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TO THE HOUSE COMMITTEE ON ENERGY AND ENVIRONMENTAL PROTECTION

THE TWENTY-SIXTH LEGISLATURE
REGULAR SESSION OF 2012

TUESDAY, MARCH 13, 2012
9:00 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

SENATE BILL NO. 1197, S.D. 2, PROPOSED H.D. 1 - RELATING TO ENERGY

DESCRIPTION:

This measure proposes to authorize the Public Utilities Commission ("PUC") to establish a grid reliability rate surcharge to electric utility companies to encourage the negotiation of new or existing power purchase agreements with renewable energy producers that contain an avoided cost rate and generally eliminate curtailment. It also proposes to authorize the PUC to provide a higher rate of return for an electric utility company for capital investments made to support the integration of new renewable energy based power generation facilities.

POSITION:

The Consumer Advocate opposes Senate Bill No. 1197, S.D.2, Proposed H.D. 1.

COMMENTS:

Consumers pay the highest electricity rates in the nation. S.B. No. 1197, S.D. 2, Proposed H.D. 1, although well-intended, has the potential to add to electricity rates by creating a new surcharge by directing the PUC to establish a grid management rate based upon a percentage of the costs incurred under a new or renegotiated power purchase agreement with a renewable energy producer. Moreover, the proposed legislation authorizes a higher rate of return to an electric utility for capital investments for transmission, distribution, and grid reliability upgrades installed to support the connection to and integration of new renewable energy based power generation facilities. The new surcharge and the higher rate of return will be paid for by consumers on their electric bills.

The Consumer Advocate further notes that there is in existence the Renewable Energy Infrastructure Program (REIP) surcharge in Docket No. 2007-0416 that was approved by the PUC on December 30, 2009. This surcharge provides the electric utility with the ability to recover costs for: (1) projects that are needed to maintain the current renewable energy resource or connect a new renewable energy project to the electric utility's system; (2) projects that make it possible to accept more renewable energy on the electric utility's system; and (3) projects that encourage renewable energy choices for customers. The REIP cannot be used by the electric utility unless the PUC approves the renewable energy project and the use of the surcharge to recover the project costs. Given the REIP and the required PUC oversight, there would be no need for the provisions of S.B. No. 1197, S.D. 2, Proposed H.D. 1 that create a new surcharge and a higher rate of return for the utility for capital investments made that support the connection of new renewable energy based power generation facilities.

As an additional reason for its opposition, the Consumer Advocate points out that the higher rate of return provision of S.B. No. 1197, S.D. 2, Proposed H.D. 1 would amount to single-issue rate-making, which is prohibited under general rate-making principles.

Finally, the Consumer Advocate objects to the provision in the proposed legislation that prohibits the electric utility from including curtailment provisions in power purchase agreements entered into with a renewable energy producer. Hawaii's consumers demand reliable service from the electric utilities. If the electric utilities are unable to curtail power from Independent Power Producers, then reliability could be negatively impacted.

Thank you for this opportunity to testify.

**Testimony before the
House Committee on
Energy and Environmental Protection**

S.B. 1197, SD2, Proposed HD 1 -- Relating to Energy

**Tuesday, March 13, 2012
9:00 am, Conference Room 325**

**By Scott Seu
Vice-President, Energy Resources
Hawaiian Electric Company, Inc.**

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

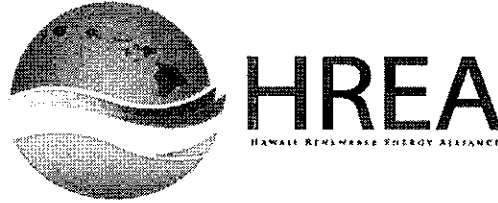
My name is Scott Seu. I am the Vice-President of Energy Resources at Hawaiian Electric Company. I am testifying on behalf of Hawaiian Electric Company (HECO) and its subsidiary utilities, Maui Electric Company (MECO) and Hawaii Electric Light Company (HELCO).

