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LETTER OF TRANSMITTAL

July 12, 2004

TO: Public Utilities Commission
465 S. King Street, Rm 103
Honolulu HI 96813

RE: Docket No. 03-0371, In the Matter of Public Utilities Commission
Instituting a Proceeding to Investigate Distributed Generation in Hawai'i

We are enclosing the following:

Original + 12 – Direct Testimony of the County of Kaua'i and
Certificate of Service

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Thank you.

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Enclosure: (1)
c: Parties

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BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

In the Matter of)	
)	
PUBLIC UTILITIES COMMISSION)	Docket No. 03-0371
)	
Instituting a Proceeding to Investigate)	
Distributed Generation in Hawai'i.)	
)	
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_____)	

DIRECT TESTIMONY OF THE COUNTY OF KAUA'I

AND

CERTIFICATE OF SERVICE

Pursuant to Prehearing Order No. 20922, the County of Kaua'i (County) submits its direct testimony in the above-entitled docket.

Dated: Līhu'e, Kaua'i, Hawai'i, July 12, 2004.


 LANI D. H. NAKAZAWA
 CHRISTIANE L. NAKEA-TRESLER
 Attorneys for the County of Kaua'i

DIRECT TESTIMONY OF GLENN SATO

COK-T-1

1 My name is Glenn Sato, and I am the energy coordinator for the County
2 of Kaua'i (County). I have held this position from 1989 to 1991 and from 1994 to
3 the present. From 1991 to 1994, I was the Director of Economic Development.
4 As energy coordinator, my job responsibilities are diverse. They range from
5 developing, supporting and implementing energy efficiency, energy conservation
6 and renewable energy programs within the County; participation in the legislative
7 process on energy-related matters; being responsible for energy emergency
8 preparedness plans for disasters and market disruptions; participating in the
9 initiatives of the State Energy Office; and partnering with other agencies and the
10 private sector in energy-related initiatives.

11 The County's interest in this docket is as a large customer of the Kaua'i
12 Island Utility Cooperative (KIUC), member of the KIUC, and de facto steward for
13 the majority of the co-op members, who are also residents and taxpayers of the
14 County.

15 The County's position in this docket is that the policies and programs that
16 are developed as a result of the docket must be of value to the co-op and its
17 members, and should not be unduly burdensome or costly.

18 The County is also interested in ensuring that the outcome of this docket
19 assist, and do not impede, the recovery of the island's electrical system from
20 extensive damage, such as from hurricanes.

21 Finally, the County also seeks to ensure to the extent possible that the
22 docket results in measures that would enhance development opportunities in the
23 County and promote alternative energy, while respecting county zoning
24 requirements and community lifestyles.

1 KIUC's responses to information requests from the County, Life of the
2 Land and the Division of Consumer Advocacy, Department of Commerce and
3 Consumer Affairs indicate that KIUC has not developed clear distributed
4 generation (DG) policies and plans or intentions to own or operate DG systems.
5 KIUC responses also show that KIUC has not formulated a plan for soliciting
6 member input and direction on DG issues.

7 Since KIUC is at an undeveloped stage regarding DG, the County urges
8 the Commission to use this docket to develop a DG framework to guide utility
9 activity in the DG market. In the case of KIUC, regulatory guidance is
10 appropriate and necessary, because the KIUC governing board consists of
11 elected officials whose background may not include experience in operating an
12 electric utility.

13 Appropriate regulatory guidance can consist of the following:

- 14 1. That KIUC develops DG policies, including whether entry into the
15 DG market results in "overall cost savings to members;"¹
- 16 2. That KIUC, as a quasi-public entity, develops systems for member
17 input which incorporate the spirit, if not the requirements of Hawai'i
18 Revised Statutes chapters 92 (sunshine law) and 92F (uniform
19 information practices act);
- 20 3. That the KIUC planning process includes consideration of
21 the effect of proposed KIUC capital investments or strategies
22 on the members, i.e. whether the proposal will increase

¹ KIUC response to COK-SOP-IR-7.

1 stranded costs or revenue loss in a DG environment; and

2 4. That KIUC DG policy promotes a level playing field for all DG
3 vendors.

