SB 2357

WRITTEN ONLY

TESTIMONY OF CARLITO P. CALIBOSO
CHAIRMAN, PUBLIC UTILITIES COMMISSION
DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE
SENATE COMMITTEE ON COMMERCE AND CONSUMER PROTECTION
FEBRUARY 26, 2010

MEASURE: **S.B. No. 2357 SD1**
TITLE: **Relating to Renewable Energy**

Chair Baker and Members of the Committee:

DESCRIPTION:

This bill adds a new section to Chapter 269, HRS, to require natural gas utility companies to submit an annual report to the Public Utilities Commission ("Commission") that contains:

- The percentage of natural gas products sold and distributed in Hawaii derived from fossil fuels;
- The percentage of natural gas products sold and distributed in Hawaii derived from renewable energy;
- The quantity and energy value of natural gas products sold and distributed in Hawaii from fossil fuels; and
- The quantity and energy value of natural gas products sold and distributed in Hawaii from renewable energy.

POSITION:

The Public Utilities Commission ("Commission") supports this bill.

COMMENTS:

The Commission is supportive of this bill, as the Commission would like to further understand The Gas Company's use of renewable energy sources in its feedstock or end product to determine whether or not The Gas Company has the ability to meet certain renewable portfolio standards ("RPS") to ultimately achieve the Hawaii Clean Energy Initiative goal of 70 percent clean, renewable energy by 2030.

Thank you for the opportunity to testify.

THE GAS COMPANY

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February 26, 2010

Testimony on SB 2357 SD1 Relating to Renewable Energy

Aloha Chair Baker, Vice Chair Ige and Members of the Commerce and Consumer Protection Committee:

My name is Stephanie Ackerman, Vice President Public Policy and Communications of The Gas Company. Thank you for the opportunity to provide comments on SB 2357 SD1 which would require natural gas utility companies to annually report to the public utilities commission information on the use of renewable energy resources.

The Gas Company (TGC) is one of Hawaii's oldest, well-established and reliable businesses with a dedicated workforce of about 300 energy professionals working daily to ensure that our customers - large and small - get reliable gas energy for all their heating needs without interruption. TGC was founded in 1904 and is Hawaii's only government franchised full-service gas energy company making gas products and services available in Hawaii.

TGC manufactures synthetic natural gas (SNG) for its utility customers on Oahu and also provides both regulated and unregulated gas distribution throughout the state of Hawaii - Oahu, Maui, Hawaii, Kauai, Molokai and Lanai. We serve every community in our state with the lowest cost fuel for water heating, cooking and clothes drying.

Our carbon footprint is 40 percent that of electricity on an energy equivalent basis. Equally as important, The Gas Company has developed, is committed to, and is already implementing a renewable energy strategy. Our strategy involves the research and development of new technologies. Our strategy includes, among other technologies, utilizing methane from landfills, converting municipal solid waste to gas and recovering gas from other organic sources such as animal, fish, and vegetable fats, thus further reducing Hawaii's carbon footprint.

We support SB 2357 SD1 with the attached amendments.

Thank you for allowing the opportunity to provide comments.

THE SENATE
TWENTY-FIFTH LEGISLATURE, 2010
STATE OF HAWAII

S.B. NO. 2357 S.D. 1

A BILL FOR AN ACT

RELATING TO RENEWABLE ENERGY.

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

SECTION 1. The purpose of this Act is to recognize that there are numerous renewable energy resources that are capable of contributing towards the production of energy for use within the State. Examples of this are the evolving renewable gas technologies currently being reviewed and tested to determine if any are technically and economically sustainable. The Gas Company is the gas utility for the State of Hawaii and is considering, as a pilot program, whether renewable resources, such as plant oil, animal fat, landfill gas, can technically and economically be processed into a feedstock for its gas manufacturing process, with by-products consisting of a biogas to offset its use of petroleum based fuel which it consumes and biofuels or biofeedstocks for use by third parties. It is in the best interest of the State that all renewable resources, which contribute towards decreasing the State's dependence on imported petroleum, be accurately, consistently, and fairly measured to determine whether the State, as a whole, is making positive strides to meets its goal of decreasing its

dependency on imported petroleum. This Act is intended to establish a basis to measure the renewable resources used by The Gas Company to produce natural gas, biogas, or biofuels.

