



# DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

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Statement of  
**Richard C. Lim**  
Director

Department of Business, Economic Development, and Tourism  
before the

## HOUSE COMMITTEE ON CONSUMER PROTECTION AND COMMERCE

Monday, March 25, 2013

3 p.m.

State Capitol, Conference Room 325

in consideration of  
**SB 120, SD 1 RELATING TO PUBLIC UTILITIES.**

Chair McKelvey, Vice Chair Kawakami, and Members of the Committee.

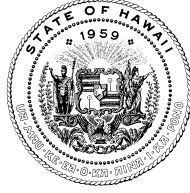
The Department of Business, Economic Development, and Tourism (DBEDT) supports SB 120, SD1, which would require the Public Utilities Commission (PUC) to consider if one or more of the following would be in the public interest:

- An incentive mechanism designed to induce a public utility to reduce energy and operating costs;
- A renewable energy curtailment mitigation incentive mechanism;
- A cost recovery mechanism to accelerate retirement of utility fossil generation;
- Differentiated authorized rates of return to encourage increased utility investments in transmission and distribution infrastructure.

We support this bill as it could provide for greater adoption of renewable energy, more robust electrical grids and reduced electricity rates. Furthermore, this bill is

consistent with Governor Abercrombie's "New Day in Hawai'i Plan" which promotes greater adoption of renewable energy with clear community benefits and the alignment of the electric utility's success with Hawaii's clean energy goals.

Thank you for the opportunity to offer these comments in support of SB 120, SD1.



NEIL ABERCROMBIE  
GOVERNOR

SHAN S. TSUTSUI  
LT. GOVERNOR

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TO THE HOUSE COMMITTEE  
ON CONSUMER PROTECTION AND COMMERCE

THE TWENTY-SEVENTH LEGISLATURE  
REGULAR SESSION OF 2013

MONDAY, MARCH 25, 2013  
3:00 P.M.

TESTIMONY OF JEFFREY T. ONO, EXECUTIVE DIRECTOR, DIVISION OF  
CONSUMER ADVOCACY, DEPARTMENT OF COMMERCE AND CONSUMER  
AFFAIRS, TO THE HONORABLE ANGUS L. K. MCKELVEY, CHAIR,  
AND MEMBERS OF THE COMMITTEE

SENATE BILL NO. 120, S.D. 1 - RELATING TO PUBLIC UTILITIES

DESCRIPTION:

This measure proposes to authorize the Public Utilities Commission ("PUC") to establish a policy to implement economic incentives and cost recovery regulatory mechanisms to induce and accelerate electric utilities cost reduction efforts, encourage greater utilization of renewable energy, accelerate the retirement of utility fossil generation, and increase investments to modernize the State's electrical grids.

POSITION:

The Division of Consumer Advocacy ("Consumer Advocate") supports the intent of this bill and offers the following comments.

COMMENTS:

This bill requires the PUC to consider various economic incentives and cost recovery mechanisms for Hawaii's electric utilities as a means of expediting the utilities' reduction in the use of petroleum for electricity generation. The Consumer Advocate appreciates the latitude given to the PUC in being able to review, analyze, and accept or reject any or all of the proposals in this bill. As is required by Chapter 269, the Consumer Advocate will participate in any process or docket that the PUC may use to carry out the directive in S.B. No. 120, S.D. 1.

The Consumer Advocate has difficulty accepting the concept of providing financial incentives to the electric utilities for carrying out that which they should be doing as part of their regularly conducted activities. For example, it is already part of the ratemaking process to provide sufficient financial incentives for the electric utilities to be able to attract capital for projects such as the improvement of transmission and distribution infrastructure. This bill seems to suggest providing a higher authorized rate of return on equity if the electric utilities invest in transmission and distribution infrastructure. The Consumer Advocate has objected to this type of single-issue ratemaking in the past and is likely to continue to do so in the future. In addition, these proposals may result in unintended consequences, such as increases in electricity rates and ratepayer bills, which the customers can ill afford at this time.

The Consumer Advocate supports the intent of this bill, but suggests that these provisions be adopted in the form of a resolution instead. A resolution would have the same effect of requiring the PUC to consider these financial incentives without having this directive permanently placed in statute.

Thank you for this opportunity to testify.

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

MARCH 25, 2013  
3:00 p.m.

**MEASURE:** S.B. No. 120, S.D. 1

**TITLE:** Relating to Public Utilities

Chair McKelvey and Members of the Committee:

**DESCRIPTION:**

S.B. No. 120, S.D. 1 gives policy guidance to the Public Utilities Commission (“Commission”) to establish economic incentives and regulatory cost recovery mechanisms to encourage and accelerate the efforts of electric utilities in reducing costs and increasing the use of renewable energy determined to be necessary and appropriate by the Commission. This measure provides examples of potential incentive mechanisms focusing on shared cost savings incentives, renewable energy curtailment mitigation incentives, stranded cost recovery incentives for retired power generation assets, and a system of differentiated rates of return on common equity for targeted utility investments in electric system infrastructure.

**POSITION:**

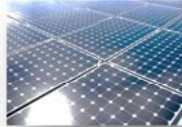
The Commission supports this measure and would like to offer the following comments for the Committee’s consideration.

