

WRITTEN ONLY

TESTIMONY OF CARLITO P. CALIBOSO
CHAIRMAN, PUBLIC UTILITIES COMMISSION
DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE
HOUSE COMMITTEE ON CONSUMER PROTECTION AND COMMERCE
MARCH 24, 2010

MEASURE: S.B. No. 2357 SD2 HD1
TITLE: Relating to Renewable Energy

Chair Herkes and Members of the Committee:

DESCRIPTION:

This bill adds a new section to Chapter 269, HRS, to require natural gas utility companies to submit an annual report to the Public Utilities Commission ("Commission") that contains:

- The percentage of produce natural gas, biogas, biofuels, or biofeedstocks sold and distributed in Hawaii derived from fossil fuels;
- The percentage of natural gas, biogas, biofuels, or biofeedstocks sold and distributed in Hawaii derived from renewable energy;
- The quantity and energy value of natural gas, biogas, biofuels, or biofeedstocks sold and distributed in Hawaii from fossil fuels; and
- The quantity and energy value of natural gas, biogas, biofuels, or biofeedstocks sold and distributed in Hawaii from renewable energy.
- The frequency and due dates of the reports;
- The reports contain information on the amount of fuels and feedstocks for use by the gas utility in the State;
- The specification that the Department of Business, Economic Development, and Tourism shall have access to confidential information provided by the gas utilities in their reports, the purposes for which that information may be used, and that confidentiality shall be protected;

The bill also adds the requirement that the Commission submit the first report to the Legislature no later than March 31, 2012.

POSITION:

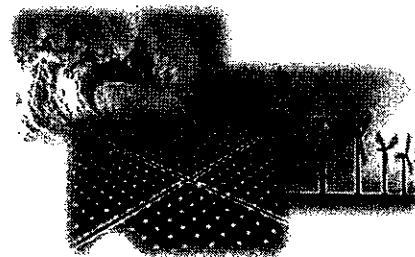
The Public Utilities Commission ("Commission") supports this bill.

COMMENTS:

The Commission is supportive of this bill, as the Commission would like to further understand The Gas Company's use of renewable energy sources in its feedstock or end product to determine whether or not The Gas Company has the ability to meet certain renewable portfolio standards ("RPS") to ultimately achieve the Hawaii Clean Energy Initiative goal of 70 percent clean energy by 2030.

The Commission defers to DBEDT on the type of information it needs as it relates to The Gas Company's use of renewable energy sources.

Thank you for the opportunity to testify.



HOUSE COMMITTEE ON CONSUMER PROTECTION & COMMERCE

March 24, 2010, 2:00 P.M.

Room 325

(Testimony is 3 pages long)

TESTIMONY IN SUPPORT OF SB 2357 SD2 HD1, SUGGESTED AMENDMENTS

Chair Herkes and members of the Committee:

The Blue Planet Foundation supports Senate Bill 2357 SD2 HD1, a measure that would establish reporting requirements for natural gas utility companies to disclose the mix of feedstocks used to create the natural gas sold in Hawai'i. While we fully support these reporting requirements as a minimum to help our state track progress toward our clean energy goals, Blue Planet respectfully requests that this measure be amended back to its original form. That form of the bill would expand the benefits of the renewable portfolio standard to natural gas utility companies. Such a standard will help to wean Hawai'i from imported oil while helping to avoid a distorted energy market as the electric utilities are required to comply with a renewable portfolio standard.

Blue Planet applauds the Gas Company for its stated efforts to produce more of its synthetic natural gas (SNG) from renewable and plant-based sources. By using local sources to create SNG, Hawai'i can reduce its carbon emissions while weaning itself from fossil fuel. Further, the new renewable gas feedstock market may help support local agricultural operations and waste recycling operations.

The Gas Company has suggested that it is prepared to aggressively move forward to use more plant-based and renewable sources as SNG feedstock. The attached *Honolulu Advertiser* article from November 22, 2009 (with emphasis added) discusses the Gas Company's plans and their belief that integrating high amounts of local feedstock is a good business decision and may save gas customers money.

Thank you for the opportunity to testify.

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Honolulu Advertiser

NOVEMBER 22, 2009

GAS COMPANY SETS PLANS TO TURN FAT INTO FUEL

By Greg Wiles

Hawaii's sole producer of synthetic natural gas is turning to the barnyard as it looks to go greener with renewable fuel sources.

