Testimony before the House Committee on

Energy and Environmental Protection

HB 2550 – Related to Public Utilities

Thursday, January 31, 2008
8:30 am, Conference Room 312

By Arthur Seki
Director of Technology
Hawaiian Electric Company, Inc.

Chair Morita, Vice Chair Carroll, and Members of the Committee:

My name is Arthur Seki – I am the Director of Technology in the Energy Solutions & Technology Department at Hawaiian Electric Company. I am testifying on behalf of Hawaiian Electric Company (HECO) and its subsidiary utilities, Maui Electric Company (MECO) and Hawaii Electric Light Company (HELCO), hereby referred to collectively as the HECO Utilities.

In general, H.B. 2550 would increase the total rated generation capacity produced by eligible net energy metering (NEM) customer-generators, increase the size of NEM systems, and require the State of Hawaii Public Utilities Commission (PUC) to adopt modified interconnection rules. We believe H.B. 2550 is not necessary at this time.

As you may know, there currently is an open docket (Docket No. 2006-0084) before the PUC that is investigating whether the PUC should:

1. increase the maximum capacity of eligible NEM customer-generators to more than 50 kilowatts;
2. increase the total rated generating capacity produced by eligible NEM customer-generators to an amount above 0.5 percent of an electric utility's system peak demand; and

3. adopt, modify, or decline to adopt, in whole or in part, the NEM standard articulated in PURPA as amended by the Energy Policy Act of 2005.

On September 17, 2007, a stipulated agreement was filed with the PUC which was agreed to by the parties (Hawaii Solar Energy Association, Hawaii Renewable Energy Alliance , Consumer Advocate, and the HECO utilities) to the docket. A decision by the PUC is pending. The stipulation proposes to:

- Increases the maximum size of the eligible customer-generator that can qualify for a NEM agreement from 50 kW to 100 kW;
- Increases the total rated generating capacity produced by eligible customer-generators from 0.5% to 1.0% of the utility's system peak demand;
- Reserves 40%, 50%, and 50% of the total rated generating capacity produced by eligible customer-generators for HECO, HELCO, and MECO, respectively, for residential and smaller commercial NEM customers (system sizes of 10 kW or less);
- Utilizes the Integrated Resource Planning (IRP) process to evaluate impacts to the Utilities' systems and determine further adjustments to the NEM system size and cap limits (limits re-examined on an annual basis); and
- Recommends that the Commission not adopt or modify the standard for NEM as articulated in the Public Utility Regulatory Policies Act of 1978 (PURPA) as amended by the Energy Policy Act of 2005.

Productive meetings between the parties to Docket No. 2006-0084 were held to reach a stipulation that proposes increased NEM system size and total rated capacity limits as well as provisions to ensure widespread and fair participation in NEM by smaller customers. These recommendations considered the continued evaluation of operational impacts to the HECO Utilities, including the examination of size and participation limits on an annual basis during the IRP Advisory Group meeting process.

H.B 2550 calls for the PUC to open proceedings for adoption of an interconnection standard for solar, wind biomass and hydroelectric energy generating facilities. There is no need for these proceedings or adoption of new standards. The PUC approved Rule 18 which has an interconnection standard in place for review by HECO Utilities on NEM systems larger than 10 kW that preserves the ability of HECO

Utilities to ensure the safety of its personnel and operational stability of its grid systems. This standard is based on the present HECO interconnection standard (Rule 14) that also has PUC approval. Safety and grid system reliability must remain a high priority.

In conclusion, H.B. 2550 should be held in committee so that key provisions and processes of NEM can be considered by the PUC and through IRP as stipulated in Docket No. 2006-0084.

Thank you for the opportunity to present this testimony.

Hawaii Solar Energy Association
Serving Hawaii Since 1977

TESTIMONY OF THE HAWAII SOLAR ENERGY ASSOCIATON
IN REGARD TO H.B. 2550
RELATING TO PUBLIC UTILITIES
BEFORE THE
HOUSE COMMITTEE ON ENERGY & ENVIRONMENTAL PROTECTION
ON
THURSDAY, JANUARY 31, 2008

Chair Morita, Vice-Chair Carroll, my name is Richard Reed and I represent the Hawaii Solar Energy Assn. (HSEA). HSEA represents contractors that sell and install both commercial scale and residential PV systems. We support the intent of this bill.

The PUC has the statutory authority to raise the current net-energy metering (NEM) limits by rule or order. The commission does not require our counsel to do so but, as a deliberative body, the commissioners traditionally seek to establish a strong evidentiary record based on extensive stakeholder input before issuing their decisions.

