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TO THE HOUSE COMMITTEE ON ENERGY & ENVIRONMENTAL PROTECTION

THE TWENTY-NINTH LEGISLATURE
REGULAR SESSION OF 2017

THURSDAY, FEBRUARY 9, 2017
8:30 A.M.

TESTIMONY OF DEAN NISHINA, EXECUTIVE DIRECTOR, DIVISION OF
CONSUMER ADVOCACY, DEPARTMENT OF COMMERCE AND CONSUMER
AFFAIRS, TO THE HONORABLE CHRIS LEE, CHAIR,
AND MEMBERS OF THE COMMITTEE

HOUSE BILL NO. 152 - RELATING TO WHEELING

DESCRIPTION:

This measure proposes to require the Public Utilities Commission (“PUC” or “Commission”) to establish policies and rules for the implementation of retail wheeling and require 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 respectfully 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. In the alternative, the proposed measure could be held and this committee could consider a resolution asking the Commission to investigate retail wheeling with a completed report to the legislature upon completion of that investigation.

Thank you for this opportunity to testify.

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

February 9, 2017
8:30 a.m.

MEASURE: H.B. No. 152

TITLE: RELATING TO WHEELING

Chair Lee 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.” This measure also requires the Commission to explore the feasibility of implementing retail wheeling in Hawaii, including opening an investigatory docket as necessary, and to report on the status of this investigation no later than 20 days prior to the convening of the regular session of 2018 and annually 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 an investigatory docket would be the most appropriate forum to explore “the feasibility of implementing retail wheeling in Hawaii”, as is proposed in Section 4 of this measure. The investigatory docket process would allow stakeholders the opportunity to provide feedback regarding the question of whether retail wheeling in Hawaii is feasible and, if so, what policies and requirements would be necessary to implement retail wheeling in Hawaii.

However, it appears that this measure requires the Commission to establish the necessary policies and rules, pursuant to Chapter 91, for the implementation of retail wheeling prior to completing the investigation and providing a report on the Commission's findings to the Legislature.

The Commission respectfully recommends that, should the results of the investigation show that retail wheeling is feasible in Hawaii and in the public interest, the Commission be permitted the discretion to implement retail wheeling by rule or order.

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



TESTIMONY OF JOSE S. DIZON, P.E.
GENERAL MANAGER, ENERGY & INFRASTRUCTURE
GENERAL MANAGER, PANIOLO POWER
TO THE HOUSE COMMITTEE ON ENERGY AND ENVIRONMENTAL PROTECTION

*February 9, 2017
8:30am
Conference Room 325*

MEASURE: H.B. No. 152
Title: RELATING TO WHEELING

Representative Lee, Representative Lowen, Representative Evans, and Members of the Committee:

Paniolo Power Company, LLC and Parker Ranch, Inc. support HB 152. If implemented, retail wheeling will provide increased electricity market options for Hawaii customers by expanding customer choice as well as accelerating the adoption of cleaner and cheaper renewable energy resources.

Parker Ranch would also like to note that large scale wind and pumped storage hydro technologies can play a major role in a retail wheeling market. A March 18, 2015 IEEE report states that as Japan prepares for their shift to competitive power markets, it will drive the use of pumped storage plants. Pumped Storage Hydro could provide regulating reserves in a competitive market; something that could and should very well happen in Hawaii as we explore retail wheeling. Large scale wind could provide balancing reserves. The regulation market should be an issue to be addressed by the PUC as part of an investigatory docket. Pumped storage hydro continues to prove itself as a perfect energy storage complement in addressing the agriculture-water-energy nexus and as a resource to address high penetration of intermittent renewable energy resources.

With four attempts at developing a resource plan in three years, the HECO Companies are arguably trying as hard as they are capable to meet the demands of its customers and regulators during this era of technology disruption; however, we must keep in mind that their paradigm is the vertically-integrated utility business model, and they are working hard to optimize their investment and operations within that business model paradigm.

With technology changing the way we look at energy, and in light of the many prosumers in Hawaii who have and will be taking their energy destiny into their own hands, it makes sense to now investigate how broadening the energy business model paradigm to include the retail market sphere could positively affect energy prices and the growth of our economy.

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 greater economic benefits for Hawaii.

Thank you for the opportunity to testify.

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

H.B. No. 152

Relating to Wheeling

Thursday, February 9, 2017

8:30 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. 152.

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.

This bill, among other things:.

- Allows the establishment of wheeling before determining if it is feasible, how it would impact all customers in Hawaii, and whether it would fit into the state's energy policy of 100% RPS cost effectively by 2045.

- Allows independent power producers to sell electricity directly to end users will likely benefit a few large-load customers at the expense of all other 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.
- May result in the degradation of service reliability as the utility would not be able 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.
- 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.

Thank you for this opportunity to testify.