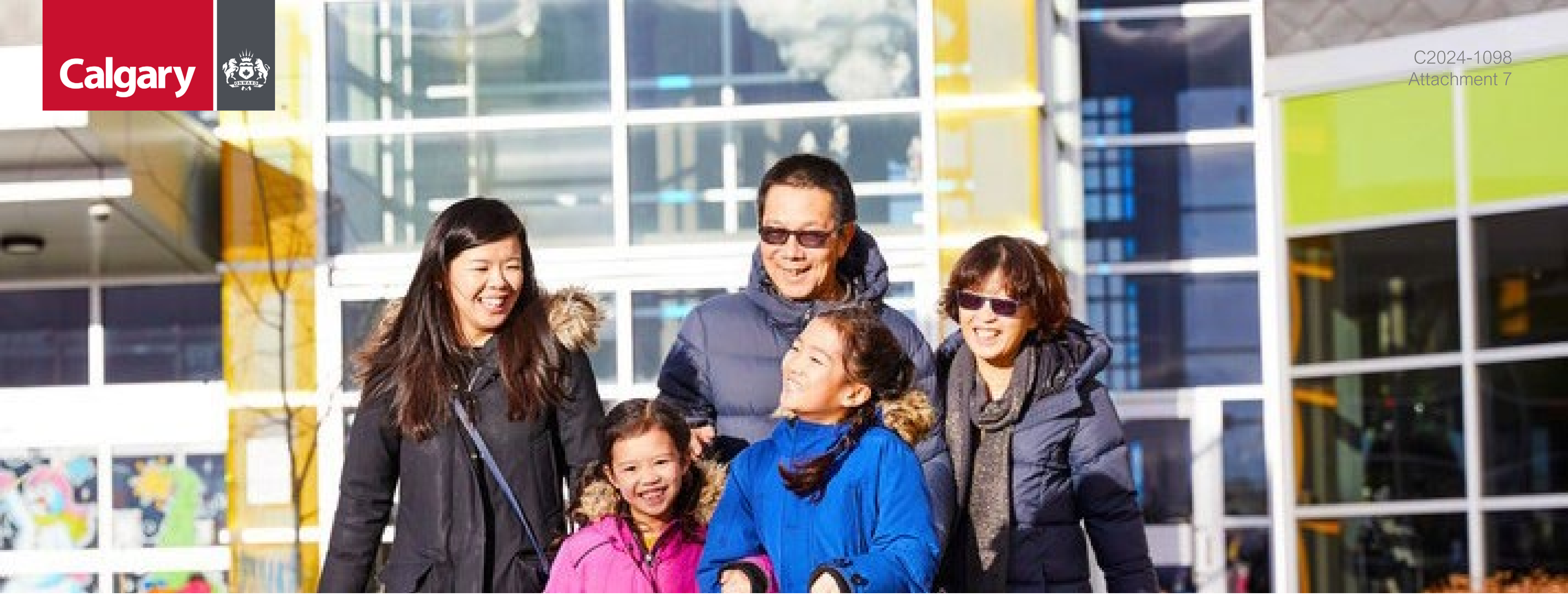

New Franchise Agreement for Natural Gas

C2024-1098
2024 October 29

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 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, 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.

On 2024 September 17, Council authorized a new franchise agreement for electricity aligned to the Quantity Only methodology and gave first reading to Bylaw 42M2024.

Recommendations

That Council:

1. Authorize a new franchise agreement for natural gas (Attachment 3) aligned to the Quantity Only methodology;
2. Give first reading to Bylaw 44M2024 (Attachment 4);
3. Withhold second and third readings of Bylaw 44M2024 until the Alberta Utilities Commission approves a new franchise agreement between The City of Calgary and ATCO Gas;
4. Direct that the Report and Attachments 1, 2, 3, 4, 5, and 7 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; and
5. Direct that the Closed Meeting discussions and Attachment 6 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 2026 December 31.

Calgary

Key messages

- New model improves affordability, transparency, and certainty for Calgarians, and meets legislative requirements

- Focus:
    - Stability and Predictability
    - Support affordability concerns
    - Minimize shifts across user classes
    - Maintain and improve The City's financial sustainability.

- 20 year agreement with transition period to allow ATCO Gas time to update its billing system
    - 2 year transitional fixed rate of $3.15,
    - A Quantity Only methodology will be used for the remaining 18 years of the agreement

- We will support ATCO Gas in filing a new franchise agreement.

New Franchise Fee Rate 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 two-year "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

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.*

Recommendations

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