TESTIMONY OF HERMINA MORITA
CHAIR, PUBLIC UTILITIES COMMISSION
DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE
HOUSE COMMITTEE ON
ENERGY & ENVIRONMENTAL PROTECTION

MARCH 27, 2012

MEASURE: H.C.R. No. 224
TITLE: Requesting the Public Utilities Commission to Carry Out Objectives and Actions to Encourage and Support Electric Utilities in Maximizing Renewable Energy Generation

Chair Coffman, Vice Chair Kawakami, and Members of the Committee:

DESCRIPTION:

This measure requests that the Commission consider several objectives and actions to align Hawaii's electric utility companies with the State's goal of maximizing renewable energy generation. The listed objectives and actions include incentivizing electric utility company investments in renewable energy transmission and distribution assets to support maximum penetration of renewable energy generation through variable rates of return on common equity, the renegotiation of avoided cost-based power purchase agreements between utilities and independent power producers, as well as disincentives for the Commission to consider.

POSITION:

The Commission supports this measure and would like to offer the following comments for the Committee's consideration.

COMMENTS:

The Commission recognizes that there are a number of major challenges in the way of Hawaii achieving its clean energy policies and balancing the cost impacts to the electricity ratepayer. Many of these challenges are already under consideration by the Commission through its proceedings. However, this measure does help clarify the

Legislature's inclinations as to which approaches should be focused on in achieving Hawaii energy policies, which the Commission appreciates.

Thank you for the opportunity to offer comments on this measure.

NEIL ABERCROMBIE
GOVERNOR

BRIAN SCHATZ
LT. GOVERNOR

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KEALI'I S. LOPEZ
DIRECTOR

TO THE HOUSE COMMITTEE ON ENERGY AND ENVIRONMENTAL PROTECTION

THE TWENTY-SIXTH LEGISLATURE
REGULAR SESSION OF 2012

TUESDAY, MARCH 27, 2012
11:00 A.M.

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

HOUSE CONCURRENT RESOLUTION NO. 224

DESCRIPTION:

This resolution requests the Public Utilities Commission to carry out objectives and actions to encourage and support electric utilities in maximizing renewable energy generation.

POSITION:

The Division of Consumer Advocacy ("Consumer Advocate") supports the intent of House Concurrent Resolution No. 224 with comments.

COMMENTS:

The Consumer Advocate appreciates the direction given to the Public Utilities Commission and the Consumer Advocate by H.C.R. No. 224 concerning policy objectives in meeting Hawaii's Renewable Portfolio Standards (RPS) goals. The Consumer Advocate has concerns with some of the provisions in the resolution and offers comments to H.C.R. No. 224.

In paragraphs (1) through (6), the Legislature sets forth important policy issues and objectives to accelerate the development of renewable energy generation. The subparagraphs that follow are specific references to the means by which these goals might be more quickly achieved. The Consumer Advocate suggests that the PUC should not be limited by those specific references. The Consumer Advocate recommends that each numbered paragraph include the phrase "among other things," so that other economic incentives might also be considered. For example, paragraph (1) would read as follows:

> "Encourage electric utilities to focus greater attention on transmission and distribution operations and investments by, <u>among other things</u>:"

The Consumer Advocate has no objection to the concept of creating regulatory economic incentives and disincentives to the electric utilities to accomplish the goal of greater renewable energy generation. On the other hand, the Consumer Advocate is concerned that giving the electric utilities a higher return on common equity for certain activities and a lower return for others, with an overall return that is equal to the current authorized return may not have the desired result in affecting the electric utilities' behavior and investment decisions. The PUC should be given sufficient discretion to consider other regulatory economic incentives such as assurances of cost recovery if the electric utility engages in grid improvements that would accommodate far greater renewable energy generation projects even if such projects do not materialize in the near term.

Furthermore, the Consumer Advocate recommends that there should be an economic analysis of the effect of providing the electric utilities with a higher return on common equity as part of any incentive program. A higher return on common equity could result in a higher rate of return, which would mean higher electricity rates for consumers. The Federal Energy Regulatory Commission has been criticized for providing an incentive-based higher return on equity to electric utilities for transmission improvements along the eastern seaboard based largely on the increased annual costs to consumers.

