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**OFFICE OF THE MAYOR**  
County of Maui

February 11, 2005

Honorable Carlito P. Caliboso, Chairman  
Hawaii Public Utilities Commission  
Department of Budget and Finance  
465 S. King Street, #103  
Honolulu, Hawaii 96813

2005 FEB 14 A 10:57  
PUBLIC UTILITIES  
COMMISSION  
FILED

Dear Chairman Caliboso and Members of the Public Utilities Commission:

**SUBJECT:** Docket No. 04-0113, in the Matter of the Application of Hawaiian Electric Company, Inc., for Approval of Rate Increases and Revised Rate Schedules and Rules, and for Approval and/or Modification of Demand-side and Load Management Programs and Recovery of Program Costs and DSM Utility Incentives.

Energy efficiency and other electric demand-side management ("DSM") resources are of utmost importance to our county. We are concerned that decisions relating to the subject docket could threaten the aggressive pursuit of DSM programs by Maui Electric Company. We respectfully request that you reconsider the process for deliberating the future of Maui's DSM programs.

In 1991, the County of Maui collaborated on the PUC's current public policy on DSM, which states in part, "existing disincentives should be removed and, as appropriate, incentives should be established to encourage and reward aggressive utility pursuit of demand-side management programs." Although incentives are effective at promoting aggressive utility pursuit of DSM, there is a high cost associated with this approach. Therefore, in the PUC's 1996 docket on electric utility industry competition, the County of Maui recommended that the PUC consider alternative ways to deliver DSM programs without utility incentives.

It appears that the PUC also has concerns about the high cost of utility incentives because in 2001, the PUC approved an agreement between Maui Electric Company ("MECO") and the Division of Consumer Advocacy, whereby MECO will cease its DSM incentives, contingent upon the resolution of this matter in the subject rate case. This is the source of our concern. Deliberating the fate of Maui's DSM programs in an Oahu-focused, Hawaiian Electric Company rate case proceeding makes it impractical for Maui stakeholders to participate in this very important policy setting proceeding.

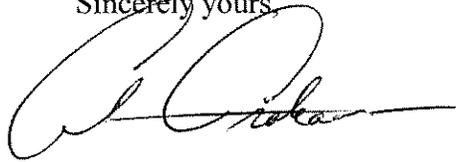
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In conclusion, we offer two recommendations for your consideration. First, we recommend that you take a broad perspective on DSM by considering non-utility delivery mechanisms, considering protecting the financial integrity of the electric utilities via performance-based ratemaking or other mechanisms, and considering expanding DSM offerings to include customer-owned distributed generation technologies.

Second, we recommend the opening of a generic, statewide rulemaking proceeding to determine the future of DSM. This rulemaking approach would allow all DSM stakeholders to contribute information and analysis helpful to the PUC's deliberations. If the PUC decides to proceed with this current rate case proceeding, we respectfully request that you grant our enclosed Motion for Participation Without Intervention.

I appreciate your thoughtful consideration of this matter.

Sincerely yours,

A handwritten signature in black ink, appearing to read 'Alan M. Arakawa', with a long horizontal flourish extending to the right.

ALAN M. ARAKAWA  
Mayor, County of Maui

Enclosure  
cc: K. Kobayashi