Transcript of the Centerville City Council **work session** held Thursday, February 13, 2014 at 6:05 p.m. in the Centerville City Council Chambers, 250 North Main Street, Centerville, Utah.

MEMBERS PRESENT

Mayor	Paul A. Cutler
Council Members	Ken Averett (arrived at 6:35 p.m.) Tamilyn Fillmore Stephanie Ivie Lawrence Wright
MEMBER ABSENT	John T. Higginson
STAFF PRESENT	Steve Thacker, City Manager Blaine Lutz, Finance Director/Assistant City Manager Lisa Romney, City Attorney Katie Rust, Recording Secretary
VISITORS	Nicholas Hann, Macquarie Senior Managing Director David Owens, IO Data

TRANSCRIPT OF WORK SESSION WITH MACQUARIE REPRESENTATIVES

(Beginning at recording position 2:50)

Nicholas Hann - Thank you very much Mayor, thank you Council members. It is a pleasure. Can everybody hear me? (discussion regarding microphone) Really, I'm at your disposal. I'm happy to answer any questions that you have at any time. With your permission what I plan to do is to spend a few minutes introducing Macquarie, my company, and give a little bit of our background. Then, obviously, describe a little bit about the PDA. As a legal document it makes dry reading, so I can expand a little bit on the intent of the PDA – what's actually happening, what we're working on at the moment. Then I can give you an update on where our thinking is about this opportunity. So with your permission, I'll kick off with that.

My name is Nick Hann. I am a Senior Managing Director with Macquarie. I co-head our public infrastructure group here in North America. I'm actually based in Vancouver, Canada because British Columbia was one of the first jurisdictions in North America to formally embrace a delivery model called Public Private Partnerships. (brief interruption by Mayor Cutler) I have been based in British Columbia for the last twelve years, before that working around the world including in Australia, Asia Pacific, and the United Kingdom, mainly in this field of public infrastructure. Macquarie is an Australian headquartered financial services group. I used to describe us as the Goldman Sachs of Australia. Maybe Goldman Sachs isn't quite as popular now days here, but we're a very large innovative investment bank in the Australian market. We're publicly listed on the Australian stock market. We are a widely held stock. There's no dominant share holder who owns us. We are quite large. We have a market capitalization of about $16 billion US dollars. We have a balance sheet of about $40 billion, and assets under management of about $360 billion, so we're a substantial player. That doesn't make us quite as large as some of your Wall Street investment banks, but we are a substantial player in financial markets, and we conduct most of the activities that you would normally expect to see of an investment bank.

In the infrastructure area, though, we're a little bit different. Macquarie is often regarded as the pioneer of private sector investment in public infrastructure. The best way I can explain that is that Australia - quite a big country with a small population, small tax base, lots of infrastructure

needs – introduced the private sector into the provision of public infrastructure a little bit earlier than most countries, around twenty years ago. Macquarie built expertise in investing in public infrastructure assets. We're now probably one of the world's largest investors in the infrastructure space. Of the $360 billion I mentioned of assets under management, about $55 billion of that are infrastructure assets around the world. We've been here in North America and the United States for over twenty years, and now a significant portion of that $55 billion of investment is here in the United States. And of about 15,500 Macquarie employees worldwide, about 6,500 are here in North America – so a very significant presence here over the long-term.

Talking about public infrastructure a little bit – what do I mean? We are the investor in assets like roads, airports, ports, electricity companies, gas companies, water utilities. In many countries we provide basic municipal infrastructure like schools, fire halls, stations, hospitals. Where we're basically providing the physical infrastructure for government to then deliver the services it delivers. In that business, we are not only a financier, but we're a developer of infrastructure. So we take the risk of designing, building, operating, and maintaining the infrastructure assets over the long-term. Typically over 30 or 40 year concessions. Here in the United States, just to give you a bit of a flavor, we own about 10 toll-road assets around the country. We own port assets. We own a big integrated electricity utility in Washington State called Puget Energy, a similar integrated electric utility in Pennsylvania called Ticana Light and Power. We own a water utility which serves the states of New England. If you have a holiday home on the island of Hawaii and you use gas, we provide all of the gas services for the island of Hawaii, just to give you a flavor of the types of assets that Macquarie owns, manages, and invests in. In the telecommunications space, we are a provider of core infrastructure. We are not a telecoms provider, but we are a provider of core infrastructure to the telecommunications industry. Here in the United States, we are the majority investor in Global Tower Partners, which is a large cell phone tower company. We effectively own the towers and rent the space on the towers to telecommunications providers. We have been a significant developer of fiber optic networks. One example I like to give, because I think it's quite illustrative of the trust which public sector entities place in us, is that Macquarie provides all of the emergency communications services in the United Kingdom. So when a police officer, or a fireman, or a member of the ambulance service, or the Coast Guard Search and Rescue pick up their radio handset to contact their colleagues or their headquarters, they are using a Macquarie supplied network, which I think illustrates the confidence and the faith which our government partners place in us to deliver reliable infrastructure services over the long-term. Around the world, about 100 million people use essential infrastructure services managed and provided by Macquarie on a daily basis. About 100 million people, everyday, use Macquarie essential services.

Why and how do we do this? The why is, Macquarie identified a little earlier than many other financial investors that infrastructure assets are very attractive long-term stable assets, and so we attract long-term investors like pension funds, life insurance companies, university endowments, that typically have 30 or 40-year liabilities. Those companies invest through Macquarie Funds in infrastructure assets that they expect to pay them a stable rate of return of investment over the long-term. So this isn't cutting-edge, exciting venture capital – my boss once said to me, "Nick, remember what we're interested in ranges from the barely interesting to the deadly boring." What we've become very good at is effectively taking the performance risk. We're very good at delivering complex infrastructure projects on time and on budget, which typically government agencies are not so good at delivering. And we also deliver those projects to delivery-required performance standards over the long-term, typically 30 or 40 years. So we're effectively taking the risk of not only building the asset, but whether it meets the required performance standards for the long-term. Often the operations, maintenance, and refresh costs, particularly of a network like this, can actually be significantly greater than the initial capital costs of building it out. So we're not only financiers, we are experienced developers and

managers of infrastructure assets. We get paid a return on our investment only if the asset performs over 30 or 40 years. We're not lending you money; we're basically providing a service over a long-term service contract. If we don't provide that service then we don't get paid, and our investors lose money. So we're pretty strongly incentivized to ensure that the service actually performs over the long-term.

This model, which is typically called a public private partnership, has now been used around the world over the last 20 years. Canada started using this model extensively about 10 years ago, and has now completed over 650 major projects using this type of model. The U.S. was a little slower than some other countries because you have such a deep municipal finance market, but really started using this model from about 2004 onwards, and now is getting much more excited about using the PPP deliver model much more extensively. The reasons are that almost invariably we find that we can deliver infrastructure between 20% and 30% cheaper than the government can do on a capital basis, and on average 20% cheaper on a long-term operation and maintenance basis. So there are huge cost savings to be achieved by using the PPP model. And as those cost savings have become apparent in U.S. projects, more and more U.S. state and municipal governments have been adopting the same delivery model. Now the criticism of our model here in the United States used to be that our cost to finance is higher than your cost as a government to go out and borrow. What's happened is that your cost of borrowing, at least as a margin above the U.S. government cost of borrowing has increased somewhat, and our cost of borrowing has come down significantly such that there is now a relatively small differential, which is entirely offset by the cost savings that we can achieve. It is that recognition of the combination of this being an efficient way to finance assets, and the risk transfer and cost savings are really what is driving the growth of Public Private Partnerships here in the U.S. Let me pause there and see if you have any questions on Macquarie or the broader infrastructure model.

Randy Randall – Have you done telecommunications like this before, where you do it to homes and businesses specifically?

Nicholas Hann – We've done a lot of fiber optic networks. We haven't done many fiber-to-the-home networks simply because there haven't been many to do in the past. We are an investor in cable companies in other parts of the world, so we have experience. We also have experience obviously as a utility provider - as a water provider, as an electricity provider, as a gas provider. We have a lot of experience providing services at the retail level to households, but we haven't done many fiber-to-the-home projects simply because as of yet there haven't been many opportunities to do many fiber-to-the-home projects.