The Consumer Advocate has been, and will continue to be, a proponent of renewable energy generation to reduce the State's dependence on imported oil. The Consumer Advocate is also sensitive to the high electricity rates paid by Hawaii's consumers. Giving regulatory economic incentives to the electric utilities might be one way of accelerating Hawaii's move toward energy independence, but it may not be cost effective. The Consumer Advocate would prefer a much broader scope to H.C.R. No. 224 by including language that would allow greater discretion to the PUC in considering other economic incentives and disincentives beyond what is currently listed in the resolution.

Thank you for this opportunity to testify.

Testimony before the House Committee on Energy and Environmental Protection

HCR 224 -- Relating to Electricity

Tuesday, March 27, 2012
11:00 am, Conference Room 325

By Barry Nakamoto
Manager, Renewable Acquisition
Hawaiian Electric Company, Inc.

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

My name is Barry Nakamoto. I am the Manager of the Renewable Acquisition Department at Hawaiian Electric Company. I am testifying on behalf of Hawaiian Electric Company and its subsidiary utilities, Maui Electric Company and Hawaii Electric Light Company.

The Hawaiian Electric Companies support the general intent of HCR 224, which seeks to encourage the utilities' transition to renewable energy while providing cost and clean energy benefits to our customers and being fair to renewable project developers. However, as for the specific actions suggested in this resolution, whether they should be pursued or not depends on working through the numerous complexities and interrelationships associated with the issues of unit retirements, fuel procurement, purchase of renewable energy from independent power producers, and upgrading the grid to interconnect more renewable energy, all while providing reliable and cost-effective electricity for our customers.

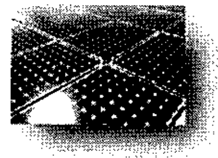
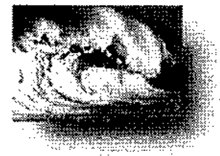
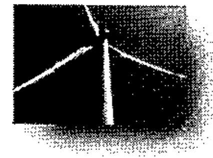
We are very committed to making the transition to cost-effective renewable energy to reduce costs for our customers. As we enter into the Public Utilities Commission's Integrated Resource Planning (IRP) process, we intend to look at alternative fuel options for our power plants to get them off of oil, and to consider the issues related to their remaining life and cost recovery of investments related to these plants. The transition to renewable energy will continue to focus on purchase power contracts with renewable energy providers, engagement in the Commission's comprehensive IRP process and various scenarios toward a clean energy future, and working hard to identify the best options available to reduce costs for our customers while allowing the utility to be financially strong.

The Hawaiian Electric Companies have already demonstrated a willingness to renegotiate pricing in existing avoided cost-based renewable power purchase agreements to delink them from fossil fuel avoided cost with the intent to lower costs to our customers and set payments to the producers based on the cost it takes them to generate the power plus a profit that the PUC determines is fair and reasonable. We documented this position in our October 2008 Clean Energy Agreement with the State.

As we move forward, investments in our grid infrastructure will be necessary to allow us to increase the amount of renewable energy that can be accommodated. The Commission's Reliability Standards Working Group will also provide important information towards determining the reliability standards that are appropriate for reaching these goals.

Thank you for the opportunity to testify.

blue planet FOUNDATION

HOUSE COMMITTEE ON ENERGY & ENVIRONMENTAL PROTECTION
March 27, 2012, 11:00 A.M.
Room 325
(Testimony is 3 pages long)

TESTIMONY IN STRONG SUPPORT OF HCR 224, SUGGESTED AMENDMENT

Chair Coffman and members of the Committee:

The Blue Planet Foundation strongly supports HCR 224, requesting the Public Utilities Commission (PUC) consider various strategic actions and incentives to better align the state's utilities and regulatory structure with our clean energy goals. We suggest an additional consideration for the PUC regarding the unbundling of utility ancillary services enable greater use of clean energy.

Achieving the preferred system of energy self-sufficiency for Hawaii—one where wind and solar are no longer considered "alternative" energy—requires intelligent, transformative regulatory policy. HCR 224 provides some legislative support to the PUC to use new tools to align utility economic incentives with clean energy performance, allow for the recovery of costs for unused fossil power plants, spur the modernization of the utility grid, and renegotiate outdated power purchase agreements to reduce the burden on ratepayers.

About four 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.

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.

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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 poor credit rating). 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.

