The History of Local Access Fees

What are Local Access Fees?

Utility consumers pay Local Access Fees (LAF), also called franchise fees, on their utility bills. Consumer utility bills have a separate line each billing period that shows how much LAF is paid. LAF charges are collected by utility companies across North America to provide municipalities with compensation for the following:

1. access to rights-of-way for the utilities wires and pipes;
2. in lieu of property taxes; and
3. granting an exclusive franchise area as a monopoly for the utilities' operations

The methodology used to calculate LAF has historically served as a natural hedge to help The City of Calgary offset its utility expenses. In recent years, The City has shifted some of the risk into certain fixed price energy contracts, reducing the impact of the natural hedge from LAF. However, the LAF still provides a hedge to the portion of energy use outside of the fixed rate contracts, as well as for its share of LAF for energy consumed.

Why are Local Access Fees used?

Local Access Fees are a mechanism to ensure public utilities pay their fair share, since they do not pay property tax. Public utilities, including electricity, natural gas, water and sewer, require access to public lands where wires, pipes, and other assets are used to deliver utilities to homes in Calgary. These lands are called "rights-of-way" for the delivery of utility services to Calgarians. These rights-of-way are owned by the local government as owner of the street network and other public lands.

Many public utilities are a "natural monopoly" in that there are high barriers to new companies entering the market (typically because of sizeable infrastructure expenses), and that it would not be pragmatic from an economic perspective to duplicate this costly infrastructure to allow for multiple competing utilities to operate their own exclusive distribution networks. Historically, these natural monopolies have been government owned however, since the 1980s in North America, many of these natural monopolies have been owned by private enterprises that are subject to regulatory oversight. Further, utility customers are "captive", there is no opportunity to access another distribution provider. This differs from the telecom industry in that while telecom is increasingly viewed as "essential", there are multiple providers which each have their own network.

In Calgary, all energy retailers deliver the electricity and natural gas they have sold to consumers through infrastructure (wires and pipelines) that are owned/maintained/operated by ENMAX and ATCO Gas. ENMAX and ATCO Gas are required to pay The City the LAF. With Alberta Utilities Commission (AUC) approval, ENMAX and ATCO Gas have the right to recover LAF costs from its consumers. The LAF is treated like any other cost for a company providing electricity and/or natural gas distribution services. This cost recovery principle is employed by the AUC to allow ENMAX and ATCO Gas to recover all its costs (including the LAF) in its provision of electricity and natural gas services to Calgarians.

The wires and pipeline charges, along with the electricity RRO and Gas Cost Flow-through Rate (GCFR) are approved by the AUC. The LAF for natural gas is calculated using the same methodology as electricity, with the GCFR (instead of the RRO) applied to the customer usage component of the bill. The LAF for natural gas is collected by ATCO Gas.

In Alberta, there are essentially two different ways to calculate the LAF.

1. LAF are typically calculated as a percentage of the total distribution charges on your bill and are capped at 20 per cent for electrical and 35 per cent for natural gas. The provisions and requirements of the LAF are found in Section 45 of the Municipal Government Act.
2. The City charges a flat 11.1 per cent on the distribution charges on your monthly bill. The monthly RRO is also charged on the individual customer usage in calculating the LAF. This means that the percentage of your bill attributed to the LAF may vary depending on what price you pay for electricity.

Calgary Council has approved the second option, and Calgary is one of the few Alberta municipalities that choses to receive an LAF that includes a deemed value for electricity although many other municipalities continued to collect their natural gas LAF based upon the deemed value of natural gas.

Local Access Fees from a Consumer Perspective

The calculation of the LAF includes both components of a customer's total utility bill:

a. the cost of delivering the energy (wires or pipeline charges)
b. the energy charge (based on electricity or natural gas consumed)

The LAF is therefore charged on the full consumer's invoice, collected by the utility and remitted to The City, which can be seen on the sample Regulated Rate Option (RRO) and Competitive Plan bills below.