Councilman Wright – Can you go back and review how you get your revenue? What is the revenue stream? I would assume that when you've got a Public Private Partnership that there might be some sharing. Could you talk to that for a minute?

Nicholas Hann – Yes, certainly. Broadly, and we can obviously come to more details of this proposed transaction, but broadly there are two types of model. There is one that we call the availability payment, where we get paid by our government counterpart based on the performance of the asset. So if the asset is available, it's meeting all performance requirements, then we get paid. If the asset is not performing then there are deductions to our payments, and possibility no payments at all if it is seriously underperforming. So that's the availability payment model where we get paid entirely for performance. The other model is a demand model, where we take the risk of demand for the service that we are providing. And a good example of that would be a toll-road, where we take the revenue risk of whether people are wiling to pay a toll to use that particular road. So we see and operate in both those models,

and we obviously operate in hybrids between those models as well. In terms of revenue sharing, typically - I mentioned that the range of our activities is between the barely interesting and the deadly boring – typically we're not looking to make very high rates of return. We're looking to make stable rates of return. And so typically the cost of capital for an infrastructure PPP is at the moment around the 6.5% to 7% range. So it's quite a competitive cost of capital for the risk transfer.

Mayor Cutler – That's your cost of capital? Or that's UTOPIA's?

Nicholas Hann – So that's the total cost of financing, and that's a mixture of debt and equity. Typically Macquarie is a provider of the equity, of the risk capital to these assets. And then we go out and source debt in the market. Often we'll go to the same investors who may have bought your municipal bonds. The important thing is that that debt is our debt. It's not your debt. It's not a debt obligation of the cities.

Councilman Wright – I'm just, $300 million for example, I guess we're going to get into more of that and how this model is going to be translated into this particular project. But I'm assuming that I just need to listen. These are some questions that we're going to come back to.

Mayor Cutler – One question about how you handle the structure of projects in general - when you go into a market and contract an infrastructure project, how do you go about developing a team that manages and operates that project? Do you bring in Macquarie people from outside? Do you try to hire local? Do you partner with local companies?

Nicholas Hann – I think really all of the above, depending on the circumstances. So, we will typically hire a local team who will, I guess, directly manage activities for us. We are obviously experienced developers, so we make sure we hire the right people. We make sure that we give them the resources they need, and we will support them in our managerial and board level. I mentioned that Macquarie has about 15,500 Macquarie employees. We are a mix of backgrounds, but most people who carry a Macquarie card are financial people. We have quite a lot of technical people, but the majority are financial. But the portfolio companies, the companies that we're invested in, have about another 75,000 employees. And those generally are people with a lot of technical and operational expertise, and so we have the ability to bring that expertise to a new project. So if we find, for example, that the design of the network is more complex that we'd first thought, with problems, we can bring expertise in from those other Macquarie companies. We also hire and use consultants and partners extensively as well. So there's no single rule. It really depends on the demands of each situation.

Councilman Wright – Nick, you talked about performance risk and performance measures and criteria, (a few words not audible), which I think is really great. Is it local government then, that helps to determine whether or not you are meeting those performance, so that they would actually be doing that? So in this case it might be UTOPIA at some point actually kind-of looking over your shoulder to ensure those measures are being met?

Nicholas Hann – Exactly, yes.

Councilman Wright – I'm thinking you want me to talk into the microphone.

Mayor Cutler – It's mostly for your few fans out there.

Randy Randall – How close are any of your company people that you have in the United States to us? Do you have any corporations or stuff that are fairly close to us now?

Nicholas Hann – We have people across the U.S. amongst our various activities. We have I think we're up to about 23 offices. I think a lot of our technical expertise is probably on the east coast currently, in the telecoms sector. But it's pretty well spread around the country.

Randy Randall – Do you have anything else that's not telecommunications anywhere close to us?

Nicholas Hann – We have extensive activities in Colorado. In Washington State, as I have mentioned, we are the majority owner of a large integrated electricity there. We have a lot of presence in Canada as well.

Mayor Cutler – Let's talk more specifically about what you are proposing.

Nicholas Hann – Great, thank you. Macquarie is very interested in this space. We see the growth and expansion of broadband communications as a critical infrastructure set going forward, so we've been looking for opportunities in this space. We've also, based on our U.K. experience, been looking at emergency communications in the United States, which needs a great deal of additional investment in coming years. As a result of that, and of finding a local partner here in Utah and Idaho who were originally looking at the emergency communications space, we identified UTOPIA and thought that it looked very interesting. I guess what we like is the business environment in Utah. We like the demographic environment. We like UTOPIA's business model, which is a good fit with ours, which is the provision of open-access infrastructure to service providers who can then come and use that infrastructure to provide a service to the end customer. So the business model of UTOPIA was one we liked and appreciated, and it fit well with our business model. It seemed to us that UTOPIA was an interesting situation for us in that we saw it as a good model that had experienced delivery problems. Problems in terms of actually delivering what it intended to on budget and on time, and actually meeting performance requirements necessary to actually encourage service providers to use the network. So we thought it was quite a good fit from that point of view, because what we're very good at – or what we think we're very good at – is actually delivering infrastructure services, infrastructure performance. So we came and presented ourselves to the UTOPIA Board almost a year ago now, in April of last year. They got to know us and we got to know them, and that ultimately led to the signing of the PDA in early December.

The PDA is, as you are aware, is split into four milestones. We're in the middle of Milestone One at the moment. Milestone One is, effectively, what I would describe as a scoping study. We're in essence acting as UTOPIA's consultant, working out how much it would cost to build-out the network to full-scale, what risks are involved in that, what things they've been doing well, what things they've been doing badly, what might need to change to put UTOPIA on a fully commercial footing. In doing that scoping study, Macquarie is using our own resources, we're using the resources of our local partner, and we've hired a significant number of consultants that we're paying to provide various services for us. Macquarie is meeting all of the costs of that. That's not a cost obligation of UTOPIA. At the end of Milestone One, which is probably about another six weeks away, we're intending to bring to you basically a report - a feasibility study – on the feasibility of a build-out of the network. And we'll also be bringing you basically a proposal from Macquarie of how we would propose to do that, what commercial, financial, and technical structure we would propose to use to deliver the build-out of the network. You will then, as UTOPIA and as individual cities, have the ability to choose what you do next. We are certainly hoping that you will choose to proceed with Macquarie and with the Macquarie proposal, in which case we will proceed into further milestones of the PDA. You will gradually through those milestones be increasing your commitment to us, and we'll also be increasing our commitment to you, by increasingly locking in what we're promising to do in greater detail as we

move through those milestones. The intention is to defer as much of the cost to later milestones as possible, so that we both have as much certainty as possible before we start spending significant money.

If we do that, then we're hopeful that we could get through all those milestones, get to a close of the transaction and actually start build-out, by the summer of this year.

Steve Thacker – By this summer you mean end of the summer?

Nicholas Hann – We're targeting early summer currently.

Councilwoman Fillmore – And that's the final of Milestone Four?

Nicholas Hann – That's the end of Milestone Four, that's right. That's right. Now, obviously that's if all goes well. You may look at our work and say, well, this is great, but we'd like to give this work to somebody else and let somebody else have a look at this. In which case, UTOPIA has the responsibility to pay us for the out-of-pocket that we've incurred. Not any Macquarie time or our costs, but simply the cost of the consultants we've hired. You'll have the ability to use all the information we've provided. So that's why I say, in some sense, we're effectively acting as your consultant through Milestone One. You obviously have the ability to decide that it all looks too hard and you don't want to go ahead at all. And you have the ability to come back to us and say, we like this part of what you're proposing, but we'd like to do something different in this part. So really, at the end of Milestone One, you hopefully will have all of the information necessary to make those choices and decide what you want to do next as cities.

