
A BILL FOR AN ACT

RELATING TO INTERISLAND ELECTRIC TRANSMISSION CABLE SYSTEMS.

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

1 SECTION 1. The legislature has found that attaining energy
2 independence from imported fossil fuels is a long-standing
3 objective of the State.

4 Interconnecting the islands via high-voltage undersea
5 electric transmission cable systems would provide the islands
6 with increased energy security and system efficiencies and
7 enable the islands to provide each other with backup power.

8 Interconnection would also enable Hawaii to make better use
9 of its abundant natural, renewable energy resources such as
10 wind, solar, and geothermal. An inter-island undersea cable
11 system has been identified as an effective and efficient means
12 to introduce the variety of utility scale renewable energy
13 available throughout the Hawaiian islands into a stable grid
14 environment; to stabilize and equalize rates in all areas served
15 by the cable; to increase Hawaii's energy independence; to
16 support "increased energy self-sufficiency where the ratio of
17 indigenous to imported energy use is increased" and "greater
18 energy security and diversification in the face of threats to



1 Hawaii's energy supplies and systems"; and to support the
2 achievement of the renewable portfolio standards established in
3 section 269-92, Hawaii Revised Statutes, which requires twenty-
4 five per cent of Hawaii's net electricity sales to come from
5 renewable sources by 2020, increasing to forty per cent by 2030.

6 However, none of the electric utility systems on any of the
7 Hawaiian islands is interconnected with electric utility systems
8 on any other island.

9 The purpose of this Act is to establish the regulatory
10 structure under which interisland undersea transmission cables
11 can be developed, financed, and constructed on commercially
12 reasonable terms, such as those upon which successful cable
13 projects have been undertaken in several locations around the
14 world. Nothing in this Act is intended to require the
15 construction of an interisland cable from the islands of Molokai
16 or Lanai to Oahu unless the communities affirmatively request a
17 cable.

18 This Act also amends other sections of the Hawaii Revised
19 Statutes to reflect the existence of a separate and distinct
20 entity transmitting power to and receiving revenue from an
21 existing electric utility, neither owned nor controlled by that
22 electric utility.



1 SECTION 2. Chapter 239, Hawaii Revised Statutes, is
2 amended by adding a new section to be appropriately designated
3 and to read as follows:

4 **"§239- Cable surcharge amounts exempt.** Amounts received
5 in the form of a cable surcharge by an electric utility company
6 acting on behalf of a certified cable company under section
7 269-D shall not be deemed gross income of that electric utility
8 company for purposes of this chapter; provided that any amounts
9 retained by that electric utility company for collection or
10 other costs shall not be included in this exemption."

11 SECTION 3. Chapter 240, Hawaii Revised Statutes, is
12 amended by adding a new section to be appropriately designated
13 and to read as follows:

14 **"§240- Cable surcharge amounts exempt.** Amounts received
15 in the form of a cable surcharge by an electric utility company
16 acting on behalf of an affected certified cable company under
17 section 269-D shall not be deemed gross receipts for that
18 electric utility company for purposes of this chapter; provided
19 that any amounts retained by that electric utility company for
20 collection or other costs shall not be included in this
21 exemption."

1 SECTION 4. Chapter 269, Hawaii Revised Statutes, is
2 amended by adding a new part to be appropriately designated and
3 to read as follows:

4 "PART . INTERISLAND TRANSMISSION SYSTEM

5 §269-A Definitions. As used in this part:

6 "Cable acquisition cost" means the electric utility
7 company's costs, including reasonable transaction costs, to
8 acquire a high-voltage electric transmission cable system
9 pursuant to a turnkey cable contract or a cable purchase
10 contract.

11 "Cable company" means any person or persons, company,
12 corporation, or entity that is selected through a request for
13 proposals, or other process approved by the commission, to be a
14 certified cable company applicant.

15 "Certified cable company" means any person or persons,
16 company, corporation, or entity who owns or controls a
17 high-voltage electric transmission cable system and who receives
18 a certificate of public convenience and necessity from the
19 commission pursuant to section 269-B.