House Concurrent Resolution 224 provides legislative direction to the PUC by asking them to consider a number of policy tools to realign regulation and incentive with clean energy goals. The HCR asks the PUC to 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 HCR also directs the PUC to consider a "performance incentive mechanism" to reward the utility for achieving clean energy goals through a variable allowed rate of return. 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.

SUGGESTED AMENDMENT

Blue Planet Foundation respectfully asks that this Committee amend HCR 224 by adding additional language for the PUC to consider in utility regulation"

> Encourage clean energy and innovation in utility ancillary services by:
>
> (A) Establishing technical and operational requirements for the provision of ancillary services consistent with applicable reliability standards;
>
> (B) Directing the electric public utilities to file unbundled tariffs that identify, classify, and functionalize the costs of the individual component services and ancillary services necessary to provide reliable electrical service. Costs and tariffs should be supported by appropriate cost-of-service studies that reflect the full and actual costs of ancillary services; and
>
> (C) Requiring the electric public 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.

This amendment would request that the PUC explore the "unbundling" or separating of 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 change in policy would create competitive markets that will most efficiently determine the suppliers and prices for many ancillary services. Such a policy would also help 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 strongly supports advancing HCR 224 with the suggested amendment.

Thank you for the opportunity to testify.

HREA

HAWAII RENEWABLE ENERGY ALLIANCE

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

HCR 224 , REQUESTING THE PUBLIC UTILITIES COMMISSION TO CARRY OUT OBJECTIVES AND ACTIONS TO ENCOURAGE AND SUPPORT ELECTRIC UTILITIES IN MAXIMIZING RENEWABLE ENERGY GENERATION

March 27, 2012

Chair Coffman, Vice-Chair Kawakami 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 purpose of HCR 224 is to request the public utilities commission to carry out objectives and actions to encourage and support electric utilities in maximizing renewable energy generation HREA **supports the intent** of this measure as it supports the state's overall clean energy objectives, and we offer the following comments in support including our attached proposed HD1:

1) <u>De-linking</u> will help the ratepayer, but not to the degree that removal and replacement or retrofit of existing fossil generators will. Obviously, we need to look at all options.
2) <u>Avoided costs</u>: From our perspective, ratepayers are already saving dollars from projects that are on "avoided-cost" contracts. Why? We believe said "avoided cost" contracts include power purchase payments at less than the "true avoided cost." And we believe a detailed cost analysis will show when the HRD and Pakini Nui windfarms are curtailed, the ratepayer pays more.
3) <u>"Windfall profits</u>:" A windfall is a sudden gain or profit from unexpected event. But one cannot say that increase in the price of oil was either unexpected or sudden. So let's get beyond semantics and posturing.
4) <u>Re-Negotiation</u>. In our opinion, it should make sense to individual IPPs to re-negotiate, if there is an equitable treatment for curtailment and resolution of other contractual issues.
5) <u>Quid Pro Quo</u>. The utility should be directed to: (i) NOT only to eliminate curtailment of renewables; it is costing ratepayers and we are throwing away contributions to RPS, but (ii) ALSO work with the renewable energy and energy storage industry to replace the utility's inefficient fossil generators with renewables and storage, and as appropriate to retrofit existing fossil generators to reduce costs during the transition.

Thank you for this opportunity to testify

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HOUSE OF REPRESENTATIVES
TWENTY-SIXTH LEGISLATURE, 2012
STATE OF HAWAII

H.C.R. NO. 224

HOUSE CONCURRENT RESOLUTION

REQUESTING THE PUBLIC UTILITIES COMMISSION TO CARRY OUT OBJECTIVES AND ACTIONS TO ENCOURAGE AND SUPPORT ELECTRIC UTILITIES IN MAXIMIZING RENEWABLE ENERGY GENERATION.

