HAWAII STATE SENATE
THE TWENTY-FOURTH LEGISLATURE
REGULAR SESSION OF 2008

COMMITTEE ON WAYS AND MEANS

March, 2008

TESTIMONY OF HUI MANA 'OMA'O, LLC

SUBJECT: H.B. 2661-HD2 SD1, RELATING TO THE ISSUANCE OF SPECIAL PURPOSE REVENUE BONDS TO ASSIST INDUSTRIAL ENTERPRISES.

The Honorable Rosalyn Baker, Chair, and Members of the Committee:

Aloha. My name is William W. Milks. I am the managing member of Hui Mana 'Oma'o, LLC (HMO), a Hawaii-based business entity. Thank you for scheduling H.B. 2661-HD2 SD1 for a hearing today.

HMO supports enactment of H.B. 2661-HD2 SD1.

Hui Mana 'Oma'o is Hawaiian for Consolidated Green Power. HMO is dedicated to the development and operation of renewable energy projects for delivery of electricity to Hawaii's franchised electric utility companies.

HMO is in the process of developing more than one renewable energy project for the Island of Oahu. To date it has spent considerable time and funds preparing to be responsive to Hawaiian Electric Company's (HECO) RFP for 100 mw of renewable energy, which RFP is soon to be formalized and approved by the Hawaii Public Utilities Commission.

Authorization of up to $38 million of SPRBs is part of HMO's financial plan. The project is designed to involve the harnessing of two different renewable resources, each of which would provide intermittent power but the combination of which – in conjunction with the state-of-the-art automated dispatch, advanced technical monitoring, short-term electrical storage technologies, or shared utilization of utility-provided "regulating reserve" – would produce grid-quality power to Oahu's produce utility network.

BACKGROUND

In 2007, the Island of Oahu spent slightly more than $2,000,000.00 <u>a day</u> (on average) just for fossil fuels needed to generate Oahu's electricity. What amounted to three quarters of a billion dollars spent on Oahu, in 2007, will certainly be more costly each ensuing year: current. The market price for petroleum now regularly exceeds $100.00 per barrel. Refer, a <u>Pacific Business News</u> press clip (attached), dated March 14, 2008.

Hawaii's dependence upon oil is to the point of being extreme, not only because of our continuing need for oil to generate electricity, but also for vehicles, for jet fuel, and for utility gas. Also, many of our consumable products and fertilizer for our agricultural products are oil based.

The following points demonstrate that HMO's objective of providing renewable electric energy for Oahu's consumers is in the public interest.

- While nuclear power may be a solution, it requires amendment to our State Constitution. While coal supplies might be abundant, thermal pollution and carbon emissions require us to be less reliant on coal for Oahu's future. And while the development/commercialization of bio-fuels offers some hope, that industry is currently experiencing its own set of uncertainties.

- As the world's demand for petroleum accelerates, the number of newly discovered oil fields declines. The laws of supply and demand and political and military might will dictate the availability and price of oil in the future.

- Bringing renewable energy technologies to commercialization is costly, but such costs must be incurred. Electric utility companies have chosen to place those high costs—and the inevitable failures—on developers such as HMO.

- To make "dispatchable" renewable energy reliable for Oahu, cooperation among government developers and the utility company will be essential.

- Direct funding from the State of Hawaii to financially assist developers of renewable energy currently is beyond the state's available funds and will remain so for the foreseeable future.

- To integrate renewables into Oahu's existing electrical system, all forms of kokua are essential: Act 221/Act 215 provisions are needed; special purpose revenue bonds are needed; Department of Land and Natural Resources leases for sites are needed; a goal-oriented PUC is needed; and an aggressive and enlightened electric utility is needed.

HMO SHALL BE THE RESPONSIBLE PARTY FOR THE PROJECT'S SPRBs

H.B. 2661, HD2 SD1 would authorize the Hawaii Department of Budget and Finance (B & F) to proceed to qualify HMO. In order for HMO to obtain B & F's declaration as a "Responsible Party" to arrange for the underwriting and sale of bonds for the "Project," HMO will need to submit volumes of information with regard to its project's economic forecasts and financial feasibility.

