C2024-0251
ATTACHMENT 3

Adopting a Quantity Only Model for Franchise Fees

C2024-0251
2024 March 18

Previous Council Direction

On 2023 December 19, Council directed Administration (C2023-1180) to:

1. Postpone Confidential Report C2023-1180, Potential Changes to Local Access Fees – Budget Implications and Calgarian Impacts, C2023-1180, until The City of Calgary receives further clarity from the Government of Alberta about the future of the Regulated Rate Option (RRO)
2. If no clarity is received from the Government of Alberta with respect to Recommendation #1 above, resume Item 6.1.2, Potential Changes to Local Access Fees – Budget Implications and Calgarian Impacts C2023-1180, at the 2024 March 18 Strategic Meeting of Council;
3. Direct Administration to prepare a public release based on non-market sensitive information from the Confidential Attachments linked to Confidential Report Potential Changes to Local Access Fees – Budget Implications and Calgarian Impacts, C2023-1180;
4. Provide Administration with any further questions of clarification or requests for information on this item, with a 2024 January 19 deadline for those submissions;
5. Direct that the Closed Meeting Discussions, Confidential Report, and Confidential Attachments be held confidential pursuant to Section 24 (Advice from officials) of the Freedom of Information and Protection of Privacy Act, to be reviewed no later than 2026 December 31; and
6. Direct that, notwithstanding Recommendation 5, the Closed Meeting Discussions, Confidential Report, and Confidential Attachments be released to Corporate Planning and Performance, to be shared with Administration, only where required, to support next steps.

Recommendations

That Council:

1. Direct Administration to design and implement a revised methodology that aligns with the Quantity Only model, to transition The City in how it collects Local Access Fees (LAF) from electricity and franchise fees from natural gas starting from 2027 January 01.

2. Direct Administration to seek all necessary approvals, including Alberta Utilities Commission (AUC) approvals, in order to implement a Quantity Only model for collecting franchise fees from electricity and natural gas.

3. Direct Administration to use the following design principles in designing a Quantity Only model:

    A. Build a model that will provide stability and predictability in how much The City collects in revenue.

    B. Support affordability concerns of Calgarians and businesses.

    C. Minimize shifts in proportions across user classes with the intent of not materially shifting the financial responsibility from one user class to another.

    D. Maintain and improve The City's financial sustainability ensuring The City continues to collect at a minimum the currently budgeted Local Access Fee and Franchise Fee amounts from both electricity and natural gas.

    E. Build a model that will continue to support both The City's operating and capital budgets.

4. Continue advocacy efforts aimed at other orders of government to secure necessary funding for infrastructure and capital investments in The City.

5. Direct Administration to change the Council Policy CFO003 Franchise Fee/MCAF Revenue Budgets and Variances and develop a funding source, program and framework to support an on-going annual amount of $10 million in 2025 and 2026 for Energy Poverty and Affordability initiatives with funding from a portion of any potential positive variance collected from the Local Access Fee operating budget.

