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PUBLIC UTILITIES
COMMISSION
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The Honorable Chairman and Members of
the Hawaii Public Utilities Commission
465 South King Street
Kekuanaoa Building, 1st Floor
Honolulu, Hawaii 96813

Dear Commissioners:

Subject: Docket No. 03-0371
Proceeding to Investigate Distributed Generation in Hawaii

This responds to Commission Counsel Michael Azama's letter dated October 23, 2006 regarding the Commission's receipt of an unsolicited letter dated October 10, 2006 from the U.S. Combined Heat and Power Association ("CHPA Letter"). The CHPA Letter provided comments on HECO/HELCO/MECO's ("the Companies") proposed standby rate tariffs, filed August 28, 2006 in the subject proceeding.¹

The CHPA Letter was an unsolicited, ex parte communication, and the Companies respectfully request that the Commission give no weight to the comments in the letter in rendering any decisions in the subject proceeding. Ex parte communications are included in the official record, but are not considered evidence in a contested case proceeding. Moreover, as noted below, the letter contains a number of errors, and does not accurately characterize the Companies' proposed Schedule SS Standby Service tariff sheets.

The Companies request that their respective proposed standby rate tariffs go into effect at this time. This request is supported by the Consumer Advocate. In its letter dated October 3, 2006 in the subject proceeding, the Consumer Advocate stated that it does not object to the implementation of the proposed filed standby rate tariffs. The Consumer Advocate further stated the Commission and Consumer Advocate will have an opportunity to review the reasonableness of the continued implementation of the standby rate tariffs in the Companies' pending general rate case proceedings.²

¹ The Companies proposed standby rate tariffs were filed in compliance with Decision and Order No. 22248, filed January 26, 2006.

² HELCO currently has before the Commission a rate case application using a 2006 test year, Docket No. 05-0315. On September 22, 2006, HECO filed a Notice of Intent for a rate case application using a 2007 test year, to be filed on or after November 22, 2006. Also on September 22, 2006, MECO filed a Notice of Intent for a rate case application using a 2007 test year, to be filed on or after December 1, 2006.

Briefly stated, the Companies make the following comments with respect to the CHPA Letter:

1. The cost estimates and comparisons in attachments A1 and A2 to the CHPA Letter are not valid because:
 - a. The CHPA Letter has calculated the kWh equivalent of the Daily Demand Charge and included the Standby Energy Charge as if the DG unit was not operating. For reliable DG units, this should not be the case, and the Daily Demand and Standby Energy Charges would be greatly avoided by the self-generating customer.
 - b. The utility service rates used by the CHPA Letter to compare the standby rates are not correct. The standby rates are based on the most recent filed cost of service study for each of the Companies' service areas, using the filed generation, transmission, and distribution costs. The CHPA Letter uses current average rates which, for HECO and HELCO, are based on different cost of service studies than the ones used to compute the standby rates.

In contrast to the CHPA Letter Attachments A1 and A2, see Attachment C to the Companies' Transmittal Letter dated August 28, 2006 for valid calculations and comparisons.

2. CHPA Letter, p. 2: "...the end-user should have the option to shut down its operations if its DG becomes non-operational or provide its own backup power with emergency generation..." And on p. 3: "Customers should always be permitted to determine the maximum standby demand they seek, subject to penalties for exceeding that demand."

The tariff does allow the customer to electrically isolate its load or a portion of its load in order to limit the standby demand needed. This provision would be implemented through the design of the interconnection between the grid and customer equipment such that it can be physically assured that load has been isolated in the event of a DG outage.

3. CHPA Letter, p. 2: "The 'demand ratchet' based on the lesser of the highest customer demand in the preceding twelve months or the capacity of the DG unit, is both onerous and punitive.

There is no "demand ratchet" in the traditional sense. The reference to the preceding twelve months benefits the customer. Its purpose is to ensure that the Contract Standby demand for computing the Reservation Demand Charge does not exceed the customer's highest actual load in the event the customer's generation capacity exceeds that level.



4. CHPA Letter, p. 3: "A standby rate such as proposed by HECO implicitly assumes that a marginal reduction in demand imposes marginal costs upon the utility which must be recovered through marginal revenues to the utility."

The Reservation Demand Charge recovers the system demand-related costs associated with the fact that the customer expects the utility to stand ready to serve additional customer load in the event of an unexpected DG outage. Furthermore, the Reservation Demand Charge only includes a portion of overall system demand costs (see item 10 below).

5. CHPA Letter, p. 3: "The proposal to include in the 'reservation demand charge' the electrical equivalent of any thermal energy the customer derives from its self-generation equipment is an unjustified attempt to pump up the demand charges..."

