BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF HAWAII

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

PRELIMINARY STATEMENT OF POSITION OF
KAUAI ISLAND UTILITY COOPERATIVE

AND

CERTIFICATE OF SERVICE

OSHIMA CHUN FONG & CHUNG LLP

Alan M. Oshima, Esq.
Kent D. Morihara, Esq.
Davies Pacific Center
841 Bishop Street
Suite 400
Honolulu, Hawaii 96813
TELEPHONE: (808) 528-4200

Attorneys for KAUAI ISLAND UTILITY COOPERATIVE

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF HAWAII

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

PRELIMINARY STATEMENT OF POSITION
OF
KAUAI ISLAND UTILITY COOPERATIVE

KAUAI ISLAND UTILITY COOPERATIVE ("KIUC"), by and through its attorneys, Oshima Chun Fong & Chung LLP, does hereby submit its Preliminary Statement of Position in this docket.

I. PROCEDURAL BACKGROUND

On October 21, 2003, the Public Utilities Commission of the State of Hawaii ("Commission") issued Order No. 20582 opening this docket for the purpose of instituting a proceeding to examine the potential benefits and impacts of distributed energy resources on Hawaii's electrical distribution system.

Pursuant to said Order No. 20582, Hawaiian Electric Company, Inc. ("HECO"), Maui Electric Company, Limited ("MECO"), Hawaii Electric Light Company, Inc. ("HELCO"), KIUC and the Division of Consumer Advocacy, Department of Commerce and Consumer Affairs ("Consumer Advocate") were made parties to the proceeding.

On October 31, 2003, Life of the Land ("LOL") timely filed a motion to intervene in accordance with said Order No. 20582 and Hawaii Administrative Rules Chapter 6-61.

On November 6, 2003, the County of Kauai timely filed a motion to participate or intervene.

On November 6, 2003, Hawaii Renewable Energy Alliance ("HREA") timely filed a motion to intervene.

On November 6, 2003, the Department of Business, Economic Development, and Tourism ("DBEDT") timely filed a motion to participate without intervention.

On November 7, 2003, Johnson Controls, Inc. and Pacific Machinery, Inc. (together referred to as the "Hawaii Energy Services Companies") timely filed their motion to intervene.

On November 10, 2003, the County of Maui timely filed a motion to intervene.

On November 10, 2003, Hess Microgen timely filed a motion to intervene.

On November 10, 2003, The Gas Company, LLC ("TGC") timely filed a motion to intervene (LOL, County of Kauai, HREA, DBEDT, Hawaii Energy Services Companies, County of Maui, Hess Microgen and TGC hereinafter collectively referred to as the "Movants").

On November 18, 2003, HECO, MECO and HELCO filed a joint response indicating that they do not object to the granting of the Movants' respective motions to intervene and/or participate provided that the respective Movants do not broaden the issues or delay the proceeding.

By Order No. 20832 filed on March 3, 2004, the Commission approved each of Movants' respective motions to intervene and/or participate.

On March 31, 2004, representatives for HECO, MECO, HELCO, KIUC, the Consumer Advocate and the Movants held an informal meeting as required by said Order No. 20832 to formulate the issues, procedures and schedule to govern the

proceeding, as well as to determine the extent or degree to which the County of Kauai and DBEDT may participate in the proceeding, all to be set forth in a stipulated prehearing order to be submitted to the Commission.

On April 2, 2004, HECO, MECO, HELCO, KIUC, the Consumer Advocate and the Movants filed said stipulated prehearing order with the Commission.

By Prehearing Order No. 20922 filed on April 23, 2004, the Commission approved said stipulated prehearing order, with certain modifications to the issues and schedule set forth therein.

Pursuant to the schedule set forth in Prehearing Order No. 20922, HECO, MECO, HELCO, KIUC, the Consumer Advocate and the Movants are required to file their respective preliminary statements of position with respect to the issues set forth below as contained in Prehearing Order No. 20922 by no later than May 7, 2004.

