TO: HONORABLE CITY COUNCIL

FROM: CITY MANAGER           DEPARTMENT: UTILITIES

ATTENTION: FINANCE COMMITTEE

DATE: APRIL 17, 2007                  CMR: 205:07

SUBJECT: STAFF RECOMMENDATION TO APPROVE A RESOLUTION ADOPTING COMMERCIAL FIBER OPTIC RATE INCREASES FOR FISCAL YEARS 2007-08 AND 2008-09

RECOMMENDATION
This report recommends that the City Council adopt the attached resolution to:

a) Approve a $47,000 Commercial Fiber Optic revenue increase for Fiscal Year (FY) 2007-08, based upon the 2006 Consumer Price Index adjustment of 3.2 percent; and,

b) Approve, in concept, a Commercial Fiber Optic revenue increase of $47,400 for FY 2008-09, projecting a 2007 Consumer Price Index adjustment of 3.2 percent.

BACKGROUND
The Utilities Department provides commercial dark fiber optic services within the boundaries of Palo Alto. On September 18, 2006, the City Council approved an increase in Commercial Fiber Optic revenues of $324,000 (CMR 362:06).

For customers having fiber optic licenses 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. Both the EDF-1 and EDF-2 rate schedules are subject to annual adjustments by the Consumer Price Index (CPI).

The City of Palo Alto’s municipal fiber accounts, those customers whose service began after September 18, 2006, or customers whose dark fiber licenses have expired, are now served under Dark Fiber Licensing Services Rate Schedule EDF-3, which is not subject to CPI increases, but adjusted during the budget process to reflect changes in operating costs, like other utility rate schedules.
DISCUSSION
The Council-approved Dark Fiber Licensing Agreement (CMR 177:97), allows the fees charged under the EDF-1 and EDF-2 rate schedules to be adjusted in accordance with the CPI, which is calculated by the United States Bureau of Labor Statistics.

For 2006, the CPI adjustment factor results in an increase of 3.2 percent to the EDF-1 and EDF-2 rate schedules. The previous CPI adjustment to the EDF-1 and EDF-2 rate schedules occurred in September, 2006, at which time CPI adjustments for 2004 and 2005 were implemented. This proposed increase, to be effective on July 1, 2007, will only adjust EDF-1 and EDF-2 rates. The last Commercial Fiber Optic rate change was implemented in October, 2006, rather than July 1, 2007, with the other Utilities rate changes. This rate change proposal brings Commercial Fiber Optic rate adjustments into the same fiscal year timeline as other Utilities rate changes.

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

<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><strong>EDF-1 (Section C-1): Dark Fiber Backbone License Fees (FM/month)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fiber Price</td>
<td>$272.25</td>
<td>$281.00</td>
<td>$8.75</td>
<td>3.2</td>
</tr>
<tr>
<td>Quantity discount</td>
<td>54.42</td>
<td>56.18</td>
<td>1.76</td>
<td>3.2</td>
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<tr>
<td>Buffer tube discount</td>
<td>54.42</td>
<td>56.18</td>
<td>1.76</td>
<td>3.2</td>
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<tr>
<td>Route length discount</td>
<td>70.75</td>
<td>73.06</td>
<td>73.04</td>
<td>3.2</td>
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<tr>
<td>Ring topology discount</td>
<td>21.75</td>
<td>22.45</td>
<td>0.70</td>
<td>3.2</td>
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<tr>
<td>Length of term discount</td>
<td>42.58</td>
<td>43.95</td>
<td>1.37</td>
<td>3.2</td>
</tr>
<tr>
<td><strong>EDF-1 (Section C-2): Dark Fiber Lateral Connection Fees (ft/month)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Drop Cable Mgmt. Fees</td>
<td>$0.01- $0.05</td>
<td>0.01-0.05</td>
<td>$0.00 **</td>
<td>3.2</td>
</tr>
<tr>
<td>Custom Cable Mgmt Fees</td>
<td>0.26</td>
<td>0.27</td>
<td>0.01</td>
<td>3.2</td>
</tr>
<tr>
<td>Fees for additional fiber</td>
<td>0.05</td>
<td>0.05</td>
<td>$0.00 **</td>
<td>3.2</td>
</tr>
<tr>
<td><strong>EDF-2 (Section C-1): Advance Engineering Fees</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Com./Ind. AER min. fee</td>
<td>$650</td>
<td>$671</td>
<td>$21</td>
<td>3.2</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 is projected to be approximately $47,000 for FY 2007-08. As Dark Fiber Licensing Services Rate Schedule EDF-2 applies to customer-driven expansions of the City’s fiber optic network, the increase in projected revenue is unknown. Dark Fiber Licensing Services Rate Schedule EDF-3, which applies to new accounts established after September 18, 2006, is not impacted by this proposed revenue increase, and no change is recommended at this time.

For budgetary purposes, it is assumed that the CPI adjustment for FY 2008-09 will again be 3.2 percent, but will be adjusted during the budget process, if necessary.

POLICY IMPLICATIONS
This proposed rate increase meets the Utilities Strategic Plan objective of providing superior financial performance to the City and competitive rates to customers. These recommendations do not represent a change in current City policies.

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: Fiber Optic Rate Schedules EDF-1 and EDF-2

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