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PUBLIC UTILITIES
COMMISSION

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 the
July 26, 2006 Final Analysis of the Environmental Protection Agency**

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August 22, 2006

ATTORNEY FOR
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is just that – the risk of variations in sales, whether they are positive or negative, is shifted from the utility to the customers.

Incentive Mechanisms

At page 31, the Report characterizes DOD's position as favoring the "stick" without the "carrot" approach. This is a curious characterization, because it seems to equate the "stick" with the expectation that a utility will perform up to its public service obligation by installing the right amounts and kinds of resources (demand-side or supply-side) that produce the best outcome for consumers. DOD's position is that utilities should be expected to do a good job both with respect to demand-side resources and supply-side resources, and DOD sees no reason to single out demand-side resources from the rest of a utility's operations in order to create a special reward.

This comment is doubly curious because the very next sentence states:

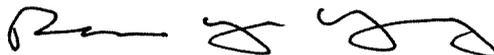
"However, DOD suggests that overall quality and performance of DSM management should be taken into account when operations are reviewed during a general rate case. If DSM program performance has been exemplary, the DOD states, then the Commission may take this into account when deciding rate of return."

DOD would point out, however, that it did not restrict the ability to reward superior performance just to DSM programs. As noted in the "Shareholder Incentives" section of DOD's Final Statement of Position, the Commission may take into account all factors in all aspects of a utility's operations in making these decisions, rather than focusing upon one particular factor to the exclusion of performance in other areas.

Conclusion

DOD appreciates the opportunity to provide these limited clarifying comments on the EPA's July 26, 2006 Report.

Respectfully submitted,



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