BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

In the Matter of

PUBLIC UTILITIES COMMISSION

Instituting a Proceeding to Investigate
Performance-Based Regulation

DOCKET NO. 2018-0088

CITY AND COUNTY OF HONOLULU’S STATEMENT OF POSITION

AFFIDAVIT OF ROY K. AMEMIYA, JR.

AND

CERTIFICATE OF SERVICE

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The CITY AND COUNTY OF HONOLULU ("CITY"), by and through its attorneys,
PAUL S. AOKI, Acting Corporation Counsel, and Stephen D. Atwell, Deputy Corporation
Counsel, hereby submits its Performance-Based Regulation Phase 1 Statement of Position
pursuant to the Public Utility Commission ("PUC" or the "Commission")’s Order No. 35542,
Admitting Intervenors And Participant And Establishing A Schedule of Procedures in Docket
No. 2018-0088, Instituting a Proceeding to Investigate Performance-Based Regulation ("Order
No. 35542"), and Staff Proposal For Updated Performance-Based Regulation, dated February 7,
2019 ("Staff Proposal").

I. INTRODUCTION

Implementing Performance-Based Regulation ("PBR") to enhance customer value, drive
exemplary utility performance, and better align the incentives, investments, and operations of the

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1 Phase 1 of this proceeding focuses on establishing a “collaborative stakeholder process
according to a three-step conceptual framework: (1) identify priority goals and outcomes to
guide PBR development; (2) characterize and assess the existing regulatory framework; and
(3) identify changes to regulatory components and measures necessary to attain identified goals
and outcomes.” Staff Proposal, Executive Summary, at 9.
Hawaiian Electric Companies (“Companies” or “Utility”) with public policy goals is an important priority for the City. This is particularly true as the City establishes policies, programs, and projects to strengthen climate resilience, mitigate and adapt to the causes and impacts of climate change, and ensure long-term affordability and social equity for Oahu’s residents. The Commission’s process and framework for Phase 1 of the PBR proceeding has been constructive, and allowed for the creation of a substantial record to guide the development or modification of PBR elements in the next phase. The City offers the following Statement of Position and comments on the Staff Proposal.

II. DISCUSSION OF COMMISSION STAFF’S PROPOSED PBR FRAMEWORK

Overall, the City concurs with the Staff Proposal. Indeed, most of the City’s concerns and priorities related to electric utility service and performance are, or would be, addressed by the PBR goals, outcomes, and elements the Commission staff selected for further development. The Companies’ traditional core obligation to provide safe, affordable, and reliable power is well served by the Staff Proposal, as are the overall Regulatory Goals recommended by Commission staff to Enhance Customer Service, Improve Utility Performance, and Advance Societal Outcomes. The Commission identified and sufficiently addressed Regulatory Outcomes that are of vital importance to the City, its residents, and the broader stakeholder community. The Commission staff’s recommendation to employ a “portfolio approach” that mixes revenue

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2 The City is in the process of developing a resilience strategy and climate action plan to address emergent challenges related to climate change and other societal stressors. For more see resilientoahu.org
3 The City proposed Carbon Intensity (GHG Reduction); Cost Control; Grid Planning Effectiveness; Resource or Grid Solutions Procurement Transparency; and Resilience and Corporate Sustainability as Priority Outcomes in the City’s Regulatory Assessment Brief, filed October 25, 2018.
4 See Staff Proposal at 10.
adjustment mechanisms ("RAMs"), performance mechanisms, and other regulatory mechanisms is appropriate given limited resources, the potentially disruptive nature of PBR, and the need to both manage and balance transition costs and risks. The Staff Proposal, if implemented and harmonized with related system planning efforts and regulatory proceedings (e.g., integrated grid planning ("IGP"), grid-scale renewable energy and storage procurement, and community-based renewable energy would represent a significant step forward for the State’s energy system transformation and related public policy goals.\(^5\) PBR would also align the Companies’ incentives with various City-specific objectives related to transportation; energy conservation and on-site renewable power generation; community resilience; hazard mitigation and disaster preparedness; and social equity and long-term affordability.\(^6\)

Transitioning to Phase 2 of this proceeding, which will focus on “design and implementation of new or updated regulatory mechanisms to achieve the priority outcomes identified in Phase 1," the City provides comments and seeks further clarification on a number of discrete elements of the Staff Proposal:

A. Benefits Of A Holistic Cost-Benefit Framework

The City notes that some of the recommended measures may potentially limit the ambition, scope, or analytical purview of Phase 2 and could elevate the interests or concerns of creditors and shareholders over those of the public and the Companies’ customers. In the Staff Proposal, Executive Summary, at 9.

