



JOSH GREEN, M.D.
GOVERNOR | KE KIA'ĀINA

SYLVIA LUKE
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Testimony of the Department of Commerce and Consumer Affairs

Before the
Senate Committee on Ways and Means
Thursday, February 19, 2026
10:30 a.m.
Via Videoconference

On the following measure:
S.B. 3326, S.D. 1, RELATING TO ENERGY

WRITTEN TESTIMONY ONLY

Chair Dela Cruz and Members of the Committee:

My name is Michael Angelo, and I am the Executive Director of the Department of Commerce and Consumer Affairs' (Department) Division of Consumer Advocacy. The Department offers comments on this bill.

The purpose of this bill is to: (1) require the Public Utilities Commission (Commission) to initiate the separation of ownership and control of electric energy generation services from transmission and distribution services through the adoption of rules; and (2) require reports to the Legislature.

The Department appreciates the intent of the bill which seeks to facilitate greater opportunity for rapidly and cost-effectively integrating modernized electricity generation by facilitating competition through separating the ownership and control of electric generation services from transmission and distribution services. The Department's Division of Consumer Advocacy (Division) represents, protects, and advances the interests of customers of regulated public utilities within the State by advocating for the

delivery of utility services to be continuously enhanced in the areas of safety, reliability and resilience, affordability and cost effectiveness, customer equity, and progress on the State's clean energy goals.

The Department notes that the legislation intends to authorize the Commission to, among other things, adopt rules to require separate ownership and control of electric generation services from transmission and distribution services. The Department also notes that certain critical consumer protections would likely be needed to help ensure the on-going continued safe and reliable operation of the grid and that electricity is delivered cost-effectively.

In jurisdictions where the ownership and operation of electric generation services and transmission and distribution (electricity delivery) services are separated and there is open access to the transmission system, an independent entity, often referred to as an independent system operator (ISO), manages critical operating and planning aspects related to maintaining the safe and reliable delivery of electricity to customers from independent power producers. While these jurisdictions have utility commissions to help protect the public interest in regulated utility matters, including reliability, the reliable operation of the system is typically entrusted to an ISO. The ISO typically oversees critical aspects of system reliability such as adequate procurement of generation and grid services over various time horizons, managing grid operations, and overseeing electricity system planning.¹

The Department offers that the current competitive bidding process for procuring electricity generation and identifying locations for interconnecting generation facilities could be modified so that competitive procurement and identifying project sites are not managed by the investor-owned utility, but managed by the Commission with participation from other key stakeholders such as the Division. This may support more cost-effectively procuring electricity generation, enhancing the reliability of the electric system, and integrating more modernized generation on to the system more quickly.

Thank you for the opportunity to testify on this bill.

¹ See e.g., <https://www.caiso.com/about>

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Testimony of the Public Utilities Commission

To the
Senate Committee on
Ways and Means

February 19, 2026
10:30 a.m.

Chair Dela Cruz, Vice Chair Moriwaki, and Members of the Committee:

Measure: S.B. No. 3326, S.D.1
Title: RELATING TO ENERGY.

Position:

The Public Utilities Commission ("Commission") offers the following comments for consideration.

Comments:

The Commission appreciates the intent of this measure to promote efficiency, innovation, transparency, and competition in the electric energy generation sector while protecting ratepayers and ensuring reliable, affordable, and sustainable electric service.

The Commission has concerns that the separation of ownership and control of electric energy generation services from transmission and distribution services may not be in the public interest for the following reasons: (1) Hawaii's isolated island grids make it extremely challenging to create a truly competitive wholesale electricity market; (2) wholesale electricity price volatility poses risks to both ratepayers and Hawaii's electric public utilities; (3) deregulation of electricity generation has not necessarily resulted in lower retail electricity prices; and (4) the Commission's existing Competitive Bidding Framework, which includes oversight by an Independent Observer, already ensures that any new electricity generation is procured at competitively prices.

Hawaii's isolated island grids make creating a truly competitive wholesale electricity market extremely challenging. In mainland wholesale markets, competition is supported by large geographic footprints, diverse and higher capacity energy resource mixes, and the ability to import power from outside the utility's system during periods of need or stress. Hawaii's unique island geography does not provide such features and therefore may inhibit the development of a truly competitive wholesale electricity market.

It is important not to conflate the number of bidders in any given procurement with the number of independent electricity generation suppliers operating in the wholesale market. A solicitation may attract multiple bids, but those bids may be submitted by a small group of repeat market participants that control a significant share of generation capacity across one or more island grids. True wholesale competition is not measured by the number of offers submitted in a single procurement event, but rather by the supplier concentration and market power across the system as a whole. In small and isolated systems such as Hawaii's island grids, where entry barriers are high and system size limits the number of viable projects, creating a wholesale market with a large number of independent suppliers with limited market power is likely to prove very difficult.

