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Axia pulls out of fiber-optic project

Letter: No solution appears to be possible

BY WILL OREMUS, DAILY NEWS STAFF WRITER

The leading private partner in Palo Alto's plan to build a municipal broadband fiber-optic network has pulled out of the project, leaving it without funding.

Calgary, Canada-based Axia NetMedia informed the city of its decision in a letter dated March 9. The two sides had been at loggerheads over how much money the city would contribute to the project.

The city and the company differ on who was to blame for the impasse. City officials said Friday that Axia's proposal had "evolved" to include more city participation, while Axia claimed in its letter that it was clear from the start the city would have to step up. The falling-out sets the city's plan back to where it was before Axia signed on in May 2008 — on indefinite hold due to a lack of startup money. Officials on Friday said the city isn't giving up hope, however, and may still seek funding elsewhere.

Signs of trouble surfaced at a Feb. 25 meeting, when Axia told the city it would need a commitment of about \$3.4 million a year in usage fees to make the project work. The city had hoped the company would foot the entire bill. Some council members offered to explore options, but others said it would be unrealistic to come up with that much money when the city is already facing multimillion-dollar deficits.

In its letter to the city Monday, Axia wrote that "no solution appears possible given the constraints of the City of Palo Alto's financial condition, bylaws and process."

"Unfortunately, at this stage we now recognize that the City of Palo Alto has effectively rejected Axia's proposal," the letter continued. "From the time we got involved, we were consistent in our view of what was required to accomplish the Palo Alto objectives and we understood that meant more participation by the city than it had originally planned. We endeavored to make that clear at all stages of discussions."

Not exactly, countered Joe Saccio, deputy director of the city's administrative services department. He said Axia joined the fiber-optic consortium in May 2008, but didn't tell the city how much money it would need until late in the year. "Even though they were consistent in terms of telling us what their model was, they never really divulged that extra piece that really kind of broke any ability to negotiate further."

A June 2008 project overview by the consortium's original members, PacketFront and 180Connect, appears to back up the city's account. The overview said the then-new partner, Axia, would "commit to make the capital investment necessary to become the 100 percent owner" of the network. Axia could not be reached for comment Friday afternoon.

At the Feb. 25 meeting, Axia Chief Technology Officer Drew McNaughton estimated the capital costs at \$65 million for the first three years.

In the coming weeks, the city council will formally terminate the agreement and discuss its next steps.

“The city’s vision of obtaining an ultrahigh- speed, open system-based broadband network in Palo Alto to provide extraordinary economic, educational and social benefits is still a worthy goal,” Council Member Yoriko Kishimoto said in a statement. “Despite sincere effort by all parties involved in the negotiations, we could not reach agreement; however, I hope we will continue to explore ways to make this exciting project a reality.”

City Manager Jim Keene added that he has become convinced in the past several months that a citywide fiber network would be a boon.

Palo Alto already has the backbone of such a network in the form of an underground “dark fiber” conduit, built 10 years ago over the objections of private telephone and Internet providers. A few major customers, including Stanford University, pay to use the system.

The remaining challenges, Saccio said, are to connect the backbone to homes and businesses all over the city, and to buy the electronic equipment necessary to “light up” the fiber network for high-speed communication.

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— *Yoriko Kishimoto, Council Member*

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