

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

In the Matter of the Application of)
KAUAI ISLAND UTILITY COOPERATIVE)
For approval to commit funds in)
Excess of \$2,500,000, excluding)
Customer Contributions, for the)
Lydgate Substation Rebuild Project,)
And Waiver of 60-day Requirement.)

DOCKET NO. 2006-0481

DECISION AND ORDER

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

PUBLIC UTILITIES
COMMISSION

2008 OCT -3 A 9:47

FILED

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)
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Customer Contributions, for the)
Lydgate Substation Rebuild Project,)
And Waiver of 60-day Requirement.)
)

By this Decision and Order, the commission approves KAUAI ISLAND UTILITY COOPERATIVE's ("KIUC") request to commit approximately \$8.423 million for the Lydgate Substation Rebuild Project ("Proposed Project"), pursuant to Section 2.3.g.2 of General Order No. 7, Standards for Electric Utility Service in the State of Hawaii ("General Order No. 7").

Background

KIUC is a Hawaii non-for-profit electric cooperative organized under the laws of the State of Hawaii with its principal place of business in Lihue, Kauai, Hawaii. An operating public utility, KIUC is engaged in the production, transmission, distribution, purchase, and sale of electric energy on the island of Kauai.

A.

Initial Application

By application filed on December 15, 2006,¹ KIUC requested commission approval to commit approximately \$4.5 million in funds to replace the existing Lydgate Substation. According to KIUC, the close proximity of the Lydgate Substation to the ocean has taken its toll on the structural and electrical integrity and reliability of the substation resulting in costly annual equipment replacements and high maintenance costs. To prevent against further premature deterioration, KIUC proposed to rebuild the existing substation in an indoor configuration. In doing so, KIUC proposed to also increase the capacity of the substation's power transformers to meet anticipated future growth. In addition, the substation would be rebuilt toward the back edge of the existing parcel in anticipation of future widening of the highway fronting the parcel.

Due to the deteriorated condition of the existing Lydgate Substation, KIUC planned to commence construction on the new substation by the end of 2007 or the beginning of 2008. To meet this timetable, KIUC requested a waiver of the 60-day requirement in General Order No. 7 to order the necessary Gas Insulated Switchgear ("GIS") equipment, which has a one-year lead time, by no later than the end of 2006.

¹Application; Attachments 1 Through 19; Verification; and Certificate of Service, filed on December 15, 2006 ("Initial Application").

B.

Interim Relief

By Order No. 23156, filed on December 21, 2006, the commission approved KIUC's request for a waiver of the 60-day requirement in Section 2.3.g.2 of General Order No. 7 in connection with the Proposed Project. According to KIUC, a waiver of the 60-day requirement was needed to allow it to timely order the necessary GIS equipment, which has the longest lead time to construct; and to timely complete the design of the new substation in order to commence construction of the substation by the end of 2007 or the beginning of 2008. KIUC, thus, was permitted to commit funds for the Proposed Project earlier than 60 days following the filing of its application. The commission, however, noted that the order did not constitute a decision on the merits of KIUC's application and that if the commission did not approve the application, KIUC would have the burden of proof to justify the reasonableness of the capital expenditures in its next rate case.

C.

Amended Application

On May 20, 2008, KIUC filed an Amended and Restated Application "to provide updated and current information on the Proposed Project and its associated costs" given "material changes in the design and costs of the Proposed Project that have outdated the information submitted at the time of the Initial

Application."² According to KIUC, "three factors have contributed to the need to modify the design and estimated cost of the Proposed Project": 1) "KIUC has decided that instead of connecting the existing transmission system to the Lydgate Substation by an overhead connection to the top of the substation roof as originally designed and submitted as part of the Initial Application, the connection should instead be made via an underground connection scheme due to anticipated undergrounding utility work in a nearby area as well as for structural and safety reasons"; 2) KIUC "has received information from a large landowner in the area that it is beginning plans to undertake significant development in the surrounding area" which has resulted in KIUC "decid[ing] to increase the footprint/square footage of the substation building to provide for additional space within the building to allow and accommodate the need for additional circuits, transformers, switchgear and other equipment and facilities if or when this additional development occurs"; and 3) since the filing of the Initial Application, there has been "a significant increase in material and equipment costs as well as labor costs."³

²Amended and Restated Application; Attachments 1 through 37; Verification; and Certificate of Service, filed on May 20, 2008 ("Amended Application"), at 7. The Amended Application is intended by KIUC to supersede the Initial Application in its entirety. Id. at 7-8.

³Amended Application, at 6-7.

D.

Consumer Advocate's Statement of Position

On August 7, 2008, the Consumer Advocate filed its Statement of Position⁴ indicating that it does not object to approval of the Application. According to the Consumer Advocate, KIUC's proposed rebuild of the Lydgate Substation appears reasonable as there appears to be immediate and near future customer requirements to be served by the substation; delays in the Proposed Project may impact KIUC's ability to provide reliable service and result in additional costs; and other alternatives to the project do not appear to be feasible.⁵

In addition, the Consumer Advocate states that the estimated costs of the Proposed Project appear reasonable; but that "it intends to review the actual costs and determine the reasonableness of such costs when the final cost report is submitted" and will "pursue issues, if any, regarding the reasonableness of the instant project's actual costs in [KIUC's] next rate case proceeding following the commercial operation of the proposed project."⁶

⁴Division of Consumer Advocacy's Statement of Position, filed on August 7, 2008 ("CA SOP").

