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TO THE HOUSE COMMITTEE ON ENERGY AND ENVIRONMENTAL PROTECTION

THE TWENTY-SIXTH LEGISLATURE
REGULAR SESSION OF 2011

TUESDAY, FEBRUARY 01, 2011
8:00 A.M.

TESTIMONY OF JEFFREY T. ONO, EXECUTIVE DIRECTOR,
DIVISION OF CONSUMER ADVOCACY, DEPARTMENT OF COMMERCE AND
CONSUMER AFFAIRS, TO THE HONORABLE HERMINA M. MORITA, CHAIR, AND
MEMBERS OF THE COMMITTEE

HOUSE BILL NO. 1519 – RELATING TO ENERGY.

DESCRIPTION:

This measure proposes to: 1) require unbundling the costs associated with electric service to facilitate, in part, any wheeling tariff that might be considered; 2) require the Public Utilities Commission ("Commission") to consider measures that would allow the recovery of stranded costs that might occur due to Hawaii's migration towards more energy efficiency and renewable energy resources; and 3) require the Commission to investigate the development and implementation of performance incentives to encourage clean energy use.

POSITION:

The Division of Consumer Advocacy ("Consumer Advocate") offers comments for this committee's consideration.

COMMENTS:

This measure seeks to require the Commission to consider different measures that are ostensibly associated with the intent of furthering renewable and energy efficiency development. There are certain issues related to what is being proposed that will need to be examined thoroughly to insure that the customers and public interest are represented.

First, it should be noted that in Docket No. 2007-0176, the Commission has already taken action by reinstating the docket as of November 12, 2010 and approved a procedural schedule that was developed by all of the various parties to the docket, such as all of the electric utility companies, the Counties of Hawaii, Honolulu, Kauai, and Maui, the U.S. Department of Defense, to name a few. As the unbundling of costs associated with electric service would need to be examined as a part of this docket, the need to require this legislatively may be mitigated. However, as the proposed language regarding unbundling of electricity tariffs reflects actions already set in motion, the Consumer Advocate supports this effort.

As it relates to the recovery of stranded costs, this has been a very contentious issue in other jurisdictions when it has been raised and it is likely to be the same as it is considered in Hawaii. It should be noted that in other jurisdictions, the stranded investment dilemma was not limited to requiring the utility's customers to bear the entire burden of such stranded costs; there is a need to determine how the investment became "stranded." Then, there is also a need to determine what portion of the costs might be recoverable from the utility's ratepayers, if at all. It appears that an effort has been made to include language to protect consumers' interests, but additional changes might be considered, such as requiring that utility companies seek to mitigate such costs by seeking to divest assets. In addition, it should be noted that the reduction and elimination of fuel, operation, and maintenance costs are expenses and would not really mitigate the investment made in generation, transmission, and distribution facilities.

It should also be noted that changes, some of them very significant, have occurred within the last few years in Hawaii's regulated energy industry. One such change is the approval of decoupling, which separates a utility's link between increasing sales and profits. As such, it is not entirely accurate to suggest that without additional incentive mechanisms, there is no motivation for an electric company to meet statutory goals. It also should be noted that incentives have not been identified as an impediment to additional renewable resources; the HECO Companies have stated that here are system constraints that must first be addressed. Thus, incentives alone will not resolve these constraints. Furthermore, it should be noted that for every dollar spent on incentives for a utility company, that either means more costs to be borne by the ratepayer and/or less dollars that can be spent on additional renewable resources or

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House Committee on Energy and Environmental Protection
Tuesday, February 01, 2011, 8 a.m.
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energy efficiency measures since it will be going to the utility shareholders. Additionally, given that one of Hawaii's electric utility companies is a cooperative, allowing an incentive would not be advisable since the customers are the member-owners and would not actually provide a meaningful incentive.

Thank you for this opportunity to testify.

**TESTIMONY OF CARLITO P. CALIBOSO
CHAIRMAN, PUBLIC UTILITIES COMMISSION
DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE
HOUSE COMMITTEE ON ENERGY AND ENVIRONMENTAL PROTECTION
FEBRUARY 1, 2011**

MEASURE: H.B. No. 1519
TITLE: Relating to Energy.

Chair Morita and Members of the Committee:

DESCRIPTION:

This bill directs the Public Utilities Commission ("Commission") to unbundle electric utility grid ancillary services, consider cost recovery for electric utility stranded assets, and consider electric utility performance incentive mechanisms for achieving clean energy goals.

POSITION:

The Commission does not object to this bill at this time.

COMMENTS:

The Commission is supportive of mechanisms that will help the State achieve its clean energy objectives, but the Committee should be aware of the possible effects the bill might have. Implementing the concepts in this bill could have the effect of generally increasing electricity rates, at least in the short term. This, however, may be necessary to achieve the State's clean energy objectives over the long term. If the Legislature believes that higher rates in the short-term are necessary to achieve the State's energy objectives, an affirmative policy statement to that effect would be helpful.

