

Corporate Planning & Financial Services Report to  
Regular Meeting of Council  
2024 September 17

ISC: CONFIDENTIAL  
C2024-0921

## **Update on New Franchise Agreements for Electricity and Natural Gas**

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### **PURPOSE**

This report provides an update on the progress toward establishing new franchise agreements and fees for electricity and natural gas, along with challenges The City is facing with the intent to receive Council direction on moving forward.

### **PREVIOUS COUNCIL DIRECTION**

On 2024 March 18, Council directed 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 from electricity and franchise fees from natural gas starting from 2027 January 01. The revised methodology is to be based on the following principles:

- 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.

On 2024 July 30, Council reconsidered their decision on 2024 March 18 regarding the implementation date for the Quantity Only model and directed 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.

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**RECOMMENDATIONS:**

That Council:

1. Authorize a new franchise agreement for electricity (Attachment 5) aligned to the Quantity Only methodology.
2. Give first reading to Bylaw 42M2024 (Attachment 4).
3. Direct that:
  - a. the Report and Attachments 2, 3, 4, 5 and 8 be held confidential pursuant to Section 23 (local public body confidences) of the *Freedom of Information and Protection of Privacy Act*, to be released publicly when Council rises and reports;
  - b. the Closed Meeting Discussions and the Confidential Attachments 1, 6 and 7 be held 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 2027 December 31; and
  - c. notwithstanding recommendation 3b, that the Closed Meeting Discussions and the Confidential Attachments 1, 6 and 7 be released to Corporate Planning and Performance, to be shared with Administration, only where required, to support next steps.

**CHIEF ADMINISTRATIVE OFFICER/GENERAL MANAGER COMMENTS**

The Chief Financial Officer and General Manager of Corporate Planning and Financial Services concurs with this report. Implementation of the Quantity Only methodology for Electricity meets Council's desire for predictability and reliability. This report contains the next steps for implementation that will provide predictable revenue for The City with minimal variability in consumer payments. Administration's recommendations are in the public's interest.

**HIGHLIGHTS**

- To improve affordability for Calgarians, we are implementing a new franchise fee model for electricity and natural gas to eliminate the current tie to fluctuating market rates and implement instead a transparent flat rate directly tied to the amount of energy used.
- On 2024 July 30 Council approved a revised timeline of 2025 January 1 for implementation of a Quantity Only model for The City to collect Local Access Fees from electricity and franchise fees from natural gas.
- Administration worked with ENMAX to develop a new franchise agreement and a new franchise fee structure.
- For electricity, Administration established a Quantity Only model Local Access Fee of \$0.015507/kWh for all customers for 2025, which can be adjusted in subsequent years through Council direction.
- The public notification process is already in progress so the public and interested parties have an opportunity to provide feedback on the new Local Access Fee rate.

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- Upon approval and Council direction, we will support ENMAX in filing the new franchise agreement and Local Access Fee structure with the Alberta Utilities Commission by 2024 September 27.
- Negotiations with ATCO Gas have progressed but more time is required to finalize the rates and agreement.

### DISCUSSION

On 2024 July 30, Council directed Administration (C2024-0840) to adopt a revised timeline to implement the Quantity Only methodology in response new legislative requirements set by the Province of Alberta in *The Utilities Affordability Statutes Amendment Act, 2024* (formerly Bill 19). The revised timeline set a new implementation date from 2027 January 01 to 2025 January 01.

Administration has been collaborating with our partners in ENMAX and ATCO to develop new franchise agreements with new fee rates that align with the Quantity Only methodology to meet our timeline milestone of filing with the Alberta Utilities Commission by mid-September. We have made significant progress, but have also faced setbacks. At the time of this report, Administration has established a new franchise agreement and Quantity Only rates with ENMAX for Council's review and approval. Negotiations with ATCO have experienced unexpected challenges and delays. Attachment 2 illustrates our progress against the revised timeline.

After analyzing multiple scenarios that use different levels of Local Access Fees (franchise fees) for electricity, Administration established a new rate of \$0.015507/kWh for all customers (residential and non-residential) for 2025. Details and analysis are provided in Attachment 3. According to the new franchise agreement, the franchise fee rate can be adjusted on an annual basis with Council direction and in respect of any difference between the prior year's target and actual amount collected.

A public notice for the new rates for 2025 was advertised with an invitation to provide feedback. This feedback, along with responses from The City, will be included in ENMAX's filing with the Alberta Utilities Commission.

The change to the franchise fee rates for electricity is expected to result in an overall ~\$37M decrease for the total amount of franchise fees when compared to what would have been paid in 2025 under the current Total Bill methodology. The average monthly franchise fee for an average residential customer is forecast to decrease to \$7.91 per month in 2025, down 30 per cent from an estimated \$11.24 per month in 2024. The new rate:

- Aims to improve affordability for Calgarians by reducing the costs and proportional burden for the residential customer class,
- Ensures equity across customer classes through a single rate,
- Provides a simple flat rate, so consumers will know exactly the amount of franchise fees they will pay per unit of energy,
- Minimizes the difference in amounts paid between the current model and the new model across user classes with the intent of not materially shifting the financial responsibility from one user class to another,
- Provides more stability and predictability than the current model,

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- Allows consumers to have more control over the amount franchise fees they pay as fees will increase or decrease with the amount of energy consumed,
- Provides financial incentive to reduce their energy consumption, which also contributes to advancing our climate goals,
- Allows for more predictability in collecting what we budget for through a stable revenue source to fund the services and infrastructure Calgarians rely on.

