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GOVERNOR | KE KIAʻĀINA

SYLVIA LUKE
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Testimony of the Department of Commerce and Consumer Affairs

Before the
House Committee on Consumer Protection & Commerce
Thursday, February 13, 2025
2:00 p.m.
Conference Room 329

On the following measure:
H.B. 338, H.D. 1, RELATING TO RENEWABLE ENERGY

Chair Matayoshi and Members of the Committee:

My name is Michael Angelo, and I am the Executive Director of the Department of Commerce and Consumer Affairs (Department) Division of Consumer Advocacy. The Department offers comments on this bill.

The purpose of this bill is to specify that adjustments required to compensate for certain unavoidable increases in financing costs, if proven by a producer of non-fossil fuel generated electricity by clear and convincing evidence, are mechanisms for reasonable and appropriate incremental adjustments that the Public Utilities Commission (Commission) may include in the rate payable to the producer.

The Department supports this bill's intent to facilitate the procurement of renewable energy facilities within the State. The Department also recognizes that Hawaiian Electric's current credit rating has decreased its near-term ability to procure renewable energy because some renewable energy project developers that were selected through Hawaiian Electric's competitive bidding process are indicating that they are not able to continue with developing their projects representing that they are unable to obtain reasonable financing terms due to their lenders' concerns over Hawaiian Electric's credit rating as the energy off-taker of the renewable projects.

However, the Department is concerned that customers may be paying inflated prices for renewable energy on an ongoing basis if these amendments are adopted. Allowing adjustments to compensate for increases in financing costs resulting from the public utility's credit status, could result in higher prices than what is achievable from the competitive bidding process absent this legislation. This could unintentionally adversely impact the competitive procurement process for renewable resources on an ongoing basis resulting in higher electricity rates for utility customers.

In addition, it is unclear what would constitute "unavoidable increases" and how producers would be able to provide "clear and convincing evidence" in a Commission proceeding since producers are often not parties to such proceedings.

Thank you for the opportunity to testify on this bill.

JOSH GREEN, M.D.
GOVERNOR

SYLVIA LUKE
LT. GOVERNOR

MARK B. GLICK
CHIEF ENERGY OFFICER

HAWAII STATE ENERGY OFFICE
STATE OF HAWAII

235 South Beretania Street, 5th Floor, Honolulu, Hawaii 96813 Telephone: (808) 451-6648
Mailing Address: P.O. Box 2359, Honolulu, Hawaii 96804 Web: energy.hawaii.gov

Testimony of
MARK B. GLICK, Chief Energy Officer

before the
HOUSE COMMITTEE ON CONSUMER PROTECTION & COMMERCE

Thursday, February 13, 2025
2:00 PM
State Capitol, Conference Room 329 and Videoconference

In Support of
HB 338, HD1

RELATING TO RENEWABLE ENERGY.

Chair Matayoshi, Vice Chair Chun, and Members of the Committee, the Hawaiʻi State Energy Office (HSEO) supports HB 338, HD1, that would authorize the Public Utilities Commission (PUC) to allow for adjustments due to interest rates in certain circumstances. HSEO defers to the appropriate agency on implementation.

Hawaiʻi's energy project developers are facing a dynamic situation regarding interest rates, exacerbated by the 2023 wildfires. The relatively long project development, approval, and construction timelines of energy projects also contribute to difficulty in maintaining static terms for financing. This bill expressly states that the PUC is allowed, but not required, to consider this factor when appropriate. Investors may view this legislation as a statement of support for energy project investment, potentially relieving some concerns from financiers and allowing for greater competition, lower prices, and fewer project delays and cancellations.

HSEO's support of this bill is consistent with section 196-71, Hawaiʻi Revised Statutes, to promote renewable energy to help achieve a resilient clean energy economy.

Thank you for the opportunity to testify.

JOSH GREEN, M.D.
GOVERNOR

SYLVIA LUKE
LT. GOVERNOR

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NAOMI U. KUWAYE
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Testimony of the Public Utilities Commission

To the
House Committee on
Consumer Protection & Commerce

February 13, 2025
2:00 p.m.

Chair Matayoshi, Vice Chair Chun, and Members of the Committee:

Measure: H.B. No. 338, H.D. 1
Title: RELATING TO RENEWABLE ENERGY.

Position:

The Public Utilities Commission ("Commission") supports this measure and offers the following comments for consideration.

