

# Utility Franchise Agreements in Illinois

---

RESEARCH & FINDINGS FOR METROPOLITAN MAYORS CAUCUS

BY: STRONG LEGAL & REGULATORY SOLUTIONS  
THE POWER BUREAU

# Overview

---

Municipal Energy Supply Options

Franchise Agreements

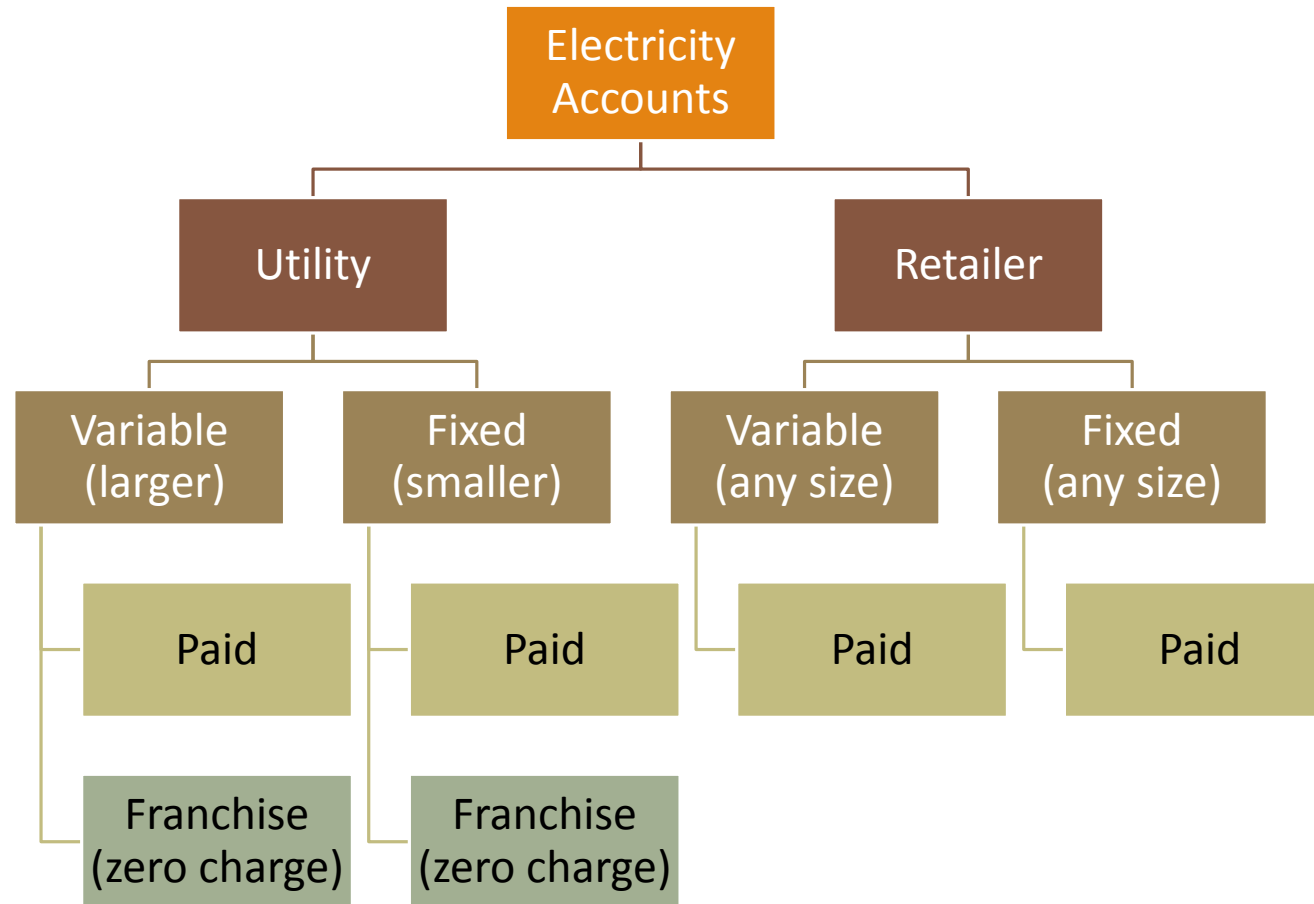
Research Scope

Patterns & Observations

Impacts on Energy Efficiency & Behind-the-Meter Solar

Conclusions & Recommendations

# Municipal Energy Supply Options



## Supply Source

- Utility: Via the IPA/ICC
- Retail: Via a contract

## Rate Type.

- Variable: Change every hour (E) or month (NG)
- Fixed: Firm for a specific time period

## Payment Obligation.

- Paid: An invoice is issued, a payment must be made
- Franchise: An invoice is issued, but the total cost is zeroed out via a credit

# Franchise Agreements

---

Compensate municipalities for granting utilities the use of public rights of way.