WHEREAS, Hawaii's Renewable Portfolio Standards law mandates that 40 percent of electricity generation in the State come from renewable resources by the year 2030; and

WHEREAS, the maximum penetration of variable electricity generation with respect to Hawaii's isolated island electricity grids will require significant upgrades to each island's transmission and distribution systems, along with storage, integrated communication devices at critical interconnection points, and other grid enhancements to manage and balance the system; and

WHEREAS, the cost of fuel is a major component of an electricity customer's utility bill, and with the high cost of low sulfur fuel oil and diesel, Hawaii's costs of living and doing business are increasing at an alarming rate; and

WHEREAS, serious consideration must be given to the retirement of some fossil fuel-based electricity generation units and to the <u>replacement of the retired units with renewable energy and storage resources, and/or </u>conversion of other fossil fuel-based electricity generation units to lower-cost fossil fuels in order to help mitigate significantly rising electricity bills; and

WHEREAS, since 2009, it has been a policy of the State that the Public Utilities Commission determine just and reasonable utility rates by establishing a methodology that either removes or significantly reduces the linkage between fossil fuel prices and nonfossil fuel-generated electricity rates, to potentially enable utility customers to share in the benefits of fuel cost savings resulting from the use of nonfossil fuel-generated electricity; and

WHEREAS, renewable energy power purchase agreements were negotiated more than a decade ago under the Public Utility Regulatory Policy Act utilizing avoided cost, at a time when oil pricing was significantly lower; and

WHEREAS, renewable energy power purchase agreements negotiated based on avoided cost methodology do not enable utility customers to share in the benefits of fuel cost savings resulting from the use of nonfossil fuel-generated electricity, which may result in windfall profits for projects operating under these types of contracts; and

WHEREAS, the Public Utilities Commission must devise the proper incentives and disincentives to transition the electric utilities it regulates to implement Hawaii's mandated clean energy policies; now, therefore,

BE IT RESOLVED by the House of Representatives of the Twenty-sixth Legislature of the State of Hawaii, Regular Session of 2012, the Senate concurring, that the Legislature encourages the Public Utilities Commission to consider throughout its proceedings the following objectives and actions in order to accelerate the development and penetration of renewable energy generation and to reduce the use of fossil fuel-based electricity generators in Hawaii:

(1) Encourage electric utilities to focus greater attention on transmission and distribution operations and investments by:

(A) Establishing ~~a higher allowed~~an appropriate return on common equity associated with existing and planned transmission and distribution investments made to encourage grid improvements; and

~~(B) Establishing a lower allowed return on common equity associated with existing and new fossil~~

~~fuel-based electricity generation investments to discourage fossil generation;~~ and

(B~~C~~) ~~Ensuring that the overall average rate of return on equity is equal to the current authorized return on common equity;~~ Ensuring that the utility has an opportunity to earn a profit on all of its ~~transmission and distribution~~ investments

(2) Encourage the early retirement of less efficient fossil fuel-based electricity generation to sufficiently accommodate achieving Hawaii's Renewable Portfolio Standards mandate of 40 percent renewable energy generation by the year 2030 by:

(A) Allowing electric utilities to recover stranded costs associated with the shutdown of existing fossil fuel-based generators; and

(B) Allowing electric utilities to ~~recover the cost of buying out, or partially buying down the capacity of~~re-negotiate power purchase agreements ~~covering~~ with existing fossil fuel-based generators that wish to switch to renewable fuels ~~prior to the contract's expiration;~~

(3) Encourage the reduction of fuel costs for the remaining 60 percent of electricity generation from existing fossil fuel-based generating units not affected by Hawaii's Renewable Portfolio Standards mandates by:

(A) Authorizing electric utilities the opportunity to earn ~~a higher~~ an appropriate ~~allowed~~ return on common equity associated with any existing fossil fuel-based electricity ~~generation investment~~generator that switches from low sulfur fuel oil or diesel to another less expensive fossil fuel, other than coal, thus incentivizing electric utilities to switch fuel sources so as to share in the annual fuel cost savings with the ratepayer; and

(B) Penalizing electric utilities for failing to convert an eligible, existing low sulfur fuel oil or diesel-based generation unit to one using a less-expensive fossil fuel source;

(4) Encourage electric utilities to enter into and accommodate new renewable energy power purchase agreements by:

(A) Authorizing electric utilities to utilize the renewable energy infrastructure program surcharge mechanism to recover all reasonable and prudent costs and the opportunity to earn ~~a higher allowed~~ an appropriate return on common equity associated with any transmission or distribution grid investments made to interconnect new utility scale renewable energy facilities or to accommodate the high penetration of variable generation on a circuit through investments in communication devices at critical interconnection points thereof, grid enhancements such as storage systems, demand response, and other technologies to improve grid reliability; and

