

TESTIMONY OF RANDY IWASE  
CHAIR, PUBLIC UTILITIES COMMISSION  
STATE OF HAWAII  
TO THE  
HOUSE COMMITTEE ON  
CONSUMER PROTECTION AND COMMERCE

February 18, 2015  
3:00 p.m.

**MEASURE:** H.B. No. 1512

**TITLE:** Relating to Performance-Based Regulation

Chair McKelvey, Vice Chair Woodson, and Members of the Committee:

**DESCRIPTION:**

The purpose of this measure is to establish performance-based regulation to motivate electric utility companies in meeting the State's energy goals.

**POSITION:**

The Commission supports the intent of this measure and offers comments for consideration by the Committee.

**COMMENTS:**

The Commission agrees with the intended purpose of this measure, "to motivate electric utility companies in meeting the State's energy goals." In the past two years, the Commission has already taken several key actions to motivate and improve electric utility performance in meeting the State's energy goals.

These actions include:

**Maui Electric Company ("MECO") Rate Case Final Decision and Order (Docket No. 2011-0092)**

In 2013 after careful consideration of the detailed record presented in MECO's rate case, the Commission held the utility accountable financially for its inefficient performance,

including excessive curtailment of low-cost wind energy, and required MECO to file a System Improvement and Curtailment Reduction Plan. As an immediate result of this order, MECO significantly reduced curtailment of wind energy from existing renewable projects.

**Reexamination of the Hawaiian Electric Companies' ("HECO Companies") Decoupling Mechanism (Docket 2013-0141)**

Concurrently with issuing the MECO rate case decision, the Commission initiated an investigation of the HECO Companies' decoupling mechanism to ensure the mechanism promotes timely and necessary improvements to their business models, strategies, and operational practices to serve customers and the public interest. The Commission instituted immediate reforms in the first part ("Schedule A") of this proceeding. In the second and final portion of this proceeding ("Schedule B"), the Commission held panel hearings in November 2014 that addressed the goals and incentives discussed in Section 3, subsection (b) of this measure. These matters are currently before the Commission for final decision making.

**HECO Companies Integrated Resources Planning ("IRP") (Docket No. 2012-0036)**

On April 28, 2014, the Commission rejected the HECO Companies' final IRP submission and issued a series of orders requiring the Companies to develop and implement major improvement action plans within 120 days. These plans called on the Companies to aggressively pursue energy cost reductions, proactively respond to emerging renewable energy integration challenges, improve the interconnection process for customer-sited solar photovoltaic ("PV") systems, and embrace customer demand response programs. In developing these plans, the Companies were explicitly directed to address the State's energy goals and many of the long-term end goals noted in Section 3, subsection (a) of this measure.

**Commission's Inclinations on the Future of Hawaii's Electric Utilities (Docket No. 2012-0036) – See Attachment**

To provide guidance in developing the required major improvement action plans, the Commission also proffered a white paper entitled, "Commission's Inclinations on the Future of Hawaii's Electric Utilities." The white paper outlines the vision, strategies, and regulatory policy changes required to align the HECO Companies' business model with customers' changing expectations and state energy policy; and provides specific

guidance for future energy planning and project review, including strategic direction for future capital investments.

Collectively, these key directives to the electric utilities and the resulting regulatory actions have been addressing long-term end goals to be met by electric utility companies, the action plans to achieve these goals, and the incentive mechanisms to align utility performance with customers' interests and State energy policy.

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](http://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 COMMITTEE ON CONSUMER PROTECTION &  
COMMERCE**

Wednesday, February 18, 2015  
3:00 p.m.  
State Capitol, Conference Room 325

in consideration of  
**HB 1512, HD1**  
**RELATING TO PERFORMANCE BASED REGULATION.**

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

The Department of Business, Economic Development, and Tourism (DBEDT) respectfully offers comments on HB 1512, HD1, which requires the electric utility companies to develop a Renewable Portfolio Standard (RPS) goal of 70% and 100% for 2035 and 2045 and establishes performance-based regulation of electric utility companies by the Public Utilities Commission (PUC).