\(^5\) See, e.g., Act 97, Relating to Renewable Standards, which established a 100% renewable portfolio standard by 2045 (signed into law on June 8, 2015) and Act 15, Relating to Environmental Protection, which established a carbon neutrality target by 2045 (signed into law on June 4, 2018).

\(^6\) For a discussion of the City’s interest in PBR, see City’s Motion to Intervene, filed May 8, 2018.

\(^7\) Staff Proposal, Executive Summary, at 9.
Proposal, the Commission discusses the need, imperative, and opportunity for regulatory reform. The City concurs that this proceeding presents a historic opportunity, given the fact that Hawaii has the highest electricity rates in the nation, the high and volatile global fossil fuel markets, and the falling costs for renewable energy. Accordingly, it is possible to lower overall system costs to the benefit of all customers by expeditiously adding renewable generation sources to the grid. The City supports these efforts along with improvements to the regulatory framework that will advance these objectives more effectively. The fact that renewable energy costs are lower than overall system costs is an unmitigated good that should drive utility and system planning for the foreseeable future.

In addition to providing immediate cost relief, the PBR framework should consider the longer-term social costs of carbon, assigning actual dollar value to “invisible” or externalized costs and benefits related to climate impacts, and other environmental and social criteria. The low levelized cost of energy (“LCOE”) of recent power purchase agreements (“PPAs”), which the Commission cites, does not include environmental and other benefits of carbon mitigation. Therefore, the total electricity system and overall socio-economic benefits the projects provide is not completely represented by LCOE, i.e., the projects’ benefits may outweigh their costs at higher LCOEs. While the recent solar contracted PPA costs happen to coincide with the Priority Outcomes of Affordability and Cost Control, which are beneficial across the board, the primary rationale for adding renewable energy and modernizing the grid should not be solely confined to immediate cost relief. The rationale must also acknowledge longer-term, holistic costs and the need to strengthen climate resilience; mitigate and adapt to the causes and impacts

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8 See Staff Proposal, Introduction, at 2-8
9 See Staff Proposal, Figure 1 and associated narrative, at 3-4.
of climate change; secure long-term affordability; and ensure a just and equitable transition to a de-carbonized economy, accounting for an unequal distribution of risk, burden, and benefit. Certain identified Priority Outcomes may be undermined if efforts are not taken to develop a more holistic cost-benefit framework that internalizes certain external costs or benefits in capital investment and operating decisions. For example, projects that have the same or similar forecasted LCOE may provide different costs and benefits in terms of sustainability, resilience, or other social factors due to different location, ownership structure, or other factors so it would be beneficial to have a more systematic framework to assess cost-benefit analysis of these factors. Moreover, projects that serve critical needs beyond clean energy and capacity, such as resilience or climate adaptation, may have higher LCOEs and be disqualified without sufficient consideration of the non-internalized factors.

The City recommends that any metrics, scorecards, or performance incentive mechanisms ("PIMs") that incorporate financial or cost criteria should also include environmental and social factors (e.g., the social cost of carbon) in the analysis. Where these costs are not built into the regulatory framework or cost benefit analysis framework upfront, the City and its taxpayers will bear the externalized costs in the form of storm damage, infrastructure adaptation to climate change, and other public expenses. As discussed in the City’s Regulatory Assessment Brief, filed October 25, 2018, a more comprehensive framework will allow for better decision-making and a more efficient allocation of scarce resources to meet economic, environmental, and societal public policy priorities.10

10 See City’s Regulatory Assessment Brief, filed October 25, 2018, at 5-8.
B. **Additional Guiding Principles**

The Commission staff’s recent inclusion of three new “guiding principles”—

(1) customer-centric approach; (2) administrative efficiency; and (3) utility financial integrity—may risk overemphasizing near-term financial cost considerations over a more comprehensive, inter-temporal cost-benefit analysis framework that includes societal and environmental criteria. Without more guidance on how to rank or incorporate these principles along with the Regulatory Goals and Prioritized Outcomes, it may lead to suboptimal decision-making or outcomes. While cost-benefit analysis frameworks for evaluating utility investments may be taken up in other, related Commission proceedings (e.g., IGP), their inclusion within certain PBR elements should be an essential driver of bedrock incentives.

