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# A BILL FOR AN ACT

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RELATING TO ENERGY.

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

1       SECTION 1. This Act shall be known as the "Hawaii  
2 Ratepayer Protection Act."

3       SECTION 2. The legislature finds that in 2014, the public  
4 utilities commission issued a landmark set of "Inclinations on  
5 the Future of Hawaii's Electric Utilities: Aligning the Utility  
6 Business Model with Customer Interests and Public Policy Goals,"  
7 known as the inclinations. The document provided "perspectives  
8 on the vision, business strategies and regulatory policy changes  
9 required to align the Hawaiian electric company and its  
10 subsidiaries' business model with customers' interests and the  
11 State's public policy goals."

12       The commission's inclinations document noted that the  
13 State's utilities must rapidly create a modern electric system.  
14 The legislature agrees with the public utilities commission that  
15 "electric utilities need to move with urgency to modernize the  
16 generation system on each island grid as delays are lost savings  
17 opportunities."



1 To that end, some of the State's utilities have recently  
2 proposed modernization plans. Those plans may ultimately result  
3 in a reduction in fossil fuel consumption, in line with the  
4 State's renewable energy goals. However, this shift could be  
5 accompanied by a change in how utility revenues are expended.

6 As utilities shift away from fossil fuel use, they will  
7 look for new opportunities for investment. The projects they  
8 choose could benefit residents and businesses where, for  
9 example, the projects provide reliable services in a cost-  
10 effective manner. However, the existing regulatory business  
11 model rewards utilities for increasing capital expenditures  
12 irrespective of utility performance. Utilities may choose to  
13 invest in projects that displace more efficient or cost-  
14 effective options such as a distributed energy resources project  
15 owned by customers or projects implemented by independent third  
16 parties. If the less cost-effective utility project is allowed  
17 to go forward, it would make it difficult for third parties to  
18 fairly compete with the utility and would also raise costs for  
19 customers.

20 Without performance mechanisms to incentivize utility  
21 spending decisions towards the State's energy goals, the status



1 quo will prevail. The same business and revenue model has been  
2 in place for over a century. The Wall Street Journal explained  
3 that "the more [utilities] spend, the more profits they earn,"  
4 and called this "a regulatory system that turns corporate  
5 accounting on its head."

6 The legislature finds that it is important that customer  
7 and utility interests be aligned to maximize the State's energy  
8 goals. Utilities must be incentivized to innovate, create  
9 customer choice, integrate clean energy, and increase  
10 reliability. This would promote the ability of the State's  
11 utilities to make decisions and develop strategies to maximize  
12 public benefit, reduce ratepayer risk, and meet Hawaii's energy  
13 goals.

14 The legislature finds that, although some utility  
15 performance incentives are being considered in existing dockets  
16 at the public utilities commission, the process has not been  
17 transformative in urgently moving electric utilities toward the  
18 State's ambitious energy policy goals. The legislature further  
19 finds that the responsibility for aligning utility regulatory  
20 policy and the State's public policy goals is not limited to the  
21 public utilities commission, as the regulatory framework under



1 which utilities operate and the scope of regulation by the  
2 public utilities commission are established by the legislature.

3 The purpose of this Act is to protect consumers by urgently  
4 and proactively ensuring that the existing utility business and  
5 regulatory model is updated for the twenty-first century by  
6 requiring the public utilities commission to establish  
7 performance incentive and penalty mechanisms to incentivize  
8 electric utilities to achieve the State's energy goals as they  
9 may apply to the regulation of electric utility rates.

10 SECTION 3. Chapter 269, Hawaii Revised Statutes, is  
11 amended by adding a new section to part I to be appropriately  
12 designated and to read as follows:

13 "§269- Performance incentive mechanisms. (a) On or  
14 before January 1, 2020, the public utilities commission shall  
15 establish performance incentive and penalty mechanisms to  
16 incentivize electric utilities to achieve the State's energy  
17 goals as they may apply to the regulation of all rates under  
18 section 269-16.

19 (b) In developing performance incentive and penalty  
20 mechanisms, the public utilities commission shall consider, but  
21 shall not be limited to, the following:



- 1        (1) The economic incentives and cost recovery mechanisms  
2        described in section 269-6(d);
- 3        (2) Meeting and exceeding the State's renewable portfolio  
4        standards;
- 5        (3) Electric rate affordability and ratepayer volatility  
6        risk;
- 7        (4) Electric service reliability;
- 8        (5) Customer engagement and satisfaction, including  
9        customer options for managing electricity costs;
- 10       (6) Access to utility system information, including but  
11       not limited to public access to electric system  
12       planning data and aggregated customer energy usage  
13       data, and individual customer access to granular  
14       information regarding the customer's own energy usage  
15       data;
- 16       (7) Rapid integration of renewable energy sources,  
17       including quality interconnection of customer-sited  
18       resources;
- 19       (8) Timely execution of competitive procurement, third-  
20       party interconnection, and other business processes;  
21       and



1        (9) Fair compensation for utility employees."

2        SECTION 4. New statutory material is underscored.

3        SECTION 5. This Act shall take effect on January 28, 2045;

4        provided that the public utilities commission may delay the

5        implementation of the requirements of this Act until no later

6        than January 1, 2020.



**Report Title:**

PUC; Electric Utilities; Rates; Performance Incentive Mechanisms

**Description:**

Requires the Public Utilities Commission to establish performance incentive mechanisms for electric utilities.  
(HB2431 HD1)

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

