



STAFF REPORT

Title: Franchise Agreement - Atco Gas

Meeting Date: October 22, 2019

Executive Summary:

The Current Franchise agreement is for 13% with a cap of 35%. Annually the City has the right to make application to change the 13% Franchise Fee. Please see attached letter. Revenue generated in 2018 from the Franchise fee was \$407,117. In 2019 the gas franchise fee was projected to be \$459,892 with \$301,667 received to date inclusive of August 2019. Gas Franchise agreement although still in force under section 47(1) of the MGA expired in October 2015. There is a one year extension on the agreement and after that Atco can withhold 50% of the Franchise fee and put it in trust for the City. Despite being beyond the extension timelines, to date we have been receiving 100% of Franchise Fees. Customers on 4 Wing are not included in the Franchise agreement and are not charged the franchise fee due to a Service and Lending agreement between Atco and 4 Wing. To date a new agreement has not been approved by Council. The 2020 forecasted revenue from gas franchise fee is \$447,426.

Background:

Franchise fees are recovered from consumers in a municipality through a local rate rider (which rider, for the purposes of clarity, does not include fees from retail service providers). Franchise fees are calculated based on a percentage of revenue of each utility's transmission and distribution tariff. Under the franchise agreement Atco will continue to pay to a municipality both a franchise fee and linear taxes. The Municipal portion of linear taxes for 2019 is \$80,816. The franchise fee cap of 35 per cent is a provision under the Franchise Agreement. The franchise fee may only be changed with AUC approval.

Franchise fee rates range from 0% to 35%. There does not seem to be any formula or rules on changing rates except that they are at the discretion of the municipality and must be approved by AUC. Revenue generated from an increase in franchise fees could be earmarked for a specific utilities project. Atco would request a new agreement be signed if Council wishes to change the Franchise fee. The City would have to publish a notice of the proposed change for 14 days and by November 1 notify Atco of the proposed change in order to obtain AUC approval and start billing the new fee January 1, 2020. Atco would then apply to the AUC to change the rate. The rate would have to be approved by AUC prior to implementation. Approximately \$34,417 of revenue would be generated for each 1% increase in Franchise Fee. Any changes would be included



in the 2020 budget. Administration is recommending to maintain the 13% franchise fee for 2020 while administration develops a new agreement with Atco.

Alternatives:

Council may consider the following options:

1. Council may pass a motion to maintain the Franchise Fee as recommended.
2. Council may request a change in the Franchise Fee.

Recommended Action:

Administration recommends that Council pass a motion to maintain the 2020 Atco Gas Franchise Fee at 13%.

Budget Implications (Yes or No):

Yes

Submitted by:

Kevin Nagoya, Chief Administrative Officer