4 1. Concrete DG Criteria

5 The County urges the Commission to employ a regulatory framework to
6 make certain KIUC develops concrete criteria for developing and evaluating DG
7 policies and business strategies, such as what forms of DG are feasible and
8 viable for Kaua'i. This framework is preferable to the current KIUC approach of
9 making these decisions on a case-by-case basis.² The regulatory framework
10 should require KIUC to develop the criteria through a public process (in order to
11 solicit maximum member input) and to apply the criteria uniformly. The County
12 believes that inherent in the co-op structure is the requirement that KIUC must
13 solicit member input on issues with a potentially significant impact on members.
14 A comparison can be made to a body such as the County Council. Although the
15 members of the Council are elected (like the KIUC directors), the Council solicits
16 input from its citizen-constituents prior to decision-making. Over a span of time,
17 public testimony is solicited via Council and Committee meetings and at public
18 hearings. Those discussions are also televised over the public access channel,
19 thus publicizing the pros and cons of specific issues and moving the dialogue to
20 a wider audience. These citizen-constituents are then free to communicate their
21 opinions via venues such as letters to KIUC, dialogue with board members and
22 letters to the local newspaper. The KIUC board should do something similar.

² KIUC SOP at 6.

1 Member input should not be limited to the expectation that the elected board can
2 consistently represent the majority of the member-owners on specific issues.
3 Without the moderation that competition, shareholder expectations, or
4 institutional checks and balances provide, a regulatory framework is necessary
5 to ensure that KIUC business decisions concerning important issues such as DG
6 are consistent with the will of the majority of the member-owners.

7 2. Open Governance

8 KIUC's membership includes nearly every business, governmental entity,
9 and household on the island. A prescribed regulatory framework is the most
10 effective way of ensuring that KIUC conducts its business in the sunshine. At a
11 minimum, members should be entitled to protection similar to that afforded to the
12 public under the sunshine law and the uniform information practices act.

13 3. Proactive Planning Process

14 Advances in DG technology, decreases in the cost of DG and the rising
15 cost of electricity create a situation in which large consumers will likely consider
16 DG options. In this environment, KIUC members, especially the smaller
17 customers, need the protection of a regulatory framework which will mandate
18 KIUC to consider measures to mitigate stranded investment and revenue loss
19 due to DG in its planning process. The Commission should take into
20 consideration KIUC's unique position as the only electric utility in Hawai'i serving
21 an entire island as a cooperative. As a cooperative, KIUC operates in a mode
22 different from the other utilities. The regulatory framework should address this
23 unique mode of operation, and require KIUC's planning process to be proactive
24 and in the members' best interests.

1 4. Level Playing Field

2 The County believes that the Commission's decisions are critical to
3 whether consumers will benefit from the DG market. Among the key regulatory
4 issues is whether a utility, such as KIUC, should be allowed to participate in the
5 DG market and, if so, what conditions should be placed on utility participation.
6 The utility has tremendous competitive advantages. First, its history as the sole
7 provider of electric service provides it with vast amounts of information regarding
8 customer usage and electric system operation. With this information, the utility
9 is able to evaluate DG costs and benefits more effectively than other providers.
10 Regardless of whether a utility participates in the DG market on its own or
11 through subsidiaries or affiliates, there are competitive advantages and
12 opportunities for cross-subsidization of DG operations. The utility also can
13 encourage or discourage DG through its business practices, including
14 interconnection standards, standby charges, and customer retention contracts or
15 penalties. Thus, the Commission's regulatory requirements regarding utility
16 participation will determine whether DG is promoted or discouraged in Hawai'i.

17 The transition of Kaua'i's electric utility from an investor-owned company
18 to a member-owned public cooperative continues to this day. Many questions
19 on program direction as well as short and long range planning cannot be
20 answered at this time by KIUC. The County, as a member-owner of KIUC and a
21 potential DG customer, also is concerned with the stability of the economy and
22 businesses. The County encourages the Commission to recognize the
23 importance of setting up a regulatory framework for DG that will protect KIUC
24 members and also create a level playing field for DG vendors.

CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing Direct Testimony of the County of Kaua'i , together with this Certificate of Service, were served by first class mail, postage prepaid to the following:

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Dated: LThu'e, Kaua'i, Hawaii, July 12, 2004.



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