RRO bill example:

ENMAX

YOUR ENERGY AND UTILITIES STATEMENT
Calgary RRO+ Muni
11111 CALGARY BLVD NE
CALGARY AB T2K 4A4

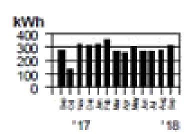
PAGE 3 OF 6
Account Number: 510000000
Current Bill Date: 2018 September 17

11111 CALGARY BLVD NE, CALGARY AB T2K 4A4

ELECTRICITY Provided by ENMAX

DAYS BILLED:	35	RATE	PREVIOUS READING	DATE	PRE READING	DATE	READ TYPE	SITE ID: 002000u000000 MULT	USE(k
METER #:	A48205	ERRRO	22086.000	JUL 26	22398.000	AUG 29	Actual	1.00000	312.(

New Charges
Electric Energy Charges - ENMAX Energy Corporation (Regulated Rate Option)
Energy Charge .... 312.000 kWh @ $ 0.0680000 / kWh .... $ 21.21 *
(Jul 26 to Aug 29)
Administration Charge .... $ 7.22 *
(Jul 26 to Aug 29)
Delivery Charges - ENMAX
(Jul 26 to Aug 29)
Distribution Charge .... $ 20.93 *
Transmission Charge .... $ 6.07 *
Balancing Pool Allocation .... $ 0.99 *
Rate Riders .... $ 5.35 *
Local access fee paid to CALGARY .... $ 6.92 *
Summary .... $ 68.69



AV COST / DAY $1.96

Competitive Plan Bill Example

ENMAX

YOUR ENERGY AND UTILITIES STATEMENT
Competitive + Muni
120 CALGARY RD NW
CALGARY AB T3K 5M3

PAGE 3 OF 4
Account Number: 50200000(
Current Bill Date: 2018 September 17

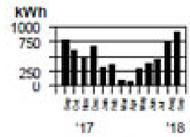
120 CALGARY RD NW, CALGARY AB T3K 5M3

ELECTRICITY Provided by: ENMAX

			PREVIOUS		PRESENT			SITE ID: 0020000000000	
DAYS BILLED:	32	RATE	READING	DATE	READING	DATE	READ TYPE	MULT	USE
METER #:	A26050	ERFDL	5825.000	JUL 27	6753.000	AUG 27	Actual	1.00000	928

New Charges

Electric Energy Charges - ENMAX Energy Corporation (EasyMax Fixed 3 Years)
Energy Charge .... 928.000 kWh @ $ 0.0599000 / kWh .... $ 55.59 *
(Jul 27 to Aug 27)
Administration Charge .... $ 7.47 *
(Jul 27 to Aug 27)
Delivery Charges - ENMAX
(Jul 27 to Aug 27)
Distribution Charge .... $ 26.00 *
Transmission Charge .... $ 18.06 *
Balancing Pool Allocation .... $ 2.95 *
Rate Riders .... $ 15.04 *
Local access fee paid to CALGARY .... $ 16.48 *
Summary .... $ 141.59



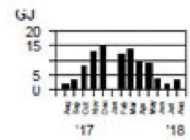
AV COST / DAY $4.42

NATURAL GAS ENMAX

			PREVIOUS		PRESENT			SITE ID: 00039U00000000	
DAYS BILLED:	17	RATE	READING	DATE	READING	DATE	READ TYPE	CONV	USE(GJ)
METER #:	X00320-W60605	GRIPL	705.000	AUG 01	706.000	AUG 17	Estimate	1.35000	1.350

New Charges

Natural Gas Energy Charges - ENMAX Energy Corporation (EasyMax Floating)
Energy Charge .... 1.350 GJ @ $ 0.9768200 / GJ .... $ 1.32 *
(Aug 1 to Aug 17)
Administration Charge .... $ 3.97 *
(Aug 1 to Aug 17)
Transaction Fee .... 1.350 GJ @ $ 0.9900000 / GJ .... $ 1.34 *
Delivery Charges - ATCO Gas
(Aug 1 to Aug 17)
ATCO Fixed Charge .... $ 13.21 *
ATCO Variable Charge .... $ 0.99 *
Rate Riders .... $ 0.75 *
Municipal franchise fee paid to CITY OF CALGARY .... $ 1.83 *
Carbon Levy .... $ 2.05 *
Summary .... $ 25.46



