



RURAL TELEPHONE SERVICE CO., INC.

Your One-Stop Communications, Information and Entertainment Source

June 29, 2007

Ms. Michele Brooks, Acting Director
Program Development and Regulatory Analysis
USDA Rural Development
1400 Independence Ave., STOP 1522, Room 5159
Washington, DC 20250-1522

RE: Rural Broadband Access Loans and Loan Guarantees
Docket No. RUS-06-Agency-0052

Dear Ms. Brooks:

Rural Telephone Service Company, Inc. (RTSC) would like to thank you for the opportunity to provide comments on the proposed new rules for the Rural Broadband Access Loan and Loan Guarantee Program. We agree the future success of rural America is tied to the telecommunications infrastructure. Deploying universal broadband service helps us, as a country, maintain a competitive edge, create economic opportunity for all Americans and keep the economy moving.

RTSC has utilized the USDA's Rural Utilities Service (RUS) loan programs to provide broadband services in rural north central and northwest Kansas. As an incumbent local exchange carrier (ILEC), RTSC provides the highest quality telecommunication services possible, at affordable rates, to 39 exchanges with nearly 15,000 access lines. Plus, through its competitive eligible telecommunications carrier (CETC) subsidiary, Nex-Tech, Inc., RTSC provides high-quality, innovative telecommunication services to over 15,000 access lines located in historically underserved rural areas.

Nex-Tech currently offers broadband services in over fifty communities, with populations ranging from Almena (population 454) to Norton (population 2,806) to Hays (population 19,632). The RUS Broadband Loan Program has been instrumental in attaining the funding necessary to provide broadband services to underserved rural areas. To date, Nex-Tech has received five broadband loans for nine underserved rural communities. The total population covered in these nine communities is only 15,466. Plus, we are in the preliminary stages for a sixth loan, which will allow us to bring quality broadband services to one additional underserved rural community.

There is no question that the RUS Broadband Loan Program is working well. Following are two examples in which Nex-Tech utilized the RUS Broadband Loan Program with fantastic results:

1. Nex-Tech began offering local telephone service, broadband Internet, cable television and other advanced services in Norton, Kansas, (population 2,806) in 2001. The incumbent provider, Southwestern Bell (now AT&T), did not offer broadband services to this community until 2004.

Prior to Nex-Tech, the only option for broadband service in Norton was through a cable provider whose service was inadequate at best. Nex-Tech has achieved a penetration rate of over 90 percent for local telephone service and a broadband penetration rate of 55.6 percent. Furthermore, Nex-Tech overbuilt Norton with a fiber-to-the-premise (F-T-T-P) solution that community leaders believe has leveled the competitive playing field between Norton and other urban communities.

2. Nex-Tech began offering local telephone service, broadband Internet, cable television and other advanced services in Phillipsburg, Kansas, (population 2,432) in 2004. At that time, there were two broadband providers in the community—the cable company and another company using unlicensed wireless technology. The broadband service was inadequate, and the community was not happy with either provider, due to substandard service speed and quality. Nex-Tech has achieved a penetration rate of over 75 percent for local telephone service and a broadband penetration rate of 52.3 percent. The RUS Broadband Loan Program has brought necessary broadband competition to rural communities. With competition in the marketplace, broadband service levels increase and pricing remains affordable for the consumers.

The RUS Broadband Loan Program has allowed Nex-Tech to invest over \$20,000,000 in telecommunications infrastructure in underserved rural areas. This investment is further enhanced by Nex-Tech's employment of over 120 Kansans and payment of property taxes supporting local services and schools. The RUS Broadband Loan Program will allow Nex-Tech to make additional future investments and continue its employment growth in rural Kansas.

The proposed new rules present a number of positive initiatives. Nex-Tech strongly supports the proposed changes to "funding in competitive markets and new eligibility requirements" because, as a borrower, we have struggled with the financial feasibility of successfully deploying a broadband system in low population density areas. Additionally, many of the low population density areas qualify as "underserved" due to outdated facilities and non-competitive services. We feel the proposed new rule on "funding in competitive markets and new eligibility requirements" offers a great solution to these issues. The proposed changes to this rule will have a dramatic impact on our ability, as a company, to serve both the unserved and underserved rural areas. Additionally, we support the proposed new rules to give the Administrator the ability to waive certain requirements on a case-by-case basis.

