

TESTIMONY OF RANDY IWASE
CHAIR, PUBLIC UTILITIES COMMISSION
STATE OF HAWAII
TO THE
HOUSE COMMITTEE ON
FINANCE

March 28, 2018
4:00 p.m.

MEASURE: S.B. No. 2939 SD2
TITLE: RELATING TO ENERGY.

Chair Luke and Members of the Committee:

DESCRIPTION: On or before January 1, 2020, requires the PUC to establish performance incentive and penalty mechanisms that directly tie electric utility revenues to the utility's achievement on performance metrics. Exempts member-owned cooperative electric utilities. Effective 7/1/2018. (SD2)

POSITION: The Public Utilities Commission ("Commission") offers the following comments for consideration.

COMMENTS:

The Commission agrees that electric utility financial incentives should be better aligned with customer needs and the State's energy policy. The Commission is committed to protecting utility customers and ensuring that existing utility regulatory approaches are updated to reflect improving technology, changing customer preferences, and state policy goals.

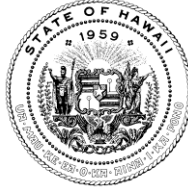
Over the past several years, the Commission has implemented several components of performance-based regulation ("PBR"), including multi-year rate plans, performance incentive mechanisms ("PIMs"), earnings sharing mechanisms, revenue-sales decoupling, and other PBR elements. The Commission is currently considering PBR in several active proceedings, including the decoupling re-examination (Docket 2013-0141), general rate cases for each of the Hawaiian Electric Companies (Dockets 2015-0170, 2016-0328, and 2017-0150), as well as high priority initiatives such as the Demand

Response portfolio and the Requests for Proposals for new renewable generation on Oahu, Maui, and Hawaii islands (Dockets 2015-0412 and 2017-0352).

As part of these proceedings, over the course of several years, the Commission has established numerous PBR components that now make up the current regulatory framework. Each of the HECO Companies are on a 3-year rate plan, with capped revenues in between rate cases. In addition, the Commission has adopted performance incentives for the HECO Companies, specifically targeting customer service and grid reliability. The Commission is also developing new performance incentives to reward exceptional utility performance in successfully executing the upcoming solicitations for new renewable generation and acquiring grid services from customers.

In the first half of 2018, the Commission intends to open a proceeding to further examine PBR frameworks, which is expected to include additional performance incentives and further regulatory reform to better align utility incentives with customer needs and state energy policy.

Thank you for the opportunity to testify on this measure.



DAVID Y. IGE
GOVERNOR

DOUGLAS S. CHIN
LIEUTENANT GOVERNOR

STATE OF HAWAII
OFFICE OF THE DIRECTOR
DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS

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CATHERINE P. AWAKUNI COLÓN
DIRECTOR

JO ANN M. UCHIDA TAKEUCHI
DEPUTY DIRECTOR

TO THE HOUSE COMMITTEE ON FINANCE

TWENTY-NINTH LEGISLATURE
Regular Session of 2018

Wednesday, March 28, 2018
4:00 p.m.

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

SENATE BILL NO. 2939, S.D. 2 – RELATING TO ENERGY.

DESCRIPTION:

This measure requires the Public Utilities Commission (“Commission”) to establish performance incentive and penalty mechanisms that directly tie electric utility revenues to the utility’s achievement on performance metrics. This measure requires the PUC to implement these mechanisms no later than January 1, 2020.

POSITION:

The Division of Consumer Advocacy (“Consumer Advocate”) appreciates the intent of this bill and offers comments.

COMMENTS:

As acknowledged in the preamble to this measure, as the energy industry continues to evolve, the regulatory process needs to evolve as well, including better alignment of regulated utility interests with state goals. As also acknowledged by the Legislature in the preamble to the bill, performance incentive mechanisms are the subject of multiple ongoing dockets before the Commission.

The Commission initiated a Decoupling Investigation docket by issuing Order No. 31289 on May 31, 2013. In its recent Orders No. 35075 and 35165, both issued in December 2017, the Commission provided amendments to draft performance incentive metrics from the Hawaiian Electric Companies and instructed the same to refile tariffs consistent with those amendments, respectively. The issue of performance incentives was identified as an issue in recent applications by Hawaii Electric Light Company, Inc., and Hawaiian Electric Company, Inc. in Docket Nos. 2015-0170 and 2016-0328, respectively. Furthermore, as part of the ongoing request for proposal docket to procure new renewable generation, the Commission has invited interested stakeholders to propose performance incentive measures that might help enhance the RFP process in Docket No. 2017-0352. Furthermore, the Commission has explicitly stated its intent to open a separate proceeding to further examine performance based ratemaking in 2018.