Separating electricity generation may also expose both electric public utilities and ratepayers to price volatility, which can manifest in different but equally concerning ways. If retail electricity prices are fixed or slow to adjust, utilities may be financially harmed during periods when wholesale prices spike. A well-known example is the 2000–2001 California electricity crisis, where utilities were required to buy power at volatile wholesale prices, with no hedging options such as long-term contracts, but were unable to fully recover those costs from customers, contributing to severe financial distress and utility insolvency, as well as degraded service reliability. Conversely, if electric public utilities were permitted to pass through wholesale market costs, ratepayers bear the risk of any wholesale price volatility and their subsequent bill impacts.

Furthermore, separating electricity generation has not necessarily resulted in lower retail electricity prices. Nineteen states and the District of Columbia have either fully or partially deregulated electricity generation, and these jurisdictions had an average retail electricity price of 16.54 cents/kWh in 2024. Thirty-two states have not deregulated electricity generation, and these jurisdictions had an average retail electricity price of 12.09 cents/kWh in 2024. While many factors influence electricity prices — including fuel costs, geography, and policy choices — these figures suggest that competitive generation markets do not automatically translate into lower retail prices for consumers. This mixed national record suggests caution before assuming that separating Hawaii's electricity generation from transmission and distribution would deliver meaningful rate relief.

The Commissions' existing Competitive Bidding Framework already adequately addresses many of the concerns that S.B. 3326 S.D.1 intends to address. Under this framework, electric utilities generally procure new generation resources through open, Commission-supervised solicitations that allow independent power producers and utility-affiliated projects to compete on price and performance. Additionally, the procurement process is monitored by an Independent Observer who reports directly to the Commission. This results in customers receiving the most competitive energy generation available, regardless of whether it is developed by an independent power producer or the electric utility.

At the same time, it is important to recognize why ratepayers may not feel an immediate reduction in their bills despite these competitive procurements. These competitively priced projects are replacing older, higher-cost resources gradually over time. In addition, retail rates reflect not only generation costs, but also investments in transmission, distribution,

wildfire mitigation, and resilience projects. As a result, even when new generation is competitively priced, their benefits may feel imperceptible in the short run. Nevertheless, as the state continues to make progress on its renewable portfolio standards goals, the Commission expects that the increased fuel savings from the displacement of costly fossil fuel generation with affordable renewable generation will translate into greater bill savings for ratepayers in the long run.

The Commission understands and shares the frustration that many residents and businesses in Hawaii feel regarding their high electricity bills. Hawaii's geographic isolation, historic dependence on imported fuels, small and distinct island grids, and infrastructure challenges have contributed to some of the highest electricity rates in the nation. These costs impose real burdens on households and affect the state's economic competitiveness. The Commission takes these concerns seriously and recognizes that affordability must remain central to all energy policy decisions.

Should the Committee decide to advance this measure, the Commission respectfully requests that Section 3 be amended to provide the Commission with no less than 180 days after the initiation of rulemaking to submit a report of its findings and recommendations, including any proposed legislation, to the legislature after the initiation of rulemaking required by this measure.

Thank you for the opportunity to testify on this measure.

State	Deregulated Electricity	2024 Average Retail Price (cents/kWh) ¹
Alabama	No	11.90
Alaska	No	22.17
Arizona	No	12.74
Arkansas	No	9.59
California	Limited	27.04
Colorado	No	12.07
Connecticut	Yes	24.37
Delaware	Yes	13.56
Florida	No	12.53
Georgia	Limited	11.40
Hawaii	No	38.00
Idaho	No	9.51
Illinois	Yes	12.21
Indiana	No	11.38
Iowa	No	9.34
Kansas	No	11.21
Kentucky	No	10.07
Louisiana	No	8.80
Maine	Yes	19.66
Maryland	Yes	15.04
Massachusetts	Yes	23.94
Michigan	Limited	14.16
Minnesota	No	12.35
Mississippi	No	10.93
Missouri	No	11.06
Montana	No	10.83
Nebraska	No	9.07
Nevada	No	11.47
New Hampshire	Yes	20.61
New Jersey	Yes	16.29
New Mexico	No	9.18
New York	Yes	19.66
North Carolina	No	11.65
North Dakota	No	7.93
Ohio	Yes	11.29
Oklahoma	No	9.09
Oregon	Limited	11.11
Pennsylvania	Yes	12.51
Rhode Island	Yes	24.15
South Carolina	No	10.90
South Dakota	No	10.87
Tennessee	No	10.90
Texas	Yes	9.79
Utah	No	9.97
Vermont	No	18.41
Virginia	Limited	10.62
Washington	No	10.13
West Virginia	No	11.05
Wisconsin	No	12.72
Wyoming	No	9.14
District of Columbia	Yes	16.88

¹ <https://www.eia.gov/electricity/state/>

Competitively bid projects that have been placed into service over the past several years.