Hawaiian Electric opposes S.B. 1197 SD2, proposed HD 1 on the basis that restricting the electric utility's ability to curtail energy from independent power producers could have serious adverse consequences for the safety and reliability of the electric grid. Unlike the mainland, Hawaii is not interconnected to adjacent grids. This requires the utility to maintain the ability to curtail excess electrical energy output during periods where the supply of electrical generating facilities exceeds the demand for electricity by our customers. Restricting the utility's ability to manage the delicate balance of supply and demand on an ongoing basis will have adverse impacts to reliability and grid stability.

With respect to renegotiating existing power purchase agreements that currently have pricing linked to avoided cost, the Hawaiian Electric Companies respectfully offer that this bill is unnecessary. The Hawaiian Electric Companies have already demonstrated a willingness to renegotiate pricing in existing 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 a result of the 2008 agreement, we asked all of the renewable energy independent power producers holding avoided cost contracts whether they would renegotiate their agreements. We have since renegotiated the agreement for the existing Kaheawa Wind Power I project on Maui to break completely from avoided cost, and are in the process of negotiating with H-Power on Oahu to delink from avoided cost and also accommodate their facility expansion. None of the other Independent Power Producers have agreed to renegotiate their existing contracts. All new power purchase agreements since 2008 no longer have pricing linked to avoided cost.

Thank you for the opportunity to testify.



Directors

Jody Allione
AES-Solar

Joe Bolvin
The Gas Company

Kelly King
Pacific Biodiesel

Matt Stone
Sopogy

Warren S. Bollmeier II
WSB-Hawaii

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

SB 1197 SD2 Proposed HD1, RELATING TO ENERGY

March 13, 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 purposes of SB 1197 SD2 Proposed HD1 are to: (i) authorize the Public Utilities Commission (PUC) to establish a grid reliability rate surcharge to electric utility companies to encourage the negotiation of new or existing power purchase agreements with renewable energy producers that contain an avoided cost rate and generally eliminate curtailment; and (ii) authorize the PUC to provide a higher rate of return to an electric utility company for capital investments made to support the integration of new renewable energy based power generation facilities.

HREA **opposes** this measure and offers the following comments in opposition:

- 1) Can IPP Contract Re-Negotiations be Legislated. We do not believe the Legislature can require re-negotiation of IPP contract with "avoided cost" provisions, which in various forms, are PURPA instruments. Over the years, there have been attempts to re-negotiate IPP contracts, but said attempts have broken down, in our opinion, largely due to the unwillingness of the utility to agree to an equitable treatment of curtailment. We note that curtailment is at the center of discussions on the RSWG docket, and we are hopeful that solutions will be found to minimize curtailments to a given number of hours per year and ONLY for emergency situations.
- 2) No Need for a New Surcharge. There is no need for a new surcharge, as the utility can seek approval for capital investments to support renewable-based power generation facilities under the current Renewable Energy Infrastructure Program (which already includes a surcharge mechanism).

Thus, we recommend that the Committee hold this measure.

Thank you for this opportunity to testify



TESTIMONY OF TAWHIRI POWER LLC ON SB1197, HD1 proposed
BEFORE THE HOUSE COMMITTEE ON ENERGY AND ENVIRONMENTAL
PROTECTION: TUESDAY, MARCH 13, 2012 AT 9 a.m.

TO THE HONORABLE CHAIR COFFMAN AND MEMBERS OF THE COMMITTEE:

Tawhiri Power LLC ("TPL") is an Independent Power Producer ("IPP") that owns and operates the Pakini Nui Wind Farm located in the South Point Area on the Island of Hawaii. The Pakini Nui plant generates renewable energy that is sold to the Hawaii Electric Light Company, Inc. ("HELCO") pursuant to a Power Purchase Agreement ("PPA").

TPL supports the intent of the proposed HD1 which limits provisions relating to the curtailment of renewable energy. The curtailment of renewable energy has been an ongoing problem that needs to be resolved. If this problem is not resolved it may eventually lead to many renewable energy generators being stranded.

However, TPL does not believe that the bill as currently drafted will solve this ongoing problem. Therefore, TPL would recommend that this bill be deferred or redrafted to address the issues of curtailment, the pros and cons of avoided costs and fixed rate payments, and surcharges. TPL specifically does not think that the electric utility companies are entitled to a surcharge to do the right thing for the ratepayers.

If the committee decides to redraft the bill, TPL would be happy to collaborate in this effort.

Thank you for the opportunity to testify.