The Consumer Advocate supports the idea of measures that are designed to better align utility management interests with those of customers and state goals. The Consumer Advocate offers, however, that adequate care must be exercised to ensure that performance incentives, hastily and/or imprecisely designed, do not result in unintended consequences that might unintentionally allow customer bills to increase, reliability and/or resilience to decrease, customer service to decrease, utility companies to reap undeserved windfalls, or other undesirable outcomes while the original objectives are not attained.

Given the ongoing efforts to carefully design and implement performance incentive mechanisms, the proposed measure appears unnecessary, and the Consumer Advocate urges the Legislature to allow the Commission to complete the ongoing proceedings before requiring performance incentive mechanisms by a certain date. As noted above, if performance mechanisms are hastily or imprecisely designed, undesirable unintended consequences can occur, which Hawaii and other jurisdictions have experienced in the past. If the Legislature wishes to express its preferences on the subject or to require reporting on the progress of the Commission's plan to further examine performance incentive mechanisms and the development and implementation of additional mechanisms, then the Consumer Advocate humbly suggests that a substantive resolution may be more appropriate.

Thank you for this opportunity to testify.



HOUSE COMMITTEE ON FINANCE

March 28, 2018, 4:00 P.M.

Room 308

(Testimony is 2 pages long)

TESTIMONY IN SUPPORT OF SB 2939 SD2

Aloha Chair Luke, Vice Chair Cullen, and Committee members:

Blue Planet Foundation **supports** Senate Bill (SB) 2939, setting a deadline to implement performance-based ratemaking for electric utilities. This bill would:

- (1) Establish a deadline to implement a performance-based mechanism for utility compensation;
- (2) Establish a framework for reviewing performance-based utility incentives and penalties; and
- (3) Maintain a non-prescriptive deference to the Public Utilities Commission (PUC) on the details of the performance-based mechanism.

“Cost-Plus” vs. Performance-Based Ratemaking

Many Hawaii residents and businesspeople are surprised to learn that utility rates across the country were traditionally set using a “cost-plus” system. Under this system, utility profits are generally set as a percentage of utility expenditures. The *Wall Street Journal* has explained that under cost-plus ratemaking, “the more [utilities] spend, the more profits they earn.” The report called this “a regulatory system that turns corporate accounting on its head.”

Under existing utility ratemaking, utilities aren’t directly rewarded for reducing customer bills, or adding renewable energy, or increasing the resiliency of the system. In contrast, performance-based ratemaking would tie utility revenues to the achievement of certain performance benchmarks. This would align the financial interests of utility shareholders with the interests of ratepayers and the state.

This policy sets a deadline for performance-based ratemaking and provides further guidance to the PUC on benchmarks. Without such policy, Hawaii will continue to have a misaligned incentive system where the utility makes more by spending more, and investors aren’t directly rewarded for lower electricity bills, more renewables, and other shared goals.

Potential Performance Benchmarks

- Electric rate affordability
- Reducing ratepayer risk
- Electric service reliability
- Customer satisfaction and engagement
- Quickly interconnecting customer projects
- Timely competitive procurement processes
- Exceeding renewable portfolio standards

Long-Awaited Reform

In 2014, the Hawaii PUC issued its “Inclinations on the Future of Hawaii's Electric Utilities: Aligning the Utility Business Model with Customer Interests and Public Policy Goals.” Those Inclinations provided “perspectives on the vision, business strategies and regulatory policy changes required to align the HECO Companies’ business model with customers’ interests and the state’s public policy goals.”

Subsequent years have seen this re-alignment examined in several ways. For example, in a recent decision (issued January 25, 2018) in the demand response docket (No. 2015-0412), the PUC established a one-time performance incentive for the Hawaiian Electric utilities related to the timely acquisition of cost-effective demand response. In the decision, the PUC expressed a willingness to consider different performance incentives to inform and reward demand response portfolio outcomes in the longer term. The PUC has also investigated the “decoupling” process, which was intended to remove an incentive to sell more energy (and thus removing a disincentive for energy efficiency).

In addition, recent Hawaiian Electric utility rate cases have proposed a limited set of performance benchmarks. In fact, **Hawaiian Electric has requested that the PUC “initiate a separate investigatory docket based on HRS § 269-6(d) . . . to fully develop a comprehensive PBR [performance-based ratemaking] Framework for all three Hawaiian Electric Companies.”**¹

This prior and ongoing work provides a foundation for implementing a comprehensive performance-based ratemaking process. Senate Bill 2939 would set **a deadline to implement this long-awaited and consumer-friendly update to our state’s utility regulations and offers a framework for reviewing performance-based utility incentives and penalties** to ensure that they are transformative.