This process does not require expenditure of General Funds. Ultimately, the project will benefit consumers, advance sustainability, and mitigate green house gas emissions.

The processes set up by the Legislature and codified as Chapter 39A, Haw.Rev.Stat., provide safeguards to maintain the State of Hawaii's financial integrity: required guarantees will be in place or the bonds will not be underwritten. Indentures in the bonds absolve the State from being the ultimate financial recourse.

Special purpose revenue bond funding procedures cost the State of Hawaii virtually nothing. The "Project" has to reimburse B & F for all of the costs it incurs. The State of Hawaii merely lends its name to a developer such as HMO in order to provide tax incentives to investors in renewable energies. The HECO family of companies has been the recipient of special purpose revenue bonds on numerous occasions over the past several years. That has been a good deal for Oahu's consumers in the past; HMO's use of SPRB in the future will be in the public interest, as well.

CONCLUSION

Oahu's need for electric energy from renewable resources is extreme. The State's cooperation to develop renewables is essential, but both the State and HECO have such other compelling priorities that capital intensive renewable projects cannot be directly funded by the state of HECO. Therefore, the passage HB 2661, HD2 SD1is in the public's interest.

Thank you for your attention and serious consideration to the merits of the proposal set forth in H.B. 2661, HD2 SD1. HMO urges favorable Committee action on H.B. 2661, HD2 SD1.

HMO will be happy to respond to any questions you may have.

WE UNDERSTAND HOW HAWAII WORKS

PACIFIC BUSINESS NEWS

Honolulu, Hawaii March 14, 2008 Vol. 46, No. 2 $2.00

HECO fuel charges up 21% in 5 months

BY NANEA KALANI
PACIFIC BUSINESS NEWS

As oil prices hit record levels, Hawaii businesses and residents are being shocked not only at the gas pump but at the electric meter.

Since October, the fuel surcharge that Hawaiian Electric Co. passes on to its customers has shot up 21 percent.

It now accounts for 57 percent of the average customer's bill on Oahu, with some Neighbor Island customers paying even more.

While other utilities across the nation also levy fuel surcharges, they are modest compared with the fuel costs charged by Hawaiian Electric Co. and its subsidiaries, Maui Electric Co. and Hawaii Electric Light Co.

Other states rely on a mix of coal, natural gas, oil, nuclear power and hydroelectricity, but 90 percent of Hawaii's power comes from oil-fired generators.

This week, oil prices touched a record $110 per barrel, suggesting even higher prices lie ahead for Hawaii consumers.

Gary Groendyke, who owns the 16,000-square-foot Punahou Fitness & Spa in Honolulu, said he's now paying $6,500 a month for electricity to power his fitness machines, pool filters, saunas, steam rooms and air conditioning.

"It's a really big concern because people are on memberships here so I can't just arbitrarily raise their rates," Groendyke said. "My profit margin really starts taking hits and I don't feel there's a whole lot I can do."

Last October, HECO's fuel surcharge — labeled "energy cost adjustment" on its bills — was

SEE ELECTRIC, PAGE 39

ELECTRIC: Efforts to conserve erased by bigger bills

FROM PAGE ONE

12.368 cents per kilowatt-hour. This means the average Oahu home, which uses 600 kilowatt-hours of electricity a month, paid a $74.21 surcharge.

This month, with the fuel surcharge at 14.937 cents per kilowatt-hour, the average homeowner will see a bill for $158.33 with a surcharge of $89.62, $15 more than in October.

The surcharge is calculated a month in ad- v ... ed on projected fuel costs, and does r... e the approval of the state Public U... Commission. The same formula is applied to both residential and commercial customers' kilowatt-hour usage.

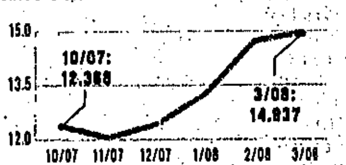
HECO stresses that it doesn't profit from the surcharge, which has been applied to all customer accounts since 1953.

"The energy cost adjustment clause ensures customers that Hawaiian Electric doesn't make a penny [and] guarantees they're only paying for actual cost of fuel," said HECO spokesman Darren Pai. "The PUC and the [state Office of] Consumer Advocacy review all of our fuel contracts and the surcharge appears as a separate line on their bills."

