

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

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Statement of
RICHARD C. LIM
Interim Director
Department of Business, Economic Development, and Tourism
before the
HOUSE COMMITTEE ON FINANCE
Monday, February 28, 2011
10:30 AM
State Capitol, Conference Room 308

in consideration of
HB 1176, HD2
RELATING TO RENEWABLE ENERGY TRANSMISSION CABLE.

Chair Oshiro, Vice Chair Lee, and Members of the Committee.

The Department of Business, Economic Development, and Tourism (DBEDT) supports HB1176, HD2. DBEDT has worked closely with the Public Utilities Commission (PUC) and the Consumer Advocate to ensure that this bill gives the PUC the proper discretion and authority to consider if an interisland cable is in the best interest of the ratepayers including minimizing the risks to the ratepayers, and at the same time facilitating Hawaii's transformation to a clean energy economy.

HB1176, HD2 provides the following:

- Establishes a regulatory structure for the implementation of an inter-island high voltage electric transmission cable system ("Cable System") and for the construction of on-island transmission infrastructure;
- Establishes the regulatory process and requirements for the selection and certification of a transmission cable company, and the construction of the undersea cable and the associated on-island infrastructure that would minimize the risks to the ratepayers; and

- Establishes the regulatory procedure and approval process for recovery of the project costs including the cost of the cable and the on-island infrastructure.

Thank you for the opportunity to provide these comments.

Testimony before the House Committee on Finance

**By Robbie Alm
Executive Vice President
Hawaiian Electric Company**

February 28, 2011; Agenda #2

House Bill 1176, HD 1 Relating to Renewable Energy Transmission Cable

Chair Oshiro, Vice Chair Lee, and Members of the Committees:

I am testifying today on behalf of Hawaiian Electric Company in support of HB 1176, HD2. The bill establishes a regulatory structure under which the Public Utilities Commission (PUC) could oversee certification of an independent transmission utility to commercially develop, finance and construct an undersea energy transmission cable system to transmit clean, renewable energy between the Hawaiian islands. We believe that HB 1176, HD 2 provides a strong public policy foundation and regulatory structure to protect the public interest with the ultimate goal of interconnecting the separate island grids.

Background

Under the State's Renewable Portfolio Standard (RPS) law, Hawaiian Electric Company is mandated to generate 25% of our electricity from renewable resources by the year 2020 and 40% by 2030. This is a very aggressive goal, but one which we are determined to meet. There is no single "silver bullet" of renewable energy that will help us achieve this goal: it will take all forms, including wind, solar, hydro, wave energy, geothermal, biofuels and eventually we hope ocean thermal energy conversion (OTEC) to get us to the target.

Part of our challenge is geographic: the demand for electricity is greatest on Oahu, but the greatest renewable resources are on the neighbor islands where demand is far lower. With partners, we are doing as much as we can on Oahu, including more waste-to-energy (H-POWER and others on the drawing boards); wind farms at Kahuku and above the North Shore and perhaps

elsewhere; utility scale solar farms at Kalaeloa and Mililani, plus solar on customers' rooftops. Oahu has no geothermal potential and no rivers strong enough to provide hydropower. So even with doing as much as we can, this island's renewable resources are not sufficient to meet the demand created by all who live and work here.

For the past two years, the State of Hawaii, U. S. Department of Energy, and Hawaiian Electric have been exploring the feasibility of an inter-island undersea electrical cable system that would be able to transmit wind generated energy from Lanai and Molokai, which has some of the best wind in the world, to Oahu. It is estimated that the electricity from 400 megawatts (MW) of wind power from those islands would provide about 20% of Oahu's energy. (It would actually displace about 35% of Oahu's oil use for electricity production providing a very substantial hedge against fluctuating oil prices).

By providing a statewide electrical grid and a way to move renewable energy from where it is abundant to where it is needed, the inter-island cable will help our State achieve a clean energy future and enable us to reach the State goal of 70% clean energy by 2030.

Bill description

Under the proposed bill, the bulk of the risk and responsibility for permitting, designing, engineering, financing, constructing and commissioning the cable would be assumed by a private developer who would be selected through a competitive request for proposal (RFP) process supervised and approved by the PUC. This would allow the cable system to be developed at a lower cost to electric customers than if Hawaiian Electric or the State were to develop it, given Hawaiian Electric's financial rating and the State's strained budget.

This approach was essentially successfully used for the Trans Bay Project to bring 400 MW of power to San Francisco from a generating facility across the bay in Pittsburg, California.

