
A BILL FOR AN ACT

RELATING TO ENERGY.

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

1 SECTION 1. The legislature finds that Hawaii's wide-scale
2 transition to clean energy will require a broad spectrum of
3 resources, programs, and innovations, some of which will be
4 provided by non public utility providers. In order to provide
5 fair markets for new entrants and access to existing electrical
6 utility systems, it will be necessary to make changes to
7 electric public utility rate structures and funding mechanisms.

8 The legislature notes that the provision of reliable
9 electrical service requires several types of component services
10 to maintain system stability, voltage regulation, and frequency
11 control. These ancillary services include provision of adequate
12 spinning reserves, operating reserves, capacity margins, voltage
13 support, and other necessary component services. Ancillary
14 services are currently provided by public utility companies
15 using primarily fossil fuel resources. Existing regulatory
16 practices bundle these services without differentiation and
17 without providing a market or tariffs for non-utility providers
18 who wish to generate and provide electricity. The legislature



1 finds that Hawaii's electricity delivery systems could be
2 modernized by unbundling ancillary services from energy
3 generation, transmission, and distribution services and
4 requiring ancillary services to be delivered by innovative, non-
5 fossil fuel.

6 Existing laws give the utility little economic incentive to
7 pursue clean energy projects. Long-term utility profits are
8 tied mostly to capital investments that an electrical utility
9 makes, encouraging utilities to purchase expensive new
10 generation plants or undertake major upgrades to existing ones.
11 Because third-party renewable energy projects displace the need
12 for utility investments, and energy efficiency reduces
13 electricity use, a utility would not profit directly from many
14 clean energy initiatives. Further, adding substantial amounts
15 of renewable energy and energy efficiency will reduce the need
16 for existing fossil generation facilities, leaving the utility
17 with stranded investments on their books. The legislature
18 believes that these institutional barriers impede Hawaii's clean
19 energy future.

20 The legislature further finds that the public utilities
21 commission should be authorized to implement a performance
22 incentive mechanism to reward electric utilities for achieving



1 clean energy goals. This will provide investors with reasons to
2 invest in a utility and help fund Hawaii's clean energy
3 transition. The legislature also finds that the public
4 utilities commission should be given guidance to adopt a policy
5 that allows a utility to recover the value of its diminished
6 assets, preventing these facilities from becoming anchors that
7 restrain clean energy progress.

8 SECTION 2. Chapter 269, Hawaii Revised Statutes, is
9 amended by adding three new sections to be appropriately
10 designated and to read as follows:

11 "§269-A Unbundling electricity supply and delivery
12 tariffs. (a) The commission shall direct electric public
13 utilities to file unbundled tariffs that identify, classify, and
14 functionalize the costs of the individual component services and
15 ancillary services necessary to provide reliable electrical
16 service. Costs and tariffs shall be supported by appropriate
17 cost-of-service studies that reflect the full and actual costs
18 of ancillary services. The unbundled tariffs shall be suitable
19 to support the implementation of any wheeling tariff considered
20 by the commission and shall be consistent with any wheeling
21 tariffs adopted by the commission.



1 (b) The commission shall require electric public utilities
2 to purchase ancillary services derived from sources other than
3 fossil fuel, including but not limited to energy storage and
4 demand response measures, if feasible and reasonably economical.

5 The commission shall establish technical and operational
6 requirements for the provision of ancillary services consistent
7 with applicable reliability standards.

8 **§269-B Stranded costs.** (a) The public utilities
9 commission shall consider measures to allow electric public
10 utilities to recover stranded costs due to increased clean
11 energy use; provided that the measures:

12 (1) Shall not result in the inequitable reallocation of
13 cost between and among electric public utility
14 customer classes; and

15 (2) May include a stranded cost recovery surcharge in
16 conjunction with the transmission and distribution
17 charge in the large customer direct renewable energy
18 procurement program.

19 (b) For purposes of this section, "stranded costs" means
20 fixed costs associated with undepreciated electricity
21 generation, transmission, and distribution facilities and
22 equipment that are replaced by clean energy, exclusive of



1 mitigation measures that may reasonably be undertaken by an
2 electric public utility, including the reduction or elimination
3 of fuel, operation, and maintenance costs.

4 §269-C Utility incentive mechanism. The public utilities
5 commission shall consider regulatory incentives to encourage
6 clean energy use."

7 SECTION 3. No later than January 1, 2012, the public
8 utilities commission shall initiate an investigation into the
9 development and implementation of financial incentive mechanisms
10 that may result in an increased authorized rate of return for
11 electric public utilities based upon implementation and
12 utilization of clean energy in quantities that significantly
13 exceed the quantities prescribed by state energy objectives.

14 The public utilities commission shall report its findings
15 and recommendations, including any proposed legislation, to the
16 legislature no later than twenty days prior to the convening of
17 the regular session of 2013.

18 SECTION 4. In codifying the new sections added by section
19 2 of this Act, the revisor of statutes shall substitute
20 appropriate section numbers for the letters used in designating
21 the new sections in this Act.

22 SECTION 5. New statutory material is underscored.



1 SECTION 6. This Act shall take effect upon its approval.

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INTRODUCED BY: *Wanda Smith*

JAN 26 2011



Report Title:

Public Utilities Commission; Electric Utilities; Ancillary Services; Cost Recovery; Performance Incentives

Description:

Directs the PUC to unbundle electric utility grid ancillary services, consider cost recovery for electric utility stranded assets, and consider electric public utility performance incentive mechanisms for achieving clean energy goals.

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