SB2939

Measure Title:	RELATING TO ENERGY.
Report Title:	Ratepayer Protection Act; Public Utilities Commission; Electric Utilities Board
Description:	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.
Companion:	
Package:	None
Current Referral:	CPH, WAM
Introducer(s):	S. CHANG

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TO THE SENATE COMMITTEE ON
COMMERCE, CONSUMER PROTECTION, AND HEALTH

TWENTY-NINTH LEGISLATURE
Regular Session of 2018

Thursday, February 15, 2018
9:00 a.m.

TESTIMONY OF DEAN NISHINA, EXECUTIVE DIRECTOR, DIVISION OF CONSUMER ADVOCACY, DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS, TO THE HONORABLE ROSALYN H. BAKER, CHAIR, AND MEMBERS OF THE COMMITTEE

SENATE BILL NO. 2939 – 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") supports 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.

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 carelessly 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 that there are 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 carelessly 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 a reporting on the progress of adopting performance incentive mechanisms, then the Consumer Advocate humbly suggests that a substantive resolution may be more appropriate.

If, however, this committee believes this measure should move forward, the Consumer Advocate suggests deletion of the proposed metric ("Meeting and exceeding the State's renewable portfolio standards") currently proposed as the second metric. If the desirable objective is the rapid integration of renewable energy resources, such that the utility is rewarded for achieving a benchmark earlier than the goals already set forth statutorily, that metric is arguably already captured in the seventh proposed metric ("Rapid integration of renewable energy sources, including quality interconnection of customer-sited resources").

The Consumer Advocate also suggests that the proposed third metric of the bill read as "Electric rate affordability and ratepayers' volatility risk" to make clear that the metric should consider the volatility and affordability of both rates and bills that consumers will be asked to bear.

Finally, the Consumer Advocate suggests deletion of the proposed ninth metric of the bill ("Fair compensation for utility employees"). The Consumer Advocate supports the notion that utility employees should be fairly compensated. If this metric is adopted, however, it could lead to unintended consequences where consumers will likely bear greater costs as utility companies increase employee compensation to ensure meeting this performance metric.

Thank you for this opportunity to testify.

TESTIMONY OF RANDY IWASE
CHAIR, PUBLIC UTILITIES COMMISSION
STATE OF HAWAII
TO THE
SENATE COMMITTEE ON
COMMERCE, CONSUMER PROTECTION, AND HEALTH

February 15, 2018
9:00 a.m.

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

Chair Baker and Members of the Committee:

DESCRIPTION: 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.

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.

The Commission is currently utilizing performance-based regulation ("PBR") through several active proceedings, including the decoupling re-examination (Docket 2013-0141), active 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 upcoming 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. Such components include a 3-year rate plan for each of the HECO Companies, with capped revenues in between rate cases. In addition, the Commission has adopted performance incentives for the HECO Companies, 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.

TESTIMONY BEFORE THE SENATE COMMITTEE ON COMMERCE, CONSUMER PROTECTION, AND HEALTH

S.B. No. 2939 – Relating to Energy

Thursday, February 15, 2018
9:00 am
State Capitol, Conference Room 229

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

Chair Baker, Vice Chair Tokuda, 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, 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 nine objectives listed in this bill seem to predetermine outcomes in those dockets.

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

Thank you for this opportunity to testify.

Kaua`i Island Utility Cooperative
Your Touchstone Energy® Cooperative

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

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

Thursday, February 15, 2018, 9:00 a.m.
Conference Room # 229

Senate Bill No. 2939 – Relating to Energy

To the Honorable Rosalyn H. Baker, Chair; Jill N. Tokuda, Vice-Chair, and Members of the Committee:

This measure proposes to require the Public Utilities Commission (PUC) to establish performance incentive mechanisms that directly tie electric utility revenues to the utility's achievement on performance metrics no later than January 1, 2020.

COMMENTS:

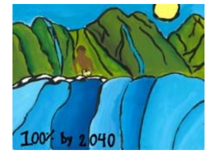
The bill as currently written appears to apply to all electric utilities in the state of Hawai'i; however, Kaua'i Island Utility Cooperative (KIUC) believes that member-owned cooperatives should be exempt from this measure and asks the committee to consider amendments in this regard.

As its basic premise, this bill seeks to improve the "alignment of utility customer and company interests" to ensure that mutual benefits of Hawai'i's utilities, residents and businesses are realized. Because KIUC is a member-owned cooperative, governed by a member-elected board, we believe that the interests of KIUC and our residential and commercial members are already inherently and fundamentally aligned.

