

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 ENERGY & ENVIRONMENTAL PROTECTION

THE TWENTY-NINTH LEGISLATURE
REGULAR SESSION OF 2017

THURSDAY, FEBRUARY 2, 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. 1574 - RELATING TO ENERGY RATES

DESCRIPTION:

This measure proposes to require the Public Utilities Commission (“PUC” or “Commission”) to establish a tiered rate structure for customers of electric utilities. This measure requires the Commission to establish discounted rates for low-income customers of electric utilities, directs the public benefits fee to be appropriately tiered, and allows the fee to be used to benefit energy efficiency advancement for low- and middle-income ratepayers and for emergency energy workforce retraining and transition programs.

POSITION:

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

COMMENTS:

The Consumer Advocate supports the intent to encourage consumer behavior to adopt energy efficiency measures and to reduce the burden of the electricity bill on low-income customers. However, the Consumer Advocate contends that certain parts of the proposed measure may be unnecessary, may result in unintended consequences, and/or may not be in the overall consumers' interests.

The proposal to require the establishment of a tiered rate schedule to be charged by electric utility companies is unnecessary. Each of the electric utilities already have inclining block tiered rates that have been long established to promote conservation by customers.¹

The Consumer Advocate supports the intent to modify the collection of the public benefits fee in order to reduce the impact on low and moderate income customers. The Consumer Advocate contends, however, that as proposed, the measure will not fully generate the intended results. As currently collected, the public benefits fee is a kWh surcharge. Thus, customers who have been able to install photovoltaic systems and have subsequently offset most or all of their energy consumption essentially avoid paying a full share of the public benefits fee. Even if the public benefits fee is modified to be tiered, customers who have partially or completely offset their energy usage will still pay less than a fair share and low and moderate income customers who have not been able to take advantage of distributed energy resources will still pay a disproportionate share of the fee.

The Consumer Advocate also supports the intent to reduce the impact of high electricity bills on low-income customers. Absent any contributions from an alternative source, such as federal or state government funding, the result of the proposed requirement will likely place a disproportionate burden on moderate income customers. This conclusion is based on the assumption that many of the customers who have been able to take advantage of distributed energy resources, such as a photovoltaic system, are affluent and that moderate income customers who do not have PV systems will have to bear the majority of the proposed subsidy of low income customers.

Finally, the Consumer Advocate appreciates the intent to make clear the legislature's policy as it relates to the objectives of or priorities for the public benefits fund. The Consumer Advocate has consistently advocated that the public benefits fund administrator should ensure that hard to reach consumers, which includes low-income customers, should be emphasized in the annual energy efficiency program. However, the proposed use of the public benefits fund for emergency workforce retraining and for the adoption of clean energy technologies bears further consideration. As already

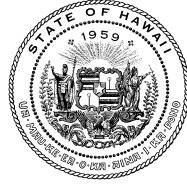
¹ It should be noted that the inclining block rates can cause issues for multi-generational families since these larger households tend to use more energy than the average household; thus, due to the households' higher electricity usage, their bill may often reflect usage charged at higher rate.

acknowledged in the proposed language, workforce training efforts should not be funded by the public benefits fee. Additionally, the proposed allocation of the fees toward the advancement and adoption of clean energy technologies raises concerns that there is an intent to direct public benefits fee towards clean energy technologies that are not cost effective or commercially viable. Such an intent would not be a prudent use of ratepayer funds. The proposed allocation of the public benefits fee would also be inconsistent with Hawaii Revised Statutes § 269-121(b), which states that the “fee shall be used to clean energy technology, demand response technology, and energy use reduction, and demand-side management infrastructure, programs, and services...”

Thank you for this opportunity to testify.

DAVID Y. IGE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1540
FAX NO: (808) 587-1560

MARIA E. ZIELINSKI
DIRECTOR OF TAXATION

DAMIEN A. ELEFANTE
DEPUTY DIRECTOR

To: The Honorable Chris Lee, Chair
and Members of the House Committee on Energy and Environmental Protection

Date: Thursday, February 2, 2017
Time: 8:30 A.M.
Place: Conference Room 325, State Capitol

From: Maria E. Zielinski, Director
Department of Taxation

Re: H.B. 1574, Relating to Energy Rates

The Department of Taxation (Department) appreciates the intent of H.B. 1574 and provides the following comments for your consideration.

