

**THE BOARD OF THE KENTUCKY
COMMUNICATIONS NETWORK AUTHORITY**

**MINUTES OF THE SIXTH MEETING
APRIL 20, 2017**

Call to Order and Roll Call

A meeting of the Board of the Kentucky Communications Network Authority (“Board” and “KCNA”) was held on Thursday, April 20, 2017, at 1:01 p.m. EDT in Room 110 of the Capitol. Secretary Scott Brinkman, Chair, called the meeting to order and the roll was called.

Present were:

Members: Scott Brinkman, Secretary of the Governor’s Executive Cabinet and Chair of the Board; John Chilton, State Budget Director; Sandy Dunahoo, Commissioner, Department of Local Government; Lonnie Lawson, President and CEO, The Center for Rural Development; Greg Thomas, Secretary of the Kentucky Transportation Cabinet; John Tilley, Secretary of the Justice and Public Safety Cabinet; Katie Smith, Cabinet for Economic Development (Designee)

Guests:

Bryan Bell, Bluegrass Network; Brenda Brown, KCNA; Cory Camic, The Solarity Group; Tyler Campbell, Kentucky Telecom Association; Jeff Eaton, South Central Rural Telephone Cooperative; Andrew English, Justice and Public Safety Cabinet; Will Fitzpatrick, Macquarie; Nick Hann, Macquarie; Nate Haney, McCarthy Strategic Solutions; Mike Hayden, KCNA; Doug Hendrix, KCNA; Randy Hollis, Kentucky Cable Association; Eliot Jamison, Macquarie; Linda Magee, Kentucky Cable Association; William Magruder, Bluegrass Network; Ellie McKinley, Governor’s Office; Scott McCloud, Bluegrass Network; Mason Meredith, Finance and Administration Cabinet; Steve Murphy, KCNA; Gwen Pinson, Finance and Administration Cabinet; Thomas Preston, Duo County Telephone Cooperative; Charlotte Quarles; Debbie Rodgers, KCNA; Andrew Schachtner, Department of Local Government; Pamela Troutner, Finance and Administration Cabinet.

Secretary Brinkman verified that a quorum was present and that the press has been notified of the meeting. Minutes from the previous meeting on September 16, 2016 were distributed in advance to the board members. Mr. Lawson made a motion to approve the minutes. Mr. Chilton seconded the motion. The minutes were approved by unanimous vote.

Announcements:

- Secretary Brinkman announced that the General Assembly had passed HB 343, which codified the Governor's reorganization of the Board.
- Secretary Brinkman announced that KCNA has concluded negotiations with Bluegrass Network on a dark-fiber Indefeasible Right of Use Agreement (IRU). The IRU will be signed at the conclusion of the Board meeting.
- The next meeting of the KCNA Board will be on Thursday, June 15, 2017.

Closed Session

Secretary Brinkman next provided notice, pursuant KRS 61.815, of the Board's intention to enter into closed session to discuss a personnel matter. Secretary Tilley made a motion to enter closed session. Mr. Lawson seconded the motion. The motion passed by unanimous vote and the Board entered into closed session at 1:03 p.m EDT.

At 1:07 p.m. EDT, meeting attendees were invited to return to the meeting. Secretary Brinkman made a motion to return to open session. Mr. Lawson seconded the motion. The motion passed by unanimous vote.

Secretary Brinkman announced that he would entertain a motion that the Board appoint Phillip K. Brown as the Executive Director of KCNA. Commissioner Dunahoo made the motion. Secretary Thomas seconded the motion. The motion passed by unanimous vote.

Presentation: Nick Hann and Eliot Jamison, Macquarie Infrastructure Developments, LLC

Secretary Brinkman introduced Nick Hann and Eliot Jamison of Macquarie Infrastructure Developments, LLC (Macquarie) and asked that they give a presentation regarding the status of the KentuckyWired Project's (or "Project") wholesaler agreement.

Mr. Hann began by recalling the dual purpose of the Project, which is: (1) to provide service to approximately 1,200 state government entities, and (2) increase access to broadband connectivity to other non-governmental institutions throughout Kentucky. The goals are to improve the range of services available, at affordable prices, for Kentuckians, provide efficient and affordable backhaul services for internet service providers (ISPs) and high-bandwidth enterprises, provide open access to broadband resources, and establish Kentucky as a national leader in the digital economy. To accomplish those objectives, Mr. Hann announced that a separate entity, OpenFiber Kentucky Company, LLC (OFKY), had been established through a Memorandum of

Understanding (MOU) between the Commonwealth and Macquarie for OFKY to act as the commercialization agent for the Project.

According to Mr. Hann, three primary activities are to be undertaken by OFKY. The first is to make available a limited number of dark fiber strands within the network. The process for doing so will be offering, under a long-term lease arrangement, strands of the network to commercial entities. The second will be to provide a lit network to transport data on the existing network footprint. The third area is to assist in stimulating new broadband services to households and businesses through constructing, if required, new fiber spurs that extend the network beyond the KentuckyWired Project's footprint.

KCNA and Macquarie are nearing the completion of negotiating a wholesaler agreement that would expand upon the MOU already entered into and which would govern the long-term operations of OFKY. According to Mr. Hann, this would be a tripartite relationship among KCNA of behalf of the Commonwealth, OFKY and KentuckyWired Operations Company, LLC (KWOC). The involvement of KWOC is critical to ensure the commercialization of the network does not interfere with the provision of core PPP services to the Commonwealth itself.

