



# CFIB

## Research



## The “Power” of Alberta Business

### The impact of electricity deregulation on Alberta small and medium-sized business

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On January 1, 2001, Alberta became the first Canadian jurisdiction to have a competitive electricity market. While distribution and transmission of electricity remain as monopolies, the retail and generation component of electricity was deregulated so that new power companies could invest and compete in the Alberta market. The initial intention was that a competitive market would put downward pressure on electricity prices, however, since the inception of a competitive electricity market, the price of power has increased dramatically, hitting small and medium-sized businesses particularly hard.

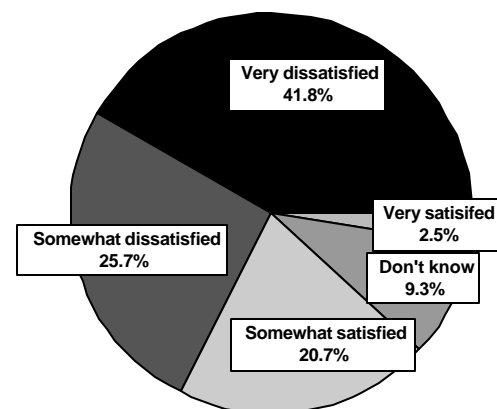
Electricity has always been a fairly predictable input cost, allowing firms to easily incorporate it into the cost of their products or services. However, the volatility of electricity pricing experienced in Alberta since the launch of a deregulated market has caused tremendous anxiety among businesses of all sizes. This is despite the credits and rebates provided to assist firms through the transition to a competitive market, and the option for smaller businesses (those who consume less than 250,000 kWh per year) to maintain a regulated rate until the end of 2003.

To learn more about the impacts of electricity deregulation on small and medium-sized business in Alberta, CFIB conducted a survey of its members during May and June of 2001. The survey was distributed by fax and 951 responses were received from a broad range of businesses representing all industry sectors and regions of Alberta. All survey respondents had fewer than 500 employees and 80 per cent had fewer than 20 employees.

#### Little Satisfaction with Deregulation Process

Over two-thirds of respondents were either somewhat or very dissatisfied with how government handled the entire deregulation process (see Figure 1). CFIB recognizes that increased electricity prices are a result of a number of factors including tightening supply and rising natural gas prices. However, given the sudden increase in electricity pricing following deregulation and the many reactive announcements of the provincial government to assist Albertans through rebates and credits, it is not surprising that there is such a high level of dissatisfaction with the deregulation process.

**Figure 1**  
Satisfaction with government’s handling of deregulation process



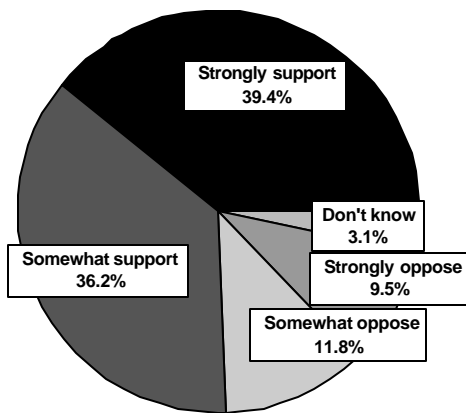
Source: CFIB AB Electricity Survey, June 2001

The flurry of rebate and credit announcements following the implementation of deregulation led to much confusion among power consumers over managing their costs. It also drew heavy criticism

from power companies claiming that government intervention into Alberta's electricity market discouraged them from building new generation.

As a result of dramatic price increases for many Alberta businesses, it is not surprising that over three-quarters of CFIB members supported the use of rebates and credits as a method of assisting them through the transition to a deregulated power market (see Figure 2). Had it not been for the rebates and credits many businesses would have had a difficult time getting through the first half of 2001 – particularly those firms that consumed just over the regulated rate option threshold of 250,000 kWh per year. These mid-sized businesses had no choice but to purchase their electricity on the open market, only to find very few, if any, power companies willing to provide them with competitive pricing.

