

**RESOLUTION NO. 20140626-073**

**WHEREAS**, City Council adopted Resolution 20121213-064 stating that “the City of Austin values its small local business community and wants to continue to support both new and established businesses and their owners”; and

**WHEREAS**, in June of 2012, the City Council adopted a new rate ordinance, which applied demand charges to commercial customers with more than 10kW of demand; and

**WHEREAS**, on October 25, 2011, the Electric Utility Commission unanimously recommended that demand charges continue to apply only to commercial customers in excess of 20 kW of demand, and consumer advocates warned that demand charges would “hurt all nonprofits and houses of worship, and will hurt the smallest of those with low load factors disproportionately”; and

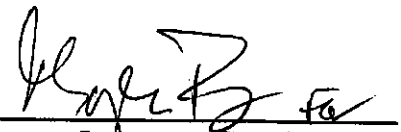
**WHEREAS**, since the rate increase, small business owners have been struggling with these new charges, and many have requested that the City Council reevaluate the impact of the demand charge on small businesses;  
**NOW, THEREFORE,**

**BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF AUSTIN:**

That the City Manager is directed to evaluate the impact on small businesses of the charge for electric demand above ten kilowatts, including conducting stakeholder meetings with small businesses, and to report back to the Electric Utility Commission and the City Council by March 26, 2015 with findings and potential policy options for minimizing the cost impact of the demand charge on customers having a demand of between ten and twenty kilowatts.

**ADOPTED:** June 26, 2014

**ATTEST:**

  
Jannette Goodall  
City Clerk



## MEMORANDUM

TO: Mayor and City Council Members

CC: Marc A. Ott, City Manager

FROM: Larry Weis, General Manager

DATE: April 22, 2015

SUBJECT: Small Commercial Customer Demand Charge Study

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City Council Resolution No. 20140626-073 directed the City Manager to evaluate the impact on small business customers of the charge for electric demand and to report back to the Council with findings and potential policy options. This memorandum outlines the background of the resolution, results of the study conducted, and potential options for further action.

In 2012, the City Council adopted new rates for Austin Energy's customers after an extensive, two-year review of the utility's cost structure and revenue requirements. Under the new rates, Austin Energy began assessing for the first time, a demand charge on small commercial customers with peak summer demand between 10 and 20 kilowatts (kW). Previously, demand charges were assessed only for commercial customers greater than 20 kW. In early 2014, several small commercial customers approached City Council expressing concern about the rate design. Through Resolution No. 20140626-073, City Council directed the City Manager to study the rates for small commercial customers and to assess the impact of demand charges on those customers.

In November 2014, Austin Energy contracted with NewGen Strategies and Solutions (NewGen) to conduct a suite of studies, including an examination of the small commercial customer rate design. Please find attached the Executive Summary from NewGen's final report, which has extensive analysis and information. The full report can be found at: <http://www.austintexas.gov/edims/document.cfm?id=227838>.

In its study, NewGen reviewed the structure of the small commercial customer rates, conducted an analysis of bills of affected customers before and after the transition to new rates in 2012, compared the rate design and bill impacts to select utilities in Texas and around the country, and engaged in direct customer feedback on the rate design. In short, NewGen's findings include:

- The rate structure is operating as designed by sending price signals to encourage the least efficient users to reduce consumption and by placing greater cost recovery on customers who are more costly to serve.
- A limited number of customers, approximately 185 out of the more than 10,000 customers in the class, who are among the most inefficient users, have experienced large increases in their monthly bills.
- The rate design for small commercial customers appears to encourage interest and investment in energy efficiency measures, as intended, and is an area for further research.

NewGen proposed several recommendations for consideration, including:

- Austin Energy should update the detailed customer usage information used in evaluating the small commercial rate class in its next cost of service study as usage characteristics have changed since the 2011 cost of service study was conducted.
- Austin Energy should maintain the current rate design because a significant change in rate structure meant to alleviate bill increases for the limited number of inefficient users will tend to shift costs disproportionately to other, more efficient customers, in other words, rewarding *inefficient* users and penalizing *efficient* users.
- There are significant opportunities for delivering energy efficiency targeted at specific customers experiencing high bills. Austin Energy has a suite of programs designed to address the efficiency of these specific customers. There is also great value for these customers via the Energy Conservation Audit and Disclosure ordinance approved by Council in 2008 and amended in 2011.
- In the long-run, Austin Energy should re-examine the actual cost to serve the least efficient users and review rate design objectives that might set bounds on the amount that an inefficient user would pay.

