

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

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

Docket No. 95-0139

In the Matter of the Application of)
)
MAUI ELECTRIC COMPANY, LIMITED)
)
For Approval of a Commercial and)
Industrial Energy Efficiency)
Program, Recovery of Program Costs)
and Lost Revenues, and)
Consideration for Shareholder)
Incentives.)
)

Docket No. 95-0140

In the Matter of the Application of)
)
MAUI ELECTRIC COMPANY, LIMITED)
)
For Approval of a Commercial and)
Industrial New Construction)
Program, Recovery of Program Costs)
and Lost Revenues, and)
Consideration for Shareholder)
Incentives.)
)

Docket No. 95-0141

DIV. OF CONSUMER ADVOCACY
OFFICE OF THE ATTORNEY GENERAL
STATE OF HAWAII

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In the Matter of the Application of)
MAUI ELECTRIC COMPANY, LIMITED)
For Approval of a Commercial and)
Industrial Customized Rebate)
Program, Recovery of Program Costs)
and Lost Revenues, and)
Consideration for Shareholder)
Incentives.)

Docket No. 95-0142

(CONSOLIDATED)

ORDER GRANTING IN PART AND
DENYING IN PART MECO'S JULY 11, 2007 LETTER REQUEST

FILED

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PUBLIC UTILITIES
COMMISSION

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Program, Recovery of Program Costs)	
and Lost Revenues, and)	
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Incentives.)	
)	

ORDER GRANTING IN PART AND
DENYING IN PART MECO'S JULY 11, 2007 LETTER REQUEST

By this Order, the commission grants in part and denies in part the letter request filed by Maui Electric Company, Limited ("MECO"), on July 11, 2007, as amended on January 22, 2008, as follows: (1) the commission grants MECO's request for approval of its proposed cumulative energy and demand savings goals for 2007 and 2008 for its energy efficiency Demand-Side Management ("DSM") programs;¹ (2) the commission grants MECO's request to approve its proposed program budgets for its energy efficiency DSM programs for 2007 and 2008, including certain program modifications included in the development of the budgets; and (3) the commission denies MECO's request for approval of its proposed DSM utility incentive cap of \$750,000 per year; and instead sets MECO's incentive cap at \$320,000. In addition, the commission states that ordering

¹The subject DSM programs include: MECO's Residential Efficient Water Heating ("REWH") Program; MECO's Commercial and Industrial Energy Efficiency ("CIEE") Program; MECO's Commercial and Industrial New Construction ("CINC") Program; MECO's Commercial and Industrial Customized Rebate ("CICR") Program, and MECO's Residential Compact Fluorescent Lamps ("RCFL") Program (collectively, "DSM programs").

paragraphs 1 and 4 of Order No. 23448, filed on May 21, 2007 ("Order No. 23448"), in Docket No. 05-0069 ("Energy Efficiency Docket"), apply to MECO, but that ordering paragraphs 2-3 and 5-10 do not apply to MECO, as discussed herein.

I.

Background

By Decision and Order No. 23258, filed on February 13, 2007, in Docket No. 05-0069 ("Decision and Order No. 23258"), the commission: (1) established energy efficiency goals for HAWAIIAN ELECTRIC COMPANY, INC. ("HECO"), HAWAII ELECTRIC LIGHT COMPANY, INC. ("HELCO"), and MECO (collectively, the "HECO Companies") until their next Integrated Resource Planning ("IRP") dockets; (2) selected the appropriate market structures for providing DSM programs; (3) determined the cost recovery mechanisms for utility recovery of utility-incurred DSM program costs; (4) determined the types of costs that are appropriate for utility recovery of utility-incurred DSM program costs; (5) established the appropriate DSM incentive mechanism for the HECO Companies; (6) determined that HECO's proposed energy efficiency DSM programs are likely to achieve the energy efficiency goals and be cost-effective; (7) established the appropriate cost level for HECO's utility-incurred costs in base rates; (8) approved HECO's proposed DSM utility incentive, with modifications; (9) approved HECO's proposed energy efficiency DSM programs and Residential Customer Energy Awareness ("RCEA") Program, with modifications; and (10) approved

consideration of Hawaii Renewable Energy Alliance's ("HREA") Seawater Air Conditioning ("SWAC") proposal, with modifications, under HECO's Commercial and Industrial Customized Rebate Program.

