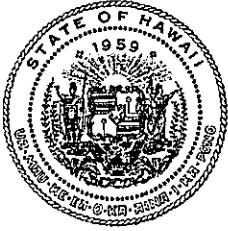


SB 2234



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

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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 2234
RELATING TO RENEWABLE ENERGY SYSTEMS.

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

The Department of Business, Economic Development, and Tourism (DBEDT) supports the intent of SB 2234, which would exempt renewable energy systems of two megawatts or larger from the general excise tax from January 1, 2011 through December 31, 2015.

There is a significant amount of Federal funding – both grants and tax incentives – available for renewable energy projects. This measure will help to attract this funding and these jobs to Hawaii by providing general excise tax exemptions for the construction of utility-scale renewable energy facilities built within a five year period of time.

There are several renewable energy projects being considered for Hawaii. This incentive could make the difference for a significant number of projects, and thus generate jobs, tax revenues, and energy diversification that would not otherwise exist.

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 2234 RELATING TO RENEWABLE ENERGY SYSTEMS

WRITTEN TESTIMONY ONLY

TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)

DATE: JANUARY 28, 2010

TIME: 3PM

ROOM: 225

This measure proposes to exempt the sale, servicing, leasing, or installation of certain renewable energy systems from the general excise tax.

The Department of Taxation prefers the Administration measure, SB 2675.

I. THE DEPARTMENT SUPPORTS RENEWABLE ENERGY REFORM POLICY.

The Department recognizes the importance of this legislation because this bill provides an attractive incentive that serves as another step in the right direction for minimizing Hawaii's dependence on fossil fuels. The Department and the Administration both recognize the importance of Hawaii's energy independence and are in strong support of policies to that effect. The Administration is committed to energy conservation and promoting alternative energy production, including reducing Hawaii's fuel dependency.

II. THERE SHOULD BE A MINIMUM-SIZED SYSTEM TO ENJOY THE EXEMPTION

The Department prefers the Administration's SB 2675 because it includes a minimum-sized system that can enjoy the exemption. SB 2675 requires that the system generate at least 2 MW of electricity. A complete exemption from the general excise tax is a very generous incentive. Only meaningful and productive systems, which move Hawaii toward energy independence, should enjoy this exemption. Without a means of quantifying who is entitled to this exemption, the revenue impact could greatly increase.

**Testimony before the
Senate Committee on**

Energy and Environment

S.B. 2234 -- Relating to Renewable Energy Systems

**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).

We support S.B. 2234 which provides an exemption from the general excise tax for renewable energy systems. The proposed changes in this bill will make it more attractive for more entities to take advantage of this benefit.

Thank you for the opportunity to testify.

TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: GENERAL EXCISE, Exempt sale or lease of renewable energy systems

BILL NUMBER: SB 2234

INTRODUCED BY: Gabbard, Green, Hooser, 3 Democrats and 1 Republican

BRIEF SUMMARY: Adds a new section to HRS chapter 237 to exempt from the general excise tax, the gross proceeds arising from the sale, installation, servicing, and leasing of a renewable energy system, between January 1, 2011 and December 31, 2015. Defines "renewable energy system" as a system that produces electricity or liquid fuels solely from one or more of the following renewable energy sources: (1) wind; (2) sun; (3) falling or flowing water; (4) biogas, including landfill and sewage-based digester gas; (5) geothermal; (6) ocean water, currents, and waves; (7) biomass, including biomass crops, algae, agricultural and animal residues and wastes, and municipal solid waste; (8) biofuels; and (9) hydrogen produced from water, biogas, or biomass, using energy from renewable energy sources.

This act shall be repealed on December 31, 2015.

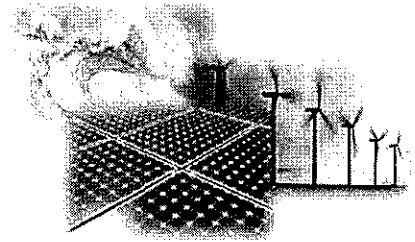
EFFECTIVE DATE: Upon approval

STAFF COMMENTS: Apparently the sponsors of this proposal want to be identified as energy conscious and committed to the sustainability bandwagon by providing an exemption from the general excise tax for the purchase and installation of alternative energy devices. Unfortunately, it reflects the lack of awareness of the multitude of incentives already on the books not only for alternate energy production but for the purchase and installation of capital equipment.

It should be noted that the state alternate energy tax credit available to both individuals and businesses applies to the entire invoice price of the alternate energy device including the cost of the general excise tax imposed on the purchase. Thus, the exemption reduces the amount of the invoice price and, therefore, the amount of the credit. While certainly the amount of four percent may be greater than 35% of the four percent tax, it is nonetheless an incentive to encourage the purchase and installation of such devices.

If the purchase and installation of such devices is made by a business, the acquisition would be treated as a purchase of capital goods which is integral to the production of income for that business. Under HRS 235-110.7 such purchases of capital goods which are subject to either the general excise or use tax at a rate of 4% are eligible for the capital goods excise tax credit. This credit was adopted by Act 239, SLH 1987, in recognition that acquisition of capital goods is critical to the creation of new employment opportunities and, therefore, alleviating the cost of these acquisitions by the cost of the general excise tax. Thus, there is a mechanism to eliminate the cost of the tax on alternate energy equipment purchased and installed by a business. In this latter case, it was unfortunate that the legislature suspended the capital goods excise tax for calendar year 2009 in its efforts to address the budget shortfall. Regardless this bill, as drafted, is unnecessary.

Digested 1/27/10



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 2234, SUGGESTED AMENDMENT

Chair Gabbard and members of the Committee:

The Blue Planet Foundation supports Senate Bill 2234, a measure exempting clean energy projects from the general excise tax for a four-year period starting January 1, 2011.

Hawai'i is the most dependent state in the nation on imported oil. Some 50 million barrels are imported annually, nearly 97% of which originate from foreign sources¹. In addition, over 800,000 tons of coal are imported into our state². These sources provide power for over 92% of Hawaii's electricity generation. The combustion of these resources also contributes over 23 million tons of climate changing greenhouse gas into our atmosphere annually³. Hawaii's economic, environmental, and energy security demand that we reduce the amount of fossil fuel imported and consumed in Hawai'i. To that end, new policies are critically needed that will dramatically increase energy efficiency, build our smart energy infrastructure with storage, and develop clean, renewable, and indigenous energy sources.

Blue Planet supports exempting clean energy projects from the GET to help the economics for new, Hawaii-based, clean energy projects pencil out. We ask that this committee amend SB 2234 to limit the GET exemption as it applies to biofuels and biomass to locally produced feedstocks only.

Thank you for the opportunity to testify.

¹ The State of Hawaii Data Book, 2008

² *Ibid.*

³ ICF International. Inventory of Greenhouse Gas Emissions and Sinks in Hawaii: 1990 and 2007. December 2008.