

# THE CUSTOMER OF THE 21<sup>ST</sup> CENTURY

**Jay Griffin – *Moderator***

Chief of Policy and Research, Hawaii Public  
Utilities Commission

**Neil “Dutch” Kuyper**

CEO, Parker Ranch Inc.

**Hunter Lovins**

President, Natural Capitalism Solutions

**Justin McCurnin**

VP & General Manager, Smart Grid Solutions,  
Honeywell

**Jon Yoshimura**

Director of Policy and Electricity Markets,  
SolarCity

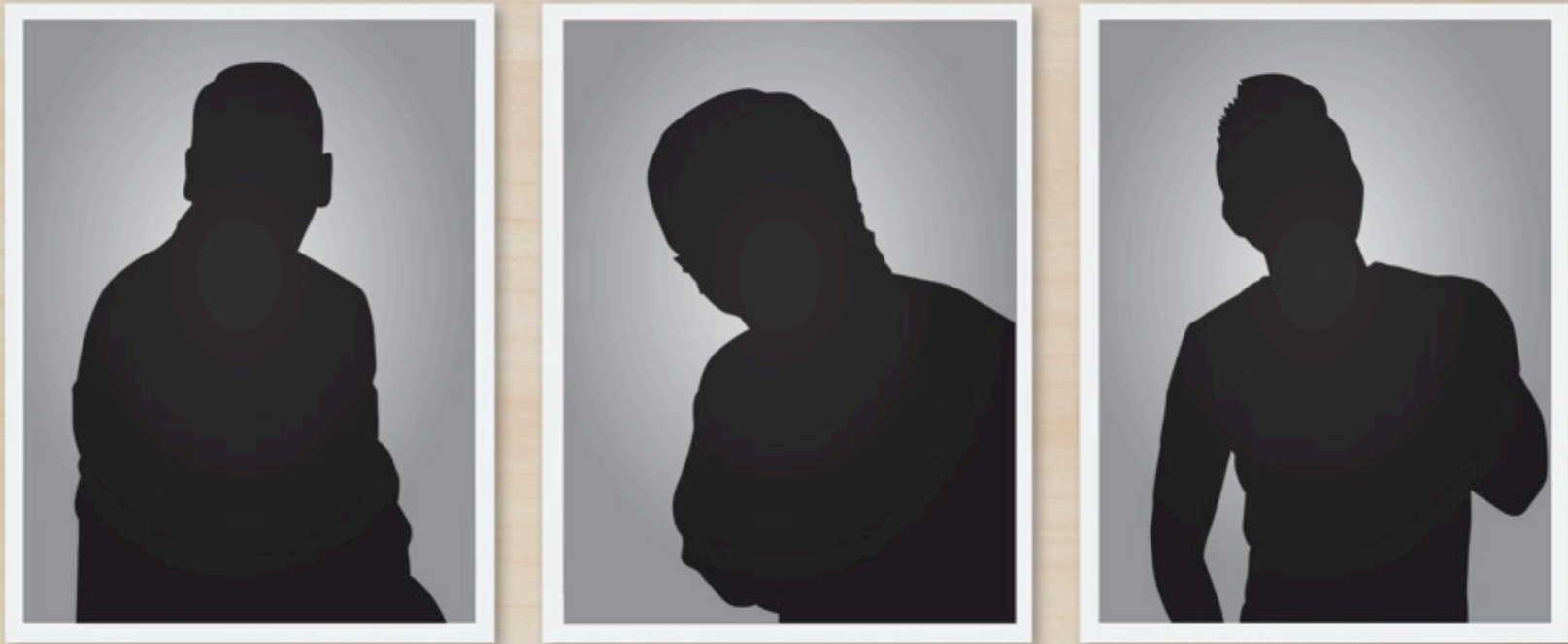




**Are Your Customers  
Really Blind Dates?**

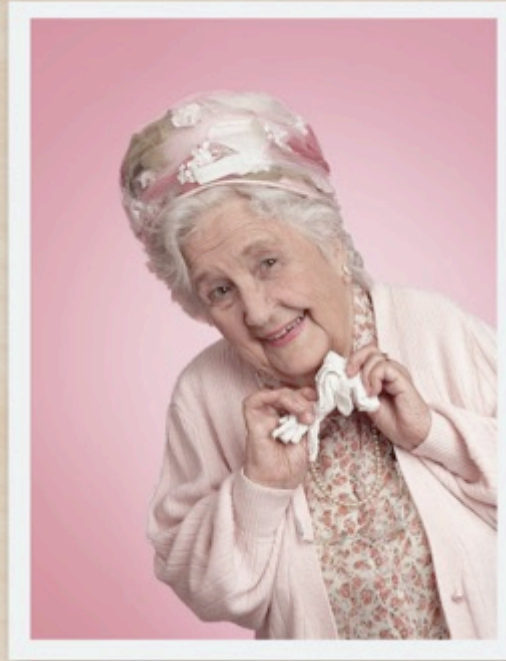
**Honeywell**

## If Your Prosumers Are A Mystery...





## It's Like Going On A Blind Date





## You Need Matchmaker

### Justin McCurnin

Vice President Honeywell Building Solutions  
General Manager Smart Grid Solutions

- 12 years in marketing energy efficiency with Honeywell for residential, commercial and retail channels
- 8 years working in ad agencies on car parts, tractor tires, kitchen cabinets, construction equipment, baseball teams, hearing aids and fireplaces

### Honeywell Smart Grid Solutions

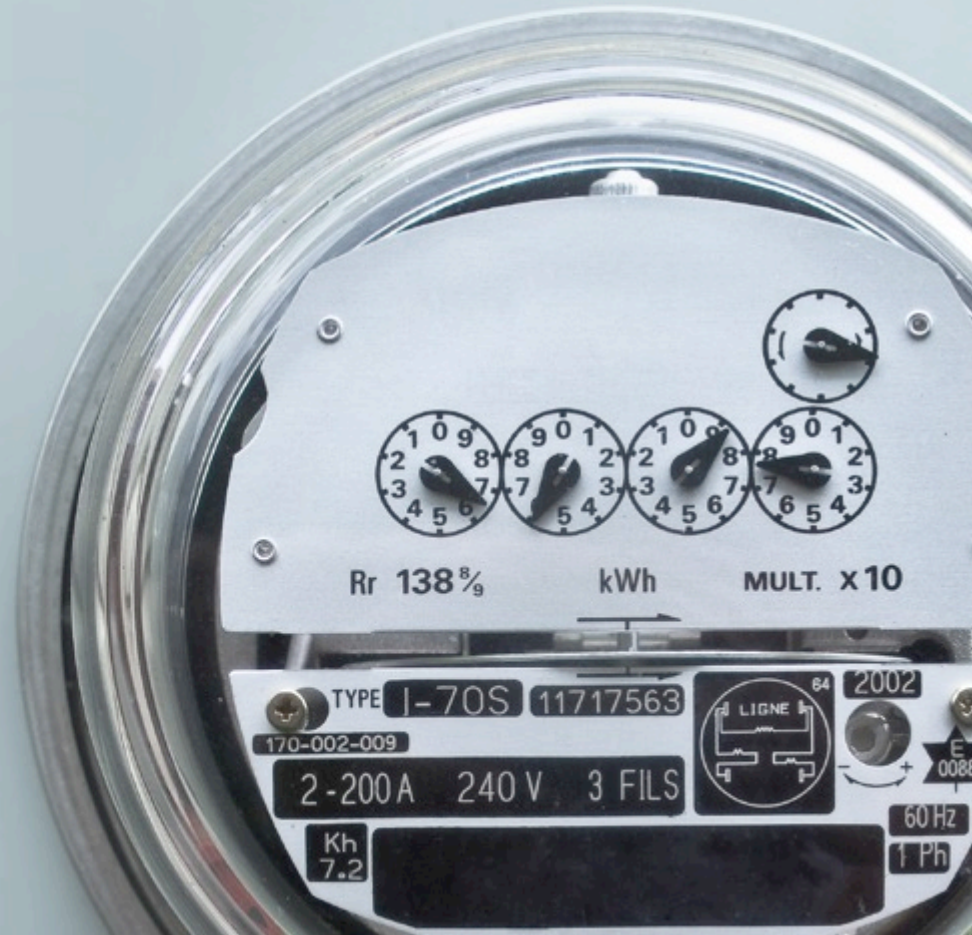
- Serving 60 utility customers in five countries
- Providing residential and commercial turnkey programs and technologies
- Innovative customer-engagement solutions
- Up to 10,000 audits and 500,000 rebates each year
- More than 600,000 homes enabled with demand response