DBEDT supports the purpose of this bill to achieve total energy independence for Hawaii and reiterates the Administration's intent to achieve a 100% renewable energy portfolio in the electricity sector. DBEDT asserts, however, that immediate actions and investments by the electric utilities to achieve bold goals over the next 5 to 15 years will drive the growth of the renewable market in Hawaii. We point out that Hawaii is nearly 5% beyond its interim 2015 goals and Hawaiian Electric Industries (HEI) Companies has charted a Preferred Plan that

achieves 67% renewable by 2030 in its recent Power Supply Improvement Plan. We are working with the HEI Companies on setting a more optimal path from the ratepayer perspective to get there, but we agree with the RPS target of the HEI Companies' Preferred Plan.

Accordingly, I have directed the Administrator of the State Energy Office to convene energy stakeholders in the coming weeks to chart such an accelerated renewable path as a key objective of the Ige Administration.

The Hawaii RPS has been the glue for binding a common resolve among energy stakeholders in our quest for energy independence. The RPS has helped grow Hawaii's clean energy economy while offsetting higher electricity rates by methodically backing out the volatility of oil which provides immediate and long term benefits to ratepayers. Clearly, Hawaii is capable of going well beyond 40% renewable by 2030 and we would not recommend changes to the RPS unless it reflected the urgency of near term action to accelerate and increase our progress on Hawaii's energy transformation.

With regards to performance based regulation, we urge the legislature to consider this matter under a broader utility planning perspective. Specifically, there are actions being undertaken in PUC proceeding Docket No. 2013-0141 to evaluate such criteria for the Hawaiian Electric Companies. Hence, legislative action on this matter may be premature.

Thank you for the opportunity to offer these comments.



**Hawaii Solar Energy Association**  
*Serving Hawaii Since 1977*

Before House Committee on Consumer Protection & Commerce  
Wednesday, February 18, 2015, 3 p.m., room 325  
HB 1512 HD 1: Relating to Energy Storage

Aloha Chair McKelvey, Vice Chair Woodson and members of the Committee,

On behalf of the Hawaii Solar Energy Association (HSEA), I would like to testify in strong support of HB 1512 HD 1, which establishes performance-based regulation to motivate the electric utility companies in meeting the State's energy goals.

In 2008, the PUC ("commission") found that it was in the best interest of the State that the HECO companies should change the companies' business model so that its revenues are "decoupled" from kWh sales. This means that the utility receives a guaranteed revenue requirement determined by the commission, and that the utility receives that revenue requirement no matter how much electricity it sells. The purpose of decoupling is to promote the continued adoption of efficiency and customer sited generation, and to remove any disincentive to support programs that may result in lower kWh sales.

However, in 2013, the commission opened another docket to reexamine the decoupling scheme (Docket No. 2013-0141). In this docket, the commission examines whether the current decoupling structure is truly effective in encouraging the adoption of efficiency and customer sited renewables, and whether the investments made by the utility are based upon a plan to promote a modern electrical grid which will support a rich mix of renewable energy for the future.

In this latest docket, HSEA has advocated for a change in the utility business model such that the business model shifts from a standard decoupling framework to performance based regulation. Performance based regulation takes charge of the decoupling mechanism by incentivizing certain key goals for the utility to meet such as meeting our RPS, eliminating our dependence upon fossil fuels, and encouraging independent and third party generation for a diverse and robust electrical grid. Where standard decoupling bases payment to the utility upon the determined revenue requirement, performance based regulation bases payment in part upon the utility's success in achieving specific goals determined by State policy. Performance based rate making is therefore a powerful tool which links our energy policy and direction with the utility's bottom line.

HB 1512 HD 1 gives the commission clear direction and support to transform the utility's business model so that our utility is fully aligned with our energy policy, and rewards the utility for its hard work in achieving key energy goals. Performance based rate making is a win-win for all parties, and is the change that we need as we continue to fight for energy independence. In addition, with the pending sale of HECO to NextEra, now is the ideal time to underscore the State's energy goals. We strongly urge you to pass HB 1512 HD 1.

