TO: HONORABLE CITY COUNCIL

FROM: CITY MANAGER DEPARTMENT: UTILITIES

ATTENTION: FINANCE COMMITTEE

DATE: JUNE 17, 2008 CMR: 283:08

SUBJECT: RECOMMENDATION TO ADOPT A RESOLUTION AMENDING UTILITY RATE SCHEDULES EDF-1 AND EDF-2 OF THE CITY OF PALO ALTO RATES AND CHARGES PERTAINING TO FIBER OPTIC RATES

RECOMMENDATION
Staff recommends that the Finance Committee recommend that the City Council adopt the attached resolution to:

(a) Approve a 3.3 percent increase to commercial fiber optic rates EDF-1 and EDF-2, for Fiscal Year (FY) 2008-09, effective July 1, 2008, which will increase annual revenues by $48,500; and,

(b) Approve the changes to the Fiber Optic Rate Schedules (EDF-1 and EDF-2), as attached.

BACKGROUND
The Utilities Department provides commercial dark fiber optic services within the boundaries of Palo Alto. For customers having fiber optic leases beginning prior to September 18, 2006, rates for service are published in Dark Fiber Licensing Services Rate Schedule EDF-1. Customer expenses for engineering, construction and connection to the fiber optic backbone are charged under Dark Fiber Licensing Services Rate Schedule EDF-2. The Council-approved Dark Fiber Licensing Agreement (CMR 177:97) allows the commercial fiber optic fees charged under the EDF-1 and EDF-2 rate schedules to be adjusted annually in accordance with the Consumer Price Index (CPI), which is calculated by the United States Bureau of Labor Statistics.
DISCUSSION
For 2008, the CPI adjustment factor results in a 3.3 percent increase to the EDF-1 and EDF-2 rate schedules. Table 1 below outlines the adjustments proposed to the EDF-1 and EDF-2 Commercial Fiber Optic rates:

TABLE 1 – Proposed Rate Increases

<table>
<thead>
<tr>
<th>Rate Description</th>
<th>Current Rates</th>
<th>Proposed Rates *</th>
<th>$ Difference</th>
<th>% Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiber Price</td>
<td>$281.00</td>
<td>$290.20</td>
<td>$9.20</td>
<td>3.3</td>
</tr>
<tr>
<td>Quantity discount</td>
<td>56.18</td>
<td>58.04</td>
<td>1.86</td>
<td>3.3</td>
</tr>
<tr>
<td>Buffer tube discount</td>
<td>56.18</td>
<td>58.04</td>
<td>1.86</td>
<td>3.3</td>
</tr>
<tr>
<td>Route length discount</td>
<td>73.04</td>
<td>75.45</td>
<td>2.41</td>
<td>3.3</td>
</tr>
<tr>
<td>Ring topology discount</td>
<td>22.45</td>
<td>23.20</td>
<td>0.75</td>
<td>3.3</td>
</tr>
<tr>
<td>Length of term discount</td>
<td>43.95</td>
<td>45.39</td>
<td>1.44</td>
<td>3.3</td>
</tr>
<tr>
<td>EDF-1 (Section C-2): Dark Fiber Lateral Connection Fees (ft/month)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Drop Cable Mgmt. Fees</td>
<td>$0.01-$0.05</td>
<td>0.02-0.05</td>
<td>0.01-0.00**</td>
<td>3.3</td>
</tr>
<tr>
<td>Custom Cable Mgmt Fees</td>
<td>0.27</td>
<td>0.28</td>
<td>0.01</td>
<td>3.3</td>
</tr>
<tr>
<td>Fees for additional fiber</td>
<td>0.05</td>
<td>0.05</td>
<td>0.00 **</td>
<td>3.3</td>
</tr>
<tr>
<td>EDF-2 (Section C-1): Advance Engineering Fees (AER)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial/Industrial AER min. fee</td>
<td>$671</td>
<td>$693</td>
<td>$22</td>
<td>3.3</td>
</tr>
</tbody>
</table>

* Calculations have been rounded to the nearest cent.
** The proposed rate matches existing rates when rounded.

RESOURCE IMPACT
The additional Commercial Fiber Optic revenues resulting from the CPI increase to Dark Fiber Licensing Services Rate Schedule EDF-1 are projected to be approximately $48,500 for FY 2008-09. As the Dark Fiber Licensing Services Rate Schedule EDF-2 applies to customer-driven expansions and upgrades to the City’s Dark Fiber network, and the fee represents the minimum fee, the increase in projected revenue due to this rate increase is negligible and impossible to predict.

POLICY IMPLICATIONS
These recommendations do not represent a change in current City policies.

ENVIRONMENTAL REVIEW
The adoption of this resolution does not meet the California Environmental Quality Act’s definition of a project, pursuant to California Public Resources Code Section 21065, therefore no environmental assessment is required.
ATTACHMENTS
A: Resolution
B: Fiber Optic Rate Schedules EDF-1 and EDF-2

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