1. **Customer-Centric Approach**

The City agrees that the Companies should focus on providing customer service, quality, and value, and that a delay in doing so harms customers; however, the City asks the Commission to clarify the requirement for the PBR framework to provide “meaningful, verifiable, ‘day-one’ savings for utility customers.” If there are PBR measures that provide more meaningful customer benefits over a longer time period, or are targeted to underserved, vulnerable, or low-to moderate income ("LMI") customers, for instance, how should those PBR measures be prioritized relative to providing day-one savings for all customers? This question is a fundamental consideration for PBR and part of the Commission’s traditional role in regulating the Utility’s investment and service procurement decisions.

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11 See Staff Proposal, at 10.
2. **Administrative Efficiency**

PBR should lower the Companies’ administrative and regulatory burden, but reducing administrative costs or complexity should be balanced against the benefits achieved by attaining the identified regulatory goals and priority outcomes. Because they are new or innovative, some provisions of PBR will have transition and implementations costs associated with them. But these additional transition costs, or investments, may pay off in time. If resource constraints limit the ability to achieve a desired outcome, that should be recorded so that policy decision-makers can understand the trade-off or compromise.

3. **Financial Integrity**

The City does not question the need to maintain the Utility’s financial integrity. Indeed, it is critical to maintain access to low-cost capital so that the Utility can effectively fulfill its role and obligations as a counterparty to third-party developers and a “gatekeeper” of the grid. As a vertically-integrated regulated monopoly, the Companies provide and maintain vital public goods, including traditional services such as electrical power, energy capacity, and grid-connectivity. However, the Companies’ role will need to evolve to provide financial resources to support grid modernization, de-carbonization, and resilience. Within rational bounds, these vital public goods should not be sacrificed for an overly stringent view of credit quality, bond-rating, or quarterly earnings. With the recent bankruptcy of Pacific Gas and Electric in California, the financial hazards to electric utility companies from climate change impacts is coming to the fore and ensuring that the Companies are investing a sufficient amount to ensure grid resilience and modernization may actually protect the long-term viability of the single utility provider on which the City and its residents rely. Therefore, any discussion of financial integrity must include
consideration of the trade-offs of rationing capital for critical resilience infrastructure as well as public policy priorities such as sustainability and environmental justice.12

C. Greenhouse Gas ("GHG") Reduction

The City urges the Commission to consider developing a GHG Reduction PIM, or attaching a financial incentive or reward for accelerated GHG Reduction. Although creating a scorecard will be beneficial to achieving the GHG Reduction, both the urgency of climate action and the value that early carbon mitigation brings to the public, warrants a stronger incentive. State law requires increasing renewable energy to 100% of electricity sales and achieving carbon neutrality by 2045, and the City is in the process of developing a comprehensive climate action plan to augment the State’s commitments. PBR can, and should, be utilized to support, accelerate, and reward early attainment of these goals. The urgency of accelerating GHG Reduction has been supported by recent reports from the United Nations Intergovernmental Panel on Climate Change ("IPCC") and the United States’ Fourth National Climate Assessment ("NCA4").13 Moreover, early and accelerated carbon mitigation provides a net benefit and value to society overall and specifically to the City, which will see cost savings and faces rising

unfunded liabilities and financial risks covering the costs of future climate impacts and adaptation.\textsuperscript{14}