**Figure 2**  
**Support for rebates/credits to assist during transition to deregulated power market**



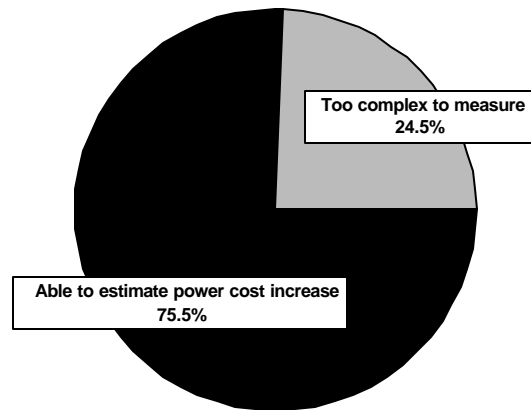
Source: CFIB AB Electricity Survey, June 2001

### Small Firms Facing Sizable Price Increases

To try and understand how much of an increase was experienced by small and medium-sized businesses in Alberta, the survey asked respondents to estimate the percentage increase in power rates that their firm experienced between 2000 and 2001. As this was an approximation, the results only provide an indication of the level of increase experienced by Alberta firms. However, it is very interesting to note that almost one in four firms were not able to approximate the increase in their power rates as they found it too complex to measure (see Figure 3). This simple result provides an important insight into how difficult it is for many firms to understand and

manage their power costs and is a challenge for government to address when helping small and medium-sized firms deal with the transition to a deregulated market.

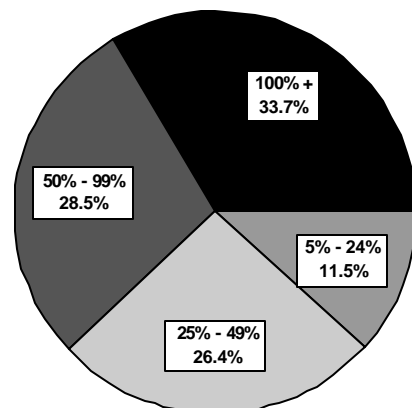
**Figure 3**  
**Ability to measure power cost increases**



Source: CFIB AB Electricity Survey, June 2001

Of respondents who provided an estimate, all claimed that they had experienced power rate increases. Responses varied widely from a low of 5 per cent to those who indicated that they had experienced 400 per cent increases in their power rates. The average increase was 78 per cent, but the most common percentage increase was 100 per cent – cited by almost 18 per cent. More significantly, almost two-thirds of respondents have experienced at least a 50 per cent increase in their power rates since 2000 (see Figure 4).

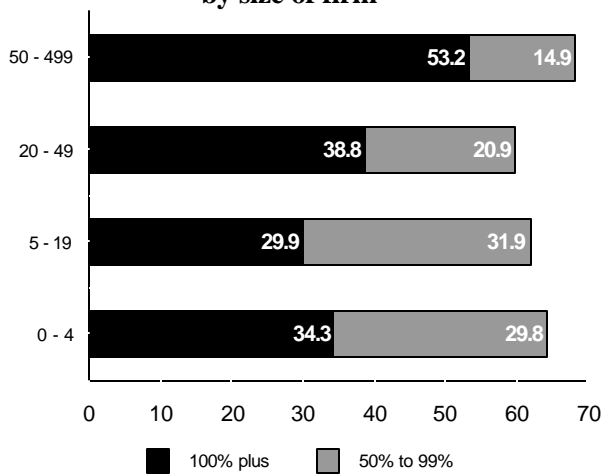
**Figure 4**  
**Percentage increase in power rates from 2000 to 2001**



Source: CFIB AB Electricity Survey, June 2001

When the data is broken down by size of firm, it is clear that larger firms experienced more significant power rate increases (See Figure 5). The majority of firms with more than 50 employees indicated that they had experienced at least a 100 per cent increase in their power rates since 2000. This result is not surprising considering the very few options available to medium-sized firms who found themselves on the open market paying a default rate that was four or five times higher than what they had been paying during 2000.

