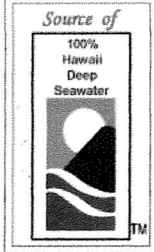


LATE TESTIMONY

NATURAL ENERGY LABORATORY OF HAWAII AUTHORITY

An Attached Agency of the Department of Business, Economic Development & Tourism, State of Hawaii



Statement of
RONALD N. BAIRD
Chief Executive Officer
Natural Energy Laboratory of Hawaii Authority

before the
HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT AND BUSINESS CONCERNS

and the
HOUSE COMMITTEE ON AGRICULTURE

Tuesday March 25, 2008

9:00 a.m.

State Capitol, Conference Room 325

in consideration of

HCR0167

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

Chair Yamashita, Vice Chair Wakai, and Members of the House Committee on Economic Development and Business Concerns, and Chair Tsuji, Vice Chair Brower and the Members of the House Committee on Agriculture, I am Ron Baird, Chief Executive Officer of the Natural Energy Laboratory of Hawaii Authority.

The principal purpose of NELHA is to provide services and resources to tenant companies engaged in ocean-related research, education, and products. The largest operating cost that NELHA has is in the provision of seawater to its tenants, all of whom are located at NELHA because they need the seawater NELHA is capable of providing in order to make their businesses viable. They cannot conduct their operations across the road at the Department of Agriculture's Keahole Farms tract, for example: there is no seawater there.

The NELHA board of Directors, following the directive of the state in 2003 began raising the price of the seawater delivered to tenants by 20% a year until the operating cost of that seawater delivery was actually being paid by the tenants. When I joined NELHA in April 2005, I ordered an immediate analysis of what it actually cost NELHA to deliver that water as the Board was preparing to discuss the next rate increase. Representatives, the fact was, the previous year's 20% price increase did not cover the increased cost of the electricity needed to pump the water!

We therefore welcome this request to have the audit conducted. In point of fact, while NELHA's agricultural rates for seawater are now approximately 15.5 cents per thousand gallons (Kgals), the price NELHA is charging may still be too low. The Department of Agriculture, I understand, charges farmers 62 cents for most ditch water and we ourselves pay the Department of Water Supply on Hawaii \$2.51/Kgal for all the potable water we buy from DWS – which is supplying it to us at DWS's agricultural rate.

The price HELCO charges NELHA for electricity to deliver seawater has risen 16.4% since December, to an average of 34 cents/KwH. That increase has not yet been charged the tenants. Labor and materials have risen, that increase has not been passed through.

I present you a balance sheet, which has been in development for the two years, for NELHA. This is the first time such a document has been prepared, as it is somewhat unusual to have a balance sheet for a state agency. However, as NELHA is being asked to be self-sufficient, I felt it a good exercise so that our Board could have a better understanding just what it is managing on a fiduciary basis for the people of the state of Hawaii. Look at the water systems investment: nearly \$40 million. No provision exists for repair or replacement of that system. That system is unique in all the world – two pipelines that reach down 2,000 feet into the sea and one that reaches 3,000 feet. Nowhere else in the world is there such an installation.

If we allow for replacement cost or the provision of depreciation reserves for the seawater systems, the cost of the water is substantially more than the 15.5 cents/kgal being charged, probably in the \$1.00 to \$2.00/kgal range when replacement cost is included. This raises the questions: should tenants pay the full cost of the water or should they just pay the operating costs? Who is going to pay for the replacement of pipes and pumps when they get old, wear out, and need replacement, as in the situation we currently are facing with the 40" pipeline? Should tenants or the state?

These are, definitely, the questions our Board has been struggling with for years. The assistance of the auditor in determining what the delivery cost of the water should be is most welcome. Once that determination is made, I believe NELHA will be better positioned to chart a secure financial path for the future. We will have a verified foundation as to what the true costs are of producing and delivering the seawater and will be more able to get on with running NELHA. The tenants will have a verified and confirmed foundation as to what their costs of the seawater are and therefore will be able to concentrate their efforts on managing their businesses.

We are fully prepared to charge what the auditor arrives at the cost of the seawater deliveries to be. We also expect that the tenants will not have any problem paying that cost as well.

Thank you for the opportunity to offer my comments before the Committee today.

To: House Committee On Economic Development
Hawaii State Legislature

3/24/08

From: John Corbin
47-215 Iiui Street
Kaneohe , Hawaii 96744
808 239-8316

LATE TESTIMONY

Subject: Testimony on HCR 167, Requesting the Auditor to Conduct a Financial and Management Audit of the Natural Energy Laboratory of Hawaii Authority

Chair Yamashita, Vice Chair Wakai, and Committee Members

My name is John Corbin. I formerly was the manager of the State Aquaculture Development Program. In that capacity I served on the Board of Directors(BOD) of the Natural Energy Laboratory of Hawaii, later the Natural Energy Laboratory of Hawaii Authority(NELHA) , from 1981 to 2006. I served in positions of Chair and Vice Chair of the BOD and Chair or Secretary of the Research Advisory Committee. Over that period NELHA became an internationally known facility for Ocean Thermal Energy Conversion(OTEC) research and development and warm and deep water aquaculture. Currently the majority of the State annual aquaculture production value comes from companies at NELHA, though 2006 statistics saw a decline. I wish to express my strong support of HCR 167.

