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Catherine P. Awakuni, Esq.
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465 South King Street, Room 103
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Subject: Act 95 Workshops

Dear Ms. Awakuni:

This letter responds to Chair Caliboso's request for comments on the issues described in paragraphs 21, 29, 40, 46, 53, and 58 of the Commission's initial concept paper.

1. Comments regarding paragraph 21:

This paragraph requests comments on the following status and prospects of regulation under renewable portfolio standards (RPS), various alternatives for renewable energy resources, viability of renewable energy investments, locational cost of renewable energy, successful RPS schemes and electric utility rate design. I will address these issues in the context of the island (and County) of Kaua'i.

Any regulatory requirements regarding RPS for the Kaua'i Island Utility Cooperative (KIUC) need to take into consideration (1) the status of the utility as a cooperative, (2) the fact that the utility's operations are limited to one, lightly populated island, (3) and the limited resources of the cooperative. Regulatory requirements appropriate for the HEI companies may not be appropriate because KIUC simply does not have the resources necessary to implement programs of significant cost. KIUC does not have affiliates on other islands that could share the RPS requirements, nor does it have the possibility of as many customer-owned distributed generation facilities as the HEI group. Simply put, RPS programs such as utilized in mainland jurisdictions or appropriate to

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larger utilities and locations must take into account the small utility market on Kaua'i so that ratepayer/members are not unduly burdened.

In addition, the small size of the island and the market limit the alternatives for renewable energy resources, affect the viability of renewable energy investments, and raise the locational cost of renewable energy. Alternatives for renewable energy resources are limited. The island does not have geothermal resources and wood resources. Although KIUC receives power from a hydroelectric plant, the plant was built in the 1930s, and subsequent efforts to build new hydroelectric generating facilities have failed because of siting issues. The County is presently engaged in studies to assess the generating potential of its landfill gas and municipal solid waste, but generation from these sources may not occur for some time, and, in any case, KIUC foresees no need for additional generating capacity until 2012.

Investor interest in renewable energy generation may be low, due to the small market. The lack of interest in energy investment on the whole is illustrated by Citizens Utilities' inability to find a willing private sector purchaser for Kaua'i Electric, predecessor to KIUC. In addition, the viability of investments is affected by obstacles to siting new generation. The island community of Kaua'i protects its pristine natural resources. On a small island siting new generation, whether from renewable-based or otherwise without affecting natural resources may be challenging. Limited availability of suitable land to site solar or wind farms and the high cost of land are obstacles to siting, since large landowners may find it more economically feasible to develop their land for housing, rather than devote the property to less-lucrative solar or wind farms.

Despite these obstacles, appropriately-sized renewable energy power generation (whether utility or customer owned) may be feasible. For example, current plantation operators may consider increasing their ability to generate power by burning a combination of agricultural waste, municipal solid waste, and waste from private haulers. Similarly, the County, as stated above, is reviewing waste disposal technology that may generate power for the County and other large users as well as photovoltaic systems in the Civic Center and other County facilities.

Finally, utility rate design will do less to promote the use of renewable energy resources than substantial subsidies or incentives from the federal government, the State, or the county (such as tax incentives or permitting exemptions). As an additional observation, study of the components of the rates on Kaua'i may not lead to the conclusion that the landed cost of conventional fuels on the island compares favorably to costs due to the obstacles to renewable energy generation discussed above. Thus, active promotion of renewables through incentives and subsidies may be appropriate.

2. Comments regarding paragraph 29:

This issue solicits comments regarding the impact of regulation on utility behavior, the status and prospects of regulation under PRB, alternative regulatory regimes available,

regulation and power sector restructuring in Hawai'i, and successful PBR regimes and utility rate design.

It is undisputed that regulation has a significant impact on utility behavior. For this reason, the County of Kaua'i has advocated regulatory oversight in the Commission's pending distributed generation docket (DG), because it believes regulatory requirements can best ensure that the utility's DG policies take into consideration the interests of KIUC subscribers as members and consumers. As consumers, KIUC customers need regulatory guidelines to promote robust and even competition among utility and non-utility vendors. As members, KIUC customers need regulatory guidelines and constraints to prevent ratepayer cross-subsidization of the utility's DG sales program.

However, it may be difficult to craft an appropriate regulatory PBR regime which will deliver real benefits to a small island. The initial concept paper accurately concludes that "the design of a PBR regime requires a huge effort by all stakeholders," and that even if a PBR regime is designed and implemented in Hawai'i, "the absence of interconnection among utilities and islands and the small size of the State's utility systems" lead to "one key assumption ... that power sector restructuring and deregulation are unlikely to occur in the short run." These conclusions are more compelling on the island of Kaua'i. The costs to KIUC to developing an appropriate PBR regime will be substantial, and if restructuring and deregulation are unlikely to occur, the member/owners may not see benefits, despite the costs. Requirements imposed on KIUC by RUS, its government lender, may also limit or exclude the best PBR options. Finally, regulatorily-mandated PBR may not be as beneficial for a co-op as for an investor-owned utility.

3. Comments regarding paragraph 40:

This paragraph requests comments on simulation models, the objective of the baseline simulations, the choice of base year, design of inputs and congruence between simulation outputs and market realities.

I lack the necessary technical skills to analyze the proposed power market simulation model. However, I can offer the generic comment that the proposed baseline years of 2003 or 2004 may be too restrictive to capture definitive and long-term consumption patterns, profiles, or load levels for Kaua'i. First, the island has just returned to pre-Hurricane Iniki (September 1992) population levels in 2004. Therefore, the base year results for 2003 or 2004 for KIUC may not be typical of the power market of Hawai'i. In addition, due to the small market size on the island of Kaua'i, any major event, such as a natural disaster, economic disaster, or departure of a major customer is likely to cause significant variances that must be accounted for in the model in order to yield results that "make sense."

4. Comments regarding paragraph 46:

This paragraph request comments on the objective of the status quo simulations, the choice of the study period, design of inputs, candidate projects for renewable investments and forecast rate designs under the continuation of cost-of-service regulation.

Again, I do not have the technical experience to fully analyze the proposed simulation. However, if the simulation is based on the overall Hawai'i market, it may not be relevant and appropriate for Kaua'i, and the cost of a KIUC-only study may not yield corresponding benefits.

5. Comments regarding paragraphs 53 and 58:

These paragraphs request, among others, comments on the objective of the status quo simulations, alternative scenarios simulations, choice of the study period, design of inputs, candidate incentive or PBR regimes, forecast rate designs under incentive or PBR regimes, and the nature, scope, and duration of penalties, if needed, for future non-compliance with the RPS.

If incentive or PBR regimes do not offer meaningful benefits to small island markets, the cost of conducting the proposed alternative scenario simulations may be more than the benefit to KIUC or its member/customers. With regard to penalties, the Commission might consider promoting incentives to utilities to aggressively promote renewables in addition to penalties for failure to meet RPS standards.

Thank you for the opportunity to provide comments. Please call me at (808) 241-6315 if you have any questions.

Very truly yours,



LANI D. H. NAKAZAWA
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