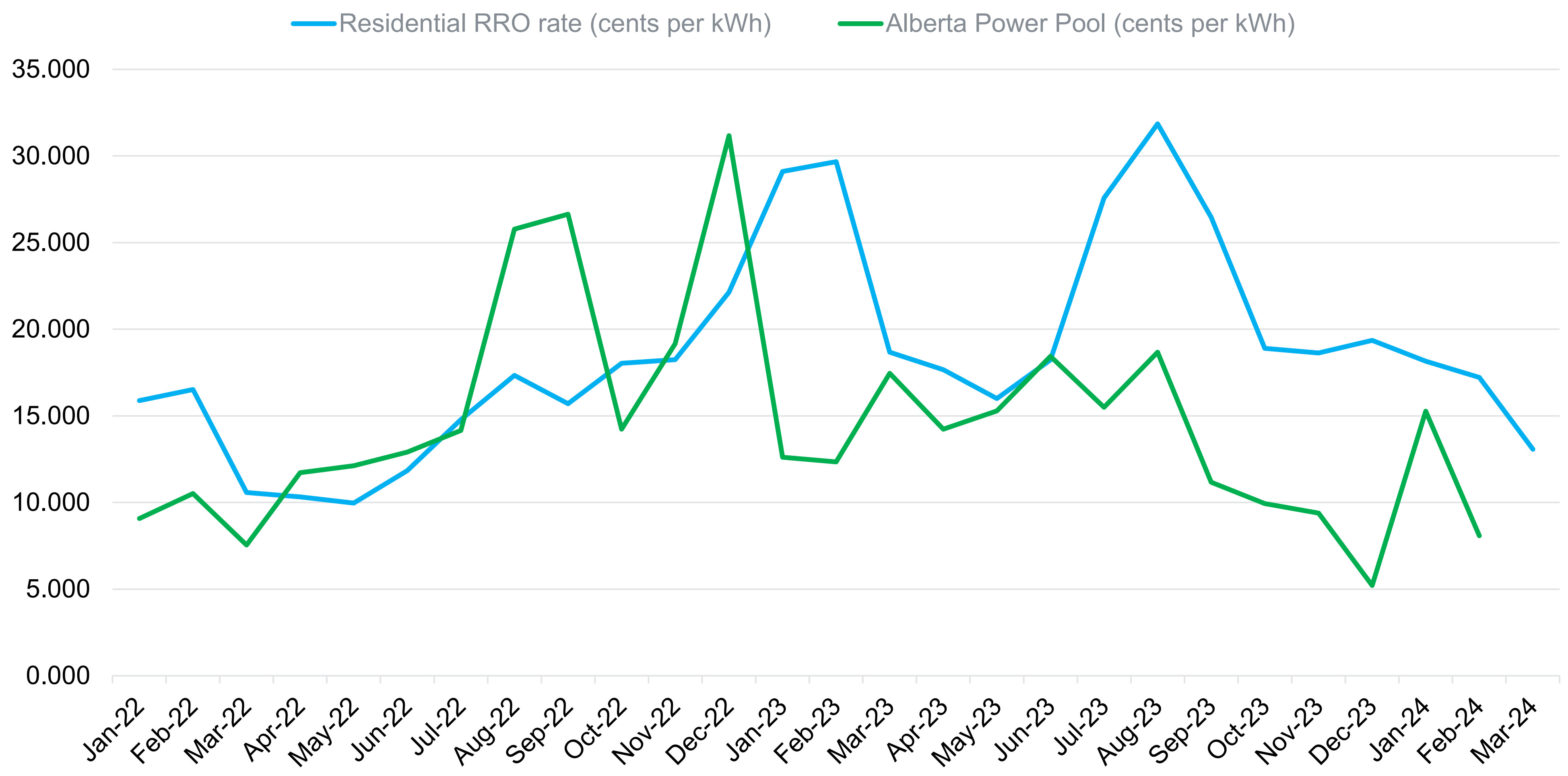
Highlights

- RRO prices for electricity have been volatile in 2022 and 2023
- If Council desires greater stability in Local Access Fee (LAF) revenue, Council could choose to set an annual LAF rate.
  - This will require annual review, be more administratively burdensome and be subject to public annual scrutiny and approval.
  - Residential ratepayers would see an annual savings of approximately $20.
- Changing LAF methodology would reduce City revenue significantly (when compared to recent years), require annual review and approval by Council, and likely result in the LAF becoming political.
- To allow time for design, approvals and implementation, the new methodology would take effect on 2027 January (in alignment with the new budget cycle).

Current State Overview

- The strength of the current methodology is primarily potency as it has the best potential for raising funds in high commodity price environments.
- Its greatest weakness is volatility because commodity prices will fluctuate month to month .
- The City's current methodology of applying the LAF rate to both the energy charge and the distribution cost provides for an equitable distribution of the burden of the fee on all utility consumer classes.
- Deregulation in 2001 led to use of Regulated Rate Option (RRO) as Reference Price for electricity in The City's LAF calculation.
- The RRO functioned as a generally non-controversial reference price for over 20 years; it went significantly higher than the Alberta Pool Price during several months in 2023.

The RRO premium remains volatile



Recommended Quantity Only Methodology

- The main benefit of the Quantity Only methodology is that it provides predictable revenue with minimal variability in consumer LAF payments.
- The main risk of the Quantity Only methodology is that Council will “own” the rate charged. Currently the rate being charged is a function of RRO provider power purchases and the Alberta Utilities Commission approvals.
- The calculation applies inflation and growth factors to the previous year’s franchise fee revenue to determine the current year’s LAF budget amount.
- The LAF budget amount is converted into a rate per kilowatt hour based on an estimate of the total kilowatt hours consumed for that year.
- Places the greatest burden for paying the electrical LAF on high-volume users, however there is a lower LAF rate for consumers receiving electricity at a transmission voltage.
- The utility must still pay property taxes to The City. The utility would flow-through this charge to its customers separately.

LAF Alternative

	Current State	Quantity Only model
Description	Total Bill – RRO price	Kilowatt hours (kWh) consumed only
Jurisdiction	Calgary	Edmonton
The Math	Total Bill × 11.11%	kWh × cents per kWh

Franchise Fee Levers and Reliances

	Levers	Reliances
Current	• Change LAF rate • Council budget policy	• Regulated prices for electricity • Utility Delivery Tariff
Alternative Quantity Only	• Council sets annual amount of LAF revenue by setting rate per kWh • Council budget policy	• Amount of electricity/natural gas used in Calgary • Inflation and Growth rates • Change utility Franchise Fee Agreement • ATCO to get approval from AUC • Revenue strategy to include review of Natural Gas Franchise Fee

Considerations

- LAFs are one of the few revenue tools available to The City.
- LAF and franchise fees are currently tied to volatile (currently low) electricity and natural gas prices.
- Recommendations have been made considering the balance of risks and Council's desire for reliability and predictability.
- Individual affordability issues cannot be properly addressed through changes to the LAF alone.
- Advocacy for necessary funding for infrastructure and capital investments in The City is needed.

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