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

"**§269- Natural gas utility companies; renewable energy; reporting requirements.** (a) Each natural gas utility company shall submit an annual report to the public utilities commission on or before June 30 of each year including the following information:

(1) The percentage of petroleum feedstock to total feedstock used to produce natural gas, biogas, biofuels or biofeedstocks sold in the State ;

(2) The percentage of non petroleum feedstock to total feedstock used to produce natural gas, biogas, biofuels or biofeedstocks sold in the State ;

(3) The energy quantity in therms of natural gas, biogas, or gallons of biofuels or biofeedstocks sold in the State produced from petroleum feedstock; and

(4) The energy quantity in therms of natural gas, biogas, or gallons of biofuels or biofeedstocks sold in the State produced from non petroleum feedstock.

Within thirty days of receipt of the report, the public utilities commission shall submit a copy of Section 1 (a)(1) and (a)(2) to the legislature. However, due to the proprietary nature of Section 1 (a)(3) and (a)(4), that information shall remain confidential. The first report shall be submitted no later than December 15, 2011.

(b) For the purposes of this section:

"Feedstock" means a material that is converted, consumed or blended to produce an end use product.

"Total feedstock" means petroleum and non petroleum feedstock combined.

"Non petroleum feedstock" includes but is not limited to: Plant and animal fats and oils, algae and algae products, other organic material, organic waste, municipal solid waste, waste water, or sewage."

SECTION 2. New statutory material is underscored.

SECTION 3. This Act shall take effect upon its approval.

Report Title:
Renewable Energy; Natural Gas Utility; Reporting Requirements

Description:
Requires natural gas utility companies to annually report to the public utilities commission information on the use of renewable energy resources. (SD1)

The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.

LATE TESTIMONY

Sierra Club
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SENATE COMMITTEE ON COMMERCE AND CONSUMER PROTECTION

February 26, 2010, 10:00 A.M.
(Testimony is 2 pages long)

TESTIMONY IN SUPPORT OF SB 2357, WITH A PROPOSED AMENDMENT

Aloha Chair Baker and Members of the Committee:

The Sierra Club, Hawai`i Chapter supports SB 2357, which creates a reporting requirement with regard to the Gas Company's move towards renewable energy resources. We suggest, however, that this measure be amended to reflect the original Senate version to create an actual, enforceable renewable portfolio standard ("RPS").

I. RPS Provides Economic Security.

With 67,000 customers[1] (more than the County of Kauai), we know that the Gas Company has a very real impact on Hawai`i's energy security and greenhouse gas production. Gas prices in Hawai`i are volatile and subject to the fluctuations of the oil market. If Hawai`i's refineries were to terminate operations,[2] there is an open question as to whether the Gas Company could maintain a continuous supply of gas to its customers without moving to a different source. Moving towards a renewable portfolio makes smart economic sense and provides security to Hawai`i's gas consumers.

There are additional benefits to this measure. Natural gas can be made from renewable resources, such as sugarcane or even waste products. These materials are neither as scarce nor as expensive as crude oil. Even more importantly, these materials are available here. By creating a RPS, Hawai'i would set a clear course for a steady, incremental transition to renewable fuels.

II. The Gas Company Promised Renewable Sources.

The Gas Company has repeatedly promised to develop renewable sources. For example, last year the Gas Company testified to this body that it was "***developing a renewable energy strategy***

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[1] Testimony submitted by Steven Golden on March 13, 2008 to Senate Bill 644 SD 3.

