List of questions for Macquarie from Centerville

Last Updated May 11, 2014

1) Legal Related

Q1.1)Will Macquarie agree to pay for the legal costs of any lawsuits challenging the cities' ability to charge a utility fee?

Q1.2) Will Macquarie agree to cover all UTOPIA related legal costs related in any manner to the PPP model after a certain point (such as after MS 2 or after financial close)?

2) PPP Related:

Q2.1) The proposal outlines a 30 month build and a 30 year term for the PPP. Is the 30 month build included in the 30 year term, or is the total project timeframe 30 months + 30 years (32.5 years)?

Q2.2) The proposal outlines an utility fee of $18-20 for single family home, with a 50% discount for MDUs, and 2X premium for commercial properties. Please confirm that Cities should be allowed to customize or modify end user utility fee to MDU / SF / Commercial customers based on total Utility Fee cost to each city and that Cities can choose to subsidize, provide a senior discount, or waive fees for indigent circumstances according to their own policies.

Q2.3) The utility fee is indexed to increase yearly. Who will have the responsibility/authority to periodically evaluate the "Basic" services level (proposed as 3/3Mbps, 20GB cap). Does the governing board of the P3 have that responsibility?

> *It is suggested that the basic level of service be revaluated no less frequently than every 5 years by the P3 oversight board (or board of the new inter-local agency created).*

Q2.4) The Utility Fee assumes a yearly escalation tied to a mutual agreeable index, such as CPI. If the Cities prefer to negotiate a fixed flat escalation (ie 2%/year or 2.5%/year) rather than a floating escalation (CPI), is Macquarie amenable to that? Can you provide an estimate of how a flat escalation fee of 2%, 2.5% or even 5% would impact the initial Utility fee rate?

Q2.5) What is the assumed Return on Equity or the overall Rate of Return (or range of rates of return) than Macquarie/First Solutions has assumed for the P3 under the current financial model?

Q2.6) The “basic” level of service proposed of 3/3Mbps with a 20GB cap. What happens when a user exceeds the 20GB cap?Will ISPs be allowed to charge the user a small penalty fee? Do you propose the wholesaler or UTOPIA receive a transport or penalty fee from the ISPs for customers who exceed the cap?

Q2.7) In our city the current data caps for basic service for incumbent providers are reported to be 150GB (Centurylink&Digis) and 300GB (Comcast). The proposed 20GB cap seems very limited in comparison. Is Macquarie open to raising the cap on basic service? What are the implications of this?

Q2.8) Currently UTOPIA provides a battery backup unit so that the network portal continues to operate when power is lost. The information in the proposal (page 29) suggests that the PPP will supply the installer with a Power over Ethernet (POE) adapter to power the ONT, but battery backup will not be part of the basic service. Is that correct? If battery backup is desired, will that be the responsibility of the ISP or the homeowner?

3) Wholesaler / Sales Related:

Q3.1) Will the P3 or Wholesaler charge member cities for internal use of the network? (Internal site-site communications, traffic cameras, City Park Wi-Fi, etc) Who will set the fee schedule for internal use? Will those revenues be treated any different than other “upsell” transport revenue?

Q3.2) Who will manage and oversee the sale/trade/exchange of fiber assets and services to other public sector entities (UEN, UTA, UDOT)? Who gets to set the fees for public sector use? Will those revenues be treated any different than other “upsell” transport revenue?

Q3.3) Who has the responsibility/authority for transport rates? Will the wholesaler have complete autonomy to determine various transport levels (3Mbps, 50Mbps, 100Mbps, 1Gbps), and transport fees for each level of service? Will there be any oversight of the wholesaler?

Q3.4) What, if any, is the base take rate (or range of rates) that has been assumed (page 82)?

Q3.5) What, if any, is the share of the revenue going to the wholesaler, PPP, and the Cities until the base take rate is met, and after the base rate is met? (page 82-83)

Q3.6) Instead of a base take rate percentage, cities may prefer to negotiate that the PPP & Wholesaler receive a nominal share up to a certain revenue target (such as 50% or 100% UTOPIA/UIA bond coverage), and an accelerated share after that point to align performance incentives with interests. Is Macquarie/First Solutions open to considering a transport revenue sharing model based on revenue, rather than take rate percentage? What would the implications or complications of this change be?