H.B. 1574 requires the Public Utilities Commission to establish a tiered rate schedule for rates charged by electric utilities. The Commission is required to establish a low-income rate for households earning less than one hundred twenty percent of the federal poverty line as verified by the Department. The Department is additionally required to adopt rules pursuant to the section. The measure is effective July 1, 2017.

First, the Department notes that taxpayers' tax return information is confidential. The Department has statutory requirements to maintain confidentiality of return information, including the amount of income listed on the return, and the circumstances in which taxpayers' return information can be revealed to any party are very limited. If the Legislature's intent is to have the Department to share taxpayers' confidential information with the Public Utilities Commission, the Department suggests a provision be added specifically allowing the disclosure of information for this measure's purpose.

Second, taxpayers who do not meet the income tax filing threshold are not required to file a tax return. This group includes taxpayers who have little or no income, as well as taxpayers who have income that is exempt such as pension or social security income. In any case the Department will not have income information for taxpayers who do not file a return.

Third, the Department notes that the term "household" is not defined in this bill. It can be assumed that the measure intends to adopt the definition of "household" according to federal poverty guidelines since qualification is based on the "federal poverty line" of a household. In any case, the Department will only be able to verify the information as reported on the income tax return.

Finally, the Department's authority is limited to interpretation and implementation of the tax laws in Title 14, Hawaii Revised Statutes (HRS). The Department does not have authority to make rules regarding provisions for Title 15, HRS, including Chapter 269. Accordingly, the Department suggests amending subsection (d) in Section 2 of this measure to read:

(d) The public utilities commission shall adopt rules, pursuant to chapter 91, to effectuate the purposes of this section. Such rules shall contain the procedures by which the department of taxation will verify income pursuant to subsection (b).

Thank you for the opportunity to provide comments.

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

February 2, 2017
8:30 am

MEASURE: H.B. No. 1574

TITLE: RELATING TO THE PUBLIC UTILITIES COMMISSION

Chair Lee and Members of the Committee:

DESCRIPTION:

This measure would require the Public Utilities Commission (“Commission”) to establish a tiered rate schedule and a discounted low-income electric rate for certain electric utility customers. This measure would also reallocate the use of the Public Benefits Fee (“PBF”) to specific purposes. This measure would also restructure the PBF to reflect tiered rates.

POSITION:

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

COMMENTS:

The Commission notes that tiered rates with a lower cost per kilowatt hour for lower tiers of consumption have already been established. For example, see Schedule R, HECO’s Residential Service electric rates.

Regarding a discounted low-income electric rate for certain customers, the Commission notes that low-income electric ratepayers may already be eligible for the Low Income Home Energy Assistance Program (“LIHEAP”), which is a federal program that offers assistance to low-income utility customers and is funded through federal appropriations. If it is the will of the legislature to require a discounted low-income electric rate for certain customers, the Commission would recommend that, for administrative purposes, these

rates be established through an application put forth by an electric utility, subject to Commission approval, rather than through rules adopted pursuant to chapter 91.

Regarding the reallocation of the use of the PBF for specific purposes, the Commission notes that the originally intended use of the PBF was to support the State's Energy Efficiency Programs so that the State can meet its Energy-Efficiency Portfolio Standard requirement of 4,300 GWh of electricity use reduction statewide by 2030, pursuant to section 269-96. The diversion of the PBF funds for other purposes may limit the State's ability to achieve this statutorily required goal.

Regarding the restructuring of the PBF to reflect tiered rates, the Commission notes that the Consumer Advocate has recently expressed concern with the current allocation of PBF surcharges. In response to such concerns, the PBF technical advisory group is currently reviewing potential adjustments to the PBF surcharge to ensure the PBF is collected in a fair way going forward. The technical advisory group includes energy efficiency stakeholders such as the electric utilities, DBEDT, the Consumer Advocate, Blue Planet Foundation, and others.

Thank you for the opportunity to testify on this measure.