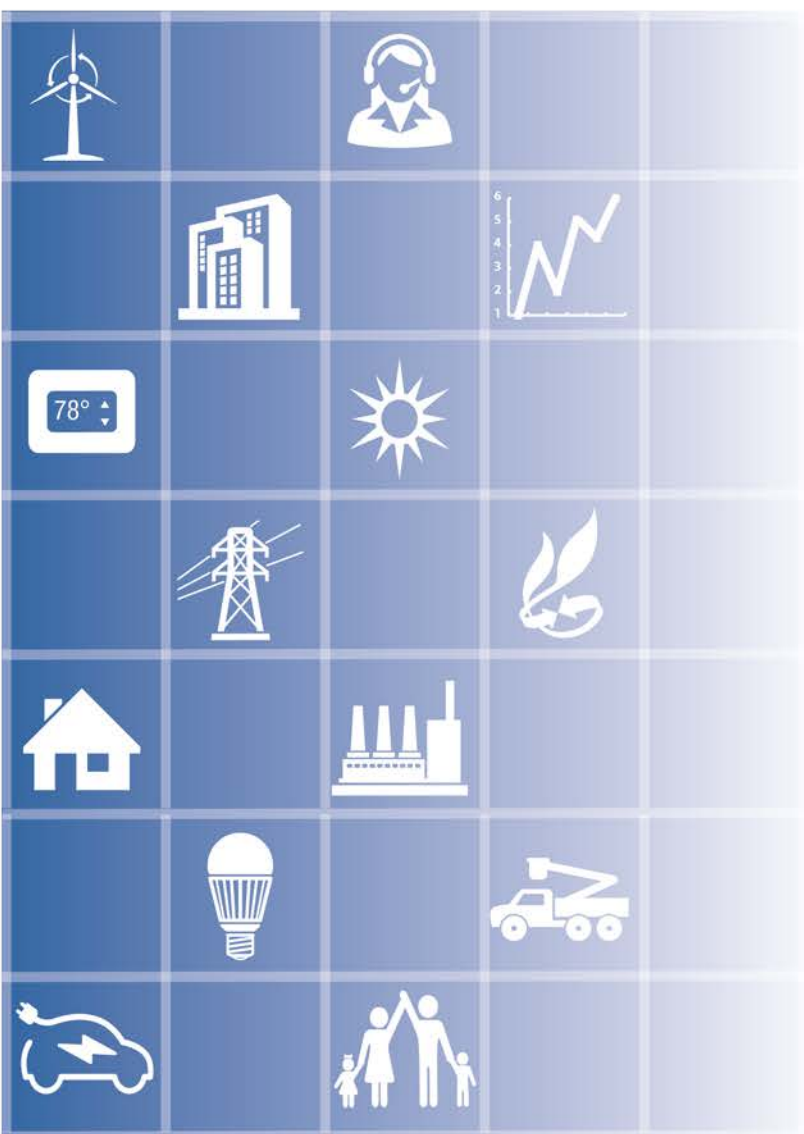
These issues will be reviewed next year when Austin Energy initiates its next comprehensive cost of service study as is required every five years by Austin Energy's financial policies.

Per the resolution, Austin Energy presented the report to the Electric Utility Commission at their March meeting. Going forward, Austin Energy will continue to review the analysis and findings in the development of the cost of service study.

If you have any further questions, please do not hesitate to contact me.