Pursuant to Prehearing Order No. 20922, KIUC hereby submits this preliminary statement of position.

II. STATEMENT OF THE ISSUES

As set forth in Prehearing Order No. 20922, the issues in this docket are as follows:

Planning Issues:

1. What forms of distributed generation (e.g., renewable energy facilities, hybrid renewable energy systems, generation, cogeneration) are feasible and viable for Hawaii?
2. Who should own and operate distributed generation projects?
3. What is the role of the regulated electric utility companies and the Commission in the deployment of distributed generation in Hawaii?

Impact Issues:

4. What impacts, if any, will distributed generation have on Hawaii's electric transmission and distribution systems and market?
5. What are the impacts of distributed generation on power quality and reliability?
6. What utility costs can be avoided by distributed generation?
7. What are the externalities costs and benefits of distributed generation?
8. What is the potential for distributed generation to reduce the use of fossil fuels?

Implementation Issues:

9. What must be considered to allow a distributed generating facility to interconnect with the electric utility's grid?
10. What is the appropriate rate design and cost allocation issues that must be considered with the deployment of distributed generation facilities?
11. What revisions should be made to the integrated resource planning process?
12. What forms of distributed generation (e.g., renewable energy facilities, hybrid renewable energy systems, generation, cogeneration) are feasible and viable for Hawaii?
13. What revisions should be made to state administrative rules and utility rules and practices to facilitate the successful deployment of distributed generation?
14. The parties and participants may also address general issues regarding distributed generation raised in the informal complaint filed by Pacific

Machinery, Inc., Johnson Controls, Inc. and Noresco, Inc. against HECO, MECO and HELCO on July 2, 2003 (Informal Complaint No. IC-03-098), but not specific claims made against any of the parties named in the complaint.

With respect to the issues proposed by HECO, MECO, HELCO, KIUC, the Consumer Advocate and the Movants in their proposed stipulated prehearing order filed on April 2, 2004, KIUC believes that these issues are pertinent and should be addressed by the Commission in the subject docket to the extent discussed below.[1] As noted in Order No. 20582 filed on October 21, 2003, in response to the anticipated increase in the use of distributed generation through the nation including Hawaii, the Commission opened this docket with the objective of developing policies and a framework for distributed generation projects deployed in Hawaii.

As further discussed below, while KIUC acknowledges that the use of distributed generation is anticipated to grow over the coming years, KIUC believes that many uncertainties and variables exist that make it difficult to determine what form of distributed generation is the most appropriate and feasible for Hawaii and whether distributed generation will mature into a source of primary energy on a widespread basis or will remain primarily used for back-up and supplemental power or for remote locations. Given these uncertainties and variables, KIUC believes that an analysis of the issues proposed in the stipulated prehearing order is pertinent and should be addressed as part of this docket to the extent set forth below and as necessary to allow

---

[1] This statement is required by Ordering Paragraph 2 (Part III, subpart 2) of the Commission's Prehearing Order No. 20922 filed on April 23, 2004. However, with respect to Issue 14 set forth above, KIUC takes no position as to the relevance or need to address the issues raised in Informal Complaint No. IC-03-098 because of its inapplicability to KIUC.

the Commission to meet its stated objective of developing policies and a framework for distributed generation projects deployed in Hawaii.

III. PRELIMINARY STATEMENT OF POSITION

The following sets forth KIUC's preliminary statement of position with respect to each of the issues set forth in Prehearing Order No. 20922. The positions set forth herein are made for the purpose of facilitating the discovery process in this docket and shall not prevent KIUC from modifying or changing any of its positions set forth herein. It should also be noted that KIUC's responses set forth below attempt to focus on the benefits and impacts of distributed generation, as that term was defined in Order No. 20582 filed on October 21, 2003 as involving "the use of small scale electric generating technologies installed at, or in close proximity to, the end-user's location." KIUC will therefore be excluding discussion on potential relatively larger renewable projects that may have application in isolated, remote locations on Kauai that could be classified as distributed generation in the broadest sense.