HOUSE COMMITTEE ON ENERGY & ENVIRONMENTAL PROTECTION

Feb. 2, 2016, 8:30 A.M.

Room 325

(Testimony is 1 page long)

COMMENTS ON HB 1574

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

Blue Planet Foundation supports the aspects of this bill that target (i) more accessibility to energy solutions for low-income customers, (ii) new low-income rate structures, (iii) emergency workforce training, and (iv) advanced adoption of clean energy technologies. We particularly support the establishment of tiered rate structures (which would encourage energy efficiency), and rates applicable to low-income customers.

However, we caution against taking steps that would reduce the resources devoted to energy efficiency in the state. Efficiency remains the most cost-effective source of clean energy. In its current form, it appears possible that the bill could actually reduce efficiency funding. That could harm both the specific participants in efficiency program, and also harm other ratepayers by requiring more expenses for peaking generation or other energy infrastructure.

We also caution that this bill should be carefully evaluated to ensure that it does more than re-start a time-consuming process for creating new programs for low- and middle-income customers—particularly at a time when the state’s Green Energy Market Securitization (GEMS) program is gaining steam. To date, GEMS has overwhelmingly deployed its funds for the benefit of that target demographic. While more options for low- and middle-income customers are needed and should be encouraged, stopping the GEMS program and re-starting the process would be inefficient and could threaten to actually delay access to energy solutions for those customers.

In sum, new programs enabled by this bill should be additive, should leverage the success of the existing Hawaii Energy efficiency program, and should complement the GEMS program.

And finally we caution against creating a disincentive for electric vehicles through tiered rate structures. Perhaps the bill’s preamble could be amended to clarify that tiered rate structures may take into account additional factors, such as EVs, participation in demand response programs, or other factors that are consistent with the transition to 100% renewable energy.

Thank you for this opportunity to provide comments.

info@blueplanetfoundation.org

55 Merchant Street 17th Floor • Honolulu, Hawai'i 96813 • 808-954-6142 • blueplanetfoundation.org



HAWAII APPLESEED

CENTER FOR LAW & ECONOMIC JUSTICE

Testimony of Hawai'i Appleseed Center for Law and Economic Justice
Supporting HB 1574 Relating to Energy Rates
House Committee on Energy & Environmental Protection
Scheduled for Hearing Thursday, February 2, 2017, 8:30 AM, Conference Room 325

Hawai'i Appleseed Center for Law and Economic Justice Hawai'i Appleseed is committed to a more socially just Hawai'i, where everyone has genuine opportunities to achieve economic security and fulfill their potential. We change systems that perpetuate inequality and injustice through policy development, advocacy, and coalition building.

Dear Chair Lee, Vice Chair Lowen, and Members of the Committees on Energy & Environmental Protection:

Thank you for the opportunity to testify in support of HB 1574, which helps to encourage energy efficiency through the setting of electric rates, while ensuring that low-income households are not overly burdened with rate charges outside of their means.

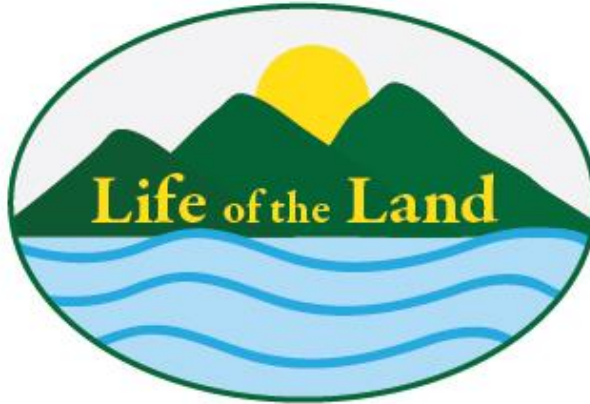
The cost of electricity levies a heavy burden on households. Hawai'i's cost of electricity for the residential sector is the highest in the nation, and more than double the national average.¹ According to a 2014 study, Hawai'i households have an average monthly electric bill of about \$205.² While low-income households have a strong incentive to minimize their electricity consumption, they often do not have access to energy efficient appliances or other means of reducing electricity costs. As a result, low-income households pay greater percentages of their income for electricity than other households. Not only is the financial burden of keeping the lights on high for low-income households, but falling behind on electric bills can result in discontinuation of utility service, which is often grounds for eviction.

