SCR 50

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Statement of
THEODORE E. LIU
Director
Department of Business, Economic Development, and Tourism
before the
SENATE COMMITTEES ON
ENERGY AND ENVIRONMENT
AND
WATER AND LAND
Thursday, April 3, 2008
2:45 p.m.
State Capitol, Conference Room No. 414
in consideration of
SCR 50

REQUESTING THE DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT, AND TOURISM AND THE DEPARTMENT OF LAND AND NATURAL RESOURCES TO STUDY THE FEASIBILITY OF CREATING A RENEWABLE ENERGY SUB-DISTRICT CLASSIFICATION OF LANDS AS PERMISSIBLE LOCATIONS FOR RENEWABLE ENERGY GENERATION AND TO STUDY, WITH THE ASSISTANCE OF THE DEPARTMENT OF TAXATION, THE COST OF PROVIDING A NON-REFUNDABLE INCOME TAX CREDIT TO RESIDENTS OF COMMUNITIES OF RENEWABLE ENERGY SUB-DISTRICTS THAT PRODUCE RENEWABLE ENERGY.

Chair Menor, Chair Hee, and Members of the Committees.

SCR 50 requests the Department of Business, Economic Development, and Tourism (DBEDT)and the Department of Land and Natural Resources(DNLR) to conduct a study on the feasibility of creating a renewable energy sub-district classification of lands as permissible locations for renewable energy generation, and with the help of the Department of Taxation (DoTAX) to study the cost of providing financial incentives such as a non-refundable income tax credit to residents of communities of renewable energy sub-districts that produce renewable energy.

DBEDT supports the intent of the bill to assist the private sector to secure locations for land-based renewable energy production that would facilitate the achievement of the renewable portfolio standards mandated under Section 196-41, Hawaii Revised Statutes. However, having DBEDT conduct the study requires additional staff resources not currently available for this effort.

Further, the Hawaii Clean Energy Initiative (HCEI) will evaluate various alternative plans and proposals for the development of renewable energy resources. The HCEI implementation structure includes working groups in four energy areas whose members represent a broad cross-section of stakeholders and local and national energy experts, who will identify and prioritize the action plans to achieve the objective of 70% of Hawaii's energy being supplied by clean energy by 2030. DBEDT has limited available staff and resources focused on providing support to the HCEI, as well as on supporting the State Energy Program. Given the comprehensive nature of the current HCEI effort, DBEDT respectfully recommends that the study proposed by SCR 50 be deferred until the plans and projects are identified by the HCEI and DBEDT's staff resources are available for this effort.

Thank you for the opportunity to testify.

LINDA LINGLE
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TESTIMONY OF THE CHAIRPERSON OF THE BOARD OF LAND AND NATURAL RESOURCES

On Senate Concurrent Resolution 50– REQUESTING THE DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT, AND TOURISM AND THE DEPARTMENT OF LAND AND NATURAL RESOURCES TO STUDY THE FEASIBILITY OF CREATING A RENEWABLE ENERGY SUB-DISTRICT CLASSIFICATION OF LANDS AS PERMISSIBLE LOCATIONS FOR RENEWABLE ENERGY GENERATION AND TO STUDY, WITH THE ASSISTANCE OF THE DEPARTMENT OF TAXATION, THE COST OF PROVIDING A NON-REFUNDABLE INCOME TAX CREDIT TO RESIDENTS OF COMMUNITIES OF RENEWABLE ENERGY SUB-DISTRICTS THAT PRODUCE RENEWABLE ENERGY

BEFORE THE SENATE COMMITTEES ON
ENERGY AND ENVIRONMENT
and
WATER AND LAND

April 3, 2008

Senate Concurrent Resolution 50 requests the Department of Business, Economic Development, and Tourism (DBEDT) and the Department of Land and Natural Resources (Department) to study: 1) The feasibility of creating a renewable energy sub-district classification of lands as permissible locations for renewable energy generation; and 2) The cost of providing a non-refundable income tax credit to residents of communities of renewable energy sub-districts that produce renewable energy, with the assistance of the Department of Taxation. The Department is uncertain what is meant by creating a "sub district". Currently, the State Land Use classification gives the Counties the exclusive authority to zone within the Urban District; and renewable energy is a permissible use in the Agricultural District. While the Department acknowledges the intent of the measure, the Department however, does not believe that it is the appropriate agency to perform the types of analyses that the measure contemplates. The Department lacks the expertise required to conduct feasibility studies of land classification for specific uses and cost analyses of the impact of tax credits. The Department will provide whatever information it has that will support such study. As such, the Department defers to DBEDT and Department of Taxation regarding whether the resources necessary to undertake the tasks are available within their respective departments.