20 "Commercial operations" means the period after the high-
21 voltage electric transmission cable system:



1 (1) Passes acceptance tests approved by the commission, as
2 determined by a qualified independent engineer
3 approved by the commission; and

4 (2) Meets other criteria the commission determines to be
5 reasonable.

6 "Commercial operations date" means the date upon which the
7 high-voltage electric transmission cable system begins
8 commercial operations, as determined by the commission.

9 "Commission" means the public utilities commission.

10 "Cost-effective" has the same meaning as in section 269-91.

11 "Electric utility company" means a public utility as
12 defined in section 269-1, for the production, conveyance,
13 transmission, delivery, or furnishing of electric power.

14 "Electric utility system" means the electric system owned
15 and operated by an electric utility company, including any
16 non-utility owned facilities that are interconnected to the
17 system, consisting of power plants, transmission and
18 distribution lines, and related equipment for the production and
19 delivery of electric power to the public.

20 "Energy resources coordinator" or "coordinator" means the
21 director of business, economic development, and tourism.



1 "High-voltage electric transmission cable system" means one
2 hundred twenty kilovolts or greater of alternating current or
3 direct current transmission cables constructed undersea,
4 including connected transmission cables or lines installed on
5 land that connect the electric utility systems on two or more
6 islands or allow for the transmission of power from one or more
7 energy generation facilities to the electric utility system
8 located on another island of the State; alternating current
9 substation or alternating current-direct current converter
10 station; on-island transmission infrastructure if required;
11 fiber optic communication cables; and other appurtenant
12 facilities.

13 "On-island transmission infrastructure" means the
14 modifications and additions to the existing alternating current
15 transmission grid on an island and other electric utility system
16 modifications needed to reliably connect a high-voltage electric
17 transmission cable system to an electric utility system, and to
18 reliably accept power transmitted via the high-voltage electric
19 transmission cable system connecting two or more islands of the
20 State's electric utility systems.

21 "Power purchase agreement" means an agreement between an
22 electric utility company and the developer of an energy



1 generation facility to sell the power generated by the facility
2 to the electric utility company.

3 "Project-on-project financing risk" means the risk involved
4 when mutually dependent projects, whose risk of completion, and
5 therefore, financing, are dependent on each other.

6 "Renewable electricity" means electrical energy generated
7 using renewable energy as the source.

8 "Renewable energy" has the same meaning as in section
9 269-91.

10 "Renewable energy generation facility" means a facility
11 generating electrical energy using renewable energy as the
12 primary source.

13 "Renewable portfolio standard" has the same meaning as in
14 section 269-91.

15 "Request for proposals" means a request for proposals
16 issued pursuant to a competitive bidding process authorized,
17 reviewed, and approved by the commission, and developed and
18 conducted by the electric utility company or companies to which
19 the capacity of a high-voltage electric transmission cable
20 system will be made available, with input and assistance from
21 the state energy resources coordinator, to select a cable
22 company.



1 **§269-B Certification.** (a) Prior to installing a
2 high-voltage electric transmission cable system, a cable company
3 shall be selected through a request for proposals, or other
4 process approved by the commission. The selected cable company
5 shall not commence commercial operations of the high-voltage
6 electric transmission cable system until it is issued a
7 certificate of public convenience and necessity by the
8 commission pursuant to section 269-7.5. A certified cable
9 company shall be subject to regulation by the commission and
10 defined as a "public utility" under section 269-1,
11 notwithstanding any law to the contrary.

12 (b) The electric utility company and the energy resources
13 coordinator, or the energy resources coordinator's designee,
14 shall develop the request for proposals, and the energy
15 resources coordinator or the energy resources coordinator's
16 designee shall be a member of the selection committee that will
17 review and evaluate the proposals. The electric utility company
18 shall suspend or terminate the request for proposals at the
19 discretion of the commission.