We respectfully request that the Committee forward SB 2939 SD2 as currently written.

Thank you for the opportunity to testify.

¹ See Hawaiian Electric Company, Inc. 2017 Test Year Application, filed Dec. 16, 2016 in Docket No. 2016-0328, at page 20.



ORGANIZING *for* ACTION

To: The House Committee on Finance
From: Brodie Lockard, OFA Hawaii Climate Lead, 808-262-1285
Date: Wednesday, March 28, 2018

In strong support of SB 2939 SD2

Dear Chair Luke, Vice Chair Cullen and Committee members,

I am the Hawaii Climate Lead for Organizing for Action, a progressive group that played a lead in electing President Barack Obama twice. Organizing for Action strongly supports SB2939 SD2.

HECO's allowed revenues are currently based on what they charge, not their performance. This no longer makes sense as utilities evolve to maximize public benefit, reduce ratepayer risk, and meet ambitious clean energy goals.

Utilities' incentives now need to enable new innovations and customer choices, such as more efficient or cost-effective options, including distributed energy resources owned by customers and projects implemented by independent third parties.

As fewer funds are spent to purchase fossil fuels, electric utility rates should be considered just and reasonable only if they are derived from a performance-based model.

Thank you for the opportunity to testify.

Brodie Lockard
Hawaii Climate Lead, Organizing for Action

**TESTIMONY BEFORE THE HOUSE
COMMITTEE ON FINANCE**

S.B. No. 2939, SD2 – Relating to Energy

Wednesday, March 28, 2018
4:00 pm
State Capitol, Conference Room 308

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

Chair Luke, Vice Chair Cullen, and Members of the Committee:

My name is Kevin Katsura and I am submitting testimony on behalf of Hawaiian Electric Company and its subsidiary utilities Maui Electric Company and Hawai'i Electric Light Company. The Companies support the intent of S.B. 2939, SD2, however, oppose it in its current draft because it is potentially too prescriptive and overbroad.

The Companies support carefully designed incentive based regulation, a.k.a., performance based ratemaking (“PBR”). Indeed, this bill may be unnecessary because the Companies have recommended in Hawaii Public Utilities Commission (“Commission”) proceedings that an investigatory docket be opened to fully review and develop a comprehensive PBR Framework. In an order issued by the Commission last year, the Commission noted that it “intends to commence a separate proceeding to comprehensively review the issues of performance-based ratemaking and performance incentive mechanisms.”¹ The Commission has reiterated its intention to open a comprehensive PBR proceeding in other decisions issued within the past year.²

In addition, the Commission recently directed the Companies to file Performance Incentive Mechanism and Revenue Balancing Account tariffs regarding reliability and call center performance to be effective January 1, 2018, in Docket No. 2013-0141. The Commission also expressed its intention to establish performance incentives that reward exceptional performance in the Companies’ procurement of renewable energy (Docket No. 2017-0352), and in Demand Response Portfolio outcomes (Docket No. 2015-0412).

However, if the bill were to move forward, the Companies respectfully submit that it would be better to establish a framework of principles within which the scope of PBR and the incentives themselves should be developed rather than jumping ahead

¹ Order No. 34502, issued on April 13, 2017 in Docket No. 2015-0170, at page 15.

² For instance, see the Commission’s Order No. 34664, issued on June 28, 2017 in Docket No. 2016-0328, at page 26.

and prescribing specific outcomes now. This is because PBR models can be designed in many different ways for many different purposes. Like any change in regulatory ratemaking, the basic principles of a PBR model should be first established, and great care should be given to avoid unintended consequences. Thus, PBR can more quickly and effectively be developed and implemented if principles, such as the following, are first established.

PBR is best considered as an adaptation to traditional rate-making rather than a completely new and different approach. All PBR plans are founded on cost-based rates determined in the same way as a traditional general rate case. Incentives can then be layered on top of the cost-based rates to encourage desired outcomes. If, over time, the desirable outcomes are achieved, the utility will earn a greater return than it would have done under traditional ratemaking. Conversely, if the desirable outcome is not achieved, the utility will earn a smaller return than it would have done under traditional ratemaking.

The utility should bear risk from factors that are within management control but should not bear the risk from factors that are outside its control. PBR plans frequently incorporate a mechanism to pass through changes in elements of cost that are outside management control, such as fuel prices or changes in taxation. PBR plans also frequently incorporate sales decoupling so that management does not have a conflict between the policy goals of energy conservation and promoting distributed energy resources and the fact that lower retail sales will lower profits. Targets should be realistic and attainable and consistent with funding levels and measurement of results should be objective.

A PBR plan must provide the utility with a reasonable opportunity to earn a fair rate of return. Employing a PBR plan does not change the applicable regulatory standards and protections associated with determining an authorized rate of return.

