

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 2016

WEDNESDAY, FEBRUARY 17, 2016  
9:30 A.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. 2076, H.D. 1 - RELATING TO WHEELING.

DESCRIPTION:

This measure proposes to require the Public Utilities Commission (“Commission”) to establish policies and rules for the implementation of retail wheeling. The bill also requires the Commission to report on the status of the implementation of retail wheeling annually until the implementation is complete.

POSITION:

The Division of Consumer Advocacy (“Consumer Advocate”) supports the intent of this bill and offers the following comments.

COMMENTS:

The Consumer Advocate supports the intent of this bill insofar as it attempts to provide consumers of electricity service with retail choice (and presumably lower prices) beyond purchasing energy from the regulated electric utility. Retail wheeling was the subject of significant debate during the 1990s. Much of this discussion eventually led to the restructuring of electricity markets in several states.

The success of retail competition in restructured states is still the subject of much debate. In 2007, studies indicated that retail rates in restructured states rose much faster than in regulated jurisdictions. Since then, the data seem to show a reversal of that trend. See Borenstein and Bushnell, *The U.S. electricity Industry after 20 Years of Restructuring*, revised May 2015. These authors from the Energy Institute at Haas (U.C. Berkeley) correlated the reversal of prices in restructured states to the drop in the price of natural gas, so it is not clear what effect retail competition actually had on retail pricing in these restructured states.

It is difficult to apply any economic analysis of the effect of retail competition in mainland energy markets to Hawaii, because of Hawaii's small isolated grids. Hawaii's consumers could suffer higher electricity bills with retail wheeling depending upon a number of factors. Assuming that the independent power producers ("IPP") will remain unregulated as they are currently, the Consumer Advocate and Commission would have no jurisdiction over the contract between the IPP and the consumer. What protection will there be for consumers in signing contracts that provide for lower rates in the short term, but allow for rates to increase at the whim of the IPP, if the Consumer Advocate and Commission do not have jurisdiction over the terms and conditions of the contract?

Moreover, regulators and other stakeholders would want to have some degree of control over the total amount of generation resources being added to the grid, especially given Hawaii's shortage of available land to locate new generation resources. If the amount of new generation is limited, how will residential customers be allowed to participate in retail choice? Will wheeling effectively be available to only large, commercial and industrial customers given the limited availability of generation? If an IPP can supply energy at retail rates that are lower than the regulated utility, then how do residential customers compete with commercial and industrial customers for that energy? Shouldn't low cost energy benefit all customers?

The Consumer Advocate supports the intent of this bill, but recommends an amendment to the bill that directs the Commission to conduct an investigation on retail wheeling, rather than requiring the Commission to establish policies and rules to implement retail wheeling.

Thank you for this opportunity to testify.

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

February 17, 2016  
9:30 AM

**MEASURE:** H.B. No. 2076, H.D. 1  
**TITLE:** RELATING TO WHEELING

Chair McKelvey and Members of the Committee:

**DESCRIPTION:**

This measure requires the Public Utilities Commission (“Commission”) to “establish necessary policies and rules, pursuant to chapter 91, and the requirements for electric utility company tariffs and rules, as may be necessary, for the implementation of retail wheeling to enable independent power producers to sell electricity directly to end users” no later than January 1, 2017. This measure also requires the Commission to report on the status of the implementation of retail wheeling 20 days prior to the convening of the regular session of 2017 and every year thereafter until the implementation of retail wheeling is complete.

**POSITION:**

The Public Utilities Commission (“Commission”) offers the following comments for the Committee’s consideration.

**COMMENTS:**

The Commission notes that it would be appropriate to open an investigatory docket to explore the feasibility of retail wheeling in Hawaii prior to establishing retail wheeling policies and requirements. Such a docket proceeding would allow stakeholders the opportunity to address any issues associated with retail wheeling in Hawaii and provide input regarding what the necessary policies and requirements for retail wheeling in Hawaii should be. In order to meet the timing requirements currently provided in this measure,

H.B. No. 2076, H.D. 1  
Page 2

the Commission will likely be forced to divert its limited resources from other important matters currently before the Commission.

Thank you for the opportunity to provide comments on this measure.



TESTIMONY OF JOSE S. DIZON, P.E.  
GENERAL MANAGER, PANIOLO POWER COMPANY, LLC A SUBSIDIARY OF PARKER RANCH, INC.  
TO THE HOUSE COMMITTEE ON CONSUMER PROTECTION AND COMMERCE

February 17, 2016  
9:30am  
State Capitol, Room 329

MEASURE: H.B. No. 2076 HD1  
Title: RELATING TO WHEELING

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

Paniolo Power Company, LLC and Parker Ranch, Inc. support the intent of HB 2076 HD1. If implemented, retail wheeling could result in increased options for Hawaii customers by expanding customer choice as well as accelerating the adoption of cleaner and cheaper renewable energy resources. On a large scale, Independent Power Producers could offer excess energy to the market at a rate lower than the current marginal cost of fossil fueled energy.

