

HB 1520, HD2 SD1

Measure Title: RELATING TO RENEWABLE ENERGY.

Report Title: Renewable Energy; Energy Efficiency; Public Utilities Commission

Description: Directs the public utilities commission to implement an on-bill financing program for residential electric utility customers to finance purchases of energy efficient or renewable energy devices and systems through their regular electric utility bills. (SD1)

Companion:

Package: None

Current Referral: ENE, CPN



NEIL ABERCROMBIE
GOVERNOR

BRIAN SCHATZ
LT. GOVERNOR

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KEALI'I S. LOPEZ
DIRECTOR

EVERETT KANESHIGE
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TO THE SENATE COMMITTEE ON COMMERCE AND CONSUMER PROTECTION

THE TWENTY-SIXTH LEGISLATURE
REGULAR SESSION OF 2011

FRIDAY, APRIL 1, 2011
9:00 A.M.

TESTIMONY OF JEFFREY T. ONO, EXECUTIVE DIRECTOR,
DIVISION OF CONSUMER ADVOCACY, DEPARTMENT OF COMMERCE AND
CONSUMER AFFAIRS, TO THE HONORABLE ROSALYN H. BAKER, CHAIR,
AND MEMBERS OF THE COMMITTEE

HOUSE BILL NO. 1520, HD2, SD1
- RELATING TO RENEWABLE ENERGY

DESCRIPTION:

This measure directs the Public Utilities Commission ("PUC") to implement an on-bill financing program for residential electricity consumers to finance purchases of energy efficient or renewable energy devices and systems through their electricity bills.

POSITION:

The Division of Consumer Advocacy ("Consumer Advocate") supports this measure.

COMMENTS:

This measure seeks to address the up-front financing costs that currently present a barrier to the adoption or installation of renewable energy systems or energy-saving alternatives that could help to reduce the State's reliance on fossil fuels.

The Consumer Advocate agrees that the expense of replacing an older energy-inefficient refrigerator with a newer ENERGY STAR model or installing a photovoltaic system may, at times, prevent an electric utility customer from taking

actions that could benefit the utility system and members of the general public. The Consumer Advocate also notes that the idea of offering financing capital intensive projects, such as a solar water heater, has already been implemented. While these financing pilot programs did not achieve the level of success that might have been expected, it might be useful to investigate a similar program for appliances. Some of the experiences associated with these past pilot programs should be useful in resolving the questions and problems that occurred with those other programs, such as the potential impact on other ratepayers and how the program should reflect that some customers may be renters and may not be at that electric account address long enough to pay back the entire bill. It should be also noted that the past program was able to be implemented without the Commission promulgating rules, and the Consumer Advocate suggests that if this measure moves forward, the need for rules may not be present. Requiring rules to be developed will be time consuming and may hinder the implementation of the proposed program.

The Consumer Advocate applauds the Legislature for its creativity in finding ways to help consumers adopt energy-saving behaviors that would allow the State's electric utilities to meet their obligations under Hawaii's Energy Efficiency and Renewable Portfolio Standards mandates. Removing the barriers to the adoption or installation of renewable energy systems or energy-saving alternatives will place the State on a path to meeting its goals expressed in the Hawaii Clean Energy Agreement.

Thank you for this opportunity to testify.

**TESTIMONY OF HERMINA MORITA
CHAIR, PUBLIC UTILITIES COMMISSION
DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE
SENATE COMMITTEE ON COMMERCE AND CONSUMER PROTECTION
APRIL 1, 2011**

MEASURE: H.B. No. 1520 HD2 SD1
TITLE: Relating to Renewable Energy.

Chair Baker and Members of the Committee:

DESCRIPTION:

The bill:

- Directs the Commission to adopt rules to allow public utility customers to finance purchases of energy-saving appliances and renewable energy technology through on-bill financing, backed by the public benefits fund;
- Requires the PUC, rather than the Public Benefits Fee Administrator, to determine what percentage of collected public benefits fees shall be expended on the on-bill financing program; and
- Requires the PUC to ensure that certain reasonable costs incurred by electric utilities are recovered.

POSITION:

The Commission opposes the bill, as the Commission has concerns, which the Committee should be aware of before proceeding any further, primarily with the administrative costs that would be involved in on-bill financing for various types of energy saving appliances and technologies.

