

RAINIERconnect

2516 Holgate St | Tacoma, WA 98402 | www.rainierconnect.com

April 22, 2015

Mr. William A. Gaines
Director and CEO
Tacoma Public Utilities
3628 South 35th Street
Tacoma, WA 98409

Subject: Proposed Partnership to Deliver Internet, Phone and
Cable TV Services to Tacoma Public Utilities Customers

Mr. Gaines:

With this letter, Rainier Connect formally expresses our intent to partner with the City of Tacoma ("City") Department of Public Utilities ("Tacoma Public Utilities"). Rainier Connect, a fifth-generation local telecommunications company, proposes that it operate the Click! Network in a transaction that would yield savings for Tacoma ratepayers and result in more competitively priced and robust services for customers.

Rainier Connect proposes that it enter into an exclusive indefeasible right to use ("IRU") with Tacoma Public Utilities and operate the hybrid fiber coaxial system known as Click! Network ("Click!") that provides wholesale and retail cable TV and broadband products and services to residents and businesses in Tacoma and other jurisdictions where it has a franchise to operate. Rainier Connect would provide enhanced wholesale and retail cable TV and broadband products and services, as well as telephone services, to customers served by the Click! system. In consideration of the IRU, Rainier Connect would commit to a minimum annual capital expenditure of \$1.5 million to maintain and upgrade Click! infrastructure, as well as to an annual lease (IRU) payment of \$2 million to Tacoma Public Utilities for each of the next 20 to 40 years, pending further negotiation and based on what is best for Tacoma Public Utilities and ratepayers. Rainier Connect will honor Click!'s existing cable TV service plans and pricing for 2 years (subject to pass-throughs of programming rate increases Rainier Connect incurs from programming vendors capped at not more than 5% of current rates per year).

You know Rainier Connect well as one of Click!'s largest customers, offering Ethernet, broadband and digital phone services over the network since March 12, 2001, for the Master Service Agreement and March 25, 2008, under the ISP Advantage Agreement. In addition, Rainier Connect serves outlying markets from Eatonville to Centralia providing state-of-the-art cable TV, telephone and Internet service, including gigabit service, over our own fiber optic network. Rainier Connect has built and continues to own and operate the most technologically advanced telecommunications network in Pierce County. In addition, it has a \$20-million infrastructure improvement project currently underway in Pierce County.

A long-time member and leader of the National Cable Telecommunications Cooperative, Rainier Connect purchases cable television content at the same negotiated rate per member as Click! and Wave Broadband.

Operating from offices in downtown Tacoma, Rainier Connect is proudly local, independent and deeply rooted in the communities it serves. Rainier Connect owners and team members have lived and worked in these same communities for the past 100 years. They are dedicated to improving the quality of life for everyone in the Puget Sound region. Rainier Connect advocates for youth education and community development, encouraging and supporting employees and organizations who give back. Rainier Connect supports dozens of local groups that make our community a better place. In 2014, the firm supported nonprofits ranging from Junior Achievement to the Tacoma Historical Society to the Emergency Food Network, and funded scholarships for students who may not otherwise have continued their education.

Key terms of the proposed transaction include:

- Tacoma Public Utilities would retain title to the system. At the end of the term of the agreement, Tacoma Public Utilities would regain full control of the upgraded and improved system.
- Rainier Connect would maintain the whole system including fibers retained by Tacoma Power for utility operations.
- Rainier Connect would commit to maintaining local ownership with no change of control outside the family for at least 10 years.
- Rainier Connect would commit to uphold the key principles of "net neutrality."
- Rainier Connect currently provides and would continue to offer voice-over-Internet protocol telephone services on the system and would add bundled phone-Internet-cable TV packages to customers.
- Rainier Connect would assume and maintain the current arrangement for an institutional network for the City of Tacoma, and would continue Click!'s franchise agreements to serve the same communities that are served today.
- Rainier Connect would continue current wholesale master services agreements for IP transport and for third-party commercial and retail sale of Internet access services.
- Rainier Connect would commit to an open access network with wholesale pricing on transparent and non-discriminatory terms.
- Rainier Connect would add at least 60 new jobs in Tacoma.
- Rainier Connect would make a sincere effort to interview and hire all current employees of Click! who express an interest in potential employment.
- Rainier Connect would commit to a 90% one-call resolution standard for all Rainier Connect customers.
- Rainier Connect would commit to a 90% same-day on-site response when on-site response is needed.