HB 1574 would help to lessen the economic hardship on Hawai'i's low-income households due to high electricity rates by establishing a discounted low-income rate for households earning less than one hundred twenty percent of the federal poverty line. Hawai'i Appleseed supports this measure, which would promote greater economic stability for Hawai'i's low-income households by offsetting some of the financial burden of Hawai'i's high electricity rates.

Thank you very much for hearing and considering this important bill.

¹ U.S. Energy Information Administration, Electric Power Monthly (Data for November 2016), https://www.eia.gov/electricity/monthly/epm_table_grapher.cfm?t=epmt_5_6_a.

² Michael Roberts, *Why are Hawai'i's Electricity Prices So High?* Economic Currents (April 2, 2014), <http://www.uhero.hawaii.edu/news/view/273>.



P.O. Box 37158, Honolulu, Hawai`i 96837-0158
Phone: 927-0709 henry.lifeoftheland@gmail.com

COMMITTEE ON ENERGY & ENVIRONMENTAL PROTECTION
Rep. Chris Lee, Chair
Rep. Nicole E. Lowen, Vice Chair

DATE: Thursday, February 2, 2017
TIME: 8:30 am
PLACE: Conference Room 325

re: HB 1574 RELATING TO ENERGY RATES **SUPPORT & SUGGESTED AMENDMENT**

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

Life of the Land is Hawai`i's own energy, environmental and community action group advocating for the people and `aina for 47 years. Our mission is to preserve and protect the life of the land through sound energy and land use policies and to promote open government through research, education, advocacy and, when necessary, litigation.

Proposed Amendment:

SECTION 2. Chapter 269, Hawaii Revised Statutes, is amended by adding a new section to part I to be appropriately designated and to read as follows:

"§269- ~~Alternative Tiered~~ rates for electric utilities. (a) Notwithstanding section 269-16 or any other law the contrary, the public utilities commission shall establish alternative rate schedules ~~a tiered rate schedule~~ that shall apply to the rates charged by electric utilities. This shall include a tier ~~In creating the schedule,~~ whereby electricity in the lower tiers of consumption shall cost less per kilowatt hour than those tiers for higher levels of consumption."

In the beginning all electricity came from the utility power plant, and radially spread out to end users. That system no longer exists.

Electricity and telecommunications move in multiple ways along a utility's transmission and distribution grid. Today, 99 percent of the total physical number of all electricity generating stations in the State are rooftop solar systems. In aggregation, on the major islands, rooftop solar output exceeds the utility's largest single power plant.

Home energy storage systems, smart energy efficiency systems, and demand response mechanisms will allow customers to be compensated for providing frequency and voltage support to the grid.

There are proposals floating around that transform the older cookie-cutter customer approach.

The Commission allows HECO to charge more for Downtown Commercial Customers since their buildings are interconnected to two different substations. HECO is currently proposing a discount for customers with medical issues.

House Bill 1574 proposes lower rates for lower and middle income ratepayers. House Bill 1567 proposes "preferential electricity rates for communities that serve as geographic hosts for renewable energy projects."

The Public Utilities Commission examined geographic-based rate reductions in docket 2005-0146, involving a proposed Campbell Industrial Park generation station and the residents of zip code 96707 "which generally includes without limitation Kapolei, Makakilo, Honokai Hale and Ko Olina". The Commission could not justify giving a discount to someone living in upper Makakilo, and not to a Waianae resident who drove past Campbell Industrial Park twice every weekday.

There are also potential drawbacks to offering geographic discounts. Rural communities could see their neighborhoods transformed from open space and agriculture, to industrialized mega-renewable energy plants, with the justification, oh, you're getting compensation!

Life of the Land has raised the issue of product differentiation. Commercial customers who want higher reliability levels, but who do not want to pay for on-site systems, should pay a premium for added grid-based reliability, under the existing cost-causer principle.

National Studies

In 1990 the **National Regulatory Research Institute** (NRRI) published "Reliability Differentiated Pricing of Electricity Service."