HECO and its subsidiaries spent $774.1 million on fuel oil in 2007, according to the most recent financial statement of parent company Hawaiian Electric Industries, which also owns American Savings Bank. The utilities collectively sold 10.1 million kilowatt-hours in 2007.

Pennies per hour add up

Hawaiian Electric Co. adds a fuel surcharge to its bills labeled "energy cost adjustment." The charge goes directly to pay the utility's fuel costs. It is calculated monthly in cents per kilowatt-hour, and has risen 21 percent since October.



SOURCE: HAWAIIAN ELECTRIC CO.

The formula HECO uses to determine each month's fuel surcharge looks at its projected cost of fuel for providing electric service to customers and compares that with the fuel cost already included in the utility's rates.

"The difference is used to make the calculation for the following month," Pai said. "In the event that the estimate is off, there is a reconciliation to make up the difference between actual and estimated."

One of the biggest problems for HECO is that it has been aggressively pushing energy conservation, but rising fuel costs are wiping out savings from low-power light bulbs, luke-warm showers and most solar systems.

Pai said HECO has received a number of complaints, especially from those who have invested hundreds or thousands of dollars in energy-efficient equipment.

"When customers do install things like solar water heaters but fuel costs continue to drive their bills, it's very understandable that they're unhappy," he said. "But we try to do as much as possible to have incentives and help them control the energy they're using."

He said over the past 11 years HECO has paid out $52 million in rebates to customers who have installed energy-efficient systems.

The Maui Ocean Center in Maalaea has seen its electric bill double since opening a decade ago and is working to install wind turbines to help reduce its dependence on the utility.

"But our usage has stayed the same, or in fact, is down 2 percent," said General Manager Kate Zolezzi.

Zolezzi said that aquarium pumps running 24 hours a day drive most of the center's energy costs, which currently exceed $600,000 annually to keep alive sea life in its main 750,000-gallon aquarium and 55 smaller exhibits.

Last year, Maui Ocean Center announced plans for a $46,000 wind turbine project to help reduce energy costs.

Maui Electric Co. agreed to contribute $10,000 for the six, 1,000-kilowatt turbines that are expected to be on line in September.

Groendyke, the owner of the Punahou fitness club, switched the facility's air-conditioning system in 2001 to one that used less power but he's since seen those savings disappear.

"I figured I would pay for the redo over three years," he said. "I cut the electricity charges by over $2,000 the first month I installed it, but that's been long ago eclipsed and it's back up to $6,500 a month again."

HECO's position is that fuel surcharges will only come down when Hawaii uses less oil, generating a larger share of power by renewable means, including solar, wind and wave power.

"We see a definite need to move away from being so dependent on oil, and we're continuing to work to develop renewable energy sources that can provide reliable service to our customers," Pai said.

nkalani@bizjournals.com | 955-8001

Staggering utility costs require action now

Hawaii's efforts at being even slightly less energy dependent are lurching along at a disappointing pace, while the speed with which fuel surcharges and pass-throughs are tacked on to shipping, electricity and airfares is astonishing.

Take a look at your most recent electric bill and you'll find that more than 40 ...nt comes from the "energy cost ad- ...nt" line item. That's what Hawai- ...ctric Co. is getting charged for the ... that keeps its generators running and it's passing along the cost to you.

So what incentive do we have to invest in solar or take cold showers if our bills keep going up anyway?

While there are a lot of interesting alternative energy projects under way in Hawaii, we're concerned that none of them seems to have much traction.

As PBN reported last week, Hawaii isn't a bit closer to producing one drop of ethanol than it was in 2004 when the state moved to require all locally sold gasoline to be blended with 10 percent ethanol.

The production of biodiesel, which is supposed to cut the importation of "straight" diesel and help revive Hawaii's agriculture industry, is having its own financial and technological challenges.

Experiments with algae, oil palms and crops like jatropha, which could produce the "bio" to add to the diesel, still are in early stages and there is plenty of disagreement over which crops produce the most "juice" and cause the least environmental damage.

Solar, wind, biomass, biodiesel, geothermal, hydroelectric and wave energy all have their advocates and all have their limitations when it comes to providing cheap, reliable power to a remote chain of islands.