COMMENTS:

The Commission is concerned with the considerable amount of cost that the public benefits fee will likely have to support to implement the contemplated programs. Either the per kilowatt/hour Public Benefits Fee surcharge to utility customers will need to be raised or these "on-bill" financing programs will have to be implemented at the expense of other energy efficiency programs such as the Residential Efficient Water Heating Program, and the Commercial and Industrial

Customized Rebate Program, among others, that are currently being funded in part with the public benefits fee.

It does not appear that any review or analysis of the costs and effectiveness of the proposed "on-bill" financing programs has been undertaken to support the proposed programs as the bill does not provide for a cost study to examine what the impacts will be on the public benefits fee to implement an on-bill financing program or the program's cost-effectiveness in encouraging or facilitating the implementation of energy efficiency measures and renewable energy generation. It may be in the State's and electricity customers' best interest to research and understand the cost and effectiveness of the proposed programs before requiring their implementation.

The Commission prefers the language from SB 182 SD1 which would require the Commission to conduct a cost-benefit analyses and study to determine if the implementation of such a program is in the public's best interest.

The Commission believes the Public Benefits Fee could be used to establish and administer the program, but is concerned with the Public Benefits Fee fund being used to finance the upfront costs of the purchases of energy efficient or renewable energy devices and systems. The involvement of banks and credit unions to help finance the program will lighten the burden on the Public Benefit Fees fund.

If the Legislature decides to pass this legislation, the Commission would recommend this amendment:

Page 4, line 6, "(e) All costs associated with the establishment and ~~operations~~ administration of an on-bill financing program established pursuant to this section shall be paid from the public benefits fee established under section 269-121."

Thank you for the opportunity to testify.

By: Michael V. Yamane, P.E.
Engineering Manager
Kauai Island Utility Cooperative
4463 Pahee Street, Suite 1, Lihue, Hawaii, 96766-2000

Friday, April 1, 2011 9:00am
Conference Room #229

House Bill No. 1520, HD2, SD1 – Relating to Renewable Energy

To the Honorable Roslyn H. Baker, Chair; Brian T. Taniguchi, Vice-Chair,
and members of the Committee:

Kauai Island Utility Cooperative (KIUC) opposes House Bill No. 1520, HD2, SD1 and respectfully submits comments:

As a member owned electric cooperative, KIUC believes in doing the right thing for its membership. While this measure may assist developers of renewable technologies to install more of their systems, to utilize KIUC as a financial lending institution may not be in the best interest of our members.

In the past, KIUC on its own has done extensive research on the feasibility of an on-bill financing program. As a lender, KIUC would be subject to federal truth-in-lending requirements and other applicable lending laws. This would require that KIUC commit staff for the purpose of loan administration, which would be an additional burden on the company above and beyond the core business of generating, transmitting, and selling electricity. Also as a lender, KIUC would directly bear the responsibility for uncollectable amounts and ultimate loan defaults.

KIUC also recently concluded a 3-year pilot Pay As You Save on-bill financing program as a result of Act 240, SLH 2006 similar to what is being proposed here. In our final report submitted to the Hawaii Public Utilities Commission (PUC) on September 30th 2010, KIUC determined due to, among other things, the amount of documents required for customers to apply for such financing, the extent of the interest/participation, etc., it will not be feasible or practicable to extend the program or convert it into a more permanent program.

This measure requires the PUC to adopt rules to implement this on-bill financing program. However, requiring rules will be time consuming and an expensive process.

There is a provision requiring the PUC to determine a reasonable percentage of collected public benefit fees to be expended on the on-bill financing program. However, as you are aware, KIUC is currently not subject to the public benefit fees for the reason that it was not in the best interest for KIUC and its members.

Thank you for the opportunity to inform you of KIUC's position on this matter.

