

SB 287

**TESTIMONY OF CARLITO P. CALIBOSO
CHAIRMAN, PUBLIC UTILITIES COMMISSION
DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE
SENATE COMMITTEE ON ENERGY & ENVIRONMENT**

FEBRUARY 10, 2009

MEASURE: S.B. No. 287
TITLE: Relating to Energy

Chair Gabbard and Members of the Committee:

DESCRIPTION:

This bill proposes to amend chapter 201N, Hawaii Revised Statutes ("HRS"), establish a geothermal energy pilot program on Hawaii Island, to maximize and expand the use of geothermal energy sources. This bill also amends chapter 235, HRS, to create a geothermal energy pilot program tax credit. This bill also amends chapter 269, HRS, to require the Public Utilities Commission ("Commission") to direct the public utilities supplying electricity on Hawaii Island to acquire electricity generated from geothermal sources at the maximum capacity available, and also requires the Commission to assist energy resources coordinator in developing reasonable guidelines and timetables for the creation and implementation of power purchase agreements.

POSITION:

The Commission appreciates the intent of this bill to utilize geothermal energy sources at the producers' maximum capacity; however, the Commission would recommend that it be given the authority to require the utilization of geothermal energy, but flexibility to allow electric utility companies to supply electricity at the most efficient capacity rather than the maximum capacity of geothermal resources, and provides the following comments.

COMMENTS:

- On page 6, line 6, the bill reads "The public utilities commission shall direct public utilities that supply electricity to the public in the county with the largest contiguous land mass in the State to arrange for the acquisition of and to acquire electricity generated from geothermal sources at the maximum capacity that is available from the producers of geothermal energy."

- The Commission would recommend that the bill read, “The public utilities commission shall may direct public utilities that supply electricity to the public in the county with the largest contiguous land mass in the State to arrange for the acquisition of and to acquire electricity generated from geothermal sources at the maximum capacity that is available from the producers of geothermal energy” to allow for flexibility.
- The Commission is concerned about the cost impact to the ratepayers since the bill as currently drafted would appear to require the acquisition of all available geothermal resources without regard to cost. There is no cost analysis allowed for in this bill, which simply requires the acquisition of the maximum capacity of geothermal energy for electricity generation. In other words, no matter what the cost may be for geothermal production, the ratepayers will be required to pay it.
- Finally, the proposed amendment to HRS Section 269-27.2(b) in the bill appears to narrow the Commission’s authority to direct the use of renewable energy generation to situations where the county does not require maximum geothermal energy production. The Commission believes that this is counterproductive and Section 269-27.b(2) should not be amended as proposed.

Thank you for the opportunity to testify.

LINDA LINGLE
GOVERNOR

JAMES R. AIONA, JR.
LT. GOVERNOR



KURT KAWAFUCHI
DIRECTOR OF TAXATION

SANDRA L. YAHIRO
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809

PHONE NO: (808) 587-1510
FAX NO: (808) 587-1560

SENATE COMMITTEE ON ENERGY & ENVIRONMENT

TESTIMONY REGARDING SB 287 RELATING TO ENERGY

TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)
DATE: FEBRUARY 10, 2009
TIME: 3:45PM
ROOM: 225

To maximize the production of electricity from geothermal energy sources, this measure establishes a Geothermal Energy Pilot Program, a component of which is a tax credit given to taxpayers with respect to geothermal energy infrastructure projects.

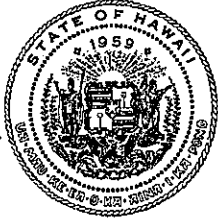
The Department of Taxation supports the intent of incentivizing alternative energy use in the State; however, it opposes the revenue loss generated by this measure.

SUPPORT FOR ALTERNATIVE ENERGY—The Department strongly supports the encouragement and implementation of alternative energy systems in Hawaii in order to lessen the State's dependence on fossil fuels. As fossil fuel and petroleum prices become more volatile, Hawaii's ability to generate its own energy from home will make the State more secure and less reliant on others.

PREFERENCE FOR ADMINISTRATION'S TAX PACKAGE—The Department prefers the comprehensive energy-related tax package contained in SB 871, which clarifies the renewable energy systems tax credits, as well as tax incentives for net-zero energy efficient buildings. The Administration's measure has been factored into the biennium budget and the financial plan.

OPPOSITION TO UNBUDGETED REVENUE LOSS—The Department cannot support the tax provision in this measure because it is not factored into the budget. The Department must be cognizant of the biennium budget and financial plan. This measure has not been factored into either. Given the forecasted decrease in revenue projections, this measure would add to the budget shortfall.

REVENUE LOSS—This legislation will result in a revenue loss of approximately \$900,000 each in FY 2010 and 2011.



**DEPARTMENT OF BUSINESS,
ECONOMIC DEVELOPMENT & TOURISM**

LINDA LINGLE
GOVERNOR
THEODORE E. LIU
DIRECTOR
MARK K. ANDERSON
DEPUTY DIRECTOR

No. 1 Capitol District Building, 250 South Hotel Street, 5th Floor, Honolulu, Hawaii 96813
Mailing Address: P.O. Box 2359, Honolulu, Hawaii 96804
Web site: www.hawaii.gov/dbedt

Telephone: (808) 586-2355
Fax: (808) 586-2377

Statement of
THEODORE E. LIU
Director
Department of Business, Economic Development, and Tourism
before the
SENATE COMMITTEE ON ENERGY AND ENVIRONMENT
Tuesday, February 10, 2009
3:45 PM
State Capitol, Conference Room 225

in consideration of
SB 287
RELATING TO ENERGY.

