



UNITED STATES DEPARTMENT OF COMMERCE
National Oceanic and Atmospheric Administration
OFFICE OF ACQUISITION AND GRANTS

January 4, 2013

Mr. Mickey Sims
General Manager
Buggs Island Telephone Cooperative
100 Nellie Jones Road
Bracey, VA 23919-1732

Re: Broadband Technology Opportunities Program (BTOP)
Buggs Island Telephone Cooperative (Buggs Island), Wireless Broadband Initiative
Grant Award # NT10BIX5570065
Corrective Action Plan

Dear Mr. Sims:

Upon acceptance of a grant from the Department of Commerce, your organization agreed to comply with requirements specified in the terms and conditions of the award. The National Oceanic and Atmospheric Administration (NOAA) Grants Office received notice from the National Telecommunications and Information Administration (NTIA) Program Office that Buggs Island has not complied with these terms and conditions, as noted below. Due to ongoing concerns relating to compliance with these grant award terms and conditions, NOAA is suspending your award, effectively immediately, and imposing a Corrective Action Plan (CAP) on the award in order to bring the project back into compliance with the terms and conditions of the award.

REASON FOR SUSPENSION: Under the terms and conditions of Buggs Island's BTOP award, Buggs Island agreed to build, operate, and maintain a fixed broadband and voice wireless communications network in its licensed service area, incorporating 7,609 square miles and 15 counties located within three cellular market areas (CMAs) in Southside Virginia. Buggs Island committed to provide service to 100% of residents and businesses, including 100,989 households, 14,882 businesses, and 723 anchor institutions – to be “substantially completed” within two years and “fully complete” in year three. Given this, NTIA has concerns about several specific areas:

- Performance, Progress and Benefits: Buggs Island's Third Quarter 2012 Performance Progress Report reports that it is providing service to 62,159 residential customers, 9,177 business customers, and 293 community anchor institutions. The same report states, however, that Buggs Island actually offers service to 92 residential users, 2 businesses, and 3 anchor institutions as of the end of September 2012. In this same report, Buggs Island anticipated that the testing and optimization of its initial 24 towers (of 35 total) would be complete by the end of the fourth quarter 2012, which would enable it to launch broadband services for end users in the first quarter of 2013 and complete construction of

the remaining 11 towers. However, as of mid-December the testing and operationalization of Buggs Island's initial 24 towers has not been completed. Only recently has Buggs Island begun planning for a test of six towers, tentatively scheduled for the second week of January 2013. There is no proposal for testing the remaining 18 towers. Moreover, the testing of the system requires that the backhaul network be fully operational and clear of errors, which is not currently the case. Thus, NTIA finds that Buggs Island has failed to make reasonable progress in operationalizing the network and delivering the benefits of the BTOP program to the residents and businesses in its service area.

- Technology: Although NTIA appreciates that Buggs Island has encountered technical issues in operationalizing its systems, NTIA has serious concerns about Buggs Island's commitment and ability to complete the proposed project given the evident lack of progress in tackling these technical problems and resolving them. With respect to the reciprocal interference on the 700 MHz system in particular, NTIA notes that Buggs Island powered off 18 of its 24 towers to eliminate interference and has taken no discernible steps to test the systems and to negotiate agreements to mitigate the interference. To alleviate this issue, NTIA contacted staff at the Federal Communications Commission (FCC) and reported to Buggs Island that the FCC cannot initiate an interference investigation without a formal complaint, which Buggs Island has yet to file. Due to these interference concerns, NTIA invited Buggs Island to explore alternative ways forward and present a WiMAX/LTE cost benefit analysis and an LTE transition plan; however, Buggs Island's report lacked substantive detail with respect to financing, its business plan, technical design, and probable costs. At this juncture, NTIA believes that an LTE transition is not a realistic alternative, but that at least part of Buggs Island's planned system can be made operational.
- Schedule: Buggs Island's certified in its grant application, which was incorporated by reference into the terms and conditions of the grant award, that the project would be "substantially completed" within two years and "fully completed" in year three of its grant award period. Buggs Island is 33 months into a 36 month grant with 69% of its towers equipped, with no towers and no systems tested and accepted, and with less than 1% of the target population served. Although it may be possible to grant Buggs Island a no-cost extension to September 30, 2013, NTIA is very concerned about their ability to complete this project in a timely manner.
- Budget, Match, Sustainability: As of mid-December, Buggs Island has expended 79% of its grant funds, but is currently offering services to less than 1% of its targeted population. In recent weeks Buggs Island informed NTIA that the Virginia Tobacco Commission, which had provided a match guarantee of \$3,879,097, suspended its remaining match commitment based on a draft report setting forth the shortcomings of Buggs Island's broadband project. Buggs Island also advised NTIA that Airspan, a vendor, suspended a \$1.1M line of credit based on the lack of substantial progress. Given this, NTIA is concerned that Buggs Island may not have the necessary finances to successfully complete its BTOP award.