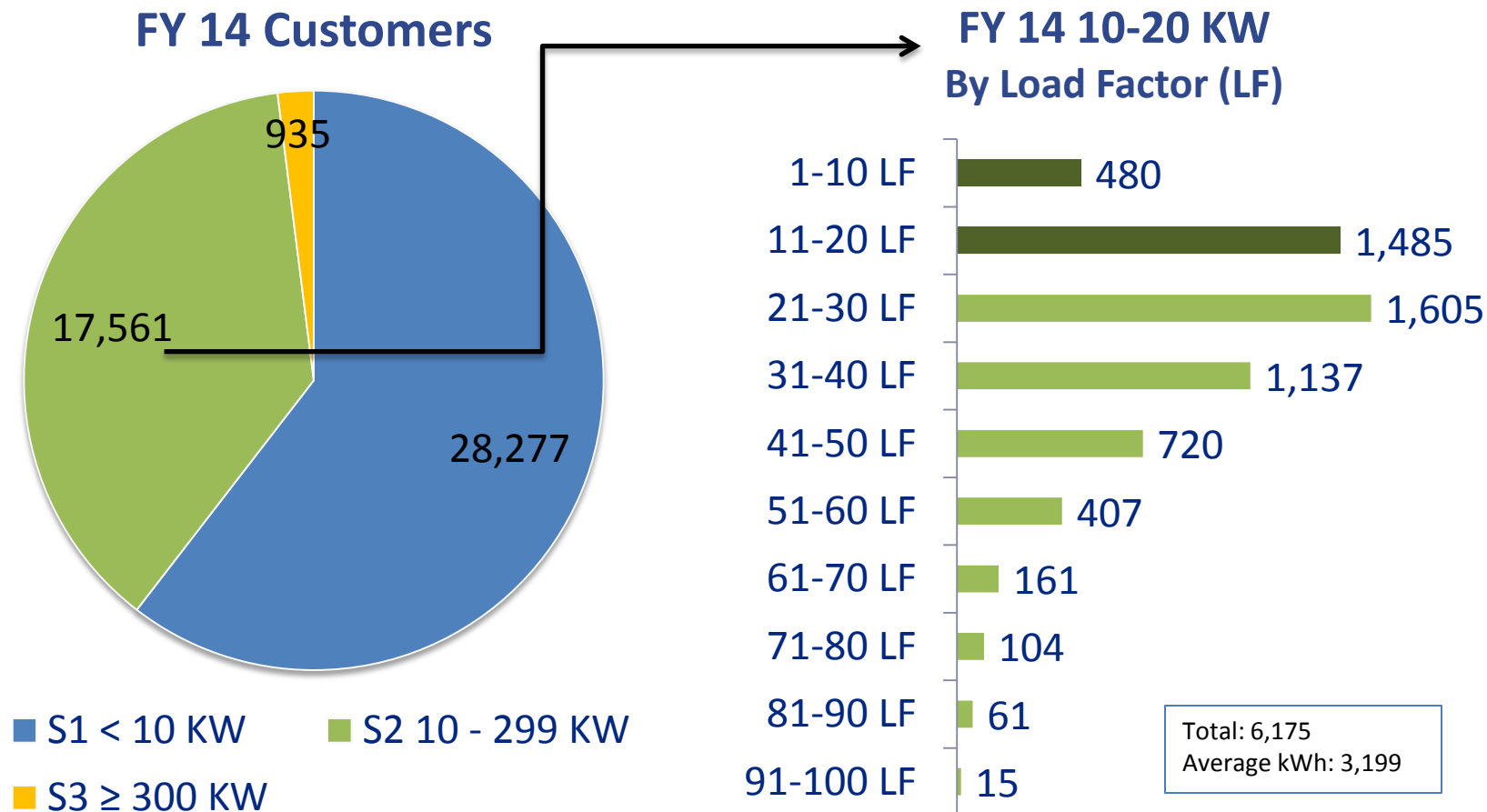


# 10-20kW Customer Class Discussion March 2017





# Secondary Customer Classes





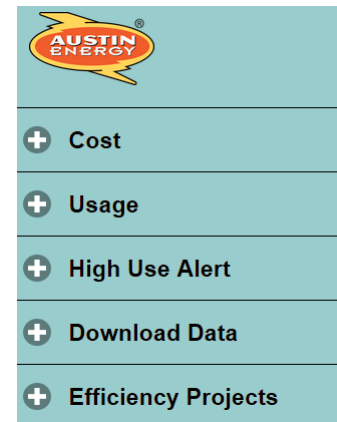
# Steps to Assist Small Demand Customers

