



# Implementing a Quantity Only Model for Franchise Fees

C2024-0840

2024 July 30



# Previous 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 design 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 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. 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.



# 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



# Key messages

- To improve affordability for Calgarians and businesses, on 2024 March 18 Council approved the Quantity Only model for franchise fees to be implemented starting 2027 January 01.
- The Quantity Only model is best for Calgary since it:
  - Provides clarity, predictability and control for consumers,
  - Helps The City to collect only what is budgeted for, and
  - Financially incentivizes energy conservation, reducing climate impact.
- On 2024 April 22, the Government of Alberta introduced *The Utilities Affordability Statutes Amendment Act, 2024*. The City must now implement the new methodology by 2025 March 17.
- Administration's revised timeline aims to have the 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.



# Original timeline



## Step 01

3-9 months

Design a revised methodology to align with Quantity Only Model

## Step 02

3-9 months

Negotiate new agreements with ENMAX and ATCO incorporating new methodology

## Step 03

6 months +

Obtain AUC approval of the new LAF agreements

## Step 04

1-3 months

Establish base year LAF rates and obtain Council approval

## Step 05

Implementation, specifically in ENMAX and ATCO billing systems



## Quantity Only Model

Full Cycle Change

- Contingency built into plan
- Aligns with next four-year budgeting cycle

Council approved implementation date (2024 March 18)