Comments:

The Commission appreciates the intent of this measure to improve the renewable clean energy procurement process by permitting the Commission to authorize the inclusion of incremental adjustments that are linked to premium interest rates for high yield credit to the rate for electricity generated from non-fossil fuels.

The Commission appreciates the work done by the Committee on Energy and Environmental Protection to advance this measure.

The Commission recognizes the many challenges that Hawaii's electric utilities and independent power producers face in trying to achieve a clean, renewable power system. The achievement of the state's renewable portfolio standards will hinge in no small part on the ability of independent power producers to finance their projects, as well as successfully execute agreements with Hawaii's electric utilities. The Commission believes that this measure will support the ability of independent power producers to successfully finance their projects and enter into agreements with Hawaii's electric utilities to provide clean, renewable power. The Commission, however, is cognizant of the additional burden H.B. 338, H.D. 1 may place on the Hawaii's ratepayers and remains committed to ensuring that any rates arising from such agreements are just and reasonable, and in the public interest.

Thank you for the opportunity to testify on this measure.

TESTIMONY BEFORE THE HOUSE COMMITTEE ON CONSUMER PROTECTION & COMMERCE

HB 338 HD1
Relating to Renewable Energy

Thursday, February 13, 2025
2:00PM
State Capitol, Conference Room 329

Rebecca Dayhuff Matsushima
Vice President, Resource Procurement
Hawaiian Electric

Dear Chair Matayoshi, Vice Chair Chun, and Members of the Committee,

My name is Rebecca Dayhuff Matsushima and I am testifying on behalf of Hawaiian Electric with comments on HB 338 HD1, Relating to Renewable Energy. HB 338 HD1 is based on the premise that Hawaiian Electric's credit rating increases the cost to finance renewable energy projects. Hawaiian Electric appreciates the amendments in HB 338 HD 1 that authorize the Public Utilities Commission ("Commission") to increase the price paid to independent power producers to reflect "unavoidable increases in financing costs resulting from the public utility's credit status if proven by the producer by clear and convincing evidence."

This amendment clarifies that the Commission may approve a price adjustment only if the project developer can demonstrate that such an adjustment is required. We believe that the inclusion of this language will help motivate developers to obtain the best possible financing terms and will promote the selection of proposals submitted by developers with strong financials, and who may otherwise be well-positioned to deliver renewable energy projects for Hawaii. In the future, we would also expect that any approved power purchase agreement would have mechanisms in place to reduce pricing if Hawaiian Electric’s financial position improved or developers were otherwise able to obtain lower cost financing at any time during the term of the power purchase agreement.

Although Hawaiian Electric appreciates the amendments included in HB 338 HD1, we also respectfully submit that SB 1501 and HB 974 are better solutions to the concern that HB 338 HD1 is meant to address. SB 1501 and HB 974 provide for the department of budget and finance to enter into a “step-in” agreement with certain independent power producers who contract with Hawaiian Electric to build new renewable energy facilities. We believe that the step-in agreements would remove the credit risk that HB 338 HD1 mentions.

Thank you for this opportunity to testify.

TESTIMONY TO THE COMMITTEE ON CONSUMER PROTECTION AND COMMERCE
2:00 PM, FEBRUARY 13, 2025
Conference Room 329 & Via Videoconference

HB338 HD1

Chair Matayoshi, Vice Chair Chun, and Members of the Committee,

Hawaii Clean Power Alliance (HCPA) strongly **supports** HB 338 HD1, which specifies that adjustments required to compensate for certain unavoidable increases in financing costs, if proven by a producer of nonfossil fuel generated electricity by clear and convincing evidence, are mechanisms for reasonable and appropriate incremental adjustments that the Public Utilities Commission may include in the rate payable to the producer.

Hawaii Clean Power Alliance is a nonprofit alliance organized to advance and sustain the development of clean energy in Hawaii. Our goal is to support the state's policy goal of 100 percent renewable energy by 2045. We advocate for utility-scale renewable energy, which is critical to meeting the state's clean energy and carbon reduction goals.
The financial instability of the electric utility has placed the ability to finance utility-scale renewable energy projects in jeopardy, delaying the benefits of affordable and reliable energy for residents. The urgent need to expand energy generation capacity has been repeatedly demonstrated across the islands in 2024, with frequent calls for energy conservation and rolling blackouts. This issue is particularly critical for islands like Maui, where two of the utility's generators are projected to retire soon. Additionally, in the event of an unexpected outage, there are currently no contingency plans in place to maintain reliability.

