

JAN 25 2006

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# 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 Hawaii's dependence  
2 on petroleum for about ninety per cent of its energy needs is  
3 more than any other state in the nation. This makes the State  
4 extremely vulnerable to any oil embargo, supply disruption,  
5 international market dysfunction, and many other factors beyond  
6 the control of the State. Furthermore, the continued  
7 consumption of conventional petroleum fuel negatively impacts  
8 the environment.

9           The legislature also finds that increased energy efficiency  
10 and use of renewable energy resources would increase Hawaii's  
11 energy self-sufficiency, achieving broad societal benefits,  
12 including increased energy security, resistance to increases in  
13 oil prices, environmental sustainability, economic development,  
14 and job creation.

15           Over the years, the legislature has worked steadily to  
16 encourage the deployment of renewable energy resources and  
17 energy efficiency initiatives. This includes but is not limited  
18 to: establishing a net energy metering program, interconnection



1 standards, and renewable energy tax credits; establishing  
2 greenhouse gas and energy consumption reduction goals for state  
3 facilities and requiring the use of energy efficient products in  
4 state facilities; and providing incentives for the deployment of  
5 solar energy devices. The legislature also established an  
6 enforceable renewable energy portfolio standard, under which  
7 twenty per cent of Hawaii's electricity is to be generated from  
8 renewable resources by the end of 2020.

9 To shape Hawaii's energy future and achieve the goal of  
10 energy self-sufficiency for the State of Hawaii, our efforts  
11 must continue on all fronts, integrating new and evolving  
12 technologies and providing incentives and assistance to address  
13 barriers. The purpose of this Act is to provide a comprehensive  
14 approach to achieving energy self-sufficiency for the State by:

- 15 (1) Increasing the renewable energy technologies income  
16 tax credit for certain wind-powered and photovoltaic  
17 energy systems and removing the tax credits' 2008  
18 sunset date;
- 19 (2) Authorizing the issuance of general obligation bonds  
20 to develop and implement a pilot project to install  
21 photovoltaic systems at public schools on the islands  
22 of Oahu, Hawaii, Maui, and Kauai;



- 1           (3) Requiring the incorporation of Leadership in Energy in  
2           Environmental Design silver standards for buildings  
3           constructed or substantially renovated with funding  
4           consisting of fifty per cent or more in state funds to  
5           enable the State to access creative engineering and  
6           design guidelines and promote green building  
7           practices;
- 8           (4) Authorizing the issuance of general obligation bonds  
9           to bring state facilities into compliance with the  
10          purposes of Act 77, Session Laws of Hawaii 2002,  
11          which, among other things, establishes greenhouse gas  
12          and energy consumption reduction goals for state  
13          facilities; and
- 14          (5) Establishing the Pay As You Save pilot project to  
15          provide a financing mechanism to make purchases of  
16          residential solar hot water heater systems more  
17          affordable.

18           This Act shall be called the Energy Self-Sufficiency Act of  
19 2006.

20           SECTION 2. Section 235-12.5, Hawaii Revised Statutes, is  
21 amended by amending subsection (a) to read as follows:

1           "(a) When the requirements of subsection (c) are met, each  
2 individual or corporate resident taxpayer that files an  
3 individual or corporate net income tax return for a taxable year  
4 may claim a tax credit under this section against the Hawaii  
5 state individual or corporate net income tax. The tax credit  
6 may be claimed for every eligible renewable energy technology  
7 system that is installed and placed in service by a taxpayer  
8 during the taxable year. This credit shall be available for  
9 systems installed and placed in service after June 30, 2003.

10 The tax credit may be claimed as follows:

11           (1) Solar thermal energy systems for:

12                   (A) Single-family residential property: thirty-five  
13                           per cent of the actual cost or \$1,750, whichever  
14                           is less;

15                   (B) Multi-family residential property: thirty-five  
16                           per cent of the actual cost or \$350 per unit,  
17                           whichever is less; and

18                   (C) Commercial property: thirty-five per cent of the  
19                           actual cost or \$250,000, whichever is less;

20           (2) Wind-powered energy systems for:

- 1 (A) Single-family residential property: twenty per
- 2 cent of the actual cost or \$1,500, whichever is
- 3 less;
- 4 (B) Multi-family residential property: twenty per
- 5 cent of the actual cost or \$200 per unit,
- 6 whichever is less; and
- 7 (C) Commercial property: twenty per cent of the
- 8 actual cost or [~~\$250,000,~~] \$500,000, whichever is
- 9 less; and

10 (3) Photovoltaic energy systems for:

- 11 (A) Single-family residential property: thirty-five
- 12 per cent of the actual cost or [~~\$1,750,~~] \$5,000
- 13 whichever is less;
- 14 (B) Multi-family residential property: thirty-five
- 15 per cent of the actual cost or \$350 per unit,
- 16 whichever is less; and
- 17 (C) Commercial property: thirty-five per cent of the
- 18 actual cost or [~~\$250,000,~~] \$500,000 whichever is
- 19 less;

20 provided that multiple owners of a single system shall be

21 entitled to a single tax credit; and provided further that the

1 tax credit shall be apportioned between the owners in proportion  
2 to their contribution to the cost of the system.

