BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF HAWAII

---------In the Matter of----------)) PUBLIC UTILITIES COMMISSION)) Instituting a Proceeding to) Investigate the Issues and) Requirements Raised by, and) Contained in, Hawaii's Public) Benefits Fund, Part VII of) Chapter 269, Hawaii Revised) Statutes)	DOCKET NO. 2007-0323

ORDER SETTING THE PUBLIC BENEFITS FEE SURCHARGE FOR 2009

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PUBLIC UTILITIES COMMISSION	)	Docket No. 2007-0323
Instituting a Proceeding to Investigate the Issues and Requirements Raised by, and Contained in, Hawaii's Public Benefits Fund, Part VII of Chapter 269, Hawaii Revised Statutes	)	

ORDER SETTING THE PUBLIC BENEFITS FEE SURCHARGE FOR 2009

By this Order, the commission sets the Public Benefits Fee ("PBF") surcharge for 2009, subject to modification at the commission's discretion.

I.

Background

By Decision and Order No. 23681, filed on September 26, 2007, in this docket, the commission initiated an investigation of the issues and requirements raised by and contained in, Part VII of Chapter 269, Hawaii Revised Statutes ("HRS"). HRS §§ 269-121 and 269-122 authorize the commission to contract with a third party administrator to operate and manage energy efficiency and demand-side management ("DSM") programs in the State and to assess a PBF surcharge to support those programs. By statute, the commission may also redirect all or a portion of the funds collected by Hawaii's electric utilities through the current DSM surcharge to the third party administrator.

On July 2, 2008, the commission filed an Order to Initiate the Collection of Funds for the Third Party Administrator of Energy Efficiency Programs in which the commission directed the HECO Companies[1] to expense the DSM surcharge such that by October 1, 2008, $50,000 would be available, as well as $50,000 per quarter thereafter, to support the initial start-up costs associated with the third party administrator, until ordered otherwise by the commission. The commission agreed with the HECO Companies that at this preliminary stage, a separate surcharge was not required.

By letter dated August 28, 2008, the commission directed the parties to this docket to comment on the following:

> Now, looking ahead toward a long-term funding mechanism to collect public benefits fee moneys, the Commission is considering a proper design and application for such a surcharge mechanism. We note that for their DSM adjustment, the HECO Companies currently apply the adjustment to all kWh sales per month in order to recover program costs and revenue taxes for the current year and program costs, if any, for the previous year. In addition, there are separate DSM adjustments for Residential and Commercial/Industrial customers that are determined by each HECO Company's respective kWh.
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> Should any party wish to comment on this matter, the Commission will accept comments until Friday, September 19, 2008. Parties should focus their comments on: 1) how the surcharge should be applied (i.e., by kWh usage, per meter or other means); 2) whether the surcharge should be assessed by island, by each HECO Company's service

[1]Hawaiian Electric Company, Inc. ("HECO"), Hawaii Electric Light Company, Inc. ("HELCO") and Maui Electric Company, Ltd. are collectively referred to as the "HECO Companies."

> territory, or by the HECO Companies' overall service territory; 3) whether separate surcharges should be established for Residential and Commercial/Industrial customers or one surcharge established for all customers; and 4) any other relevant issues.[2]

By letter dated and filed on September 19, 2008, the HECO Companies recommended that:

> . . . the funding mechanism for the [PBF] should be very similar to the current [DSM surcharge]. . . [the surcharge amount] should be unique to each utility service territory and calculated separately for residential rate schedules and for commercial and industrial (C&I) rate schedules. The PBF surcharge should also prospectively recover forecasted expenses and revenue taxes for the current year and be reconciled each year for actual expenses and revenues. The PBF surcharge should be an adjustment applied to energy (kWh) sales. Further, the HECO Companies' DSM surcharge should be continued as a method of recovery for utility incurred DSM program costs.[3]

The HECO Companies stated:

> The PBF surcharge should be an adjustment adder applied to customers' energy consumption in cents per kWh. Energy sales are a good indicator of the level of usage of the electrical system by individual customers. In addition, energy usage could also be an indicator of customers' ability to participate in the energy efficiency programs. For example, very large energy users may have the greatest opportunity to save energy by installing energy efficiency measures.[4]

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[2]Letter dated August 28, 2008, from the commission to the Parties.

