



EXECUTIVE CHAMBERS

HONOLULU

LINDA LINGLE
GOVERNOR

December 13, 2002

The Honorable Robert Bunda, President
and Members of the Senate
Twenty-Second State Legislature
State Capitol, Room 003
Honolulu, Hawaii 96813

Dear Mr. President and Members of the Senate:

For your information and consideration, I am transmitting herewith two (2) copies of the Public Utilities Commission's report pursuant to S.C.R. No. 98, S.D. 2, Regular Session of 2002, Requesting a Consideration of the Feasibility of Opening a Public Utilities Commission Docket Relating to Standby Charges and Customer Retention Discounts.

Pursuant to Act 231, Session Laws of Hawaii 2001, I am also informing you that the report may be viewed electronically at www.hawaii.gov/budget/LegReports/reportslist.htm.

Sincerely,

LINDA LINGLE

Enclosures



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HONOLULU

LINDA LINGLE
GOVERNOR

December 13, 2002

The Honorable Calvin K.Y. Say, Speaker
and Members of the House
Twenty-Second State Legislature
State Capitol, Room 431
Honolulu, Hawaii 96813

Dear Mr. Speaker and Members of the House:

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**STATE OF HAWAII
PUBLIC UTILITIES COMMISSION**

**Report Submitted to the Legislature Pursuant to S.C.R. No. 98, S.D. 2
Requesting a Consideration of the Feasibility of Opening a
Public Utilities Commission Docket Relating to
Standby Charges and Customer Retention Discounts**

December 2002

Background

During the Regular Session of 2002, the Legislature adopted Senate Concurrent Resolution No. 98, S.D. 2 (SCR98 SD2), which requests the Public Utilities Commission (Commission) to consider the feasibility and appropriateness of opening a new docket to:

- 1) Examine and revise as appropriate, any public utility rule, standard, rate and guideline that establishes a standby charge applicable to a non-utility distributed energy resource, and any customer retention discounts offered by a public utility; and
- 2) Consider various ratemaking issues and policies for standby charges and customer retention discounts.

Standing Committee Report No. 3398, which addresses SCR98 SD2, notes that the Senate Committee on Commerce, Consumer Protection and Housing (Committee) found that opening a single docket to address issues raised by standby rates and customer retention discounts utilized by public utilities may not be appropriate or practical given the uniqueness of each utility and utility contract. However, the Committee found that there might be generic policy issues that are appropriate for examination by the Commission.

Finally, SCR98 SD2 also asks the Commission to submit a report of its findings to the Legislature at least 20 days before the convening of the Regular Session of 2003. This filing serves as that report.

Discussion

Consistent with Section 226-18, Hawaii Revised Statutes (HRS), the Commission encourages the development of distributed generation facilities and recognizes the inherent benefits of distributed energy resources to the State of Hawaii (State). Distributed generation can provide customers with a dependable, efficient, and economic alternative or supplement to utility-supplied power. Distributed generation also benefits the utility by potentially allowing the utility to defer the need for construction of generation, transmission, and distribution facilities.

Standby Service and Charges

While encouraging the development of distributed generation, the Commission recognizes its obligation under Section 269-16, HRS, to appropriately allocate the utility costs associated with serving distributed generation customers. The allocation of these costs to distributed generation customers takes the form of standby service charges.

Standby service is an optional service offered by the utilities to customers that obtain electric power from non-utility sources (e.g., distributed generation, co-generation, etc.). Standby service backs up the customer's non-utility source of electric power, allowing the customer to continue its business operations during those periods in which the customer's electric power source is unavailable.

When a customer subscribes to standby service from the utility system, the utility must maintain sufficient generation, transmission, and distribution capacity to meet the electrical demand of the standby customer at any and all times, while continuing to meet the demand of its other customers. Standby demand charges are designed to allocate a reasonable portion of the fixed demand costs to the standby customer.

Customer Retention Discounts

Customer retention discounts are offered by electric utilities to large existing customers who would otherwise stop using the utility as its primary source of power. Each customer is allocated a share of the fixed costs of the utility. When a large customer leaves the utility, a significant contribution to covering the fixed costs is also lost, and is ultimately borne by other customers. The purpose of the discounts is to retain the contribution of the larger customers, thus alleviating the need to recover these amounts from the smaller customers.