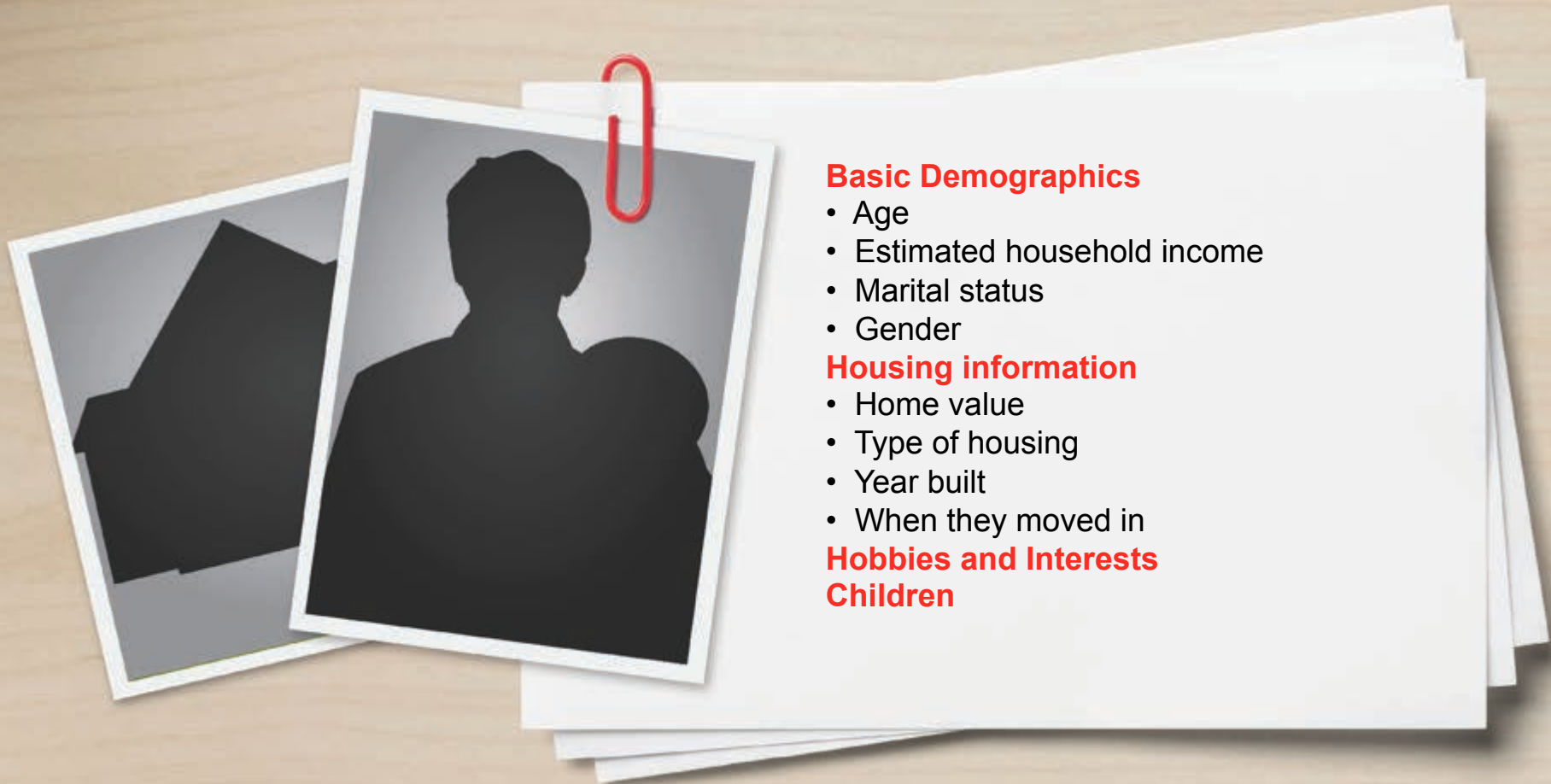
## Who Is This Customer?



J Smith  
1234 Sunnyside Ct  
Lanai City, HI 96763



## When You Get To Know Your Customer...



### **Basic Demographics**

- Age
- Estimated household income
- Marital status
- Gender

### **Housing information**

- Home value
- Type of housing
- Year built
- When they moved in

### **Hobbies and Interests**

### **Children**



# ...You Can Better Understand And Target Buying Behaviors



## Basic Demographics

- 28
- \$124K household income
- Single
- Male

## Housing information

- Rents his home
- Work from home
- Online Traveler
- Luxury Hotels
- Working on paying off college loans

**Online & On Credit “Urban Affluence”**  
**127 in Maui or 0.3%**

# Lives Change



## Basic Demographics

- 38
- \$154K household income
- Married

## Housing information

- Owns home

## Hobbies

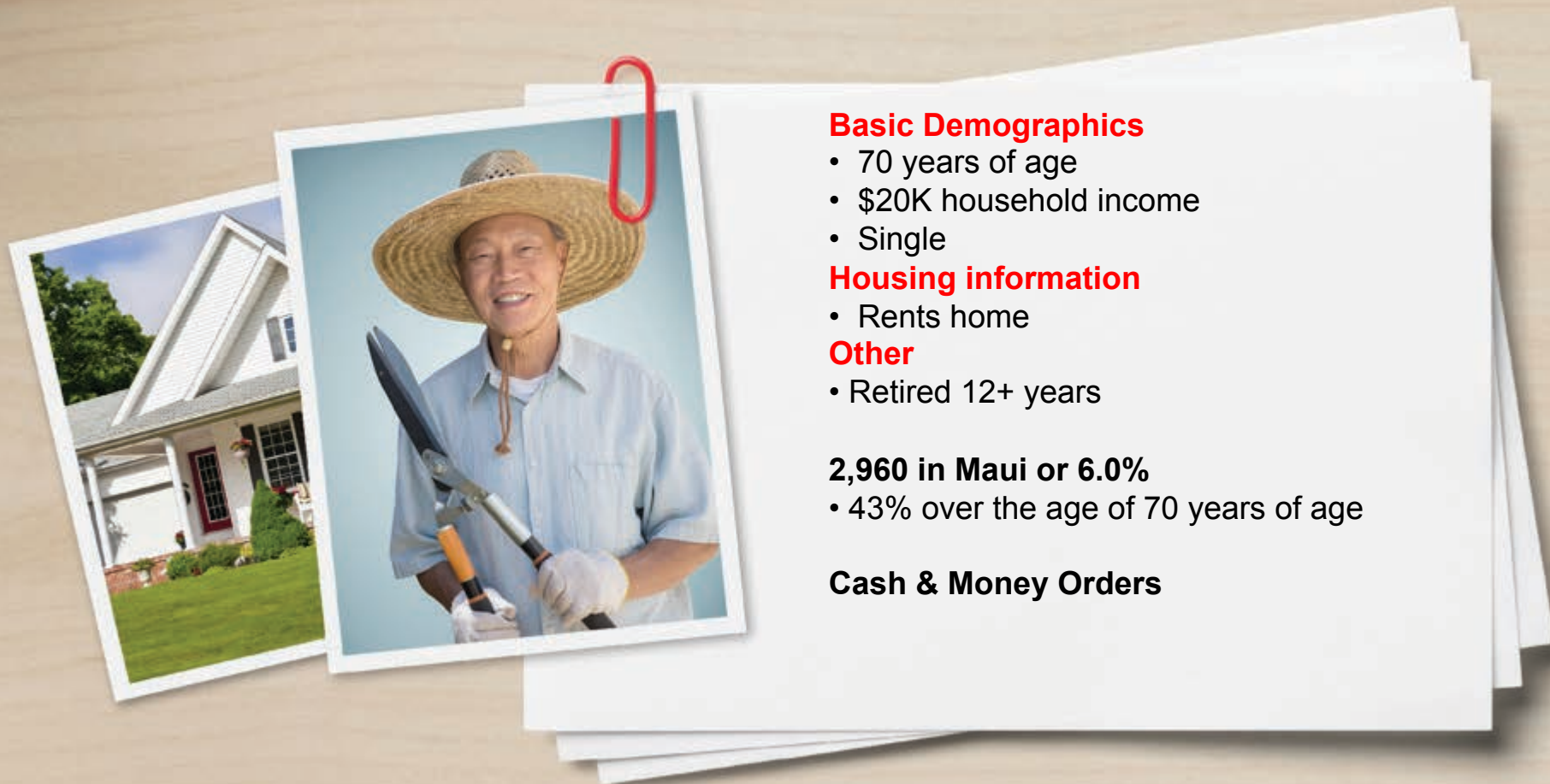
- Enjoy travel, luxury cars
- Own a family van

## Other

- Well educated
- Working on careers

**Equity Builders “Family Circus”**  
**536 in Maui or 1.1%**

# Situations Change





## Segmentation Uncovers Shared Beliefs. Predictive Modeling Identifies Targets.

### **“The Kamas”**

**Busy Family Life:** High home value, married, children, above average HHI

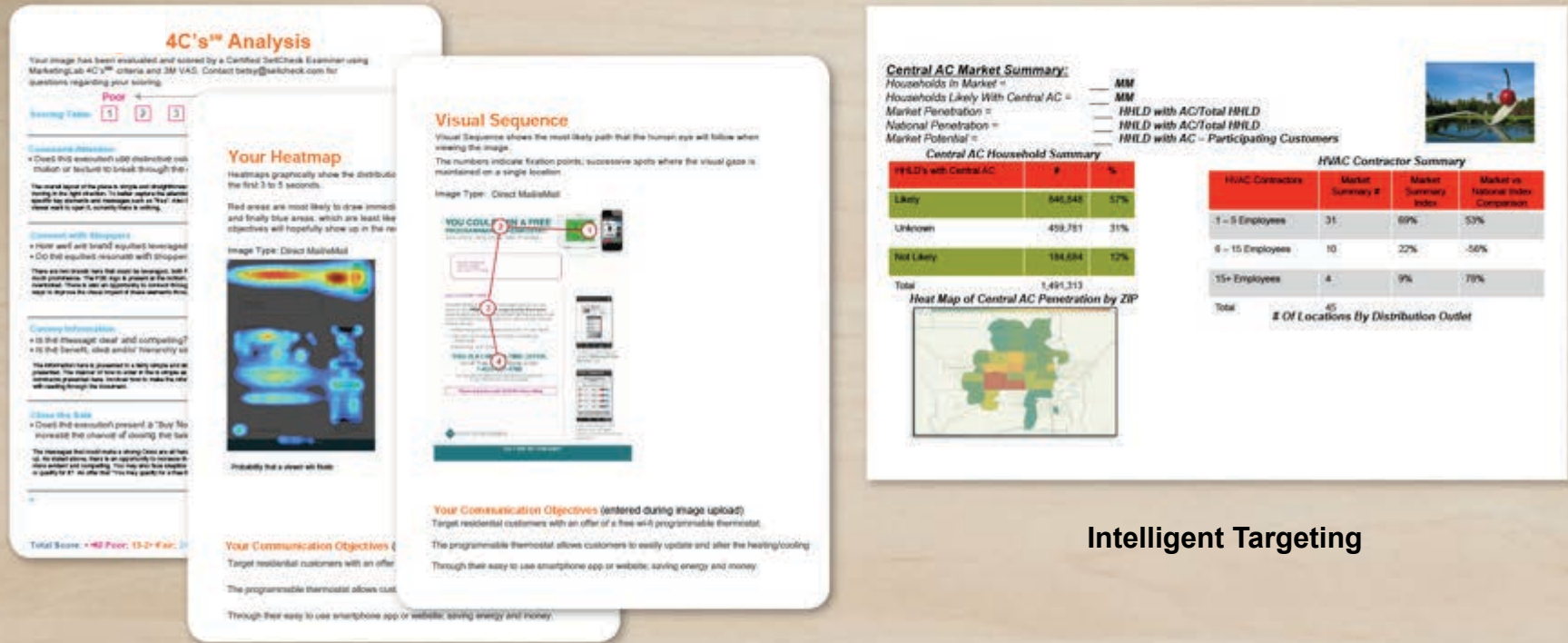
### **“The Wilsons”**

**Wealthy Singles/Couples:**  
Very high home values, maybe married, no children, very HHI

### **“The Elliots”**

**Empty Nesters:** High home value, married, no children, average HHI

## Recruitment Methodology



Intelligent Targeting

Intelligent Creative

**2X** RESPONSE LIFT



## Right Message. Right Customer.

**More Power to Control Your Energy Use**  
Anytime. Anywhere.

Full Name  
Address, Zip  
City/State/Zip

Green Team is committed to help you, our customers, save money and energy while helping maintain your comfort. We are pleased to offer you a FREE smart thermostat and installation to do just that. And more.