20 (c) Notwithstanding any provisions in section 269-7.5 to
21 the contrary:



- 1 (1) The commission shall approve, disapprove, or approve
2 subject to certain conditions, an application for a
3 certificate of public convenience and necessity for a
4 high-voltage electric transmission cable system, and
5 shall issue a final order within one hundred eighty
6 days after the application is filed, provided that the
7 commission may extend the timeline as necessary;
- 8 (2) In determining whether the cable company is
9 financially fit, the commission may allow for the use
10 of commercially reasonable non-recourse project
11 financing for the high-voltage electric transmission
12 cable system;
- 13 (3) In determining whether the proposed transmission
14 capacity service is or will be required by the present
15 or future public convenience and necessity, the
16 commission shall determine whether the high-voltage
17 electric transmission cable system would be a
18 cost-effective means of:
- 19 (A) Interconnecting two or more electric utility
20 systems;



1 (B) Helping one or more electric utility companies
2 meet the applicable renewable portfolio standard;
3 or

4 (C) Achieving other considerations the commission may
5 deem appropriate;

6 (4) If the primary source or sources of the renewable
7 electricity that will be transmitted to an electric
8 utility company or companies using the high-voltage
9 electric transmission cable system will be provided
10 pursuant to a power purchase agreement or agreements
11 between the electric utility company or companies and
12 an owner or owners of a new renewable energy
13 generation facility or facilities, in reviewing and
14 approving the application for a certificate of public
15 convenience and necessity, the commission shall, among
16 other factors, take into consideration:

17 (A) The status of the power purchase agreement or
18 agreements;

19 (B) The extent to which the project-on-project
20 financing risk of the high-voltage electric
21 transmission cable system and the associated
22 renewable energy generation facilities is



1 materially reduced through agreements between the
2 certified cable company and the owner or owners
3 of the renewable energy generation facilities
4 holding the power purchase agreement or
5 agreements, or through common ownership
6 arrangements; and

7 (C) The extent to which the certified cable company
8 assumes financial responsibility for the
9 high-voltage electric transmission cable system
10 until both the cable system and the new
11 generation facility or facilities have achieved
12 commercial operations;

13 (5) In the certification process, the commission shall
14 review and determine ratemaking principles appropriate
15 and applicable to the high-voltage electric
16 transmission cable system during commercial
17 operations. The ratemaking principles shall be used
18 in determining the certified cable company's revenue
19 requirement that is used to determine its transmission
20 capacity charges, and may be used to fix the capital
21 investment costs for the high-voltage electric
22 transmission cable system upon which the certified



1 cable company will be allowed to earn an authorized
2 rate of return and the operating costs that may be
3 included in the certified cable company's revenue
4 requirement. Any applicable land costs shall be
5 included in the determination of the certified cable
6 company's revenue requirement;

7 (6) In determining the authorized rate of return that will
8 apply to a certified cable company, the commission may
9 consider the risks assumed by the certified cable
10 company related to or resulting from the planning,
11 financing, construction, and operation of the high-
12 voltage electric transmission cable system, including
13 other factors deemed relevant and appropriate by the
14 commission, such as the terms and conditions of the
15 transmission tariff as may be approved by the
16 commission; and

17 (7) Prior to approving the application for a certificate
18 of public convenience and necessity, the commission
19 shall hold a public hearing on each island to be
20 connected by the high-voltage electric transmission
21 cable system to obtain input from the affected



1 communities about the high-voltage electric
2 transmission cable system.

3 **§269-C Transmission tariff.** The commission shall, by
4 order, approve, disapprove, or approve subject to certain
5 conditions, the tariff of the certified cable company pursuant
6 to which the certified cable company shall make the capacity of
7 its high-voltage electric transmission cable system available to
8 the electric utility company or companies. The tariff shall be
9 consistent with the tariff provisions provided in the request
10 for proposals, unless otherwise ordered by the commission. The
11 tariff shall specify the terms and conditions under which the
12 certified cable company will be entitled to receive revenues
13 collected through the cable surcharge, established pursuant to
14 section 269-D. The certified cable company may submit its
15 proposed tariff for approval prior to the expected commercial
16 operations date, and the commission shall take final action on
17 the proposed tariff within one hundred twenty days after
18 submittal of the proposed tariff with supporting documentation
19 as may be required by the commission; provided that the
20 commission may extend the timeline as necessary.

