HAWAII RENEWABLE ENERGY ALLIANCE

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TESTIMONY OF WARREN BOLLMEIER ON BEHALF OF THE HAWAII RENEWABLE ENERGY ALLIANCE BEFORE THE SENATE COMMITTEE ON WAYS AND MEANS

SB 2752 SD1 RELATING TO ELECTRIC UTILITIES

February 23, 2012

Chair Ige, Vice-Chair Kidani 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 HB 2752 SD1 is to authorize the Public Utilities Commission to allow electric utility companies to recover all non-energy power purchase costs from long-term power purchase agreements, thus mitigating associated imputed debt or debt equivalence.

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

1) While seemingly just a "housekeeping" measure, it will help correct the long-standing view on "Wall Street" that Independent Power Purchase Contracts create an imputed debt on the utility's balance sheet, and this is well explained in Section 1 of the measure. In short, the utility is guaranteed that it will be reimbursed for the cost of its Power Purchase Agreements and this helps keep its "borrowing costs" from increasing, and

2) The net increase of the utility's debt has another impact related to the utility's desired debt-to-equity ratio. Specifically, in order to maintain the utility's desired debt-to-equity ratio, with the imputed debt, the utility would need to issue more shares. That in turn, increases the utility's "cost of doing business" and thus can contribute to higher utility rates. Without the imputed debt, no additional equity is required.

Thank you for this opportunity to testify.

Testimony Before The Senate Committee On Ways and Means

Senate Bill No. 2752, SD1

February 23, 2012

By
Lorie Ann Nagata
Treasurer
Hawaiian Electric Company, Inc.
Hawaii Electric Light Company, Inc.
Maui Electric Company, Limited

Chair Ige, Vice Chair Kidani 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 Senate Bill No. 2752, SD1. 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.

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