

SB 20

RELATING TO AIR POLLUTION.

Prohibits the issuance of permits to new and existing covered sources that will increase coal consumption and prohibits the approval of power purchase agreements that propose to burn or consume coal that will generate more than 50 megawatts of energy.

TESTIMONY OF HERMINA MORITA
CHAIR, PUBLIC UTILITIES COMMISSION
DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE
SENATE COMMITTEES ON
ENERGY & ENVIRONMENT
AND
COMMERCE & CONSUMER PROTECTION

FEBRUARY 7, 2013
2:45 P.M.

MEASURE: S.B. No. 20
TITLE: Relating to Air Pollution

Chair Gabbard, Chair Baker, and Members of the Committees:

DESCRIPTION:

This measure would prohibit the Public Utilities Commission ("Commission") from "approv[ing] any new, modified, or renewed power purchase agreements that propose to burn or consume coal that will generate more than fifty megawatts of energy." This measure also proposes to prohibit the Department of Health from issuing permits to owners and operators for the construction of new facilities that burn or consume coal, or for the expansion, relocation, or modification of existing facilities that would result in the increase of coal consumption.

POSITION:

The Commission opposes this bill, because it will limit the Commission's ability to weigh and balance policy issues with real cost ramifications and to take necessary steps to help stabilize electricity costs against the rising costs of oil.

COMMENTS:

While the Commission appreciates the intent of this bill to reduce or eliminate the use of coal, limiting the Commission's ability to weigh and balance policy issues with real cost impacts places an unnecessary financial burden on Hawaii's electricity ratepayer.

AES Hawaii Inc. ("AES") is the State's only coal-fired electrical power station and represents about 20% of Oahu's commercial electrical supply. The fuel cost savings of this facility saves the Oahu ratepayer approximately \$300 million per year at current oil pricing. The loss of this 180 megawatt firm power facility would have to be replaced by either more expensive fossil fuels or renewable fuels.

Unless there are significant technological breakthroughs, 60% of electricity generation is still anticipated to be met by fossil fuels in 2030. Act 99, Session Laws of Hawaii 2012, provides statutory guidance to the Commission to consider the costs and benefits of a diverse fossil fuel portfolio in the course of its deliberations. Limiting access to a diverse fossil fuel portfolio by limiting the use of coal restricts the Commission's ability to control costs for the benefit of ratepayers. Achieving Hawaii's clean energy future is a multi-pronged approach, and a significant factor is the cost impacts on Hawaii's residents and businesses as we move forward.

Thank you for the opportunity to testify on this measure. We respectfully request that this measure be held in Committee.



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COMMITTEE ON ENERGY AND ENVIRONMENT

Senator Mike Gabbard, Chair

Senator Russell E. Ruderman, Vice Chair

COMMITTEE ON COMMERCE AND CONSUMER PROTECTION

Senator Rosalyn H. Baker, Chair

Senator Brickwood Galuteria, Vice Chair

NOTICE OF HEARING

DATE: Thursday, February 7, 2013

TIME: 2:45 p.m.

PLACE: Conference Room 225

SB 20 COAL

OPPOSE

Aloha Chairs Gabbard and Baker, Vice Chairs Ruderman and Galuteria and Members of the Committees

My name is Henry Curtis and I am the Executive Director of Life of the Land, Hawai'i's own energy, environmental and community action group advocating for the people and `aina for over four decades. Our mission is to preserve and protect the life of the land through sound energy and land use policies and to promote open government through research, education, advocacy and, when necessary, litigation.

SB 20 purports to restrict coal plants in Hawai`i. But does it really?

Hawai`i has two coal plants. Are either covered by this bill?

HC&S Pu`unene Mill has a coal/biomass plant (three generators with a total capacity of 12 MW). SB 20 focuses only on large coal plants (50 MW +) therefore HC&S Pu`unene Mill isn't covered.

AES owns a 180 MW coal plant in Campbell Industrial Park which generates about 1/6 of the electricity HECO sells on O`ahu. To diversify O`ahu's energy options, this coal facility was proposed in 1989. The Public Utilities Commission (PUC) approved the HECO-AES Contract which runs through 2022.