**Testimony Before the Senate Committee
On
Commerce and Consumer Protection**

April 1, 2011 (9:00 am)

H.B. 1520 HD2 SD1 RELATING TO RENEWABLE ENERGY

**By: Alan Hee
Energy Solutions Department
Hawaiian Electric Company, Inc.**

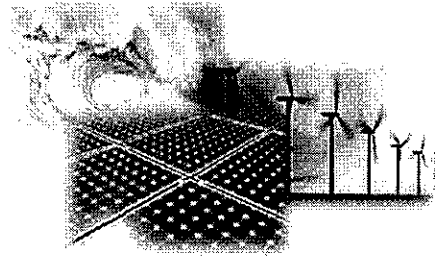
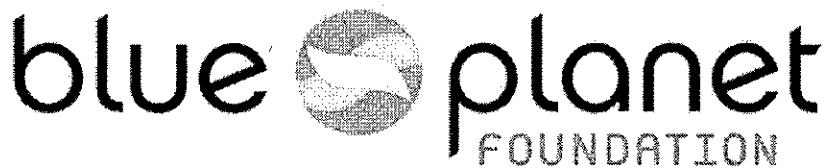
Chair Baker, Vice-Chair Taniguchi, and Members of the Committee:

My name is Alan Hee, and I represent Hawaiian Electric Company (HECO) and its subsidiary utilities, Hawaii Electric Light Company (HELCO) and Maui Electric Company (MECO). I appreciate the opportunity to present testimony on H.B. 1520 HD2 SD1.

H.B. 1520 HD2 SD1 directs the Public Utilities Commission (Commission) to implement an on-bill financing program for residential electric utility customers to finance the purchase of solar water heating and renewable energy measures. Hawaiian Electric supports the intent of the bill to further the adoption of these measures.

Hawaiian Electric and its subsidiaries have had some recent experience with on-bill financing programs. By their nature, on-bill financing programs are expensive to administer and are unlikely to be cost-effective. Nonetheless, Hawaiian Electric is pleased with the changes made to the language of the SD1, which adopt several of the Companies' recommendations. Deleting refrigerators, which can be easily moved from place to place, as an eligible measure, specifying that the Commission rather than the Public Benefits Fund Administrator shall determine the level of program expenses, and permitting the utilities to recover reasonable costs incurred to start up and implement on-bill financing will ease the implementation of this program.

Thank you for this opportunity to testify on this bill.



SENATE COMMITTEE ON COMMERCE AND CONSUMER PROTECTION

April 1, 2011, 9:00 A.M.

Room 229

(Testimony is 5 pages long)

TESTIMONY IN STRONG SUPPORT OF HB 1520 HD2 SD1, PROPOSED AMENDMENTS

Chair Baker and members of the Committee:

The Blue Planet Foundation strongly supports HB 1520 HD2 SD1, directing the Public Utilities Commission to establish an on-bill financing program for residential electricity customers. On-bill financing is one of the most powerful tools to increase adoption of energy efficiency and solar. **Blue Planet requests that three critical amendments be made to this measure** to reduce the impact to the Public Benefits Fee, ensure a proper examination of the costs and benefits of an on-bill financing program, and guiding the focus of the program to include markets—such as the rental market—that are underserved by current efficiency programs. Those suggested amendments are included on page 5 of this testimony.

On-bill financing overcomes the biggest hurdle to energy efficiency: the up-front cost. By eliminating the initial cost and enabling residents to pay off the investment directly from the energy savings over time, adoption of efficiency and clean energy will accelerate. Consider:

- U.S. Department of Energy's Bill Parks, who helped draft the Hawaii Clean Energy Initiative, Parks specifically mentioned on-bill financing as an efficiency program that "will be critical to realize goals."
- The National Small Business Association's report, *On-Bill Financing: Helping Small Business Reduce Emissions and Energy Use While Improving Profitability*, endorses on-bill financing as an "unparalleled success." According to the report, energy-efficiency programs such as on-bill financing can help Hawaii businesses save more than \$11,000 every year on their energy bills. The NSBA President Todd McCracken says of on-bill

financing: "Quite simply, small businesses can increase their profitability while reducing their carbon footprint."

On-bill financing is one of the most powerful tools to overcome what's known as the "energy efficiency paradox" among consumer behavior researchers. An abundance of literature^{1,2} demonstrates that consumers are highly myopic in their purchasing decisions when it comes to energy saving technologies. Despite the environmental and long-term economic advantages of converting to photovoltaic power, a miniscule percentage of Hawai'i homes take advantage of this technology. Even less expensive purchases, like high efficiency refrigerators, are passed over because of their initial cost. By eliminating the up-front cost and enabling residents to pay for the investment through the energy savings over time, adoption of efficiency and clean energy will accelerate.

