



Tuesday, Dec 1 at 5:02 PM

From: Eric Nakajima <nakajima@masstech.org>

Subject: MBI Statement on WiredWest's Business and Operating Plans

Dear Select Boards, Broadband Committees and Town Administrators,

The MBI has been reviewing the WiredWest business plan and recently-proposed operating agreement to understand the project's overall viability and to better guide our work with you to build out broadband service to your residents. While we are aware that WiredWest continues to revise both the operating agreement and business plan, it is important for the MBI to provide local officials with feedback now based upon our review.

Please review the attached letter, which includes:

- An analysis of some of the major risks in the WiredWest draft operating agreement; and
- Preliminary feedback from the ongoing review of the WiredWest business plan.

Our obligation to the towns, taxpayers and the Commonwealth is to ensure, as best we can, that state and local funds are used to support sustainable broadband service – now and over the long term. As the attached letter details, MBI has significant concerns with WiredWest's proposed operating agreement and business plan and cannot authorize expenditure of state funds for the project as currently proposed.

Just as critically, our planning and analysis convinces MBI that there are viable approaches to building and operating regional broadband service, and we look forward to working with you to build a path forward as soon as possible.

We look forward to more in-depth presentation and discussion of our analysis with you, including a series of municipal meetings in mid-December. We will be following up with more information about those sessions shortly.

Thank you again for your ongoing collaboration and commitment to broadband expansion.

Sincerely,

Eric Nakajima

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December 1, 2015

Dear Municipal Broadband Leader,

The Massachusetts Broadband Institute at Mass Tech Collaborative (MBI) is committed to partnering with towns to extend broadband service to residents and businesses. WiredWest was an early supporter of a regional solution and has sought to complement MBI's efforts to promote aggregation of towns and to educate them about the benefits of a common, regional approach. Those efforts have been successful in instilling early and sustained energy and providing information about many of the issues involved with building and operating a fiber network for the citizens of western Massachusetts.

More recently, WiredWest has extended beyond these educational and outreach efforts to develop and propose a plan and agreement under which WiredWest would own and operate the network on behalf of the towns. It has informed towns that it will be seeking the towns' execution of the proposed agreement in early January. We are writing to provide you an update on our ongoing review of the WiredWest regional fiber network proposal, in order to support your upcoming decision-making around signing the proposed Operating Agreement.

The MBI has been reviewing the WiredWest operating agreement and business plan, which propose a new, independent, regional, municipal cooperative in the telecommunications business. While WiredWest continues to revise both the operating agreement and business plan, it is important for the MBI to provide local officials with preliminary feedback now based upon our review.

The MBI believes that the current draft WiredWest operating agreement is not compatible with the best interests of the Commonwealth, the towns, or their residents. The operating agreement coupled with the business plan would require substantial, in some ways fundamental, revision in order to succeed as a reliable framework for the startup and operation of broadband service in the region.

Operating Agreement Review:

The WiredWest Operating Agreement includes basic elements that contradict MBI's Last Mile Broadband Policy as passed by its boards on July 30, 2015. The program policy was established to mitigate financial and operational risk to towns and taxpayers, and ensure that any project receiving state and local funds had a pathway to sustainability.

For example, the WiredWest Operating Model requires towns/MLPs to transfer ownership of the network to WiredWest in perpetuity, while retaining ultimate responsibility for the local debt obligation for construction of the network. Towns/MLPs are required to maintain membership in WiredWest for a minimum of 10 years, and if the towns leave WiredWest they will lose all rights to the broadband network in their towns with no assurance of full repayment of their municipal debt. In addition, the Operating Agreement contains no clear means of resolving unbudgeted financial shortfalls or obligations such as may be expected in the start-up of a challenging

business. Such shortfalls could lead to sale or mortgaging of the network without any return of funds or control to the towns.

Some practical concerns from the operating agreement review include:

- Towns lose direct managerial and policy control over their network when substantial unknowns exist that may cause towns to want or need to modify plans;
- Towns lose flexibility to respond to the interests of their respective residents in the future, despite any business conditions or market factors that may arise; and
- The proposed structure of WiredWest creates unnecessary financial and operating risks for the towns.

Business Plan Review:

The MBI has also engaged many industry experts, led by a consultant team from Wipro, to evaluate elements of WiredWest's business plan, and to explore and further test various operating models. We will be providing more information in the weeks ahead, and believe WiredWest continues to adjust certain elements of the plan, but preliminary analysis demonstrates that the current draft plan understates challenges and expenses and overstates the amount and timing of anticipated revenues.

Some practical concerns from the business plan review include:

- WiredWest has developed a model which starts up and runs the business independently, rather than relying on professional or technical partners who can bring organizational experience in the business, which is risky given the challenges associated with operation of rural fiber-to-the-home networks;
- WiredWest plans a fully-insourced model of administration, staffing and services, which is expensive and very challenging to sustain. MBI's review indicates a sustainable approach must include contracting out many administrative, service and maintenance operations; and
- WiredWest's plan to repay debt service to the towns will be difficult or impossible to achieve at reliable subscription rates (including WiredWest's proposed ranges from 40 percent to 55 percent subscribers). Towns should assume that they will have to repay most if not all of the debt they borrow.

Our obligation to the towns, policymakers, and taxpayers investing state and local funds is to support sustainable and successful approaches which will expand broadband service for the region. Because of overall concerns with project operations and sustainability, the MBI will not authorize expenditure of state funds for a project with core elements as proposed in this draft operating agreement and business plan. Therefore, the MBI recommends towns not sign the WiredWest operating agreement as currently planned for January 9, 2016.

Moving Forward:

This modeling and analysis also convinces MBI that there are viable approaches to building and operating broadband service in the region. As Leverett's success shows, a single-town approach to broadband service can work. However, MBI believes that a regional approach to

policy making, procurement and shared services is the preferred pathway, and that there are ways to make a regional model work.

If WiredWest can demonstrate flexibility to align with the towns' interests and the state's policies, we can all continue to work together on a substantial, municipally-owned regional project.

The MBI is committed to working with you to develop a sustainable plan for governance and operation of a regional network, and therefore will be prepared to partner with towns on new pathways to successfully expand broadband service as needed.

We look forward to more in-depth presentation and discussion of our analysis with you in early and mid-December, including a series of upcoming community meetings. Thank you again for your ongoing collaboration and commitment to broadband expansion.

Sincerely,

Eric Nakajima

Director

Massachusetts Broadband Institute

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