SB 20 focuses on approvals after December 31, 2014. AES and HECO are currently in negotiations to extend the shelf life of their current contract which expires in 2022.

In 2006 the PUC adopted a Competitive Bidding Framework to guide the acquisition on new generation.

In 2012 HECO proposed exempting the HECO-AES negotiations from that Framework.

In 2013 the Consumer Advocate told the PUC that "it does not object to the Commission issuing an order declaring that AES Hawaii, Inc.'s ("AES") proposal to renegotiate its power purchase agreement ...is exempt from the Framework for Competitive Bidding."

The only real purpose of SB 20 might be to tell AES to quickly accept HECO's terms so the renegotiated can be approved by the PUC before the deadline.

Please either hold the bill or ban all agency approvals of contracts involving coal.

Mahalo

**SENATE COMMITTEE ON
ENERGY AND ENVIRONMENT**

and

**SENATE COMMITTEE ON
COMMERCE AND CONSUMER PROTECTION**

February 7, 2013

Senate Bill 20 Relating to Air Pollution

Chair Gabbard, Chair Baker, members of the Senate Committee on Energy and Environment, and members of the Senate Committee on Commerce and Consumer Protection, I am Jeff Walsh, President of AES Hawaii, Inc., testifying on behalf of AES Hawaii, Inc., an independent power producer on Oahu producing electricity for Hawaii Electric using coal among other fuels to generate about 20% of island load at any time. AES Hawaii has provided safe, reliable and affordable power for the past 20 years. The plant utilizes state of the art clean coal technology to effectively comply with all current federal and state environmental standards. AES Hawaii is OPPOSED to Senate Bill 20 Relating to Air Pollution.

Current emissions controls devices are as follows;

- particulate removed by a fabric filter bag-houses which is the Best Available Control Technology or BACT.
- NOX control using “in-combustion” Selective Non Catalytic Reduction by injection of anhydrous ammonia
- SOX control using in bed injection of locally mined limestone.

This proposed bill would prohibit or impede the expansion of the only coal burning plant on the island or the extension of its long-term power purchase agreement with Hawaiian Electric Company.

The AES Hawaii facility serves a critical service now and shall continue in the future to the citizens of Oahu. The plant provides by far the lowest cost energy on the island of Oahu under long term contract with Hawaiian Electric Company. The energy pricing from this plant has provided stable and predictable energy pricing as compared to the highly variable costs of generating electricity with fuel oil and renewable energy. As illustrated by data from the Hawaiian Electric Monthly Energy Cost Adjustment Factor filing with the PUC (the “ECAAF Report”), AES Hawaii provides electricity significantly lower in cost than that of electricity generated from conventional oil or other purchased sources. Based on December 2011 data from the ECAAF Report, the monthly electricity bill to consumers would have been \$20.00 higher per month or almost 10 percent higher without power supplied from AES Hawaii, based on an average monthly consumption of 600kwh.

AES Hawaii is Oahu’s most reliable power plant. AES Hawaii finished 2012 with an availability factor of 99% and a life to date availability factor of 97.3%. With capacity factors of

about 95% AES Hawaii is Oahu's lowest cost, environmentally friendly source of power. As a comparison, the utility's steam electrical generation units typically run with 85% (93.6% for 2011 according to HECO AOS Filing) availability factors. With wind typically operating at 40-60% capacity factors and solar at 16-20% capacity factors, AES Hawaii complements Oahu's goal of increasing renewable energy.

AES Hawaii, the single largest generator connected to the HECO system, also provides firm capacity to the electric grid and provides dispatchable power which is used to control frequency and voltage on the island grid. This plays a critical role in maintaining grid stability. By providing reliable, readily dispatchable power to control frequency and voltage on the island grid, the plant provides a critical service that is required to allow for further penetration of as-available renewable energy. Without this service, additional renewable energy could create instability in the grid system.