1. Issue 1: What forms of distributed generation (e.g., renewable energy facilities, hybrid renewable energy systems, generation, cogeneration) are feasible and viable for Hawaii?

KIUC does not believe that any general determination of what forms of distributed generation are feasible and viable for Hawaii can be made at the current time except on a case-by-case basis. In making this statement, KIUC recognizes the numerous applications for which distributed generation has or may be utilized, ranging from providing back-up, supplemental or emergency power to a customer to being the primary source of electricity for that customer and from being designed to meet only a specific customer facility's partial electrical requirements to partially displacing or supplementing an electric utility's grid. KIUC also recognizes the varying sizes of

distributed generation facilities and that many forms of distributed generation, such as fuel cells, have been and may currently be too cost prohibitive as compared to a utility's cost of service, or may not have yet been generally accepted in the utility arena due to insufficient operating history. In KIUC's opinion, the distributed generation industry is at a crossroads, in which it is currently too early too determine with any degree of certainty whether the industry can emerge to become a major contributor to Hawaii's electric systems or whether it will remain primarily an industry serving niche markets, such as for emergency or back-up purposes, remote locations, or special power needs.

In addition to the above, KIUC notes that the electric transmission and distribution systems in the state of Hawaii are not directly comparable to the systems located throughout the mainland United States. Given Hawaii's isolated location, Hawaii's electric utilities are required to have stand-alone electric transmission and distribution systems that are not interconnected to and do not receive back-up power from other utilities' and states' electric grids as in the mainland United States. As such, some forms of distributed generation that are suitable in some parts of the United States may not be suitable in Hawaii as a result of the Hawaii electric utilities' inability to receive additional or back-up power from interconnected systems. Conversely, some forms of distributed generation not suitable in other parts of the United States may be suitable for Hawaii because of Hawaii's generally greater cost of providing electricity from its stand-alone operations, considering many of its remote and isolated customer electrical loads.

Further, Hawaii consists of areas of varying topography ranging from high mountains, deep canyons, lava areas and ocean front areas as well as varying population densities ranging from dense city areas to relatively unpopulated rural areas.

As a result, certain forms of distributed generation may only be suitable in certain parts of Hawaii depending on the geography, population and climate of that given area.

Given the above uncertainties and variables, it is difficult to provide any general statement at this time as to what forms of distributed generation are or may be feasible and viable for Hawaii. In fact, given the Commission's stated objective to develop policies and a framework for distributed generation projects, KIUC believes that any determination as to the specific forms of distributed generation that may be feasible and viable for Hawaii is outside the scope of the stated objective and the subject docket, especially given the uncertainties and variables discussed above. Instead, in KIUC's opinion, such a determination can only be made on a case-by-case basis, taking into account the form of generation involved, the size of the installation, the geographic location, the environmental permitting issues, together with the other factors listed in Article III, Section 9 below. It is only after such an extensive analysis takes place that an electric utility can determine what types of distributed generation would be most suitable for the different areas in Hawaii (or, in KIUC's case, the island of Kauai), the utility, its customers and its electrical system. With respect to KIUC, it is also important to recognize that KIUC is different than other electrical utilities in Hawaii due to its cooperative ownership structure in which KIUC is essentially owned by its members. In the final analysis, the members of KIUC will have a great deal of input on how distributed generation opportunities should be pursued for its electrical system.

2. Issue 2: Who should own and operate distributed generation projects?

The determination of who should own and operate distributed generation projects will largely depend on the type, size and location of the distributed generation project. KIUC currently does not intend to place any limitations on who should be

allowed to own and operate distributed facilities as long as the facilities can be operated and maintained in accordance with certain industry standards and as long as no material concerns remain as a result of the feasibility analysis taking into consideration, without limitation, the considerations set forth in Article III, Section 9 below. KIUC would also consider entering into a joint venture with other entities, and, as further discussed in Article III, Section 10 below, KIUC would also consider being a possible owner of the distributed generation facilities, but not necessarily the builder or installer of the facilities, if it would provide material benefits to KIUC and its members. In connection with this, KIUC recognizes that owning the distributed generation facility could protect KIUC against the loss of revenues from customers leaving KIUC's electric grid, would give KIUC some assurances that the distributed generation facility would be constructed and maintained in a manner beneficial to KIUC's electric grid, and would provide KIUC with another resource for planning and investing in its local electric transmission and distribution system, which could potentially offset or reduce system costs.

