Summary Title: Fiber Optic Rate Schedule Revisions

Title: Amendment to Fiber Optic Utility Rate Schedules EDF-1 and EDF-2

From: City Manager

Lead Department: Utilities

Recommendation
Staff recommends that the Finance Committee recommend that the City Council adopt a resolution to approve a 1.5 percent increase to Dark Fiber Licensing Service Rates EDF-1 and EDF-2, for Fiscal Year (FY) 2012, effective July 1, 2011, which will increase annual revenues from commercial dark fiber customers by $23,500.

Executive Summary
This report discusses the required annual increase to commercial fiber optic rate schedules governing dark fiber licenses in effect prior to September 18, 2006.

Background
The Utilities Department provides commercial dark fiber optic services within the boundaries of the City of Palo Alto (City). For customers with fiber optic licenses beginning prior to September 18, 2006, rates for service are published in Dark Fiber Licensing Services Rate Schedule EDF-1. EDF-1 was a promotional rate and was closed to new Dark Fiber licenses in 2006. 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 published by the United States Bureau of Labor Statistics.¹

New fiber customers are enrolled under Dark Fiber Licensing Services Rate Schedule EDF-3, which does not increase by CPI annually. There are currently 13 customers on the EDF-1 rate and 43 customers on the EDF-3 rate. The annual revenues from EDF-1 and EDF-3 customers currently total $1.6 million and $1.9 million respectively. As contract terms for customers on the EDF-1 rate expire, customers will transfer to the EDF-3 rate so that over time, the EDF-1 rate will cease to exist and all customers will be on the EDF-3 rate. Also, as CPI increases are

¹ http://data.bls.gov/cgi-bin/dsrv
implemented for the EDF-1 rate, some customers may voluntarily choose to move from the EDF-1 rate to the EDF-3 rate for cost saving purposes.

**Discussion**

Based on the data published by the United States Bureau of Labor Statistics, the change in December CPI for 2010 is a 1.5 percent increase, and figures for Rate Schedules EDF-1 and EDF-2 (provided in Attachments B and C) have been adjusted accordingly for FY 2012.

The table below outlines the adjustments proposed to the EDF-1 and EDF-2 Commercial Fiber Optic rates:

<table>
<thead>
<tr>
<th>Proposed Fiber Rate Increases</th>
<th>Rate Description</th>
<th>Current Rates</th>
<th>Proposed Rates *</th>
<th>$ Difference</th>
<th>% Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EDF-1 (Section C-1): Dark Fiber Backbone License Fees (fiber miles/month)</strong></td>
<td>Fiber Price</td>
<td>$307.04</td>
<td>$311.65</td>
<td>$4.61</td>
<td>1.5</td>
</tr>
<tr>
<td></td>
<td>Quantity discount</td>
<td>59.84</td>
<td>59.84</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Buffer tube discount</td>
<td>59.84</td>
<td>59.84</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Route length discount</td>
<td>77.80</td>
<td>77.80</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Ring topology discount</td>
<td>23.94</td>
<td>23.94</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Length of term discount</td>
<td>46.80</td>
<td>46.80</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Minimum Annual License Fee</td>
<td>464.39</td>
<td>471.36</td>
<td>6.97</td>
<td>1.5</td>
</tr>
<tr>
<td><strong>EDF-1 (Section C-2): Dark Fiber Lateral Connection Fees (ft/month)</strong></td>
<td>Drop Cable Mgmt. Fees *</td>
<td>0.02-0.06</td>
<td>0.02-0.06</td>
<td>0.00-0.00</td>
<td>1.5</td>
</tr>
<tr>
<td></td>
<td>Custom Cable Mgmt Fees *</td>
<td>0.30</td>
<td>0.30</td>
<td>0.00</td>
<td>1.5</td>
</tr>
<tr>
<td></td>
<td>Fees for additional fiber *</td>
<td>0.06</td>
<td>0.06</td>
<td>0.00</td>
<td>1.5</td>
</tr>
<tr>
<td></td>
<td>Per Project Minimum Drop/Custom Cable fees</td>
<td>229.46</td>
<td>232.90</td>
<td>3.44</td>
<td>1.5</td>
</tr>
<tr>
<td><strong>EDF-2 (Section C-1): Advance Engineering Fees (AER)</strong></td>
<td>Commercial/Industrial AER min. fee</td>
<td>$733</td>
<td>$744</td>
<td>$11</td>
<td>1.5</td>
</tr>
</tbody>
</table>

* Calculations have been rounded to the nearest cent.

