

LATE



Email: communications@ulupono.com

SENATE COMMITTEE ON COMMERCE, CONSUMER PROTECTION, & HEALTH
Tuesday, March 22, 2016 — 9:30 a.m. — Room 229

UluPono Initiative Strongly Supports HB 2566 HD 2, Relating to Electricity

Dear Chair Baker, Vice Chair Kidani, and Members of the Committee:

Our names are Murray Clay and Kyle Datta and we are respectively, the Managing Partner and General Partner of the UluPono Initiative, a Hawai'i-based impact investment firm that strives to improve the quality of life for the people of Hawai'i by working toward solutions that create more locally produced food; increase affordable, clean, renewable energy; and reduce waste. We believe that self-sufficiency is essential to our future prosperity and will help shape a future where economic progress and mission-focused impact can work hand in hand.

UluPono strongly supports HB 2566 HD 2, which instructs the Public Utilities Commission to include the full benefits of renewable and distributed energy in the determination of prudent prices.

The legislative and regulatory history of determining the fair price for renewables started in the 1990s by linking the price to oil through avoided costs, and then was decoupled from the cost of oil when oil prices rose in 2008. In each iteration of the bill, the Legislature instructed the Public Utilities Commission to develop a methodology. The policy intent has always been to ensure the price paid for renewables benefits consumers and equitably represents the value to the energy system.

As we move forward in 2016, we are fully cognizant that renewable and distributed energy provide two major additional values to all ratepayers that are not included in the compensation for renewables. The first is the reduction in risk to the ratepayer, which includes lower volatility, increased supply reliability and lower greenhouse gas emission tax risk. There are several existing methodologies to value each of the benefits that other states use that the Hawaii Public Utilities Commission may choose to employ. The second major category of benefits (and costs) is the impact of the electrical transmission and distribution grid. Again, there are multiple methods of engineer and system simulation estimation algorithms that are in use in other states.

This requires the Public Utilities Commission to develop a methodology to include these

Investing in a Sustainable Hawai'i

999 Bishop Street, Suite 1202 | Honolulu, Hawai'i 96813 ☎ 808.544.8960 📠 808.432.9695 | www.ulupono.com

benefits and costs. It is critically important because the current practice does not systematically include these benefits, even though they are fully identified in the Hawai'i Energy Policy Forum report (The Swisher Report),¹ which can be found at http://www.hawaiienergypolicy.hawaii.edu/_site-media-css/_pdf/Swisher_renewable_benefits.pdf. The failure to include the benefits means we are systematically undervaluing the contribution of renewables. This legislation is an opportunity to fix that issue.

Ulupono would also point out that cost is still an important and often the main consideration for regulators to consider when making decisions. However, the current 12-year low fossil fuel price is not truly comparable to a fixed renewable energy price since fossil fuels are volatile. Often, we find when fossil fuel prices are high, avoided cost criteria is scrutinized because the threshold is easier to meet but when fossil fuel prices are at a low point in their volatile cycle, that renewable energy projects must match those prices to the penny.

If this bill more accurately prices renewable energy projects, some believe it could create an artificial floor price for renewable energy. Yet, given that renewable energy developments exist in a competitive free market economy, any competitor has an incentive to bid below any floor price to win the contract. Renewable energy projects often have more difficulty with being able to match fossil fuel prices when those prices are at historic lows, as they are currently. Yet, without truly incorporating other factors besides price, we lose insight such as volatility and therefore a fixed non-volatile price has a premium value that is often worth paying for. In fact, when volatile fossil fuel prices are at their lowest, a slightly higher but fixed price alternative might be preferable. A parallel analogy is a mortgage. Fixed price mortgages are widely seen as preferable in the long run to variable rate mortgages but a fixed price mortgage is often priced with a slightly higher interest rate at the time of purchase. The best time to incorporate and potentially lock in favorable long-term prices is when the fossil fuel competitor to renewables is at its low price point in its pricing cycle.

The end result of not being able to truly capture an accurate apples-to-apples comparison of energy choices is that Hawai'i and its citizens, who already experience daunting high living costs, could continue to experience billions of dollars of sub-optimal costs.

Thank you for this opportunity to testify.

Respectfully,

Murray Clay
Managing Partner

¹ Joel N. Swisher, PhD, PE, *Best Practices to Value Benefits of Renewable Energy Development in Hawai'i*, http://www.hawaiienergypolicy.hawaii.edu/_site-media-css/_pdf/Swisher_renewable_benefits.pdf (Hawaii Energy Policy Forum, June 30, 2015).



UluPono Initiative LLC

Kyle Datta

General Partner

UluPono Initiative LLC

