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

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PUBLIC UTILITIES COMMISSION

POST-HEARING REPLY BRIEF
OF
KAUAI ISLAND UTILITY COOPERATIVE

AND

CERTIFICATE OF SERVICE

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KAUAI ISLAND UTILITY COOPERATIVE ("KIUC"), by and through its attorneys, Oshima Chun Fong & Chung LLP, does hereby submit its Post-Hearing Reply Brief in this docket.

I. PROCEDURAL BACKGROUND

Pursuant to the schedule set forth in Prehearing Order No. 20922 filed on April 23, 2004, HAWAIIAN ELECTRIC COMPANY, INC., HAWAII ELECTRIC LIGHT COMPANY, INC. and MAUI ELECTRIC COMPANY, INC. (collectively, "HECO"), KIUC, THE DIVISION OF CONSUMER ADVOCACY, DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS (the "Consumer Advocate"), HESS MICROGEN ("Hess"), LIFE OF THE LAND ("LOL"), HAWAII RENEWABLE ENERGY ALLIANCE ("HREA"), the COUNTY OF KAUAI ("County of Kauai") and the COUNTY OF MAUI ("COM") (HECO, KIUC, Consumer Advocate, Hess, LOL, HREA, County of Kauai and COM hereafter collectively referred to as "Parties and Participants") are required to each file their respective post-hearing reply briefs in response to the post-hearing opening briefs filed by the other Parties and Participants on March 7, 2005. Pursuant to Prehearing

Order No. 20922, these post-hearing reply briefs are required to be filed by no later than March 28, 2005 (i.e., 3 weeks after filing of the simultaneous post-hearing opening briefs).

Pursuant to Prehearing Order No. 20922, KIUC hereby submits this post-hearing reply brief.

II. STATEMENT OF THE ISSUES

This reply brief responds specifically to a number of issues raised by other Parties and Participants in their post-hearing opening briefs. These issues are summarized below:

1. Recognition of distributed generation ("DG") in the Integrated Resource Plan ("IRP") process.
2. Impact of DG on transmission and distribution ("T&D") costs.
3. Comments on and clarification of issues raised by County of Kauai.
    a. Appropriate regulatory guidance and oversight
    b. Planning and policy development
    c. Evaluation of DG
    d. Encouraging and receiving cooperative member input
    e. Wheeling of power within the county
    f. DG and the integrated resource planning process
    g. DG and the utility planning process
    h. Standby charges
    i. Role of the KIUC Equity Management Plan in resource planning
4. Establishing standby charges.
5. Providing combined heat and power ("CHP") as a regulated utility service.

As noted in its opening brief, KIUC believes that the role of the Commission in the DG process should be to set forth policy objectives that could assist the electric utilities in making the determination on a case-by-case basis whether a specific DG project or facility is feasible. In addition, in KIUC's case, these policy objectives must be flexible enough to allow KIUC, as an electric cooperative, to take into consideration the interests of its members. These policies should provide some guidelines to allow the electric utility to, at a minimum, recover its costs of allowing or pursuing DG without unduly burdening the members/customers that are not directly benefited by the DG, while also allowing the owner of the DG facility to share in the benefits of any savings it provides to the utility.

III. NO KIUC REPLY TO COM, HREA AND LOL OPENING BRIEFS

In COM's Final Brief, COM states the following: "The COM recognize that there are important distinctions between the utility cooperative serving Kauai and the HECO, MECO, and HELCO (collectively 'HECO') investor-owned utilities. Accordingly, our statements are directed only to HECO."[1] Based on this statement, KIUC does not believe it is necessary to provide any response or reply to any of the issues raised in COM's Final Brief.

In addition, in HREA's Post Hearing Opening Brief, HREA states: "Subject to further discussion, HREA believes that the Kauai Island Utility Cooperative should be treated separately, certainly in the short-term, given that they have excess capacity on

[1] County of Maui's Final Brief, p.2.

their system."[2] Based on this statement, KIUC believes that HREA's statements in its Post Hearing Opening Brief are directed only at the HECO companies, and as such does not necessitate any response or reply from KIUC.

In its Opening Brief and throughout the subject docket, LOL has focused only on the HECO companies. In addition, KIUC has not identified any specific issues in LOL's Opening Brief that would necessitate a response from KIUC. As a result, KIUC is not responding to any of the issues raised in LOL's Opening Brief.