Blue Planet believes that Hawaii's public utilities have the capacity to establish an on-bill financing programs for residential customers statewide. In fact, a recently proposed "community benefits package" for Lana'i residents in conjunction with the proposed wind farm contains a provision to provide an on-bill financing program to Lana'i residents for solar water heaters.

Blue Planet respectfully asks that these committees forward HB 1520 to help lower the cost of living to residents statewide while helping Hawai'i achieve its clean energy goals.

What following pages of this testimony attempt to answer some of the frequently asked questions about on-bill financing.

Thank you for the opportunity to testify.

Frequently Asked Questions about On-Bill Financing

What is on-bill financing?

On-bill financing is a program designed to enable customers to pay for energy efficiency upgrades and solar through energy savings. Senate Bill 182 directs the public utilities commission (PUC) to develop the specifics of the program.

¹ Sanstad, A. H., Blumstein, C., & Stoft, S. (1995). Viewpoint: How high are option values in energy-efficiency investments? *Energy Policy*, 23, 739-743.

² Meier, A., and Whittier, J. (1983). Consumer Discount Rates Implied by Purchases of Energy-Efficient Refrigerators. *International Journal of Energy*, 8(12), 957-962.

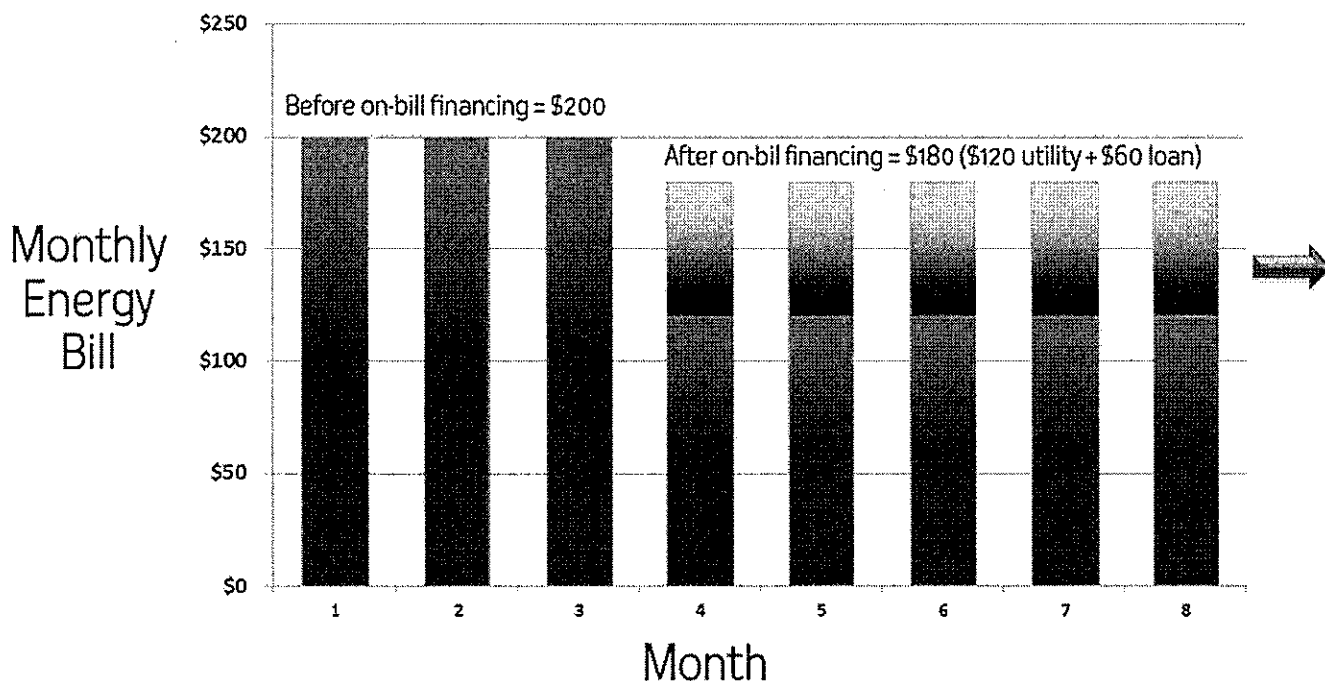
How does it work?

