



**CANADIAN FEDERATION
OF INDEPENDENT BUSINESS**

In business for your business™

Rate Mitigation Options and Impacts

*Presentation to the Newfoundland and
Labrador Board of Commissioners of Public
Utilities*

**Vaughn Hammond, Director of Provincial Affairs,
Newfoundland and Labrador**

October 18, 2019

About CFIB

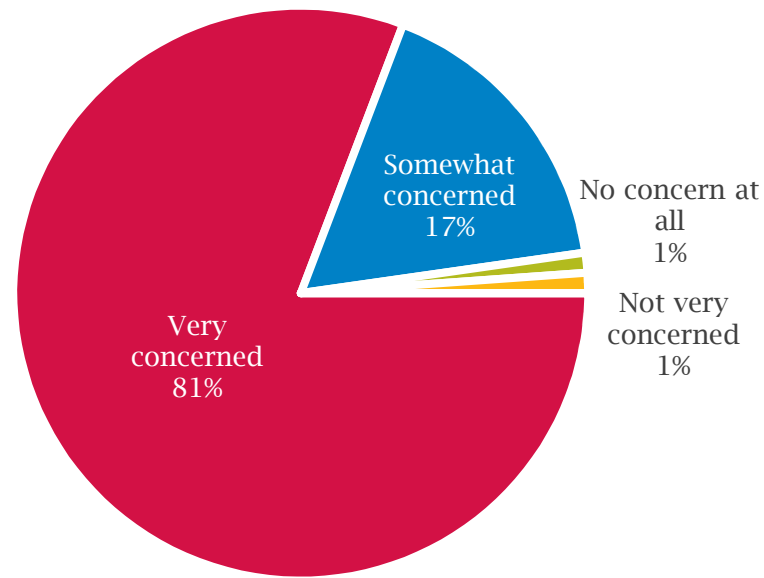
- Represents 2,000 small- and medium-sized business owners in NL
- Membership is 100% voluntary
- Represents all sectors, all regions of the province
- Non-partisan, not-for-profit organization

SME electricity rates (2017)

	1-4 employees	5-19 employees	20-499 employees
Consumption (KWh)	40,994	114,203	716,687
Power demand (KW)	174	457	2,430
Service charge	\$348	\$507	\$1,035
Energy charge	\$3,794	\$9,532	\$53,093
Demand charge	\$544	\$2,201	\$13,175
Charge Subtotal	\$4,686	\$12,240	\$67,303
Discount (1.5%)	\$70	\$184	\$1,010
Subtotal	\$4,616	\$12,056	\$66,294
HST	\$686	\$1,803	\$9,795
Total power cost	\$5,354	\$13,653	\$77,463

Source: 112 Newfoundland Power and NL Hydro electricity bills collected from CFIB members. Breakdown: 40 – 1-4 employees, 51 – 5-19 employees, and 21 – 20-499 employees. Represents the average per business size. Provided for illustrative purposes.

Small business concerned

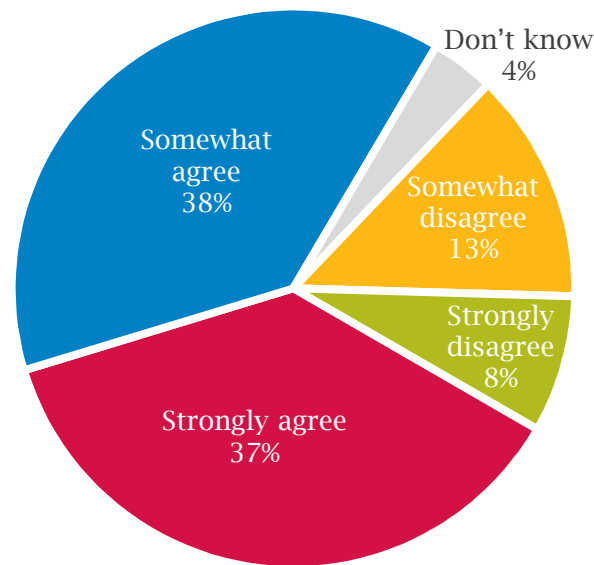


Source: CFIB, NL Electricity Rate Mitigation Survey, October 2019, 181 responses.