3. Issue 3: What is the role of the regulated electric utility companies and the Commission in the deployment of distributed generation in Hawaii?

a. Role of KIUC.

It should be noted that KIUC may have an entirely different role from the other electric utility companies in Hawaii in the distributed generation process. KIUC purchased the electric utility on the island of Kauai in November 2002 and is a fairly newly formed electric cooperative essentially owned by its members. As a member-owned cooperative, KIUC is not driven by the same factors as an investor-owned utility.

In connection with the above, KIUC is still in the process of evaluating what it means to be a member-owned cooperative and what resulting role it should have in the distributed generation process. KIUC is hoping that the subject docket will assist them in making these determinations. However, as a preliminary and general position, KIUC will evaluate distributed generation on a case-by-case basis weighing the net benefits that said generation will have to its members and on its electrical system as well as what may be desired by its members.

b. Role of the Commission.

As further discussed in Article III, Section 1 above, KIUC believes that it is difficult at this time to make any reasonable general determination as to what forms of distributed generation are feasible and viable for Hawaii due to various uncertainties and variables. These uncertainties and variables include, without limitation, (a) the uncertain role distributed generation will have in the electric industry in the future (e.g., back-up generation versus secondary or primary sources of electricity), (b) the fact that many forms of distributed generation are still unproven and are currently too cost prohibitive or may not yet have been generally accepted in the utility arena, (c) Hawaii's stand-alone electric systems due to its isolated location from the mainland United States, and (d) Hawaii's varying topography and population distribution. As a result and as mentioned above, KIUC believes that any determination of the specific forms of distributed generation that may be feasible and viable in Hawaii can only be made on a case-by-case basis looking at the specific proposed project and location.

KIUC believes that the role of the Commission in this process should be to set forth policy objectives that could assist the electric utility in making the determination on a case-by-case basis whether a specific distributed generation project

or facility is feasible. These policies could require the electric utilities to consider the factors listed in Article III, Section 9 below before any determination is made (and, in KIUC's case, be flexible enough to allow KIUC as a cooperative to take into consideration the interests of its members). In KIUC's opinion, these policies must remain fairly general at the current time to allow for sufficient flexibility as distributed generation technologies advance and the resulting costs and efficiencies are improved and can be better determined. However, at a minimum, these policies should recognize the potential risk that any extensive or non-controlled infusion of distributed generation would have on an electric utility's revenues and on its ratepayers. In connection with this, these policies should provide some guidelines to allow the electric utility to, at a minimum, recover its costs of allowing or pursuing distributed generation without unduly burdening the ratepayers that are not directly benefited by the distributed generation, while also allowing the owner of the distributed generation to share in the benefits of any savings it provides to the electric utility.

4. Issue 4: What impacts, if any, will distributed generation have on Hawaii's electric transmission and distribution systems and market?

The impacts that distributed generation would have on Hawaii's electric transmission and distribution systems and market will largely depend on the size and type of the distributed generation facilities, the number of facilities that interconnect to the electric utility's electrical system, the location of the various facilities, and the role distributed generation plays in the electric industry in the future (e.g., back-up power or primary or secondary source of electricity). For example, if only one distributed generation facility was located in a particular location, the electric utility would still be required to locate a transmission and distribution system in that area in order to supply power in the event the facility goes down for maintenance or for unexpected reasons.

On the other hand, if various distributed generation facilities are scattered throughout a given geographic area, the electric utility could possibly rely on a percentage of the total capacity of these facilities, depending on their respective operating characteristics, to allow the utility to defer or minimize capital improvements to its transmission and distribution systems.