Testimony of ERIK KVAM
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In SUPPORT of S.C.R. NO. 50 REQUESTING THE DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT, AND TOURISM AND THE DEPARTMENT OF LAND AND NATURAL RESOURCES TO STUDY THE FEASIBILITY OF CREATING A RENEWABLE ENERGY SUB-DISTRICT CLASSIFICATION OF LANDS AS PERMISSIBLE LOCATIONS FOR RENEWABLE ENERGY GENERATION AND TO STUDY, WITH THE ASSISTANCE OF THE DEPARTMENT OF TAXATION, THE COST OF PROVIDING A NON-REFUNDABLE INCOME TAX CREDIT TO RESIDENTS OF COMMUNITIES OF RENEWABLE ENERGY SUB-DISTRICTS THAT PRODUCE RENEWABLE ENERGY

before the
SENATE COMMITTEE ON ENERGY AND ENVIRONMENT
and the
SENATE COMMITTEE ON WATER AND LAND

April 3, 2008 2:45 pm

Good afternoon, Chairs Menor and Hee, Vice-Chairs Hooser and Kokubun and members of the Committees.

My name is Erik Kvam. I am the CEO of a Hawaii solar power project developer called Zero Emissions Leasing LLC ("Zero Emissions").

I support entirely the proposed feasibility study of creating a sub-district classification of lands as permissible locations for renewable energy generation. Such a study is a natural complement to the bills that have been moving through the legislature to permit solar energy facilities in Class D & E agricultural districts (HB2502) and to establish an expedited renewable energy facility siting process (HB2863).

I support the intent of the proposed study to determine the cost of providing a non-refundable renewable energy income tax credit to the residents of such sub-districts.

I believe, however, that a new tax credit for such residents would be ineffective and unnecessary as an incentive for encouraging acceptance of renewable energy generation in the residents' community. Renewable energy tax credits are designed to encourage financial investors to make financial investments in renewable energy projects. Renewable energy tax credits are not designed to encourage citizens generally, as residents with a stake in both the energy and non-energy needs of their community, to accept siting of renewable energy projects in their communities. Community residents are customers of the energy generated by the project, but are not likely to be financial investors in the project. Because community residents are not financial investors in the project, but are obliged to look at the project every day for their rest of their lives, they are not likely to be encouraged, by a tax credit incentive, to mute their objections to the project.

The way to encourage community buy-in for the project is not to give residents a one-time refundable tax credit based on a fiction that they are financial investors in the project. The way to get community acceptance for the project is to give them a reduced rate and substantial, sustained cost savings on the energy they receive from the project, based on the fact they are customers of such energy.

Renewable energy project developers like me are able to use the existing renewable energy tax credit to give community residents a sustained reduction in the price that they pay for electricity. We do that by finding investors who have Hawaii state income tax liabilities. The investors give us funds and we give the tax credits to the investors. We use the funds to build a renewable energy project that serves a good portion of the community's energy needs. We sell the renewable energy from that project to the community residents at a long-term price that's as much as 25% lower than what they would pay the utility for the same amount of energy.

This method of using existing tax credits to deliver energy cost savings to customers is called the "power purchase agreement" model. This is the financial model that the Department of Transportation Airports Division is using to develop 12 MW of solar power projects at Hawaii's airports. It can work just as well for renewable energy projects that supply power to entire communities.

The big obstacle now to community-level renewable energy project development in Hawaii is not lack of incentives to obtain community buy-in. The big obstacle is the utilities' potential to impose "stand-by charges" on the community residents that purchase renewable energy from the project designed to serve their community. The amounts of these stand-by charges would be enough to wipe out the energy cost savings that the community realizes from the existing tax credit under the "power purchase agreement" model. And wiping out energy cost savings means wiping out the community buy-in effect of the existing tax credit incentive.

The way to eliminate this obstacle is passage of a bill (like HB 2550 as originally introduced or HB 2550 HD2), that would bring community-level wind or PV projects of up to 2 MW (enough to serve a community of 1000 homes) within the net energy metering regime, and so avoid the imposition of stand-by charges on community residents that purchase renewable energy from such projects.

Thank you for giving me this chance to testify.