



July 28, 2021

The Honorable Chair and Members
of the Hawai'i Public Utilities Commission
Kekuanao'a Building, First Floor
465 South King Street
Honolulu, Hawai'i 96813

Dear Commissioners:

Subject: Docket No. 2018-0088
Instituting a Proceeding to Investigate Performance-Based Regulation
Hawaiian Electric Companies' Pilot Process

In accordance with Decision and Order No. 37507 ("D&O 37507") issued on December 23, 2020 and Order No. 37865 issued on July 9, 2021, enclosed for filing is the Hawaiian Electric Companies'¹ Pilot Process to govern the review of pilot project proposals.^{2,3}

Very truly yours,

/s/ Dean K. Matsuura

Dean K. Matsuura
Director, Regulatory Rate Proceedings
Enclosures

¹ Hawaiian Electric Company, Inc., Hawai'i Electric Light Company, Inc., and Maui Electric Company, Limited are collectively referred to as the "Hawaiian Electric Companies" or "Companies."

² Order No. 37865 at 12.

³ In D&O 37507 at footnote 286 (page 175), the Commission stated that "At this time, the Commission is considering opening a docket to serve as a repository for Pilot Process-related filings, such as the Workplan, Notices, and Pilot Updates, as well as to address Pilot Process-related disputes, similar in operation to Docket No. 2017-0352." The Companies support the opening of a docket to serve as a separate repository for Pilot Process-related filings.

HAWAIIAN ELECTRIC COMPANIES’¹ PILOT PROCESS²

I. INTRODUCTION

In Decision and Order No. 37507, issued on December 23, 2020 (“D&O 37507”), the Commission approved an “expedited process for reviewing pilot projects (“Pilot Process”) as part of the PBR Framework.”³ The Commission stated that it included a Pilot Process “to foster innovation by establishing an expedited implementation process for pilots that test new technologies, programs, business models, and other arrangements.”⁴ According to the Commission, “this is intended to support initiatives by the Companies to test new programs and ideas quickly and elevate any successful pilots for consideration of full-scale implementation.”⁵ The Commission also ordered the Companies to develop a written Pilot Process consistent with D&O 37507 for Commission review and approval prior to commencement of the Workplan process (also described in D&O 37507).⁶ Pursuant to D&O 37507, the Companies submitted their proposed Pilot Process on April 30, 2021 which was approved through Order No. 37865. This Pilot Process shall govern the review of pilot project proposals unless further modified by the Commission.⁷

II. PILOT PROCESS

In D&O 37507, the Commission agreed with the Companies that “flexibility is important to the success of the Pilot Process.”⁸ Accordingly, the Commission granted the Companies the ability to “exercise flexibility in selecting pilot vendors” and noted that the Companies “need not strictly adhere to traditional contract bidding and selecting processes.”⁹ Additionally, because “the traditional nature and scope of Commission review may not be appropriate for expeditiously reviewing pilots” “the Pilot Process will afford the Companies with a greater degree of freedom to pursue pilots, with oversight by the Commission tailored to provide the Companies with greater discretion to proceed with pilots, while maintaining Commission approval for pilot costs, as well as requiring reporting on implementation of approved pilots.”¹⁰

With respect to eligibility, D&O 37507 directed that pilot projects should:

- Involve products or services beyond the sale of basic electric service and

¹ Hawaiian Electric Company, Inc. (“Hawaiian Electric”), Hawai‘i Electric Light Company, Inc. (“Hawai‘i Electric Light”), and Maui Electric Company, Limited (“Maui Electric”), are collectively referred to as the “Hawaiian Electric Companies” or “Companies.”

² This Pilot Process was approved pursuant to Order No. 37865, Approving the Hawaiian Electric Companies’ Pilot Process, issued on July 9, 2021 (“Order No. 37865”).

³ D&O 37507 at 168.

⁴ Id. at 166.

⁵ Id.

⁶ Id. at 181 and Ordering Paragraph 4 (at 226).

⁷ Order No. 37856 at 12.

⁸ D&O 37507 at 169.

⁹ Id.

