

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF HAWAII

In the Matter of the Application of)

HAWAIIAN ELECTRIC COMPANY, INC. )

DOCKET NO. 03-0142

For Approval of a Residential )  
Customer Energy Awareness Pilot )  
Program and Recovery of Program )  
Costs. )

DECISION AND ORDER NO. 21756

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

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Karen Higashi.  
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KAREN HIGASHI  
Chief Clerk, Public Utilities  
Commission, State of Hawaii.

K. Higashi.

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DECISION AND ORDER

By this Decision and Order, the commission denies, without prejudice, the Application filed by HAWAIIAN ELECTRIC COMPANY, INC. ("HECO") in this docket.

I.

Procedural Background

On May 15, 2003, HECO filed an application ("Application") requesting, among other things, that the commission approve its proposed Residential Customer Energy Awareness Pilot Program ("RCEA Pilot Program") and the recovery of its program costs for the first two (2) years of the program, which are estimated to be approximately \$3,609,020<sup>1</sup> (and associated revenue taxes, if applicable), using HECO's Integrated Resource Planning ("IRP") Cost Recovery Provision during the two (2) years of the program.

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<sup>1</sup>In its Application, HECO estimated this amount to be \$4,267,020, but reduced it by \$658,000 in its Revised Application.

HECO served copies of its Application on the DIVISION OF CONSUMER ADVOCACY, DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS ("Consumer Advocate") and the United States Department of the Navy (HECO and the Consumer Advocate are collectively referred to as the "Parties"). By Preliminary Statement of Position filed on June 9, 2003, the Consumer Advocate informed the commission that it conducted a preliminary review of the Application and has questions regarding the reasonableness of HECO's requests. On June 12, 2003, the Consumer Advocate issued information requests upon HECO, to which HECO responded on June 26, 2003.

By Order No. 20905, issued April 15, 2004, the commission ordered the Parties to meet informally to determine the procedures and schedule with respect to this docket, to be set forth in a stipulated prehearing order to be submitted for commission approval within thirty (30) days of the date of Order No. 20905. On May 17, 2004, HECO requested an extension of time, until June 17, 2004, to submit a stipulated prehearing order. The commission further extended the June 17, 2004 deadline to September 7, 2004.<sup>2</sup>

On September 7, 2004, the Parties submitted a proposed stipulated procedural order for the commission's review and

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<sup>2</sup>By Stipulated Procedural Order No. 21110, issued on July 12, 2004, the commission approved the requested extension of time until June 17, 2004 and an additional time until July 30, 2004 to submit a stipulated prehearing order. By Stipulated Procedural Order No. 21239, issued on August 11, 2004, the commission approved a further extension of time until August 24, 2004 to submit a stipulated prehearing order. By Stipulated Procedural Order No. 21338, issued on September 10, 2004, the commission approved an extension of time until September 7, 2004 to submit a stipulated prehearing order.

approval. By Stipulated Procedural Order No. 21339, issued on September 10, 2004, the commission approved the Parties' proposed stipulated prehearing order, which includes their proposed schedule of proceedings and procedures for this docket.

On October 7, 2004, HECO filed a revised RCEA Pilot Program application ("Revised Application"). The Consumer Advocate issued supplemental information requests on October 29, 2004, and HECO responded to the Consumer Advocate's supplemental information requests on November 17, 2004. The Consumer Advocate filed its Statement of Position on December 1, 2004 ("Statement of Position"). HECO filed its Reply to the Consumer Advocate's Statement of Position on December 28, 2004 ("HECO's Reply").

Pursuant to Stipulated Procedural Order No. 21339, the Parties were scheduled to submit a joint filing on January 7, 2005. However, they were unable to finalize a joint filing for submission to the commission. Accordingly, on January 11, 2005, they filed a proposed Stipulated Procedural Order in which they (1) state that they will not be able to resolve their differences by stipulation; and (2) jointly request an extension of time until January 14, 2005 to submit their filing.<sup>3</sup>

On January 14, 2005, the Parties filed a joint statement proposing that each party present oral arguments summarizing their respective positions to the commission on the morning of

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<sup>3</sup>By Order No. 21563, filed on January 27, 2005, the commission dismissed this request as moot, since the Parties requested to present oral arguments summarizing their respective positions.

