Transparent Utility Costs and Fees for Rate Payers

Issue

Market research conducted by the Alberta Chambers of Commerce (ACC) network indicates municipal franchise fees are a major barrier to business growth. According to a recent survey, 54 per cent of more than 1000 respondents cited these fees as a barrier to the growth of their business – more than any other direct municipal cost surveyed. Only five per cent indicated the fees provided a benefit to their growth, signaling the lowest value proposition as a cost for doing business in local communities.[1]

Background

The municipal "franchise fee", sometimes called "local access fees", is a rate rider charged to a utility service provider for exclusive rights to sell gas, electricity, water, or wastewater services within a municipality's boundaries. Utility service providers then add the cost of exclusive access to rate payers' bills as a franchise fee and collect these fees on the municipality's behalf. It is common practice for municipalities which own or receive direct dividends from a utility provider to still charge exclusive access fees to rate payers, though exclusivity would naturally have been granted to the providers.

Franchise fees limits for the sale of utilities services are set by the Alberta Utilities Commission, with fee caps currently set at 35 and 20 per cent for natural gas and electricity. However, under the current *Municipal Government Act*, municipalities can set fees rates at their discretion under the cap limits with minimal standards for transparently reporting fee revenues[2] or disclosing their fee rates – 41 per cent of ACC survey respondents indicated they were unsure or did not know if these fees impacted their business.

While a few municipalities have taken steps to improve transparency of rider fees charged rate payers, franchise fees are rising across the province and layering additional costs on business during a period of economic stagnation. Electricity costs are also increasing with the removal of the rate cap in 2019, compounding the burden of rider fees for this service. These trends have negative implications for Alberta's economy, considering less than one third of ACC survey respondents indicated they were likely to recommend investing or setting up a business in the municipality they operate.

The province can take a leadership role to restore investor confidence by improving cost accountability for utility rate payers and enable business growth by ensuring municipal rider fees are not making utility costs in the province uncompetitive compared to other jurisdictions.

The Alberta Chambers of Commerce recommends the Government of Alberta:

[1] *Alberta Perspectives: Red Tape and Business Supports*, December 2019

[2] Some municipalities report the revenues received under Schedule D of the Municipal Affairs Financial Information Return (FIR) while others report this revenue on under "Sales and User Charges".

1. Review municipal utility rate rider cap limits established through the Alberta Utilities Commission to ensure the upper limits on franchise fees are in fact, reasonable, and do not place Alberta businesses at a competitive disadvantage to other Canadian regions; and

2. Review and amend the *Municipal Government Act* to:

> (1) Mandate all municipalities to use public sector accounting standards for both budgeting and financial reporting, including a consistent location for reporting revenues collected from utility rider fees with a dedicated line item; and
>
> (2) Require greater transparency and disclosure of utility rider fees collected on behalf of municipalities.