Good afternoon, Chair Gabbard, Vice Chair English, and Members of the Committee.

The Department of Business, Economic Development, and Tourism (DBEDT) supports the intent of SB 287, which seeks to maximize the use of geothermal energy on the island of Hawaii to reduce reliance on imported fossil fuels and to achieve energy self-sufficiency by no later than January 1, 2020. DBEDT would like to offer some comments.

This bill requires the Energy Resources Coordinator to establish a pilot program by July 1, 2009, to develop the geothermal infrastructure and sufficient workforce within the County of Hawaii, and for such pilot program to terminate by December 2019. The bill also provides a 30 percent income tax credit; directs the Public Utilities Commission to require the utility serving the County of Hawaii to purchase the maximum electricity capacity generated from the geothermal sources; and requires the Public Utilities Commission to develop reasonable guidelines and timetable for developing and implementing power purchase agreements.

While DBEDT supports the intent of the pilot program to accelerate the County of Hawaii's achievement of energy security and independence, we believe that the integrated, comprehensive State-wide approach to developing a renewable energy economy, as envisioned and being planned and implemented by the Hawaii Clean Energy Initiative (HCEI), will enable the quickest and most effective pathway to achieve this enormously important shared objective.

HCEI is a long-term partnership between the State of Hawaii and the U.S. Department of Energy (USDOE) launched in January 2008, to develop and implement plans, programs, and policy initiatives including changes to the regulatory framework that are necessary for and contributing to the achievement of the HCEI's goal to transition the State of Hawaii's energy sector to 70% renewable energy sources by 2030. Under the auspices of the HCEI, the State and the HECO companies entered into an Energy Agreement in October 2008 that provides a decisive pathway towards the increased use of renewable energy resources in the utilities' generation portfolio which includes not only increased energy from geothermal resources, but also increased energy from wind, solar, bio-fuels, and customer-sited renewable energy technologies and resources, as well as increased energy efficiency. DBEDT believes that the HCEI plans, programs, and activities will more effectively achieve the intent of this bill.

Requiring the Energy Resources Coordinator to establish a pilot program solely focused on the development of the infrastructure and workforce for only one renewable energy resource, geothermal energy, without program funding for additional resources would distract the time and attention of the ERC's very limited energy staff necessary in implementing the many HCEI's transformational plans and programs that would effectively effect the intent of this bill.

DBEDT defers to the Public Utilities Commission regarding the requirement for the utilities to purchase the maximum available geothermal capacity from the producers of geothermal energy. DBEDT strongly supports the requirement for the Public Utilities

Commission to develop guidelines and timetable for developing purchase power agreements not only for geothermal energy resources but for all commercially available and cost effective renewable energy resources.

Regarding the proposed geothermal energy pilot program tax credit, DBEDT defers to the Department of Taxation.

Thank you for the opportunity to offer these comments.

**Testimony before the
Senate Committee on**

Energy and Environment

S.B. 287 -- Relating to Energy

**Tuesday, February 10, 2009
3:45 pm, Conference Room 225**

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

Chair Gabbard, Vice-Chair English and Members of the Committee:

My name is Arthur Seki. I am the Director of Technology for 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). We support the intent of S.B 287 for geothermal development in the Big Island.

We offer these comments. In the United States, geothermal power plants have been operational since the 1960s. Currently federal tax credits exist for geothermal business investments. In Hawaii, HELCO has a 30 MW power purchase agreement with Puna Geothermal Venture (PGV) on the Big Island since the early 1990s. Therefore, because geothermal energy is commercial in Hawaii, it may not be necessary to have a geothermal pilot program.

For the majority of its operation, PGV has provided firm, reliable power to the Big Island electrical grid. PGV has stated in the newspapers plans to increase geothermal capacity on the island by developing the resource in the Kona area. An increase in geothermal capacity would be helpful to HELCO as the electrical demand is larger on the Kona side of the Big Island than the Puna district and production on the Kona side would reduce transmission losses. However, we believe that a lengthy geothermal subzone designation process would be required before any exploration can take place in Kona.

Thank you for the opportunity to testify.



LIFE OF THE LAND

76 North King Street, Suite 203

Honolulu, Hawai'i 96817

Phone: 533-3454; E: henry.lifeoftheland@gmail.com

COMMITTEE ON ENERGY AND ENVIRONMENT

Senator Mike Gabbard, Chair

Senator J. Kalani English, Vice Chair

Tuesday, February 10, 2009

3:45 p.m.

Conference Room 225

SB 287 RELATING TO ENERGY.

OPPOSE

Requires maximum use of geothermal energy on the island of Hawaii to achieve energy self-sufficiency and reduced reliance on imported fossil fuels. Establishes a pilot program and a tax credit to facilitate the development of infrastructure for the deployment of renewable energy resources, including geothermal resources.

Aloha Chair Gabbard, Vice Chair English and Members of the Committee,

My name is Henry Curtis and I am the Executive Director of Life of the Land, Hawai'i's own energy, environmental and community action group advocating for the people and `aina for almost four decades. Our mission is to preserve and protect the life of the land through sound energy and land use policies and to promote open government through research, education, advocacy and, when necessary, litigation.

This proposal resurrects itself each year. There are several reasons why it makes little sense.

- (1) The majority of the energy supply on the Big Island (60%) is on the east side, the majority of the demand (load) (60%) is on the west side and the west side demand is growing faster than the east side.
- (2) The west side has abundant natural resources: wind, waves, solar, ocean thermal.
- (3) Geothermal has greater impacts (politically, socially, culturally, environmentally) than solar, or wind, or wave or ocean thermal.
- (4) Focusing on geothermal would displace the deployment of wave and ocean power.

Henry Curtis