- Rainier Connect would contribute \$500,000 annually to fund Family Connect, a new partnership with Tacoma Public Schools ("TPS") to provide free home access to the TPS guest Internet network for the more than 20,000 students and their families who are eligible for free and reduced-price lunch. Rainier Connect would also create a program to provide devices to students who need them.

Please see Attachment A for a more complete discussion of key terms.

This good-faith letter of intent is nonbinding. A final agreement is subject to negotiation of terms acceptable to both parties and approval by local government authorities.

Rainier Connect recognizes the compelling community interest in the future of Click! and welcomes the opportunity to present our proposal in public forums to contribute to reaching a final agreement that serves residents and businesses.

Rainier Connect is local, proven and committed. We look forward to partnering with you.

Sincerely,



Brian Haynes
Chief Executive Officer

Attachments: A – Non-Binding Term Sheet for Proposed Transaction
B – About Rainier Connect

Agreed and accepted this ____ day of 2015.

Tacoma Public Utilities

By:

Name:

Title:

ATTACHMENT A NON-BINDING TERM SHEET FOR PROPOSED TRANSACTION

1. Definitive Agreements for the IRU and the Purchase of the Related Assets. Rainier Connect would obtain an indefeasible right to use and operate (the "IRU") the hybrid fiber coaxial system that today Click! uses to provide wholesale and retail cable TV, telecommunications and broadband products and services to residents and businesses in the City of Tacoma and in the other jurisdictions in which Click! is franchised to operate, and a non-exclusive right to use any associated rights that are owned or controlled by Tacoma Power or Tacoma Public Utilities for current and future use for the same purpose (collectively the "System") for a term of between 20 and 40 years (the "Term"), pending further negotiation and based on what is best for Tacoma Public Utilities and its ratepayers. Conditioned on Rainier Connect maintaining compliance with the terms of the IRU, on the expiration of the Term, Rainier Connect shall have an option to renew the IRU for an additional period of 10 years (the "Extended Term").

The System would not include: (i) fibers currently used by Tacoma Public Utilities for its utility operations, and (ii) fibers currently used for the City Institutional Network pursuant to Click!'s Institutional Network Services Agreement with the City (collectively the "Excluded Fibers").

Rainier Connect would acquire all other assets necessary or convenient to the provision of the products and services listed above, including, without limitation, all customer accounts, deposits, accounts receivable, vehicles, inventory of spare parts and equipment, spare cables, if any, credits, prepaid expenses, deferred charges, advance payments, prepaid items and the like, and material contracts, in each case related to the operation of the System and the provision of products and services (collectively, the "Related Assets") in accordance with the terms of an asset purchase agreement ("APA"). The Related Assets would not include the equipment comprising the current System headend, receivers, satellite dishes, and other personal property ("Excluded Assets").

The parties contemplate the APA and the IRU would be fully negotiated and executed by Rainier Connect following mutual execution of this letter of intent, with effectiveness subject to completion of disclosure schedules and due diligence satisfactory to Rainier Connect. The APA and IRU would be executed by Tacoma Public Utilities only upon obtaining required approvals for the definitive agreements by the City of Tacoma Public Utilities Board and by the Tacoma City Council.

At the closing of the proposed transaction, the Related Assets would be conveyed to Rainier Connect, and Rainier Connect would assume such liabilities related to the System and Related Assets as have been mutually agreed. During the six-month post-closing transition period, Rainier Connect would compensate Tacoma Public Utilities for any transition services, ongoing back-office support or other arrangements necessary to facilitate the continued operation of Click!'s business and the transfer of operations to Rainier Connect.