Incentives to achieve clean energy goals and other specific outcomes, can be developed based on and should be consistent with the underlying service and resource plan on which the PBR plan is based.

Well-designed PBR plans tend to have a small number of incentives in key performance areas. There are limits on the total amount of revenue that can be put at risk through incentive schemes, so if there are too many individual incentives the strength of any one incentive will be diluted.

As drafted, this bill does not establish a framework of principles that should anchor the development of specific incentives. It also requires that all aspects of rates should be tied to performance metrics, and prescribes the objectives that must be considered for outcomes, which are overbroad, too complicated and may be

counter-productive. Such a framework would make the Company subject to penalties and rewards for factors outside of its control and potentially expose the Company and ultimately its customers to higher levels of risk that could affect the Company's financial state, its ability to invest in electrical and renewable infrastructure and the provision of reliable service.

Finally, specific outcomes to be incentivized should support the Companies' Power Supply Improvement Plans as accepted by the Commission in Docket No. 2014-0183 and/or desired outcomes established in the Commission's ongoing Distributed Energy Resource ("DER") docket (Docket No. 2014-0192) to name a few. The seven objectives listed in this bill seem to predetermine outcomes in those dockets.

Accordingly, the Hawaiian Electric Companies oppose S.B. 2939, SD2 as drafted.

Thank you for this opportunity to testify.

SB-2939-SD-2

Submitted on: 3/27/2018 3:26:48 PM

Testimony for FIN on 3/28/2018 4:00:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Melodie Aduja	Oahu County Committee on Legislative Priorities of the Democratic Party of Hawai'i	Support	No

Comments:

To the Honorable Sylvia Luke, Chair; the Honorable Ty J.K. Cullen, Vice-Chair and Members of the Committee on Finance:

Good afternoon. My name is Melodie Aduja. I serve as Chair of the Oahu County Committee ("OCC") Legislative Priorities Committee of the Democratic Party of Hawaii. Thank you for the opportunity to provide written testimony on SB2939 SD2, regarding Ratepayer Protection Act; Public Utilities Commission; Electric Utilities; and Performance Incentive and Penalty Mechanisms.

The OCC Legislative Priorities Committee is in favor of SB2939 SD2 and supports its passage as it protects consumers by proactively ensuring that the existing utility business and regulatory model will be updated for the twenty-first century by requiring that electric utility rates be considered just and reasonable only if the rates are derived from a performance-based model for determining utility revenues.

SB2939 SD2 is in accord with the Platform of the Democratic Party of Hawai'i ("DPH"), 2016, as it provides that on or before January 1, 2020, the PUC is required to establish performance incentive and penalty mechanisms that directly tie electric utility revenues to the utility's achievement on performance metrics. However, memberowned cooperative electric utilities are exempt. This measure becomes effective on 7/1/2018.

Specifically, the DPH Platform provides that "[w]e seek to achieve energy sustainability based on renewable energy sources. We must encourage the use of clean alternative fuel sources to include our public transportation systems.

We must also urgently develop the use of a variety of cost-effective energy providing systems, encourage transit-oriented development, and support tax incentives that encourage renewable energy initiatives.

We oppose any tax breaks to fossil fuel industries.

We support energy independence, self-sufficiency, affordability and reliability for Hawai'i through the development of renewable alternative energy sources. Specifically,

we need to support policies that foster the development of energy production methods that de-emphasize carbon based fuels and promote renewable sources such as wind, solar, wave, geothermal and Ocean Thermal Energy Conversion (OTEC).

Electricity rates in Hawaii are among the highest in the nation despite the fact that we enjoy an abundance of sunshine year round. Electric utility companies and cooperatives must open the grid to alternative power sources including solar panels and geothermal energy. We support the effort of our government officials to require utilities to provide for the maximum, comprehensive, integrated use of renewable energy and associated technologies such as storage and smart grid technology(Platform of the DPH, P. 7, Lines 443-444, 446-462 (2016)).

Given that SB2939 SD2 on or before January 1, 2020, the PUC is required to establish performance incentive and penalty mechanisms that directly tie electric utility revenues to the utility's achievement on performance metrics, it is the position of the OCC Legislative Priorities Committee to support this measure.

Thank you very much for your kind consideration.

Sincerely yours,

/s/ Melodie Aduja

Melodie Aduja, Chair, OCC Legislative Priorities Committee

Email: legislativepriorities@gmail.com, Text/Tel.: (808) 258-8889



To: The House Committee on Finance
From: Sherry Pollack, 350Hawaii.org
Date: Wednesday, March 28, 2018

In strong support of SB 2939 SD2

Dear Chair Luke, Vice Chair Cullen and Committee members,

I am the Vice President of the Hawaii chapter of 350.org, the largest international organization dedicated to fighting climate change. 350Hawaii.org strongly supports SB2939 SD2.