By Order No. 23448, the commission granted in part and denied in part the Motion for Clarification and/or Partial Reconsideration of Decision and Order No. 23258 ("Motion for Reconsideration"), filed by the HECO Companies on March 8, 2007, as follows: (1) the commission clarified that Decision and Order No. 23258 identified cumulative megawatt ("MW") and megawatt-hour ("MWh") energy efficiency goals; (2) the commission granted HECO's² request to restate HECO's 2007 MW and MWh energy efficiency goals to remove the impacts related to certain specified programs, subject to the corresponding exclusion of any energy and demand savings for purposes of calculating goal achievement, and denied HECO's request to approve HECO's proposed goals, as demonstrated in Tables 3 and 4 of the HECO Companies' Memorandum in Support of Motion for Reconsideration; (3) the commission granted HECO's request to include the administrative and marketing costs for certain program components in the calculation of the 2007 net system benefits, and denied HECO's request to include certain other program costs in the calculation of net system benefits; (4) the commission clarified that in discussing the Existing Cost Recovery Mechanism, the term "labor costs" was intended to refer to "base labor," consistent with the HECO Companies' existing

²Although the Motion for Reconsideration was filed by the HECO Companies, the various requests were made by HECO.

cost recovery mechanism; (5) the commission denied HECO's request for reconsideration of the commission's decision to reject HECO's flexibility request; (6) the commission denied HECO's request for flexibility to exceed its customer incentives budget and budget for expenses directly related to customer participation by 25% without commission approval; (7) the commission denied HECO's request for flexibility to shift or distribute its residential program budgets among residential programs, and its commercial and industrial program budgets among commercial and industrial programs, without commission approval; (8) the commission granted HECO the ability to request program modifications by letter request, subject to commission approval, pending the opening of a new docket; (9) the commission clarified that for purposes of calculating DSM utility incentives, the commission adopts HECO's proposed shared savings mechanism, which is calculated using the modified Utility Cost Test; and (10) the commission clarified that the net system benefits to be included in the modified Utility Cost Test should be gross of free-riders.

By letter dated July 11, 2007, MECO requested commission "approval of its proposed: (1) cumulative energy and demand savings goals for 2007 and 2008 for its existing energy efficiency DSM programs; (2) program budgets for its existing energy efficiency DSM programs for 2007 and 2008, including certain program modifications included in the development of the budgets (these program modifications are also reflected in the cumulative energy and demand savings goals); and

(3) DSM utility incentive cap of \$750,000 per year."³ MECO also requested commission "confirmation that ordering paragraphs 1 and 4-10 of Order [No.] 23448 are applicable to the implementation of MECO's energy efficiency DSM programs."⁴

II.

Discussion

A.

Energy Efficiency Goals for 2007 and 2008

In the Energy Efficiency Docket, the commission ordered that:

For the HECO Companies, until their next IRP dockets, within each utility's service territory, there will be megawatt-hour and megawatt Energy Efficiency goals for the commercial and industrial sector, and separate megawatt-hour and megawatt Energy Efficiency goals for the residential sector, that are each calculated based on the aggregate of the savings to be achieved by each individual program, as represented to the commission in the applications for, or requests to modify, each individual program, gross of (including) free-riders. Any revisions to the Energy Efficiency goals, or any future Energy Efficiency goals, should be established in the IRP process.⁵

³Letter dated and filed July 11, 2007, from MECO to the Commission, at 3.

⁴Id. By letter dated and filed January 22, 2008, MECO updated the 2008 energy and demand savings goals for its proposed RCFL program, as set forth in its Annual Program Modification and Evaluation ("M&E") Report, filed on November 30, 2007.

⁵Decision and Order No. 23258, at 143-44 (Ordering ¶ 2).

