

MAR 10 2008

SENATE CONCURRENT RESOLUTION

REQUESTING THE AUDITOR TO CONDUCT A FINANCIAL AND MANAGEMENT
AUDIT OF THE NATURAL ENERGY LABORATORY OF HAWAII AUTHORITY.

1 WHEREAS, the principal purpose of the Natural Energy
2 Laboratory of Hawaii Authority (NELHA) is to provide services
3 and resources to tenant companies engaged in ocean-related
4 research, education, and products; and
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6 WHEREAS, the largest operating cost that NELHA has is the
7 provision of seawater to its tenants, all of whom are located at
8 NELHA because they need the seawater NELHA is capable of
9 providing in order to make their businesses viable; and
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11 WHEREAS, the NELHA Board of Directors, following the
12 directive of then Governor Cayetano in 1995, to become self-
13 sufficient, began raising the price of the seawater delivered to
14 tenants by twenty per cent a year until the operating cost of
15 that seawater delivery was actually being paid by the tenants;
16 and
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18 WHEREAS, in 2005, NELHA reviewed the actual cost to deliver
19 the water, as part of the preparation for the next rate
20 increase, and found that the previous year's twenty per cent
21 price increase did not cover the increased cost of the
22 electricity needed to pump the water; and
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24 WHEREAS, the NELHA Annual Report for Fiscal Year 2006
25 states that more than ninety per cent of the approximately
26 14,500 gallons per minute of produced seawater is used by
27 aquaculture tenants at a price of \$0.1728 per thousand gallons
28 (Kgals), purchases that are subsidized by NELHA from its own
29 funds; and
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31 WHEREAS, the balance of the water produced is purchased
32 by water bottling companies who pay \$0.60 per Kgal and a



1 charter high school that pays the actual operating cost of
2 producing the water; and

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4 WHEREAS, the 2006 report further states that NELHA has the
5 capability (with increased pump and motor capacity that would
6 cost approximately \$5,000,000) to deliver 97,900 gallons of
7 seawater per minute, 58,100 gallons of surface seawater, and
8 39,800 gallons of deep seawater; and

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10 WHEREAS, in February 2007 testimony on Senate Bill No. 853
11 (2007), NELHA stated that by 2007, investments in the water
12 system at NELHA totaled nearly \$40,000,000, with no provisions
13 for repair or replacement of the system; and

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15 WHEREAS, the system is unique in the entire world, with two
16 pipelines that reach down 2,000 feet into the sea and one that
17 reaches 3,000 feet; and

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19 WHEREAS, including replacement costs or the provision of
20 depreciation reserves for the seawater systems, the cost of the
21 water would be substantially more than \$0.1728 per kgal, with
22 estimates as high as the \$1.00 to \$2.00 per kgal range; and

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24 WHEREAS, the current and future cost associated with
25 seawater pumping, while significant, is only one component in
26 the operating costs of the NELHA facility; and

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28 WHEREAS, other facility costs, personnel costs, the
29 required transfers of ceded lands revenues to the Office of
30 Hawaiian Affairs, and the NELHA self-sufficiency mandate of
31 1995, all have a profound effect on the determination of water
32 rates for tenants; now, therefore,

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34 BE IT RESOLVED by the Senate of the Twenty-fourth
35 Legislature of the State of Hawaii, Regular Session of 2008, the
36 House of Representatives concurring, that the Auditor is
37 requested to conduct a financial and management audit of the
38 Natural Energy Laboratory of Hawaii Authority, including but not
39 limited to:

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41 (1) An evaluation of overall operating costs, including
42 facility costs, personnel costs, and the required
43 transfers of ceded lands revenues to the Office of



Hawaiian Affairs, as well as any pending or proposed capital improvement project costs;

(2) An evaluation of the operating costs for pumped seawater, the relationship of these costs to the past and current tenant rate structure for pumped sea water, as well as any pending or proposed capital improvement project costs for the pumped seawater systems;

(3) The impact of the NELHA self-sufficiency mandate of 1995, particularly its effect on the determination of water rates for tenants;

(4) Based on the information from (1) to (3), a determination of a reasonable rate structure for pumped sea water and what costs the tenants should assume, operating only, or operating and repair and replacement costs; and

(5) Any other considerations that the Auditor or NELHA may deem relevant; and

BE IT FURTHER RESOLVED that the Auditor is requested to submit a report of the findings and recommendations to the Legislature no later than twenty days prior to the convening of the Regular Session of 2009; and

BE IT FURTHER RESOLVED that NELHA is requested to freeze the rate that it charges for pumped sea water at the level in effect on the adoption of this Concurrent Resolution, until the Auditor completes the audit and reports to the Legislature, and the Legislature acts upon any recommendations by the Auditor; and

BE IT FURTHER RESOLVED that certified copies of this Concurrent Resolution be transmitted to the Auditor, the Chair of the NELHA Board of Directors, and the NELHA Tenants Association.

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OFFERED BY:

[Handwritten signature: R. K. K. K.]

[Handwritten signature: Jim]

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