

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF HAWAII

In the Matter of the Application of)

PUBLIC UTILITIES COMMISSION )

DOCKET NO. 2006-0425

Instituting a Proceeding to )  
Investigate the Issues and )  
Requirements Raised By, and )  
Contained In Hawaii's Solar Water )  
Heating Pay as You Save Program, )  
Act 240, Session Laws of Hawaii )  
(2006). )  
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ORDER DENYING HECO COMPANIES' AMENDMENTS  
TO SOLARSAVER PILOT PROGRAM, FILED ON DECEMBER 31, 2008

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DEPT. OF COMMERCE AND  
CONSUMER AFFAIRS  
STATE OF HAWAII

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Docket No. 2006-0425

ORDER DENYING HECO COMPANIES' AMENDMENTS  
TO SOLARSAVER PILOT PROGRAM, FILED ON DECEMBER 31, 2008

By this Order, the commission denies HAWAIIAN ELECTRIC COMPANY, INC. ("HECO"),<sup>1</sup> HAWAII ELECTRIC LIGHT COMPANY, INC. ("HELCO"),<sup>2</sup> and MAUI ELECTRIC COMPANY, LTD.'s ("MECO")<sup>3</sup>

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<sup>1</sup>HECO is a Hawaii corporation and a public utility as defined by Hawaii Revised Statutes ("HRS") § 269-1. HECO was initially organized under the laws of the Kingdom of Hawaii on or about October 13, 1891. HECO is engaged in the production, purchase, transmission, distribution, and sale of electricity on the island of Oahu in the State of Hawaii ("State").

<sup>2</sup>HELCO is a Hawaii corporation and a public utility as defined by HRS § 269-1. HELCO was initially organized under the laws of the Republic of Hawaii on or about December 5, 1894. HELCO is engaged in the production, purchase, transmission, distribution, and sale of electricity on the island of Hawaii in the State.

<sup>3</sup>MECO is a Hawaii corporation and a public utility as defined by HRS § 269-1. MECO was initially organized under the laws of the Territory of Hawaii on or about April 28, 1921. MECO is engaged in the production, purchase, transmission, distribution, and sale of electricity on the island of Maui; the production, transmission, distribution, and sale of electricity on the island of Molokai, and the production, transmission, distribution, and sale of electricity on the island of Lanai.

(collectively, the "HECO Companies") request for commission approval of Amendments to SolarSaver Pilot Program ("SSP Program"),<sup>4</sup> filed on December 31, 2008.

I.

Background

A.

History of the SSP Program

In June 2006, the State legislature enacted Act 240, which required the commission to implement a pilot project that allows a residential electric utility customer to purchase a solar water heating ("SWH") system with no upfront costs, and by paying the cost of the SWH system over time on the customer's electricity bill, provided that the estimated life cycle electricity savings from the SWH system exceeds the cost of the system.<sup>5</sup> Act 240 also required that the pilot program provide for billing and payment of the SWH system on the utility bill, provide for disconnection of utility service for non-payment of SWH system payments, and allow for assignment of SWH system repayment costs attached to the meter location.<sup>6</sup>

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<sup>4</sup>Amendments to SolarSaver Pilot Program; Exhibits A through E; and Certificate of Service, filed on December 31, 2008 ("Proposed Amendments").

<sup>5</sup>See Act 240, § 13(b).

<sup>6</sup>See Act 240, § 13(b).

By Order No. 22974, filed on October 24, 2006, the commission instituted a proceeding to investigate the issues and requirements raised by, and contained in Act 240.<sup>7</sup> As a result of the proceeding, the commission approved the HECO Companies' proposed tariffs, with modifications, thereby initiating the HECO Companies' SSP Program. The commission stated:

Act 240 requires the commission to determine the time frame of the pilot program and to gather and analyze information to evaluate the [SSP] pilot program.

Decision and Order No. 23531, issued on June 29, 2007, in Docket No. 2006-0425 ("Decision and Order No. 23531"), at 3.

