



DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

NEIL ABERCROMBIE
GOVERNOR

RICHARD C. LIM
DIRECTOR

MARY ALICE EVANS
DEPUTY DIRECTOR

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Statement of
Richard C. Lim
Director

Department of Business, Economic Development, and Tourism
before the

HOUSE COMMITTEE ON ENERGY AND ENVIRONMENTAL PROTECTION

Tuesday, March 19, 2013

8:30 a.m.

State Capitol, Conference Room 325
in consideration of

SB 120, SD 1 RELATING TO PUBLIC UTILITIES.

Chair Lee and, Vice Chair Thielen, and Members of the Committee.

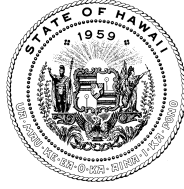
The Department of Business, Economic Development, and Tourism (DBEDT) supports SB 120, SD1, which would require the Public Utilities Commission (PUC) to consider if one or more of the following would be in the public interest:

- An incentive mechanism designed to induce a public utility to reduce energy and operating costs;
- A renewable energy curtailment mitigation incentive mechanism;
- A cost recovery mechanism to accelerate retirement of utility fossil generation;
- Differentiated authorized rates of return to encourage increased utility investments in transmission and distribution infrastructure.

We support this bill as it could provide for greater adoption of renewable energy, more robust electrical grids and reduced electricity rates. Furthermore, this bill is

consistent with Governor Abercrombie's "New Day in Hawai'i Plan" which promotes greater adoption of renewable energy with clear community benefits and the alignment of the electric utility's success with Hawaii's clean energy goals.

Thank you for the opportunity to offer these comments in support of SB 120, SD1.



NEIL ABERCROMBIE
GOVERNOR

SHAN S. TSUTSUI
LT. GOVERNOR

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

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KEALI'I S. LOPEZ
DIRECTOR

JO ANN M. UCHIDA TAKEUCHI
DEPUTY DIRECTOR

**TO THE COMMITTEES ON
ENERGY & ENVIRONMENTAL PROTECTION
AND ECONOMIC DEVELOPMENT & BUSINESS**

**THE TWENTY-SEVENTH LEGISLATURE
REGULAR SESSION OF 2013**

**TUESDAY, MARCH 19, 2013
8:30 AM**

**TESTIMONY OF JEFFREY T. ONO, EXECUTIVE DIRECTOR, DIVISION OF
CONSUMER ADVOCACY, DEPARTMENT OF COMMERCE AND CONSUMER
AFFAIRS, TO THE HONORABLE CHRIS LEE AND CLIFT TSUJI, CHAIRS, AND
MEMBERS OF THE COMMITTEES**

SENATE BILL NO. 120, S.D. 1 - RELATING TO PUBLIC UTILITIES

DESCRIPTION:

This measure proposes to authorize the Public Utilities Commission ("PUC") to establish a policy to implement economic incentives and cost recovery regulatory mechanisms to induce and accelerate electric utilities cost reduction efforts, encourage greater utilization of renewable energy, accelerate the retirement of utility fossil generation, and increase investments to modernize the State's electrical grids.

POSITION:

The Division of Consumer Advocacy ("Consumer Advocate") supports the intent of this bill and offers the following comments.

Senate Bill No. 120, S.D. 1
Senate Committees on Energy & Environmental Protection and
Senate Committee on Economic Development & Business
Tuesday, March 19, 2013, 8:30 a.m.
Page 2

COMMENTS:

This bill requires the PUC to consider various economic incentives and cost recovery mechanisms for Hawaii's electric utilities as a means of expediting the utilities' reduction in the use of petroleum for electricity generation. The Consumer Advocate appreciates the latitude given to the PUC in being able to review, analyze, and accept or reject any or all of the proposals in this bill. As is required by Chapter 269, the Consumer Advocate will participate in any process or docket that the PUC may use to carry out the directive in Senate Bill No. 120, S.D. 1.

The Consumer Advocate has difficulty accepting the concept of providing financial incentives to the electric utilities for carrying out that which they should be doing as part of their regularly conducted activities. For example, it is already part of the ratemaking process to provide sufficient financial incentives for the electric utilities to be able to attract capital for projects such as the improvement of transmission and distribution infrastructure. This bill seems to suggest providing a higher authorized rate of return on equity if the electric utilities invest in transmission and distribution infrastructure. The Consumer Advocate has objected to this type of single-issue ratemaking in the past and is likely to continue to do so in the future. In addition, these proposals may result in unintended consequences, such as increases in electricity rates and ratepayer bills, which the customers can ill afford at this time.