## AGREEMENT STRUCTURE

### Basis

- Exchange for value
- Voluntary

### Parties

- Bilateral (utility & municipality)
- Largely standardized

### Term

- Multiple Years (typically decades)
- Allowance for re-openings

## MUNICIPAL COMPENSATION

### In-Kind Services

- Minimum, reporting
- Training, investments

### Compensation

- Infrastructure Maintenance Fee (IMF) paid by the utility to the municipality
- Franchise Cost Addition (FCA) no charge supply from the utility

Utility reimbursed for compensation

# Research Scope

---

Review franchise agreements

Evaluate benefits received by municipalities

Evaluate Unbilled vs. Cash Options for municipal compensation

Model impacts of Unbilled vs. Cash Options for Efficiency & Solar

Recommend options for future franchise agreements

# Franchise Compensation: IMF

INFRASTRUCTURE MAINTENANCE FEE TABLE  
PER KILOWATT-HOUR ADDITIONS

| <u>Municipality</u> | <u>Cents per kilowatt-hour (¢/kWh)</u> |          |          |          |          |          |          |          |          |          |
|---------------------|--|----------|----------|----------|----------|----------|----------|----------|----------|----------|
|                     | <u>A</u>                               | <u>B</u> | <u>C</u> | <u>D</u> | <u>E</u> | <u>F</u> | <u>G</u> | <u>H</u> | <u>I</u> | <u>J</u> |
| Chicago             | 0.530                                  | 0.350    | 0.310    | 0.305    | 0.300    | 0.280    | 0.275    | 0.270    | 0.265    | 0.260    |

Legend

|           |               |            |   |
|-----------|---------------|------------|---|
| <b>A:</b> | for the first | 2,000      | kWh delivered in the monthly billing period |
| <b>B:</b> | for the next  | 48,000     | kWh delivered in the monthly billing period |
| <b>C:</b> | for the next  | 50,000     | kWh delivered in the monthly billing period |
| <b>D:</b> | for the next  | 400,000    | kWh delivered in the monthly billing period |
| <b>E:</b> | for the next  | 500,000    | kWh delivered in the monthly billing period |
| <b>F:</b> | for the next  | 2,000,000  | kWh delivered in the monthly billing period |
| <b>G:</b> | for the next  | 2,000,000  | kWh delivered in the monthly billing period |
| <b>H:</b> | for the next  | 5,000,000  | kWh delivered in the monthly billing period |
| <b>I:</b> | for the next  | 10,000,000 | kWh delivered in the monthly billing period |
| <b>J:</b> | for all over  | 20,000,000 | kWh delivered in the monthly billing period |

Similar to state use tax schedule

Higher rates at lower volumes; lower rates at higher volumes

Statute sets maximum rates per stage

**Typical Residential Account:**

- Monthly kWh: 900 kWh
- Rate: x \$0.0053/kWh
- Monthly Cost: \$4.77/mo.
- Months/Year: x 12 months
- Annual Cost: **\$57.24/yr.**

# Franchise Compensation: FCA

$$FC\%_m = \frac{\text{Value}_m}{\text{Billings}_m} \times 100$$

Where:

$FC\%_m$  = Franchise Cost Percentage, in %, applicable to the municipality, m.

$\text{Value}_m$  = Value of electric service or other items, in \$, provided by the Company without charge to the municipality, m, during the previous calendar year as published in the Company's Form 21 ILCC Annual Report to the Illinois Commerce Commission (ICC).

$\text{Billings}_m$  = Billings, in \$, computed by the Company in accordance with its tariffs on file with the ICC and applied to retail customers, RESs, and MSPs taking service in the municipality, m, during the previous calendar year, that are associated with customer charges, standard metering service charges, distribution facilities charges, transformer charges, Illinois Electricity Distribution Tax Charges (IEDTs), and rentals.

Cost of 'zero-billed' supply is divided by distribution costs of residents and then applied as a charge to all utility bills within the municipality

Recalculated annually by the utility

Most common approach for franchise compensation

## **Typical Residential Account:**

|                       |                    |
|-----------------------|--------------------|
| ■ Monthly Billings:   | \$16.31/mo.        |
| ■ Franchise Cost %:   | x <u>2.5%</u>      |
| ■ Monthly Cost:       | \$0.41/mo.         |
| ■ Months/Year:        | x <u>12 months</u> |
| ■ <b>Annual Cost:</b> | <b>\$4.89/yr.</b>  |

# Franchise Compensation: FCA

## FRANCHISE COST PERCENTAGES

Supplement to Rider FCA (1)

| Municipality      | FC% Applicable Beginning with the June 2017 Monthly Billing Period and Extending Through the May 2018 Monthly Billing Period (2) | FC% Applicable Beginning with the June 2018 Monthly Billing Period and Extending Through the May 2019 Monthly Billing Period (2) |
|-------------------|--|--|
| ADDISON           | 1.843%   | 2.009%   |
| ADELINE           | 3.470%   | 3.841%   |
| ALGONQUIN         | 1.646%   | 1.599%   |
| ALSIP             | 1.379%   | 1.450%   |
| AMBOY             | 2.645%   | 2.599%   |
| ANTIOCH           | 2.189%   | 2.306%   |
| APPLE RIVER       | 3.185%   | 3.989%   |
| ARLINGTON HEIGHTS | 3.572%   | 3.775%   |
| AROMA PARK        | 2.042%   | 2.034%   |
| ASHTON            | 1.600%   | 1.787%   |
| AURORA            | 1.919%   | 1.917%   |
| BANNOCKBURN       | 0.932%   | 0.783%   |
| BARRINGTON        | 2.945%   | 3.130%   |
| BARRINGTON HILLS  | 1.450%   | 1.554%   |
| BARTLETT          | 1.376%   | 1.491%   |