**Figure 5**  
Percentage increase in power rates by size of firm



Source: CFIB AB Electricity Survey, June 2001

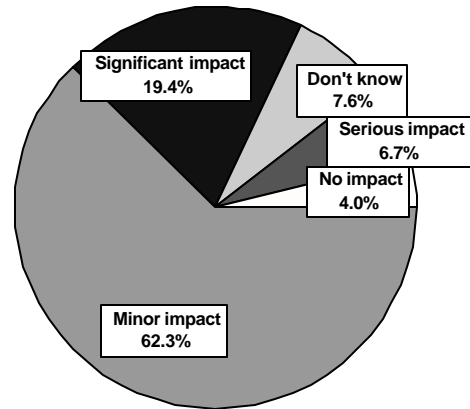
### Impact of Power Rate Increases

Though almost all firms experienced some kind of increase in power rates since 2000, what is more important to understand is the impact such increases have had on businesses. Some firms may have experienced only a small increase but may have had a very difficult time absorbing those increases into their costs of production, while others may have had a dramatic increase in rates but were able to absorb them in the short term.

Almost all those surveyed indicated that the increase in power rates has had some kind of impact on their business. While the majority regarded it as a minor impact that they could absorb in the short-term, more than one in four indicated that the power rate increases have had either a significant (eg. had to alter business production such as operate overnight) or serious impact (eg. thinking about moving, laying

people off or closing down) on their business (see Figure 6).

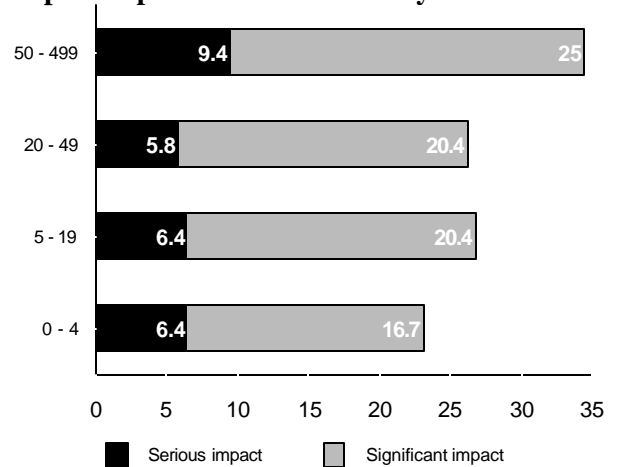
**Figure 6**  
Impact of power rate increases on firms



Source: CFIB AB Electricity Survey, June 2001

When this information is broken out by size of firm, it is clear that impact has been greater among medium-sized companies. Over one-third of firms with 50 to 499 employees indicate that power price increases had a significant or serious impact on their business, validating once again that this group has been hit particularly hard by the transition to a deregulated market (see Figure 7).

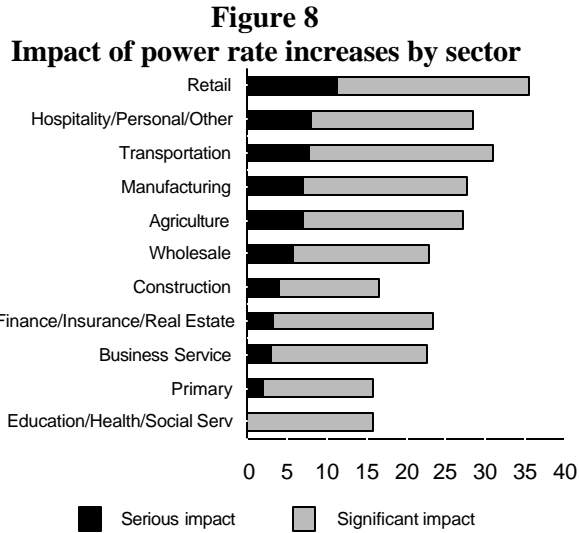
**Figure 7**  
Impact of power rate increases by size of firm



Source: CFIB AB Electricity Survey, June 2001

It is also interesting to note that some industry sectors seem to have experienced a more significant impact from power rate increases than others (see Figure 8). For example, over one-third of

respondents in the retail sector indicate that power rate increases had a serious or significant impact on their business, followed closely by the transportation sector.