[3]Letter dated and filed on September 19, 2008, from the HECO Companies to the commission, at 1.

[4]Id. at 2.

The HECO Companies also proposed that the PBF surcharge be combined with the DSM surcharge as one line item on customers' bills.[5]

In addition, by letter filed on September 19, 2008, Hawaii Solar Energy Association ("HSEA") and Hawaii Renewable Energy Alliance ("HREA") recommended that the commission establish a funding mechanism similar to the current DSM surcharge, "assessed separately by island, based on the specific DSM program needs and requirements" and that residential and commercial and industrial funds be separated.[6] Moreover, they recommended flexibility to allow for increases or decreases in the surcharge as individual program goals and objectives evolve by island over time; the total income requirement should be broken down by budgetary line item for each administrative and program expense; and that it would take "a coordinated, and not inexpensive, campaign" to ensure that no "momentum" is lost during the transition from the HECO Companies to the third party Administrator.[7]

On October 20, 2008, the Governor of the State of Hawaii, the State of Hawaii Department of Business, Economic Development and Tourism, the State of Hawaii Division of Consumer Advocacy of the Department of Commerce and Consumer Affairs ("Consumer Advocate"), and the HECO Companies entered into a

[5]Letter dated and filed September 19, 2008, from the HECO Companies to the commission, at 2.

[6]Letter dated September 18, 2008, filed on September 19, 2008, from HSEA and HREA to the commission, at 2.

[7]Id. at 2.

comprehensive agreement designed to move the State away from its dependence on imported fossil fuels for electricity and ground transportation, and toward "indigenously produced renewable energy and an ethic of energy efficiency."[8] In the Agreement, the HECO Companies and the Consumer Advocate state that they will request that the commission "establish a PBF that is funded by collecting 1% of each Hawaiian Electric utility's total revenues in years one and two; 1.5% in years three and four; and 2% thereafter. Once sufficient load research and potential studies allow more precise identification of the cost-effective and achievable levels of energy efficiency, the PBF collection amount will be based upon the desired level of such investments."[9]

Pursuant to the Agreement, on December 8, 2008, the HECO Companies and the Consumer Advocate proposed that:

> The PBF Surcharge would consist of separate residential and commercial/industrial components that would collect the target revenue equal to 1% (in the first and second year) of the projected total electric revenue, plus revenue taxes. The split between the residential and commercial/industrial components would be prorated according to the PBF administrator's most recent residential and commercial/industrial energy efficiency DSM Program budgets for the following year for that utility company's service territory.
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> The PBF Surcharge would collect revenue through a per kwh surcharge. A per kwh rather than a percent of base revenue surcharge is appropriate because 1) the funds will be used to fund energy efficiency DSM programs, the focus of which is on

[8]Energy Agreement Among the State of Hawaii, Division of Consumer Advocacy of the Department of Commerce and Consumer Affairs, and the Hawaiian Electric Companies ("Agreement"), at 1.

[9]Agreement, at 29-30.

energy savings, and 2) this is consistent with the existing DSM surcharge, which is also applied on a cent per kwh basis. The cent per kwh surcharges would be calculated by dividing the target residential and commercial/industrial PBF Surcharge revenues by the projected residential and commercial/industrial sales for the respective utility companies.

The PBF Surcharge would be added to customers' bills as a separate line item and the revenue would be collected by the utilities beginning on January 1. A proposed PBF Surcharge tariff is attached as Attachment 1. At regular intervals identified by the Commission, but not more frequently than monthly, the utilities would transfer the collected PBF Surcharge revenues, less the revenue tax liabilities, to the Commission, or its designate.

The amount actually collected through the PBF Surcharge will be compared to the target PBF Surcharge revenue. The difference would be applied as a credit or debit to the following year's target PBF Surcharge revenue. Since the target PBF Surcharge revenue is determined and filed by October 31, only 9 months of actual PBF Surcharge revenue will be available for the current calendar year. Thus, the actual PBF Surcharge revenue collected between October 1 of the previous year and September 30 of the current year would be compared to the target PBF Surcharge revenue for the same period to determine the credit or debit applied to the following year's target PBF Surcharge revenue. This reconciliation would be performed separately for residential and commercial/industrial PBF Surcharge revenue.[10]

II.

