

## DIVISION OF CONSUMER ADVOCACY (DCA)

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### OVERVIEW

The Division of Consumer Advocacy (Consumer Advocate or DCA) represents the interests of consumers of utility, and transportation services before regulatory agencies, primarily the Hawaii Public Utilities Commission (PUC), and also the Federal Communications Commission (FCC), and the Federal Surface Transportation Board. DCA reviews requests for rate/tariff changes, capital improvement projects, integrated resource plans, issues regarding competition in the telecommunications and electric industries, certificates to operate, and other applications filed with regulatory bodies by utility and transportation companies. In representing the consumer before the PUC, the DCA must analyze financial and statistical data, prior docketed material, industry standards, and the information provided by the utility and transportation companies to support their applications. After analyzing the information, DCA must submit written statement of position or testimony explaining the analyst's analysis, findings, and recommendations to the PUC. Oral testimony by DCA analysts, subject to utility company cross examination, is required if an evidentiary hearing before the Commission is required to resolve differences between the utility and DCA.

### Composition

The DCA consists of 23 employees, ranging from administrator, secretary, utilities/transportation officer, utilities/transportation specialist, IRP and telecommunications specialists, economist, statisticians, tariff analyst, auditors, engineers, attorneys and clerical support. DCA is located on the third floor of the King Kalakaua Building, 335 Merchant Street. Mailing address is P.O. Box 541, Honolulu, HI 96809; phone number: 586-2800; internet address: [www.hawaii.gov/dcca/dca](http://www.hawaii.gov/dcca/dca).

DCA is comprised of the Financial Analysis Branch, the Economics and Pricing Branch, the Engineering Branch, and a Legal Branch.

The *Financial Analysis Branch* examines and analyzes the financial accounts, records and transactions of public utility and transportation companies under differing financial and operational assumptions. This data is utilized in developing projections of companies' operating expenses and rate base for rate-setting purposes. The Branch evaluates the allocation of common costs by analyzing the allocation methodologies to detect discriminatory allocation practices of expenses common to both the regulated and non-regulated operations. The Branch reviews current accounting pronouncements to ensure the compliance in the financial information presented by the regulated companies.

The *Economics and Pricing Branch* reviews and analyzes economic conditions and trends, investor requirements and returns, and other aspects relating to the capital structure of regulated public utilities and transportation companies. In addition, the Branch evaluates and develops recommendations relating to rate schedules, effects of rates, sales levels and other pertinent considerations in establishing rates.

The *Engineering Branch* analyzes and makes recommendations on such technical matters as production capacity and efficiency, depreciation allowances, maintenance cost factors, safety engineering standards, plans for capital improvements, purchased power agreements, and quality of service standards.

The *Legal Branch* provides legal representation before the regulatory agencies. The branch also provides general clerical support by updating and maintaining the Division's docket and general office files, and the electronic data base files, formatting draft documents prepared by the technical staff and attorneys for filing with regulatory agencies and utility companies, maintaining the office library, etc..

DCA has four exempt staff positions—the Public Utilities/Transportation specialist, Integrated Resource Planning (IRP) specialist, Telecommunications specialist and the Education specialist. The Public Utilities/Transportation specialist assists the Public Utilities/Transportation Officer in managing the overall work pertaining to matters filed before the regulatory agencies such as the PUC and FCC. The IRP specialist focuses on filings pertaining to the electric companies and has primary responsibility for reviewing the integrated resource plans and related demand side management programs applications. The telecommunications specialist focuses on filings pertaining to the telecommunications industry.

DCA also includes an Education specialist who is responsible for educating consumers about their rights, monitoring consumer complaints filed with the regulatory agencies, and attending public hearings and neighborhood board meetings to gain public input about specific issues affecting consumers such as the undergrounding of utility power lines. The Education Specialist is also responsible for updating and maintaining the Division's web site content.

## **ACCOMPLISHMENTS**

In 2004, results of the Division's efforts to protect and advance the interests of consumers were seen through its work on behalf of individual communities, as well as major utility issues that will have far-reaching impacts on people throughout the state. Several of these efforts are described below.

