

HB 1270 HD1

**TESTIMONY OF CARLITO P. CALIBOSO
CHAIRMAN, PUBLIC UTILITIES COMMISSION
DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE
SENATE COMMITTEE ON ENERGY AND ENVIRONMENT
MARCH 17, 2009**

MEASURE: H.B. No. 1270 H.D. 1
TITLE: Relating to Renewable Energy

Chair Gabbard and Members of the Committee:

DESCRIPTION:

This bill amends Section 269-27.2, Hawaii Revised Statutes ("HRS"), by removing the avoided cost limit on the rate for purchase of electricity by a public utility when the utility purchases electrical energy. In addition the bill amends the definition of "cost effective" in Section 269-91, HRS.

POSITION:

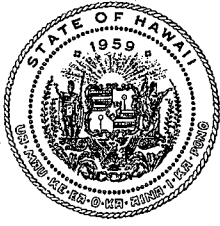
The Commission has no objections to the proposed amendments.

COMMENTS:

The Commission defers to the Legislature's judgment as to whether the avoided cost limit on the rate that an electric utility must pay for nonfossil fuel generated electricity should be eliminated.

The Commission appreciates the Legislature's proposed amendment to the definition of "cost effective" as contained in HRS Section 269-91, to remain consistent with the methodology set by the Commission:

Thank you for the opportunity to testify.



**DEPARTMENT OF BUSINESS,
ECONOMIC DEVELOPMENT & TOURISM**

LINDA LINGLE
GOVERNOR
THEODORE E. LIU
DIRECTOR
MARK K. ANDERSON
DEPUTY DIRECTOR

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Statement of
THEODORE E. LIU
Director
Department of Business, Economic Development, and Tourism
before the
SENATE COMMITTEE ON ENERGY AND ENVIRONMENT
Tuesday, March 17, 2009
3:00 P.M.
State Capitol, Conference Room 225

in consideration of
HB 1270, HD1
RELATING TO RENEWABLE ENERGY

Good afternoon, Chair Gabbard, Vice Chair English, and Members of the Committee.

DBEDT supports HB 1270, HD1. This bill removes the link between the purchase power rates payable by the utility for nonfossil fuel generated electricity, and the prices of fossil fuels. It amends Section 269-27.2 (c), Hawaii Revised Statutes (HRS), by deleting the provision that limits the rate for purchase of nonfossil fuel generated electricity by a public utility to no more than 100 per cent of the utility's avoided cost. It also amends the definition of "Cost-effective" in Section 269-91, HRS, to remain consistent with the methodology set by the Public Utilities Commission (PUC).

Removing the limit on the purchase power rates based on the utility's avoided cost provides the PUC with greater flexibility in determining just and reasonable purchased power rates, and will more likely promote the development of renewable energy resources.

Thank you for the opportunity to testify.

**DOWLING
COMPANY, INC**

Room # 225 3:00 PM March 17, 2009

**SENATE COMMITTEE ON ENERGY AND ENVIRONMENT
HB1270, HD1 RELATING TO ENERGY EFFICIENCY**

Chair Gabbarde, Vice-Chair English and Committee Members:

My name is Jennifer Stites and I am the Green Development Manager for Dowling Company, Inc. ("DCI"). DCI is a Maui-based real estate development company that is committed to sustainable development. To guide this effort and determine our performance metrics, we have adopted the nationally recognized U.S. Green Building Council's ("USGBC") Leadership in Energy and Environmental Design ("LEED") rating system. We are especially proud and excited that DCI's first USGBC LEED certified project is our own office located in Wailuku, Maui. Our office was also the first USGBC LEED certified office on Maui.

DCI supports HB1270, HD1 because in late 2008 the Hawaii Public Utilities Commission initiated a Docket into the investigation of Feed-in Tariffs in Hawaii. Although the PUC investigation is still ongoing, research has shown that one of the key elements in a successful feed-in tariff program is to have flexibility in regards to pricing to encourage renewables to enter the market. The amendments proposed in this bill will allow the PUC the flexibility in determining a just and reasonable rate for nonfossil fuel generated electricity which in turn will hopefully lead to more nonfossil fuel generated electricity in the Hawaii market.

Thank you for the opportunity to submit testimony.