HECO's allowed revenues are currently based on what they charge, not their performance. This no longer makes sense as utilities evolve to maximize public benefit, reduce ratepayer risk, and meet ambitious clean energy goals.

Utilities' incentives now need to enable new innovations and customer choices, such as more efficient or cost-effective options, including distributed energy resources owned by customers and projects implemented by independent third parties.

As fewer funds are spent to purchase fossil fuels, electric utility rates should be considered just and reasonable only if they are derived from a performance-based model.

Thank you for the opportunity to testify.

Sherry Pollack
Vice President, 350Hawaii.org

SB-2939-SD-2

Submitted on: 3/26/2018 2:23:24 PM

Testimony for FIN on 3/28/2018 4:00:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Janet Graham	350.org	Support	No

Comments:

Rep. Sylvia Luke, Chair Rep.

Ty J.K. Cullen, Vice Chair

Conference Room 308

4:00 P.M.

Wednesday, March 28, 2018

Thank you for the opportunity to support this bill.

HECO's allowed revenues are currently based on what they charge, not their performance. This no longer makes sense as utilities evolve to maximize public benefit, reduce ratepayer risk, and meet ambitious clean energy goals.

Utilities' incentives now need to enable new innovations and customer choices, such as more efficient or cost-effective options, including distributed energy resources owned by customers and projects implemented by independent third parties.

As fewer funds are spent to purchase fossil fuels, electric utility rates should be considered just and reasonable only if they are derived from a performance-based model.

Mahalo

SB-2939-SD-2

Submitted on: 3/26/2018 1:18:12 PM

Testimony for FIN on 3/28/2018 4:00:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Josephine	Individual	Support	No

Comments:

SB-2939-SD-2

Submitted on: 3/26/2018 1:18:38 PM

Testimony for FIN on 3/28/2018 4:00:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Joan Gannon	Individual	Support	No

Comments:

SB-2939-SD-2

Submitted on: 3/26/2018 1:42:09 PM

Testimony for FIN on 3/28/2018 4:00:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Stuart Coleman	Individual	Support	No

Comments:

Dear Chair & Committee Members,

My name is Stuart Coleman, and I am an environmental organizer and writer who strongly supports SB2939. HECO's allowed revenues are currently based on what they charge, not their performance. This no longer makes sense as utilities evolve to maximize public benefit, reduce ratepayer risk, and meet ambitious clean energy goals.

Utilities' incentives now need to enable new innovations and customer choices, such as more efficient or cost-effective options, including distributed energy resources owned by customers and projects implemented by independent third parties.

As fewer funds are spent to purchase fossil fuels, electric utility rates should be considered just and reasonable only if they are derived from a performance-based model. Mahalo for your consideration and support of this bill.

Aloha, Stuart Coleman, 2927 Hibiscus Pl., Hon., HI 96815

SB-2939-SD-2

Submitted on: 3/26/2018 1:19:46 PM

Testimony for FIN on 3/28/2018 4:00:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Jonathan Boyne	Individual	Support	No

Comments:

HECO's allowed revenues are currently based on what they charge, not their performance. This no longer makes sense as utilities evolve to maximize public benefit, reduce ratepayer risk, and meet ambitious clean energy goals.

Utilities' incentives now need to enable new innovations and customer choices, such as more efficient or cost-effective options, including distributed energy resources owned by customers and projects implemented by independent third parties.

As fewer funds are spent to purchase fossil fuels, electric utility rates should be considered just and reasonable only if they are derived from a performance-based model.

SB-2939-SD-2

Submitted on: 3/26/2018 6:49:00 PM

Testimony for FIN on 3/28/2018 4:00:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
tlaloc tokuda	Individual	Support	No

Comments:

Aloha,

I belong to 350HI and we try to assist policy makers to create bills that promote renewables, keep fossil fuels in the ground and try to make State Funds join the divestment movement so we support the following:

Technological development and R&D in PV, Wind generation, battery storage and driving prices down so that wind and PV are competitive with coal without all the environmental, social, health, poverty externalities. So we should try and implement the United Nations' Global Goals. 7. Hawaii is well placed to use these and other (OTEC, Geothermal & market mechanisms to transition to a 100% renewable future.

HECO's allowed revenues are currently based on what they charge, not their performance. This no longer makes sense as utilities evolve to maximize public benefit, reduce ratepayer risk, and meet ambitious clean energy goals.