### *Kauai Island Utilities Cooperative*

The Division recommended that the Public Utilities Commission (PUC) approve the Kauai Island Utilities Cooperative's (KIUC) request to enter into long-term debt so that it could purchase the Kauai Power Partners (KPP) generation facility. Prior to this transaction KIUC was purchasing power from KPP under the terms of a purchased power agreement that was approved by the PUC. This transaction benefits KIUC's customers by allowing the utility to have full ownership of one of its most stable and economical power producing sources. By requiring additional follow up filings from the utility, the Division and the PUC will be able to assess whether further actions need to be taken to reduce existing rates, while ensuring that the company can meet the debt service requirements of its lenders.

### *Hawaii-American Water Works*

Hawaii-American Water Works treats the wastewater in East Honolulu, primarily Hawaii Kai. The company initially requested PUC approval for an across the board rate increase of 18.6%. Based upon its analysis, the Division found this request unsupported, and negotiated with the company a reasonable and supported increase of 3.47%. Through the Division's efforts, people in East Honolulu are enjoying significant savings in their wastewater treatment costs.

*Puhi Water and Sewer Company*

Puhi Water and Sewer Company (Puhi) provides wastewater services for a real estate development near Lihue, Kauai. Puhi initially sought PUC approval for a rate increase of 126.5%. This would have raised the average residential rate from \$34.00 per month to \$77.00 per month, with even greater increases for industrial and commercial customers. The requested percentage increase in the rates to be charged for treating the wastewater was significant because the company had not raised rates for over ten years. During the public hearing on Kauai, ratepayers were particularly concerned with the stress and undue hardship such a dramatic increase may cause (commonly referred to as “rate shock”). In the end, the Division negotiated to reduce the increase of rates to 69%, significantly lower than the company’s original request. To address the rate shock concern, the Division also successfully negotiated a rate design that would allow the increase to be phased in over a period of three years.

*Emergency 911 Services Provided by Wireless Telecommunication Carriers*

The Division was an active participant in working groups that identified issues relative to an order issued by the Federal Communications Commission (FCC) mandating that enhanced 911 (E-911) service be provided by wireless telecommunication carriers. As part of these working groups the Division was able to provide valuable input regarding such issues as associated cost recovery and support to ensure that public service answering points are able to process the wireless E-911 calls as intended by the FCC mandate. These collective efforts led to a legislative proposal that became Act 159 during the 2004 legislative session. The Act implements a wireless E-911 system designed to route emergency calls to emergency responders along with the wireless callers identification and location. Act 159 also establishes a Wireless Enhanced 911 Board that oversees the collection and distribution of money collected by the E-911 special fund. The new law also designates the Executive Director of the Division as a member of the board.

*Distributed Generation and Competitive Bidding*

In October of 2003, the PUC initiated two dockets to examine the potential benefits and impacts of distributed generation on Hawaii’s electric distribution systems and market, and to evaluate competitive bidding as a mechanism for acquiring or building new generating capacity in Hawaii. Distributed generation involves the use of small-scale electric generating technologies installed at, or near the end user’s location. The objective of this proceeding is to develop policies and a framework for distributed generation projects deployed in Hawaii. The competitive bidding process has been widely implemented throughout the United States, and may serve as an alternative for Hawaii to facilitate wholesale market competition and enhance the potential for higher efficiency and lower costs for its electric industry. The Division has been actively engaged in developing recommendations for the PUC in both dockets by researching and analyzing the many policy and technical issues involved, while ensuring that the interests of Hawaii’s consumers are protected. In this vein, the Division strives to ensure the provision of continuous reliable service at reasonable costs, while at the same time advancing the state’s energy objectives.

### *Integrated Resource Planning*

Integrated Resource Planning (IRP) is a means for each energy utility to forecast their customers needs and then create a “blue print” that outlines the actions necessary to meet the energy needs of its customers, both in the short (i.e., next 5-year period) and long term (i.e., next twenty-year period) at the lowest reasonable cost. This blue print will outline the capitol improvement projects necessary to ensure an adequate supply of energy and look at ways to reduce customer’s energy needs through Demand Side Management programs. The plan must comply with governmental laws, such as the state’s energy policy, and be approved by the PUC. The plan thus serves as the guide for future utility projects and plans.