In 2006, the PUC opened Docket No. 21006-004 to explore whether or not to raise the capacity of eligible NEM customer generators above 50kW and, if so, to what level, and also to consider raising the percentage of eligible NEM systems above 0.5% of each individual utility company's peak electrical demand. As noted in the purpose clause, the parties to the docket, which includes the HSEA, have reached a settlement and we now await the commission's formal Decision and Order.

In the NEM Docket HSEA was most concerned with the fundamental issues of fairness and NEM access for all ratepayer categories. We proposed that systems 10kW and below be allowed on the grid without restriction. This completely eliminates the common fear that a few large commercial systems would dominate all the available bandwidth. HSEA also proposed that the percentage of generation cap be raised to 5%. Our analysis showed a very moderate rate impact at the time of between .40¢/ (Oahu) - 1.07¢ (Kauai) per month for "average" residential customers at the 5% cap level.

From HSEA's perspective the percentage of generation cap limitation is the key issue. If the cap is set high enough there is little chance in the near term that a few very large net-metered systems would close the door on other ratepayer classes that also are seeking an off-ramp from ever escalating electric rates. In short, neither the PUC nor the legislature should inadvertently create a situation where large and small system providers are constantly at war for their fair share of grid access. All ratepayers should have equal NEM access in a fair and proportionate manner.

H.B. 2550 address the issue of fairness by gradually eliminating the system cap altogether. Anyone can step up and play. The size of eligible customer generators also would increase to 2 Megawatts over time. Frankly, the only technical limit to system size should be its impact on safety and the reliability of the grid. In other recent decisions, the PUC has established a number of rules and requirements that ensure that no NEM or distributed generation system of any type or size will be interconnected to the grid if it adversely impacts safety and reliability.

In traditional NEM there is a inherit disincentive to oversize interconnected systems; no credits or compensation is offered for excess generation on an annual basis. H.B. 2550 amends the statute to allow for kilowatt hour credits to be paid to the generator at a rate that shall not be more than one hundred per cent of the cost avoided by the utility when the utility purchases the electrical energy rather than producing the electrical energy.

This is an interesting twist, but HSEA believes that Puerto Rico and Oregon have established more equitable approaches. In Puerto Rico, 75% of any excess generation is purchased by the Puerto Rico Electric Power Authority at $0.10 per kWh, or an amount established by a simple formula, whichever is greater. The remaining 25% is then distributed as a credit to be applied to public school electric bills. Clearly this formula can be tweaked for Hawaii and the credits used to fund or buy-down the cost of PV for schools or low-income ratepayers.

The state of Oregon now assigns any excess credits to PUC approved, low-income energy assistance programs pursuant to statutory intent that net metering is primarily intended to offset customer load. The proper sizing of NEM systems relative to customer load helps to mitigate concerns over cost shifting from non-participants to cover fixed utility costs.

There is a consensus in Hawaii that we must greatly accelerate the pace at which we use renewable energy resources to displace polluting fossil fuels to generate electricity. The amendments proposed by H.B. 2550 to Hawaii's NEM statute will certainly do that. HSEA's only caveat is that the rate impacts associated with an uncapped NEM market must be acceptable to all stakeholders, and must not place an excessive burden on any single category of ratepayer or on the non-participants.

Thank you for the opportunity to testify.

RISINGSUN SOLAR+ELECTRIC

TESTIMONY OF RISING SUN SOLAR
IN REGARD TO H.B. 2550
RELATING TO NEM PHOTOVOLTAIC SYSTEMS
BEFORE THE
HOUSE COMMITTEE ON ENERGY & ENVIRONMENTAL PROTECTION
ON
THURSDAY, FEBRUARY 1, 2008

Chair Morita, Vice-Chair Carroll, my name is «GreetingLine» and I represent my companyRising Sun Solar. RISING SUN SOLAR strongly supports the passage of H.B. 2550.

Rising Sun Solar a licensed electrical contractor and the company with the most NEM systems in Maui supports this comprehensive bill that will expand and define NEM limits allowing solar to make a meaniful impact in Hawaii's goal to be energy independent.

As more NEM systems get installed each year the bill provides for an interconnection study be conducted to determine how many systems can be installed without interfering with the electrical grid. The bill also defines that the owner of the system owns the Renewable Energy Credits (REC's) and or all environmental attributes of the system. These types of studies and definitions included in this bill are necessary to planning the growth PV systems in the Hawaii.

