



Palo Alto sees its fiber dream fizzle

City looks to abandon 15-year quest to bring fiber-based broadband connection to the masses

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After 15 years of failed schemes and dashed hopes, Palo Alto is preparing to pull the plug on its dream of bringing ultra-high-speed Internet to every household in the city.

Instead, Utilities Department officials are now looking to wireless technology as the most promising method to bring Internet access to the masses.

Despite some reservations, the Utilities Advisory Commission voted 4-3 Wednesday night, June 6, to stop analyzing the possibility of expanding the city's existing dark-fiber network to local residents, a project known as Fiber to the Premise (FTTP). If the City Council were to go along with this recommendation, it would effectively kill a project that the city has been coveting for more than a decade.

The decision by the Utilities Department staff to back away from the fiber project was prompted by a new survey and analysis showing that most residents would not be willing to make the necessary investments to make the system economically feasible. The city's existing 41-mile dark-fiber ring, which serves 78 commercial customers, has been an economic success, bringing in \$2.1 million in annual revenues. But the new analyses show the cost of building the "last mile" from the ring to the city's residential neighborhoods would be extremely difficult given the market dominance by AT&T and Comcast of the local broadband market.

City officials had considered a phased plan under which the city would build fiber-optic hub sites at nine electric substations and then expand network access from these sites to 88 neighborhood nodal access points, which would then allow access to the fiber system. These steps would cost about \$6 million. But it would still be up to a private company to step in and provide the final connection between the nodes and the residences. That, staff concluded, is an unlikely proposition given the local market.

"Market research indicates that a third citywide terrestrial broadband network in Palo Alto, built by the City or a third party FTTP provider, or built by a third party provider in a partnership with the City, would find it extremely difficult to acquire sufficient market share to succeed -- especially if the City did not want to expose itself to some financial risk beyond just licensing dark fiber to a potential FTTP system builder," Jim Fleming, a management specialist at the Utilities Department, wrote in a new report.

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"Based on current market conditions for broadband services in Palo Alto, staff concludes there is no fiscal basis to use the fiber fund reserve to pursue implementation of the phased conceptual plan for FTTP," Fleming wrote.

The phased approach was just the latest in a series of schemes the city has been pursuing in the past decade and a half. Five years ago, the city was hoping to link up with a private consortium that would build and operate the expanded fiber network. That deal collapsed, however, in early 2009 when the consortium, led by the Canadian firm Axia Netmedia Corporation, backed out of the deal to build the \$45 million system, citing "deteriorating" financial conditions. The company had requested that the city contribute between \$3 million and \$5 million annually to support the system, a proposal the city rejected.

The city was also hoping to be selected for "Google Fiber," an ambitious proposal by the Mountain View-based Internet giant that was looking to bring a fiber-to-the-premise system to a chosen municipality. Despite a glut of letters, emails and a video of Palo Alto officials dancing for Google in front of City Hall, the company ultimately chose Topeka, Kansas, sending Palo Alto back to square one.

The city's proposed phased approach now also appears to be doomed. The analysis by the firm Tellus Venture Associates, shows that even in a best-case scenario, an average household would have to pay \$1,000 upfront for the connection and \$75 per month to subscribe to the fiber service (the base model showed a \$3,000 upfront fee and a rate of \$100 per month). The company concluded that a user-funded fiber-to-the-premise system "is not possible to achieve in Palo Alto."

Stephen Blum, president of Tellus, told the commission Wednesday that heavy city subsidies would be required to make a citywide fiber-system possible.

"In terms of a system being able to pay for itself completely upfront, it's not feasible," Blum said. "It's not going to happen."

Public opinion also influenced the staff recommendation. The city had recently commissioned a survey to gauge residents' interest in a citywide fiber network. The survey by the firm RKS showed that while residents are generally enthusiastic about such a system, their enthusiasm quickly sours when talk shifts to finances. For example, 61 percent of respondents said the city should create a system to compete with the incumbent providers. But when survey respondents were told that the cost of bringing a municipal fiber system to all residential neighborhoods would be between \$40 million and \$60 million, support decreased to 38 percent. Another 38 percent said they were unsure whether they would support the system's build-out when they were told about the costs.

Faced with these numbers, staff and the Utilities Advisory Commission decided that it's time to scrap the long-held dream. Fleming wrote in the report that embarking on a fiber project would "involve an unreasonable degree of risk," even more so than at other cities that pursued municipal broadband systems. These included Alameda and Provo, Utah.

"These enterprises ultimately resulted in financial failure and either bondholder losses and lawsuits or direct, supplemental taxpayer subsidies," Fleming wrote. "Additionally, staff does not support spending the fiber reserve generated by the City's dark fiber network on providing service to a small fraction of residents who, according to the RKS data, are likely to be among the City's most affluent households."

Not everyone agreed that its time to scrap the project. Commission Chair Jonathan Foster and

Commissioners Asher Waldfogel and John Melton supported waiting a few months to give the city's citizen advisers a chance to evaluate the new studies and to solicit input from the City Attorney's Office about ways in which the city can spend its dark-fiber reserve, which currently stands at \$12.7 million. Bob Harrington, who advises the city on broadband issues, also urged the commission to give him and other experts a chance to vet the documents.

"I urge a little longer consideration before we drop this and go on to a wireless municipal network," Harrington told the commission.

But the rest of the commission sided with staff, whose recommendation also includes directing the Utilities Department to pursue a study that would determine what a Palo Alto wireless system could look like. The study would cost between \$25,000 and \$50,000, Fleming estimated.

Commissioner Steve Eglash was among those who supported putting an end to the city's quest for a citywide fiber network and going with the staff proposal.

"I think the preponderance of the evidence tonight and over the years shows that we cannot support this," Eglash said.

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