

# Background and Previous Council Direction

## Background

Calgarians experienced a significant increase in franchise fees on their electricity and natural gas bills beginning mid-2021, reaching a high in 2023 August. These high fees contributed to the overall affordability challenges faced by Calgarians. In response, Administration presented Council with a report on 2023 December 19 (C2023-1180) that analyzed alternative methodologies for calculating electricity franchise fees.

Administration returned to Council on 2024 March 18 (C2024-0251) to recommend the Quantity Only methodology for calculating the electricity and natural gas franchise fees starting from 2027 January 01. This new Quantity Only methodology aims to provide Calgarians with greater clarity, predictability, and control around the fees they pay. It also allows The City to meet budget targets and avoid large operating variances, all while maintaining a stable and important revenue source to fund City services. On 2024 July 17 Council approved a 2025 target revenue amount for natural gas franchise fees of \$69.9 million. This reflects the 10-year average of the actual annual revenue (without inflation adjustment) that The City received from this source. On 2024 July 30, in accordance with the *Utilities Affordability Statutes Amendment Act, 2024*, Council approved a revised timeline of 2025 January 1 for implementation of a Quantity Only methodology for The City to collect electricity and natural gas franchise fees.

Administration returned to Council on 2024 September 17 with a new franchise agreement for electricity aligned to the Quantity Only methodology. An update was provided on natural gas negotiations, which were progressing but required more time to finalize the rates and agreement. Additional time was needed partly due to the current structure of the agreement, which consists of a Bylaw from 1939 and a Tax Agreement from 1958 which has been amended in 1964, 1967, 1974, and 1991.

## Previous Council Direction

The list below details recent reports, conversations and decisions conducted on Local Access Fees in reverse chronological order.

Date	Report Number	Title	Description
2024 September 17	<a href="#">C2024-0921</a>	Update on New Franchise Agreements for Electricity and Natural Gas	Council approved Administration's recommendation to authorize a new franchise agreement for electricity aligned to the Quantity Only methodology and gave first reading to Bylaw 42M2024. Administration provided a confidential update on natural gas negotiations.
2024 July 30	<a href="#">C2024-0840</a>	Implementing a Quantity Only Model for Franchise Fees	Administration presented an expedited timeline for the development and implementation of the new Quantity Only methodology for franchise fees of 2025 January 1.
2024 June 25 (postponed to 2024 July 16)	<a href="#">C2024-0618</a>	Strategic Approach to Mid-Cycle Adjustments to the 2023-2026 Service	Administration presented a confidential report to Council, a portion of which pertained to setting the target revenue amounts for electricity and natural gas franchise fees. On 2024 July 17 Council approved target revenue amounts of (i)

		Plans and Budgets	electricity franchise fees of \$143.5M and (ii) natural gas franchise fees of \$69.9M for a total target revenue from these fees of \$213.4M.
2024 May 14	<a href="#">EC2024-0624</a>	Standing Item - City-Wide Growth and Local Access Fee Developments	Administration provided a verbal update to the Executive Committee outlining its initial interpretation of Bill 19, and indicated that a new franchise fees project plan is forthcoming
2024 March 18	<a href="#">C2024-0251</a>	Adopting a Quantity Only Model for Franchise Fees	Council approved Administration's recommendation to adopt the Quantity Only methodology for calculating electricity franchise fees, with an implementation date of 2027 January 1. An annual amount of \$10M from positive variance in 2025 and 2026 was approved as part of the recommendation to go towards energy poverty and affordability initiatives.
2023 December 19	<a href="#">C2023-1180</a>	Potential Changes to Local Access Fees – Budget Implications and Calgarian Impacts	An analysis of alternative methodologies for calculating the electricity franchise fees was presented to set the groundwork for a discussion on an agreed upon path forward. Primary considerations were the potential impact on The City's budget and the effects on Calgarians.
2023 November 7; 2023 November 20-22	<a href="#">C2023-1148</a>	2023 November Adjustments to the 2023-2026 Service Plans and Budgets	During the 2023 November Adjustments to the 2023-2026 Service Plans and Budgets, Council members discussed the anticipated research and analysis of the franchise fees methodology on the revenue stream reliability and reduction of volatility that would have positive impacts on Calgarians. Council approved a one-time \$10 million support package to provide emergency support to Calgarians experiencing vulnerabilities. Council also approved an increase franchise fee revenue (which also includes franchise fees of \$15 million funding ongoing operating investments).
2023 October 3	<a href="#">C2023-1042</a>	The History, Prior Research and Spending of Local Access Fees	A briefing was given on the history, prior research and spending of local access fees.
2023 September 26	<a href="#">C2023-0960</a>	Municipal Fiscal Gap	This report identifies a persistent municipal fiscal gap because of the fundamental design of the fiscal model of all orders of government. It presents potential new revenue tools that have the potential, in the future, to contribute to improving municipal

			finance sustainability. An evaluation criteria framework on revenue options was proposed in this report to support values-based decision-making of Council.
2023 September 12	<a href="#">C2023-0959</a>	The Impact of Local Access Fees on Affordability	A verbal report was provided to Council.
2023 March 21	<a href="#">C2023-0324</a>	Approaches for Determining Local Access Fees	A confidential presentation at a Strategic Session of Council outlined The City's approach to franchise fees.
2023 January 31	<a href="#">EC2023-0077</a>	Approaches for Determining Local Access Fees	A confidential presentation to the Executive Committee that outlined The City's approach to franchise fees.
2017 April 13	<a href="#">GP2017-0301</a>	Renewal of The City of Calgary – ENMAX Franchise Fee Agreement	The most recent comprehensive review of the franchise fee methodology utilized for electricity was brought before the Gas, Power and Telecommunications Committee as a confidential report. The Committee discussed the methodologies of calculating franchise fees used in Alberta and the consequences of using one methodology compared to alternatives. Council endorsed the continuation of using the current franchise fee rate and gross revenue methodology. The report also included six appendices that compared franchise fee methodologies, outlined municipal revenue implications and outlined the agreement with ENMAX. The ENMAX franchise fee agreement was later approved by the Alberta Utilities Commission and is effective from 2018 to 2037.

Bylaw 3232 (Bylaw granting Canadian Western Natural Gas, Light, Heat and Power Company Limited permission to use public streets, roads, squares and other highways within the City of Calgary for its gas pipeline system) was enacted by The City on 1939 September 27, and approved by the Board of Public Utilities Commissioners 1939 October 12. This bylaw gave consent to Canadian Western Natural Gas permission to construct, operate, and maintain the Company's Natural Gas Distribution System in The City of Calgary.

An Agreement with Canadian Western Natural Gas was made on 1958 October 24 for The City to accept a franchise fee equal to the gross revenues from the sale of gas to consumers within Calgary in lieu of paying certain taxes and other fees and charges under the Municipal Government Act. This agreement was amended on:

- 1964 January 01,
- 1967 January 01,

- 1974 August 01,
- 1991 April 30.

## Bylaws, Regulations, Council Policies

There are multiple bylaws that are relevant to this report and the franchise agreement between The City and ATCO Gas:

- Bylaw Number 3232 (Bylaw granting Canadian Western Natural Gas, Light, Heat and Power Company Limited permission to use public streets, roads, squares and other highways within the City of Calgary for its gas pipeline system)
- Bylaw Number 17M2016 ([Municipal Rights-of-Way Bylaw](#))
- Bylaw Number 20M88 ([Street Bylaw](#))

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