Councilwoman Ivie – Now is this an all-or-nothing? Suppose that one city says we don't like it, but the other ten say they do. Then what happens?

Nicholas Hann – Sure. We certainly hope that all eleven cities in the existing UTOPIA will like what we're proposing. We hope that everybody will come on board. But as long as we have enough cities proposing to go forward to give the transaction enough scale, then we would go forward just with those cities who decided to progress with the transaction. It doesn't need all eleven cities.

Councilman Wright – Will you also be expanding the network over time to other surrounding communities that are not part of the UTOPIA network?

Nicholas Hann – We're very much hoping that we'll attract additional cities. Certainly early indications are that there are a number of cities that are very interested in joining. There would be a difference, in that all UTOPIA cities will be treated the same, and a new city joining – we will cost the build-out for that city separately, and we'll set a price that is the build-out for that city plus a premium that would come back to the member cities, the founder cities, to defray some of the early investment that they made in the network.

Councilman Wright – (something about sharing, unclear)

Nicholas Hann – Yeah, but we're certainly hoping and expecting that some additional cities will join. There is also the potential, obviously because we do a lot of design work heading to a financial close, there won't necessarily be the immediate ability to allow cities to join at any point in time. But we'd certainly hope that we could leave some flexibility for cities who didn't join immediately, or other cities to join at a later stage in a sort of second closing.

Councilwoman Fillmore – That was one of my major questions that you just touched on – the potential for revenue and revenue sharing that could go to paying down our bond debt. You mentioned that you're bringing in other cities. What are some of the other things that you see as potential to help pay that initial investment down?

Nicholas Hann – So the way we see it, is that the fundamental problem of UTOPIA is that the network isn't at scale. The network was intended to serve 155,000 addresses. Practically, it's only capable currently of serving about 20,000 addresses, of whom about 11,000 are actually users of UTOPIA. So the fundamental problem of UTOPIA is that it doesn't have sufficient scale, and that has a number of effects. Firstly, it's not generating the revenues necessary to service the debt that you as the cities took on. Secondly, it's not attracting bigger service providers with more comprehensive offerings because it doesn't have enough subscribers to make it of interest to bigger service providers. So both of those things are effectively holding back its revenue generation. We are quite confident that with a build-out to scale, and a confidence that somebody like Macquarie is backing the network for the long-term, we'll be able to drive much more significant revenue from the network.

Steve Thacker – Now Nick, when you talk about scale, I just wanted to clarify, you're not referring to the idea that the existing backbone is insufficient to provide services to these hundreds of thousands are you? You're saying that the number of subscribers isn't to scale to accomplish what they need to do. The backbone itself of the network is rather robust isn't it?

Nicholas Hann – The backbone of the network itself is robust, but it doesn't yet pass the majority of houses in your communities.

Councilwoman Fillmore – The reach.

Nicholas Hann – Yeah.

Mayor Cutler – There are some of us who believe that the problem with UTOPIA is not that it doesn't pass enough homes, but that we haven't been effective at capturing a large enough take-rate, a large enough number of homes . . . (not clear). Do you see that the problem is more that we haven't passed enough homes? If we just pass enough homes then the take-rate will increase?

Nicholas Hann – It's partly passing enough homes. But passing enough homes is really a factor of attracting, um, when you attract enough homes, you attract additional service providers to operate on the UTOPIA network who provide a greater range of product offering, which improves the take-up. So for example, there's not really a good television offering on UTOPIA currently, which is significant for subscribers. UTOPIA, in the past, has had to charge connection fees, which can be a significant barrier to new subscribers to the service. So it's not so much that just by passing new homes by itself you automatically increase the take-rate. It's more a function of what greater scale and greater ubiquity of the network does in terms of improving service offering from service providers using the network.

Councilwoman Fillmore – Tell me if I'm jumping ahead with this question, and I'll back off and save it. But you talked about your different payoff structures, the availability payment, and from what I've read I assume we're going the availability payment route. And I'm wondering if I'm understanding correctly that that would be funded with the utility fee. So the availability payment that would go to you for your investment would be funded with the utility fee, correct?

Nicholas Hann – That's correct. So I guess the intention of this transaction is that there would be a quick and ubiquitous build-out. So it wouldn't be out like, say, Google in Provo, where they're encouraging neighborhoods to show that they're interested and sign-up, and then they'll build-out the neighborhood. This would be a quick and efficient mass build-out of the network, as was originally intended but not delivered by UTOPIA.

Steve Thacker – Meaning over two or three years, is that right?

Nicholas Hann – Our current assumption is 30 months. That may be a little aggressive, based primarily on just the capacity of the construction labor force to do it that quickly. But we gain a lot of cost efficiencies by rolling it out as quickly as possible. The concept is that this is a ubiquitous roll-out. Everybody gets the service on an equal basis, and in return for the provision of a basic service, there would be a utility fee levied on people taking access to the service. So effectively it would be similar to the provision of an electric connection to a house. If a house has the electric connection, even if it's generating most of its electricity through solar panels, it still pays for the capacity provided by the electric connection. The same as the provision of, say, a water main or a sewage main. This is a basic utility being provided. Now in return for that utility fee, every household will get a basic service without any additional charge, and then would have the ability to upgrade that service to something of higher capacity by interacting with a service provider and buying a package from the service provider.

Councilman Averett – What is the triggering mechanism to charge residents that fee? With water and electrical it's the installation of a meter. What is the triggering mechanism?

Nicholas Hann – Everything I'm telling you now is a work in progress. It's what we're crunching through at the moment. The current thinking is that we would provide the installation of fiber optic cable to an access portal on the side of every house. To a multiple density unit it would basically go to the telecoms cabinet in the building similar to a business. That would basically provide capacity of up to a gigabyte to every household and business. The householder would then basically decide which service provider they wanted to use. For somebody who is actually handy, you could plug a cable into our access portal and bring the service inside your own home, you don't need to be that expert. You probably need to be a little more expert that I would be myself. Most of us are probably going to use a service provider, but you would be able to bring the connection into your home on a free basis. Then only if you choose to use more than the basic service would you pay any additional fee to a service provider.

Councilman Averett – That residence is going to pay that fee whether they actually end up using the service or not.

Nicholas Hann – That's the thinking, yes.

Councilwoman Fillmore – Now this is a utility fee going to a private provider which I was wondering if we have . . .

Councilman Wright – The utility fee will come to the City.

Nicholas Hann – That's right.

Councilwoman Fillmore – I understand, I just was wondering if there are local examples of that, because that's a very unique . . .

Councilman Wright – Well look, we're doing that now with UTOPIA (the rest of the statement is not clear). We're collecting UTOPIA . . .

Steve Thacker – We're collecting the connection fee and paying it on to be applied towards the UIA debt and operating . . .

Councilwoman Fillmore – Besides UTOPIA, which is (not clear), do we know of other examples where that's happened?

Mayor Cutler – Well, an example might be our garbage service. We charge a garbage fee, a flat garbage fee, depending how many garbage cans. . . (unclear), that's different that the amount that we actually pay to Rocky Mountain. . . (much of statement is not clear). We take some to cover the cost of the cans. In certain cases. . . (unclear).

Steve Thacker – And some to pay for disposal at the landfill.

Councilman Wright – Let's take this one step farther here. We've got some old people.

Councilwoman Ivie – A lot of them.

Councilman Wright – Lots of people that are getting old. Not like me. Let's say they don't use a computer, and their families have given them a cell phone, so they don't have any need for this utility. Is there going to be an opt-out provision for this, or a provision to opt-out?

Nicholas Hann – We're conducting market research at the moment. We're undertaking polling. We're defining what the basic service is. However, the intention is to structure a basic service that I guess has something for everybody whether it's a phone line, the ability to provide security services, an internet connection, a cable television connection. The intent is to provide a basic service that does have something for everybody. It's not intended that there is a specific opt-out provision. It is intended that this is a ubiquitous roll-out. However, there will be flexibility for individual cities to choose to not levee a fee on low-income households or seniors, for example, and spread that cost over other members of the community instead.

