

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

February 4, 2016
8:00 AM

MEASURE: H.B. No. 2649
TITLE: RELATING TO ENERGY

Chair Lee and Members of the Committee:

DESCRIPTION:

This measure requires that electric utility rates be considered just and reasonable under 269-16, Hawaii Revised Statutes, only if the rate is derived from an “earnings impact mechanism” that directly ties the utility’s revenues to the achievement of certain performance-based metrics and conditions.

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 and the development of performance incentive mechanisms is one of the issues pending final decision making.

If the Legislature provides further guidance on this important topic, the Commission would suggest changes to the language under subsection (h) to remove any potential ambiguity regarding whether the proposed earnings impact mechanism would apply to one or multiple components of a customer’s bill. Thank you for the opportunity to testify on this measure.

From: mailinglist@capitol.hawaii.gov
Sent: Wednesday, February 03, 2016 7:50 AM
To: EEPtestimony
Cc: leslie@dercouncil.org
Subject: *Submitted testimony for HB2649 on Feb 4, 2016 08:00AM*

HB2649

Submitted on: 2/3/2016

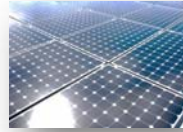
Testimony for EEP on Feb 4, 2016 08:00AM in Conference Room 325

Submitted By	Organization	Testifier Position	Present at Hearing
Leslie Cole-Brooks	DER Council of Hawaii	Support	No

Comments:

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

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HOUSE COMMITTEE ON ENERGY & ENVIRONMENTAL PROTECTION

February 4, 2016, 8 A.M.

Room 325

(Testimony is 2 pages long)

**TESTIMONY IN STRONG SUPPORT OF HB 2649
PROPOSED CLARIFYING AMENDMENTS**

Aloha Chair Lee, Vice Chair Lowen, and Committee members,

Blue Planet Foundation strongly supports HB 2649, implementing a performance-based revenue model for electric utilities. Under the current ratemaking mechanisms, utilities basically earn revenue under a “cost-plus” ratemaking scheme. A utility earns an approved rate of return on top of money it invests in the grid. This causes the interests of the utility (to spend money) to be misaligned with the interests of customers (to save money).

The Public Utilities Commission has stated its concern with this misalignment: **“The Commission is concerned that under the current regulatory cost-recovery model for power supply the utilities lack correct incentives to control power supply costs, aggressively pursue long-term contracts with IPPs for new renewable energy projects, and expeditiously retire old, inefficient generation units.”**¹ The Commission described several specific concerns with the cost-plus ratemaking model:

- “Lack of correct incentives to control power supply costs” (especially fuel costs)
- “No direct financial incentive to pursue independent, third-party/IPP clean energy projects”
- “No direct financial incentives to accelerate retirement of fossil generating units”
- “Lack of transparent price signals to evaluate the supply of ancillary services”²

HB 2649 replaces the cost-plus ratemaking model with a performance-based model, under which utilities will earn based on their performance rather than on their investment. The Commission concluded that this model, where performance is driven by financial incentives, is a policy necessity: **“It is essential that properly structured power generation cost recovery and financial incentive mechanisms are in place to guide and reward the HECO Companies for implementing [transformative energy] strategies and actions With**

¹ Commission's Inclinations on the Future of Hawaii's Electric Utilities: Aligning the Utility Business Model with Customer Interests and Public Policy Goals. (emphasis added).

² *Id.*

new incentive mechanisms that better align utility performance with customers' interests and public policy, a financially healthy utility can be synonymous with achieving Hawaii's clean energy future."³

We suggest clarifying amendments to the bill, to ensure that (i) the Commission may utilize performance metrics in addition to the metrics identified in the bill, (ii) performance will mean exceeding clean energy targets (rather than merely achieving the statutory minimums), and (iii) performance will mean reducing costs *and* reducing ratepayers risk of fuel price fluctuations.