Your new smart thermostat can help you manage - and cut - your home heating and cooling costs. Whether you are at home or away, use your smartphone, tablet or computer to adjust the temperature to suit YOUR lifestyle.

**FREE**  
Smart Thermostat  
\$200 value

**SAVE Money and Stay COMFORTABLE.**

**It's simple and easy to use.**

Has teamed with industry leaders Honeywell and Openwave to install the smart thermostat and provide the free user-friendly app. The thermostat also helps us reduce energy consumption during periods of high energy use by making brief adjustments to your air conditioning setting. These periods are short and typically occur on the hottest summer days when we all want reliable energy service the most. You are always in control and may override the settings at any time.

As a thank you for your participation, we will also give you \$25 after installation.

To apply for your FREE thermostat and installation - a \$300 value - PLUS a \$25 Thank You gift, visit [honeywell.com/cool](#) or call 1-866-521-8600.

Sign up today to start enjoying energy savings and convenience with your FREE smart thermostat!

Directly.

Make temperature adjustments using your smartphone, tablet or computer.

Enroll Today! Visit [honeywell.com/cool](#) or call 1-866-521-8600

**“The Wilsons”**  
Wealthy Singles/Couples

**Efficiency On The Go**

Reduce your home's energy use with a free smart thermostat that you can control from anywhere.

Full Name  
Address, Zip  
City/State/Zip

Green Team is committed to help you, our customers, save money and energy while helping maintain your comfort. We are pleased to offer you a FREE smart thermostat and installation to do just that. And more.

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Busy Family Life

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**“The Elliots”**  
Empty Nesters



## Cost Effective Results



### Generic Communication

Cost per mailer: **\$0.50**

Qty: **50,000**

Total cost: **\$25,000**

Response rate: **0.5%**

Participants: **250**

Cost per Participant: **\$100**



### One to One Communication

Cost per mailer: **\$0.75**

Qty: **30,000**

Total cost: **\$22,500**

Response rate: **2%**

Participants: **600**

Cost per Participant: **\$35**

## ...You Can Better Understand Commercial Customers, Too



- Type of company
- Years in business
- Number of employees (3-year trend)
- Sales volume (3-year trend)
- Square footage
- Business expenses
- Public, Private, HQ, Franchise



## ...You Can Better Understand Commercial Customers, Too



### **Parker Ranch**

- Headquarters
- Neil “Dutch” Kuyper
- Private

### **Possible SIC Codes**

- Agricultural Production SIC 0291
- Museum SIC 8412



With The Right Data And  
Understanding — You'll  
Make A Great Impression



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SolarCity





## The Customer of the 21<sup>st</sup> Century

Maui Energy Conference + Exhibition, March 25-27, 2015



# Agenda

- Customer Expectations
- Legislative Report
- New Products/Strategies



# Summary



Halsey Terrace, Honolulu, Hawaii

- Utility customers expect an opportunity to participate in Hawaii's transition to cleaner, less expensive energy.
- They are cognizant of the challenges claimed by utilities, but expect an honest evaluation of those claims.
- Given the history of delays and obstacles faced by those who have made the decision to invest in clean energy, customers look to policy makers and regulators for protection from arbitrary restrictions.

# Customer Expectations v. Utility Concerns

- Utility customers want options to high electricity costs.
- Solar customers want reasonable approval and installation timelines.



Kaneohe, Oahu



# Customer Expectations v. Utility Concerns

- Utilities claim technical and economic barriers to distributed generation...thus...The HECO Queue.
  - September 2013—NEM approval is a prerequisite to installation.



“HECO says it needs to address safety concerns in areas where there is more electricity generated by PV than is being used.” Hawaii News Now, Oct. 14, 2013



# Customer Expectations v. Utility Concerns

"What we're doing is we are commissioning the studies right now to identify what can be done to keep adding more PV. It's not a question of are we not prepared— what we are doing here is we're pushing the envelope beyond anywhere else in the country to figure out what the solutions are." HECO VP, Joint Hawaii Senate and House briefing, Oct. 14, 2013.



# HECO'S SOLAR SLOWDOWN

"That's a bull\$@%# argument. Solar installations don't threaten grid stability until they approach 20 percent of the customer base."



**Steven Chu**  
Former U.S. Energy Secretary  
Interview with Forbes Magazine

March 2014

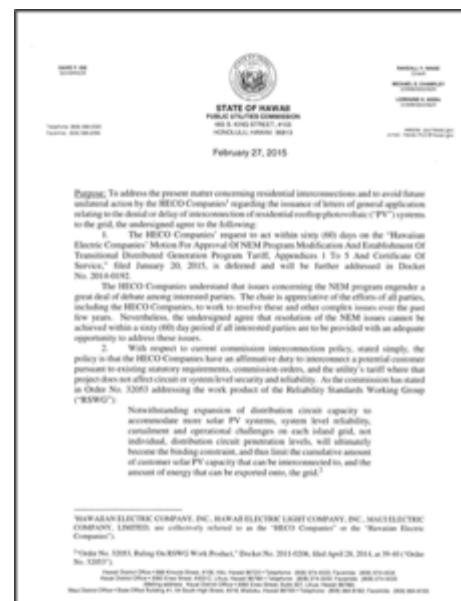
# Customer Expectations v. Utility Concerns

- April 2014—The PUC rejects HECO's IRP and orders it to respond with comprehensive plans within 120 days. Rather than emphasizing challenges posed by DG, suggests it collaborates with the solar industry to develop solutions.
- NREL Research
  - August 2014—SolarCity approaches HECO with NREL research proposal.
  - September 2014—Testing begins at NREL facility in Golden, Colorado. First day results reveal that many inverters are capable of protecting utility circuits from over voltage events.
  - October 2014—HECO announces plan to clear its queue.
  - January 2015—HECO announces that it is raising its Minimum Daytime Load screen from 120% to 250%.



# Customer Expectations v. Utility Concerns

- The HECO Queue, continued...
  - September 2013—NEM approval is a prerequisite to installation.
  - October 2013—HECO to lawmakers, “We are working on it.”
  - September 2014—NREL research.
  - October 2014—Technical fears allayed. Queue of nearly 5,000 NEM applicants to be largely cleared by April 2015.
  - December 2014—HECO/NextEra deal revealed.
  - January 2015—HECO’s Transitional Distributed Generation Program. More DG possible, if...
  - February 2015—the Iwase-Oshima letter...
  - April 2015?



# Customer Expectations v. Utility Concerns

“...the HECO Companies have an affirmative duty to interconnect a potential customer...where that project does not affect circuit or system level security and reliability.”



4. What is in the “best interest” of the HECO Companies’ customers is, in the final analysis, determined by the commission.

A handwritten signature in black ink, appearing to read "Randy Iwase", written over a horizontal line.

Randy Iwase  
Chair, Public Utilities Commission  
of the State of Hawaii

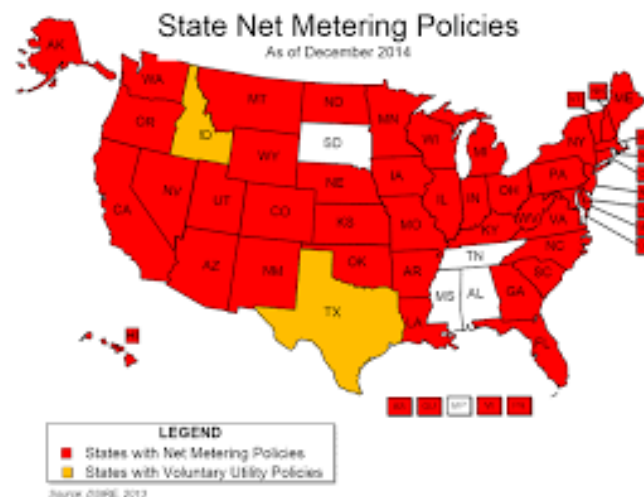
A handwritten signature in black ink, appearing to read "Alan Oshima", written over a horizontal line.

Alan Oshima  
President and CEO, Hawaiian Electric Co., Inc.

Dated: February 27, 2015

# Customer Expectations v. Utility Concerns

- The Battle over NEM—Does NEM cost or benefit utilities?
  - HECO claims \$53 million revenue loss in 2014.
  - Many independent studies report that NEM benefits utilities.
  - We need a robust study of NEM costs and benefits in Hawaii before we do anything to fool with our NEM program.
  - As we collaborated on technical concerns at NREL, we've had unofficial discussions with HECO about doing the same on a NEM study.







# NET METERING: WHAT DOES AMERICA THINK?

INDEPENDENT STUDIES SHOW THAT...



NET METERING IS A  
**FINANCIAL BENEFIT**  
TO ALL RATEPAYERS



## MISSISSIPPI

NET-METERED SOLAR  
PROJECTS OFFER A BENEFIT TO  
MISSISSIPPIANS AND DECREASE  
OVERALL RATES.



## NEVADA

NET METERING WILL PROVIDE  
**\$36 MILLION**  
IN BENEFITS TO NV  
RATEPAYERS.



STUDIES COMMISSIONED IN ARIZONA, CALIFORNIA,  
COLORADO, MAINE, NORTH CAROLINA, AND VERMONT  
**ALSO FOUND A NET BENEFIT.**

NET METERING IS THE SMART CHOICE  
FOR SOLAR.

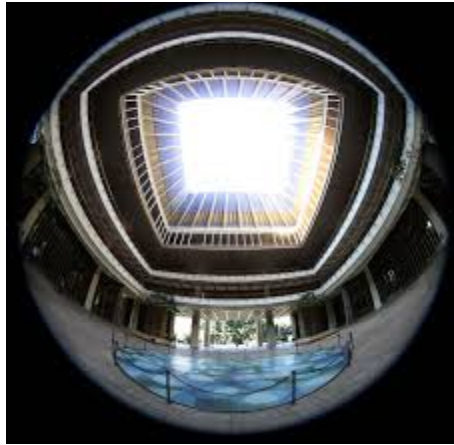


# Customer Expectations v. Utility Concerns

- Federal Investment Tax Credit
  - Residential scheduled to expire at the end of 2016. This is a great incentive for our state which, given our small population and high adoption of rooftop solar, has benefitted, per capita, greater than any of the other 50 states. Our federal team is working to extend the federal ITC.
- Hawaii Renewable Energy Technologies Investment Tax Credit
  - 35% or \$5,000 per system (defined as 5kW). No sunset. The local solar industry has a variety of opinions on this issue. Some favor elimination of the credit...some like the status quo...and others would like to see it evolve into an incentive for storage systems.

