THE GAS COMPANY

November 15, 2004

The Honorable Chairman and Members of
The Hawaii Public Utilities Commission

465 S. King St. # 103
Honolulu, HI 96813
Attention: Catherine Awakuni, Commission Counsel

Re: Act 95 Workshops – November 22 – 23, 2004 – Initial Concept Paper

Dear Commissioners:

The Gas Company, LLC ("TGC") has reviewed the Commission's November 1, 2004 initial concept paper on Electric Utility Rate Design in Hawaii. Because our products compete with electricity for many loads, including water heating, cooking, and drying, any changes in electric rates or rate structures will undoubtedly have an impact on our business. Accordingly, we appreciate the opportunity to participate in the workshops and submit these brief comments at the outset of the Commission's ambitious undertaking to implement Act 95.

Response to Paragraph 21:

TGC believes that a California-like system, where electric utilities are allowed to count the CHP and other distributed generation owned or developed by customers or others in their franchise territories toward their RPS percentages, should be considered. This would help to ensure installation of the most cost effective CHP by customers, regardless of ownership, while supporting the underlying intent of RPS.

TGC shares the Commission's concerns as to whether the negative externalities associated with fossil fuels are properly quantified and valued for purposes of RPS, competitive bidding for new generation, and lowest reasonable cost IRP planning, and agrees that the locational costs (both tangible and intangible) of renewable energy is key.

Response to Paragraphs 29, 40, 46 and 58:

Although the Commission currently operates under a cost-of-service (COS) regulatory regime, Hawaii's electric rates do not reflect true class cost of service, due to interclass and intraclass cross subsidies. TGC believes that Hawaii's existing rate design needs to be returned to class cost of service before it can serve as a valid Status Quo model for comparing forms of incentive rates.

TGC's limited experience with price cap and revenue cap performance-based ratemaking on the mainland is that there are numerous flaws in almost all models, and adapting those models to Hawaii would raise formidable challenges. Significantly, however, mainland incentive ratemaking precedent is geared to cost-cutting and financial rewards more than to incentives toward RPS compliance. As a result, TGC believes that creative design of an incentive structure will be needed to accomplish both goals.

In general, TGC prefers revenue-cap PBR to price cap PBR, in that the former rewards utilities that have already instituted internal cost-cutting measures. Although TGC favors competition from non-utility electric generation and inter-fuel competition over incentive regulation, economies of scope and scale in some Hawaii markets may require that some form of regulation remain in effect. We look forward to exploring what might be the optimal form of regulation for our unique island markets.

Very truly yours,

Steven P. Golden
Director, External Affairs & Planning