

**Corporate Planning & Financial Services Report to
Regular Meeting of Council
2025 September 16**

**ISC: CONFIDENTIAL
C2025-0863**

2026 Target Revenue for Local Access and Franchise Fees

PURPOSE

The purpose of this report is to set the target revenues for Local Access Fees from ENMAX and Franchise Fees from ATCO Gas for 2026 and reflect these in the 2026 budget adjustments.

PREVIOUS COUNCIL DIRECTION

On 2024 March 18, Council directed Administration (C2024-0251) 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 1.

On 2024 July 30 Council approved a revised implementation date of 2025 January 1 to comply with new Provincial legislation.

On 2024 September 17, Council approved (C2024-0921) the new franchise agreement for electricity aligned to the Quantity Only methodology and the target franchise fee revenues for electricity (\$143.5 million) and natural gas (\$69.9 million).

RECOMMENDATION(S):

That Council:

1. Approve target revenue for Local Access Fees from ENMAX of \$148.4 million and Franchise Fees from ATCO Gas of \$71.6 million and reflect these in the budget adjustment for 2026; and
2. Direct that the report and attachments be held confidential pursuant to Sections 28 (Local public body confidences), and 29 (Advice from officials) of the *Access to Information Act* to be reviewed by 2026 September 17.

CHIEF ADMINISTRATIVE OFFICER/GENERAL MANAGER COMMENTS

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

HIGHLIGHTS

- A new franchise agreement between ENMAX and The City was approved in 2024 December. A Quantity Only methodology for the collection of franchise fees for electricity came into effect on 2025 January 1, and the quantity only franchise fee charged in 2025 will be \$0.015507 per kWh, with a Council approved target revenue of \$143.5 million.
- A new franchise agreement between ATCO Gas and The City was approved in 2025 February, albeit with a two-year transition. In the interim, the previous "total-bill" methodology will be used, but with an assumed fixed-price of \$3.15/GJ, based on generating the Council approved target of \$69.9 million. City Administration and ATCO

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will work together to get a Quantity Only methodology for the collection of natural gas franchise fees in place by 2027 January 1.

- Council approval is required to change the target revenue from the current level of \$213.4 million.
- If the unit rates were to remain the same, the revenue for electricity and natural gas would be \$220 million as shown below:

Maintaining current rates		2025 target	2026 forecast
ENMAX	Revenue (\$ millions)	143.5	148.4
	Rate (\$/kWh)	0.015507	0.015507
ATCO Gas	Revenue (\$ millions)	69.9	71.6
	Rate (\$/GJ)	\$3.15	\$3.15
Total Revenue (\$ millions)		213.4	220.0

- Conversely, if Council chooses to keep the target revenue at the 2025 level, the ENMAX and ATCO rates would drop as shown below. The savings to residential customers, however, would be negligible.

Maintaining current target revenue		2025 target	2026 forecast
ENMAX	Revenue (\$ millions)	143.5	143.5
	Rate (\$/kWh)	0.015507	0.014962
ATCO Gas	Revenue (\$ millions)	69.9	69.9
	Rate (\$/GJ)	\$3.15	\$2.98
Total Revenue (\$ millions)		213.4	213.4

DISCUSSION

Franchise fees are the general payment made by utilities to municipalities for access to rights-of-way and a franchise right to distribute energy within the municipality. The Local Access Fee (LAF) refers specifically to the payment made by ENMAX to The City. The LAF is authorized under the *Municipal Government Act* (Section 360) and ENMAX’s payment to The City is also a payment in lieu of property tax on distribution assets.

The City had historically used a “total bill” methodology that tied LAF collected to the market price indices for electricity and natural gas to calculate fees. Following Council direction,

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Administration, designed and implemented a revised Local Access Fee (LAF) using a “quantity only” methodology to replace the “total bill” methodology.

While the initial Council approval was to implement this for 2027, The Province subsequently introduced Bill 19: Utilities Affordability Statutes Amendment Act, 2024, which required The City to accelerate this implementation to 2025 January 01.

New Franchise Agreement with ENMAX

The AUC released Decision 29352-D01-2024 on 2024 December 17, approving a revised franchise agreement between ENMAX Power Corporation (ENMAX) and The City, along with the franchise fee of \$0.015507 per kWh in 2025 based on the Council-approved target revenue of \$143.5 million. The Commission noted that the total aggregate franchise fee does not exceed 20 per cent when calculated on an equivalent percentage of distribution tariff basis. Based on forecast consumption for 2025, the \$0.015507 per kWh franchise fee charge is expected to be equivalent to 19.2 per cent of distribution tariff revenue.