A low-interest loan is extended to a residential customer who is interested in making energy-efficient upgrades or installing solar. Such improvements will result in reduced energy consumption, and therefore, lower energy costs. A portion of the monthly savings is applied to repaying the loan, which will appear on the customer's bill as a financing charge.

What are the benefits of on-bill financing?

- Convenience: embedding the financing within an existing energy bill streamlines the process for the residential customer. Customers don't have to sort through various bank loans to structure their own financing.
- Immediate savings: On-bill financing programs are structured to allow the customer to choose a term length that will result in immediate overall savings on their energy bill—even as they pay off the investment.
- Low default rate: Because the financing is tied to the existing electricity bill, the default rate is low (typically less than 1%).

Simplified example of on-bill financing for a residential solar water heater



What clean energy investments can be financed?

Under SB 182, residential investments in solar water heating, photovoltaic, and ENERGY STAR® refrigerators can be financed, with inclusion of other energy efficiency or clean energy technologies to be determined by the PUC.

Who pays?

Partnering financial institutions can authorize the loans, setting individual terms and interest rates based on the customer's investment.

Who administers the program?

The public benefits fund administrator could manage the program or another contractor could be selected—either with PUC oversight.

Can on-bill financing benefit renters?

On-bill financing would help to address one of the biggest challenges to energy efficiency adoption: the landlord-tenant problem. Landlords are often not inclined to invest in energy efficiency upgrades or solar if they are not paying the utility bill; tenants are not interested in investing if they are unsure how long they will stay at the location. On-bill financing allows the investment to be made with no upfront cost to the landlord or the tenant—and the tenant enjoys a lower cost of energy while the landlord benefits from the additional value. If the renter moves, the charge remains tied to the meter, not the customer, and the new tenant assumes the bill. This encourages renters to participate because they pay for energy efficiency solutions only while they benefit from them.

Why is on-bill financing effective?

- It removes the barrier of high up-front costs.
- It reduces the hassle of adopting energy efficiency solutions for customers.
- The debt remains tied to the property, so if an owner sells or a renter moves out, the new tenant retains the energy savings as well as the remaining payments.

What other states have implemented on-bill financing?

Among the states that have implemented on-bill financing are Connecticut, Illinois, Massachusetts, Rhode Island, California, Michigan, New Hampshire, New York, New Jersey and Kansas.

Who benefits?

- Homeowners benefit by immediately lowering the total cost of home ownership.
- Renters benefit by having a no-cost option to reduce their utility bills (without burdening the landlord).
- The state benefits by accelerating the rate of achieving the HCEI goals of 30% energy efficiency and 40% renewable energy by 2030.
- The economy benefits from having steady growth in high-tech clean energy and efficiency jobs.
- The environment benefits from a reduction in greenhouse gas pollution.

SUGGESTED AMENDMENTS TO HB 1520 HD2 SD1

Amendment 1: Direct the public utilities commission to “consider” implementing an on-bill financing program (instead of directing the commission to implement the program). This “consider” language is customarily the way the legislature directs the commission to open a docket to examine an issue—inviting stakeholders, experts, and affected parties to explore the matter and eventually arriving at a decision and order. This language gives the commission the discretion to implement a program when the docket is complete.

Amend HB 1520 HD2 SD1 page 2 lines 4 – 7 to read as follows:

"§269- On-bill financing for energy efficiency and renewable energy. (a) The public utilities commission shall consider implementing [~~implement~~] an on-bill financing program which shall allow a residential electric utility customer to purchase:

Amendment 2: Clarify that the public benefits fee established under 269-121 is not used to fund the actual investment or financing of the solar or efficiency products, rather, the fee is used for administrative costs associated with the establishment and operations of the program. The investments and financing monies will likely be provided by a third-party, such as a local bank.