IV. POST-HEARING REPLY BRIEF

The following sets forth KIUC's Post-Hearing Reply Brief with respect to each of the issues set forth above.

1. Issue 1: Recognition of DG in the IRP process.

To properly understand the recognition of DG as a utility resource, KIUC believes that it is first necessary to examine the meaning of the terms "supply-side" and "demand-side" as applied to such resources. Generally speaking, supply-side refers to resources on the utility side of the meter and demand-side refers to resources on the customer side of the meter. Thus, a customer-owned and operated DG unit located on the customer's premises, and therefore on the customer side of the meter, would be considered a demand-side resource. From an IRP perspective, such a resource would effectively reduce the customer load, just as would any other demand-side management ("DSM") measure. Conversely, a DG unit at a substation or along a feeder (on the utility side of the meter) would be a supply-side resource and treated as available capacity in

[2] HREA's Post Hearing Opening Brief, footnote 1, p. 3.

the IRP process. There can be cases, however, where a customer-owned DG unit could serve as a supply-side resource, to be addressed later in this response.

In its Post-Hearing Brief, the Consumer Advocate has adopted the terms "non-utility DG" and "utility owned DG" to describe the various situations of DG use, while ignoring the supply and demand-side differences.[3] In doing so, the Consumer Advocate states "non-utility DG should be incorporated in the aggregate in the IRP process, [in] the same manner that utility owned DG should be recognized in the IRP process."[4]

KIUC does not necessarily agree with this statement in its entirety, and believes that supply and demand side differences need to be considered. All DG resources should be considered in the aggregate as the Consumer Advocate notes, but DG units on the customer side of the meter (i.e., demand side) should be treated as a DSM measure with an appropriate load reduction. Exceptions are the cases in which a DG unit on the customer side of the meter was either owned and operated by KIUC, the DG unit satisfies the criteria of the Public Utility Regulatory Policies Act ("PURPA") to become a qualified facility ("QF") entitled to sell power to the utility at avoided cost, or KIUC has full dispatch control over the DG unit by virtue of a contractual arrangement. In any of these cases, the DG resource could be considered a supply-side utility resource and included in the IRP process accordingly.

KIUC's position is that non-utility owned DG should be incorporated into the IRP process in a manner that allows KIUC to balance costs, risks and environmental

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[3] See, e.g., Consumer Advocate's Post-Hearing Brief, p. 20.

[4] Id.

concerns as well as to ensure that adequate resources are available to provide reliable service to KIUC's members. Non-utility owned DG that qualifies as a supply-side resource can be incorporated through a competitive bidding process, as is planned by Idaho Power in their 2004 IRP,[5] or by purchasing power based on avoided cost. In determining the avoided costs, a number of inputs should be considered, including without limitation, estimated plant capital and operating costs, based on scenarios that determine the most likely resource that the utility would avoid constructing as a result of the deployment of the DG facility.

As KIUC noted in its opening brief, it may not be practical within the IRP process to expect the identification of individual projects (or project zones) under certain circumstances. On the one hand, if the projects are utility investments or are fairly advanced in their project planning stage to define the specific project costs and risks, then it is reasonable to require the electric utility to include such projects in the IRP planning process. On the other hand, customer-planned projects are not always immediately brought to the attention of the electric utility, and in any event, are subject to a number of additional risks outside of the utility's influence and control, including but not limited to the financial stability of the customer and the priority of the project relative to other investment options for that customer. If such projects were required to be identified as part of the IRP planning process, then the IRP process must include certain contingencies that can balance costs and risks in the event the specific project or projects do not materialize.

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[5] The Idaho Power 2004 Integrated Resource Plan can be found at http://www.idahopower.com/energycenter/2004IRPFinal.htm.

KIUC's position is that customer-planned DG projects should only be included in the IRP planning process if selected through a competitive bidding process outlined in the IRP or if it satisfies the QF criteria under PURPA and opts for sales to the utility at its avoided cost.

2. Issue 2: Impact of DG on T&D Costs.

KIUC's position is that DG projects are typically only useful for reducing T&D costs when an upgrade to a portion of the system is required.[6] It is important to note that the Consumer Advocate's position has been stated as follows: "On some systems, such as KIUC, it is not anticipated that transmission and distribution costs will be substantially reduced by DG."[7] KIUC concurs with the Consumer Advocate on this issue.

