

## Franchise Fee Information Sheet

The maximum allowable Xcel franchise fee under the Franchise Agreement between the City and Xcel is 3% of Xcel's gross revenues. However, the City currently only assesses the fee at 1.07%. Under the Franchise Agreement, the Council can decide by resolution to increase the fee to the full 3.0% and that increase will go into effect 60 days after the City gives Xcel written notice of the increase.

Though the data may fluctuate year to year, staff predicts that increasing the natural gas franchise fee to its maximum 3% would likely result in new revenue generation between \$930,000 and \$1.3M per year, with average annual impacts to end consumers between \$11-\$16 for residential customers and \$56-\$85 for businesses. Any revenue generated by this approach is likely to be volatile from year to year given the unpredictability of wholesale natural gas prices.

### Background

Since 1987 and until 2018, Xcel operated its natural gas system within the City using and occupying City streets, alleys and public rights-of-way without a franchise agreement from the City. In place of a franchise agreement, the City has imposed in Article VI of City Code Chapter 25 a "Gas Company Occupation Tax" (Occupation Tax) levied on Xcel. The Occupation Tax is a flat amount of \$445,000 per year payable quarterly by Xcel. The Occupation Tax is described in the Code Section 25-343(5) as being imposed, in part, as consideration to the City for Xcel's use of the City's streets, alleys and public rights-of-way.

Effective February 1, 2018, the City and Xcel agreed to enter into the Franchise Agreement, which City Council approved in Ordinance No. 006, 2018. The Franchise Agreement is for a term 20 years. Under it, Xcel has agreed to pay the City franchise fee of 1.07% of Xcel's annual gross revenues, but the City has also agreed that this franchise fee is to be applied as a credit against the \$445,000 Occupation Tax. In fact, the percentage of 1.07% was originally chosen to generate an amount of franchise fee revenues that would approximate the \$445,000 Occupation Tax. However, the parties also agreed in the Franchise Agreement that the City could, upon giving 60-days prior written notice to Xcel, increase the rate of the franchise fee up to no more than 3%, with Xcel still being entitled to use the franchise fee it pays as a credit against the \$445,000 Occupation Tax.

### Fee Increase and Use of Funds

Therefore, with City Council direction in a resolution, the City could give Xcel the 60-day notice to increase the franchise fee from 1.07% to 3.0% of Xcel's annual gross revenues. Currently, the franchise fee revenue is funneled directly to the general fund and allocated as part of the bi-annual budget process. Council could choose to designate any or all the franchise fee revenues specifically to climate investments. Staff recommends allocating the new portion of revenue

generated from an increased franchise fee (~two thirds of total funds remitted) for climate work, and the tables below reflect that assumption in revenue projections.

Important note: although this revenue source is designated as a “fee” it is not the type of fee that is required to be used in manner that is reasonably likely to benefit the fee payer. It is instead compensation to the City for Xcel’s use of the City’s rights-of-way.

### New Revenue Potential

The revenue generated by increasing Xcel’s franchise fee from 1.07% to 3% would vary annually based on Xcel’s revenue year to year, though data from previous years informs future estimates. The table below displays Xcel’s annual remittances of the franchise fee for each of the years 2018 – 2022 as well as an average for the most recent four years:

2018	2019	2020	2021	2022	2019-2022 Average
\$361,583	\$461,431	\$391,306	\$483,249	\$727,633	\$515,905

City staff believe that 2020 revenues were unusually low due to the COVID-19 pandemic, and 2022 revenues were higher due to the increasing price of natural gas as a result of several factors: the Ukraine-Russia war, inflation, colder winter temperatures, cost increases for coal, and a hike in the base rate (which has tripled since 2020).

Using actual Xcel franchise fee payments from previous years, staff calculated several estimates for revenue generation from an increased franchise fee of 3%. The following table displays two different revenue estimates: one using the average of actuals from the past four years and one using 2022 actuals. Modeled scenarios result in estimated *new revenue* exceeding \$900,000 per year, though the rising price of natural gas indicates a likely scenario close to or exceeding \$1 million per year.

Franchise Fee %	2019-2022 AVG Revenue Baseline	2022 Revenue Baseline
<b>1.07% (actual)</b>	\$ 515,905	\$ 727,633
<b>3.00% (estimate)</b>	\$ 1,446,462	\$ 2,040,093
<b>New revenue for climate investments</b>	\$ 930,557	\$ 1,312,460

### Impact to Consumers

As a result of the unpredictability of revenue estimates for natural gas, the impact per resident of an increase to the franchise fee is more volatile than a four-year average can perfectly predict. Nonetheless, these numbers represent the best available estimates based on analysis of data from previous years. The table below shows average monthly and annual estimated increases in costs by customer type using data from Xcel’s 2021 Community Report because the 2022 report has not yet been released. As a result of increasing Xcel and corresponding franchise fee revenues in 2022, the use of 2021 data may be slightly underestimating actual average cost increases for Xcel customers at a 3% franchise fee.

Customer Type	2022 Average Monthly Bill	Monthly On-Bill Franchise Fee Cost			Net Annual Franchise Fee Increase**
		Current Avg. Monthly Franchise Fee 1.07%	Total Avg. Monthly Franchise Fee 3.00%	Net Avg. Monthly Franchise Fee Increase 3.00%	
<b>Residential</b>	\$ 58.19	\$ 0.62	\$ 1.75	\$ 1.13	\$ 13.56
<b>Commercial/Industrial*</b>	\$ 344.02	\$ 3.68	\$ 10.32	\$ 6.64	\$ 79.69

\*Impact on Contract accounts not evaluated

\*\*These totals represent the net average monthly franchise fee increase times 12 months.

Using 2022 data as a baseline, increasing the franchise fee to 3% would result in an estimated average annual cost increase of \$113.56 for residential accounts and \$79.69 for commercial/industrial accounts. Staff anticipates that the City could adopt a rebate program to provide relief to low-income customers.