# Legislative Report

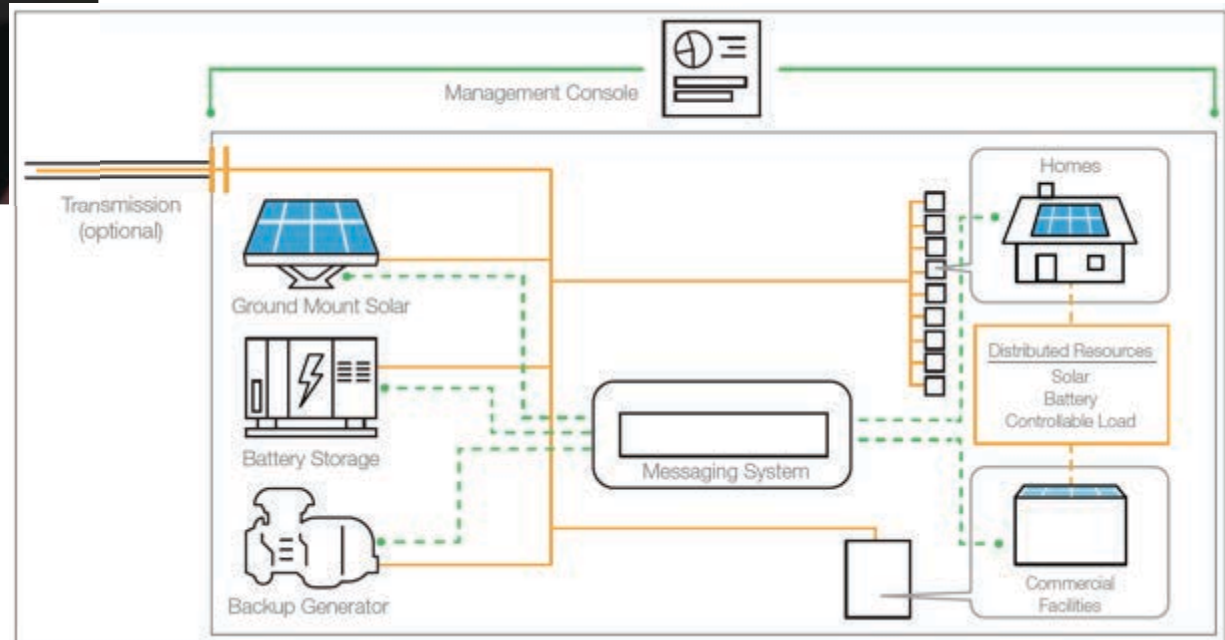
- HB264—Establishing a process to develop microgrids
- HB?—Establishing a process to allow interconnection of storage.
- HB484—Establishing a community solar program





# Legislative Report

- HB264—Establishing a process to develop microgrids.



*“The public utilities commission shall open a proceeding by July 1, 2016, to establish a process to establish integrated energy districts.”*

# GridLogic™

## *A turnkey Microgrid-as-a-Service Solution*

### GridLogic

is the turnkey energy solution for communities to obtain the full benefits of traditional microgrids, yet with the simplicity of a single monthly bill that made SolarCity America's #1 full-service distributed energy provider.

GridLogic provides best-in-class technology, financing, installation and on-going services to deliver a holistic energy management solution.



Clean



Affordable



Resilient



# Legislative Report

- HB?—Establishing a process to allow interconnection of storage.



*“We need to encourage investment in batteries and figure out how we can get them into the grid.” Gov. David Ige, Honolulu Star Advertiser, 3/11/2015.*



# Legislative Report

- HB484—Establishing a community solar program



*“The legislature finds that it is in the public interest to promote broader participation in self-generation by Hawaii residents and businesses through the development of community-based renewable energy facilities in which participants are entitled to generate electricity and receive credit for that electricity on their utility bills.”*

# Summary



- Utility customers expect an opportunity to participate in Hawaii's transition to cleaner, less expensive energy.
- They are cognizant of the challenges claimed by utilities, but expect an honest evaluation of those claims.
- Given the history of delays and obstacles faced by those who have made the decision to invest in clean energy, customers look to policy makers and regulators for protection from arbitrary restrictions.



**Thank You**

888.SOL.CITY | 888.765.2489 | SOLARCITY.COM



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# The Games That Are Played



**Dutch Kuyper, President & CEO**

**Parker Ranch Inc. | Paniolo Power Company LLC | Paniolo Cattle Company LLC**  
**Maui Energy Conference – March 25, 2015**













A SpaceX Dragon capsule is shown in orbit above the Earth's horizon. The capsule is white with solar panel arrays extended. The word "SPACEX" is visible on the side of the capsule. The background is a view of the Earth from space, showing clouds and the horizon line.

# Google

# SPACEX





*“I was struck with the rising expression of frustration with Hawaiian Electric and its apparent desire to avoid a transformational approach to replacing its oil-fired generation.”*

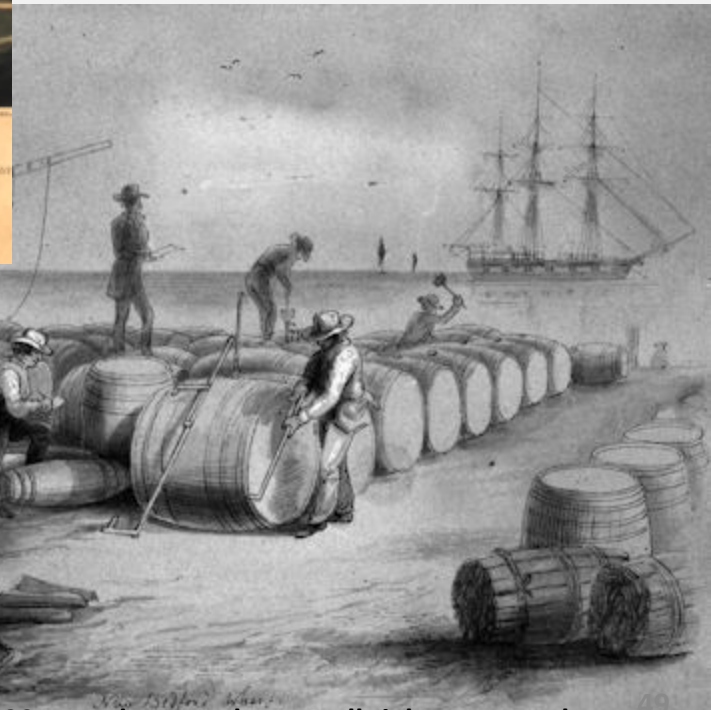
*“What was the cause of slow progress in diversifying away from oil as a source of energy to generate our electricity? Perhaps they just want certainty like the rest of us.”*

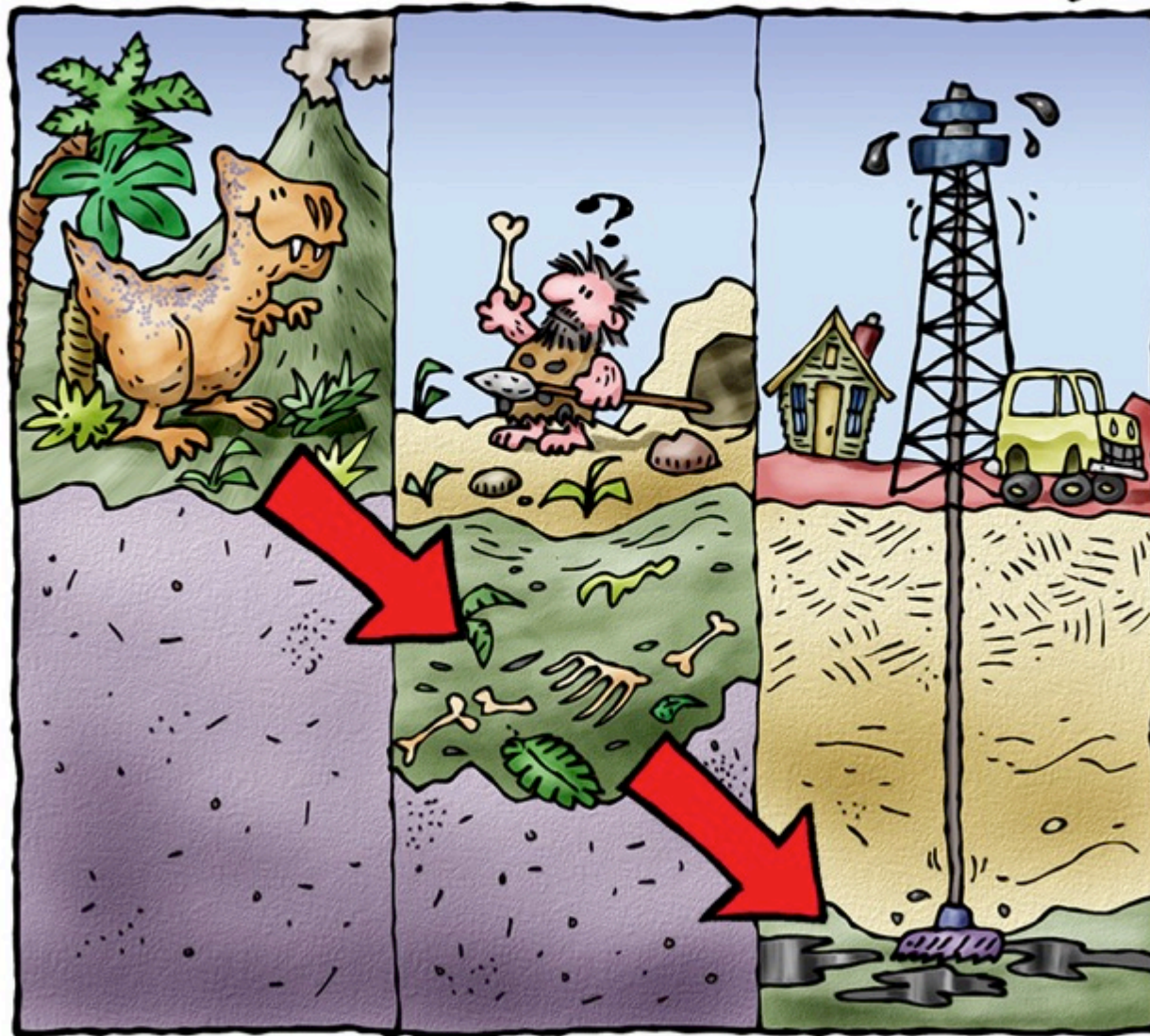


*“Sometimes our eyes deceive us. We cannot always trust that what we see is the truth. Sometimes the truth lies beneath what stands before us.”*



