



**Chelan County PUD Networks  
Board Update  
Networks Update and Strategy Review**

**October 1, 2007**

[www.chelanpud.org/fiber](http://www.chelanpud.org/fiber)

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# Agenda

## ▼ **Current Status Update**

- Ongoing changes
- Current statistics

## ▼ **2008 Build-out plan**

- Rural area builds
- Cost impacts to original plan
- Staff recommendations

**This is an informational presentation  
No action is required today**

# Current Update

## ▼ Revenue related

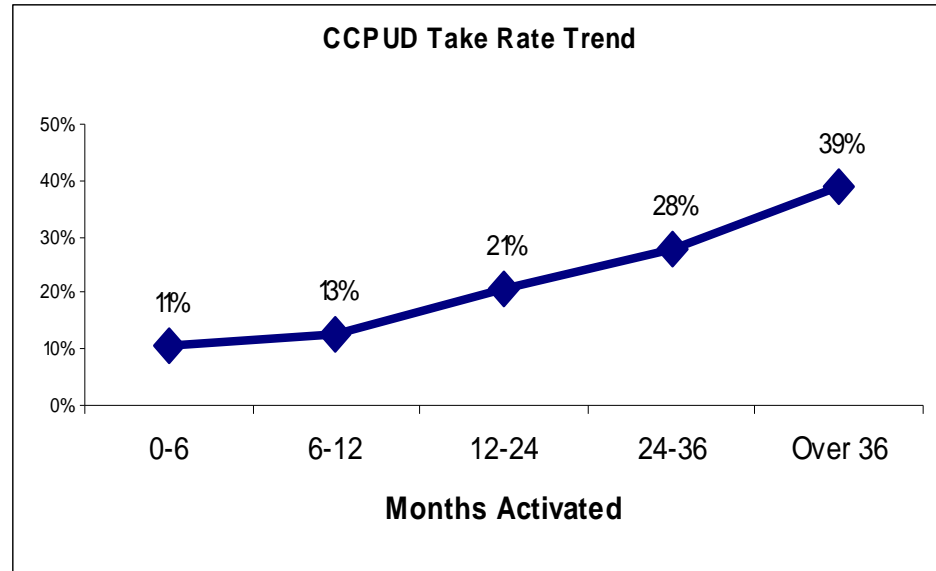
- Revenues - \$3M YTD
  - \$4.2M projected
- Total pass-bys – 22,168
- Total End-Users – 6,192
  - Internet – 5,487
  - Telephone – 3,727
  - Television – 2,566
- Take Rate – 28%

## ▼ Expense related

- Cost per drop
  - Projected - \$1,300
  - Actual - \$1,880
- Cost per connection
  - Projected - \$1,100
  - Actual - \$1,017

# Key Performance Metrics

	FTTP Deployments Nationwide	Actual to Date	CCPUD Business Plan EOY '07
Internet	34%	25%	25%
Telephone	30%	17%	17%
Television	26%	12%	11%
Combined	-	<b>28%</b>	<b>27%</b>



- Service provider sign-ups increasing
- August was a record month for sign-ups at 206

# Current Update (cont.)

## ▼ Summary of update

- Revenues are up
- Costs are also up, what this means:
  - The more difficult areas are being addressed, not skipped
  - **The estimated required capital for the next 5 years has increased by a total of \$8M, including a contingency**
  - New data was used in current and remote build scenarios
- Number of drops constructed for the year is down from estimates
- Recent record breaking month in customer sign-ups

# Board Directed Build-out Strategy

## ▼ Key Assumptions

- Fiber to 75% of the County by the end of 2008; 95% by the end of 2012
- Emphasis on remote areas with no other services
- Take rate increases from 27% to 41% by the end of 2012
- Total capital expenditures of \$50 million, 2008-2012
- Estimated cost per premises averages \$2,600 during 2008-2012
- Addressable market adjusted down by 8%

## ▼ Advantages

- Maximum availability of fiber to customer owners
- Flexibility to speed up and slow down
- Get services to those who need it most

## ▼ Disadvantages

- Shifts greater capital spending to earlier years
- Lower return on incremental invested capital

## ▼ Risks

- Uncertainty on capital expenditures in rural areas
- Customer expectations in very remote areas

# Comparison of Build-out Scenarios

## ▼ The Next 5 Years

- Networks Operating Ratio: No material difference

Incremental Forward IRR (Internal Rate of Return)	<u>Current take-rate assumption</u>	<u>Downside take-rate assumption</u>	<u>Upside take-rate assumption</u>
Last Update	10.9%		
Current Update	10.4%	3.6%	11.1%
Remote Build	10.2%	3.5%	10.8%

- > IRR and NPV are both negative for the fiber network when all historical cash flows are included. The forward IRR provides a comparative measure of return on incremental investment for different alternatives looking forward.

		<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Totals</u>
Capital Expenditures	Last Update	\$12M	\$8M	\$7M	\$7M	\$8M	\$42M
Capital Expenditures	Current Update	\$11M	\$8M	\$9M	\$11M	\$11M	\$50M
Capital Expenditures	Remote Build	\$13M	\$10M	\$9M	\$9M	\$9M	\$50M

# 2008 Plan

## ▼ Strategy

- Focus on remote areas
  - Plain/Lake Wenatchee – 2,500 premises
  - Entiat Valley – first 7 miles, 200 premises
  - Other areas – 1,700
- Capital at risk - \$13M in 2008
- **Construct backbone to Plain in '07**

## ▼ Goals

- Pass 4,400 additional homes/business
- Total new end-users – 1,450 (8000 Total)
- Internet – 1,300 (7,517 Total)
- Telephone lines – 900 (4,800 Total)
- Cable TV – 1,200 (4,100 Total)
- Large Business – 25 (315 Total)
- Generate \$4.8M in revenue

# Summary

- ▶ On track with the current Board-approved plan (build-out to 75% of the county by end of 2008 and 95% by 2012)
- ▶ Construction costs have escalated while material costs have dropped
- ▶ Rural builds in 2008 could be accelerated with some addition construction this year.
- ▶ Costs stay the same for the 5-year 95% build-out but more capital expenditure per connection is spent in the next two years, less in the later years. (2008 budget is up \$2M, 2012 is down \$3M)

## Questions or Comments?

See <http://www.chelanpud.org/fiber> for more information