The Consumer Advocate supports the intent of this bill, but suggests that these provisions be adopted in the form of a resolution instead. A resolution would have the same effect of requiring the PUC to consider these financial incentives without having this directive permanently placed in statute.

Thank you for this opportunity to testify.

TESTIMONY OF HERMINA MORITA
CHAIR, PUBLIC UTILITIES COMMISSION
DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE
HOUSE COMMITTEE ON ENERGY & ENVIRONMENTAL PROTECTION

MARCH 19, 2013
8:30 a.m.

MEASURE: S.B. No. 120, S.D. 1

TITLE: Relating to Public Utilities

Chair Lee and Members of the Committee:

DESCRIPTION:

S.B. No. 120, S.D. 1 gives policy guidance to the Public Utilities Commission (“Commission”) to establish economic incentives and regulatory cost recovery mechanisms to encourage and accelerate the efforts of electric utilities in reducing costs and increasing the use of renewable energy determined to be necessary and appropriate by the Commission. This measure provides examples of potential incentive mechanisms focusing on shared cost savings incentives, renewable energy curtailment mitigation incentives, stranded cost recovery incentives for retired power generation assets, and a system of differentiated rates of return on common equity for targeted utility investments in electric system infrastructure.

POSITION:

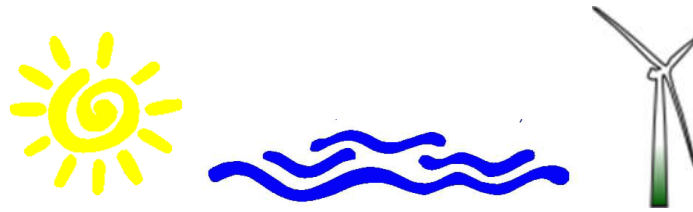
The Commission supports this measure and would like to offer the following comments for the Committee’s consideration.

COMMENTS:

This bill gives policy guidance to incentivize Hawaii’s electric utility companies to make needed reforms to attain lower electricity rates and to achieve Hawaii’s clean energy objectives. The various mechanisms in this bill represent a set of regulatory tools that would make the State’s transition to an affordable clean energy-focused system one that would be mutually beneficial to both electric utilities and ratepayers.

The economic incentives described in S.B. No. 120, S.D. 1 appear to be based on established regulatory practices that have been implemented throughout the rest of the country for the purpose of moving the electric utility industry toward a desired course of action. Stranded cost recovery, for example, has been an accepted practice throughout the contiguous United States during the last few decades, as many mainland electric utilities underwent the transition to retail choice in electricity supply for consumers. The Commission believes there is sufficient flexibility in this measure to allow the Commission to evaluate, select, and tailor the best set of incentive mechanisms to transform Hawaii's electric industry to achieve an affordable clean energy future.

Thank you for the opportunity to testify on this measure.



LIFE OF THE LAND

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COMMITTEE ON ENERGY & ENVIRONMENTAL PROTECTION

Rep. Chris Lee, Chair

Rep. Cynthia Thielen, Vice Chair

COMMITTEE ON ECONOMIC DEVELOPMENT & BUSINESS

Rep. Clift Tsuji, Chair

Rep. Gene Ward, Vice Chair

DATE: Tuesday, March 19, 2013

TIME: 8:30 AM

PLACE: Conference Room 325

Re SB 120 SD1 RELATING TO PUBLIC UTILITIES

OPPOSE

Aloha Chairs Lee and Tsuji, Vice Chairs Thielen and Ward and Members of the Committees

My name is Henry Curtis and I am the Executive Director of Life of the Land, Hawai`i's own energy, environmental and community action group advocating for the people and `aina for four decades. Our mission is to preserve and protect the life of the land through sound energy and land use policies and to promote open government through research, education, advocacy and, when necessary, litigation.

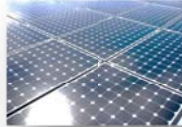
SB 120 SD 1: "Electric ratepayers are demanding immediate relief from increasing electricity rates."

