Risk Assessment

The following is an overview of the top risks and The City's response strategies for the transition to a Quantity Only model by 2025 January 01.

This information was collected by undergoing a risk analysis to ensure risks are well understood, with a response strategy in place for each one. As new developments take place and new information is uncovered the risk assessment will be updated in an ongoing manner as part of the program implementation.

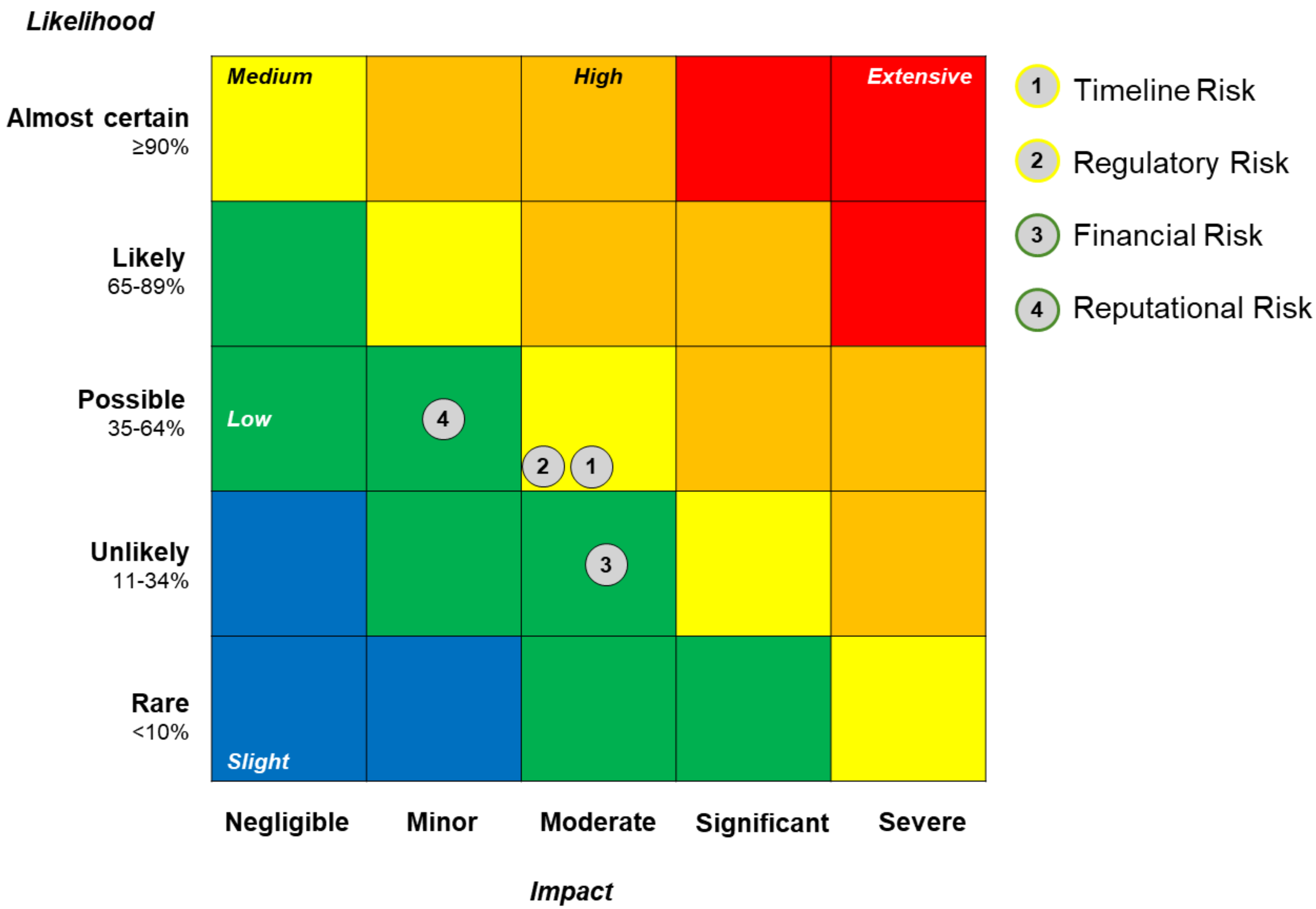
Risk	Analysis	Response
Timeline Risk	The compressed timeline for renegotiating franchise agreements presents a risk to the timely development of a robust and defensible franchise fee model. Similarly, there is limited time for utility providers and retailers to update and test their billing systems for the new model. If these steps extend beyond the current timeframe, The City's ability to collect franchise fees could be interrupted in Q1 2025.	**Accelerated Timeline:** The City will fast-track the implementation of the franchise fee model, expediting processes wherever possible while balancing the need for quality and The City's appetite for short-term financial impacts. This includes prioritizing the submission of the application to the AUC in September to ensure adequate time for their review and approval, and supporting ENMAX and ATCO to make system updates in parallel with the AUC application. **Streamlined Collaboration:** • Franchise agreement negotiations with ENMAX and ATCO will be focused on essential changes necessary for legislative compliance, streamlining the process and minimizing potential delays. • A joint project plan will be established with ENMAX and ATCO to foster efficient and effective collaboration, ensuring alignment on timelines, deliverables, and model development. Initial discussions with ENMAX and ATCO brought high confidence that a September filing date is achievable. **Knowledge Transfer and Robust Modeling:** • The City will actively leverage the experience and insights gained from Edmonton's current model for electricity franchise fees to expedite the process and avoid potential pitfalls. • Modeling and load forecasting, particularly at the class level, will be prioritized to ensure the robustness and defensibility of the franchise fee model.

