

SB 120

Measure Title: RELATING TO PUBLIC UTILITIES.

Report Title: Public Utilities Commission; Electric Utilities; Economic Incentives; Cost Recovery

Description: Authorizes the public utilities commission 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. (SD1)

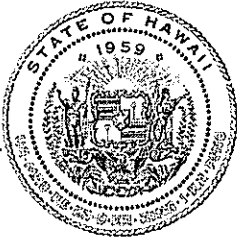
Companion:

Package: None

Current Referral: CPN

Introducer(s): GALUTERIA

| <u>Sort by Date</u> | | Status Text |
|---------------------|---|---|
| 1/17/2013 | S | Introduced. |
| 1/17/2013 | S | Passed First Reading. |
| 1/22/2013 | S | Referred to CPN. |
| 2/5/2013 | S | The committee(s) on CPN will hold a public decision making on 02-06-13 9:30AM in conference room 229. |
| 2/6/2013 | S | The committee(s) on CPN recommend(s) that the measure be PASSED, WITH AMENDMENTS and be recommitted. The votes in CPN were as follows: 7 Aye(s): Senator(s) Baker, Galuteria, Nishihara, Solomon, Taniguchi, Wakai, Slom; Aye(s) with reservations: none ; 0 No(es): none; and 0 Excused: none. |
| 2/7/2013 | S | Reported from CPN (Stand. Com. Rep. No. 117) as amended (SD 1), with recommendation of recommitment to CPN. |
| 2/7/2013 | S | Report adopted, as amended (SD 1) and recommitted to CPN. |
| 2/8/2013 | S | The committee(s) on CPN has scheduled a public hearing on 02-13-13 8:30AM in conference room 229. |



**DEPARTMENT OF BUSINESS,
ECONOMIC DEVELOPMENT & TOURISM**

NEIL ABERCROMBIE
GOVERNOR

RICHARD C. LIM
DIRECTOR

MARY ALICE EVANS
DEPUTY DIRECTOR

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Statement of
Richard C. Lim
Director

Department of Business, Economic Development, and Tourism
before the
Senate Committee on Commerce and Consumer Protection
Wednesday, February 13, 2013
8:30a.m.
State Capitol, Conference Room 229

in consideration of

SB 120 SD 1 RELATING TO PUBLIC UTILITIES.

Chair Baker, Vice Chair Galuteria, and Members of the Committee.

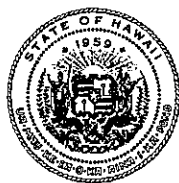
The Department of Business, Economic Development, and Tourism (DBEDT) supports SB 120 SD1, which would require the Public Utilities Commission (PUC) to consider if one or more of the following would be in the public interest:

- 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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KEALI'I S. LOPEZ
DIRECTOR

JO ANN M. UCHIDA TAKEUCHI
DEPUTY DIRECTOR

TO THE SENATE COMMITTEE
ON COMMERCE AND CONSUMER PROTECTION

THE TWENTY-SEVENTH LEGISLATURE
REGULAR SESSION OF 2013

WEDNESDAY, FEBRUARY 13, 2013
8:30 A.M.

TESTIMONY OF JEFFREY T. ONO, EXECUTIVE DIRECTOR, DIVISION OF
CONSUMER ADVOCACY, DEPARTMENT OF COMMERCE AND CONSUMER
AFFAIRS, TO THE HONORABLE ROSALYN H. BAKER, CHAIR,
AND MEMBERS OF THE COMMITTEE

SENATE BILL NO. 120 PROPOSED 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
SENATE COMMITTEE ON
COMMERCE & CONSUMER PROTECTION

FEBRUARY 13, 2013
8:30 a.m.

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

TITLE: Relating to Public Utilities

Chair Baker and Members of the Committee:

DESCRIPTION:

S.B. No. 120, S.D. 1 would provide 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 bill 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. Stranded cost recovery, for example, has been an accepted practice throughout the contiguous United States during the last few decades, as many mainland electric utilities underwent the transition to retail choice in electricity supply for consumers. 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.