AV COST / DAY $1.50

Since 2021, residents and local businesses in Calgary have been struggling with a 16 per cent increase in inflation. Extremely high energy costs in Alberta, which are approved monthly by the Alberta Utilities Commission, have only made the affordability issue worse for Calgarians. While the RRO is supposed to cater to vulnerable customers, its pricing does not reflect current market realities over the past year. During the first half of 2021, the RRO price index was consistent with or below inflation, but by July 2023, it had increased by 246 per cent. The ENMAX RRO rate has decreased from 31.9 cents/kWh in August to 18.9 cents/kWh for October 2023, but remains higher than current market prices.

The City recognizes that when energy costs in Alberta skyrocket, the current LAF methodology places additional strain on Calgarians and local businesses. For consumers, understanding the cause and effect of Alberta's soaring energy market, RRO, and The City's LAF can be complex. The City is working to create greater education and awareness about this topic, and its efforts to provide greater equity and stability in LAF methodology. This work started in October 2023.

The City's Mid-Year Performance report recently provided Calgarians with a transparent view of the favourable operating variance, which includes a projected $100 million surplus in LAF from gas and energy for 2023. Per Council's direction, The City is investigating an affordability program using the surplus to support Calgary's affordability issue. Calgarians and local businesses will learn more about this proposed program during the November 2023 Adjustments period. The time required to develop and administer this program requires careful consideration to ensure the program is cost-effective and can maximize the value it can provide to Calgarians and local businesses.

To further support Calgary's affordability issue, The City is evaluating LAF methodologies for gas and electricity and will provide Council with alternative approaches focused on creating greater predictability and affordability in December 2023. The City is reviewing both gas and electricity methodologies, thus, any changes to The City's LAF approach will require negotiation with one or more utility providers before seeking approval from the Alberta Utilities Commission. Any Council-approved changes to the LAF methodology will take time to execute; however, it remains the only lever The City can pull to support Calgarians during Alberta's soaring energy costs in the future.

Consumer’s Frustrations with the Local Access Fees

Before the deregulation of the electricity and natural gas industries in 2001, calculation of the LAF involved applying the fee to the respective utilities gross revenues. Customers saw one line one their electricity bills that included the LAF. Under deregulation, the electric and gas utilities were separated into regulated distribution services and unregulated retail market components.

Calgarians could choose their electricity and/or natural gas provider, and the pricing was set through mutual agreement between supplier and consumer. As a result, energy utility consumers pay different prices for the energy they consumed. To make the LAF fair for all customers a deemed price for electricity was used to calculate the LAF. The deemed price is the Regulated Rate Option.

Another feature of the deregulation legislation was that the utility customer’s bill was broken out into its various components. The cost of electricity, the distribution costs including various rate riders and the LAF were all shown separately. Some customers had a difficult time understanding their electrical bill.

This was particularly true of the LAF. If a customer’s electricity is priced by the RRO, then the LAF would be 11.11 per cent of their cost of energy. If the customer was on a fixed price contract, then the LAF may not be 11.11 per cent of their energy cost because the LAF is calculated on the RRO and not the fixed rate that the customer is paying.

Another frustration is when the price of electricity rises the LAF also rises. This increases the financial strain on the customer. The City LAF exacerbates the overall increase in the cost of utility bill and makes the utility bill even more volatile.

Legislation

Local Access Fees (LAF) date back to 1956, when The City started charging for electricity and natural gas under the Municipal Taxation Act. Since the early 1970s as a matter of policy, The City has managed its own electric, water and sewer utilities on the public utility model, including the application of LAF.

Municipal consent and access agreements with the energy utilities are made pursuant to Section 45 of the Municipal Government Act (MGA). Section 45 provides that a municipality may grant a public utility a right, exclusive or otherwise, to provide service within its boundaries. Further, MGA Section 360 permits a municipal council to enter into a tax agreement with the operator of the public utility. Under such an agreement, the operator makes a payment (the LAF) in lieu of property taxes and all other fees and charges payable to the municipality.

