



**CANADIAN FEDERATION  
OF INDEPENDENT BUSINESS**

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# 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

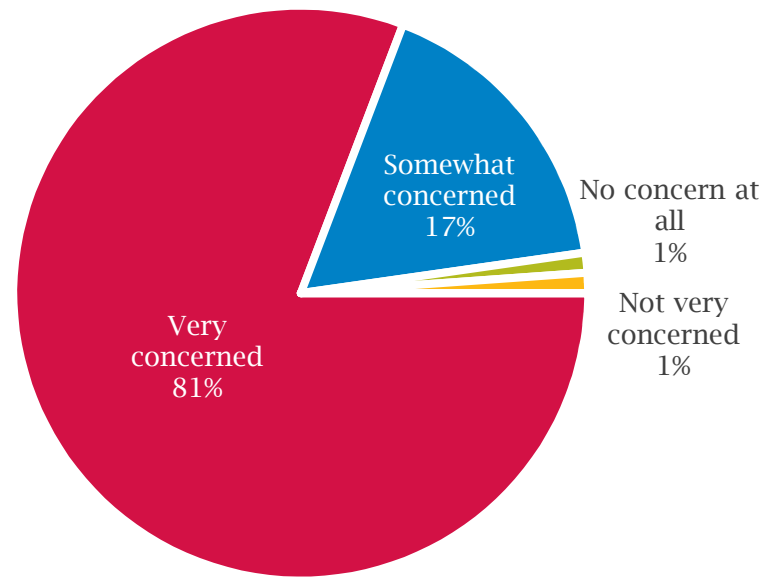
- Represents 2,000 small- and medium-sized business owners in NL
- Membership is 100% voluntary
- Represents all sectors, all regions of the province
- Non-partisan, not-for-profit organization

# SME electricity rates (2017)

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

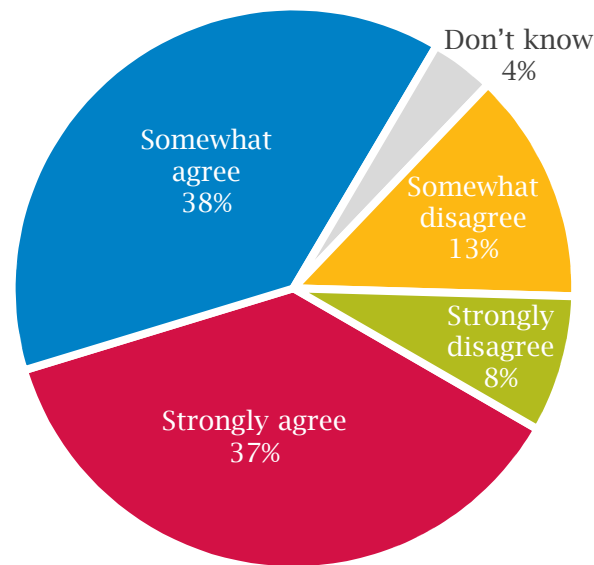


Source: CFIB, NL Electricity Rate Mitigation Survey, October 2019, 181 responses.

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

# Understand the effects of Muskrat Falls

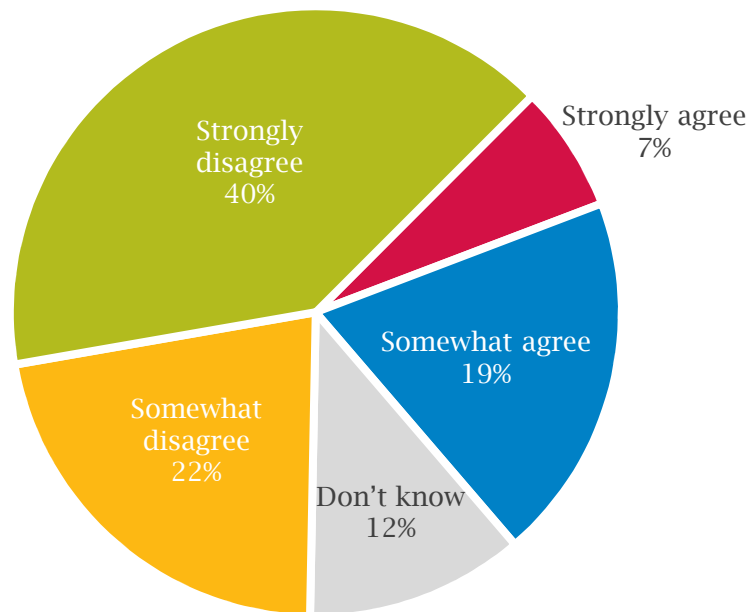
Agree/Disagree: I understand the potential effects the costs of Muskrat Falls will have on my business



