SB 2232

LINDA LINGLE
Governor

SANDRA LEE KUNIMOTO
Chairperson, Board of Agriculture

DUANE K. OKAMOTO
Deputy to the Chairperson

State of Hawaii
DEPARTMENT OF AGRICULTURE
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WRITTEN TESTIMONY OF SANDRA LEE KUNIMOTO
CHAIRPERSON, BOARD OF AGRICULTURE

BEFORE THE SENATE COMMITTEE ON ENERGY AND ENVIRONMENT
THURSDAY, JANUARY 28, 2010
3:00 P.M.
ROOM 225

SENATE BILL NO. 2232
RELATING TO RENEWABLE FUELS

Chairperson Gabbard and Members of the Committee:

The purpose of this bill is to expand the existing ethanol facility tax credit to include other liquid biofuels and to enable larger facilities to be eligible for the tax incentive, without changing the level of incentive or cap per facility. The Hawaii Department of Agriculture (HDOA) offers comments.

HDOA is a strong supporter of the State's energy diversification efforts and appreciates the intent of this Act to encourage use of agricultural products for biofuel production. However, as Section I clearly describes the benefits of locally grown feedstocks, we recommend that this benefit be made part of the qualifications for a biofuel production facility and in the definition of "Agricultural feedstocks".

In Section 2, subpart 3 would be revised to read:

(3) The qualifying biofuel production facility is located within the State and uses agricultural feedstocks <u>grown and harvested in Hawaii</u> for at least seventy-five per cent of its production output;

The definition of "Agricultural feedstocks" would be revised to read:

"Agricultural feedstocks" means oil, fiber, or other materials grown on Hawaii farms and not previously used. Unused byproducts of food, feed, fiber, or other products, or electrical production, <u>produced on Hawaii farms</u>, may be considered agricultural feedstocks. Used cooking oils, or industrial or municipal wastes, shall not be considered agricultural feedstocks.

Thank you for the opportunity to present our testimony.

DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

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

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Statement of
THEODORE E. LIU
Director
Department of Business, Economic Development, and Tourism
before the
SENATE COMMITTEE ON ENERGY AND ENVIRONMENT
Thursday, January 28, 2010
3:00 PM
State Capitol, Conference Room 225

in consideration of
SB 2232
RELATING TO RENEWABLE FUELS.

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

The Department of Business, Economic Development, and Tourism (DBEDT) supports SB 2232, which would modify the ethanol facility tax incentive to include other liquid biofuels and to enable larger facilities to be eligible for the tax incentive, without changing the level of incentive or cap per facility.

There are several biofuel projects beginning in Hawaii. Some are using oilseeds, some use algae, and others use non-edible materials such as trees or grasses. Hawaii has been the recipient of a great deal of interest from the US Department of Energy, the Defense Advanced Research Projects Agency, as well as private companies, all of which are interested in biofuels development in Hawaii.

The fuels they are interested in producing are no longer just ethanol and biodiesel from cooking oil, although those fuels are the technology that we have available today and are an extremely important starting point. They should not be dismissed. However, they are no longer the only biofuels of interest. Now, bio-jet, biomass-based diesel fuel, biomass-based gasoline replacements, and other biomass-based fuels that can be blended with petroleum and used in unmodified engines are gaining interest, investment, and support.

These fuels should also be considered part of Hawaii's potential biofuels industry.

We encourage your support of this bill. Thank you for the opportunity to offer these comments.

LINDA LINGLE
GOVERNOR

JAMES R. AIONA, JR.
LT. GOVERNOR

KURT KAWAFUCHI
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SENATE COMMITTEE ON ENERGY & ENVIRONMENT
TESTIMONY REGARDING SB 2232
RELATING TO RENEWABLE FUELS

WRITTEN TESTIMONY ONLY

TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)
DATE: JANUARY 29, 2010
TIME: 3PM
ROOM: 225

This measure modifies the current ethanol production facilities tax credit to provide a tax credit for biofuel production facilities.

The Department of Taxation (Department) **supports** this measure; however **prefers the Administration measure SB 2672**.

DEFERRAL TO DBEDT ON POLICY—The Department defers to the Department of Business, Economic Development & Tourism on the technical and policy aspects of 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 alternative energy. 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.

REVENUE LOSS—This measure will result in up to $12 million in revenue loss each year, which is the maximum amount of credits that may be certified by DBEDT each year under existing law.