(h) Rates made or charged by an electric utility or by two or more electric utilities jointly shall be considered just and reasonable under this section only if the rate is derived from an earnings impact mechanism developed by the commission that directly ties the utility's revenues to the achievement of the following performance-based metrics and conditions and other performance-based metrics and conditions identified by the commission:

(1) Exceeding renewable portfolio standards identified in ~~compliance with~~ section 269-92;

(2) Ratepayer cost reduction and reduction in ratepayer fuel cost risk;

(3) Reliability and safety;

(4) Satisfactory levels of customer service;

(5) Information access, including but not limited to public access to electric system planning data and aggregated customer energy usage data;

(6) The interconnection of distributed energy resources to meet public demand; and

(7) Procurement of power generation from non-utility owned resources in place of existing, planned, and new utility-owned resources and power generating facilities.

Thank you for the opportunity to testify.

³ *Id.* (emphasis added).



HOUSE COMMITTEE ON ENERGY & ENVIRONMENTAL PROTECTION

February 4, 2016
(Testimony is 1 page long)

TESTIMONY IN SUPPORT OF HB 2649

Chair Lee and Members of the Committee:

The Alliance for Solar Choice (TASC) appreciates the opportunity to support HB 2649, relating to energy. TASC supports this measure.

TASC advocates for maintaining successful distributed solar energy policies and markets throughout the United States. Collectively, TASC members serve a significant portion of solar customers in Hawaii.

This measure helps shift utility investments away from central-station and long distance power transmission, and towards lower-cost distributed energy models. This approach has the potential to save consumers billions dollars that would otherwise be spent on infrastructure that has a high likelihood of being an obsolete, stranded investment in the near future.

TASC envisions a future in which a majority of utility earnings are from performance-based incentives, with return-on-equity declining as a share of earnings. Performance based incentives should be sufficient to overcome the bias toward capital investment. The investments needed to carry out a Independent System Operator role will provide ample opportunity for adequate revenues through existing rate of return earnings structure. The key is to incentivize the right kinds of investment. Utilities could continue to earn a rate of return on existing rate base (to recover embedded costs and return on that investment) but going forward only capital expenditures consistent with the role of an ISO should be eligible for performance-based earnings, such as investment that empowers customers to exercise the choices to manage their own power consumption, improves reliability, lowers overall system costs, lowers peak demand, and reduces carbon intensity of the electric system.

Thank you for considering our comments.

From: mailinglist@capitol.hawaii.gov
Sent: Wednesday, February 03, 2016 8:06 AM
To: EEPtestimony
Cc: dylanarm@hawaii.edu
Subject: *Submitted testimony for HB2649 on Feb 4, 2016 08:00AM*

HB2649

Submitted on: 2/3/2016

Testimony for EEP on Feb 4, 2016 08:00AM in Conference Room 325

Submitted By	Organization	Testifier Position	Present at Hearing
Dylan Armstrong	Individual	Support	No

Comments:

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Cc: carl@votecampagna.com
Subject: *Submitted testimony for HB2649 on Feb 4, 2016 08:00AM*

HB2649

Submitted on: 2/3/2016

Testimony for EEP on Feb 4, 2016 08:00AM in Conference Room 325

Submitted By	Organization	Testifier Position	Present at Hearing
Carl Campagna	Individual	Support	No

Comments:

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**TESTIMONY BEFORE THE HOUSE COMMITTEE ON
ENERGY & ENVIRONMENTAL PROTECTION**

H.B. No. 2649

Relating to Performance-Based Regulatory Mechanisms

Thursday, February 4, 2016

8:00 am

State Capitol, Conference Room 325

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. 2649.

This bill requires that utility rates be derived from an earnings impact mechanism, to be developed by the Public Utilities Commission, that directly ties the utility's revenues to achievement of certain performance-based metrics and conditions, namely, the renewable portfolio standards, ratepayer cost reduction, reliability and safety, satisfactory levels of customer service, public information access to electric system and energy use data, interconnection of distributed energy resources and procurement of power generation.

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 particular, there is a pending proceeding 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. Some parties took the position that the time was not right to introduce 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. When major decisions regarding these plans are more clearly determined, the Commission will further consider the implementation of performance-based frameworks. In the meantime, the Commission is continuing its consideration of certain stand-alone performance incentive metrics related to service quality and their implementation.

I would also point out that regarding public information access to electric system and energy usage data, as a result of the Commission's 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. Thank you for this opportunity to testify.