Source: CFIB AB Electricity Survey, June 2001

The impact has also been significant or serious for one in four businesses in the agriculture, manufacturing and hospitality sectors. Again these results are not surprising as all these sectors are characterized with businesses that may require large storage/warehousing areas (eg. retail, transportation, agriculture), are more power-intensive (eg. manufacturing, agriculture) or simply have large infrastructure requirements (eg. hotels).

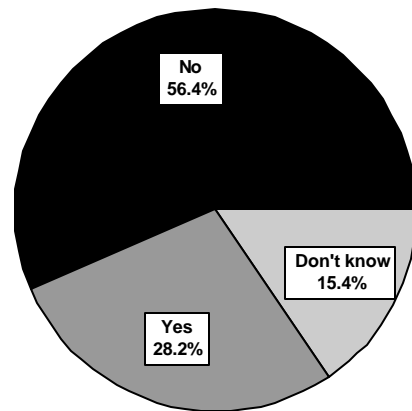
**Power of Information**

With the move to a deregulated market, electricity costs moved from a simple invoice on a business owner’s desk, and became an expense that requires active management. While such a transition may have positive implications for spurring conservation and new business practices, CFIB research confirmed there is a significant lack of information on which to base important business decisions in electricity cost and consumption management.

Less than one-third of small- and medium-sized business owners said they had enough information to manage their electricity costs (see Figure 9). In understanding the problem with the lack of information in managing electricity costs, it is important to recognize the frustration many business owners reported when they first encountered a

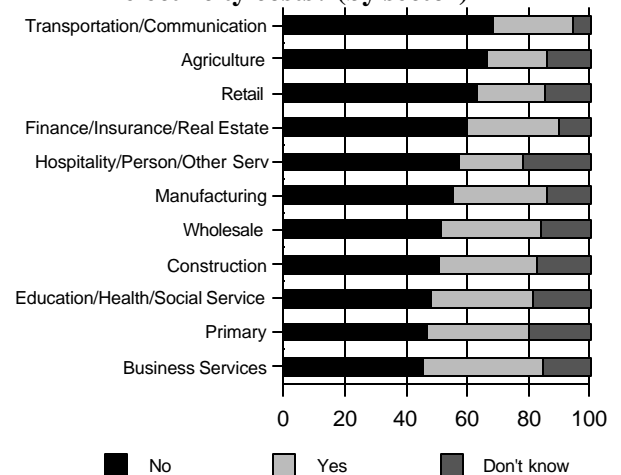
deregulated electricity market. In evaluating service packages and pricing for other business inputs, firms are regularly contacted by retailers hoping to receive the business. Not only were the few electricity retailers not actively pursuing the small- and medium-sized business market, a number of business owners contacted CFIB to report that their calls to request information were never returned.

**Figure 9**  
**Do you have enough information to manage your electricity costs?**



Source: CFIB AB Electricity Survey, June 2001

**Figure 10**  
**Do you have enough information to manage your electricity costs? (by sector)**

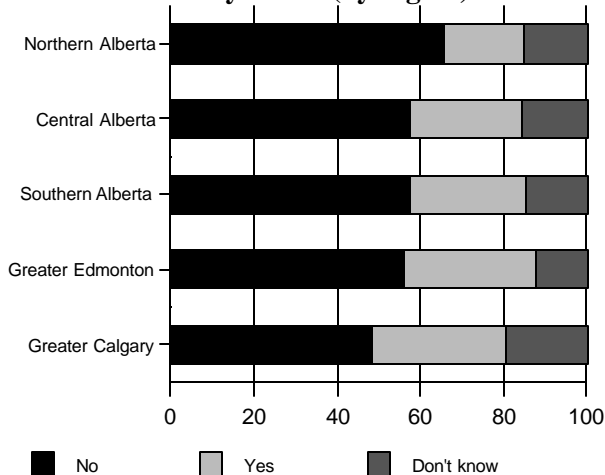


Source: CFIB AB Electricity Survey, June 2001

The information gap was particularly evident in the transportation/communication, agriculture, retail, and service sectors (see Figure 10). By region, respondents in smaller communities and rural Alberta – especially Northern Alberta – were more

likely to report a lack of information on how to manage this cost (see Figure 11).

