TO:       HONORABLE CITY COUNCIL

FROM:      CITY MANAGER             DEPARTMENT: UTILITIES

DATE:  MAY 6, 2002                      CMR:168:02

SUBJECT:  FIBER TO THE HOME TRIAL PROGRAM UPDATE AND TRIAL PARTICIPANT FEE RESOLUTION

RECOMMENDATION

Staff recommends the City Council approve:

1. The proposed fees of $85 per month for Fiber to the Home Trial Participants, and

2. A resolution to adopt Utilities Rate Schedule EFTH-T for Fiber to the Home Trial participant fees.

BACKGROUND

On November 13, 2000 (CMR 422:00) Council approved staff’s recommendations to construct and operate a Fiber to the Home (FTTH) Trial within the following guidelines:

1. Establish a construction budget of $680,000 for the project, allowing staff to complete the construction in-house.

2. Expand the scope of the trial beyond Internet to other services, including to the extent it is legally possible, video, telephony and other digital services, in order to understand the fee base better to finance a full build-out of a FTTH network.

3. Charge participants a nominal fee for the services provided.

4. Allow staff to look for partners to deliver new services and demonstrate new technologies.
The following goals were set for the trial:

1. Evaluate construction techniques and determine the feasibility and cost of a system-wide rollout.
2. Determine if the system can be operated reliably.
3. Determine customer expectations and measure satisfaction with the services.
4. Test new services that could be supported over the fiber network.
5. Develop service pricing methodology, cost model, and business plan for a system-wide rollout.
6. Determine financial feasibility and possible funding methods.

Subsequently, an additional $400,000 was budgeted for FY 2001/02 to develop the business case and other work required to make an informed decision about a system-wide build out.

On November 19, 2001 (CMR 410:01), staff presented an update to Council on the progress of the FTTH trial. The following important events were noted in that report:

- Construction of the FTTH network was substantially completed in October and within the budget of approximately $680,000.
- The City of Palo Alto signed a contract with Marconi Communications, whereby Marconi has dedicated networking equipment, installation, training of CPAU staff, and support for the duration of the trial. The Marconi equipment supports phone, video, and Internet.
- Staff successfully completed a request for proposals (RFP) for services, and contracts were awarded for Internet, phone and customer support services.
- A FTTH Advisory Team was formed and is supporting staff in the business case development process. The team consists of: a Utility Advisory Commissioner, a Council member, the Assistant to the City Manager, the Director of Utilities, a FTTH participant, and the Utilities Telecom Manager.
- Local phone service is being provided through the trial to test the phone service capability of the equipment. Participants were urged to maintain their current phone so that they are not reliant on the experimental service for emergency calls.
- Participant fees for the trial were recommended at $85 per month. The participants will be expected to pay for video and long distance phone service should these be offered through the trial.
DISCUSSION

The following developments have occurred since the November report:

- Both Internet and phone services are now operating superbly, and are delivering high speed service reliably. Participant responses have been positive.
- Video service has not been offered due to unresolved legal concerns.
- The video service will be tested through the installation of a 16-channel test station, but will not be offered to the participants. A display/demo installation is planned for construction in the Civic Center lobby.
- The Main Library FTTH installation has been equipped with a wireless router allowing the public to bring their own laptops to the library and access the FTTH wirelessly.
- There has been business case study activity in several areas:
  - A market survey firm has been hired to conduct various market surveys of Palo Alto customers regarding relevant market issues, including their attitude toward the City and local telecom competitors as service providers.
  - An RFP for business case services closed February 26th. One of the respondents will be selected to prepare a business case study. When completed, the study will be presented to Council with recommendations regarding a citywide build out of the FTTH service. The report is scheduled for completion in September.

In an informational report on November 19, 2001 (CMR:410:01) staff suggested a FTTH Trial participant fee of $85 per month. This fee is based on the methods discussed in CMR 422:00 and previous agreements between the City and the participants. Staff believes that the services being delivered through the trial have proven to be commercially reliable and that the $85 fee is now appropriate to put into place. Even though video is not being offered, staff is now recommending approval of this rate. The rate will remain in place until the cancellation of the service by the City or withdraw from the trial by the participant. During the trial, participants will be expected to pay for any additional services which they personally subscribe to, such as, long distance telephone service or video fees, should video eventually be offered.
RESOURCE IMPACT

Approval of this rate proposal has no long-term revenue impacts. It is designed only for the duration of the FTTH Trial Program and is not intended to fully recover the trial costs. In the event that FTTH becomes a citywide effort, rates will have to be established based on rate settling principles which incorporate, amongst other things, the full recovery of the FTTH build out including the costs of the trial.

POLICY IMPLICATIONS

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

TIMELINE

The effective date of the proposed rate is May 6, 2002.

ENVIRONMENTAL REVIEW

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

ATTACHMENTS

A: Resolution
B: Rate Schedule

PREPARED BY:     BLAKE HEITZMAN
                  Manager, Telecommunications

DEPARTMENT HEAD:  JOHN ULRICH
                  Director of Utilities

CITY MANAGER:     EMILY HARRISON
                  Assistant City Manager