Restaurants Canada
The voice of foodservice | La voix des services alimentaires

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July 20, 2022 **VIA Email**

Mr. Albert Johnston
Chair, Saskatchewan Rate Review Panel
P.O. Box 1301,
Saskatoon, SK, S7K 3N1

Re: Review of SaskEnergy's Delivery and Commodity Rate Application

Dear Mr. Johnston,

On behalf of Restaurants Canada and Saskatchewan's 2,700 restaurants, bars and pubs, I would like to share feedback and concerns from Restaurants Canada and the province's foodservice sector in general about SaskEnergy's proposal to increase its delivery service rates over the next three years by an average of 8% effective August 1, 2022, 5% effective June 1, 2023, and 5% effective June 1, 2024.

This proposed rate increase should not be considered in a policy vacuum. Saskatchewan's restaurant sector is still grappling with a number of challenges as operators shift their focus towards a fragile economic recovery including severe labour shortages, supply chain disruptions, incurring large debt levels as a result of the pandemic, and rising inflationary cost pressures. In addition to these factors, the provincial government recently announced that the provincial minimum wage will be increasing from $11.81 to $13.00 per hour on October 1, 2022, and to $15 per hour on October 1, 2024 – a 27 per cent increase over the next three years. The decision to drastically increase labour costs for the restaurant sector, and other impacted sectors including retail and other small businesses, was made without any consultation or notice whatsoever by the provincial government. Piling on additional steep utilities increases at a time when the restaurant sector is already struggling would harm the industry's fragile economic recovery and would place an even greater strain on restaurant operators' finances.

The Pandemic's Impact on the Restaurant & Foodservices Industry

Restaurant operators are innovative and resourceful, but the pandemic has stretched their resiliency to the limits. Eight out of 10 restaurants have taken on debt due to COVID-19 and at least two thirds of these businesses will need at least a year and a half to recover, according to a survey that Restaurants Canada conducted in February 2022:

- 42% said they will need at least 18 months to recover from their pandemic debt; and
- 38% said they won't be able to recover from their pandemic debt unless conditions change.

Before COVID-19 struck, Saskatchewan's foodservice sector was a $2.4 billion industry, serving tens of thousands of customers every day and contributing to 3% of the province's GDP. The province's restaurant industry is now struggling to recover at least $600 million in lost revenue after suffering the following losses due to the ongoing economic and public health crisis:

- An 18.0% decline in commercial foodservice sales in 2020 compared to 2019; and
- A 3.4% decline in commercial foodservice sales in 2021 compared to 2019.

The restaurant sector's long road to economic recovery

With the lifting of pandemic-related health restrictions across the country, and customers slowly venturing back out into their communities again for work and leisure, the restaurant sector has also seen a bump in sales and there is certainly reason for optimism. Some of these key indicators include:

- **In early April 2022, four in 10 foodservice business were operating at a loss. This is the lowest share since the start of the pandemic.** Still, more than six in 10 foodservice operators said it will take 12 months or longer for their business to return to profitability.
- **For the first time since the start of the pandemic, a remarkable 84% of restaurants were fully open with no restrictions in early April 2022.** Only 2% of operators reported that their operations were temporarily closed and another 2% were open for takeout/delivery only. While the reopening of restaurants is a positive sign, seven in 10 survey respondents still reported lower sales in March 2022 compared to March 2019, consistent for both quick- and table-service restaurants

Potential impact of SaskEnergy's proposed rate increases

SaskEnergy's proposed increases to both the delivery service rates over the next three years, as well its commodity rate, with only a few weeks notice for the province's foodservice businesses with the first increase taking effect in the coming weeks (if approved) is tone deaf and would yet again increase the cost of their day-to-day operations as they struggle to recover from the impact of the pandemic. The extremely costly proposed rate increase would be implemented at the worst possible time for the foodservice sector in Saskatchewan. It is also important to note that the restaurant sector has minimal control over the amount of natural gas and electricity usage. For example, restaurants simply cannot turn off their ovens, stoves and fans, or turn out the lights during regular operating hours to reduce utility costs.

The steep impact of the proposed rate increases has already been laid out in SaskEnergy's Recommendations document (page 56): By their own calculations, SaskEnergy's proposed natural gas delivery service rate increases would result in an increase of over $7,000 for a large commercial business in the first year effective August 1st, 2022 (in under two weeks' time), and subsequent increases of $691 in year two and $725 in year three. The proposed rate hike would cost a small commercial business, for example a small family-owned restaurant, an additional $622.25 in 2022, and an additional $75.28 in 2023, and $80.04 in 2024 – a staggering increase of almost $800 over the course of the next three years.

Moreover, the federally-imposed carbon tax, which is also a major contributing factor in the rising cost of utilities needs to be considered. The foodservice industry is by necessity an energy dependent industry relative to other businesses where 75% of a restaurant's energy use is directly associated with the foodservice process itself which involves a wide range of energy consuming equipment for cooking, hot food holding, refrigeration, ice making, exhaust ventilation, and cleanup/sanitation etc. Our members are already demonstrating environmental leadership on a number of fronts including investing to improve their energy efficiency. However, it must be acknowledged that significant amounts of energy will always be required in a restaurant in order to cook and preserve food safely limiting the ability of restaurants to significantly reduce their energy consumption. The objective of the carbon tax to incentivise consumers to reduce energy consumption does not apply to restaurateurs who rely on energy to safely store, prepare and cook the food for their guests. To that end, if SaskEnergy's rate application is approved by the Rate Review Panel with the rates which are currently being proposed, the cost of the carbon tax would also increase sharply for all natural gas consumers at a time when they can least afford it.

Restaurants Canada and Saskatchewan's foodservice sector in general is therefore urging the Rate Review Panel to take into consideration the current fragile financial state of the province's restaurant sector as it turns a corner towards economic recovery, and recommend to Cabinet a drastically reduced year over year delivery service rate increase for SaskEnergy. A greatly reduced rate would demonstrate to the foodservice sector that the provincial government is receptive to the concerns raised by the industry, and would be a step in the right direction towards helping control rising inflationary cost pressures which restaurant operators are grappling with.

Thank you very much for considering the feedback provided by Restaurants Canada. If you have any questions or if I can be of any assistance, please do not hesitate to contact myself or my colleague Mark von Schellwitz, Vice President, Western Canada at mark@restaurantscanada.org.

Sincerely,

(originally signed by Jennifer Henshaw)

Jennifer Henshaw
Director, Provincial Government Relations (Western Canada)

Cc. Hon. Don Morgan, Q.C., Labour Relations and Workplace Safety and Minister responsible for SaskEnergy