Thank you for the opportunity to testify

Leslie Cole-Brooks  
Executive Director  
Hawaii Solar Energy Association



## HOUSE COMMITTEE ON CONSUMER PROTECTION AND COMMERCE

February 18, 2015, 3 P.M., Room 325

(Testimony is 5 pages long)

### TESTIMONY IN SUPPORT OF HB 1512

Aloha Chair McKelvey, Vice-Chair Woodson, and members of the Committee:

The Blue Planet Foundation supports HB 1512, with amendments identified below. HB 1512 targets two important roots of Hawai'i's dangerous dependence on imported fossil fuels: (1) it provides a long-term vision for energy targets; and (2) it opens the door to a new paradigm for utility compensation, built on performance and value for ratepayers.

We request amendments to change the target date for 100% clean energy to 2040 (page 4), and to remove the mandate that the utility divest itself of generation assets (page 5).

#### **(1) 100% Clean Energy Targets are Necessary, Cost-Effective, and Achievable, for the Protection of Hawai'i and Hawai'i's Consumers.**

---

The current renewable standards are proving to be a success in protecting Hawai'i's consumers and the environment. According to the Public Utilities Commission, utility renewable energy saved ratepayers saved \$66.8 million in 2012.<sup>1</sup> Furthermore, the more renewable energy used on each island, the more that ratepayers saved.<sup>2</sup> For example, ratepayers saved 15% on fuel costs on the island of Hawai'i (with the most renewable energy) and 7% on Maui (with the second most renewable energy). More recently, the proportion of renewable energy on each island has increased even further.

In addition to being cost-effective, a 100% clean energy target is achievable. Other islands around the world, such as Iceland (geothermal), El Hierro (wind), and Tokelau (solar) have *already* taken the steps necessary to achieve clean energy independence. Other places are also working to implement RPS standards that would *far exceed* Hawai'i's existing targets:

- The Governor of Vermont has proposed a 90% RPS, supported by an economic analysis by the state energy office.

---

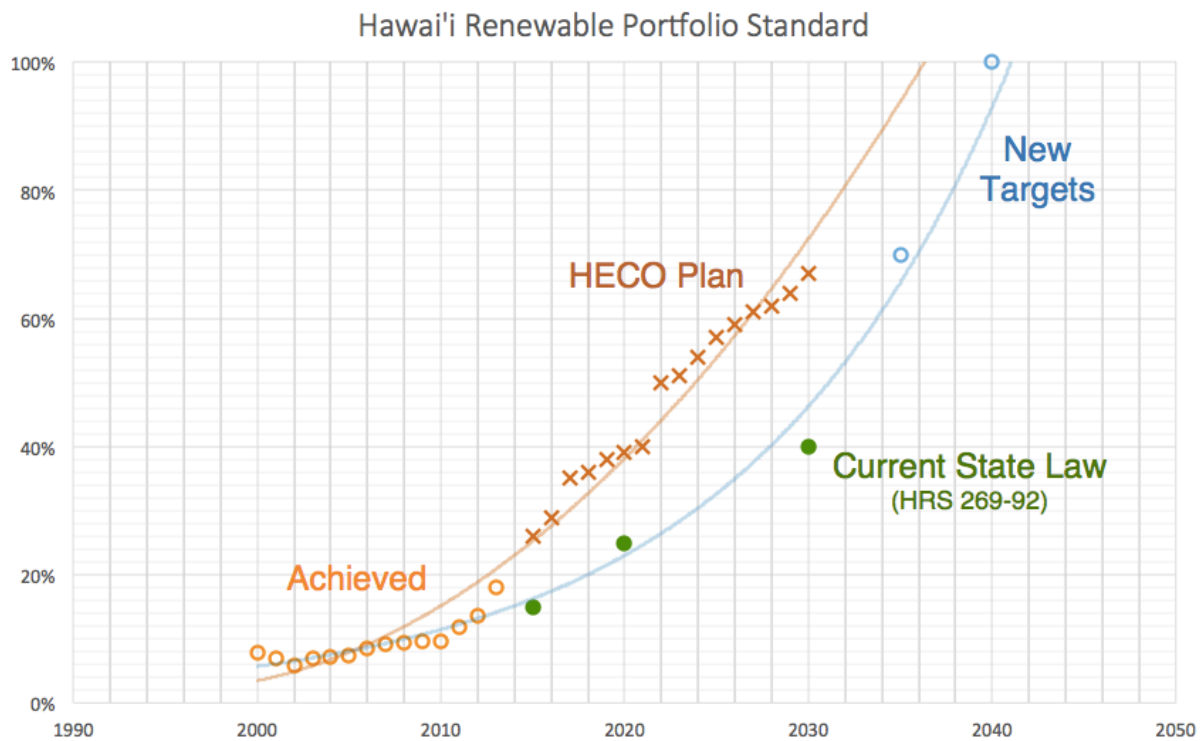
<sup>1</sup> See State of Hawaii PUC, Report to the 2014 Legislature on the PUC's Review of Hawaii's Renewable Portfolio Standards, at 17.