3 In the case of a partnership, S corporation, estate, or  
4 trust, the tax credit allowable is for every eligible renewable  
5 energy technology system that is installed and placed in service  
6 by the entity. The cost upon which the tax credit is computed  
7 shall be determined at the entity level. Distribution and share  
8 of credit shall be determined pursuant to section 235-110.7(a)."

9 SECTION 3. Act 207, Session Laws of Hawaii 2003, is  
10 amended by amending section 4 to read as follows:

11 "SECTION 4. This Act shall take effect on July 1, 2003[  
12 ~~and shall be repealed January 1, 2008~~]."

13 SECTION 4. The director of finance is authorized to issue  
14 general obligation bonds in the sum of \$5,000,000, or so much  
15 thereof as may be necessary, and the same sum, or so much  
16 thereof as may be necessary, is appropriated for fiscal year  
17 2006-2007 for the purpose of developing and implementing a  
18 photovoltaic pilot project for one public school on each of the  
19 islands of Oahu, Maui, Hawaii, and Kauai. The project sites  
20 shall be determined by the department of education as most  
21 suitable to achieving the pilot project's objectives. The  
22 project objectives shall focus on the: installation of

1 photovoltaic systems in conjunction with substantial roof  
 2 repairs to a building; application of net metering to offset  
 3 costs of the system; and recapture of system costs within three  
 4 quarters of the useful life on the photovoltaic system. The  
 5 sums appropriated shall be expended by the department of  
 6 education.

7 SECTION 5. Chapter 196, Hawaii Revised Statutes, is  
 8 amended by adding a new section to be appropriately designated  
 9 and to read as follows:

10 "§196- Leadership in Energy and Environmental Design  
 11 silver standards for newly constructed or substantially  
 12 renovated facilities. All design that is initiated on or after  
 13 January 1, 2006, for construction of a building or substantial  
 14 renovation of a building, utilizing fifty per cent or more in  
 15 state funds, shall incorporate Leadership in Energy and  
 16 Environmental Design silver standards developed by the United  
 17 States Green Building Council."

18 SECTION 6. The director of finance is authorized to issue  
 19 general obligation bonds in the sum of \$100,000,000, or so much  
 20 thereof as may be necessary, and the same sum, or so much  
 21 thereof as may be necessary, is appropriated for fiscal year  
 22 2006-2007 for the purpose of making improvements to state

1 facilities to bring them into compliance with the purposes of  
 2 Act 77, Session Laws of 2002; provided that priority for the  
 3 energy conservation projects in existing public buildings shall  
 4 be based on those buildings that result in immediate payback in  
 5 cost savings and conservation. The sum appropriated shall be  
 6 expended by the department of accounting and general services  
 7 for the purposes of this Act.

8 SECTION 7. The appropriations made for the capital  
 9 improvement projects authorized by this Act shall not lapse at  
 10 the end of the fiscal biennium for which the appropriation is  
 11 made; provided that all moneys from the appropriation  
 12 unencumbered as of June 30, 2008, shall lapse as of that date.

13 SECTION 8. Chapter 269, Hawaii Revised Statutes, is  
 14 amended by adding a new part to be appropriately designated and  
 15 to read as follows:

16 **"PART . ENERGY EFFICIENCY MARKET-BASED INITIATIVE**

17 **§269- Definitions.** For the purposes of this part:

18 "Certification process" means a process approved by the  
 19 commission whereby a public utility approves the pay as you save  
 20 financing method for the renewable energy technology measure to  
 21 be installed in the dwelling unit as being cost effective and  
 22 efficient.





1 "Commission" means the public utilities commission.

2 "Cost-effective renewable energy technology measures" means  
3 renewable energy technology measures with sufficient estimated  
4 electricity or gas savings, determined by rates in effect at the  
5 time of purchase, and other quantifiable non-energy savings that  
6 are sufficient to cover all costs (e.g., financing charges and  
7 any program fees) by payments of no more than three-quarters of  
8 the estimated savings within a period no greater than three-  
9 quarters of the estimated useful life of the measure.

10 "Pay as you save model system" means the market-based  
11 system based on the "Pay As You Save" model:

12 (1) Whereby electric and gas utility customers may  
13 purchase cost-effective renewable energy technology  
14 products or services with no upfront payment, pay the  
15 cost of the renewable energy technology over time on  
16 their electric or gas bill, and bear no obligation to  
17 continue payments if the residential customer no  
18 longer can receive the benefit of the energy savings;  
19 and

20 (2) That contains the following three essential elements:



1 (A) A pay as you save model system fee that assigns  
2 repayment of permanent measures to the meter  
3 location;

4 (B) Billing and payment through a charge included in  
5 the energy utility distribution charges; and

6 (C) Certification that the measures and installations  
7 are appropriate and that estimated savings will  
8 exceed payments.