Amend HB 1520 HD2 SD1 page 4 lines 6 – 9 to read as follows:

(e) All administrative costs associated with the establishment and operations of an on-bill financing program established pursuant to this section shall be paid from the public benefits fee established under section 269-121.

Amendment 3: Add a new subsection to specify that the commission shall seek to address markets that are traditionally underserved by efficiency programs, such as the rental market.

Add a new subsection (h) to read as follows:

(h) In considering an on-bill financing program, the commission shall seek to address the problem of solar and efficiency underinvestment in the rental market and other underserved markets.

April 1, 2011

The Honorable Rosalyn H. Baker, Chair
Senate Committee on Commerce and Consumer Protection
State Capitol, Room 229
Honolulu, Hawaii 96813

RE: H.B. 1520, H.D. 2, S.D. 1, Relating to Renewable Energy

HEARING: Friday, April 1, 2011, at 9:00 a.m.

Aloha Chair Baker, Vice Chair Taniguchi and Members of the Committee:

I am Myoung Oh, Government Affairs Director, here to testify on behalf of the Hawai'i Association of REALTORS® ("HAR," the voice of real estate in Hawai'i, and its 8,500 members. HAR would like to **express concerns** on H.B. 1520, H.D. 2, S.D. 1, which directs the public utilities commission to implement an on-bill financing program for residential electric utility customers to finance purchases of energy efficient or renewable energy devices and systems through their regular electric utility bills.

HAR believes in the concept of green practices, energy efficiency and savings. However, HAR is concerned that the measure would pass onto future property owners the responsibility for repaying voluntary energy savings products installed by current owners using the public benefits fee. As such, HAR recommends that the measure be amended to address the following issues.

Under H.B. 1520, H.D. 2, S.D. 1, financial obligations related to on-bill financing would be borne by the owner of real property who implemented or authorized the improvements. HAR further believes that the item or system should remain a part of the property for the purposes of sale, lease, or transfer. However, we would ask that this Committee consider the following suggestions:

- (1) The owner's participation in the on-bill financing should be allowed to terminate at any time, provided that all amounts due under the program shall be paid in full without penalty;
- (2) The residential electric utility customer should not be allowed to remove the item or system as provided under §269- (c). HAR believes the transfer of clear title is important and any undue delays, such as having to remove energy-efficient devices because of unfinished payments, will create a burden for parties involved in the real property purchase process; and
- (3) The measure should allow for a delayed effective date of November 1, 2012, to adjust HAR's standard forms, such as the Purchase Contract, Seller's Real Property Disclosure Statement, and Rental Agreement.



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Also, HAR believes that the Public Utilities Commission comments on a cost study, prior to implementing the program, would be beneficial.

For the foregoing reasons, we respectfully request that this bill be amended to address these important issues.

Mahalo for the opportunity to testify.



baker2 - Kelli

From: mailinglist@capitol.hawaii.gov
Sent: Wednesday, March 30, 2011 9:21 AM
To: CPN Testimony
Cc: kai_holland@hotmail.com
Subject: Testimony for HB1520 on 4/1/2011 9:00:00 AM

Testimony for CPN 4/1/2011 9:00:00 AM HB1520

Conference room: 229
Testifier position: support
Testifier will be present: No
Submitted by: Kai Holland
Organization: Individual
Address:
Phone:
E-mail: kai_holland@hotmail.com
Submitted on: 3/30/2011

Comments:

I completely support any bill helping consumers and residents of Hawaii afford installing solar PV systems. I've been wanting to install one for years but simply can't afford the upfront cost. And a lot of people I know feel the same. We could quickly begin reaching our energy goals as a state with such a program. Please pass it.

Thank you,
Kai Holland
Kaneohe, HI

baker2 - Kelli

From: mailinglist@capitol.hawaii.gov
Sent: Wednesday, March 30, 2011 1:47 PM
To: CPN Testimony
Cc: palmtree7@earthlink.net
Subject: Testimony for HB1520 on 4/1/2011 9:00:00 AM

Testimony for CPN 4/1/2011 9:00:00 AM HB1520

Conference room: 229
Testifier position: support
Testifier will be present: No
Submitted by: janice palma-glennie
Organization: Individual
Address:
Phone:
E-mail: palmtree7@earthlink.net
Submitted on: 3/30/2011

Comments: