

SENT VIA EMAIL

March 23, 2008

Representative Robert N. Herkes – Chair  
Consumer Protection & Commerce Committee  
State Capitol  
415 South Beretania Street  
Honolulu, Hawai'i

Hearing: Monday, March 24, 2008 at 2:30 pm - Conference Room 325

HCR 304 and HR 254 -"Urging the Public Utilities Commission to rule that all Schedule Q contracts should receive the full avoided cost pricing as written in the existing Schedule Q electricity rate schedule for each utility".

Aloha Representative Robert N. Herkes – Chair and Committee Members:

On behalf of the directors and 115 member organizations of Hawaii Island Economic Development Board, we wholeheartedly support this resolution.

This resolution will enable the legislature to give direction to the PUC  
regarding  
Schedule Q contracts to receive the full avoided cost pricing.

This resolution is very important for our food, energy and economic future.

We ask that you approve this resolution as another step toward achieving  
food  
and energy self sufficiency for Hawaii.

Thank you for allowing me to submit this testimony.

‘O wau no me ka ha ‘a ha ‘a

Mark McGuffie  
Executive Director  
Hawaii Island Economic Development Board

**Testimony of ERIK KVAM**  
**Chief Executive Officer of Zero Emissions Leasing LLC**  
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**In SUPPORT of H.C.R. NO. 304 URGING THE PUBLIC UTILITIES  
COMMISSION TO RULE THAT ALL SCHEDULE Q CONTRACTS SHOULD  
RECEIVE THE FULL AVOIDED COST PRICING AS WRITTEN IN THE  
EXISTING SCHEDULE Q ELECTRICITY RATE SCHEDULE FOR EACH  
UTILITY**

**Before the  
HOUSE COMMITTEE ON CONSUMER PROTECTION AND COMMERCE**

**March 24, 2008 2:30 pm**

Good afternoon, Chair Herkes, Vice-Chair McKelvey and members of the Committee.

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

I support the intent of HCR 304, but believe it does not go far enough in preserving the avoided cost rate incentive, which is Hawaii’s only rate-based incentive for development of renewable energy systems that sell electricity to the utilities.

Hawaii now has two regimes, based mainly on the generating size of a renewable energy system, for pricing the renewable energy that a renewable energy system sells to the utility:

Avoided Cost Pricing for Systems < 5 MW on Oahu, < 2 MW on Maui and Hawaii and < 500 kW on Kauai. Under Hawaii’s avoided cost statute, as interpreted by the PUC in the competitive bidding docket, renewable energy from a system < 5 MW on Oahu, < 2 MW on Maui and Hawaii and < 500 kW on Kauai is valued at the utility’s avoided cost of producing the same amount of energy. In its recent decision in the avoided cost docket, the PUC decided, after 16 years of deliberation, that the utility’s avoided cost is essentially equal to the utility’s cost of fuel to produce the same amount of energy, and does not include saved environmental costs or saved capital costs of the utility. Under Schedule Q as approved by the PUC, the avoided cost rate for renewable energy from systems < 100 kW (that are not eligible for NEM) is enhanced by certain factors for on-peak and off-peak power production.

Competitive Bidding for Systems > 5 MW on Oahu, > 2 MW on Maui and Hawaii and > 500 kW on Kauai. Under the PUC’s decisions in its competitive bidding docket, the value of renewable energy from a system > 5 MW on Oahu, > 2 MW on Maui and Hawaii and > 500 kW on Kauai is valued at a price set by competitive bidding

among the owners of such systems. The competitively bid price would be likely to be lower than the utility's avoided cost of producing the same amount of power, benefiting the utility and its ratepayers, but wiping out the avoided cost rate incentive, which is Hawaii's only rate-based incentive for development of renewable energy systems that sell electricity to the utilities.

\* \* \* \*

Act 162, passed in June 2006, amended Hawaii's avoided cost statute to require that the PUC remove or significantly reduce any linkage between the avoided cost rate and the price of fossil fuel. In Act 162, the legislature suggested that adjustments in the avoided cost rate be linked to consumer price indices for inflation.

HCR 304 expresses a concern that de-linking will scale-back the incentive effect of the avoided cost rate for renewable energy from Schedule Q systems less than 100 kW. That is a valid concern since de-linking is likely to reduce the avoided cost rate paid for renewable energy, and the avoided cost rate is Hawaii's only rate-based incentive for development of renewable energy systems that sell electricity to the utilities. HCR addresses that concern by encouraging the PUC to exclude Schedule Q systems (< 100 kW) from the de-linking law in the de-linking docket that the PUC is likely to open soon.

HCR 304 also says that "the de-linking law was enacted to encourage competitive bidding for new, large power purchase agreements for renewable energy." If de-linking was intended to encourage competitive bidding for "large" systems (> 5 MW on Oahu, > 2 MW on Maui and Hawaii, > 500 kW on Kauai), and was made unnecessary by the PUC's decision creating a competitive bidding regime for such "large" systems, then the de-linking law no longer serves any purpose and should be repealed immediately.

I support the intent of HCR 304, but think it's unwise to wait for PUC action on de-linking that may take another 16 years for completion, when oil is selling for \$100 a barrel and Hawaii is burning oil for 79% of its electricity. The legislature can and should take any of the following actions now to preserve and enhance the avoided cost rate incentive, which is Hawaii's only rate-based incentive for development of renewable energy systems that sell electricity to utilities:

1. Broaden HCR 304 to encourage the PUC to exclude all systems from de-linking up to the competitive bidding limits (<5 MW on Oahu, < 2 MW on Maui and Hawaii, < 500 kW on Kauai)
2. Repeal the de-linking law entirely and restore the avoided cost rate incentive up to the competitive bidding limits during this session. This might be done, for example, by amendment to HB2550 (the net energy metering bill) if that bill reaches conference committee.

Thank you for giving me this chance to testify.

**mckelvey3**

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**From:** Elizabeth Cole [bcole47@hawaiiantel.net]  
**Sent:** Saturday, March 22, 2008 12:44 PM  
**To:** CPCtestimony  
**Subject:** HCR 304 and HR 254

I urge that, for the time being, the Public Utilities Commission should rule that all schedule Q contracts should receive the full avoided cost pricing as written in the existing schedule Q electricity rate schedule for each utility.

Elizabeth Cole  
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