Regulatory Risk	There is a risk that the Alberta Utilities Commission (AUC) may not be able to approve The City's application for a Quantity Only model within the stated timelines due to the lack of precedent for such agreements. While the City of Edmonton has uses a similar model with EPCOR, it remains untested for AUC approval, potentially leading to regulatory caution. Such a delay - or even an outright rejection – could result in financial loss for The City.	The City will be keeping the AUC informed and will provide advanced notice and details of the off-template Quantity Only model. **Preparedness for Regulatory Scrutiny:** The City will anticipate and prepare for potential challenges to the franchise fee model by the AUC. This includes keeping the AUC informed of our intentions to enable their own preparedness, and developing a comprehensive and well-supported rationale for the chosen model, backed by strong supporting information. **Timely Submission:** The Quantity Only model applications will be filed in September, ensuring a full three-month window for AUC review and approval. This aligns with the AUC's public target of a three-month processing timeframe, contingent upon a clear and well-supported rate rationale. **Leveraging AUC Guidance:** The AUC's acknowledgement of alternative models and established evaluation process make their requirements clear. By working closely with ENMAX and ATCO to present a comprehensive and well-supported rationale for the Quantity Only model following the AUC's guidance for determining that rates are just and reasonable and that the agreements are in the public interest, The City proactively addresses potential regulatory concerns, mitigates the risk of prolonged uncertainty, and safeguards against potential financial constraints. **Contingency Plan (Distribution Only Model):** Recognizing the potential for delays or even non-acceptance, The City has developed a contingency plan. If necessary, the Quantity Only application can be withdrawn, leaving time to pivot to the template Distribution Only model. Both ATCO and ENMAX have confirmed their ability to develop this alternative model within 4 weeks, and the AUC has targeted a processing timeline of 3 months. This effort will make use of the contingency time in the first months of 2025 built into the revised timeline.

Financial Risk	Delayed Implementation may result in a potential revenue loss of up to $36M (~$12M per month) in 2025 Q1 if the Quantity Only model is not implemented by 2025 Jan 1, impacting fees collection.	**Contingency Plans:** • Expedite negotiations and approvals to meet Jan 1 target. • Explore contingency options such as a) Secure AUC approval interim funding agreements with energy providers to bridge any potential gap and b) Retroactive billing mechanisms to recoup lost revenue if necessary. • Maintain option to switch to template agreement for expedited AUC approval (maximum 10 days)

Reputational Risk	**Public and Interested Parties Perception Risk:** The City's proposed target revenue, rate and fee structure could face scrutiny and negative public perception. This is particularly relevant for natural gas franchise fees, which are currently very low and are likely to rise to levels more in line with other municipalities through this process, potentially causing a negative customer reaction and political response. **Model Customization and Interested Parties Management Risk:** The limited timeframe may hinder The City's ability to fully customize the franchise fee model to meet the specific needs and expectations of various consumer classes. This could lead to unintended cost shifts between consumer groups, resulting in dissatisfaction and potential resistance from affected interested parties.	**Transparency and Benchmarking:** Proactively demonstrate the reasonableness of the proposed rates, providing appropriate context by comparing them to those of other Alberta municipalities. **Collaborative Communication Plan:** Partner with ENMAX and ATCO to develop and execute a comprehensive communication plan that: • Clearly explains the rationale behind the Quantity Only model and its benefits for consumers. • Highlights the comparability of the proposed rates to those in other municipalities. • Addresses potential concerns and questions about the fee changes. • Emphasizes The City's commitment to fair and equitable rate-setting practices. **Ability to Evolve the Model Over Time:** The City has the ability to evolve the model over time to increase its sophistication, since the Quantity Only model requires Council to select, and the AUC to approve, franchise fee rates on an annual basis. Therefore, adjustments can be made post-implementation.

Below is a visual representation of the residual level of risk on a heat map.



Emerging Risk

An emerging risk is when we can identify an uncertainty on the horizon that could impact the organization, but we do not yet have enough information to fully assess the impact and likelihood of it. As The City established its current franchise fee methodology in 1956 there is a degree of uncertainty in transitioning to a new model.

While the new Quantity Only model offers potential benefits, the uncertainties and risks associated with its novel application and accelerated timeline must be acknowledged and proactively managed. By implementing contingency plans, maintaining an adaptive approach, and prioritizing proactive risk management, The City can mitigate these risks and increase the likelihood of successful implementation.

Annual rate-setting by the Council provides a valuable mechanism for ongoing evaluation and improvement of the model, ensuring its long-term suitability for The City's objectives.