⁵CA SOP, at 5-11. The Consumer Advocate asserts in its SOP that HRS § 269-27.6(a) applies. The commission disagrees in this instance.

⁶CA SOP, at 16-17.

II.

Discussion

Section 2.3.g.2 of General Order No. 7 states, in relevant part:

Proposed capital expenditures for any single project related to plant replacement, expansion or modernization, in excess of \$[2.5 million]⁷ or 10 percent of the total plant in service, whichever is less, shall be submitted to the Commission for review at least 60 days prior to the commencement of construction or commitment for expenditure, whichever is earlier. If the Commission determines, after hearing on the matter, that any portion of the proposed project provides facilities which are unnecessary or are unreasonably in excess of probable future requirements for utility purposes; then the utility shall not include such portion of the project in its rate base. If the utility subsequently convinces the Commission that the property in question has become necessary or useful for public utility purposes; it may then be included in the rate base. Failure of the Commission to act upon the matter and render a decision and order within 90 days of filing by the utility shall allow the utility to include the project in its rate base without the determination by the Commission required by this rule⁸

Here, KIUC argues, and the commission agrees, that the exposure of the existing Lydgate Substation to salt spray due to its near ocean side location appears to have taken a toll on the structural and electrical integrity of the substation, which has resulted in costly annual equipment replacements and high maintenance costs; and impacted the reliability of KIUC's system.

⁷The commission increased the monetary threshold governing the filing of capital expenditure applications by KIUC, from \$500,000 to \$2.5 million, exclusive of customer contributions. See Decision and Order No. 21001, filed on May 27, 2004, in Docket No. 03-0256.

⁸KIUC waived the commission's 90-day review period in its Initial Application.

Given the corrosive nature of the salt air and spray, it appears that a modification of the current outdoor configuration to an indoor configuration, as described in the Amended Application, will reduce the number of outages and lessen the current maintenance and repair needs of the existing substation, resulting in improved service reliability.⁹

In addition, as pointed out by the Consumer Advocate, the Proposed Project appears to be required to serve KIUC's immediate and near future customer requirements. The substation currently provides electrical service to approximately 2,100 customers with a peak load of 7,893 kW in 2007. In addition, KIUC anticipates serving additional customer demand in the future; and plans to temporarily transfer approximately 80% of the load normally served by the Kapaa Substation in the year 2011 to allow for a similar rebuild of the the Kapaa Substation.¹⁰ In addition, as noted by the Consumer Advocate, there do not appear to be any other feasible alternatives to the Proposed Project.

Based on the foregoing, the commission approves KIUC's request to commit approximately \$8.423 million for the Lydgate Substation Rebuild Project. Moreover, to address the concern articulated by the Consumer Advocate over the impact of the

⁹Amended Application, at 19-20.

¹⁰CA SOP, at 5-6. The Consumer Advocate expressed a concern in its SOP that the Hawaii Clean Energy Initiative ("HCEI") could lessen the need for the Proposed Project, but that the requisite analysis of the impacts of the HCEI would likely delay the Project, which would not be reasonable as it may result in reliability and cost concerns.

HCEI,¹¹ and consistent with the commission's decision in Docket No. 2008-0070, the commission requires KIUC to include an assessment of the reasonableness of future capital improvement projects in light of the HCEI and the State's movement towards self-sufficiency when it seeks commission approval to commit funds for such projects.

III.

Orders

THE COMMISSION ORDERS:

1. KIUC's request to commit approximately \$8.423 million for the Lydgate Substation Rebuild Project, as described in its Amended Application, is approved; provided that no part of the project may be included in KIUC's rate base unless and until the project is in fact installed, and is used and useful for utility purposes.

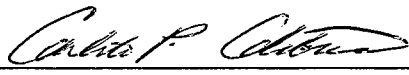
2. KIUC shall file a report within sixty days of the project's operation, with an explanation of any deviation of ten percent or more in the project's actual cost from that estimated in the Amended Application. KIUC's failure to submit this report will constitute cause to limit the cost of the project, for ratemaking purposes, to that estimated in the Amended Application.

¹¹In its SOP, the Consumer Advocate stated that it "anticipates" that KIUC will provide an assessment of the reasonableness of future capital improvement projects given the HCEI and the State's movement towards self-sufficiency when it seeks commission approval to commit funds for upcoming projects or in its integrated resource planning proceeding. See CA SOP at 11.

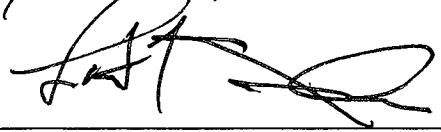
3. KIUC shall conform to the commission's order set forth in paragraph 2 above. Failure to adhere to the commission's order may constitute cause for the commission to void this Decision and Order, and may result in further regulatory action as authorized by law.

DONE at Honolulu, Hawaii OCT - 3 2008.

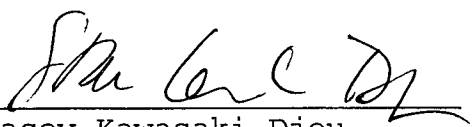
PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

By 
Carlito P. Caliboso, Chairman

By 
John E. Cole, Commissioner

By 
Leslie H. Kondo, Commissioner

APPROVED AS TO FORM:


Stacey Kawasaki Djou
Commission Counsel

2006-0481.cp

CERTIFICATE OF SERVICE

The foregoing order was served on the date of filing by mail, postage prepaid, and properly addressed to the following parties:

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