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

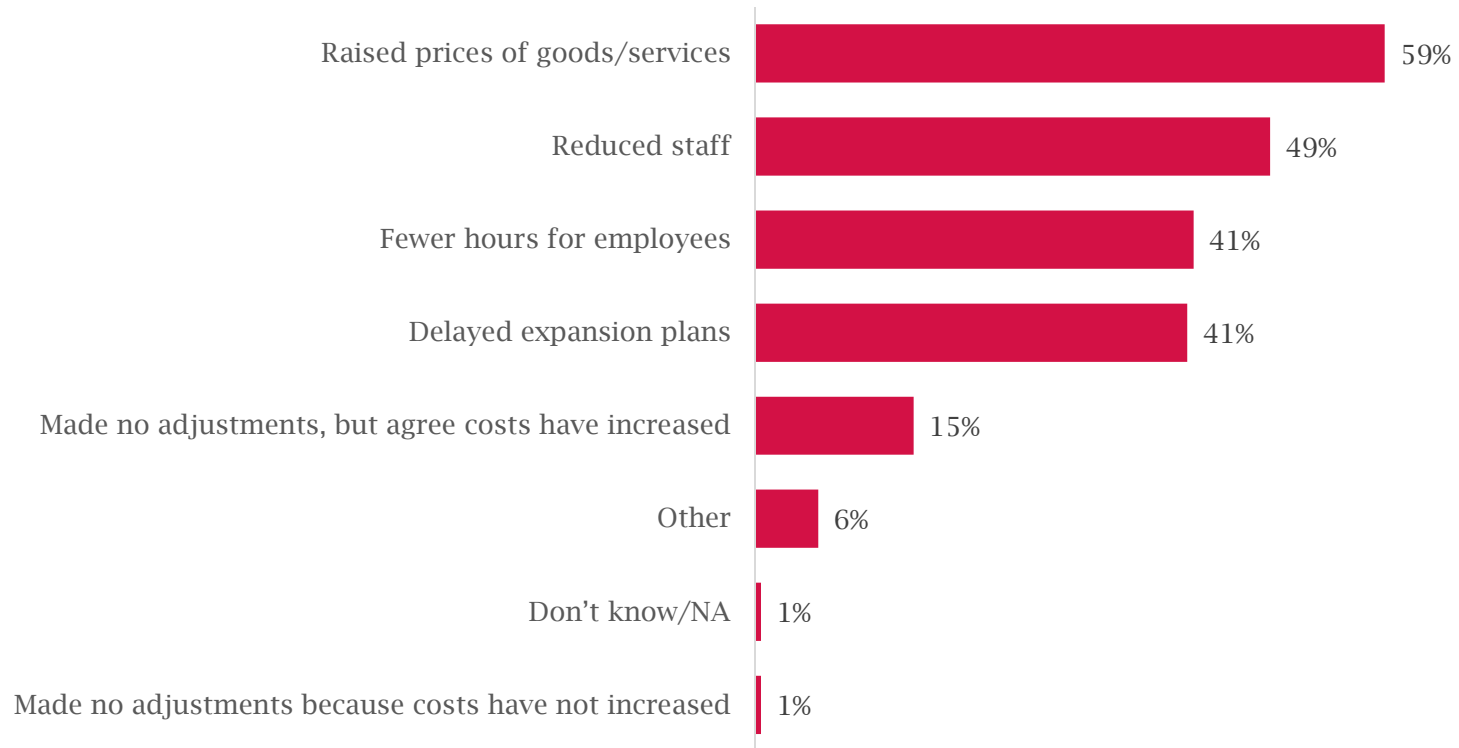
# Uncertain rate mitigation will work