- Vast majority of businesses use electricity, primarily for heating
- Electricity is largely an inelastic commodity for small businesses

Understand the effects of Muskrat Falls

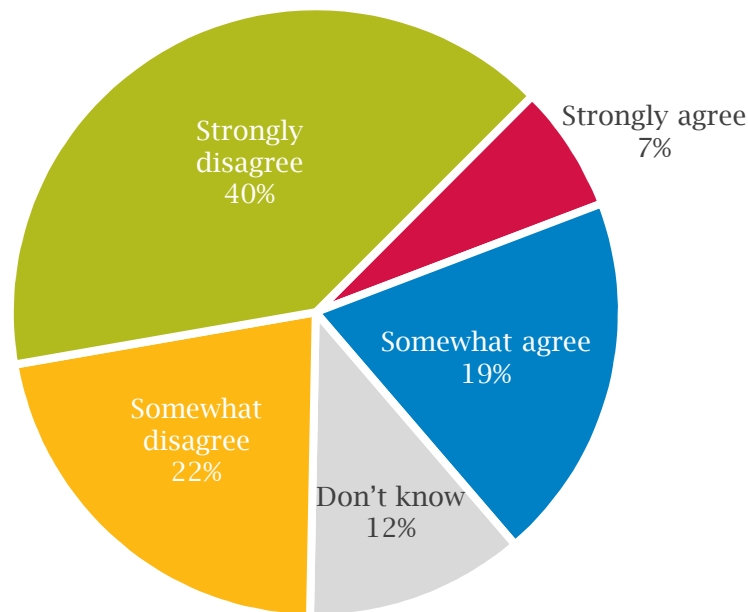
Agree/Disagree: I understand the potential effects the costs of Muskrat Falls will have on my business



Source: CFIB, NL Electricity Rate Mitigation Survey, October 2019, 181 responses.