SB 120 SD 1: Solution: give utilities incentives, stranded cost recovery and higher profit margins.

Meanwhile the Legislature gutted HB 1405 which have required the Public Utilities Commission to disclose pricing information upon approving utility power purchase agreements.

Thus consumers and ratepayers will be kept in the dark about their increased financial burden while the utilities can increase their profit and the HEI CEO can increase her \$5,000,000 yearly income.

Please Hold



HOUSE COMMITTEE ON ENERGY & ENVIRONMENTAL PROTECTION

March 19, 2013, 8:30 A.M.

Room 325

(Testimony is 2 pages long)

TESTIMONY IN STRONG SUPPORT OF SB 120 SD1

Chair Lee and members of the Energy & Environmental Protection Committee:

The Blue Planet Foundation strongly supports SB 120 SD1, directing the Public Utilities Commission (PUC) to consider methods of incentivizing Hawai'i's investor-owned electric utilities to aggressively reduce energy costs and seek alternatives that are more sustainable for our economy and our environment.

It is widely recognized that Hawai'i's transition to local, sustainable, and cost-effective energy will require a concerted effort to introduce new resources, programs, and innovations. Our investor-owned utility, under the current business model, is not optimally positioned to aggressively pursue such a transition. For example, O'ahu remains powered in part by a utility-owned generating unit installed in 1947. In the 5 years since our Hawaii Clean Energy Initiative was signed, our fossil-based generating capacity has *increased*. While this may be beneficial to utility investors under the current utility compensation scheme,¹ it is plainly at odds with a transition to a more efficient, affordable, and sustainable electric system.

¹ In several recent hearings during this legislative season, various parties have noted that Forbes.com recently characterized Hawaiian Electric's shareholder dividend yield as "fat." See Forbes.com, "Say Aloha to Fat Yields With Hawaii Electric," available at <http://www.forbes.com/sites/zacks/2012/12/21/say-aloha-to-fat-yields-with-hawaiian-electric/>. That article noted that at "4.9% [HEI's dividend yield is] substantially higher than the industry average of 2.2%." Indeed, HEI's dividend yield has exceeded the industry average every year for the past 5 years. During the same timeframe, the Hawaiian Electric share price has outpaced the S&P 500, 24% to 14%. This data suggests that Hawaiian Electric shareholders are profiting handsomely from the status quo. SB 120 can ensure that investors and ratepayers both benefit, as we break away from that status quo.

In fact, last month Hawaiian Electric Industries (HEI) represented to shareholders that their five-year expenditures forecast (estimated at nearly \$3 billion)² includes little in the way of grid modernization (such as smart meters for customers, demand response capacity,³ energy storage,⁴ or other elements of a “smart grid”) necessary to support increasing amounts of renewable energy integration.

Senate Bill 120 SD1 seeks to correct this by empowering the PUC to establish incentive mechanisms to ensure that our utilities can remain financially viable—and indeed can thrive—by focusing their efforts and investments on a more modern approach to electrical generation and distribution. By re-focusing on solutions like dynamic pricing,⁵ demand response, energy storage, and more efficient system operation, our utility can shift more aggressively away from the crippling reliance on imported fossil fuels.

Importantly, SB 120 SD1 represents a method for achieving this with a “carrot” rather than a “stick.” In other words, the bill aligns the longer-term interests of ratepayers with the shorter-term interests of utility investors. This is a win-win.

For these reasons, Blue Planet strongly supports SB 120 SD1.

Thank you for this opportunity to testify.

² Hawaiian Electric Industries, Inc. 2012 Fourth Quarter and Year-end Financial Results and Outlook February 15, 2013, available at <http://phx.corporate-ir.net/phoenix.zhtml?c=101675&p=irol-calendar>

³ In general terms, “demand response” is the strategy of empowering the utility to control both supply of energy (from generators), and the demand for energy (from consumers) by temporarily dialing back noncritical loads at times when less renewable energy is available.

⁴ For example, energy storage could use new or existing water storage infrastructure to store energy via a “pumped hydro” system, strengthening both our energy and water infrastructure. Or, the utility can move aggressively to promote electric vehicles, gaining the dual benefit of a sizeable demand response capability, and the addition of thousands of mobile batteries to our electric grid.