¹⁰ Id. at 169-170.

align with an established regulatory goal, such as those established within the PBR Framework;

- Seek to leverage funding from alternative sources, e.g., grants or third-party investments, to minimize impacts to customers;
- Incorporate a requirement for pilots involving non-local vendors and larger sole-sourced vendors (i.e., vendors with more than 100 employees) to participate in cost-sharing for the pilot (e.g., in-kind contributions, such as engineering or project management support);
- Incorporate preference for pilot partnerships with Hawaii-based vendors (e.g., contracting for services and/or technologies from local businesses);
- Provide estimates of Net Present Value (“NPV”) with considerations such as new sources of revenue, cost savings over a defined time period, or other metrics such as a reduction in GHG and contributions to State policy goals via reduction in imported fossil fuels;
- Provide the Commission, Consumer Advocate, and key stakeholders with reasonable access to data (e.g., to assess key performance metrics); and
- Incorporate participant customer surveys or measurement and verification evaluation to measure progress against program success criteria and metrics.

A. PROCESS

The Pilot Process will begin with Workplan Development, where the Companies will invite the Commission, Consumer Advocate, and other interested stakeholders to collaboratively identify an initial set of 5-10 areas of collaboration, taking into consideration the alignment and leveraging of the Companies’ prior related strategic plans, including Integrated Grid Planning, Grid Modernization Strategy, RPS resource procurements, Customer Energy Resources Strategy, and the EoT Strategic Roadmap.¹¹ This will lead to the development of a portfolio of pilot concepts that may be refined and introduced as specific pilot proposals as part of the Implementation phase.¹² While there is no Commission ordered date for the completion of the Workplan, the Companies will endeavor to work expeditiously with the stakeholders to submit the Workplan to the Commission approximately 90 days from the start of the stakeholder engagement process. The Workplan is intended to provide as much information and detail as possible, so as to support the Commission’s review process, described below.¹³

¹¹ Id. at 171-172.

¹² Id. at 172.

¹³ Id.

In preparation for the Workplan Development phase, the Companies have developed a Workplan Development Framework (“Framework”) which broadly describes the goals, governing principles, guidelines, and processes to facilitate and help focus collaboration with stakeholders to quickly seek input on prioritized pilot projects. As the Companies envision an open and collaborative stakeholder process, it is anticipated that the Framework would be revised over time to reflect stakeholder input, and lessons learned during the Workplan and Implementation phases of the Pilot Process. Once the Commission has approved the Workplan, the Companies will proceed with pursuing pilots for implementation, consistent with the portfolio described in the Workplan.¹⁴

Through Order No. 37865, the Commission affirmed that it will continue its independent review of the EBus Make-Ready Infrastructure Pilot (“EBus Pilot”) and Charge Ready Hawaii Pilot Project (“Charge Ready Pilot”) in Docket Nos. 2020-0098 and 2020-0202, respectively, but that any approved pilot project resulting from these dockets will be subject to the Pilot Process.¹⁵ In this regard, the Commission noted that it has approved the EBus Pilot in Docket No. 2020-0098.¹⁶ Pursuant to that approval, the Hawaiian Electric Companies have been authorized to recover EBus Pilot costs through the Renewable Energy Infrastructure Projects (“REIP”) surcharge. As EBus Pilot costs have not yet been included in the REIP surcharge, the Companies shall utilize the Pilot Process to recover the costs for the EBus pilot.¹⁷

Each pilot will be developed with additional input through the relevant stakeholder engagement process (e.g., potential customers, vendors, local and State governments, community-based organizations, etc.). While all ideas will be considered by the Companies, the Companies acknowledge that there inevitably will be limits to the number of pilots that can be implemented at any given time. The Companies will work with the Commission, and applicable stakeholders, to prioritize pilot opportunities. Once a pilot concept has been developed, the Companies shall submit written notice (“Notice”) to the Commission.¹⁸

B. NOTICE

The information to be included in the Notice shall include, inter alia, items such as a description of the pilot, key customer benefits, eligibility requirements, a proposed project timeline, success criteria, estimated costs and revenues (if applicable), and a discussion on expected outcomes of the pilot.¹⁹

The Notice will also address:

- Expected outcomes of the pilot project (e.g., added or improved services), including methods and metrics for measuring success and risk of the pilot

¹⁴ Id.

¹⁵ Order No. 37865 at 4.

¹⁶ Id.

¹⁷ Id. at 5-6.

¹⁸ D&) 37507 at 172-173.

¹⁹ Order No. 37865 at 6.

project, which may be used to evaluate progress throughout the course of the pilot.