5. Issue 5: What are the impacts of distributed generation on power quality and reliability?

The impacts of distributed generation on power quality and reliability will also largely depend on the size and type of the distributed generation facilities, the number of facilities that interconnect to the electric utility's electrical system, the location of the various facilities, and the steps taken to prevent any degradation of the electric utility's transmission and distribution systems resulting from the distributed generation facilities. As an example, a single large unit located in an isolated area going offline could cause major disruption among the various customers located in that area and could adversely impact the entire utility's grid system, while various units installed in a given area that provide back-up service to the electric utility could provide added reliability and power quality. Proper planning must take place to either continue or increase the electric utility's reliability and power quality in the event a distributed generation facility was implemented in a given area.

6. Issue 6: What utility costs can be avoided by distributed generation?

In the short run, KIUC believes that distributed generation would result in only minimal cost savings at best due to a small reduction in transmission line losses from providing generation at the customer location rather than having to transmit bulk energy over long distances. In addition, fossil fuel costs may be avoided if the distributed generation is a combined heat unit, a cogeneration unit, or otherwise

involves distributed generation that is not fired by fossil fuels. However, offsetting these avoided costs may be the increased potential for the electric utility incurring fixed costs resulting from the distributed generation.

In the long run, distributed generation may result in a tangible benefit if the utility will not be required to build or can delay the building of its next large increment of power plant or transmission facilities as a result of the distributed generation.

7. Issue 7: What are the externalities costs and benefits of distributed generation?

KIUC notes the following possible externalities costs and benefits that may result from distributed generation:

(a) The costs to contain spills, environmental concerns and concerns with obtaining governmental permits and complying with governmental permits and other requirements could have negative impacts on pursuing distributed generation.

(b) Utility revenues lost to distributed generation projects would be shifted to the electric utility's ratepayers if not otherwise shifted to the owners and customers that receive the direct benefits of the distributed generation. This impact will be more pronounced the quicker distributed generation facilities penetrate the market.

(c) A benefit would exist if distributed generation would minimize the need for transmission and distribution lines and other utility infrastructure upgrades.

(d) On the customer level, a customer would benefit by having an alternative source of energy.

(e) A reduced dependence on fossil fuels could occur if the distributed generation is a combined heat and power unit, a cogeneration unit, or otherwise involves distributed generation that is not fired by fossil fuels.

(f) Other external benefits are not so much reliant on distributed generation as a whole as they are on distributed generation involving renewable energy.

8. Issue 8: What is the potential for distributed generation to reduce the use of fossil fuels?

As discussed above, in KIUC's opinion, the potential for distributed generation to reduce Hawaii's dependence on fossil fuels is not so much reliant on distributed generation as a whole as it is on distributed generation that involves renewable energy. While distributed generation in general may result in minimal savings from the reduction of system losses resulting from the transmission of bulk energy over long distances versus providing generation at the location, distributed generation that involves a combined heat and power unit, a cogeneration unit, or otherwise involves distributed generation that is not fired by fossil fuels may provide an additional net fossil fuel savings.

9. Issue 9: What must be considered to allow a distributed generating facility to interconnect with the electric utility's grid?

Distributed generation, if implemented properly and in the right conditions, could provide numerous benefits to the electric utility and its customers, including but not limited to reducing the demand on long-distance transmission lines, enhancing system reliability, increasing customer choice, and minimizing or delaying the need for the utility to invest in additional capacity and facilities in the future. However, if not implemented properly and without full consideration of the pluses and minuses of a proposed distributed generation facility, these benefits could be significantly minimized or even lost.