HB 2550 also expands the NEM penetration cap and system size and maintains a carve out between large and small systems. Again these types of definitions are needed to have continued and steady growth of PV systems in Hawaii.

This bill addresses comprehensively all the most pressing issues facing NEM systems in Hawaii. Adopting and defining NEM best practices is what PV needs in Hawaii.

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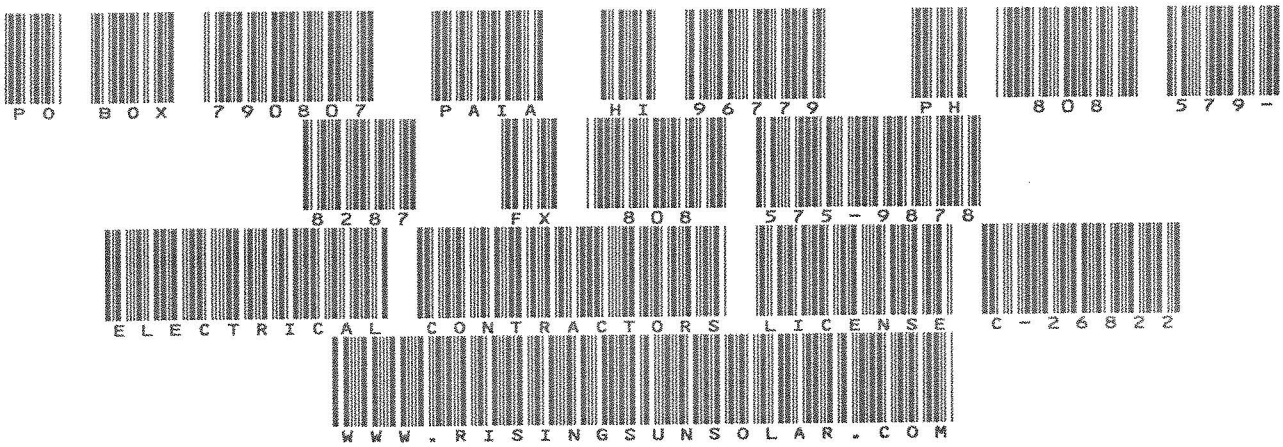
Thank you for supporting solar energy and for the opportunity to testify,

Bradley Albert
President Rising Sun Solar



HAWAII RENEWABLE ENERGY ALLIANCE
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TESTIMONY OF WARREN BOLLMEIER ON BEHALF OF THE HAWAII RENEWABLE ENERGY ALLIANCE BEFORE THE HOUSE COMMITTEE ON ENERGY AND ENVIRONMENTAL PROTECTION

HB 2550, RELATING TO PUBLIC UTILITIES

January 31, 2008

Chair Morita, Vice-Chair Carroll and members of the Committee I am Warren Bollmeier, testifying on behalf of the Hawaii Renewable Energy Alliance (HREA). HREA is a nonprofit corporation in Hawaii, established in 1995 by a group of individuals and organizations concerned about the energy future of Hawaii. HREA's mission is to support, through education and advocacy, the use of renewables for a sustainable, energy-efficient, environmentally-friendly, economically-sound future for Hawaii. One of HREA's goals is to support appropriate policy changes in state and local government, the Public Utilities Commission and the electric utilities to encourage increased use of renewables in Hawaii.

The purposes of HB 2550 are to: (1) increase the total rated generating capacity produced by eligible customer-generators, (2) increase the maximum capacity of an eligible customer-generator, and (3) require the public utilities commission to adopt rules that incorporate best practices interconnection standards.

HREA opposes this bill for the following reasons:

1. Public Utility Commission Authority. The Legislature (in Act 104 2005 Session) has given the Commission the authority to administer the Net Energy Metering law. HB 2550 proposes to usurp this authority, and we believe this to be inappropriate;
2. Referenced Commission Docket. HREA is an Intervernor in Commission Docket No. 2006-0484 and signed onto a stipulation to modify the existing law by increasing the customer-generator size and system limits, and to consider further changes to the law within the individual utility Integrated Resource Planning ("IRP") processes. The Commission has yet to issue its Decision and Order on the proposed stipulation. Thus, we believe it is premature to consider other proposals to amend the law; and
3. Process Issues. HREA notes, should the Commission approve the stipulation, there will be annual reviews of the net metering programs at each utility as part of their IRP process, including consideration of amendments to the net metering law on an island-specific basis. We believe this process will allow adequate opportunity for interested parties to participate and will hopefully preclude the future need for hearings such as this.