Testimony before the
Senate Committee on

Energy & Environment

S.B. 2232 -- Relating Renewable Fuels

Thursday, January 28, 2010

3:00 pm, Conference Room 225

By Arthur Seki
Director, Renewable 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 Renewable 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), hereby referred to collectively as the HECO Utilities.

We support S.B. 2232 amending the statues to broaden the original intent from ethanol incentives to biofuel incentives for biofuel development in Hawaii. We respectfully offer a few amendments under Hawaii Revised Statutes ("HRS") § 235-110.3--biofuel facility tax credit--to further broaden the statutes to include other biofuels that could also be processed or refined and used for electrical generation:

- On page 3, lines 18 to 22, amend the definition of "biofuel" to read (changes in **bold)**:

  "Biofuel" means ethanol, biodiesel, diesel, jet fuel, or 2 other liquid fuel meeting the relevant fuel specifications of ASTM International (formerly ASTM, the American Society for Testing and Materials), **or specifications for electrical generation** and produced from agricultural feedstock.

- On page 5, line 17 through page 6, line 2, amend the definition of “Qualifying biofuel production” to read (changes in **bold**):

  "Qualifying [~~ethanol~~] biofuel production" means [~~ethanol~~] biofuel produced from [~~renewable, organic~~] agricultural feedstock. [~~, or waste materials, including municipal solid wastes~~] All qualifying production **[~~shall~~] could** be fermented, distilled, gasified**, processed, refined** or produced by physical **and or** chemical conversion methods such as**, but not limited to,** reformation and catalytic conversion and dehydrated at the facility.

The HECO Utilities are committed to exploring and using biofuels in its existing and planned generating units. The amendments we propose will help biofuel production facility development. 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:

- Installed a 100 MW power plant in 2009 at Campbell Industrial Park to be 100% biofueled;
- Tested biodiesel in its diesel engines and combustion turbine at MECO’s Maalaea power plant and planning to conduct further tests;
- Planning for a 30-day test at Kahe 3 biofuel co-firing demonstration in a steam boiler generating unit for late 2010;
- Provided 3 years of 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 with a 4th year of funding to follow this year; and
- Evaluating micro-algae for biofuels production using power plant emissions.

In conclusion, the HECO Utilities support S.B. 2232 and our proposed amendments as a way to stimulate biofuel development.

Thank you for the opportunity to present this testimony.

SB 2232

RELATING TO RENEWABLE FUELS

JOEL K. MATSUNAGA
CHIEF OPERATING OFFICER & EXECUTIVE VP
HAWAII BIOENERGY

JANUARY 28, 2010

Chair Gabbard and Members of the Senate Committee on Energy and the Environment:

I am Joel Matsunaga, testifying on behalf of Hawaii BioEnergy on SB 2232, "Relating to Renewable Fuels."

SUMMARY

Hawaii BioEnergy ("HBE") supports SB 2232 (with amendments) which would revise Section 235-110.3 of the Hawaii Revised Statutes by expanding the Ethanol Facility Credit to apply to liquid biofuels, requiring the utilization of locally produced feedstock, and enabling facilities greater than 15 million gallons per year of production capacity to also qualify. The aforementioned amendments to HRS §235-110.3 will help to reduce the state's dependence on imported fossil fuels as well as provide a needed economic stimulus to the state's agricultural and industrial sectors.

The amendments to SB 2232 proposed below would expand the bill's reach to allow for additional feedstocks and bioconversion processes to qualify and would increase the annual credit cap to allow more companies to benefit from the incentive. HBE believes that if the existing facility credit is going to be expanded to include other biofuels, that it should also be accompanied by an increase in the current $12 million annual credit available. HBE submits that the tax dollars allocated for the incentive would be more than offset by the tax revenue biofuel facilities would generate and that limiting the credit to the current $12 million cap could severely limit the economic development, environmental, energy security and tax revenue potential that could be gained from expanded biofuel production in the state.

HAWAII BENEFITS FROM LOCAL BIOFUELS PRODUCTION

Hawaii BioEnergy is a local company dedicated to strengthening the state's energy future through sustainable biofuel production from locally grown feedstocks. Among its partners are three of the larger land owners in Hawaii controlling over 430,000 acres of land. HBE and its partners would like to use significant portions of their land to address Hawaii's existing and growing energy needs.