TESTIMONY BEFORE THE
SENATE COMMITTEE ON ENERGY AND ENVIRONMENT

Tuesday, March 17, 2009
3:00 p.m.
Conference Room 225, State Capitol

H.B. No. 1270, H.D. 1
RELATING TO RENEWABLE ENERGY

By Lisa Kikuta
Director, Government & Public Affairs
Hawaiian Electric Company, Inc.

Chair Gabbard, Vice-Chair English, and Members of the Committee:

My name is Lisa Kikuta, testifying on behalf of Hawaiian Electric Company, Inc. and our subsidiary companies, Hawaii Electric Light Company, Inc. and Maui Electric Company, Ltd. (collectively, the HECO Companies).

The HECO Companies support this bill, which proposes to delete the provision in HRS § 269-27.2(c) that may cap the price that a utility pays to an independent power producer (IPP) for non-fossil fuel generated electricity at one hundred per cent of the cost that the utility avoids by purchasing the electrical energy rather than producing it. It also proposes to amend the definition of "cost-effective" under HRS § 269-91.

The proposed change may help to address the challenges that may arise during negotiations between the utility and the IPP when it comes to discussing a purchase price that is no more than the utility's avoided cost. For example, in some cases, it may be difficult for an IPP to accept a price that is no more than the avoided cost, due to complexities associated with the IPP's particular production site, facilities needed to interconnect the project or use of newer technology.

In addition, this bill would clarify the Public Utilities Commission's flexibility to decide whether power purchase agreements between the utility and IPPs are in the public interest. For example, the Commission may be able to approve a power purchase agreement connected to a particular renewable energy project if the overall merits of the project, both cost and non-cost, justify a price that is higher than the utility's avoided cost.

For these reasons, we support H.B. No. 1270, H.D. 1 and request its passage. Thank you for the opportunity to testify.

**HB 1270 HD1
RELATING TO RENEWABLE ENERGY**

**PAUL T. OSHIRO
MANAGER – GOVERNMENT RELATIONS
ALEXANDER & BALDWIN, INC.**

MARCH 17, 2009

Chair Gabbard and Members of the Senate Committee on Energy &
Environment:

I am Paul Oshiro, testifying on behalf of Alexander & Baldwin, Inc. (A&B) and its agricultural company Hawaiian Commercial & Sugar Company on HB 1270 HD1, "A BILL FOR AN ACT RELATING TO RENEWABLE ENERGY." We support this bill.

Hawaiian Commercial & Sugar Company (HC&S) has been in operation for over 125 years. While Hawaii's many other sugar companies have shut down over the years, HC&S has been fortunate, through significant investments in our agricultural infrastructure and operations and the implementation of our diversified bio-production program, to have sustained our operations and continue as a major employer in the State of Hawaii. Today, as we face increasingly lower margins from raw sugar production because of flat commodity prices along with increasing production costs, HC&S is in the process of transitioning from a primary producer of commodity sugar into the production of specialty sugar and bio-based products. In addition to being the sole supplier of Sugar In The Raw, the little brown packets of sugar seen at restaurants and coffee shops across the nation, HC&S is also expanding production of our specialty Maui Brand Sugar.

In addition, HC&S generates biomass produced electricity for its sugar milling, irrigation pumping, and other internal operations and also provides electricity to Maui Electric Company (MECO). This biomass electricity is primarily produced by burning bagasse, the residual fiber of the sugar cane plant, as a fuel to generate steam for the production of power. In addition to providing approximately 7% of MECO's electricity, HC&S also serves as a firm power source to MECO, and has played a significant role in the restoration of MECO's electrical service during power outages.

This bill proposes to remove the dependency of the rate for electrical energy generated from non-fossil fuels (that are not entirely tied to fossil fuels) from the cost of electrical energy generated entirely from fossil fuels. The result will be a significant reduction of the present linkage between the volatile market price of fossil fuels and the rate for the production of non-fossil fuel generated electricity (that is not entirely tied to fossil fuels). By minimizing the potential for fluctuations in the public utility reimbursement rates (which presently occur in conjunction with the fluctuation in the market price of fossil fuels), the prospects of attracting new renewable energy producers and retaining present renewable energy producers will be significantly enhanced. The anticipated result will be an overall lowering of Hawaii's dependence on fossil fuel imports and an increase in the prospects of Hawaii's future energy security.

Based on the aforementioned, we respectfully request your favorable consideration on this bill.

Thank you for the opportunity to testify.



Sierra Club Hawai'i Chapter

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SENATE COMMITTEE ON ENERGY AND ENVIRONMENT

March 17, 2009, 3:00 P.M.

