

TESTIMONY OF RANDY IWASE
CHAIR, PUBLIC UTILITIES COMMISSION
STATE OF HAWAII
TO THE
HOUSE COMMITTEE ON
ENERGY AND ENVIRONMENTAL PROTECTION

February 2, 2016
8:30 AM

MEASURE: H.B. No. 2076
TITLE: RELATING TO WHEELING

Chair Lee and Members of the Committee:

DESCRIPTION:

This measure would require the Public Utilities Commission (“Commission”) to establish necessary policies, rules, and requirements, as necessary for the implementation of retail wheeling to enable independent power producers to sell electricity directly to end users.

POSITION:

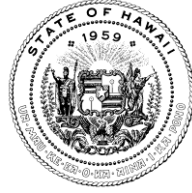
The Commission offers the following comments for the Committee’s consideration.

COMMENTS:

The Commission notes that prior to establishing policies, rules, and requirements necessary for the implementation of retail wheeling it would be appropriate to open an investigatory docket to explore the feasibility of retail wheeling in Hawaii. Such a docket proceeding would allow stakeholders the opportunity to participate in addressing any issues associated with retail wheeling in Hawaii and how to best implement the program.

The Commission also notes that in order to meet the timing requirements currently provided in this measure the Commission will likely be forced to divert the Commission’s limited resources from other important matters currently before the Commission.

Thank you for the opportunity to testify on this measure.



DAVID Y. IGE
GOVERNOR
SHAN S. TSUTSUI
LT. GOVERNOR

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

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DIRECTOR
JO ANN M. UCHIDA TAKEUCHI
DEPUTY DIRECTOR

TO THE HOUSE COMMITTEE ON ENERGY & ENVIRONMENTAL PROTECTION

THE TWENTY-EIGHTH LEGISLATURE
REGULAR SESSION OF 2016

TUESDAY, FEBRUARY 2, 2016
8:30 A.M.

TESTIMONY OF JEFFREY T. ONO, EXECUTIVE DIRECTOR, DIVISION OF
CONSUMER ADVOCACY, DEPARTMENT OF COMMERCE AND CONSUMER
AFFAIRS, TO THE HONORABLE CHRIS LEE, CHAIR, AND MEMBERS OF THE
COMMITTEE

HOUSE BILL NO. 2076 - RELATING TO WHEELING.

DESCRIPTION:

This measure proposes to require the Public Utilities Commission (“Commission”) to establish policies and rules for the implementation of retail wheeling. The bill also requires the Commission to report on the status of the implementation of retail wheeling annually until the implementation is complete.

POSITION:

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

COMMENTS:

The Consumer Advocate supports the intent of this bill insofar as it attempts to provide consumers of electricity service with retail choice (and presumably lower prices) beyond purchasing energy from the regulated electric utility. Retail wheeling was the subject of significant debate during the 1990s. Much of this discussion eventually led to the restructuring of electricity markets in several states.

The success of retail competition in restructured states is still the subject of much debate. In 2007, studies indicated that retail rates in restructured states rose much faster than in regulated jurisdictions. Since then, the data seem to show a reversal of that trend. See Borenstein and Bushnell, *The U.S. electricity Industry after 20 Years of Restructuring*, revised May 2015. These authors from the Energy Institute at Haas (U.C. Berkeley) correlated the reversal of prices in restructured states to the drop in the price of natural gas, so it is not clear what effect retail competition actually had on retail pricing in these restructured states.

It is difficult to apply any economic analysis of the effect of retail competition in mainland energy markets to Hawaii, because of Hawaii's small isolated grids. Hawaii's consumers could suffer higher electricity bills with retail wheeling depending upon a number of factors. Assuming that the independent power producers ("IPP") will remain unregulated as they are currently, the Consumer Advocate and Commission would have no jurisdiction over the contract between the IPP and the consumer. What protection will there be for consumers in signing contracts that provide for lower rates in the short term, but allow for rates to increase at the whim of the IPP, if the Consumer Advocate and Commission do not have jurisdiction over the terms and conditions of the contract?

Moreover, regulators and other stakeholders would want to have some degree of control over the total amount of generation resources being added to the grid, especially given Hawaii's shortage of available land to locate new generation resources. If the amount of new generation is limited, how will residential customers be allowed to participate in retail choice? Will wheeling effectively be available to only large, commercial and industrial customers given the limited availability of generation? If an IPP can supply energy at retail rates that are lower than the regulated utility, then how do residential customers compete with commercial and industrial customers for that energy? Shouldn't low cost energy benefit all customers?

The Consumer Advocate supports the intent of this bill, but recommends an amendment to the bill that directs the Commission to conduct an investigation on retail wheeling, rather than requiring the Commission to establish policies and rules to implement retail wheeling.

Thank you for this opportunity to testify.

**TESTIMONY BEFORE THE HOUSE COMMITTEE ON
ENERGY & ENVIRONMENTAL PROTECTION**

H.B. No. 2076

Relating to Wheeling

Tuesday, February 2, 2016

8:30 am

State Capitol, Conference Room 325

Kevin M. Katsura

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

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

My name is Kevin Katsura and I am testifying on behalf of Hawaiian Electric Company and its subsidiary utilities Maui Electric Company and Hawai'i Electric Light Company in **opposition** to H.B. 2076.

This bill requires the Public Utilities Commission to establish policies and rules to implement retail wheeling without first determining whether wheeling is feasible, has definite benefits in Hawai'i, and is in the public interest.

Allowing independent power producers to sell electricity directly to end users will likely benefit a few large-load customers at the expense of non-wheeling customers who may have to pay for all the cost of the current infrastructure while impeding the utilities' ability to pursue 100% renewable energy by 2045. The current purchase power model used by the utility ensures that ALL customers can benefit from lower cost energy.

