

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF HAWAII

-----In the Matter of----- )  
 )  
HAWAIIAN ELECTRIC COMPANY, INC. )  
 )  
For Approval and/or Modification of )  
Demand-Side and Load Management )  
Programs and Recovery of Program )  
Costs and DSM Utility Incentives. )

Docket No. 05-0069

PUBLIC UTILITIES  
COMMISSION

2006 JUN 21 P 3: 07

FILED

KAUAI ISLAND UTILITY COOPERATIVE'S  
SUBMISSION OF INFORMATION REQUESTS  
AND  
CERTIFICATE OF SERVICE

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- d. If the Parties/Participants claims that a written document or electronic file is not discoverable, besides complying with subparagraphs 4(a-c), identify each document or electronic file, or portions thereof, that the Parties/Participants claims are privileged or will not be disclosed, including the title or subject matter, the date, the author(s) and the addressee(s).



Background:

- Under the current structure, KIUC, at its discretion, either conducts its own DSM/energy services programs or contracts it out to a third party as appropriate. During the meeting, KIUC stated that this structure best supports the cooperative model, whereby DSM could be integrated with other energy services offerings.
- KIUC also noted that it strives to provide a level of service to its members even higher than that allowed or established by the current DSM evaluation criteria, and as such, KIUC is currently implementing programs that go beyond simple cost effectiveness. Examples given were: (1) KIUC's current appliance rebate program, whereby KIUC pays a rebate to any member that purchases a qualifying energy efficient appliance, and (2) KIUC's current solar rebate and loan program whereby KIUC either pays rebates or provides (through third-party lending institutions) no-interest loans for the installation of solar water heating systems. In both examples, KIUC does not screen for cost effectiveness and the programs are funded by the program budget approved by KIUC's Board of Directors (who are elected directly by KIUC's customer/members to represent their interests).
- KIUC also noted that the direct install DSM programs offered by KIUC during the past 7 years have significantly penetrated the residential markets. As a result, the current remaining markets may be too small to overcome the fixed cost associated with a full-scale DSM-type program. KIUC stated that they believe that these small markets can best be served with energy efficiency programs that combine DSM programs with other energy service programs.
- KIUC also stated that the commercial programs are an integral part of its Commercial Enhanced Energy Services offering and Key Accounts program, through which solutions to commercial customer's high-energy costs are achieved through a mix of DSM-type measures with other energy service-type measures, such as power factor correction.

Docket Issue No. 3: For utility-incurred costs, what cost recovery mechanism(s) is appropriate (e.g., base rates, fuel clause, IRP Clause)?

Consensus: As it pertains to KIUC, KIUC should be able to recover its utility-incurred costs from its members and customers via cost recovery mechanisms that are deemed most appropriate for KIUC's situation and cooperative structure.

Background: As a not-for-profit, member-owned cooperative for which the traditional rate base method of ratemaking is not applicable, KIUC anticipates working with the Commission and the Consumer Advocate at some point in the future to determine the most appropriate cost recovery mechanism that should apply not only to energy efficiency costs, but to all

of its costs of operation in general. This is a matter that should be decided at the time of KIUC's first rate case or deregulation proceeding, and is outside of the context of the subject proceeding.

Docket Issue No. 4: For utility-incurred costs, what types of costs are appropriate for recovery?

Consensus: As it pertains to KIUC, KIUC should be able to recover all of its incurred costs associated with energy efficiency programs.

Background: During the meeting, KIUC explained that this cost recovery issue seems to involve whether DSM program costs should be recovered from the utility's ratepayers or instead paid for by the utility's shareholders. KIUC explained that this is not applicable to KIUC (i.e., a not-for-profit, member-owned cooperative with the ratepayers and the shareholders essentially being one and the same). In the end, it is our understanding that all parties present agreed that KIUC should be allowed to recover its costs associated with energy efficiency programs.

As a side note, during the meeting, we also understand that the parties considered whether there should be a revenue erosion mechanism and if so, what should this mechanism be. For the same reasons as Docket Issue No. 3, it is our understanding that the parties present agreed that this issue does not apply to a not-for-profit, member-owned cooperative such as KIUC.

Docket Issue No. 5: Whether DSM incentive mechanisms are appropriate to encourage the implementation of DSM programs, and, if so, what is the appropriate mechanism(s) for such DSM incentives?

