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Testimony of the Department of Commerce and Consumer Affairs

Before the
House Committee on Energy & Environmental Protection
Thursday, January 30, 2025
9:00 a.m.
Conference Room 325

On the following measure:
H.B. 337, RELATING TO RENEWABLE ENERGY

Chair Lowen 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 require and appropriate funds for the Public Utilities Commission (Commission) to establish standards requiring each electric utility company to remove from the rate base a commensurate amount of costs related to fossil fuel resources when adding new or converted renewable electrical energy and renewable energy resources.

The Department agrees with the sentiment conveyed in this bill regarding the high cost of electricity that consumers are continuing to bear as the State moves away from fossil fuels and transitions to clean energy resources. There is an expectation that as more renewable resources are added to the utility's grid there should be a commensurate or greater amount of cost savings related to replacing fossil fuel resources with cost-effective renewable resources.

The State's investor-owned utility, Hawaiian Electric, is currently regulated under the Performance Base Regulation (PBR) Framework established in the Commission's Docket No. 2018-0088. The PBR Framework was established by the Commission in June 2021 and included stakeholder involvement. The PBR Framework transitions from traditional cost-of-service ratemaking principles through a set of alternative regulatory mechanisms intended to encourage the utility to focus on performance and desired outcomes, such as increasing renewable energy, lowering costs, and improving customer service. The PBR Framework is currently being reviewed to improve the mechanisms and incentives as the end of first multi-year rate period is approaching. Extensive work is currently occurring among the various stakeholders and parties to the proceeding regarding this evaluation.

Given the application of the PBR Framework for Hawaiian Electric, the utility's "rate base" is no longer used to determine rates as it would have been under traditional cost-of-service based regulation. Instead, a fossil fuel retirement schedule has been established to take off-line fossil fuel resources in a measured and planned manner to ensure that adequate supply of electricity is available as more and more renewable resources are brought on line. The Department believes that efforts to lower electricity costs and make energy more affordable can be addressed and prioritized in the PBR docket as the PBR Framework is currently being evaluated for the next multi-year rate period provided that cost-effectiveness and affordability become central tenets of that review. The Department believes that making energy more affordable and continuing to progress towards the State's clean energy goals is critical.

Thank you for the opportunity to testify on this bill.

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Testimony of the Public Utilities Commission

To the
House Committee on
Energy & Environmental Protection

Thursday, January 30, 2025
9:00 a.m.

Chair Lowen, Vice Chair Perruso, and Members of the Committee:

Measure: H.B. No. 337
Title: RELATING TO ENERGY.

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

Comments:

The Commission appreciates the intent of this measure to address the Legislature's concerns that electric utility ratepayers are not seeing electricity prices decrease because, in part, the costs of fossil fuel resources are being borne by ratepayers in addition to the costs of new renewable resources. H.B. 337 would revise HRS 269-92 to require the Commission to establish standards for each electric utility company requiring that electric utility companies remove from their rate base a commensurate amount of costs related to fossil fuel resources when either a new renewable resource is acquired, or an existing resource is converted to renewable resources.

H.B. 337 is unclear when it refers to "fossil fuel resources". On the one hand, fossil fuel resources may mean the costs on ongoing fossil fuel spending passed through to customers and is not included in the rate base, or, on the other hand, it may mean the accounting value of fossil fuel related generation assets for which the companies recover depreciation expense through their rate base.

If the intended meaning of H.B. 337 is the former, namely, spending by electric utilities on fossil fuels used in thermal generating facilities, then the Commission notes these costs are passed through directly to customers and are excluded from a utility's rate base. For example, Hawaiian Electric, when it purchases fossil fuels, passes the costs through to customers directly through an accounting mechanism referred to as the Energy Cost Recovery Clause ("ECRC"). As the amount of renewable generation increases on the state's grid, the spending by Hawaiian Electric on fossil fuels passed through in the ECRC will decrease.

If it is the latter, where H.B. 337 refers to the recovery of fossil fuel related generation assets, the implication of the bill is more complex. H.B. 337 could impose significant financial hardship on electric utilities by disallowing recovery of depreciation of retired fossil fuel resources from the rate base. In this case, the Commission respectfully notes the docket process is a better venue than revising HRS 269-92 for managing customer costs of the energy transition.

Hawaiian Electric and Kauai Island Utility Company ("KIUC") invest in their generation assets over the course of the assets' useful lifespan by procuring new parts and providing ongoing maintenance – just as one would an old car to keep it running. The value of their assets upon retirement, whether it is because of permitting or the Integrated Grid Plan or obsolescence, is therefore non-zero, or, rather, the asset has not yet completely depreciated. This remaining depreciation amount is what electric utilities seek recovery for in the rate base, resulting in an increase in revenues and therefore prices that customers pay. Allowing electric utilities to receive a just and reasonable return on their investments into their assets encourages future investments.

Both Hawaiian Electric and KIUC file applications every five years seeking an update of their recovery of depreciation expense on their assets (see open dockets No. 2024-0199 and No. 2024-0244, respectively). In these dockets, depreciation studies, conducted by third-party firms specialized in utility financial accounting, estimate the remaining useful lives of all company assets, including renewable and fossil fuel generation facilities as well as other assets. The Commission, in making its decision to approve depreciation recovery works through the docketed process with intervening parties such as the utilities and the Consumer Advocate to analyze the report and determine a level that is just and reasonable.

