Division of Consumer Advocacy

CONSUMER SPOTLIGHT

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Public Utility News You Can Use

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Contact Us:

Division of Consumer Advocacy
P.O. Box 541
Honolulu, HI 96809
Phone: (808) 586-2800
Fax: (808) 586-2780
E-mail: dca@dcca.hawaii.gov
Web Address:
www.hawaii.gov/dcca/dca

Also Visit:

Public Utilities Commission (PUC)
465 South King St., Rm. 103
Honolulu, HI 96813
Phone: (808) 586-2020
Fax: (808) 586-2066
E-mail: Hawaii.PUC@hawaii.gov
Web Address:
www.hawaii.gov/budget/puc

Federal Communications Commission (FCC)
445 12th St. , SW
Washington, DC 20554
Toll-Free: 1-888-225-5322
E-mail: fccinfo@fcc.gov
Web Address:
www.fcc.gov/cgb/consumers.html

Federal Energy Regulatory Commission (FERC)
888 First St., NE
Washington, DC 20426
Toll-Free: 1-866-208-3372
E-mail: customer@ferc.gov
Web Address: www.ferc.gov

DEAN NISHINA NAMED NEW EXECUTIVE DIRECTOR FOR DIVISION OF CONSUMER ADVOCACY

In December, Dean Nishina replaced Cat Awakuni as Executive Director for the Division of Consumer Advocacy (DCA). Nishina's experience made him an ideal choice for the role. He has been with the division for more than 16 years, and handled a large part of the division's workload, most recently serving as the public utilities/transportation administrator before accepting the top job. Prior to joining the Department of Commerce and Consumer Affairs in 1992, Nishina worked as an audit and financial consulting senior for Arthur Andersen & Co, LLP, where he specialized in auditing and accounting of electric and gas utilities, government and telecommunications industries.

"I look forward to helping the division fulfill its responsibilities during this dynamic and challenging period," said Nishina. "We have to get Hawaii to a position of energy independence. Helping implement the groundbreaking Hawaii Clean Energy Initiative is a top priority."

RATES UP AGAIN

Just a few months ago electric rates for Oahu customers went up, and it's not over. The previous issue of *Consumer Spotlight* noted that the Public Utilities Commission's (PUC) approval for an interim rate increase of 4.7 percent for Hawaiian Electric Company (HECO) did not factor in the cost of a couple items, most notably the new bio-diesel generating unit built at Campbell Industrial Park. On February 19, 2010, the PUC issued a second interim ruling authorizing an additional increase in revenue of more than $12.6M to cover the revenue requirements of the new combustion turbine unit project. That amount translates to about a one percent increase to total 5.7 percent, so the average residential customer can expect to pay around $1.34 more on their monthly bill. While it is another frustrating financial burden for ratepayers, State law allows the utility to recover costs for such expenses. Some question the need and timing of the project because of its high cost during an economic slowdown, but it also has the support of many because it will help lessen the State's dependency on imported fossil fuel. The Division of Consumer Advocacy did not object to HECO's request to recover the cost because, as mentioned, the company is legally allowed to do so, and the division recognizes the need for the new 110-megawatt plant to provide better energy security, reliability, and sustainability for Oahu*. The island-wide blackouts in 2006 and 2008 understandably drew frustration from residents. This new plant would help avoid another system crash following a natural disaster or other serious disturbance. If an outage were to occur, the new plant's blackstart capabilities would help speed up the restoration process. If the final approved rate increase from the PUC turns out to be lower than the interim, HECO would refund ratepayers the difference, with interest.

*In addition, as discussed on page 2, this plant is designed to use bio-diesel, which should help meet Hawaii's clean energy goals.

BIODIESEL

HECO is on track again to generate power at its new 110-megawatt plant at Campbell Industrial Park. The company recently signed a two-year contract with a subsidiary of Renewable Energy Group in Iowa to supply three to seven million gallons of renewable bio-diesel. The contract still needs approval from the Public Utilities Commission. Plans to fuel the new generator were derailed when the PUC rejected a contract HECO signed with a different biodiesel supplier. In that decision, the PUC feared the supply contract was too costly and risky for the utility. Should the PUC approve the new contract, officials believe deliveries of the biodiesel could be made within four months.

Electric Companies:

Hawaiian Electric Co. (HECO)
Phone: (808) 548-7311
www.heco.com

Hawaii Electric Light Co. (HELCO)
Hilo: (808) 969-6999
Kona: (808) 329-3584
Waimea: (808) 885-4605
www.heco.com/portal/site/helco/

Maui Electric Co. (MECO)
Phone: (808) 871-9777
Molokai & Lanai: 1-877-871-8461
www.mauielectric.com