- **Organizational Capacity:** NTIA notes that Buggs Island has lost the services of two key BTOP project personnel – Zeb Elliot, CTO and Sarah Thrift, CFO – who have not been replaced. Employing experienced, professional individuals in each of these roles is critical to the successful implementation of the project and to the necessary assurance of grant compliance. Based on weekly calls with NTIA and all involved parties, NTIA has also concluded that the project suffers from ongoing communications issues and a lack of clear accountability and responsibility between Buggs Island and Airspan. Although Buggs Island writes in its 3Q12 PPR that “the equipment vendor has requested additional time for testing and optimization of the network,” Airspan cannot test or optimize the network without the active cooperation and participation of Buggs Island wireless. This breakdown in cooperation to accomplish project goals is of great concern to NTIA.

RESULT: Due to material noncompliance with the terms and conditions of your award, NOAA is suspending your award, effective immediately, and may terminate your organization’s award 60 days from the date of this letter due to recurring and ongoing matters of material noncompliance with the terms and conditions of the award, unless Buggs Island provides a CAP response that comprehensively addresses all of NOAA’s and NTIA’s concerns noted below. *See* 15 C.F.R. § 14.62(a)(3).

The suspension requires you to cease all project deployment work immediately. Effective the date of the suspension, NOAA authorizes you to incur the following costs on an agency review basis only:

- Reasonable costs required to respond to specific requests for information from NOAA and NTIA;
- Reasonable costs associated with responding to the CAP detailed below;
- Reasonable costs to comply with the reporting requirements of the grant;
- Reasonable costs necessary to secure any grant-funded property;
- Reasonable costs necessary to ensure the safety and security of the work sites; and
- Reasonable costs necessary to safely halt any construction that may have begun.

Other costs incurred while your award is suspended are allowable only under the conditions specified in 15 C.F.R. § 14.62(c).

While your award is suspended, NOAA will not process any pending or future requests for reimbursement except for the costs that are allowed pursuant to this letter. In the case of delinquent financial or progress reports, a debt will be established representing the amount drawn down during the period covered by the report.

REQUIRED CORRECTIVE ACTION: Buggs Island must submit a detailed description of its plan to come back into compliance with the terms and conditions of its award and to implement its project within its remaining award term. Upon receipt of these items, NTIA will evaluate the sufficiency of Buggs Island's response with respect to fulfilling the requirements of its award terms and conditions. The CAP below requests that Buggs Island produce evidence and/or certification of having completed the following activities:

1. Successful operationalization of the MBC backhaul network at the six 3.65 tower sites by **January 15, 2013**;
2. Completion of the drive test of Buggs Islands's existing 3.65 GHz network by **January 15, 2013**;
3. Completion of a technical plan for operationalizing and/or expanding Buggs Island's 3.65 network to relevant populations within the 15 county area, including estimated costs, geographic coverage, and timeline, by **January 31, 2013**;
4. Completion of a sales and marketing plan and revenue forecast by **January 31, 2013** to enable the marketing launch of 3.65 GHz services in the relevant areas by **March 31, 2013**;
5. Completion of a technical plan for testing and operationalizing Buggs Island's 700 MHz network, including estimated costs, geographic coverage, and timeline by **January 31, 2013**;
6. Completion of a sales and marketing plan and revenue forecast by January 31, 2013 to enable the marketing launch of 700 MHz services in the relevant areas within the project period, not to exceed **September 30, 2013**; and
7. Submitting an interference complaint to the FCC no later than **January 11, 2013** to trigger an investigation that may lead to guidance as to additional ways to mitigate interference.

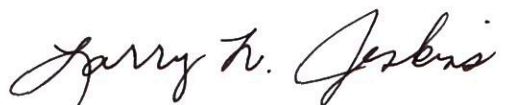
In addition, NTIA requests the following information from Buggs Island by **January 31, 2013**:

8. Buggs Island's current year budget and actuals by month;
9. A complete accounting of BIT's sources and uses of funds for its existing business as well as for its BTOP funded project;
10. An organizational chart and staffing plan for completing the BTOP funded project to include all key personnel from Buggs Island, Buggs Island's consultants, and Airspan. This must show roles, names of position holder, responsibilities, and including in particular the roles of project manager, build manger, CTO, and CFO. Resumes for all named personnel must be included with relevant experience in building, managing, and operating telecommunications networks, especially wireless networks, noted.

NTIA anticipates that Buggs Island will work closely with Airspan in meeting these requirements. Addressing these issues comprehensively is essential to ensuring that Buggs Island's BTOP-funded project is compliant with award terms and conditions. Failure to provide a sufficient and adequate response to the CAP may result in additional enforcement action, including termination of the award.

Please provide this information no later than the dates noted above, and contact Barbara Brown at (202) 482-4374 or bbrown@ntia.doc.gov, should you require further details about this request.

Sincerely,

A handwritten signature in cursive script that reads "Larry H. Jenkins".

Larry Jenkins, BTOP Grants Officer
NOAA Grants Management Division

cc: William Ball, NOAA
Barbara Brown, NTIA
Alan Conway, NOAA
Laura Dodson, NTIA
Aimee Meacham, NTIA
Arlene Simpson Porter, NOAA
Craig Reid, NOAA
Anthony Wilhelm, Ph.D., NTIA
Scott Woods, NTIA