The discounted rates offered under the customer retention programs cover the fixed and incremental costs associated with serving the customer. The utilities are not allowed to charge less than this amount. While there may be less profitability in serving the customers with the discounted rates, the cost of serving these customers is not paid for by other ratepayers. Customer retention discounts that offer customers utility rates that are above, but closer to cost, send the proper pricing signals to prospective purchasers of distributed energy resources and allows them to make the most economic choice. These discounted rates are offered through standard form contracts for customer retention, which the Commission approved in Docket No. 99-0106 and Docket No. 99-0177.

Commission Consideration and Examination of SCR98 SD2 Factors

Pursuant to Chapter 269, HRS, the Commission's regulatory jurisdiction extends to all aspects of electric utility service provisioning. In its review and determination of pleadings and issues before the Commission, the Commission must ensure that rates are fair and equitable and that safe, adequate, and reliable electric services are provided to

customers and are in the best interests of the public. In carrying out its primary regulatory responsibility to ensure just and reasonable rates for public utility service, public utility requirements, standards, guidelines, and rates undergo careful and thorough examination by the Commission.

Because standby rate design and customer retention contracts differ significantly among the various utilities, the Commission evaluates standby rates and customer retention contracts on a case-by-case basis. In other words, each utility that requests the establishment of a standby rate undergoes a separate review process by the Commission. In the Commission's review of standby rates for non-utility distributed energy resources and customer retention discounts offered by electric utilities for qualified customers, the factors identified in SCR98 SD2 are normally considered in the Commission's review of those rates and discounts.

In its consideration of equitable ratemaking design and policies for standby rates and customer retention discounts, the Commission carefully evaluates and weighs the effects of such rates and discounts on ratepayers, the utilities, the public, and other stakeholders involved in the matter. In this regard, the Commission must strike a balance between distributed energy resources as a viable alternative in the State's energy supply mix—among other things, providing economic, environmental, and fuel diversity benefits—and ensuring the provision of safe, adequate, and reliable electric service.

Standby Rider A

In Decision and Order (D&O) No. 18575, filed on June 1, 2001, in Docket No. 99-0207, the Commission approved the parties' (Hawaii Electric Light Company, Inc. (HELCO) and Department of Commerce and Consumer Affairs, Division of Consumer Advocacy) stipulated standby service rider (aka, Standby Rider A) filed on January 24, 2001. In Docket No. 99-0207, the parties reached agreement on the rates, terms, and conditions of a standby service rider that was submitted to the Commission for review.

In sum, the Commission adopted the parties' stipulated standby demand charge of \$11.40 per kW/month, as opposed to the \$30.00 per kW/month that was initially proposed. The standby service rider also exempted customers from standby charges, if the power came from non-fossil energy sources. The Commission approved the parties' stipulation after consideration of the costs to provide standby service, the potential benefits of distributed generation, and the methods used by several other states to establish standby charges.

Status

It has been about a year since the Commission allowed HELCO's Standby Rider A to take effect. Recently, in Docket No. 02-0051, the Commission approved the establishment of interconnection standards and a standard interconnection agreement that will facilitate the development of distributed generation. To date, the Commission has received no written complaints (formal or informal) that standby rates and customer

retention discounts have been significant deterrents to customer choice for distributed generation.

Single Docket Not Appropriate or Practical

Opening a single docket to address issues related to standby rates and customer retention discounts used by public utilities is not appropriate or practical given the uniqueness of each utility and utility contract. With regard to single policy issues related to standby rates and customer retention discounts, the issues stated in SCR98 SD2 are issues that undergo standard Commission review and scrutiny.

For the foregoing reasons, the Commission believes that opening a new docket relating to standby rates and customer retention discounts according to the specifications stated in SCR98 SD2 would be duplicative of the Commission's existing standard review and examination over standby rates and customer retention discounts. Therefore, upon careful consideration, opening a new docket on these matters would be infeasible, inappropriate, and unnecessary.