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

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: $0.0053/kWh
- Monthly Cost: $4.77/mo.
- Months/Year: x 12 months
- Annual Cost: $57.24/yr.
Franchise Compensation: FCA

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 %: $2.5%
- Monthly Cost: $0.41/mo.
- Months/Year: x 12 months
- Annual Cost: $4.89/yr.
Franchise Compensation: FCA

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.

### FRANCHISE COST PERCENTAGES

Supplement to Rider FCA (1)

<table>
<thead>
<tr>
<th>Municipality</th>
<th>FC% Applicable Beginning with the June 2017 Monthly Billing Period and Extending Through the May 2018 Monthly Billing Period (2)</th>
<th>FC% Applicable Beginning with the June 2018 Monthly Billing Period and Extending Through the May 2019 Monthly Billing Period (2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADDISON</td>
<td>1.843%</td>
<td>2.009%</td>
</tr>
<tr>
<td>ADELINE</td>
<td>3.470%</td>
<td>3.841%</td>
</tr>
<tr>
<td>ALGONQUIN</td>
<td>1.846%</td>
<td>1.590%</td>
</tr>
<tr>
<td>ALSIP</td>
<td>1.379%</td>
<td>1.450%</td>
</tr>
<tr>
<td>AMBOY</td>
<td>2.645%</td>
<td>2.599%</td>
</tr>
<tr>
<td>ANTIOCH</td>
<td>2.189%</td>
<td>2.308%</td>
</tr>
<tr>
<td>APPLE RIVER</td>
<td>3.185%</td>
<td>3.589%</td>
</tr>
<tr>
<td>ARLINGTON HEIGHTS</td>
<td>3.572%</td>
<td>3.773%</td>
</tr>
<tr>
<td>AROMA PARK</td>
<td>2.042%</td>
<td>2.034%</td>
</tr>
<tr>
<td>ASHTON</td>
<td>1.500%</td>
<td>1.787%</td>
</tr>
<tr>
<td>AURORA</td>
<td>1.919%</td>
<td>1.917%</td>
</tr>
<tr>
<td>BANNOCKBURN</td>
<td>0.932%</td>
<td>0.783%</td>
</tr>
<tr>
<td>BARRINGTON</td>
<td>2.945%</td>
<td>3.130%</td>
</tr>
<tr>
<td>BARRINGTON HILLS</td>
<td>1.450%</td>
<td>1.554%</td>
</tr>
<tr>
<td>BARTLETT</td>
<td>1.376%</td>
<td>1.401%</td>
</tr>
</tbody>
</table>
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:
- Indicative of variance in volumes & concentrations of residential commercial, industrial users

<table>
<thead>
<tr>
<th>Ranges</th>
<th>$/Unit Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Highest Value</td>
<td>$205.98</td>
</tr>
<tr>
<td>Lowest Value</td>
<td>$0.44</td>
</tr>
<tr>
<td>Average Value</td>
<td>$8.52</td>
</tr>
</tbody>
</table>
## Comparisons: IMF vs. FCA

<table>
<thead>
<tr>
<th>Item</th>
<th>Infrastructure Maintenance Fee</th>
<th>Franchise Cost Addition</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Maximum Cap</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Municipalities &lt; 500,000</td>
<td>Not to exceed <strong>full</strong> value of prior FCA-based Franchise Agreement</td>
<td>Set by utility formula</td>
</tr>
<tr>
<td>- Municipalities &gt; 500,000</td>
<td>Set by statute</td>
<td>Set by utility formula</td>
</tr>
<tr>
<td><strong>Annual Variability</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Municipalities &lt; 500,000</td>
<td>Set by municipality</td>
<td>Reset annually by utility</td>
</tr>
<tr>
<td>- Municipalities &gt; 500,000</td>
<td>Set by municipality</td>
<td>Reset annually by utility</td>
</tr>
<tr>
<td><strong>Value Control</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Municipalities &lt; 500,000</td>
<td>Municipality</td>
<td>Utility</td>
</tr>
<tr>
<td>- Municipalities &gt; 500,000</td>
<td>Municipality</td>
<td>Utility</td>
</tr>
</tbody>
</table>
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
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 \textit{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

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