Consensus: As it pertains to KIUC, the use of financial incentives to facilitate the pursuit of DSM programs are not applicable to KIUC. KIUC's ratepayers and shareholders are essentially one and the same, and as such, any financial incentive charged to the ratepayers to benefit the shareholders is essentially a charge that will be returned to the ratepayers (aka shareholders).

In addition, with respect to Docket Issue No. 1 (Whether energy efficiency goals should be established and if so, what the goals should be for the State), it is also KIUC's understanding that, during prior discussions amongst the parties, an agreement was also reached that energy

efficiency goals should not be established, as it pertains specifically to KIUC.

Please confirm whether KIUC's understanding of the above consensus is correct, as they apply to KIUC. If not, please explain why KIUC's understanding is incorrect.

**The following information request is directed to HAWAIIAN ELECTRIC COMPANY, INC. ("HECO"), MAUI ELECTRIC COMPANY, LIMITED ("MECO"), AND HAWAII ELECTRIC LIGHT COMPANY, INC. ("HELCO") (collectively, "HECO Companies") and is based on their joint Final Statement of Position ("SOP"):**

**KIUC-SOP-IR-2      Ref: HECO Companies's Joint Final SOP, Page 7.**

The HECO Companies' Joint Final SOP states, in relevant part:

On April 4, 2006, April 26, 2006 and May 11, 2006, the parties/participants held settlement discussion meetings to attempt to reach agreement/partial agreement on the issues for Commission review and approval, which would limit the issues needed to be addressed in the parties/participants FSOPs.

In connection with the above, the following summarizes KIUC's understanding of the consensus reached by the parties/participants present at the May 11, 2006 settlement meeting on four of the five issues established for this proceeding as they pertain to KIUC, together with some background on each issue:

Docket Issue No. 2: What market structure(s) is the most appropriate for providing these or other DSM programs (e.g., utility-only, utility in competition with non-utility providers, non-utility providers)?

Consensus: As it pertains to KIUC, an electric cooperative essentially owned by its customers, there should be no change to the market structure by which KIUC currently develops and administers its DSM programs, provided that, as recommended by HREA and agreed upon by KIUC, KIUC hire a DSM consultant and/or consult with a third party or fund administrator if and when appropriate.









Consensus: As it pertains to KIUC, KIUC should be able to recover its utility-incurred costs from its members and customers via cost recovery mechanisms that are deemed most appropriate for KIUC's situation and cooperative structure.

Background: As a not-for-profit, member-owned cooperative for which the traditional rate base method of ratemaking is not applicable, KIUC anticipates working with the Commission and the Consumer Advocate at some point in the future to determine the most appropriate cost recovery mechanism that should apply not only to energy efficiency costs, but to all of its costs of operation in general. This is a matter that should be decided at the time of KIUC's first rate case or deregulation proceeding, and is outside of the context of the subject proceeding.

Docket Issue No. 4: For utility-incurred costs, what types of costs are appropriate for recovery?

Consensus: As it pertains to KIUC, KIUC should be able to recover all of its incurred costs associated with energy efficiency programs.

Background: During the meeting, KIUC explained that this cost recovery issue seems to involve whether DSM program costs should be recovered from the utility's ratepayers or instead paid for by the utility's shareholders. KIUC explained that this is not applicable to KIUC (i.e., a not-for-profit, member-owned cooperative with the ratepayers and the shareholders essentially being one and the same). In the end, it is our understanding that all parties present agreed that KIUC should be allowed to recover its costs associated with energy efficiency programs.

As a side note, during the meeting, we also understand that the parties considered whether there should be a revenue erosion mechanism and if so, what should this mechanism be. For the same reasons as Docket Issue No. 3, it is our understanding that the parties present agreed that this issue does not apply to a not-for-profit, member-owned cooperative such as KIUC.

Docket Issue No. 5: Whether DSM incentive mechanisms are appropriate to encourage the implementation of DSM programs, and, if so, what is the appropriate mechanism(s) for such DSM incentives?

Consensus: As it pertains to KIUC, the use of financial incentives to facilitate the pursuit of DSM programs are not applicable to KIUC. KIUC's ratepayers and shareholders are essentially one and the same, and as such, any financial incentive charged to the ratepayers to benefit the

shareholders is essentially a charge that will be returned to the ratepayers (aka shareholders).

In addition, with respect to Docket Issue No. 1 (Whether energy efficiency goals should be established and if so, what the goals should be for the State), it is also KIUC's understanding that, during prior discussions amongst the parties, an agreement was also reached that energy efficiency goals should not be established, as it pertains specifically to KIUC.