3. Issue 3: Comments on and clarification of issues raised by the County of Kauai.

In their Opening Brief, the County of Kauai has raised a number of issues that necessitate a response from KIUC. Most of these issues have been previously discussed with the County of Kauai, and are part of an ongoing dialogue with the County. KIUC's response is intended to clarify the substance of these issues and to support KIUC's substantial efforts to include all cooperative members in a transparent decision-making process. KIUC recognizes the County of Kauai's interest in these areas, as the administrative and political body of Kauai, and as one of KIUC's largest customers and members.

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[6] See KIUC's Post-Hearing Opening Brief, p. 9.

[7] Consumer Advocate's Post-Hearing Brief, p. 22.

a. **<u>Appropriate regulatory guidance and oversight.</u>**

In its Opening Brief, the County of Kauai urges the Commission to continue regulatory guidance and oversight of KIUC.[8] In doing so, the County stated:

> The County believes that KIUC's status as a cooperative does not negate the need for a regulatory framework to govern KIUC's actions relative to DG. A regulatory framework is essential to ensure that consumers on Kaua'i realize benefits from DG. Regulatory guidance and oversight will level the playing field and ensure that all utilities and their affiliates do not hold competitive advantages or engage in cross-subsidizations.[9]

KIUC agrees that regulatory guidance and oversight by this Commission are appropriate as this young cooperative utility begins to mature, and, in fact, regulatory guidance and oversight are fully in place. KIUC is currently fully regulated as to rates, construction standards, tariff rules and regulations, and reporting requirements by this Commission. This being the case today, however, it may make sense for KIUC to pursue some form of deregulation in the future due to its cooperative ownership structure. As noted in KIUC's Equity Management Plan filed with the Commission on December 15, 2004 in Docket No. 03-0223:

> While each state exercises broad and relatively uniform powers with regard to IOUs, when it comes to electric cooperatives, the regulatory methodology and degree of regulatory oversight varies widely among states. Twenty-one (21) states choose to not regulate cooperatives at all except for territorial or construction standard and safety issues. Conversely, thirteen (13) states exercise a high degree of control over retail rates. The balance of states fall somewhere in between, electing some form of regulation of electric cooperatives, but with limited review of rates, review

[8] See County of Kauai's Post-Hearing Opening Brief, p. 3.

[9] Id.

of rates only in certain circumstances, or review with streamlined procedures.[10]

b. **<u>Planning and policy development.</u>**

In its Opening Brief, the County of Kauai stated that it had previously suggested that the Commission "mandate development of KIUC DG policies"[11] and "mandate that KIUC . . . develop a DG policy that promotes a level playing field for all DG vendors."[12] The County of Kauai's use of the term "mandate" represents a new position taken by the County, one that is not especially helpful or relevant in this case. As originally included in testimony submitted by Mr. Glenn Sato (COK Exhibit T-1, page 2), the County of Kauai stated that "Appropriate regulatory guidance can consist of the following: 1. That KIUC develops DG policies, including whether entry into the DG market results in 'overall cost savings to members.'" A suggestion of what might constitute appropriate regulatory guidance has been transformed by the County into a call for a Commission mandate.

The Commission has a clear role in approving KIUC's rates, which will undoubtedly impact the role of DG as a result of this docket. In addition, the determination of standby charges (discussed subsequently in this brief) may also have some impact on DG vendor projects. KIUC's goal as a cooperative is to create a level playing field for customers, not necessarily the vendors, wishing to install DG, while at the same time ensuring that all relevant and applicable costs are recovered. Any interconnection agreements must include reimbursement of any applicable

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[10] KIUC's Equity Management Plan, p. 24. The purpose of the Equity Management Plan is to assist KIUC to determine what portion of its forecasted future margins should be retained for equity build up, future use, and financial needs and what portion should be refunded or returned to KIUC's member/owners.

[11] County of Kauai's Post-Hearing Opening Brief, p. 3.

[12] Id.

interconnection or system upgrade costs by the DG owner, as well as other terms and conditions intended to protect KIUC and its members. An interconnection rule would also need to include a provision allowing specific interconnection arrangements/agreements to be evaluated on a case-by-case basis depending on the DG mode of operation, location (geographically and on the feeder), and size relative to feeder load.

