	7	7	7	7	7	7	7	7	7
Commercial 6 Meg Port	\$ 508				0	0	0	0	0	0	0	0	0	0	0	0
Commercial 10 Meg Port	\$ 570				5	5	5	5	5	5	5	5	5	5	5	5
Commercial 25 Meg Port	\$ 800				0	0	0	0	0	0	0	0	0	0	0	0
Commercial 50 Meg Port	\$ 1,150				0	0	0	0	0	0	0	0	0	0	0	0
Commercial 100 Meg Port	\$ 1,400				0	0	0	0	0	0	0	0	0	0	0	0
Commercial Gig Port	\$ 3,400				0	0	0	0	0	0	0	0	0	0	0	0
Commercial Service Options					34	34	34	34	34	34	34	34	34	34	34	34
Commercial Service Options (Best Effort)																
Commercial 1 Meg Port	\$ 21	3%	4%	6%	0	0	8	9	12	12	19	20	22	23	25	25
Commercial 2 Meg Port	\$ 140	0%	1%	2%	0	0	0	0	3	3	6	7	7	7	8	8
Commercial 4 Meg Port	\$ 176	1%	2%	3%	0	0	3	3	6	6	9	10	11	11	12	13
Commercial 5 Meg Port	\$ 193	2%	5%	7%	0	0	6	6	14	15	22	23	25	26	29	29
Commercial 6 Meg Port	\$ 208	3%	3%	5%	0	0	8	9	9	9	16	17	18	18	19	21
Commercial 10 Meg Port	\$ 270	1%	2%	3%	0	0	3	3	6	6	9	10	11	11	12	13
Commercial 25 Meg Port	\$ 500	1%	3%	5%	0	0	3	3	9	9	16	17	18	19	21	21
Commercial 50 Meg Port	\$ 850	0%	1%	1%	0	0	0	0	3	3	3	3	4	4	4	4
Commercial 100 Meg Port	\$ 1,200	1%	1%	1%	0	0	3	3	3	3	3	3	4	4	4	4
Commercial Gig Port	\$ 2,000	1%	1%	2%	0	0	3	3	3	3	3	7	7	8	8	8
Commercial Service Options		13%	23%	35%		0	36	38	66	71	106	113	126	129	131	144
IP Services & Transport Fees																
Wholesale Per Meg Rate	\$40	Yr 1-3	Yr 4-6	Yr 7-8												
Provider 1 -----IP Services		10	15	20	\$4,800	\$4,800	\$4,800	\$4,800	\$7,200	\$7,200	\$9,600	\$9,600	\$9,600	\$9,600	\$9,600	\$9,600
Provider 2 -----IP Services		10	25	35	\$4,800	\$4,800	\$4,800	\$4,800	\$12,000	\$12,000	\$16,800	\$16,800	\$16,800	\$16,800	\$16,800	\$16,800
Provider 3 -----IP Services		10	20	30	\$4,800	\$4,800	\$4,800	\$4,800	\$9,600	\$9,600	\$14,400	\$14,400	\$14,400	\$14,400	\$14,400	\$14,400
Provider 4 -----IP Services		10	20	30	\$4,800	\$4,800	\$4,800	\$4,800	\$9,600	\$9,600	\$14,400	\$14,400	\$14,400	\$14,400	\$14,400	\$14,400
Provider 5 -----IP Services		10	20	30	\$4,800	\$4,800	\$4,800	\$4,800	\$9,600	\$9,600	\$14,400	\$14,400	\$14,400	\$14,400	\$14,400	\$14,400
Provider 6 -----IP Services		10	20	30	\$4,800	\$4,800	\$4,800	\$4,800	\$9,600	\$9,600	\$14,400	\$14,400	\$14,400	\$14,400	\$14,400	\$14,400
Commercial Service Options		30	60	85	\$28,800	\$28,800	\$28,800	\$28,800	\$57,600	\$57,600	\$84,000	\$84,000	\$84,000	\$84,000	\$84,000	\$84,000
Revenue Projections (Port Fees)																
Wholesale Fiber Optic	\$272,400	\$272,400	\$272,400	\$272,400	\$277,848	\$283,405	\$289,073	\$294,855	\$300,752	\$306,767	\$312,902	\$319,160	\$325,543			
Residential Revenue	\$0	\$0	\$351,436	\$624,776	\$694,431	\$733,033	\$1,223,463	\$1,309,357	\$1,435,984	\$1,498,438	\$1,570,237	\$1,658,448	\$1,717,483			
Commercial Revenue	\$189,720	\$189,720	\$365,078	\$373,846	\$475,013	\$493,854	\$591,049	\$616,500	\$735,581	\$748,976	\$760,697	\$817,628	\$826,000			
IP Services & Transport	\$28,800	\$28,800	\$28,800	\$28,800	\$57,600	\$57,600	\$84,000	\$84,000	\$84,000	\$84,000	\$84,000	\$84,000	\$84,000			
Total Yearly Revenue	\$490,920	\$490,920	\$1,017,715	\$1,299,822	\$1,504,892	\$1,567,892	\$2,187,585	\$2,304,712	\$2,556,317	\$2,638,181	\$2,727,837	\$2,879,235	\$2,953,026			