Steve Thacker – Would you talk about the revenue sharing potential for up-selling? That has been mentioned in the document hasn't it? Back to your earlier question, Tami, as potential source of revenue for helping us with the existing debt. One would be the premium from other cities that you mentioned that are not UTOPIA cities, but isn't there also potential for revenue sharing from up-selling?

Nicholas Hann – Exactly. The concept here is that the utility fee would pay for the build and the operation and maintenance, the ability for the system to perform for 30 years. And that is effectively all that Macquarie would receive. The vast majority of the wholesale revenues; the revenues from up-selling a greater level of service than the basic service. Those would flow back to the cities and would be used to defray the existing debt obligations. So in that sense, I guess, very different from say the model in Provo, where there's not that extent of revenue sharing. So as I said, we're kind-of boring infrastructure investors. We're willing to take the performance risk and give the cities the majority of the upside.

Councilwoman Fillmore – Before you move on, I just want to make sure my first question is answered. Do you feel, Paul - do you feel, Steve - do you feel, Nick, that that's comparable, this utility fee going to Macquarie for their service as a garbage pick-up?

Mayor Cutler – I think it's a little bit different because in the case of, several people, I believe, can opt-out of garbage. . . (many people talking at once, unclear).

Blaine Lutz – Under the terms with Wasatch Energy, every household is charged $5.25 per month, per can.

Councilman Averett - What about businesses?

Blaine Lutz - Businesses are on their own because they do not provide business garbage service.

Mayor Cutler – That's how we've arranged it with . . .

Blaine Lutz – We have to pay them $5.25 per can no matter what.

Councilwoman Fillmore – A follow-up question is Centerville has a unique situation in that we are built-out and our residents who have the service paid a connection fee. What are your ideas and suggestions regarding how that would work?

Nicholas Hann – Effectively we treat that connection fee as prepayment of the utility fee. And so a resident who has already paid the connection fee won't pay the utility fee until the utility fee has reached the amount of their initial payment of the connection fee. So effectively they get a rebate.

Councilwoman Fillmore – For those who pay a lease payment?

Nicholas Hann – The same for those who pay the lease payment.

Councilman Wright – So you're looking at how much they paid when they initially signed-up, give them credit for that, and then you pay off the balance they may still owe on that? Or do you have them continue paying on it, and you just give them credit? How does that work? I think you're familiar with . . . (unclear, talking in the background) . . . $50 connect fee. Many people financed that.

Nicholas Hann – My understanding is there are effectively two categories. One category is someone who paid $2,800 upfront. Those people would get the $2,800 back as a credit against the utility fee. For those people who have financed the payment and are making a monthly payment, they would continue to do that. As currently scheduled, they would continue to make that payment to UIA, and that would offset any obligation to pay the utility fee.

Councilman Wright – Ok, now the intent of that payment was that the homeowner would actually own the connection from the road to the home. And so you are, in essence, almost buying back that connection.

Nicholas Hann – One thing I should probably have mentioned earlier, is that when Macquarie finances these assets, whether it's a road or, we don't actually get to own the asset. You continue to own the assets. We effectively get a right to use the assets to deliver a service over a period of time. What that means is that, you know, if we don't perform, you just kick us out and you continue to own the assets, and at the end of the concession you get to keep the assets. There would be no problem with that homeowner continuing to own the connection from the road to their home, whether that's new or existing.

Mayor Cutler – Essentially, you apply that fee as a credit towards the utility fee . . .(unclear). . . utility model.

Nicholas Hann – Yeah, it's basically to bring everyone back to an equal basis.

Councilman Wright – So let's say that individuals paying on this now are paying a loan, they make the decision to pay it off, is there a trigger then to you that they need to pay that normalizes to what they . . . ? (Start of sentence unclear) . . . using services being off-set, at some point when they pay that off then all of a sudden it triggers this other commission? (unclear)

Nicholas Hann – Yeah, that's right.

Steve Thacker – Tami, on your question about other similar situations with cities. I'd be interested in the answer to that if you were to ask that of Kaysville, or Bountiful, or other cities that have their own electric utility systems, for example. I'm assuming, although I do not know, that, as you said earlier Nick, there is probably a basic charge per household regardless of whether they use that electricity, or how much electricity they use. Is that right, Nick?

Nicholas Hann – Yes, that's typically correct.

Councilwoman Fillmore – But I was thinking of so many examples, and those are all publicly owned. And your point is that they are still publicly owned, but this is a unique situation in that these partnerships are quite cutting-edge.

Nicholas Hann – Well, they've been around for about 20 years.

Councilwoman Fillmore – But I was looking for local examples. Local examples.

Nicholas Hann – I guess what we see is that it's not much different to a city levying a fee for garbage collection and then outsourcing that garbage collection to a private provider. If the private provider doesn't do a good job, you sack them and bring somebody else in. We're effectively a service provider to you, we're a service provider that's also taking the risk on the asset used to provide the service and we're financing that asset. To my mind that just makes us more focused on performance because if we don't perform we lose our investment, we lose our asset.

Councilman Wright – And Tami won't be re-elected.

Councilwoman Fillmore – That's right.

Councilman Wright – Let me ask another question, and it has to do with the existing UTOPIA assets. UTOPIA has spent a lot of money on creating a NOC (Network Operations Center). They have (unclear) that. They have vehicles that are assets. They are obviously not going to need the NOC, if we decide to go with this Public Private Partnership. So I guess you just leave it to them and the cities how to deal with it. (Quite a bit unclear). . .you are certainly not going to use the UTOPIA NOC.

Nicholas Hann – Our expectation is that we would take over the UTOPIA NOC. We may obviously have to upgrade it, refresh it. But our expectation is that we would take over the operation of the existing network to continue to provide the service. In doing that, we would also absolve the operating deficits that UTOPIA currently has.

Councilman Wright – Are you saying just the operation expenses? The costs to operate?

Nicholas Hann – Yeah.

Councilman Wright – No the debt?

Nicholas Hann – So, the current thinking is that, if this transaction goes ahead, that UTOPIA and UIA would shrink to a very small organization that would effectively only have two functions. It would still legally be responsible for the debt, and would have to make sure that it was performing within the debt covenants. So that would be one function. The second function would be as a contract manager of Macquarie basically just looking over us making sure we're meeting the performance requirements. All of the other UTOPIA employees, all of its assets, would be taken over by us. Now, importantly, we don't take ownership of those assets, we get what we are effectively calling indefeasible right of use of those assets for a 30-year concession, provided we are performing. We would effectively take over the existing UTOPIA. We would almost certainly re-brand UTOPIA. It wouldn't be UTOPIA anymore because I think UTOPIA has some negative service connotations in the marketplace, so we would be re-branding UTOPIA and then offering it as a new service.

Steve Thacker – Regarding the 30 years, there would be an availability payment established, but what will determine and govern how that availability payment increases over the years?

Nicholas Hann – So, we would propose right from the outset, so you know, by this summer, we would propose to fix the availability payment. If we've got our cost estimates wrong, and we have to spend more money to meet the service, that's entirely our risk. You wouldn't pay any increase in the availability payment. The availability payment would be fixed from the outset.

Steve Thacker – For 30 years?

Nicholas Hann – For 30 years. By the end of Milestone One we'll give you, what we hope will be a narrow range for the utility fee, and then we'd get into a single number. So that's, you know, in terms of Macquarie's cost commitment, it would probably make sense for the utility fee to escalate at some sort of inflation index. Because obviously if you set a fee today and you don't escalate it . . .

Steve Thacker – You've got built in initially all that, yeah . . .

Nicholas Hann – Exactly. But it would be a fixed escalator rather than . . .

Steve Thacker – Some kind of index.

Nicholas Hann – Exactly. If we've got it wrong that's our risk. The utility fee doesn't go up if it costs us more to deliver the service.

Steve Thacker – Other than by an agreed upon index inflator.

Nicholas Hann – Yeah.

Steve Thacker – I do have another question.

