Corporate Planning & Financial Services Report to Executive Committee
2025 July 22

ISC: UNRESTRICTED
EC2025-0687

Natural Gas Distribution System Tax Agreement

PURPOSE

The purpose of this report is to authorize the new Natural Gas Distribution System Tax Agreement between The City of Calgary and ATCO GAS AND PIPELINES LTD. ("ATCO"), which will reflect the franchise agreement already executed by The City of Calgary and ATCO.

PREVIOUS COUNCIL DIRECTION

In October 2024, Council passed the motion for the *New Franchise Agreement for Natural Gas* (C2024-1098) ("Franchise Agreement") and gave first reading to Bylaw 44M2024 enacting the Agreement. Second and third readings of Bylaw 44M2024 were withheld pending approval of the Agreement by the Alberta Utilities Commission. In February 2025, the Alberta Utilities Commission approved the Agreement. Subsequently, Council gave second and third readings to Bylaw 44M2024 (C2025-0149).

RECOMMENDATION(S):

That the Executive Committee recommend that Council:

1. Authorize the Natural Gas Distribution System Tax Agreement (Attachment 2) between The City of Calgary and ATCO Gas and Pipelines Ltd.
2. Direct the Chief Financial Officer to execute the Natural Gas Distribution System Tax Agreement (Attachment 2) between The City of Calgary and ATCO Gas and Pipelines Ltd.

RECOMMENDATION OF THE EXECUTIVE COMMITTEE, 2025 JULY 22:

That Council:

1. Authorize the Natural Gas Distribution System Tax Agreement (Attachment 2) between The City of Calgary and ATCO Gas and Pipelines Ltd.
2. Direct the Chief Financial Officer to execute the Natural Gas Distribution System Tax Agreement (Attachment 2) between The City of Calgary and ATCO Gas and Pipelines Ltd.

CHIEF ADMINISTRATIVE OFFICER/GENERAL MANAGER COMMENTS

Les Tochor, Chief Financial Officer and General Manager of Corporate Planning and Financial Services concurs with this report.

HIGHLIGHTS

- The new Natural Gas Distribution Tax Agreement aligns with the ATCO Franchise Agreement, already executed by The City and ATCO.
- The Tax Agreement will enable ATCO to continue paying franchise fees in lieu of municipal property taxes, pursuant to the *Municipal Government Act* s. 360(3).
- The City of Calgary negotiates and signs a tax agreement with ATCO to ensure stable and predictable franchise fees for consumers.

- Tax Agreements with utility providers allow The City to meet its budget targets by minimizing the risk of collecting more or less than we need and provide stable revenue to fund services and supports affordability concerns of Calgarians.

DISCUSSION

Under a Tax Agreement, utility companies make a payment (i.e., franchise fees) to The City in lieu of property taxes for letting them build, run, and maintain utilities on City of Calgary land, pursuant to the *Municipal Government Act* s. 360(3). These fees are added to customer utility bills, collected by ATCO, and remitted to The City. The new Tax Agreement is compliant with the *Municipal Government Act* and consistent with the Franchise Agreement. Authorizing the Tax Agreement enables ATCO to retain its status as non-taxable, with franchise fees paid to The City in lieu of property taxes.

In response to rising utility costs and affordability concerns of Calgarians, on 2024 March 18, Council approved a change in how The City calculates franchise fees on utility bills for ATCO and ENMAX, to align with the Quantity Only methodology. This resulted in new franchise agreements signed with Enmax and ATCO, and the requirement for associated Tax Agreements. Enmax has completed their Tax Agreement as part of their Franchise Agreement.

Administration worked with ENMAX and ATCO Gas to establish new franchise agreements and to establish new franchise fees for electricity and natural gas that:

- Provide more stability and predictability for Calgarians.
- Support affordability concerns of Calgarians and businesses.
- Minimize shifts across user classes with the intent of not materially shifting the financial responsibility from one user class to another.
- Maintain and improve The City's financial sustainability ensuring The City continues to collect what we budget for.

In February 2025, upon the Alberta Utilities Commission's approval of the Franchise Agreement, Council passed Bylaw 44M2024 that enacts the Franchise Agreement. In conjunction with the approved ATCO Franchise Agreement, a new ATCO Tax Agreement must be put into place to ensure stable and predictable consumer franchise fees for consumers.

Tax Agreements with utility providers allow The City to meet its budget targets by minimizing the risk of collecting more or less than we need and provide stable revenue to fund services. Not having a tax agreement in place can result in unpredictable billing for end consumers, or ATCO becoming "taxable", resulting in an additional line for property taxes on the customer's utility bill being collected by The City.

After Council authorization of the Tax Agreement, it must receive approval from the Alberta Utilities Commission.

EXTERNAL ENGAGEMENT AND COMMUNICATION

☒ Public engagement was undertaken

☐ Public/interested parties were informed

☒ Dialogue with interested parties was undertaken

☐ Public communication or engagement was not required

- Extensive engagement with ATCO has taken place to establish new franchise fees and negotiate new Franchise Agreements, and to establish the Tax Agreement.
- During the proposal of the new Franchise Agreement, a public notice for the new natural gas franchise fees was advertised, which provided an opportunity for the public and interested parties to submit questions and inquiries through email or by calling 311.

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 previous model for more stability and predictability and allows consideration for setting appropriate rates for Calgarians and businesses while not materially shifting the financial responsibility from one class to another.

Environmental

Not applicable.

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

No anticipated financial impact

RISK

- Not having a Tax Agreement in place can result in increased billing for end consumers.
- Without a Tax Agreement, ATCO becomes "taxable," which may result in ATCO asking the Alberta Utilities Commission for a rate rider. This would add a separate line on the customers' utility bills to cover property tax costs required by The City and province.
- Without a tax agreement in place, tax owing to The City will accumulate, which could result in a larger payment by end consumers over a shorter period.

ATTACHMENT(S)

1. Background and Previous Council Direction
2. Natural Gas Distribution System Tax Agreement
3. Presentation

Department Circulation

General Manager/Director	Department	Approve/Consult/Inform
Les Tochor, CFO/General Manager	Corporate Planning & Financial Services	Approve
Eddie Lee, City Assessor/Director	Assessment & Tax	Approve
Amit Patil, Director	Supply Management	Consult

Author: Policy & Strategy, Assessment & Tax

City Clerks: A. Adegunwa / J. Palaschuk