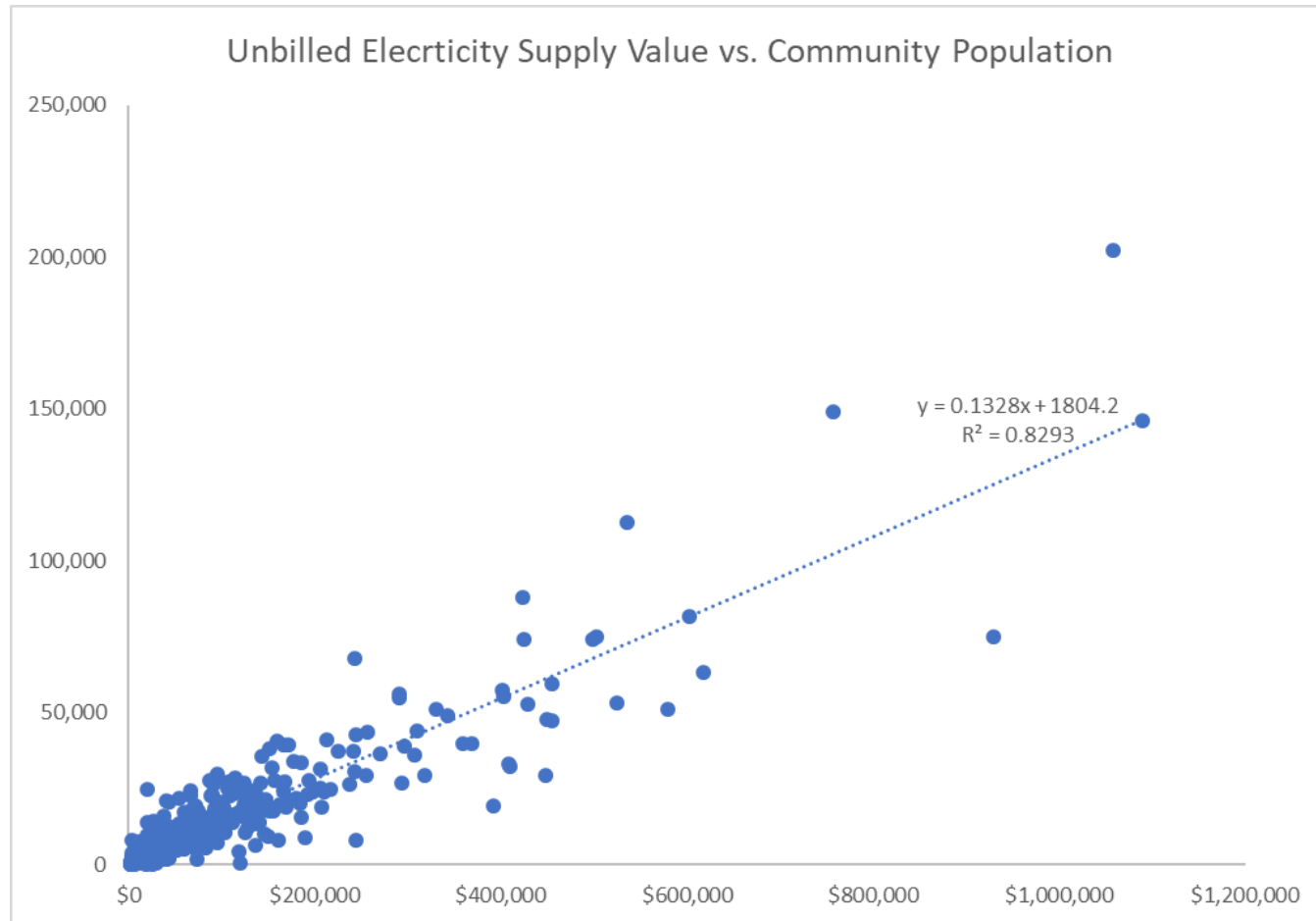
FCA-base compensation is effectively capped at value of electricity delivered on a zero-billed basis