The City of Calgary's Unique History with Local Access Fees

The City of Calgary Electric System (CCES) was the distributor of electricity for Calgary, and a City department until 1997 when The City restructured CCES into the ENMAX Corporation. With this restructuring, a new 20-year franchise agreement was made between Council and ENMAX. The agreement maintained the same LAF rate and LAF structure. Per the Municipal Government Act, Section 45(1), the agreement was set at its maximum term, 20 years. The most recent renewal (also for 20 years) occurred in 2017 and was approved by the AUC in decision 22757-D01-2017.

The current franchise fee agreement with ATCO was made between The City and Canadian Western Natural Gas Company (CWNC) Limited in 1991. There is no fixed end date, but both parties have the right to terminate the agreement. The franchise fee rate is 10 per cent on the gross revenues of CWNC from the sale of natural gas to consumers in Calgary. This results in an effective rate of 11.11 per cent (1/9) of the utility's own revenue.

The City has reviewed the LAF approximately eight times since 1991. The Calgary LAF rate has only been changed twice in its history. It was introduced at 7.5 per cent in 1956, increased to 8 per cent in 1958, and then increased to 10 per cent in 1974, where it remains to date. To treat electricity and natural gas equally, The City has always applied the same LAF rate and methodology for both electricity and natural gas.

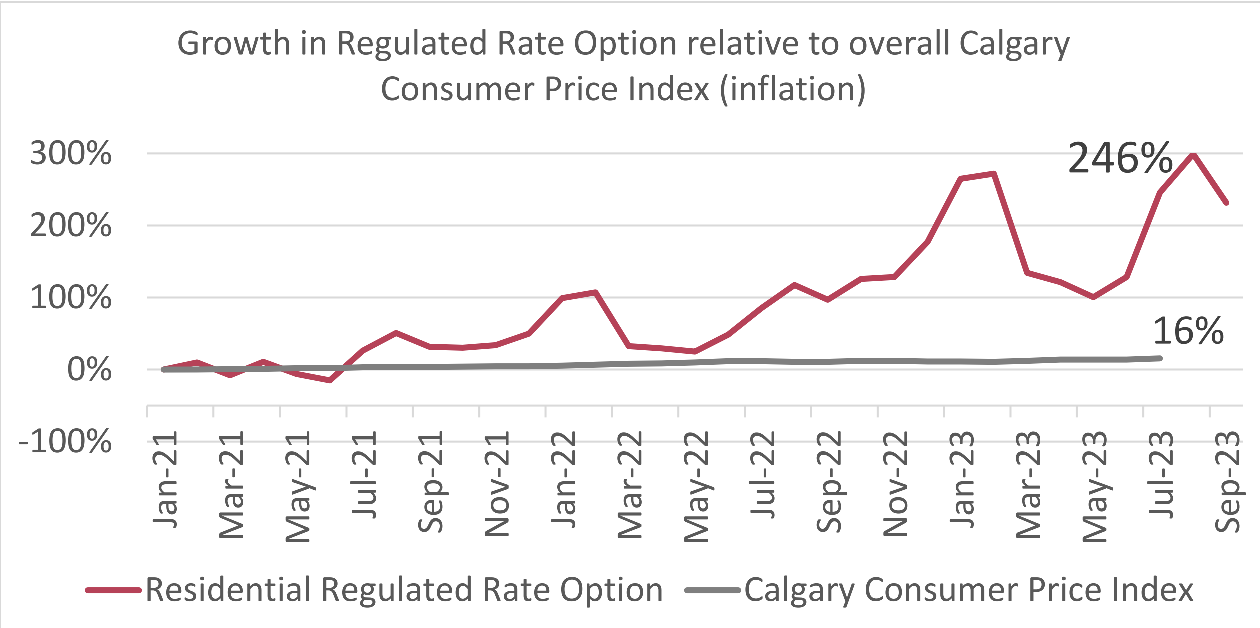
The City is one of the few Alberta municipalities that choses to receive an LAF that includes a deemed value for electricity although many other municipalities continued to collect their natural gas LAF based upon the deemed value of natural gas.

With electricity and natural gas consumption in Alberta being correlated with industrial activity, prices of both the RRO and GCFR have historically been tied to the state of the local economy. Because the LAF increases with the price of energy, the methodology used to calculate LAF has served as a natural hedge to help The City of Calgary offset its utility expenses.