APPENDIX 50-2

Business Case Relating To BIP/BTOP Application of Public Utility District No. 1 of Pend Oreille County, WA

Operations Expenses	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
NOC/NMS System Expenses		50 Meg	50 Meg	75 Meg	75 Meg	100 Meg	100 Meg	150 Meg	150 meg	150 meg	150 meg	150 meg	150 meg
Internet Connection Expense	\$1,200	\$1,200	\$18,000	\$24,300	\$24,300	\$30,000	\$30,000	\$45,000	\$45,000	\$45,000	\$45,000	\$45,000	\$45,000
Software/Hardware Maintenance Expense	\$62,000	\$62,000	\$62,000	\$63,240	\$64,505	\$65,795	\$67,111	\$68,453	\$69,822	\$71,219	\$72,643	\$74,096	\$75,578
Materials & Insurance & Travel	\$100,122	\$98,929	\$98,929	\$103,875	\$106,992	\$110,201	\$113,508	\$116,913	\$120,420	\$124,033	\$127,754	\$131,586	\$135,534
Equipment Reserves (Replacement)	\$0	\$0	\$0	\$0	\$60,000	\$60,000	\$60,000	\$60,000	\$60,000	\$60,000	\$60,000	\$60,000	\$60,000
NOC Management Expenses (Starts 2011) (2011 - Core / 2012 Access & Core)	\$0	\$0	\$40,000	\$52,000	\$69,875	\$73,369	\$73,369	\$75,570	\$75,570	\$75,570	\$75,570	\$75,570	\$75,570
Total NOC/NMS System Expenses	\$163,322	\$162,129	\$218,929	\$243,415	\$325,671	\$339,365	\$343,987	\$365,935	\$370,812	\$375,821	\$380,966	\$386,252	\$391,681
Staffing Expenses			3% Increase Cost of Living ----->										
Operations Manager (Existing) 1 FTE	\$85,400	\$85,400	\$95,000	\$97,850	\$100,786	\$103,809	\$106,923	\$110,131	\$113,435	\$116,838	\$120,343	\$123,953	\$127,672
Systems Engineer (Existing) 1 FTE	\$35,000	\$35,000	\$80,000	\$82,400	\$84,872	\$87,418	\$90,041	\$92,742	\$95,524	\$98,390	\$101,342	\$104,382	\$107,513
Network Engineer 1 FTE	\$0	\$0	\$80,000	\$82,400	\$84,872	\$87,418	\$90,041	\$92,742	\$95,524	\$98,390	\$101,342	\$104,382	\$107,513
OSP Engineer 1 FTE	\$0	\$0	\$75,000	\$77,250	\$79,568	\$81,955	\$84,413	\$86,946	\$89,554	\$92,241	\$95,008	\$97,858	\$100,794
Field Service Technician 1 FTE	\$0	\$0	\$65,000	\$66,950	\$68,959	\$71,027	\$73,158	\$75,353	\$77,613	\$79,942	\$82,340	\$84,810	\$87,355
Administrative Staff 1 FTE	\$0	\$0	\$0	\$35,000	\$36,050	\$37,132	\$38,245	\$39,393	\$40,575	\$41,792	\$43,046	\$44,337	\$45,667
Other PUD Operating Expenses	\$27,428	\$27,428	\$27,428	\$28,251	\$29,098	\$29,971	\$30,870	\$31,797	\$32,750	\$33,733	\$34,745	\$35,787	\$36,861
Total Staffing Expense	\$147,828	\$147,828	\$395,000	\$470,101	\$484,204	\$498,730	\$513,692	\$529,103	\$544,976	\$561,325	\$578,165	\$595,510	\$613,375
Contracts													
Drop Contract Per Installation		\$0	\$0	\$0	\$97,795	\$99,751	\$101,746	\$103,781	\$105,857	\$107,974	\$110,133	\$112,336	\$114,583
Marketing		\$0	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000
Emergency/Maintenance Agreement	\$161,000	\$161,000	\$165,830	\$169,147	\$172,530	\$177,705	\$183,037	\$188,528	\$194,184	\$200,009	\$206,009	\$212,190	\$218,555
Total Billing Cost	\$161,000	\$161,000	\$180,830	\$184,147	\$285,325	\$292,456	\$299,783	\$307,309	\$315,040	\$322,983	\$331,142	\$339,525	\$348,138
Total Operations Expenditures	\$472,150	\$470,957	\$794,759	\$897,663	\$1,095,200	\$1,130,551	\$1,157,461	\$1,202,347	\$1,230,828	\$1,260,129	\$1,290,273	\$1,321,287	\$1,353,194