After Council gives first reading to Bylaw 42M2024 (Attachment 4) and approves the new agreement (Attachment 5), we will continue working closely with ENMAX to support their new franchise agreement filing with the Alberta Utilities Commission with a targeted date of 2024 September 27.

**Natural gas franchise agreement and fees**

Administration has been working closely with ATCO Gas representatives to advance franchise agreement negotiations. The negotiation process has revealed some challenges to arriving at terms for the agreement and to determining the appropriate franchise fee structure for natural gas. Attachment 6 provides an overview of the challenges along with options for proceeding forward. Attachment 7 provides a risk assessment with mitigation strategies.

**EXTERNAL ENGAGEMENT AND COMMUNICATION**

- |   |   |
|---|---|
| <input checked="" type="checkbox"/> Public engagement was undertaken        | <input checked="" type="checkbox"/> Dialogue with interested parties was undertaken |
| <input checked="" type="checkbox"/> Public/interested parties were informed | <input type="checkbox"/> Public communication or engagement was not required        |

- Public notice was advertised on 2024 September 4, providing an opportunity for the public and interested parties to submit questions and inquiries through email or by calling 311.
- Extensive engagement with ENMAX and ATCO Gas has taken place to establish new franchise fees and negotiate new franchise agreements.
- 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.

**IMPLICATIONS**

**Social**

The City set out to revise its franchise fee methodology to address affordability for Calgarians. The new methodology is designed to remove the volatility of the current model for more stability and predictability, and allows consideration for setting appropriate rates for Calgarians and businesses while minimizing the difference in amounts paid between the current model and the new model across customer classes with the intent of not materially shifting the financial responsibility from one class to another.

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Changes to the proportional share being paid by the customer rate classes may result in questions from interested parties through the Alberta Utilities Commission application process.

**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**

**Change in rates or fees**

The following table illustrates the projected impact across customer classes for the new franchise fee rates for electricity.

<b>Rate Class</b>	<b>Current (Total Bill \$)</b>	<b>New Quantity Only rate \$0.015507/kWh</b>	<b>Amount difference (\$)</b>	<b>% difference</b>
<b>Residential</b>	72,310,677	50,880,740	(21,429,937)	-30%
<b>Small Commercial</b>	10,166,756	8,595,018	(1,571,737)	-15%
<b>Medium Commercial</b>	27,158,904	21,456,708	(5,702,196)	-21%
<b>Large Commercial – Secondary</b>	43,723,297	36,299,414	(7,423,883)	-17%
<b>Large Commercial – Primary</b>	25,409,417	25,175,033	(234,384)	-0.9%
<b>Streetlighting</b>	900,673	535,430	(455,243)	-46%

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<b>Large Distributed Generation</b>	432,495	557,658	125,163	29%
<b>TOTAL</b>	180,102,219	143,500,001	(36,692,217)	-20%

There will be an increase in amount paid by the Large Distributed Generation Rate customers. As the analysis in Attachment 3 shows, a City asset, the Bonnybrook wastewater treatment plant, is the only customer in that class that will experience and increase. In consultation with The City's financial managers responsible for this asset, the increase would amount to ~\$12,000 for 2025 and it was determined that this would be an acceptable increase in franchise fees paid provide wastewater treatment services to Calgarians.

The new Quantity Only methodology was designed to allow The City to collect what we budget for much more accurately than other methods and minimize our operating budget variances.

**RISK**

The implementation of a new Quantity Only model for franchise fees is time-sensitive due to upcoming legislative changes. Although we are on track with filing the new franchise agreement with ENMAX through the Alberta Utilities Commission, risks remain. These include the Commission's processing time and potential public objections, which could impact our target implementation date of January 1, 2025, and lead to financial consequences.

The City has proactively developed a comprehensive risk mitigation strategy, emphasizing expedited implementation, stakeholder collaboration, proactive communication, and contingency planning. These efforts have reduced the residual risk to the City to a low-medium level.

Additionally, the Administration is actively monitoring and mitigating risks related to the ongoing negotiations with ATCO Gas. A full risk assessment is provided in Attachment 7.

**ATTACHMENTS**

1. Background and Previous Council Direction
2. Timeline Update
3. New Franchise Fees for Electricity
4. Proposed Bylaw 42M2024
5. Franchise Agreement: Electricity
6. Update on Franchise Agreement Progress for Natural Gas
7. Risk Assessment
8. Presentation

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Department Circulation

General Manager/Director	Department	Approve/Consult/Inform
Carla Male, Chief Financial Officer and General Manager	Corporate Planning & Financial Services	Approve
Tim Doruch, Acting Director	Corporate Planning & Performance	Approve
Amit Patil, Director	Supply Management	Approve
Denise Jakal, Assistant Director	Law, Legislative Services & Security	Approve

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