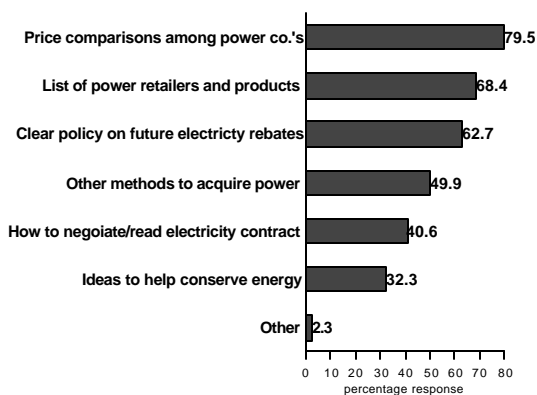
**Figure 11**  
**Do you have enough information to manage your electricity costs? (by region)**



Source: CFIB AB Electricity Survey, June 2001

It becomes very difficult for a firm to enjoy any of the potential benefits of a deregulated market if decision makers do not have access to solid information. While it is important to remember that this problem may be particularly acute in a transition period, many firms have been asked to sign contracts that may lock them into a rate structure for three to five years. Many business owners have not had the luxury of waiting for the market to develop reliable information before making decisions that will affect their bottom line for many years.

**Figure 12**  
**Type of Information Most Helpful for SMEs**



Source: CFIB AB Electricity Survey, June 2001

When asked what type of information would help their firms the most, respondents indicated that price comparisons among power companies were most important (see Figure 12). With the promise of increased competition, many firms have been concerned that they do not have access to information that compares different offerings of power retailers. It should be noted that the current lack of information in this area might also be caused by the fact that there remains a significant lack of competition.

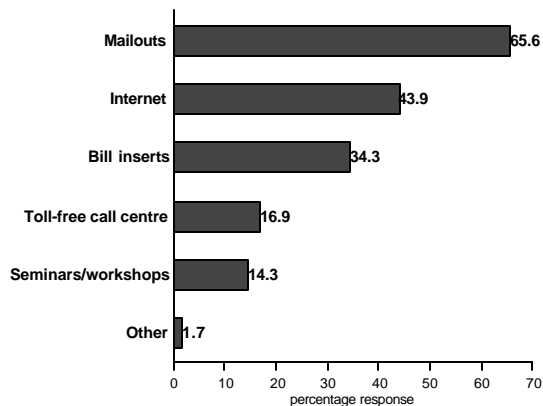
Over two-thirds of small- and medium-sized firms also cited the need for a list of power retailers and their products. While government websites provide a list of companies involved in retail competition, there remains little information available on the service packages that might meet the needs of different types of consumption patterns. Again, this information gap is also likely caused by the fact that very few packages have been designed for the small- and medium-sized business market. Most firms have only had one real option at the retail level. It should be noted that even with the planned entrance of Enron into the marketplace, it is unlikely that small firms will have their list of options increase significantly as such entrants will pursue the more lucrative large firm market first.

Given the many government announcements on transitional measures to address rapidly increasing prices in January and February, 2001, a large percentage of respondents cited the need for clear information on any future electricity rebates. This concern may stem from the introduction of the Market Transition Credit rebate program, where firms that opted to sign longer term contracts were left out of a program to ease the costs created by deregulation. While this program provided assistance to those firms who were not able to sign contracts – either because of a lack of information or lack of interest from retailers – it punished those who took the leap of faith in signing long-term contracts.