Please confirm whether KIUC's understanding of the above consensus is correct, as they apply to KIUC. If not, please explain why KIUC's understanding is incorrect.

**The following information request is directed to HAWAII RENEWABLE ENERGY ALLIANCE ("HREA") and is based on HREA's Final Statement of Position ("SOP"):**

**KIUC-SOP-IR-4     Ref: HREA Final SOP, page 4, footnote 1**

In its Final SOP, HREA states, in relevant part:

HREA does not believe this inherent conflict exists for KIUC. Given that and Parties' discussions on May 11, 2006, it was agreed that "Alternate market structures will not apply to KIUC provided that KIUC hire a DSM consultant and/or consult with a third party DSM administrator (or fund administrator) if and when formed," per meeting notes by C. Freedman.

In connection with the above, the following summarizes KIUC's understanding of the consensus reached by the parties/participants present at the May 11, 2006 settlement meeting on four of the five issues established for this proceeding as they pertain to KIUC, together with some background on each issue:

Docket Issue No. 2: What market structure(s) is the most appropriate for providing these or other DSM programs (e.g., utility-only, utility in competition with non-utility providers, non-utility providers)?

Consensus: As it pertains to KIUC, an electric cooperative essentially owned by its customers, there should be no change to the market structure by which KIUC currently develops and administers its DSM programs, provided that, as recommended by HREA and agreed upon by KIUC, KIUC hire a DSM consultant and/or consult with a third party or fund administrator if and when appropriate.

Background:

- Under the current structure, KIUC, at its discretion, either conducts its own DSM/energy services programs or contracts it out to a third party as appropriate. During the meeting, KIUC stated that this structure best supports the cooperative model, whereby DSM could be integrated with other energy services offerings.
- KIUC also noted that it strives to provide a level of service to its members even higher than that allowed or established by the current DSM evaluation criteria, and as such, KIUC is currently implementing programs that go beyond simple cost effectiveness. Examples given were: (1) KIUC's current appliance rebate program, whereby KIUC pays a rebate to any member that purchases a qualifying energy efficient appliance, and (2) KIUC's current solar rebate and loan program whereby KIUC either pays rebates or provides (through third-party lending institutions) no-interest loans for the installation of solar water heating systems. In both examples, KIUC does not screen for cost effectiveness and the programs are funded by the program budget approved by KIUC's Board of Directors (who are elected directly by KIUC's customer/members to represent their interests).
- KIUC also noted that the direct install DSM programs offered by KIUC during the past 7 years have significantly penetrated the residential markets. As a result, the current remaining markets may be too small to overcome the fixed cost associated with a full-scale DSM-type program. KIUC stated that they believe that these small markets can best be served with energy efficiency programs that combine DSM programs with other energy service programs.
- KIUC also stated that the commercial programs are an integral part of its Commercial Enhanced Energy Services offering and Key Accounts program, through which solutions to commercial customer's high-energy costs are achieved through a mix of DSM-type measures with other energy service-type measures, such as power factor correction.

Docket Issue No. 3: For utility-incurred costs, what cost recovery mechanism(s) is appropriate (e.g., base rates, fuel clause, IRP Clause)?



shareholders is essentially a charge that will be returned to the ratepayers (aka shareholders).

In addition, with respect to Docket Issue No. 1 (Whether energy efficiency goals should be established and if so, what the goals should be for the State), it is also KIUC's understanding that, during prior discussions amongst the parties, an agreement was also reached that energy efficiency goals should not be established, as it pertains specifically to KIUC.

Please confirm whether KIUC's understanding of the above consensus is correct, as they apply to KIUC. If not, please explain why KIUC's understanding is incorrect.

**The following information request is directed to HAWAII SOLAR ENERGY ASSOCIATION ("HSEA") and is based on HSEA's Final Statement of Position ("SOP"):**

**KIUC-SOP-IR-5      Ref: HSEA Final SOP, pages 4 and 5.**

In its Final SOP, HSEA states, in relevant part:

The HSEA represents a number of licensed contractors with extensive statewide DSM program experience. In the context of the Energy Efficiency Docket our membership is most concerned about practical program issues such as appropriate rebate and incentive levels, the effectiveness of program marketing and promotion, paperwork and process simplification, timely inspections, fair and reasonable technical specifications, unbiased grievance resolution, and other basic program design and implementation issues that impact their businesses on a daily basis. A small minority of members have expressed concerns regarding potential anti-competitive practices raised by these "voluntary" DSM programs and other perceived market distortions caused by the utility's presence within our industry.

