

UNDERTAKING J12.3

Undertaking

For utilities in Figure 13 of LEI Report, to identify if the utility has a fixed charge associated with the commodity, and proportion of total revenue requirement where possible

Response

The response prepared by London Economics is attached.

Response to Undertaking J12.3 in OEB Proceeding No. EB-2007-0905

prepared for Ontario Energy Board Staff by London Economics International LLC

July 4, 2008



1 Undertaking request

Undertaking No. J12.3: For utilities in Figure 13 of LEI report, to identify if the utility has a fixed charge associated with the commodity, and proportion of total revenue requirement where possible.

2 Undertaking response

The undertaking requested LEI to examine the extent to which the generation revenue requirement of other Canadian utilities listed in Figure 13 is associated with commodity, and the proportion of the total revenue requirement. However, the objective was to determine the extent of generation cost recovery associated with fixed versus volumetric rates. For jurisdictions which have not unbundled their bills, it is difficult to produce a like-for-like comparison of generation charges. However, to provide some additional insight into the proportion of fixed to volumetric recovery of revenue requirements (even in a bundled rate), LEI examined the tariff sheets of both the Canadian utilities shown in Figure 13 and the US utilities listed in Figure 19 (page 43 of the LEI Evidence Submission of April 24, 2008). Where such tariffs provided for an unbundled tariff, LEI noted the proportion of the revenue requirement attributable to generation.

Because LEI's objective was to provide an indicative view, LEI focused solely on the portion of the revenue requirement recovered from residential customers. Specifically, LEI examined what proportion of the average customer's bill was attributable to fixed components, and which to volumetric. Note that LEI defined an average customer consumption based on US average monthly demand; actual averages would differ according to geography. This broad indicative overview suggests that fixed components of the monthly bill range from 6% to 20%, and in none of the utilities studied reach the 25% level requested by OPG for their nuclear assets. LEI notes, however, that results may differ somewhat if all customer classes are examined, and that further examination would be necessary to develop a definitive opinion on this question.

The residential tariffs for all 17 companies examined have fixed and volumetric components. Fixed charges are monthly flat fees for the service (either on monthly or daily basis), while volumetric charges are applied per kWh basis (rates can also fluctuate between peak and off-peak seasons, i.e. winter vs. summer).

Of the 17 companies in the sample, three bill their residential customers on unbundled basis, where the customers can see what portion of their bill is payment for generation costs, as well as distribution and transmission charges.

The following table presents the breakdown of the typical monthly bills of residential customers. The calculations are based on the current and approved tariffs of the utilities.

Figure 1. Typical residential customer bills (dollar amounts are US currency for US utilities and Canadian currency for Canadian utilities)

	Fixed charges per month	Volumetric charges per month	Total monthly bill		Indicative share of fixed charges	Indicative share of volumetric charges		Generation charges	Indicative share of generation charges in monthly bills
	(\$)	(\$)	(\$)		(%)	(%)		(\$)	(%)
Arizona Public Service Co	\$7.59	\$100.29	\$107.88		7%	93%		\$63.56	59%
Detroit Edison Company	\$5.29	\$81.59	\$86.88		6%	94%		\$47.47	55%
Duke Energy South Carolina	\$6.16	\$73.08	\$79.24		8%	92%		N/A	N/A
Duke Energy North Carolina	\$7.87	\$69.91	\$77.78		10%	90%		N/A	N/A
Entergy Arkansas	\$6.86	\$54.68	\$61.54		11%	89%		N/A	N/A
Florida Power & Light Company	\$5.34	\$86.12	\$91.46		6%	94%		N/A	N/A
Georgia Power Company	\$7.50	\$52.39	\$59.89		13%	87%		N/A	N/A
PacifiCorp (Oregon)	\$7.50	\$32.28	\$39.78		19%	81%		N/A	N/A
Portland General Electric (Oregon)	\$10.00	\$80.63	\$90.63		11%	89%		\$52.64	58%
Public Service Co. of Colorado	\$6.25	\$31.90	\$38.15		16%	84%		N/A	N/A
Puget Sound Energy (Washington)	\$6.02	\$74.07	\$80.09		8%	92%		N/A	N/A
BC Hydro	\$3.88	\$60.26	\$64.14		6%	94%		N/A	59%
Hydro Quebec	\$12.19	\$50.07	\$62.26		20%	80%		N/A	N/A
NB Power	\$19.73	\$87.77	\$107.50		18%	82%		N/A	N/A
Manitoba Hydro	\$6.24	\$53.53	\$59.77		10%	90%		N/A	N/A
SaskPower	\$15.31	\$86.30	\$101.61		15%	85%		N/A	N/A
Newfoundland Power	\$15.56	\$88.61	\$104.17		15%	85%		N/A	N/A

Source: retail tariffs published on respective websites.

The above calculations assume 30 day months and, when there are different variable charges between summer and winter months, the summer months' variable rate is applied. The typical bill calculations are based on US national average household electricity consumption of 920 kWh per month.