FC% floats with rates and local consumption

Variance between municipalities, but little year-over-year change



# General Patterns: ComEd FCA



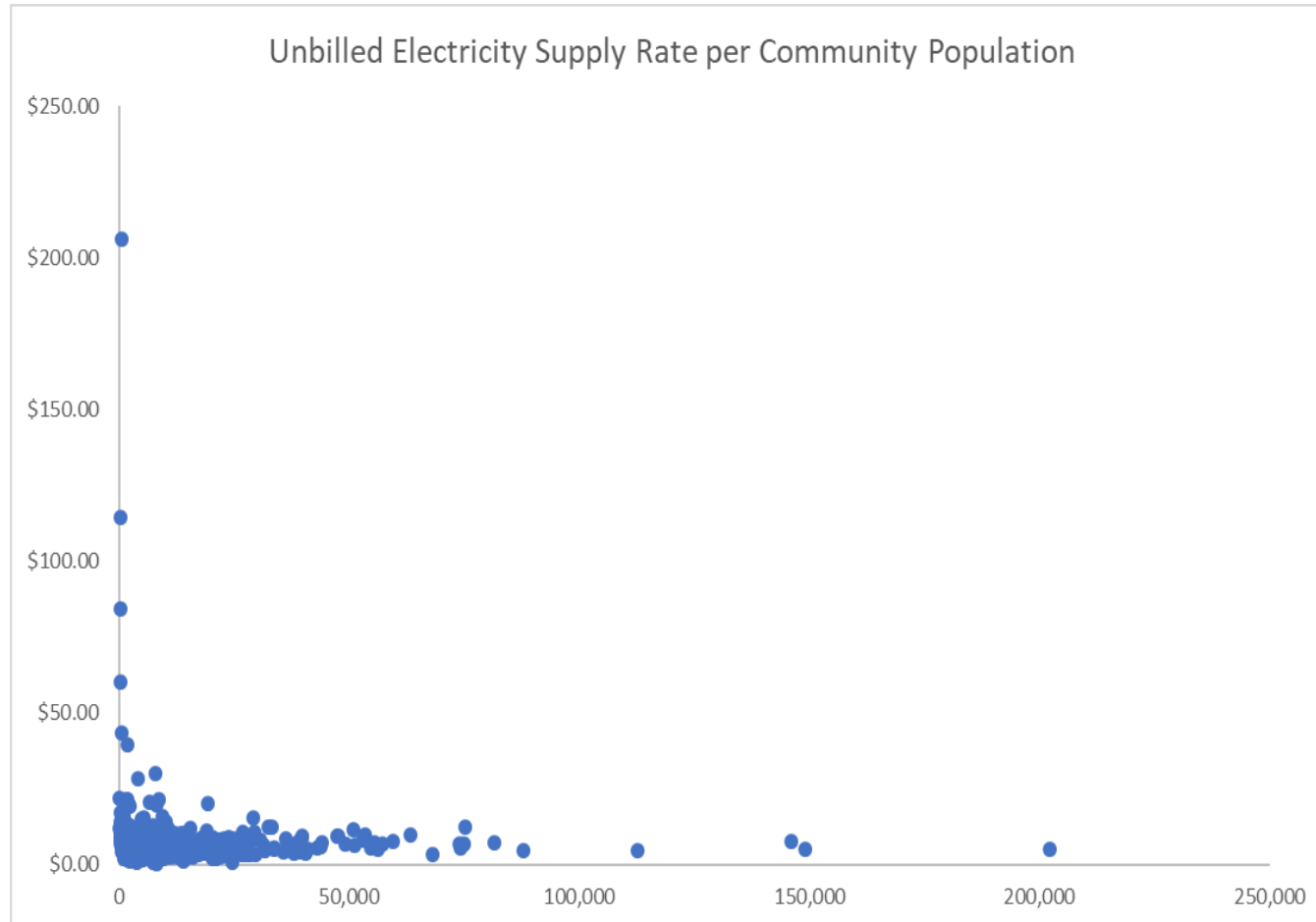
## Sample Pool:

- ~300 municipalities, ComEd region
- Excludes Chicago
- Value of 'zero billed' payments by ComEd

## Patterns:

- Generally larger payments for communities with more population
- Population is a proxy for total community consumption

# General Patterns: ComEd FCA



## Sample Pool:

- Same as on prior slide

## Observations:

| Ranges        | \$/Unit Population |
|---------------|--------------------|
| Highest Value | \$205.98           |
| Lowest Value  | \$0.44             |
| Average Value | \$8.52             |

- Indicative of variance in volumes & concentrations of residential commercial, industrial users

# Comparisons: IMF vs. FCA

| Item                       | Infrastructure Maintenance Fee   | Franchise Cost Addition   |
|----------------------------|--|---------------------------|
| Maximum Cap                |  |                           |
| - Municipalities < 500,000 | Not to exceed <u>full</u> value of prior FCA-based Franchise Agreement | Set by utility formula    |
| - Municipalities > 500,000 | Set by statute   | Set by utility formula    |
| Annual Variability         |  |                           |
| - Municipalities < 500,000 | Set by municipality  | Reset annually by utility |
| - Municipalities > 500,000 | Set by municipality  | Reset annually by utility |
| Value Control              |  |                           |
| - Municipalities < 500,000 | Municipality   | Utility                   |
| - Municipalities > 500,000 | Municipality   | Utility                   |

# FCA Impacts on Efficiency Investments

## Village of Oak Park (Village Hall)

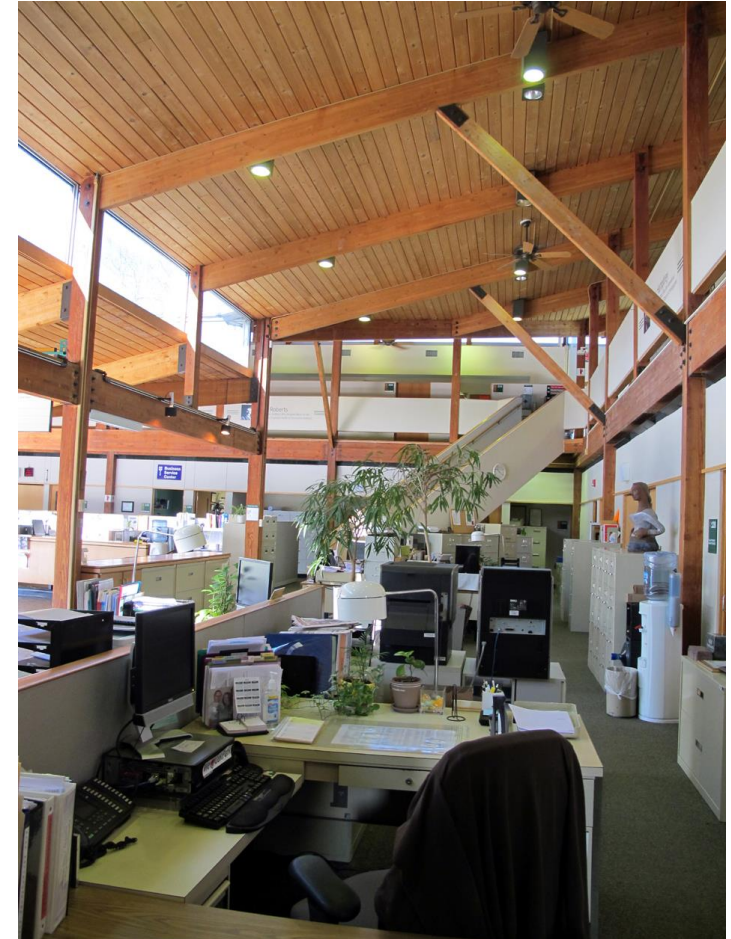
- Built 1975
- 70,223 square feet of interior space
- Offices, common areas, meeting rooms