<sup>2</sup> *Id.*

- The Prime Minister of Aruba has committed to 100% renewable energy by 2020.
- Germany, Denmark, and Scotland all have renewable energy targets that exceed Hawai'i's.

Such efforts are proving that energy innovation is achievable and affordable. Our state, which is especially burdened by its dependence on imported fossil fuels, should not fall behind.

The following chart shows Hawai'i's current renewable energy progress, the existing RPS requirements, the HECO Companies' proposed renewable plan, and the targets proposed in this testimony. Note that the trend proposed by Blue Planet is less aggressive than the trend that would be set by the HECO Companies' proposed plans.



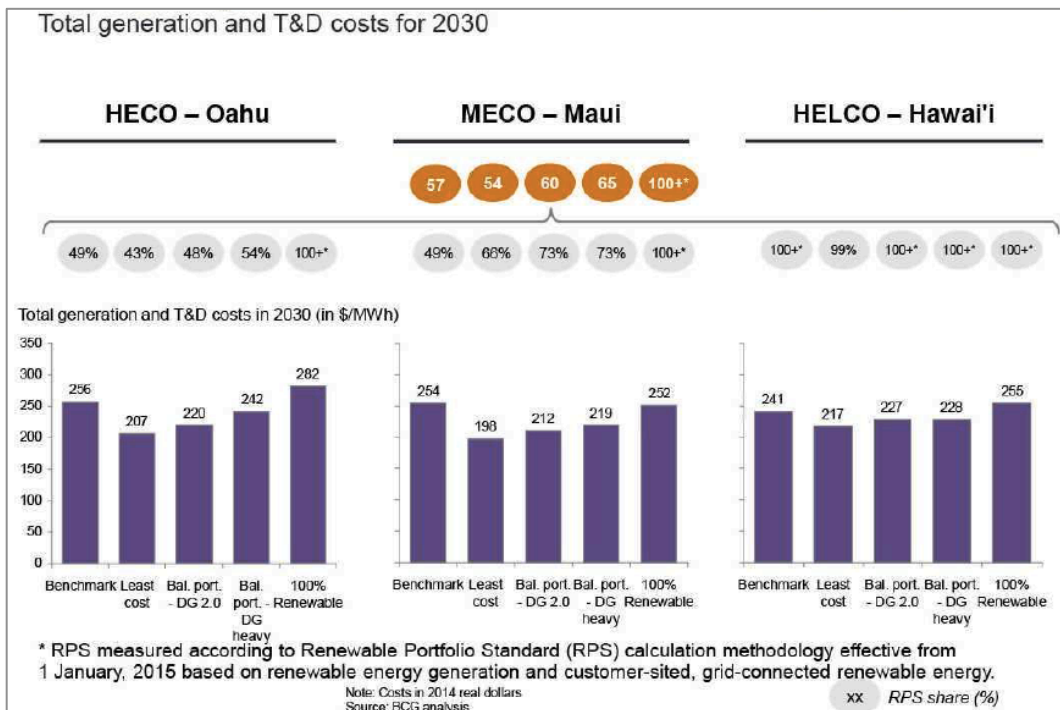
100% clean energy targets are also consistent with the latest in engineering analysis. Engineers from Stanford University and U.C. Davis recently reported that “there are no technological or economic barriers to converting the entire world to clean, renewable energy sources. ... It is a question of whether we have the societal and political will.”<sup>3</sup> Their work was premised on a goal that by 2030 all new energy generation would come from renewable sources, and that by 2050 all pre-existing energy production would be converted. The analysis also found that costs would be comparable to today’s energy costs. Critically, this means that strong energy policy can hedge against rising fossil fuel prices, and fend against rising global temperatures.