Paniolo Power and Parker Ranch completed studies with its global partners, Siemens and Booz Allen Hamilton, demonstrating that a regional microgrid could result in \$600-800 million in NPV savings on the Big Island alone. When taking conservative economic multipliers into account, that value increases to roughly \$1 billion. The utility apparently believes that there will be winners and losers with the adoption of wheeling. We would argue that there will be winners and winners, because some of this NPV savings could benefit the utility to make them whole for their potentially stranded assets while customers will still see enormous benefit. Some form of wheeling will be required to make that a reality.

However, this bill relates to retail wheeling. The main thrust of the above referenced studies is that the HELCO grid, and arguably the grids of the other HECO Companies, are very expensive to operate and maintain. We believe that a retail wheeling business model should make the generation and distribution of energy more efficient; and this efficiency could translate into similar economic benefits identified in our studies.

Paniolo Power and Parker Ranch, Inc. suggests that having the Public Utilities Commission open a docket on Retail Competition is the next prudent step. Broad issues such as how the new utility business model would incorporate existing RPS laws, or how existing regulatory and legislative mandates would have to be modified would be addressed in that docket. Paniolo Power and Parker Ranch has every confidence in the PUC take to on these tough issues.

Thank you for the opportunity to testify.

**TESTIMONY BEFORE THE HOUSE COMMITTEE ON  
CONSUMER PROTECTION AND COMMERCE**

**H.B. No. 2076, H.D. 1**

**Relating to Wheeling**

Wednesday, February 17, 2016

9:30 am

State Capitol, Conference Room 329

Kevin M. Katsura

Assistant Deputy General Counsel (Regulatory), Legal Department  
Hawaiian Electric Company, Inc.

Chair Lee, Vice Chair Lowen, and Members of the Committee:

My name is Kevin Katsura and I am testifying on behalf of Hawaiian Electric Company and its subsidiary utilities Maui Electric Company and Hawai'i Electric Light Company in **opposition** to H.B. 2076, H.D. 1.

This bill requires the Public Utilities Commission to establish policies and rules to implement retail wheeling without first determining whether wheeling is feasible, has definite benefits in Hawai'i, and is in the public interest.

Allowing independent power producers to sell electricity directly to end users will likely benefit a few large-load customers at the expense of non-wheeling customers who may have to pay for all the cost of the current infrastructure while impeding the utilities' ability to pursue 100% renewable energy by 2045. The current purchase power model used by the utility ensures that ALL customers can benefit from lower cost energy.

In Hawai'i, we now have the boldest energy goal in the nation: A 100 percent renewable energy portfolio standard by 2045. This requires the utilities to invest in diverse resources to protect the resiliency of the supply. Retail wheeling attacks that strategy by focusing on short term costs and using the cheapest resource at the time, which may create an unbalanced set of resources. This increases the risk profile of

the utilities which in turn will hurt our customers. Further, this bill is not consistent with the State's clean energy goals, to the extent it allows fossil fueled power producers to sell directly to end customers effectively bypassing and undermining the objective of 100% RPS by 2045.

In addition, retail wheeling, as proposed, creates winners and losers between independent power producers – those who sell directly to a select group through wheeling vs. those currently with purchased power agreements with the utilities or currently negotiating Power Purchase Agreements with the utility. This bill will make obtaining renewable energy more difficult which could result in higher prices for a majority of our customers.

Further, wheeling may result in the degradation of service reliability. The utility would not be a party to any wheeling contract and the utility will be unable to predict where the load will come on to the system and make sure that the transmission infrastructure is adequate. There is less ability for the utility to negotiate to change operating requirements and project design to protect the system. The utilities need to be involved in setting operational reliability standards to assure system reliability.

In Hawai'i, there's no extension cord to the mainland. Unlike California and many other places we're compared to, we can't plug into the mainland grid, either to buy or sell electricity to neighboring utilities and for reliability. As loads continue to decrease, as we have seen over the last 10 years, the loss of large customers will impair the sustainability of fair cost allocations to all customers which will impair economic development and the attainment of our state renewable policies and goals. We must address the State's energy future as a whole and not with techniques that sound reasonable as stand-alone concepts, especially those used in larger grids in the mainland with large manufacturing and commercial loads. Hawaii has the best

chance of success when all stakeholders can participate in reasoned discussions. We believe the Hawaii Public Utilities Commission (“PUC”) has the jurisdiction to do so. The PUC has already initiated a proceeding to examine the feasibility of intra-governmental wheeling, a more focused investigation, in response to the 2004 Legislature’s Senate Concurrent Resolution No. 180 (“S.C.R. No. 180”) but more importantly has initiated proceedings that are examining the transformation of the provision of electrical services in Hawaii and how state energy policy goals can best be achieved. The PUC should be allowed to continue its investigation into whether intra-governmental wheeling is feasible, how it would impact all customers in Hawaii, whether it would fit into plans for the achievement of state energy policy goals and be in the public interest before legislation is passed to implement retail wheeling.