Kauai Island Utility Cooperative (KIUC)
Phone: (808) 246-4300
www.kiuc.coop

DECOUPLING

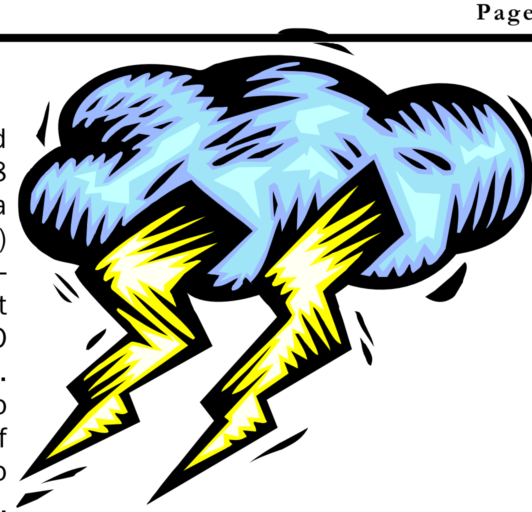
In February, the Public Utilities Commission approved a plan that officials hope will encourage energy conservation, while stabilizing Hawaiian Electric's revenues. "Decoupling" removes the incentive for the utility company to sell more power to consumers by untying the profits from electricity sales. As it currently stands, Hawaii electric companies charge customers for the amount of electricity they use. Under decoupling, HECO would receive a guaranteed annual revenue to be determined, regardless of how much electricity is used. They would not gain additional profit from higher sales. The guaranteed revenue, however, only covers fixed costs, and does not include fuel and taxes. So using more renewable energy would likely lower fuel costs in the long run. HECO and the Division of Consumer Advocacy worked together to form the decoupling proposal. Supporters of decoupling believe it is integral to the State's clean energy goals. Under the Hawaii Clean Energy Initiative, officials seek to have 70 percent of the State's energy come from clean energy sources by 2030. Achieving that goal could prove to be difficult without this new rate setting model. Final details on the decoupling plan still need to be presented within 30 days of the initial approval to the PUC. The PUC will also hear comments from other parties involved in the process before making a final ruling. The PUC needs to issue a final Decision and Order before decoupling can be implemented.

Did you know that PUC public filings are now accessible online via the commission's Document Management System (DMS)?
Visit: http://dms.puc.hawaii.gov/dms

FEED-IN TARIFF

Another mechanism to promote renewable energy use and development in Hawaii is the Feed-In Tariff (FIT). With a ruling by the Public Utilities Commission in September 2009, Hawaii joined a handful of cities and States as one of the first in the nation to institute a FIT. The FIT is considered to be an incentive for the development of renewable energy and a key part in achieving the State's clean energy goals. Under a FIT, the electric utility is required to purchase electricity from customers' renewable energy systems at a predetermined rate and period of time. Renewable energy project developers are excited to tap into the Hawaii market now that they have a sense of how much they will be able to charge the utility for the power they generate over a 20-year contract period. Before establishment of the FIT, power producers needed to enter power purchase agreements (PPA) with the electric utility, which deterred investors because of the varying rates effect on profitability. The initial phase of the FIT applies to those that generate electricity from solar, on-shore wind, and in-line hydropower sources. The downside for consumers is the initial bump in rates. Since the electric utility must purchase the power from renewable energy providers at a cost higher than the utility's costs, customers will be required to bear that difference. Officials believe in the long-run, however, ratepayers will benefit from the electric utility's non-dependence on imported oil, which has unstable prices as seen in 2008 when electric bills skyrocketed.

OUTAGE



On January 14, 2010, the Division of Consumer Advocacy (DCA) filed its Statement of Position on the investigation into the December 2008 island-wide power outage on Oahu. With the help and expertise of a private consultant, the DCA determined that Hawaiian Electric (HECO) could not have anticipated or prevented the outage through reasonable measures, given the design and configuration of the equipment and systems in place at the time. The division also found that HECO could not have reasonably restored power more quickly to customers. The DCA, however, believes that the electric company needs to do more to prevent future power outages and minimize the duration if one were to occur, especially since the latest outage occurred only two years following the 2006 blackouts resulting from an earthquake. Rather than see HECO spend largely on hardening the electrical system against lightning strikes because they are uncommon in Hawaii compared to the continental U.S., the division recommends further analysis to determine how to better stabilize the system and expedite recovery in the case of another major event. One of the frustrations residents experienced following the island-wide outages in both 2006 and 2008 dealt with damaged electrical appliances, equipment, spoiled food, etc. While we hope customers receive some kind of relief, it is likely that HECO will not be held responsible this time around just as in the 2006 outage. In its report for this current docket, DCA's consultant, Sega Inc., questioned whether HECO be accountable for all proven customer damages. Based on Sega's report, however, it does not appear that the 2008 power outage was within the utility's control. Unfortunately, under HECO's tariff, the interruption has to fall within the company's control for any type of customer compensation to be valid. Although the division is unable to justly recommend any penalties, it strongly recommends that HECO identify the studies and measures necessary to perform a thorough analysis of its system and identify vulnerabilities. HECO's final Statement of Position was originally due on March 4, but the company asked for an extension to April 5. Once received, the PUC will conduct its own review before rendering a final decision on whether or not the company was at fault for the outage, slow recovery time, and if penalties are warranted.

