Corporate Planning & Financial Services Report to
Regular Meeting of Council
2024 July 30

ISC: UNRESTRICTED
C2024-0840

Implementing a Quantity Only Model for Franchise Fees

PURPOSE

This report presents an update and a new timeline for the development and implementation of the new Quantity Only methodology for franchise fees (also known as Local Access Fees for electricity) approved by Council on 2024 March 18. *The Utilities Affordability Statutes Amendment Act*, 2024 (formerly Bill 19) requires a much earlier implementation date than anticipated when Council provided their direction.

PREVIOUS COUNCIL DIRECTION

On 2024 March 18, Council directed Administration (C2024-0251) to:

1. Design and implement a revised methodology that aligns with the Quantity Only model, to transition The City in how it collects Local Access Fees from electricity and franchise fees from natural gas starting from 2027 January 01.
2. 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. Use the following principles in designing a Quantity Only model:
    A. Build a model that will provide more stability and predictability than the current model in how much The City collects in revenue.
    B. Support affordability concerns of Calgarians and businesses.
    C. Minimize shifts 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. Change the *Council Policy CFO003 Franchise Fee/MCAF Revenue Budgets and Variances* and develop a funding source, program and framework to support an 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.

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RECOMMENDATIONS:

That Council:

1. Reconsider their decision on 2024 March 18 regarding Recommendation 1 in report C2024-0251 Adopting a Quantity Only Model for Franchise Fees to make 2027 January 01 the implementation date for the Quantity Only model and direct Administration to:
   a. Target 2025 January 1 as the implementation date; and
   b. Ensure The City is fully compliant with *The Utilities Affordability Statutes Amendment Act*, 2024 by 2025 March 17; and
2. Direct that Attachment 1 remain confidential pursuant to Section 25 (Disclosure harmful to economic and other interests of a public body) of the *Freedom of Information and Protection of Privacy Act*, to be reviewed no later than 2024 December 31.

CHIEF ADMINISTRATIVE OFFICER/GENERAL MANAGER COMMENTS

The Chief Financial Officer and General Manager of Corporate Planning and Financial Services concurs with this report.

HIGHLIGHTS

- To improve affordability for Calgarians and businesses, on 2024 March 18 Council approved the Quantity Only model as a revised methodology for The City to collect Local Access Fees from electricity and franchise fees from natural gas, which was to be implemented starting from 2027 January 01.
- The Quantity Only model remains the Administration's recommended methodology to provide greater clarity, predictability and control for consumers, helps The City collect only what is budgeted for, and financially incentivizes energy conservation thereby reducing climate impact.
- On 2024 April 22, the Government of Alberta introduced *The Utilities Affordability Statutes Amendment Act*, 2024. To be compliant with the Act, The City needs to revise the timeline for implementing the new methodology to 2025 March 17.
- The revised timeline aims to have the new franchise fee methodology in place for 2025 January 1, reducing risk to The City around the collection of fees in 2025 Q1 while providing a contingency for legislative compliance.
- Though there is increased risk for implementation on this accelerated timeline, Administration has developed mitigation plans in response and the residual risk is low-medium.

DISCUSSION

The current franchise fee methodology for electricity and natural gas was established in 1956. (Franchise fees for electricity have been historically referred to as Local Access Fees.) On 2024 March 18 Council approved the Quantity Only model as a revised methodology for The City to collect franchise fees, which was to be implemented starting from 2027 January 01.

On 2024 April 22, the Government of Alberta introduced *The Utilities Affordability Statutes Amendment Act,* 2024 (formerly Bill 19). Having been proclaimed in force 2024 June 20, new

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agreements that use a franchise fee calculation methodology compliant with the Act must be approved by the Alberta Utilities Commission no later than 2025 March 17 (270 days after the Act was proclaimed in force). Attachment 2 shows Administration's revised timeline to have the new franchise fee methodology in place for 2025 January 1. This timeline reduces the financial risk to The City around the collection of fees in 2025 Q1 after the Regulated Rate Option (which is a core component of the fee calculation in the current franchise agreements) ceases to exist on 2024 December 31. It also incorporates contingency time for legislative compliance by 2025 March 17.

