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TO THE HOUSE COMMITTEE ON CONSUMER PROTECTION & COMMERCE

THE TWENTY-EIGHTH LEGISLATURE
REGULAR SESSION OF 2016

THURSDAY, FEBRUARY 11, 2016
5:00 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. 2649, H.D. 1 - RELATING TO ENERGY

DESCRIPTION:

This measure proposes to provide that electric utility rates or rate changes shall only be considered just and reasonable if the rate is derived from an earnings impact mechanism that directly ties the utility's revenues to the achievement of certain performances-based metrics and conditions; effective upon approval, but allows the Public Utilities Commission ("Commission") to delay implementation until no later than January 1, 2020.

POSITION:

The Division of Consumer Advocacy ("Consumer Advocate") offers comments on the bill.

COMMENTS:

The Commission initiated a Decoupling Investigation docket by issuing Order No. 31289 on May 31, 2013. In its subsequent Order No. 31484, the Commission identified General Issues 3. ("Whether performance incentives/penalties should be incorporated into the RBA, RAM or other utility rate designs or ratemaking procedures?") and 4. ("Whether changes should be made to general ratemaking procedures to improve efficiency and/or effectiveness?").

Most recently, the Commission issued Order No. 32735 on March 31, 2015, modifying decoupling mechanisms. However, the Commission declined to implement performance incentive mechanisms at that time, citing the impracticality of doing so before many related issues are resolved in other major dockets, such as the ownership of the Hawaiian Electric Companies, the power supply improvement plans, distributed energy resources, and integrated demand response planning. The Commission wrote that “care must be taken regarding the details of the performance metrics and mechanisms in order to ensure that the mechanisms are effective, are not subject to excessive gaming, and do not produce unintended deleterious consequences.” Parties to the Decoupling Investigation docket began filing statements of position and briefs on the further investigation of performance incentive mechanisms in June of 2015.

The parties are awaiting further direction from the Commission on the next steps on completing the investigation of performance incentive mechanisms. This bill is unnecessary because the issue is being considered in this ongoing docket.

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 11, 2016
5:00 PM

MEASURE: H.B. No. 2649, H.D. 1
TITLE: RELATING TO ENERGY

Chair McKelvey and Members of the Committee:

DESCRIPTION:

This measure requires the Public Utilities Commission (“Commission”) to establish performance incentive mechanisms that directly tie electric utility revenues to the utility’s achievement on performance metrics on or before January 1, 2020.

POSITION:

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

COMMENTS:

The Commission agrees that electric utility performance should be aligned with meeting the State’s energy goals and protecting ratepayers from potentially unnecessary additional costs. The Commission currently has an open docket to reexamine the HECO Companies’ Decoupling Mechanism (See Docket No. 2013-0141) and the development of performance incentive mechanisms is one of the issues pending final decision in that docket.

Thank you for the opportunity to testify on this measure.



Before the House Committee on Consumer Protection and Commerce
Thursday, February, 11 2016, 5 p.m., room 325
HB 2649 HD 1: RELATING TO ENERGY

Aloha Chair McKelvey, Vice Chair Woodson, Members of the Committee,

On behalf of the Distributed Energy Resources Council of Hawaii, I would like to testify in support for HB 2649 HD 1, which requires the PUC (“Commission”) to establish performance incentive mechanisms that directly tie electric utility revenues to the utility’s achievement on performance metrics. This bill is effective upon approval, but it allows the PUC to delay implementation until no later than January 1, 2020. The DER Council is a nonprofit trade organization formed to assist with the development of distributed energy resources and smart grid technologies to support an affordable, reliable, and sustainable energy supply for Hawaii.

The DER Council strongly supports HB 2649 HD 1 as it starts the process of reforming the utility’s business model to meet the needs of Hawaii’s energy transformation. We believe that HB 2649 HD 1 combines both clarity and caution. First, HB 2649 HD 1 directs the Commission to include and consider several key performance metrics which will ensure that our decoupled utility will make the best decisions and most effectively engineer our energy transformation with their guaranteed revenue requirement. Right now, under the decoupled business model, the utility makes a guaranteed revenue which is not specifically tied to any particular performance. HB 2649 HD 1 would fix this by tying the utility’s revenues to performance determined as necessary by the commission. Next, HB 2649 HD 1 gives the Commission and the utility ample time to integrate these changes, as the Commission need not implement the performance metrics until January 1, 2020. The DER Council believes that this grace period will allow the Commission to integrate changes to the decoupling mechanism effectively as they proceed with the DER (2014-0192), DR (2015-0412), PSIP (2014-0183), and the merger docket.