Discussion

As previously stated by the commission, 2009 is intended to be a transition year in which the HECO Companies will

[10]Letter dated and filed on December 8, 2008, from the HECO Companies and the Consumer Advocate to the commission ("December 8, 2008 Surcharge Proposal"), at 2-3.

be operating their existing energy efficiency programs[11] for the beginning part of the year and the third party administrator will be operating the programs during the latter part of the year. The commission, however, would like the energy efficiency programs to transition as soon as possible, so the HECO Companies should expect that transition may take place sooner than targeted. The goal in either case is a smooth transition.

To ensure sufficient monies are available to both the third party administrator and the HECO Companies, the commission will direct the collection of target revenue equal to 1% of the projected total electric revenue of the HECO Companies, plus revenue taxes, as requested in the December 8, 2008 Surcharge Proposal, but will divide those collections between the PBF surcharge (for the third party administrator) and the DSM surcharge (for the HECO Companies).[12] Specifically, the 1% of

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[11]HECO's energy efficiency programs include: (1) Commercial and Industrial Energy Efficiency ("CIEE") program; (2) Commercial and Industrial New Construction ("CINC") program; (3) Commercial and Industrial Customized Rebate ("CICR") program; (4) Residential Efficient Water Heating ("REWH") program; (5) Residential New Construction ("RNC") program; (6) Residential Low Income ("RLI") program; (7) Energy$Solutions for the Home ("ESH") program; and 8) SolarSaver program (SSP). HECO also has two load control programs: 1) Residential Direct Load Control ("RDLC") program; and 2) Commercial Industrial Direct Load Control ("CIDLC") program. HECO's SSP, RDLC and CIDLC programs will not be transitioning to the PBF Administrator and will continue to be operated by HECO.

MECO and HELCO's programs include the CIEE, CINC, CICR, REWH and SSP programs.

[12]In this respect, this Order supersedes the commission's Order Regarding HECO's Annual Program Modification and Evaluation Report, filed on September 30, 2008, which was filed on

projected total electric revenue for 2009 should be divided such that 60% is collected via the HECO Companies' DSM surcharges and 40% via the PBF surcharge. This roughly equates with the proportionate period of time that the commission expects the HECO Companies and the third party administrator to provide services in 2009.

A.

PBF Surcharge

With respect to the PBF surcharge, the commission will adopt the HECO Companies' and Consumer Advocate's December 8, 2008 Surcharge Proposal, as it relates to the 2009 PBF surcharge,[13] as described herein.

- The 2009 PBF surcharge will collect revenue through a per kWh surcharge.
- The PBF surcharge will consist of separate residential and commercial/industrial components that will collect the target revenue equal to 1% of the projected total electric revenue, plus revenue taxes.

November 14, 2008 ("HECO M&E Order"). The HECO Companies shall not collect through their DSM surcharge the full budgeted amounts, as set forth in the HECO M&E Order. The only amounts that HECO is authorized to collect through its DSM surcharge are the 60% prorated amounts for its energy efficiency DSM programs (i.e., CIEE, CINC, CICR, REWH, RNC, RLI, and ESH programs) and the full budgeted amounts for its SSP, RDLC and CIDLC programs exclusive of the amounts included in base rates. Worksheets setting forth those calculations exclusive of the amounts in base rates should be filed in this docket on or before January 1, 2009.

[13]The commission intends to review the PBF surcharge mechanism and amount on an annual basis.

- The split between the residential and commercial/industrial surcharge components will be divided according to the third party administrator's proposed residential and commercial/industrial energy efficiency DSM Program budgets for 2009, which is 45/55 residential/commercial and industrial for 2009

- The PBF surcharge will be assessed statewide, such that customers served under a given rate schedule (e.g., Schedule R) will pay the same cent per kWh surcharge, regardless of service territory, as the PBF programs are intended to be available statewide and provide a statewide benefit.[14]

- The cent per kWh surcharge should be calculated by dividing the target residential and commercial/industrial PBF surcharge revenues by the projected residential and commercial/industrial sales collectively for the HECO Companies.[15]

- The PBF surcharge should be added to customers' bills as a separate line item titled "PBF Surcharge" and the revenue will be collected by the utilities beginning on January 1, 2009.