Hawaiian Electric in two recent dockets relating to the retirement of large legacy fossil fuel generation assets, Honolulu 8 & 9 (Docket No. 2022-0243) and Waiau 3 & 4 (Docket No. 2023-0418), sought to provide just and reasonable recovery to the utility for the remaining undepreciated value of those assets. In making such a determination, the Commission also considers, in addition to avoiding creating a disincentive to future investments, the utility's financial health. Disallowing recovery of undepreciated value of retiring plants may result in the utility with a stranded asset where the amount would have to be written off the company's books as bad debt expense, resulting in a significant reduction in its profitability and subsequently, its financial viability as a company.

Thank you for the opportunity to testify on this measure.

TESTIMONY BEFORE THE HOUSE COMMITTEE ON ENERGY AND ENVIRONMENTAL PROTECTION

HB 337
Relating to Renewable Energy

Thursday, January 30, 2025
9:00 am
State Capitol, Conference Room 325

James Abraham
Associate General Counsel
Hawaiian Electric

Dear Chair Lowen, Vice Chair Perruso and Members of the Committee,

My name is James Abraham and I am submitting testimony on behalf of Hawaiian Electric **in opposition** to HB 337, Relating to Renewable Energy.

Hawaiian Electric supports initiatives to incentivize and increase renewable energy. However, this bill will effectively disincentivize new renewable generation. The integration of a new renewable resource does not necessarily mean Hawaiian Electric can concurrently cease use of an equal amount of an existing fossil fuel generation unit. In practice, Hawaiian Electric may end up operating such units at lower loads, which would result in customers benefitting from lower fossil fuel costs. Nevertheless, the Company would still need to recover the fixed costs associated with the fossil fuel units, including the recovery of the capital cost of the unit.

While Hawaiian Electric understands the intent of this bill, it seems to misunderstand how the utility recovers its costs pursuant to the regulatory compact. Indeed, the regulatory compact, and, arguably, state policy, provide that Hawaiian Electric be able to recover stranded costs for units removed from service to serve public interest objectives. The retirement of fossil fuel units in a logical and safe manner, and recovery of appropriate stranded costs, is overseen by the Public Utilities Commission and should not be prohibited by law. Moreover, the Commission's stakeholder-driven Performance-Based Regulation (PBR) process already provides a venue to address the complex balancing of many interests, including reliability and renewable energy adoption.

In addition, this bill appears to contravene Hawaiʻi Revised Statutes § 269-6(e)(3), which explicitly encourages the Public Utilities Commission to consider the establishment of a stranded cost recovery mechanism to encourage the accelerated retirement of fossil fuel generation plants by allowing the electric utility to recover the stranded costs created by early retirement of such plants.

Hawaiian Electric is committed to deactivate or retire existing aged fossil fuel units, which can be less efficient and less reliable than newer generation that can provide similar capabilities. However, removing generation capacity must be done thoughtfully and methodically, not at the expense of reliability, resilience, and flexibility to respond to changing and/or unforeseen circumstances.

For these reasons, Hawaiian Electric **opposes** HB 337. Thank you for this opportunity to testify.

HAWAII CLEAN POWER ALLIANCE

TESTIMONY TO THE COMMITTEE ON ENERGY & ENVIRONMENTAL PROTECTION
9:00 AM, January 30, 2025
Conference Room 325 & Via Videoconference
HB 337

Chair Lowen, Vice Chair Perruso and Members of the Committee,

Hawaii Clean Power Alliance (HCPA) **supports HB 337**, requires and appropriates moneys for the Public Utilities Commission to establish standards requiring each electric utility company to remove from the rate base a commensurate amount of costs related to fossil fuel resources when adding new or converted renewable electrical energy and renewable energy resources.

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.

HB 337 is critical to ensuring Hawaii's transition to renewable energy is not only sustainable but also equitable and affordable for ratepayers.

Despite Hawaii's substantial progress in adding renewable energy to the grid, ratepayers continue to bear the financial burden of fossil fuel-related costs alongside the costs of new renewable energy projects. This dual payment structure particularly affects lower-income residents who are disproportionately affected by high utility bills. HB 337 addresses this issue by requiring a fair alignment of costs, ensuring ratepayers are not forced to subsidize outdated fossil fuel infrastructure and operational costs while simultaneously investing in renewable energy.

The PUC plays a vital role in protecting ratepayers while advancing Hawaii's energy goals. By establishing standards to remove fossil fuel-related costs as new renewable resources come online, the PUC can ensure that rates remain just, reasonable, and in the public interest. The PUC can also ensure that reliability standards are not put at risk.

HB 337 is a necessary step to align Hawaii's renewable energy progress with fairness and affordability for its residents and businesses. It eliminates the inefficiency and inequity of dual payments, promotes economic and environmental sustainability, and ensures that the benefits of renewable energy development are shared equitably.

We ask you to pass HB 337.

Thank you for the opportunity to testify in support.

HB-337
Submitted on: 1/29/2025 12:39:55 PM
Testimony for EEP on 1/30/2025 9:00:00 AM

Submitted By	Organization	Testifier Position	Testify
Jacqueline S. Ambrose	Individual	Support	Written Testimony Only

Comments:

YES to - Clarifies that adjustments linked to premium interest rates for high yield credit are just and reasonable. Authorizes the Public Utilities Commission to include these incremental adjustments to the rate for electricity generated from nonfossil fuels.