Hawaiian Electric Company

Project	Capacity (MW)	In-Service Date	Average Energy Price (cents/kWh)
Mililani I Solar	39 MW + 156 MWh storage	07/31/2022	9.99
Waiawa Solar	36 MW + 144 MWh storage	01/11/2023	9.98
AES West Oahu Solar	12.5 MW + 50 MWh storage	03/28/2024	11.53
Kupono Solar	42 MW + 168 MWh storage	06/07/2024	12.38
Ho'ohana Solar 1	52 MW + 208 MWh storage	07/11/2025	4.5

Hawaii Electric & Light Company

Project	Capacity (MW)	In-Service Date	Average Energy Price (cents/kWh)
AES Waikoloa Solar	30 MW + 120 MWh storage	04/21/2023	8.89
Hale Kuawehi	30 MW + 120 MWh storage	03/25/2025	13.65

Maui Electric Company

Project	Capacity (MW)	In-Service Date	Average Energy Price (cents/kWh)
AES Kuihelani	60 MW + 240 MWh storage	05/31/2024	8.05



HAWAII REGIONAL COUNCIL OF CARPENTERS

February 19, 2026

TO: The Honorable Donovan M. Dela Cruz, Chair
The Honorable Sharon Y. Moriwaki, Vice Chair
Members of the Senate Committee on Ways and Means

RE: **TESTIMONY IN STRONG SUPPORT OF SB3326, SD1**

Aloha Chair Dela Cruz, Vice Chair Moriwaki, and Members of the Committee:

The Hawai'i Regional Council of Carpenters (HRCC), representing over 6,000 skilled union carpenters and tradespeople across the islands, is grateful for the opportunity to submit our testimony in strong support of SB3326, SD1.

HRCC represents skilled carpenters and construction professionals who build and maintain Hawai'i's critical infrastructure. Our members live and work in the communities most affected by high electricity costs, aging infrastructure, wildfire risk, and the urgent need to modernize our energy system. We support this measure because it establishes a structured path toward improving affordability, reliability, and long-term investment in Hawai'i's electric grid.

Affordability and Ratepayer Protection

As stated in the bill's findings, Hawai'i's electricity customers continue to experience some of the highest electricity prices in the nation. High and volatile energy costs place significant burdens on working families, small businesses, and public institutions.

SB3326, SD1 directs the Public Utilities Commission to adopt rules requiring separation of generation from transmission and distribution services to promote efficiency, innovation, and transparency while protecting ratepayers. A clearer structural framework can reduce regulatory uncertainty and support long-term cost stability.

Modernizing Infrastructure and Strengthening Reliability

The measure recognizes the State's reliance on aging generation assets and the need to modernize infrastructure to reduce outages, mitigate wildfire risk, and enhance system resilience. Increased and focused investment in transmission and distribution, combined with a competitive generation sector, can accelerate renewable integration and expand interconnection capacity.

Importantly, **SB3326, SD1** requires preservation of electric system reliability, continuity of service, and resource adequacy during and after implementation.

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Workforce Stability and Skilled Labor

HRCC strongly supports the provision directing the Commission to protect workforce stability and continuity of skilled labor, including the protection of existing labor and collective bargaining agreements. Hawai'i's energy transition must support, not destabilize, the skilled workforce responsible for building and maintaining our electric system.

A phased and orderly implementation, as required by the bill, will help ensure workforce planning aligns with infrastructure transformation.

Orderly and Transparent Implementation

The bill requires a single, coordinated rulemaking proceeding and meaningful stakeholder participation. These safeguards are essential to maintaining public confidence and ensuring that any restructuring protects ratepayers, workers, and system reliability.

For these reasons, the HRCC respectfully urges the Committee to pass **SB3326, SD1**. We stand ready to work with the Legislature, the Public Utilities Commission, and stakeholders to ensure Hawai'i's energy transition strengthens our infrastructure, supports skilled local workers, and delivers reliable and affordable electricity for our communities.

Mahalo for the opportunity to testify.



TESTIMONY OF DAVE ERDMAN, PRESIDENT & CEO
RETAIL MERCHANTS OF HAWAII
FEBRUARY 17, 2026
COMMENTS ONLY FOR SB 3326 – RELATING TO ENERGY

Aloha Chair Dela Cruz, Vice Chair Moriwaki, and Members of the Committee:

My name is Dave Erdman, Interim President and CEO of Retail Merchants of Hawai'i (RMH). RMH is a statewide nonprofit trade association representing retailers, shopping centers, and allied businesses across Hawai'i.

RMH's core policy focus is supporting measures that help lower the cost of doing business, improve affordability for consumers, and support Hawai'i's retail workforce.

