

**TESTIMONY OF CARLITO P. CALIBOSO
CHAIRMAN, PUBLIC UTILITIES COMMISSION
DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE
SENATE COMMITTEE ON
COMMERCE, CONSUMER PROTECTION AND
AFFORDABLE HOUSING
JANUARY 18, 2008**

SUBJECT: Public Utilities Commission BUF 901

Chair Kokubun and Members of the Committee:

The following budget testimony was submitted and presented to the Senate Committee on Ways and Means and House Committee on Finance on January 8, 2008 and January 7, 2008, respectively.

I. Introduction

- A. The objective of this program is to ensure that regulated companies efficiently and safely provide their customers with adequate and reliable services at just and reasonable rates, while providing regulated companies with a fair opportunity to earn a reasonable rate of return.

- B. The regulatory programs of the Commission involve legislative, judicial, and administrative activities as follows:
 - 1. Establishing rules and regulations pertaining to service standards;
 - 2. Rendering decisions on rates, fares, and charges;
 - 3. Processing applications, issuing certificates to regulated companies, and conducting investigations and audits of regulated companies;
 - 4. Conducting investigations of complaints filed against public utilities, other regulated entities, and companies utilizing services under the Commission's jurisdiction; and
 - 5. Maintaining the fiscal integrity of the Public Utilities Commission Special Fund.

The public utility services regulated by this Commission include 4 electric utilities, 1 gas utility, 179 telecommunication companies, 37 private water and sewer utilities, 521 property carriers and 590 passenger carriers, and 4 inter-island water carriers.

- C. The Commission intends to meet its objectives during the upcoming supplemental budget year as follows:
1. Ensure the public of adequate and efficient services at the lowest possible cost as well as providing a fair return to the regulated company;
 2. Ensure that the public does not experience discriminatory and preferential services, and avoid and eliminate unfair competitive practices among regulated companies;
 3. Promote the objectives of the State Plan to achieve dependable, efficient, and economical statewide energy; attain conservation of energy sources, to support research, development and promotion of renewable energy resources; encourage the development and use of alternate energy sources, and to preserve the environment while balancing the cost of energy to the consumer;
 4. Maintain a level of safe, adequate, economical, and efficient motor and water carrier transportation services to insure and permit the flow of goods for commercial purposes between points within the State at just and reasonable rates and fair practices; and
 5. Coordinate and support implementation of applicable regulatory initiatives to ensure safe, adequate, economical, and efficient services to the ratepayers and public, as well as, ensure regulated entity integrity and sustainability.

II. Program Performance Results

- A. During FY 2007, the Commission opened 510 new dockets relating to the regulated utilities and transportation companies and completed and disposed of 517 dockets from its total case load. Key proceedings in the electric utility area included the Commission's examination of issues related to distributed generation, including interconnection requirements, and standby rates. The Commission continued to review issues related to the Renewable Portfolio Standards Law and net energy metering, and approved tariffs for Solar Water Heating Pay As You Save pilot programs for all four of Hawaii's electric utilities. The Commission reviewed Hawaiian Electric Company's ("HECO") request for a general rate increase for the 2007 calendar test year, as well as rate cases for Hawaii Electric Light Company, Inc. ("HELCO"), and Maui Electric Company, Ltd. ("MECO"). In its proceeding on energy efficiency and HECO's demand-side management programs, which was bifurcated from HECO's 2005 rate proceeding, the Commission established a non-utility market structure with energy efficiency programs administered by a third party and funded through a Public Benefits Fund surcharge. The Commission also has an ongoing proceeding investigating the major power outages that occurred on October 15, 2006, on the HECO, HELCO, and MECO systems.

In the telecommunications area, the Commission continued to monitor the transition activities resulting from the sale of Verizon Hawaii Inc., now known as Hawaiian Telcom, Inc., to TC Group L.L.C., dba The Carlyle Group. It instituted a proceeding to examine Hawaiian Telcom, Inc.'s service quality and performance levels and standards in relation to its retail and wholesale customers. Also, the Commission modified the telecommunications relay services carrier contribution factor and fund size for the period July 1, 2007 to June 30, 2008.

The Commission continued implementation of the Petroleum Industry Monitoring and Reporting ("PIMAR") Program, pursuant to HRS Chapter 486J, by collecting data, and issuing new data collection forms to acquire the industry data required by chapter 486J, as amended in Act 182, Session Laws Hawaii ("SLH") 2007.

