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Testimony Before the Senate Committee

On

Commerce and Consumer Protection

February 26, 2009 (8:30 a.m.)

S.B. 396 RELATING TO PUBLIC UTILITIES

By: Peter Young
Energy Services Department
Hawaiian Electric Company, Inc.

Chair Baker, Vice Chair Ige and Members of the Committees:

My name is Peter Young, and I represent Hawaiian Electric Company (HECO) and its subsidiary utilities, Hawaii Electric Light Company (HELCO) and Maui Electric Company (MECO). I appreciate the opportunity to present testimony on S.B. 396.

SB 396 proposes to modify the basis for the recovery of fuel and purchased energy costs through the energy cost adjustment clause. The HECO Companies strongly oppose this proposal.

The HECO Companies' purchases of fuel are priced under long-term contracts using market indices that are different from the spot daily price of fuel in regional areas of the United States. Therefore, the proposed bill breaks the link between the acquisition costs of fuel and the amount that can be recovered by the Companies for those expenses. The HECO Companies make no profit on the recovery of fuel and purchased energy costs through the energy cost adjustment clause, but the resulting financial exposure of this bill would not be tenable for the HECO Companies.

Few regulatory or legislative actions would have a more negative impact on the Company's credit rating and standing with the financial markets than such a change to the energy cost adjustment clause. A significant drop in the HECO Companies' credit rating would make the day-to-day financing of the utilities virtually impossible.

The proposed change will place additional challenges to or even restrict the development of renewable energy in Hawaii because renewable energy developers rely on the credit rating of the utility purchaser to finance their projects. In addition, the Companies' efforts to delink renewable purchased energy prices from oil will no longer serve as a hedge against oil prices if the utility must recover renewable purchased energy costs based on spot oil prices.

Finally, the current form of the energy cost adjustment clause is working well as evidenced by the recent drop in electricity prices.

For these reasons, the HECO Companies strongly oppose SB 396. Thank you for the opportunity to present testimony this morning.