



General Manager
334 Front Street
Ketchikan, AK 99901

Phone (907) 228-5603
Fax (907) 225-5075

TRANSMITTAL MEMORANDUM

TO: The Honorable Mayor and City Council

FROM: Lacey G. Simpson, Acting General Manager

DATE: September 9, 2022

RE: **Hosted Private Branch Exchange (Hosted PBX) Service Price Increase**

The attached informational memorandum was prepared by Acting Telecommunications Division Manager Dan Lindgren. As stated by Mr. Lindgren, the Telecommunications Division will soon implement increased pricing for its Hosted PBX service. The 10% increase will go into effect November 1, 2022 and was programmed in the approved 2022 Ketchikan Public Utilities Operating and Capital Budget.

Mr. Lindgren will be attending the September 15, 2022 City Council meeting, in order to address any questions and/or concerns that Councilmembers may have.



KPU Telecommunications

2970 Tongass Avenue
Ketchikan, AK 99901

Phone (907) 225-1000

Fax (907) 225-1788

Memorandum

To: Lacey Simpson, Acting KPU General Manager

From: Dan Lindgren, Acting KPU Telecommunications Division Manager

Date: September 6, 2022

Subject: **Informational Memorandum – Hosted Private Branch Exchange (Hosted PBX) Service Price Increase**

The purpose of this memorandum is to inform the City Council that KPU Telecommunications intends to increase its Hosted PBX service fees, by 10% effective November 1, 2022.

Background

The 2022 KPU Telecommunications Division Annual Budget was prepared to include a 10% rate increase for Hosted PBX services. Hosted PBX services are the modern business voice services that KPU Tel provides to many businesses throughout the community. Due to the competitive nature of this service, KPU Tel offers this service on an Individual Contract Basis (ICB). While the Ketchikan Municipal Code, as listed below, does not require City Council approval of (ICB) rates, staff certainly wanted to inform the City Council of this increase prior to putting it into effect.

11.12.070(k) provides the description of the service

(k) Hosted private branch exchange (PBX) services are offered on an individual contract basis (ICB) based on the unique needs of customers, where facilities are available in the Ketchikan serving area. This service is designed to accommodate multiline and/or multilocation voice and data communications, along with advanced features and functions provided from equipment located in the KPU central office.

(1) KPU provides all equipment and transport (excluding telephone sets), test and validation, and installation for individual or multiple locations between the customer's premises and the utility central office. All KPU supplied equipment remains the property of the utility.

(2) KPU makes every effort to design voice and data communication systems that accommodate the needs of the customer. Estimates of bandwidth requirements including overhead and customer traffic volume are not guaranteed. KPU will work to test and validate circuits prior to customer acceptance but cannot guarantee full connectivity or compatibility with all customer owned equipment.

11.12.090(d) rates:

d) Hosted PBX Services.

Description (Recurring Charges)	Rate
---------------------------------	------

Hosted PBX services	ICB*
---------------------	------

Hosted SIP trunks	ICB*
-------------------	------

* Hosted PBX services will be available under individual contract basis to accommodate pricing based on the customer's unique needs, conditions and volume.

KPU Tel has not raised Hosted PBX rates for several years so the increase is justified and necessary especially when taken in conjunction with the increases in equipment and labor costs in the current economic environment. We have targeted November 1, 2022 as the effective date so that we may inform our customers and make the related billing changes.

Cc: Michelle Johansen, City Finance Director

Each of these projects represented a significant 'first' for KPUTel while better positioning the Telecommunications Division to compete in the future – and enabled KPUTel to procure affordable network 'transport' to the Lower '48 – a critical component of remaining competitive for Internet and Television services.

Previous network additions (achieved via KPU ownership, as well as 'rented' network capacity) created capacity over 20 times the amount of network connectivity required in 2012. Despite KPUTel's significant increase in off-island network capacity, customer-demand (i.e., streaming video, "smart devices", increasing reliance upon digital "cloud" connectivity) continued to grow and placed extraordinary demands on the KPU network. Traffic forecasts made clear that KPU was required to invest in additional off-island capacity to meet near and long-term future customer demand. Absent a significant investment in procuring additional off-island network transport capacity KPUTel's future financial viability was very much in jeopardy.

Accordingly, KPUTel's 2018 capital budget included significant funding for an undersea/bathymetric study – a necessary first step in studying the seafloor (between Ketchikan and Prince Rupert, BC) for potential placement of an undersea fiber optic cable. With completion of the bathymetric study KPU Telecommunications issued a Request for Bids in September 2018. Bids opened in early October 2018. Although the bids were competitive KPU lacked all necessary permits and financing. It was decided to postpone the project until 2020.

Subsequently, Ketchikan's voters approved passage of 'Prop 2' – an October 1, 2019 ballot initiative asking voters to approve the \$11,500,000 Revenue Bond necessary to fund construction of the undersea cable. Following passage of Prop 2, KPUTel issued an RFP, received bids, and selected a contractor to build the new subsea fiber. Subsequently, following construction of the undersea cable, KPUTel officially placed the new cable in service on November 1, 2020.

Upon 'turn up' of the new subsea fiber, KPUTel created a critical third network 'leg' (along with the existing microwave and IRU) consisting of three physical KPU owned network connections to the Lower '48. This placed KPU in the unique position of ultimately owning 'unlimited' network capacity (limited only by the amount the division chooses to invest in network electronics, and/or the cost of 'transport' from Prince Rupert, BC, Canada to the Lower '48).

Notably, the new subsea fiber enabled KPUTel to disconnect expensive (and limited) network capacity – previously leased from KPUTel's primary competitor. Post turn-up, the debt-service (annual bond payments) is less than what KPUTel previously paid its primary competitor for lease of network transport.

Lastly, the new subsea fiber plays a key role in KPUTel's competitive future – enabling KPUTel to offer higher speed internet service at reasonable rates and otherwise be in a position to add capacity and services at any time, no matter what the broadband future might require. The new subsea fiber plays a key role in KPUTel's competitive future, enabling KPUTel to offer higher speed internet service at reasonable rates, and otherwise be in a position to add capacity and services at any time, no matter what the broadband future might require. Additionally, KPUTel will be looking to see wholesale capacity on the Subsea Fiber which, is a new opportunity to garner potentially significant revenues albeit hard to predict.

The new undersea cable has performed flawlessly since the November 1, 2020 in-service date.

KPUTel is programming a \$10 per customer per month rate increase for elective/competitive Television services and a 10% increase in competitive Hosted PBX business services in 2022. Rates for these elective services were last increased over 5 years ago. These rate increase are necessary to keep pace with increasing content costs and equipment costs.

Noteworthy investments in the 2021 Capital Budget include:

KPUTel has limited the balance of its 2022 capital budget to those items necessary to 'keep the network lights on' and to meet ongoing customer demand for telecommunications services.

The COVID related minimal capital budgets in 2021 and 2022 are causing deferral of important projects and cannot be sustained without future service impacts. For example, KPU had intended to replace its manufacture-discontinued "voice" telephone switch in 2021, but that project has yet again been deferred. Additionally, KPU needs to move forward with upgrading its "core" network due to the impending discontinuance of that equipment. Continued deferment of these (and other) projects ultimately risk degradation of service and will cause much larger annual capital budgets in 2023 and beyond.