21 **§269-D Cable surcharge.** (a) The commission shall
22 establish a cable surcharge to allow recovery of the



1 high-voltage electric transmission cable system costs designated
2 for recovery according to the ratemaking principles pursuant to
3 section 269-B.

4 (b) Pursuant to the transmission tariff, the commission
5 shall, by order, designate the electric utility company or
6 companies to which the capacity of the high-voltage electric
7 transmission cable system shall be made available as the agent
8 of the certified cable company to collect the cable surcharge
9 approved by the commission. The electric utility company or
10 companies collecting the cable surcharge for the benefit of the
11 certified cable company shall have no right, title, or interest
12 in the moneys so collected. The commission shall approve a fee,
13 to be collected by the electric utility company or companies
14 concurrently with the cable surcharge, for acting as the
15 collection agent for the certified cable company.

16 (c) Notwithstanding any requirements to the contrary, a
17 high-voltage electric transmission cable system may be deemed
18 "used or useful for public utility purposes" upon commencing
19 commercial operations, subject to the commission's determination
20 and approval.

21 **§269-E Recovery of electric utility company costs.** (a)



1 An electric utility company shall be entitled to recover,
2 through an automatic rate adjustment clause, its revenue
3 requirement resulting from the capital costs that it prudently
4 incurs for on-island transmission infrastructure; provided that
5 the commission has approved the utility's commitment of capital
6 expenditure costs for the project.

7 (b) To provide for timely recovery of the revenue
8 requirement, the commission shall establish a separate automatic
9 rate adjustment clause for that purpose, or modify an existing
10 automatic rate adjustment clause. The use of the automatic rate
11 adjustment clause to recover the revenue requirement shall be
12 allowed to continue until the revenue requirement is
13 incorporated in rates in an electric utility company's rate
14 case.

15 (c) The electric utility company's revenue requirement
16 shall include:

17 (1) The commission-approved rate of return, as set in the
18 electric utility company's last rate case, on the
19 utility's net investment in the high-voltage electric
20 transmission cable system from the acquisition date of
21 the high-voltage electric transmission cable system,
22 and in the on-island transmission infrastructure from



1 the date the on-island transmission infrastructure is
2 completed and available for service;

3 (2) Depreciation; and

4 (3) Revenue taxes and other relevant costs as approved by
5 the commission.

6 (d) The electric utility company's net investment includes
7 the cable acquisition cost in the case of the high-voltage
8 electric transmission cable system and costs incurred by the
9 electric utility for planning, permitting, and constructing the
10 on-island transmission infrastructure, including an allowance
11 for funds used during construction where the utility finances
12 the planning, permitting, and construction costs, less offsets
13 such as accumulated depreciation and associated unamortized
14 deferred income taxes.

15 (e) The on-island transmission infrastructure shall be
16 available for service before the commercial operations date of
17 the high-voltage electric transmission cable system.

18 Notwithstanding any other provision in this chapter to the
19 contrary, at the time the commission approves the electric
20 utility company's commitment of capital expenditure costs for
21 the project, the commission may either:



1 (1) Allow the electric utility company to recover its
2 approved revenue requirement resulting from the
3 capital costs that it prudently incurs for on-island
4 infrastructure at the time that the infrastructure is
5 available for service; or

6 (2) Allow the company to continue to accrue an allowance
7 for funds used during construction on such prudently
8 incurred capital costs until the commercial operations
9 date for the high-voltage electric transmission
10 system.

11 (f) If the electric utility company elects not to complete
12 the on-island transmission infrastructure, and the commission
13 approves this election, or the electric utility company is
14 precluded from completing construction of the on-island
15 transmission infrastructure, the electric utility company shall
16 be allowed to recover reasonable costs determined by the
17 commission to have been prudently incurred by the electric
18 utility company with respect to the on-island transmission
19 infrastructure. The electric utility company shall be allowed
20 by the commission to recover the reasonable costs through the
21 cable surcharge over a period equal to the period during which
22 the costs were incurred or five years, whichever is greater."