Total Revenue	\$490,920	\$490,920	\$1,017,715	\$1,299,822	\$1,504,892	\$1,567,892	\$2,187,585	\$2,304,712	\$2,556,317	\$2,638,181	\$2,727,837	\$2,879,235	\$2,953,026
Total Expense	\$472,150	\$470,957	\$794,759	\$897,663	\$1,095,200	\$1,130,551	\$1,157,461	\$1,202,347	\$1,230,828	\$1,260,129	\$1,290,273	\$1,321,287	\$1,353,194

EBITDA	\$18,770	\$19,963	\$222,956	\$402,159	\$409,692	\$437,341	\$1,030,123	\$1,102,365	\$1,325,489	\$1,378,052	\$1,437,563	\$1,557,949	\$1,599,832
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Depreciation - Project Only		\$ (1,707,862.75)	\$ (1,707,862.75)	\$ (1,707,862.75)	\$ (1,707,862.75)	\$ (1,707,862.75)	\$ (1,707,862.75)	\$ (1,707,862.75)	\$ (1,707,862.75)	\$ (1,707,862.75)	\$ (1,707,862.75)	\$ (1,707,862.75)	\$ (1,707,862.75)
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Earnings Before Interest and Taxes	\$18,770	(\$1,687,900)	(\$1,484,907)	(\$1,305,704)	(\$1,298,171)	(\$1,270,522)	(\$677,740)	(\$605,498)	(\$382,374)	(\$329,810)	(\$270,300)	(\$149,914)	(\$108,031)
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Interest Expense	0	(\$1,175,009.42)	(\$1,118,233.88)	(\$1,061,254.89)	(\$1,004,071.72)	(\$946,683.65)	(\$889,089.94)	(\$831,289.86)	(\$773,282.65)	(\$715,067.59)	(\$656,643.92)	(\$598,010.90)	(\$539,167.78)
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Income Before Taxes	\$18,770	(\$2,862,909)	(\$2,603,141)	(\$2,366,959)	(\$2,302,243)	(\$2,217,206)	(\$1,566,830)	(\$1,436,787)	(\$1,155,656)	(\$1,044,878)	(\$926,944)	(\$747,925)	(\$647,199)
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TIER (Times Earned Interest Ratio) - Wholesale Broadband Only		-1.44	-1.33	-1.23	-1.29	-1.34	-0.76	-0.73	-0.49	-0.46	-0.41	-0.25	-0.20
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Item 50 – Detailed Financial Narrative Information

1. Overview of the Applicant’s Operations

Public Utility District No. 1 of Pend Oreille County, WA (the “District”) is a municipal corporation governed by an elected three-person Board of Commissioners. The District’s reporting entity is comprised of three primary component units, or operating systems.