Presently the long standing companies at NELHA are struggling and curtailing growth under large and relatively rapid increases in rates for sea water. These rate increases began in fiscal year 2003-2004 and have resulted in large part from BOD policies that have addressed past Administration requests for greater facility self sufficiency by: eliminating General Fund contributions for operating support and addressing unprecedented increases in electrical costs for pumping sea water due to escalating oil prices(recently \$110 a barrel). I suggest these BOD actions have contributed to NELHA moving away from its stated purposes found in Chapter 227D HRS.

According to the NELHA statute, " The purpose of the natural energy laboratory of Hawaii authority shall be to facilitate research, development and commercialization of natural energy resources and ocean-related research, technology, and industry in Hawaii and to engage in retail, commercial, or tourism activities that will financially support that research, development , and commercialization at a research and technology park in Hawaii."

Further under the powers of NELHA in Chapter 227D, the Authority may" 20) Create an environment that supports appropriate natural resource utilization and results in economic development, including: supporting research projects and facilitating the transition from research and development to pilot scale and then full commercial operation of companies utilizing the natural resources available at the research and technology park, ... 21) Develop programs that support projects and companies which locate at research and technology parks;"

In conclusion, it is timely for a third party to conduct a financial and management audit of NELHA at this time to determine if current policies and management actions are fulfilling NELHA's purpose according to Chapter 227 D HRS. Such a review could include interviewing existing tenants concerning the impacts of current sea water rate increases. In addition, Chapter 227D HRS states the Authority may: "(5) Adopt rules under Chapter 91 necessary to effectuate this chapter in connection with its operation, facilities, parks, properties, and projects, " and consideration of promulgating rules could be part of the audit. All stakeholders in the continued success of NELHA could benefit from this comprehensive audit. Thank you for the opportunity to testify.

Sharon Sagayadoro

From: Carey Katase [eatlimu@hawaii.rr.com]
Sent: Monday, March 24, 2008 3:42 PM
To: EDBtestimony
Subject: HCR 167

LATE TESTIMONY

Please pass this resolution. It is greatly needed. NELHA needs to reduce operation costs, increase water sales by reducing the cost of water and keep land fees as they always have been. If not, all tax payers should fund this government agency.

We the farmers are struggling to stay in business and NELHA is consistently trying to increase our expenses for their survival and our demise.

Steven Katase
Royal Hawaiian Sea Farms, Inc.

wakai1-Karen

LATE TESTIMONY

From: kraul [kraul@hawaiiintel.net]
Sent: Monday, March 24, 2008 5:24 PM
To: EDBtestimony
Cc: ADP; gerry cysewski; ron weidenbach
Subject: HCR 167

To Rep Karen Wakai

Testimony Re HR 167

Dear Representative Wakai,

My name is Syd Kraul. I am the owner of Pacific Planktonics, a tenant of the Natural Energy Lab Hawaii Authority

My comments are addressed to the 2 committees hearing HR 167:

COMMITTEE ON ECONOMIC DEVELOPMENT & BUSINESS CONCERNS

COMMITTEE ON AGRICULTURE

DATE: 3/25/08
TIME: 9:00a.m.

My opinion is that a financial and management audit of NELHA is a very good idea and HR 167 could be an efficient way to do a lot of good. The tenants of NELHA are in disagreement with the financial and management decisions being made by the current government agencies in charge of NELHA. This disagreement is so contentious that any closing of the gap between the two sides will help.

I am personally of the opinion that the aquaculture companies at NELHA have provided financial support for a very costly group of government employees and kept NELHA alive despite their failure in their missions relating to energy. Even though there are no energy generating projects at NELHA, there is good use of the resources that Hawaii and the United States of America have provided to us via various state and federal funds. I think the companies that chose to establish operations at NELHA have done a great job of employing Hawaii's people and producing various goods for us. Even though there has been some turnover of aquaculture companies here, we seem to be the major users of this great place. It appears to me that the government agency called NELHA is struggling to cover its costs, and is trying to pass these costs on to the tenants of NELHA without regard for the effect this will have on the tenants. My feeling is that the structure of NELHA is based on a government mission to find solutions to Hawaii's energy problems, and that this structure is reasonable for a government agency, but not reasonable for business operations.

On the one hand we could say that the government side of NELHA is no longer needed. The tenants of NELHA can help Hawaii more efficiently without the trumped up salaries of the NELHA staff. On the other hand, it would be nice to keep this special place responsible to the people of Hawaii and not turn it over to some for profit company. We all stand to benefit if the NELHA mission and structure can be discovered and worked out via HR 167.

Thank you,

Syd Kraul

3/24/2008