It is important to note that it is KIUC's Board of Directors that guides KIUC's policy development practices taking into account the interests of KIUC's members. The Board serves an oversight and governance function to set the direction and policies of the cooperative and to execute the legal business of KIUC as may be required through Board resolutions from time to time. The Board is not involved in the daily management of the utility system. The responsibility for operations and management of the utility system is delegated by the Board to a management team and staff headed by KIUC's President and Chief Executive Officer. Each functional area is managed by a Vice President.

c. <u>Evaluation of DG.</u>

The County of Kauai further proposes that the Commission "mandate that KIUC formulate concrete criteria for developing and evaluating DG on a uniform (as opposed to case-by-case) basis."[13] As noted above, development of criteria for DG evaluation is the responsibility of KIUC's management with Board approval.

KIUC does not believe it is appropriate at this time for the development of concrete criteria for developing and evaluating DG. Instead, KIUC

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[13] Id.

believes that such an evaluation must take place on a case-by-case basis only. As noted in KIUC's Direct Testimony (KIUC Exhibit T-2, p. 34, lines 1-16):

> KIUC believes that the role of the Commission in the DG process at the current time 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. 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, as well as to allow KIUC to take into consideration the interests of its members. 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.

Once the KIUC DG policies are established, with Commission guidance, they will be uniformly applied to each DG project that arises on a case-by-case basis.

d. <u>Encouraging and receiving cooperative member input.</u>

The County of Kauai further proposes that the Commission "mandate development of systems for member input which incorporate the spirit, if not the requirements of the sunshine law (HRS chapter 92) and the state freedom of information act (HRS chapter 92F)."[14] As originally stated by Mr. Glenn Sato of the County of Kauai (COK-T-1, p. 2), "Appropriate regulatory guidance can consist of the

[14] Id.

following: . . . That KIUC, as a quasi-public entity, develops systems for member input . . . " Once again, the County has changed their position with use of the term "mandate."

This topic is clearly outside the scope of this docket; further, it is the responsibility of the KIUC Board of Directors to ensure that broad member input is received. This point being made, however, KIUC believes that it provides sufficient avenues for members to provide their input. As an example, in developing their proposed revised IRP Framework, during the second half of 2004, KIUC held three meetings with the IRP Advisory Group (on which the County of Kauai is represented), four meetings with other parties, made its proposed revised IRP framework available for public viewing at all public libraries in the County, posted the proposed framework on KIUC's website, made several announcements regarding the framework on KQNG radio over a 2-week period, and issued a November 2004 press release.

e. Wheeling of power within the county.

On pages 3 and 5 of the County of Kauai's Opening Brief, the County of Kauai identifies the importance of county wheeling as one of its two "areas of greatest concern." KIUC strongly believes that the issue of county wheeling falls clearly outside of the scope of this docket. In fact, KIUC finds the inclusion of this issue in the County of Kauai's Opening Brief surprising, since in the panel hearings before the Commission, the County of Kauai appears to have acknowledged that its county wheeling issue was not appropriate for determination in the subject docket because the subject docket did not provide a suitable forum to solicit members' input on the County's wheeling proposal. In particular, the following was stated during the panel hearings, in relevant part:

Q. (by Mr. Morihara) [for KIUC] . . . do you believe that the other members [of KIUC] should also have an input as to whether the county should pursue wheeling?

A. (by Mr. Sato) [for the County of Kauai] Yes.

Q. How can member input be received in the context of this docket?

A. In the context of this docket, I don't know. Perhaps a workshop, you know, to discuss county projects, to discuss the IRP process, that KIUC has – you know, it is embarking on.
I know that KIUC is ready to file its revised framework based on IRP as a, you know, as a cooperative versus an IOU. So that might be the right venue to actually conduct a workshop.

Q. Well, so perhaps the IRP process is a better or another alternative in which to receive the member input, instead of this docket?

A. Well, I'm – it's pretty difficult to get member input via this docket. This docket isn't necessarily, you know, out in mainstream; and it's going to be very difficult to explain just to interested parties what's happening here versus, you know, the discussion on distributed generation, IRP process and how it all fits together is a natural component of how the utility should be informing its members.[15]

[15] Transcript of Proceedings, Volume II, p. 136, line 21 through p. 137, line 21.

