

O'Brien: Palo Alto fiber-optic project is the right kind of economic development

By Chris O'Brien, Mercury News, [Article Launched: 10/24/2008 12:00:00 PM PDT](#)

In a time of severe belt tightening and modest thinking, the city of Palo Alto is about to make an ambitious bet on its future. But in a neat twist, it won't have to ante up a dime.

The city is negotiating a deal with a consortium of tech companies to build out an ultra-high-speed broadband network that would deliver blazing fast 100-megabit-per-second connections to every home and business in Palo Alto. That's about 10 times as fast as what people typically receive through their cable or DSL modems.

More important, it's just the kind of creative, innovative approach toward economic development worthy of Silicon Valley.

"There's a vision that you're entering into the real 21st century with this kind of capacity," said Joe Saccio, Palo Alto's deputy director for administrative services. "It's an economic tool and, hopefully, it can create new kinds of jobs and allow new applications and new software for consumers."

It hasn't been easy to get to this point. And there's still a chance that the project might not succeed. But if it does, Palo Alto will get to boast to all its valley neighbors that it wears the crown of connectivity. And I'll bet it will only become more of a magnet for start-ups and bigger companies who want to experiment with new online services.

While this project has been a big deal in Palo Alto, it hasn't gotten much attention around the rest of the region. So here's a little background.

Palo Alto originally built a fiber-optic backbone in 1996. It's one of just a few dozen municipalities across the country to undertake such a project known as "fiber to the premises" or FTTP. Such projects aren't popular with the local cable companies and DSL companies.

Andrew Johnson, a Comcast spokesman, noted that his company competes hard for customers and continues to invest in upgrades to its network. However, it has some concerns about the fairness of competing against the Palo Alto network.

"The latest version of the Palo Alto fiber-to-the-home plan is being positioned as a wholesale open network, but the operation appears to put our regulators in the dual role of being both regulator and competitor," Johnson wrote in an e-mail. "This structure does not create a level playing field."

In the case of Palo Alto, the city currently manages the backbone, and if you want to use it, you have to pay to have a line run from the ring to your house or business. That's not cheap, in case you're curious.

The city also uses it for such things as running its traffic lights and its own computer networks. The project is operated outside the city's budget under the name of the Dark Fiber Fund. The fund takes in \$2.6 million each year from private licensees and other town agencies that use the network, which more than covers the \$1.6 million it costs each year to operate.

So far, so good. Right?

The problem was that the city council intended this to benefit everyone. And so in 2005, the council directed the city's staff to figure out how to make that happen. And just to make things interesting, the council set a few rules: No taxpayer funds could be used, no money could be borrowed, no bonds could be issued.

Ongoing negotiations

So it's taken some time. But there was a breakthrough this year when a Canadian company called Axia agreed to join a consortium of two other companies to bid on the project: PacketFront and 180 Connect. Axia offered to commit \$30 million to building out the network.

Palo Alto's city council has instructed staff to try to reach an agreement, and negotiations are still in progress.

If approved, the consortium would run the network as a wholesale operation, and third parties would come in, lease space on the network, and sell services directly to consumers and businesses.

The city council envisions the new broadband network enabling all sorts of new services for businesses and consumers, such as automated meter reading services for energy savings, or more robust video services like 3-D high-definition TV.

So what's in it for the consortium members?

The consortium would get to manage the network and keep the profits. And it would also get access to a portion of the network at a deep discount to use as it wishes. In addition, according to a letter Axia sent the city earlier this year, the strong demand and community support make it confident it can turn a profit. And it hopes the success of the project can be used as a showcase to convince other communities to build their own networks.

So what could go wrong? Plenty.

For some perspective on the challenges, I chatted earlier this month with Steve Christensen, chief executive of Broadweave Networks, a broadband company that recently bought a fiber-optic network from the city of Provo, Utah, because it was losing money.

Provo's mistakes

Christensen said the biggest problem in Provo was the split between the wholesale operator (the city) and the private service providers who sold service to homes and businesses. When something went wrong, customers were confused and frustrated about whom to call to fix things, make changes and handle other

questions.

When looking at Palo Alto's plan, Christensen said he liked the fact the city wanted to build an open network, something that would help it adapt to technology changes and make sure it could buy equipment from different vendors to keep a lid on prices. And the fact that the city isn't putting in its own money and has the right to buy back the network for \$1 in 25 years is also a good safeguard.

Still, I wondered whether Palo Alto customers would, like those in Provo, be confused by the fact that there would still be wholesalers and service providers.

When I asked Saccio about this, he said any agreement with the consortium would likely include benchmarks for customer service. He didn't seem too concerned that this would be an issue. Let's hope that confidence is warranted. The three companies actually putting up the cash apparently think it is.

Kudos to the Palo Alto City Council and staff for pushing this stone uphill. And here's hoping other local governments will figure out innovative approaches to economic development.

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