Unbundling electricity supply and delivery tariffs. Unbundling the utilities' costs of service will provide the foundation for mechanisms such as wheeling and the purchase of ancillary services from non-fossil fuel sources. Depending on the actual costs of acquiring these ancillary services from non fossil fuel sources, requiring their use may increase electricity rates in the short term. However, the bill requires the utility to purchase ancillary services only "if feasible and reasonably economical." The Committee should be aware that these safeguards may have the effect of preventing the acquisition of ancillary services from non-fossil fuel sources if their costs may be too high.

Stranded Costs. The Commission already has the authority and may in fact be required to allow for recovery of utility stranded costs, but the express legislative authority to consider it in the context of increasing renewable generation could be helpful to the Commission as it considers the implementation of various clean energy strategies, initiatives, and projects. The Committee should be aware, however, that allowing electric utilities to implement new clean energy projects as it recovers stranded costs would generally tend to increase rates since the existing and old facilities will still need to be paid for while new projects are implemented.

Utility Incentive Mechanism. Proposed Section 269-C in the bill provides: "The public utilities commission shall consider regulatory incentives to encourage clean energy use." The Commission has authority to provide incentives to help utilities meet or exceed the RPS (HRS, sections 269-94, 95). In addition, the Commission has recently approved a decoupling mechanism, a power purchase agreement surcharge, and a renewable energy infrastructure surcharge mechanism – all designed to help align the utilities' motivations and behavior with the State's clean energy objectives. In other words, the Commission already has authority to consider, and has in fact implemented, incentives to encourage clean energy use. If the legislature intends to require the Commission to implement regulatory incentives or a specific type of incentive, it would be more helpful to the Commission if it received a clearer legislative mandate to do so.

Thank you for the opportunity to testify.



Sierra Club Hawai'i Chapter

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HOUSE COMMITTEE ON ENERGY & ENVIRONMENTAL PROTECTION

February 1, 2011, 8:00 A.M.
(*Testimony is 1 page long*)

TESTIMONY IN SUPPORT OF HB 1519

Aloha Chair Morita and Members of the Committee:

The Sierra Club of Hawai'i supports House Bill 1519, which directs the Public Utilities Commission to (1) unbundle grid ancillary services, (2) allow for cost recovery for displaced assets, and (3) create performance incentives for a clean energy transition.

To encourage clean energy projects in Hawai'i, economic incentives for "good behavior" need to be created, particularly those that encourage distributed generation. By realigning the basis for paying our utility, we can ensure the electric utilities will promote clean energy projects instead of simply pursuing more of the same.

A well-designed policy could create longterm benefits for ratepayers, as money remains in the state supporting indigenous energy and ratepayer-financed capital expenditures for new fossil fuel power plants and transmission lines are minimized. Another benefit is that energy can be produced very close to where it is sold, saving the need for new transmission lines.

Mahalo for the opportunity to testify.

HAWAII RENEWABLE ENERGY ALLIANCE

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Herbert M. (Monty) Richards
Kahua Ranch Ltd.

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

HB 1519, RELATING TO ENERGY

February 1, 2011

Chair Morita, Vice-Chair Coffman 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 HB 1519 are to: (i) direct the PUC to unbundle electric utility grid ancillary services, (ii) consider cost recovery for electric utility stranded assets, and (iii) consider electric public utility performance incentive mechanisms for achieving clean energy goals.

HREA strongly **supports** this measure as it supports the state's overall clean energy objectives, and we offer the following comments in support:

- (1) Overall Value for the Proposed Unbundling of the Utilities Tariffs. In addition to the proposed requirement that the unbundling tariffs be suitable for implementation of any wheeling tariff (e.g., to determine the appropriate charge to wheeling customers for use of the utility grid), we believe the resulting "generation" cost of the tariff can provide a better reference point for the actual generation cost than the utility's "avoided costs." Avoided costs have historically been used in negotiations between the utility and an independent power producer, and we believe, as currently being calculated, avoided costs are low. Moving forward, we believe the "generation" cost will be a better reference point for determining what we should be paying for clean energy alternatives.
- (2) Ancillary Services. We support the need for additional ancillary service capability, and the unbundling process should also provide a reference point for the value of said ancillary services, such as battery and pumped hydro storage, and the costs for implementing demand response programs.

Thank you for this opportunity to testify.

TESTIMONY BEFORE THE
HOUSE COMMITTEE ON ENERGY AND ENVIRONMENTAL PROTECTION

Tuesday, February 1, 2011
8:00 a.m.
Conference Room 325, State Capitol

H.B. NO. 1519
RELATING TO ENERGY

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

Chair Morita, Vice-Chair Coffman, and Members of the Committee:

My name is Kevin Katsura providing testimony on H.B. No. 1519 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).