In addition, the DER Council wishes to note that the Commission is no longer considering performance incentive metrics under the Reexamination of the Decoupling docket.¹ Although the docket is still open, and the Commission is still considering other performance metrics such as safety and reliability, metrics specifically tied to energy metrics are no longer part of the docket. Also, the DER Council wishes to note that although the PSIP docket will present a variety of plans for the Commission and stakeholders to consider, it will not involve any fundamental changes to the utility’s business model. HB 2649 HD 1 *does* address the utility business model, and it gives clear yet flexible guidance to the Commission as we move ahead with our energy plan.

Thank you for the opportunity to testify.

Leslie Cole-Brooks
Executive Director
Distributed Energy Resources Council of Hawaii

¹ Order No. 327735, Docket No. 2013-0410 where “[t]he commission reiterates that it will not give further consideration to energy policy PIMs, as distinguished above, in this docket.” At 46.

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

H.B. No. 2649, H.D. 1

Relating to Performance-Based Regulatory Mechanisms

Thursday, February 11, 2016

5:00 PM

State Capitol, Conference Room 325

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

Chair McKelvey, Vice Chair Woodson, 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. 2649, H.D. 1.

This bill requires the Public Utilities Commission to establish performance incentive mechanisms that directly tie electric utility revenues to the utility's achievement on performance metrics, which may include compliance with the renewable portfolio standards, electric rate affordability, electric service reliability, levels of customer service, public information access to electric system planning and customer energy usage data, integration of renewable energy sources and timely execution of competitive procurement of processes.

The proposed legislation is unnecessary since the Commission is already addressing whether and in what form performance-based ratemaking should be introduced in Hawai'i, and is separately addressing in other proceedings strategic policy issues such as the interconnection of distributed energy resources and the procurement of power generation. In addition, the Commission is the appropriate entity to evaluate and decide what kind of ratemaking mechanisms should be implemented in Hawai'i and what the timing of implementation should be.

In particular, there is a pending proceeding on decoupling and other ratemaking issues at the Commission that invited various parties to submit position statements and proposals on performance-based mechanisms and metrics. The

proposals for performance-based mechanisms and metrics submitted by Hawaiian Electric and various parties were wide-ranging, differing on the design of the mechanisms, how they should work and what the performance-based metrics and incentives should be. Not all parties supported the immediate transition to performance-based ratemaking in Hawai'i.

The Commission pointed out, and Hawaiian Electric agrees, that with all of the proposals, care must be taken regarding the details of the performance metrics and mechanisms in order to ensure that the mechanisms are effective, are not subject to gaming and do not produce unintended consequences. The Commission also observed that the Hawaiian Electric Companies are in a period of exceptional transition with major strategic and resource planning uncertainties unresolved, and that such issues would be examined in other proceedings, including those on the Companies' proposed Power Supply Improvement Plans, Distributed Generation Interconnection Plan and Integrated Demand Response Plan. The Commission pointed out that without clearly defined and accepted strategic plans in place, it is difficult to bring desirable tactical objectives into clear enough focus to devise effective performance incentives without the risk of unintended consequences. The Commission stated that pending resolution of these issues, implementation of a performance-based ratemaking framework is premature. However, it further stated that when major decisions regarding these plans are more clearly determined, the Commission will further consider the implementation of performance-based frameworks.

In the decoupling proceeding the Commission also modified the Companies' Rate Adjustment Mechanism ("RAM") to encourage cost control. The Companies' revenues are now subject to a cap and they must separately apply for any capital projects that require revenues above the cap amount.

In the meantime, the Commission is continuing its consideration in the decoupling proceeding of certain stand-alone performance incentive metrics related to service quality and their implementation. A decision and order in that proceeding is pending.