- Changed class assignment policy from highest summer peak to average peak of four summer months in FY16
- This means a customer won't get a demand charge due to one high peak
  - Shifted ~1300 customers from S2 to S1
- 20% load factor floor
  - Annually reduces bills of low load factor customers by approximately \$7 million
  - Benefit to all low load factor customers



# Steps to Assist Small Demand Customers (cont.)

- Outreach through the Austin Independent Business Alliance, the City of Austin Small Business Office, the Chamber and other COA departments
- Free Austin Energy usage app
- Energy efficiency programs designed specifically for these customers
- To date there have been no escalations  
Austin Energy Customer Care





# Load Factor Floor Example

City of Austin Electric - Secondary Voltage >10kW<300 kW				
Customer Charge			\$ 27.50	
Electric Delivery Charge	17.60 kW @ 4.50 per kW		79.20	
Demand Charge	17.60 kW @ 4.19 per kW		73.74	
Energy Charge	1,400kWh @ .02421 / kWh		33.89	
Community Benefit Charges			6.35	
Regulatory Charges	17.60 kW @ 3.75 per kW		66.00	
Power Supply Adj	1,400kWh @ .02727 / kWh		<u>38.18</u>	
Total before Load Factor Adjustment			\$ 324.86	
Load Factor Adjustment			<u>-108.97</u>	-33.5%
Total Bill			<u>\$ 215.89</u>	





# Targeted Energy Management Programs

- Two dedicated representatives from the Key Accounts department assigned to serve as Energy Advisors providing the following:
  - Conduct free on-site assessment of building's electric energy equipment and coach customer on ways to minimize the impact of the demand charge, e.g. cycling air conditioning equipment
  - Provide electric bill line item explanation and analysis
  - Promote Austin Energy commercial energy programs including:
    - Small Business Lighting program – 200 customers in last year, \$860K rebates, 1.5 MW annual savings
    - Power Partner Thermostat program
    - Home Performance for Energy Star converted for business (~1,000 customers)

New

New



Austin Energy's Small Business Lighting Program typically provides  
<2 year return on investment





# Lessons Learned in Working with Small Commercial Customers

- Large and varied market segment that can be difficult to reach (busy running their business)
- Majority are renters and don't have the incentive to maintain and/or purchase capital equipment like air conditioning units
  - The Small Business Lighting and Power Partner Thermostat programs are lower cost programs that can have a significant and immediate impact on energy usage
  - Launched the Home Performance with Energy Star for small business
  - Developing an AC diagnostic and tune-up program for small businesses – FY18



# Lessons Learned in Working with Small Commercial Customers (cont.)

- Appreciate staff's help understanding bill components
  - The rollout of the Energy Advisor program is intended to help small commercial customers understand their electric bill AND implement strategies to lower demand and energy usage
- Don't have visibility into their energy usage
  - The app and the ongoing upgrade of all smart meters will help customers have better visibility of how their facilities use energy, thereby giving them the tools they need to make adjustments



# Scenarios Examined

## Scenario 1: New Class

- Create new 10-20 kW rate class
- Increase the energy rates for that class to recover revenue lost from lack of demand charge
- No change to the 0-10 kW rate class
- No change to the 20-300 kW rate class

## Scenario 2: Combine Classes

- Combine 0-10 kW and 10-20 kW customers into one new rate class
- Increase energy rates for new rate class to recover revenue lost from lack of demand charge
- No change to 20-300 kW rate class



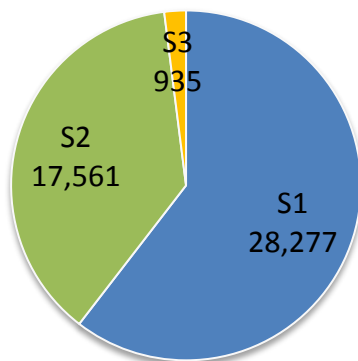
# Scenario Customer Impact:

## Scenario 1: New Class

- Under scenario 1, ~65% of the customers in the 10-20 kW rate class would have a higher rate (~4,000 accounts)
- Customers with a 10% load factor would save ~0.7¢ per kWh
- Customers with a 50% load factor would pay ~3.0¢ more per kWh
- Over 4,000 customers would see a rate increase and 2,200 customers would see a decrease
- Should go through rate review process

