



Axia withdraws from Palo Alto 'fiber' project

Pullout cites economy, city's unwillingness to help with financing

by Jay Thorwaldson, Palo Alto Online Staff, Uploaded: Saturday, March 14, 2009, 11:28 AM

The Canadian-based Axia NetMedia Corporation consortium has pulled out of Palo Alto's troubled fiber-to-the-premises (FTTP) project, citing "deteriorated" financial markets and Palo Alto's unwillingness to contribute funding to help win financing.

The pullout essentially throws the city back to ground zero on fiber installation, the subject of community discussion for 15 years. Discussions with the Axia group began seven months ago after Axia was deemed the only acceptable response to an earlier request for proposals by the city.

"Regretfully, in spite of genuine effort on both sides, we have not been able to agree to a model that works for both parties," Drew McNaughton, Axia's chief technology officer, said in a March 9 letter, delivered electronically to city officials.

The city announced the withdrawal in an e-mail press release late Friday afternoon (March 13).

McNaughton said when Axia and its consortium members, PacketFront and 180Connect Network, lost their financing partner the only way they could proceed was to redefine the arrangement with the city. Axia had proposed that the city contribute \$3 million to \$5 million annually to the financing package to pay for the \$45 million fiber-installation project.

City Council members at a Feb. 25 study session indicated they would decline to commit funds, triggering the Axia response.

City officials expressed disappointment in the pull-out, but said they still hoped for something positive on fiber.

City Manager James Keene said fiber is still an important subject for the community to consider.

"As we worked through the negotiations with Axia and explored possibilities with the Community Advisory Group, I became convinced that a 100 percent fiber-connected Palo Alto would be transformative and improve our community in so many positive ways, some of which we can't yet imagine," Keene said.

"High speed broadband is still highly desirable, as the Obama administration has recognized, and there are options that the City can pursue to be a leader in this field," Councilman Larry Klein said of the pullout.

"The City's vision of obtaining an ultra-high-speed, open system-based broadband network in Palo Alto to provide extraordinary economic, educational and social benefits is still a worthy goal," Councilwoman Yoriko Kishimoto said.

The press release said city staff will "return to council for direction in the coming weeks."

TEXT OF CITY ANNOUNCEMENT OF AXIA WITHDRAWAL:

Axia Withdraws from Broadband RFP Process, City of Palo Alto to Consider Next Steps

Palo Alto, CA -- The City of Palo Alto was notified by Axia Net Media Corporation (Axia) of its withdrawal from the City's Broadband Request for Proposal (RFP) process. As their proposal evolved and the financial markets deteriorated, Axia, along with consortium members, PacketFront and 180 Connect Network Services, Inc., required a substantial annual financial investment from the City that was contrary to the City Council's original direction for the RFP. City staff will return to Council for direction in the coming weeks.

At the Council study session of February 25, 2009, the Consortium sought approximately \$3.4 million annually from the City in addition to a discount on use of 36 dark fibers and payment for managing the City's existing dark fiber licensee program. The Consortium's business model relied on a close public-private partnership and a significant investment by the public sector, which was at odds with Council's direction to preclude general funding and the consortium's original response. The letter from Axia states, "Regretfully, in spite of genuine effort on both sides, we have not been able to agree to a model that works for both parties."

"The City's vision of obtaining an ultra-high-speed, open system-based broadband network in Palo Alto to provide extraordinary economic, educational and social benefits is still a worthy goal," said Council Member Yoriko Kishimoto. "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."

"For over seven months, the City and Axia have explored how to build and operate an open access fiber to the premise (FTTP) network that would serve the Palo Alto community," stated Council Member Larry Klein. "The business models proposed by the consortium all required significant investment by the City, which was not practical or desirable from the City's viewpoint. High speed broadband is still highly desirable, as the Obama administration has recognized, and there are options that the City can pursue to be a leader in this field," added Klein.

"As we worked through the negotiations with Axia and explored possibilities with the Community Advisory Group, I became convinced that a 100% fiber-connected Palo Alto would be transformative and improve our community in so many positive ways, some of which we can't yet imagine," said City Manager James Keene.

At Council direction, a Citywide Ultra-High-Speed Broadband System RFP was issued on September 27, 2006. Two firms responded to the RFP and, on March 5, 2007, the Council directed staff to enter into negotiations with a consortium, 180 Connect Network and PacketFront, Inc. On May 12,

2008, Axia joined the Consortium, to provide both additional expertise and financing.

On July 14, 2008, staff presented to the Council the Consortium's conceptual business plan for a fiber-to-the-premises network in Palo Alto. Since September 2008, the City and Consortium conducted many discussions and explored various options. However, after the Council study session in February 2009, it became clear that the Consortium could not make its business plan work without a significant and ongoing financial commitment from the City. The challenge of providing such funding from existing City revenues was not feasible.

Staff will return to Council with a formal termination of the original RFP process and potential options for Council consideration on how to develop a citywide broadband network.

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