The HECO Companies initially proposed a two-year duration period for the SSP Program to "sync up" the findings with the planned January 2009 transition for the administration and implementation of energy efficiency Demand-Side Management ("DSM") Programs to a Third-Party Administrator ("TPA").<sup>8</sup> The Consumer Advocate initially recommended a five-year period. Later, the HECO Companies, the Consumer Advocate, HSEA and HREA stipulated that the HECO Companies' SSP Program should be

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<sup>7</sup>The commission named the HECO Companies, KAUAI ISLAND UTILITY COOPERATIVE ("KIUC"), and the DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS, DIVISION OF CONSUMER ADVOCACY ("Consumer Advocate") as parties to this docket. By Order No. 23073, filed on November 24, 2006, the commission granted HAWAII SOLAR ENERGY ASSOCIATION ("HSEA") and HAWAII RENEWABLE ENERGY ALLIANCE's ("HREA") separate motions to intervene. As such, the parties in this docket are the HECO Companies, KIUC, the Consumer Advocate, HSEA and HREA.

<sup>8</sup>Decision and Order No. 23531, at 18.

implemented for an initial three-year period from June 30, 2007 through June 30, 2010.<sup>9</sup> Decision and Order No. 23531 states:

The commission finds that a three-year program period for the utilities' pilot program is reasonable. The commission expects that a three-year program period will provide sufficient information for the commission to determine whether to continue these programs beyond their pilot stages. If more information is required, the commission has the authority to extend the pilot program period as necessary. In addition, with respect to the HECO Companies, the commission makes no determination as to whether the SolarSaver Pilot Program will transition to a non-utility [TPA] at this time. Therefore, the HECO Companies should implement the SolarSaver Pilot Program without the expectation that it will transition to a [TPA].

Decision and Order No. 23531, at 19-20. The commission also reiterated:

[T]he HECO Companies requested that the SolarSaver Pilot Program be suspended at the close of the program period. The commission has not yet determined what will occur at the completion of the three-year period for the SolarSaver Pilot Program, including whether the SolarSaver Pilot Program will be transitioned to a [TPA]. Accordingly, the commission denies the HECO Companies' request at this time.

Decision and Order No. 23531, at 42. Based on the above, the commission approved the HECO Companies' proposed tariffs for the SSP Program, with modifications. The SSP Pilot Program would utilize a three-year program period unless further ordered by the commission and the HECO Companies' request that the

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<sup>9</sup>Decision and Order No. 23531, at 18-19.

SolarSaver Pilot Program be suspended at the close of the program period was denied.<sup>10</sup>

Subsequently, the commission determined that the HECO Companies' SSP Pilot Program would not transition to the TPA when the TPA begins operations in 2009. The commission addressed the issue of transitioning the pilot program to the TPA by stating:

The load management and pilot programs shall remain with the HECO Companies and shall not be transitioned to the [TPA].<sup>11</sup>

On September 30, 2008, HECO and HELCO filed their Annual Program Modification and Evaluation Reports ("M&E reports") proposing to double the number of SWH system installations for program year 2 for the SSP Program.<sup>12</sup> To fund the increase, they intend to utilize the budget allocated for program year 3.<sup>13</sup>

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<sup>10</sup>Decision and Order No. 23531, at Ordering Paragraphs Nos. 3 and 17.

<sup>11</sup>Order to Initiate the Collection of Funds for the Third Party Administrator of Energy Efficiency Programs, filed on July 2, 2008, in Docket No. 2007-0323, at Ordering Paragraph No. 2.

<sup>12</sup>HECO's M&E report, filed on September 30, 2008, in Docket No. 2007-0341 ("HECO's M&E report"), at 15-16 and HELCO's M&E report, filed on September 30, 2008 in Docket No. 2007-0346 ("HELCO's M&E report"), at 13.

<sup>13</sup>Through August 2008, HECO has approved 99 applications for program year 2. HECO's M&E report, at 15. By July 2008, HELCO approved 42 applications for program year 2. HELCO's M&E report, at 13.