Based on HECO's filings, and on Decision and Order No. 23258, as amended or clarified by Order No. 23448, the commission estimated HECO's gross Energy Efficiency goals as follows:

HECO's Energy Efficiency Megawatt-Hour Goals		
	2007	2008
Commercial and Industrial		
CIEE	46,757	70,136
CINC	19,540	29,311
CICR	25,252	37,878
Total Gross Energy Savings (MWh)	91,549	137,324
Residential		
ESH	24,938	32,080
REWH	7,533	11,300
RNC	6,045	8,867
RLI	2,633	5,267
Total Gross Energy Savings (MWh)	41,149	57,514

HECO's Energy Efficiency Megawatt Goals		
	2007	2008
Commercial and Industrial		
CIEE	6.878	10.318
CINC	2.864	4.297
CICR	3.299	4.948
Total Gross Demand Savings (MW)	13.041	19.563
Residential		
ESH	5.866	8.021
REWH	1.728	2.591
RNC	1.778	2.901
RLI	0.591	1.182
Total Gross Demand Savings (MW)	9.963	14.695

While Decision and Order No. 23258 addressed energy efficiency goals with respect to all of the HECO Companies,

"[t]he commission was unable to estimate HELCO's and MECO's MW and MWh energy efficiency goals for illustrative purposes because neither HELCO nor MECO provided the relevant filings in this docket."⁶ By its July 11, 2007 letter, as amended on January 22, 2008, MECO seeks to establish its energy efficiency DSM goals for 2007 and 2008 as follows:

MECO's Energy Efficiency Cumulative Megawatt-Hour Goals		
	2007	2008
Commercial and Industrial		
CIEE	2,038	4,077
CINC	2,023	4,046
CICR	2,316	4,632
Total Gross Energy Savings (MWh)	6,377	12,755
Residential		
REWH	3,388	5,994
RCFL		450
Total Gross Energy Savings (MWh)	3,388	6,444

MECO's Energy Efficiency Cumulative Megawatt Goals		
	2007	2008
Commercial and Industrial		
CIEE	0.197	0.394
CINC	0.259	0.518
CICR	0.304	0.608
Total Gross Demand Savings (MW)	0.760	1.520
Residential		
REWH	0.783	1.385
CFLs		.225
Total Gross Demand Savings (MW)	.783	1.610

⁶Order No. 23448, at 15

According to MECO, the above goals reflect cumulative energy and demand savings for MECO's energy efficiency DSM programs for 2007 and 2008, and are consistent with the impacts identified in MECO's IRP-3 Report, filed on April 30, 2007. Specifically, Decision and Order No. 23258 approved higher customer incentive levels for HECO's Commercial and Industrial Energy Efficiency and Commercial and Industrial New Construction Programs, and also approved a modification to HECO's Commercial and Industrial Customized Rebate Program, which reduced the payback period from two years to one year. Consistent with Decision and Order No. 23258, MECO asserts that the DSM program design incorporated in its IRP-3 Report included higher customer incentive levels for the CIEE and CINC Programs, and the reduced payback period for the CICR Program to achieve the forecasted energy and demand savings goals.

In addition, MECO states that, as a result of the commission's decision in the Energy Efficiency Docket to turn over the administration of all energy efficiency DSM programs to a third-party administrator, it will not implement three new residential energy efficiency DSM programs; but "would like to offer its residential customers a key element of these new energy efficiency programs, namely offering customer incentives for the installation of compact fluorescent lamps ('CFLs')." ⁷

⁷Letter dated and filed July 11, 2007, from MECO to the commission, at 4.

Having reviewed MECO's proposed energy and demand savings goals, the commission finds them to be consistent with Decision and Order No. 23258, as amended by Order No. 23448, and approves the goals for 2007 and 2008, as set forth above.

B.

Program Budgets and Program Modifications

MECO also requested commission approval of its 2007 and 2008 annual program budgets, as follows:

MECO's Proposed Energy Efficiency Annual Program Budgets		
	2007	2008
Commercial and Industrial		
CIEE	\$410,593	\$476,118
CINC	\$449,066	\$521,645
CICR	\$533,632	\$646,286
Total Commercial and Industrial	\$1,393,291	\$1,644,049
Residential		
REWH	\$1,983,459	\$1,679,277
CFLs		\$111,066
Total Residential	\$1,983,459	\$1,790,343
Total Annual Program Budget	\$3,376,750	\$3,434,392

According to MECO, the 2007 and 2008 annual program budgets correspond to the 2007 and 2008 energy and demand savings goals; the 2007 budgets are the same budgets that were provided in MECO's Annual Program Modification and Evaluation Report filed on November 30, 2006; and the 2008 budgets are consistent with the budgets provided in MECO's IRP-3 Report filed on April 30, 2007, adjusted for the inclusion of

customer incentives for the distribution and installation of CFLs to residential customers. In addition, MECO states that the 2007 and 2008 budgets for the CIEE and CINC Programs include the higher customer incentive levels described above.