The proposed tariff language is clear that the reservation demand charge is based on the "equivalent kW for electrical power that would be required to replace thermal energy that is not supplied by the customer's generation equipment." (Emphasis added.) (See the Companies' August 28, 2006 Transmittal Letter, Attachment A, Page 4.) If electrical power from the utility is not required for this purpose, as suggested by the CHPA Letter, then it will not be included in the equivalent kW.

6. CHPA Letter, p. 4: "... [the utility] should be able to accommodate any customer's maintenance requirements for any length of time."

There is no restriction on the length of time the customer may shut down its generator for maintenance. The time periods specified in the tariff only limits the number of days considered "Scheduled Maintenance" during which time the Daily Demand Charge will be waived. Such a limit is reasonable to prevent a customer from abusing the Daily Demand Charge waiver for an extended period of time.

7. CHPA Letter, p. 4: "There is no justification for ... a meter on the customer's generator at the customer's expense..."

The revenue meter and the DG meter are both necessary so that the Company can meter the total output of the customer's DG, as well as the energy delivered by the Company, and bill the customer under the proposed tariff. The measurement of the output of the customer's DG is used in the determination of the Backup Demand. The Backup Demand for any 15 minute interval is the lesser of the Contract Standby kW minus the customer's load served by the customer's generation equipment or the load served by the Company's generation equipment in that same time interval. The Standby Billing kW each day is the maximum Backup Demand during the 24-hour day. The Daily Demand Charge is based on the Standby Billing kW per day. In addition, the customer's supplemental billing demand, which will continue to be billed under the applicable rate schedule, is



based on the meter readings of the load served by the Company's generation equipment less the average Standby billing kW per day in the billing period. Thus, metering the customer's DG output is necessary to implement and bill the proposed standby charges.

8. CHPA Letter, p. 4: "There is no cost basis or other justification for six months of reservation demand charges for early termination of the standby contract by a customer."

The Standby Service contract must be at least one year. Thereafter, the contract shall remain in effect from month-to-month. (See the Companies' August 28, 2006 Transmittal Letter, Attachment A, Page 10.) Thus, the early termination fee may be applicable for as short a period as one year.

9. CHPA Letter, Attachment B, p. 2 (in reference to New York): "The billing demand is indexed not to the DG rated capacity, but rather to the facility peak demand."

This statement is not entirely correct. Under the New York tariff being cited by the CHPA Letter, for a new DG customer, "the contract demand will be determined, in consultation with the customer, by assessing the nameplate rating of the equipment to be served, and projecting, through an engineering analysis, the coincidence and diversity of the customer's load." (Quoting: NYSEG's Standby Service Rate tariff, at Leaf No. 290.)

The CHPA Letter's other references to single features found in tariffs in other jurisdictions appears to be a form of *ala carte* shopping in which they pull the most favorable provisions without offering a complete package for consideration. This approach takes those specific characteristics out of context and fails to recognize that it is the entire tariff from those jurisdictions that should be considered. For example, the CHPA Letter fails to mention that the daily demand charge in New York applies to all "as used" power, not just standby power, and hence, would result in much higher demand charges relative to the Companies' use of the standard otherwise applicable tariff rates for supplemental service (i.e., New York does not distinguish between supplemental and standby "as used").

10. CHPA Letter, Attachment B, p. 4: "...it does not make sense to attribute to that tariff a full share of generation, transmission, and distribution costs as if these self-generators did not generate any of their own power... " And further: "HECO's proposal is aimed at preventing all self-generation, and thus take no account at all of the fact that charging each self-generator its full maximum possible capacity costs in a ratcheted demand charge makes no more sense than for a life insurance company to charge each of its customers the full death benefit every year as a premium."



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These statements completely mischaracterize the standby rates filed in Schedule SS. The Reservation Demand Charge in Schedule SS only includes a portion of the total system demand costs (approx. 46% for HECO, 35% for HELCO, and 33% for MECO). The Daily Demand Charge and the Standby Energy Charge only apply when the DG output drops below the contract demand level (for example, during an unscheduled DG outage). Therefore, the Daily Demand and Standby Energy charges generally would be avoided by a reliable self-generator. The customer only pays its full share of costs during an unplanned outage (or an excessively long scheduled outage) and only for the duration of the outage.

Based on the reasonableness of the Companies' proposed standby rate tariffs, filed August 28, 2006, the Consumer Advocate's support for their implementation at this time, and the foregoing comments addressing concerns raised by the CHPA Letter, the Companies respectfully request that the Commission issue a decision and order allowing the Companies' proposed standby rate tariffs to take effect at this time.

If you have any questions on this matter, please contact Dean Matsuura at 543-4622.

Sincerely,



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