On SB 3326, RMH has heard from members with differing perspectives on the appropriate structure and regulation of Hawai'i's electric system. In light of these differing views, RMH is offering comments only and does not take a position on this measure.

Mahalo, for the opportunity to provide comments.

Respectfully submitted,
Dave Erdman
Interim President & CEO
Retail Merchants of Hawai'i



**Hawaiian
Electric**

**WRITTEN TESTIMONY BEFORE THE SENATE COMMITTEE ON
WAYS AND MEANS**

**SB 3326, SD1
Relating to Energy**

Thursday, February 19, 2026
10:30 AM

State Capitol, Conference Room 211 & Videoconference

Dear Chair Dela Cruz, Vice Chair Moriwaki, and Members of the Committee,

Hawaiian Electric is submitting testimony **in opposition** to SB 3326, SD1, Relating to Energy. Hawaiian Electric respectfully opposes this measure because it would introduce new operational risks that have yielded mixed results even on large, interconnected mainland systems. On Hawaii's isolated island grids, splitting utility operations poses outsized reliability and implementation risks and would add to customer costs, especially during a period of significant system transition as the company works toward meeting the state's mandate of a 100% renewable portfolio standard by 2045.

The Hawaii Public Utilities Commission (PUC) has previously considered and conclusively declined to pursue electric industry restructuring. After conducting a multi-year study on the matter in the early 2000s, the PUC concluded that "projections of any potential benefits of restructuring Hawaii's electric industry are too speculative and it has not been sufficiently demonstrated that all consumers in Hawaii would continue to receive adequate, safe, reliable, and efficient energy services at fair and reasonable prices." (See Decision and Order No. 20584 issued on October 21, 2003, in Docket No. 96-0493.) Subsequently, in testimony the PUC submitted on a similar bill in the 2012 legislative session (HB 2400, 2012 Haw. Sess. Laws), the PUC stated that it did not believe that

there was any new evidence to significantly alter the PUC's previous findings, and Hawaiian Electric submits that holds true today. The Consumer Advocate also did not support the measure, and this Legislature did not act on it. Nothing material has changed to undermine these determinations.

Structural separation is unlikely to deliver the lower customer bills or improved outcomes that the bill envisions. More than half of the costs reflected in customer rates—fuel and purchased power—would remain unchanged under a separated model, and Hawaii's isolated island grids make it extremely difficult to create a competitive wholesale market capable of driving down prices. Hawaii already achieves robust competition through the PUC's competitive bidding framework, where 40–50% of all new generation is procured from independent power producers through transparent and regulated processes designed to secure the lowest reasonable cost for ratepayers. Given these factors, mandating structural separation would introduce unnecessary risk while providing little, if any, benefit to customers.

There are several additional considerations that weigh against moving this bill forward. First, mainland electric restructuring models depend on conditions that do not exist in Hawaii. While separation of transmission and generation is described in the bill preamble as having various benefits, in practice it has been implemented primarily in systems with characteristics that fundamentally differ from Hawaii's electric system. On the mainland, physical interconnection and regional backstops allow power to be imported and redistributed when individual resources fail or demand spikes. The mainland electric grid has a large system scale, redundancy and centralized institutions, such as regional operators or market administrators, that replace vertical integration with continuous, real-time coordination. These features allow mainland systems to absorb the additional complexity created by restructuring. Hawaii's island grids lack those buffers. Each island

must balance supply and demand internally at all times, without the ability to lean on neighboring systems.

Second, separation does not eliminate coordination—it relocates it. Transmission and generation are operationally inseparable in small, isolated grids. Reliability depends on seamless coordination across resource adequacy and capacity planning, dispatch and congestion management, maintenance scheduling, and emergency operations and system restoration. Mandating structural separation introduces additional interfaces where alignment must occur—often through contracts, compliance processes, and regulatory enforcement rather than direct operational control. This can create (1) fragmented accountability, where responsibility for outcomes is split across entities; (2) higher transaction and governance costs, including duplicative oversight and dispute resolution; and (3) slower decision-making during contingencies, when speed and clarity are critical. Large mainland systems mitigate these risks through redundancy and institutional depth. Hawaii’s island grids do not have that margin for error.

Hawaii’s isolated grids magnify the consequences of misalignment. In Hawaii, the loss or delay of a single resource can quickly become a system-wide reliability issue. Planning and operational decisions that might be manageable on the mainland—where there are dozens of alternatives—carry far greater consequences here. Structural separation increases the risk that transmission upgrades and generation additions become misaligned in timing or scope; disagreements over cost responsibility delay critical investments; and system operators must manage emergencies across organizational boundaries rather than within a unified operational structure. These are not theoretical concerns. In isolated systems, coordination failures are felt immediately and locally by customers.