As such, before allowing a distributed generation facility to interconnect with an electric utility's grid, KIUC believes that an extensive analysis of the proposed

facility and the various benefits and possible detriments that may result under the circumstances must be undertaken. At a minimum, KIUC believes that the following factors must be considered without limitation:

(a) As a cooperative, the interests and desires of KIUC's members. These interests and desires will dictate the importance of the remaining factors and considerations listed below. For example, if the interest of KIUC's membership is to pursue a certain type of distributed generation facility regardless of expense, then the proposed facility would probably be implemented with very little consideration given to many of the factors listed below. However, if the interest of KIUC's membership is to pursue distributed generation at the lowest cost and with maximum benefits to the member, then the factors listed below will be given significant consideration before KIUC would decide to allow a distributed generation facility to interconnect to its grid.

(b) Ability of the distributed generation facility to interconnect to the electric utility's electrical system and comply with all applicable safety and performance standards of the National Electrical Code (NEC), the Institute of Electrical and Electronics Engineers (IEEE), and accredited testing laboratories such as the Underwriters Laboratories (UL).

(c) Location of distributed generation facility and distance from the electric utility's electric system.

(d) Cost and work involved to interconnect the distributed generation facility to the electric utility's electrical system (including but not limited to modifications and upgrades needed to the electric utility's system to accommodate the distributed generation deployment), and the utility's ability to recover expenses from the owner and/or its other customers.

(e) Possible degradations in the electric utility's transmission and distribution system that may result from interconnecting to the distributed generation facility, ability to take steps necessary to prevent such degradation, and cost and work involved.

(f) Ability of distributed generation facility owner to agree to and conform with the electric utility's interconnection agreement and requirements.

(g) Whether the distributed generation facility qualifies as a "Qualifying Facility" under the Public Utilities Regulatory Policy Act (PURPA).

(h) Whether the form of distributed generation has been generally accepted in the electric industry and under what circumstances.

(i) Whether the distributed generation facility will or can produce excess generation that could be purchased and/or sold to the electric utility to serve other customers, and at what cost to the utility.

(j) Ability of the facility owner and the electric utility to negotiate a power purchase agreement on mutually acceptable terms, if applicable.

(k) Ability of the distributed generation facility, owner and operator to comply with general engineering, public utility and industry standards and all applicable zoning, land use, environmental and other laws, regulations and requirements, including but not limited to those imposed by the Hawaii Public Utilities Commission.

(l) Environmental and safety considerations resulting from the distributed generation facility and operations (e.g., noise impacts, air quality impacts, visual impacts, discharges, etc.).

(m) Permit requirements and anticipated timeframe of receiving all necessary approvals.

(n) Reliability issues (maintenance requirements, anticipated reliability of proposed facility, impact of proposed facility on reliability of the electric utility's overall system, back-up requirements, costs and work involved to ensure reliability of facility, etc.).

(o) Performance issues (hours of operation, reserve requirements, ability of facility and operators to perform and comply with all requirements and standards, quality and experience of operators, impact of proposed facility on performance of the electric utility's overall system, ability of the electric utility to dispatch or control the facility, etc.).

(p) Location of other nearby distributed generation facilities interconnected to the electric utility's electrical system.

(q) Cost impact on the electric utility and its customers resulting from the distributed generation facility and operations, including but not limited to impact on the utility's revenues, customer rates, need for additional capital improvements and modifications to the utility's existing system, and, in KIUC's case, KIUC's ability to build equity and provide patronage capital refunds to its members.

10. Issue 10: What is the appropriate rate design and cost allocation issues that must be considered with the deployment of distributed generation facilities?

KIUC notes that this issue basically assumes that the distributed generation facilities are owned in total or in part by the respective electric utilities. Under that assumption, the following sets forth some items that KIUC believes should be taken into consideration in order to have an appropriate rate design for these facilities:

(a) Heat cost.

(b) Rental of property space.

(c) Dispatch capability.

(d) Interconnection fees.

(e) Standby rates.

(f) Avoided generation and transmission costs.

(g) Project capital costs.

