



Written Comments

HB1504 HD2 RELATING TO ENERGY

Comments by the Legislative Reference Bureau
Charlotte A. Carter-Yamauchi, Acting Director

Presented to the House Committee on Finance

Tuesday, March 3, 2015, 1:30 p.m.
Conference Room 308

Chair Luke and Members of the Committee:

Good afternoon Chair Luke and members of the Committee, my name is Charlotte Carter-Yamauchi and I am the Acting Director of the Legislative Reference Bureau. Thank you for providing the opportunity to submit written comments on H.B. No. 1504, H.D. 2, Relating to Energy.

The purpose of this bill is to:

- (1) Authorize and fund a study to assess and compare Hawaii's for-profit energy utilities with specific publicly or cooperatively owned energy utilities in the United States; and
- (2) Impose a cap on interconnection costs that may be recorded by an electric public utility through the Hawaii electricity reliability surcharge.

With regard to the study aspects of the bill, the bill directs the Legislative Reference Bureau to conduct a study examining the energy utilities in: Kauai, Hawaii; Boulder, Colorado; Sacramento, California; Long Island, New York; and any other energy utility the Bureau deems appropriate, to:

- (1) Compare the different organizational models of publicly-owned energy utilities with that of the electric utilities of Hawaiian Electric Industries, Inc., with respect to elements that include but are not limited to: ownership structure, relation to ratepayers, operating and rate costs to taxpayers or ratepayers, energy generation sources, and incentives to achieve renewable energy goals; and

- (2) Review the process by which any of these foregoing energy utilities converted to a municipally-owned or cooperative organizational structure and to the extent possible, assess the benefits and problems associated with the conversion, including an analysis of related procedural and legal issues.

The Legislative Reference Bureau takes no position on this measure, but believes that the services requested of the Bureau under this measure, as currently drafted, are manageable and that the Bureau will be able to provide the services in the time allotted; provided that the Bureau's interim workload is not adversely impacted by too many other studies or additional responsibilities, such as conducting, writing, or finalizing other reports, drafting legislation, or both, for other state agencies, task forces, or working groups that may be requested or required under other legislative measures.

Thank you again for this opportunity to provide written comments.

TESTIMONY OF RANDY IWASE
CHAIR, PUBLIC UTILITIES COMMISSION
STATE OF HAWAII
TO THE
HOUSE COMMITTEE ON
FINANCE

March 3, 2015
1:30 p.m.

MEASURE: H.B. No. 1504, H.D. 2
TITLE: Relating to Energy

Chair Luke, Vice Chair Nishimoto, and Members of the Committee:

DESCRIPTION:

This measure requires the Legislative Reference Bureau to study electric utilities, including organizational models and the conversion process. This measure also establishes a cap on the interconnection costs recoverable by an electric utility from the Hawaii electricity reliability surcharge.

POSITION:

The Commission offers the following comments for the Committee's consideration.

COMMENTS:

With respect to Section 3 of this measure, the Commission notes that the Hawaii electric reliability surcharge outlined in HRS § 269-146 has not been established by the Commission. Because of this, the utility currently cannot currently recover interconnection costs through the Hawaii electricity and reliability surcharge. Therefore, placing a cap on the interconnection costs recoverable through the Hawaii electricity and reliability surcharge may not be necessary at this time.

Thank you for the opportunity to testify on this measure.



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

DAVID Y. IGE
GOVERNOR

LUIS P. SALAVERIA
DIRECTOR

MARY ALICE EVANS
DEPUTY DIRECTOR

No. 1 Capitol District Building, 250 South Hotel Street, 5th Floor, Honolulu, Hawaii 96813
Mailing Address: P.O. Box 2359, Honolulu, Hawaii 96804
Web site: www.hawaii.gov/dbedt

Telephone: (808) 586-2355
Fax: (808) 586-2377

Statement of
LUIS P. SALAVERIA
Director

Department of Business, Economic Development, and Tourism
before the
HOUSE COMMITTEE ON FINANCE

Tuesday, March 3, 2015
1:30 p.m.
State Capitol, Conference Room 308

in consideration of
HB 1504, HD2
RELATING TO ENERGY.

Chair Luke, Vice Chair Nishimoto, and Members of the Committee.

The Department of Business, Economic Development & Tourism (DBEDT) respectfully offers comments on HB 1504, HD2 which directs the Legislative Reference Bureau to conduct a study to compare the pros and cons of Hawaii's current for-profit utility models with a public utility model. The bill has also been amended to add a cap on interconnection costs based on national averages that can be recovered.