In addition, this bill risks higher costs and slower execution during a critical transition period. Hawaii's electric system is already navigating overlapping challenges, including changes in resource mix, resilience needs, and evolving operational requirements. Mandated separation would require significant organizational restructuring and new governance frameworks at the same time utilities, regulators, and stakeholders must remain focused on execution. This increases the risk of: implementation delays affecting grid upgrades and resource additions; additional costs from duplicative functions and expanded administrative requirements; and diluted accountability, making performance oversight more difficult rather than more effective. For an island grid, these risks are magnified and can undermine both reliability and affordability.

In sum, separation of transmission and generation may function in large, interconnected systems that have scale, redundancy, and regional coordination mechanisms. Hawaii's island grids operate under fundamentally different conditions. Introducing structural separation here would add complexity and coordination risk without the physical or institutional backstops that make such models workable elsewhere. The majority of the costs that underlie customer bills would not be impacted by the restructuring proposed by this bill, and Hawaii already has a robust competitive bidding process for new generation overseen by the PUC and an Independent Observer, thus any cost decreases envisioned by the bill are unlikely to be realized. The PUC and Legislature have thoroughly examined this issue in the past and found that electric restructuring in Hawaii is not worth the risk, which remains the case today.

Accordingly, Hawaiian Electric **opposes** SB 3326, SD1. Thank you for this opportunity to submit written testimony.

SB-3326-SD-1

Submitted on: 2/16/2026 4:49:25 PM

Testimony for WAM on 2/19/2026 10:30:00 AM

Submitted By	Organization	Testifier Position	Testify
Beppie Shapiro	Individual	Oppose	Written Testimony Only

Comments:

An unjustifiable leap into an unknown type of utility management. Surely there's better ways to manage our utilities and the PUC process if necessary.

Thank you for the opportunity to submit testimony.



TESTIMONY BEFORE THE COMMITTEE ON WAYS AND MEANS

IBEW LOCAL 1260 — TESTIMONY IN OPPOSITION TO SB3326 SD1 WAM Hearing — Thursday, February 19, 2026 — 10:30 AM

Aloha Chair Dela Cruz, Vice Chair Morikawa, and Members of the Committees,

On behalf of the International Brotherhood of Electrical Workers Local 1260, we respectfully continue to **oppose** SB3326 SD1, and we want to begin by thanking the Senate Committees on Commerce and Consumer Protection and Energy and Intergovernmental Affairs for their work to improve the measure, particularly for adding language recognizing the importance of protecting and supporting workforce stability and continuity of skilled labor, including the protection of existing labor and collective bargaining agreements. We appreciate the Committees' efforts to address concerns raised by workers and acknowledge the importance of that recognition.

IBEW Local 1260 represents approximately 3,000 members across Hawai'i and Guam, including approximately 1,100 members who work in Hawai'i's electric utility system. These are local skilled workers who live here, raise families here, and respond to emergencies here. Our members are deeply committed to maintaining safe, reliable, and affordable electric service and supporting the State's clean energy transition.

While SD1 reflects meaningful progress, the measure still mandates a fundamental restructuring of Hawai'i's electric industry while leaving key workforce protections to future rulemaking. Although the bill directs the Public Utilities Commission to protect workforce stability and continuity, it does not establish clear, enforceable statutory protections regarding successorship, union recognition, preservation of wages and benefits, pension and healthcare continuity, or employee transition obligations if generation assets are transferred to new owners. Without these protections clearly established in statute, workers face uncertainty regarding long-term employment conditions and bargaining rights.

Structural separation of generation from transmission and distribution inherently carries workforce risks, including fragmentation across multiple employers, potential erosion of bargaining power, and uncertainty regarding job continuity. These risks exist regardless of intent language and are not fully addressed through general directives to regulators. Major structural changes to critical infrastructure systems should include explicit statutory guardrails to ensure workforce stability is not left to future regulatory interpretation.

IBEW Local 1260 believes that any restructuring proposal should first establish clear, enforceable labor protections before mandating structural changes to the industry. Doing so would provide certainty for workers, employers, regulators, and the communities that rely on safe and reliable electric service.

IBEW Local 1260 respectfully urges the Committee to hold SB3326 SD1. Mahalo for the opportunity to provide testimony.

TESTIMONY OF DISTRIBUTED GRID, LLC

Michael Lee, Principal

BEFORE THE SENATE COMMITTEES ON COMMERCE AND CONSUMER PROTECTION AND ENERGY AND INTERGOVERNMENTAL AFFAIRS

RE: S.B. 3326, RELATING TO ENERGY
POSITION: COMMENTS

Chair Keohokalole, Chair Wakai, Vice Chair Fukunaga, Vice Chair Chang, and Members of the Committees:

Thank you for the opportunity to submit comments on S.B. 3326. I submit these comments on behalf of Distributed Grid, LLC, a company focused on supporting utilities to create a customer-centric grid. We offer these comments to support the Committees' consideration of the issues this bill raises, and to suggest complementary measures that could strengthen the bill's framework regardless of the ultimate approach to generation ownership.

