

**TESTIMONY OF HERMINA M. MORITA  
CHAIR, PUBLIC UTILITIES COMMISSION  
DEPARTMENT OF BUDGET AND FINANCE  
STATE OF HAWAII  
TO THE  
HOUSE COMMITTEE ON CONSUMER PROTECTION AND COMMERCE  
MARCH 28, 2011**

**MEASURE: S.B. No. 1482 S.D. 1**  
**TITLE: Relating to the Public Utilities Commission**

Chair Herkes and Members of the Committee:

**DESCRIPTION:**

This bill allows the Public Utilities Commission ("Commission") to consider the benefits of capital improvements for renewable energy and energy efficiency despite the short-term expense. This bill also requires the Commission to consider the need to reduce the State's reliance on fossil fuels.

**POSITION:**

The Commission does not object to this bill.

**COMMENTS:**

The Commission is well aware of the tension between reducing the State's reliance on fossil fuels and the short-term impact on rates. A policy determination by the Legislature and guidance to the Commission can help clarify the weight these considerations should receive as decisions are made.

Thank you for the opportunity to testify.



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TO THE HOUSE COMMITTEE ON  
CONSUMER PROTECTION AND COMMERCE

THE TWENTY-SIXTH LEGISLATURE  
REGULAR SESSION OF 2011

MONDAY, MARCH 28, 2011  
2:00 P.M.

TESTIMONY OF JEFFREY T. ONO, EXECUTIVE DIRECTOR,  
DIVISION OF CONSUMER ADVOCACY, DEPARTMENT OF COMMERCE AND  
CONSUMER AFFAIRS, TO THE HONORABLE ROBERT N. HERKES, CHAIR, AND  
MEMBERS OF THE COMMITTEE

**SENATE BILL NO. 1482, S.D. 1 – RELATING TO THE  
PUBLIC UTILITIES COMMISSION.**

**DESCRIPTION:**

This measure proposes to require the Public Utilities Commission (“Commission”) to consider the need to reduce Hawaii’s reliance on fossil fuels and may determine that short-term or direct costs of alternative energies that are higher than fossil fuels are reasonable.

**POSITION:**

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

**COMMENTS:**

This measure seeks to require the Commission to consider factors, whether quantitative or qualitative, that might help the Commission to determine that alternatives to fossil fuels, which are generally imported to Hawaii, are reasonable options that should be incorporated into a utility company’s portfolio of resources available to meet customers’ energy needs.

Senate Bill No. 1482, S.D. 1  
House Committee on Consumer Protection and Commerce  
Monday, March 28, 2011, 2:00 p.m.  
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The Consumer Advocate notes that such recommendations have already been offered by the Consumer Advocate and the electric utility companies themselves in many recent dockets. Furthermore, based on the record in those dockets, the Commission approved various purchased power contracts and other mechanisms associated with renewable energy projects and/or energy efficiency measures even though the costs associated with those projects and/or measures might have been higher than fossil fuel alternatives.

As recommendations by parties to dockets and decisions filed by the Commission are already consistent with the intent and language of the proposed bill, it would appear that the need to add such language may be unnecessary. However, since the proposed language largely reflects the recommendations and actions already taken by various parties, including the Commission, in past and ongoing proceedings, the Consumer Advocate supports the effort to ensure that such guidance is included in the statute.

Thank you for this opportunity to provide our comments.

Paul H. Brewbaker, Ph.D. Economist, TZ Economics

OPPOSED

This testimony provides comment on SB 1482, directing the Hawaii State Public Utilities Commission (PUC) to consider the benefits of capital improvements for renewable energy and energy efficiency, and requiring the PUC to consider the need to reduce the State's reliance on fossil fuels.

This bill makes things worse for Hawaii consumers. It is part of a pattern of policy changes intent on replacing lower cost energy sources with potentially higher cost alternatives. These policies risk loss of an economically advantageous energy supply, and risk preclusion of the most cost-effective energy strategies for the state.

As conceived by the State's Hawaii Clean Energy Initiative (HCEI), the probability of replacing forty percent of Hawaii's petroleum-based energy supply within twenty years is nil if a rigid path to that goal is mandated by legislation or regulation. Ruling out some energy alternatives and picking other "winners" is a recipe for policy failure and costly social outcomes. Renewable and other alternative energy sources are perfectly capable of demonstrating their competitiveness in future, as yet unknown petroleum pricing environments. There is no need to presumptively force a particular outcome that may or may not be socially optimal in the next two decades.

This bill presumes to do just that. It directs the PUC to de-emphasize the higher cost of energy alternatives in its deliberations. It directs the PUC to emphasize reduction in fossil fuel use regardless of circumstances. Supposedly promoting indigenous, Hawaii-sourced non-fossil fuels, this bill sets up a possible outcome wherein *imported* non-fossil fuels displace indigenous alternatives. Ironically, this could occur in the name of reducing imports of even cheaper petroleum-based alternatives.