Nearly half of respondents indicated they would like information on other methods to acquire power, such as buying direct from the power pool or self-generation. Another third said they require information on how to conserve energy in their firm. It is also particularly worrisome that 40.6 per cent of

respondents said they needed information on how to negotiate or read an electricity contract. CFIB has heard reports from members who, after struggling to gain the attention of a power retailer, were faced with a 50-page contract. Other important and competitive business inputs, such as long-distance telephone service, can provide service with a short, two-page contract.

**Figure 13**  
**Best methods to receive information on managing electricity costs**



Source: CFIB AB Electricity Survey, June 2001

CFIB also asked members what would be the best way for their firm to obtain additional information on managing electricity costs (see Figure 13). The top answer was through written information received through mail. Others suggested Internet websites, bill inserts, a toll-free call centre, and seminars and workshops.

While CFIB is pleased government intends to begin holding seminars on managing electricity costs, this cannot be viewed as the answer to this problem. The need for information is most acute outside of Calgary and Edmonton, which makes attending seminars a difficult proposition for many firms. Small business owners often find it difficult to attend workshops as they are intrinsically involved in the day-to-day operations of their firms.

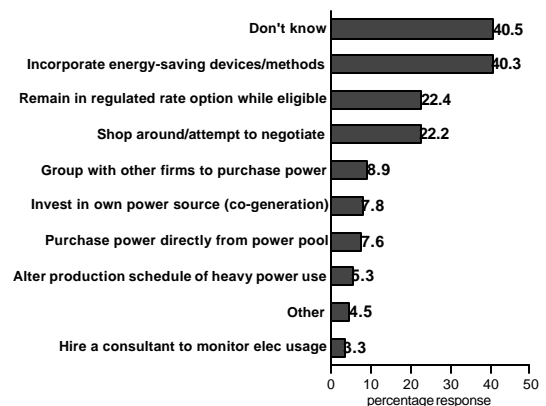
While only 17 per cent of respondents indicated that a toll-free call centre would be among the best methods to receive information, CFIB has suggested government consider the creation of a service that can provide firms with basic information on how to

manage their electricity costs. Rather than a simple call centre, such a firm may be able to connect business owners with sources of advice on electricity costs, such as consultants or new options on retail packages.

### **SME Options for Managing Electricity Costs**

In order to gauge possible solutions to the problem of rising electricity costs, CFIB surveyed its members on the options small and medium-sized firms have considered in addressing this challenge (see Figure 14).

**Figure 14**  
**Options considered to lessen impact of power costs increases**



Source: CFIB AB Electricity Survey, June 2001

Among the options used, or under active consideration to reduce the impact of rising power costs, only a few were cited by more than 10 per cent of respondents. Just over 40 per cent said incorporating energy-saving devices and/or methods had been or are being considered. Another 22.2 per cent said they had attempted or will attempt to shop around or negotiate with power retailers. One of the reasons that fewer than a quarter of small firm owners looked to price comparisons as a means of reducing costs may be a significant dearth of competitors. This is particularly worrisome in that deregulation was supposed to increase the number of options and packages available to retail consumers.

In addition, two of the top four options confirm small and medium-sized business owners believe they have very few options available to control costs. Just over 40 per cent of respondents suggest they do not know any options to manage costs, and a

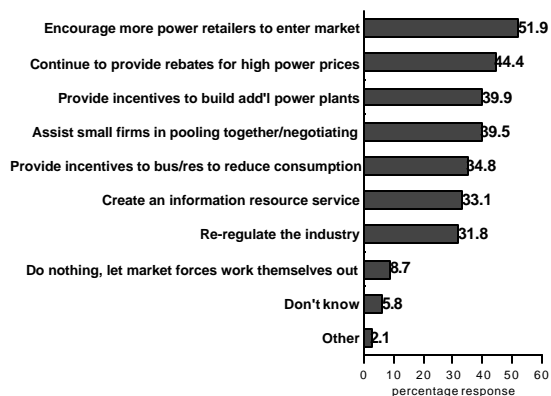
further 22.4 per cent suggest they plan to remain in the regulated rate option as long as they are eligible. It should be noted that while consumers are able to access a regulated rate until 2006, this option expires for businesses that use under 250,000 kWh per year in 2004.