**COMMENTS:**

This bill gives policy guidance to incentivize Hawaii’s electric utility companies to make needed reforms to attain lower electricity rates and to achieve Hawaii’s clean energy objectives. The various mechanisms in this bill represent a set of regulatory tools that would make the State’s transition to an affordable clean energy-focused system one that would be mutually beneficial to both electric utilities and ratepayers.

The economic incentives described in S.B. No. 120, S.D. 1 appear to be based on established regulatory practices that have been implemented throughout the rest of the country for the purpose of moving the electric utility industry toward a desired course of action. The Commission believes there is sufficient flexibility in this measure to allow the Commission to evaluate, select, and tailor the best set of incentive mechanisms to transform Hawaii's electric industry to achieve an affordable clean energy future.

Thank you for the opportunity to testify on this measure.



**HOUSE COMMITTEE ON CONSUMER PROTECTION & COMMERCE**

March 25, 2013, 3:00 P.M.

Room 325

**(Testimony is 2 pages long)**

**TESTIMONY IN STRONG SUPPORT OF SB 120 SD1**

Chair McKelvey and members of the Consumer Protection & Commerce Committee:

The Blue Planet Foundation strongly supports SB 120 SD1 **as currently drafted**, directing the Public Utilities Commission (PUC) to consider methods of incentivizing Hawai'i's investor-owned electric utilities to aggressively reduce energy costs and seek alternatives that are more sustainable for our economy and our environment.

It is widely recognized that Hawai'i's transition to local, sustainable, and cost-effective energy will require a concerted effort to introduce new resources, programs, and innovations. Our investor-owned utility, under the current business model, is not optimally positioned to aggressively pursue such a transition. For example, O'ahu remains powered in part by a utility-owned generating unit installed in 1947. In the 5 years since our Hawaii Clean Energy Initiative was signed, our fossil-based generating capacity has *increased*. While this may be beneficial to utility investors under the current utility compensation scheme,<sup>1</sup> it is plainly at odds with a transition to a more efficient, affordable, and sustainable electric system.

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<sup>1</sup> In several recent hearings during this legislative season, various parties have noted that Forbes.com recently characterized Hawaiian Electric's shareholder dividend yield as "fat." See Forbes.com, "Say Aloha to Fat Yields With Hawaii Electric," available at <http://www.forbes.com/sites/zacks/2012/12/21/say-aloha-to-fat-yields-with-hawaiian-electric/>. That article noted that at "4.9% [HEI's dividend yield is] substantially higher than the industry average of 2.2%." Indeed, HEI's dividend yield has exceeded the industry average every year for the past 5 years. During the same timeframe, the Hawaiian Electric share price has outpaced the S&P 500, 24% to 14%. This data suggests that Hawaiian Electric shareholders are profiting handsomely from the status quo. SB 120 can ensure that investors and ratepayers both benefit, as we break away from that status quo.

In fact, last month Hawaiian Electric Industries (HEI) represented to shareholders that their five-year expenditures forecast (estimated at nearly \$3 billion)<sup>2</sup> includes little in the way of grid modernization (such as smart meters for customers, demand response capacity,<sup>3</sup> energy storage,<sup>4</sup> or other elements of a “smart grid”) necessary to support increasing amounts of renewable energy integration.

Senate Bill 120 SD1 seeks to correct this by empowering the PUC to establish incentive mechanisms to ensure that our utilities can remain financially viable—and indeed can thrive—by focusing their efforts and investments on a more modern approach to electrical generation and distribution. By re-focusing on solutions like dynamic pricing,<sup>5</sup> demand response, energy storage, and more efficient system operation, our utility can shift more aggressively away from the crippling reliance on imported fossil fuels.

Importantly, SB 120 SD1 represents a method for achieving this with a “carrot” rather than a “stick.” In other words, the bill aligns the longer-term interests of ratepayers with the shorter-term interests of utility investors. This is a win-win.

For these reasons, Blue Planet strongly supports SB 120 SD1 ***as currently drafted.***

Thank you for this opportunity to testify.

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<sup>2</sup> Hawaiian Electric Industries, Inc. 2012 Fourth Quarter and Year-end Financial Results and Outlook February 15, 2013, available at <http://phx.corporate-ir.net/phoenix.zhtml?c=101675&p=irol-calendar>

<sup>3</sup> In general terms, “demand response” is the strategy of empowering the utility to control both supply of energy (from generators), and the demand for energy (from consumers) by temporarily dialing back noncritical loads at times when less renewable energy is available.

<sup>4</sup> For example, energy storage could use new or existing water storage infrastructure to store energy via a “pumped hydro” system, strengthening both our energy and water infrastructure. Or, the utility can move aggressively to promote electric vehicles, gaining the dual benefit of a sizeable demand response capability, and the addition of thousands of mobile batteries to our electric grid.

<sup>5</sup> For example, dynamic pricing can include “time-of-supply” prices that incentivize renewable power producers to provide power at times of peak demand. Dynamic pricing can also include “time-of-use” rates that empower ratepayers to reduce their energy costs by shifting demand to times when more power is available.