HSEA was present during the discussions relating to KIUC at the May 11, 2006 settlement meeting. In connection with the above, the following summarizes KIUC's understanding of the consensus reached by the parties/participants present at the May 11, 2006 settlement meeting, including HSEA, on four of the five issues established for this proceeding as they pertain to KIUC, together with some background on each issue:

Docket Issue No. 2: What market structure(s) is the most appropriate for providing these or other DSM programs (e.g., utility-only, utility in competition with non-utility providers, non-utility providers)?

Consensus: As it pertains to KIUC, an electric cooperative essentially owned by its customers, there should be no change to the market structure by which KIUC currently develops and administers its DSM programs, provided that, as recommended by HREA and agreed upon by KIUC, KIUC hire a DSM consultant and/or consult with a third party or fund administrator if and when appropriate.

Background:

- Under the current structure, KIUC, at its discretion, either conducts its own DSM/energy services programs or contracts it out to a third party as appropriate. During the meeting, KIUC stated that this structure best supports the cooperative model, whereby DSM could be integrated with other energy services offerings.
- KIUC also noted that it strives to provide a level of service to its members even higher than that allowed or established by the current DSM evaluation criteria, and as such, KIUC is currently implementing programs that go beyond simple cost effectiveness. Examples given were: (1) KIUC's current appliance rebate program, whereby KIUC pays a rebate to any member that purchases a qualifying energy efficient appliance, and (2) KIUC's current solar rebate and loan program whereby KIUC either pays rebates or provides (through third-party lending institutions) no-interest loans for the installation of solar water heating systems. In both examples, KIUC does not screen for cost effectiveness and the programs are funded by the program budget approved by KIUC's Board of Directors (who are elected directly by KIUC's customer/members to represent their interests).
- KIUC also noted that the direct install DSM programs offered by KIUC during the past 7 years have significantly penetrated the residential markets. As a result, the current remaining markets may be too small



this issue does not apply to a not-for-profit, member-owned cooperative such as KIUC.

Docket Issue No. 5: Whether DSM incentive mechanisms are appropriate to encourage the implementation of DSM programs, and, if so, what is the appropriate mechanism(s) for such DSM incentives?

Consensus: As it pertains to KIUC, the use of financial incentives to facilitate the pursuit of DSM programs are not applicable to KIUC. KIUC's ratepayers and shareholders are essentially one and the same, and as such, any financial incentive charged to the ratepayers to benefit the shareholders is essentially a charge that will be returned to the ratepayers (aka shareholders).

In addition, with respect to Docket Issue No. 1 (Whether energy efficiency goals should be established and if so, what the goals should be for the State), it is also KIUC's understanding that, during prior discussions amongst the parties, an agreement was also reached that energy efficiency goals should not be established, as it pertains specifically to KIUC.

Please confirm whether KIUC's understanding of the above consensus is correct, as they apply to KIUC. If not, please explain why KIUC's understanding is incorrect.

**The following information request is directed to LIFE OF THE LAND ("LOL") and is based on LOL's Final Statement of Position ("SOP"):**

**KIUC-SOP-IR-6      Ref: LOL Final SOP, page 7.**

In its Final SOP, LOL states, in relevant part:

LOL proposes that Hawai'i PUC issue a Request for Proposal ("RFP") to establish an efficiency utility to administer energy efficiency programs. There would be one statewide energy efficiency utility (although some may argue that county entities would be better). The cleanest way is for Load Management programs to stay with the utility (we are open to further discussion on this).



markets. As a result, the current remaining markets may be too small to overcome the fixed cost associated with a full-scale DSM-type program. KIUC stated that they believe that these small markets can best be served with energy efficiency programs that combine DSM programs with other energy service programs.

- KIUC also stated that the commercial programs are an integral part of its Commercial Enhanced Energy Services offering and Key Accounts program, through which solutions to commercial customer's high-energy costs are achieved through a mix of DSM-type measures with other energy service-type measures, such as power factor correction.

Docket Issue No. 3: For utility-incurred costs, what cost recovery mechanism(s) is appropriate (e.g., base rates, fuel clause, IRP Clause)?