⁵ For example, dynamic pricing can include “time-of-supply” prices that incentivize renewable power producers to provide power at times of peak demand. Dynamic pricing can also include “time-of-use” rates that empower ratepayers to reduce their energy costs by shifting demand to times when more power is available.



Sierra Club Hawai'i Chapter

PO Box 2577, Honolulu, HI 96803
808.538.6616 hawaii.chapter@sierraclub.org

HOUSE COMMITTEE ON ENERGY & ENVIRONMENTAL PROTECTION

March 19, 2013, 8:30 A.M.
(Testimony is 1 page long)

TESTIMONY IN SUPPORT OF SB 120 SD1

Aloha Chair Lee and members of the Committee:

The Sierra Club, Hawaii Chapter, with over 10,000 dues paying members and supporters statewide, respectfully *supports* SB 1040. The bill is a smart policy signal for the Public Utilities Commission to establish economic incentives for actions that help build our economy and protect our environment.

Our current utility is not well-positioned for an aggressive expansion into renewable energy and energy efficiency. Its economic model is primarily based on selling more electrons. Our clean energy future will require a model whereby the utility invests in smart grid structure and can make a sustainable profit off of transferring power between renewable energy providers.

We believe this measure creates the type of policy that may create positive, radical change in an expedient fashion.

Mahalo for the opportunity to testify.

thielen3 - Charles

From: mailinglist@capitol.hawaii.gov
Sent: Friday, March 15, 2013 5:10 PM
To: EEPtestimony
Cc: ed.j.wagner@gmail.com
Subject: Submitted testimony for SB120 on Mar 19, 2013 08:30AM

SB120

Submitted on: 3/15/2013

Testimony for EEP on Mar 19, 2013 08:30AM in Conference Room 325

Submitted By	Organization	Testifier Position	Present at Hearing
Ed Wagner	Individual	Comments Only	No

Comments: Don't you dare put this on the backs of ratepayers! We are tired of being fleeced and raped by this 100+ year old abusive and manipulative monopoly. Tell the utility to take the costs out of stockholders equity. Lower the dividend from 4+ % to 2% if necessary.

Please note that testimony submitted less than 24 hours prior to the hearing , improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

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thielen3 - Charles

From: mailinglist@capitol.hawaii.gov
Sent: Sunday, March 17, 2013 1:27 PM
To: EEPtestimony
Cc: leealdrige@msn.com
Subject: Submitted testimony for SB120 on Mar 19, 2013 08:30AM

SB120

Submitted on: 3/17/2013

Testimony for EEP on Mar 19, 2013 08:30AM in Conference Room 325

Submitted By	Organization	Testifier Position	Present at Hearing
Lee Aldridge	Individual	Oppose	No

Comments: I wish to thank the House Committee on Energy and Environmental Protection for the opportunity to testify on SB 120 SD1. I strongly OPPOSE this bill. The text of SB120 points out: "Electric ratepayers are demanding immediate relief from increasing electricity rates." But we ratepayers could be on the hook for as much as \$3.5B of HECO's so-called "stranded costs" if SB120 becomes law. Recovery of 'stranded costs' means rate increases to pay for the closure and replacement of all of HECO's existing generation facilities. HECO's latest financial report, released February 15, 2013, shows "Property, plant and equipment, net of accumulated depreciation" at \$3.594 billion. Much of this amount could be "stranded" if HECO is transformed into a buyer of electricity from non-HECO sources. Moreover, the value of HECO's strand-able assets is growing--up \$260M in just one year. Under SB120 SD1, rate payers like my wife and I would be liable for these costs. Hawaii's electric rates are among the highest in the nation and all of the usual suspects are on the bandwagon to raise them even higher. Testimony on SB120SD1 reveals: Hermina Morita, PUC: "The Commission supports this bill." Richard Lim DBEDT: "We support this bill." "Blue Planet Foundation strongly supports SB 120" SB120 SD1 is not the first time Hawaii Legislators have considered giving HECO a big fat payday for "stranded costs." HB1519 of 2011 was similar. Chair Hermina Morita (who is now PUC Chair) deferred that bill at a House Committee on Energy and Environmental Protection hearing February 1, 2011. Does HECO have all of the Hawaii State Legislators in their pocket? Apparently there is no room in those same pockets for the people of Hawaii. I reiterate that I strongly OPPOSE SB 120.

