TO: HONORABLE CITY COUNCIL

FROM: CITY MANAGER

DEPARTMENT: UTILITIES

DATE: SEPTEMBER 18, 2006

CMR:362:06

SUBJECT: UTILITIES ADVISORY COMMISSION RECOMMENDATION TO APPROVE A RESOLUTION FOR THE PROPOSED NEW COMMERCIAL FIBER OPTIC RATES

RECOMMENDATION

Staff and the Utilities Advisory Commission (UAC) recommend that the City Council adopt the attached resolution to increase commercial fiber optic revenue by approximately $324,000, and associated rate schedule changes effective September 18, 2006.

BACKGROUND

The Utilities Department currently provides commercial fiber optic services within the boundaries of Palo Alto under the provisions of the Dark Fiber Licensing Agreement and the EDF-1 and EDF-2 rate schedules. Fiber optic service is currently recovering ongoing operating costs through the EDF-1 Rate Schedule, with EDF-2 recovering engineering and construction costs. A cost of service study was completed in FY 2005-06, and recommended the design and implementation of a rate schedule based on the fully-recovered revenue requirement needed to recoup all the operating costs required to provide fiber optic service which were not being met.

The proposed EDF-1 schedule to recover operating costs will continue to apply to existing dark fiber licenses until those licenses expire, but will now be closed to new customers. The proposed EDF-2 schedule, which applies to customer engineering, construction and connection expenses, will continue to apply to all new customers. Both rate schedules will continue to be subject to annual CPI increases. The proposed new EDF-3 schedule: 1) accomplishes the objective of full recovery of the revenue requirement for commercial fiber optic service, and 2) reduces commercial fiber optic pricing and billing complexity by changing fiber optic service from a customer lease basis to a new monthly customer billing methodology.
RESOURCE IMPACT
The total increase in fiber optic revenue is projected to be approximately $324,000 for FY 2006-07 from the combination of wholesale, commercial, and municipal customers. The FY 2005-06 cost to the City’s General Fund for Commercial Fiber Optic service was approximately $58,000. The City’s projected FY 2006-07 expenses using the proposed EDF-3 rate schedule will increase by approximately $111,000 to $169,000.

BOARD/COMMISSION REVIEW AND RECOMMENDATIONS
The UAC reviewed this recommendation and approved it unanimously at the August 2, 2006 meeting. This recommendation is consistent with the Council-approved Utilities Strategic Plan to provide superior financial performance to the City and invest in utilities infrastructure to deliver reliable service.

ENVIRONMENTAL REVIEW
The adoption of the resolution does not constitute a project under the California Environmental Air Quality Act; therefore, no environmental assessment is required.

ATTACHMENTS
A. Resolution
B. Fiber Optic Rate schedules EDF-1, EDF-2, and EDF-3
C. Utilities Advisory Commission report dated August 2, 2006
D. Minutes of the UAC meeting of August 2, 2006

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