Accordingly, the Hawaiian Electric Companies oppose H.B. 2076, H.D. 1.

Thank you for this opportunity to testify.



**LATE**



COLLEGE OF SOCIAL SCIENCES

# HAWAII ENERGY POLICY FORUM

UNIVERSITY OF HAWAII AT MĀNOA

## Hawaii Energy Policy Forum

Jeanne Schultz Alvaraz, Hawaii Inst. for Public Affairs  
Karlie Asato, Hawaii Government Employees Assn  
Joseph Borron, Hawaii Gas  
Warren Bollmeier, Hawaii Renewable Energy Alliance  
Michael Brittain, IBEW, Local Union 1260  
Albert Chee, Chevron  
Elizabeth Cole, The Kohala Center  
Kyle Datta, Uluopono Initiative  
Mitch Ewan, UH Hawaii Natural Energy Institute  
Jay Fidell, ThinkTech Hawaii  
Carl Freedman, Haden Design & Analysis  
Mathias Fripp, REES at University of Hawaii  
Ford Fuchigami, Hawaii Dept of Transportation  
Mark Gluck, Hawaii State Energy Office, DBEDT  
Justin Greenstein, City & County of Honolulu  
Dale Hahn, Ofc of US Senator Brian Schatz  
Michael Hammett, SSRJ at University of Hawaii  
Senator Lorraine Irwin, Hawaii State Legislature  
Randy Iwase, Public Utilities Commission  
Ashley Kaano, Ofc of US Representative Tuli Gabbard  
Jan Kelly, Kanae Island Utility Cooperative  
Darren Kimura, Energy Industries  
Kelly King, Sustainable Bio diesel Alliance  
Kal Kobayashi, Maui County Energy Office  
Representative Chris Lee, Hawaii State Legislature  
Gladys Marrore, Building Industry Assn of Hawaii  
Stephen Meder, UH Facilities and Planning  
Herman Moritz, Energy Dynamics  
Sharon Moriwaki, UH Public Policy Center  
Tim O'Connell, US Dept of Agriculture  
Jeffrey Owa, Division of Consumer Advocacy, DCCA  
Stan Osseman, HCATT  
Darren Pai, Hawaiian Electric Companies  
Melissa Pavlicek, Hawaii Public Policy Advocates  
Randy Pereira, Hawaii Government Employees Assn  
Rick Reed, Hawaii Solar Energy Assn  
Cynthia Rezendes, Ofc of US Representative Mark Takai  
Rich Rocheleau, UH Hawaii Natural Energy Institute  
Will Rolston, Hawaii County, Research & Development  
Riley Saito, SunPower Systems  
Scott Sen, Hawaiian Electric Companies  
Joelle Simoniopetri, US Pacific Command Energy Ofc  
H. Ray Starling, Hawaii Energy  
Ben Sullivan, Kanae County  
Lance Tanaka, Pac Hawaii, Inc.  
Maria Tome, Public Utilities Commission  
Alan Yamamoto, Ofc of US Senator Mazie Hirono

Testimony of the  
Hawaii Energy Policy Forum  
Before the

House Committee on Consumer Protection and Commerce  
February 17, 2016 at 9:30 am in Conference Room 329

## COMMENTS on HB 2076 HD1 Relating to Wheeling

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

The Hawaii Energy Policy Forum ("HEPF"), created in 2002, is comprised of over 40 representatives from Hawaii's electric utilities, oil and natural gas suppliers, environmental and community groups, renewable energy industry, and federal, state and local government, including representatives from the neighbor islands. Our vision, mission and comprehensive "10 Point Action Plan" guide us in moving Hawaii toward its preferred energy goals. It is for that reason that we provide comments on HB2076 HD1.

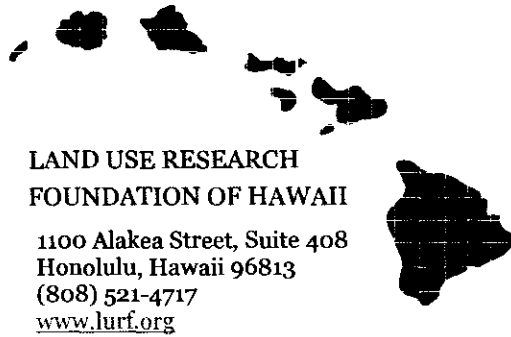
As written, the bill assumes retail wheeling is of benefit to the electricity ratepayer and the Hawaii electric system and mandates the Hawaii Public Utilities Commission ("PUC") to establish the necessary policies and rules for the implementation of retail wheeling to enable independent power producers to sell electricity directly to end users. The need for rules and tariffs should come only after an investigation of retail wheeling by the PUC, therefore, this measure is premature and unnecessary.