Consensus: As it pertains to KIUC, KIUC should be able to recover its utility-incurred costs from its members and customers via cost recovery mechanisms that are deemed most appropriate for KIUC's situation and cooperative structure.

Background: As a not-for-profit, member-owned cooperative for which the traditional rate base method of ratemaking is not applicable, KIUC anticipates working with the Commission and the Consumer Advocate at some point in the future to determine the most appropriate cost recovery mechanism that should apply not only to energy efficiency costs, but to all of its costs of operation in general. This is a matter that should be decided at the time of KIUC's first rate case or deregulation proceeding, and is outside of the context of the subject proceeding.

Docket Issue No. 4: For utility-incurred costs, what types of costs are appropriate for recovery?

Consensus: As it pertains to KIUC, KIUC should be able to recover all of its incurred costs associated with energy efficiency programs.

Background: During the meeting, KIUC explained that this cost recovery issue seems to involve whether DSM program costs should be recovered from the utility's ratepayers or instead paid for by the utility's shareholders. KIUC explained that this is not applicable to KIUC (i.e., a not-for-profit, member-owned cooperative with the ratepayers and the shareholders essentially being one and the same). In the end, it is our understanding that all parties present agreed that KIUC should be allowed to recover its costs associated with energy efficiency programs.

As a side note, during the meeting, we also understand that the parties considered whether there should be a revenue erosion mechanism and if so, what should this mechanism be. For the same reasons as Docket

Issue No. 3, it is our understanding that the parties present agreed that this issue does not apply to a not-for-profit, member-owned cooperative such as KIUC.

Docket Issue No. 5: Whether DSM incentive mechanisms are appropriate to encourage the implementation of DSM programs, and, if so, what is the appropriate mechanism(s) for such DSM incentives?

Consensus: As it pertains to KIUC, the use of financial incentives to facilitate the pursuit of DSM programs are not applicable to KIUC. KIUC's ratepayers and shareholders are essentially one and the same, and as such, any financial incentive charged to the ratepayers to benefit the shareholders is essentially a charge that will be returned to the ratepayers (aka shareholders).

In addition, with respect to Docket Issue No. 1 (Whether energy efficiency goals should be established and if so, what the goals should be for the State), it is also KIUC's understanding that, during prior discussions amongst the parties, an agreement was also reached that energy efficiency goals should not be established, as it pertains specifically to KIUC.

Please confirm whether KIUC's understanding of the above consensus is correct, as they apply to KIUC. If not, please explain why KIUC's understanding is incorrect.

**The following information request is directed to COUNTY OF MAUI ("CoM") and is based on CoM's Final Statement of Position ("SOP"):**

**KIUC-SOP-IR-7     Ref: CoM Final SOP, page 3.**

In its Final SOP, the CoM states that it "does not take positions relating to The Gas Company or Kauai Island Utility Cooperative."

However, in connection with the above, the following summarizes KIUC's understanding of the consensus reached by the parties/participants

present at the May 11, 2006 settlement meeting, including CoM, on four of the five issues established for this proceeding as they pertain to KIUC, together with some background on each issue:

Docket Issue No. 2: What market structure(s) is the most appropriate for providing these or other DSM programs (e.g., utility-only, utility in competition with non-utility providers, non-utility providers)?

Consensus: As it pertains to KIUC, an electric cooperative essentially owned by its customers, there should be no change to the market structure by which KIUC currently develops and administers its DSM programs, provided that, as recommended by HREA and agreed upon by KIUC, KIUC hire a DSM consultant and/or consult with a third party or fund administrator if and when appropriate.

Background:

- Under the current structure, KIUC, at its discretion, either conducts its own DSM/energy services programs or contracts it out to a third party as appropriate. During the meeting, KIUC stated that this structure best supports the cooperative model, whereby DSM could be integrated with other energy services offerings.
- KIUC also noted that it strives to provide a level of service to its members even higher than that allowed or established by the current DSM evaluation criteria, and as such, KIUC is currently implementing programs that go beyond simple cost effectiveness. Examples given were: (1) KIUC's current appliance rebate program, whereby KIUC pays a rebate to any member that purchases a qualifying energy efficient appliance, and (2) KIUC's current solar rebate and loan program whereby KIUC either pays rebates or provides (through third-party lending institutions) no-interest loans for the installation of solar water heating systems. In both examples, KIUC does not screen for cost effectiveness and the programs are funded by the program budget approved by KIUC's Board of Directors (who are elected directly by KIUC's customer/members to represent their interests).
- KIUC also noted that the direct install DSM programs offered by KIUC during the past 7 years have significantly penetrated the residential markets. As a result, the current remaining markets may be too small to overcome the fixed cost associated with a full-scale DSM-type program. KIUC stated that they believe that these small markets can best be served with energy efficiency programs that combine DSM programs with other energy service programs.
- KIUC also stated that the commercial programs are an integral part of its Commercial Enhanced Energy Services offering and Key Accounts