<sup>3</sup> See Jacobsen & Delucchi, *Providing all global energy with wind, water, and solar power*, 39 ENERGY POLICY 1154 (2011); see also <http://news.stanford.edu/news/2011/january/jacobson-world-energy-012611.html>.



Put simply, 2030 is not the end of our energy road. We must ensure that today’s energy decisions are being made with appropriate long-term policy guidance. **We cannot allow long-term utility investments that would lock us into a fossil fuel paradigm persisting long after 2030 passes.** Indeed, that is exactly the situation Hawai’i faces now, heavily reliant on an aging fossil-based energy system because of decisions made long ago. For example, Oahu is still partially powered by a 68-year-old oil-powered generating unit at the Waiau power plant (built in 1947). The future is bright... if we avoid repeating past mistakes.

**The bill should not choose 2045 as the 100% target.** As illustrated in the chart above, a 2040 target would be more consistent with the information recently filed with the PUC by the HECO Companies. **Indeed, 2030 would be a more appropriate target than 2045.** Note that the HECO Companies’ “preferred plan” would achieve approximately 65%-70% clean energy by 2030. However, their analysis also included a scenario of **100% clean energy by 2030.** The requirements for generation under the HECO Companies’ analysis included reliability and other factors. The forecasted cost of achieving 100% by 2030 was 0 to 5 cents more per kWh than the comparable current cost of energy. With efficiency, this would likely translate into lower total monthly energy bills for consumers. An image from the HECO Companies’ PUC filing (page 8, October 10, 2014, Docket No. 2014-0183), showing the outcome of 100% clean energy by 2030, is included here:



Note that the PUC will retain oversight to waive or extend the RPS targets. Under existing law, the PUC is also required to periodically evaluate the achievability and benefits of the targets. If moving beyond the HECO Companies’ current plan (approximately 65% to 70% clean energy by

2030), to the targets proposed in this testimony (70% by 2035, 100% by 2040), is deemed not to be achievable, the PUC can address that issue. Rather than relaxing targets that are more than a quarter century away, this bill should allow the PUC to address achievability as technology and other factors evolve in the coming decades.

We propose the following amendment (deletions in strikethrough, revisions in underlining):

SECTION 2. Section 269-92, Hawaii Revised Statutes, is amended by amending subsection (a) to read as follows:

(a) Each electric utility company that sells electricity <sup>2</sup> for consumption in the State shall establish a renewable portfolio standard of:

- (1) Ten per cent of its net electricity sales by December 5 31, 2010;
- (2) Fifteen per cent of its net electricity sales by 7 December 31, 2015;
- (3) Twenty-five per cent of its net electricity sales by 9 December 31, 2020; [and]
- (4) Forty per cent of its net electricity sales by December 31, 2030;
- (5) Seventy per cent of its net electricity sales by December 31, 2035; and
- (6) One hundred per cent of its net electricity sales by December 31, ~~2045~~ 2040.

## **(2) Performance Based Regulation Can Align Utility Compensation with Ratepayer Benefits.**

---

Blue Planet Foundation strongly supports performance-based regulation (“PBR”). In 2014, we worked with Ron Binz to formulate a proposal to implement PBR. Mr. Binz is the former Chairperson of the Colorado Public Utilities Commission, and was nominated by President Barack Obama to chair the Federal Energy Regulatory Commission. Based on Mr. Binz’s expertise, Blue Planet proposed a mechanism that would tie utility revenues to performance, measured in categories that closely match the proposed performance categories identified in HB 1512. The PUC has not yet ruled on Blue Planet’s proposal.