B.

Evaluation Report for the SSP Program

On December 24, 2008, the HECO Companies filed the SSP Program Process Evaluation Report prepared by Market Development Group for program year 1 of the SSP Program ("Evaluation Report"). The Evaluation Report included a review of all relevant program materials, including the program database, in-depth interviews with program and support staff, participating and non-participating SWH contractors, and a sample of customers who signed up for the SSP Program during the first program year.

The findings of the Evaluation Report include:

- Of the 203 applications received by the HECO Companies, 185 were approved;
- The SSP Program was complicated to administer as it required close coordination of a variety of departments within the HECO Companies along with SWH contractors, notaries, the State Bureau of Conveyances, and in some cases, the Department of Hawaiian Home Lands;
- High level of free ridership, particularly from homeowners compared to renters;
- Dissatisfaction by participating contractors due to the application process and utility staff turnover.

Evaluation Report, at 57-58. Overall, the Evaluation Report indicated that the SSP Program was not likely to be cost-effective given the high administrative burden, high financing caps, and participation among customers who may qualify

for other financing options instead of the SSP.<sup>14</sup> In order to meet its original goals and intent, Market Development Group provided five program recommendations as follows:

- Program design should be refocused to target the landlord-tenant community as a way to minimize free ridership, increase overall program cost effectiveness, and achieve the original intention of the PAYS program.
- Utility staff should identify ways in which to streamline the application process by either increasing staff to process applications and/or eliminating the need for recordation and notarization on the deed.
- Program staff should start developing the strategies necessary to phase-out the pilot Program given that the Program administration must continue for the next 15 years. This is especially important since loan servicing and processing is not a core competency for the utility companies and therefore contributes to the high administrative cost burden for this Program.
- Pricing cap should be evaluated by the utilities.
- Staffing needs should be re-examined.

Evaluation Report, at 59-60.

C.

The HECO Companies' Request for  
Proposed Amendments to the SSP Program

The HECO Companies' SSP Program is a three-year pilot program with the goal of installing 600 SWH systems over the period between June 30, 2007 and June 30, 2010.<sup>15</sup>

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<sup>14</sup>Evaluation Report, at 59.

<sup>15</sup>Proposed Amendments, at 4.



On December 31, 2008, the HECO Companies submitted a request for amendments to the SSP Program, proposing the following:

The [HECO] Companies' goal is to achieve no less than 2,500 annual installations in addition to the current goal of 600 SWH systems over three years [referencing Section 4, The Solar Opportunity, of the Hawaii Clean Energy Initiative ("HCEI") Agreement, at 11-12.]

Based on the desire to increase solar opportunities for Hawaii by significantly increasing the annual goal for solar water heater installations identified in the HCEI Agreement and the ability to implement recommendations to improve the SSP Program identified in the annual evaluation report as well as experience gained following the first eighteen months, the [HECO] Companies are proposing to modify [the] existing SSP Program. The modifications include:

- Adding 2,500 installations per year in addition to the current goal of 600 SWH systems over the three-year pilot program;
- Extending the term of the SSP Program to the end of 2011 upon receiving approval from the [c]ommission;
- Aligning the SSP Program year with the calendar year rather than the current program year which begins on July 1<sup>st</sup>;
- Increasing the annual incremental demand and energy savings goals to correspond to the installation of 2,550 SWH systems per year which is approximately 1,110 kW and 4,700 MWh on a consolidated basis for the [HECO] Companies;
- Increasing the annual budgets to approximately \$17,000,000 to accommodate the installation of 2,550 SWH systems per year on a consolidated basis for the [HECO] Companies;
- Making Rider SSP available to participants served under the [HECO] Companies' Schedules R and E, who install an approved retrofit solar water heater system under the

equivalent of the [HECO] Companies' Residential Efficient Water Heating [DSM] Program following the transition to the [TPA];

- Allow for flexibility in adjusting the SolarSaver Fee and SWH system price cap to accommodate larger households that may not be able to install a SWH system under the current Rider SSP Fee and SWH price cap; and
- Allow for flexibility in adjusting the annual number of installations and related expenditures between the [HECO] Companies in order to achieve the combined target of 2,550 SWH system installations.