HB 338 HD1 addresses a fundamental need to ensure that newly proposed renewable energy projects are not terminated due to financing challenges. The electric utility's current financial condition presents a significant risk to lenders, making it increasingly difficult to secure project financing. This concern is being addressed in a separate measure, HB 974, which is essential to mitigating this risk. Furthermore, even if power producers manage to obtain financing, the cost may exceed prior projections due to the utility's downgraded financial standing. Traditionally, power purchase rates remain fixed, even under extraordinary circumstances. HB 338 HD1 clarifies that the Public Utilities Commission has the authority—but is not required—to consider rate adjustments, provided that any adjustments are just, reasonable, and in the public interest.

We urge you to pass HB 338 HD1 to advance the State's clean energy goals while safeguarding the interests of its residents.

Representative Scot Matayoshi, Chair
Representative Cory Chun, Vice Chair
Committee on Consumer Protection & Commerce

February 13, 2025; 2:00 p.m.
Conference room 329 & Videoconference

RE: HB 338 HD1 – Relating to Renewable Energy – In Support

Aloha Chair Matayoshi, Vice Chair Chun and members of the Committee,

My name is Wren Wescoatt, Vice President of Development for Longroad Energy (Longroad), and I am testifying in support of HB 338 HD1. This bill provides critical support to enable the financing of new renewable energy projects in Hawaii and lower the price of energy for ratepayers.

I have been developing clean energy in Hawaiʻi for the past 17 years for Longroad and First Wind. Together, our team has developed about half of the utility-scale wind and solar capacity operating in Hawaii today and financed more than $500 million for construction of local projects – all of which have power contracts with Hawaiian Electric Company (HECO). Hawaiʻi has been making steady progress toward 100% renewable electricity, but with HECO's current credit rating below investment grade since the Maui fires, it is difficult for energy producers like Longroad to secure financing to fund future solar projects. Many of the lenders that we contacted were not willing to provide financing at all, and those that were, indicated that the cost to borrow would be significantly higher because of the added risk. These additional financing costs would need to be agreed to be HECO and approved by the Public Utilities Commission (PUC). Nobody wants to increase electricity rates. But until HECO's credit rating improves to investment grade, temporarily higher PPA prices may be necessary if any new projects are going to be built. It is important that the PUC be able to approve contracts that may include unavoidable higher financing costs.

Longroad also testified in support of HB 974 which would allow the State to step-in as a trustee to ensure payments are made in PPAs. If successful, that measure should help reduce higher financing costs for these projects. However, until the step-in legislation becomes law and banks actually decrease lending rates on HECO contracts, we believe HB 338 HD1 is important to allow the PUC to approve higher financing costs in PPAs, when necessary, because of HECO's current credit rating.

We support HB 338 HD1 and ask that you give the measure your favorable consideration.

Mahalo,

Wren W. Wescoatt
Vice President of Development
wren.wescoatt@longroadenergy.com
808-780-1000

House Bill 338 HD1– Relating to Renewable Energy
TESTIMONY
Hawaiʻi State House of Representatives
Commerce and Consumer Protection Committee
Thursday, February 13, 2025
2:00 p.m.

Aloha Chair Matayoshi, Vice Chair Chun and Committee Members:

Mahalo for the opportunity to provide testimony in **support of HB 338 HD1.** AES Hawaiʻi shares the State's vision for a 100% renewable energy future. We are working to accelerate and support Hawaiʻi's transition toward a carbon-free energy future with renewable projects across the Hawaiian Islands totaling over 405 MW of solar, solar plus storage, and wind resources in operation or under contract, with 102.5 MW of Stage 1 projects, 37 MW of Stage 2 projects, and 126 MW of Stage 3 projects.

HB 338 HD1 supports Hawaiʻi's goals of achieving 100% renewable energy, enhancing energy resilience, decarbonization, and promoting energy equity. It seeks to address the project financing challenges faced by Independent Power Producers (IPP), due to Hawaiian Electric Company's sub-investment-grade status. Without this assurance, IPPs may be forced to cancel or delay renewable energy projects due to high-yield credit, high interest rates, and unavailability of project financing. The bill proposes to amend the Hawaiʻi Revised Statutes to allow the Public Utilities Commission (PUC) to establish a methodology for determining just and reasonable rates for non-fossil fuel-generated electricity, potentially including adjustments for inflation and premium interest rates. AES Hawaiʻi supports the intent of this measure to ensure the financial viability of our renewable energy projects and that Hawaiʻi can achieve our renewable energy goals.