program, through which solutions to commercial customer's high-energy costs are achieved through a mix of DSM-type measures with other energy service-type measures, such as power factor correction.

Docket Issue No. 3: For utility-incurred costs, what cost recovery mechanism(s) is appropriate (e.g., base rates, fuel clause, IRP Clause)?

Consensus: As it pertains to KIUC, KIUC should be able to recover its utility-incurred costs from its members and customers via cost recovery mechanisms that are deemed most appropriate for KIUC's situation and cooperative structure.

Background: As a not-for-profit, member-owned cooperative for which the traditional rate base method of ratemaking is not applicable, KIUC anticipates working with the Commission and the Consumer Advocate at some point in the future to determine the most appropriate cost recovery mechanism that should apply not only to energy efficiency costs, but to all of its costs of operation in general. This is a matter that should be decided at the time of KIUC's first rate case or deregulation proceeding, and is outside of the context of the subject proceeding.

Docket Issue No. 4: For utility-incurred costs, what types of costs are appropriate for recovery?

Consensus: As it pertains to KIUC, KIUC should be able to recover all of its incurred costs associated with energy efficiency programs.

Background: During the meeting, KIUC explained that this cost recovery issue seems to involve whether DSM program costs should be recovered from the utility's ratepayers or instead paid for by the utility's shareholders. KIUC explained that this is not applicable to KIUC (i.e., a not-for-profit, member-owned cooperative with the ratepayers and the shareholders essentially being one and the same). In the end, it is our understanding that all parties present agreed that KIUC should be allowed to recover its costs associated with energy efficiency programs.

As a side note, during the meeting, we also understand that the parties considered whether there should be a revenue erosion mechanism and if so, what should this mechanism be. For the same reasons as Docket Issue No. 3, it is our understanding that the parties present agreed that this issue does not apply to a not-for-profit, member-owned cooperative such as KIUC.

Docket Issue No. 5: Whether DSM incentive mechanisms are appropriate to encourage the implementation of DSM programs, and, if so, what is the appropriate mechanism(s) for such DSM incentives?

Consensus: As it pertains to KIUC, the use of financial incentives to facilitate the pursuit of DSM programs are not applicable to KIUC. KIUC's ratepayers and shareholders are essentially one and the same, and as such, any financial incentive charged to the ratepayers to benefit the shareholders is essentially a charge that will be returned to the ratepayers (aka shareholders).

In addition, with respect to Docket Issue No. 1 (Whether energy efficiency goals should be established and if so, what the goals should be for the State), it is also KIUC's understanding that, during prior discussions amongst the parties, an agreement was also reached that energy efficiency goals should not be established, as it pertains specifically to KIUC.

Please confirm whether KIUC's understanding of the above consensus is correct or whether CoM has no position, as they apply to KIUC. To the extent CoM disagrees with any portions of the above consensus, please explain why KIUC's understanding is incorrect.

**The following information request is directed to ROCKY MOUNTAIN INSTITUTE ("RMI") and is based on RMI's Final Statement of Position ("SOP"):**

**KIUC-SOP-IR-8      Ref: RMI Final SOP, page 12.**

In its Final SOP, RMI states, in relevant part:

The existing utility-only market structure should apply to Kauai Island Utility Cooperative (KIUC) rather than any alternative market structure except that, if a statewide non-utility DSM administrator (or fund administrator) is established, KIUC should work in partnership to the extent that benefits to KIUC's customers can best benefit.

In connection with the above, the following summarizes KIUC's understanding of the consensus reached by the parties/participants

present at the May 11, 2006 settlement meeting, including RMI, on four of the five issues established for this proceeding as they pertain to KIUC, together with some background on each issue:

Docket Issue No. 2: What market structure(s) is the most appropriate for providing these or other DSM programs (e.g., utility-only, utility in competition with non-utility providers, non-utility providers)?