(Testimony is 1 page long)

TESTIMONY IN SUPPORT OF HB 1270, HD1

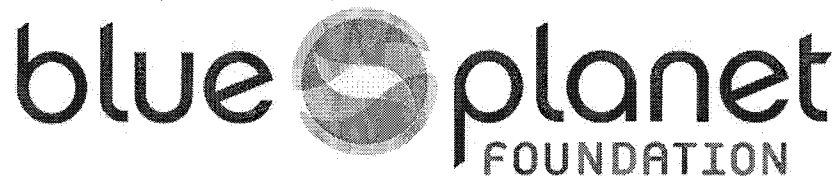
Aloha Chair Gabbard and Members of the Committee:

The Sierra Club, Hawai'i Chapter, with 5500 dues paying members statewide, supports HB 1270, HD1, making it easier to determine an appropriate rate for nonfossil fuel generated electricity.

Hawai'i is the most dependent state in the nation on imported oil. Some 50 million barrels are imported annually, nearly 80% of which originate from foreign sources. In addition, over 805,000 tons of coal are imported into our state. These sources provide power for over 92% of Hawaii's electricity generation. The combustion of these resources also contributes over 23 million tons of climate changing greenhouse gas into our atmosphere annually.

Hawaii's economic, environmental, and energy security demand that we reduce the amount of fossil fuel imported and consumed in Hawaii. This bill is a solid step in that direction. It encourages the development of renewable energy based setting reasonable rates based on consideration of all factors, and not merely the cost of fossil fuels. Without this measure, Hawaii will not move forward in developing renewable energy until it's too late and our financial capacity is strained by the anticipated high cost of oil.

Thank you for this opportunity to provide testimony.



SENATE COMMITTEE ON ENERGY AND ENVIRONMENT

March 17, 2009, 3:00 P.M.

Room 225

(Testimony is 2 pages long)

TESTIMONY IN SUPPORT OF HB 1270 HD1

Chair Gabbard and members of the committee:

The Blue Planet Foundation supports House Bill 1270 HD1, eliminating an existing constraint to increasing electricity generated from non-fossil sources. By removing the existing "avoided cost cap" in statute, HB 1270 HD1 will significantly reduce any linkages between the volatile prices of fossil fuels and the rate for nonfossil fuel generated electricity, potentially enabling utility customers to share in the benefits of price stability and fuel cost savings resulting from the use of non-fossil fuel generated electricity.

Increasing the use of indigenous, renewable resources for electricity generation is crucial to Hawaii's clean, independent, and sustainable energy future. Increased use of nonfossil fuels will strengthen Hawaii's economy and protect our environment. The resilience of the state's economy is compromised by the dependence on the volatile prices of fossil fuels. The state is currently dependent on foreign fossil fuels whose supply is not always secure and predictable.

Existing state law prevents the public utilities commission (PUC) from allowing contracts for clean energy purchased by a public utility at a price that exceeds that utility's "avoided cost" for producing electricity with fossil fuels. Blue Planet believes this existing policy is flawed because:

1. It creates an obstacle to other initiatives to increase clean energy use in Hawaii. A recent study on Feed-in Tariffs conducted by the National Regulatory Research Institute¹ for the PUC suggests that the current law may put a cap on the feed-in tariff price. The existing statute may prohibit a feed-in tariff greater than the current cost of oil-powered electricity.
2. It doesn't necessarily recognize the external values in clean energy production, including less impact to the environment, job creation, less drain on Hawaii's economy to pay for imported fossil fuel, the hedge value in a long term clean energy contract versus volatile fossil fuel prices, and other values.

