

Blue Planet testimony in support of HB 2490 HD1, Wednesday, Feb 8, 2p

Jeff Mikulina [jeff@blueplanetfoundation.org]

Sent: Tuesday, February 07, 2012 9:54 PM

To: CPCtestimony

Attachments: hb2490 imputed debt.pdf (53 KB)

Mahalo!

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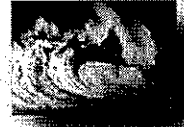
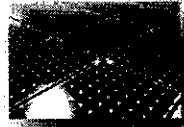
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HOUSE COMMITTEE ON CONSUMER PROTECTION & COMMERCE

February 8, 2012, 2:00 P.M.

Room 325

(Testimony is 1 page long)

TESTIMONY IN SUPPORT OF HB 2490 HD1

Chair Herkes and members of the Committee:

The Blue Planet Foundation supports HB 2490 HD1, a measure which seeks to facilitate greater renewable energy adoption by reducing the level of imputed debt assumed by electric utilities when entering into power purchase agreements.

By enacting this legislation, the State of Hawaii will be telegraphing the message to financial rating agencies that observe and evaluate the effect of these power purchase agreements, including Standard & Poor's, that the risk and perceived debt equivalence on the electric utilities' balance sheets is minimized.

Reducing the imputed debt obligations of electric utilities can benefit electric utility customers by maximizing the utilities' ability to negotiate low cost, fixed price renewable energy contracts. In addition, the elimination of power purchase agreement-created imputed debt obligations of a utility can lower capital costs for that utility, which helps to mitigate energy costs for consumers through lower rates.

Thank you for the opportunity to testify.

Testimony for HB2490 on 2/8/2012 2:00:00 PM

mailinglist@capitol.hawaii.gov [mailinglist@capitol.hawaii.gov]

Sent: Tuesday, February 07, 2012 11:04 PM

To: CPCtestimony

Cc: jkealoha@ilwulocal142.org

Attachments: 2012HB2490.docx (13 KB)

Testimony for CPC 2/8/2012 2:00:00 PM HB2490

Conference room: 325

Testifier position: Support

Testifier will be present: No

Submitted by: Joanne Kealoha

Organization: ILWU Local 142

E-mail: jkealoha@ilwulocal142.org

Submitted on: 2/7/2012

Comments:

The Twenty-Sixth Legislature
Regular Session of 2012

HOUSE OF REPRESENTATIVES
Committee on Consumer Protection & Commerce
Rep. Robert N. Herkes, Chair
Rep. Ryan I. Yamane, Vice Chair
State Capitol, Conference Room 325
Wednesday, February 8, 2012; 2:00 p.m.

**STATEMENT OF THE ILWU LOCAL 142 ON H.B. 2490, HD1
RELATING TO ELECTRIC UTILITIES**

The ILWU Local 142 supports H.B. 2490, HD1, which authorizes the Public Utilities Commission to allow electric utility companies to recover power purchase costs and costs arising from power purchase agreements that have been approved by the PUC through an adjustable surcharge, thus mitigating associated imputed debt or debt equivalence.

H.B. 2490, HD1 appears to be a bill to facilitate the development of renewable energy and transmission of electricity generated to all parts of the state. A surcharge will be permitted but will be reviewed by the PUC to ensure that the charge is justified. We believe the PUC, as the guardian of the public's interest, will be fair to consumers.

The ILWU urges passage of H.B. 2490, HD1. Thank you for the opportunity to testify.

**Testimony Before The House Committee On
Committee on Consumer Protection & Commerce**

House Bill No. 2490, HD1

February 8, 2012

By

Lorie Ann Nagata
Treasurer

Hawaiian Electric Company, Inc.
Hawaii Electric Light Company, Inc.
Maui Electric Company, Limited

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

Hawaiian Electric Company, Inc., Maui Electric Company, Limited and Hawaii Electric Light Company, Inc. ("Companies") strongly support the passage of House Bill No. 2490, HD1 with suggested amendments. This bill authorizes the Public Utilities Commission of the State of Hawaii ("Commission") to distribute all costs arising out of power purchase agreements between an electric utility company and non-utility generators of electricity that have been approved by the Commission. These costs would be distributed among the entire customer base through an adjustable surcharge which shall be established by the Commission.

Presently in analyzing the Companies, the credit rating agencies impute debt for their independent power producer ("IPP") contracts. IPP contracts create debt-like obligations that represent substitutes for debt-financed capital investments in generation capacity. The rating agencies impute debt to the Companies because of this. The legislation may result in a reduction of the level of debt imputation for the Companies' off-balance-sheet purchased power obligations by the rating agencies. A reduction in the imputed debt would help to enhance the Companies' financial profile and help to enhance the Companies' credit ratings. Standard and Poor's presently rates the Companies at BBB-, which is just one notch above "non-investment" grade or "junk" bond status.

Credit ratings are important as they are a measure of credit risk and have an impact on the cost of capital to the Companies and could affect the cost of purchased power contracts. These costs ultimately impact the cost of electricity to customers, as the costs of financing and purchased power generally are recoverable in customers' rates.

As the Companies enter into more IPP contracts for renewable energy in support of the renewable portfolio standards imputed debt will be expected to increase. Competitive bidding requirements for new generation may also result in more IPP contracts. The percentage of net KWH purchased from IPPs in 2010 was 40% for the Companies. This is forecast to increase to 50% by 2015.

This bill could help reduce the debt imputed by the rating agencies in their analysis of the Companies. That would enhance the financial strength and credit ratings of the utilities and therefore benefit the electric utility customers.

We would like to request the following amendment to the second and third sentences of section 1, starting on page1, line 5 (suggested insertions underlined and deletions struck out) which clarifies the effect of IPP contracts from the rating agency perspective and their reason for imputing debt:

"For financial rating agencies that observe and evaluate the effect of these power purchase agreements, including Standard & Poor's, such contracts create fixed, debt-like, financial obligations for the electric utility that represent substitutes for debt-financed capital investments in generation capacity ~~represent the transfer of business viability risk assumption from the project developer to the electric utility.~~ To properly take into account the fixed obligations in a way that reflects the credit exposure that is added by the power purchase agreements ~~calculate a contracting utility's new level of debt related risk, this transfer of risk assumption further causes the financial rating agencies to represent, or impute, the impact of a power purchase agreement to the contracting electric utility's balance sheet in the form of a new debt obligation.~~"

We would also like to request the following amendment to the last paragraph of section 1, starting on page 2, line 18 (suggested insertion underlined) which clarifies the language regarding the costs covered:

"The purpose of this Act is to authorize the public utilities commission to allow electric utilities operating within the State to recover through an adjustable surcharge, all power purchase costs, including costs relating to capacity, operations, maintenance, and other costs that are binding obligations incurred from commission-approved power purchase agreements."

Thank you for the opportunity to testify in support of this measure.