## Lighting Efficiency Upgrade

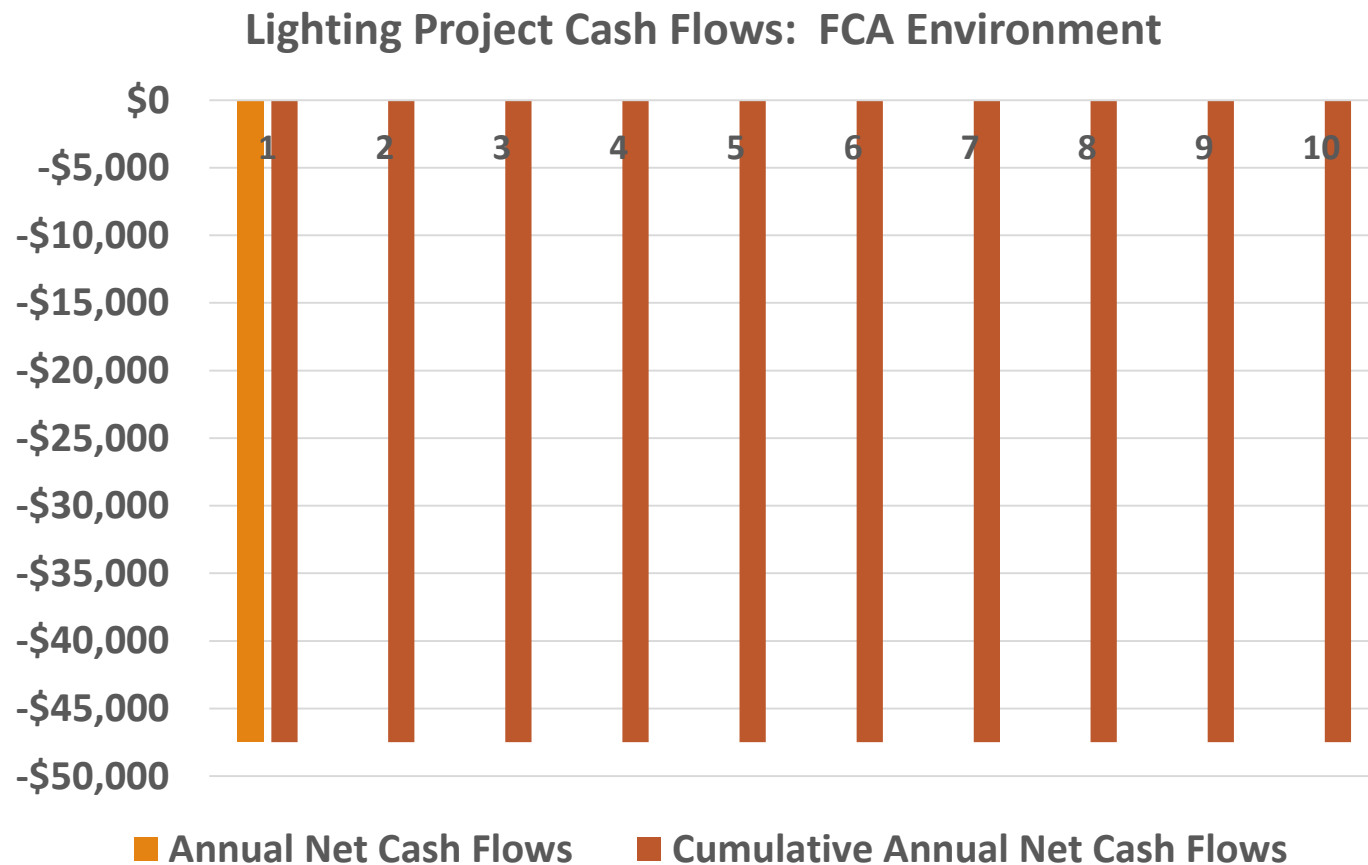
- Retrofit luminaries (LED)
- Improve controls/sensors

## Results

- Approximate 100,000 kWh in annual energy consumption
- FCA billing for facility