In connection with the above, KIUC has begun to explore the feasibility of providing on-site generation that is owned by KIUC with service provided in accordance with KIUC's existing tariff. Under this scenario, the customer would receive the benefit of waste heat and may be able to avoid standby charges in exchange for KIUC's free rental of the distributed generation facility site on that customer's premises. Based on a preliminary analysis, KIUC believes that the only negotiations that may be required under these circumstances would be the real property and liability issues because KIUC would be the owner of the facility and would be providing service under the existing tariff.

11. Issue 11: What revisions should be made to the integrated resource planning process?

As mentioned above, KIUC is a fairly new member-owned cooperative operating the electric utility on the island of Kauai. In connection with this, KIUC is currently in the process of developing an integrated resource plan framework to present to the Commission for their review and approval by the end of 2004, which will replace the prior framework prepared when the electric utility was investor owned, to take into account cooperative principles and interests.

At a minimum, this revised framework will require KIUC to scope how distributed generation will impact its system needs and to develop a method for

determining the energy goals of a cooperative, especially given the fact that the drivers that exist for investor owned utilities may not apply to KIUC as a cooperative.

12. **Issue 12: What forms of distributed generation (e.g., renewable energy facilities, hybrid renewable energy systems, generation, cogeneration) are feasible and viable for Hawaii?**

See the discussion in Article III, Section 1 above.

13. **Issue 13: What revisions should be made to state administrative rules and utility rules and practices to facilitate the successful deployment of distributed generation?**

As further discussed in Article III, Section 3 above, KIUC believes that the role of the Commission to facilitate the successful deployment of distributed generation is to establish policy objectives to assist the electric utility in making a determination on a case-by-case basis of whether a specific distributed generation project or facility is feasible. These policies should remain fairly general at the current time to allow for sufficient flexibility as distributed generation technologies advance and efficiencies improve, while at the same time providing some guidelines to allow the electric utility to recover its costs related to the distributed generation facilities while also allowing the owner of the facility to share in the cost savings to the utility.

Given the above and the policy objective set forth by the Commission in Order No. 20582 opening the subject docket, KIUC believes that it may be premature at the current time to undertake as part of the subject docket an analysis of what specific revisions should be made to any state administrative rules and utility rules and practices in connection with the above. However, KIUC believes that some changes to these rules and practices may be ultimately warranted to incorporate the above policies as well as to set forth the various considerations outlined in Article III, Section 9 above that an electric utility should consider before implementing distributed generation.

14. **Issue 14: The parties and participants may also address general issues regarding distributed generation raised in the informal complaint filed by Pacific Machinery, Inc., Johnson Controls, Inc. and Noresco, Inc. against HECO, MECO and HELCO on July 2, 2003 (Informal Complaint No. IC-03-098), but not specific claims made against any of the parties named in the complaint.**

Not applicable as it pertains to KIUC.

DATED: Honolulu, Hawaii, May 7, 2004.

Alan M. Oshima
Kent D. Morihara

Oshima Chun Fong & Chung LLP
Attorneys for KAUAI ISLAND UTILITY COOPERATIVE

CERTIFICATE OF SERVICE

I (we) hereby certify that copies of the foregoing document were duly served on the following parties, by having said copies delivered as set forth below:

DIVISION OF CONSUMER ADVOCACY 335 Merchant Street Room 326 Honolulu, HI 96813	3 copies Hand Delivery
THOMAS W. WILLIAMS, JR., ESQ. PETER Y. KIKUTA, ESQ. Goodsill, Anderson, Quinn & Stifel Alii Place, Suite 1800 1099 Alakea Street Honolulu, Hawaii 96813	1 copy U.S. Mail
MR. WILLIAM A. BONNET Vice President Hawaiian Electric Company, Inc. Hawaii Electric Light Company, Inc. Maui Electric Company, Limited P. O. Box 2750 Honolulu, Hawaii 96840-0001	1 copy U.S. Mail
MS. PATSY H. NANBU Hawaiian Electric Company, Inc. P. O. Box 2750 Honolulu, Hawaii 96840-0001	1 copy U.S. Mail
MR. ALTON MIYAMOTO President & CEO Kauai Island Utility Cooperative 4463 Pahe'e Street Lihue, Hawaii 96766	1 copy U.S. Mail
GEORGE T. AOKI, ESQ. The Gas Company P.O. Box 3000 Honolulu, HI 96802-3000	1 copy U.S. Mail
MR. STEVEN P. GOLDEN The Gas Company P.O. Box 3000 Honolulu, HI 96802-3000	1 copy U.S. Mail