The Electric System distributes electricity to residential and other consumers in Pend Oreille County. The Box Canyon Production System produces hydroelectric power from the Box Canyon Hydroelectric Project. The Water System consists of nine individual water distribution subdivisions. The District is required by various financing and contractual arrangements to report separately on each system and maintain each system as a separate entity with separate obligations.

The District authorized usage of the name Community Network System (CN System) for the purpose of facilitating access to, and use of, the District’s Electric System broadband communication network for the benefit of the people of Pend Oreille County in accordance with state granted wholesale authority. The CN System, the District’s existing middle mile fiber optic backbone, is an endeavor of the Electric System and is not a separate operating system for reporting purposes.

2. Financial Feasibility Determination

Because the District is required to report separately on each system and maintain each system as a separate entity with separate obligations, the Electric System financials are the most relevant and appropriate measure of financial feasibility, and avoid improper cross-subsidy concerns.

The Electric System’s income statement, assuming a 20-year loan of \$27M principal at 4.3%, reveals negative net income and a times earned interest ratio (TIER) less than 1.0 throughout the five-year projection. *See Appendix 50-1.*

In sum, the District does not satisfy the financial feasibility criteria established by RUS.

3. Assumptions

The District prepared two versions of Attachments K, L, and M on a fully-consolidated basis: the first set, notated “Hypothetical RUS Loan” considers projections based on the District’s receipt of \$27,325,803 in loan funding; the second set, notated “BTOP Grant,” considers projections based on the District’s receipt of \$27,325,803 in grant funding.

In accordance with the District’s requirements to report separately on each system and maintain each system as a separate entity with separate obligations, the District prepared Attachment K, Income Statement, for the Electric System, based the District’s audited financial statements.

Finally, to assist with RUS and NTIA’s review of the revenue and expenses projections contained within the five-year pro forma portion of the foregoing financial statements, the

District is providing the business case data on which the projections are based. *See* Appendix 50-2.

Detailed assumptions relating to Attachments K, L and M are included with those attachments.

4. Working Capital

On both a fully-consolidated basis, the District's working capital, defined as current assets minus current liabilities, is a positive value throughout the entire forecast period. Indeed, the historical working capital of the Electric System was \$4,596,610 and \$8,929,159, 2008 and 2007, respectively. The District's wholesale broadband operations (referred to as the CN System in the audited financial statements) are projected to generate positive EBITDA throughout the forecast period. *See* Business Case, Appendix 50-2. Moreover, the Electric System's cash and cash equivalents of \$14,482,312, as of December 31, 2008, (subject to reduction based on the proposed 20% matching funds) would be available to address any material difference between the actual and anticipated timing of revenue receipts and required timeframes for payment of expenses. The District's management reviews accounts receivable on a regular basis to determine if any receivables will potentially be uncollectible. The District maintains an allowance for uncollectible accounts, which includes amounts estimated through an evaluation of specific accounts, based on the best available facts and circumstances, of customers that may be unable to meet their financial obligations, and a reserve based on historical experience.

5. Investments

The District's net income generated by its Electric System (of which the wholesale broadband operations are a part), in combination with the District's 20% matching fund capital contribution of \$6,831,451 and federal grant funding in the amount of \$27,325,804, would provide the complete financial needs of the proposed project. With the interest expense associated with a \$27 million loan removed, the Electric System would be able to sustain positive net income throughout the forecast period.

6. Current Operations

The District's currently offers wholesale services to Internet service providers (ISPs) and other retail telecommunications providers, in addition to serving the needs of the District's other systems. The District's current ISPs and retail providers serve a total of 34 customer locations, at speeds ranging from 1 to 10 Mbps. The District's wholesale rates are flat-rate, varying by Mbps-level. All current services are provided at the "Diamond" level, which means that the District commits to certain service level agreements with respect to the service delivered. With the proposed last-mile expansion of its network, the District plans to offer services on a "Best Effort" basis. The District's existing operations will be impacted positively by the services proposed through the funding of the proposed project. For one, establishing path redundancy for the existing network will improve service reliability, thus decreasing operational expenditures relating to service outages. Moreover, expanding the network's last-mile reach will allow the District to more fully utilize existing resources, including staffing, existing plant (poles, conduits, etc.) and back-office support functions.