[2] *See, e.g.,* http://www.reuters.com/article/idUSN1451624220090514 (noting Chevron Corp is considering halting production at its 54,000 barrel per day (bpd) refinery in Honolulu).

to produce 50 percent of its supply from renewable resources such as landfill gas and bio-methane within five years."[3] If these statements were truthful, then the Gas Company should not object to a modest RPS standard.

III. Conclusion.

This measure, if properly amended, could lower fuel costs, diversify our fuel supply, provide energy security and create a new market for Hawaii farmers to produce fuel from Hawaii crops and waste materials. It would connect the Gas Company's public rhetoric to a quantifiable and established standard. It would also put the electrical and gas industries on similar footing with respect to moving Hawai`i to a clean and renewable energy future.

Mahalo for this opportunity to provide testimony.

[3] Testimony of Jeffrey Kissel, February 5, 2009 regarding Senate Bill 1348 (emphasis added).

LATE TESTIMONY

SENATE COMMITTEE ON COMMERCE AND CONSUMER PROTECTION
February 26, 2010, 10:00 A.M.
Room 229

(Testimony is 3 pages long)

TESTIMONY IN SUPPORT OF SB 2357 SD1, SUGGESTED AMENDMENTS

Chair Baker and members of the Committee:

The Blue Planet Foundation supports Senate Bill 2357 SD1, a measure that would establish reporting requirements for natural gas utility companies to disclose the mix of feedstocks used to create the natural gas sold in Hawai'i. While we fully support these reporting requirements as a minimum to help our state track progress toward our clean energy goals, Blue Planet respectfully requests that this measure be amended back to its original form. That form of the bill would expand the benefits of the renewable portfolio standard to natural gas utility companies. Such a standard will help to wean Hawai'i from imported oil while helping to avoid a distorted energy market as the electric utilities are required to comply with a renewable portfolio standard.

Blue Planet applauds the Gas Company for its stated efforts to produce more of its synthetic natural gas (SNG) from renewable and plant-based sources. By using local sources to create SNG, Hawai'i can reduce its carbon emissions while weaning itself from fossil fuel. Further, the new renewable gas feedstock market may help support local agricultural operations and waste recycling operations.

The Gas Company has suggested that it is prepared to aggressively move forward to use more plant-based and renewable sources as SNG feedstock. The attached *Honolulu Advertiser* article from November 22, 2009 (with emphasis added) discusses the Gas Company's plans and their belief that integrating high amounts of local feedstock is a good business decision and may save gas customers money.

Thank you for the opportunity to testify.

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Honolulu Advertiser

NOVEMBER 22, 2009

GAS COMPANY SETS PLANS TO TURN FAT INTO FUEL

By Greg Wiles

Hawai'i's sole producer of synthetic natural gas is turning to the barnyard as it looks to go greener with renewable fuel sources.

The Gas Company is eyeing animal fats — some of it being tossed into landfills now — as a means to produce half of its synthetic natural gas by the year 2015.

It's drawn up plans to turn fats such as beef tallow, poultry fat and choice white grease from pigs into biomethane, a gas that's chemically identical to natural gas. Currently the company uses petroleum byproducts from local refineries for its feedstock.

"We hope to in five years be about 50 percent renewables in our system," said Jeffrey Kissel, president and chief executive officer of the Honolulu-based company.

"As we ramp up, I hope we create demand for local production so we can buy the majority of our material from local resources."

Already, 5 percent of the company's production at its Campbell Industrial Park plant is from agricultural feedstocks, with Kissel setting a goal of boosting it to 15 percent by the end of March.

By the end of the year, he wants 1 million gallons of the 20 million to 25 million gallons of feedstock used annually to be from renewable resources.

The effort is in keeping with goals by the state of weaning itself off petroleum for economic and security reasons. Oil accounts for almost 90 percent of all energy consumed in Hawai'i, making the state more dependent on imported petroleum than anywhere in the country. Three-quarters of the state's electricity is generated using oil as a fuel.

