



New Franchise Fee Structure for Natural Gas

C2024-1098
2024 October 29

Overview of New Franchise Agreements

- Administration has been collaborating with our partners at ENMAX and ATCO Gas to develop new franchise agreements with new fee rates that align with the Quantity Only methodology.
- On 2024 September 17, Council approved a new Franchise Agreement with ENMAX. The City supported ENMAX in filing an application with the new franchise agreement with the Alberta Utilities Commission on 2024 September 27.
- Negotiations with ATCO Gas have been delayed. However, Administration has worked very closely and collaboratively with ATCO Gas to reach an agreement.



Overview of 2-Part Rate Structure for Natural Gas

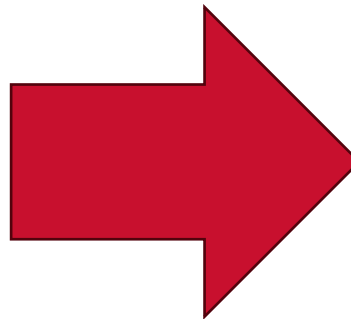


To ensure that a new franchise agreement is in place by 2025 March 17, ATCO Gas agreed to The City's recommendation of a transition period to allow adequate time to make the billing system changes

Transition

Transition rate using current methodology, replacing variable market index w/fixed rate.

Methodology: 11.11% of Distribution cost + 11.11% of a fixed rate



18 years

Quantity Only rate methodology, beginning 2027 January 01.

Methodology: Single rate applied for low/mid/high/ultra high customers, special rate for ATCO Pipeline customers

20 year agreement

New 2025 Franchise Fee Rate and Impact for Natural Gas



Current total bill methodology, substituting the “gas cost flowthrough rate” with a fixed rate of **\$3.15/GJ** for all customers (residential and non-residential) for 2025

Estimated 2025 revenue: \$69.9M

Better aligns to what The City budgets for

- Overall franchise fee as a % of the Distribution Tariff is **under the 35 per cent cap** specified by the Alberta Utilities Commission.
- The **forecasted** average natural gas price for 2025 is **\$3.11/GJ**.
- Under the **Transition Model**, Monthly franchise fees paid by an average residential customer in 2025 will **increase** by approximately **\$0.08 compared to the current model**; from an estimated \$8.25/month to \$8.33/month.



Projected Impacts to Customers

2025 Projections: Model Comparison

Impact of 2025 transition rate for average customer across customer classes compared to 2025 projections with current model*

Year-Over-Year Comparison

Customers will see year-over-year increases in 2025 compared to 2024** due to 2024 being a **record low year** for the gas cost market rate.

| Rate Class | Estimated ANNUAL \$ difference in Franchise Fees Collected | Estimated MONTHLY \$ difference in Franchise Fees Collected | Estimated % difference in Franchise Fees Collected | Estimated ANNUAL \$ increase in Franchise Fees Collected | Estimated MONTHLY \$ increase in Franchise Fees Collected | Estimated % increase in Franchise Fees Collected |
|-----------------------------|--|---|--|--|---|--|
| Low Use | +\$1 | +\$0.08 | +1.0% | \$13 | \$1.08 | 15% |
| Mid Use | +\$12 | +\$1.00 | +0.7% | \$327 | \$27.25 | 25% |
| High Use | +\$76 | +\$6.33 | +0.8% | \$2,059 | \$171.58 | 29% |
| Ultra High Use | +\$1,422 | +\$118.50 | +1.0% | \$38,751 | \$3,229.25 | 36% |
| ATCO Pipelines Customers*** | \$0 | \$0 | - | \$0 | \$0 | - |

*Utilizing 2025 projected natural gas price of \$3.11/GJ from AECO-C Fall Outlook

**Utilizing 2024 projected natural gas price of \$2.06/GJ from AECO-C Fall Outlook

***ATCO Pipelines Customers are charged only on delivery costs.

Key Considerations for Transition Rate

Alignment with Council's direction to

- Provide **stability and predictability**.
- **Support affordability concerns**.
- **Minimize shifts** in proportions across user classes.
- Maintain and improve The City's **financial sustainability**.
- Support The City's **operating and capital budgets**.

Develop a rate and rate-class-proportion model that

- Is **transparent, clear, and simple** to understand.
- Minimizes the increase in **year-over-year franchise fees paid** for all rate classes.
- **Avoids "rate shock"***
- **Achieves equity** across rate classes
- Equates to an overall amount **under the 35% franchise fee rate cap** for natural gas set by the Alberta Utilities Commission.

Political Risk

- Only municipality in Alberta utilizing the **Quantity Only** methodology.
- **Timeline** for implementation to meet 2025 March 17 deadline.

** Rate shock refers to when a change in franchise fee rates results in a forecasted increase in amounts paid greater than 10% from the prior year*