Commission approval will be needed for an applicable 2026 electricity franchise fee rate. Given that the AUC has approved the franchise agreement and the quantity only methodology in Decision 29352-D01-2024, this recurring annual process is expected to be far more straightforward than in 2024.

For 2026, ENMAX is forecasting a modest increase in consumption. The impact of the increased consumption is shown in the table below. While maintaining the current target revenue would drop the customer rates, this is estimated to provide savings of less than four dollars per year to the average residential customer.

ENMAX	2025 target	2025 forecast	2026 forecast	
			Maintain rates	Maintain target
Revenue (\$ millions)	143.5	147.6	148.4	143.5
Rate (\$/kWh)	0.015507	0.015507	0.015507	0.014962

New Franchise Agreement with ATCO Gas

The AUC released Decision 29663-D01-2025 on 2025 February 13 approving the revised franchise agreement between ATCO Gas and Pipelines Ltd. (ATCO Gas) and The City. In addition, the AUC approved a “transition methodology” for the collection of franchise fees in 2025/2026 that involves the use of the total bill methodology but with a fixed natural gas price rather than a floating market price. This transition methodology was used to allow ATCO Gas to adapt their systems to a Quantity Only methodology prior to 2027.

Based on a target revenue of \$69.9 million, the fixed natural gas price was set at \$3.15 per gigajoule for 2025 and is being used to estimate the deemed value of natural gas consumed.

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This deemed value of natural gas consumed is added to the delivery tariff revenue and multiplied by the franchise fee rate of 11.11 per cent to calculate the franchise fee.

The impacts of the 2026 forecasts for delivery tariff revenue and natural gas consumption are shown in the table below. While maintaining the current target revenue would decrease the rate, this would only provide estimated savings to residential customers of approximately two dollars per year.

ATCO Gas	2025 target	2025 forecast	2026 forecast	
			Maintain rates	Maintain target
Revenue (\$ millions)	69.9	69.9	71.6	69.9
Rate (\$/kWh)	\$3.15	\$3.15	\$3.15	\$2.98

While the Commission found that “in principle, a quantity-only methodology is a reasonable alternative to the standard percentage of delivery tariff franchise fee methodology,” it also stated that another full application for a quantity-only methodology must be filed. The AUC is expecting that this application follows a comprehensive consultation process and include robust analysis of the proposed franchise fee rate(s) for 2027 “to assess the impact that the use of quantity-only methodology has on the franchise fee rate(s) compared to the rate(s) for previous years that were calculated using a different methodology.” The AUC has requested that a detailed application for a quantity only methodology for 2027 be filed by 2026 September 21.

Forecasts for 2025 and 2026 Franchise Fee Revenues

Based on year-to-date remittances from ENMAX and ATCO Gas, along with the latest available consumption forecasts, maintaining the current rates are forecast to produce the following revenues:

<i>(millions of dollars)</i>	2025 target	2025 forecast	2026 forecast
ENMAX	143.5	147.6	148.4
ATCO Gas	69.9	69.9	71.6
Total Franchise Fee Revenue	213.4	217.5	220.0

The ENMAX forecast is using data provided on 2025 September 3, while the ATCO Gas forecast is using data provided on 2025 August 15.

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EXTERNAL ENGAGEMENT AND COMMUNICATION

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

IMPLICATIONS

Social

The City set out to revise its franchise fee methodology to address affordability for Calgarians. The Quantity Only method removes the volatility of the “total bill” model and allows consideration for setting appropriate rates for Calgarians and businesses.

Changes to the proportional share being paid by the customer rate classes may result in questions from interested parties.

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.

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

Other: Change in rates or fees

Council will set the amount of revenue to be collected, and this could be adjusted on an annual basis.

RISK

Council, in choosing to set or amend the amount of revenue collected will necessitate an application before the Alberta Utilities Commission for approval, and approval is not guaranteed. Other potential risks include forecast risk and not raising the amount of local access fee revenue originally forecast. Any increase in the target revenue, even to reflect only higher consumption, could be viewed as a Council driven tax increase by various parties. Setting a target revenue higher than recommended in this report could push the franchise fee above the distribution cap and result in rejection at the AUC.

ATTACHMENT(S)

1. Background and Previous Council Direction
2. Presentation

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Department Circulation

General Manager/Director	Department	Approve/Consult/Inform
Les Tochor, CFO & General Manager	Corporate Planning & Financial Services	Approve
Aaron Brown, City Treasurer & Deputy CFO	Corporate Planning & Financial Services	Approve

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