One of the biofuel alternatives that HBE is pursuing is the production of jet fuel and other oil derivatives from micro-algae and is already engaged in two Hawaii-based, DARPA-funded algae projects. In addition to providing a local, renewable, and lower-carbon fuel source, algae-based biofuel production benefits the agriculture industry by providing a local source of protein for animal feed, fertilizers and other products. In addition to HBE's on-going algae-based biofuel projects, the company is also considering plans to develop locally produced ethanol and high density fuels from sugar cane, sweet sorghum, and/or other dedicated energy crops. The feedstocks and conversion production pathways under consideration hold tremendous potential to displace fossil fuels imports given their relatively low input requirements, exceptionally high yields, and capacity to produce a portfolio of products including liquid fuels for transport and for power generation, feed, and other bio-based co-products.

Compounding the clear environmental and energy security benefits that local production would bring to bear, expanding Hawaii's biofuel industry would also provide an economic stimulus to the state as such projects would create a significant number of jobs and help to re-circulate energy dollars within the Hawaiian economy rather than exporting them overseas. Based on an independent analysis commissioned by HBE, it's projected that a large-scale agricultural operation coupled with an ethanol facility could provide up to 1,400 new jobs, over \$115 million in value added or new wealth, and over \$17 million in annual tax revenue from combined indirect business and personal income taxes. Such benefits could be multiplied through additional investments in large-scale biofuels facilities supported through a facility tax credit.

While the environmental, energy security and economic benefits are clear, the state's ability to secure the substantial capital required for large-scale commercial facilities requires providing a degree of assurance to private investors that they will be able to recover their investment within a reasonable time horizon. Extending the current Ethanol Facility Tax Credit to incorporate biofuels more broadly would help to attract a wider range of investors and provide the additional support needed to help offset the technology and capital risk inherent in the establishment of new industries, particularly those that require new technology. The credit would also be self-sustaining as the additional business and income tax revenue generated by the industry could be applied to future credits. As such, the legislation directly ties the incentives to the local market, enables the removal of the 40 million gallon cap as proposed in SB 2232, and provides support to a range of advanced and more efficient biofuel production technologies.

PROPOSED AMENDMENTS TO SB 2232

While HBE supports the extension of the Ethanol Facility Credit to include a range of biofuel production facilities, the company would like to propose the following amendments to SB 2232 in order to maximize the credit's reach and impact:

- To specify in Section 2 (3) that a qualifying biofuel production facility is located within the State and uses *"locally-produced, renewable feedstocks"* for at least seventy-five per cent of its production output;
- To clarify in Section 2 (5) that taxpayers may claim the credit for each qualifying biofuel production facility the taxpayer has in operation in the taxable year;
- To clarify the feedstocks eligible for the credit in Section 2 (b) by incorporating a clause that "agricultural feedstocks" also applies to "dedicated energy crops including but not

limited to sugarcane, sweet sorghum, algae, and woody biomass grown explicitly for the purposes of biofuel production";

- To clarify and expand the eligible conversion pathways in Section 2 (b) by incorporating a clause that "all qualifying production shall be fermented, distilled, transesterified, gasified, pyrolized, or produced by other physical, chemical, biochemical, thermochemical conversion methods;
- To increase the current $12 million tax credit cap to at least $20 million in order to support multiple biofuels facilities across the islands.

CONCLUSION

HBE is moving forward with projects that will help to address Hawaii's energy future and believes that SB 2232, with the amendments proposed, will help to accelerate and expand Hawaii's bio-based renewable energy economy.

Based on the aforementioned, Hawaii BioEnergy respectfully requests your support for SB 2232, with the above referenced amendments.

Thank you for the opportunity to testify.

L E G I S L A T I V E

TAXBILLSERVICE

126 Queen Street, Suite 304 TAX FOUNDATION OF HAWAII Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Biofuel facility tax credit

BILL NUMBER: SB 2232

INTRODUCED BY: Gabbard, Hooser, Tsutsui, and 7 Democrats

BRIEF SUMMARY: Amends HRS section 235-110.3 (d) to change the name of the ethanol facility tax credit to the biofuel facility tax credit including changing any reference to ethanol with biofuel. Stipulates that in order to claim the credit, the qualifying biofuel production facility shall be located within the state and utilize locally grown feedstock for at least 75% of its production output.