Utilities' incentives now need to enable new innovations and customer choices, such as more efficient or cost-effective options, including distributed energy resources owned by customers and projects implemented by independent third parties.

As fewer funds are spent to purchase fossil fuels, electric utility rates should be considered just and reasonable only if they are derived from a performance-based model.

Bill 2939 SD2 will push HECO in the right direction so please pass this bill.

Mahalo for all that you do.

SB-2939-SD-2

Submitted on: 3/26/2018 4:10:49 PM

Testimony for FIN on 3/28/2018 4:00:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Sandra Fujita	Individual	Support	No

Comments:

SB-2939-SD-2

Submitted on: 3/26/2018 5:42:26 PM

Testimony for FIN on 3/28/2018 4:00:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Kathy Shimata	Individual	Support	No

Comments:

HECO's allowed revenues are currently based on what they charge, not their performance. This no longer makes sense as utilities evolve to maximize public benefit, reduce ratepayer risk, and meet ambitious clean energy goals.

Utilities' incentives now need to enable new innovations and customer choices, such as more efficient or cost-effective options, including distributed energy resources owned by customers and projects implemented by independent third parties.

As fewer funds are spent to purchase fossil fuels, electric utility rates should be considered just and reasonable only if they are derived from a performance-based model.

SB-2939-SD-2

Submitted on: 3/26/2018 8:14:42 PM

Testimony for FIN on 3/28/2018 4:00:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Patricia Blair	Individual	Support	No

Comments:

SB-2939-SD-2

Submitted on: 3/27/2018 1:40:47 AM

Testimony for FIN on 3/28/2018 4:00:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Janet Pappas	Individual	Support	No

Comments:

Dear FIN Committee Chairs and Members,

I strongly support SB 2939.

Times have changed and so have our energy sources in Hawaii. We are moving away from coal and oil and replacing these sources with renewables. The electric utilities, therefore must change their business models to more closely align with the State's goal of 100% renewable energy by 2045. As stated in the bill: "The purpose of this Act is to protect consumers by proactively ensuring that the existing utility business and regulatory model will be updated for the twenty-first century by requiring that electric utility rates be considered just and reasonable only if the rates are derived from a performance-based model for determining utility revenues.."

Please require the use of a performance-based model by the electric utilities for determining their revenues so that we can more accurately measure our progress toward our sustainable energy goal.

I also favor adding to this bill the requirement of the same type of performance-based system for any other Hawaii utilities using fossil fuels (e.g., Hawaii Gas in its use of liquid natural gas, a fossil fuel). These other utilities should have to follow the same rules if we are to truly keep track of our fossil fuel use in Hawaii. Otherwise, we are only fooling ourselves and delaying our progress in mitigating climate change.

Thank you for your consideration.

Sincerely,

Jan Pappas

Aiea, Hawaii 96701

SB-2939-SD-2

Submitted on: 3/27/2018 6:41:31 AM

Testimony for FIN on 3/28/2018 4:00:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Carolynn Bell-Tuttle	Individual	Support	No

Comments:

HECO's allowed revenues are currently based on what they charge, not their performance. This no longer makes sense as utilities evolve to maximize public benefit, reduce ratepayer risk, and meet ambitious clean energy goals.

Utilities' incentives now need to enable new innovations and customer choices, such as more efficient or cost-effective options, including distributed energy resources owned by customers and projects implemented by independent third parties.

As fewer funds are spent to purchase fossil fuels, electric utility rates should be considered just and reasonable only if they are derived from a performance-based model.

Carolynn Bell-Tuttle

SB-2939-SD-2

Submitted on: 3/26/2018 9:07:30 PM

Testimony for FIN on 3/28/2018 4:00:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Taurie Kinoshita	Individual	Support	No

Comments:

Utilities' incentives now need to enable new innovations and customer choices, such as more efficient or cost-effective options, including distributed energy resources owned by customers and projects implemented by independent third parties. Thank you for your consideration.

SB-2939-SD-2

Submitted on: 3/27/2018 12:09:22 PM

Testimony for FIN on 3/28/2018 4:00:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Meredith Buck	Individual	Support	No

Comments:

I am a resident of Kailua Kona, and I support SB 2939 SD2.

HECO's allowed revenues are currently based on what they charge, not their performance. This no longer makes sense as utilities evolve to maximize public benefit, reduce ratepayer risk, and meet ambitious clean energy goals.

Utilities' incentives now need to enable new innovations and customer choices, such as more efficient or cost-effective options, including distributed energy resources owned by customers and projects implemented by independent third parties.

As fewer funds are spent to purchase fossil fuels, electric utility rates should be considered just and reasonable only if they are derived from a performance-based model.