*Representation of the Ship, South Sea & Coaster off the Island of Oahu, with their Boats & Crew on the various pursuits of Fishing showing the manner the Japanese Whales are caught, also the mode of cutting them into the Ship & Boiling the Oil upon Deck.*  
*This Plate is most respectfully dedicated to Mr. Weston, and his Son, & the whole of the said Ship, by their most Obedient Servant W. J. HUGHES.*  
*London: Published by W. J. Hughes, Strand, 1785.*









*“Although some mergers arguably have produced dinosaurs in the past... We don’t have any oil in Hawaii, so we never had any dinosaurs in Hawaii, right?”*

*“For a business to be sustainable it must offer a compelling value to its customers over the long term. Offering a compelling value proposition requires a sustained commitment to investing in the future.”*

*“ A business can underinvest for a period of time, for whatever reason, but it risks maintaining its relevance in the marketplace. ”*





“To remain competitive, a pharmaceutical company needs to succeed at **three things**:

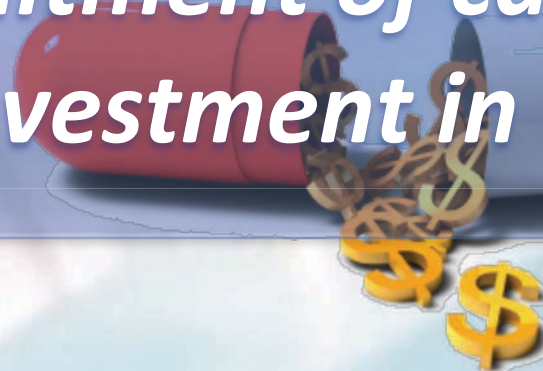
**First, it must have compelling drugs in the marketplace.**

**Second, it must have drugs nearing commercialization.**

**Third, the R&D pipeline must be deep and robust.”**

“If a company lacks any one of these three, it is vulnerable to competition and eventually is likely to become a **takeover target.**

To achieve all three of these attributes requires an **enormous commitment of capital and investment in R&D.**”





“ *A failure to diversify can be costly...* ”







*“One of the reasons Hawaii is special is its abundant endowment of natural resources.”*



# Largest Company by Revenue in Each State



**Hawaiian Electric's  
Monopoly is the State's  
Largest Company by  
Revenues (\$3 Billion/yr.)**

Source: Broadview Networks, Hoover's Dun & Bradstreet company database, Hawaiian Electric Industries, Inc. Form 10-Ks

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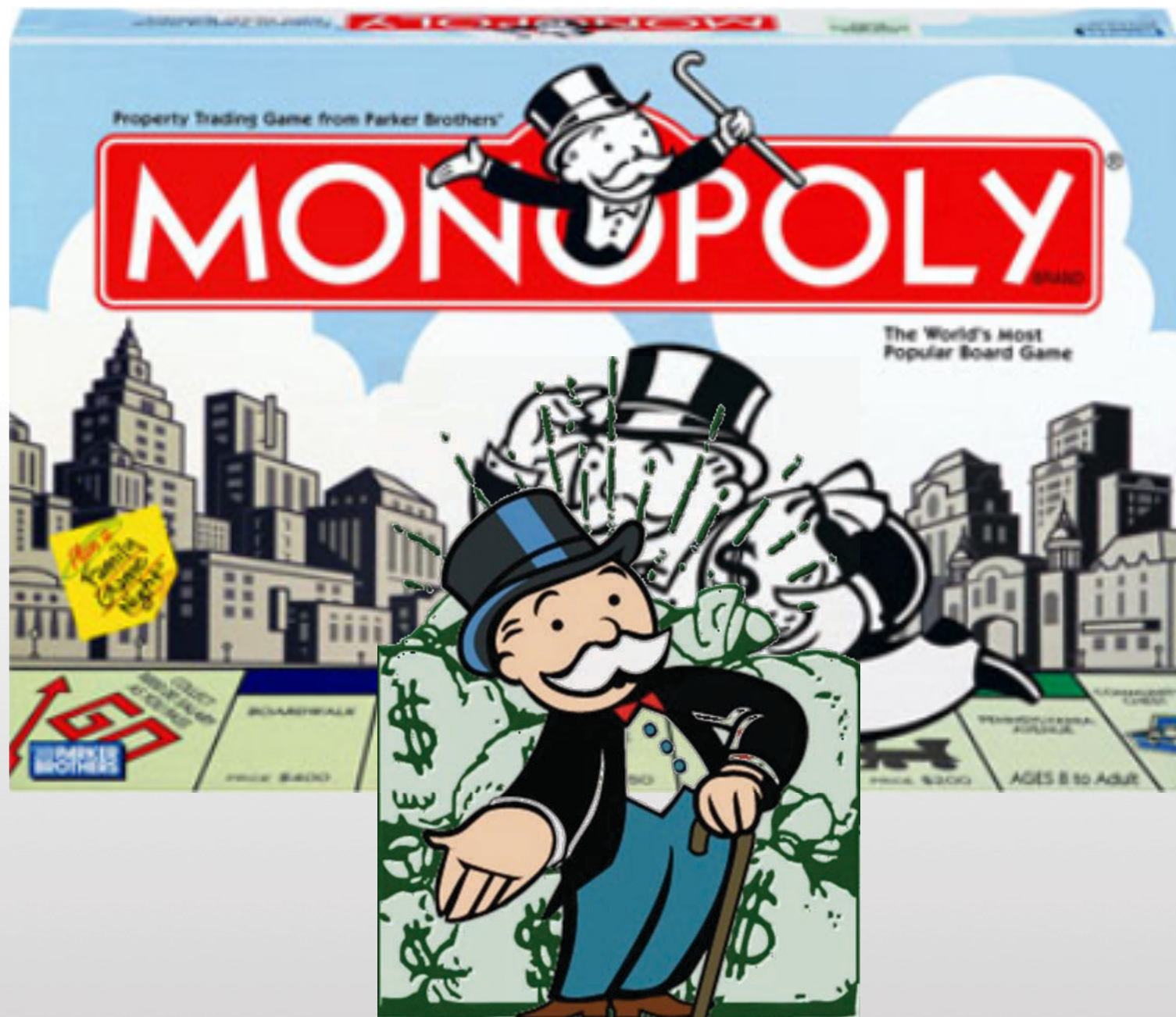
# ANGRY MOB FUN RUN



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- “The attributes of monopolies are fairly intuitive:*
- Not price competitive*
  - No investment in innovation*
  - Slow to change*
  - Significant potential for opportunity costs and customer losses*
  - Lack of transparency*
  - Vulnerable to technological change*
  - Actively seek ways to snuff out competition”*



*“Has the monopoly been  
good for Hawaii?”*

*“We think that this question  
comes down to a simple paradigm:  
**“Shareholder Value  
versus  
Customer Value”**”*



## Exhibit A

“The IRP Action Plan appeared to be, in part, a series of unrelated capital projects without strategic focus on the clear issues facing the utility, and did not indicate further progress towards a sustainable business model. More recently, the HECO Companies' proposed 2014 capital expenditure program also appeared to be comprised of unrelated capital projects without strategic focus and of questionable long-term customer value.”





Source: Exhibit A: Commission's Inclinations on the Future of Hawaii's Electric Utilities, Published April 2014, Page 1, emphasis added





*“We have sought to be an innovator in the marketplace of ideas.”*

“Parker Ranch closed four collaborations in the last year:

-  **1. Google[x]** with the agreement to use Parker Ranch as a test site for Makani
-  **2. NextEra Energy Resources** to serve as the developer of our world-class wind resource
-  **3. Hawaii Gas** to evaluate high penetration of renewable generation portfolios
-  **4. Siemens** to evaluate the merits of a community microgrid and alternative strategies for the Big Island”

# Electricity Rate Differentials Across the State

## Big Island Has Highest Rates among HECO Companies

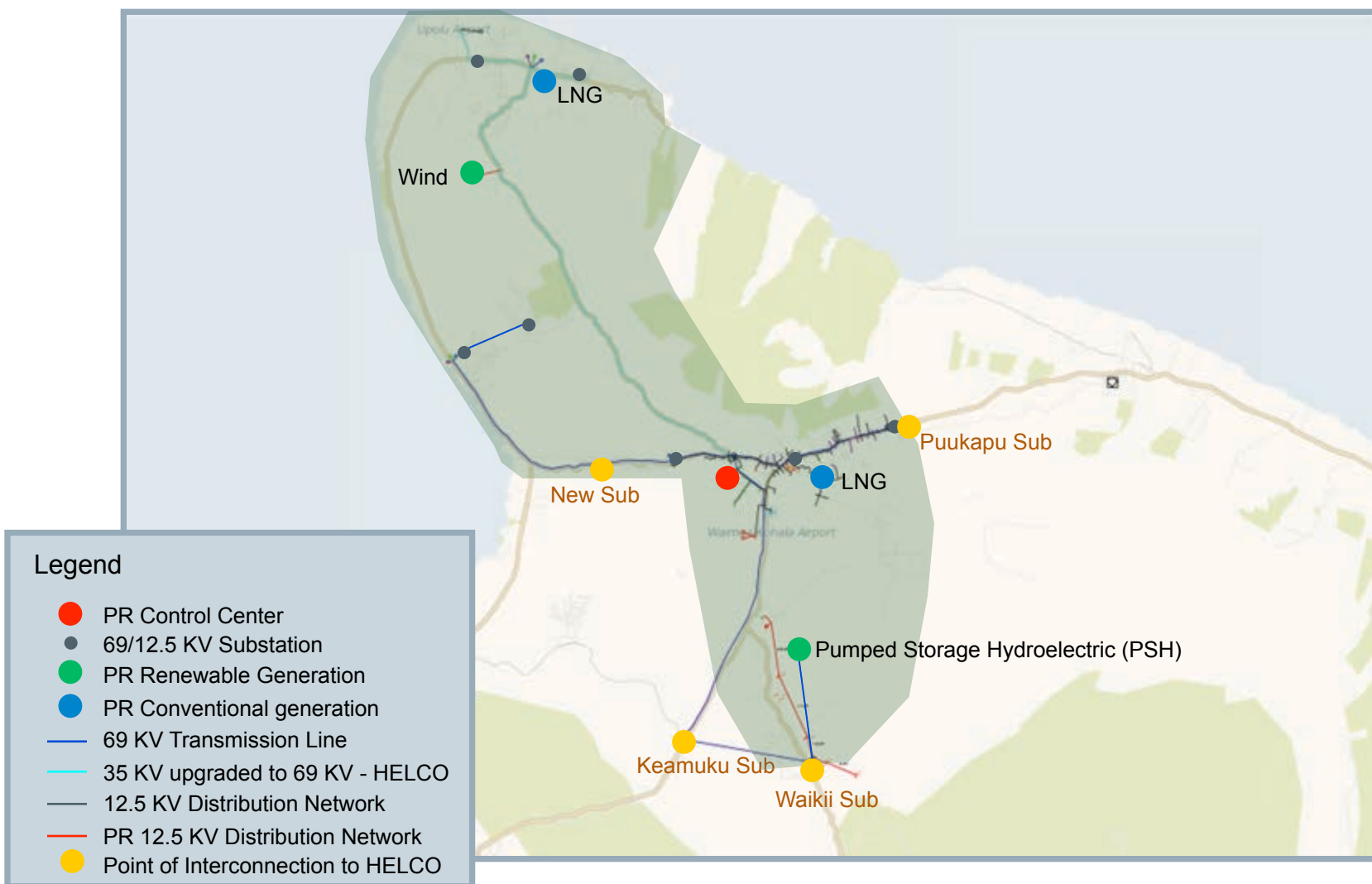
Residential Electricity Use, Rates and Average Bill, February 2014