I. THE BILL ADDRESSES A STRUCTURAL COST CHALLENGE

Hawai'i's electricity costs reflect the structural realities of operating isolated island grids dependent on expensive imported fuel. At more than double the national average, these costs create real pressure on households, constrain economic development and business activity, and make it harder for the state to attract the investment it needs in housing and infrastructure. S.B. 3326 reflects a legislative judgment that new market structures may help address these cost pressures by introducing competitive discipline into the generation function. These comments are offered to support that inquiry and to suggest complementary measures that could strengthen whatever framework the Legislature adopts.

II. COMPETITION IN GENERATION REQUIRES COMPLEMENTARY MARKET INFRASTRUCTURE

The bill's core theory, that separating generation from transmission and distribution will enable competition and drive down costs, is sound in principle. However, the effectiveness of generation competition on an isolated island grid depends on market design elements that the bill currently delegates entirely to the Public Utilities Commission's rulemaking process. Two infrastructure investments merit the Legislature's attention as foundational complements to any restructuring effort.

A. Real-Time Wholesale Price Transparency

In mainland wholesale markets operated by ISOs and RTOs, a Security Constrained Economic Dispatch process runs every five minutes, producing a transparent marginal price of energy at each location on the grid. That price signal is the foundation on which all generation competition rests. Generators bid against it. Storage operators optimize around it. Demand response providers build business models on it. Without a visible real-time price, competition cannot be created.

Hawai'i has no equivalent today. Hawaiian Electric dispatches its generators to meet load, but the island grids present operational realities that make this process more complex than a textbook merit-order stack. Inflexible thermal units often operate at minimum generation levels even during periods of high solar output because their ramp rates cannot follow the steep evening decline in solar production. The result is that fuel is burned to keep units online even when the energy they produce is not strictly needed in the moment. In this operating environment, developing a meaningful marginal cost signal requires careful design work.

The Committees should consider directing Hawaiian Electric to develop and publish a real-time marginal cost signal, at a minimum on a five- or fifteen-minute interval basis, at defined pricing zones across each island grid. Hawaiian Electric is the entity best positioned to produce this signal because it operates the dispatch, maintains the network model, and has direct visibility into generator operating constraints. The PUC should oversee the design and ensure the methodology is transparent, but the utility itself should be the source and publisher of the data.

This work will not be trivial. The minimum generation constraints, renewable curtailment patterns, and limited interconnection between islands all present modeling challenges. But these are solvable engineering problems, and the value of solving them is large. A transparent price signal is the **foundational infrastructure** upon which all downstream competition depends. With it, distributed energy resource owners can determine when their assets are most valuable to the grid. Third party battery operators can optimize charge and discharge cycles. Demand response aggregators can build viable business models. And all of these businesses can create revenue streams without depending solely on centralized procurement timelines. Should Hawai'i choose to enable retail choice in the future, retailers would have a price against which to manage customer portfolios. Hawai'i does not need a full ISO. Its island grids are too small to justify that institutional overhead. But it does need the price transparency that an ISO provides, and this should be achievable.

B. Accelerated Interconnection for Flexible Distributed Energy Resources

On an island grid where new utility-scale generation is difficult to permit, site, and build, the number of independent generators competing to supply energy may remain limited regardless of ownership structure. If generation separation results in a small number of private generators controlling large thermal or renewable-plus-storage assets with limited entry from new competitors, ratepayers could face market power concerns that regulation alone may be hard to address.

Consumer-sited and distribution-level resources represent the most scalable source of competitive discipline available to Hawai'i's electricity system. Rooftop solar paired with batteries, smart water heaters, electric vehicle chargers with flexible charging capability, and community-scale storage can provide energy, reduce peak demand, and offer grid services that directly compete with and constrain the pricing power of larger generators. However, these resources can only perform this function if they can interconnect to the grid efficiently and if they can respond to the price signals described above.

The current interconnection process for distributed energy resources in Hawai'i, particularly for smart, grid-interactive assets capable of flexible operation, remains cumbersome and slow. Hosting capacity on many feeders is constrained, and the process does not distinguish between static resources that simply inject power and flexible resources that can modulate output and consumption in response to grid conditions. The Committees should consider directing the PUC to establish an expedited interconnection pathway specifically for flexible, grid-interactive distributed energy resources, recognizing that these assets provide system value that justifies differentiated treatment in the queue.