2. Financial Consideration. The consideration payable for the APA and for the IRU would include the following:

- Approximately \$1 million in cash (depending on the quantity and value of the Related Assets at

closing) for the Related Assets, to be paid monthly in the 12 months following the proposed transaction;

- \$2 million in cash annually paid quarterly during the first year of the IRU Term;
- \$2 million in cash annually to be paid quarterly for each subsequent year of the Term and Extended Term, if applicable (such amount would be adjusted annually for any increase in the CPI beginning with year two of the IRU Term and such CPI-based increases will continue during the Extended Term);
- \$1.5 million Capital Expenditures Commitment each year during the IRU Term and the Extended IRU Term, if applicable (such amount would be adjusted annually for any increase in the CPI beginning with year two of the IRU Term and such CPI-based increases will continue during the Extended Term), as further described in Section 3 below;
- \$500,000 annually to fund Family Connect, a new partnership with Tacoma Public Schools ("TPS") to provide free home access to the TPS guest Internet network for the more than 20,000 students and their families who are eligible for free and reduced-price lunch. Rainier Connect would also create a program to provide devices to students who need them;
- Meeting the standard of 90% one-call resolution for all Rainier Connect customers;
- Meeting the standard of 90% same-day on-site response when on-site response is necessary; and
- Maintenance Commitment described in Section 4 below.

3. Capital Expenditures Commitment. Rainier Connect would immediately begin investing the capital needed to accomplish System upgrades and improvements, including the interconnection to Rainier Connect's backbone network, necessary to offer on the System all products and services currently offered by Rainier Connect in its surrounding markets. Rainier Connect's residential/business products and services in Pierce and Lewis counties have the ability to offer all the same channels as any service that is based on National Cable Telecommunications Cooperative (NCTC) membership and at the same rates, since per-subscriber costs are equal and negotiated on behalf of every member of NCTC. Rainier Connect currently provides Internet access with services up to 1 gbps, and telephone service in rural Pierce County and commits to adding this upgrade to the Tacoma service area.

Rainier Connect would begin efforts to extend its gigabit service into commercial and residential buildings during the post-closing transition period and continue the roll out on an expedited basis. In addition, during the IRU Term, Rainier Connect would make continuous financial investments in the System to maintain a state-of-the-art distribution network carrying all products and services, and with service quality standards, commensurate with Click!'s current network facilities. All responsibility for the capital expenditures for the provision of the products and services to subscribers on the System would be borne by Rainier Connect during the IRU Term.

In support of System upgrades and other operations-related improvements, Rainier Connect would commit to make a minimum of \$1.5 million in annual capital expenditures on the physical assets of the System during the IRU Term (such amount would be adjusted annually for any increase in the CPI beginning with year two of the IRU Term and such CPI-based increases will continue during the Extended IRU Term) ("Capital Expenditures Commitment"). Capital expenditures on the physical assets

of the System would include, but not necessarily be limited to, expenditures on fiber-to-the-home (FTTH), node splits, technical upgrades and expansions of the System to serve new subdivisions, multi-dwelling-units complexes, commercial complexes, and future franchise areas, investments to maintain the System's MEF Certifications, public WiFi hotspots, small cells, and core routers (CMTS).

These improvements would be physical assets of the System and owned by Tacoma Public Utilities subject to Rainier Connect's IRU. Expenditures on physical assets that do not become part of the System (such as customer premises equipment (CPE), cloud-based services, web-based services, or a soft switch located elsewhere) would not be credited toward the Capital Expenditures Commitment. Compliance with the Capital Expenditures Commitment would be measured annually and tracked on a cumulative basis.

Rainier Connect would describe the capital expenditures actually made in each year of the IRU in an annual report to Tacoma Public Utilities. If Rainier Connect exceeds its Capital Expenditures Commitment in a given year, Rainier Connect would get credit against the Capital Expenditures Commitment for future years for those expenditures in excess of its annual commitment. If Rainier Connect does not meet its Capital Expenditures Commitment in a given year through current-year expenditures, credits from prior years or a combination thereof, Rainier Connect would meet its Capital Expenditures Commitment for that year by remitting the shortfall in cash to Tacoma Public Utilities at the same time as Rainier Connect remits its next installment of its annual cash payment for the IRU. Tacoma Public Utilities would have the right to audit these expenditures.