Other key proceedings during the Fiscal Year related to the sale of Mokuleia Water, LLC's water system assets to North Shore Water Company, LLC., and the review of Young Brothers' request for a general rate increase.

During FY 2007, the Commission issued 936 decision and orders relating to rates and tariffs, certificates, declaratory rulings, sales of securities, acquisitions, mergers, and other public utility and transportation filings.

There were approximately 1,350 written informal and verbal complaints filed against utility and transportation companies during FY 2007. The majority of written informal and verbal complaints involved telecommunications providers. These complaints mainly involved service problems, mostly relating to billing, interruptions, repairs, and installations.

During FY 2007, total revenues deposited into the special fund amounted to \$16.1 million. These revenues are derived from public utility fees, motor carrier fees, penalties and interests, application and intervention filing fees, and duplication fees. Of the total fees collected, approximately \$7.3 million was paid for the Commission and the Consumer Advocate expenditure programs. In accordance with Act 226, SLH 1994, all moneys in excess of one million dollars remaining in the special fund on June 30 will lapse to the credit of the state general fund. For FY 2007, the excess amounted to \$8.7 million. It is estimated that \$16.9 million of revenues will be collected and approximately \$8.1 million of excess funds will be deposited to the state general fund for FY 2008.

- B. The Commission's efforts to ensure that the public receive adequate and efficient services at the lowest possible cost while providing fair returns to regulated companies is consistent with the Department's overall objective to enhance productivity and operations within available resources.

- C. The effectiveness of the program is measured by the quality and dependability of services provided by regulated companies, the Commission's operational efficiency, and the services rendered to the public. These measurements are based on benchmarks that have been set in accordance with the prior years' experience as well as statutory and regulatory requirements.
- D. The Commission continued to implement initiatives that aim to meet our strategic plan's short and long-term goals. Recruitment initiatives resulted in the hiring of nine (9) new staff members for the Commission's clerical, documentation, research, engineering and legal sections. Commission staff and consultants continued to work on the development of a state of the art document and docket management system ("DMS") that will serve as the electronic backbone of the Commission's operations. Once fully functional, the DMS will enable the Commission to, among other things, electronically consolidate and store historical information in a centralized database, share relevant information with the Department of Commerce and Consumer Affairs, Division of Consumer Advocacy, increase the efficiency of internal document development and distribution, increase the efficiency of fees collections, and allow real time access to public documents on the Commission's website. The first phases of the DMS project are planned to be implemented in Fiscal Year 2007-08.

Major administrative points of focus for Fiscal Year 2007-08 will include personnel recruitment and training, technological and regulatory process improvements, public education and information transparency enhancements, and enforcement activities expansion. Additionally, pursuant to Act 177, Session Laws of Hawaii 2007, the Commission will begin to implement the first phase of a restructuring plan that will, among other things, expand the existing Research Section to include policy support positions and functions; create a Consumer Affairs and Compliance Section to be responsible for consumer relations and current investigative and enforcement activities; create an Administrative Support Section to centralize clerical services, case management services, fiscal services and information technology staff; update and redescribe fourteen (14) existing positions; convert seven (7) temporary petroleum related positions to permanent status; and allow for leasing of additional space and office relocation. Future phases of the restructuring plan are intended to collectively add fourteen (14) new positions, bringing the Commission's total permanent position count to sixty-two (62) when completed.

- E. The Commission will continue to monitor performance in accordance with the following measures: 1) percent of rate cases completed within the applicable statutory time period; 2) percent of non-rate case matters completed within the applicable statutory or regulatory time period; 3) percent of informal complaint survey respondents who responded that the commission resolved their informal complaint in a reasonable amount of time; 4) number of reported accidents involving utility employees; 5) average number of electric service interruptions per customer serviced; 6) number of reported telecommunications service disruptions of longer than one hour that affects the lesser of 25 percent or 2,000 customers.

III. Problems and Issues

- A. To date, key proceedings and activities of the Commission in FY 2008 include: (1) continuing implementation and improvement of the PIMAR program, including development of a PIMAR database to more efficiently and effectively store, retrieve, and report on the data collected; (2) a proceeding to select a Public Benefits Fund Administrator and to implement the new market structure for energy efficiency demand-side management programs for the HECO, HELCO and MECO; (3) reviewing the integrated resource plans of HELCO and MECO filed with the Commission - HECO will be filing a new IRP before the end of fiscal year 2008; (4) issuing a Renewable Portfolio Standards Framework that governs electric utilities' compliance with the RPS law, and instituting a new proceeding to review a proposal to create a renewable energy infrastructure surcharge to encourage renewable energy development; and (5) overseeing the initial utility procurements of new generating resources under the new competitive bidding framework.