Removes the restriction that the income tax credit shall be limited to the first 40 million gallons per year.

Defines "agricultural feedstock" and "biofuel" for purposes of the measure.

EFFECTIVE DATE: Tax years beginning after December 31, 2009

STAFF COMMENTS: The legislature by Act 289, SLH 2000, established an investment tax credit to encourage the construction of an ethanol production facility in the state. The legislature by Act 140, SLH 2004, changed the credit from an investment tax credit to a facility tax credit. This measure proposes to change the ethanol facility tax credit to a biofuel facility tax credit.

While it has been almost ten years since the credit for the construction of an ethanol plant in Hawaii was enacted and ground has not broken yet, it appears that there are other far more efficient biofuels which could be developed and, therefore, the existing credit, which is specific to ethanol, might not be available to assist in the development of these other types of fuels.

While the idea of providing a tax credit to encourage such activities may have been acceptable a few years ago when the economy was on a roll and advocates could point to credits like those to encourage construction and renovation activities, what lawmakers and administrators have learned in these past few months is that unbridled tax incentives, where there is no accountability nor limits on how much in credits can be claimed, are indeed irresponsible as the cost of these credits go far beyond what was ever contemplated. As an alternative, lawmakers should consider repealing this credit and look for other types of alternate energy to encourage through the appropriation of a specific number of taxpayer dollars. At least lawmakers would have a better idea of what is being funded and hold the developers of these alternate forms of energy to a deliberate timetable or else lose the funds altogether. A direct appropriation would be preferable to the tax credit as it would provide some accountability for the taxpayers' funds being utilized to support this effort.

Finally, this proposal verifies what has been said all along about legislators latching onto the fad of the month without doing very serious research. While ethanol was the panacea of yesterday, lawmakers have learned that there are more down sides to the use of ethanol than there are pluses. Ethanol production demands more energy to produce than using a traditional petroleum product to produce the same amount of energy and the feedstock that is used to produce ethanol basically redirects demand for that feedstock away from traditional uses, causing those other products to substantially increase in price. Thus, such proposals should come under closer scrutiny instead of being left to interpretation by a taxpayer wanting to utilize the tax incentive to underwrite the cost of what would still be a questionable use of taxpayer dollars.

Digested 1/27/10

PACIFIC WEST ENERGY LLC
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January 27, 2010

Senator Mike Gabbard, Chair
Senator J. Kalani English, Vice-Chair
Committee on Energy and Environment
Hawaii State Capitol
415 S. Beretania
Honolulu, HI 96813

Re: SB 2232 – Relating to Renewable Fuels

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

My name is William Maloney and I am the President and Chief Executive Officer of Pacific West Energy LLC, the developers of the integrated sugarcane to ethanol and green power project on Kauai. I testify today in support of the intent of SB 2232, extending the ethanol facility tax credit to include other biofuels, but in opposition to certain of the proposed amendments, as I believe they would result in the cessation of further investments in ethanol production facilities in Hawaii, while potentially providing an unintended windfall to certain other biofuel production facilities.

Pacific West Energy LLC intends to construct a fuel ethanol production facility on Kauai. The facility will include a green energy cogeneration facility. The total project cost is $150 million. We intend to expand sugar cane cultivation on Kauai and develop lands in other energy-related crops. In addition to producing fuel ethanol for the local Hawaiian motor fuel market we intend to export 150 million kWh's per year of green electricity to Kauai Island Utility Cooperative ("KIUC"), one-third of the island's electricity requirement. Our technology is proven and would involve a process that will yield an energy conversion ratio in excess of 9:1, including cogenerated electricity. To date, we have expended over $9 million and several years of effort in reliance on the Hawaii Ethanol Facility Tax Credit. We believe that if SB 2232 were to pass as currently drafted our facility would not be able to rely on the very tax credit designed to support our project, and with the State's commitment to local ethanol production placed in doubt, our project will be unable to source any further equity or debt, and our project, with its more than 300 jobs, tens of millions of dollars of economic activity, and significant displacement of imported energy, may be lost.