While the proposed new rules provide a great basis for positive change to the broadband loan program, there are other areas that also warrant consideration. We respectfully request your consideration of the following:

Audit Requirements – If RUS has a mortgage or lien on an organization, and its wholly owned subsidiary is receiving a broadband loan, certain requirements should be waived. For example, the parent company submits a consolidated audit report to RUS which includes its subsidiary operation. There appears to be no purpose for a separate audit covering the subsidiary operation as a separate entity. This drives up the cost of the subsidiary to do business.

Loan Processing Time – A loan application should be processed within 180 days from the time it is received. The applicant can then be notified if the loan is feasible and, if feasible, spell out the loan requirements to such applicant.

Franchise Agreements – The broadband loan application requires the submission of franchise agreements from all communities within the organization, even if many of the communities are not involved in the broadband loan. RUS should consider only asking for franchise agreements involving the affected communities. Securing the franchise agreement should be tied to the release of funds as a condition to release instead of the loan application phase. If a loan is not made, there would be no need to secure a franchise agreement.

Build-out Requirement – RUS should establish a three-year broadband build-out requirement for the proposed service area to ensure the funds are being used to facilitate the acquisition, construction and/or upgrade of a broadband infrastructure and to ensure services are deployed in a timely manner. RUS should also establish a new start date for all prior loans and require a three-year build-out for those loans as well. This will ensure applicants are no longer allowed to sit on loan funds for future use.

Minimum Broadband Speed – RUS should consider establishing a requirement to provide a broadband platform that supports a minimum of one (1) Mbps service. Other technologies, such as licensed and unlicensed wireless, that provide lower broadband speeds can be deployed initially until the three-year build-out requirement period ends.

Community Surveys – Community surveys are required as part of the loan application package. Because the loan process requires the surveys to be conducted within 12 months of the application, and some loans are not approved for one to three years, it is extremely difficult and costly to maintain accurate survey information. In addition, the community surveys can leave a negative impression within the communities surveyed because there is excitement about the potential for new services and a sometimes lengthy delay before the loan is approved and services can actually be implemented. The required market analysis should serve the same purpose.

Security Requirements – A broadband security instrument is filed on all assets of the company receiving the loan regardless of company size, complexity or other business interests. The company and RUS would be better served if the RUS lien was restricted to the property and communities served by the broadband loan. This would allow the company to efficiently proceed with its business plans in areas not served by the broadband loan, without the time-consuming requirement of gaining RUS approval for issues that don't involve the communities served by the loan.

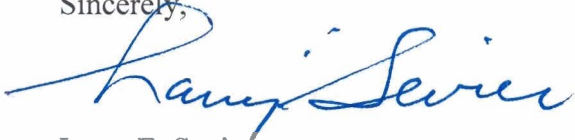
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Non-Duplication Requirement – End user rate affordability for broadband service (monthly recurring service and non-recurring installation rates) should be monitored and used as criteria for waiving the non-duplication requirement. Multiple providers of broadband service in the marketplace can provide for a competitive pricing environment. The Administrator should also have the waiver authority to provide for duplication of broadband service loans if the build-out, service level and affordability requirements are not achieved.

Priority in Loan Processing – Consideration should be given to priority recognition for applicants who are building a fiber-to-the-premise system, as it will have the capability of providing distance learning, telemedicine imaging and other video bandwidth scale applications.

We look forward to working with you to meet the future financing needs required to bring affordable, advanced telecom services to all consumers in rural America. Please contact me if you have any questions.

Sincerely,

A handwritten signature in blue ink that reads "Larry E. Sevier". The signature is fluid and cursive, with the first name "Larry" and last name "Sevier" clearly legible.

Larry E. Sevier
CEO/General Manager

LES/vkr