

Memorandum

To: MBI Governing Board
From: Elizabeth Copeland
Date: April 6, 2016
Re: Discussions with Wired West

This summarizes the current status of our discussions with Wired West about its desire to serve as the network operator for a number of unserved towns in western Massachusetts.

Background

During the development of the Last Mile program, MBI was strongly encouraged by a group of municipalities and others to pursue discussions with Wired West on a sole source basis relative to its desire to serve as the network operator for a “regional build” network to provide ubiquitous fiber-based broadband services to 44 unserved towns. While WW had no experience as a network operator, the municipalities were eager to determine whether WW could assemble the team, information, and resources needed to succeed. In response, MBI determined that it would meet with WW representatives to see if they could produce a sufficiently credible, viable plan that could be used to support a sole source decision about who the network operator should be.

Those discussions were conducted in earnest for several quarters, at which time it became increasingly apparent to MBI that WW was not willing to move off two positions about which MBI strongly disagreed: (i) WW stated that ownership of the network assets would not be owned by the towns under its plan, notwithstanding the contrary policy statement adopted by the MBI Board, (ii) WW believed that a fully-insourced operating model should be adopted, despite the recommendations by MBI that such a model would be unlikely to succeed and would be less sustainable than an outsourced model.

In the late Fall of 2015 MBI expressed its view that the WW proposed business plan did not pass muster due to it (i) not adhering to MBI’s policy on the ownership issue and (ii) not being sustainable in the opinion of MBI’s industry experts.

At its December meeting, the MBI Board requested that MBI and WW continue to discuss these issues to determine if further engagement would produce a different result. Those discussions occurred via two working groups – one on legal and governance issues and one on financial plan issues.

Update

Attached to this memo are two reports from the MBI members of the working groups (Attachments 1 and 2). We recommend you review the reports to get a fuller sense, but in sum the MBI view of current status is as follows:

The discussions were professional and constructive. We commend Kimberly Longey for leading the effort on behalf of WW with a style that was intent on gaining full and clear understanding by the teams about the key issues.

During the course of the legal/governance meetings, WW did adjust some elements of its proposed operating agreement but did not change its original position concerning town ownership of assets to conform to MBI's policy, and also did not alter certain other provisions in the operating agreement that MBI had indicated were problematic. The MBI's view is that the operating agreement presented in the fall and winter of December of 2015 was essentially the same as the version presented to MBI in February of 2016. During that period, MBI had fully identified its concerns and it appeared WW's negotiating team had been discussing those concerns with its members and board. However, at the last discussion of legal/governance issues on March 11, 2016, WW presented for discussion three alternative structures and a handful of edits to the operating agreement. While these changes present movement off of the previous positions, they are not sufficient to alleviate MBI's primary concerns.

The first three financial modeling meetings resulted in a number of significant initial changes by WW to its model by the end of January. Those are summarized in Attachment 2.

At that time, before continuing on with the next steps of the discussions, MBI recommended that WW take the time to step back to examine the model to ensure that its mechanics were properly working, that it had received sufficient review by more than one WW member, and that any revised assumptions WW was recommending be understood and agreed to by the WW team.

WW recently submitted a revised set of materials, a thorough review of which would require the re-engagement of the working groups. As far as we can tell, the initial discussions have not resulted in a material change to WW's view about the relative merits of insourcing vs. outsourcing nor in the presentation of a business plan that appears to be complete and credible in Wipro's view, at least on its threshold review of these materials.

While these discussions were occurring, the Baker-Polito Administration engaged with MBI about the larger context of the last-mile broadband program. When the WW discussions began over a year ago, they were premised on the hope of a comprehensive, fiber-to-the-home network to up to 44 communities. For a number of reasons, including the financing capacities of the towns and the sustainability of the network, MBI and the Commonwealth are now exploring alternative, potentially more sustainable solutions that towns should be considering as choices are made.

As part of that exploration, MBI will be (i) examining the extent to which alternative technologies should be part of the solution, at least in areas that cannot sustain the costs of building or operating a fiber network, (ii) analyzing and developing criteria for approving sustainable operating and governance models, (iii) initiating a process to understand the wider universe of potential network operators, including those who may be able to leverage private sector funds to help make operations more sustainable to the towns, and (iv) exploring federal funding opportunities.