Consensus: As it pertains to KIUC, an electric cooperative essentially owned by its customers, there should be no change to the market structure by which KIUC currently develops and administers its DSM programs, provided that, as recommended by HREA and agreed upon by KIUC, KIUC hire a DSM consultant and/or consult with a third party or fund administrator if and when appropriate.

Background:

- Under the current structure, KIUC, at its discretion, either conducts its own DSM/energy services programs or contracts it out to a third party as appropriate. During the meeting, KIUC stated that this structure best supports the cooperative model, whereby DSM could be integrated with other energy services offerings.
- KIUC also noted that it strives to provide a level of service to its members even higher than that allowed or established by the current DSM evaluation criteria, and as such, KIUC is currently implementing programs that go beyond simple cost effectiveness. Examples given were: (1) KIUC's current appliance rebate program, whereby KIUC pays a rebate to any member that purchases a qualifying energy efficient appliance, and (2) KIUC's current solar rebate and loan program whereby KIUC either pays rebates or provides (through third-party lending institutions) no-interest loans for the installation of solar water heating systems. In both examples, KIUC does not screen for cost effectiveness and the programs are funded by the program budget approved by KIUC's Board of Directors (who are elected directly by KIUC's customer/members to represent their interests).
- KIUC also noted that the direct install DSM programs offered by KIUC during the past 7 years have significantly penetrated the residential markets. As a result, the current remaining markets may be too small to overcome the fixed cost associated with a full-scale DSM-type program. KIUC stated that they believe that these small markets can best be served with energy efficiency programs that combine DSM programs with other energy service programs.
- KIUC also stated that the commercial programs are an integral part of its Commercial Enhanced Energy Services offering and Key Accounts



Consensus: As it pertains to KIUC, the use of financial incentives to facilitate the pursuit of DSM programs are not applicable to KIUC. KIUC's ratepayers and shareholders are essentially one and the same, and as such, any financial incentive charged to the ratepayers to benefit the shareholders is essentially a charge that will be returned to the ratepayers (aka shareholders).

In addition, with respect to Docket Issue No. 1 (Whether energy efficiency goals should be established and if so, what the goals should be for the State), it is also KIUC's understanding that, during prior discussions amongst the parties, an agreement was also reached that energy efficiency goals should not be established, as it pertains specifically to KIUC.

Please confirm whether KIUC's understanding of the above consensus is correct, as they apply to KIUC. If not, please explain why KIUC's understanding is incorrect.

**The following information request are directed to THE DIVISION OF CONSUMER ADVOCACY ("Consumer Advocate") and is based on the Consumer Advocate's Final Statement of Position ("SOP"):**

**KIUC-SOP-IR-9      Ref: Consumer Advocate Final SOP, page 13.**

In its Final SOP, the Consumer Advocate states that the "Commission should retain, at least for the present, the established 'market structure' in which Hawaii's electric utilities are the administrators of DSM resources."

In connection with the above, it is KIUC's understanding that the Consumer Advocate was not present during at least that portion of the May 11, 2006 settlement meeting that dealt specifically with KIUC. In connection with the above, the following summarizes KIUC's

understanding of the consensus reached by the parties/participants present during those discussions on four of the five issues established for this proceeding as they pertain to KIUC, together with some background on each issue:

Docket Issue No. 2: What market structure(s) is the most appropriate for providing these or other DSM programs (e.g., utility-only, utility in competition with non-utility providers, non-utility providers)?

Consensus: As it pertains to KIUC, an electric cooperative essentially owned by its customers, there should be no change to the market structure by which KIUC currently develops and administers its DSM programs, provided that, as recommended by HREA and agreed upon by KIUC, KIUC hire a DSM consultant and/or consult with a third party or fund administrator if and when appropriate.

Background:

- Under the current structure, KIUC, at its discretion, either conducts its own DSM/energy services programs or contracts it out to a third party as appropriate. During the meeting, KIUC stated that this structure best supports the cooperative model, whereby DSM could be integrated with other energy services offerings.
- KIUC also noted that it strives to provide a level of service to its members even higher than that allowed or established by the current DSM evaluation criteria, and as such, KIUC is currently implementing programs that go beyond simple cost effectiveness. Examples given were: (1) KIUC's current appliance rebate program, whereby KIUC pays a rebate to any member that purchases a qualifying energy efficient appliance, and (2) KIUC's current solar rebate and loan program whereby KIUC either pays rebates or provides (through third-party lending institutions) no-interest loans for the installation of solar water heating systems. In both examples, KIUC does not screen for cost effectiveness and the programs are funded by the program budget approved by KIUC's Board of Directors (who are elected directly by KIUC's customer/members to represent their interests).
- KIUC also noted that the direct install DSM programs offered by KIUC during the past 7 years have significantly penetrated the residential markets. As a result, the current remaining markets may be too small to overcome the fixed cost associated with a full-scale DSM-type program. KIUC stated that they believe that these small markets can best be served with energy efficiency programs that combine DSM programs with other energy service programs.