This bill requires the Public Utilities Commission (PUC) to: (1) direct electric utilities to file unbundled tariffs for individual component services and ancillary services that must be suitable to support implementation of any wheeling tariffs, and require electric utilities to purchase ancillary services derived from sources other than fossil fuel; (2) consider measures to allow electric utilities to recover stranded costs due to increased clean energy use; (3) consider regulatory incentives to encourage clean energy use; and (4) initiate an investigation into the development and implementation of financial incentive mechanisms by January 1, 2012.

The Hawaiian Electric Companies oppose the bill's requirement for filing of unbundled ancillary services tariffs and offer comments on other portions of the bill.

HB No. 1519 would require unbundling of ancillary services from energy generation, transmission and distribution services without any support or finding that such unbundling is necessary or in the public interest.

The provision and availability of appropriate ancillary services is a critical component of system operators' ability to reliably operate the utility system. Key ancillary services can include: system control, reactive supply and voltage control from generation, regulation, operating reserve – spinning, operating reserve – supplemental, energy imbalance, load following, back up supply, real-power-loss

replacement, system black-start capability, and network stability services. A number of these ancillary services exist primarily to support the entire power system and cannot be readily assigned to individual transactions or individual customers. Moreover, it is much more cost effective to provide many of these services for the aggregate load rather than for any subset of that load.

The process of seeking to unbundle these elements is difficult, complex, highly technical and requires significant effort and resources to measure the production, delivery, and consumption of these services; to identify the costs and cost-allocation factors for these services; and to develop operating rules and requirements for their provision and pricing. Importantly, this process must be done correctly to ensure that the unbundling process does not result in unnecessarily higher rates for all customers, that opportunities for gaming are reduced, that residential customers are not forced to subsidize the larger and more sophisticated customers who have the resources to seek to depart the utility system, and above all that system reliability can be maintained. Accordingly, it should not be undertaken unless the public interest benefits are clearly identified and the implications on utility customers are fully understood.

Further, the bill's requirement for the unbundling of ancillary services appears to be designed to support implementation of "any wheeling tariffs." First, as stated earlier, the complexity and cost of seeking to unbundle ancillary services should not be undertaken unless there is a clear reason to do so. Second, as this Committee is aware, the PUC already has an active investigation into intra-governmental wheeling ongoing and just recently adopted a stipulated procedural schedule jointly submitted by all parties to govern the remainder of that proceeding. The proceeding will examine in part the appropriate tariff design for each utility to recover the costs associated with use of the utility system as well as the tariffs or charges, if any, that should be required to ensure that the non-wheeling customers of a utility are not harmed. The Hawaiian Electric Companies are committed to participate in the PUC's investigation of intra-governmental wheeling and to explore and evaluate these very important issues. Until such investigations and evaluations are completed and a need for unbundled ancillary services in Hawaii is determined, the filing of tariffs for unbundled ancillary services should not be required.

With regard to stranded cost recovery, the bill proposes to have the PUC consider measures to allow recovery of stranded costs due to increased clean energy use, subject to conditions. In general, the Hawaiian Electric Companies agree that significant levels of departing load as a result of customer installation of generation can result in stranded costs for the utility and the utility should be allowed to recover those legitimately incurred costs. We note, however, that simply adding renewable energy resources may not necessarily result in stranded investment because particularly for variable renewable resources, certain of the utility's existing assets will be required to balance the system and

provide a back-up generation source in the event the renewable resource is not available.

The bill's provision for consideration of a utility incentive mechanism would be generally consistent with positions the Hawaiian Electric Companies have taken in dockets before the PUC. Most recently, in the energy efficiency portfolio standards docket, the Companies indicated support for incentives if the established goals are reasonable, if the goals are balanced against other state policy objectives, and if the parties subject to the incentives have a reasonable amount of control over goal achievement and the resources to achieve the goals. However, a statutory mandate for the PUC to consider establishing an incentive mechanism may not be necessary, since the PUC already has the authority to do so.

Thank you for the opportunity to testify.

coffman3 - Sean

From: mailinglist@capitol.hawaii.gov
Sent: Monday, January 31, 2011 10:27 PM
To: EEPtestimony
Cc: reachbrianbell@yahoo.com
Subject: Testimony for HB1519 on 2/1/2011 8:00:00 AM

Testimony for EEP 2/1/2011 8:00:00 AM HB1519

Conference room: 325
Testifier position: support
Testifier will be present: No
Submitted by: Brian Bell
Organization: Individual
Address: 4626 Sierra Dr Honolulu, HI
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Submitted on: 1/31/2011

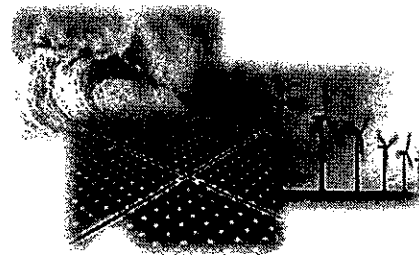
Comments:
Aloha Chair Morita and members of the Committee:

It is with great excitement that I submit my testimony in support of HB 1519, which would enable the utility to unbundle grid ancillary services, allow for cost recovery for displaced assets, and create performance incentives to move us towards a clean energy future.