While the City would prefer developing a mechanism tied to mass-based carbon dioxide equivalent ("CO2e") emissions reductions relative to a target forecast, the City understands that GHG Reduction can also be supported by a PIM to accelerate renewable portfolio standards attainment or reduce fossil fuel consumption.\textsuperscript{15} Furthermore, the City continues to recommend coordinating a GHG Reduction PIM with a phase-out of the energy cost adjustment clause ("ECAC") or energy cost recovery clause ("ECRC").\textsuperscript{16}

The City believes that using a mass-based CO2e metric versus a rate-based carbon-intensity figure for a PIM would be more effective and easier to implement as it is aligned with GHG inventories that have recently been released by the State and the City. While carbon-intensity per megawatt-hour generated or carbon-intensity per capita are important metrics to track progress, the City continues to believe that the core PIM should use a mass-based metric.

\textbf{D. Comments on Specific Elements of Proposed Framework}

\textit{1. Multi-Year Rate Plan ("MRP") and Indexed Revenue Cap ("RevCapIndex")}

The City concurs with the Commission staff’s recommendation to implement the MRP with a five-year control period and a RevCapIndex (a revenue cap tied to an external index such


\textsuperscript{15} See the Ulupono Initiative’s Metrics Brief, filed January 4, 2019, at 16.

\textsuperscript{16} See City’s Metrics Brief, Section C, filed January 4, 2019, at 12-16.
as the consumer price index or gross domestic product ("GDP") growth). The MRP should contribute significantly to several Priority Outcomes, most notably Cost Control, and will reduce the administrative burden associated frequent and labor-intensive rate cases. It is appropriate to peg interim rate increases to inflation with adjustments to account for: (1) productivity ("X-Factor"); (2) extraordinary, unforeseen, or exogenous events/needs ("Z-Factor"); and (3) consumer dividends. However, the City concurs that the choice of inflation measure needs careful consideration. Because the GDP price index ("GDPP") includes a broader gauge of producer prices, it may not be the most appropriate or relevant measure to guide increases in consumer-facing rates. If the consumer price index ("CPI") is chosen (which the City believes may be the most appropriate choice) whether or not to include volatile energy and food prices will be an important question. Another question is whether to use a broad U.S.-based gauge versus a Hawaii or region-specific gauge. This is material because the GDPRP, CPI, and regional gauges diverge in significant ways, and the differences will compound with the extended plan period.

The City appreciates the inclusion of a consumer dividend as a means of sharing the benefits of cost containment since customers bear the ultimate cost and risk of funding the system needs. The City welcomes a discussion of how the Major Project Interim Recovery ("MPIR") mechanism could be incorporated in the Z-Factor as this may prove to be more efficient from an administrative and resource standpoint. As noted in prior filings, the City sees potential for the MPIR to incent performance relative to critical public works related to the Grid Investment Efficiency, Electrification of Transportation, Resilience, or Social Equity.\textsuperscript{17}

\textsuperscript{17} See City Metrics Brief at 11 and 16.
2. **Revenue Decoupling**

The City agrees that decoupling revenue from electricity sales is an important means to maintain incentives for energy efficiency. Rebalancing over or under-recovery, *i.e.*, “truing up,” on a yearly basis with the revenue balancing account (“RBA”) is appropriate and will mitigate potential harm.

3. **Earnings Sharing Mechanism ("ESM")**

The ESM is a good idea to ensure fairness and balance risk and benefits between stakeholders. The question of how to distribute the benefits, *i.e.*, whether they should be fully baked into rates or used to fund other priorities, should be taken up in Phase 2.

4. **Other Cost Trackers**

While the City concurs with maintaining the purchased power and major project cost adjustment mechanisms related to projects or sources that further public policy and renewable energy goals, the City has concerns with maintaining the ECAC or ECRC and to the extent that fossil-fuel costs are passed through the purchased power adjustment clause (“PPAC”). While the risk-sharing in the ECRC is a step in the right direction, allowing the pass through of fossil-fuel-driven energy costs works counter to incentives to reduce GHG emissions, achieve 100% renewable energy, and reduce volatility and risk.