Tying utility revenues to performance is the common sense approach to ensuring that our utilities operate as efficiently and effectively as possible, and that the outcomes of utility planning and implementation favor ratepayers and not just shareholders. Although Blue Planet does believe that successful utilities will become energy services providers – rather than energy generators – we do not believe that it is appropriate to make utility divestment of generation an express performance metric. A fundamental principle of PBR is to re-inject a measure of

competition into the utility regulated monopoly. Deciding, from the outset, that the utility will not compete in generation would contravene this principle.

We also suggest clarifying that “performance” in the utility context means exceeding statutory clean energy mandates, not merely complying with the law. We also request a clarification that the enumerated performance measures could include criteria in addition to the listed performance criteria.

We propose the following amendment (deletions in strikethrough, revisions in underlining):

SECTION 3. (a) Electric utility companies shall meet long-term end goals in accordance with the following non-comprehensive list of minimum performance criteria:

(1) Exceeding renewable portfolio standards in compliance with section 269-92, Hawaii Revised Statutes;

~~(2) Divestment of utility-owned generation to independent generators at a rate to achieve ninety per cent divestiture by 2050; provided that utility-owned generation shall not be divested to affiliated entities, including an independent generator that is an affiliated entity of the divesting utility;~~

(3) Equitable expansion of distributed generation to meet public demand;

(4) Programs and rate structures that provide ratepayers with control over their electricity costs; and

(5) Ratepayer cost reduction.



Wednesday, February 18, 2015

Relating to House Bill 1512, House Draft 1  
Testifying in Support

Aloha, Chair McKelvey, Vice Chair Woodson, and Members of the House Committee on  
Consumer Protection and Commerce,

The Democratic Party of Hawaii supports HB1512 HD1, Relating to Performance-Based  
Regulation, which establishes performance-based regulation of electric utility companies by the  
Public Utilities Commission.

Currently, Hawaii law requires electric utilities to increase their sales based on the use of  
renewable fuels at specified benchmarks up to forty percent by December 31, 2030. This bill  
would require the utilities to increase the percentages to seventy percent by December 31, 2035,  
and to one hundred percent by December 31, 2045.

Sustainability for Hawaii in all aspects of life is a strongly held view of the Democratic Party of  
Hawaii – agriculture, environmental resources, and energy production and consumption being  
among the most critical. HB1509 HD1 creates a model for our state government to achieve its  
energy sustainability goals and we respectfully ask that you pass this bill out of your committee.

Thank you for this opportunity to testify,  
The Legislation Committee of the Democratic Party of Hawaii

**Testimony before the  
House Committee on Consumer Protection and Commerce**

**Feb 18, 2015, 3:00 pm  
Conference Room 325**

**H.B. No. 1512 HD1 – Relating to Performance-Based Regulation**

**By Barry Nakamoto  
Manager, Corporate Planning  
Hawaiian Electric Company, Inc.**

*Chair McKelvey, Vice-Chair Woodson and Members of the Committee:*

My name is Barry Nakamoto. I am the Manager of the Corporate Planning Department at Hawaiian Electric Company. I am testifying on behalf of Hawaiian Electric and its subsidiary utilities, Maui Electric and Hawaii Electric Light (collectively “Companies”).

The Companies support the intent of House Bill No. 1512 HD1 (“HB 1512 HD1”), which is to promote performance-based incentives for electric utilities to satisfy State energy goals. However, we respectfully submit that this bill is not necessary and offer the following rationale and comments for consideration.

The State of Hawaii Public Utilities Commission (PUC) is currently considering whether performance-based incentives should be established for the Hawaiian Electric Companies in PUC docket number 2013-0141 (decoupling investigation). Many of the clean energy and solar groups that have testified on this Bill are also participating in the decoupling investigation docket<sup>1</sup>. In that docket, the Commission is considering whether regulatory incentives can be developed and implemented consistent with HRS section 269-6(d), which is very similar to the incentives considered by HB 1512 HD1. HRS section 269-6(d) provides:

The public utilities commission, in carrying out its responsibilities under [HRS chapter 269], 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

---

<sup>1</sup> Parties in the decoupling docket are the Consumer Advocate, the Hawaiian Electric Companies, the County of Hawaii, Blue Planet Foundation, Hawaii Solar Energy Alliance, and the Hawaii Renewable Energy Alliance.