*Note - ~ 8% of the customers in S2 have seen rates decrease by nearly 6¢ per kWh as a result of the load factor floor*

FY 14 Secondary Customers



## Scenario 2: Combine Classes

- Under scenario 2 most S1 customers (~25,000) would see a rate increase
- 10-20 kW customers with a 28% load factor or less would receive a rate discount (~3,600 accounts)
- 10-20 kW customers with a 25% load factor or greater would receive a rate increase (~2,600 accounts)
- 27,600 customers would see a rate increase, 3,600 customers would see a decrease
- Should go through rate review process

*Note – Current S2 customers with a load factor of 48% or more pay LESS per kWh than S1 with the same kWh*



# Conclusion and Recommendation

- **Staff recommendation - leave the rates as is for the following reasons:**
  - Staff has not received inbound customer complaints to support a change
  - Either scenario would benefit a very small group of customers while penalizing a much larger group
  - Either scenario would discourage conservation pricing signals and shift costs on to most consistent users of system
  - Either scenario should go through a rate review process; would need to examine all Secondary customers



## Conclusion and Recommendation (cont.)

- **Staff recommendation - leave the rates as is for the following reasons (cont.):**
  - The load factor floor discount is already having a positive impact, saving customers nearly \$7M per year
    - Customer feedback has been very positive
  - Adoption of using average summer peak demand to assign customers to a rate class has shifted 1,300 customers from S2 to S1



## Conclusion and Recommendation (cont.)

- **Staff recommendation - leave the rates as is for the following reasons (cont.):**
  - Austin Energy has dedicated staff from the Key Accounts Department that provide assistance in understanding the electric bill and provide strategies to minimize the demand charge/total bill
  - Austin Energy has many programs specifically designed for Small Businesses that help lower their electric bills



July 19, 2021

TO: Mayor Adler, Mayor ProTem Harper-Madison, and Council Members Alter, Casar, Ellis, Fuentes, Kelly, Kitchen, Pool, Renteria and Tovo

CC: City Manager Spencer Cronk; Austin Energy General Manager Jackie Sargent; and Dixie Patrick, Interim Executive Director, Austin Independent Business Alliance

FROM: Shudde Fath, Former Member of the Electric Utility Commission (1977-2017)  
4100 Jackson Ave. #227, Austin 78731 (District 10)  
(512) 442-2718

RE: Budget amendment to provide electric rate relief to small businesses, non-profits and schools

I am asking your help in rectifying an injustice done to about 4,200 small businesses, non-profits and schools in the 2012 Austin Energy rate case, and not discussed in the 2016 rate case. (Electric rates were not reviewed in the subsequent four-year cycle, in 2020, despite being previously planned.)

Before the 2012 rate case, small businesses, non-profits and schools did not pay demand charges if their peak demand was less than 20 kilowatts (kW) in any one of the four summer months. In December 2011, as part of its rate review discussion, the Electric Utility Commission voted unanimously to retain the 20 kW-threshold. For reasons not stated and not known, however, that 20 kW threshold was lowered to 10 kW in the 2012 rate case.

The two smallest-user business rate classes are: **0-10 kW** and **10-300 kW**. The simplest way to help these customers is to change these classes to: **0-20 kW** (without demand charges) and **20-300 kW** (with demand charges).

**Small businesses that managed to make it through the pandemic deserve a break, and you have the opportunity to help them with this small, but impactful change in the FY 2022 budget.**

In an August 14, 2018 letter, Jackie Sargent, Austin Energy General Manager, said she wanted such issues to be addressed during a rate case. She then said, "Currently, the next rate review is anticipated to commence in 2020, with a 2019 test year and new rates come into effect 2021 or early 2022." In addition, Mayor Adler, in a September 10, 2018 email to me said, "I note your recommendation that this be taken up at the next rate process, and I'll make sure that happens."

As stated earlier, there was no rate review in 2020. However, this change can be accomplished in the FY 2022 budget.

I understand Austin Energy would prefer to make changes during a rate case. However, since a rate review has not been held since 2016, and I am **105 years old**, I ask you now to make this change in the FY 2022 budget.