The bill's formulation assumes higher future petroleum costs. If correct, alternatives to petroleum will stand on their own competitiveness anyway. If incorrect, it will make consumers worse off by precluding lower cost energy alternatives. The stated need to support what may well be higher cost alternatives in the present, to ensure their competitiveness in an even higher petroleum cost future, is plain-old protectionism. Higher cost alternatives won't need the protection if, and when, petroleum becomes expensive enough. It won't benefit consumers to pay more sooner than later if they'll pay more eventually.

If petroleum gets so much more expensive that its alternatives are cheaper, they'll just be cheaper and won't need policy that pretends to make them cheaper.

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More fundamentally, this bill fails to address the real barriers to renewable energy deployment in Hawaii. These barriers are well-documented. In part they reflect geographic isolation, the non-contiguous character of Hawaii's island markets and the small size of its urban market compared to mainland and Asian counterparts. The existing industrial structure and Hawaii's petroleum dependence *are* the socially and economically efficient outcome in the presence of economies of scale and scope. Scaled up to existing consumption levels, the alternatives currently cannot beat petroleum for lower cost energy. Their small scale, partly because of their diversity, leads to higher average cost, per btu or kwh.

Moreover, the specificity of the fixed capital deployed in refining, power generation, and in aviation and motor vehicular liquid fuels distribution makes economic governance within small numbers of hierarchical organizations superior to a market outcome with many small players. Economic governance within organizations, rather than markets, in this case provides energy at lowest cost to consumers. If and when the day comes that petroleum is not lowest cost, alternatives will be, by definition, and organizations will evolve—deploying capital specific to those alternatives—in the quest for cost *reduction*.

Locally-generated renewable energy supply *is* economically feasible in many applications. Most current examples are the consequence of entrepreneurial innovation and original thinking. Entrepreneurial deployment of risky capital must include the possibility of failure to mitigate adverse selection across energy alternatives and to create disincentives for morally hazardous behavior by developers of energy alternatives who receive economic protections.

Fossil fuel "dependence" is no different from other aspects of Hawaii's small open economy. In Hawaii, economic *structure* gives rise to few (or one) dominant energy sources, electrical utilities, cable TV providers, airlines, harbors or airports, stadiums, etc. It makes no more sense to reduce Hawaii's dependence on imported oil than it does to reduce Hawaii's dependence on imported i-Phones, automobiles, personal computers, cosmetics, strawberries, or pharmaceuticals.

An open trading relationship with the rest of the world, in which Hawaii exports what it does best and imports what others do, *is the reason for the islands' high living standards*.

Specialization in import of transportable, storable, non-perishable, reliable, petroleum-based energy is just one facet of trade between Hawaii, a small open economy, and the rest of the world. Energy "independence" only makes Hawaii better off if the alternatives are less expensive than petroleum-based fuels that are producers' and consumers' choice.

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Evidently, the alternatives aren't less expensive. If they were, proponents wouldn't need subsidies.

Clearly, it is our collective responsibility to recognize that environmental externalities of fossil fuel use are economically problematic. It does not follow that the solution is to impose costly and artificial energy independence through ill-conceived proposals such as this bill. The solution to environmental externalities is to internalize their cost. Policy should ensure that producers and consumers bear the full social cost of their decisions.

For example, if atmospheric carbon deposition is the problem, motor vehicular transportation is not the cause of the problem. Fuel-oil-powered electricity is not cause of the problem. Air-conditioning homes in the Ewa Plain is not the cause of the problem. The cause of the problem is a market failure *in which no one has to pay for atmospheric carbon deposition*, and in which no one is rewarded for carbon sequestration. Fix that problem, and the prices of petroleum and alternatives will correctly and fully reflect their true social costs, and economic behavior will re-align accordingly.

Correct the market failure, don't arbitrarily rearrange the energy deck chairs. This bill, and others like it masquerading as environmentally-enlightened policy, at best can only contribute to atmospheric carbon reduction indirectly. Why not make policy that contributes *directly*?

As long as renewable energy costs are higher than oil-fired energy costs, Hawaii's "dependence" on fossil fuels will be a source of economic strength, not weakness. Paying more to get the same thing—trading one import for another more expensive—is neither sound economic policy nor common sense.

Reject this proposal.