Gov. Linda Lingle is correct to be concerned about the "security" of Hawaii, with its 90-percent dependence on oil, far more than other states that mostly use a mix of oil, coal, natural gas and nuclear energy to run their power plants.

"We are completely dependent on foreign governments for our energy security for our economic survival," Lingle told the National Governors Association in February. "The fact is that we are the most energy-insecure state in America."

Lingle deserves credit for wading into this confusing arena and trying to provide leadership and focus.

So far, the Legislature has simply added to the muddle by proposing more studies and offering more chatter about sustainability. (We do, however, support the landmark "Right to Dry" legislation that gives us all the right to use a clothesline.)

But even the Lingle initiatives are aimed further into the future than we're comfortable with.

The looming spectre of $4 gasoline can only lead to budget-blowing "energy cost adjustments" that could stop what meager economic growth is forecast for the year.

In the short run, we'd suggest more meaningful incentives for conservation. HECO, with the blessing of the state Public Utilities Commission, should move ahead with a tiered rate structure that would reward off-peak usage.

Substantial rebates for customers who cut usage by 10 percent or more should also be considered — now that might be a fun family project.

And the state needs to think about what it can do through grants or aggressive tax incentives to get lenders and investors moving more quickly to fund projects like the Gay & Robinson ethanol enterprise on Kauai, or to get someone to start a jatropha plantation before gas hits $5 a gallon.

THE HOUSE OF REPRESENTATIVES
TWENTY-FOURTH LEGISLATURE, 2008
STATE OF HAWAII

HB 2661 HD2 SD2 (DRAFT)

A BILL FOR AN ACT

RELATING TO THE ISSUANCE OF SPECIAL PURPOSE REVENUE BONDS FOR HUI MANA'OMA'O.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

SECTION 1. The legislature finds that it is in the public interest to encourage the development of facilities to convert renewable energy resources into electrical energy to be made available for consumption by the general public. The legislature further finds that Hui Mana'Oma'o is engaged in the development of facilities to convert potential renewable energy resources into electrical energy to be made available for consumption by the general public. The legislature finds that such encouragement is urgently needed on the island of Oahu, where more than $2,000,000.00 is spent daily on imported fossil fuels for the generation of electricity.

SECTION 2. The legislature finds and declares that the issuance of special purpose revenue bonds under this Act is in the public interest and for the public health, safety, and general welfare.

SECTION 3. Pursuant to part V, chapter 39A, Hawaii Revised Statutes, the department of budget and finance, with the approval of the governor, is authorized to issue special purpose revenue bonds in a total amount not to exceed $38,000,000, in one or more series, for the purpose of assisting Hui Mana'Oma'o or an enterprise or commercial entity in which Hui Mana'Oma'o possesses a vested equity interest, for establishment of facilities to convert renewable energy resources into electrical energy. The legislature hereby finds and determines that combining two or more intermittent renewable energy resources for the purpose of enhancing the reliability of the resulting electrical energy produced constitutes a project as defined in part V, chapter 39A, Hawaii Revised Statutes, and the financing thereof is assistance to industrial enterprise.

SECTION 4. The special purpose revenue bonds and the refunding special purpose revenue bonds issued under this Act shall be issued pursuant to part V, chapter 39A, Hawaii Revised Statutes, relating to the power to issue special purpose revenue bonds to assist industrial enterprises.

SECTION 5. The department of budget and finance is authorized, from time to time, including times subsequent to June 30, 2013, to issue special purpose revenue bonds in whatever principal amounts the department shall determine to be necessary to refund the special purpose revenue bonds authorized in section 3 and to refund special purpose revenue bonds authorized in this section, regardless of whether the outstanding special purpose revenue bonds or refunding special purpose revenue bonds have matured or are the subject of redemption or whether the refunding special purpose revenue bonds shall be bonds for the multi-project programs described in section 3. In making this determination, the department shall comply with federal law relating to the exemption from federal income taxation of the interest on bonds of the nature authorized by this section.

SECTION 6. The authorization to issue special purpose revenue bonds under this Act shall lapse on June 30, 2013.

SECTION 7. This Act shall take effect upon its approval.

INTRODUCED BY: ______________________________