I would also point out that regarding public information access to electric service-related data, as a result of the decoupling proceeding, the Companies have begun displaying a wide range of energy-related data and metrics on their websites that are easily accessible to the public.

Accordingly, the Hawaiian Electric Companies oppose H.B. 2649, H.D. 1.
Thank you for this opportunity to testify.

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COLLEGE OF SOCIAL SCIENCES

HAWAII ENERGY POLICY FORUM

UNIVERSITY OF HAWAII 'I AT MĀNOA

Jeanne Schultz Afuvai, Hawaii Inst. for Public Affairs
Karlie Asato, Hawaii Government Employees Assn
Joseph Boivin, Hawaii Gas
Warren Bollmeier, Hawaii Renewable Energy Alliance
Michael Brittain, IBEW, Local Union 1260
Albert Chee, Chevron
Elizabeth Cole, The Kohala Center
Kyle Datta, Uaopono Initiative
Mitch Ewan, UH Hawaii Natural Energy Institute
Jay Fidell, ThinkTech Hawaii
Carl Freedman, Hailon Design & Analysis
Matthias Fripp, REES at University of Hawaii
Ford Fuchigami, Hawaii Dept of Transportation
Mark Glick, Hawaii State Energy Office, DBEDT
Justin Gruenstein, City & County of Honolulu
Dale Hahn, Ofc of US Senator Brian Schatz
Michael Hamnett, SSRJ at University of Hawaii
Senator Lorraine Inouye, Hawaii State Legislature
Randy Iwase, Public Utilities Commission
Ashley Kaono, Ofc of US Representative Tuki Gabbard
Jim Kelly, Kauai Island Utility Cooperative
Darren Kimura, Energy Industries
Kelly King, Sustainable BioDiesel Alliance
Kal Kobayashi, Maui County Energy Office
Representative Chris Lee, Hawaii State Legislature
Gladys Marrone, Building Industry Assn of Hawaii
Stephen Meder, UH Facilities and Planning
Sharon Moriwaki, UH Public Policy Center
Tim O'Connell, US Dept of Agriculture
Jeffrey Ono, Division of Consumer Advocacy, DCCA
Stan Osseman, HCATT
Darren Pai, Hawaiian Electric Companies
Melissa Pavloek, Hawaii Public Policy Advocates
Randy Pereira, Hawaii Government Employees Assn
Rick Reed, Hawaii Solar Energy Assn
Cynthia Rezentes, Ofc of US Representative Mark Takai
Rick Rocheleau, UH Hawaii Natural Energy Institute
Will Robston, Hawaii County, Research & Development
Riley Saito, SunPower Systems
Scott Sen, Hawaiian Electric Companies
Joelle Simonopietri, US Pacific Command Energy Ofc
H. Ray Stirling, Hawaii Energy
Ben Sullivan, Kauai County
Lance Tanaka, Par Hawaii, Inc.
Maria Touss, Public Utilities Commission
Alan Yamamoto, Ofc of Senator Mazie Hirono

Testimony of the
Hawaii Energy Policy Forum
Before the

House Committee on Consumer Protection and Commerce
February 11, 2016 at 5:00 pm in Conference Room 325

Comments on HB 2649 HD1 Relating to Energy

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 and our comments on this bill.

HB 2649 HD1 requires that by 2020 the public utilities commission establish performance incentive mechanisms that directly tie electric utility revenues to the utility's achievement on performance metrics.

The Forum supports aligning electric utility performance with meeting the State's energy goals. However, the development of performance-based ratemaking is already being considered by the Commission in Docket No. 2013-0141, which is reviewing the HECO Companies' decoupling mechanisms. Thus, while this measure could provide some legislative guidance on the issues the Commission is considering, it is not necessary and may cause inadvertent consequences. Such guidance would be more appropriate in a resolution as the PUC continues its investigation of this issue.

During this time of transition, with rapidly advancing technologies and evolving business models, we must ensure the Commission is afforded the flexibility necessary to craft utility performance metrics and incentive mechanisms that align utility performance with State energy goals in a way that will benefit all utility customers.

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.