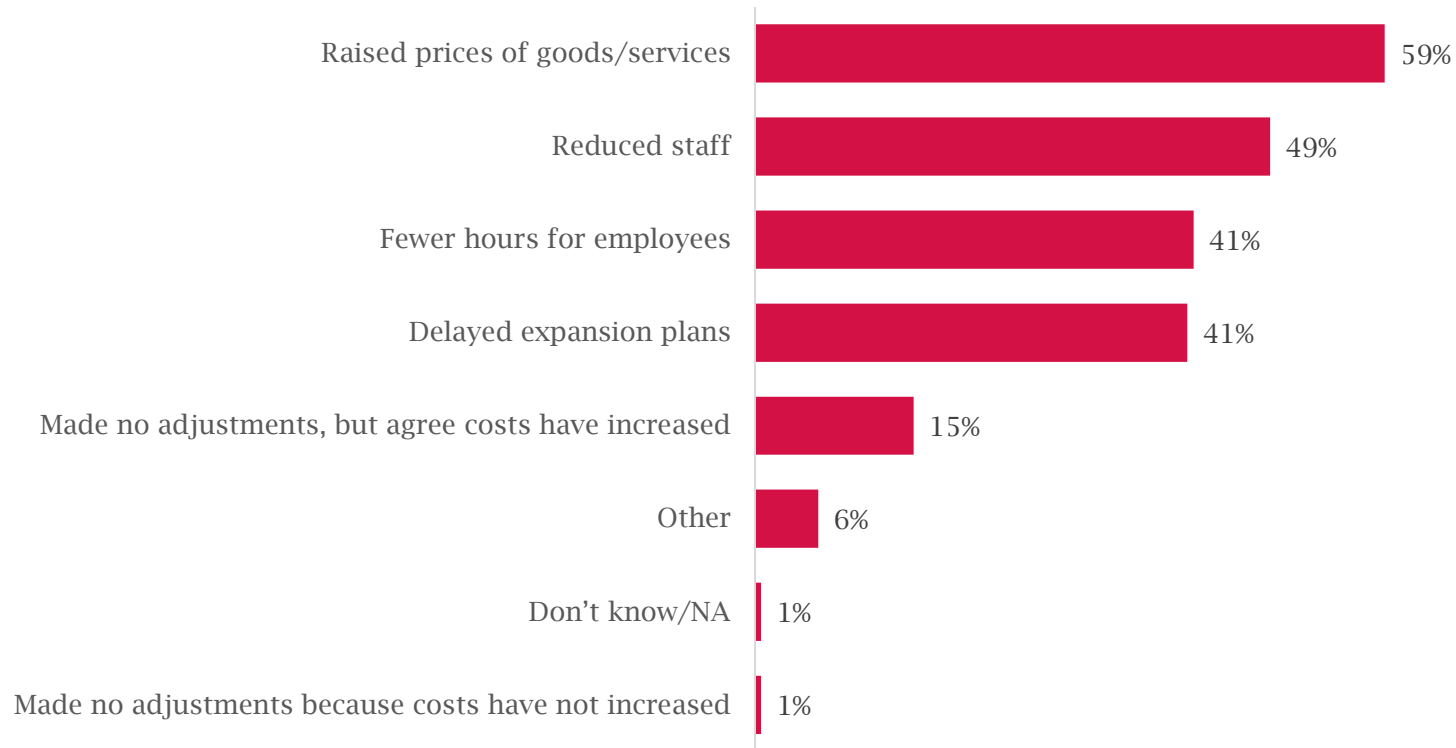
Uncertain rate mitigation will work

Agree/Disagree: I am confident rate mitigation efforts are going to protect my business



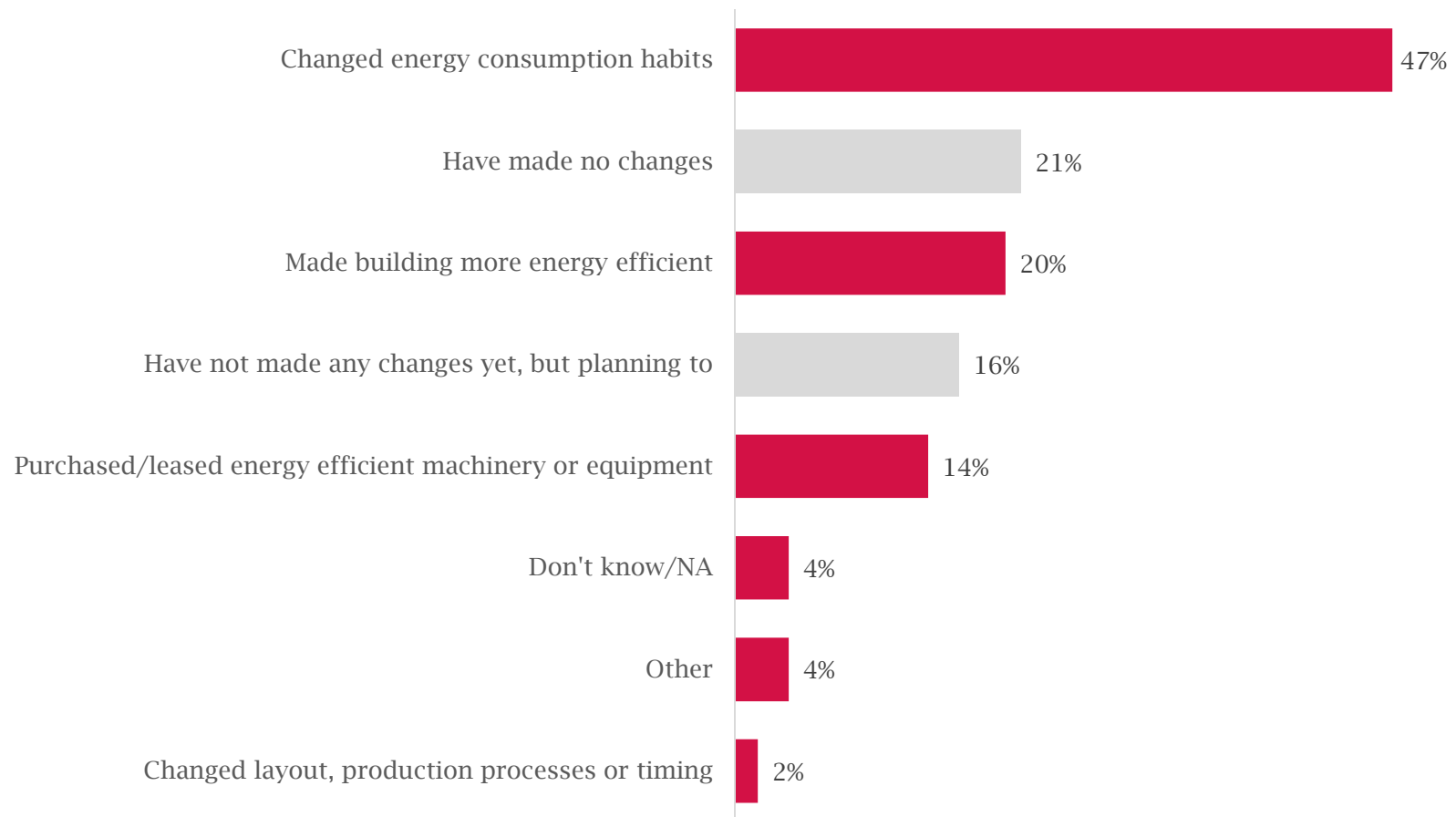
Source: CFIB, NL Electricity Rate Mitigation Survey, October 2019, 181 responses.