4. Maintenance Commitment. All of the operating expenses of the operation of the System, including the payment of franchise fees to the franchisors, and the provision of the products and services to System subscribers would be borne by Rainier Connect during the IRU Term (except electrical power provided by Tacoma Power and consumed in the operation of the System the cost of which is included in the annual IRU payment). Rainier Connect would be responsible for maintaining the System and Excluded Fibers located in the same cable bundle as System fibers in accordance with a mutually acceptable Service Level Agreement. Rainier Connect would assume and perform a maintenance and support agreement for the approximate 18,000 wired gateway meters utilized by Tacoma Public Utilities to collect electric service usage data via the System until a substitute meter reading network is deployed by Tacoma Public Utilities.

5. Employees. As part of hiring at least 60 new employees, Rainier Connect would make a sincere effort to interview and hire current employees of Click! who express an interest in potential employment. The employees would work in the local downtown Tacoma office, which Rainier Connect already has established. Rainier Connect would anticipate making offers of employment prior to the closing to those employees who have the required skill sets and who meet Rainier Connect's hiring criteria. The terms and conditions of employment would be established by Rainier Connect.

6. Existing Cable TV, Internet Services and Rates. Rainier Connect would commit to maintain Click!'s current cable TV service packages on a grandfathered basis for two years, including maintaining Click!'s channel line-up and current rates for a period of two years (subject to pass-throughs of programming rate increases Rainier Connect incurs from programming vendors capped at not more than 5% of current rates per year). Rainier Connect will establish low-income rates consistent with those currently offered by Click!

7. Franchise Agreements and Institutional Network Services Agreement. Rainier Connect acknowledges that the System currently serves businesses and residents pursuant to the Cable Agreement between Click! and the City dated December 21, 2009, and the franchise agreements between Click! and each of the City of Fife, the City of Fircrest, the City of Lakewood, the City of

University Place and Pierce County (collectively, "Franchise Agreements"). Prior to the closing of the proposed transaction, Rainier Connect would either obtain approval to assume each of these Franchise Agreements or enter into its own franchise agreements to serve these jurisdictions.

Rainier Connect also would commit to assume and maintain in effect the current arrangement for an Institutional Network pursuant to the Cable Agreement and the Institutional Network Services Agreement between the City and Click! dated December 21, 2009.

8. Net Neutrality, Open Access and Assignment of ISP Advantage Agreements, Master Services Agreements, and Master Communications Services Agreements. Rainier Connect would commit to uphold the key principles of "net neutrality" which includes transparency, no blocking, no throttling, no paid prioritization, and no unreasonable interference with access to or distribution of content. Rainier Connect would also commit to promote competition with open wholesale access to network infrastructure at fair and reasonable prices, and on transparent and non-discriminatory terms as an open access network, and to assume and maintain in effect the current wholesale master services agreements for fiber transport and for third-party commercial and retail sale of Internet access services, which Rainier Connect currently participates in.

9. Programming Contracts. Rainier Connect would operate the System under its existing (and future) retransmission consent agreements, cable programming carriage agreements and other agreements necessary or convenient to the operation of the System and provision of products and services. Rainier Connect is familiar with Click!'s current channel line-up and would not assume Click!'s retransmission consent agreements and programming carriage agreements to the extent that Rainier Connect already carries the same programming under its existing contracts.

10. Additional Capacity for Tacoma Public Utilities. As part of the consideration for the IRU, and at no cost to Tacoma Public Utilities, Rainier Connect will, throughout the IRU Term and the Extended Term, provision services in the System as required by Tacoma Public Utilities to meet its operational needs. These services would be provisioned in accordance with operational, security and regulatory compliance requirements specified by Tacoma Public Utilities and as allowed by the unused capacity of the System.