Administration was able to revise the timeline by largely eliminating contingency time that was built into the original timeline and finding efficiencies in the process where possible. We are fortunate to have dedicated partners to facilitate the process: ENMAX and ATCO are committed to establishing new contracts quickly, while the AUC is targeting to approve new agreements within 3 months where they do not follow the standard templates.

Attachment 3 provides a full risk assessment for the revised timeline.

Administration considered alternative approaches to managing the changes to the timeline, including implementing other methodologies. The Quantity Only model remains the recommended approach, as it is a superior methodology for meeting key priorities for The City. The Quantity Only model:

- Provides greater clarity, predictability and control for consumers by having a transparent flat rate directly tied to the amount of energy used and eliminating the current tie to a fluctuating rate for electricity and natural gas that is not the one most consumers' bills are based on.
- Helps The City to collect only what is budgeted for by setting franchise fee rates in consideration of forecasted budgetary needs, with a more reliable mechanism for accurately collecting that amount.
- Financially incentivizes consumers to use less energy due to consumer sensitivity to franchise fee amounts on monthly bills tied to the quantity of consumption, which contributes to reducing negative impact on the climate.

EXTERNAL ENGAGEMENT AND COMMUNICATION

☐ Public engagement was undertaken

☐ Public/interested parties were informed

☒ Dialogue with interested parties was undertaken

☐ Public communication or engagement was not required

- ENMAX and ATCO were engaged to understand timeline and procedural requirements to implement the Quantity Only model, as well as financial impact.
- The Alberta Utilities Commission was consulted to clarify the process and expectations for filing for approval new franchise fees and agreements.
- The Government of Alberta was consulted to clarify expectations regarding *The Utilities Affordability Statutes Amendment Act,* 2024.

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IMPLICATIONS

Social

The City set out to revise its franchise fee methodology to address affordability for Calgarians. The Quantity Only method removes the volatility of the current model and allows consideration for setting appropriate rates for Calgarians and businesses.

Changes to the proportional share being paid by the customer rate classes may result in questions from interested parties.

Environmental

The Quantity Only methodology applies the fee to the energy component of the utility bill, and this acts as a disincentive to consume energy.

Decreasing the fees in general for residential customers would help increase energy equity and meet the goals for the energy equity pathway in the Climate Strategy.

Economic

Franchise fees are broadly based, inclusive of all developed properties in Calgary including those exempt from paying property taxes, thus diversifying The City's revenue base. Franchise fees support a balance between property taxes and other revenues, one of The City's fiscal objectives.

Service and Financial Implications

Other:

Change in rates or fees

With the Quantity Only methodology implementation on an accelerated timeline, the change to the fee structure will be earlier than anticipated. Council will set the amount of revenue to be collected.

RISK

The City's proposed Quantity Only model for franchise fees faces a time-sensitive decision due to legislative changes. While offering long-term benefits, the model carries short-term risks related to regulatory approval and potential negative public reaction.

To mitigate these risks, the City has developed a comprehensive strategy focusing on expedited implementation, collaboration with interested parties, proactive communication, and contingency planning. The goal is to ensure a smooth transition to the new model while minimizing potential disruptions and financial impacts. The compressed timeline and limited opportunity for engagement with interested parties pose additional challenges, requiring The City to prioritize key areas of engagement and modeling, and effectively communicate with interested parties and the Alberta Utilities Commission to secure approval and build support. However, with the full set of risk management strategies in place the residual risk to The City is low-medium.

A full risk assessment is provided in Attachment 3.

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ATTACHMENT(S)

1. Attachment 1 - Background and Previous Council Direction
2. Attachment 2 - Revised Timeline
3. Attachment 3 - Risk Analysis
4. Attachment 4 - Presentation

Department Circulation

General Manager/Director	Department / Business Unit	Approve/Consult/Inform
Carla Male, Chief Financial Officer and General Manager	Corporate Planning & Financial Services	Approve
Chris Stewart, Director	Corporate Planning & Performance	Approve
Denise Jakal, Assistant Director	Law	Consult

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