Given that the PUC will be reviewing whether or not the acquisition of HECO by NextEra will be in the public's interest, any report effectively looking at alternatives to such a merger should be coordinated with the PUC process.

It may also be appropriate to introduce into SECTION 2 language which acknowledges any difference in compliance requirements imposed on those utilities either through legislation or regulation. Transparency of any structural differences that may affect costs of environmental compliance are crucial in making an equitable comparison of various structures for publically-owned and for-profit utilities. For example, structural differences in utility model design may result in variations in cost and performance for qualifying sources for renewable energy and Renewable Energy Credits (RECs) and fulfillment of portfolio standards.

In regard to capping cost recovery for interconnection costs careful consideration should be given to unintended consequences. Capping the utilities cost recovery for generator interconnection costs may create a misalignment in Hawaii's policy objective to support customer choice and renewable energy with the utilities ability to recover their cost of service. Tying the appropriate level of interconnection costs to national averages may also not be appropriate given Hawaii's considerable level of penetration of distributed solar resources in comparison to the national average. Protections against inflated interconnection costs are in place as the reasonableness of the interconnection costs incurred and requested for recovery by the utilities are already subject to the review and approval by the commission under section Hawaii Revised Statute 269-16. In light of the alignment of parties interests the existing protections may be sufficient.

Thank you for the opportunity to offer these comments regarding HB 1504, HD2.



**STATE OF HAWAII
STATE PROCUREMENT OFFICE**

P.O. Box 119
Honolulu, Hawaii 96810-0119
Telephone: (808) 587-4700
e-mail: state.procurement.office@hawaii.gov
<http://spo.hawaii.gov>

TESTIMONY
OF
SARAH ALLEN, ADMINISTRATOR
STATE PROCUREMENT OFFICE

TO THE HOUSE COMMITTEE
ON
FINANCE
MARCH 3, 2015, 1:30 P.M.

HOUSE BILL 1504 HD2
RELATING TO ENERGY

Chair Luke, Vice-Chair Nishimoto, and members of the committee, thank you for the opportunity to submit testimony on HB1504 HD2.

The State Procurement Office (SPO) understands the intent of this bill, but opposes Section 2(b) wherein an exemption from the Hawaii Public Procurement Code (HRS 103D) would be granted to the Legislative Reference Bureau for any contracts for services in support of the energy utilities study specified in the bill.

The Code is the single source of public procurement policy to be applied equally and uniformly, while providing fairness, open competition, a level playing field, government disclosure and transparency in the procurement and contracting process vital to good government.

Public procurement's primary objective is to provide everyone equal opportunity to compete for government contracts, to prevent favoritism, collusion, or fraud in awarding of contracts. To legislate that any one transaction or entity should be exempt from compliance with HRS chapter 103D conveys a sense of disproportionate equality in the law's application.

Exemptions to the code mean that all procurements made with taxpayer monies within Section 2(b) of this Act, will not have the same oversight, accountability and transparency requirements mandated by those procurements processes provided in the code. It means that there is no requirement for due diligence, proper planning or consideration of protections for the state in contract terms and conditions, nor are there any set requirements to conduct cost and price analysis and market research or post-award contract management. As such, the Legislative Reference Bureau can choose whether to compete any procurement or go directly to one contractor. As a result, leveraging economies of scale and cost savings efficiencies found in the consistent application of the procurement code are lost. It also means the Bureau is not required to adhere to the code's procurement integrity laws.

The National Association of State Procurement Officials state: "Businesses suffer when there is inconsistency in procurement laws and regulations. Complex, arcane procurement rules of numerous jurisdictions discourage competition by raising the costs to businesses to understand and comply with these different rules. Higher costs are recovered through the prices offered by a smaller pool of competitors, resulting in unnecessarily inflated costs to state and local governments."

When public bodies, are removed from the state's procurement code it results in the harm described above. As these entities create their own procurement rules, businesses are forced to track their various practices.

Each year new procurement laws are applied to state agencies causing state agency contracts to become more complex and costly, while other public bodies, such as agencies with strong legislative influence, are exempted. Relieving some public bodies from some laws by exempting or excluding them from compliance with a common set of legal requirements creates an imbalance wherein the competitive environment becomes different among the various jurisdictions and the entire procurement process becomes less efficient and more costly for the state and vendors.