Proposed Amendments, at 4-5. The HECO Companies request that the commission:

1. Approve the proposed SSP Program modifications as described herein;
2. Approve recovery of the [HECO] Companies' program costs, which are estimated to be approximately \$51,232,000 (\$36,089,000 for HECO, \$10,266,000 for HELCO and \$4,878,000 for MECO), and associated revenue taxes, if applicable, using the [SSP] Adjustment of the [HECO] Companies' IRP Clause over the next three years of the program;
3. Grant the [HECO] Companies such other and further relief as may be just and equitable in the premises.

Proposed Amendments, at 19.

## II.

### Discussion

In Docket No. 05-0069 (the "Energy Efficiency Docket"), the commission examined which market structure may be the most appropriate for providing DSM programs. By Decision

and Order No. 23258, filed on February 13, 2007, in Docket No. 05-0069 ("Decision and Order No. 23258"), the commission determined that all of the HECO Companies' energy efficiency programs should transition from the HECO Companies to a third-party administrator by January 2009, unless otherwise ordered by the commission.<sup>16</sup> As described in Decision and Order No. 23258, the commission expects that the transition to a third-party administrator will (1) "remove the perceived inherent conflict between a utility's desire to generate revenues and income, and Energy Efficiency measures that serve to decrease sales and defer the need for additional plant investment"; (2) "facilitate the introduction of innovative Energy Efficiency programs to the State, resulting in greater customer choice, increased participation levels, and higher overall energy savings"; and (3) "improve the cost-effectiveness of administering DSM programs."<sup>17</sup>

Although the commission ordered that the SSP Program, because of its status as a pilot program, would remain with the HECO Companies until the completion of the pilot period, it does not intend for the SSP Program to be operated by

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<sup>16</sup>See Decision and Order No. 23258, at 35.

<sup>17</sup>Decision and Order No. 23258, at 35-36.

the HECO Companies indefinitely.<sup>18</sup> With the impending transition of energy efficiency programs from the HECO Companies to a third party administrator, the commission finds that implementation of the SSP Program beyond the pilot period, is best left to the third party administrator.

Notably, the Evaluation Report for program year 1 of the SSP Program indicated that there was high participation from free riders. HECO and HELCO's M&E reports do not address the concerns noted in the Evaluation Report. Rather, they propose to increase the number of installations and budget by expending the remaining program budget without addressing the issue of free riders. Given the limited data available regarding the SSP Program, and the findings in the Evaluation Report, expansion of the SSP Pilot Program, as proposed by the HECO Companies, is unwarranted.

Based on the above, the commission denies the HECO Companies' proposed Amendments to the SSP Program. The commission finds that the program would be best implemented by the third party administrator for the reasons articulated in Decision and Order No. 23258. Rather than restricting the third party administrator to the amendments proposed by the HECO Companies, the commission will allow the third party administrator the flexibility to determine its own proposed amendments to the program.

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<sup>18</sup>Order to Initiate the Collection of Funds for the Third Party Administrator of Energy Efficiency Programs, filed on July 2, 2008, in Docket No. 2007-0323, at Ordering Paragraph No. 2.

III.


Order

THE COMMISSION ORDERS:

The HECO Companies' Amendments to SolarSaver Pilot Program, filed on December 31, 2008, are denied.

DONE at Honolulu, Hawaii APR - 9 2009.

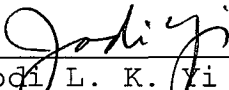
PUBLIC UTILITIES COMMISSION  
OF THE STATE OF HAWAII

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By   
John E. Cole, Commissioner

By   
Leslie H. Kondo, Commissioner

APPROVED AS TO FORM:

  
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2006-0425.laa

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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Certificate of Service

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