

TESTIMONY BY GEORGINA K. KAWAMURA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON ENERGY & ENVIRONMENTAL PROTECTION
ON
HOUSE BILL NO. 2401

February 5, 2008

AUTHORIZING THE ISSUANCE OF SPECIAL PURPOSE REVENUE BONDS TO
ASSIST OCEANLIX HAWAII LLC.

House Bill No. 2401 authorizes the issuance of up to \$20,000,000 in special purpose revenue bonds to assist Oceanlinx Hawaii LLC in planning, designing, and constructing a wave energy, or hydrokinetic power facility in the State of Hawaii pursuant to Part V, Chapter 39A, Hawaii Revised Statutes.

The Department has a technical comment on this bill. Under Chapter 39A-157, Hawaii Revised Statutes, bonds issued may be for a single project, multiple projects, a single-project party, or multiple-project parties pursuant to the authority of one, or the combined authority of more than one, separate act of the legislature. We recommend adding the following new section to the bill to allow Oceanlinx Hawaii LLC to take advantage of economies of scale achievable by consolidating small bond issues into a single large transaction:

SECTION ____ . The special purpose revenue bonds issued under this Act may be issued in one or more series for a single project, multiple projects, a single-project party, or multiple-project parties pursuant to the authority of this Act or the combined authority of this Act and any one or more other separate acts of the legislature pursuant to part V, chapter 39A, Hawaii Revised Statutes, and the department of budget and finance may combine into a single issue of special purpose revenue bonds, in one or more series, two or more proposed

issues of special purpose revenue bonds to be issued pursuant to part V, chapter 39A, Hawaii Revised Statutes, separately authorized, in the total amount not to exceed the aggregate of the proposed separate issues of special purpose revenue bonds.

Testimony before the House Committee on
Energy & Environmental Protection

H.B. 2401 Authorizing the Issuance of Special Purpose
Revenue Bonds to Assist Oceanlinx Hawaii, LLC
Tuesday, February 5, 2008
8:45 a.m., Conference Room 312

By Ed Reinhardt
President, Maui Electric Company, Inc.

Chair Morita, Vice Chair Carroll, and members of the Committee:

My name is Ed Reinhardt and I am testifying on behalf of Hawaiian Electric Company, Inc., and its subsidiary utilities, Maui Electric Company, Ltd., and Hawaii Electric Light Company, Inc.

The Hawaiian Electric companies support House Bill 2401 which would authorize issuance of Special Purpose Revenue Bonds in the amount of \$20 million to assist Oceanlinx Hawaii, LLC.

Oceanlinx Hawaii, the local subsidiary of Australia-based Oceanlinx, has developed a unique, commercially efficient system for extracting energy from ocean waves and converting it to electricity.

Oceanlinx proposes to install floating wave energy converters at sea north of Pauwela Point in Northeast Maui and a submarine cable crossing east of Maliko Bay, where it will feed into a substation and provide up to 2.7 megawatts to the Maui grid. This demonstration wave farm could be expanded to provide energy to the Maui grid, and the technology could be used throughout the islands.

The Hawaiian Electric companies, in common with most Hawaii residents, are concerned with Hawaii's dependence on imported fossil fuel and the economic, security and environmental vulnerability that brings. We are actively seeking environmentally friendly ways to reduce Hawaii's dependence on imported fossil fuel, increase our energy security and reduce our global warming impact.

Over the last dozen years, Hawaiian Electric's renewable energy specialists have closely monitored the progress of more than a dozen ocean energy technologies – and our companies have consulted and assisted with those companies' efforts whenever possible. In Oceanlinx, we believe we have found a wave technology that makes sense for Hawaii.

Oceanlinx Hawaii will prepare an Environmental Impact Statement as part of the approvals it must seek. Maui Electric Company will work with Oceanlinx to negotiate a purchase power agreement beneficial to Maui Electric customers and fair to that company. That PPA will, of course, be subject to approval by the Hawaii Public Utilities Commission.

Wave energy will be an excellent complement to other renewable resources on Maui, including biomass energy from the Hawaiian Commercial & Sugar (HC&S) plantation, wind energy from UPC's Kaheawa Wind Farm, clean, renewable biodiesel to fuel our generators at Ma'alaea, as well as hydro and solar power. This is the true definition of a renewable portfolio: a variety of sources of power, and the more that are local, the better.

Getting started with wave energy will not be inexpensive. Although costs should go down as the scale of production increases with wider deployment and greater experience, being a first mover has costs

Clearly, the ability to finance this project in part under the favorable rates of a Special Purpose Revenue Bond would help move this project forward at no cost or liability to Hawaii taxpayers and with great benefit.

We urge you to pass this bill.

Thank you for the opportunity to testify.

TESTIMONY OF DR. PETER KALISH
OCEANLIX HAWAII LLC
BEFORE THE
COMMITTEE ON ENERGY & ENVIRONMENTAL PROTECTION
HOUSE OF REPRESENTATIVES
ON
H.B. NO. 2401, AUTHORIZING THE ISSUANCE OF SPECIAL PURPOSE REVENUE
BONDS TO ASSIST OCEANLIX HAWAII LLC
FEBRUARY 5, 2008

Madame Chair and Members of the Committee:

I am Dr. Peter Kalish, of Oceanlix Hawaii LLC, a Hawaii limited liability company. I am very pleased to appear before you on behalf of Oceanlix Hawaii LLC ("Oceanlix") and to present testimony in favor of H.B. No. 2401, to authorize the issuance of up to \$20,000,000 of special purpose revenue bonds ("SPRBs") to Oceanlix.

