

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

In the Matter of the Application of)
HAWAIIAN ELECTRIC COMPANY, INC.)
For Approval of a Residential)
Efficient Water Heating Program,)
Recovery of Program Costs and)
Lost Revenues, and Consideration)
For Shareholder Incentives.)

DOCKET NO. 94-0206

DECISION AND ORDER NO. 23750

Filed October 22, 2007
At 1:30 o'clock P.M.

Bonnie K. Kane
for Chief Clerk of the Commission

DIV. OF CONSUMER ADVOCACY
DEPT. OF COMMERCE AND
CONSUMER AFFAIRS
STATE OF HAWAII

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Bonnie K. Kane

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For Shareholder Incentives,)

Docket No. 94-0206
Decision and Order No. **23750**

DECISION AND ORDER

By this Decision and Order, the commission approves HAWAIIAN ELECTRIC COMPANY, INC.'s ("HECO") request to increase the 2007 budget for the Residential Efficient Water Heating ("REWH") Program by \$989,293, from \$2,735,836 to \$3,725,129 to respond to higher than forecasted customer participation in the REWH Program.

I.

Background

The REWH Program promotes the sale, installation, and use of energy-efficient water heaters in the residential market. Currently, the incentives are offered in conjunction with available state and federal tax credits. To participate in the solar water-heating component of the program, customers may call a participating solar contractor or HECO's office to receive a program application, and then purchase a solar water-heating

system from a participating contractor.¹ The contractor will fill out the application and give the customer an instant rebate.² To participate in the energy-efficient standard water heating program, a customer can simply mail in a copy of their invoice along with an incentive coupon.³

In its REWH Program application⁴ HECO requested (1) approval of its proposed REWH Program; (2) recovery of its program costs and associated revenue taxes, if applicable, for the first five years, estimated at \$46.1 million; (3) recovery of its lost revenue margin and associated revenue taxes, if applicable, estimated at \$17 million for the first five years of the REWH Program; and (4) shareholder incentive at a level equal to 10 percent of the net value of savings on an after-tax basis, estimated at \$8.3 million.

By Decision and Order No. 14730, filed on June 5, 1996, in this docket, the commission approved HECO's REWH Program. In doing so, the commission approved HECO's mechanisms for the recovery of its program costs and lost margins; and HECO's mechanism for the calculation of shareholder incentives. By Decision and Order No. 18208, filed on November 27, 2000, in

¹See Decision and Order No. 23258 ("Decision and Order No. 23258"), filed on February 13, 2007, as clarified by Order No. 23448, filed on May 21, 2007, in Docket No. 05-0069 ("Energy Efficiency docket") at 74-75.

²See Decision and Order No. 23258, at 74-75.

³See Decision and Order No. 23258, at 75.

⁴See Decision and Order No. 14730, filed on June 5, 1996, in Docket No. 94-0206.

this docket, the commission approved HECO's request to extend the REWH Program for one year (until December 31, 2001).

By Decision and Order No. 19020, filed on November 15, 2001, in Docket No. 00-0209, the commission approved HECO's request to extend the REWH Program until HECO's next rate case (anticipated to be filed within two to three years). The Decision and Order also increased customer incentives for solar water heaters in existing facilities to \$750 (from \$500) and reduced the customer incentives in new construction to \$750 (from \$1,000). Thereafter, by Decision and Order No. 20392, filed on August 26, 2003, in Docket No. 00-0209, the commission approved a request to extend HECO's next rate case by twelve additional months such that a 2005 test year would be utilized.

By Decision and Order No. 21698, filed on March 16, 2005, in Docket Nos. 04-0113 and 05-0069, the commission separated HECO's proposed Demand-Side Management ("DSM") programs from Docket No. 04-0113 (its rate case docket), and opened the Energy Efficiency Docket. In so doing, the commission ordered that HECO could continue its existing REWH Program approved in Docket No. 94-0206, among other things.

In Decision and Order No. 23258, filed in the Energy Efficiency docket, HECO claimed that the REWH Program resulted in a net reduction of 10.5 megawatts of demand and 46,315 megawatt hours ("MWh") of energy between its inception in mid-1996 and 2005.⁵ HECO proposed to enhance the REWH Program by increasing the incentives for solar water heating from \$750 to

⁵See Decision and Order No. 23258, at 74.