Hawaii Solar Energy Association
Serving Hawaii Since 1977

**TESTIMONY OF THE HAWAII SOLAR ENERGY ASSOCIATION
IN REGARD TO SB 2939 SD2, RELATING TO ENERGY
BEFORE THE
HOUSE COMMITTEE ON FINANCE
ON
WEDNESDAY, MARCH 28, 2018**

Chair Luke, Vice-Chair Cullen, and members of the committee, my name is Will Giese, and I represent the Hawaii Solar Energy Association, Inc. (HSEA)

HSEA **supports** SB 2939 SD2 with comments. This measure requires the public utilities commission to establish performance incentive and penalty mechanisms that directly tie electric utility revenues to the utility's achievement on performance metrics. Allows the public utilities commission to delay implementation until no later than January 1, 2020.

These amendments are in line with issues surrounding the Commission's "Inclinations" docket released on April 28th, 2014.¹ It also sets a precedent by which the utility should be functioning as a service for the public's benefit. Also included in this measure are several data gathering and distribution provisions that build transparency in the utility's grid planning efforts and allow greater fidelity of participation in various energy dockets and proceedings.

Currently, several resource and grid modification options are being discussed in active dockets at the Public Utilities Commission.² There are no mechanisms being discussed that would incent the utility to meet the objectives laid out in Hawaii Revised Statutes §269-92 other than guidelines and directives regulated by the Public Utilities Commission. By passing SB 2939 SD1, the legislature will codify into law a process by which the utility will either be rewarded or penalized for meeting renewable energy goals and milestones. This type of legislation represents the enforcement of the aggressive renewable portfolio standard that the state has set for itself.

Rather than relying on a vertically integrated, investor owned, for-profit utility to meet our state's renewable energy goals, the performance-based mechanisms outlined in SB 2939 SD1 should be adopted. We have recently closed the 4th iteration of the PSIP process, not to mention the work that has transferred over from the now defunct Integrated Resources Plan docket. While the most current version of the Power Supply Improvement Plan, was approved and ratified by the Public Utilities Commission in part,

¹ See Order No. 32052, Docket No. 2012-0036, "Commissions Inclinations on the Future of the Public Utility" as well as the "Grid Modernization Plan" filed by the HECO companies in April of 2017.

² See now closed docket No. 2014-0183, Power Supply Improvement Plans, Docket No. 2014-0192 re: distributed energy resources, and Docket No. 2015-0389 regarding community based renewable energy projects.









Hawaii Solar Energy Association
Serving Hawaii Since 1977

it will not be the end of the process to continually modernize our grid and build out renewable energy.

Rather than having a rate making structure that fights innovative and disruptive technologies such as solar and wind, why not adopt a structure that incents utilities to allow more of these resources on to the grid, and provides a path for the utility to integrate these resources? A recent rate case regarding Hawaiian Electric Light found that HELCO regards “customer service performance metrics” as actions like “answering customer phones in a timely matter” and “paperless bill processing”.³ The state should not rely on the utility alone to establish what is or is not a performance incentive mechanism.

There is clearly precedent for this type of legislation already present in the Hawaii Revised Statutes, as well as in the current regulatory climate within the state. SB 2939 is completely in-line with the 2045 RPS goals, follows recent guidance by the PUC, will create a more flexible market for the various energy resources in the state, and will allow more predictable rates for the electric customers of this state. It also discourages market activity that might otherwise hurt the state’s progress toward a 100% RPS, such as grid defection.⁴ A 2016 Berkeley Labs study found that Performance Incentive Mechanisms (PIMs), from a customer’s perspective, “can strengthen incentives for utilities to improve performance in a wide range of initiatives, and the benefits ideally are shared between utilities and their customer” and from a utility perspective “give utilities more opportunities to profit from improved performance.”⁵ This study also outlines traditional and emerging performance based goals based on current energy policy trends:

Table 2. Traditional Performance Areas

Performance Dimension	Purpose of Metrics
 Reliability	Indicate the extent to which service is reliable and interruptions are remedied quickly (e.g., SAIDI and SAIFI)
 Customer Service	Ensure that the utility is providing adequate levels of customer services
 Plant Performance	Indicate the operating performance of specific generation resources (e.g., availability factor)
 Cost	Indicate the cost of service (e.g., rates, unit cost and productivity)
 Employee Safety	Ensure that employees are not subjected to excessive safety risks
 Public Safety	Ensure that the public is not subjected to excessive safety risks

Source: Whited, Woolf and Napoleon (2015)

³ See Docket No. 2015-0170, Letter From: D. Matsuura To: Commission Re: Docket No. 2015-0170 - Hawai'i Electric Light 2016 Test Year Rate Case; Hawai'i Electric Light Responses to Consumer Advocate Information Requests, pp. 4-20.