Oceanlix is a recently formed company whose purpose is to undertake the development and operating of a wave energy conversion facility offshore of the Island of Maui. This facility will have a capacity of 2.7 megawatts and will provide electricity to Maui Electric Company, Limited ("MECO") on Maui to help meeting Maui's electric energy demand. Oceanlix is a subsidiary of Oceanlix Ltd., based in Botany, Australia, which is engaged in developing wave energy conversion systems throughout the world. I am pleased to provide an overview of Oceanlix's wave energy project in Hawaii (the "Project").

PROJECT DESCRIPTION

The Project is a 2.7 megawatt wave energy conversion system, which will be located about 1/2 to 3/4 of a mile offshore of Maui's Pauwela Point. It will consist of 2 or 3 wave energy conversion units, depending on the outcome of our wave logging analysis. These units will float on the ocean surface and, by use of a patented Oscillating Water Column device, will generate electric energy from the motion of the ocean waves. The Project's total electricity out will be 2.7 megawatts and will be sold to MECO for distribution to Maui's general public. There will be no emissions or other discharges from this Project.

The Project will be located offshore of Maui's Pauwela Point. This location has been chosen after an analysis of the wave energy potential in this area. This location is far away from any commercial or recreational boating and shipping routes, any surfing and wind surfing areas, and any fishing locations. The coastal area of Maui at this location is one of high cliffs, and the land area above the cliffs is comprised of agricultural lands.

Oceanlix has been in preliminary discussions with MECO for arrangements to provide Maui with electricity generated from one of Maui's, and Hawaii's, most plentiful renewable energy resources. The electricity generated by the Project will be delivered from the Project to

MECO's grid through undersea electric transmission cables. These cables will be buried once they reach the shore area.

PROJECT STATUS

Oceanlinx has held ongoing information meetings with Maui's community, including Maui's governmental officials and is pleased to have substantial support from the community. We have also had similar meetings with persons from the State Government, the University of Hawaii and the business community, and have received strong support for our technology as well as our plans to harness Hawaii's ocean wave energy resources.

Oceanlinx is in the process of obtaining the necessary permits, which includes an environmental assessment. We hope to complete the Project and begin operations by late 2009.

BENEFITS FROM THE PROJECT

Oceanlinx's Project will provide many benefits to Maui and also to the State of Hawaii and beyond:

- The Project will provide electric energy to Maui's public that will be generated by one of Hawaii's most abundant renewable energy resources, the power inherent in the energy of the ocean's waves. This will help in furthering the County of Maui's goal and the State of Hawaii's goal of using Hawaii's renewable energy resources to generate electric energy, reduce Hawaii's dependency upon very expensive imported fossil fuels, and increase Hawaii's energy self-sufficiency.

- The Project will use a proven, innovative technology that is environmentally sound and clean, with no emissions or other discharges that would raise environmental concerns. It will also showcase renewable energy development initiatives on Maui and Hawaii, and provide an important example for other areas in the world that have the potential for wave energy conversion projects.

- The communities and leaders in Maui, and in Hawaii, have expressed their strong support for this Project and Oceanlinx's efforts, and Oceanlinx will continue to work closely with them.

BACKGROUND ON OCEANLINX LIMITED

Oceanlinx Limited is an international renewable energy company based in Australia, with headquarters in Botany, New South Wales, Australia. Oceanlinx Limited is currently developing wave energy conversion projects, using its own technology, in Australia, Rhode Island, the United Kingdom, Namibia and Hawaii.

The company was originally founded in 1997 and was initially called Energetech Australia Pty. Ltd., and changed its name in 2007 to Oceanlinx Limited.

PROJECT COST AND SPRB AUTHORIZATION REQUEST

The total cost of the Project is estimated to me some \$20,000,000 to 30,000,000. Of this, Oceanlinx desires to fund approximately \$20,000,000 through he issuance of SPRBs to assist in developing the Project. As the Committee is aware, the repayment of these types of bonds is guaranteed by either the borrower or a financial institution, and the interest paid to the bondholders is exempt from taxation. This enables the borrower to pay an interest rate which is lower than interest rates on non-exempt taxable borrowings. Section 39A-161 of the Hawaii Revised Statues specifically provides that SPRBs are not an obligation of the State of Hawaii and are payable solely from the revenues pledged from the Project for he repayment of the SPRBs.

Given Oceanlinx's development schedule, Oceanlinx is currently planning to seek to issue the authorized SPRBs during 2008 to assist in financing the Project's development.

We thus respectfully request your favorable action on H.B. 2401, since this will greatly assist Oceanlinx in the development of this innovative and important renewable energy project to assist MECO and the Island of Maui's public as well as assist in furthering the State's policy to developing and harnessing Hawaii's indigenous renewable energy resources and reducing Hawaii's dependency upon oil.

Madame Chair and Members of the Committee, I would be very pleased to respond to any questions that you may have.

Thank you very much for the opportunity to appear before your Committee.

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