Testimony before the Senate Committee on Commerce and Consumer Protection

S.B. 120, S.D. 1 -- Relating to Public Utilities

**Wednesday, February 13, 2013
8:30 am, Conference Room 229**

By Scott Seu

Hawaiian Electric Company, Inc.

Chair Baker, Vice Chair Galuteria and Members of the Committee:

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

Hawaiian Electric supports the general intent of S.B. 120, S.D. 1, but requests that the bill language be refined to allow the Public Utilities Commission and the utilities to more broadly consider what may be in the best interests of our customers. We agree that the Public Utilities Commission should be allowed to establish and implement policy providing incentives and alternative cost recovery regulatory mechanisms to electric utilities, in order to lower costs to customers, encourage greater use of renewable energy, and increase investments to modernize the State's electrical grids and power generating system, including, where appropriate, via replacement of old generating units. However, the proposed statutory language makes certain presumptions that it will always be in the public interest to discourage any investment in fossil fuel infrastructure, when in fact some types of such investment may actually be critical to lowering customer costs and allowing for greater use of renewable energy.

The bill proposes that the PUC consider whether or not four potential incentive mechanisms would be in the public interest. We offer the following comments on these mechanisms:

(1) Shared cost savings incentive mechanism designed to induce reduced energy and operating costs. We support this language as proposed.

(2) Renewable energy curtailment mitigation incentive mechanism to encourage greater use of lower cost renewable energy. We support this, however, we note that the total cost to customers needs to be considered in determining whether or not mitigating curtailment of a particular renewable energy source is in the public interest.

(3) Stranded cost recovery mechanism. We strongly support recovery of stranded costs and will support review of whether our customers would be better off with fossil plant retirements, but the statutory language should not presume that encouragement of early retirement of all fossil fuel generating units will be in the best interests of our customers. We offer suggested revisions to this section on the attached page to address this concern.

(4) Differentiated authorized rates of return on common equity to encourage transmission and distribution grid modernization, and to disincentivize utility investment in fossil fuel generation. Again, the proposed language presumes that customers will be better off with no utility investments in fossil generation. However, existing firm generating units provide essential ancillary services, and investing in improvements in those units can help the system accept more intermittent renewable energy, and reduce the cost of energy generated by the units. It may also be in the public interest to invest in potential alternative cleaner fuel sources such as natural gas, which could significantly lower the costs of electricity to customers. As a matter of policy we are strongly committed to a clean energy future, but it may be years before we come up with a 100% clean energy system that is cost-effective and reliable, and the statute should allow the Public Utilities Commission to take this time horizon into account. We offer proposed revisions on the attached page to refocus this section on incenting investments in renewable energy that lower costs to customers.

Thank you for the opportunity to testify.

Proposed Amendments to SB 120, SD1

Starting on Page 5, line 3:

(d) The public utilities commission, in carrying out its responsibilities under this chapter, shall consider whether the implementation of one or more of the following economic incentives or cost recovery mechanisms would be in the public interest:

- (1) The establishment of a shared cost savings incentive mechanism designed to induce a public utility to reduce energy costs and operating costs and accelerate the implementation of energy cost reduction practices;
- (2) The establishment of a renewable energy curtailment mitigation incentive mechanism to encourage public utilities to implement curtailment mitigation practices when lower cost renewable energy is available but not utilized through the sharing of energy cost savings between the public utility, ratepayer, and affected renewable energy projects;
- (3) The establishment of a stranded cost recovery mechanism to allow ~~encourage the accelerated retirement of an electric utility fossil fuel electric generation plant by allowing~~ an electric utility to recover the stranded costs created by early retirement of a fossil generation plant; and
- (4) The establishment of differentiated authorized rates of return on common equity to encourage increased utility investments in transmission and distribution infrastructure ~~discourage an electric utility investment in fossil fuel electric generation plants to incentivize~~ grid modernization, and incentivize cost-effective renewable energy ~~disincentivize fossil~~ generation, respectively.

SB120 Testimony

| Submitted By | Organization | Testifier Position | Present at Hearing |
|---------------------|---------------------|---------------------------|---------------------------|
| Troy Abraham | Individual | Support | No |