# FCA Impacts on Efficiency Investments



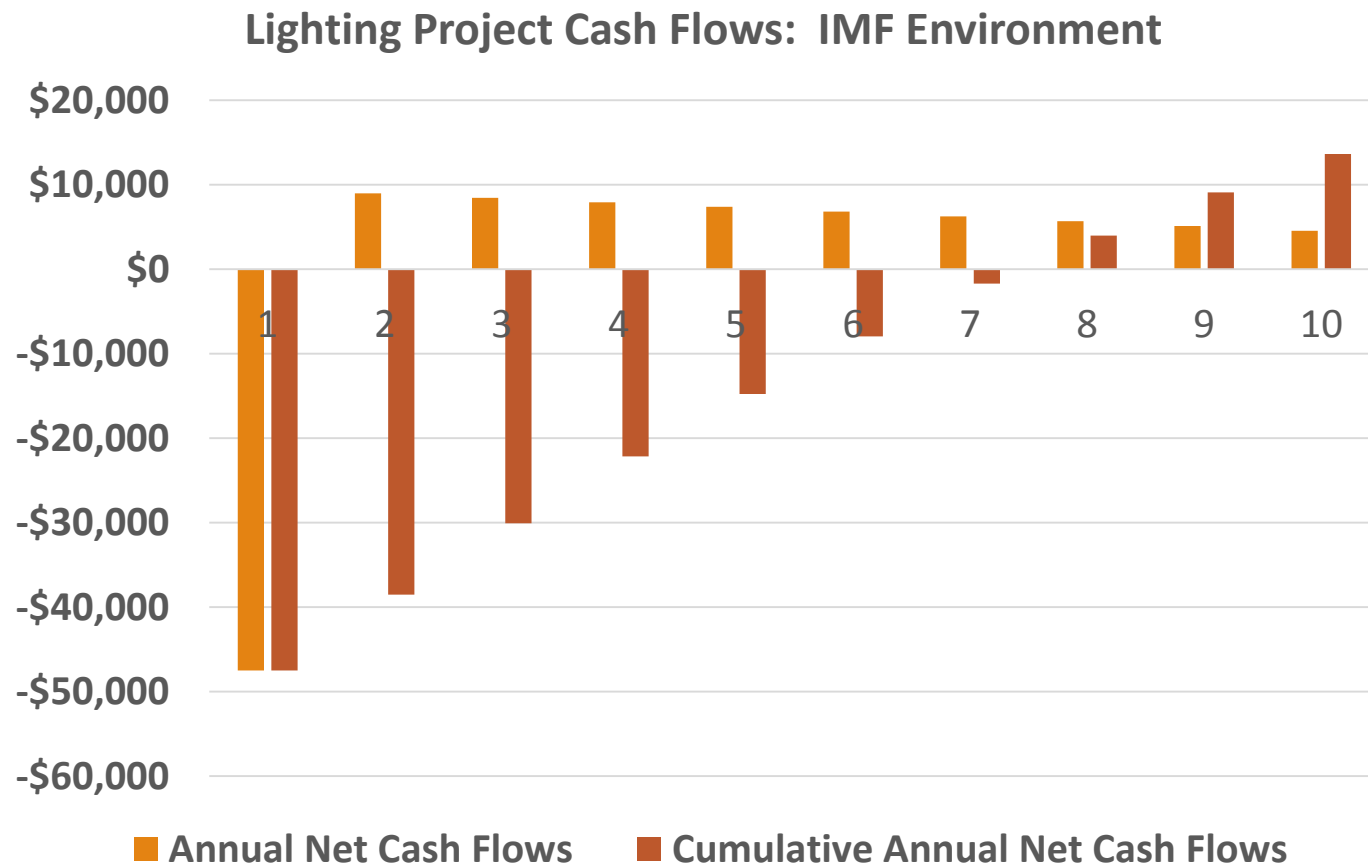
## Efficiency Upgrade

- \$47,500 capital outlay

## Results

- Lower consumption and resulting lower monthly billing values
- Bills are still zeroed-out, so no retained value as lower monthly billing values result in lower monthly utility credits
- Net cost of \$47,500 to municipality

# IMF Impacts on Efficiency Investments



## Efficiency Upgrade

- \$47,500 capital outlay

## Results

- Lower consumption and resulting lower monthly billing values
- Municipality continues receiving same IMF, so avoided cost savings are retained
- Net savings to municipality of \$13,000

# FCA Impacts on Solar Investments

## Village of Oak Park (Village Hall)

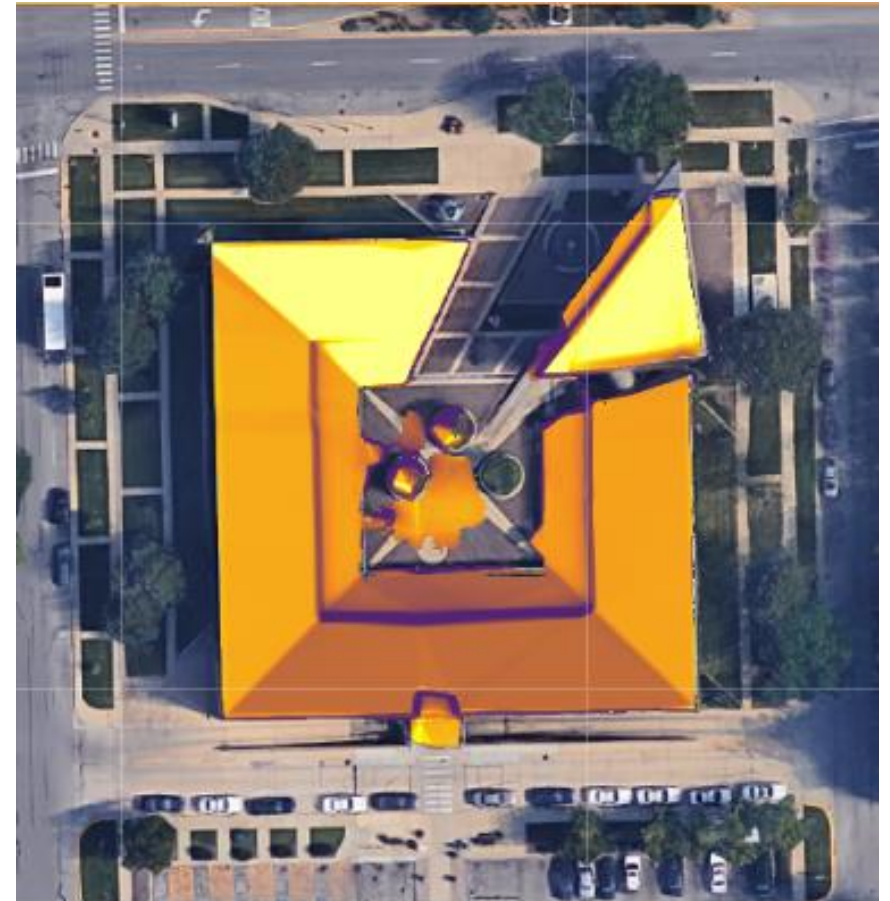
- Built 1975
- 21,000 square feet total roof space