**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 $23,500 for FY 2012.

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 difficult to predict.

**Policy Implications**

This recommendation does not represent a change to current City policies.
Environmental Review
The revision of Fiber Optic rates EDF-1 and EDF-2 is not subject to the California Environmental Quality Act (CEQA), pursuant to California Public Resources Code Sec. 21080(b)(8) and Title 14 of the California Code of Regulations Sec. 15273(a)(1) and (3).

Attachments:
- Attachment A: Resolution for EDF1_EDF2 (DOC)
- Attachment B: Fiber Optic Utility Rate Schedule EDF-1 Effective 7-1-2011 (DOC)
- Attachment C: Fiber Optic Utility Rate Schedule EDF-2 Effective 7-1-2011 (DOC)

Prepared By: Ipek Connolly, Sr. Resource Planner
Department Head: Valerie Fong, Director
City Manager Approval: James Keene, City Manager
Resolution No.
Resolution of the Council of the City of Palo Alto Amending Utility Rate Schedules EDF-1 and EDF-2 of the City of Palo Alto Utilities Rates and Charges Pertaining to Fiber Optic Rates

The Council of the City of Palo Alto does hereby RESOLVE as follows:

SECTION 1. Pursuant to Section 12.20.010 of the Palo Alto Municipal Code, Utility Rate Schedule EDF-1 (Dark Fiber Licensing Services) is hereby amended to read in accordance with sheets EDF-1-1 and EDF-1-2, attached hereto and incorporate herein. The foregoing Utility Rate Schedule, as amended, shall become effective July 1, 2011.

SECTION 2. Pursuant to Section 12.20.010 of the Palo Alto Municipal Code, Utility Rate Schedule EDF-2 (Dark Fiber Connection Fees) is hereby amended to read in accordance with sheet EDF-2-1, attached hereto and incorporate herein. The foregoing Utility Rate Schedule, as amended, shall become effective July 1, 2011.

SECTION 3. The Council finds that the revenue derived from the authorized adoption enumerated herein shall be used only for the purpose set forth in Article VII, Section 2, of the Charter of the City of Palo Alto.

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SECTION 4. The Council finds that the adoption of this resolution does not constitute a project under the California Environmental Quality Act, California Public Resources Code section 21080, subdivision (b)(8).

INTRODUCED AND PASSED:

AYES:

NOES:

ABSENT:

ABSTENTIONS:

ATTEST:

__________________________________________
City Clerk

__________________________________________
Mayor

___________________________
Acting Deputy City Attorney

___________________________
City Manager

___________________________
Director of Utilities

___________________________
Director of Administrative Services

APPROVED AS TO FORM:                    APPROVED:

__________________________________________
Acting Deputy City Attorney

__________________________________________
City Manager

___________________________
Director of Utilities

___________________________
Director of Administrative Services
ATTACHMENT B

DARK FIBER LICENSING SERVICES
UTILITY RATE SCHEDULE EDF-1

IA. APPLICABILITY:

This rate schedule applies to customer accounts established prior to September 18, 2006, unless the customer elects to apply the EDF-3 rate to the entire customer account. This rate applies to Fiber Optic services from the City of Palo Alto Utilities (CPAU) pertaining to the City’s network (Backbone and associated connections).

IB. TERRITORY:

Within the incorporated limits of the City of Palo Alto and land owned or leased by the City.

IC. FEES:

1. DARK FIBER BACKBONE LICENSE FEES:

The values or ranges for each of these price components are shown below:

(1) Fiber Price .......................................................... $307.04
(2) Quantity discount ................................................. $0 to $9.84
(3) Buffer tube discount ............................................. $0 to $9.84
(4) Route length discount ......................................... $0 to $7.80
(5) Ring topology discount ........................................ $0 to $2.39
(6) Length of term discount ...................................... $0 to $4.60

Minimum Backbone License Fee
$464.39/month

Project Minimum Backbone Fees apply to any project proposal signed after September 18, 2006 in which the project connects with the Backbone.

Description for Discounts:
Quantity discount: based on an array of discounts for quantities of fiber licensed on a specific path.
Buffer tube discount: discount for numbers of full buffer tubes licensed on a specific path.
Route length discount: based on the route length licensed on a specific project.
Ring topology discount: The ring topology discount for customers contracting for complete rings.
Term discount: based on an array of discounts for contracts greater than one and less than ten years.