KWOC will build, operate, and maintain the core network. OFKY will commercialize excess capacity in the network and, when necessary, work with partners to build additional spurs to the network. Neither, however, will provide services on their own. KWOC and OFKY will partner with Commonwealth ISPs to provide end-user or last-mile service. As such, the Project is comparable to a transportation network. The content and services delivered over the Project will remain the domain of commercial ISPs, which will have open access to the network.

Mr. Hann then turned to some technical aspects of the eventual Project's network. According to him, OFKY will coordinate with KCNA and the industry to lease a limited number of dark fiber strands under a ten-year lease arrangement called an IRU (Indefeasible Right of Use). OFKY will limit the number of strands made available and also the number of strands made available to any one party in an effort to ensure marketplace competition is maintained.

Director Chilton questioned whether these dark fibers were physical fiber strands that people buy or lease. Mr. Hann explained that they were. The network is a large bundle of fibers, which in the core parts of the network will number 288 fiber strands. A small number of these strands will be made commercially available.

OFKY's main focus in their effort to provide expanded broadband connectivity throughout Kentucky will be to provide lit transport. Under this framework, the wholesaler will transport data from a network access point (POP) to a carrier located on the network. There will be a middle-mile transport fee charged to customers for moving information across the network, which will be non-discriminatory to users seeking the same service over the same period of time on the same

terms and conditions. Mr. Hann contends that this structure increases efficiency, reduces the cost of infrastructure, levels the playing field for all users, and allows end users a choice of service providers, which is not limited by the control over proprietary infrastructure.

A big driver for the network's commercialization is to promote economic development. OFKY intends to charge commercially viable pricing, which will limit its interference with the existing marketplace. The Commonwealth, however, will have the ability, under the wholesaler agreement, to provide targeted subsidies where there is an economic priority to do so. According to Mr. Hann, there has been a notable significant reduction in broadband pricing since the announcement of the Project. In 2015, the price for one-gigabit service throughout Kentucky ranged from \$3,600 to \$6,100; that number now ranges from \$1,800 to \$2,300.

Going forward, establishing lit fiber pricing that is commercially viable, yet not in competition with the commercial market, will be a challenge. OFKY plans to address this issue, in part, through a series of industry workshops where pricing methodology will be discussed and additional feedback will be addressed. The governance structure established under the wholesaler agreement will also be a critical tool in responding to these pricing and industry challenges. The governance structure, as currently outlined, strikes a balance between effective oversight of OFKY, while allowing the entity to respond rapidly to shifting trends and market dynamics.

At this point, Mr. Hann asked for questions from the Board. Seeing no questions, Secretary Brinkman thanked Mr. Hann and his team for their tremendous progress in developing the wholesaler agreement over the past months. Secretary Brinkman reiterated that the agreement was not yet final, however, he urged all industry members present to attend the forthcoming industry workshop that will be held in the coming months to allow interested stakeholders to comment on the wholesaler agreement.

Status Report: Phillip K. Brown, Executive Director, KCNA

Secretary Brinkman next asked Phillip K. Brown, the Executive Director of KCNA, to provide a status report on the Project, as well as a three-month outlook. Mr. Brown deferred to Mike Hayden, the Chief Operating Officer of KCNA, to provide an update of the Project since the last meeting of the Board.

According to Mr. Hayden, KCNA has continued to work on developing infrastructure sharing agreements with network providers. Infrastructure agreements have been signed with Cincinnati Bell and East Kentucky Network, and an agreement with Bluegrass Network is imminent. Pole attachment agreements are in place, covering eighty eight percent (88%) of the poles necessary for the Project, and make-ready engineering is complete on seventy six percent (76%) of the poles. Initial construction activity has also taken place. As of the meeting, sixty-eight (68) building

entries, eight (8) communication huts, and two hundred and twenty-five thousand plus (225,000+) linear feet of conduit had been installed.

Mr. Brown then presented a three-month outlook to the Board. By the next meeting of the KCNA Board, Mr. Brown anticipated that engineering would be substantially complete on Rings 1A and 1B; progress is expected on pole attachment agreements, essentially, for the full network; make-ready construction would be fully underway in the Project's initial rings; and an additional one hundred thousand (100,000) linear feet of underground conduit will have been installed. Mr. Brown also anticipated some limited fiber installation over the next three months, however exact numbers were difficult to forecast.

Secretary Tilley questioned when the next Board meeting would be. Secretary Brinkman noted he had announced in a prior meeting that the Board of KCNA would be meeting quarterly. He apologized for the delay between this meeting and the last meeting and announced that the Board will now have a standing meeting the third Thursday of each June, September, December, and March.

At this point, Secretary Brinkman thanked Mr. Brown for the update and lauded the progress that had been made with the Project. He then announced that KCNA has concluded negotiations with Bluegrass Network (BGN) on a dark-fiber IRU agreement. Mr. William Magruder, President of BGN, commented that his organization was excited to be working with the Commonwealth and looks forward to the completion of construction of the Project. Mr. Brown added that this is a great deal for both KentuckyWired and the companies that make up BGN. The agreement includes both the IRU and corresponding pole attachment agreements with local carriers and, as such, represents a significant milestone for the Project.

Secretary Brinkman asked if there were any more questions or comments. Seeing none, and having no old or new business before the Board, Secretary Brinkman asked for a motion to adjourn. The motion was made by Secretary Tilley. Mr. Lawson seconded the motion. The meeting was adjourned unanimously at 1:36 p.m EDT.

Respectfully Submitted,



Secretary Scott Brinkman, Chair
Kentucky Communications Network Authority