SOLAR WATER HEATER LAW

One of the new laws taking effect in 2010 requires the installation of solar water heating systems on new single-family homes. Hawaii became the first State in the nation to mandate the renewable standard when Governor Linda Lingle signed the bill into law in 2008. Using the sun is a key component in the State's initiative to wean its dependence on imported oil, and reach 70 percent clean energy by 2030. Under this law, no building permits will be issued for new single-family homes without a solar water heater. Exceptions will be made for homes in locations with a low rate of sunshine, or analysis showing that the life cycle of the solar water heating system will be cost-prohibitive. The home can also use a substitute renewable energy source or a gas-demand water heater in conjunction with other gas appliances. Unfortunately, for owners of existing homes looking to switch to solar, there is no longer a State tax credit for installing a solar water heater. Although losing that extra savings may reduce the incentive, try not to let that deter you from making the change. You can still apply for a federal tax credit and also qualify for a $750* rebate through the Hawaii Energy Efficiency Program (hawaiienergy.com), and for most homeowners you will save money in the long-run by cutting down your electric bill, while helping the environment by going green. Officials estimate that a typical single family household with a solar water heating system saves about $600 per year on their electric bill. Oahu residents can also inquire with the City and County of Honolulu's Rehabilitation Loan Branch at 527-5907 to see if they qualify for their interest-free solar roof loan program.

*The rebate decreased from $1000 to $750 on February 1, 2010.

HOT DOCKETS

While the PUC's Document Management System website gives the public greater access to review positions, testimony, orders, and other information, some may find it difficult or overwhelming to navigate. There is a search engine, but a quick way to find the information you're interested in is to enter the specific docket number. Below are docket numbers for issues covered in this quarter's newsletter.

2009 HECO Rate Case
2008-0083
2008 Outage Report
2009-0005
Decoupling
2008-0274
Feed-In Tariff
2008-0273
Biodiesel Contract
2009-0353
Pasha Hawaii CPCN
2009-0059
Molokai Water Rate Cases
2009-0048 & 2009-0049

Telecommunication Companies:

Hawaiian Telcom
Phone: (808) 643-3456
www.hawaiiantel.com

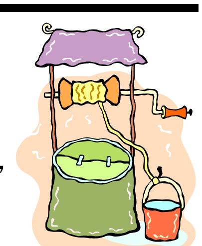
Time Warner Telcom
Phone: (808) 441-8500
www.twtelecom.com

Pacific LightNet Communications
Phone: (808) 791-1000
Toll-Free: 1-888-478-1414
www.plni.net

POSITION ON PASHA HAWAII

Pasha Hawaii Transport Lines is seeking to enter the interisland cargo market and although commercial competition generally benefits consumers, in this particular case an uneven playing field may hurt consumers. Pasha Hawaii's ship is too large to barge at the harbors on Molokai and Lanai, and these routes are the costliest to operate. Young Brothers, Limited (YB) actually reports losses on these routes, and subsidizes the cost for those consumers with the revenue from the Kauai, Maui, and Big Island routes. Theoretically, if Pasha Hawaii entered the market, some of Young Brothers' customers would instead go with Pasha Hawaii, resulting in less revenue for YB and a smaller subsidy for Molokai and Lanai customers. On December 15, 2009, the Division of Consumer Advocacy filed its Supplemental Statement of Position (SOP) recommending that the Public Utilities Commission (PUC) deny Pasha Hawaii's request for a Certificate of Public Convenience and Necessity (CPCN) for intrastate water carrier service. A CPCN is needed to legally provide such service within the State. Pasha Hawaii and other water carriers like Matson Navigation and Horizon Lines do not need a CPCN to offer the same service to Hawaii from outside the State. In its original SOP filed back in October, the DCA could not weigh a recommendation to the PUC because of the lack of information provided by Pasha Hawaii and Young Brothers, who contested Pasha Hawaii's entry to the market. The division filed its initial SOP in accordance with PUC deadlines, and received responses to its information requests to Pasha Hawaii and Young Brothers after the fact. So in November, the division asked the PUC to allow for a supplemental SOP in light of the new information. While the division questioned Young Brother's reasoning and also whether their revenue loss projections were exaggerated, as it currently stands, allowing Pasha Hawaii to enter the market would seem to especially hurt consumers on Molokai and Lanai. The PUC ultimately renders the final decision on whether or not to grant Pasha Hawaii's request.

MOLOKAI WATER RATE CASES



Many Molokai residents are anxiously awaiting the fate of their water bills because of the pending rate increases for Molokai Public Utilities, Inc. and Waiola O Molokai, Inc. The utilities' requests would have customers paying three to five times more than what they are paying now. In January, the Division of Consumer Advocacy submitted its testimony to the Hawaii Public Utilities Commission. While any increase will be hard on customers, the division understands the need to raise rates because the utilities were previously subsidized by other business ventures that no longer exist. The companies even considered abandoning water service rather than continuing to operate with mounting losses. The division, however, is hoping that the companies take a break-even approach to minimize the amount collected from its customers previously accustomed to low water bills. Should the PUC authorize a rate increase, the recommended plan is to phase in the rate increases to minimize the initial impact on customers. By phasing it in increments, families will have more time to adjust their budgets rather than face a dramatic increase in the bills right away. An interim Decision and Order by the commission is expected by the end of April.

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