	Hawaii	Oahu	Maui	State
Average Use (kWh/month)	499	544	584	533
Average Cost per kWh	<b>\$0.42</b>	<b>\$0.35</b>	<b>\$0.37</b>	<b>\$0.37</b>
Average monthly bill	\$210.12	\$187.75	\$214.44	\$194.89

Because rates are the highest on the Big Island,  
transformational investments should happen  
there first or breakaway strategies could prevail.



# Grid Connected, Sustainable Mixed Generation Portfolio – Defines the Alternative Strategy (Break-Away)



Unrestricted © Siemens Industry Inc. 2014 All rights reserved.

*“ We were told by the utility that  
wouldn't work because there  
would be winners and losers. This  
argument just simply isn't true.  
Rates are so high that the  
benefits to society of alternative  
plans would absorb the fixed  
costs 3-4 times over by our  
estimates. ”*

“*This winners and losers argument is fascinating to me. It has led me to believe that the planning at the utility is incomplete and insufficient. **It lacks a view on the benefit to the ratepayer.** The benefit to the ratepayer is massive – do they not see it?*”



*“The projected net economic benefit (in dollar terms) is missing from the HECO plans.”*

*“ Their focus had been previously on renewables percentages and not customer value. This was abundantly clear during the IRP process in 2012-2014. ”*

*“ We believe that their PSIPs are also suboptimal because the transition is too long. We believe that this transition should take place over less than 10 years. ”*



# PSIP Shortcomings

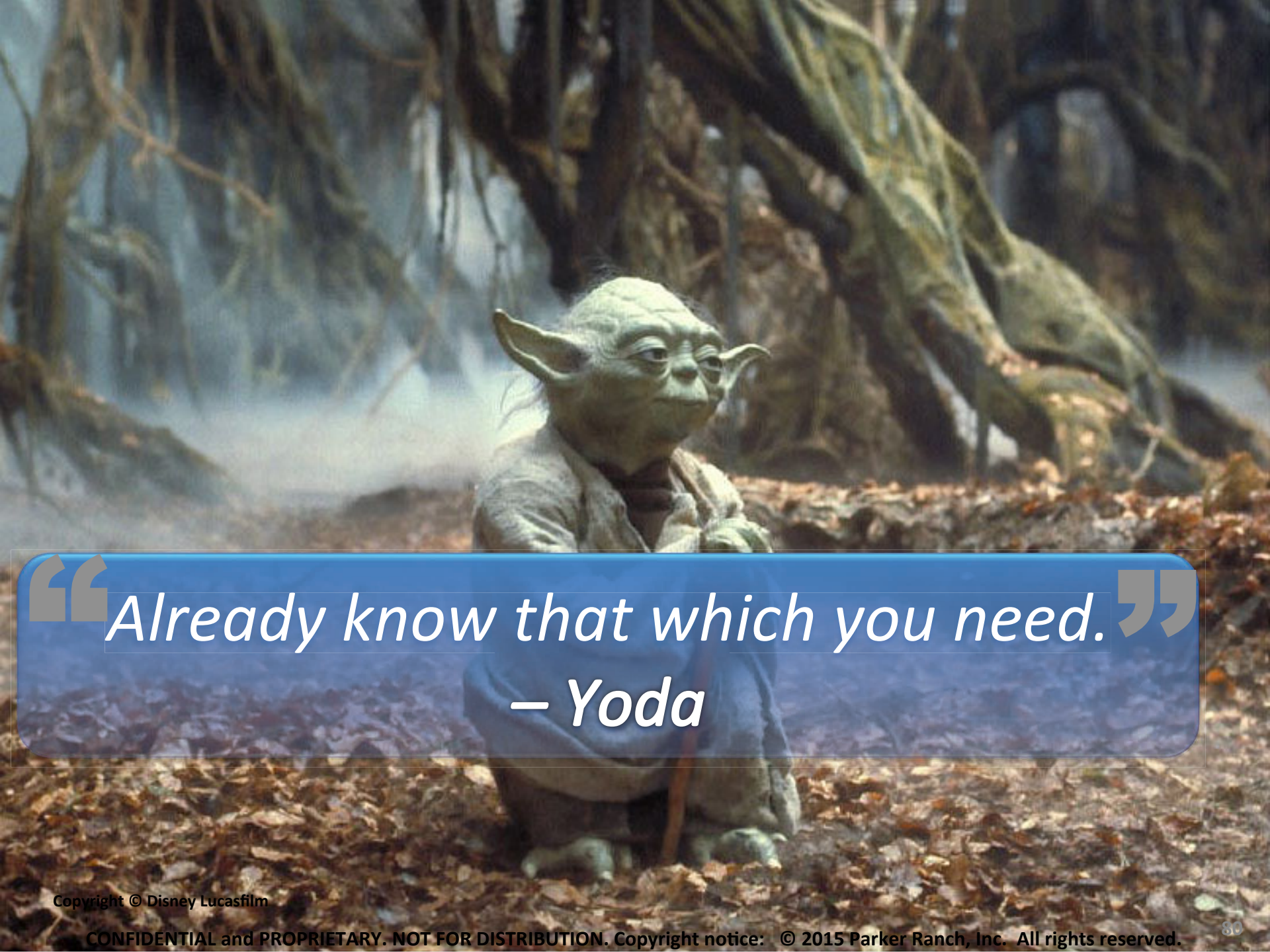


*The major shortcomings of HECO's Plans can be seen in the lack of measures in assessing long-term customer value:*

- 1. Value of avoided fossil fuel purchases over time horizon of plan*
- 2. Value of fossil fuel generation fleet at the time of replacement*
- 3. Value of guaranteed capacity payments to IPPs*
- 4. Value of reduction in curtailed renewable energy*
- 5. Comparative analysis of plans accounting for the factor of time and the realization of ratepayer benefits*
- 6. Multiplier of economic benefits island by island*
- 7. Comparison of net economic benefits island by island*
- 8. Lowest cost scenarios given current state of technology*
- 9. Renewables percentages achieved under lowest cost scenarios*
- 10. Break-even point on the ratepayer benefit versus decommissioning costs and value of stranded assets*



*“This open question of customer value raised by the PUC in Exhibit A was intriguing to us because the PSIPs also fail to measure customer value. It took us several months to realize that Exhibit A was a glimpse at the truth.”*

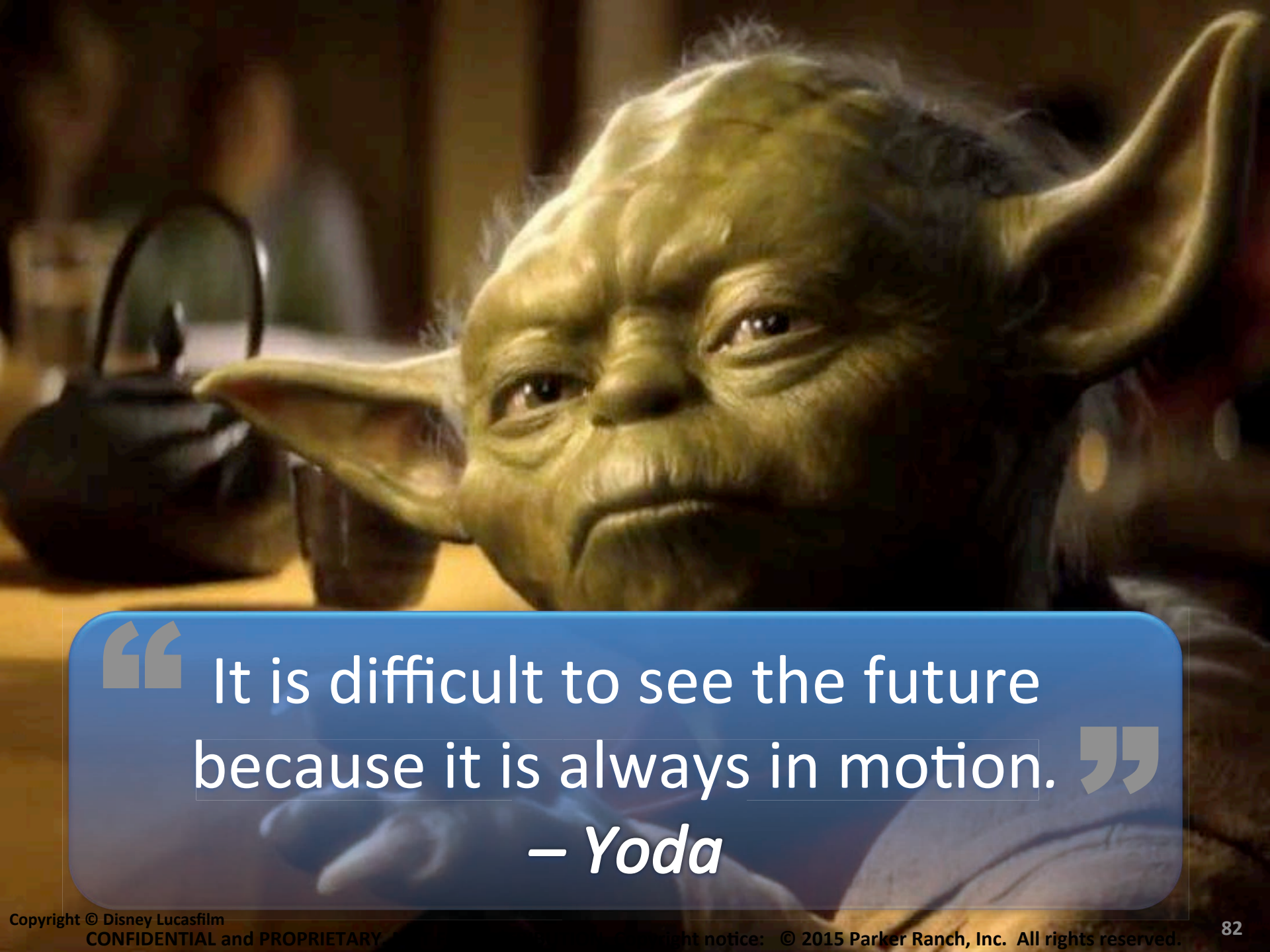
A full-page background image of Yoda from Star Wars, sitting in a forest of large, gnarled trees. He is looking slightly to his right with a thoughtful expression. A blue semi-transparent banner is overlaid across the middle of the image, containing a quote and attribution.