Further, should Tacoma Public Utilities determine that it requires dark fiber to meet specific operational needs, it would have the right to re-designate unused dark fibers on the System as Excluded Fibers, subject to prior notification of Rainier Connect as to the quantity and routes, and confirmation by Rainier Connect that the Fibers are not required by the System. If inadequate numbers of unused dark fibers are available to meet Tacoma Public Utilities request, Rainier Connect would work in good faith with Tacoma Public Utilities to develop an acceptable alternate solution.

11. Existing System Nodes and Equipment Space in the Existing Headend Building. As part of the IRU, Tacoma Power would allow Rainier Connect to maintain the existing System nodes at their present locations during the IRU Term (including any Extended Term). Rainier Connect would interconnect its fiber optic backbone to the System at the System's current headend location, thus converting the headend to a node. Tacoma Power would provide Rainier Connect with colocation space for such interconnection and for Rainier Connect related equipment as part of the IRU during the IRU Term (and any Extended Term).

12. Maintaining Family Control. Rainier Connect will commit to not allowing a change in control of Rainier Connect outside of the current family ownership for at least ten years.

13. Closing Conditions. Closing of the proposed transaction would be conditioned, among other typical

conditions, on regulatory consents and approvals and any third-party consents relating to designated material contracts to be assumed by Rainier Connect (including, but not limited, to the agreements described in Section 7).

ATTACHMENT B ABOUT RAINIER CONNECT

Rainier Connect is unusual in the telecommunications industry. Unlike many others in the industry, it has a rich history deeply rooted in its local connections and family values.

Rainier Connect was started in 1910 and, before the Christensen family took it over in 1912, it was struggling. Under the Christensen family (who became the Haynes), the company expanded its services in Eatonville, Washington, and its surrounding areas, and in 1919 celebrated this growth by changing the company's name to Mashell Telephone and Telegraph, named after the nearby Mashell River.

The company's growth continued and on June 1, 1954, the company converted to dial tone and decided to change its name to Mashell Telephone. During his 36 years as president, Arne Haynes was credited with steering one of the first telephone companies in Washington to digital switching and expanding its services to support more than 1,800 customers. In the 1990s Mashell Telephone changed its name to Mashell Telecom and adopted the d/b/a of Rainier Connect.

Rainier Connect supported federal legislation that would make the telecommunications industry more competitive. Anticipating the Telecommunications Act's passing in 1996, which would allow communications companies to compete in any market against any company, Rainier Connect diversified. The company invested \$26 million in modernizing and expanding infrastructure, including the construction of new facilities, built with the customers' evolving needs in mind. The facilities which are located in rural Pierce County provide the company and its customers state-of-the-art technology without relying on other companies to provide service.

Rainier Connect began offering Internet service in 1995 and added cable TV service in 1996.

The advancements of the company and its leadership were recognized by the industry, when in 2001 the US Telecom Association (USTA) elected Skip Haynes as the chairman of the board. Haynes served as chairman for one year, and remained on USTA's board for several years, leading the trade association of more than 1,000 small, mid-size and large telecom providers (including Verizon and AT&T).

During his tenure at USTA, Skip chaired committees to elect a new CEO and to develop a new business plan for the organization. As chairman, he led the complete revamping of the association, allowing it to become the foremost telecom association in the United States.

Since 1998, the company has been aggressively adding to its range of services and the markets it serves. In 2001, the company acquired Local Access Communications, an Internet provider in Centralia and Chehalis. The company constructed fiber optic lines through the business corridor of those cities and entered into direct competition with Qwest for business telecommunication services. Today, Rainier Connect is the leading provider of fiber services in the business corridors of Centralia and Chehalis.

In 2001, the company expanded into downtown Tacoma, partnering with Tacoma Power's Click! Network to provide telephone services and Internet access to the city's commercial market, and in 2008 added broadband services and residential customers.

The company currently has a \$20-million infrastructure improvement project underway in Pierce County.

Rainier Connect was the first company in Washington to provide cable television, local phone and high-speed Internet services to residential areas (Graham and South Hill) over its own facilities. Many competitors simply re-branded Qwest facilities and called themselves something new. This focus on using its own facilities gave Rainier Connect total control over quality of service, installation/repair times and the ability to meet standards of 90% one-call resolution and same-day on-site repair.