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[14]When considering whether to separate residential and commercial/industrial surcharges for each island or, in the alternative, each HECO Company service territory, the commission determined that the intent of the third party administrator should be to serve all markets through statewide programs (with the exception of Kauai, which is serviced by Kauai Island Utility Cooperative). Therefore, the surcharge, in cents per kWh, should be uniform across all service territories, rather than unique to each. By setting the surcharge's structure as statewide, it will encourage customers in all service territories to participate and receive similar benefits from the programs, for similar costs based on their usage. In other words, customers in different service territories should not pay different charges for participating in the same programs. To address any concern that a statewide surcharge and programs may result in disproportionate benefits between service territories, the commission intends to impose some form of proportionate benefit requirement on the third party administrator.

[15]By December 22, 2009, the HECO Companies shall file exhibits similar to Attachment 2 of the HECO Companies' and Consumer Advocate's December 8, 2008 Surcharge Proposal, illustrating the estimates for the PBF surcharge.

- On a monthly basis, beginning on March 1, 2009, the utilities will transfer the collected PBF surcharge revenues, less the revenue tax liabilities, to the commission's fiscal agent.[16]

- The amount actually collected through the PBF surcharge will be compared to the target PBF surcharge revenue. The difference would be applied as a credit or debit to the following year's target PBF surcharge revenue. This reconciliation will be performed separately for residential and commercial/industrial PBF surcharge revenue.

- The PBF surcharge may be modified at the commission's discretion.

Given that the commission is ordering the establishment of a separate PBF surcharge line item, the commission will direct the HECO Companies to provide notice to their customers on the first bill on which the PBF surcharge will be listed. To reduce costs, the commission's preference is that such notice be provided through an article in HECO's Consumer Lines newsletter. If unfeasible, the commission is open to other options. Information on the method and content of the customer notice should be provided to the commission prior to dissemination.

Finally, given the foregoing, as of January 1, 2009, the HECO Companies shall discontinue collecting and expensing

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[16]Payment should be made to the "Public Utilities Commission" and delivered to the PBF fiscal agent: Bank of Hawaii, Attention: Kevin Higa, Trust Officer Institutional Client Services, P.O. Box 3170, Honolulu, HI 96802.

the DSM surcharge quarterly.[17] The $50,000 in start-up costs per quarter is no longer necessary given the implementation of the PBF surcharge.

B.

DSM Surcharge

As noted above, beginning January 1, 2009, the HECO Companies may collect 60% of the HECO Companies' 2009 targeted revenues through their DSM surcharge, which shall fund the HECO Companies' operation of their DSM programs in 2009. Unless there is an operational reason otherwise, the HECO Companies shall begin collection of the 2009 DSM surcharge on January 1, 2009.

In addition, to facilitate the transition, the HECO Companies shall provide monthly goals and budgets and reporting for all of their DSM programs, including their demand response programs, for 2009. Within thirty days of the date of this Order, the HECO Companies shall file a statement of their 2009 monthly goals and budgets for all of their existing DSM programs, including their demand response programs (i.e., CIEE, CINC, CICR, REWH, RNC, RLI, ESH, SSP, RDLC and CIDLC programs, as applicable). In addition, thereafter, on a monthly basis, the HECO Companies shall file monthly reports with the commission on all of their DSM programs (i.e., CIEE, CINC, CICR, REWH, RNC,

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[17]By letter dated December 15, 2008, the commission directed the HECO Companies to pay the $50,000 collected in the third quarter of 2008. Likewise, in January 2009, the HECO Companies shall pay to the fiscal agent the remaining $50,000 collected in the last quarter of 2008 (with interest).

RLI, ESH, SSP, RDLC and CIDLC programs, as applicable). Included in those reports should be information on demand and energy savings achieved, commitments and expenditures, as applicable. The HECO Companies shall not exceed a monthly budget for any energy efficiency program (i.e., CIEE, CINC, CICR, REWH, RNC, RLI, and ESH) without prior approval of the commission.

In addition, given the transition of energy efficiency programs to the third party administrator and the discontinuation of integrated resource planning ("IRP"), the HECO Companies shall provide an accounting of the IRP Surcharge for 2008 and 2009, including the monthly surcharge amount and the monthly cost to the average ratepayer in each customer class. Specifically, the HECO Companies' accounting should include HECO Company information on how much of the surcharge is for IRP and how much for DSM programs. Of the portion for DSM programs, information should be included on how much is for incentives and how much for administrative costs. Information should also be included on how much is in base rates versus in the surcharge.