2. DARK FIBER LATERAL CONNECTION FEES:

Customer responsibilities and fees for drop and custom cable construction are described in the CPAU Rules and Regulations, Rate Schedule EDF-2, project proposals and other associated documents. In all cases, the Licensee shall pay an annual Drop/Custom Cable Management Fee based on the follow per foot fees:

(1) Drop Cable Management Fees (for the first 12-Fibers) ......................... $0.02-$0.06/ft/month
(2) Custom Cable Management Fees (for the first 12-Fibers) ..................... $0.30/ft/month
(3) Fees for additional Drop or Custom Cable fibers (each additional set of 12-Fibers) $0.06/ft/month
ATTACHMENT B

DARK FIBER LICENSING SERVICES
UTILITY RATE SCHEDULE EDF-1

Minimum Drop or Custom Cable Management Fees $229,4632.90/month

Minimum Drop Cable Management Fees apply to any project proposal signed after September 18, 2006.

3. EARLY TERMINATION FEES:

If the Licensee chooses to terminate for convenience the License Agreement or the term of any project under the License Agreement, then the Licensee shall pay the applicable termination payment as specified in this schedule or in the License Agreement, as provided below.

Unless otherwise provided in the License Agreement, the Licensee shall pay a termination fee in one of the following amounts, whichever is less:

- Annual fee of the contract year that the Licensee chooses to terminates in full without term discounts, or
- Remaining fees of the project term as indicated in the License Agreement.

D. SPECIAL NOTES:

1. All fees must be paid to the City in accordance with the terms of the Dark Fiber License Agreement, the customer’s project proposals and all the applicable Utilities Rates, Rules, and Regulations.

2. All fees and minimum charges are subject to Consumer Price Index (CPI) adjustments, to be applied annually, except as defined by Section D.3 of this Rate Schedule. Discounts will not be modified by changes to CPI.

3. The CPI adjustment will be based on the Consumer Price Index for All Urban Consumers (CPI-U) for the San Francisco-Oakland-San Jose MSA, published by the U.S. Department of Labor, Bureau of Labor Statistics. The adjustment is calculated by dividing the most recent calendar year December CPI by the December CPI in the year rates last changed. In the event that the change between December CPI’s indicates an adjustment of less than 1% is required, a change to rate schedules may not be made for the upcoming year. Future rate changes will take the last year of change as the new base year for purposes of calculation.

{End}
ATTACHMENT C

DARK FIBER SERVICE CONNECTION FEES
UTILITY RATE SCHEDULE EDF-2

A. APPLICABILITY:

This schedule applies to all connections, expansions, and upgrades to the City's Dark Fiber network (Backbone).

B. TERRITORY:

All territory within the incorporated limits of the City and land owned or leased by the City.

C. FEES:

1. ADVANCE ENGINEERING FEES:

Advance engineering (AER) fees must be paid to start the engineering process and are non-refundable. The fees will be credited against the estimated project cost prior to the collection of the project construction fees.

(1) Commercial/Industrial AER minimum fee .............................................................. $733,744.00
(2) Special conditions (requiring expert assessment) .................................................... By Estimate

2. ESTIMATED SERVICE CONNECTION AND RECONFIGURATION FEES

All estimated service connection and reconfiguration fees must be paid prior to the scheduling of any construction or reconnections to the City's Dark Fiber network.

(1) Service connection (Interconnection) fee .............................................................. By Estimate
(2) Reconfiguration Fees ......................................................................................... By Estimate

Labor rates are subject to change as stated in the Utility Rate Schedule C-1.

D. NOTES:

1. The Customer is responsible for the installation and maintenance of all ducts and pathways from the facility to the property line in compliance with City of Palo Alto Utilities Rules and Regulations and contract agreements.
2. The City shall not be held liable for delays or interruptions in service, but will make reasonable efforts to provide timely continuous service.
3. All fees are subject to Consumer Price Index (CPI) adjustments, to be applied annually. The CPI adjustment will be based on the Consumer Price Index for All Urban Consumers (CPI-U) for the San Francisco-Oakland-San Jose MSA, published by the U.S. Department of Labor, Bureau of Labor Statistics. The adjustment is calculated by dividing the most recent calendar year December CPI by the December CPI in the year rates last changed. In the event that the change between December CPI’s indicates an adjustment of less than 1% is required, a change to rate schedules may not be made for the upcoming year. Future rate changes will take the last year of change as the new base year for purposes of calculation.

(End)