



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Hans F. Larsen
Kim Welsh
Teri Killgore

**SUBJECT: PHILIPS SMARTPOLE
PROPOSED AGREEMENT**

DATE: February 6, 2015

Approved

Date

2/11/15

RECOMMENDATION

- (a) Adopt a resolution authorizing the City Manager or his designee to negotiate and execute an agreement with Philips for the installation of up to 50 SmartPoles for a term of up to ten years consistent with the direction provided by the City Council on the agreement's terms.
- (b) Provide direction regarding the parameters of a competitive process soliciting proposals for replacements of the remaining non-LED lights citywide.

OUTCOME

Based on Council discussion on the proposed business terms, staff will work to finalize a Master Agreement with Philips for the installation of a maximum of 50 SmartPoles for a 10-year term. Philips will replace existing City streetlights with new LED lighthoods at a ratio of 15 new LED lighthoods per SmartPole installed. This is not intended to be an exclusive agreement, and any vendor who is developing or deploying similar technology may propose an unsolicited offer to the City for consideration.

BACKGROUND

In late 2013, Philips approached the City with an unsolicited offer about a potential project focused on the installation of what Philips calls a SmartPole. A SmartPole is an integrated unit manufactured by Philips that combines the equipment, cabinets and meter equipment needed for small-cell cellular installations with a city's streetlights. The goal of the SmartPole is to both reduce clutter in the right-of-way and to increase the availability of sites for cell-phone carriers.

This increase in availability would enable carriers to better serve their customers, especially with their data needs. An initial SmartPole test was completed in Seattle, and the concept is now ready for larger deployment. As the proposal has been evaluated, an exciting opportunity to pilot new smart metering technology with PG&E has arisen.

As part of Philip's proposal, for every SmartPole installed, Philips will convert a number of City of San José streetlights from the current low pressure sodium to new, more energy efficient LED light heads manufactured by Philips, in lieu of rent for use of the SmartPole once installed. This conversion assists the City with Green Vision goal #9 to replace streetlights with low-energy, "smart" LED lights. The conversion to LED is also important to Philips as it would take a significant amount of electrical load off the existing circuits that could then be used for the cellular equipment. This would eliminate and/or reduce the number of electrical circuits that would need to be upgraded.

As with any unsolicited proposal, staff has taken a proactive approach to understanding the proposal and working with the company to vet the concepts. Throughout this process, staff looked for creative options to balance the desire to help enable innovation and the need to strike a fair deal for the citizens of San José. On December 9, 2014, a staff report was presented to the City Council on this topic and highlighted differences over business terms between staff and Philips. The previous staff report is available at the following weblink: <http://sanjoseca.gov/DocumentCenter/View/37953>. Based on Council direction on December 9, 2014, representatives from Philips and City staff returned to negotiations to find a way forward.

ANALYSIS

Subsequent to the December 9, 2014 City Council meeting, significant progress has been made in negotiations and the new proposed terms of a Master Agreement are outlined in Attachment 1. All outstanding differences on term and consideration have been resolved and staff supports a pilot deployment of 50 SmartPoles in an effort to facilitate new and innovative technologies. Staff requests Council approval of the proposed business terms for a Master Agreement with Philips.

The major differences between the parties, as discussed on December 9, were the number of SmartPoles that could be included as part of a pilot, the length of the proposed pilot, the level of compensation to be provided for each SmartPole placed in the City right-of-way, and the resolution of supplying power to the SmartPoles. In accordance with procurement regulations, these items needed to be addressed for a pilot to move forward. Subsequent to the Council meeting, Philips expressed their interest in reworking the deal and agreement has been reached on each of these items.

- (1) Number of SmartPoles: This pilot will consist of a maximum of 50 SmartPoles. The intent is to allow any additional LED conversion solutions to be proposed as part of a City issued Request for Proposal (RFP) to be issued at a future date, to address the remaining non-LED streetlights (approximately 40,000) in a fully competitive process. The pilot will provides a sufficient number to test the interoperability and process issues without significant impact to the marketplace.
- (2) Length of the Pilot: The parties have agreed to an initial ten year term. This gives sufficient time to test the SmartPoles and to recoup capital investments. In Year 2, the parties will return to the table to revisit an extension of the initial term upon completion of installation of all SmartPoles and LED lightheads.
- (3) Level of Compensation: Given the level of capital investment in the poles and infrastructure, staff has always understood that for a pilot to be successful there would need to be some flexibility in the initial consideration. The parties have agreed that for the initial 10 year term, the ratio of LEDs provided per SmartPole (15:1) is acceptable resulting in the conversion of 750 lightheads, and is comparable with the terms given to the City of Los Angeles. This will give the City ample time to implement a new Master Agreement and fee structure and to test it in the marketplace, in advance of revisiting this agreement in Year 2. Staff intends to bring the new Master Agreement and fee structure to Council in March 2015.
- (4) Resolve Power Issues: Unlike other municipalities that Philips has worked with, the City of San José does not own its own electric utility, and the need to develop a solution in partnership with PG&E was a major element of the pilot. Philips' original proposal that PG&E allow an unmetered solution for the electricity used by cellular equipment installed on the SmartPoles was determined by PG&E to require action by the Public Utilities Commission (PUC). Given the length of a PUC process, another solution was needed.

