

JAN 30 2026

A BILL FOR AN ACT

RELATING TO ENERGY.

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

1 SECTION 1. The legislature finds that the State's
2 electricity customers continue to experience the highest
3 electricity prices in the nation, and that affordability of
4 electric service is a paramount and overriding public
5 interest concern for the State. Exorbitant and volatile
6 electricity costs impose substantial and continuing burdens
7 on households, businesses, public institutions, and critical
8 services, exacerbating cost of living pressures, undermining
9 economic competitiveness, and affecting the overall quality
10 of life in the State.

11 The legislature further finds that restructuring the
12 electric industry to unbundle electric generation from
13 transmission and distribution, with generation operated under
14 separate ownership and control from regulated transmission
15 and distribution services, can accelerate the timely
16 deployment of renewable energy resources by allowing the
17 electric utility to focus on transmission and distribution



1 investment while enabling competitive generation development.

2 This acceleration is essential to stabilizing electricity

3 costs over the long term, reducing exposure to volatile fuel

4 prices, and improving affordability for ratepayers.

5 Increased deployment of renewable energy resources enabled by

6 the unbundled and expanded transmission and distribution

7 investment will support the creation of skilled,

8 family-sustaining jobs in electric system planning,

9 construction, operations, and maintenance, and will promote

10 local economic development through increased private

11 investment, workforce demand, and long-term infrastructure

12 development within the State.

13 The legislature further finds that constraints in

14 transmission and distribution capacity, together with delays

15 and inefficiencies in generation procurement and project

16 development, have limited the timely interconnection of new

17 renewable generation; including both utility-scale renewable

18 projects and customer-sited distributed energy resources;

19 slowed renewable integration; and contributed to continued

20 reliance on high-cost legacy resources, undermining the

21 State's ability to achieve long-term cost stability for



1 consumers. Inadequate investment in transmission and
2 distribution infrastructure has delayed or restricted
3 interconnection for residential and commercial distributed
4 energy resources, including rooftop solar and energy storage,
5 and has contributed to outages, extended restoration times,
6 wildfire risk, and public safety concerns. Increased and
7 more focused investment in the distribution system, supported
8 by a clearer focus on transmission and distribution
9 functions, is necessary to support customer generation, local
10 resilience, broader participation in the clean energy
11 transition, and targeted improvements in grid reliability,
12 hardening, wildfire mitigation, and system resilience.

13 The legislature also finds that, beginning in the 1990s,
14 a number of states undertook structural reforms of their
15 electric industries, including full or partial unbundling of
16 electricity sectors to allow for competitive generation
17 segments while maintaining regulated transmission and
18 distribution as natural monopolies. Retail competition in
19 electric generation has been adopted in multiple states, and
20 in those state jurisdictions, competition has encouraged
21 innovation, improved efficiency and service quality, and



1 enabled cost reductions. However, Hawaii has not undertaken
2 comparable structural unbundling and, with limited
3 exceptions, electric service within the State continues to be
4 provided primarily through vertically integrated monopoly
5 utility operations. The experiences of other states that
6 have restructured their electric industries may provide
7 useful guidance, but any restructuring in Hawaii must be
8 tailored to the State's unique and separated island electric
9 systems, scale, and operational characteristics, including
10 the absence of a statewide organized wholesale market, and to
11 the State's public policy objectives.

12 The legislature further finds that chapter 269, Hawaii
13 Revised Statutes, vests the public utilities commission with
14 authority to regulate electric utilities in the public
15 interest and to adopt rules necessary to carry out the
16 purposes of that chapter, and that the legislature retains
17 authority to determine the fundamental structure of the
18 electric industry within the State as a matter of state
19 policy. Advances in technology, changes in customer demand,
20 the growth of distributed energy resources, and evolving



1 energy policy objectives have altered the fundamental
2 characteristics of the electric power sector.

3 The legislature further finds that past electric industry
4 restructuring efforts in other jurisdictions demonstrate the
5 importance of maintaining resource adequacy, coordinated
6 system planning, and effective regulatory oversight during
7 periods of transition, and that the policy established by
8 this Act is intended to avoid the risks associated with
9 premature or uncoordinated market restructuring.

10 The legislature further finds that electric utilities
11 generally are facing increasing capital, reliability, and
12 public safety demands during the clean energy transition,
13 including the need to modernize aging infrastructure, harden
14 systems against wildfire and climate-related risks, and
15 integrate higher levels of renewable and distributed energy
16 resources. Providing clear statutory direction regarding
17 industry structure supports prudent long-term planning,
18 reduces regulatory uncertainty, and enables an orderly and
19 phased implementation that protects ratepayers and promotes
20 financial and system stability.