Smaller numbers of firms cited consideration of grouping together with other businesses to purchase power, investing in their own generation capacity, purchasing directly from the power pool, or altering their production schedules to take advantage of times with lower electricity prices. It is difficult to determine whether these options were largely ignored due to lack of information on electricity consumption and cost management. CFIB is prepared to work with government to address this information gap at the same time as additional strategies are examined to address the root causes of the problems related to high electricity prices.

### Improving the Electricity Environment for SMEs

When asked what government should do to assist firms in dealing with deregulation and higher electricity prices, it was clear that small firms feel that government still has an important role to play in the electricity environment. Less than one in ten felt that the government should just back away and let market forces work themselves out and even fewer (5.8 per cent) were unsure of the role of government (see Figure 15).

**Figure 15**  
**Recommended Government Actions to Address Increased Power Costs**



Source: CFIB AB Electricity Survey, June 2001

It is clear from this survey that small- and medium-

sized firms see a role for government and the most common recommendation for government was that they encourage more power retailers to enter the market to provide simplified packages for small firms. Over half of respondents cited the need to increase the number of competitors in the retail market. Despite the recent announcement of the entry of Enron, SMEs believe they have very few options in the provision of electricity. It should be remembered that while Enron has announced plans to enter the market, ATCO recently decided to exit the retail marketplace altogether.

As long as there remains a significant level of uncertainty within the electricity market and few retail options for small- and medium-sized firms, there is support for the use of rebates to assist them in dealing with periods of high power prices. Thus, it is no surprise that 44.4 per cent of respondents want the government to continue to provide rebates when power prices are high.

Forty per cent of respondents would also like to see government provide incentives to power companies and other firms to build additional power generating plants. Small firms understand that there is a fundamental supply and demand issue in Alberta's power market and bringing on new generation to ease demand peaks will go some way in alleviating the cost pressures currently being faced. However, without more power retailers in the Alberta market providing products for smaller firms, any new power generation will do little to ease the anxieties of smaller firms trying to manage their power costs.

Other actions government can take to help small firms address increased power costs include: assisting small firms in pooling together and in negotiating better rates, providing incentives to business and residential consumers to reduce power consumption, and having an information resource service that helps firms manage their power costs. Types of information a resource centre could provide for small firms are summarized in figure 12.

Interestingly, almost one in three respondents stated that they would like to see the government re-regulate Alberta's power industry. CFIB is aware that the current government will not likely reverse their actions on electricity deregulation, however, such a result does provide valuable insight into the

necessity for government to further educate power consumers about the reasons for, and the merits of, deregulation.

### **Conclusions and Recommendations**

Electricity is a unique commodity because it cannot be stored and therefore its cost depends on the level of demand for it throughout the course of a day, a week, or even a year. This means that the price can vary by the time of day and during certain times of the year, making it a complex input cost that all businesses must learn how to manage. Moving from a stable pricing environment to the volatility of market pricing caught many small and medium-sized firms unprepared. Coupled with a lack of retail product and information, soaring energy prices and heavy demand loads, it should come as no surprise that the government was heavily criticized by business for the move towards deregulation, even if many of the factors involved in high electricity pricing had nothing to do with deregulation.

In order to assist firms in dealing with a deregulated electricity market, government, electricity providers, and industry need to find ways to better manage Alberta's power. CFIB provides the following recommendations to begin helping all parties address power issues:

#### ***1. Stimulate Retail Competition:***

Steps must be taken to remove any barriers to additional retail competition. Alberta must ensure that smaller specialized retailers are given a chance to compete by creating a level playing field.