While DSM program budgets are typically included in the annual M&E Report and become effective at the beginning of the year following the filing of the report,⁸ the commission finds that approval of MECO's 2007 and 2008 program budgets is appropriate and approves the budgets as set forth above, subject to the existing cost recovery process.

C.

DSM Utility Incentive Schedule and Incentive Cap

In Decision and Order No. 23258, the commission established the following DSM Utility Incentive Mechanism for HECO:

The DSM Utility Incentive Mechanism will be calculated based on net system benefits (less program costs), limited to no more than the utility earnings opportunities foregone by implementing DSM programs in lieu of supply-side rate based investments, capped at \$4 million, subject to the following performance requirements and incentive schedule. . . . In order to encourage high achievement, HECO must meet or exceed the megawatt-hour and megawatt Energy Efficiency goals for both the commercial and industrial sector, and the residential sector . . . for HECO to be eligible for a DSM utility incentive. If HECO fails to meet one or more

⁸See, e.g., Decision and Order No. 14683, filed on April 22, 1996, in Docket Nos. 94-0010, 94-0011, 94-0012 (consolidated).

of its four Energy Efficiency goals, . . . HECO will not be eligible to receive a DSM utility incentive. Upon a determination that HECO is eligible for a DSM utility incentive, the next step will be to calculate the percentage by which HECO's actual performance meets or exceeds each of its Energy Efficiency goals. Then, these four percentages will be averaged to determine HECO's "Averaged Actual Performance Above Goals." Finally, HECO will be awarded a DSM utility incentive in accordance with the . . . DSM Utility Incentive Schedule. . . . Except in describing the Energy Efficiency goals and actual performance in terms of megawatt-hours (with no decimal places), and megawatts (with three decimal places), no rounding will occur at any point in the determination of the appropriate percentage of net system benefits to apply as the DSM utility incentive.⁹

In order to determine whether the HECO Companies have met or exceeded their respective energy efficiency goals for a given year, each company's Cumulative Actual Performance will be measured against that company's Cumulative Energy Efficiency Goals, to calculate the Cumulative Actual Performance Above Goal. Next, the Cumulative Actual Performance Above Goals will be reduced by the previous year's Cumulative Actual Performance Above Goal (which cannot be less than 0 MWh), to determine that year's Annual Actual Performance Above Goal (which cannot be less than 0 MWh). As such, the company will not receive multiple incentives for the same achievement Finally, the commission clarifies that although it will utilize the Annual Actual Performance Above Goal in the calculation of incentives attainable under the DSM Utility Incentive Schedule, if any, the commission will utilize the Cumulative Actual Performance Above Goal to determine eligibility for incentives.¹⁰

⁹Decision and Order No. 23258, at 102-04.

¹⁰Order No. 23448, at 8-9.

As set forth in Decision and Order No. 23258, HECO will be awarded a DSM utility incentive in accordance with the DSM Utility Incentive Schedule established in section III.H of the decision and order, limited to no more than the utility earnings opportunities foregone by implementing DSM programs in lieu of supply-side rate based investment capped at \$4 million.

MECO requests commission approval of an annual cap on its DSM utility incentive of \$750,000. According to MECO, "[i]n determining the annual cap, MECO used a simplified method of scaling its utility incentive cap to HECO's annual cap of \$4 million, based on the ratio between MECO and HECO's MW and MWh impacts for similar efficiency programs (approximately 18.6% of \$4 million)."¹¹ While the commission agrees that a ratio between MECO's and HECO's MW and MWh impacts should be utilized, it disagrees that the calculation should be limited to the programs that both MECO and HECO implement in common.

