
A BILL FOR AN ACT

RELATING TO ELECTRIC UTILITIES.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

1 SECTION 1. The legislature finds that electricity-
2 generation projects in Hawaii requiring external financing must
3 typically enter into one or more long-term power purchase
4 agreements with an electric utility before investors will
5 provide such financing. For financial rating agencies that
6 observe and evaluate the effect of these power purchase
7 agreements, including Standard & Poor's, such contracts create
8 fixed, debt-like financial obligations for the electric utility
9 that represent substitutes for debt-financed capital investments
10 in generation capacity. To properly take into account the fixed
11 obligations in a way that reflects the credit exposure that is
12 added by the power purchase agreements, the financial rating
13 agencies represent, or impute, the impact of a power purchase
14 agreement to the contracting electric utility's balance sheet in
15 the form of a new debt obligation. This new obligation is
16 typically referred to as imputed debt or debt equivalence.

17 Rating agencies may impute to a utility's debt level an
18 amount up to fifty per cent or more of the existing payments on



1 a power purchase agreement, resulting in significant amounts of
2 imputed debt hampering a contracting utility's debt rating and
3 impeding that utility's debt financing. Compensating factors,
4 including legislative provisions for the mitigation of imputed
5 debt on utility companies' balance sheets, are noted as being
6 important variables in either raising or lowering debt-
7 equivalence levels. Without an available offsetting mechanism,
8 imputed debt obligations on electric utilities for electricity-
9 generation projects can ultimately have a major chilling effect
10 on energy development, especially in states pursuing ambitious
11 renewable-energy goals.

12 Reducing the imputed debt obligations of electric utilities
13 can benefit electric-utility customers by maximizing the
14 utilities' ability to negotiate low-cost, fixed-price renewable
15 energy contracts. In addition, the elimination of power-
16 purchase-agreement-created imputed debt obligations of a utility
17 can lower capital costs for that utility, which helps to reduce
18 energy costs for consumers through lower rates.

19 The purpose of this Act is to authorize the public
20 utilities commission to allow electric utilities operating
21 within the State to recover all power purchase costs.



1 SECTION 2. Chapter 269, Hawaii Revised Statutes, is
2 amended by adding a new section to be appropriately designated
3 and to read as follows:

4 "§269- Power purchase agreements; cost recovery for
5 electric utilities. All power purchase costs, including costs
6 related to capacity, operations, and maintenance, and other
7 costs that are incurred by an electric utility company, arising
8 out of power purchase agreements that have been approved by the
9 public utilities commission and are binding obligations on the
10 electric utility company, shall be allowed to be recovered by
11 the utility from the customer base of the electric utility
12 company through one or more adjustable surcharges, which shall
13 be established by the public utilities commission. Such costs
14 shall be allowed to be recovered if incurred as a result of such
15 agreements unless, after review by the public utilities
16 commission, any such costs are determined by the commission to
17 have been incurred in bad faith, out of waste, out of an abuse
18 of discretion, or in violation of law.

19 An "electric utility company" under this section means a
20 public utility as defined under section 269-1, for the
21 production, conveyance, transmission, delivery, or furnishing of
22 electric power."



- 1 SECTION 3. New statutory material is underscored.
- 2 SECTION 4. This Act shall take effect on July 1, 2012.



Report Title:

Debt Equivalence; Imputed Debt; Utility Companies; Cost Recovery

Description:

Authorizes the Public Utilities Commission to allow electric utility companies to recover all power purchase costs from long-term power purchase agreements, thus mitigating associated imputed debt or debt equivalence. Effective July 1, 2012.
(HB2490 HD2)

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