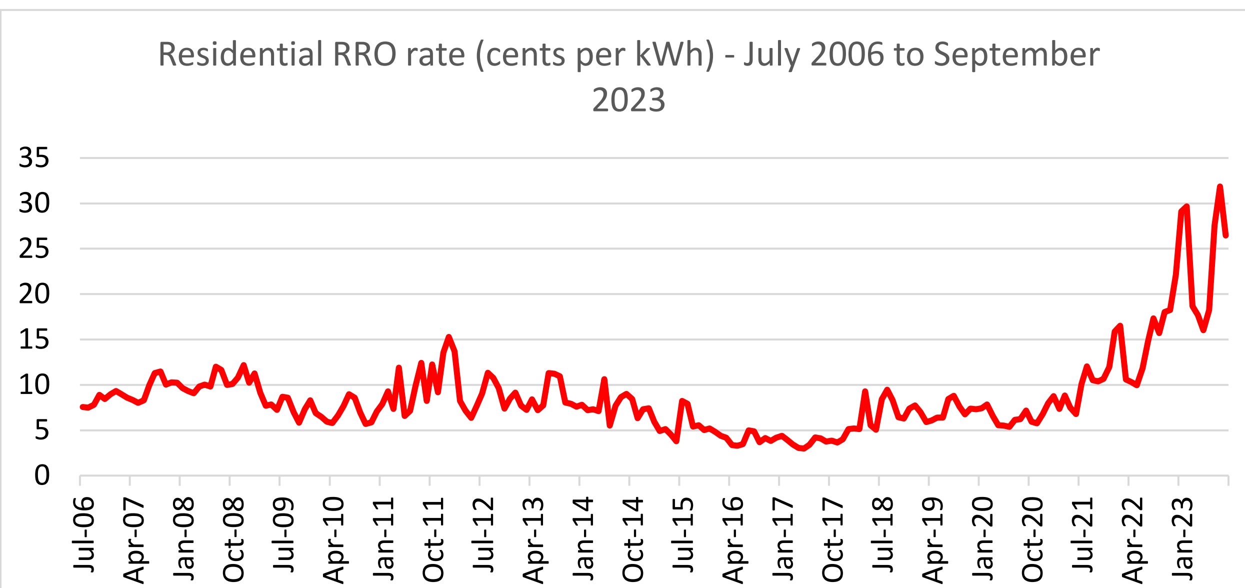
Excess LAF revenue has been returned to Calgarians through investments made by the Reserve for Future Capital, which is discussed in greater detail in Attachment 3.

Why are Local Access Fees so high right now?

Since 2021, Calgary residences have been subject to the highest rate of inflation in decades, which has raised affordability concerns as it relates to utility bills. The chart below illustrates that while overall inflation for Calgarians (as measured by Statistics Canada through the Calgary Consumer Price Index) has increased by 16 per cent from January 2021 to July 2023 (inclusive), the RRO has increased by 246 per cent over the same time period.



The chart below illustrates the monthly residential RRO rate from July 2006 to September 2023, showing how RRO prices have more than tripled since 2020. The spikes in the RRO are reflective of historically high Alberta power prices since mid-2021. The monthly RRO rates for customers in Calgary are set by ENMAX every month and approved by the AUC. The approval process is not overly rigorous, as the AUC basically performs a "reasonableness" check by comparing the RRO purchases to prevailing market prices. Utilities are directed by the AUC to procure their power in advance which can lead to RRO rates remaining high even when the wholesale market has decreased.



The chart below illustrates the GCFR over the same period. While price spikes have been observed, they have not been as severe since 2020, and consequently have had a less potent impact on affordability for Calgarians over the past few years. The gas market is less susceptible to manipulation by producers as there are a great number of small and large producers in Alberta. This differs from the electricity market as there are essentially five large generators (TransAlta, Capital Power, Heartland, Suncor and ENMAX) in control of over 9,000 Megawatts of electricity generation. Holding a majority of installed Alberta electric generation capacity, these five companies wield significant market power.