III. GENERATION SEPARATION CAN SHIFT CAPITAL INVESTMENT RISK AWAY FROM RATEPAYERS

One aspect of the bill that deserves emphasis is its potential to change how generation investment is financed. Under the current vertically integrated structure, every dollar spent building, repowering, or replacing a generation asset enters the utility's rate base, earns a regulated return, and is paid for by customers over the life of the asset. Ratepayers bear the full capital risk of these investments regardless of whether the resulting generation proves to be cost-competitive over time.

If generation is separately owned, the capital required to build or repower plants is invested at the owner's risk and recovered through competitive energy sales rather than through guaranteed rate base returns. Ratepayers pay only for the energy they receive at the price the market sets. If a generation investment produces energy more cheaply than alternatives, the investor earns a return. If it does not, the investor, not the ratepayer, absorbs the loss. This shift in risk allocation is a meaningful structural benefit of separation,

particularly for Hawai‘i, where the generation fleet needs substantial reinvestment in the coming decades to meet the state’s 100% renewable portfolio standard.

It is sometimes argued that regulated utilities benefit from a lower cost of capital than independent generators, and that this advantage offsets some of the benefits of competition. In practice, the comparison depends heavily on context.

IV. RETAIL CUSTOMERS SHOULD BE COMPENSATED FOR THE REAL-TIME VALUE THEY PROVIDE

The price transparency and interconnection reforms described above are necessary but not sufficient. For distributed resources to provide meaningful cost discipline on centralized generation, the customers and third parties that own and operate those resources need to be compensated at the real-time value they deliver to the grid.

Today, most distributed energy resources in Hawai‘i are compensated through static tariff structures that do not reflect the time-varying value of energy. A battery that discharges during the evening peak, when the system is relying on expensive thermal generation, provides far more value than one that discharges at midday when solar is abundant. Under current rate structures, that difference in value is largely invisible to the customer and rate design to change this is slow. The result is that customer-owned resources do not respond to grid conditions, and the competitive pressure they could exert on wholesale generation costs goes unrealized.

If Hawaiian Electric is directed to produce and publish a real-time marginal cost signal, the logical next step is to allow retail customers and their authorized agents (or retailer) to settle against that signal for the energy and grid services their assets provide. A customer whose battery dispatches during a high-cost hour should be credited at or near the wholesale marginal value of that dispatch. A customer whose smart water heater shifts load from a constrained period to an unconstrained one should see the savings reflected in their bill.

This approach is the most direct path to generation cost discipline available on a grid where new wholesale supply is hard to build. Every kilowatt-hour of flexible demand or distributed storage that responds to real-time price signals competes directly with centralized generation. Over time, this creates a dynamic in which generation owners must price their output competitively or lose load to customer-sited alternatives during peak times. That competitive pressure benefits all ratepayers, including those who do not own distributed resources, because it reduces the amount of expensive generation needed during peak hours and puts downward pressure on the wholesale costs that flow through to everyone’s bill.

This framework would also provide a durable compensation structure for new solar and storage customers. Rather than relying on periodically revised export tariffs that inevitably lag market conditions and generate regulatory contention, real-time export settlement allows the grid itself to signal the value of each kilowatt-hour exported. This simplifies rate design and eliminates a recurring source of regulatory friction for the utility and the PUC alike.

V. LEGACY POWER PURCHASE AGREEMENTS REQUIRE CAREFUL TREATMENT

Hawaiian Electric has entered into long-term power purchase agreements with independent renewable energy developers. These contracts represent binding financial obligations that will survive any restructuring of the utility’s generation function. The mechanism by which legacy PPA costs and benefits are allocated after separation will have a significant effect on whether restructuring delivers net savings to ratepayers.

If the market price of energy in a given period falls below the contract price of a legacy PPA, someone must absorb the difference. If it rises above the contract price, someone captures the surplus. Under the current structure, both the costs and the benefits flow through to ratepayers via the utility’s fuel and purchased power adjustment. After separation, a new allocation mechanism is needed. The design of that mechanism

should avoid creating barriers to peak time flexibility, barriers to retail competition, or obscuring the true cost of energy service. The Committees and the PUC should give this issue sustained attention during the rulemaking process, as the details of cost allocation will determine whether restructuring achieves its intended goals or simply rearranges the existing cost structure.

VI. THE PUC SHOULD HAVE EXPLICIT MARKET POWER MITIGATION AUTHORITY

On an island grid with a small number of generation facilities and no interconnection to neighboring systems, market power is a structural challenge of any wholesale market. A handful of units may be pivotal during peak hours, meaning the system cannot meet load without them. In that position, a generator may in theory bid above its marginal cost and set a clearing price that transfers wealth from ratepayers to generation owners without any corresponding efficiency gain. This challenge is important to address.