People will do what they are incentivized to do. This goes double for organizations like a utility. By passing this bill, we will incentivize our utility to promote distributed renewable energy generation, which is the best kind because you do not expensive transmission lines - the power is being generated where you need it most.

Mahalo for considering my testimony.

Brian Bell
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HOUSE COMMITTEE ON ENERGY & ENVIRONMENTAL PROTECTION

February 1, 2011, 8:00 A.M.

Room 325

(Testimony is 2 pages long)

TESTIMONY IN STRONG SUPPORT OF HB 1519

Chair Morita and members of the Committee:

The Blue Planet Foundation strongly supports HB 1519, a measure to re-regulate Hawaii's electric utilities to foster greater economic alignment with Hawaii's preferred clean energy future. House Bill 1519 provides the Public Utilities Commission (PUC) three new tools to help the utility transition to clean energy:

1. Requires the "unbundling" of ancillary services so that they can be procured on the open market;
2. Directs the PUC to consider a policy allowing for the recovery of the utility's "stranded assets" (like existing fossil power plants), preventing these facilities from becoming anchors that restrain clean energy progress; and
3. Directs the PUC to consider a "performance incentive mechanism" to reward the utility for achieving clean energy goals.

Achieving the preferred system of energy self-sufficiency for Hawaii—one where wind and solar are no longer considered "alternative" energy—requires intelligent, transformative policy. Fortunately, a number of policy tools exist to remove some of the myriad institutional, regulatory, and financial barriers blocking Hawaii's clean energy future. New policies are needed to encourage financial innovation in clean energy investment, align utility economic incentives with clean energy performance, and allow for the recovery of costs for unused fossil power plants.

Why are these policy changes required?

Nearly three years have passed since the state launched the Hawaii Clean Energy Initiative, ostensibly a game-changing effort to transition Hawaii "decisively and irreversibly away from imported fossil fuel." While the increased energy focus, federal assistance, and project facilitation has been valuable, the Initiative is hindered by having to operate within the current institutional and regulatory paradigm—a paradigm that is sometimes at odds with an energy future powered by non-fuel renewable energy sources.

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Existing laws give the utility little economic incentive to pursue clean energy projects. Long-term utility profits are tied mostly to capital investments that the utility makes, encouraging them to purchase expensive new plants or undertake major upgrades to existing ones. Since third-party renewable energy projects displace the need for utility investments, and energy efficiency reduces electricity use, the utility does not profit directly from such clean energy initiatives.

Further, adding substantial amounts of renewable energy and energy efficiency will render existing fossil generation facilities useless, leaving the utility holding the bag with “stranded” investments on their books. Finally, when the utility purchases power from independent power producers, like large solar farms, the utility is exposed to additional financial risk (something it can’t afford, given its current credit rating of triple-B minus, one notch above junk bond status). These institutional barriers—decreasing sales on top of increasing costs to enable a system that doesn’t help their bottom line—makes change incredibly difficult for the utility.

How does this measure address these issues?

House Bill 1519 requires that the PUC consider a policy allowing for the recovery of the utility’s “stranded assets,” preventing these facilities from becoming anchors that restrain clean energy progress. The measure also directs the PUC to consider a “performance incentive mechanism” to reward the utility for achieving clean energy goals. This will align the financial decision making within the organization with achievement of Hawaii’s aggressive clean energy goals. It will also give Wall Street reasons to invest in the utility and help fund Hawaii’s clean energy transition.

Finally, HB 1519 requires the PUC to direct the electric utilities to “unbundle” or separate ancillary services and procure those services from non-fossil fuel sources. The Federal Energy Regulatory Commission (FERC) defines ancillary services as those “necessary to support the transmission of electric power from seller to purchaser given the obligations of control areas and transmitting utilities within those control areas to maintain reliable operations of the interconnected transmission system.” Unbundling of such ancillary services is commonplace in other utility markets. This measure will create competitive markets that will most efficiently determine the suppliers and prices for many ancillary services. The bill also helps to foster Hawaii’s clean energy future by requiring electric utilities to purchase ancillary services derived from sources other than fossil fuel (including but not limited to energy storage and demand response measures)—if feasible and reasonably economical.

Blue Planet supports the utility re-regulation changes proposed in HB 1519 as smart steps to align the electric utilities financial interests with Hawaii’s clean energy future.

Thank you for the opportunity to testify.