

FEB 20 2013

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## SENATE RESOLUTION

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REQUESTING THE PUBLIC UTILITIES COMMISSION TO ESTABLISH AND ACCELERATE THE IMPLEMENTATION OF A COST SAVINGS INCENTIVE MECHANISM AS A FINANCIAL INCENTIVE TO MOTIVATE ELECTRIC UTILITIES TO REDUCE ENERGY COSTS.

1           WHEREAS, electricity rates in the State are at record  
2 levels, due in large part to the high cost of petroleum used to  
3 fuel electric generation plants on all islands; and  
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5           WHEREAS, electric utility operating expenses have  
6 substantially increased in recent years while electric sales  
7 have declined; and  
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9           WHEREAS, electric ratepayers are demanding immediate relief  
10 from increasing electricity rates; and  
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12           WHEREAS, it is therefore imperative that Hawaii's electric  
13 utilities accelerate their efforts to acquire lower cost clean  
14 energy resources and reduce existing energy and other utility  
15 operating expenses; and  
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17           WHEREAS, existing regulatory cost recovery mechanisms  
18 neither provide sufficient economic incentives to induce  
19 electric utilities to reduce energy and operating costs nor  
20 financially reward them if these cost reductions are self-  
21 initiated and substantial; and  
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23           WHEREAS, for example, energy costs are recovered from  
24 customers through the energy cost adjustment clause, which is a  
25 direct cost recovery pass through mechanism, without the ability  
26 for electric utilities to earn a profit or a mark-up on energy  
27 cost recovery; and  
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29           WHEREAS, electric utilities are not incentivized to  
30 aggressively reduce energy costs or seek lower cost alternatives  
31 or efficiency gains; and  
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33           WHEREAS, the current electric ratemaking process employs a  
34 single authorized rate of return that is applied equally to all



1 utility plant investments. This methodology does not  
2 differentiate between plant investments to modernize the  
3 electric grid, which should be encouraged, and investments to  
4 preserve old, inefficient fossil generation, which should be  
5 discouraged; and  
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7 WHEREAS, retiring old, inefficient utility fossil  
8 generation acts as a financial disincentive for electric  
9 utilities because the electric utilities can only earn a return  
10 on plant investment that is actually used and useful to provide  
11 utility service; and  
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13 WHEREAS, it is necessary for the Public Utilities  
14 Commission to consider and implement economic incentive  
15 mechanisms, where appropriate, to induce electric utility  
16 actions to reduce energy cost and operating expenses and to  
17 enable the maximum integration of lower cost renewable energy  
18 resources; and  
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20 WHEREAS, this body finds that the Public Utilities  
21 Commission should establish a policy to implement economic  
22 incentives and cost recovery regulatory mechanisms, as necessary  
23 and appropriate, to induce and accelerate electric utilities'  
24 cost reduction efforts, encourage greater utilization of  
25 renewable energy, accelerate the retirement of utility fossil  
26 generation, and increase investments to modernize the State's  
27 electrical grids and that a shared cost savings incentive  
28 mechanism would accomplish all of these goals; now, therefore,  
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30 BE IT RESOLVED by the Senate of the Twenty-seventh  
31 Legislature of the State of Hawaii, Regular Session of 2013,  
32 that the Public Utilities Commission is requested to establish  
33 and accelerate the implementation of a cost savings incentive  
34 mechanism as a financial incentive to motivate electric  
35 utilities to reduce energy costs; and  
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37 BE IT FURTHER RESOLVED that a certified copy of this  
38 Resolution be transmitted to the Public Utilities Commission.  
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OFFERED BY: Malene [Signature]