



HOUSE COMMITTEE ON CONSUMER PROTECTION & COMMERCE

**TESTIMONY IN SUPPORT OF
SB 1347, SD1 RELATING TO THE PUBLIC UTILITIES COMMISSION**

Testimony of
CHRIS ELDRIDGE
Partner, Aina Koa Pono

Monday, March 14, 2011, 2:00 p.m.
House Conference Room 325

Chair Herkes and members of the Committee:

Aina Koa Pono ("AKP") strongly supports the amendments to SB 1347, SD1 proposed by Hawaiian Electric Company. These amendments would allow electric utility companies to achieve their renewable energy portfolio goals by allocating project costs among their electric utility affiliates. AKP is a locally-owned entity which seeks to bolster the state's renewable energy portfolio by building a biofuel production facility in Ka'u. The facility will produce up to 24 million gallons of biodiesel per year. It will create hundreds of long-term, high-paying jobs, will bring outside investment into Hawai'i, will return agricultural lands to productive use, and will help Hawai'i towards energy independence. Most importantly, a plant of this size will lead the way for an entire biofuel industry in Hawai'i.

In January 2011, AKP and HELCO entered into a contract for AKP to supply HELCO with up to 16 million gallons of biofuel per year. This contract is the cornerstone on which AKP is financing and developing the project. But this contract is threatened by a recent ruling from the PUC which prohibits HELCO from allocating some of the costs of the project to its affiliates. Although biofuel will soon be cheaper than petroleum-based oil, it will be more expensive for the first few years while the industry is developing. The state cannot expect Hawai'i Island rate-payers to shoulder this increase in utility costs by themselves, when the project will open a new industry in Hawai'i, will significantly advance the statewide goals of developing clean and independent energy sources, and will insulate the state from spikes in the price of petroleum fuels. Accordingly, any short-term rate increases in utility rates as a result of this project should be allocated across the state.

The proposed amendments to SB 1347, SD1 will amend HRS § 269-93 to allow HELCO and other electric utilities to allocate project costs among their affiliates in order to meet their renewable portfolio standards, subject to PUC approval.

If the allocation of project costs is not allowed, large-scale biofuel projects like AKP will not succeed. This would be a tremendous loss for the state. During these tough economic times, the HELCO-AKP project—and other similar projects—offer a way to achieve substantial economic growth at no cost to the state's own coffers, all while helping Hawai'i achieve its goals of clean and independent energy.

To: Chair Herkes and members of the Committee

Re: Testimony of Chris Eldridge, SB1347 SD1 Relating to Public Utilities Commission

Hearing 3/14/11 @ 2:00 p.m., Conference Room 325

Page 2

Please amend SB 1347, SD1 to allow the allocation of project costs among electric utility affiliates as part of its renewable energy portfolio.

TESTIMONY BEFORE THE
HOUSE COMMITTEE ON CONSUMER PROTECTION AND COMMERCE

Monday, March 14, 2011
2:00 p.m.

S.B. No. 1347 S.D.1
RELATING TO THE PUBLIC UTILITIES COMMISSION

By Kevin Katsura
Associate General Counsel, Legal Department
Hawaiian Electric Company, Inc.

Chair Herkes, Vice-Chair Yamane, and Members of the Committee:

My name is Kevin Katsura proposing an amendment to S.B. 1347 S.D.1 on behalf of Hawaiian Electric Company, Inc. and our subsidiary companies, Hawaii Electric Light Company, Inc. and Maui Electric Company, Ltd. (collectively, the Hawaiian Electric Companies).

We are asking for the Committee's indulgence by considering an amendment to the bill which would add a new section (see attachment). We apologize for this late amendment, but this amendment is necessary because on March 4, 2011, the Hawaii Public Utilities Commission (PUC) issued a Decision and Order on Hawaiian Electric Companies' application for approval of a Biodiesel Supply Contract with Aina Koa Pono-Ka'u LLC (AKP) and for approval to establish a biofuel surcharge provision.

Without ruling on the merits of the surcharge, the PUC denied the biofuel surcharge request and is currently proceeding to evaluate the merits of the contract. Specifically, the PUC found that the implementation of Hawaiian Electric's biofuel surcharge was "beyond the scope of the commission's authority and jurisdiction."

The purpose of this amendment is to clarify the legislative intent that the renewable portfolio costs of an electric utility and its affiliates may be aggregated and allocated among the customers of the utilities when the electric utility and its affiliates are aggregating their renewable portfolios in order to achieve the renewable portfolio standard.

The development of Hawaii's renewable resources represents a substantial and long-term source of indigenous energy that could be used to generate electric energy to meet the State's electric energy needs and concurrently help to reduce the State's need for imported fossil fuels.

Attachment A

Hawaiian Electric Companies propose to amend Hawaii Revised Statutes (HRS) § 269-93 by adding a new subsection (b), (c), and (d) as follows:

“§269-93 Achieving portfolio standard. (a) An electric utility company and its electric utility affiliates may aggregate their renewable portfolios in order to achieve the renewable portfolio standard.

(b) In the case of an electric utility company and its electric utility affiliates aggregating their renewable portfolios to achieve the renewable portfolio standard, the commission may, distribute, apportion, and/or allocate the costs and expenses of all, or any portion thereof, of their respective renewable portfolios among and/or between the electric utility company and its electric utility affiliates as is reasonable under the circumstances.

(c) An electric utility may recover, through an automatic adjustment clause, the electric company’s revenue requirement resulting from the distribution, apportionment, and/or allocation of the costs and expenses of the renewable portfolios of the electric utility company and/or its electric utility affiliates.

(d) To provide for timely recovery of the revenue requirement, the commission shall establish a separate automatic rate adjustment clause, or utilize an existing automatic adjustment clause, of which either clause may be established and used outside of a rate case. The use of the automatic rate adjustment clause to recover the revenue requirement shall be allowed to continue until the revenue requirement is incorporated in rates in the respective electric utility company’s rate case.”