Finally, having just completed a competitive bidding process for a third party administrator, the commission is cognizant of what appears to be the current market rate for performance incentives for administrators of energy efficiency programs, and determines that HECO's incentive cap of $4 million is unnecessarily high and thus, too costly to ratepayers in comparison. Therefore, HECO's energy efficiency goals should be appropriately and sufficiently incentivized at a much lower cost. Accordingly, the commission will lower HECO's incentive cap to $2 million for 2009. Given that MECO and HELCO's incentive caps are determined in relation to HECO's cap, MECO and HELCO's cap should be lowered accordingly. As noted in the M&E Order, the HECO Companies' incentive caps are also subject to being prorated based on the number of months in 2009 that they do not provide the programs (i.e., the programs have transitioned to the third party administrator).

III.

Orders

THE COMMISSION ORDERS:

1) The HECO Companies shall collect revenue equal to 1% of the projected total electric revenue of the HECO Companies, plus revenue taxes, of which 60% shall be collected via the DSM surcharge and 40% via the PBF surcharge.

2) The 2009 PBF surcharge shall collect revenue through a monthly per kWh surcharge, which will consist of separate residential and commercial/industrial components, and will be assessed statewide beginning on January 1, 2009. The PBF surcharge shall be added to customers' bills as a separate line item titled "PBF Surcharge."

3) Beginning on March 1, 2009, and monthly thereafter, the HECO Companies shall transfer the collected PBF surcharge revenues, less the revenue tax liabilities, to the commission's fiscal agent. The difference between the amount actually

collected through the PBF surcharge and the target PBF surcharge revenue will be applied as a credit or debit to the following year's target PBF surcharge revenue.

4) The HECO Companies shall provide notice to their customers on the first bill on which the PBF surcharge will be listed. Information on the method and content of the customer notice shall be provided to the commission prior to dissemination.

5) By December 22, 2009, the HECO Companies shall file exhibits similar to Attachment 2 of the HECO Companies' and Consumer Advocate's December 8, 2008 Surcharge Proposal, illustrating the estimates for the PBF surcharge.

6) By January 1, 2009, the HECO Companies shall file worksheets setting forth the calculations for its DSM surcharge (for the 60% prorated amounts for its energy efficiency DSM programs (i.e., CIEE, CINC, CICR, REWH, RNC, RLI, and ESH programs, as applicable) and the full budgeted amounts for its SSP, RDLC and CIDLC programs exclusive of the amounts included in base rates).

7) As of January 1, 2009, the HECO Companies shall discontinue collecting and expensing the DSM surcharge $50,000 quarterly, and thereafter shall pay to the PBF fiscal agent the $50,000 collected in the last quarter of 2008 (with interest).

8) Within thirty days of the date of this Order, the HECO Companies shall file a statement of their 2009 monthly goals and budgets for all of their existing DSM programs, including

their demand response programs (i.e., CIEE, CINC, CICR, REWH, RNC, RLI, ESH, SSP, RDLC and CIDLC programs, as applicable).

9) Thereafter, on a monthly basis, the HECO Companies shall file monthly reports with the commission on all of their DSM programs (i.e., CIEE, CINC, CICR, REWH, RNC, RLI, ESH, SSP, RDLC and CIDLC programs, as applicable). Included in those reports should be information on demand and energy savings achieved, commitments and expenditures, as applicable. The HECO Companies shall not exceed a monthly budget in any energy efficiency program (i.e., CIEE, CINC, CICR, REWH, RNC, RLI, and ESH) without prior approval of the commission.

10) Within thirty days of the date of this Order, the HECO Companies shall provide an accounting of the IRP Surcharge for 2008 and 2009.

11) HECO's incentive cap of $4 million is reduced to $2 million for 2009, and MECO and HELCO's incentive caps are lowered proportionately.

DONE at Honolulu, Hawaii DEC 15 2008.

PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

By Carlito P. Caliboso
Carlito P. Caliboso, Chairman

By John E. Cole
John E. Cole, Commissioner

By
Leslie H. Kondo, Commissioner

APPROVED AS TO FORM:

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Commission Counsel

2007-0323.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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