Q3.7) The proposal suggests there will be significant revenue from upselling transport/bandwidth, but it appears that the mechanism for sharing that revenue has not been determined. Will the revenue shared with the cities be returned to the cities, or be held by UTOPIA collectively? Will Macquarie consider sharing revenue back to each city based on the revenue collected from customers in that City, or only share revenue based on each city's ownership share (population based)?

Q3.8) What is the assumed amount of the "considerable investment" made by the wholesaler referenced on page 83?

Q3.9) The risk and responsibilities of the wholesaler are significant. Can you provide an outline or estimate of the expected/assumed staffing, operating costs and marketing costs incurred by the wholesaler in the first 3-5 years of the project?

4) UIA Related:

Q4.1) How will existing users who have paid the connection fee completely be treated?

Three options have been discussed for those who have pre-paid the "Connection Fee".

1. *Those who paid $2750 up front will receive a refund (full or pro-rated) and then be assessed the utility fee. It's not clear if interest would be included.*
2. *Those who paid $2750 up front will receive a credit against the utility fee (they would not pay a utility fee until that credit is used up). It's not clear if interest would be included.*
3. *Those who paid the $2750 up front will not be assessed any utility fee during the life of the project*

Centerville's understanding is that option 3 is what is in the current version of the proposal, (mainly because it is difficult to unwind the UIA revenue/ UIA bonds relationship), however Macquarie may propose/negotiate a different option as part of the milestone 2 process.

Please confirm the accuracy of these statements and clarify where necessary.

Q4.2) How will existing users who are financing the connection fee under a 20 year ($25/month) or 10 year ($30/month) plan be treated?

Q4.3) How will existing users who are "leasing" the connection fee for $30/month be treated? (they will obviously not feel it's fair to pay $30/month when others pay a $18-20/month utility fee).

Q4.4) If users who have already paid off their UIA connection fee will not be assessed a utility fee during the project period, will there be a period of time (for example up to 1 month after financial close) when current UIA users who are currently financing or leasing the connection can pay off the connection fee and also avoid the assessment of a utility fee?

5) Build-out Related:

Q5.1) What are the assumptions of the 30 month build-out schedule? Will existing customers be "connected" and assessed the utility fee first or will the utility fee be rolled out footprint by footprint?

Q5.2) Will those addresses/footprints which are immediately available for curb-home construction (such as Centerville) likelybe connected and assessed a utility fee in year 1 before other areas are built out?

Q5.3) The proposal acknowledges that some property owners will resist installation of the fiber on their property. Will the PPP or buildout contractor proactively attempt to obtain written approval to access a user's property? Or will they assume they can access the property and proceed to install a portal on the outside of the unit unless notified by the owner not to do so?

Strategic:

Q6.1) If the agencies agree, will the PPP agree to operate the UTOPIA/UIA network, for a reasonable per user fee or per task/unit fee for any UTOPIA cities that do not join the PPP?

Q6.2) If other non UTOPIA cities contract with Macquarie for a utility fee model PPP, AND choose to access the UTOPIA network, who sets the IRU fees or access fees paid to UTOPIA cities? How will that revenue be treated?

Q6.3) Shouldn't there be a revenue stream back to original member cities from new cities joining and all new customers? (Commercial, public entities, etc)

Q6.4) What is the estimated cost to exit after Milestone 1?

Centerville understands this will be our population share (less than 4%) of $480K or less than $19K

Q6.5) What is the estimated cost to exit after Milestone 2? (as currently defined)

Centerville understands this will be our population share (less than 4%) of $480K for Milestone 1 and $980K for Milestone 2 -- or less than $58K (19K + 39K)

List of questions for UTOPIA leadership from Centerville

The UTOPIA Finance Committee is already working on some issues such as how to quantify the equity imbalance among the cities.

Q7.1) How will existing/future users in cities who do not join the utility fee PPP model be treated?

Q7.2) If Macquarie agrees to continue to operate the UTOPIA/UIA network for a reasonable per user fee or per unit fee for any UTOPIA cities that do not join the PPP, will the UTOPIA / UIA board allow Macquarie to do this?