*“Already know that which you need.”*  
— Yoda





*“ There are many interests  
pursuing the change that they  
want to see. ”*



“ It is difficult to see the future  
because it is always in motion. ”  
– *Yoda*



*“However, this should not paralyze us or it will cause the current condition of excessive reliance on fossil fuels to persist. Clear thinking is most important.”*



*“We support DBEDT’s three principles of:*

- 1. “Diversifying our energy portfolio;”*
- 2. “Balancing technical, economic, environmental, and cultural considerations; and”*
- 3. “Using market-based principles and price structures.” ”*

*“These principles represent clear thinking to us. We would add that a time horizon should be another objective. We should pursue this transformation with the goal of completing it in 10 years or less. This would mean accelerating the plans.”*

*“ We believe the best way to measure customer value is to calculate the net present value of lower rates as compared to the status quo or the original IRPs. ”*



*“The PSIPS are incomplete. The PSIPS failed to measure customer value.”*

*“Robust and effective business and capital planning is essential for a company to sustain itself. We think HECO’s planning framework is subpar and incomplete. It seems to avoid the necessary reconciliation of shareholder value and customer value.”*

*“Perhaps their planning focused solely on shareholder value instead of customer value.”*



*“Has the monopoly been  
good for Hawaii?”*

*“Has the planning been at the expense of ratepayers?”*

*“ Should ratepayers absorb all of the remaining yet-to-be-recovered costs associated with their fossil fuel generation or should some of those costs be absorbed by shareholders? ”*




“*Should the monopoly continue?*”

*“ Are there safeguards that can be designed to sufficiently protect ratepayers from the monopoly? ”*

*“ Maybe the monopoly should be allowed to persist under a specific set of conditions and an agreement to absorb some of the costs of their legacy generation assets? ”*





*“We must unlearn  
what we have learned.”*  
— Yoda

“*The utility has persuaded us that  
their way is the only way.*

*This is not the case.*

*The utility has taught us to believe  
that the monopoly has been good for  
Hawaii.*

*This may not be the case.”*

*“ We must focus our collective energies on what is in the best interest of all of us. ”*




“*The idea of an undersea cable is intriguing but seems to be more relevant in the near term to Maui than the Big Island. We think the cable should be considered only after more aggressive plans are well underway to **lower rates and increase renewable generation on each island.***”

*“ We also think Big Island transformational plans and investments should be prioritized because our rates are higher and our per capita natural resource endowment is much greater so the potential to lower rates is incomparable.”*

*“By focusing on measuring customer value, we think a more optimal set of priorities will be easier to see and comprehend.”*

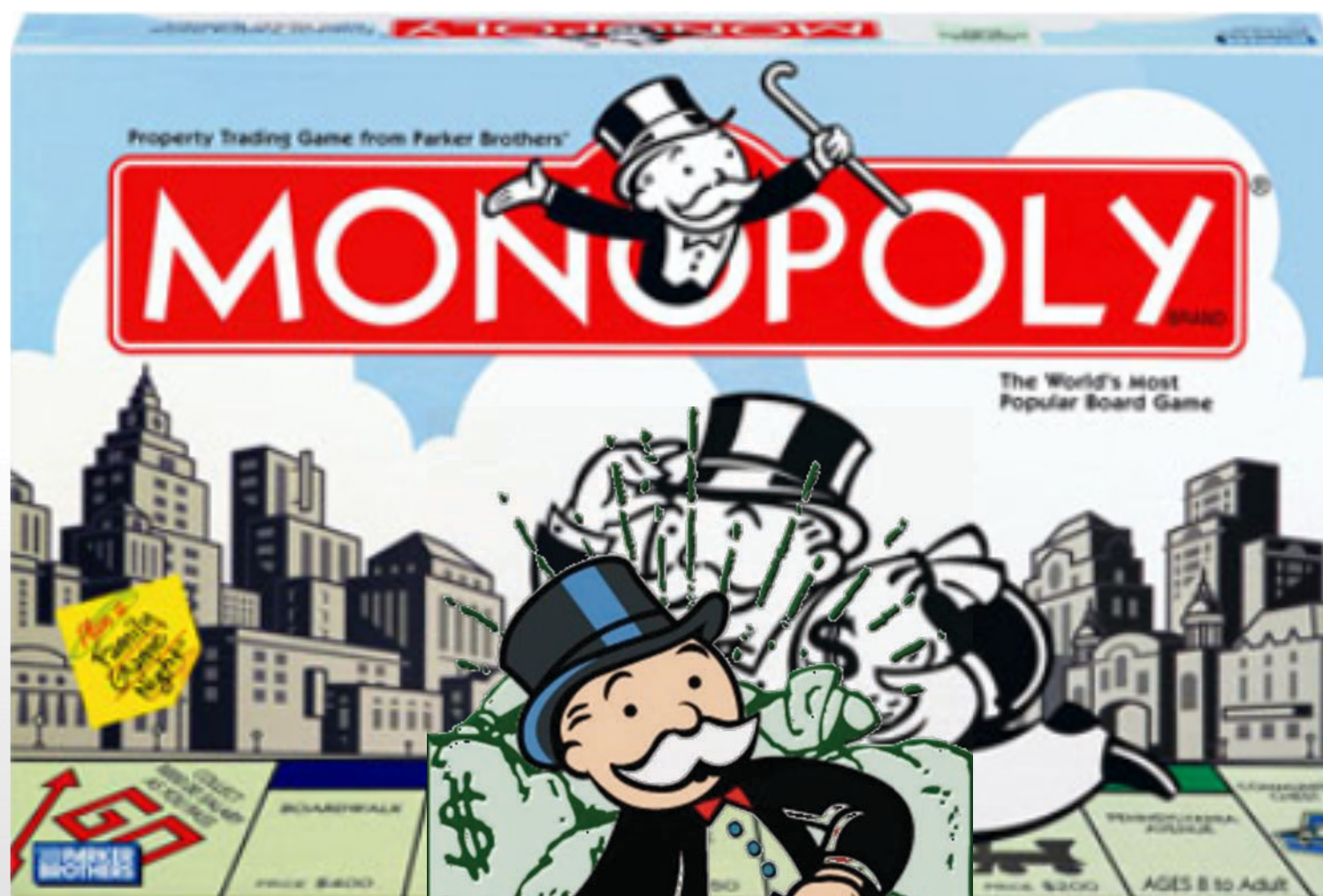


*“The truth is that massive amounts of value can and will be created. The question is whether all of the estimated \$800 million to \$1 billion of capital tied up in the legacy generation should be borne by ratepayers or not.”*



*“ We should know what we want as ratepayers.  
Only then can we strike...  
...strike the deal we want, that is. ”*