MS. GAIL S. GILMAN
The Gas Company
P.O. Box 3000
Honolulu, HI 96802-3000

1 copy
U.S. Mail

BRIAN T. MOTO, ESQ.
CORPORATION COUNSEL
County of Maui
Department of the Corporation Counsel
200 S. High Street
Wailuku, HI 96793

1 copy
U.S. Mail

CINDY Y. YOUNG, ESQ.
DEPUTY CORPORATION COUNSEL
County of Maui
Department of the Corporation Counsel
200 S. High Street
Wailuku, HI 96793

1 copy
U.S. Mail

MR. KALVIN K. KOBAYASHI
ENERGY COORDINATOR
County of Maui
Department of Management
200 S. High Street
Wailuku, HI 96793

1 copy
U.S. Mail

MR. WARREN S. BOLLMEIER II
PRESIDENT
Hawaii Renewable Energy Alliance
46-040 Konane Place, #3816
Kaneohe, Hawaii 96744

1 copy
U.S. Mail

MR. JOHN CROUCH
Box 38-4276
Waikoloa, HI 96738

1 copy
U.S. Mail

MR. RICK REED
Inter Island Solar Supply
761 Ahua Street
Honolulu, HI 96819

1 copy
U.S. Mail

MR. HENRY CURTIS
Life of the Land
76 North King Street, Suite 203
Honolulu, HI 96817

3 copies
U.S. Mail

SANDRA –ANN Y. H. WONG, ESQ. 1050 Bishop Street, #514 Honolulu, Hawaii 96813	1 copy U.S. Mail
CHRISTOPHER S. COLMAN, ESQ. Deputy General Counsel Amerada Hess Corporation One Hess Plaza Woodbridge, N.J. 07095	1 copy U.S. Mail
MR. MICHAEL DE'MARSI Hess Microgen 4101 Halburton Road Raleigh, NC 27614	1 copy U.S. Mail
THOMAS C. GORAK, ESQ. Gorak & Bay, LLC 76-6326 Kaheiau Street Kailua-Kona, HI 96740-3218	1 copy U.S. Mail
MR. GORDON BULL Branch Manager Johnson Controls, Inc. 3526 Breakwater Court Hayward, CA 94545	1 copy U.S. Mail
MR. JIM REISCH Vice President & General Manager-Engine Division Pacific Machinery, Inc. 94-025 Farrington Highway Waipahu, Hawaii 96797	1 copy U.S. Mail
LANI D. H. NAKAZAWA, ESQ. Office of the County Attorney County of Kauai 4444 Rice Street, Suite 220 Lihue, HI 96766	2 copies U.S. Mail
MR. GLENN SATO ENERGY COORDINATOR c/o Office of the County Attorney County of Kauai 4444 Rice Street, Suite 220 Lihue, HI 96766	1 copy U.S. Mail

JOHN W. K. CHANG, ESQ.
Deputy Attorney General
Department of the Attorney General
State of Hawaii
425 Queen Street
Honolulu, Hawaii 96813

1 copy
U.S. Mail

MR. MAURICE H. KAYA, P.E.
Chief Technology Officer
DBEDT-Strategic Industries Division
P. O. Box 2359
Honolulu, HI 96804

1 copy
U.S. Mail

MR. STEVEN ALBER
Energy Analyst
DBEDT-Strategic Industries Division
P. O. Box 2359
Honolulu, HI 96804

1 copy
U.S. Mail

DATED: Honolulu, Hawaii, May 7, 2004

Alan M. Oshima
Kent D. Morihara

Attorneys for KAUAI ISLAND UTILITY COOPERATIVE