1 The legislature additionally finds that Hawaii relies on
2 an aging electric generation fleet, including legacy units
3 that have been in service for decades. Continued reliance on
4 old and deteriorated electric power infrastructure,
5 historically dependent on some of the costliest, least
6 efficient, and most polluting fuels, has contributed to high
7 costs borne by ratepayers. Reinvesting ratepayer funds in
8 outdated generation facilities diverts limited customer dollars
9 away from more affordable and reliable energy solutions. This
10 underscores the urgent need to modernize and harden the
11 electric system to improve reliability, reduce the frequency
12 and duration of outages, protect public safety, and avoid
13 economic disruption to communities and local businesses.

14 Accordingly, the purpose of this Act is to require the
15 separation of ownership and control of electric energy
16 generation services from transmission and distribution
17 services to promote efficiency, innovation, transparency, and
18 competition in the electric energy generation sector while
19 protecting ratepayers and ensuring reliable, affordable, and
20 sustainable electric service.



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

4 **"§269- Unbundling of electric generation services from**
5 **transmission and distribution services; requirements.** (a) The
6 public utilities commission shall adopt rules to initiate the
7 unbundling and separation of ownership and control of electric
8 generation services from transmission and distribution services
9 in the State, in furtherance of and pursuant to this chapter.

10 (b) The commission shall establish and implement a
11 restructured electric industry in which electric generation
12 services are open to competition and are provided by entities
13 that are not under common ownership or control, directly or
14 indirectly, with the electric utility, its parent holding
15 company, or any affiliated entity, and that do not have any
16 direct or indirect ownership interest, management role,
17 governance rights, or material financial interest in electric
18 generation services within the electric utility or its
19 affiliated entities, while transmission and distribution service
20 to end-use consumers shall continue to be provided by the
21 electric utility as regulated monopoly services.



1 (c) In implementing this section, the commission shall, at
2 a minimum:

3 (1) Ensure nondiscriminatory access to transmission and
4 distribution facilities on just and reasonable terms
5 for all providers of electric generation services,
6 consistent with electric system reliability and public
7 safety;

8 (2) Require and enforce accounting, operational, and code
9 of conduct requirements sufficient to promote
10 transparency and prevent cross-subsidization, undue
11 preference, or discrimination between transmission and
12 distribution operations and any generation-related
13 interests;

14 (3) Ensure preservation of electric system reliability,
15 continuity of service, and universal service
16 obligations during and after implementation of the
17 separation of ownership and control required by this
18 section;

19 (4) Ensure provision for the fair and reasonable recovery,
20 through lawful regulatory mechanisms, of prudently
21 incurred costs associated with existing electric



1 generation assets, including but not limited to
2 stranded assets that may result from the separation
3 required by this section, consistent with the public
4 interest and protection of ratepayers;

5 (5) Preserve existing statutory programs and protections
6 for customers, including consumer protection, energy
7 efficiency, renewable energy, demand response,
8 customer self-generation, and distributed energy
9 resource programs, unless expressly modified by the
10 legislature;

11 (6) Require phased or staged implementation of the
12 separation of ownership and control required by this
13 section, including sequencing or transitional steps as
14 appropriate to maintain electric system reliability,
15 continuity of service, and public safety;

16 (7) Provide for interim arrangements, as appropriate,
17 governing the provision of electric generation,
18 transmission, and distribution services during the
19 transition period, including consideration of existing
20 contracts and obligations, to reduce financial and



1 operational risk and to support system stability
2 during implementation;

3 (8) Protect and support workforce stability and continuity
4 of skilled labor necessary to maintain electric system
5 reliability, public safety, and continuity of service
6 during and after the transition;

7 (9) Require improvements in transmission and distribution
8 investment, including grid hardening, wildfire
9 mitigation, outage prevention, faster restoration, and
10 expanded interconnection capacity for utility-scale
11 and distributed renewable generation;

12 (10) Ensure coordination between the electric utility and
13 providers of electric generation services during any
14 transition period to support operational continuity,
15 resource adequacy, and electric system reliability;

16 (11) Provide for transparency and meaningful stakeholder
17 participation in the rulemaking and implementation
18 process, consistent with chapter 91;

19 (12) Require the separation of ownership and control of
20 electric generation assets and generation procurement
21 functions from transmission and distribution



1 operations, including provisions governing the
2 disposition or transfer of existing generation assets
3 and contracts, consistent with electric system
4 reliability, the public interest, and the protection
5 of ratepayers;

