



LH Recommendation 1 - New Small Commercial Rate Class

As illustrated below, the London Hydro distribution cost (delivery) component of a customer's bill is becoming less of percentage of the total electricity bill as electricity rates (cost of energy) continue to escalate. In 2009, distribution costs were 25% of the average monthly residential customers bill. This has been steadily declining to 20% in 2015 - not because of falling costs, but due to the fact that the cost of electricity has been increasing exponentially. Therefore, the price signals given out by London Hydro may have little influence in aligning the interests of customers and distributors to maximize use of the system and contain long-term costs.

Average Residential Customer - Monthly Bill

| | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|--|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | Bill | Bill | Bill | Bill | Bill | Bill | Bill |
| London Hydro (delivery) | \$ 26.48 | \$ 26.13 | \$ 27.50 | \$ 25.64 | \$ 25.62 | \$ 25.04 | \$ 25.37 |
| Independent Electricity System Operator (Cost of Energy) | \$ 90.08 | \$ 82.10 | \$ 72.83 | \$ 71.61 | \$ 65.95 | \$ 59.45 | \$ 51.84 |
| Hydro One (Transmission) | \$ 10.93 | \$ 10.85 | \$ 10.33 | \$ 10.24 | \$ 9.40 | \$ 9.33 | \$ 8.50 |
| Federal and Provincial Governments (includes Ontario Clean Energy Benefit-Sept 2012) | \$ 7.86 | \$ 7.72 | \$ 7.57 | \$ 7.52 | \$ 19.45 | \$ 18.52 | \$ 17.47 |
| | <u>\$ 135.35</u> | <u>\$ 126.79</u> | <u>\$ 118.23</u> | <u>\$ 115.02</u> | <u>\$ 120.42</u> | <u>\$ 112.34</u> | <u>\$ 103.19</u> |

Percentage of Bill

| | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| London Hydro (delivery) | 20% | 21% | 23% | 22% | 21% | 22% | 25% |
| Independent Electricity System Operator (Cost of Energy) | 67% | 65% | 62% | 62% | 55% | 53% | 50% |
| Hydro One (Transmission) | 8% | 9% | 9% | 9% | 8% | 8% | 8% |
| Federal and Provincial Governments (includes Ontario Clean Energy Benefit-Sept 2012) | 6% | 6% | 6% | 7% | 16% | 16% | 17% |
| | <u>100%</u> | <u>100%</u> | <u>100%</u> | <u>100%</u> | <u>100%</u> | <u>100%</u> | <u>100%</u> |

The same idea may be applied to the smaller consumers within the GS<50 kW class - those customers whose consumption is more akin to a residential customer.

London Hydro would suggest that consideration be given to allow for the creation of a new General Service Rate Class – GS<10 kW or GS<4,000 kWh or Small Commercial.

In reviewing the construct of the current GS<50 kW class, London Hydro observes that approximately two thirds (approximately 8,000 out of 12,000 customers) of this class consumes less than 4,000 kWh per month. London Hydro noted in the study of the 2013 COS that the class average kWh per month is 2,745 kWh.



| | kWh | kW | LF | Fixed | Variable | Total | ¢/kWh | | 100% Fixed | Change |
|-------|-------|-------|-----|----------|----------|----------|-----------|--|------------|-----------|
| GS<50 | 1,000 | 2.51 | 55% | \$ 30.70 | \$ 9.92 | \$ 40.62 | \$ 0.0406 | | \$ 57.93 | \$ 17.31 |
| | 2,000 | 5.01 | 55% | \$ 30.70 | \$ 19.84 | \$ 50.54 | \$ 0.0253 | | \$ 57.93 | \$ 7.39 |
| | 2,745 | 6.88 | 55% | \$ 30.70 | \$ 27.23 | \$ 57.93 | \$ 0.0211 | | \$ 57.93 | \$ - |
| | 3,000 | 7.52 | 55% | \$ 30.70 | \$ 29.76 | \$ 60.46 | \$ 0.0202 | | \$ 57.93 | \$ -2.53 |
| | 4,000 | 10.02 | 55% | \$ 30.70 | \$ 39.68 | \$ 70.38 | \$ 0.0176 | | \$ 57.93 | \$ -12.45 |

Using the simplified calculation of \$57.93 (see Schedule 2 London Hydro COS) as a monthly fixed charge for this class, the monthly impact could be potentially insignificant for most customers in this portion of the rate class. Obviously more work is necessary to fine tune this value to achieve complete fairness.

As noted in our 2013 COS summary discussion earlier, the change over the next four years to a 100% fixed residential rate would increase the recovered amount from fixed charges from 48% to 75%. By adding in the class proposed here, London Hydro could potentially recover upwards of 80% of its revenue through fixed rates.

For C&I customers beyond 4,000 kWh, the variations in load and usage are harder to define into a series of fair fixed rates and would therefore recommend that the OEB continue with the current structure of fixed and demand variable for this entire group. This would require that those remaining 4,000 customers from the current GS<50 kW class would need to be converted from kWh to kW billing.

This may require that these customers be taken off their current smart meters and transitioned to more sophisticated meters, but that is beyond the scope of this current discussion.