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



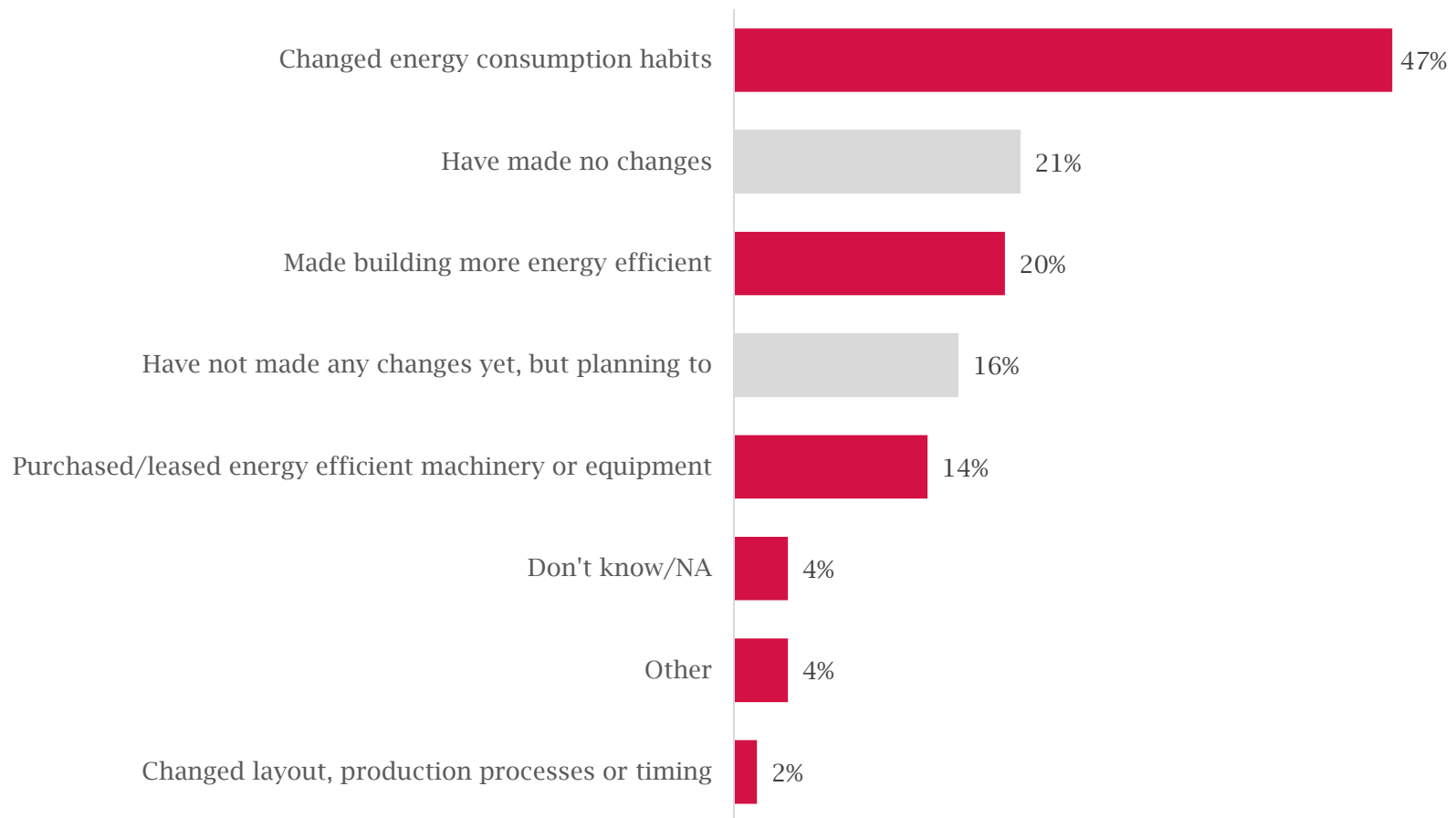
Source: CFIB, NL Electricity Rate Mitigation Survey, October 2019, 181 responses.