KIUC agrees with the County's witness that the wheeling issue is better suited for examination and member input as part of the IRP process and not in this docket.

f. **DG and the integrated resource planning process.**

KIUC notes the following statement from the County of Kauai on page 7 of its Opening Brief:

> The County notes with concern that KIUC's Proposed Revised Integrated Resource Plan and Demand Side Management Framework, filed on December 23, 2004, in Docket 02-0060, proposes to replace the Commission's statewide IRP framework and IRP oversight with a process defined and reviewed by the KIUC board of directors. The County reiterates that KIUC should be subject to an IRP process defined and reviewed by the Commission.

The proposed revised IRP framework filed with the Commission on December 23, 2004 for review was approved by the KIUC Board of Directors in their appropriate capacity. However, contrary to the County's statement, pages 4 through 7 of KIUC's proposed revised IRP Framework (aka. Planning Principles) specifically provide for a process in which the IRP will continue to be reviewed and approved by the Commission.

g. **DG and the utility planning process.**

Pages 8 to 9 of the County of Kauai's Opening Brief "urges the Commission to incorporate incentives to good utility planning and disincentives to poor planning into its DG regulatory scheme, so ratepayers are not required to bear the burden of DG-related stranded costs caused by a flawed utility planning process." This is not an issue that should be addressed in the context of the subject docket. Instead, KIUC believes that the rate case review process provides appropriate disincentives for poor planning. Essentially, it is incumbent upon the utility to demonstrate that their planning process was used, useful and prudent for its utility operations. If the utility fails to make such a demonstration, the utility will not be allowed to recover such DG-related expenses through its rates.

h. Standby charges.

In its Opening Brief, the County of Kauai also states that "It is the . . . County's position that utilities and non-utilities should abide by the same rules, that is, utilities and their affiliates should be required to pay standby charges."[16]

It is unclear what the County means by this statement. When dealing with a DG project that is located on the customer's side of the meter and customer dispatched, whether installed by a utility or a non-utility entity, it is the customer that will be responsible for payment of any standby charges, and not the utility. In the case of a DG project designed as a supply-side resource (i.e., utility controlled dispatch) and located at a substation or on a distribution feeder, standby charges do not apply and do not make any sense. The reason is that the DG unit will be treated the same as any of KIUC's generating resources and operated, maintained and dispatched accordingly. KIUC does not agree that it should be required to pay itself standby charges for DG units included in its generating capacity portfolio. The purpose of a standby charge is to make the utility whole. Should KIUC be required to pay itself a standby charge for company owned/operated DG, as a member owned cooperative, this, in essence, would equate to KIUC's members paying more to make themselves whole. KIUC stated early on that KIUC's position is to be able to own/operate a DG

[16] County of Kauai's Post-Hearing Opening Brief, p. 10.

project only when that specific DG project would provide net benefits to its system and members. KIUC does not plan to own/operate DG projects that result in a net negative benefit to its members.

i. Role of the KIUC Equity Management Plan in resource planning.

The County states, on page 4 of its Opening Brief, that KIUC maintains high rates that "are part of a strategy pursued by KIUC that focuses on an equity management plan (EMP) driven by consideration of KIUC's outstanding loan obligations." The County further states, on the bottom of page 4 and the top of page 5, that "KIUC claims that the process includes consideration of DG, however, KIUC does not specify how DG was factored into the EMP. . . . The adverse effects of DG will not be adequately addressed if DG policies are solely guided by the EMP."

These comments by the Country illustrate a basic misunderstanding of the role of the EMP, and the importance of the IRP process, in consideration of DG. There is no intention to establish DG policies "solely guided by the EMP" or KIUC's outstanding loan obligations. Instead, the purpose of the EMP is to identify courses of action in KIUC's financial planning that balance the needs of its members, lenders, and regulators. The EMP projections reflect a financial roadmap incorporating the strategic interests of members for patronage capital refunds which lower the net cost of electricity on Kaua`i, capital expenditures to construct renewable energy generation technologies to reduce reliance on high-cost fossil fuels, and capital expenditures to maximum the generation efficiency of KIUC's existing fleet of fossil fuel-fired generation.