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 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

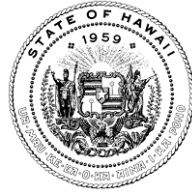
(4) The establishment of differentiated authorized rates of return on common equity to encourage increased utility investments in transmission and distribution infrastructure, discourage an electric utility investment in fossil fuel electric generation plants to incentivize grid modernization, and disincentivize fossil generation, respectively.

The decoupling investigation docket has involved extensive briefing on the issues and two days of panel hearings were held in October 2014. In that docket, the Hawaiian Electric Companies have expressed support for a collaborative process that would lead to development of performance incentive mechanisms under HRS section 269-6(d) and an incentive based regulatory mechanism that is synchronized with and supports accomplishment of the Companies' energy plans, as they may be approved by the PUC. The Companies respectfully submit that, considering how far this docket has progressed already, and that HRS section 269-6(d) already covers similar ground, the performance based regulation portion of this bill is unnecessary.

Notwithstanding the above, with respect to Hawaii's RPS goals, HB 1512 HD1 Section 2 proposes to amend HRS § 269-92 by increasing renewable portfolio standards to 70% by 2035 and 100% by 2045. The Companies note that this Committee is also considering a more comprehensive review of HRS § 269-92 in HB 623 HD1. Accordingly, the Companies respectfully submit that this Section 2 should be removed from this Performance Based Regulation bill and in the alternative, consider revisions to HRS § 269-92 to take place under the Renewable Portfolio Standards bill HB 623 HD1 instead.

With respect to Section 3(a)(2), regarding divestment of utility owned generation, specifically the stated goal of 90% divestiture to Independent Power Producers by 2050, the Companies are concerned that setting arbitrary targets such as this may not serve the best interest of our customers. We continue to believe that the overwhelming driver should be generation that provides the best value to all of our customers, regardless of whether IPP owned or utility owned. Accordingly, we respectfully offer that Section 3(a)(2) be removed, or in the alternative, to include language that provides for allowing the best interests of customers to be the primary driver for decisions on ownership of generation assets.

Thank you for this opportunity to testify.



**LATE**

DAVID Y. IGE  
GOVERNOR

SHAN S. TSUTSUI  
LT. GOVERNOR

**STATE OF HAWAII  
OFFICE OF THE DIRECTOR  
DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS**

335 MERCHANT STREET, ROOM 310  
P.O. Box 541  
HONOLULU, HAWAII 96809  
Phone Number: 586-2850  
Fax Number: 586-2856  
www.hawaii.gov/dcca

CATHERINE P. AWAKUNI COLÓN  
DIRECTOR

JO ANN M. UCHIDA TAKEUCHI  
DEPUTY DIRECTOR

TO THE HOUSE COMMITTEE ON CONSUMER PROTECTION & COMMERCE

THE TWENTY-EIGHTH LEGISLATURE  
REGULAR SESSION OF 2015

WEDNESDAY, FEBRUARY 18, 2015  
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

HOUSE BILL NO. 1512, H.D. 1 - RELATING TO  
PERFORMANCE-BASED REGULATION

**DESCRIPTION:**

This measure proposes to establish performance-based regulation of electric utility companies by the Public Utilities Commission ("PUC").

**POSITION:**

The Division of Consumer Advocacy supports the intent of this bill with comments.

**COMMENTS:**

The Division of Consumer Advocacy supports the integration of increasing levels of renewable energy and acknowledges the benefits of "stretch" goals in order to encourage action.

Hawaii Revised Statutes (“HRS”) § 269-95 requires the PUC to provide a report to the Legislature every five years on the Commission’s evaluation of the RPS and whether the standards remain effective and achievable. The Commission will produce studies, such as the one recently conducted by General Electric (“GE”), which suggest that it is *possible* that Hawaii will be able to meet its 40% RPS goal if certain challenges and uncertainties are addressed. The GE study also suggests that greater levels of renewable energy may be possible, but these higher levels of renewable energy are associated with measures that need to be further evaluated (e.g., interisland electric transmission cable, renewable energy projects at sites where communities have already expressed objection). The GE study would suggest that we should proceed cautiously when attempting to set higher RPS goals that go beyond 2030.