Mahalo for your consideration.

Sandra Larsen
President
AES Hawaiʻi

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TESTIMONY TO THE COMMITTEE ON CONSUMER PROTECTION AND COMMERCE
2:00 PM, FEBRUARY 13, 2025
Conference Room 329 & Via Videoconference

HB338 HD1

Chair Matayoshi, Vice Chair Chun, and Members of the Committee,

Ameresco **supports** HB338 HD1, which specifies that adjustments required to compensate for certain unavoidable increases in financing costs, if proven by a producer of nonfossil fuel generated electricity by clear and convincing evidence, are mechanisms for reasonable and appropriate incremental adjustments that the Public Utilities Commission may include in the rate payable to the producer.

Ameresco is a leading cleantech integrator and renewable energy asset developer, owner and operator. With 25 years of experience, we have successfully completed energy saving, renewable energy and environmentally responsible projects for commercial, industrial, Federal, State and Local government in Hawai‘i, across the US, Canada and Europe. Ameresco has been a part of the Hawai‘i community for the last 15 years and committed to supporting the goals of clean, reliable and affordable energy. Last year, we completed the Kūpono Solar 42 MW/168 MWh photovoltaic solar and battery storage project in ‘Ewa.

We currently have three additional large-scale renewable energy projects in development on O‘ahu and Maui – 99MW Pu‘uloa Energy and 6 MW / 30MWh Pu‘uloa Solar on Oahu and 40MW Ūkiu Energy – the success of which hinges on successful financing for these projects.

Background

In January 2023, Hawaiian Electric solicited renewable energy project bids through its “Stage 3” Request for Proposals (RFP). The goal of the RFP was to procure 800-1,200 MW of renewable energy projects that would be placed in service by the end of 2029 (and additional capacity to be placed in service by 2033), which is critical to reliability and resilience. Proposals were submitted to Hawaiian Electric in April of 2023 and projects were awarded in November 2023. Between the time that the proposals were submitted and awarded, however, Hawaiian Electric’s credit rating was significantly downgraded to sub-investment-grade status, making it much more challenging for Independent Power Producers (IPPs) to obtain both equity and debt financing for these large renewable projects. Specifically, lenders and equity investors are reluctant to invest in these projects because the fear of what would happen in the event of a Hawaiian Electric bankruptcy – and during a bankruptcy, payments that are due to the IPPs by Hawaiian Electric would be disrupted for several months, or potentially longer, which could in turn lead to IPPs defaulting on their payment obligations to lenders. In other cases, lenders are seeking to charge higher interest rates to IPPs to account for this additional risk which results in non-viable projects.

Several IPPs have already withdrawn their Stage 3 projects. Additionally, many planned Stage 2 projects have also terminated or been delayed. It is in the State’s interest to ensure that the remaining projects are able to obtain financing and come online – not only to ensure that Hawaiʻi is able to meet its climate and renewable energy goals, in which these Stage 3 projects play a critical role, but also for the integrity and reliability of the electric grid, and to ensure affordable rates to the ratepayers of Hawaiʻi that are not tied to volatile fossil fuel prices. Hawaiian Electric's only other current renewable energy procurement is the Integrated Grid Planning (IGP) procurement. However, the IGP procurement has been delayed pending a contested case proceeding before the Public Utilities Commission, just now commencing. There are no other large renewable projects "in the works" beyond the Stage 3 projects.

HB338 HD1

Another bill under consideration this legislative session, HB 974, is pivotal in establishing a mechanism to help mitigate certain lender risks. However, if lenders seek higher interest rates due to the utility's sub-investment-grade status, these projects risk becoming financially non-viable.

Under the HB 338 HD1, the Public Utilities Commission would be authorized—though not required—to consider an adjustment in light of this extenuating circumstance, and to grant approval only if such an adjustment is deemed appropriate, just, and reasonable. Conversely, should projects be abandoned because financing costs exceed initial forecasts, ratepayers would ultimately bear higher costs. This is because, in such a scenario, rates would continue to reflect the rising cost of oil and if new projects were to be procured at a later date, would likely cost much more, due to inflationary pressures on labor, equipment, and materials.

Thank you for the opportunity to provide this testimony.