Thank you for this opportunity to testify.

COMMITTEE ON ENERGY & ENVIRONMENTAL PROTECTION

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HB 2550 - RELATING TO PUBLIC UTILITIES

January 31, 2008 8:30am
State Capitol
Conference Room 312
415 South Beretania Street
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TESTIMONY SUBMITTED BY

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Support for HB 2550 – RELATING TO PUBLIC UTILITIES

My name is Joseph Saturnia and I am President of Island Pacific Energy, a local renewable energy finance company. I am testifying in support of HB 2550, RELATING TO PUBLIC UTILITES. I support the passage of this bill as increasing the net metering limits is a necessary component of an overall strategy to encourage renewable energy systems.

The current limits on both the size and number of net metering systems are not adequate to support the expected surge in renewable energy systems. A typical commercial installation can easily exceed the current net metering limit of 50kW. This limit is an unnecessary artificial ceiling that acts to stifle the growth and size of new renewable energy installations. It is imperative that the legislature continue to remove existing barriers such as these as it moves forward to encourage renewable energy systems.

Although the local electric utility may have concerns, they must also recognize they have an obligation to encourage renewable energy development and support larger sized systems. Their obligation comes in the form of adapting their business to support their customers. Their status as a monopoly makes their obligation even greater that they support not only the needs and desires of their customers but the environment as well.

I urge the committee to pass HB 2550 to increase the limits on net metered systems and continue on the path to encouraging renewable energy growth on the islands. Thank you for this opportunity to testify.

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In support of HB 2550 RELATING TO PUBLIC UTILITIES

Before the
HOUSE COMMITTEE ON ENERGY AND ENVIRONMENTAL PROTECTION

January 31, 2008

Good morning, Chair Morita, Vice-Chair Carroll and members of the Committee.

My name is Erik Kvam. I am the CEO of a Hawaii solar power developer called Zero Emissions Leasing LLC ("Zero Emissions").

HB 2550 provides (1) amending the definition of "eligible customer-generator" to include utility customers who lease or purchase electricity from renewable energy generating facilities, (2) increasing the net energy metering (NEM) customer capacity limit to 2 MW, and eliminating the NEM total capacity limit, over 3 years, and (3) directing the public utilities commission (PUC) to establish best practices interconnection rules.

Purpose of Net Energy Metering

The purpose of net energy metering (NEM) is "to lessen Hawaii's dependence on imported oil by encouraging the greater use of renewable energy." (2001 Session Laws Act 272, § 1). NEM is a set of statutory rules that encourage the greater use of renewable energy by:

(1) obliging the utility to take delivery of renewable energy supplied by an "eligible customer-generator"
(2) obliging the utility to value such renewable energy at the retail rate that the customer-generator pays for electricity purchased from the utility by the customer-generator, and
(3) obliging the utility to refrain from applying standby charges or similar charges discriminatorily to the customer-generator

NEM encourages "the greater use of renewable energy" through the creation of utility obligations that encourage investment in renewable energy systems by customer-generators. NEM encourages "the greater use of renewable energy" by obliging the utility to give the customer-generator access (without standby charges and other financial impediments) to the utility's transmission & distribution system, and, therefore, access to the utility's customers, and by requiring the utility to value the renewable energy delivered by the customer-generator at the utility's retail rates for electric power.

An "Eligible Customer-Generator" Should Include Metered Utility Customers That Lease Renewable Energy Facilities, or Purchase Electricity from Renewable Energy Facilities, Owned by Third Parties.

Currently, NEM is only available to a customer-generator that "owns and operates" the facility that generates the NEM renewable energy. If, for example, a renewable energy facility of 50 kW or less was located on a State of Hawaii airport and intended primarily to offset the airport's electrical requirements, but the system was owned by a third party that either leased the facility to the State of Hawaii or sold the renewable energy from the facility to the State of Hawaii under a power purchase agreement, the State of Hawaii would not be an "eligible customer-generator" and would not receive any NEM benefits for excess renewable energy generated by such a facility because the State of Hawaii does not own the facility. HB 2550 extends NEM benefits to customer-generators who either lease such renewable energy facilities, or purchase power from such renewable energy facilities under power purchase agreements.