# Sierra Club Hawai'i Chapter

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## HOUSE COMMITTEE ON CONSUMER PROTECTION & COMMERCE

March 29, 2011, 2:050 P.M.  
(Testimony is 2 pages long)

### TESTIMONY IN SUPPORT OF SB 1482 SD1 WITH PROPOSED AMENDMENTS

Aloha Chair Herkes and Members of the Committee:

The Sierra Club of Hawai'i, with 8,000 dues-paying members and supporters, supports SB 1482 SD1. This measure would require the Public Utilities Commission to consider the need to reduce the State's reliance on fossil fuels. We suggest, however, taking this measure a step further and *directing* the PUC to take reasonable efforts to reduce the state's dependence on fossil fuels.

Hawai'i imports 50 million barrels of oil annually -- 80% of which comes from foreign sources. In addition, over 805,000 tons of coal is imported annually and together these two sources amount to 92% of energy generation in Hawai'i. Our heavy reliance on fossil fuels leaves Hawai'i vulnerable to the fluctuation of global markets beyond our control. In the summer of 2008, we saw prices skyrocket to \$140 a barrel causing our island community to suffer as our dangerous over-reliance on fossil fuels upset our economy.

In addition, our current fossil fuel consumption contributes over 23 million tons of greenhouse gases to our atmosphere annually. There is now indisputable scientific evidence that carbon gases trap the sun's heat and is gradually raising the temperature of our planet leading to the melting of the polar ice caps and a subsequent rise in sea levels - something extremely worrisome for our island community.

To this end, we support SB 1482's intent to reduce Hawai'i's dependence on fossil fuels. We believe the proposed language, however, could be stronger. The Legislature is supposed to set public policy and not simply leave consideration of Hawai'i's fossil fuel addiction up to the PUC. We suggest amending the measure to *direct* the PUC to advance policies that actively reduce our fossil fuel consumption. This comports with Hawai'i's renewable energy goals and need to move expeditiously towards clean energy.

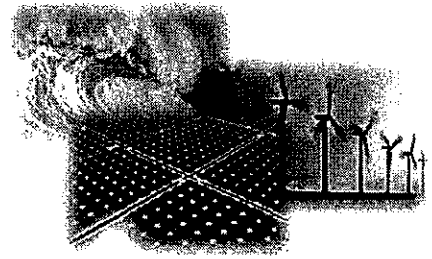
"(b) The public utilities commission shall [~~consider the need to~~] take all reasonable efforts to reduce the State's reliance on fossil fuels through energy efficiency and increased renewable energy generation

in exercising its authority and duties under this chapter. [~~In making pertinent determinations about the reasonableness of costs of utility system capital improvements and operations, the commission shall explicitly consider, quantitatively or qualitatively, the fact that the State's reliance on fossil fuels results in price and supply volatility, increased costs associated with importing fuel, and greenhouse gas emissions.~~] The commission may determine that short-term or direct costs of alternative energies that are higher than costs associated with fossil fuels are reasonable, considering the consequences of the use of fossil fuels."

(removed language in brackets and stuck out, new language underlined).

Mahalo for the opportunity to testify.





**HOUSE COMMITTEE ON CONSUMER PROTECTION & COMMERCE**

March 28, 2011, 2:00 P.M.

Room 325

**(Testimony is 1 page long)**

**TESTIMONY IN SUPPORT OF SB 1482 SD1**

Chair Herkes and members of the Committee:

The Blue Planet Foundation supports SB 1482 SD1, a measure which provides the public utilities commission (PUC) additional guidance and authority in considering energy efficiency as well as the implications of fossil fuels, fuel price volatility, greenhouse gas emissions, and long-term costs in their decision making.

The PUC has a number of critical dockets before them that will determine much of Hawaii's energy future. Blue Planet feels that it is essential that the PUC be given broad discretion in considering the myriad implications of Hawaii's reliance on fossil fuels in their decision making. We believe such guidance and authority to the PUC will result in more optimal energy planning for Hawaii's future.

Blue Planet respectfully asks that this Committee amend SB 1482 SD1 so that the measure becomes effective upon enactment.

Thank you for the opportunity to testify.

Statement of  
Eric Ching  
CC Repair & Maintenance Services Inc.  
before the  
**COMMITTEE CONSUMER PROTECTION**

Monday, March 28, 2011  
2 p.m.  
State Capitol, Conference Room 325

in consideration of  
**SB 1482**  
**RELATING TO THE PUBLIC UTILITIES COMMISSION.**

*Comments*

Good morning Chair Robert N. Herkes, Vice Chair Ryan I. Yamane, and Members of the Committees. My name is Eric Ching and I'm a concerned resident of Hawaii.

While I support the State's efforts to reduce its dependence on fossil fuel, I am concerned with the direction the State is taking as it relates to using imported bio fuels. This is because I have not yet seen a good example of it being generated locally without needing ongoing subsidies and tax credits to make it viable. Pacific Bio Diesel is an exception, as it recycles used cooking oil to make fuel; a process proven to recover something that was once was considered waste.