The Gas Company is eyeing animal fats — some of it being tossed into landfills now — as a means to produce half of its synthetic natural gas by the year 2015.

It's drawn up plans to turn fats such as beef tallow, poultry fat and choice white grease from pigs into biomethane, a gas that's chemically identical to natural gas. Currently the company uses petroleum byproducts from local refineries for its feedstock.

"We hope to in five years be about 50 percent renewables in our system," said Jeffrey Kissel, president and chief executive officer of the Honolulu-based company.

"As we ramp up, I hope we create demand for local production so we can buy the majority of our material from local resources."

Already, 5 percent of the company's production at its Campbell Industrial Park plant is from agricultural feedstocks, with Kissel setting a goal of boosting it to 15 percent by the end of March.

By the end of the year, he wants 1 million gallons of the 20 million to 25 million gallons of feedstock used annually to be from renewable resources.

The effort is in keeping with goals by the state of weaning itself off petroleum for economic and security reasons. Oil accounts for almost 90 percent of all energy consumed in Hawaii, making the state more dependent on imported petroleum than anywhere in the country. Three-quarters of the state's electricity is generated using oil as a fuel.

The problems with this addiction were apparent last year when crude oil spiked to \$147 a barrel in July 2008, sending Hawaii's nation-leading gasoline and electricity prices to record highs. The oil shock drove home an already stated goal by Gov. Linda

Lingle of converting Hawaii into a renewable energy model for others to emulate. Lingle set a target of having 70 percent of the state's energy come from renewables by 2030. Hawaii's electric utilities have signed on to the effort, while there's been a jump in interest in solar photovoltaics, wind energy and geothermal endeavors. Not-so-well-known alternate energy technologies such as wave power and ocean thermal energy conversion are also receiving serious consideration.

"We need to create an energy system that will survive," said Ted Peck, state energy administrator.

"It makes sense from an energy security standpoint. At \$75 a barrel it makes sense from a business standpoint."

RENEWED INTEREST

The Gas Company isn't subject to renewable portfolio standards as are the state's utilities. But Kissel said the company and its parent, Macquarie Infrastructure Co., decided it made good business sense in that it would produce sustained returns on a long-term basis.

The project uses technology that's been around for years. But there's been renewed interest of late in using animal and other fats to produce fuels. Pacific Gas & Electric on the Mainland is looking at a pilot project, and in Louisiana, Tyson Foods and Syntroleum Corp. formed a company to produce biodiesel and jet fuels from chicken fat and other animal oils.

In Hawai'i, Hawaiian Electric Co. will do testing of its new \$137 million generator using biodiesel from Renewable Energy Group, an Iowa-based company that will provide fuel made from animal fats.

While Hawai'i's use of natural gas is lowest of any state, it still has a good market among hotels and restaurants that use the gas on O'ahu as a more efficient alternative for heating water and cooking compared to electricity. The Gas Co., formed in 1904, maintains 1,100 miles of pipelines that deliver synthetic natural gas to 28,000 customers.

Kissel said the company has the only operating SNG plant in the U.S. and provides an advantage for the renewable venture since The Gas Co. won't have to invest millions into building a plant. Instead, he said existing equipment will be converted to accommodate the new feedstock at a cost of less than \$10 million that will be funded out of the company's operations.

The company has formed a joint venture with energy and power industry contractor Primoris Services Co. of Lake Forest, Calif., to work out processes for the renewable project. Hawai'i's SNG customers pay the highest rates in the country, with local prices quoted by the U.S. Energy Information Administration being more than two times the next closest state's average.

Kissel said the project may actually lower prices for The Gas Co. customers depending on what it has to pay for the animal fat. The utility does not make a profit on feedstock prices, which are passed directly through to customers.

"We will not be raising rates as a result of this," Kissel said. He noted the price cuts will depend on what's paid for feedstock, with animal fats ranging between 5 percent and 20 percent less expensive than the current feedstock.

ISLES WOULD BENEFIT

Moreover, the venture could provide a catalyst for more cattle ranching or agriculture operations in the state. It also could take methane gas produced by landfills or use algae as a feedstock, Kissel said.

