Response to the Withdrawal of Otis from WiredWest

The withdrawal of Otis from membership in the WiredWest cooperative may raise questions from your town officials and townspeople. We are providing this response to help you in answering any questions about this matter. The action by Otis has in no way shaken our resolve to build and operate a regional network, and if anything has underscored the many reasons for our member towns to work together toward that goal.

By going it alone rather than as part of the WiredWest regional network, Otis will face higher costs to build and operate a network serving the town, will be exposed to greater financial and operating risk, including lower potential revenues, and will be able to offer fewer services to its citizens.

Here are specific responses to the seven reasons given by Otis in its withdrawal announcement.

"1) Otis' $1.8 million share of MBI funds does not require that it be part of Wired West."

That is true. However, MBI will require any town seeking to have its own network to demonstrate that what it proposes is sustainable, as WiredWest has done exhaustively in our detailed business plan for a regional network. Because of its high proportion of second-home owners (about 60%), most of whom will only take service on a part-time basis, Otis is likely to have lower average revenue per residence than most other towns in the region and a higher per-customer cost. As part of a regional network, Otis would in a sense be subsidized by higher revenues per residence in other towns. Moreover, on its own Otis will not be able to afford the equipment needed to offer its customers TV service, which 62% of presubscribers to WiredWest have indicated they are interested in.

"2) Under Wired West's proposal, Otis taxpayers would pay for the entire cost of the network (aside from the MBI funds) but Wired West would own and control the network; the Board believes the Town should own and control a $5.5 million dollar asset funded solely by taxpayer dollars; this way Otis can choose its own network operators and internet service providers on a short term competitive basis."

Under the WiredWest plan, towns participating in our regional network will own and control it, with shares in the network proportional to their investment in it. It makes no sense to speak of WiredWest as an entity separate from the towns. We are a cooperative of the towns run by the towns for the benefit of the towns. The economies and efficiencies inherent in a regional network reduce the costs of building and operating in a town and by doing so provide a built-in financial safety margin, and spread the risk. Otis is very likely to spend more money than the town would as part of a regional network. And along with sole ownership and control, the town will face alone the administrative burden of overseeing the construction and operation of the network.

"3) Wired West proposes to only provide "drops" to residents and business owners who pre-subscribe instead of all premises; the Board prefers that all taxpayers receive the same benefit to the greatest extent possible; MBI's total project costs assumes drops to all premises."

The WiredWest network will be attached to every utility pole in a public right of way in a participating town. Service will be available to anyone who wants it via fiber "drops" from the road, and will not be limited to those presubscribing in our Fiber Town campaign, the purpose of which is to demonstrate that there is sufficient demand in a town to justify building there. "MBI's total project costs" were derived from a modeling exercise (which assumed aerial drops to all premises as well as the associated customer premises equipment to which they attach) for the purpose of determining the upper bound of the cost to build in a town. To actually provide drops to all premises, whether or not they take service, is not an economically-sound business practice and will undermine the financial stability of a single-town network. Nonproducing assets are referred to in the financial world as "stranded capital," an ironic phrase in the case of the strands of fiber in those drops.

"4) Wired West is not needed for the design and construction that will be performed by engineers and firms retained by MBI; The Town will enjoy any economy of scale cost benefits derived from MBI's regional design and construction project regardless of whether or not is part of Wired West."

MBI will be designing and constructing the network, but WiredWest is already participating in that process through regular meetings at MBI headquarters in Westborough, whereas individual towns do not have the available personnel or expertise to do so. It is not true that a town going it alone will enjoy the same economies of scale as a town in a regional network. There are many savings in a regional build. For example, Otis will need its own equipment hut or huts (at a cost of several hundred thousand dollars each), whereas several WiredWest towns can share a hut. Likewise, Otis will need to pay Axia for its own redundant connections to the internet through MBI's middle-mile network, whereas towns in the WiredWest network can achieve redundancy through connections in adjacent towns.

"5) Wired West would not operate the network or provide internet services; it will contract out for those services; The Town can contract out for these services itself with assistance from MBI."

WiredWest has not determined to what extent it will build internal operations and service capabilities, or contract them out. This is a decision that will be made by its member towns on the Board of Directors, in light of the costs and benefits of internal vs. external approaches. The Board has the technical, financial and managerial capability to make and implement that decision.

"6) Wired West's business plan includes a substantial sales and marketing staff as well as four officers earning six figure salaries; the Board believes a closed network that will constitute a monopoly on badly needed broadband services does not require a substantial sales and marketing staff; it also believes that a payroll in excess of $1.5 million per year is excessive considering that Wired West will neither operate the network or provide internet services."

To the extent WiredWest needs internal staff will be determined, as noted above, by which functions we take in-house or outsource. The payroll numbers in the business plan are based for now on the assumption that everything is done in-house. Actual salaries will be approved by the town representatives on the Board of Directors, but the numbers in the plan are conservative to

make sure we budget sufficient funds in the plan, and are based on the kind of salaries executives and professionals are paid in this business. As anyone in this business will affirm, success is directly related to the "take rate," the percent of potential customers who sign up. Yes, many people will be eager for service and sign up quickly. But beyond acquiring these early signups, the business will fail if we do not actively market our products, price and sell them to new customers, offer existing customers higher tiers of internet service as well as telephone and TV, and market and sell new services which will inevitably become available as the technology evolves. Sales and marketing is essential to successfully operating a fiber network. This is not a "monopoly". Networks that have not been effective at marketing have failed. We are in direct competition with Verizon Wireless for internet, telephone and television customers.

"7) The Board does not expect that Wired West will be able to generate the revenues needed to repay towns' debt service as it proposes."

This conclusion is an opinion not based on facts. WiredWest's business plan demonstrates in great detail how we will achieve the take rate necessary to generate sufficient revenues to reimburse the towns' debt service. It is not a guarantee, of course, but has a high probability of success. On the other hand, the profit margins required by a private contractor to a town will reduce the revenues available to repay debt service.

All of us in WiredWest have worked for many years to achieve a viable solution for our lack of broadband. We can all be proud that without the tireless advocacy of WiredWest, we would still lack a last-mile solution for our towns. We have come this far by standing together. We will reach our goal by continuing to work together as a cooperative committed to achieving our goal.