COMMON QUESTIONS ABOUT THE NAVY RESIDENT ENERGY CONSERVATION PROGRAM

Q1: Why is NAVFAC Hawaii increasing the FY14 electricity rate and how much will it increase?

Beginning October 1, 2013, the annual stabilized electricity rate that NAVFAC Hawaii is authorized to charge is 58.7 cents per kwh. The command does not independently establish the rate. This occurs as a result of the budget process which includes the entire NAVFAC budget along with the rest of the Department of the Defense (DoD) as a part of the President's Budget. The DoD budget must be approved by the legislature and be signed by the President. The budget must also conform to the Financial Management Regulations (FMR) as is required for all of DoD. According to FMR regulations governing the revolving fund used to manage facilities costs such as utilities, the FY14 increase is necessary because of the loss the Navy incurred due to maintaining lower electricity rates for its customers while having to pay higher costs to its supplier, Hawaiian Electric Company (HECO).

From FY08 - FY12, NAVFAC Hawaii customers paid less for electricity than HECO was actually charging the Navy. This is because customers are billed an approved annual stabilized rate that does not change during the fiscal year to avoid electricity rate volatility and to align with the annual budget submission and approval process for the DoD. However, the stabilized electricity billing rates in the past few years for Hawaii resulted in large losses, and according to the DoD FMR these financial losses have to be recovered through rate increases, just as over-charging must be returned to customers through lowered rates in future years.

NAVFAC does not have the authority to alter rates once they are approved by DoD and published in the President's Budget. Any alteration to the FY14 rates would need to be approved by the Office of the Secretary of Defense (OSD), and any lowering of the FY14 rate would not recover operating expenses and prior year revolving fund losses.

To put the NAVFAC Hawaii losses incurred into perspective, the cost of electricity purchased from HECO increased by 68 percent between 2008 and 2012; whereas, NAVFAC Hawaii customer electricity billing rates only increased 18 percent. The loss amounts to tens of millions of dollars that are required to be recovered.

The rate will increase from 26.3 cents/kwh during FY13 to 58.7 cents/kwh for FY14.

Q2: How does this 123 percent increase impact Forest City and its residents?

Forest City, like other NAVFAC Hawaii customers, will be charged a higher rate for electricity in FY14. As a result, it is reviewing necessary adjustments to its FY14 operating budget in order to pay an electric bill that will increase by 123 percent. Forest City residents whose monthly electricity usage is above or below the 10 percent buffer applied to their Like-Type Group will be affected; whereas residents within the buffer will not be affected. Residents whose usage is above the buffer will owe an amount based on 58 cents/ kwh above their buffer and residents below the buffer will receive a rebate based on 58 cents/kwh below their buffer. There may also be some unavoidable reductions in services or amenities.

Q3: How can I project how much this increase will impact my bill?

When your monthly usage is within the 10 percent buffer range, you would **not** be affected by any increase in the electricity rate. However, if you currently receive a bill or a rebate, you can multiply that amount by 2.23 to **estimate** the amount your bill or your rebate would have been if the rate used was 58 cents/kwh.

Q4: I heard that in Hawaii, 13 percent of my Basic Allowance for Housing (BAH) goes to utilities. If my monthly BAH equals my monthly rent; shouldn't it cover any increase in an electricity rate?

An allowance for "normal" utilities is a part of the BAH. The utility estimate for each military housing area (MHA) comes from an annual American Community Survey. The DoD website: http://www.defensetravel.dod.mil/Docs/perdiem/browse/Allowances/BAH/Component_Breakdown/2013-BAH-Rate-Component-Breakdown.pdf. publishes the average percentage breakdown between rent, utilities, and rental insurance for each MHA. The 2013 latest data shows on average that Honolulu County BAH is broken down into the following component averages: 86 percent goes for rent, 13 percent for utilities, and 1 percent for renter's insurance. It's important to note that "utility costs" include average costs for electricity, water, sewer and gas for renters in civilian community (not in PPV housing), and the survey is completed the summer prior to the annual BAH announcement in December of each year. This does not guarantee that 13 percent for utilities is representative of every member living in Honolulu County but is the average for the location. A member's actual percentage may be above or below the average percentage listed. The estimate of utilities varies dependent on the house style, energy efficiency, and the living habits of the residents.

Q5: The Basic Allowance for Housing rates increased significantly in CY13, so Forest City is getting more income than last year. Why can't Forest City absorb these electricity rate increases without passing it on to the residents?

The financial health of Forest City's project relies solely on annual BAH revenue to cover operating expenses and pay its debts. For several years prior to 2013, the stagnant Honolulu rental market resulted in minimal annual BAH growth compared to projections, and actually included years of BAH rate decreases. Meanwhile, utility costs increased each year beyond projections. So the 2013 BAH increase basically helped the project "catch up" to where it should be, but not enough to address this spike in utility costs.

Q6: Starting in October, residents living in Forest City housing will be paying more for electricity than residents living in the civilian community. The Hawaiian Electric Company's residential rate for July 2013 is 32.5 cents/kwh. How can NAVFAC Hawaii charge a higher rate than HECO?

The NAVFAC Hawaii stabilized rate structure is governed by Department of Defense Financial Management Regulations (FMR). Typically, the structure avoids electricity rate volatility; however, during the past few years NAVFAC customers, including Forest City housing, paid less for electricity than the residents living in the civilian community. For example, currently the electricity rate for Forest City housing is 26.3 cents/kwh while HECO is charging 32.5 cents/kwh. NAVFAC Hawaii has experienced losses in the electricity accounts for several years and has to recover the losses according to FMR. For residents in Forest City housing, the savings they experienced over the past few years will now be recovered in FY14. NAVFAC Hawaii expects the rate in FY15 to more closely align with the market rate.

Q7: Won't Forest City residents choose to relocate into the civilian community where electricity costs less?

It depends, as this would be a lifestyle choice. DoD's primary source of rental housing is the civilian community, not PPV. Prior to moving from PPV housing into the civilian community, there are many things to consider including:

- Additional commute cost and time to work/NEX/commissary; child's schools/friends
- Rent in advance (civilian community) vs. rent in arrears (Forest City)
- Rental deposits (upwards of one month's rent)
- Utility deposits (upwards of $400 for HECO)
- Preference for air conditioning; pets allowed policy; free home/yard maintenance, free home/neighborhood amenities
- Paying for 100 percent of electricity, water, and sewage services (civilian community) vs. just for excess electricity above a buffer (Forest City)

Q8: What's a good website to learn more about housing privatization?

http://www.acq.osd.mil/housing/faqs.htm