HECO's incentive cap of \$4 million is based on all of its commercial and industrial and residential programs. In calculating its proposed cap, MECO, however, only included the programs that were similar between HECO and MECO; excluding the analogous HECO programs that MECO has not implemented, which in the commission's estimation unfairly rewards MECO for achieving less of its proportionate energy and demand savings. As MECO is requesting goals that will allow it to achieve less

¹¹Letter dated and filed July 11, 2007, from MECO to the commission, at 7.

energy and demand savings than HECO, its incentive cap should be lower in proportion to the energy and demand savings goals set for HECO. Accordingly, the commission finds it appropriate to set MECO's incentive cap as a ratio between all of HECO's programs and all of MECO's programs. To do so, the commission added each of HECO's and MECO's MW and MWh program goals to derive MECO to HECO ratios for the 2007 MWh goals, 2008 MWh goals, 2007 MW goals and 2008 MW goals. The average of the four ratios was .08%, which the commission then multiplied by HECO's incentive cap of \$4 million, resulting in an incentive cap of \$320,000.

	2007		MECO to	2008		MECO to
	HECO	MECO	HECO Ratio	HECO	MECO	HECO Ratio
MWh Goals						
Commercial and Ind						
CIEE	46757	2038		70136	4077	
CINC	19540	2023		29311	4046	
CICR	25252	2316		37878	4632	
Residential						
ESH	24938	0		32080	0	
REWH	7533	3388		11300	5994	
RNC	6045	0		8867	0	
RLI	2633	0		5267	0	
RCFL	0	0		0	450	
Total (Comm + Res)	132698	9765	0.073588	194839	19199	0.098538
MW Goals						
Commercial and Ind						
CIEE	6.878	0.197		10.318	0.394	
CINC	2.864	0.259		4.297	0.518	
CICR	3.299	0.304		4.948	0.608	

	2007		MECO to	2008		MECO to
	HECO	MECO	HECO Ratio	HECO	MECO	HECO Ratio
Residential						
ESH	5.866	0		8.021	0	
REWH	1.728	0.783		2.591	1.385	
RNC	1.778	0		2.901	0	
RLI	0.591	0		1.182	0	
RCFL	0	0		0	0.225	
Total (Comm + Res)	23.004	1.543	0.067075	34.258	3.13	0.091366

Average of the four ratios = 0.08

MECO Cap based on \$4 million HECO Cap = \$320,000

As discussed above, given that MECO is achieving less energy and demand savings proportionate to HECO, the commission finds it appropriate to set MECO's incentive cap at \$320,000.

D.

Applicability of Order No. 23448

MECO requests that the commission confirm that ordering paragraphs 1 and 4-10 of Order No. 23448 are applicable to the implementation of its energy efficiency DSM programs. Ordering paragraphs 1 and 4 apply to all of the HECO Companies. In contrast, ordering paragraphs 2-3 and 5-10 address specific requests made by HECO. Accordingly, only ordering paragraphs 1 and 4 of Order No. 23448 apply to MECO, and ordering paragraphs 2-3 and 5-10 do not apply to MECO. This does not mean, however, that MECO is entitled to, for example, budget flexibility as was

denied to HECO in ordering paragraph 5; indeed, MECO may assume that the commission would rule consistently in accordance with its past decisions.

III.

Orders

1. MECO's request for approval of its proposed cumulative energy and demand savings goals for 2007 and 2008 for its existing energy efficiency DSM programs is granted.

2. MECO's request for approval of its proposed program budgets for its existing energy efficiency DSM programs for 2007 and 2008, including certain program modifications included in the development of the budgets, as discussed herein, is granted.


3. MECO's request for approval of its proposed DSM utility incentive cap of \$750,000 per year is denied; MECO's incentive cap is \$320,000.

4. Ordering paragraphs 1 and 4 of Order No. 23448 apply to MECO, and ordering paragraphs 2-3 and 5-10 do not apply to MECO, as discussed herein.

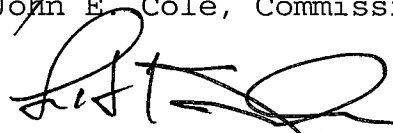
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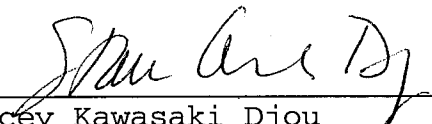
PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

By 
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By 
John E. Cole, Commissioner

By 
Leslie H. Kondo, Commissioner

APPROVED AS TO FORM:


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95-0139, 95-0140, 95-0141, 95-0142 (Consolidated).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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