Further, decisions made by KIUC on financial matters – including capital investments, integrating renewables and minimizing the use of fossil fuels for energy generation – are devoid of a profit motive, as any revenues beyond what is required to meet KIUC's operational and capital investment needs and its lender's financial metrics are returned to its members in the form of patronage capital. Said another way, because the incentives or penalties allowed in KIUC rates would be essentially collected from the utility's ratepayers to be paid to the utility's shareholders, which in KIUC's case are one and the same person, the concept of performance financial incentives and penalties is arguably moot for a member-owned cooperative electric utility.

Regarding the bill's proposers belief that electric utilities need to move with urgency, it should be noted that KIUC has already made major investments in grid modernization as well as nationally-recognized progress in renewable energy implementation. It bears repeating that, as a utility that is accountable to each of its "customers" via an elected Board, potential savings will always be an integral factor considered in the decision-making process.

Mahalo for your consideration.



SENATE COMMITTEE ON COMMERCE, CONSUMER PROTECTION, AND HEALTH
February 15, 2018, 9:00 A.M.
Room 229
(Testimony is 2 pages long)

TESTIMONY IN SUPPORT OF SB 2939

Aloha Chair Baker, Vice Chair Tokuda, 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.

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

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

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more by spending more, and investors aren't directly rewarded for lower electricity bills, more renewables, and other shared goals.

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 as currently written.

Thank you for the opportunity to testify.

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

Hawaii Solar Energy Association
Serving Hawaii Since 1977

TESTIMONY OF THE HAWAII SOLAR ENERGY ASSOCIATION IN REGARD TO SB 2939, RELATING TO ENERGY BEFORE THE SENATE COMMITTEE ON COMMERCE, CONSUMER PROTECTION, AND HEALTH ON THURSDAY, FEBRUARY 14, 2018

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

HSEA **supports** SB 2939 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 the 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 Statues §269-92 other than guidelines and directives regulated by the Public Utilities Commission. By passing SB 2939, 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 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

[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.

approved and ratified by the Public Utilities Commission in part, 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,

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 and urge the committee to pass this bill.

Thank you for the opportunity to testify.

SENATE COMMITTEE ON COMMERCE, CONSUMER PROTECTION & HEALTH

Thursday, February 15, 2018 9:00AM Conference Room 229

In SUPPORT of SB 2939 Relating to energy

Aloha Chair Baker, Vice Chair Tokuda and members of the 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**, 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 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 Hawaii Public Utilities Commission. 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, "PBR'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

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

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

SB-2939
Submitted on: 2/15/2018 9:15:32 AM
Testimony for CPH on 2/15/2018 9:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
David Z. Arakawa	Testifying on behalf of Land Use Research Foundation of Hawaii	Oppose	No

Comments:

The Land Use Research Foundation of Hawaii (LURF) supports the general intent of this bill, which is to have the Public Utilities Commission (PUC) establish performance incentive and penalty mechanisms, however, it has concerns regarding the current content of this measure, and must unfortunately **OPPOSE** the current version of **SB 2939**, relating to Energy.

SB 2939. The stated purpose of this measure is to protect consumers by urgently and proactively ensuring that the existing utility business and regulatory model is 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 (a.k.a performance-based rate-making, or “PBR”). As currently drafted, SB 2939, requires the PUC 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.

LURF **opposes** the current version of SB 2939, based upon, among other things, the following:

- **This measure is unnecessary**. LURF understands that the PUC has already indicated in several dockets and decisions that it intends to commence a separate PUC proceeding to comprehensively review the issues of PBR and performance incentive mechanisms.
- **The bill is both too overbroad in some areas, and too prescriptive and restrictive in other areas, and pre-determines the areas of PUC review and outcomes.** While LURF believes that this measure is well-intended, and appreciates the thought and research that it includes, an administrative agency with specific expertise such as the PUC should be allowed to address the technical issues relating to PBR, rather than being forced to comply with a law with prescribed outcomes, such as SB 2939.
- **Perhaps the bill could be amended to allow for broad stakeholder input and recommendations relating to a framework of principles.** Instead of a legislative mandates prescribing specific outcomes, perhaps it may be better to

allow for broad stakeholder input to establish recommendations for the PUC to consider relating to a framework of principles which could be developed and applied within the scope of the PUC's future review of PBR. an amendment to this bill, or a resolution could encourage a working group of stakeholders to create recommendations relating to these matters.

Based on the above, **LURF respectfully requests that SB 2939 be DEFERRED and HELD by this Committee.**

Thank you for the opportunity to provide comments and concerns relating to this proposed measure. Please feel free to contact David Arakawa, LURF Executive Director, if there are any questions.