(B) ~~Allowing~~ Investigating whether the electric utilities should be allowed ~~to assess a~~an ~~renewable energy integration charge~~ utility-profit-adder on ~~for~~ all electricity procured from third-party renewable energy generation units;

(5) Encourage electric utilities and independent power producers to terminate and renegotiate power purchase agreements that use rates based on an avoided cost methodology by:

~~(A) Reexamining the current avoided cost methodology;~~

~~(B) Allowing electric utilities to retain a portion of the cost reduction associated with the termination and renegotiation of a power purchase agreement based on avoided cost;~~

(A~~C~~) Authorizing a curtailment compensation mechanism and other appropriate changes in the contractual terms and conditions to ~~for variable generation~~all renewable independent power producers willing to renegotiate and eliminate avoided cost pricing; and

(~~D~~B) Requiring ~~Precluding~~ the electric utilities ~~from recovering the cost of a power purchase agreement from a new renewable energy project developed by an independent power producer who has an existing avoided cost-based power purchase agreement;~~to expedite design and implementation of measures to eliminate curtailment of renewables, or if more cost-effective, pay for curtailment. In the interim, the utilities shall be directed to pay for all curtailments on the re-negotiated contracts.

(6) Encourage the reduction or elimination of curtailment of existing variable generation projects by:

(A) ~~(A)~~ Requiring electric utilities to secure ancillary services from renewable energy projects or independent third parties that are technically capable and willing to supply such services, or,

(B) If appropriate, to provide said ancillary services as a utility service~~; and~~

~~(B) Ensuring that renewable energy projects that are both technically and functionally capable of supplying ancillary services are not curtailed, and that these projects are adequately compensated for any curtailment that does happen to occur; provided that these ancillary services would emulate the technical characteristics of various fossil fuel-based generation units contemplated for replacement~~; and

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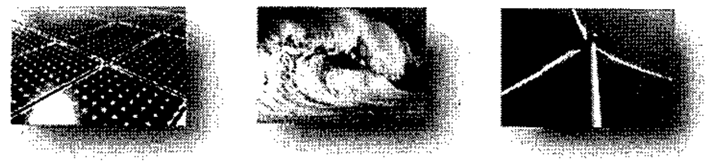
BE IT FURTHER RESOLVED that the Public Utilities Commission is requested to include in its annual reports for 2012 and 2013, prepared pursuant to section 269-5, Hawaii Revised Statutes, actions taken by the Commission to fulfill each of the above stated objectives and any statutory action identified by the Commission to carry out the purposes of this Concurrent Resolution; and

BE IT FURTHER RESOLVED that certified copies of this Concurrent Resolution be transmitted to the Governor; Lieutenant Governor; Chairperson of the Public Utilities Commission; Hawaii Energy Resources Coordinator; Hawaiian Electric Company, Inc.; Maui Electric Company, Ltd.; Hawaii Electric Light Company, Inc.; Kauai Island Utility Cooperative; Puna Geothermal Venture; Tawhiri Power, LLC; Covanta Honolulu Resource Recovery Venture; and all other independent power producers in the State currently operating under power purchase agreements using rates based on an avoided cost methodology.

OFFERED BY: ______________________________

blue planet FOUNDATION



HOUSE COMMITTEE ON ENERGY & ENVIRONMENTAL PROTECTION
March 27, 2012, 11:00 A.M.
Room 325
(Testimony is 3 pages long)

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Chair Coffman and members of the Committee:

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Achieving the preferred system of energy self-sufficiency for Hawaii—one where wind and solar are no longer considered "alternative" energy—requires intelligent, transformative regulatory policy. HCR 224 provides some legislative support to the PUC to use new tools to align utility economic incentives with clean energy performance, allow for the recovery of costs for unused fossil power plants, spur the modernization of the utility grid, and renegotiate outdated power purchase agreements to reduce the burden on ratepayers.

About four 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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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 poor credit rating). 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.

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This amendment would request that the PUC explore the "unbundling" or separating of ancillary services and procure those services from non-fossil fuel sources. The Federal Energy

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Blue Planet strongly supports advancing HCR 224 with the suggested amendment.

Thank you for the opportunity to testify.