When the Commission's restructuring is complete, its resources should be adequate to operate effectively under its existing, newly established and foreseeable additional statutory duties and responsibilities.

- B. There are no program change requests at this time.
- C. Federal and State efforts to introduce and expand competition in energy markets and to further develop energy policy regulation will require the Commission to continue to establish policies in specific areas such as RPS, distributed generation, competitive bidding for new power generation, intra-governmental wheeling of electricity, integrated resource planning, demand-side management programs, net energy metering, and other potential energy efficiency programs.

In the telecommunications industry, extensive research and analyses will be needed from the Commission staff to address and resolve critical issues relating to telecommunications competition, voice over the internet protocol, rural telecommunications services, and a possible restructuring of the Federal universal service fund.

New requirements, as enacted by the 2007 Legislature, include Act 234, which aims to reduce greenhouse gas emissions in the state of Hawaii to 1990 levels by 2020. Although not directly involved in the task force charged with developing a work plan and regulatory scheme to achieve the reductions in emissions, the Commission will play a large role in advising the task force and in the implementation of the regulatory scheme that results from their work. The Commission will maximize its resources so that adequate attention may be given to these critical issues and requirements.

IV. Expenditures for Fiscal Year 2007-2008

	Appropriation	Collective	Transfers In		Net
	FY 08	Bargaining	Transfers	Restriction	Allocation
			Out		and Estimated
					Total
					Expenditure
(Pos. Count)	(44.00)				(44.00)
PERS SERV	3,679,370	103,402			3,782,772
CURR EXP	5,016,192				5,016,192
TOTAL	8,695,562	103,402	-	-	8,798,964
(Pos. Count)	(44.00)				(44.00)
Special Funds	8,695,562	103,402	-	-	8,798,964

- A. There were no transfers made within this program.
- B. There were no transfers made between this program and any other program.
- C. No restrictions are imposed on the program in FY 2008.

V. Supplemental Budget Requests for Fiscal Year 2008-2009

	Appropriation FY 09	Adjustments FY 09	Supplemental Request FY 09
(Pos. Count)	(51.00)	(4.00)	(55.00)
PERS SERV	4,148,577	0	4,148,577
CURR EXP	5,770,217	500,000	6,270,217
EQUIP	11,200	0	11,200
 TOTAL	 9,929,994	 500,000	 10,429,994
(Pos. Count)	(51.00)	(4.00)	(55.00)
Special Funds	9,929,994	500,000	10,429,994

A. Workload or Program Request.

<u>Item</u>	<u>Org. Code</u>	<u>Cost Element</u>	<u>MOF</u>	<u>Amount of Request</u>
				FY 09
		(Pos. Count)		(4.00)
Conversion of 4 Positions to Permanent status	MA			
		Total	B	(4.00)

Act 177, SLH 2007, authorized the conversion of four petroleum related temporary positions to permanent status. This request properly incorporates the following positions into the budget appropriation act: Research Assistant, PUC Attorney, Enforcement Officer and Clerk Typist positions. Funding for the positions is already a part of the appropriation act.

<u>Item</u>	<u>Org Code</u>	<u>Cost Element</u>	<u>MOF</u>	<u>Amount of Request</u>
				FY 09
Consulting Services	MA	Current Expense	B	\$500,000

Section 269-095, HRS, requires the PUC to engage the services of the University of Hawaii, Hawaii Natural Energy Institute to conduct studies on Renewable Portfolio Standards. The studies include findings and recommendations on the capability of Hawaii's electric utilities to achieve the renewable portfolio standards in a cost-effective manner and to determine the impact on consumer rates, utility system reliability and stability and to determine the cost and availability of appropriate renewable energy resources and technologies. A report of findings is due to the 2009 legislature and every five years thereafter. Special fund expenditure authorization for this purpose is therefore requested.

B. Position Count Reductions
None.

VI. There are no general fund restrictions/reductions imposed on this program.

VII. Capital Improvement Request for Fiscal Year 2007-2009:
None.

VIII. Proposed Lapses of Capital Improvement Projects:
None.