

## What are Public Utilities?

In Canada, electric, natural gas and telephone companies are considered to be public utilities and are regulated. A public utility is characterized by a number of different aspects including; a franchise (or service area), an obligation to serve all customers in its service area, the necessity of the service to the public and the fact that the service can be supplied most economically by a single company (natural monopoly).

A franchise is a monopoly granted to a utility company, usually by a municipality, to provide a particular utility service to all customers within a geographical area. Competitors can offer alternatives to the utility's service but they cannot provide the same service. Historically, franchises were granted to utility companies in exchange for a commitment from the company to provide a specified level of service (which usually required significant, long-term investments in plant and equipment) and to serve all customers in the service area.

The "public" aspect of a public utility refers to the fact that the service provided is necessary to the public good. Prime examples include electricity, water, and telephone service, which are essential to individual health and/or the functioning of a modern society and cannot easily be substituted for. Given the need to invest huge sums of capital to provide electric or water or telephone services to all customers in a franchise area, most public utilities are considered to be "natural monopolies" as it is most economical to have one supplier of the service in a franchise area. For example, if two or more electric utilities had to compete for customers in a geographic area, the duplication in generating plants, transmission lines, distribution systems etc would greatly increase the cost of the service to each customer. To enable the customers to be served as economically as possible, only one service provider is permitted to operate in that area.

Even though it may be most economical to grant a utility company a monopoly to provide an essential service to all customers in a franchise area, there is no guarantee that the utility company will actually pass the savings on to the customer. If the utility company takes advantage of its monopoly and charges unreasonably high prices for its service (to maximize its profits), this would not be

in the public interest as customers would be required to pay too much for an essential service.

To prevent monopoly abuses, most public utility companies are regulated. Regulation ensures that customers receive safe, reliable service at a reasonable price while also making sure that the utility company has an opportunity to earn a reasonable return on its investment.