On the other hand, Hawaiian Electric Co.’s Power Supply Improvement Plans (“PSIPs”) filed with the PUC on August 26, 2014, indicated that Hawaiian Electric would not only meet the 40 percent RPS by 2030, but it could reach a 65 percent RPS even without an undersea transmission cable. Although the PSIPs have not yet been fully vetted in the PUC proceeding, Hawaiian Electric’s analysis of reaching a 65 percent RPS by 2030 would suggest that even higher RPS goals beyond 2030 are achievable.

The Consumer Advocate supports the intent of this bill to have the State’s electric utilities adopt higher RPS goals beyond 2030 but emphasizes the need to allow the regulatory process to ensure that cost-effective measures are pursued so that customers’ bills do not unreasonably increase as a result of compliance with higher RPS goals.

Furthermore, as it relates to the establishment of performance-based criteria for the public utilities, although the Consumer Advocate supports the intent of the bill, the Consumer Advocate notes that there are actions being undertaken in a Commission proceeding in Docket No. 2013-0141 to evaluate such criteria for the Hawaiian Electric Companies. As it relates to the proposed performance criteria, the Consumer Advocate offers the following comments:

- If the intent of Section 3 of HD1 will continue to be pursued, it would appear to be more appropriately included in a House Resolution that the Commission can take into consideration when evaluating an appropriate utility ratemaking structure, such as in Docket No. 2013-0141. In the alternative, modifications to HRS § 269-95 may also be appropriate.



- The requirement that utility-owned generation be divested to independent generators raises serious concerns. The feasibility of competition in the Hawaii electric industry was analyzed in Docket No. 96-0493 and, in that docket, the Commission did “not find that it is in the public interest to completely restructure the electric industry at this time” since “projections of any potential benefits of restructuring Hawaii’s electric industry are too speculative and it has not been sufficiently demonstrated that all consumers in Hawaii would continue to receive adequate, safe, reliable, and efficient energy services at fair and reasonable prices under a restructured market, at this time.”<sup>1</sup>
- More recently, however, the Commission has recently assumed that “the HECO Companies’ traditional role as owner and operator of a fleet of fossil generation units will diminish over time as old, inefficient utility generation is retired and if new renewable and fossil generation is developed solely by [independent power producers].”<sup>2</sup>
- The Consumer Advocate notes, however, there is no “open book”<sup>3</sup> requirement for independent power producers and the regulator’s ability to evaluate whether independent power producers’ profits are too high is prevented. The Consumer Advocate also notes that reported prices for renewable energy projects on the mainland have always been lower than Hawaii, but those mainland prices have also been decreasing over time. Similar decreases in prices, however, have not been evident in Hawaii.
- There has been no analysis to evaluate whether divestiture of existing generation to independent power producers or prohibiting utility ownership of new generation is in the public interest. Hawaii’s electricity market cannot be compared to the various interconnected energy markets on the mainland. While the analysis and Commission’s finding in Docket No. 96-0493 concluded that restructuring, including divestiture, was not in the public interest, that finding was over 10 years ago and circumstances have changed. It is unclear, however, whether circumstances have sufficiently changed that divestiture is now in the public interest. Thus, an updated, comprehensive analysis of the market should be completed in order to properly protect customers and advance the public interest.

Thank you for this opportunity to testify.

---

<sup>1</sup> Decision and Order No. 20584, filed on October 21, 2003, in Docket No. 96-0493.

<sup>2</sup> The Commission’s Inclinations on the Future of Hawaii’s Electric Utilities, page 18, attached as Exhibit A to the Commissions’ Decision and Order No. 32052, filed on April 28, 2014, in Docket No. 2012-0036.

<sup>3</sup> The use of “open book” is meant to convey the ability to review all pro forma and actual financial information of the independent power producer, similar to the regulatory review that is currently possible with regulated utility companies and their projects.