The proposed bill would preclude AES from modifying or renewing its power purchase agreement after 2014. This would limit the availability of affordable, safe, and reliable energy available to Hawaiian Electric and create significantly higher electricity costs to consumers in Oahu.

Thank you for the opportunity to present this testimony.

**SB 20
RELATING TO AIR POLLUTION**

**PAUL T. OSHIRO
MANAGER – GOVERNMENT RELATIONS
ALEXANDER & BALDWIN, INC.**

FEBRUARY 7, 2013

Chair Gabbard, Chair Baker, and Members of the Senate Committees on Energy & Environment and Commerce & Consumer Protection:

I am Paul Oshiro, testifying on behalf of Alexander & Baldwin, Inc. (A&B) and its agricultural company Hawaiian Commercial & Sugar Company on SB 20, "A BILL FOR AN ACT RELATING TO AIR POLLUTION." We respectfully oppose this bill.

Hawaiian Commercial & Sugar Company (HC&S) has been in operation for over 140 years and is Hawaii's last remaining sugar plantation. HC&S has approximately 36,000 acres in active sugar cane cultivation and employs about 800 Maui residents. While all of Hawaii's other sugar companies have shut down over the years, HC&S has been fortunate, through significant investments in our agricultural infrastructure and operations, to have sustained our operations and continue as a major employer in the State of Hawaii. Despite the current up tick in sugar prices, history has proven that commodity sugar prices will remain relatively flat, as they have over the last few decades, despite increasing production costs. Thus, HC&S has for a number of years been pursuing, and investing in, a transition from a primary producer of commodity sugar to the production of specialty sugar and renewable energy. In addition to being the main supplier of Sugar In The Raw, the little brown packets of sugar seen at

restaurants and coffee shops across the nation, HC&S is also expanding production and sales of our specialty Maui Brand Sugar.

HC&S generates biomass produced electricity for its sugar milling, irrigation pumping, and other internal operations and provides electricity to Maui Electric Company (MECO) for general community use. The source of fuel for this biomass electricity is bagasse, the residual fiber of the sugar cane plant. Not only does HC&S provide approximately 6% of MECO's total electricity, HC&S is a firm power source to MECO (i.e. committed power delivery, not on an 'as available' basis), and has played a significant role in the restoration of MECO's electrical service during power outages.

In addition, HC&S is currently participating in significant new Hawaii-based research initiatives on bio-energy, closely working with the University of Hawaii and various Federal agencies on energy crop development, energy conversion technologies, and long term resource requirements for biomass production. HC&S also provides water (through the County) to approximately 35,000 Upcountry Maui residents and to the Kula Agricultural Park.

This bill prohibits the Department of Health from issuing permits for the expansion, relocation, or modification of existing facilities that will result in an increase in the burning or consumption of coal to generate energy. While HC&S's biomass power generating facilities are fueled primarily by sugar cane bagasse, there is a need for these generating facilities to periodically burn an amount of coal to maintain stable boiler operations (biomass fuel quality can vary depending on harvesting and mill operations), to remain in compliance with air emission regulations, and to meet firm

power commitments to MECO, particularly during the off season maintenance period when the mill is not in operation and bagasse is not available.

As discussed above, HC&S is currently in partnership with the University of Hawaii and various Federal agencies conducting in-field research on cultivating renewable energy crops and converting them into usable forms of energy. Twelve million dollars in Federal funding has been dedicated to this project, which is in its second year of a five year study and assessment period. If commercial scale production of bio-energy proves to be viable at HC&S, it is possible that HC&S may alter its core businesses and focus a greater portion of its operations into bio-energy production.

Should HC&S decide to significantly enhance its bio-energy production operations, modifications may be needed to our present renewable energy facilities to implement these enhancements and to enable HC&S to continue to be a firm power provider to MECO. In that this bill prohibits certain renewable energy facility modifications, we envision that this bill may limit the options available to HC&S in the future and challenge HC&S's efforts to continue as a firm power source provider of renewable energy to the Maui community.

Based on the aforementioned, we respectfully request that this bill be held in Committee. Thank you for the opportunity to testify.