Reaction to the rising cost of business



Source: CFIB, NL Electricity Rate Mitigation Survey, October 2019, 181 responses.

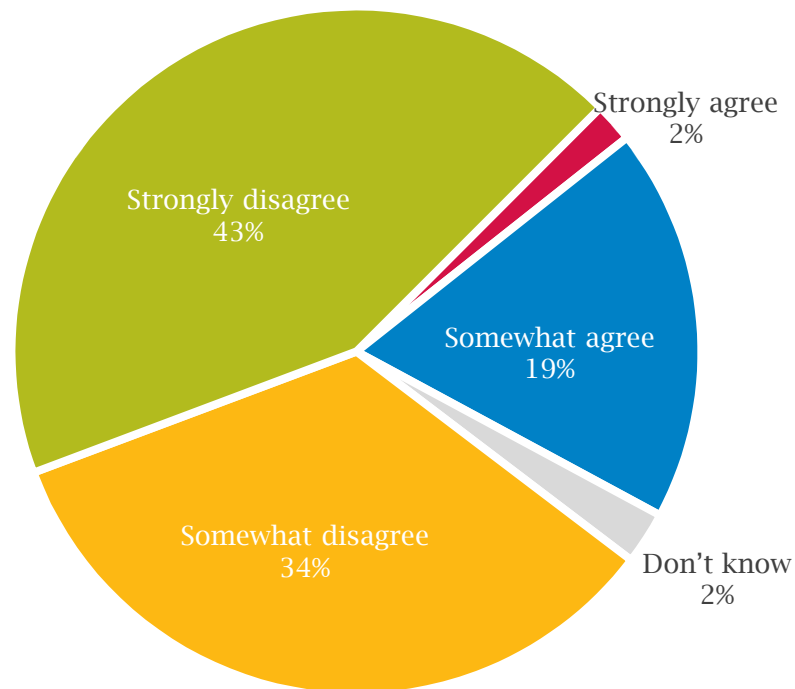
Preparation is missing



Source: CFIB, NL Electricity Rate Mitigation Survey, October 2019, 181 responses.