The problems with this addiction were apparent last year when crude oil spiked to $147 a barrel in July 2008, sending Hawai'i's nation-leading gasoline and electricity prices to record highs. The oil shock drove home an already stated goal by Gov. Linda

Lingle of converting Hawai'i into a renewable energy model for others to emulate. Lingle set a target of having 70 percent of the state's energy come from renewables by 2030. Hawai'i's electric utilities have signed on to the effort, while there's been a jump in interest in solar photovoltaics, wind energy and geothermal endeavors. Not-so-well-known alternate energy technologies such as wave power and ocean thermal energy conversion are also receiving serious consideration.

"We need to create an energy system that will survive," said Ted Peck, state energy administrator.

"It makes sense from an energy security standpoint. At $75 a barrel it makes sense from a business standpoint."

RENEWED INTEREST

The Gas Company isn't subject to renewable portfolio standards as are the state's utilities. But Kissel said the company and its parent, Macquarie Infrastructure Co., decided it made good business sense in that it would produce sustained returns on a long-term basis.

The project uses technology that's been around for years. But there's been renewed interest of late in using animal and other fats to produce fuels. Pacific Gas & Electric on the Mainland is looking at a pilot project, and in Louisiana, Tyson Foods and Syntroleum Corp. formed a company to produce biodiesel and jet fuels from chicken fat and other animal oils.

In Hawai'i, Hawaiian Electric Co. will do testing of its new $137 million generator using biodiesel from Renewable Energy Group, an Iowa-based company that will provide fuel made from animal fats.

While Hawai'i's use of natural gas is lowest of any state, it still has a good market among hotels and restaurants that use the gas on O'ahu as a more efficient alternative for heating water and cooking compared to electricity. The Gas Co., formed in 1904, maintains 1,100 miles of pipelines that deliver synthetic natural gas to 28,000 customers.

Kissel said the company has the only operating SNG plant in the U.S. and provides an advantage for the renewable venture since The Gas Co. won't have to invest millions into building a plant. Instead, he said existing equipment will be converted to accommodate the new feedstock at a cost of less than $10 million that will be funded out of the company's operations.

The company has formed a joint venture with energy and power industry contractor Primoris Services Co. of Lake Forest, Calif., to work out processes for the renewable project. Hawai'i's SNG customers pay the highest rates in the country, with local prices quoted by the U.S. Energy Information Administration being more than two times the next closest state's average.

Kissel said the project may actually lower prices for The Gas Co. customers depending on what it has to pay for the animal fat. The utility does not make a profit on feedstock prices, which are passed directly through to customers.

"We will not be raising rates as a result of this," Kissel said. He noted the price cuts will depend on what's paid for feedstock, with animal fats ranging between 5 percent and 20 percent less expensive than the current feedstock.

ISLES WOULD BENEFIT

Moreover, the venture could provide a catalyst for more cattle ranching or agriculture operations in the state. It also could take methane gas produced by landfills or use algae as a feedstock, Kissel said.

"If we provide a market for local commodities we'll be generating more jobs here and making Hawai'i more sustainable from a food-producing standpoint," he said.

Then there are the environmental benefits of reducing the state's carbon footprint by switching from oil. It won't process used restaurant oil that's currently refined by Pacific Biodiesel Inc. on Maui and O'ahu for transportation fuel. The initial concentration will be on use of animal and fish fats.

"If the Gas Company has found a local supply, we would look favorably on that," said Henry Curtis, executive director of Life of the Land, a nonprofit environmental group following the state's energy issues.

"It's important to reuse this material."

The renewable process will also produce propane that can eventually be sold to the company's customers on the Neighbor Islands, as well as hydrogen. Kissel said the surplus hydrogen is being investigated for possible uses as a transportation fuel or fuel cells.

"What the Gas Company is doing is just tremendously exciting," said Peck, the state's energy czar.

"They're really moving and we're thrilled."