As some of you may recall, in 2000 and again in 2004 the legislature passed the Ethanol Facility Investment Tax Credit. As part of its consideration of the ethanol facility tax credit the legislature and administration undertook comprehensive reviews that included a detailed fiscal and economic analysis commissioned by DBEDT and prepared for the legislature by Decision Analysts Hawaii Inc. ("DAHI"), as well as studies by Stillwater Associates and BBI International that examined the impacts from a

Hawaiian ethanol industry. The two cost / benefit analysis we were required to provide included a presentation of all our capital and operating budgets to DAHI. The finding of the DAHI analysis was that the incentive would be revenue positive for the State. At that time the project was to be primarily a molasses based facility – today it is a fully integrated sugar cane based facility preserving and creating hundreds of jobs. The fiscal and economic benefits to the State from our project that were positive in 2004 are far greater today with the expanded project capital cost and scope.

Our project has taken much longer to develop than we originally envisaged. There have been many challenges, including the recent turmoil in the financial sector, volatility in energy markets, and securing lands suitable for sugar cane against competing uses. However, we have now overcome many of these obstacles and expect to be in a position to move forward at an accelerating pace. Our project is a model for an integrated bio-energy refinery. It is the cornerstone of Kauai's sustainable energy plan and will displace more than 500,000 barrels per annum of imported petroleum. It is the embodiment of the legislature's and State's goals of energy self-sufficiency.

My own background is not just in ethanol, but biofuels generally. I formerly served as Director of Business Development for ED & F Man Biofuels Inc. ("Man"), one of the world's largest traders in ethanol, biodiesel, vegetable oils and tropical oils, and a significant investor in ethanol and biodiesel production companies. In my capacity with Man I evaluated both ethanol and biodiesel project opportunities, including production facilities in Hawaii. This background and my direct project experience in Hawaii provide me a unique perspective to evaluate the various economics of biofuels, and the impacts of incentives to encourage production.

I outline below my major issues relating to the proposed amendments to the Ethanol Facility Tax Credit.

- While the expanded local production of biofuels, including biodiesel, are desirable from both energy independence and economic development standpoints, its development should not be at the expense of the local production of ethanol, and its related benefit of electricity cogeneration.

- Biodiesel and ethanol are both biofuels, but completely different products, with significantly different economics and markets. To simply add biodiesel to the carefully crafted Hawaii Ethanol Facility Tax Credit bears no relation to the relative economics of the two products, and would not be good public policy, with one, ethanol, being carefully evaluated, and the other, biodiesel, not. The Committee should proceed to support the extension to other biofuels provided the other biofuels economics have been examined as carefully as the ethanol industry had been in creating the original statute, through independent cost / benefit analysis.

- A 15 million gallon per annum sugarcane based ethanol facility has a capital cost (excluding cogeneration) of approximately $45 million, $3.00

per gallon of installed capacity. A 15 million gallon biodiesel facility is likely to cost $10 - $15 million (the industry standard today is considered to be approximately $1.00 per gallon of installed capacity)[1]. Biodiesel plants are typically modular and pre-fabricated and fit in 40 ft. containers. The timeline to install a biodiesel facility is a fraction of the time required to permit and construct an ethanol facility.

- The operating costs for different biofuels are completely different. Producing ethanol is a more costly process than producing biodiesel, involving a biological process, fermentation, along with distillation and dehydration. Biodiesel production is a simpler, lower capital and operating cost process, involving separating vegetable oils into biodiesel and glycerin by adding a transesterification agent, usually methanol, and a catalyst.

- Under the existing Ethanol Facility Tax Credit an ethanol facility will not recover its capital costs from the credit over the 8 years that the incentive would be paid. As proposed, a biodiesel producer would likely recover 100% of capital costs in refundable tax credits within two-three years, so over the 8 years they may receive over 3 times their capital investment in refundable tax credits. This is in part because of the proposed inclusion of "inventory costs" in calculating the total eligible credit (see point below).

- SB 2232 proposes to increase the level of credit beyond established capital costs as defined in the existing statute by including "inventory costs" as a capital expenditure, which they are not. While it is understandable that a biodiesel producer would like to receive a tax credit for the purchase of feedstocks, these costs are not capital costs, and their inclusion will likely enable a biodiesel producer to receive a multiple of invested capital in refundable tax credits.

- SB 2232 includes proposed new language that allows an investor to claim all investments "prior to and" during the credit period. This language clearly would create a "retroactive credit", i.e., include any investment by a biofuel producer, even one made years previously for a facility that could be in operation prior to the enactment of or any amendment to the incentive, in calculating total investment. That was never the intent of the original ethanol facility investment tax credit, and should not be the result of any extended incentive. An incentive that is meant to encourage new investments in biofuel facilities, not provide a windfall for previous investments.