- Government needs to examine the taxation, regulatory and credit requirements for retailers to ensure a level playing field for new entrants. This is particularly important as the two largest retailers are owned by municipal governments and therefore have access to public capital, exemptions from certain forms of taxation, and greater control of the regulatory environment.
- CFIB recognizes that a high demand-short supply environment provides few incentives for retailers to compete for business by offering specialized packages for small business. Increasing the supply of electricity would encourage retailers to pursue new market segments and develop lower price options for small business. Government should continue to

encourage new investment in electricity generation capacity.

- Existing and future electricity retailers should concentrate on developing packages aimed at the small business market. This would include shorter-term contracts that are brief and easy to understand.

#### ***2. Provide Transitional/Long-term Price Relief:***

While tightening supply and increasing natural gas prices have compounded the problem of rising electricity rates, many small firms have experienced significant price increases as a result of the transition to a deregulated market. There are measures the provincial and municipal governments can take to alleviate this burden in the short and longer term.

- To help address any sudden and significant costs increases in the transition to a competitive marketplace, government should announce a plan for interim cost relief that is fair to all firms. Any additional cost relief should be announced in advance and should not negatively impact those who have signed longer-term contracts.
- As many municipalities have been major beneficiaries of rising electricity prices, they too have a role in ensuring their local business communities remain competitive. Most municipalities charge a "franchise fee" which can add up to 11.11 per cent to the bill using different methodologies. The province should work with municipal governments to ensure a common methodology is used across Alberta and the maximum surcharge is reduced to help alleviate the pressure of rising electricity costs.
- In addition to expanding retail options, new generation capacity should help reduce prices. Government should take steps to encourage new investment in electricity generation.

#### ***3. Arm Businesses With Information Tools:***

Currently, businesses report difficulty in managing their electricity costs. This makes it nearly impossible to reap any benefits that may or will be available due to deregulation.

- Provision of information to business should become a top government priority. While information seminars are a good idea, they may not fit the needs of small firm owners who cannot be away from their places of business. Government should give serious thought to

creating an information line staffed with knowledgeable people to provide basic information on how to better manage/conserves energy and provide details of any retail options available to small firms including price comparisons and lists of retailers.

- In addition to providing advice on retailers and price comparisons, government should disseminate information on other methods to acquire power. For example, guiding firms on how to pool together with others to negotiate better rates, how to purchase directly from the power pool, or opportunities for co-generation would broaden the options available to small firms.
- As small firms have experienced confusion in understanding their electricity bills, utilities should be encouraged to simplify the billing and contractual process.
- Any discussion of power prices should quote “all-inclusive” rates rather than simply the floating “pool” rate. With the large number of additional charges on an electricity bill, a business owner’s bill bears little resemblance to the rate quoted by government. In determining public policy, such as rebates, it is important that price increases are measured based on the full cost to business.
- Government and industry should encourage the use of technology to assist firms in managing electricity consumption, such as “time-of-use” meters. “Time-of-use” meters are valuable tools that can help businesses decide whether to shift production schedules to take advantage of lower rates in off-peak hours which would in turn help conserve energy and enhance available supply. Keeping firms aware of new technologies that may assist in taking advantage of any benefits of a deregulated marketplace is a key role for government in this transition.

As we pass the six-month mark, electricity pricing has begun to stabilize, at least for the moment, and there are some indications that significant new power generating plants will be coming on stream over the next five years. However, there remains little optimism about new power retailers entering the market who are willing to provide competitive electricity pricing to smaller firms. There is also increasing anxiety as the Market Transition Credit no longer exists and other electricity rebate

programs will finish at the end of 2001. If these rebates are not replaced, many firms will find themselves exposed to the vagaries of the open market in mid-winter when demands for electricity tend to be high, and possibly exposing many small and medium-sized firms to another round of extreme price hikes. This pattern may very well repeat itself at the end of 2003 when small firms are no longer protected by the regulated rate option and an even larger group of firms will need to understand the complexities of the deregulated market. The government has an opportunity now to start preparing these firms for their entry into the marketplace.