5. **Other Revenue Adjustment Mechanisms (“RAMs”)**

The City looks forward to exploring the other regulatory mechanisms identified in the Staff Proposal, including capex/opex equalization, totex accounting, shared savings mechanisms, and revenues for service-based offerings. In addition, the creation of a dedicated fund and expediting pilots for innovation will drive value. In addition, the City is participating in the IGP
process through its Stakeholder Council\textsuperscript{18} and is encouraged by plans to harmonize and integrate that process with PBR.


The City concurs with the Staff Proposal’s inclusion of an off-ramp provision, or provisions, to manage the risk of unforeseen consequences and notes that the inclusion of off-ramp provisions should also be matched by a willingness and ability to implement more innovative, comprehensive reforms such as a GHG Reduction PIM.

III. CONCLUSION

The City respectfully submits the foregoing PBR Phase 1 Statement of Position and welcomes the opportunity to answer any questions in our upcoming Reply. In Phase 2, the City acknowledges the need to explore a range of PBR incentives from more traditional earnings adjustment mechanisms, performance incentive mechanisms, and scorecards to emerging alternative regulatory mechanisms that would represent more comprehensive changes to the Utility’s business model and the Commission’s regulatory framework.\textsuperscript{19} While capital investments will be necessary to achieve the City’s Prioritized Outcomes—particularly regarding Resilience, Electrification of Transportation, and GHG Reduction—utilizing emerging technologies, operating practices, and other service-based innovations provided by third-party participants may more effectively serve customer and societal needs. Overall, meeting the City’s various objectives requires a non-biased utility that delivers value to customers and market participants by providing a robust and resilient platform for grid services. In this respect, the

\textsuperscript{18} The Stakeholder Council is comprised of stakeholders from government, academia, and the private sector, among others, to help Hawaiian Electric Company, Inc. with planning processes.

\textsuperscript{19} See Staff Report #1, filed July 10, 2018, at 11; see also Order No. 35542 at 56.
City appreciates the Commission's openness to considering alternative regulatory mechanisms in Phase 2.


STEPHEN D. ATWELL
Deputy Corporation Counsel
Attorney for the
CITY AND COUNTY OF HONOLULU
ROY K. AMEMIYA, JR., hereby first duly sworn on oath, deposes and says:

1. Since 2015, I have been the Managing Director of the Managing Director’s Office of the City and County of Honolulu.

2. My work address is 530 South King Street, Room 306, Honolulu, Hawaii 96813.

3. The factual statements contained in the CITY AND COUNTY OF HONOLULU (the “City”)’s STATEMENT OF POSITION truly and accurately represent the City’s position to the best of my knowledge and belief.
Further affiant sayeth naught.

DATED: Honolulu, Hawaii, March \_
\_, 2019.

ROY K. AMEMIYA, JR.

STATE OF HAWAII

) ) SS.
)

This 2-page Affidavit of Roy K. Amemiya, Jr. in Docket No. 2018-0088, In the Matter of Public Utilities Commission, Instituting a Proceeding to Investigate Performance-Based Regulation, undated at time of notarization, was subscribed and sworn to before me this \(\_\)
\_ day of March, 2019, in the First Circuit of the State of Hawaii by ____________.

Notary Public, State of Hawaii

My commission expires: 04/01/2022

ROY K. AMEMIYA, JR.
BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

In the Matter of

PUBLIC UTILITIES COMMISSION

DOCKET NO. 2018-0088

CERTIFICATE OF SERVICE

Instituting a Proceeding to Investigate
Performance-Based Regulation

CERTIFICATE OF SERVICE

THE UNDERSIGNED HEREBY CERTIFIES that I have filed and served on this date, an original copy and eight (8) copies of the CITY AND COUNTY OF HONOLULU’s Statement of Position and Affidavit of Roy K. Amemiya, Jr., in Docket No. 2018-0088, by hand-delivery, to the Public Utilities Commission at the following address:

JAMES P. GRIFFIN
Commissioner
Public Utilities Commission
465 South King Street, Suite 103
Honolulu, Hawaii  96813

THE UNDERSIGNED HEREBY FURTHER CERTIFIES that I have served on this date copies of CITY AND COUNTY OF HONOLULU’s Statement of Position and Affidavit of Roy K. Amemiya, Jr., in Docket No. 2018-0088, by hand delivery and/or email electronic service, to the following addresses:

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