Purpose of NEM Limits

The utility's obligations under the NEM statute are subject to two limits – the customer capacity limit (currently set at 50 kW of generating capacity) and the total capacity limit (currently set at ½% of the utility's peak system demand). Each of the NEM limits has (or had) its own justification

The customer capacity limit was justified to protect the integrity of the grid because, when NEM was enacted in 2001, the cumulative effect on the grid from interconnection of distributed generation systems (including NEM systems) was not known, and because procedures to ensure the safety and reliability of distributed generation systems (including NEM systems) had not been established.

In obliging the utility to value renewable energy, supplied by the customer-generator, at the retail rate (instead of the Schedule Q "avoided cost" rate that the utility would otherwise be obliged to pay), the legislature apparently expected that NEM would result in a ratepayer subsidy of renewable energy, and that the amount of ratepayer subsidy would equal the difference between the retail rate and the avoided cost rate. The legislature apparently justified the total capacity limit as a limit on the total cost of a ratepayer subsidy that the legislature expected when it enacted NEM in 2001.

The Customer Capacity Limit Can Be Raised to 2 MW Because the PUC Has Made the Customer Capacity Limit Irrelevant.

The customer capacity limit was justified to protect the integrity of the grid because, when NEM was enacted in 2001, procedures to ensure the safety and reliability of interconnection of distributed generation systems (including NEM systems) had not been established.

On January 27, 2006, the PUC issued Decision and Order No. 22248 in Docket No. 03-0371 (the "DG Docket"). In Decision and Order No. 22248, the PUC required utilities:

- To establish requirements that require all necessary safety equipment and operational procedures as a condition for connecting distributed generation to the distribution system
- To establish reliability and safety requirements, by proposed tariff for approval by the commission, for distribution that is connected to the electric utility's distribution system

By requiring the utilities to establish safety & reliability requirements and procedures for interconnection of distributed generation systems (including net energy metered systems), the PUC has made the customer capacity limit irrelevant because **no net energy metered system, regardless of its capacity, is going to get interconnected to the grid unless the net energy metered system meets the utility's own safety & reliability requirements and procedures**. Since the PUC has made the customer capacity limit irrelevant, there is no longer any reason that the customer capacity limit should frustrate the statutory purpose of NEM ("to lessen Hawaii's dependence on imported oil by encouraging the greater use of renewable energy") by limiting the maximum capacity of renewable energy systems eligible for NEM.

The customer capacity limit could be raised to 2 MW, as provided in HB 2550, without compromising the safety and reliability of the grid because, under the Decision and Order in the DG Docket, the utility has the ability (and obligation) to prevent interconnection of any NEM system, regardless of its capacity, that might threaten the safety or reliability of the grid. A net energy metered system of any size – whether 5 kW or 5 MW – simply is not going to be interconnected with the grid unless the system passes the utility's own rigorous safety and reliability requirements.

Colorado, Connecticut, Delaware, Florida, Maryland, New Jersey, New Mexico, Oregon and Pennsylvania – places that have electricity prices lower than Hawaii's with nothing like Hawaii's 79% dependence on imported oil for electricity generation – have adopted or are preparing to adopt customer capacity limits of 2 MW or more to encourage customer investment in renewable energy generation. These states have gone to 2 MW customer capacity limits out of recognition that NEM systems up to 2 MW pose no particular safety and reliability issues, if they ever did.

In these states, and in jurisdictions such as California, Nevada, Puerto Rico and Rhode Island that have gone to customer capacity limits of 1 MW, there is no evidence that those customer capacity limits have led to interconnection of net energy metered systems that impaired the safety and reliability of the grid. Other states have figured out that customer capacity limits can be raised to 2 MW to encourage renewable energy without compromising the safety and reliability of the grid. Hawaii can do the same.

Far from impairing the reliability of the grid, interconnection of distributed generation systems, such as NEM systems, enhances the operation of the grid through avoided grid

losses, reactive power savings, transmission capacity benefits, transformer deferral benefits and reliability benefits that may be worth as much as 7¢ per kWh.

Raising the customer capacity limit to 2 MW would encourage renewable energy by bringing more customer-generators within the NEM rule that obliges the utility to refrain from discriminatorily applying standby charges to eligible customer-generators. In a letter dated March 13, 2007 to the PUC, the Governor stated that, "policies encouraging the use of ... customer-sited renewable energy generation ... serve the best long-term interests of the State and its electricity users ... stand-by rates can block the use of this beneficial technology." Expanding the customer capacity limit to 2 MW would encourage customer-sited renewable energy generation by prohibiting the application of stand-by rates that otherwise would block beneficial renewable energy generation technology.