- How the outcomes of the pilot project are aligned with State energy goals and Commission orders, including, but not limited to: Docket No. 2018-0088 (this proceeding), Docket No. 2018-0135 (EoT Strategic Roadmap); Docket No. 2019-0323 (DER investigation), Docket No. 2018-0165 (IGP investigation), and the State's energy efficiency efforts.
- Areas of potential overlap with other existing project(s)/program(s) and, if so, how such overlap will be addressed by the pilot project.²⁰

The Commission will review pilot Notices on an expedited basis and issue an Order within 45 days approving, denying, or modifying the proposed pilot as described in the Notice.²¹ To facilitate this expedited review, the Companies will keep the Commission and any relevant stakeholders, such as the Consumer Advocate, apprised of prospective pilot proposals and seek to incorporate stakeholder and Commission input into the Notices where feasible.²² The Companies shall notify the Commission in writing within 15 days of the Commission's order whether the Companies accept the modifications to the pilot, propose further modifications to the pilot, or withdraw their Notice for that pilot.²³

C. DISCONTINUANCE OR MATERIAL CHANGE

Any discontinuance of a pilot or material changes to the pricing, terms, or conditions of the pilot will be filed with the Commission forty-five (45) days in advance for Commission review, with written notice of the proposed changes also sent to pilot participants.²⁴ The Commission may approve, modify, or deny the proposed changes. The Companies must submit in writing within 15 days of the Commission's applicable order whether they accept the Commission's modifications, propose alternative modifications, or elect to withdraw the request for material changes to the pilot project.²⁵ As stated in D&O 37507, if the Commission does not take affirmative action during the 45-day window, the changes will be considered approved.²⁶ Following issuance of any Commission order addressing pilot changes, the Companies will provide pilot participants with notice of the Commission's ruling and any changes to the pilot.²⁷

²⁰ D&O 37507 at 173-174.

²¹ Order No. 37865 at 6.

²² Id. at 174 and Order No. 37865 at 6.

²³ Order No. 37865 at 7.

²⁴ D&O 37507 at 174.

²⁵ Order No. 37865 at 7-8.

²⁶ D&O 37507 at 174.

²⁷ Id.

D. DURATION

The Pilot Process will be available throughout the Multi-year Rate Period as defined in D&O 37507 and may be extended at the Commission's discretion. The Commission will review each proposed pilot's duration, as set forth in each Notice, on a case-by-case basis.²⁸

E. REVIEW AND REPORTING

The Companies will file an annual comprehensive report covering all active pilots ("Pilot Update") by March 31 each year, for the prior year. The Pilot Update will, at a minimum, contain the following information for each pilot:

- Implementation schedules and progress relative to the objectives and key performance metrics of the pilot;
- Pilot impacts on underserved communities;
- Pilot costs and revenues (if applicable), including cost analysis per participant, quantitative and qualitative benefits (for both pilot participants and non-participants);
- Updates to estimated costs and schedule (e.g. if there were significant delays in receiving signed agreements from government agencies);
- Qualitative description of the pilot and customer benefits; and
- Any proposed changes to material aspects of the pilot, such as program pricing, terms or conditions, eligibility requirements, changes to the implementation schedule, or program cancellations (including reason for the cancellation).²⁹

In addition to providing an update on ongoing pilots, the Pilot Update may include final reporting on completed projects, as applicable.³⁰ Any final reporting may also include the Companies' marketing efforts and expenses incurred, methods for analyzing impacts, cost-effectiveness, and customer retention.³¹ The Pilot Update will include reporting on challenges and lessons learned, process improvements, a listing of performance relative to all key metrics, and any future permanent implementation plans based on an evaluation against the metrics established.³² The Companies will submit a single, consolidated Pilot Update report sooner than on a biennial basis, however, no Pilot Update will be required for 2021.³³

²⁸ D&O 37507 at 175 and Order No. 37865 at 8.

²⁹ D&O 37507 at 175-176.

³⁰ Id. at 176.

³¹ Id.

³² Id.

³³ Id. at 176-177.