February 2, 2005, in lieu of a formal contested case evidentiary hearing.<sup>4</sup>

On February 2, 2005, the commission heard oral arguments by the Parties with respect to their respective positions in this proceeding.<sup>5</sup>

## II.

### Discussion

#### A.

##### RCEA Pilot Program Description

HECO represents that since 1991, sales growth for the residential customer class has been greater than the growth in the commercial and industrial customer classes. HECO projects the annual growth over the next twenty (20) years to continue at a higher level than previously experienced. HECO asserts that the continued growth in sales for the residential customer class is expected to impair HECO's ability to meet the evening peak loads in the future, because HECO's residential customer class' energy load is greatest during the evening system peak (i.e., between 5:00 p.m. and 9:00 p.m.).

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<sup>4</sup>The Parties also indicated that following the presentation of oral arguments, no briefs would be filed by the Parties, and the proceeding would be ready for decision-making. Order No. 21563 provided the Parties with notice of the hearing and noted the Parties' waiver of the fifteen (15)-day notification of hearing required under Hawaii Revised Statutes § 91-9.5.

<sup>5</sup>Chairman Caliboso and Commissioner Kawelo heard the Parties' arguments.

In support of its effort to "determine if an aggressive customer communications program can result in significant energy savings and peak load reduction," HECO requests the commission approve a two (2)-year pilot program.

The RCEA Pilot Program will consist of three (3) tasks. First, HECO plans to take additional market research and a survey to determine the current level of energy awareness by residential customers. Second, HECO will implement a multi-facet communications program, using a wide mix of communications tools such as television, radio, newspapers, direct mail, home shows, community events, and school programs. HECO will also conduct two (2) additional customer surveys, which will attempt to test for increasing awareness and to make changes, if necessary, to the mix of media or in the message. Third, HECO will take a final survey of residential customers to test their level of energy awareness.

HECO estimates the expenses for this program to be approximately \$3,609,020 for the two (2)-year pilot program. Approximately ninety-four (94) per cent of the program expenses are for advertising and events to promote customer awareness of Hawaii's energy supply and opportunities for energy conservation. Other expenses included in this amount relate to a full-time program manager and a full-time staff member to work with retailers and schools, to coordinate home shows, community events, other outside duties, and to perform administrative duties.

HECO requests that the commission allow the continuation of the use of the currently implemented and commission-approved DSM adjustment component of the IRP Cost Recovery Provision to recover

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program costs. In the alternative, if HECO is not authorized to recover the RCEA Pilot Program costs through the IRP Cost Recovery Provision, HECO requests approval to include the program costs in the base rates established in its rate case (Docket No. 04-0113). Since this is a pilot program, HECO does not request cost recovery of the lost margins, if any, and shareholder incentives associated with the RCEA Pilot Program.

HECO projects that a rate surcharge of \$0.11 per kilowatt hour ("kWh") will be necessary to recover the costs for this program, assuming a monthly bill for a residential customer using 700 kWh.<sup>6</sup>

B.

HECO's Position

HECO asserts that the RCEA Pilot Program is a "reasonable demand-side management ("DSM") program that will enable [it] to determine if an aggressive communications program can change the level of residential customer awareness of energy options, encourage customers to adopt energy efficient appliances and behavior, and result in energy savings and peak load reduction."<sup>7</sup> HECO is hopeful that this program will help to reduce peak loads and maintain its generating system reliability guideline until new firm generating capacity can be added to its system.

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<sup>6</sup>HECO also explains that the rate surcharges will not be cumulative, since each year's surcharge will expire at the end of that year.

<sup>7</sup>HECO's Reply at 1.

HECO states that it designed the RCEA Pilot Program to reach most, if not all, residential customers to encourage energy conservation and make them aware of: (1) measures that can be taken during the crucial 5:00 p.m. to 9:00 p.m. priority peak period; and (2) their impact on the need for future electrical generation. In support of its Application, HECO filed a focus group report, which summarized HECO's series of focus groups with residential customers that were designed to help it determine how to convey messages about the demand for electricity and the need to voluntarily conserve energy on Oahu. As a result of conducting these focus groups, HECO concluded that the level of understanding of energy conservation among its residential customers needs to be raised before its calls for voluntary conservation would be effective.

HECO represents that the impact of the program on energy use and demand levels will be determined by the implementation of this program as a pilot program. It asserts that one of the purposes of a pilot DSM program is to determine "whether a given program, not yet proven in Hawaii, is cost effective."<sup>8</sup> However, HECO acknowledges "that it is not sure how effective any particular media message is in accomplishing actual energy use and peak demand reductions."<sup>9</sup> While HECO asserts that the objective of the RCEA Pilot Program comports with the purpose of pilot DSM programs, it also states that the impacts resulting from the

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<sup>8</sup>HECO's Reply at 10, citing Section V.A.1. of the IRP Framework.