1 SECTION 5. Section 235-7, Hawaii Revised Statutes, is
2 amended by amending subsection (a) to read as follows:

3 "(a) There shall be excluded from gross income, adjusted
4 gross income, and taxable income:

5 (1) Income not subject to taxation by the State under the
6 Constitution and laws of the United States;

7 (2) Rights, benefits, and other income exempted from
8 taxation by section 88-91, having to do with the state
9 retirement system, and the rights, benefits, and other
10 income, comparable to the rights, benefits, and other
11 income exempted by section 88-91, under any other
12 public retirement system;

13 (3) Any compensation received in the form of a pension for
14 past services;

15 (4) Compensation paid to a patient affected with Hansen's
16 disease employed by the State or the United States in
17 any hospital, settlement, or place for the treatment
18 of Hansen's disease;

19 (5) Except as otherwise expressly provided, payments made
20 by the United States or this State, under an act of
21 Congress or a law of this State, which by express
22 provision or administrative regulation or



1 interpretation are exempt from both the normal and
2 surtaxes of the United States, even though not so
3 exempted by the Internal Revenue Code itself;

4 (6) Any income expressly exempted or excluded from the
5 measure of the tax imposed by this chapter by any
6 other law of the State, it being the intent of this
7 chapter not to repeal or supersede any express
8 exemption or exclusion;

9 (7) Income received by each member of the reserve
10 components of the Army, Navy, Air Force, Marine Corps,
11 or Coast Guard of the United States of America, and
12 the Hawaii national guard as compensation for
13 performance of duty, equivalent to pay received for
14 forty-eight drills (equivalent of twelve weekends) and
15 fifteen days of annual duty, at an:

16 (A) E-1 pay grade after eight years of service;
17 provided that this subparagraph shall apply to
18 taxable years beginning after December 31, 2004;

19 (B) E-2 pay grade after eight years of service;
20 provided that this subparagraph shall apply to
21 taxable years beginning after December 31, 2005;



1 (C) E-3 pay grade after eight years of service;
2 provided that this subparagraph shall apply to
3 taxable years beginning after December 31, 2006;

4 (D) E-4 pay grade after eight years of service;
5 provided that this subparagraph shall apply to
6 taxable years beginning after December 31, 2007;
7 and

8 (E) E-5 pay grade after eight years of service;
9 provided that this subparagraph shall apply to
10 taxable years beginning after December 31, 2008;

11 (8) Income derived from the operation of ships or aircraft
12 if the income is exempt under the Internal Revenue
13 Code pursuant to the provisions of an income tax
14 treaty or agreement entered into by and between the
15 United States and a foreign country; provided that the
16 tax laws of the local governments of that country
17 reciprocally exempt from the application of all of
18 their net income taxes, the income derived from the
19 operation of ships or aircraft that are documented or
20 registered under the laws of the United States;



- 1 (9) The value of legal services provided by a prepaid
2 legal service plan to a taxpayer, the taxpayer's
3 spouse, and the taxpayer's dependents;
- 4 (10) Amounts paid, directly or indirectly, by a prepaid
5 legal service plan to a taxpayer as payment or
6 reimbursement for the provision of legal services to
7 the taxpayer, the taxpayer's spouse, and the
8 taxpayer's dependents;
- 9 (11) Contributions by an employer to a prepaid legal
10 service plan for compensation (through insurance or
11 otherwise) to the employer's employees for the costs
12 of legal services incurred by the employer's
13 employees, their spouses, and their dependents;
- 14 (12) Amounts received in the form of a monthly surcharge by
15 a utility acting on behalf of an affected utility
16 under section 269-16.3 [~~shall not be gross income,~~
17 ~~adjusted gross income, or taxable income for the~~
18 ~~acting utility under this chapter~~]. Any amounts
19 retained by the acting utility for collection or other
20 costs shall not be included in this exemption; [and]
- 21 (13) Amounts received in the form of a cable surcharge by
22 an electric utility company acting on behalf of a



1 certified cable company under section 269-D; provided
2 that any amounts retained by that electric utility
3 company for collection or other costs shall not be
4 included in this exemption; and

5 ~~[(13)]~~ (14) One hundred per cent of the gain realized by a
6 fee simple owner from the sale of a leased fee
7 interest in units within a condominium project,
8 cooperative project, or planned unit development to
9 the association of owners under chapter 514A or 514B,
10 or the residential cooperative corporation of the
11 leasehold units.