In Hawai'i, we now have the boldest energy goal in the nation: A 100 percent renewable energy portfolio standard by 2045. This requires the utilities to invest in diverse resources to protect the resiliency of the supply. Retail wheeling attacks that strategy by focusing on short term costs and using the cheapest resource at the time, which may create an unbalanced set of resources. This increases the risk profile of

the utilities which in turn will hurt our customers. Further, this bill is not consistent with the State's clean energy goals, to the extent it allows fossil fueled power producers to sell directly to end customers effectively bypassing and undermining the objective of 100% RPS by 2045.

In addition, retail wheeling, as proposed, creates winners and losers between independent power producers – those who sell directly to a select group through wheeling vs. those currently with purchased power agreements with the utilities or currently negotiating Power Purchase Agreements with the utility. This bill will make obtaining renewable energy more difficult which could result in higher prices for a majority of our customers.

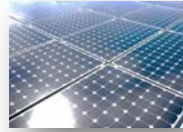
Further, wheeling may result in the degradation of service reliability. The utility would not be a party to any wheeling contract and the utility will be unable to predict where the load will come on to the system and make sure that the transmission infrastructure is adequate. There is less ability for the utility to negotiate to change operating requirements and project design to protect the system. The utilities need to be involved in setting operational reliability standards to assure system reliability.

In Hawai'i, there's no extension cord to the mainland. Unlike California and many other places we're compared to, we can't plug into the mainland grid, either to buy or sell electricity to neighboring utilities and for reliability. As loads continue to decrease, as we have seen over the last 10 years, the loss of large customers will impair the sustainability of fair cost allocations to all customers which will impair economic development and the attainment of our state renewable policies and goals. We must address the State's energy future as a whole and not with techniques that sound reasonable as stand-alone concepts, especially those used in larger grids in the mainland with large manufacturing and commercial loads. Hawaii has the best

chance of success when all stakeholders can participate in reasoned discussions. We believe the Hawaii Public Utilities Commission (“PUC”) has the jurisdiction to do so. The PUC has already initiated a proceeding to examine the feasibility of intra-governmental wheeling, a more focused investigation, in response to the 2004 Legislature’s Senate Concurrent Resolution No. 180 (“S.C.R. No. 180”) but more importantly has initiated proceedings that are examining the transformation of the provision of electrical services in Hawaii and how state energy policy goals can best be achieved. The PUC should be allowed to continue its investigation into whether intra-governmental wheeling is feasible, how it would impact all customers in Hawaii, whether it would fit into plans for the achievement of state energy policy goals and be in the public interest before legislation is passed to implement retail wheeling.

Accordingly, the Hawaiian Electric Companies oppose H.B. 2076.

Thank you for this opportunity to testify.



HOUSE COMMITTEE ON ENERGY & ENVIRONMENTAL PROTECTION

February 2, 2016, 8:30 A.M.

Room 325

(Testimony is 1 page long)

TESTIMONY IN SUPPORT OF HB 2076

Aloha Chair Lee, Vice Chair Lowen, and Committee members:

Blue Planet Foundation supports HB 2076, which can ensure that the state will adopt mechanisms to increase competition within Hawai'i's electrical markets, expand customer choice, and provide pathways for renewable energy innovation and generation.

It is particularly important to note that retail wheeling—which basically makes it possible for customers to purchase energy from specific generators—does not by itself threaten the safety, security, or financial base of the utility electric system. House Bill 2076 directs the adoption of rules and/or tariffs that would address these issues, much as current rules and tariffs address these issues.

Moreover, retail wheeling is consistent with both the current and future utility business models. In short, Hawai'i's electric utilities presently earn a return for investments made in operating the grid. To the extent that a utility grid would be used to transmit wheeled energy, utilities would still earn a return for necessary grid investments. Utility revenue would only be impacted if utility generation is not competitive with energy from other sources, or if utilities are not providing energy in ways that some customers demand (for example, customers who may wish to purchase 100% renewable energy).

In the future, the utility's electric grid is envisioned to become a platform for enabling multi-participant markets for energy and energy-related services. Under retail wheeling as described in HB 2076, the grid would play that same role.

We also note that a broad implementation of retail wheeling could also enable a widely available community renewables program. In 2015, the legislature directed utilities to create community renewables programs. Unfortunately, those programs are still not available to customers, and the utility has proposed a program structure that is far more narrow and limited than the legislature's vision. Retail wheeling could provide a different platform for community renewables, more consistent with the legislature's 2015 vision for community renewables.

Thank you for the opportunity to testify.

DAVID Y. IGE
GOVERNOR



KATHRYN S. MATAYOSHI
SUPERINTENDENT

STATE OF HAWAII
DEPARTMENT OF EDUCATION
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LATE

Date: 02/02/2016

Time: 08:30 AM

Location: 325

Committee: House Energy & Environmental
Protection

Department: Education

Person Testifying: Kathryn S. Matayoshi, Superintendent of Education

Title of Bill: HB 2076 RELATING TO WHEELING.

Purpose of Bill: Requires the Public Utilities Commission to establish policies and rules for the implementation of retail wheeling. Requires the Commission to report on the status of the implementation of retail wheeling annually until the implementation is complete.

Department's Position:

The Department of Education (DOE) is in support of HB 2076. The DOE launched the Ka Hei Program in 2014, with the intent to drive towards the Board of Education's Policy 6710 goal of 90% clean energy by 2040. With limitations on net energy metering, this bill is one of the ways the DOE can use more clean energy in our schools and reduce our electricity costs by allowing the DOE to build photovoltaic systems at a larger scale.

The DOE defers to the Public Utilities Commission on the implementation of the administrative rules timeline.

Thank you for the opportunity to testify in support of HB 2076.