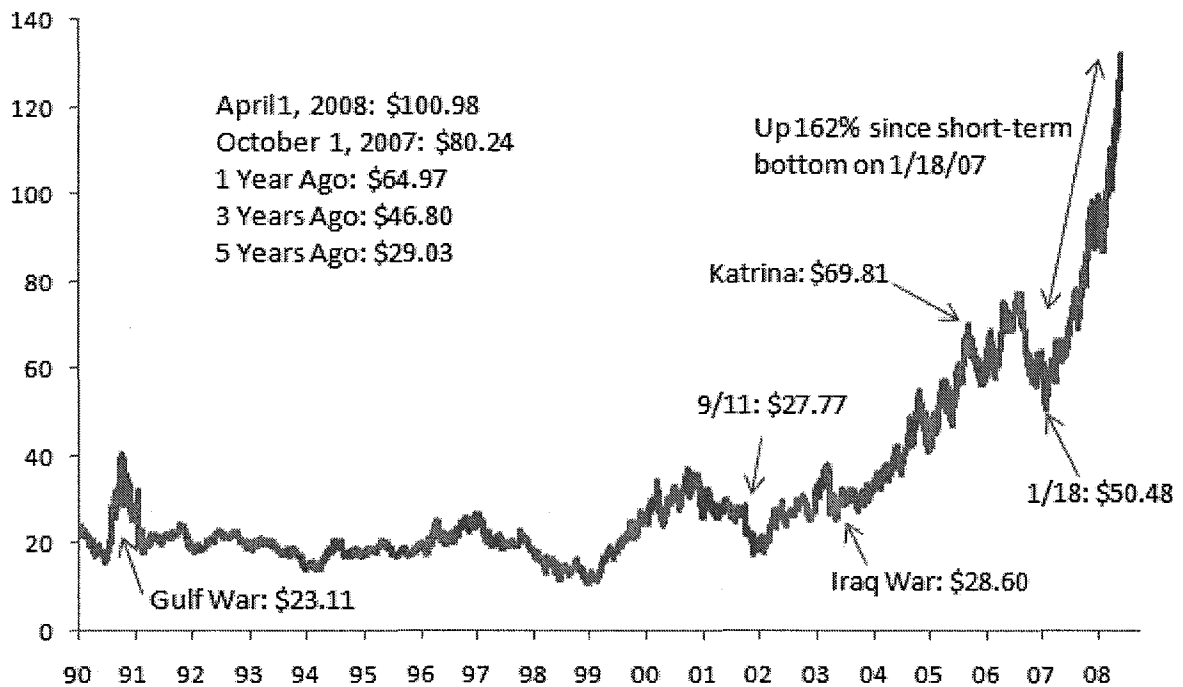
¹ National Regulatory Research Institute. Feed-in Tariffs: Best Design Focusing Hawaii's Investigation. December 2008.

3. It is difficult to quantify due to the volatility in the price of fossil fuels, making contracting with clean energy producers more difficult. As the oil price chart at the bottom of this page makes clear, a decision about "avoided cost" made in 2002 given the fossil fuel price at the time would be off by 400% six years later.

House Bill 1270 HD1 corrects this existing policy by eliminating the requirement that the PUC not exceed the avoided cost of electricity in determining the price for clean energy providers. Passage of HB 1270 HD1 helps to align state energy policy with Hawaii's preferred clean energy future by eliminating this constraint to increasing electricity generated from nonfossil fuels.

Thank you for the opportunity to testify.

Oil Prices, 1990 - 2008



SUNPOWER

Room # 225 3:00 PM March 17, 2009

Senate Committee on Energy and Environment
HB1270, HD1 RELATING TO ENERGY EFFICIENCY

Chair Gabbard, Vice-Chair English and Committee Members:

Introduction: My name is Riley Saito Senior Manager, Hawaii Projects for the SunPower Systems Corporation. Thank you in advance for accepting these few comments on **HB1270, HD1**.

SunPower Systems Corporation ("SunPower") has been a member of the Hawaii Energy Policy Forum since it convened in 2003 and a member of the HCEI Energy Generation group over the past year. SunPower is in the business of designing, manufacturing, and delivering the highest efficiency solar electric technology worldwide. One of our latest projects was the 1.2 megawatt La Ola solar farm on Lanai with Castle & Cooke Hawaii.

SunPower supports HB1270, HD1 because in late 2008 the Hawaii Public Utilities Commission initiated a Docket into the investigation of Feed-in Tariffs in Hawaii. Although the PUC investigation is still ongoing, research has shown that one of the key elements in a successful feed-in tariff program is to have flexibility in regards to pricing that would encourage renewable energy investors to enter the market. The current language limits the rates to 100% of avoided cost. This limitation will not allow the PUC to have the flexibility to set the proper rate structure to reduce Hawaii dependency on fossil fuels.

The amendments proposed in this bill will allow the PUC the flexibility in determining a just and reasonable rate for non-fossil fuel generated electricity, not coupled with avoided cost based on a centralized fossil fuel generation, and (hopefully) lead to more non-fossil fuel distributed generated electricity in the Hawaii market.

Mahalo for the opportunity to submit testimony.