6 (13) Address the treatment of existing and future power
7 purchase agreements with independent power producers;
8 provided that the rules shall preserve and not impair
9 existing contractual rights, lender protections, and
10 step-in agreements established under state law,
11 including protections established pursuant to part XI
12 of this chapter; provided further that any rules
13 adopted pursuant to chapter 91 shall ensure that,
14 following implementation of the separation of
15 ownership and control required by this section, the
16 electric utility providing transmission and
17 distribution service is not the long-term contracting
18 party for electric generation, except as necessary on
19 a transitional basis or to support default service,
20 electric system reliability, or resource adequacy;
21 provided further that the rules shall not require the



renegotiation or modification of existing power
purchase agreements, except by mutual agreement of the
parties; provided further that the rules may provide
for the assignment, novation, or other lawful transfer
of existing power purchase agreements, or alternative
contractual arrangements, in a manner that preserves
existing financing structures, credit support
arrangements, and electric system reliability, and
minimizes financial risk to ratepayers; and

(14) In adopting rules pursuant to chapter 91, consider at
a minimum, the impacts of the required separation on
electric system reliability, resource adequacy,
affordability for ratepayers, transition costs,
workforce stability, wildfire and public safety risk,
and the need for coordinated system planning during
and after implementation.

(d) The public utilities commission may establish
milestones or benchmarks, as appropriate, to measure progress
toward implementation of the separation of ownership and control
required by this section.



1 (e) The separation of ownership and control required by
2 this section shall prohibit direct or indirect ownership,
3 control, management, or any material financial interest, whether
4 voting or non-voting, active or passive, in electric generation
5 services by the electric utility providing transmission and
6 distribution service, its parent holding company, or any
7 affiliated entity, including through subsidiaries, intermediate
8 entities, contractual arrangements, or other means that would
9 have the effect of circumventing this section.

10 (f) This section shall not apply to an electric utility
11 organized and operating as an electric cooperative.

12 (g) Upon the request of the commission, the electric
13 utility and any state or county agency shall provide any
14 information relevant to the rulemaking proceedings required
15 under this section.

16 (h) The rules adopted pursuant to this section shall:

17 (1) Ensure an orderly transition;

18 (2) Be in compliance with all applicable state laws;

19 (3) Be conducted in a manner designed to support timely
20 decision-making and implementation;

21 (4) Be adopted in a single rulemaking proceeding; and



1 (5) Not condition initiation of rulemaking under this
2 section on the completion of any separate
3 adjudicatory, investigative or planning docket.

4 (i) For the purposes of this section "separation of
5 ownership and control" means the separation of electric
6 generation services from transmission and distribution services
7 through separate ownership and governance, including separation
8 at the operational, decision-making, and financial levels,
9 sufficient to eliminate incentives for preferential treatment or
10 cross-subsidization, or undue influence directly or indirectly
11 between generation and transmission and distribution functions."

12 SECTION 3. The public utilities commission shall adopt
13 final rules pursuant to chapter 91, Hawaii Revised Statutes, no
14 later than months after initiation of the rulemaking
15 required by this Act.

16 SECTION 4. The public utilities commission shall submit a
17 report of its findings and recommendations, including any
18 proposed legislation, to the legislature no later
19 than days after the initiation of rulemaking required by
20 this Act.



1 SECTION 5. The public utilities commission shall submit a
2 report of its findings and recommendations, including any
3 proposed legislation, to the legislature no later than sixty
4 days prior to the convening of each regular session until the
5 final rules required under this Act are adopted pursuant to
6 chapter 91, Hawaii Revised Statutes.

7 SECTION 6. Each report to the legislature required under
8 sections 4 and 5 of this Act shall describe the rulemaking,
9 including progress made toward implementing the separation of
10 ownership and control of electric generation services from
11 transmission and distribution services, any issues or
12 barriers encountered that may affect timely adoption of the
13 required rules, and any recommendations for statutory changes
14 the commission determines are necessary to fully implement
15 this Act, including proposed legislation necessary to carry
16 out the purposes of this Act.

17 SECTION 7. If any provision of this Act, or the
18 application thereof to any person or circumstance, is held
19 invalid, the invalidity does not affect other provisions or
20 applications of the Act that can be given effect without the



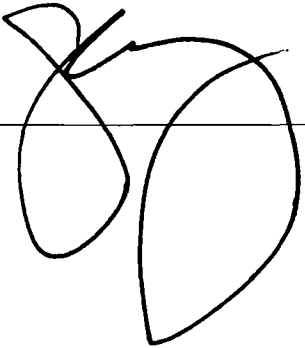
1 invalid provision or application, and to this end the provisions
2 of this Act are severable.

3 SECTION 8. New statutory material is underscored.

4 SECTION 9. This Act shall take effect upon its approval.

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INTRODUCED BY:

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S.B. NO. 3326

Report Title:

PUC; Electric Utilities; Generation Services; Transmission and Distribution Services; Separation Required; Rules; Reports

Description:

Requires the Public Utilities Commission to initiate the separation of ownership and control of electric energy generation services from transmission and distribution services through the adoption of rules. Requires reports to the Legislature.

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