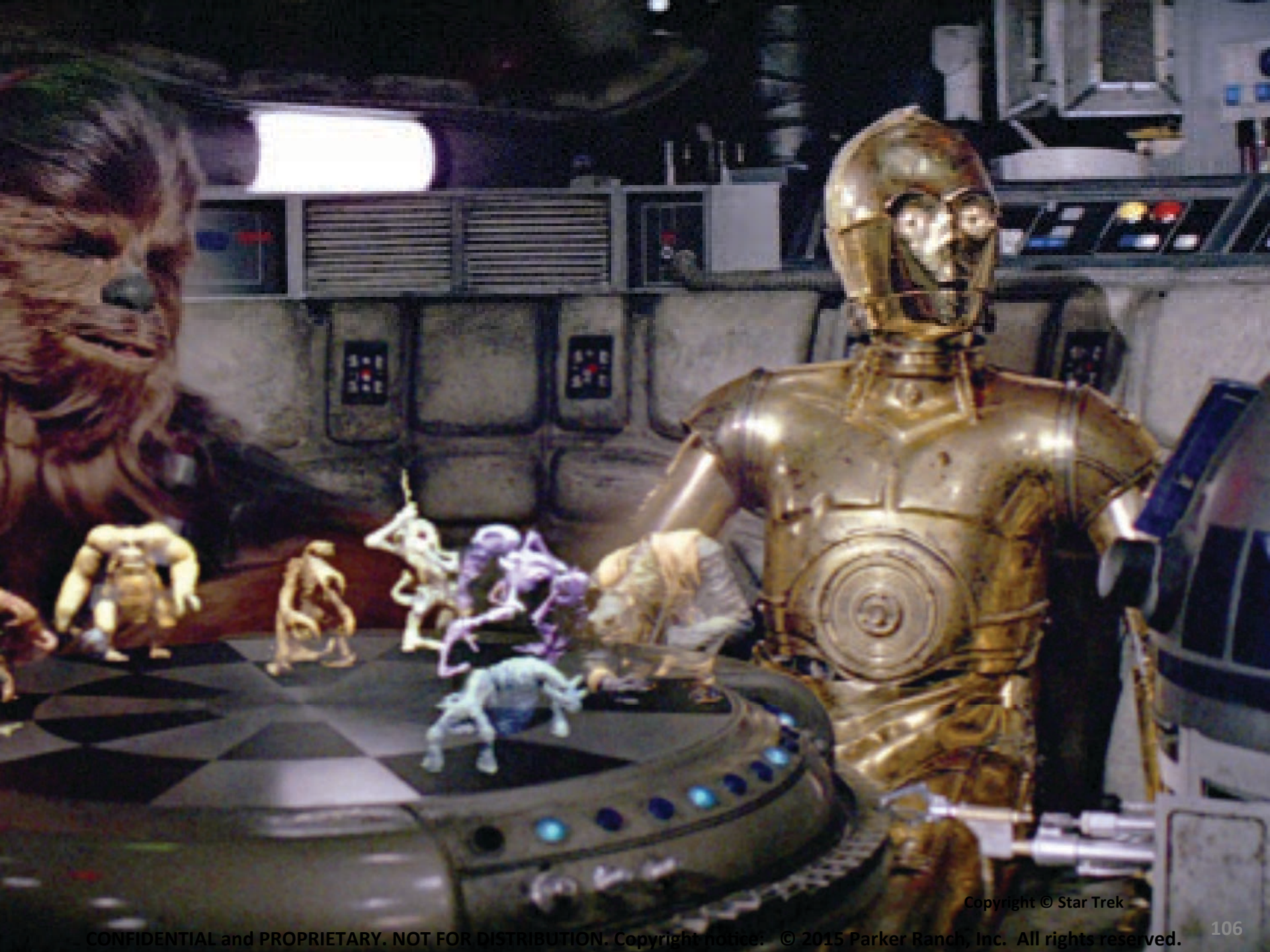
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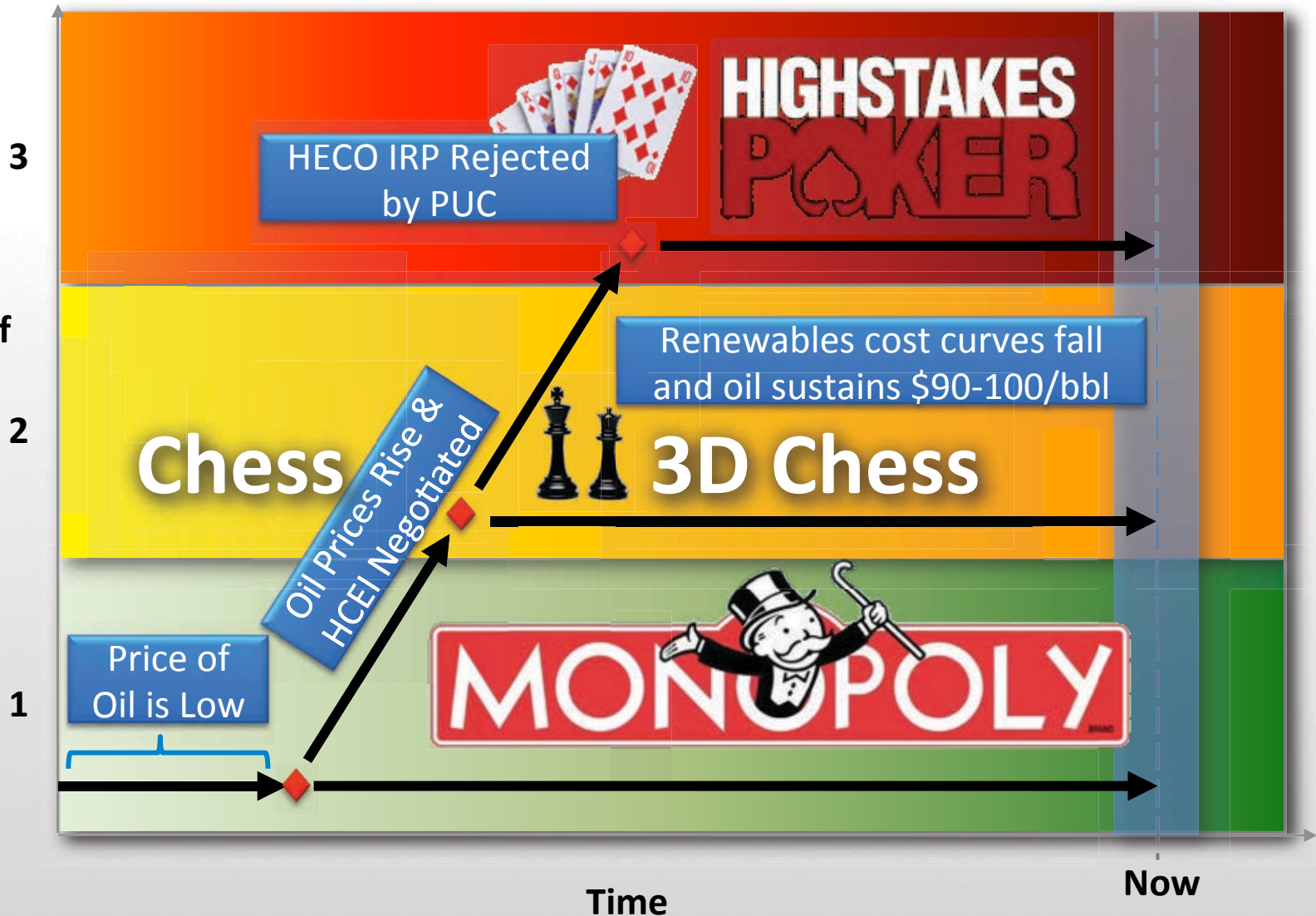


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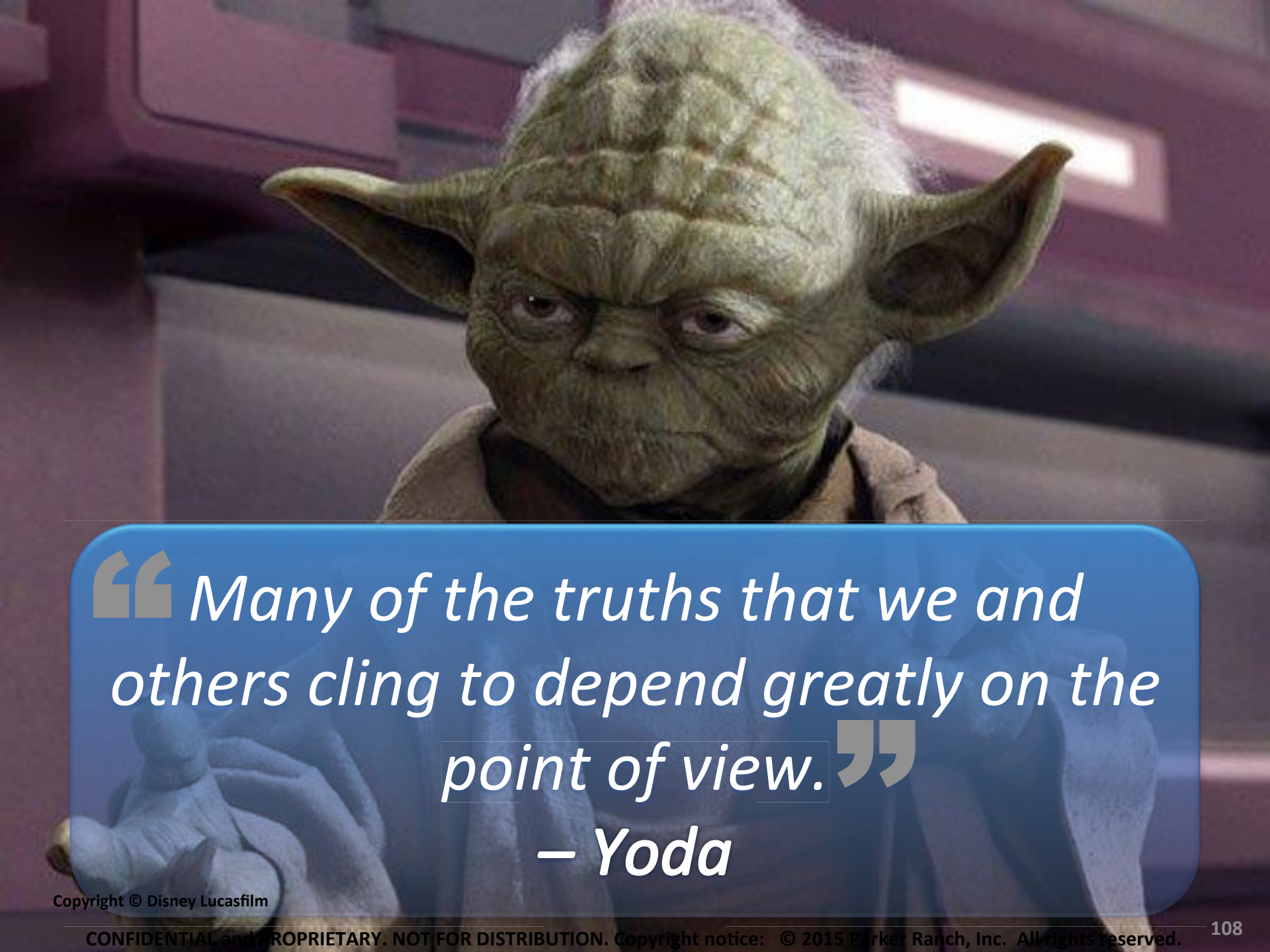
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# The Games Being Played

Number of  
Games  
Being  
Played







*“ Many of the truths that we and others cling to depend greatly on the point of view.”*

*— Yoda*



*“The competing views are often narrowly focused which clouds everything so it is difficult to see the future.”*

# Reciprocity and Fairness for Ratepayers



*“ Why should NEM be reformed  
overnight instead of over a  
reasonable period of time? ”*



*“ Perhaps a better answer would be to compromise: transition NEM from residential to wholesale rates over 7-8 years and accelerate the PSIPs from 15+ years to 7-8 years. ”*





*“ I am confident that the process will produce a shared outcome. ”*





*“Many of these ideas are competitive,  
but some of them could be highly  
complementary.”*

*“The shareholders and ratepayers are two main players in this game. The State of Hawaii is the third player.”*

*“We are convinced increasingly that what is in the best interests of Hawaii, will be in the best interests of Parker Ranch.”*



*“ Will there be winners and losers? I am betting there will be winners, winners and more winners. The State, in fact, could be the big winner as a destination for new ideas and transformational capital. ”*

*“With all of these games being played at the same time, I only have one piece of advice for Hawaiian Electric...”*

# Tylenol Works!!!





# Hang Loose