## Solar Upgrade

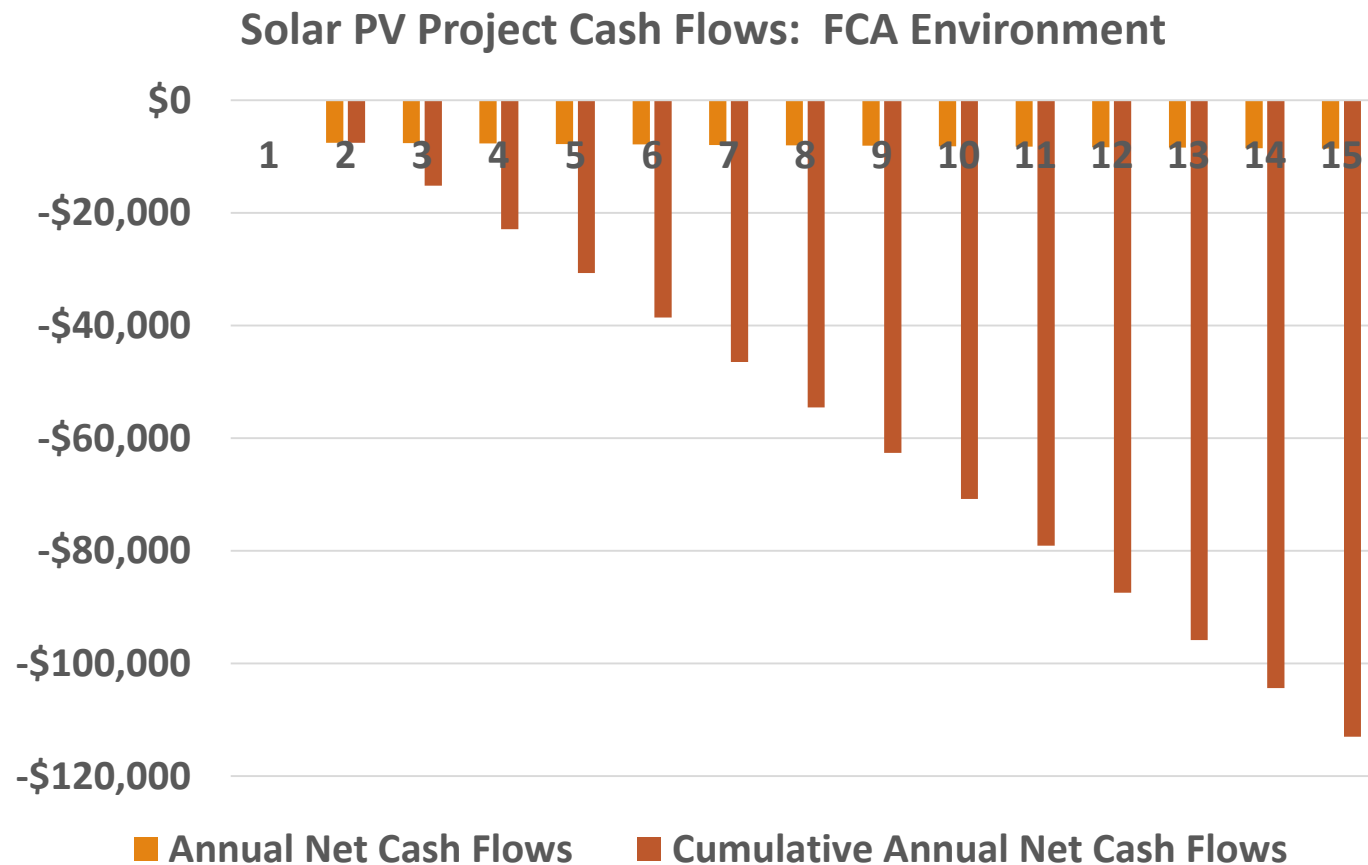
- PV Panels on sloped surfaces
- Limited to 9,000 square feet of roofspace
- \$0.045/kWh PPA, 1% annual escalator

