

SB2462

Measure Title: RELATING TO ELECTRIC UTILITIES.

Report Title: Public Utilities Commission; Sales Decoupling; Electric Cooperatives

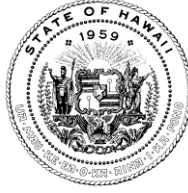
Description: Allows the Public Utilities Commission to require electric cooperatives to disengage from owning any generation asset, provided that the commission may establish a transition period to allow for existing utility generation units to be converted to third-party power purchase agreements.

Companion:

Package: None

Current Referral: CPH/TRE, WAM

Introducer(s): RUDERMAN, ESPERO, GABBARD, GREEN



DAVID Y. IGE
GOVERNOR

DOUGLAS S. CHIN
LIEUTENANT GOVERNOR

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**TO THE SENATE COMMITTEES ON
TRANSPORTATION AND ENERGY
AND
COMMERCE, CONSUMER PROTECTION, AND HEALTH**

**TWENTY-NINTH LEGISLATURE
Regular Session of 2018**

**Friday, February 9, 2018
9:00 a.m.**

**TESTIMONY OF DEAN NISHINA, EXECUTIVE DIRECTOR, DIVISION OF
CONSUMER ADVOCACY, DEPARTMENT OF COMMERCE AND CONSUMER
AFFAIRS, TO THE HONORABLE LORRAINE R. INOUE, CHAIR,
TO THE HONORABLE ROSALYN H. BAKER, CHAIR,
AND MEMBERS OF THE COMMITTEES**

SENATE BILL NO. 2462 – RELATING TO ELECTRIC UTILITIES.

DESCRIPTION:

This measure allows the Public Utilities Commission (“Commission”) to require electric cooperatives to disengage from owning any generation asset, provided that the Commission may establish a transition period to allow for existing utility generation units to be converted to third-party power purchase agreements.

POSITION:

The Division of Consumer Advocacy (“Consumer Advocate”) has concerns with this bill.

COMMENTS:

Requiring an electric cooperative or any electric utility “to disengage from owning any generation asset” may impact the cost and reliability of electric service to that electric cooperative’s customers. A contractual relationship with a third-party owner rarely allows grid operators the level of control over a generation asset sufficient to dispatch the unit economically hour-by-hour, or plan maintenance outages month-by-month, to avoid generation constraints during peak load times. These issues were observed during the California Energy Crisis of 2000 and 2001 and have been observed to a lesser extent in Hawaii at times. Furthermore, for any electrical system, some generation capacity will only be required for peak or emergency events. For a small and isolated system, finding a willing buyer for assets that will not be dispatched consistently will be challenging but finding a third-party owner willing to sell power infrequently, at a price that does not take advantage of the possibly urgent need for that generation capacity, will be even more challenging. Requiring a cooperative to divest itself of its generation assets could result in significant increases in all customers’ bills.

Thank you for this opportunity to testify.



Testimony Before the Senate Committee on
Transportation and Energy
and
Commerce, Consumer Protection, and Health

By Michael Yamane
Chief of Operations
Kauai Island Utility Cooperative
4463 Pahee Street, Suite 1, Lihue, Hawaii, 96766-2000

Friday, February 9, 2018, 9:00 a.m.
Conference Room # 229

Senate Bill No. 2462 – Relating to Electric Utilities

To the Honorable Lorraine R. Inouye and Rosalyn H. Baker, Chairs; Will Espero and Jill N. Tokuda, Vice-Chairs, and Members of the Committees:

Allows the Public Utilities Commission to require electric cooperatives to disengage from owning any generation asset, provided that the commission may establish a transition period to allow for existing utility generation units to be converted to third-party power purchase agreements.

POSITION: Kauai Island Utility Cooperative (KIUC) opposes SB 2462.

COMMENTS:

This bill is premised on a presumption that there is an inherent conflict between a utility's desire to generate revenues and income via its owned generation resources versus purchasing power from independent power producers. Further, the bill asserts that the Public Utilities Commission (PUC) has failed to address this alleged conflict specifically in the instance of an electric cooperative. We respectfully disagree with these assertions as they relate to KIUC.

Investor owned utilities (IOU) are allowed an opportunity to earn a reasonable rate of return on prudent PUC-approved capital investments. Collectively, the capitalized portion of these investments is known as "rate base". A rate of return on rate base is the method by which shareholders are afforded a profit on their investments. In this environment, utilities are incentivized to increase rate base through prudent capital purchases of utility plant, which can include power generation facilities. This is part of the basic regulatory compact that provides an IOU can earn a reasonable return on investments that are in the public interest and approved by the PUC. Theoretically, both the public and the IOU's shareholders benefit from these investments. In practice, there exists tension between an IOU's need to grow earnings through increased rate base and the public interest in these investments. It is the role of the PUC to strike the appropriate balance between shareholder and ratepayer interests.

