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GOVERNOR OF HAWAII



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LAND
STATE PARKS

**TESTIMONY OF THE CHAIRPERSON
OF THE BOARD OF LAND AND NATURAL RESOURCES**

On Senate Bill 3215, Senate Draft 3 – RELATING TO BIODIESEL

**BEFORE THE HOUSE COMMITTEES ON
ENERGY AND ENVIRONMENTAL PROTECTION,
WATER, LAND, OCEAN RESOURCES AND HAWAIIAN AFFAIRS,
and
AGRICULTURE**

March 13, 2008

Senate Bill 3215, Senate Draft 3, provides various market stimulation incentives for the development of biodiesel, including making state agricultural lands available for biodiesel fuel crops; establishing a state biodiesel feedstock crop and biodiesel fuel purchasing program; and creating tax exemptions for biomass crushing facilities and lands used for biodiesel feedstock crops. The Department of Land and Natural Resources recognizes the intent of this legislation but prefers that the Legislature consider and pass House Bill 3179 (RELATING TO THE DEFINITION OF RENEWABLE ENERGY PRODUCER), a similar measure proposed by the Administration that amends the definition of "renewable energy producer" to include growers and producers of organic materials used primarily for the production of biofuels or other fuels, so that they will be eligible for direct leases of public land.

**Testimony before the
House Committees on**

**Energy & Environmental Protection,
Water, Land, Ocean Resources & Hawaiian Affairs
and
Agriculture**

S.B.3215 SD3 – Relating to Biodiesel

**Thursday, March 13, 2008
9:30 am, Conference Room 312**

**By Arthur Seki
Director of Technology
Hawaiian Electric Company, Inc.**

Chairs Morita, Ito and Tsuji, Vice Chairs Carroll, Karamatsu and Brower, and Members of the Committees:

My name is Arthur Seki – I am the Director of Technology in the Energy Solutions & Technology Department at Hawaiian Electric Company. I am testifying on behalf of Hawaiian Electric Company (HECO) and its subsidiary utilities, Maui Electric Company (MECO) and Hawaii Electric Light Company (HELCO), hereby referred to collectively as the HECO Utilities.

We support S.B. 3215 SD3 that would provide incentives for biodiesel development in Hawaii.

As you may know, HECO Utilities are committed to exploring and using biofuels in its existing and planned generating units. The use of biofuels can reduce the State's dependence on imported oil and increase the amount of renewable energy from sustainable resources. This commitment by the HECO Utilities is demonstrated by the following initiatives:

- HECO's next power plant (100 MW) on Oahu (located at Campbell Industrial Park) will be 100% biofueled;
- MECO tested biodiesel in its diesel engines and combustion turbine at Maalaea power plant and will conduct further tests;
- HECO and MECO are partnering with BlueEarth Biofuels to build a 40 million gallon per year biodiesel production plant on Maui—a Public Trust Fund would be formed as part of this activity;
- HECO is providing seed funding to the Hawaii Agriculture Research Center (HARC) and the agriculture departments at the University of Hawaii's Manoa and Hilo campuses to conduct biofuel crop research; and
- HECO is examining micro-algae biofuel development that could use carbon dioxide from our power plant stacks.

In conclusion, HECO Utilities support S.B. 3215 SD3 as a way to stimulate the development of locally produced biofuels.

Thank you for the opportunity to present this testimony.

TAXBILLSERVICE

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SUBJECT: INCOME, Exclusion for oil seed crushing facility for biodiesel

BILL NUMBER: SB 3215, SD-3

INTRODUCED BY: Senate Committee on Ways and Means

STAFF COMMENTS: Amends HRS section 235-7 to exclude from state income taxation ____% of the amounts derived from an oil seed crushing facility that processes oil seed produced or grown in the state for biodiesel production in the state.

Makes other amendments relating to establishing incentives for the production of biodiesel in the state.

The amendments made to HRS chapter 235 by this act shall not be repealed when that section is reenacted on January 1, 2013, pursuant to Act 166, SLH 2007.

EFFECTIVE DATE: July 1, 2050

STAFF COMMENTS: This measure proposes various incentives to encourage the production of biodiesel in the state which includes an income tax exclusion for an oil seed crushing facility which is used to produce the biomass necessary to produce biodiesel.

It should be noted that the use of the tax system to provide financial assistance in the form of an income tax exclusion is an inefficient use of the tax system. This exclusion amounts to nothing more than a subsidy as there is no obvious undue burden of taxes. If one project is blessed with a preferential tax treatment, why shouldn't the next proposal be just as serious a consideration? As such, project specific tax credit proposals violate the integrity of the tax system, setting a precedent with bad tax policy.

It should be remembered that giving tax breaks to one select group of taxpayers comes at the expense of all other taxpayers. As such, it is an insult to all other taxpayers that they are not deserving of such tax preferences. Rather than singling out a particular area for tax relief, concurrent efforts must be made to improve Hawaii's business climate to enhance the economic prospects for all businesses.

If lawmakers want to subsidize this specific project, then an appropriation of funds is far more accountable as taxpayers will then know who is to receive the subsidy, how much is being spent and then they can then judge whether or not this is an appropriate use of state taxpayer dollars.

Finally, as we are all learning the efficacy of using biomass fuels has now been brought into question where some studies show that the road to the production and use of biomass could produce far more greenhouse gases than biomass purportedly saves. Granting tax breaks to technologies that have yet to be proven to be beneficial is like handing out good grades for homework poorly done.

Digested 3/11/08