"If we provide a market for local commodities we'll be generating more jobs here and making Hawai'i more sustainable from a food-producing standpoint," he said.

Then there are the environmental benefits of reducing the state's carbon footprint by switching from oil. It won't process used restaurant oil that's currently refined by Pacific Biodiesel Inc. on Maui and O'ahu for transportation fuel. The initial concentration will be on use of animal and fish fats.

"If the Gas Company has found a local supply, we would look favorably on that," said Henry Curtis, executive director of Life of the Land, a nonprofit environmental group following the state's energy issues.

"It's important to reuse this material."

The renewable process will also produce propane that can eventually be sold to the company's customers on the Neighbor Islands, as well as hydrogen. Kissel said the surplus hydrogen is being investigated for possible uses as a transportation fuel or fuel cells.

"What the Gas Company is doing is just tremendously exciting," said Peck, the state's energy czar.

"They're really moving and we're thrilled."



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HOUSE COMMITTEE ON CONSUMER PROTECTION & COMMERCE

March 24, 2010, 2:00 P.M.

(Testimony is 2 pages long)

TESTIMONY IN SUPPORT OF SB 2357 (SD2 HD1), WITH A PROPOSED AMENDMENT

Aloha Chair Herkes and Members of the Committee:

The Sierra Club, Hawai'i Chapter supports SB 2357 (SD2 HD1), which creates a reporting requirement with regard to the Gas Company's move towards renewable energy resources and sets the framework for setting a renewable portfolio standard in the future. We suggest, however, that this measure be amended to reflect the original Senate version to create an actual, enforceable renewable portfolio standard ("RPS").

I. RPS Provides Economic Security.

With 67,000 customers¹ (more than the County of Kauai), we know that the Gas Company has a very real impact on Hawai'i's energy security and greenhouse gas production. Gas prices in Hawai'i are volatile and subject to the fluctuations of the oil market. If Hawai'i's refineries were to terminate operations,² there is an open question as to whether the Gas Company could maintain a continuous supply of gas to its customers without moving to a different source. Moving towards a renewable portfolio makes smart economic sense and provides security to Hawai'i's gas consumers.

There are additional benefits to this measure. Natural gas can be made from renewable resources, such as sugarcane or even waste products. These materials are neither as scarce nor as expensive as crude oil. Even more importantly, these materials are available here. By creating a RPS, Hawai'i would set a clear course for a steady, incremental transition to renewable fuels.

¹ Testimony submitted by Steven Golden on March 13, 2008 to Senate Bill 644 SD 3.

² See, e.g., <http://www.reuters.com/article/idUSN1451624220090514> (noting Chevron Corp is considering halting production at its 54,000 barrel per day (bpd) refinery in Honolulu).

II. The Gas Company Promised Renewable Sources.

The Gas Company has repeatedly promised to develop renewable sources. For example, last year the Gas Company testified to this body that it was “*developing a renewable energy strategy to produce 50 percent of its supply from renewable resources such as landfill gas and bio-methane within five years.*”³ Assuming these representations were truthful, the Gas Company should not object to a modest RPS standard.

III. Conclusion.

This measure, if properly amended, could lower fuel costs, diversify our fuel supply, provide energy security and create a new market for Hawaii farmers to produce fuel from Hawaii crops and waste materials. It would connect the Gas Company’s public rhetoric to a quantifiable and established standard. It would also put the electrical and gas industries on similar footing with respect to moving Hawai`i to a clean and renewable energy future.

Mahalo for this opportunity to provide testimony.

³ Testimony of Jeffrey Kissel, February 5, 2009 regarding Senate Bill 1348 (emphasis added).

THE GAS COMPANY

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March 23, 2010

Testimony on SB 2357, SD 2, HD 1
RELATING TO RENEWABLE ENERGY

Aloha Chair Herkes, Vice Chair Wakai and Members of the House Committee on Consumer Protection and Commerce:

My name is Stephanie Ackerman, Vice President Public Policy and Communications of The Gas Company.

The Gas Company (TGC) is a public utility that was founded in 1904 and is Hawaii's only government franchised full-service gas energy company making gas products and services available in Hawaii.

The Gas Company supports SB 2357, SD 2, HD 1, requiring gas utility companies to annually report to the Public Utilities Commission information on the use of renewable energy resources.

Mahalo for the opportunity to provide testimony.