Mainland ISOs address this through formal market power mitigation frameworks: conduct-and-impact tests that flag when a generator's bid deviates significantly from a competitive reference level, and automatic mitigation procedures that cap bids at estimated marginal cost when market power conditions are detected. These frameworks are administered by independent market monitors who report to FERC and to the public.

The bill or the PUC's implementing rules should include explicit authority for the PUC or an independent third party to monitor and mitigate the exercise of market power in any restructured wholesale market. This should include the authority to impose bid caps or cost-based offer requirements in situations where competitive conditions do not exist, and to require transparent reporting of generator offer behavior. Without these protections, the benefits of restructuring could be captured by generation owners rather than passed through to ratepayers. The PUC's rulemaking should also consider whether an independent market monitoring function, modeled on the role that organizations in mainland markets, would be appropriate for Hawai'i's market structure.

VII. PROTECTING THE TRANSMISSION AND DISTRIBUTION RATE BASE

If the Legislature proceeds with generation separation, the bill or the PUC's implementing rules should include explicit provisions ensuring that the costs of generation asset divestiture, including stranded costs, asset valuation adjustments, and any transactional expenses, do not burden the transmission and distribution rate base. The financial health of the T&D entity is critical for grid modernization, wildfire mitigation, and the interconnection investments described above. Ratepayers should not bear the costs of restructuring the generation fleet through their wires charges.

VIII. SUMMARY OF RECOMMENDATIONS

I respectfully offer the following recommendations for the Committees' consideration as S.B. 3326 advances:

- 1. Direct Hawaiian Electric to develop and publish a real-time marginal cost signal.** The utility should be required to produce transparent, interval-level pricing data at defined zones across each island grid. This is the foundational market infrastructure without which generation competition cannot function effectively. The PUC should oversee the methodology, but the utility, as the system operator, should be responsible for producing and publishing the signal.
- 2. Establish an expedited interconnection pathway for flexible distributed energy resources.** Differentiate between static and flexible grid-interactive assets in the interconnection process, recognizing that flexible resources provide system value, including competitive cost discipline on generation, that justifies streamlined treatment.
- 3. Enable retail customers and authorized third parties to settle against real-time grid value.** Customers and their agents who provide energy, storage dispatch, or load flexibility should be compensated at or near the real-time marginal value their resources deliver. This is the mechanism through which distributed resources exert cost discipline on centralized generation, and it is especially important on an

island grid where new wholesale supply is difficult to build. For new solar and storage customers, real-time export settlement provides a durable compensation framework that simplifies rate design and reduces regulatory friction.

4. Address legacy PPA cost allocation in the rulemaking. The PUC should develop a transparent mechanism for allocating above-market and below-market PPA costs after separation. The design should avoid creating barriers to retail competition or obscuring the true cost of energy.

5. Grant the PUC explicit authority to monitor and mitigate market power. The PUC should have the authority to impose bid caps or cost-based offer requirements where competitive conditions do not exist, and to require transparent reporting of generator offer behavior. The rulemaking should consider whether an independent market monitoring function is appropriate for the scale and structure of Hawai'i's wholesale market.

6. Include explicit protections for the T&D rate base. Ensure that any generation divestiture costs are allocated to the generation side of the separation and do not burden the transmission and distribution entity or its ratepayers.

The phased approach through PUC rulemaking that S.B. 3326 envisions is a responsible framework for addressing these complex issues. The recommendations above are intended to ensure that the rulemaking process has the tools and direction to produce a market structure that delivers meaningful cost discipline for Hawai'i's electricity consumers, which is the purpose this bill seeks to serve.

Thank you for the opportunity to provide these comments.

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SB-3326-SD-1

Submitted on: 2/18/2026 6:04:02 PM

Testimony for WAM on 2/19/2026 10:30:00 AM

Submitted By	Organization	Testifier Position	Testify
James and Kathleen Love	Individual	Comments	Written Testimony Only

Comments:

Thank you for the opportunity to submit comments on the proposed SB3326

This process is new to us and we don't clearly understand the bill or the chain of events that may unfold from this point onward, or how to find out about those things. Is there a way for us to get assistance with that?

Our concerns are that the proposed Bill and its potential subsequent results are unclear and seem designed to be difficult to understand and that there is a lack of historical data or results of a system or financial structure, like the one proposed in the bill, to refer to for comparison.

We are in great hopes that the State Legislature's Representatives will be very careful in scrutinizing the proposed bill to insure that the citizens and environment of Hawaii will be protected from any proposed legislation that would direct our future energy supply away from affordable costs and true renewable/green energy.

We are retired and live on a fixed income and very wary of being exposed to any faux "green energy" schemes touting public benefits and jobs, like some that in our recent past have seemingly hit the ground running on our islands without thorough investigation and science/evidence based confirmations of outcomes.

Thank you for all that you do and for "keeping your eyes on the ball" of SB3326

Sincerely, Kathleen & James Love