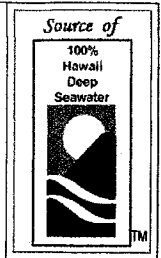




NATURAL ENERGY LABORATORY OF HAWAII AUTHORITY

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
SENATE COMMITTEE ON ECONOMIC DEVELOPMENT AND TAXATION
Thursday March 27, 2008
1:15 p.m.
State Capitol, Conference Room 224

in consideration of

SCR0096

**RELATING REQUESTING THE STATE AUDITOR TO CONDUCT A PROGRAM,
PERFORMANCE, AND FINANCIAL AUDIT OF THE NATURAL ENERGY
LABORATORY OF HAWAII AUTHORITY**

Chair Fukunaga, Vice-Chair Espero, and Members of the Senate Committee on Economic Development and Taxation, 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.



**Hawaii
Aquaculture
Association**

To:

THE SENATE
THE TWENTY-FOURTH LEGISLATURE
REGULAR SESSION OF 2008

COMMITTEE ON ECONOMIC DEVELOPMENT & TAXATION
Senator Carol Fukunaga, Chair
Senator Will Espero, Vice Chair

HEARING

DATE: Thursday, March 27, 2008
TIME: 1:15 p.m.
PLACE: Conference Room 224, State Capitol
415 South Beretania Street

From: Ronald P. Weidenbach, President, Hawaii Aquaculture Association
Cell: 429-3147, Email: hawaiiifish@gmail.com

Re:

SCR 96 REQUESTING THE AUDITOR TO CONDUCT A EDT, WAM
Status FINANCIAL AND MANAGEMENT AUDIT OF THE
NATURAL ENERGY LABORATORY OF HAWAII
AUTHORITY.

Chair Fukunaga, Vice-Chair Espero, and Members of the Committee:

The Hawaii Aquaculture Association (HAA) **strongly supports the intent of SCR 96** requesting the State auditor to conduct a financial and management audit of the Natural Energy Laboratory of Hawaii Authority and its deep sea water pumping system.

Aquaculture is one of the fastest growing segments of diversified agriculture in the State, exceeding \$21M in wholesale product value in 2006. The largest portion of statewide aquaculture production is generated by the aquaculture tenants at NELHA, who in turn provide the majority of NELHA's revenues.

Over the years, the State of Hawaii has advertised and solicited for aquaculture tenants from around the world, and more recently water bottling companies, to come to NELHA

to build their companies and in the process to help further Hawaii's economic development efforts. Attractive lease and water rates were offered to prospective businesses to attract them to come and invest at NELHA. Many companies responded and private investment has now far exceeded State investment. Unfortunately, in recent years, the NELHA BOD has chosen to impose a series of substantial water rate increases seriously undermining the profitability of existing aquaculture businesses at NELHA and deterring further planned investment at NELHA.

The HAA strongly supports SCR 96 requesting the auditor to conduct a financial and management audit of NELHA and its deep sea water pumping system, and to establish a reasonable water rate structure.

Thank you for the opportunity to testify.