A prerequisite to retail wheeling is the need to "unbundle" the electricity market. The unbundling of the infrastructure and services by the traditional vertically integrated electric utility typically aims to provide the access of all players to distribution and transmission systems without discrimination and the prevention of cross subsidization between undertakings conducting generation, transmission, distribution and retail sales activities. Retail wheeling represents only one small piece of the larger puzzle of an evolving utility of the future. Retail wheeling cannot be looked at in isolation given its impact on the Hawaii electric system and our isolated island grids and small customer base. These are issues that the PUC is well aware of and have incorporated into its on-going investigations and its inclinations.

The HEPF recommends that the Legislature support the PUC in its on-going efforts through proper funding to tackle the complex technical and economic impact issues that will identify the infrastructure and services that can be subject to competition and what infrastructure and services will be best provided by the electric utility as an important first step before establishing a retail wheeling mandate.

Thank you for the opportunity to testify.

*This testimony reflects the position of the Forum as a whole and not necessarily of the individual Forum members or their companies.*



LAND USE RESEARCH  
FOUNDATION OF HAWAII

1100 Alakea Street, Suite 408  
Honolulu, Hawaii 96813  
(808) 521-4717  
[www.lurf.org](http://www.lurf.org)

February 17, 2016

LATE TESTIMONY

Representative Angus I.K. McKelvey, Chair  
Representative Justin H. Woodson, Vice Chair  
House Committee on Consumer Protection and Commerce

**Testimony in Opposition to current form of HB 2076 Relating to Wheeling. (Requires the Public Utilities Commission to establish policies and rules for the implementation of retail wheeling. Requires the Commission to report on the status of the implementation of retail wheeling annually until the implementation is complete.)**

**CPC Hearing: Wednesday, February 17, 2016, 9:30 a.m., in Conf. Rm. 329**

The Land Use Research Foundation of Hawaii (LURF) is a private, non-profit research and trade association whose members include major Hawaii landowners, developers and a utility company. One of LURF's missions is to advocate for reasonable, rational and equitable land use planning, legislation and regulations that encourage well-planned economic growth and development, while safeguarding Hawaii's significant natural and cultural resources and public health and safety.

LURF supports the general intent of this bill, however, it must **oppose the current form of HB 2076**, which requires the Public Utilities Commission (PUC) to establish policies and rules for the implementation of retail wheeling; and requires the PUC to report on the status of the implementation of retail wheeling annually until the implementation is complete

LURF's **opposition** is based on, among other things,

- **A PUC Investigative docket should be established.** The Public Utilities Commission cannot just establish policies and rules for the implementation of retail wheeling. Prior to establishing policies, rules, and requirements necessary for the implementation of retail wheeling it would be appropriate to open an **investigatory docket** to explore the feasibility of retail wheeling in Hawaii. Such a docket proceeding would allow stakeholders the opportunity to participate in addressing any issues associated with retail wheeling in Hawaii and how to best implement the program.
- **Additional time would be required for the PUC review and decision.** LURF understands that the PUC has indicated that it would not be able to meet the deadlines required by this measure.

- **The PUC already has initiated a proceeding to examine the feasibility of intragovernmental wheeling, and that investigation could provide valuable information regarding the issue of wheeling.** LURF understands that the PUC has already initiated a proceeding to examine the feasibility of intra-governmental wheeling, a more focused investigation, in response to the 2004 Legislature's Senate Concurrent Resolution No. 180 ("S.C.R. No. 180"); and has also initiated proceedings that are examining the transformation of the provision of electrical services in Hawaii and how state energy policy goals can best be achieved. The PUC should be allowed to continue its investigation into various important issues, including, among other things,
  - Whether intra-governmental wheeling is feasible;
  - How it would impact all customers in Hawaii – whether it will benefit just a few large-load customers, at the expense of non-wheeling customers;
  - Whether the short term cost savings of wheeling will create an unbalanced set of resources;
  - Whether wheeling will benefit some independent power producers over those with Power Purchase Agreements;
  - Whether wheeling will result in degradation of service reliability;
  - Whether wheeling will create problems changing operating requirements and protect design to protect the electrical system;
  - The impact of operational reliability standards;
  - Whether wheeling would fit into plans for the achievement of state energy policy goals and be in the public interest.

For the reasons stated above, LURF **must oppose HB 2076** and respectfully requests that this bill be **held** in this Committee.

Thank you for the opportunity to present testimony regarding this matter.