# Reaction to the rising cost of business



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

# Preparation is missing

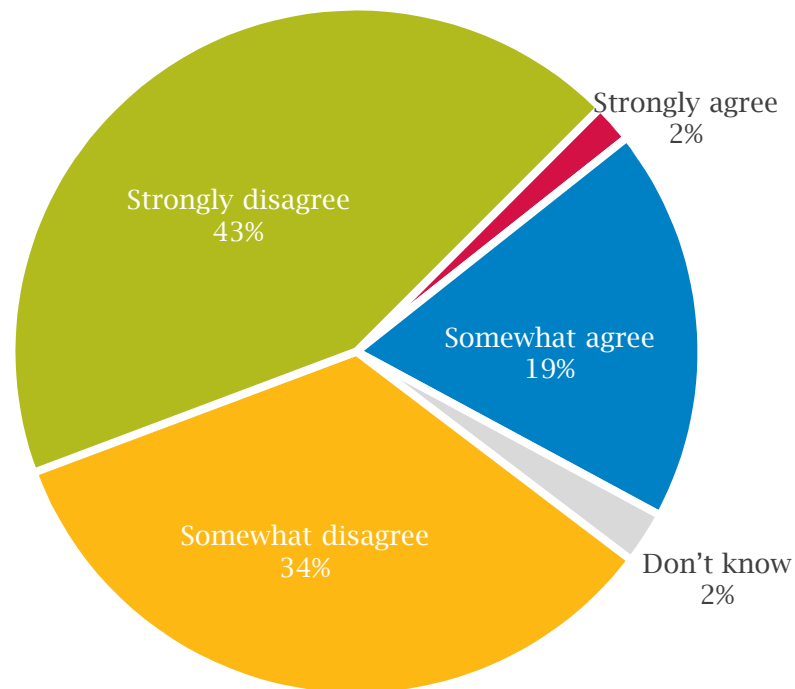


Source: CFIB, NL Electricity Rate Mitigation Survey, October 2019, 181 responses.