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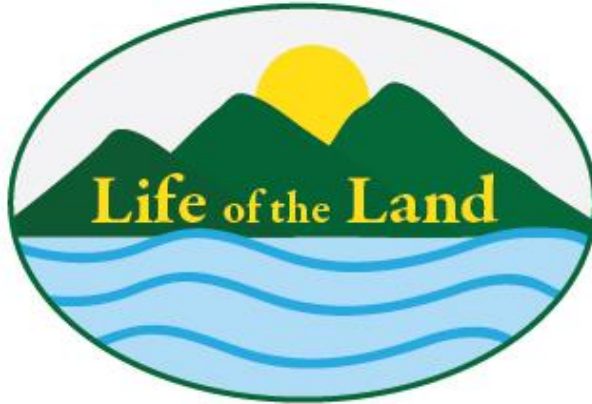
KIUC is an equal opportunity provider and employer.

Member-owned cooperatives are not-for-profit businesses whose only real motivation for earnings above and beyond what is needed to fund the operational and capital needs of the cooperative is to produce acceptable financial metrics in accordance with cooperative lenders. In addition to lack of profit motivation, the cooperative business environment can also provide substantial benefits such as the cooperative's ability to obtain capital from specific cooperative lenders at significantly lower cost than what is available through commercial private lending institutions.

As a not-for-profit entity, KIUC's approach to any project is free of the perceived conflict alluded to in this bill. Project ownership structure as it relates to cost is an important consideration when a new project is pursued. The availability of low-cost capital financing, tax credits and other funding options come in to play as we seek an ownership structure that allows KIUC to access the most affordable and reliable source of renewable energy for its member-owners. The purchase of renewable energy from independent power producers will always be considered and evaluated on the basis of the project's financial merits, other benefits that the developer can provide KIUC, and its ability to contribute to our mission of providing reliable power that is fairly and competitively priced.

As a cooperative KIUC does not earn "profits," but instead applies annual net margin to member-owners' patronage capital accounts. This unsolicited form of equity capital can be spent on future capital investments or simply returned to the members in the form a patronage capital retirements.

Mahalo for your consideration.



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COMMITTEE ON TRANSPORTATION AND ENERGY

Senator Lorraine R. Inouye, Chair
Senator Will Espero, Vice Chair

COMMITTEE ON COMMERCE, CONSUMER PROTECTION, AND HEALTH

Senator Rosalyn H. Baker, Chair
Senator Jill N. Tokuda, Vice Chair

Friday, February 9, 2018
9:00 am
Conference Room 229

SB 2462 RELATING TO ELECTRIC UTILITIES

STRONG SUPPORT

Aloha Chairs Inouye and Baker, Vice Chairs Espero and Tokuda, and Members of the Committees

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.

This bill focuses on authorizing and hastening issues identified in the Public Utilities Commission's Inclinations White Paper, dated April 28, 2014.

Nothing herein mandates the change or sets a timeline. It allows discretion by the Commission. Certainly, the HECO Companies must be part of the transaction.

Inclinations (April 2014)

"Continued utility ownership of generation - Utility-owned generation creates inherent financial conflicts that can complicate, and in some cases impede, development of independent (IPP) generation projects. This creates regulatory challenges for the Commission, as well as a public distrust about investor-owned utility motives. It is difficult to ascertain whether project development delays, contractual disputes with independent developers or utility reluctance to quickly embrace change are predicated upon legitimate technical reasons or driven by existing and future utility generation rate base investment concerns and traditional utility business practices. The future role of the HECO Companies in power generation needs to be redefined in light of these conflicts." (page 18)

"With appropriate economic and regulatory incentives to hasten retirements of utility fossil generation (and perhaps penalties for retirement delays), the HECO Companies' role with respect to existing fossil generation could decline at an accelerated pace." (page 18)

"The role of the HECO Companies with respect to ownership of new generation is the critical policy issue with respect to the future generation fleet on each island grid. In this regard, the HECO Companies have not demonstrated with recent utility generation plant additions that they can be cost competitive with IPPs, nor has the company demonstrated inherent skills and expertise in developing and managing renewable energy projects. The Commission will consider whether it is reasonable and in the public interest to preclude the HECO Companies, as a matter of regulatory and public policy, from ownership of new generation and incent accelerated retirement of old, inefficient fossil generation in order to further diminish inherent financial conflicts with utility ownership of generation." (page 19)

"Under this alternative business model, the HECO Companies would effectively over time become the "independent" power supply integrator and operator of Hawaii's power supply system similar to the roles performed by mainland Independent System Operators (ISOs) who independently dispatch generation and operate the bulk power system to minimize energy costs while maintaining reliability." (page 20)

Mahalo
Henry Curtis, Executive Director

SB-2462

Submitted on: 2/5/2018 5:28:19 PM

Testimony for CPH on 2/9/2018 9:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Javier Mendez-Alvarez		Oppose	No

Comments: