BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF HAWAII

In the Matter of the Application 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

DEPARTMENT OF DEFENSE'S RESPONSE TO

HAWAIIAN ELECTRIC COMPANY, INC.'S INFORMATION REQUESTS

COMES NOW, DEPARTMENT OF DEFENSE ("Applicant") by and through its undersigned attorney, and hereby submits its Responses to Hawaiian Electric Company, Inc.'s ("HECO") Information Requests.

DATED: Honolulu, Hawaii, July 14 2006.

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ATTORNEY FOR
DEPARTMENT OF DEFENSE

Docket No. 05-0069
Department of Defense ("DOD") Responses to
Hawaiian Electric Company, Inc.'s Information Requests

Question No. HECO/DOD-FSOP-IR-101:

Ref: DOD FSOP, page 4. "Regulated electric utilities have an obligation to provide safe, reliable and adequate service at the lowest reasonable overall cost."

a. Would the DOD agree that utilities also have obligations beyond providing services at the lowest reasonable cost, such as advancing RPS and Energy Efficiency?

b. Does the DOD agree that under current rate making practices, a future plan which promotes aggressive energy efficiency programs and other demand-side alternatives without the existence of a shareholder incentive could be less profitable to pursue to the utility than a future plan that only promotes traditional supply-side options?

c. If answer to part "b." above is yes, how should a utility be compensated for pursuing these other objectives, which under current rate making policies may not be the most profitable for the utility?

Response:

a. DOD would agree that utilities have, as part of their overall public service obligation, the obligation to consider appropriate amounts of RPS and energy efficiency programs, consistent with the planning process. For example, increasing the diversity of resources available for supply may be an explicit component of prudent resource planning and consistent with the goal of providing safe, reliable and adequate service at the lowest reasonable overall cost. To the extent that there are imposed requirements above and beyond what a utility would undertake consistent with this obligation (i.e., mandates), then the utility also has an obligation to consider those mandates.

b. DOD would agree that this could be an outcome. However, it is also important to recognize that if DSM activities replace supply-side expansions, the utility's need to raise capital in large quantities will be reduced, the risk it places on shareholders with earnings pressure will be decreased and the utility also will have, under DSM programs, a more timely way to recover the DSM program costs than would be the case for typical supply-side alternatives.

c. As expressed in DOD's FSOP, utilities should be compensated for undertaking these reasonable and prudent courses of action in the same way that the utility is compensated for undertaking other activities. There is no basis to single out DSM programs and provide special "incentives" to the utility.

Question No. HECO/DOD-FSOP-IR-102:

Ref: DOD FSOP, page 6.

a. For a market structure whereby a third party administers DSM programs, what level of compensation (i.e., profits) does the DOD maintain is the appropriate level in order to encourage the pursuit of the successful implementation of cost-effective DSM programs?

b. What mechanism would the DOD propose for the compensation of the third party administrator of DSM programs (e.g., shared saving mechanism or a mark-up on program costs)?

Response:

a. DOD believes that the appropriate level of compensation would depend upon the nature of the third-party entity. To the extent that a third-party is involved, DOD would recommend that the third-party present evidence to the Commission in a hearing context, setting forth its perceived cost of capital and other elements of cost. The Commission would then make the decision as to the appropriate level of compensation for the third-party.

b. DOD would not support a "mark-up" approach, but could support some form of shared savings mechanism if appropriately structured.

Question No. HECO/DOD-FSOP-IR-103:

Ref: DOD FSOP, page 9, Footnote 6. Please provide a copy of the referenced Docket Nos. UE-950618.

Response:

A copy of the decision is attached.

Question No. HECO/DOD-FSOP-IR-104:

Ref: Decoupling. In RMI's FSOP (see pages 24-35 and Exhibit B), RMI is proposing a decoupling mechanism to decouple utility earnings from fluctuations in utility sales volumes.

a. Does the DOD support RMI's proposed decoupling mechanism?

b. If the answer to part "a." above is yes, does the DOD believe that RMI's decoupling mechanism proposal has been presented in sufficient detail to provide the Commission with

Response:

At the present time, DOD maintains that the utility should continue to administer load management programs. DOD would be willing to consider third-party load management programs, but is not asserting a position in favor of such a structure at this time.

CERTIFICATE OF SERVICE

I hereby certify that I have this date served one copy of the foregoing DEPARTMENT OF DEFENSE'SRESPONSES TO HAWAIIAN ELECTRIC COMPANY, INC. INFORMATION REQUESTS in Docket No. 05-0069 upon the following parties by causing copies hereof to be mailed, postage prepaid, and properly addressed to each such party, as noted below:

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