

TESTIMONY OF HERMINA MORITA
CHAIR, PUBLIC UTILITIES COMMISSION
DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE
SENATE COMMITTEE ON WAYS & MEANS

FEBRUARY 23, 2012

MEASURE: S.B. No. 2752, S.D. 1

TITLE: Relating to Electric Utilities

Chair Ige and Members of the Committee:

DESCRIPTION:

This measure will provide statutory assurance of electric utility recovery of electricity power purchase contract costs in order to reduce the level of debt imputed to those electric utilities by credit rating agencies.

POSITION:

The Commission remains in strong support of this measure, because we believe it will further the State's energy policy. The Commission would also like to offer the following comments for the Committee's consideration.

COMMENTS:

The intent of this measure is to address the financial environment for renewable energy projects in the State without creating added cost to the electricity ratepayer. Financial rating agencies, like Standard & Poor's, view long-term power purchase contracts as equivalent debt and may impute to an electric utility's debt level an amount of 50% or more of existing payments on a power purchase agreement when analyzing that utility's capital structure. This imputation would require the electric utility under review to compensate for this imputed debt with a higher level of expensive common equity capital to rebalance its capital structure that may increase the electric utility's overall cost of capital. A legislative directive to require the recovery of all reasonable and prudent power purchase costs would reduce the level of imputed debt that rating agencies ascribe to these power purchase contracts.

This measure will not create additional ratepayer expense over what is already being charged on monthly electricity bills for power purchase agreements, but ratepayers could benefit from the lower borrowing costs to electric utilities that are an anticipated result of this bill.

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



SENATE COMMITTEE ON WAYS AND MEANS

February 23, 2012, 9:00 A.M.

Room 211

(Testimony is 1 page long)

TESTIMONY IN SUPPORT OF SB 2752 SD1

Chair Ige and members of the Ways and Means Committee:

The Blue Planet Foundation supports SB 2752 SD1, 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 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.

Fairfax Reilly
468 Ahakea Street
P.O. Box 630111
Lanai City, HI 96763

Senator David Y. Ige, Chair
Senate Committee on Ways and Means
Hawaii State Capitol, Room 215
Honolulu, HI

Senator Michelle N. Kidani, Vice Chair
Senate Committee on Ways and Means
Hawaii State Capitol, Room 228
Honolulu, HI

February 23, 2012

Re: SB2752 SD1 OPPOSE

Dear Chair Ige and Vice Chair Kidani:

Thank you for the opportunity to share ideas related to renewable energy from a ratepayer's/taxpayer's view.

The entire renewable energy portfolio project, including the undersea transmission cable, interconnectivity projects, independent developer projects and costs fails to provide us with any clarity or projections of costs relative to other options.

Only the legislature, not the public utility commission (PUC), has the duty to provide ratepayers/taxpayers the due diligence, transparency and detailed cost analysis to permit us to make informed decisions before the entire concept is transferred to the public utility commission (PUC).

For example, both Hawaiian Electric Co. and Castle and Cooke, Inc. have published in the Star Advertiser several proposed "community benefits packages" for Lana'i if the Big Wind project is approved...by the PUC I assume.

Point: How are these costs included or excluded from any project related to any aspects of the renewable energy portfolio? Ensure these details are worked out well before the dockets appear before the PUC, as the PUC process is very closed.

Point: Liability fund: Should not the legislature ensure that all utilities and developers contribute to a liability fund to provide insurance that any costs of losses to the State or residents impacted by loss of use or damage to environment is established prior to any

damage or loss o use? Only the legislature can ensure that these are covered. How is that included in the “debt obligation” of the utilities and developers?

Many detailed issues remain unclear yet the legislature in my opinion has the ultimate responsibility for the due diligence required as out representatives. Defer this bill until your committee has the answers we all need.

Aloha,

Fairfax A. Reilly