Raising the customer capacity limit to 2 MW would bring large wind turbines – that commonly have generating capacities in excess of 1 MW – within net energy metering, encouraging greater use of Hawaii's renewable wind energy resources "to lessen Hawaii's dependence on imported oil."

The Total Capacity Limit Can Be Eliminated Because NEM Has Turned Out to Not Be a Ratepayer Subsidy.

Although the legislature apparently expected that NEM would be a ratepayer subsidy of renewable energy generation by customer-generators when the legislature enacted NEM in 2001, NEM has turned out to not be a ratepayer subsidy. When distributed generation benefits to the utility and its ratepayers of net energy metered renewable energy (valued at 7¢ per kWh based on studies performed for PG&E and Austin Energy) are added to the utility's avoided cost (about 10¢ per kWh for HECO as reported on its Schedule Q for the 2nd quarter of 2007) from the purchase of such renewable energy, the true economic value of net energy metered renewable energy (about 17¢ per kWh) to the utility and its ratepayers is about equal to the effective retail rate (about 17¢ per kWh for a HECO Schedule G customer as of April 2007) at which the utility is obliged to value such electricity.

NEM has turned out to not be a ratepayer subsidy (despite the legislature's apparent expectation when it enacted the total capacity limit in 2001) because the true economic value of NEM renewable energy to utility ratepayers is about equal to the NEM retail rate at which the utility (and its ratepayers) are obliged to value such renewable energy. If other benefits such as reduced greenhouse gas emissions are given economic values and added to the distributed generation benefits, the total economic value of NEM renewable energy substantially exceeds its cost to the utility and its ratepayers.

The total capacity limit, enacted as a check on an expected ratepayer subsidy cost of NEM, should not frustrate the purpose of NEM ("to lessen Hawaii's dependence on imported oil by encouraging the greater use of renewable energy") because NEM has turned out to not have such a subsidy cost. Eliminating the total capacity limit would

encourage "the greater use of renewable energy" from NEM because NEM has turned out to not be a ratepayer subsidy.

Of 8 states that have raised the customer capacity limit to 2 MW, 6 states (Colorado, Connecticut, New Jersey, New Mexico, Oregon and Pennsylvania) have no total capacity limits for some or all of the state's utilities, and 1 state (Maryland) has a total capacity limit of 1500 MW (enough to power all of Oahu). These states – with nothing like Hawaii's 79% dependence on imported oil for electricity generation – have concluded that the benefits of encouraging greater renewable energy use through eliminating the total capacity limit outweigh any ratepayer subsidy effects from such elimination. These states are serious about encouraging greater use of renewable energy. Hawaii can be, too.

The total capacity limit discourages renewable energy generation by creating uncertainty for potential customer-generators. The potential customer-generator cannot plan a future renewable energy project and know with certainty that the project will qualify for NEM because the potential customer-generator cannot know with certainty when the total capacity limit will be exceeded by other customer-generators. Such uncertainty complicates calculations of payback periods and long-term financial projections for such projects. Elimination of the total capacity limit would encourage greater use of renewable energy by eliminating this uncertainty.

The PUC Should Be Directed to Establish Best Practices Interconnection Rules.

In *Freeing The Grid,* published in September 2007 by the Interstate Renewable Energy Council (IREC), in collaboration with the Network for New Energy Choices, Solar Alliance and Vote Solar Initiative, Hawaii's interconnection rules were scored on a dozen criteria including eligible technologies, individual system capacity, "breakpoints" for interconnection process, timelines, interconnection charges, engineering charges, external disconnect switch, certification, technical screens, spot/area network interconnection, insurance requirements and dispute resolution. Hawaii's grade was "**F**," ranking 32nd out of the 34 states graded. The "F" grade meant "Interconnection rules retain many barriers to interconnection. Few to no generators will experience expedited interconnection and few to no state best practices are adopted. Many to most DG systems will be blocked from interconnecting because of the rules." HB 2550 addresses the multiple deficiencies in Hawaii's interconnection rules by directing the PUC initiate a rulemaking proceeding to adopt best practices interconnection rules like those promulgated by FERC and developed by IREC.

Conclusion

With Hawaii burning imported oil for 79% of its electricity and oil going for $100 a barrel, the legislature should act now to encourage greater use of renewable energy by (1) extending NEM benefits to customer-generators that lease renewable energy facilities or purchase renewable energy from third parties, (2) raising the NEM customer capacity limit to 2 MW and eliminating the total capacity limit, and (3) directing the PUC to establish best practices interconnection rules.