12 For purposes of this paragraph:

13 "Fee simple owner" shall have the same meaning as
14 provided under section 516-1; provided that it shall
15 include legal and equitable owners;

16 "Legal and equitable owner", and "leased fee
17 interest" shall have the same meanings as provided
18 under section 516-1; and

19 "Condominium project" and "cooperative project"
20 shall have the same meanings as provided under section
21 514C-1."



1 SECTION 6. Section 269-30, Hawaii Revised Statutes, is
2 amended to read as follows:

3 **"§269-30 Finances; public utility fee.** (a) Sections
4 607-5 to 607-9 shall apply to the public utilities commission
5 and each commissioner, as well as to the supreme and circuit
6 courts, and all costs and fees paid or collected pursuant to
7 this section shall be deposited with the director of finance to
8 the credit of the public utilities commission special fund
9 established under section 269-33.

10 (b) There also shall be paid to the public utilities
11 commission in each of the months of July and December of each
12 year, by each public utility subject to investigation by the
13 public utilities commission, a fee equal to one-fourth of one
14 per cent of the gross income from the public utility's business
15 during the preceding year, or the sum of \$30, whichever is
16 greater. This fee shall be deposited with the director of
17 finance to the credit of the public utilities commission special
18 fund.

19 (c) Each public utility paying a fee under subsection (b)
20 may impose a surcharge to recover the amount paid above
21 one-eighth of one per cent of gross income. The surcharge
22 imposed shall not be subject to the notice, hearing, and



1 approval requirements of this chapter; provided that the
2 surcharge may be imposed by the utility only after thirty days'
3 notice to the public utilities commission. Unless ordered by
4 the public utilities commission, the surcharge shall be imposed
5 only until the conclusion of the public utility's next rate
6 case; provided that the surcharge shall be subject to refund
7 with interest at the public utility's authorized rate of return
8 on rate base if the utility collects more money from the
9 surcharge than actually paid due to the increase in the fee to
10 one-fourth of one per cent.

11 (d) Notwithstanding any provision of this chapter to the
12 contrary, the public utilities commission may, upon the filing
13 of a petition by a public utility, credit a public utility for
14 amounts paid under subsection (b) toward amounts the public
15 utility owes in one call center fees under section 269E-6(f).

16 (e) Amounts received in the form of a cable surcharge by
17 an electric utility company acting on behalf of a certified
18 cable company under section 269-D shall not be deemed gross
19 income for that electric utility company for purposes of this
20 section; provided that any amounts retained by that electric
21 utility company for collection or other costs shall not be
22 included in this exemption."



1 SECTION 7. In codifying the new sections added to chapter
2 269, Hawaii Revised Statutes, by section 4 of this Act, the
3 revisor of statutes shall substitute appropriate section numbers
4 for the letters used in designating and referring to the new
5 sections in this Act.

6 SECTION 8. Statutory material to be repealed is bracketed
7 and stricken. New statutory material is underscored.

8 SECTION 9. This Act shall take effect upon its approval;
9 provided that the amendments made to section 235-7, Hawaii
10 Revised Statutes, in section 5 of this Act shall not be repealed
11 when that section is reenacted on January 1, 2013, pursuant to
12 Act 166, Session Laws of Hawaii 2007.



Report Title:

Interisland Electric Transmission Cable System

Description:

Establishes a regulatory structure for the installation and implementation of an interisland high voltage electric transmission cable system and for the construction of on-island transmission infrastructure. (SD1)

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