Mayor Cutler – (unclear)

Steve Thacker – You mentioned earlier the Google arrangement in Provo. I'd be interested in your take on the advantages and disadvantages of this open-network approach, where you have a number of providers, versus the Google approach, which I presume is rather a closed network.

Nicholas Hann – Yeah.

Steve Thacker – From your perspective does this open network provide long-term advantages over the Google approach? And does it have some disadvantages over the Google approach.

Nicholas Hann – So, the way we see the advantages – they are fundamentally different models, in that, as you quite rightly say, the Google approach is a proprietary approach. You know, if you sign up to that network you're getting Google. Whereas, UTOPIA would remain an open-access network which could be used by any service provider. So as a householder, you have a lot more choice of service provider, through the proposed open-access approach. Secondly, you get to continue to own the asset, which it is my understanding is not the case in Provo. They have effectively sold the asset to Google for $1; and thirdly, the revenue effectively comes back to the cities under our approach. Which I don't believe it does under the Google Provo model. So those would be the three main differences.

Steve Thacker – Are you convinced that the open-access, the competition among providers, will tend to hold down the long-term service provider fees as opposed to a monopolistic arrangement?

Nicholas Hann – There is certainly a lot of evidence of that from markets where there has been open competition on open-access markets.

David Owens – Studies show that if you bring in a second cable provider, prices go down 17%.

Councilman Wright – Nick, two quick questions that are all . . . (unclear) . . ., obviously, but they are worth asking. The first question is the ISP for basic utility service. That ISP is going to be provided by your company, right?

Nicholas Hann – No. We would strictly be, and I think this is a very important part of the open-access – we would be providing the infrastructure for any ISP who wanted to use it. We would not ourselves be an ISP, and one of the consistent complaints we've received from ISPs is that the current UTOPIA tries to interfere in their business too much. So we would simply be a provider of the infrastructure, the network.

Councilman Wright – So then that means that you would probably draw up the contract to ISP providers to provide the basic service to everybody.

Nicholas Hann – What we're currently negotiating with the ISPs is that in return for getting access to UTOPIA network, the ISPs would commit that they would provide the basic service for free. And that in turn would give them the ability to then up-sell that customer to a higher service. The reaction of the ISPs to that idea has been very positive. So what would happen in practice, is that as we roll out the build-out to a neighborhood, we'd run an education program on what was happening, what was coming, what options people have. A householder would effectively have a list of service providers, and they'd tick the box. They'd say I want service provider "X" to provide the service to me. That service provider would then provide the connection from our box on the outside of the home, to the inside of the home, and agree with the householder what service was provided if the household wanted a higher level of service.

Councilman Wright – You're making the assumption that the household is going to want to check the box, and so . . .

Councilwoman Fillmore – (unclear)

Nicholas Hann – A household doesn't have to check the box. As I mentioned, if you have any skills as a handyman, you could actually do it yourself and avoid the service provider entirely.

Mayor Cutler – But you have to have an ISP to get internet access.

Nicholas Hann – You can actually go and buy your own to make . . .

Mayor Cutler – (unclear)

Councilman Wright – (Beginning of statement too soft, unclear) . . . and that is to do with the end of Phase One and your proposal. Will you include in that an amortization or schedule that shows what that revenue stream could be coming back to the cities and we can look at that . . . (unclear)?

Nicholas Hann – Yes, that would be part of the Phase One work. The assumptions on how quickly the existing debt could be paid down.

Councilwoman Fillmore – So the question I have is tied to the discussion about the ISP providers and the open market. The document speaks a lot to an anchor tenant, and so my assumption was that an anchor tenant would be the one tenant who provides the basic service for free. So I was pleasantly surprised to hear you explain it the other way. Tell me what would separate out that anchor tenant.

Nicholas Hann – I think the anchor tenant concept, and again this is why sometimes it's a work in progress. Ideas that are thought about sort-of seem as if that's the way we're going. UTOPIA was very keen on the concept of an anchor tenant because they had always felt that the lack of a large anchor service provider had been one of their weaknesses. What we're hearing as we talk to the service providers is that they're very open to the concept of providing the basic service to subscribers who tick the box for them. We've also been talking to large service providers who are not currently using the UTOPIA network because of lack of scale, and they're very excited by the certainty provided by Macquarie's involvement in terms of delivery. So while everything is a work in progress at the moment, the perceived need for an anchor tenant is perhaps decreasing currently compared to what we thought when you saw that earlier document. Having said that, one of the weaknesses we've talked about in UTOPIA is that it doesn't really have a strong television product at the moment, so it could be that some sort of anchor television product is important.

Councilwoman Fillmore – Are you saying that the idea of the need for an anchor tenant was more coming from the UTOPIA side of the agreement?

Nicholas Hann – That's correct, and as we do due diligence on those assumptions that might be changing a bit. Certainly the message we've been getting from the service providers is – give us a level playing field of infrastructure, guarantee the network performance to us, and we can do the rest – that's the very strong message coming from service providers. I think UTOPIA, because of its prior history, is sensitive to that. It's sensitive to making sure that it can step in and assist if, for example, a service provider fails. The message we're getting is we can find other ways to handle that situation.

Councilwoman Ivie – Can I go back? You said the city individually would have some leeway on whether to charge low-income housing. Will there be a basic fee that you expect from the city as a total of what the city provides, and the city figures out how to collect that from the users? Is that what I'm understanding?

Nicholas Hann – So yes, effectively, I guess we see our job as defining the cost of providing the services to all of the addresses in the UTOPIA cities on a per month utility fee basis. And then exactly how cities propose to address that is up to individual cities. I think it's generally expected that the utility fee model will be the basis, but a city could choose to set a utility fee that was lower and top it up with other revenue sources. A city could choose to collect a utility fee that was higher and use it to defray some of the existing debt obligations. A city could choose to rebate the utility fee for certain segments of its population, you know, low-income families and seniors, for example. There would be a lot of flexibility for cities to make what choices they wanted to. The only cautionary note I think is that the idea is one of a flow-through where cities have an obligation to act as our collection agent, but don't actually have an obligation to make the availability payment directly, and therefore this is a service contract that is not a city debt. Obliviously if the city gets too much in the business of standing between that utility fee and the PPP then it might start to take on obligations on its own books. But really, from our point of view, there's a lot of flexibility for individual cities to make choices, subject mainly to, you know, our desire is obliviously to be able to achieve a certain level of credit quality, which is what allows us to get relatively low-cost debt. Obviously, the more complex we make that, the more difficult the credit score is to understand. But subject to those constraints cities would have flexibility to make adjustments as they saw fit.

Councilman Averett – Steve, can you talk about how that would play out in the real world as far as can the city have that flexibility?

Steve Thacker – You mean giving a break to low/moderate income, having it subsidized by others?

Councilwoman Ivie – For people who don't have any internet at all.

Councilman Averett – Charging a higher fee to offset . . .

Steve Thacker – I don't know. Lisa, would you want to comment on that?

Lisa Romney – I think you could certainly do a waiver to low-income housing. I'm concerned about charging more, because generally in the utility model it can't be revenue raising. What you're probably referring to, it's all part of the package, so that's part of your utility, but basically you pay for a service with a utility fee. So, no, we're not going to charge double and put it in our coffers, but you could certainly subsidize it with General Funds.

Councilman Wright – You're saying by the time we make the payment to our public partner it's going to be a wash, basically.

Lisa Romney – The question was whether we can charge more or less, and I think there are some legal restrictions that we would probably look into depending on the model that's presented.

Blaine Lutz – Again coming back to garbage, initially when that was done the city had to borrow to buy the cans, and then it did have an additional amount that it charged the residents to, in effect, cover that . (unclear) And so it was kind-of built into the initial plan to buy the cans.

Lisa Romney – Right, depending on how you . . .

Blaine Lutz – You have to do the legal research because you're setting up . . . we already have a telecommunications enterprise. Is that the kind of enterprise that you're doing? I don't know, but it seems feasible that you could, if you wanted to. I'm not recommending (unclear). . .

Councilman Wright – You know I, you talked earlier in a previous meeting about wireless.

Nicholas Hann – Sorry, about?

