

**HB1504, HD2**



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

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Statement of  
**LUIS P. SALAVERIA**  
Director  
Department of Business, Economic Development, and Tourism  
before the  
**SENATE COMMITTEES ON ENERGY AND ENVIRONMENT  
AND  
COMMERCE AND CONSUMER PROTECTION**

Monday, March 23, 2015  
9:45 a.m.  
State Capitol, Conference Room 229

in consideration of  
**HB 1504, HD2**  
**RELATING TO ENERGY.**

Chairs Gabbard and Baker, Vice Chairs Green and Taniguchi, and Members of the Committees.

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  
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TESTIMONY  
OF  
SARAH ALLEN, ADMINISTRATOR  
STATE PROCUREMENT OFFICE  
  
TO THE SENATE COMMITTEES  
ON  
ENERGY AND ENVIRONMENT  
AND  
COMMERCE AND CONSUMER PROTECTION

MARCH 23, 2015, 9:45 A.M.

HOUSE BILL 1504 HD2  
RELATING TO ENERGY

Chairs Gabbard and Baker, Vice-Chairs Green and Taniguchi, and members of the committees, 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.

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**Subject:** Submitted testimony for HB1504 on Mar 23, 2015 09:45AM  
**Date:** Thursday, March 19, 2015 3:12:35 PM

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**HB1504**

Submitted on: 3/19/2015

Testimony for ENE/CPN on Mar 23, 2015 09:45AM in Conference Room 229

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Charlotte A. Carter-Yamauchi	Legislative Reference Bureau	Comments Only	No

Comments: For: Charlotte A. Carter-Yamauchi Acting Director Legislative Reference Bureau State Capitol, Room 446 Honolulu, HI 96813 (808) 587-0666

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**TESTIMONY BEFORE THE SENATE COMMITTEES ON  
ENERGY AND ENVIRONMENT AND ON  
COMMERCE AND CONSUMER PROTECTION  
H.B. NO. 1504, H.D. 2  
RELATING TO ENERGY**

March 23, 2015  
9:45 am  
Conference Room 229

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

Chair Gabbard, Chair Baker, Vice Chair Green and Vice Chair Taniguchi, 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.



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**HB1504**

Submitted on: 3/20/2015

Testimony for ENE/CPN on Mar 23, 2015 09:45AM in Conference Room 229

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Amber Corrales	Individual	Support	No

Comments:

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**HB1504**

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<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Carl Campagna	Individual	Support	No

Comments:

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