
A BILL FOR AN ACT

RELATING TO PUBLIC UTILITIES.

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

1 SECTION 1. The legislature finds that rate-of-return
2 regulation is a system for setting the prices charged by
3 government-regulated monopolies, such as public utilities. The
4 system is based on the concept that monopolies will charge the
5 price to consumers that would ideally prevail in a perfectly
6 competitive market, that is, a price equal to the efficient
7 costs of production plus a market-determined rate of return on
8 capital. Without rate regulation, public utilities may easily
9 charge far higher rates, since consumers will pay any price for
10 essential products such as electricity. Rate-of-return
11 regulation ensures that consumers are paying fair prices for
12 their electricity and other regulated services.

13 The legislature further finds that the advantage of rate-
14 of-return regulation is its long-term sustainability and
15 resistance to changes in the public utility's conditions as well
16 as the regulation's popularity among investors. In other words,
17 while rate regulation prevents monopolies, such as electric



1 utilities, from making large profits, the regulation also
2 provides stability. Although investors will not be able to make
3 as large a dividend from a regulated utility company as they
4 might without rate regulation, investors can enjoy a fairly
5 constant, substantial return despite fluctuations in the
6 economy.

7 The purpose of this Act is to authorize the public
8 utilities commission to set a public utility's fair return at
9 not more than five per cent.

10 SECTION 2. Section 269-16, Hawaii Revised Statutes, is
11 amended by amending subsection (b) to read as follows:

12 "(b) No rate, fare, charge, classification, schedule,
13 rule, or practice, other than one established pursuant to an
14 automatic rate adjustment clause previously approved by the
15 commission, shall be established, abandoned, modified, or
16 departed from by any public utility, except after thirty days'
17 notice to the commission as prescribed in section 269-12(b), and
18 prior approval by the commission for any increases in rates,
19 fares, or charges. The commission, in its discretion and for
20 good cause shown, may allow any rate, fare, charge,
21 classification, schedule, rule, or practice to be established,



H.B. NO. 1219

1 abandoned, modified, or departed from upon notice less than that
2 provided for in section 269-12(b). A contested case hearing
3 shall be held in connection with any increase in rates, and the
4 hearing shall be preceded by a public hearing as prescribed in
5 section 269-12(c), at which the consumers or patrons of the
6 public utility may present testimony to the commission
7 concerning the increase. The commission, upon notice to the
8 public utility, may:

9 (1) Suspend the operation of all or any part of the
10 proposed rate, fare, charge, classification, schedule,
11 rule, or practice or any proposed abandonment or
12 modification thereof or departure therefrom;

13 (2) After a hearing, by order:

14 (A) Regulate, fix, and change all such rates, fares,
15 charges, classifications, schedules, rules, and
16 practices so that the same shall be just and
17 reasonable;

18 (B) Prohibit rebates and unreasonable discrimination
19 between localities or between users or consumers
20 under substantially similar conditions;



- 1 (C) Regulate the manner in which the property of
- 2 every public utility is operated with reference
- 3 to the safety and accommodation of the public;
- 4 (D) Prescribe its form and method of keeping
- 5 accounts, books, and records, and its accounting
- 6 system;
- 7 (E) Regulate the return upon its public utility
- 8 property;
- 9 (F) Regulate the incurring of indebtedness relating
- 10 to its public utility business; and
- 11 (G) Regulate its financial transactions; and
- 12 (3) Do all things that are necessary and in the exercise
- 13 of the commission's power and jurisdiction, all of
- 14 which as so ordered, regulated, fixed, and changed are
- 15 just and reasonable, and provide a fair return on the
- 16 property of the utility used and useful for public
- 17 utility purposes~~[-]~~; provided that the return shall
- 18 not exceed five per cent."

19 SECTION 3. This Act does not affect rights and duties that
20 matured, penalties that were incurred, and proceedings that were
21 begun before its effective date.



H.B. NO. 1219

1 SECTION 4. Statutory material to be repealed is bracketed
2 and stricken. New statutory material is underscored.

3 SECTION 5. This Act shall take effect upon its approval.

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INTRODUCED BY: *Guthrie Thelen*
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H.B. NO. 1219

Report Title:

PUC; Ratemaking; Rate of Return

Description:

Authorizes the PUC, during its ratemaking procedures, to set a utility's fair return at not more than 5%.

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