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thielen3 - Charles

From: mailinglist@capitol.hawaii.gov
Sent: Sunday, March 17, 2013 8:08 PM
To: EEPtestimony
Cc: leealdridge@msn.com
Subject: Submitted testimony for SB120 on Mar 19, 2013 08:30AM

SB120

Submitted on: 3/17/2013

Testimony for EEP on Mar 19, 2013 08:30AM in Conference Room 325

Submitted By	Organization	Testifier Position	Present at Hearing
Rosemary Aldridge	Individual	Oppose	No

Comments: I wish to thank the House Committee on Energy & Environmental Protection for the opportunity to testify on SB 120 SD1. I strongly OPPOSE this bill. The text of SB120 points out: "Electric ratepayers are demanding immediate relief from increasing electricity rates." But we ratepayers could be on the hook for as much as \$3.5B of HECO's so-called "stranded costs" if SB120 becomes law. Recovery of 'stranded costs' means rate increases to pay for the closure and replacement of all of HECO's existing generation facilities. HECO's latest financial report, released February 15, 2013, shows "Property, plant and equipment, net of accumulated depreciation" at \$3.594 billion. Much of this amount could be "stranded" if HECO is transformed into a buyer of electricity from non-HECO sources. Moreover, the value of HECO's strand-able assets is growing--up \$260M in just one year. Under SB120 SD1, rate payers like my husband and I would be liable for these costs. Hawaii's electric rates are among the highest in the nation and all of the usual suspects are on the bandwagon to raise them even higher. Testimony on SB120SD1 reveals: Hermina Morita, PUC: "The Commission supports this bill." Richard Lim DBEDT: "We support this bill." "Blue Planet Foundation strongly supports SB 120" SB120 SD1 is not the first time Hawaii Legislators have considered giving HECO a big fat payday for "stranded costs." HB1519 of 2011 was similar. Chair Hermina Morita (who is now PUC Chair) deferred that bill at a House Committee on Energy and Environmental Protection hearing February 1, 2011. Does HECO have all of the Hawaii State Legislators in their pocket? Apparently there is no room in those same pockets for the people of Hawaii. I reiterate that I strongly OPPOSE SB 120.

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thielen3 - Charles

From: mailinglist@capitol.hawaii.gov
Sent: Saturday, March 16, 2013 5:57 AM
To: EEPtestimony
Cc: skaye@runbox.com
Subject: Submitted testimony for SB120 on Mar 19, 2013 08:30AM

SB120

Submitted on: 3/16/2013

Testimony for EEP on Mar 19, 2013 08:30AM in Conference Room 325

Submitted By	Organization	Testifier Position	Present at Hearing
Sally Kaye	Individual	Oppose	No

Comments: As noted earlier by the Consumer Advocate: I "have difficulty accepting the concept of providing financial incentives to the electric utilities for carrying out that which they should be doing as part of their regularly conducted activities. For example, it is already part of the ratemaking process to provide sufficient financial incentives for the electric utilities to be able to attract capital for projects such as the improvement of transmission and distribution infrastructure. This bill seems to suggest providing a higher authorized rate of return on equity if the electric utilities invest in transmission and distribution infrastructure. The Consumer Advocate has objected to this type of single-issue ratemaking in the past and is likely to continue to do so in the future. In addition, these proposals may result in unintended consequences, such as increases in electricity rates and ratepayer bills, which the customers can ill afford at this time."

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thielen3 - Charles

From: mailinglist@capitol.hawaii.gov
Sent: Sunday, March 17, 2013 9:50 PM
To: EEPtestimony
Cc: 808val@hawaii.rr.com
Subject: Submitted testimony for SB120 on Mar 19, 2013 08:30AM

SB120

Submitted on: 3/17/2013

Testimony for EEP on Mar 19, 2013 08:30AM in Conference Room 325

Submitted By	Organization	Testifier Position	Present at Hearing
Valerie Sisneros	Individual	Oppose	No

Comments: NO, NO and NO! This is the most egregious bill that I have seen this session. We do not need to reinvent the wheel. This is just punishing the working man by raising the cost of energy to heights that are out of reach. You are robbing the citizens of this State with your terrible ideas. There is an abundance of oil and clean energy already in this country. Use what the Good Lord has provided us with in abundance and stop punishing the citizenry to create your environmental Utopian State. This is a terrible bill, please OPPOSE IT. thank you.

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