PG&E and Philips have agreed to piloting a wireless metering solution(s) as part of this installation. This would be a 6-12 month pilot with a minimum of ten SmartPoles to test this technology. The development of a wireless metering solution is in the City's interest as it will enable other innovative technologies to be demonstrated (e.g., sensors, vehicle chargers, etc), especially in the Transportation Innovation Zone without the need to set new meters in the right-of-way and the related construction. For all SmartPoles not used in the wireless metering pilot, Philips and PG&E have developed a solution that allows all necessary metering equipment to be housed inside the SmartPole. This ensures the benefit of reducing aesthetic clutter is achieved.

Given the importance of power to this project, a trigger of two years would be established, whereby the Master Agreement would be cancelled if either the pilot of wireless metering or the internal housing of the metering equipment is not implemented.

This recommendation is pursuant to San José Municipal Code Sections 4.12.230 and 4.12.240 which allows the procurement authority to make purchases of supplies, material or equipment which can be obtained from only one vendor or manufacturer, and to acquire a specific product(s) for the purpose of conducting a field test or experiment to determine the products suitability for use by the City.

Parameters for Soliciting Proposals for Remaining Streetlight Conversions

By summer of 2015, San José will have converted 23,000 of its 63,000 street lights with “smart” LED lights, achieving 37% delivery of the Green Vision goal of getting to 100% by 2022. The recommended partnership with Philips for 50 SmartPoles will result in adding 750 more LED streetlights. It is proposed that the City pursue additional opportunities to complete the LED streetlight program and convert the remaining 40,000 streetlights.

Staff plans to issue a Request for Proposals (RFP) to seek innovative solutions for completing the remaining 40,000 LED streetlight conversions. The proposed parameters of this effort would simply be:

- Timely delivery of streetlight conversions.
- No operating or capital cost to City.
- Opportunity to use City infrastructure, facilities, and/or property for revenue generation purposes for a limited time period while not paying rent or sharing revenue.
- After limited period of time, City intends to achieve market rents and revenue sharing for the City’s assets.

If there is other input or direction regarding parameters for the RFP, staff recommends the Council provide feedback on this topic at the Council meeting.

EVALUATION AND FOLLOW-UP

Based on Council direction, staff will negotiate and execute a Master Agreement and work with Philips to implement. Should any items reach impasse, staff will return to Council for further direction. Also, based on Council direction, staff will initiate an RFP to solicit proposals to support conversion of remaining 40,000 street lights.

PUBLIC OUTREACH

This memorandum will be posted on City's website for the February 24, 2015 City Council Agenda.

COORDINATION

This memorandum has been prepared in coordination with the City Attorney's Office and the Department of Finance Purchasing Division.

COST SUMMARY/IMPLICATIONS

There are no direct cost impacts to the City beyond revenue concessions, as described in this memorandum.

CEQA

This project has been issued a Statement of Exemption under the Streetlight Management Plan, File No. PP14-046.

/s/
HANS F. LARSEN
Director of Transportation

/s/
KIM WALESH
Deputy City Manager
Director of Economic Development

/s/
TERI KILLGORE
Assistant to the City Manager

For questions please contact Teri Killgore, Assistant to the City Manager at (408) 535-8102.

Attachment

Attachment 1 – Summary of Proposed Terms for Philips SmartPole Master Agreement

	Staff Recommendation
Term of Master Agreement	10 years. All SmartPoles and LED lighthoods must be installed by Year 2, unless mutually agreed. Parties agree to discuss extension of term and consideration in Year 2, upon completion of installation of all SmartPoles and LED lighthoods.
Power Supply and Metering	Trigger at 2 years that would cancel Master Agreement if power issues are not resolved with PG&E. Requires at least 10 poles be part of a “smart meter” pilot with PG&E. For all remaining poles, all metering equipment must be housed inside the SmartPole structure.
Total Number of SmartPoles to be Installed under Master Agreement	50
Length of Lease per “Cluster” of SmartPoles	10 years
Compensation for Lease Agreement Years 1-10	15 City streetlights converted to dimmable LED’s per SmartPole
City Permit Fees	Standard encroachment permit fees for clusters of up to 25 SmartPoles
Public Review Period Before Master Agreement Approval	60 days