The structure proposed in the bill establishes a certification process, by which the PUC would certify and regulate a cable developer selected through competitive bidding as a public utility. During certification, public hearings would be conducted on each island potentially to be connected by a cable system to invite public comment and input. Once certified, a cable developer would be regulated as a transmission utility by the PUC and subject to PUC utility rules, regulations and processes.

As part of certification, the PUC would set a fair rate of return on investment to the transmission utility, taking into account the risks assumed by the developer. Upon commercial operation, the transmission utility would be able to recover its cable development and construction costs through a PUC-approved surcharge.

Hawaiian Electric would collect the surcharge payment from electric customers on behalf of the transmission utility, just as Hawaiian Electric now collects the PUC fee and public benefits fund surcharges, with no mark up or profit to Hawaiian Electric.

The completed undersea cable system would be owned and operated by the transmission utility, unless Hawaiian Electric exercises an option to purchase it, subject to PUC approval.

The bill also allows for Hawaiian Electric to recover its prudently incurred capital costs to construct the Oahu infrastructure needed to connect to the cable system and distribute electricity brought via undersea cable to Oahu.

Rationale for regulatory structure

The proposed structure would allow the cable developer to finance the project on better terms -- that is, at lower cost -- which ultimately would benefit all electricity customers, in effect all residents and businesses on Oahu.

At the same time, this bill still ensures that regulatory oversight is required for all key decisions.

Hawaiian Electric is regulated by the PUC. We cannot collect any monies from our customers via a surcharge or adjustment clause unless it is first

reviewed and approved by the PUC. In addition, the Consumer Advocate would also be a party to any request for approval of use of a surcharge or automatic adjustment clause. Both the PUC and the Consumer Advocate would need to determine whether the proposal is just, reasonable and in the public interest.

The proposed legislation creates a regulatory structure wherein the cable developer would also be under the purview of the PUC and subject to regulation. Choosing the appropriate cable developer for the project would be subject to an RFP process with oversight from the Commission.

There is an option for the electric utility to purchase the underwater cable system at some future time. Such transfer would still require approval of the PUC and review by the Consumer Advocate. The potential to sell the cable system after construction is complete and it is in routine operation could make the project more attractive to developers whose core business is construction and thus may invite more and better bidders. However, once construction is complete and routine operations and maintenance are underway, the cable might be more efficiently operated by Hawaiian Electric, which is already experienced in operating all other electric transmission on Oahu. Again, that will be a matter for the PUC to decide.

The proposed legislation also allows the electric utility to recover any prudently incurred costs should it be determined, with PUC approval, that it is not necessary to complete the on-island infrastructure.

Perhaps it is worth also being clear about what this bill does not do. It would not approve or make the decision to proceed with the project. It would not remove any responsibility for parties to consult the impacted communities, prepare fully accepted EIS documents, or gain any of the other permits and approvals needed.

It does establish a framework for the PUC to control the process and make the decisions that it does not today have the explicit power to make, as this sort of project has never happened before.

Obviously, the project has three major parts -- one or more wind farms on neighbor islands, the cable system and the Oahu upgrades. Failing any one, the others are not needed or do not make sense. And this bill specifically establishes the PUC as the government authority to make sure that the wind farms are coming, and that the upgrades are coming, BEFORE committing to allow the cable. Failing this, no one really has the power today to protect the public interest by ensuring that no part goes forward if all parts do not go forward. The approval of the PPAs will govern the utilities and wind farm developers, certification and approval of the transmission utility will govern the cable developer.

We urge the Committee to pass this bill. Thank you for the opportunity to testify.

February 27, 2011

Representative Marcus Oshiro
Chair, FIN
Representative Marilyn Lee
Vice Chair, FIN
Hearing on HB1176 HD2
State Capitol, Conference Room 308

Aloha Chair Oshiro and Vice Chair Lee,

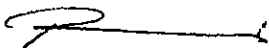
I am writing to express my strong support for House Bill 1176 HD2. Enterprise Honolulu is supportive of a clean energy future for Hawaii. To accomplish the goals set forth in the Hawaii Clean Energy Initiative, we must act on key components concurrently, this isn't a linear project, this is an integrated vision. HB1176 HD2 is vital to longterm strategies and as we watch the cost of oil rise again we mustn't forget the dramatic impact that an imported barrel of oil at \$140 affected the residents and visitors of Hawaii.

The task is large and it requires a committed effort from all leaders who can and will help us get there.

I ask for your consideration to support HB1176 HD2 as we must all do our part for a better future for our keiki.

Please feel free to contact me directly should you have any questions.

Sincerely,



Pono Shim
President & CEO
Enterprise Honolulu, Oahu Economic Development Board



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