Docket Issue No. 5: Whether DSM incentive mechanisms are appropriate to encourage the implementation of DSM programs, and, if so, what is the appropriate mechanism(s) for such DSM incentives?

Consensus: As it pertains to KIUC, the use of financial incentives to facilitate the pursuit of DSM programs are not applicable to KIUC. KIUC's ratepayers and shareholders are essentially one and the same, and as such, any financial incentive charged to the ratepayers to benefit the shareholders is essentially a charge that will be returned to the ratepayers (aka shareholders).

In addition, with respect to Docket Issue No. 1 (Whether energy efficiency goals should be established and if so, what the goals should be for the State), it is also KIUC's understanding that, during prior discussions amongst the parties, an agreement was also reached that energy efficiency goals should not be established, as it pertains specifically to KIUC.

Please advise whether the Consumer Advocate is agreeable to the above consensus on the above issues, as they apply to KIUC. If not, please explain why not.

**The following information request is directed to THE DEPARTMENT OF DEFENSE ("DOD") and is based on the DOD's Final Statement of Position ("SOP"):**

**KIUC-SOP-IR-10    Ref: DOD Final SOP, page 13.**

In its Final SOP, DOD states that it "hereby provides its statement of position on the programs and cost recovery proposals which Hawaiian Electric Company, Inc. (HECO) has made in this proceeding."

In connection with the above, it is KIUC's understanding that DOD was not present during at least that portion of the May 11, 2006 settlement meeting that dealt specifically with KIUC. In connection with the above,



- KIUC also stated that the commercial programs are an integral part of its Commercial Enhanced Energy Services offering and Key Accounts program, through which solutions to commercial customer's high-energy costs are achieved through a mix of DSM-type measures with other energy service-type measures, such as power factor correction.

Docket Issue No. 3: For utility-incurred costs, what cost recovery mechanism(s) is appropriate (e.g., base rates, fuel clause, IRP Clause)?

Consensus: As it pertains to KIUC, KIUC should be able to recover its utility-incurred costs from its members and customers via cost recovery mechanisms that are deemed most appropriate for KIUC's situation and cooperative structure.

Background: As a not-for-profit, member-owned cooperative for which the traditional rate base method of ratemaking is not applicable, KIUC anticipates working with the Commission and the Consumer Advocate at some point in the future to determine the most appropriate cost recovery mechanism that should apply not only to energy efficiency costs, but to all of its costs of operation in general. This is a matter that should be decided at the time of KIUC's first rate case or deregulation proceeding, and is outside of the context of the subject proceeding.

Docket Issue No. 4: For utility-incurred costs, what types of costs are appropriate for recovery?

Consensus: As it pertains to KIUC, KIUC should be able to recover all of its incurred costs associated with energy efficiency programs.

Background: During the meeting, KIUC explained that this cost recovery issue seems to involve whether DSM program costs should be recovered from the utility's ratepayers or instead paid for by the utility's shareholders. KIUC explained that this is not applicable to KIUC (i.e., a not-for-profit, member-owned cooperative with the ratepayers and the shareholders essentially being one and the same). In the end, it is our understanding that all parties present agreed that KIUC should be allowed to recover its costs associated with energy efficiency programs.

As a side note, during the meeting, we also understand that the parties considered whether there should be a revenue erosion mechanism and if so, what should this mechanism be. For the same reasons as Docket Issue No. 3, it is our understanding that the parties present agreed that this issue does not apply to a not-for-profit, member-owned cooperative such as KIUC.



## CERTIFICATE OF SERVICE

I (we) hereby certify that the foregoing document was duly served on the following Parties and Participants, by having said document delivered via electronic mail, hand delivered or mailed, postage prepaid and properly addressed to each said Parties' and Participants' respective addresses as set forth below:

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DATED: Honolulu, Hawaii, June 21, 2006.



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