Councilman Wright – Wireless. You talked earlier about wireless, and you didn't say anything today about wireless. So I thought I'd give you the opportunity to talk about wireless.

Nicholas Hann – Excellent, thank you, I appreciate it. So one of the things we'll be presenting to you when we've completed the Milestone One, is we see huge potential for a ubiquitous network to do a lot of things other than providing service to the home. We see huge potential to build-out a wireless overlay so that basically every citizen of your city can get free city Wi-Fi wherever they are within the city. We see the opportunity to deliver a lot of city services that you are currently paying for the telecommunications through this network, so SCADA systems, control of utilities, your traffic lights, smart meter reading for your utilities, providing security in billing systems, providing emergency communications network. We see a huge potential to do that once you have this ubiquitous network, and we think that will also provide significant cost savings for the cities, which we're working to quantify through Milestone One and Milestone Two. So we think there are significant ancillary benefits to this as well.

Councilman Wright – So based on that, you're really telling us that there's going to be some added utility. For example, on emergency management that could come to us. I don't know if this is part of the service that would not really come as an added expense to the city . . . (unclear, coughing in background).

Nicholas Hann – Again, we'll present the numbers to you and you can make the choice. You could choose to use those city . . . (unclear, coughing). . . or you could use the utility fee.

Councilwoman Fillmore – So in the document the talk of wireless is more just using the system, the infrastructure that's being placed for the fiber optic network, for Wi-Fi service to the city, not to be an infrastructure network . . . (unclear, coughing) . . . allow wireless services to use.

Nicholas Hann – There could be a bit of both. There could be the generation of ancillary revenues by providing the infrastructure to third party wireless providers, as well, for example.

Councilwoman Fillmore – So if they choose to accept the additional cost to have that Wi-Fi infrastructure in place, that wireless in place, then there would be the potential to also . . .

Nicholas Hann – We don't think there will be any additional cost for that.

Councilwoman Fillmore – It would just be part of the system.

Nicholas Hann – Yeah, we don't think there'll be any additional cost.

Councilwoman Fillmore – But we should look at setting that up to then be able to contract out to wireless providers.

Nicholas Hann – Yes.

Councilman Wright – Is that something that the city would do, or something you would do?

Nicholas Hann – That is something we would propose we would do, but with revenue sharing to the city.

Councilman Wright – Yeah, I don't think, my concern is we don't want to the city to get involved in a commercial venture.

Nicholas Hann – It might be worth saying again, that this is a learning experience for all of us, but UTOPIA's original concept was that the access portal on the side of the house would actually be a wireless portal, and that the connectivity would be beamed inside the house from the wireless portal. And that same wireless portal would provide the wireless overlay. In looking at that, we've come to the conclusion that it's not a reliable solution, currently, and that an actual fiber connection to the inside of the house is the more optimal solution. So there has been some confusion based on that.

Councilman Wright – (unclear). . .it all made me hesitate, you know. But I, to me you lose some of the utility having it go to a wireless port and then moving into the house. One of the exciting things with high-speed internet is that you've got something connected right to your computer that allows you to, of course a computer is only as fast as the slowest . . .(unclear) . . . so it'll make for a faster computer, but at least that provides growth for the technology. So that really brings me to the next question – as the technology continues to evolve, how will your company evolve with the technology and employing that technology?

Nicholas Hann – That's a very good question. So, just to provide some context to that, we're still crunching through the numbers on the utility fee. We are, I think at this stage, quite confident that the utility fee will be very competitive with other ways to get the basic service provided. Just to give you some context, less than two-thirds of the utility fee is actually the repayment of the capital cost of the build-out. More than a third is the estimated costs of refresh of the network. The fiber optic itself is a long-life asset that doesn't need a lot of refresh. Obviously occasionally road crews dig it up, and things like that, but it doesn't as an asset need a lot of refresh. The electronics that connect the fiber do need significant refresh, typically on a five-year basis. So there's a lot of cost in the refresh currently. One of the things that's being discussed is that we would be guaranteeing the performance of the network as it is today for 30 years. In other words, we'd be guaranteeing a gigabyte of capacity today and for 30 years. Now it may be that in, you know, 10-years time, 15-years time, 20-years time, that a gigabyte of capacity is no longer anything exciting and people are using 5-gigabytes of capacity. So the principle we're working on to try and avoid having to put a lot of contingency in the utility fee for things that we don't know for sure are going to happen, the concept is that our responsibility would be to refresh the network to what it is today, but that the cities would contribute to a greater refresh out of revenues. So in other words, if the network is performing well in 10-years time and cities are starting to receive significant revenues, then they may choose in 10-years time to assist us in funding a refresh of the network to 5 gigabytes instead of a gigabyte, for example. So that's what's being currently being explored, that we would refresh the network to today's standards. Enhancements to the network would be a shared responsibility between the cities and us, and the intention there is to avoid us having to factor in some contingencies for things we'd be guessing at today.

Councilman Wright – So what happens at the end of 30 years?

Nicholas Hann – At the end of 30 years the assets revert to the cities. You could choose to then effectively re-tender the concession at that point in time. So you could sell the asset, you could put them into another 30-year concession. That would be entirely your choice. Our obligation, and this is again typical of the Public Private Partnership, our obligation would be to return the assets to you in good condition. And the way that's usually achieved is that, let's say five years from the end of the concession, an independent consultant comes in and they say that this needs fixing, that needs fixing, and until we've done it, you retain the utility fee. So effectively you hold back payment until we've put the network into the condition it needs to be at hand-back.

Councilman Wright – We have to assume that the network is still in good condition because you are being paid based on performance. We're assuming you have to keep the network up and to that performance standard throughout the period, and so . . .

Nicholas Hann – The expectation currently is that there would be, and this is what's being discussed with the service providers, the expectation is that there would be a two-way, effectively, service level agreement, to use the industry term, where we would be providing a commitment to meet certain service standards, network performance standards, to the internet service provider. They in turn would be committing to provide certain standards to the customers, and the arbitrator, for want of better word, for those service level agreements, would be UTOPIA, the contract manager. One of UTOPIA's big concerns is that, they don't want their own reputation to be affected by a service provider who's not providing good service, so our remedy would to, you know, not allow a service provider who is not meeting those standards to use the network. And equally, we would be committing to network performance standards to the service providers to give them the confidence that they could make the investment to acquire customers.

Councilman Wright – I know I'm asking a lot of questions, but you know, up to this point what we're talking about is theory. And I'm concerned about the legal aspects and whether or not the, and I'm sure part of this initial period is to determine whether or not there's enough legal standing to move forward with it. What have you learned so far, and I think it looks like there might be some legal aspects that could be road blocks?

Nicholas Hann – So we have three consultants in total working for us specifically on the legal issues. We have our own legal counsel. We are employing and paying UTOPIA's legal counsel, UTOPIA's traditional bond counsel, who are looking at these issues. We also have UTOPIA's and the city's financial advisor. We're all crunching through those legal issues. There is nothing that looks like a sort-of fatal flaw. There are some complexities. The complexities that have been identified lie mainly in three areas. One, ensuring that there's nothing about this transaction that breaches any of the covenants of the existing debt, or would change the tax-exempt nature of the existing debt. The second is the complexity of, in some cities, home owners who've chosen to pay the connection fee over time, have actually allowed a security to be granted over their property. In one city it's actually a formal lien. That obviously forms a part of the security package for bond-holders, so necessary in our rebate structure and our credit structure to ensure that that security remains unchanged. And then the final main legal issue is ensuring that the obligations of the cities is simply a flow-through collection obligation, and doesn't become a city debt obligation. Those are the three main areas. While there are detailed issues to work through, there's a high degree of confidence that because we don't actually need, our model doesn't require the ownership of the assets, we don't need to pledge security in the assets, there's a high level of confidence that we have the flexibility to work through any legal structure difficulties that exist. That is very much part of the Milestone One. I think the total budget for that work alone is over $100,000, within the money we're

spending, so we are expecting to have a clear contractual structure, legal structure, and clear sign-offs on those issues. But they're not without complexity. As you are all probably aware, UTOPIA is not actually one network, it's actually four legally separate networks today, and they all, those four networks, have their own complexities in terms of financing and contractual and legal structures. So there are a few things to work through.

