

Water Services Franchise Fee Agreements

Recommendation

That the February 5, 2021, Financial and Corporate Services report CR_7759, be received for information.

Previous Council/Committee Action

At the November 1, 2019, Utility Committee meeting, the following motion was passed:

That Administration conduct a high level study outlining the rationale behind franchise fee agreements, and provide a report to Committee.

Executive Summary

This report provides the rationale behind franchise agreements currently in place with utility providers in Edmonton, including the rate and revenue history for each of those agreements, as well as an update to the Municipal Franchise Fees Whitepaper, that was provided as part of "The Way We Finance" directional plan.

Report

The Municipal Franchise Fees Whitepaper (Whitepaper), provided in September 2014 as part of "The Way We Finance" directional plan, outlined the rationale, history and details behind the franchise agreements that were in place for the provision of utility services in Edmonton. The Whitepaper is provided in Attachment 1. At that time, the City of Edmonton had the following franchise agreements with utility providers;

- water/wastewater services - EPCOR Water Services Inc. (EWSI)
- electricity services - EPCOR Distribution and Transmission Inc. (EDTI)
- natural gas services - ATCO Gas and Pipelines Ltd. (ATCO Gas)

In addition to the above noted franchise agreements, drainage services in Edmonton in September 2014 were provided by the City of Edmonton Drainage Service Utility under City Policy C304D - Drainage Services Utility Fiscal Policy - Sanitary and Land (Stormwater) Utilities.

Municipalities can facilitate the provision of services to the public by allowing access to municipally owned lands for utility infrastructure and by ensuring the delivery of those services through exclusive franchise agreements with utility providers. Utility providers are granted the exclusive right, or exclusive franchise, to provide a particular utility

service (or services) within a municipality. When utility providers run infrastructure on privately owned land, they typically pay rent. In a similar fashion, utility providers should pay rent when their facilities are located on publicly owned land. Charges for public land and conditions for use of public land are documented in franchise agreements and those charges are referred to as franchise fees. The cost of the franchise fees paid to the municipality are passed on to the utility provider's customers.

From a municipality's perspective, franchise fees compensate the municipality for direct costs, restrictions on planning and development due to utility rights of way, utilities exclusive rights and inherent risks related to utility access. Franchise fees diversify municipal revenue and reduce reliance on property taxes. For franchise fee rates in effect for current agreements in Edmonton, the original fee rate levels would have been set to achieve a specific revenue target at the time. As shown in Attachment 3, the revenue from each of Edmonton's utility franchise fee agreements has been relatively stable over time, and has increased over the longer term, providing the City of Edmonton with a predictable source of revenue and reducing reliance on property taxes.

Since the Whitepaper in September 2014, there have been several changes to the franchise agreements, as well as the creation of a franchise agreement between the City of Edmonton and EWSI for the provision of drainage services due to the transfer of drainage assets to EWSI in 2017. Attachment 2 provides details on these changes.

The Whitepaper also provided a history of franchise fees and franchise fee rates for each utility service/franchise agreement. Attachment 3 updates that history, showing actual franchise fees from 2004 to 2019.

Attachment 4 provides a survey of franchise fee rates for various utility services in the following western Canadian municipalities: Vancouver, Calgary, Grande Prairie, St. Albert, Sherwood Park, Saskatoon, Regina, Winnipeg. While most of these municipalities have franchise fees (or the equivalent of) in place for the provision of natural gas and electricity services, Edmonton and Grande Prairie are the only municipalities among this group that have a franchise agreement and franchise fee in place for the provision of water, wastewater and drainage utility services. This is likely due to the fact that the municipality itself provides those utility services to its citizens rather than a separate (albeit wholly City-owned) corporate entity as is the case with EWSI in Edmonton and Aquaterra Utilities in Grande Prairie.

Corporate Outcomes and Performance Management

Corporate Outcome(s): The City of Edmonton has a resilient financial position.			
Outcome(s)	Measure(s)	Result(s)	Target(s)
The City of Edmonton has a resilient financial position.	The City has the capacity to sustain services in economic downturns by maintaining liquidity and stable revenue sources.	Ongoing monthly monitoring of actual franchise fees collected under each franchise agreement. 2019 Actual EWSI Water: \$14.7M EWSI Wastewater: \$7.2M EWSI Drainage: \$9.2M EDTI Electricity: \$64.2M ATCO Gas Natural Gas: \$76.6M	Ensure actual franchise fees collected and reimbursed to the City of Edmonton are within a reasonable target of the forecast. 2019 Forecast EWSI Water: \$15.5M EWSI Wastewater: \$7.5M EWSI Drainage: \$9.3M EDTI Electricity: \$64.2M ATCO Gas Natural Gas: \$77.9M

Attachments

1. The Way We Finance - Municipal Franchise Fees White Paper
2. Changes to City of Edmonton Utility Franchise Fee Agreements Since September 2014
3. City of Edmonton Franchise Fee Rate and Revenue History
4. City of Edmonton Franchise Fees Survey

Others Reviewing this Report

- C. Owen, Deputy City Manager, Communications and Engagement
- B. Andriachuk, City Solicitor