HREA

HAWAII RENEWABLE ENERGY ALLIANCE

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

HCR 224 , REQUESTING THE PUBLIC UTILITIES COMMISSION TO CARRY OUT OBJECTIVES AND ACTIONS TO ENCOURAGE AND SUPPORT ELECTRIC UTILITIES IN MAXIMIZING RENEWABLE ENERGY GENERATION

March 27, 2012

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The purpose of HCR 224 is to request the public utilities commission to carry out objectives and actions to encourage and support electric utilities in maximizing renewable energy generation HREA **supports the intent** of this measure as it supports the state's overall clean energy objectives, and we offer the following comments in support including our attached proposed HD1:

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Thank you for this opportunity to testify

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HOUSE OF REPRESENTATIVES
TWENTY-SIXTH LEGISLATURE, 2012
STATE OF HAWAII

H.C.R. NO. 224

HOUSE CONCURRENT RESOLUTION

REQUESTING THE PUBLIC UTILITIES COMMISSION TO CARRY OUT OBJECTIVES AND ACTIONS TO ENCOURAGE AND SUPPORT ELECTRIC UTILITIES IN MAXIMIZING RENEWABLE ENERGY GENERATION.

WHEREAS, Hawaii's Renewable Portfolio Standards law mandates that 40 percent of electricity generation in the State come from renewable resources by the year 2030; and

WHEREAS, the maximum penetration of variable electricity generation with respect to Hawaii's isolated island electricity grids will require significant upgrades to each island's transmission and distribution systems, along with storage, integrated communication devices at critical interconnection points, and other grid enhancements to manage and balance the system; and

WHEREAS, the cost of fuel is a major component of an electricity customer's utility bill, and with the high cost of low sulfur fuel oil and diesel, Hawaii's costs of living and doing business are increasing at an alarming rate; and

WHEREAS, serious consideration must be given to the retirement of some fossil fuel-based electricity generation units and to the <u>replacement of the retired units with renewable energy and storage resources, and/or</u> conversion of other fossil fuel-based electricity generation units to lower-cost fossil fuels in order to help mitigate significantly rising electricity bills; and

WHEREAS, since 2009, it has been a policy of the State that the Public Utilities Commission determine just and reasonable utility rates by establishing a methodology that either removes or significantly reduces the linkage between fossil fuel prices and nonfossil fuel-generated electricity rates, to potentially enable utility customers to share in the benefits of fuel cost savings resulting from the use of nonfossil fuel-generated electricity; and

WHEREAS, renewable energy power purchase agreements were negotiated more than a decade ago under the Public Utility Regulatory Policy Act utilizing avoided cost, at a time when oil pricing was significantly lower; and

WHEREAS, renewable energy power purchase agreements negotiated based on avoided cost methodology do not enable utility customers to share in the benefits of fuel cost savings resulting from the use of nonfossil fuel-generated electricity, which may result in windfall profits for projects operating under these types of contracts; and

WHEREAS, the Public Utilities Commission must devise the proper incentives and disincentives to transition the electric utilities it regulates to implement Hawaii's mandated clean energy policies; now, therefore,

BE IT RESOLVED by the House of Representatives of the Twenty-sixth Legislature of the State of Hawaii, Regular Session of 2012, the Senate concurring, that the Legislature encourages the Public Utilities Commission to consider throughout its proceedings the following objectives and actions in order to accelerate the development and penetration of renewable energy generation and to reduce the use of fossil fuel-based electricity generators in Hawaii:

(1) Encourage electric utilities to focus greater attention on transmission and distribution operations and investments by:

(A) Establishing ~~a higher allowed~~an appropriate return on common equity associated with existing and planned transmission and distribution investments made to encourage grid improvements; and

~~(B) Establishing a lower allowed return on common equity associated with existing and new fossil~~

~~fuel-based electricity generation investments to discourage fossil generation;~~ and

(B~~C~~) ~~Ensuring that the overall average rate of return on equity is equal to the current authorized return on common equity;~~ Ensuring that the utility has an opportunity to earn a profit on all of its ~~transmission and distribution~~ investments

(2) Encourage the early retirement of less efficient fossil fuel-based electricity generation to sufficiently accommodate achieving Hawaii's Renewable Portfolio Standards mandate of 40 percent renewable energy generation by the year 2030 by:

(A) Allowing electric utilities to recover stranded costs associated with the shutdown of existing fossil fuel-based generators; and