<sup>9</sup>HECO's Reply at 10.



customers' increased awareness cannot be measured. HECO intends, however, to the extent possible, to gather some quantified assessment of the energy and demand reduction associated with the RCEA Pilot Program using available data from ongoing studies and customer surveys. "HECO does not believe that these reductions can be exact enough to calculate meaningful benefit costs tests as performed for more traditional DSM programs."<sup>10</sup>

C.

Consumer Advocate's Position

The Consumer Advocate, in its Statement of Position, concludes that HECO's Application, as amended by the Revised Application, is "deficient and does not meet the requirements for obtaining [c]ommission approval of a pilot DSM program" for a number of reasons.

The Consumer Advocate asserts that HECO's proposed RCEA Pilot Program does not comply with the commission's IRP Framework requirements to support approval of the proposal. The Consumer Advocate concludes "HECO will not be able to ascertain the effectiveness of the proposed [RCEA Pilot Program] in accomplishing the program objectives."<sup>11</sup> It further believes that HECO failed to demonstrate that the RCEA Pilot Program "is a cost-effective means of achieving the program objectives."<sup>12</sup>

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<sup>10</sup>HECO's Reply at 15.

<sup>11</sup>Statement of Position at 8.

<sup>12</sup>Id.

The Consumer Advocate expresses concerns that the educational efforts to change customer behavior may not be effective in reducing the evening peak use of HECO's residential customers because "education or information alone is not enough to change behavior."<sup>13</sup> In addition, the Consumer Advocate is uncertain whether it and the commission will be able to determine whether the costs incurred for the RCEA Pilot Program are truly incremental to the level of costs already being recovered through other means, if HECO is allowed to recover the program costs through the IRP Cost Recovery Clause.

The Consumer Advocate makes clear that it does not dispute HECO's concern regarding its long-term ability to meet the growing energy demands of the residential customer class during the evening peak. Despite this recognition of HECO's challenges, the Consumer Advocate, nonetheless, believes that the RCEA Pilot Program "lacks focus in addressing specific solutions to the concern."<sup>14</sup> Accordingly, the Consumer Advocate objects to the commission's approval of the RCEA Pilot Program and HECO's proposed cost recovery mechanism.

D.

#### Commission's Findings and Conclusions

The commission understands HECO's need and desire to educate its residential customers about energy matters, including

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<sup>13</sup>Statement of Position at 16.

<sup>14</sup>Id. at 20.

conservation. We further recognize that educating residential customers to encourage energy conservation and make them aware of: (1) measures that can be taken during the crucial 5:00 p.m. to 9:00 p.m. priority peak period; and (2) their impact on the need for future electrical generation may provide some relief to HECO in reducing peak loads, which ultimately will assist HECO in maintaining its generating system reliability guideline.

However, the commission shares the same concerns expressed by the Consumer Advocate, among others, that HECO failed to adequately demonstrate that this proposed pilot program complies with the IRP Framework requirements and will be cost-effective. Of particular concern is HECO's inability to determine the effectiveness of the proposed RCEA Pilot Program in accomplishing the program's objectives of achieving "significant energy savings and peak load reduction."<sup>15</sup>

In particular, the commission finds that HECO failed to clearly articulate, pursuant to Section V.A.2. of the IRP Framework: (1) the expected level of achievement of the proposed pilot program; and (2) the measures by which the attainment of the objectives is to be assessed. As result, the commission is unable to determine that the proposed pilot-program will be cost-effective and will achieve accomplishment of the utility's objectives as originally believed. An educational program, such as the RCEA Pilot Program may be better suited as one component of a portfolio of DSM measures, which may be considered

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<sup>15</sup>Application at 3.

in other proceedings before the commission, if HECO so chooses. Nonetheless, based upon the commission's examination of the record, the commission concludes that HECO's Application, as amended by the Revised Application, should be denied, without prejudice.

III.

Orders

THE COMMISSION ORDERS that HECO's Application, as amended by the Revised Application, is denied, without prejudice.

DONE at Honolulu, Hawaii APR 20 2005.

PUBLIC UTILITIES COMMISSION  
OF THE STATE OF HAWAII

By Carlito P. Caliboso  
Carlito P. Caliboso, Chairman

By (EXCUSED)  
Wayne H. Kimura, Commissioner

By Janet E. Kawelo  
Janet E. Kawelo, Commissioner

APPROVED AS TO FORM:

Catherine P. Awakuni  
Catherine P. Awakuni  
Commission Counsel

03-0142.eh

CERTIFICATE OF SERVICE

I hereby certify that I have this date served a copy of the foregoing Decision and Order No. 21756 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: APR 20 2005