## Results

- Approximate 168,000 kWh in annual energy generation
- FCA billing for facility



# FCA Impacts on Solar PV Investments



## Solar PV Upgrade

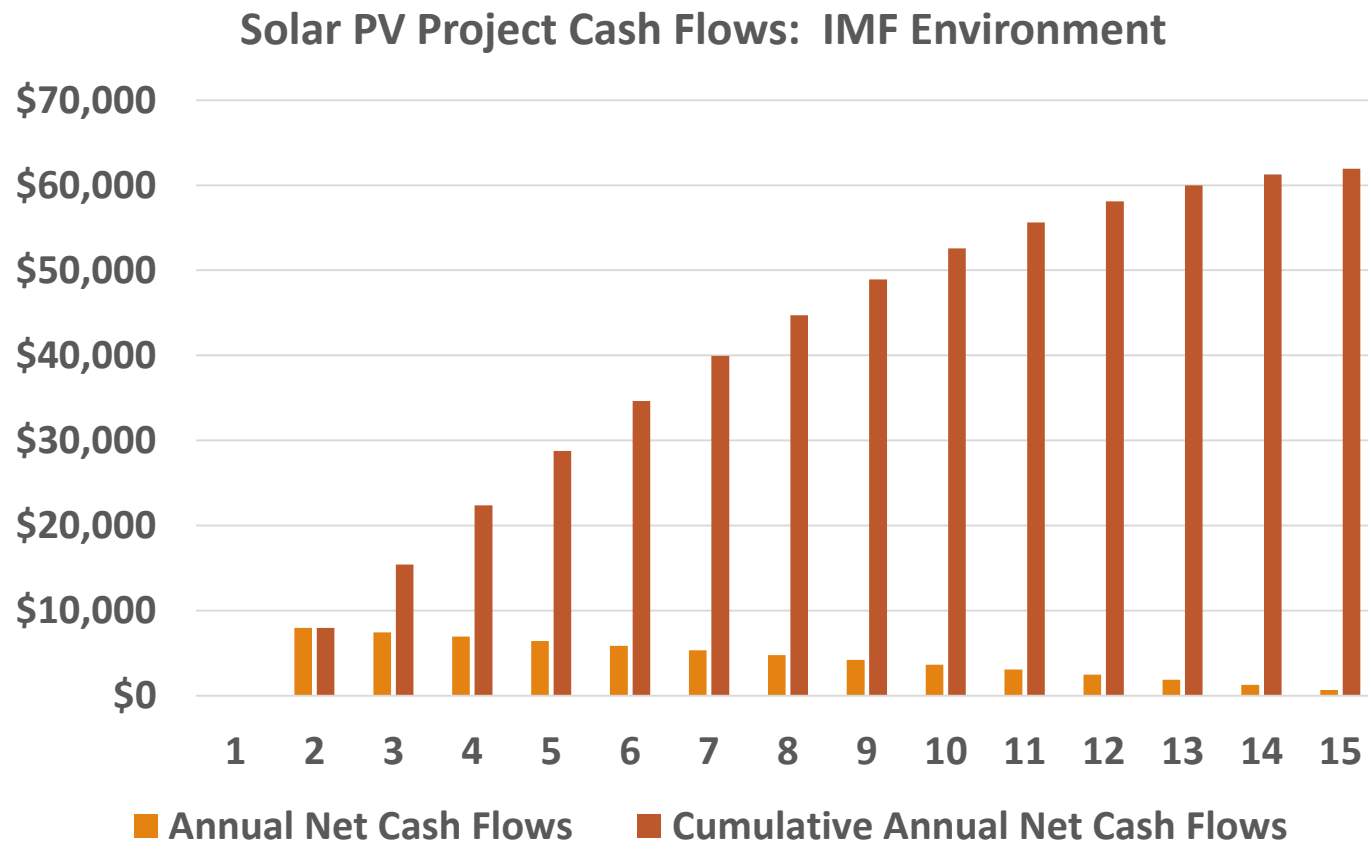
- \$0.045/kWh power purchase agreement (PPA)
- 1% annual escalator

## Results

- Lower metered consumption and resulting lower monthly billing values
- Bills are still zeroed-out, so PPA represents a pure cost adder to the Village
- Net cost of \$115,000 to municipality over 15 years



# IMF Impacts on Solar PV Investments



## Solar PV Upgrade

- \$0.045/kWh power purchase agreement (PPA)
- 1% annual escalator

## Results

- Lower consumption and resulting lower monthly billing values
- Municipality continues receiving same IMF, so avoided cost savings (PPA minus Tariff Rate) are retained
- Net savings to municipality of \$61,000 over 15 years

# Conclusions

---

## FCA Option

- Eases cash flow for municipalities
- Formula-based, floats within a range
- Value is capped by consumption at non-revenue generating municipal facilities
- Eliminates incentives for efficiency & behind the meter solar

## IMF Option

- Provides cash payments to municipality
- Formula based, fairly stable (i.e. community-wide consumption)
- Capped at **full** value of prior franchise agreement (FCA + other consideration)
- Creates incentives for efficiency & behind the meter solar

# Recommendations

---

## Proceed with Care

- Municipalities are compensated beyond the FCA or IMF
- Do not limit municipalities their right to negotiate other benefits
- Municipal compensation from the utility is passed through to consumers, so municipalities should always consider the impact to residents

## Enhance Options

- Municipalities should understand / analyze their options
- Municipalities should have the option to switch between compensation options on a schedule less than the current 20-50 year period
- Municipalities should make decisions in consideration of total economics
- A full analysis should be undertaken prior to converting from FCA to IMF to ensure proper valuation

# Closing Request & Thank you

---

Our project can still evaluate a few more case studies:

- Financing Rooftop Solar / Energy Efficiency, Making Community Solar work
- Please contact us directly if you have municipal facility portfolio to be evaluated
- No cost

## STRONG LEGAL & REGULATORY SOLUTIONS

**Michael Strong**

Principal

P: 773/401-8739

E: [Michael@Strong-Legal.com](mailto:Michael@Strong-Legal.com)

## THE POWER BUREAU

**Mark Pruitt**

Principal

P: 219-921-3828

E: [markjpruitt@thepowerbureau.com](mailto:markjpruitt@thepowerbureau.com)