⁴ See <http://www.synapse-energy.com/sites/default/files/performance-based-reg-high-der-future.pdf>

⁵ Lowry, Mark N, and Tim Woolf. *PERFORMANCE-BASED REGULATION IN A HIGH DISTRIBUTED ENERGY RESOURCES FUTURE*. Berkely Lab, Jan. 2016,



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Table 3. Emerging Performance Areas

Performance Dimension	Purpose of Metrics
 System Efficiency	Indicate the extent to which the utility system as a whole is being operated more efficiently – e.g., in terms of load factor
 Customer Engagement	Indicate the extent to which customers are implementing energy efficiency, demand response, distributed generation and other DERs
 Network Support Services	Indicate the extent to which customers and third-party service providers have access to the network
 Environmental Goals	Indicate the extent to which the utility and its customers are reducing environmental impacts, including climate change

Source: Whited, Woolf and Napoleon (2015)

We **strongly support** SB 2939 SD2 and urge the committee to pass this bill.

Thank you for the opportunity to testify.



SIERRA CLUB OF HAWAII
MĀLAMA I KA HONUA. *Cherish the Earth.*

LATE

HOUSE COMMITTEE ON FINANCE

Wednesday, March 28, 2018 4PM Conference Room 308

In **SUPPORT of SB 2939 SD2** Relating to Renewable Energy

Aloha Chair Luke, Vice Chair Cullen, and members of the FIN Committee,

On behalf of our 20,000 members and supporters, the Sierra Club of Hawai'i, a member of the Common Good Coalition, **supports SB 2939 SD2**, which would amend §269 to include language that will designate the Public Utilities Commission (PUC) to establish performance-based mechanisms, allowing several avenues by which the public utility can track or is otherwise incentivized to meet or exceed state energy goals.

We support any type of performance based ratemaking (PBRM) schema, performance incentive mechanism (PIM), or ratemaking structure that incents the accelerated build out of renewable energy. Modern public utilities must be held accountable for their actions and must be regulated in such a way that benefits the average consumer and the state as a whole. PBRM or any structure similar to PBRM helps develop benchmarks, incentives, and mechanisms that rewards a utility for building or encourage technology that benefits the public as a whole.

This measure specifically sets out certain benchmarks and performance mechanisms consistent with both state goals and longstanding regulatory guidance, specifically released by the PUC. Of note are specific guidance regarding the expedited accomplishment of state energy goals and data gathering for smarter energy policy formation. As noted in a recent Lawrence Berkeley National Lab Study, "PBRM's appeal lies chiefly in its ability to strengthen utility performance incentives relative to traditional cost-of-service regulation (COSR)."¹ Future energy policy scenarios that envision high amounts of renewable energy, distributed or otherwise, and energy efficiency would be much better served by rate making policies that incentivize them. In much the same way that COSR has served traditional, fossil fuel burning utility ratemaking, PBRM are the regulatory key to the energy puzzle.

We **support SB 2939 SD2** and urge the committee to pass this measure.

¹ Newton Lowry, Mark, and Tim Woolf. PERFORMANCE-BASED REGULATION IN A HIGH DISTRIBUTED ENERGY RESOURCES FUTURE. Lawrence Berkeley National Lab, 1 Jan. 2016

IBEW1260

‘A‘OHE HANA NUI KE ALU ‘IA

LATE

March 28, 2018

The Twenty-Ninth Legislature
Hawaii State House of Representatives
Committee on Finance

SB2939 - RELATING TO ENERGY

Chair Luke, Vice Chair Cullen, and Members of the Committee,

The International Brotherhood of Electrical Workers Local Union 1260, AFL-CIO (IBEW1260), represents more than 3500 members throughout the State of Hawaii, more than 1500 of whom work in Hawaii's utility industry and respectfully offers the following **COMMENTS** to House Bill 2939 (HB2939).

As Hawaii's utility industry changes, IBEW1260 members working at all utilities, on all islands, are on the front lines playing a key role in Hawaii's utility transition. Additionally, over 4000 IBEW members at our sister IBEW Local play a significant role in the construction and implementation of the changing utility.

IBEW leadership has and continues to work with all stake holders, ensuring as Hawaii's transitions into its renewable energy future, so to do our members as competent, effective workers valuable to employers and consumers. For these reasons, IBEW1260 respectfully ask the Committee to **AMMEND SB2939** including its original ninth metric of *"fair compensation for utility workers"* providing fairness for workers working to benefit all of Hawaii's people.

Mahalo for the opportunity to testify on this issue.

Respectfully,



Michael M. Brittain
Asst. Business Manager
IBEW1260 / AFL-CIO