(B) Allowing electric utilities to ~~recover the cost of buying out, or partially buying down the capacity of~~re-negotiate power purchase agreements ~~covering~~ with existing fossil fuel-based generators that wish to switch to renewable fuels ~~prior to the contract's expiration;~~

(3) Encourage the reduction of fuel costs for the remaining 60 percent of electricity generation from existing fossil fuel-based generating units not affected by Hawaii's Renewable Portfolio Standards mandates by:

(A) Authorizing electric utilities the opportunity to earn ~~a higher~~ an appropriate ~~allowed~~ return on common equity associated with any existing fossil fuel-based electricity ~~generation investment~~generator that switches from low sulfur fuel oil or diesel to another less expensive fossil fuel, other than coal, thus incentivizing electric utilities to switch fuel sources so as to share in the annual fuel cost savings with the ratepayer; and

(B) Penalizing electric utilities for failing to convert an eligible, existing low sulfur fuel oil or diesel-based generation unit to one using a less-expensive fossil fuel source;

(4) Encourage electric utilities to enter into and accommodate new renewable energy power purchase agreements by:

(A) Authorizing electric utilities to utilize the renewable energy infrastructure program surcharge mechanism to recover all reasonable and prudent costs and the opportunity to earn ~~a higher allowed~~ an appropriate return on common equity associated with any transmission or distribution grid investments made to interconnect new utility scale renewable energy facilities or to accommodate the high penetration of variable generation on a circuit through investments in communication devices at critical interconnection points thereof, grid enhancements such as storage systems, demand response, and other technologies to improve grid reliability; and

(B) ~~Allowing~~ Investigating whether the electric utilities should be allowed ~~to assess a~~an ~~renewable energy integration charge~~ utility-profit-adder on ~~for~~ all electricity procured from third-party renewable energy generation units;

(5) Encourage electric utilities and independent power producers to terminate and renegotiate power purchase agreements that use rates based on an avoided cost methodology by:

~~(A) Reexamining the current avoided cost methodology;~~

~~(B) Allowing electric utilities to retain a portion of the cost reduction associated with the termination and renegotiation of a power purchase agreement based on avoided cost;~~

(A~~C~~) Authorizing a curtailment compensation mechanism and other appropriate changes in the contractual terms and conditions to ~~for variable generational~~all renewable independent power producers willing to renegotiate and eliminate avoided cost pricing; and

(~~D~~B) Requiring ~~Precluding~~ the electric utilities ~~from recovering the cost of a power purchase agreement from a new renewable energy project developed by an independent power producer who has an existing avoided cost-based power purchase agreement;~~to expedite design and implementation of measures to eliminate curtailment of renewables, or if more cost-effective, pay for curtailment. In the interim, the utilities shall be directed to pay for all curtailments on the re-negotiated contracts.

(6) Encourage the reduction or elimination of curtailment of existing variable generation projects by:

(A) ~~(A)~~ Requiring electric utilities to secure ancillary services from renewable energy projects or independent third parties that are technically capable and willing to supply such services, or,

(B) If appropriate, to provide said ancillary services as a utility service~~; and~~

~~(B) Ensuring that renewable energy projects that are both technically and functionally capable of supplying ancillary services are not curtailed, and that these projects are adequately compensated for any curtailment that does happen to occur; provided that these ancillary services would emulate the technical characteristics of various fossil fuel-based generation units contemplated for replacement~~; and

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BE IT FURTHER RESOLVED that the Public Utilities Commission is requested to include in its annual reports for 2012 and 2013, prepared pursuant to section 269-5, Hawaii Revised Statutes, actions taken by the Commission to fulfill each of the above stated objectives and any statutory action identified by the Commission to carry out the purposes of this Concurrent Resolution; and

BE IT FURTHER RESOLVED that certified copies of this Concurrent Resolution be transmitted to the Governor; Lieutenant Governor; Chairperson of the Public Utilities Commission; Hawaii Energy Resources Coordinator; Hawaiian Electric Company, Inc.; Maui Electric Company, Ltd.; Hawaii Electric Light Company, Inc.; Kauai Island Utility Cooperative; Puna Geothermal Venture; Tawhiri Power, LLC; Covanta Honolulu Resource Recovery Venture; and all other independent power producers in the State currently operating under power purchase agreements using rates based on an avoided cost methodology.

OFFERED BY: ______________________________