

JAN 23 2009

A BILL FOR AN ACT

RELATING TO PUBLIC UTILITIES.

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

- 1 SECTION 1. Section 269-16, Hawaii Revised Statutes, is
2 amended by amending subsection (g) to read as follows:
- 3 "(g) Any automatic fuel rate adjustment clause requested
4 by a public utility in an application filed with the commission
5 shall be designed, as determined in the commission's discretion,
6 to:
- 7 (1) Fairly share the [~~risk of~~] fuel cost changes between
8 the public utility and its customers;
- 9 (2) Provide the public utility with sufficient incentive
10 to reasonably manage or lower its fuel costs and
11 encourage greater use of renewable energy;
- 12 (3) Allow the public utility to mitigate [~~the risk of~~]
13 sudden or frequent fuel cost changes that cannot
14 otherwise reasonably be mitigated through other
15 commercially available means, such as through fuel
16 hedging contracts;



1 (4) Preserve, to the extent reasonably possible, the
 2 public utility's financial integrity; and
 3 (5) Minimize, to the extent reasonably possible, the
 4 public utility's need to apply for frequent
 5 applications for general rate increases or decreases
 6 to account for the changes to its fuel costs[-];
 7 provided that the cost incurred by an electric or gas utility
 8 for fuel and purchased energy due to changes in the unit cost of
 9 fuel and purchased energy shall be determined on a
 10 basis and shall be based on the average of the three lowest of
 11 the four weekly averages of the spot daily price of the fuel in
 12 regional areas of the United States."

13 SECTION 2. Statutory material to be repealed is bracketed
 14 and stricken. New statutory material is underscored.

15 SECTION 3. This Act shall take effect upon its approval.
 16

INTRODUCED BY:

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Report Title:

Utility rates; Public Utilities Commission; Fuel Adjustment Clause

Description:

Requires that a public utility's automatic fuel rate adjustment clause include provisions that the cost of fuel shall be determined on a calendar basis and shall be equal to the average of the three lowest of the four weekly averages of the spot daily price of the fuel in regional areas of the United States.



**TESTIMONY OF CARLITO P. CALIBOSO
CHAIRMAN, PUBLIC UTILITIES COMMISSION
DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE
SENATE COMMITTEE ON
COMMERCE & CONSUMER PROTECTION
FEBRUARY 26, 2009**

MEASURE: S.B. No. 396

TITLE: Relating to Public Utilities.

Chair Baker and Members of the Committee:

DESCRIPTION:

This bill proposes to amend section 269-16, Hawaii Revised Statutes, to require a public utility's automatic fuel rate adjustment clause include provisions that the cost of fuel be determined on a calendar basis and be equal to the average of the three lowest of the four weekly averages of the spot daily price of fuel in regional areas of the United States.

POSITION:

The Public Utilities Commission ("Commission") appreciates the intent of the bill, but has some concerns with this proposal.

COMMENTS:

- While the Commission is appreciative of the Legislature's intent to control prices for ratepayers, the Commission believes that this bill could potentially result in higher prices to consumers at certain times. The Commission believes that artificially setting the cost of fuel based on mainland spot prices in the utility's automatic fuel rate adjustment, as proposed by this bill, would not reflect the utilities' actual cost of fuel.
- Artificially setting fuel adjustment prices would not send consumers accurate price signals of the true cost of generation, which is highly relevant in incentivizing conservation efforts.
- It is probable that artificially setting fuel price adjustments would situate the utility with higher risk, and increase its cost of capital, which would ultimately be passed on to consumers in the form of higher prices.

- The bill is also unclear on what fuel to base its calculations. The utilities use a variety of fuel including diesel, naphtha, and low sulfur fuel oil. Should there be a separate calculation based on each spot price for each fuel used? Which regions of the country should the spot price data be taken?
- The Commission is currently required, under section 269-16(g), to review utilities' fuel adjustment clauses and balance several factors, including whether the risk of fuel cost changes is fairly shared between a utility and its customers, and the addition to the law proposed in this bill is not required and may do more harm than good as discussed above.

Thank you for the opportunity to testify.