



KIUC RATE CASE CLARIFIED

Recently the Hawai'i Public Utilities Commission (PUC) approved KIUC's request for a rate increase, granting it a 1.984% increase in revenue.

This rate increase will make KIUC's financial stability much less dependent upon the price of oil and will help KIUC attract low-cost federal funds to make your electric system more reliable, efficient, and environmentally friendly.

Back in June 2009, KIUC had originally requested a 10.5% increase due primarily to reduced sales because of a poor economy and lower fuel prices. The economy began to pick up and fuel prices began to rise thereafter, so in March 2010 KIUC reduced its requested revenue increase to 3.2%.

In April of this year, the increase was further reduced to 2.25% as a result of a settlement reached with all parties in the proceeding (Consumer Advocate, the Navy, and Marriott). As part of the settlement, KIUC agreed not to recover in rates the costs of its employee incentive program. KIUC inherited this program from Kaua'i Electric and the KIUC Board has subsequently modified the incentive plan to promote cost cutting. KIUC is now setting aside on its books \$56,250 monthly for the program which for the whole year is less than one-half of 1% of total revenues. None of these incentives will be paid unless the goals under the program are achieved by the end of the year. Rather than being charged for in rates, the program is intended to be funded by savings generated by it.

Reducing the number of employees has been one area where KIUC has achieved savings. Since 2006, KIUC has reduced the number of full time employee positions from 171 to 163. KIUC also has not filled vacant positions except when critical to operations. KIUC currently has 6 unfilled vacancies. While many of these positions will eventually need to be filled, our remaining employees have been tasked with taking on additional responsibilities. In addition, savings were achieved by KIUC's non-bargaining unit employees delaying and forfeiting their 2009 pay increases for the first nine months of the year. With these and other savings, KIUC has been able to remain financially stable while awaiting the PUC's decision on our rate increase request.

In late April, the PUC approved the settlement reached with the parties and established interim rates for KIUC to charge its members pending final review of the case. The PUC allowed all items agreed to in the settlement (including the non-recovery through rates of the employee incentive program) except for salary increases for non-union employees due to its finding that the incentive and salary increases were unreasonable for ratemaking purposes in the current down economy. KIUC had already implemented the salary increases at the time of the PUC's decision on interim rates. The total amount of the salary increases to be paid out by KIUC in 2010 is estimated at \$386,000. The salary increases were based on an independent assessment done by a national consulting group and the KIUC Board decided that in its view the increases were reasonable and that it was in Kaua'i's best interest to fairly compensate its utility employees in order to continue to maintain a high quality motivated staff. The interim rates (which went into effect on May 26) were made final through the PUC's September 9th decision.

Because the PUC has not allowed KIUC to include in its rates the costs of the incentive program and the non-union salary increases, the amount of patronage capital (patcap) allocated to an average residential member's account at the end of the year will be reduced by approximately \$14. This \$14 reduction is to the amount credited to a member's patcap account, not the refund check members have been used to receiving each year, and does not consider any of the cost savings resulting from the incentive program which would make this reduction less.

Historically, KIUC was required to pay to the members in the form of a check 25% of the prior year's net margins credited to each member's account. As a result of the settlement the PUC has changed the requirements for receiving a refund payment. Now members will receive a refund payment if KIUC's times interest earned ratio (TIER) as reported to its lenders exceeds 2.00 for the year, in which case all margins in excess of what is necessary to achieve that 2.00 TIER will be refunded.

Keep in mind that before KIUC became a cooperative, all of the money KIUC sets aside in members' names as patronage capital would have gone to the mainland holding company that owned the utility. Now it stays on the island and works to build a stronger local economy!

 **Kaua'i Island
Utility Cooperative**
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