



**Request for City Council Committee Action
From the Finance Department**

Date: February 14, 2003

To: Ways and Means Committee

Referral to: None

Subject: Financial Study of the Electricity and Natural Gas Franchise Fees

Recommendation: Passage of a resolution to amend the 2003 general appropriation resolution to increase appropriation for Finance in the General Fund for expenses related to contractual services for a study of the City's electricity and natural gas franchise fees (0100-820-8270-5070) by \$18,000 funded from an increase to franchise fee revenues in the amount of \$18,000 (0100-126-1260-3062)

Previous Directives

None.

Prepared by Rebecca Law, Management Analyst, 612.673.3252

Approved by: Patrick Born, City Finance Officer _____

John Moir, City Coordinator _____

Presenters in Committee – Rebecca Law, Tammy Omdal or Patrick Born

<p>Financial Impact</p> <p><input type="checkbox"/> Action requires an appropriation increase to the Operating Budget</p> <p><input checked="" type="checkbox"/> Action provides increased revenue for appropriation increase</p> <p><input type="checkbox"/> Other financial impact (Explain): <i>This financial review by a consultant may reveal that additional franchise fee payments are due to the City for years prior to 2003.</i></p> <p><input type="checkbox"/> Request provided to the Budget Office when provided to the Committee Coordinator</p> <p>Community Impact</p> <p><input checked="" type="checkbox"/> Not applicable</p>
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Background/Supporting Information

Natural Gas Franchise Agreement

The City of Minneapolis has had a natural gas franchise agreement since 1969. The current franchise contract runs for the years 1992 – 2014 and is with CenterPoint Energy – Minnegasco. The natural gas franchise fees contribute approximately \$ 5 million in annual revenue to the City.

Electricity Franchise Agreement

The City has had an electricity franchise agreement since 1954. The current contract is for 1994 – 2014 and is with Xcel Energy, formerly known as Northern States Power (NSP). This franchise brings in annual revenue of approximately \$12 million.

Finance Department staff requested proposal letters from five accounting firms – Larson Allen, KPMG, Deloitte & Touche, Ernst & Young and Pricewaterhouse Coopers – to conduct a study of CenterPoint Energy's and Xcel Energy's financial records related to the franchise fee calculations. Only the Larson Allen firm submitted a written response. Similar studies by Larson Allen on the City's cable communications franchise resulted in additional revenue due to discovering errors in the franchisee's calculations of the payments to the City.

Neither CenterPoint Energy nor Xcel Energy's financial records and franchise payments have undergone an independent review in recent years. The consultant estimates that a financial study for the 2001 and 2002 franchise fees will cost approximately \$18,000. Staff recommends passage of a resolution to amend the 2003 general appropriation resolution to increase appropriation for Finance in the General Fund for expenses related to contractual services for a study of the City's electricity and natural gas franchise fees (0100-820-8270-5070) by \$18,000 funded from an increase to franchise fee revenues in the amount of \$18,000 (0100-126-1260-3062).