As such, the SPO opposes the exemption from HRS 103D proposed in Section 2(b) of this Act and suggests the following amendment:

"(b) The legislative reference bureau may contract with another entity for services that may be required pursuant to this Act. Any contract for services executed pursuant to this Act shall be [~~exempt from~~] compliant with chapter 103D, Hawaii Revised Statutes."

Thank you.

**TESTIMONY BEFORE THE HOUSE COMMITTEE ON FINANCE
H.B. NO. 1504, H.D. 2
RELATING TO ENERGY**

March 3, 2015
1:30 pm
Conference Room 308

Ross Sakuda
Manager, System Planning Department
Hawaiian Electric Company, Inc.

Chair Luke, Vice Chair Nishimoto, and Members of the Committees:

My name is Ross Sakuda and I am testifying on behalf of Hawaiian Electric and its subsidiary utilities Maui Electric and Hawaii Electric Light. This bill would “(1) Authorize and fund a study to assess and compare Hawaii’s for-profit energy utilities with specific publicly or cooperatively owned energy utilities in the United States; and (2) impose a cap on interconnection costs that may be recorded by an electric public utility through the Hawaii electricity reliability surcharge.” The Hawaiian Electric Companies oppose Part III of this measure for several reasons.

First, according to the bill, the proposed cap on interconnection costs would be established as a certain as yet undetermined percentage “of the national average cost for comparable interconnection.” For a number of reasons, which include but are not limited to, the unique island composition of Hawaii’s electric utilities, the unprecedented levels of intermittent renewable resources that have already been interconnected to their systems, circuit and system constraints which exist due to these high percentages of renewable resources, and the overall higher costs of labor and materials, comparing interconnection costs in Hawaii to some national average cost would not be meaningful. The Solar Electric Power Association has confirmed in recent reports that Hawaii leads the nation by far in the amount of PV penetration per capita – more than triple the amount of the next state: Hawaii 16.9; Arizona 4.3; California 4.2; and Colorado 2.9 installations per 1,000 people, respectively. As of December 31, 2014, approximately 13% of Hawaiian Electric residential customers had rooftop solar. The approximate percentages for Maui Electric and Hawaii

Electric Light are 11% and 10%, respectively. On Oahu, rooftop solar penetration levels are so high that reverse power – power flowing from customers back into the grid rather than from the grid to customers – has been documented. Clearly, the situation in Hawaii is unique.

Second, it is unclear who would be responsible for compiling these non-existent comparable “national average” figures. Furthermore, no methodology is defined for how the percentage value of the national average would be determined and how such determination would appropriately account for Hawaii’s unique circumstances.

In summary, Part III of this bill seeks to cap interconnection costs based upon an as yet undetermined national average cost that would be neither meaningful nor applicable to Hawaii’s unique situation.

Thank you for this opportunity to testify.



Hawaii Solar Energy Association
Serving Hawaii Since 1977

Before the House Committee on Finance
Tuesday, March 3, 2015, 1:30 p.m., Room 308
HB 1504 HD 2

Aloha Chair Luke, Vice-Chair Nishimoto, and members of the House Committee on Finance,

On behalf of the Hawaii Solar Energy Association (HSEA), I would like to testify in support for HB 1504 HD 2, which requires the Legislative Research Bureau to study electric utilities, including organizational models and the conversion process, and also imposes a cap on interconnection costs that may be charged by the electric utility.

The state of Hawaii is currently in the midst of a significant transformation regarding our electric utility. Although HB 1504 HD 2 is not tied specifically to the merger process which is just getting started under Docket No. 2015-0022, a study which examines different organizational models of publically owned utilities with respect to such elements as ownership structure, relationship to ratepayers, operating costs and rate costs to taxpayers and/or ratepayers and other issues could serve to provide needed additional information to inform any significant transition regarding our electric utility. This study is to be complete no later than 20 days before the 2016, and the study would therefore be available to the commission and other interested parties while this key docket is still under review.

In addition, HB 1504 HD 2 places a cap on interconnection studies and surcharges such that costs that exceed the national average for similar studies and surcharges would not be considered appropriate and reasonable. As concerns over interconnection have grown these last few years, the utility has imposed surcharges to interconnect and to conduct studies for both residential and PPA developments that have seemed to be excessive when compared to other jurisdictions. By establishing a baseline definition for a “reasonable” surcharge or study cost, homeowners and developers can be assured that they will have a standard by which to compare interconnection expenses.

Thank you for the opportunity to testify

.

Leslie Cole-Brooks
Executive Director
Hawaii Solar Energy Association