Experiments using imported palm oil and imported bio diesel as alternatives to fossil fuel have failed in my opinion because of their cost. This is contrary to the PUC's responsibility to take the least expensive route if given the opportunity. These rules have been put into place to protect the consumers who depend on affordable electricity. In addition, procurement guidelines discourage the importing of bio fuels. To ignore all this would be taking us backwards in our effort to achieve our energy and sustainability goals. We should be looking for cleaner and cheaper ways to bring down cost rather than justify paying more to subsidize inefficient fuels. Such a system can be found in the storage of renewable hydrogen integrated with fossil fuels.

Thank you for this opportunity to offer these comments.



**Western States Petroleum Association**

House Committee on Consumer Protection & Commerce

DATE: Monday, March 28, 2011  
TIME: 2:00 P.M.  
PLACE: Conference Room 325  
RE: SB1482 SD1: Relating to Public Utilities Commission

I am testifying on behalf of the Western States Petroleum Association (known as WSPA) with comments in opposition to SB 1482 SD1. WSPA is a non-profit trade association representing a broad spectrum of petroleum industry companies in Hawaii and five other western states.

SB 1482 SD 1 requires the PUC to consider the need to reduce the State's reliance on fossil fuels through energy efficiency. It allows the PUC to take the consequences of importing fuel into consideration when making determinations about costs of capital improvements and operations. While we support the broad goals of promoting energy efficiency and promoting the development of feasible indigenous sources of renewable energy, this measure does not serve the greater and comprehensive vision necessary to implement the state's energy policy.

We believe the PUC currently has broad authority to implement the state's energy policies and that modifying the PUC's criteria on a piecemeal basis will not serve to further the state's interests. Technological progress, improvements in information management, and other evolving economic trends all raise the possibility that imported renewable energy and petroleum supplies, as well as locally produced renewable energy sources, will factor into Hawaii's future energy supply portfolio.

This measure, as well as other similar measures being considered by the legislature this year, purports to tip the balance away from considering cost to the consumer and to place an overly broad ability for the PUC to adopt policies without sufficient regard to economic impact to the state. We believe that the key is to support, promote and increase the availability of new technologies and renewable energy without impairing the state's economic future and that the PUC's existing authority allows it to do so. We strongly support flexibility and the maintenance of all options to meet Hawaii's growing energy needs.

Therefore, we respectfully oppose this measure.

# **HAWAII RENEWABLE ENERGY ALLIANCE**

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Kahua Ranch Ltd.

## TESTIMONY OF WARREN BOLLMEIER ON BEHALF OF THE HAWAII RENEWABLE ENERGY ALLIANCE BEFORE THE HOUSE COMMITTEE ON CONSUMER PROTECTION AND COMMERCE

### SB 1482 SD1, RELATING TO THE PUBLIC UTILITIES COMMISSION

March 28, 2011

Chair Herkes and Vice-Chair Yamane and members of the Committee, I am Warren Bollmeier, testifying on behalf of the Hawaii Renewable Energy Alliance (HREA). HREA is an industry-based, nonprofit corporation in Hawaii established in 1995. Our mission is to support, through education and advocacy, the use of renewables for a sustainable, energy-efficient, environmentally-friendly, economically-sound future for Hawaii. One of our goals is to support appropriate policy changes in state and local government, the Public Utilities Commission and the electric utilities to encourage increased use of renewables in Hawaii.

The purposes of SB 1482 SD1 are to: (i) allow the public utilities commission (PUC) to consider the benefits of capital improvements for renewable energy and energy efficiency despite the short-term expense; and (ii) require the PUC to consider the need to reduce the State's reliance on fossil fuels.

HREA **supports the intent** of this measure as it supports the state's overall clean energy objectives. We recommend, in order to provide more specific direction to the Commission regarding the implementation of renewable energy, that the Committee also consider the following amendments to **HRS §269.27.2 (b)**:

b) The public utilities commission [~~may~~] **shall** direct public utilities that supply electricity to the public to arrange for the acquisition of and to acquire electricity generated from nonfossil fuel sources as is available from and the producers are willing and able to make available to the public utilities, and to employ and dispatch the nonfossil fuel generated electricity in a manner consistent with the availability thereof to maximize the reduction in consumption of fossil fuels in the generation of electricity to be provided to the public. To assist the energy resources coordinator in effectuating the purposes of chapter 201N, the public utilities commission [~~may~~] **shall** develop reasonable guidelines and timetables for the creation and implementation of power purchase agreements.

Please pass the bill out with the above proposed amendments, which provide the Commission with specific direction regarding the acquisition of renewables. We would also encourage you to change word "allow" to "direct" in the purpose clause.

Thank you for this opportunity to testify.