\$1,000 and increasing marketing efforts.⁶ The higher incentives (1) would take advantage of, and reinforce the new 30% federal tax credit effective from 2006 until December 31, 2007; (2) was consistent with legislative action which increased the cap for the state tax credit from \$1,750 to \$2,250; and (3) was consistent with the trend toward higher costs for solar water heating systems.⁷

By Decision and Order No. 23258, the commission approved HECO's requests for several DSM programs, including REWH. Collectively, the Energy Efficiency programs are designed to achieve energy-efficiency goals, be implemented in a cost-effective manner, and provide HECO with additional megawatts of peak demand savings to help reduce its reserve capacity shortfall.⁸ Significantly, in Decision and Order No. 23258, the commission did not approve any particular program costs, but reserved such decisions for future proceedings.⁹ The commission also denied HECO's flexibility requests with respect to its DSM programs, but permitted HECO to seek modifications to its DSM programs by letter request, pending the opening of a new docket.

On August 29, 2007, HECO filed a letter ("HECO's Letter") requesting commission approval to increase the 2007

⁶See Decision and Order No. 23258, at 75.

⁷See Decision and Order No. 23258, at 75.

⁸See Decision and Order No. 23258, at 108-09.

⁹See Decision and Order No. 23258, filed in the Energy Efficiency docket at 110.

budget for the REWH Program by \$989,293, from \$2,735,836 to \$3,725,129, in response to higher than forecasted customer participation in the program.

On October 18, 2007, the DIVISION OF CONSUMER ADVOCACY, DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS ("Consumer Advocate")¹⁰ submitted a letter to the commission stating that it does not object to the commission's approval of the budget increase.

II.

Discussion

HECO states that its requested budget increase "will provide additional funding for customer incentives and application processing costs, without disrupting the progress achieved in the program, to allow HECO to continue to encourage residential customers to conserve energy by installing solar or high efficiency water heaters."¹¹

HECO explains that previously, it anticipated approximately 1,400 solar water heating systems and 1,400 high-efficiency water heater installations.¹² In the six-month period from January to July 2007, 1,328 solar water heating systems and

¹⁰The Consumer Advocate is an ex officio party to all proceedings before the commission pursuant to HRS § 269-51 and Hawaii Administrative Rules ("HAR") § 6-61-62.

¹¹See HECO's letter at 1.

¹²See HECO's Letter at 2.

459 high-efficiency water heaters have been installed.¹³ HECO now forecasts a total of 2,521 solar water heating systems and 915 high-efficiency water heaters will be installed in 2007.¹⁴

HECO previously expected 864 kilowatts ("kW") and 3,767 MWh of energy savings. It now anticipates 1,320 kW of gross demand reduction and 5,819 MWh of energy savings for 2007. HECO represents that the load reduction will help mitigate HECO's reserve capacity shortfall situation. HECO claims that "until sufficient generating capacity can be added to the HECO system, HECO will experience a higher risk of generation-related customer outages, in particular during the 2007-2009 timeframe."¹⁵

Of the \$1,470,000 budgeted for incentives in 2007, HECO has already dispensed \$1,269,855 of that amount in the period from January to July 2007. Regarding the budget for application processing costs, HECO has used approximately \$268,658 of the total budgeted amount of \$504,242 for 2007 in the period from January to July 2007. Also, HECO's estimated benefit to cost ratios for 2007, with the exception of the Rate Impact Measure ("RIM") test, are above one.¹⁶

In addition, the commission notes that HECO has only used a fraction of the amounts budgeted for advertising and marketing (\$498,740 budgeted versus \$63,327 expended from January

¹³See HECO's Letter at 2.

¹⁴See HECO's Letter at 2.

¹⁵See HECO's Letter at 2.

¹⁶Significantly, the RIM increases from 0.76 to 0.81.

to July 2007) and for materials, travel, etc. (\$122,173 budgeted versus \$9,478 expended from January to July 2007).

Based upon a review of the record, the commission finds that HECO's request to increase the 2007 budget for the REWH Program is reasonable and in the public interest. The budget increase should help to mitigate HECO's reserve capacity shortfall situation and reduce the risk of generation-related customer outages. Accordingly, the commission concludes that HECO's request should be approved.

III.

Order

THE COMMISSION ORDERS:

HECO's request to increase the 2007 budget for the REWH Program, by \$989,293, from \$2,735,836 to \$3,725,129, is approved.

DONE at Honolulu, Hawaii OCT 22 2007.

PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

By Carlito P. Caliboso
Carlito P. Caliboso, Chairman

By John E. Cole
John E. Cole, Commissioner

APPROVED AS TO FORM:

Leslie H. Kondo
By
Leslie H. Kondo, Commissioner

Jodi K. Yi
Jodi L. K. Yi
Commission Counsel
94-0206.eh

CERTIFICATE OF SERVICE

I hereby certify that I have this date served a copy of the foregoing Decision and Order No. 23750 upon the following parties, by causing a copy hereof to be mailed, postage prepaid, and properly addressed to each such party.

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DATED: OCT 22 2007