The EMP specifically examines DG, assuming that KIUC adopts a case-by-case approach to the deployment of DG consistent with its position in this docket. This approach would evaluate the economic merits of each potential installation rather than implementing a policy to deploy DG on a large scale. The EMP financial projections do not assume the installation of any new utility-owned generating projects (neither DG nor central station plants) through the projection timeframe. KIUC has built sufficient generation capability to offer reliable power supply to its members and customers, and is not projecting a need for new generating capacity to meet load until 2012. As a result of this situation, no new generating capacity is now needed on Kauai.[17] KIUC also notes that such DG projects that may prove financially feasible on a case-by-case basis will not constitute an investment amount that materially affects the build-up of equity as projected in the EMP.[18]

It should be noted that DG is also being addressed in the IRP process, as noted earlier.

4. <u>Issue 4: Establishing standby charges.</u>

In its Opening Brief, Hess focuses its comments exclusively on the HECO companies. However, in footnotes 10 and 13 of its Brief, Hess does mention KIUC, noting that its proposals regarding allowed time for DG application processing and possible standby charges and stranded costs "only apply to the HECO/HELCO/MECO system. However, it would work the same way once KIUC developed its own interconnection standards."

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[17] KIUC Direct Testimony, Exhibit KIUC-T-2, page 2, lines 5 through 8.

[18] The EMP notes that several future utility-owned DG projects in the 250 kW to 500 kW range would require a total investment under $2.0 million that could be implemented while impacting future equity ratios by less than 1% in total through 2012.

KIUC is not in a position to specifically respond to Hess' comments regarding the interconnection application process and stranded costs at this time. Regarding standby charges, however, KIUC believes that standby charges are appropriate at least as it pertains to KIUC, and that such charges must be based on KIUC's requirement to 1) reserve adequate supply or demand side resources for the customer, 2) maintain the transmission and distribution system to serve the customer when needed, and 3) still meet its revenue requirement necessary for system operations with reduced revenues resulting from the customer's DG installation. In this case, the revenue requirement must be spread over the remaining smaller customer base, thereby incrementally increasing costs for all other members and customers. All other cooperative members and customers would then have to pay more to cover the utility's fixed costs, including costs associated with the T&D system. The DG customer would also see the resulting increased costs for the supplementary service it requires (and if still a member, would see the corresponding reduction in patronage capital refunds/credits), which would most likely not be anticipated or taken into consideration when the DG/CHP feasibility study was conducted.

In order to be fair to all members and customers of the cooperative, KIUC would apply a standby tariff based on the cost of providing this backup service, including the actual cost of reserving capacity for the DG customer's use when needed. KIUC's "Rider S", although outdated, is currently available for this purpose.

5. <u>**Issue 5: Providing CHP as a regulated utility service.**</u>

Referring to this docket in its Opening Brief, the HECO companies state "The primary issue, however, boils down simply to whether the HECO Companies (and KIUC) will be allowed to provide customer-sited DG to their customers as a regulated utility service, and, more particularly, whether they will be allowed to provide energy efficient combined heat and power ('CHP') systems to their customers."[19] (footnote omitted)

While this is an important issue, KIUC does not necessarily view it as the primary issue in this docket. As noted in its opening brief, KIUC believes that the role of the Commission in this process should be to set forth policy objectives that could assist the electric utilities in making the determination on a case-by-case basis whether a specific DG project or facility is feasible. In addition, in KIUC's case, these policy objectives must be flexible enough to allow KIUC, as an electric cooperative, to take into consideration the interests of its members. These policies should provide some guidelines to allow the electric utility to, at a minimum, recover its costs of allowing or pursuing DG without unduly burdening the members/customers that are not directly benefited by the DG, while also allowing the owner of the DG facility to share in the benefits of any savings it provides to the utility.

KIUC has begun to explore the feasibility of providing on-site CHP systems that are 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 DG 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. See KIUC's Preliminary Statement of Position (page 18).

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[19] HECO Opening Brief, pp. 1-2.

It should be noted that KIUC has no current plans to specifically offer CHP systems to customers. KIUC is undecided whether such systems, if so offered by KIUC, should be offered as a regulated or unregulated service. However, KIUC agrees with HECO that, if so offered, it should be cost-effective and not burdensome to non-participating customers. See Item 3.A.2 of Exhibit KIUC-RT-101 of KIUC's Rebuttal Testimonies (KIUC-RT-1).

DATED: Honolulu, Hawaii, March 28, 2005.

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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:

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