Councilwoman Fillmore – So do we have a feel for what the cost obligation will be at the end of Milestone One if we decide to decline and step-out at that point?

Nicholas Hann - The fixed budget for Milestone One is $480,000, which includes a contingency of 10%. So we're anticipating a little over $400,000, probably $450,000. If you decided to step out and not go forward at the end of Milestone One. I would emphasize in return for that you'll get very detailed reports, you'll have access and reliance to all the consultants we've used, so you'll have a lot of information to help you decide what other ways forward you might want to take. And the UTOPIA Board in reviewing what we've committed to do in Phase One has satisfied itself that it's getting value for that. None of that $480,000 total goes to Macquarie or any of our partners. It's all going to out-of-pocket expenses.

Councilwoman Fillmore – And you don't see any reason to expect that it would go over budget?

Nicholas Hann – It's our risk if it goes over budget. That's one of the benefits we're bringing. We've basically committed that, you know, if our consultants don't perform as we're hoping they will, if they go over budget, which amazingly they sometimes to, that's our risk. It's our risk to manage them within the budget and make sure we can provide all of the information we're required to provide within the budget.

Councilman Fillmore – Any chance it will be under-budget?

Nicholas Hann – If it's under budget then you're reimbursement obligation is for whatever it actually cost.

Councilwoman Fillmore – We're about half-way through, you say?

Nicholas Hann – We're about half-way through Milestone One.

Councilwoman Fillmore – And what's the budget looking like?

Nicholas Hann - It's looking ok at the moment. We'd actually lined up most of our consultants prior to the PDA, so it's more a matter of holding them to the budget. Dave has a predilection for polling so he'd probably spend all the budget in polling if I let him get away with it, but ah. . .

Mayor Cutler – I have a couple of questions. You talked about your model requires a utility fee for every residential house. Could you talk about businesses, because one of the real downsides they have in Provo is businesses don't get access to the. . . (unclear), and that's important in Centerville because the majority of UTOPIA. . . (unclear) connectivity for our businesses.

Nicholas Hann – So the concept is very much that all businesses get hooked up as well. The original UTOPIA thinking was that there would probably be a premium for businesses that would go to some degree off-set the average utility fee for a residential house. We're in the middle of market demand studies at the moment. Our thinking at the moment is that a small business probably gets treated in an identical way to a residential house. But there's probably a cut-off

point at which a business gets treated at a sort-of enterprise-level client and receives a different basic service and a different fee structure, but we're still really working through those issues at the moment. In an MDU, multiple density unit, and in a large business, we would be delivering the cable to the telecoms box, the telecoms cabinet in the building. The ISPs have indicated a willingness to then build-out that network throughout the MDU.

Mayor Cutler – Thanks. That's certainly one of the challenges. . . (unclear). . . how to treat different size and types of businesses . . . (unclear, coughing).

Blaine Lutz – Some of. . . (unclear).

Mayor Cutler – Can you talk for a minute about, we have some cities in UTOPIA, like Centerville, that are built-out, everyone that wants has the ability to get to it. Then other cities, like West Valley, are not built-out. This model provides them a way to get access to those. The needs of a city like Centerville are somewhat different than, I can see this model being extremely attractive to West Valley and places that need a way to get the fiber utility. Is there any thought in treating these scenarios differently, or is Centerville, a built-out city, going to be treated exactly the same as. . . (unclear).

Nicholas Hann – I guess the direction we've received so far from the UTOPIA Board is that we should treat every city the same; that the utility fee should be effectively averaged. Obviously different cities have different costs of build-out. The instructions we have received are that everybody should be treated the same other than a new city that was not a member of UTOPIA at fold-out, and I explained the proposed approach to that. Wayne Powell, who is the Chairman of UTOPIA, has talked about the potential need for parity amongst the cities, particularly, as I mentioned, if some cities choose not to participate, for example, in the build-out, there may need to be a parity adjustment to how revenues from the network are allocated to the repayment of debt. But as of now, we're not trying to make those adjustments in the PPP model. We're trying to come up wit the average utility fee for all the cities.

Mayor Cutler – Thank you. In the event that, let's say one city that's more built-out, decides we don't want to impose this utility fee ubiquitously, but you move ahead with this model and build-out to scale. I can see that the remaining cities would be interested in going to Macquarie to charge a fee per customer . . . (unclear). Have you started looking at that or thought about that possibility?

Nicholas Hann – So, the current thinking, and obviously this is subject to the UTOPIA Board looking at this, but the current thinking is that if a city chose not to participate, then they would still get the existing level of service. That service would probably be provided by Macquarie because UTOPIA would in effect have subcontracted to Macquarie the services, but that city wouldn't benefit from build-out, so that would be the only difference.

Mayor Cutler – You haven't talked about what level of cooperation . . . (unclear).

Nicholas Hann – I believe the current thinking is no expense at all, other than, obviously, the obligations that every city has to pay the UTOPIA debt.

Councilwoman Fillmore – For a clarification, then, you talked about one of the revenue streaming potentials would be the upgrade in the service. So if you have one community that has a much higher percentage of customers upgrading the service, is the plan right now that all of them would be pooled and spread equally to the UTOPIA cities, or would it be measured city by city?

Nicholas Hann – Again, that's probably a question more for the UTOPIA Board I guess. I think the intention is that revenues would defray the cities' debt obligation proportionately. There's no current thinking that different take-up rates in different cities would lead to different levels of debt reduction, at the moment. But, again that's probably above my pay grade.

Councilwoman Fillmore – A couple of numbers questions, what is the desired, or expected, take-rate percentage after build-out? And then, what is a range that we can expect the utility fee might be?

Nicholas Hann – Sure, so the first question – again, we're doing further research on this, but there's quite a lot of evidence from all the markets and the areas where UTOPIA has been quite successful that take-rates can be in the, sort-of, 40-45% range. We've been modeling to date a more conservative assumption, around 30-35% take-rates.

Mayor Cutler – This is 35% will upgrade from basic service. . . (unclear)?

Nicholas Hann – So that's where I think we have to be a little careful. That upgrade that I referred to, that take-rate, is having the ability to connect to a fiber optic cable when it's going past your house. One of the key issues we're very sensitive to is we're working on defining what the basic service is at the moment, and obviously we need to provide a functional basic service that's providing value. But equally, if we set the basic service too high, it's going to impact take-rates. Now some of our service providers are saying they have confidence that the improved service of fiber optic cable is so compelling that all they need to do is offer their customers a one-month free trial and they'll get a very, very high level of take-rate. But not everybody has that view. Some are concerned about the impact of the free service.

Councilman Wright - We're really looking at a basic service for the utility fee, whether they offer it or not. . . (unclear) . . persistent as long as they participate in the utility fee.

Nicholas Hann – That's correct.

Councilman Wright – And I think my concern is that the utility rate will be too high. To me, it's got to be very low, and otherwise it will become a burden, or people will see it as a burden with a negative connotation back from the overall network available, and that's really what's happened with the $2750 connect fee. I know we've got a lease option now, and people can lease it, but I think what you're suggesting solves that problem. But there's no take-rate, because basically everyone is taking. They're all receiving something. The take-rate has to do with improved service, right? So I think that's a new definition of that take-rate than what we've discussed.

Nicholas Hann – Yeah.

Councilwoman Fillmore – Ok, so that's my second question, what's that range of that number?