9 "Pay as you save model system fee" means the fee that is  
10 established by the public utility to defray costs of the  
11 program, subject to approval by the commission.

12 "Permanent measures" means renewable energy technology  
13 measures that are likely to remain in the premises where  
14 installed, notwithstanding the subsequent departure by occupants  
15 of the premises.

16 "Portable measures" means renewable energy technology  
17 measures that are susceptible of being removed by occupants upon  
18 their departure from the premises where these measures were  
19 installed.

20 "Renewable energy" means energy produced by solar, energy  
21 conserved by passive solar design, or daylighting.



1 "Renewable energy technology" means technology that uses  
2 renewable energy to provide hot water to a dwelling unit.

3 "Residential consumer" means a residential tenant or  
4 property owner who resides in the dwelling unit in which the  
5 cost-effective renewable energy technology measure is installed  
6 and operated.

7 **§269- Pay as you save model system for residential**  
8 **consumers; established.** No later than March 1, 2007, the  
9 commission shall adopt rules and procedures in accordance with  
10 chapter 91 to monitor a public utility's pay as you save model  
11 system program for residential consumers of electricity and gas  
12 utilities as required under this part.

13 **§269- Gas and electric utilities; pay as you save model**  
14 **system; established.** (a) No later than July 1, 2007, each  
15 Hawaii gas and electric utility shall:

- 16 (1) Submit for approval by the commission a pay as you  
17 save model system, including the proposed fee to  
18 defray the costs of the program;
- 19 (2) Prepare and make available suitable agreements,  
20 releases, and other necessary forms for residential  
21 customers, landlords, capital providers, and vendors  
22 to make use of the pay as you save model system;



1           (3) Determine the methodology for certifying energy  
2           efficiency measures as appropriate for the intended  
3           use and cost-effectiveness;

4           (4) Identify the capital providers who pay the up front  
5           costs for these products, including vendors who  
6           finance the sale and installation of their products;  
7           and

8           (5) Prepare a plan to disseminate information concerning  
9           the pay as you save model system to the public,  
10          potential participating residential customers,  
11          vendors, financing entities, and other interested  
12          persons.

13          (b) The public utility may adopt the pay as you save model  
14 as modified by this part or any program that meets the  
15 objectives of this part.

16          (c) Payments made by utilities to administer the program  
17 required under this part may be offset by charges to residential  
18 consumers of renewable energy technology measures using the pay  
19 as you save model system; provided that for each residential  
20 consumer, this charge and all other program charges, except for  
21 interest costs, shall not exceed:



1           (1) One-half of one per cent of the total cost of the  
2           installed renewable energy technology product or  
3           service for projects less than \$7,000; or

4           (2) One per cent of the total cost of projects greater  
5           than \$7,000.

6           **§269- Certification of renewable energy technology**

7 **measures.** Only renewable energy technology measures certified  
8 as being cost effective and appropriate may be purchased using  
9 the pay as you save model fee. The utility may extend the term  
10 of a pay as you save model fee to the original or successor  
11 residential consumers at a location where renewable energy  
12 technology measures have been installed until all costs for  
13 these measures have been recovered, including costs due to  
14 repairs and missed payments.

15           **§269- Participation in the pay as you save program;**

16 **consumer contract simplification.** In the interest of reducing  
17 transaction costs and simplifying the pay as you save model  
18 system for residential consumers, if requested by a residential  
19 consumer, an electric utility shall include gas saving measures  
20 under its fee, or the gas utility shall include electricity  
21 saving measures under its fee, so residential consumers who  
22 purchase renewable energy technology products under this program

1 shall only have to sign one contract and pay a single pay as you  
2 save model system fee charge."

3 SECTION 9. The commission shall ensure that all reasonable  
4 costs incurred by gas or electric utilities to start up and  
5 implement the pay as you save model system are recovered as part  
6 of the utility's revenue requirement, including but not limited  
7 to necessary billing system adjustments and any costs for pay as  
8 you save model system efficiency measures that are not recovered  
9 via participating residential consumers' pay as you save model  
10 system bill payments or otherwise.

11 SECTION 10. This Act does not affect rights and duties  
12 that matured, penalties that were incurred, and proceedings that  
13 were begun, before its effective date.

14 SECTION 11. Statutory material to be repealed is bracketed  
15 and stricken. New statutory material is underscored.

16 SECTION 12. This Act shall take effect on July 1, 2006;  
17 provided that section 2 of this Act shall apply to taxable years  
18 beginning after December 31, 2005; and provided further that the  
19 increased tax credits established in section 2 of this Act shall





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SB. NO. 2957

**Report Title:**

Tax Credit; Renewable Energy Technologies

**Description:**

Increases renewable energy tax credit for photovoltaic systems and removes the credits' 2008 sunset date; authorizes bond issuances to install photovoltaic systems at public schools statewide and enable state facilities to meet greenhouse gas and energy consumption reduction goals; requires incorporation of leadership in energy in environmental design silver standards for certain state-funded facilities; establishes the pay as you save pilot project to help finance residential solar hot water systems.