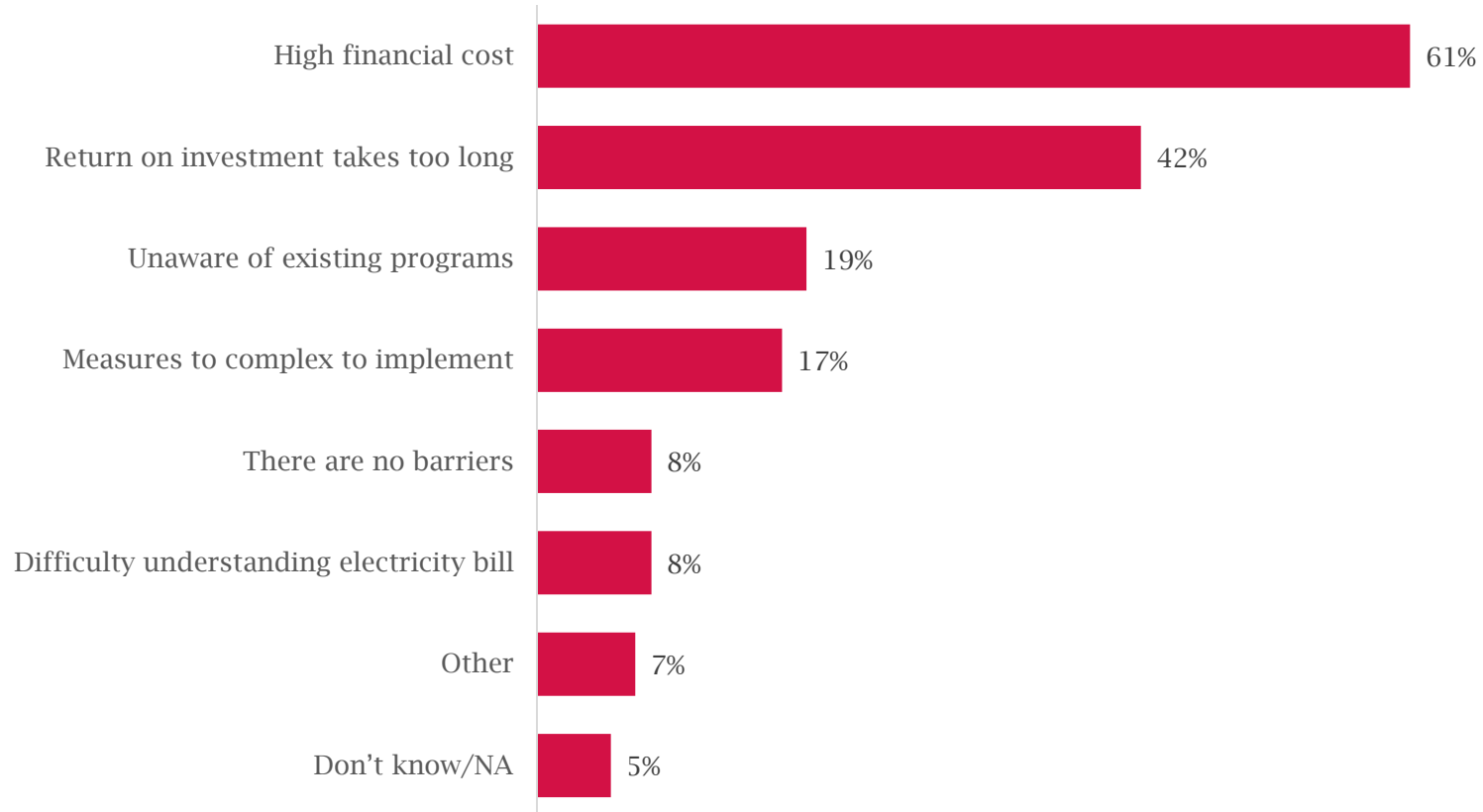
# Unaffordability of conservation

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



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

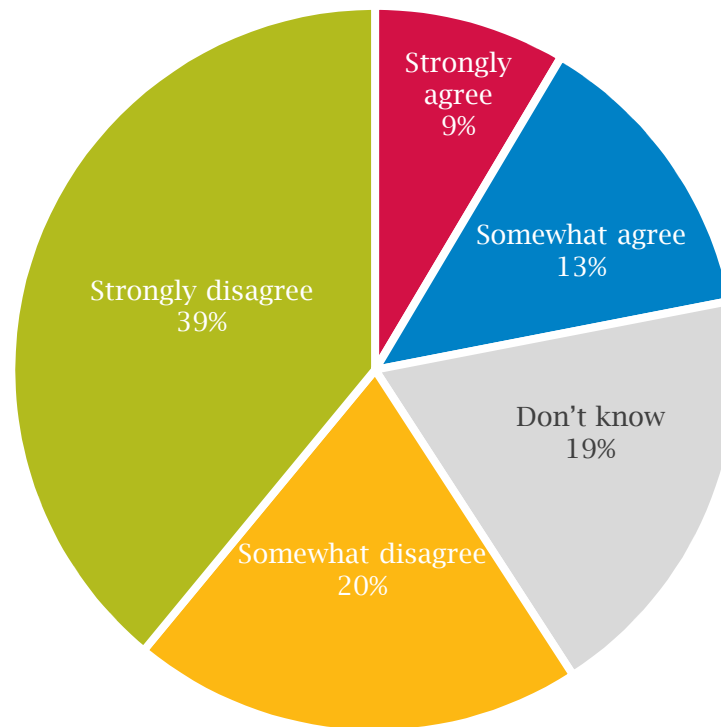
# Barriers to energy efficiency



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
<b>Rate (base)</b>	12.77	21.93	23.48	25.22
<b>Domestic</b>	12.26	21.05	22.54	24.21
<b>General Service 2.1</b>	13.84	23.77	25.45	27.34
<b>General Service 2.3</b>	13.95	23.94	25.64	27.54
<b>General Service 2.4</b>	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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