Nicholas Hann – I can't give you a number for that today. We're really still crunching through the numbers, and we're obviously sensitive to throwing numbers out there and then finding they change. We will be obviously bringing it to you at the end of Milestone One. What I can say is that we're very confident at this stage that it will be very competitive with other ways to achieve the same level of basic service. So in other words, if somebody looks at the utility fee for what they're getting compared to what they could get that for elsewhere, they will find it quite compelling and quite competitive. The variables that are, you know, challenging in the utility fee, are firstly, exactly how many households we have. The 155 addresses across the eleven

cities don't fully take into account MDUs and they don't fully take into account businesses. So the utility fee is very sensitive to turning those addresses into individual subscribers. It's very sensitive to what assumptions we make about what we charge businesses, particularly large businesses. It's very sensitive to refresh. As I mentioned, only about two-thirds of the utility fee is capital cost recovery. It's quite sensitive to the basic service. We're still working with service providers to figure out whether they would meet the entire installation costs, or whether we may have to provide a sort-of, a minimum subsidy for the installation of the free service, for example. So those are all issues that we're still crunching through, which lead to a fair amount of variability in the utility fee. But what I can say is we're very confident that it's going to be an attractive, competitive number.

Councilwoman Fillmore – The tricky thing is though, right now, is that this is a 30-year plan, and I see that at the end of the 30 years, this will be considered basic infrastructure, basic utility that everyone is using, but right now that's not true. And so if we're charging the 30-year out level utility fee at this front end, then there's difficulty there, because you're talking about having it be comparable to paying for the service, but we have a high percentage of residents not interested in paying for the service at all. It's not a part of their life.

Mayor Cutler – You need to talk about the market research you're doing. Will you be looking to quantify, it's hard for us to say what percentage of our households in Centerville take internet service. We don't have access to that information. We don't know how many. . . (unclear). . . we don't know. Do you have some kind of polling? (unclear)

Nicholas Hann – Exactly, yes. So, Milestone One basically includes three substantial pieces of work in that area. The first is some higher level polling, which we've actually just completed. We're just waiting for the report. But we've completed a survey that is, we have 600 completed surveys across the cities, and that has given us good data on people's knowledge and understand, level of satisfaction with service providers and with UTOPIA, and what it is they value in terms of, for example, do they value competition between suppliers of the service? How did they perceive private sector involvement through a PPP and UTOPIA? So we've got that completed. That will then feed into some very detailed focus group work, which will allow us to dig into the issues in a lot more detail, and simultaneously we're doing more of a conventional market study where we'll be studying what else is available in the market, how you get the basic service, how you get the enhanced service throughout the providers, what the appetite to pay more for more capacity actually is, what the appetite for pricing of the utility fee actually is. That data will all be coming through our focus groups and through our market demand study. Dave is the real expert in this, so Dave did you want to, you are uncharacteristically quiet.

David Owens – It's such a formal setting. I will tell you that we did contrasting statements, and that's when you read two statements to the respondent and say: which one do you agree with more? When we asked essentially, I don't remember the exact questions, but: is broadband internet a luxury, and should cities focus more on police and fire and streets? And the contrasting statement was: broadband internet is a fundamental infrastructure, you know like da-da-da? It was 55/34 in favor of it's basic infrastructure, which I thought was interesting. Now, the sample size within your city wouldn't be large enough for us to tell you too much about that, but the response was very strong when we asked how important is it for you to have choices between multiple providers of home telecom services. Very, very strong. So, there was some really good stuff, and you won't be surprised to learn that age demographic is significant - 18-35, they want this thing. It varies a bit from there, but I wouldn't say the older demographic is negative necessarily. We don't have that complete report. Tomorrow I should have some more

information, but interesting numbers, and we tried to make it a really fair poll, because it doesn't do any good to tell ourselves what we want to hear.

Mayor Cutler – Specifically will you be able to estimate how many of our residents take internet service?

David Owens – Yeah, we will.

Mayor Cutler - Because I think that would be very. . .

David Owens – Now you'll have to understand that it'll be in the context of all the cities, right? Because in Centerville, I suspect, I don't know if we had 100 respondents, but that would give you a pretty wide margin. But maybe in combination with the other cities it'll give you an idea.

Nicholas Hann – Some of the market demand studies that we're doing.

David Owens – Right, and there's more to come on that.

Councilman Wright – I hope you're not using some of the local telecommunications companies to determine what the market costs are. That is one of the things that brought UTOPIA come about, is because of the monopolistic role those play. And I think that's some of the concerns our government's had. I don't know where you'll get those figures, but I hope that they're going to be substantially down so it doesn't look like a burden.

Nicholas Hann – We're studying other markets where there's a high level of competition as well. As we said earlier, one of the principles here is that we're not a service provider. We're not trying to meddle in their business. We're trying to provide the network to allow them to provide the service, and therefore, if we can't be absolutely sure how service providers are going to price this, but there's certainly a lot of evidence that when you have multiple service providers the competition drives service levels up, choice up, and costs down. And certainly we've received a very strong response from service providers who are very excited that, with a ubiquitous network, they'll have the ability to offer, you know, the services that they provide to a much larger number of customers. They're very excited about it I think, would be a fair way to describe it.

David Owens – You don't have to go any farther than your cell phone. I've worked with telecoms now for 15 years, and we used to love to tell the story – I have a brick at home. I kept it as a souvenir. I know one gentleman who is a lobbyist up at the capital, and he was the first guy up there to get a cell phone. He had it in a briefcase and he had his intern carry it everywhere, and it was $1.85/minute. Now, how has that changed? I was struck by what Nick said about their presence in the cell phone tower. Torrey, Utah. I love Torrey, and on the far end of town as you go into Capital Reef there's this one lone tower, and it doesn't belong to anybody, and, you know, I've thought a lot about this. If AT&T were the only company that had a tower there, then the residents are pretty well stuck, right, that's all they can get. I don't know, Nick, whether Macquarie owns that tower or not, but it really does exist. It leases to T-Mobile and to Verizon, and to whoever else, so look at the cell phone market if you want to know what it's like when you bring in more providers. Look at what prices have done. Look at what equipment has done. Everything about it has gotten cheaper and cheaper, better and better.

Mayor Cutler – As we wrap up here, there is obviously a really high level of interest. You can tell from our public officials, from our residents, to stay informed and be knowledgeable in this. We want to provide information, but we want to be accurate. Can you talk about how you plan

to share information about this, and how we can best share information with a public that wants to know, wants to become educated in this?

Nicholas Hann – I think you said well, you know, at the moment we're exploring a lot of ideas. Some of those ideas are going to be dead-ends, and some are going to be a good way forward. The things I've shared with you today are our current thinking, you know, some of that may change. UTOPIA thought that an anchor tenant was a big priority; we're not so sure any more. So we are learning things as we go along, and some of the things we're learning we're changing our mind on as we dig into it in more detail. So we're very concerned that we don't sort-of bring half-thought ideas out to the public. Having said that, we don't want to deliver you a big report and then find that, you know, it takes you three months to read it, or that we've come up with ideas that really aren't going to be acceptable to the cities, so we are looking for quite a lot of feedback. The ways in which we're receiving that feedback, is some of your city officials are sitting on a steering committee which reports on a weekly basis what we're doing, what we're hearing, what the big decisions required are. Because obviously something like this, you know, you have to make certain assumptions, and then you lock in those assumptions for a period of time, you can't keep everything floating. We are committed to providing several public meetings for elected officials, as we sort-of firm up elements of Milestone One. So again, on the principle of no surprises and getting some feedback we anticipate having two or three of those public meetings before we actually deliver the Milestone One report. The first of those will happen in a few weeks time. And that will be an opportunity for elected officials and the public to hear some of our proposals in a lot more detail. We're certainly looking for feedback on our proposals as we go forward. Again, we really don't want to do a lot of work on a particular idea and find it's not going to fly.

Mayor Cutler – Do you want that feedback through the steering committee, or looking for (unclear)?

Nicholas Hann – Well, both. Certainly through the steering committee and through the public meetings. Obviously, a more granular level of feedback through the steering committee, but we have some important decisions to lock in a long the way before we do more details, so I think one of the things we'll certainly want to bring to the public quite early is this definition of what the basic service looks like, for example.

Mayor Cutler – Thank you very much. I think we've spent a couple hours on this now. I certainly am more educated than I was, so I appreciate you taking the time to . . .

Work Session ended at 8:00 p.m.