The IRP process is critical to the planning of Hawaii’s energy future and must encompass many issues, often considered in isolation, as part of an integrated whole. Among the issues that must be thought out, worked through and integrated into a cohesive plan are those dealing with the construction of new central generation, development of renewable energy resources, distributed generation, interconnection to the utility’s transmission and distribution system, purchased power, and transmission system needs. The IRP process is a docketed matter before the PUC and as such the Division is actively involved in the development of the utility’s IRP through participation on various advisory groups, related committees and through attendance at public hearings to ensure that consumer interests are well represented.

### *Hawaii Energy Policy Forum*

The University of Hawaii convened the Hawaii Energy Policy Forum in 2002 to help develop and promote a vision for Hawaii’s energy future. It is a collaborative effort that brings together interested stake holders including representatives of electric utilities; oil and natural gas suppliers; environmental groups; the renewable energy industry; state legislature; federal, state, and county government agencies; the business community; and other major energy consumers. The Forum’s efforts focus on many different energy related issues, including social and cultural issues, energy conservation and efficiency, and regulatory reform. The Division believes that as an active participant in the forum it has and will continue to effectively represent consumer's views as major policy issues are discussed and as proposals are developed and implemented.

### *Capital Improvement Project (CIP) Filing threshold*

The requirement for utilities to file for approval of their CIPs was established to reduce the time spent in rate cases attempting to ascertain that the plant in service balances represent the costs of projects deemed used and useful for the provision of public utility service. It allows for the review of CIPs in years between rate case filings, thereby better distributing the work of the PUC and the Division. Without the CIP review process, the PUC and the Division would be required to analyze the reasonableness of all plant additions subsequent to the test year of the last rate proceeding. The CIP filing threshold was set at \$500,000 in 1966. Based on a stipulation between the Division and Verizon Hawaii, the PUC raised the threshold to \$2,500,000, recognizing that “the cost of materials, supplies, equipment, and labor utilized in utility capital expenditure projects has increased in the forty (40) years since the \$500,000 threshold was initially established.” The increase of the threshold, along with agreed upon additional reporting requirements, will provide for continued efficiency in the Division’s operations, while maintaining its ability to protect the interest of ratepayers.

*Standard Rate Applications for Small Utilities*

During the 2004 legislative session the Division proposed and worked to ensure the passage of Act 168, which streamlines and expedites the rate filings of public utilities with annual gross revenues of less than \$2,000,000. Passage of this legislation was significant because it will reduce the time and cost involved in filing rate cases by smaller utilities through the use of a standard form application that requires the provision of specific information supporting the requested rate adjustment. It also encourages these smaller utility companies to file for smaller increases over shorter periods of time rather than submitting infrequent requests for large increases. Increasing the frequency of rate case filings benefits consumers, because it avoids the "rate shock" that large, across the board increases cause, while at the same time allowing the utility to timely recover its operating and capital costs, thus ensuring the provision of reliable service. Additionally, standardizing these applications allows the PUC and the Division to utilize their resources more efficiently.

In addition to the above proceedings, during FY 03-04 the Consumer Advocate reviewed 144 motor carrier tariff change requests, and 129 non-rate applications, such as applications for capital improvement projects, purchase power agreements, and certificates of public convenience and necessity.

The CRF financial summary relating to DCA for FY 03-04 is as follows:

Personnel Expenses	Operating Expenses	Total Expenses	Revenues Received
\$1,091,541	\$1,084,490	\$2,176,031	\$2,518,516

**CONCLUSION**

The Consumer Advocate will continue to prioritize its caseload to target projects and consumer issues that have the greatest impact on the ratepayers of utility, communication and transportation services in Hawaii. In addition, the Division is expanding its education and outreach efforts. Together, this places the program in a better position to take a more proactive approach to specific consumer issues and to gain greater public participation in decisions that affect their utility and transportation services.