F. COST RECOVERY

Pilot Notices will be reviewed on an expedited basis and an order will be issued within 45 days addressing, in pertinent part, the estimated costs for the Pilot. If the Notice is approved, the Order will authorize the Companies to commit a certain amount of resources towards the pilot; however, the ultimate amount of costs that may be recovered from ratepayers will be determined on a case-by-case basis upon review of the estimated costs in the Notice and the actual costs included in the Pilot Update submitted as part of the PBR Framework's annual Spring Review.³⁴

All costs associated with the approved pilot will be deferred and recorded as expense in the applicable functional expense account(s), as the costs are recovered through the RBA Rate Adjustment over twelve months beginning June 1 of the following year. Total annual expenditures for pilots implemented under the Pilot Process will be deferred and recovered in full over twelve months beginning June 1 of the following year. This is consistent with D&O 37507, which provides that during the annual Spring Review, the Commission will review the Pilot Update and "determine, at that time, the amount of pilot costs that may be recovered for that year[.]" which may be affected by considerations such as "cost overruns, changes to the pilot, offsetting revenues generated by the pilot, etc."³⁵

The Companies will not "recover a return on the unamortized balance of the deferred costs or recover a carrying cost for the period from the incurrence of the cost until the onset of the recovery of the pilot costs[;]" In the event that the Commission determines that a pilot project's deferred costs should be amortized over a period greater than twelve months, the Commission will consider the Companies' request that they be allowed to earn a return on the unamortized balance but will address this, including determination of the rate of any such return, on a case-by-case basis in the review and approval of the Notice.³⁶ In the event there are pilot project cost overruns, the Commission will address this issue on a case-by-case basis as part of its review of the Pilot Update during the Spring Review.³⁷

Cost recovery will be allowed for the duration of the pilot, pursuant to the schedule approved by the Commission. In the event the pilot is extended beyond its initial term or scaled up, "the nature and detail of the pilot's cost recovery will be re-visited by the Commission."³⁸

G. PILOT EXPANSION

Due to the inherent market risk over which the Companies do not have direct control, not every pilot will directly translate into a commercial program or product. The pilots will be designed to include stakeholder input and be as transparent as possible in order to share learnings and create long-term benefits for all stakeholders. At the conclusion of the scheduled operation of the pilot, as previously approved by the Commission, the Companies may seek to extend

³⁴ Order No. 37865 at 8-9.

³⁵ Id. at 9-11.

³⁶ Id. at 10-11.

³⁷ Id. at 11.

³⁸ Id. at 12.

and/or expand the pilot beyond the initial set of customers.³⁹ This will allow pilots that are yielding benefits for electric utility customers to continue after the pilot period and can serve to maintain continuity during the evaluation period and any subsequent transition. The intent of the potential transition period is to avoid confusion, minimize disruption to customers, and limit defection from the pilot program while a larger roll-out is under review.⁴⁰

To minimize confusion, the Companies will notify the Commission in advance of any pilots it wishes to submit for extended operation and/or expanded scope. If the Companies plan to extend, or expand the pilot scope, including any potential modifications to the pilot, the Companies will submit a request to the Commission seeking to extend and/or expand the pilot project. As noted in D&O 37507, the Commission indicated filing such a request no later than one year prior to the scheduled termination of a pilot project.⁴¹ For situations where the ability to review key data and lessons learned in the last year of the pilot is deemed important for decision-making on extending and/or expansion of the pilot, the Companies anticipate a need to work with the Commission and applicable stakeholders on such requests. Any request will contain a description of the proposed extension and/or expansion of the pilot, inclusive of any potential modifications to the pilot, with supporting evidence, including proposed schedules, estimated costs and benefits, and a proposed method for cost recovery.⁴² The Commission will address each such request on a case-by-case basis.⁴³ As pilot projects are executed, some learnings and metrics will indicate that the pilot should not be scaled up to a full commercial product/service in its current form; in those cases no extension would be filed.⁴⁴

³⁹ D&O 37507 at 179.

⁴⁰ Id. at 179-180; Order No. 37865 at 12.

⁴¹ Id. at 180.

⁴² Id.

⁴³ Id.

⁴⁴ Order No. 37865 at 12.

CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing document, together with this Certificate of Service, were duly served on the following parties and participants, by having said copies delivered by electronic service, by hand delivery, and/or by mailing a copy by United States mail, postage prepaid, as set forth below:

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DATED: Honolulu, Hawai'i, July 28, 2021.

/s/ Andrew Nojiri
 Andrew Nojiri
 HAWAIIAN ELECTRIC COMPANY, INC.
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