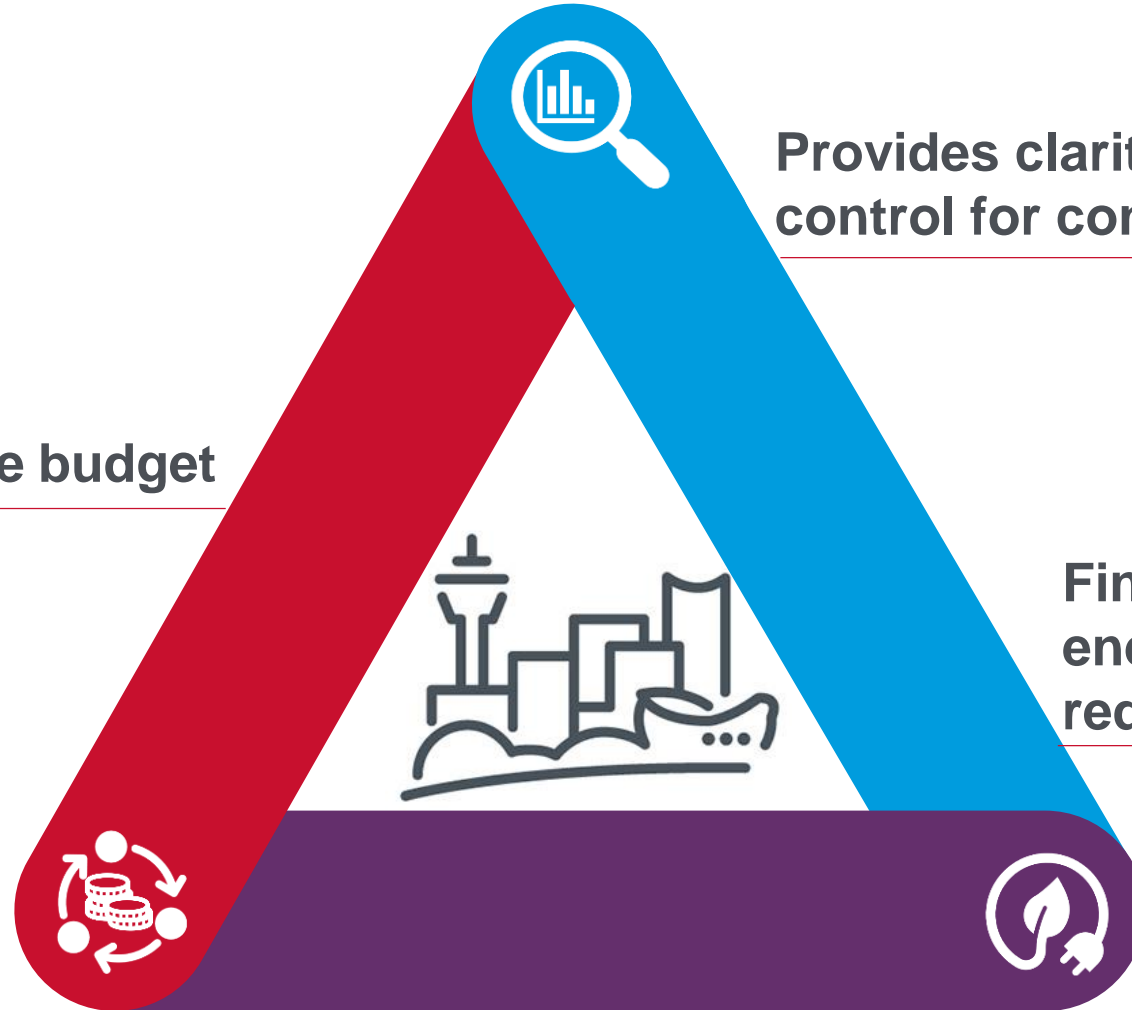


# The Quantity Only Model is best for Calgary

We collect what we budget

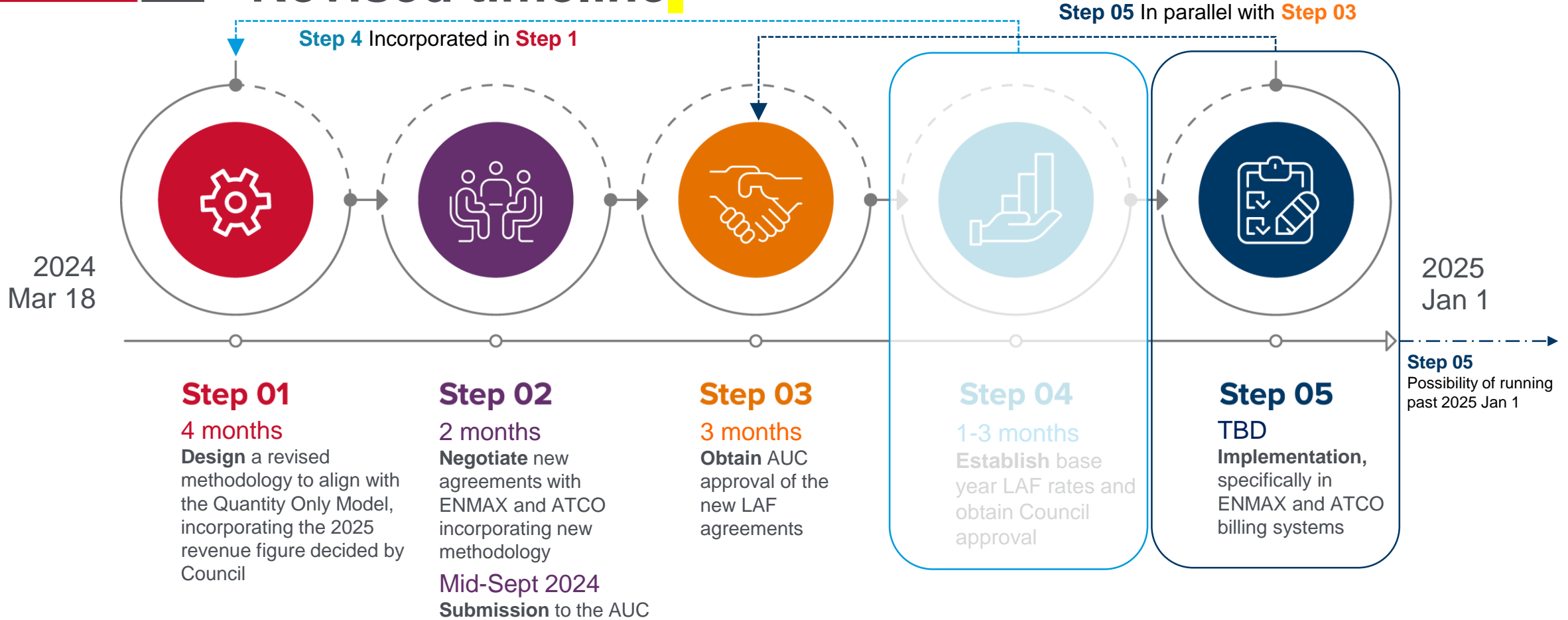
Provides clarity, predictability and control for consumers

Financially incentivizes energy conservation, reducing climate impact





# Revised timeline



## EFFICIENCIES:

**Eliminated contingency time**  
no longer needed

**Expedite work** by combining steps or undertaking in parallel, while accepting the risk of possible re-work

**Dedicated partner collaboration** to streamline negotiations with ENMAX and ATCO, and approval through the Alberta Utilities Commission



# Risk Assessment and Mitigations

- 1. TIMELINE RISK - Medium**  
Risk to the timely development of a robust and defensible franchise fee model.
- 2. REGULATORY RISK - Medium**  
Alberta Utilities Commission may delay or not approve a Quantity Only model.
- 3. FINANCIAL RISK - Low**  
Delayed implementation may result in lost revenue.
- 4. REPUTATIONAL RISK - Low**  
Proposed target revenue rate and fee structure could face scrutiny and negative public perception.

**Likelihood**

- Almost certain**  
≥90%
- Likely**  
65-89%
- Possible**  
35-64%
- Unlikely**  
11-34%
- Rare**  
<10%

	Medium		High		Extensive
Almost certain ≥90%					
Likely 65-89%					
Possible 35-64%	Low	4	2 1		
Unlikely 11-34%			3		
Rare <10%					

- Negligible**
- Minor**
- Moderate**
- Significant**
- Severe**

**Impact**

**Mitigation Responses**

- ✓ Expedite negotiations.
- ✓ Present a comprehensive rationale for the Quantity Only model and fee amounts.
- ✓ Leverage the experience and insights from Edmonton's implementation of a similar model.
- ✓ Partners in ENMAX and ATCO, committed to establish new contracts quickly.
- ✓ Alberta Utilities Commission dedicated to work with us in finding fast and effective solutions.
- ✓ Maintain option to switch to template agreement



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