[1] Biodiesel Economics, Presented by Jon H. Van Gerpen, Biological and Agricultural Engineering, University of Idaho, at Oilseeds and Biodiesel Workshop, Billings, Montana, January 2008, including capital cost details provided by biodiesel plant manufacturer, Superior Process Technologies.

- The existing statute eliminates further credits once 40 million gallons of ethanol production capacity in-state is realized. The 40 million gallons equates to the level of ethanol required to support 10% ethanol blends in gasoline, and relates to the $12 million maximum annual payment of total credits. Adding other biofuels, with lower capital costs, exacerbated by including inventory as a capital expenditure, will likely result in more than 40 million gallons of biodiesel capacity being installed before any ethanol facility could come on-line, crowding out credits and eliminating all ethanol facilities from receiving credits (the prospect of which would cause an immediate cessation of all ethanol project development). Amending the bill to provide for either a specific carve out for ethanol plants, e.g. 75% of the eligible credits, or $9 - $12 million per annum (the amount originally designated to support the mandated ethanol blending requirement in the state) is required to protect our ethanol project and others that are being pursued.

Therefore, we respectfully request that the Committee evaluate carefully the proposed amendments, and in the event that the Committee determines that they want to provide an increased incentive to all biofuels, it should do so only after: 1) receiving and properly evaluating a detailed independent cost / benefit analysis similar to that undertaken by the ethanol industry so that it can be sure that all biofuels related incentives are based on their specific economics and merits; 2) remove inventory costs as a qualifying capital expenditure; 3) remove the language "prior to and", and; 4) provide ethanol projects protection by a specified carve out or minimum allotment of the total credits to ethanol.

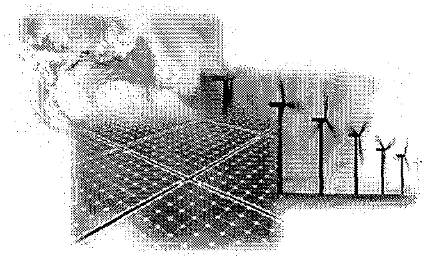
We urge the Committee to keep in mind the very differing economics and project lead-times noted above and not modify the existing statute in such a way that will negatively impact those depending on the existing ethanol facility investment tax credit, and jeopardize projects like ours that have such significant positive economic potential for Hawaii.

Thank you for your consideration.

Sincerely,

William M. Maloney
President & Chief Executive Office
Pacific West Energy LLC

blue planet FOUNDATION



SENATE COMMITTEE ON ENERGY AND ENVIRONMENT
January 28, 2010, 3:00 P.M.
Room 225

(Testimony is 1 page long)

TESTIMONY IN SUPPORT OF SB 2232, SUGGESTED AMENDMENT

Chair Gabbard and members of the Committee:

The Blue Planet Foundation supports Senate Bill 2232, a measure to expand the existing ethanol facility tax credit to include other liquid biofuels. We respectfully ask this Committee, however, to amend SB 2232 so that any future biofuel tax credits apply only to facilities utilizing Hawaii-grown and produced feedstocks.

Biofuels will likely play a major role in Hawaii's clean energy future—particularly as a substitute for petroleum-based transportation fuels. Hawaii has an existing tax incentive for ethanol production facilities, the Ethanol Facility Tax Credit. Enacted in 2006, this policy is a refundable investment tax credit. The proposed policy would expand the credit to larger facilities as well as facilities that produce any biofuel, not just ethanol.

Transportation fuels in Hawai`i can be made from renewable resources, such as sugarcane, algae, and waste products. These materials are neither as scarce nor as expensive as crude oil. Even more importantly, these materials are available here. Hawai'i should set a clear course for a steady, incremental transition to renewable fuels including locally-produced biofuels.

We do want to ensure that this policy encourages our clean, local, renewable energy industries. We want to avoid a distorted outcome where oil crops are being shipped across the Pacific (from potentially destructive sources, like former rainforest land) for use in Hawai'i. We don't necessarily want to replace one import (oil) with another one (imported oil crops).

Thank you for the opportunity to testify.

Jeff Mikulina, executive director • **jeff@blueplanetfoundation.org**
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