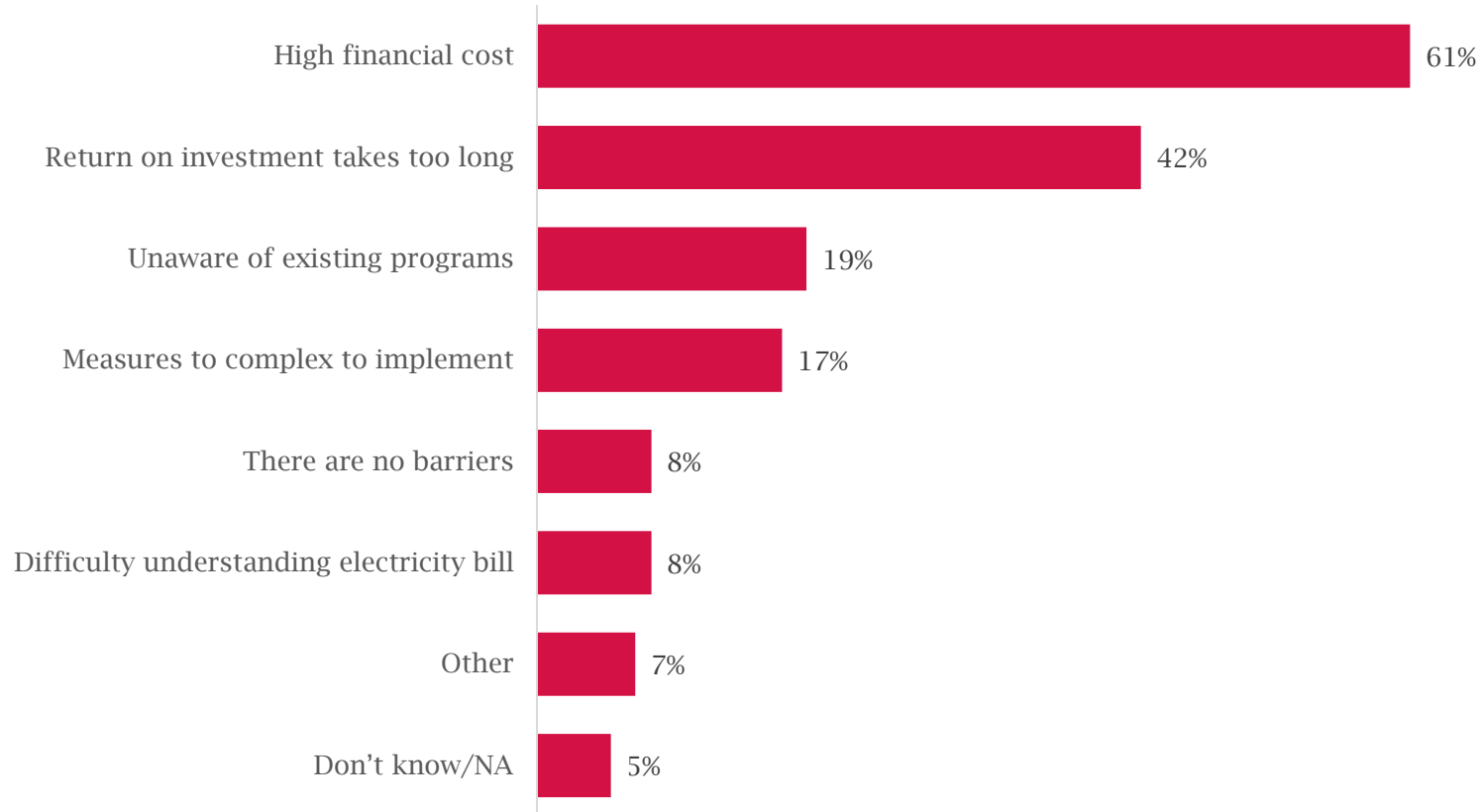
Unaffordability of conservation

Agree/Disagree: My business can afford to make changes to conserve energy



Source: CFIB, NL Electricity Rate Mitigation Survey, October 2019, 181 responses.