“It has been suggested that electricity customers be given the choice of opting for different levels of service reliability. Customers would then subscribe to the level of reliability that best suits them and their processes. Such a choice would unbundle the service.”

"A review of electricity product differentiation" by **C.K. Woo** et al was published in the journal "Applied Energy" in 2013.

“Product differentiation recognizes that customers have heterogeneous preferences, with varying willingness-to-pay (WTP) for differentiated products. From a customer’s perspective, electricity has several distinct attributes: power quality, level of reliability, time of use (TOU), volume of usage (kWh), maximum demand (kW), and level of environmental impact. A differentiated product can be formed by packaging its non-price attributes at a commensurate price.”

Siripha Junlakarn has a B.Eng., an M.Eng. from Chulalongkorn University, Thailand and is pursuing her Ph.D. in Engineering and Public Policy at Carnegie Mellon University.

“Although different end-users might have different reliability preferences, these preferences are not taken into account in the investment decision made by a utility company. If the utility can provide differentiated reliability options according to customer preferences, it enables customers to price their reliability options according to their need. ...

Smart grid technologies, such as distribution automation and advanced metering infrastructure, can effectively manage power outages and provide a differentiation of reliability based on customers’ value of reliability.”

In 2013 the **National Association of Regulatory Utility Commissioners** (NARUC) published “Resilience in Regulated Utilities” by **Miles Keogh and Christina Cody**. “Commissions may decide that the smartest approaches to investing in resilience may be those that not only differentiate between classes, but also within classes.”

The HECO Redundant Distribution Grid

The PUC Annual Report for 1999-2000 stated that “HECO was authorized to expend ...\$4.1 million for the Downtown network secondary cable replacement project, \$3.2 million for the Downtown network primary reconfiguration project.”

On June 5, 2009 HECO responded to discovery question (CA-IR-13) in the HECO Companies Advanced Metering Infrastructure (Smart Meter) Project (Docket No. 2008-0303)

The "downtown network distribution systems, [is] known generally for providing high reliability. Customers in these systems are served from multiple distribution transformers through a maze of interconnected transformer secondary conductors.”

Commercial customers existing within the downtown network area pay higher rates for higher levels of reliability.

HECO's 2012 Schedule P tariff notes that "because of the inherent operating conditions in the downtown area supplied from the Company's underground network system ...the demand and energy charges will be increased by 0.9%."

What is needed is the transformation of the end-user, the ratepayer, into a multi-faceted prosumer base, where metered entities pay for what they want to buy, and are paid for what they deliver to the grid.

Mahalo,

Henry Curtis
Executive Director



HOUSE COMMITTEE ON ENERGY & ENVIRONMENTAL PROTECTION

February 2, 2017
(Testimony is 1 page long)

TESTIMONY IN SUPPORT OF HB 1574

Chair Lee and Members of the Committee:

The Alliance for Solar Choice (TASC) appreciates the opportunity to comment on HB 1574, establishing a tiered rate structure with the intent of benefiting low income residents and reforming the public benefits fund. TASC supports this measure.

Under normal rate design, new rate classes are created only when it can be proven that this “class” of consumers uses the utility services in a different manner. For example, residential and commercial users of electricity are treated differently, inasmuch as they consume drastically different amounts of electricity at different times.

To this end, it is unlike the Commission would create a rate class that benefits low income residents without express direction from the Legislature. TASC supports this measure because it starts an important conversation, to wit, how do we ensure disadvantaged communities are not unduly burdened by the highest electrical rates in the United States?

Similarly, TASC supports broadening the use of the public benefits fund, with specific policy direction to assist low income residents.

Mahalo for considering these comments.

From: mailinglist@capitol.hawaii.gov
Sent: Monday, January 30, 2017 6:32 PM
To: EEPtestimony
Cc: mendezj@hawaii.edu
Subject: *Submitted testimony for HB1574 on Feb 2, 2017 08:30AM*

HB1574

Submitted on: 1/30/2017

Testimony for EEP on Feb 2, 2017 08:30AM in Conference Room 325

Submitted By	Organization	Testifier Position	Present at Hearing
Javier Mendez-Alvarez	Individual	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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