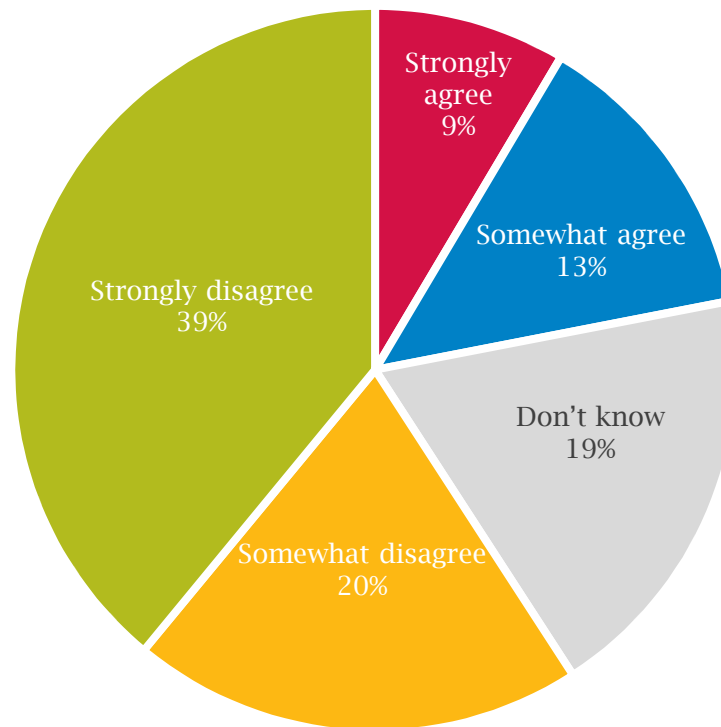
Barriers to energy efficiency



Source: CFIB, NL Electricity Rate Mitigation Survey, October 2019, 181 responses.

Demand response

Agree/Disagree: Time-of-use will help my business reduce its electricity costs



Source: CFIB, NL Electricity Rate Mitigation Survey, October 2019, 181 responses.

Cost of Service

- PUB Order No. 7 (1996/97) allows for a +/- 10 per cent variance
- Current revenue-to-cost ratios are unfair
 - *Residents pay less than general service (i.e. commercial) customers*
 - *Small- and medium-sized businesses pay more than larger businesses*

Cost of Service Study Revenue-to-Cost Ratios

Class of Service	Rate Code	Revenue-to-Cost Ratios (%)
Domestic	1.1	96.0
General Service 0-100 kW (110 kVA)	2.1	108.4
General Service 110-1000 kVA	2.3	109.2
General Service 1000 kVA and Over	2.4	104.3
Street and Area Lighting	4.1	107.7

Source: Newfoundland Power, 2019/2020 General Rate Application, June 2018, Table 5-5, page 5-6.

Cost of service effects

	2019	2021	2025	2030
Rate (base)	12.77	21.93	23.48	25.22
Domestic	12.26	21.05	22.54	24.21
General Service 2.1	13.84	23.77	25.45	27.34
General Service 2.3	13.95	23.94	25.64	27.54
General Service 2.4	13.32	22.87	24.49	26.30

Source: Request for Information PUB-Nalcor-029. Domestic rate assumed to be at the designated cost-to-revenue ratio.

- A change in the revenue-to-cost ratio by five percentage points can result in savings for commercial customers (in 2021)
 - General Service 2.1 – 1.10 ¢/kWh
 - General Service 2.3 – 1.32 ¢/kWh
 - General Service 2.4 – 1.10 ¢/kWh

Overview

- There is no guarantee the reviewed rate mitigation options will keep rates down
 - *Liberty states a potential 35% increase in rates in 2021 even if all mitigation options they reviewed are applied*
 - *Federal government is non-committal on specific action*
- Decision on electricity rates associated with Muskrat Falls rests with Cabinet
- Uncertain what the magnitude of the economic and fiscal effect will be
 - *Government direction in 2017 to create a Preliminary Rate Management Reserve to mitigate rates; no mention in Liberty report*
- Where possible, electricity rate increases and tax increases are passed on through higher consumer prices
 - *Exceptions: gas stations and convenience stores*
- Additional initiatives exist to help small business

Recommendations

- Conduct an economic and fiscal analysis of any rate mitigation plan
 - *\$744 million needed in 2021*
 - *Government should be transparent about its decision*
- Reduce the revenue-to-cost ratio to 5 per cent (ie. 95-105)
 - *Change would not affect residential rates and commensurate reduction would help commercial users*
- Lower demand charges
 - *Can help seasonal businesses who currently pay though they are not in operation; also helps those with complementary energy sources*
 - *Time-of-use may not work well; further study is definitely required*
- Reform the conservation and demand management programs
 - *Small businesses are not taking advantage of these programs in a substantial way*



Thank you for this opportunity.

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