SB 242

HAWAII RENEWABLE ENERGY ALLIANCE
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TESTIMONY OF WARREN BOLLMEIER ON BEHALF OF THE HAWAII RENEWABLE ENERGY ALLIANCE BEFORE THE SENATE COMMITTEE ON WAYS & MEANS

SB 242 SD1, RELATING TO SEAWTER AIR CONDITIONING DISTRICT COOLING SYSTEMS

March 2, 2009

Chair Kim, Vice-Chair Tsutsui and members of the Committee, I am Warren Bollmeier, testifying on behalf of the Hawaii Renewable Energy Alliance (HREA). HREA is a nonprofit corporation in Hawaii, established in 1995 by a group of individuals and organizations concerned about the energy future of Hawaii. HREA's mission is to support, through education and advocacy, the use of renewables for a sustainable, energy-efficient, environmentally-friendly, economically-sound future for Hawaii. One of HREA's goals is to support appropriate policy changes in state and local government, the Public Utilities Commission and the electric utilities to encourage increased use of renewables in Hawaii.

The purpose of SB 242 SD1 is to allow the sale of cooling from seawater air conditioning district cooling systems to qualify for state enterprise zone benefits. Specifically, the bill proposes to add seawater air conditioning district cooling systems to the list of "qualified businesses" to Section 209-E. HREA strongly supports this measure and offers the following comments in support:

(1) Seawater Air Conditioning (SWAC). Wind energy, a renewable energy technology, is already included as a "qualified" business in the enterprise zone program. SWAC is a renewable energy technology ("RET") which "offsets" the need for electricity to cool water via a conventional chiller system. Therefore, SWAC should be included as a "qualified" business in the enterprise zone program;

(2) HSWAC Project Benefits. The proposed Honolulu Seawater Air Conditioning ("HSWAC") Downtown project location is in an enterprise zone. HSWAC has estimated that the Downtown project will off-set approximately 15 MWs in power that would otherwise be needed for 25,000 tons of conventional "chiller-type" air conditioning. This project will not only help HECO meet its anticipated capacity shortfall, but will also help HECO meet its RPS requirement which is likely to increase with the HCEI goals; and

(3) Enterprise Zone Benefits. The enterprise zone program provides certain benefits to qualified businesses to stimulate business and industrial growth. For example, tax incentives include exemption of qualified businesses from the GET, and State income taxes (on a declining basis), for a period of seven years. The tax incentives and other benefits of the enterprise zone will help make the Downtown HSWAC project more affordable for potential customers.

Thank you for this opportunity to testify.

Honolulu Seawater Air Conditioning, LLC
Affiliate of Renewable Energy Innovations, LLC, the **COOL GREEN & CLEAN**™ Company

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Testimony on

S.B. NO. 242, S.D. 1 –

RELATING TO SEAWATER AIR CONDITIONING

Before the
Senate Committee on Ways and Means
Monday, March 2, 2009, 9:30 a.m., Conference Room 211

By
David Rezachek, Consultant
Honolulu Seawater Air Conditioning LLC

Good morning Chair Kim, Vice Chair Kim, and members of the Committee. My name is David Rezachek and I am testifying on behalf of Honolulu Seawater Air Conditioning, LLC (HSWAC).

HSWAC **strongly supports** S.B 242, S.D. 1, which allows the sale of cooling from seawater air conditioning district cooling systems to qualify for state enterprise zone benefits.

This amendment adds seawater air conditioning (SWAC) district cooling systems to the definition of "qualified business" to qualify for state enterprise zone benefits in an existing enterprise zone. "Qualified business" already includes another renewable energy technology - wind. Downtown Honolulu and Kakaako (the service area for the Downtown Honolulu SWAC Project) are in an enterprise zone. **It does not create a new enterprise zone.**

The purpose of providing benefits to qualified businesses in enterprise zones is to stimulate business and industrial growth by means of regulatory flexibility and tax incentives. Tax incentives include exemption of qualified businesses from the GET, and State income taxes (on a declining basis), for a period of seven years. Providing these benefits will effectively reduce the costs of such systems to developers and customers.

The downtown Honolulu SWAC project is a near-term, "shovel-ready" project that can immediately help to stimulate Hawaii's economy.

The downtown Honolulu SWAC project will generate millions of dollars in construction project spending. In addition, it will create a significant amount of long-term, gainful employment. Other local economic development benefits will accrue from money that stays in Hawaii and is not exported outside the State to purchase oil.

During the lifetime of this system, local spending would amount to more than \$294,000,000. The calculated output based on this local spending is \$456,000,000. This amount of local spending would also generate \$149,000,000 in earnings and 3,516 full-time-equivalent person-years of jobs. This is equivalent to 133 full-time jobs for 26.5 years.

Furthermore, this project will actually generate additional revenues for the State during the next three years, and over its more than twenty-five year life. The downtown Honolulu seawater air conditioning project is a new project which will generate an estimated \$8,252,000 in new taxes during the period from 2009 to 2011. During this same period, this project will be eligible for \$5,116,000 in enterprise zone benefits. Therefore, the net fiscal benefit to the State during this period will be \$3,135,000.

If this project is not completed, there will be a net revenue loss to the State of \$3,135,000. During its lifetime, the system would generate \$24,000,000 in new state taxes.

In addition to helping stimulate the State's economy, the downtown Honolulu SWAC Project will provide the following benefits over its lifetime:

Energy and Environmental Benefits Over SWAC System Lifetime

Electricity Savings	**1,990,000,000**	**kWh**
Reduction in Demand for New Fossil Fuel Fired Generation	**14,119**	**kW**
Reduction in Crude Oil Use	**5,170,000**	**barrels**
Reduction in Potable Water Use	**8,400,000,000**	**gallons**
Reduced Sewage Generation	**3,300,000,000**	**gallons**

Thank you for this opportunity to testify.

Department of Taxation

Position Summary

Senate Committee on Ways & Means/March 2, 2009

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Bill Number	Bill Title "Relating to..."	Position	Comments	Revenue Impact	Methodology
SB 972 SD 1	TAX ADMINISTRATION	Strong concerns; prefer original version	*The Department strongly prefers the enforcement efforts set forth in the original measure because they are effective and comprehensive to target the Cash Economy. * Tax clearances as provided in this measure will be both time consuming and costly for the Department and taxpayers. The Department would need additional resources to accomplish this measure beyond what the original measure provided.	Potentially substantial, assuming sufficient resources.	Pending

SB 242 SD 1	SEAWATER AIR CONDITIONING	Opposed to unbudgeted revenue loss	No technical comments.	Revenue loss of: *$3.2 million for FY10, *$1.0 million for FY11, and *$1.3 million for FY12.	According to the industry, the proposed system would have cost $100 million in 2005. We assume that the $100 million cost the cost is distributed as follows: 1st year, 80%; 2nd year, 12%; 3rd year, 8%. The total gross income for a 3-year period is assumed to be 35% of the total system cost. The gross income is distributed as follows: 1st year, 0%; 2nd year, 33%; 3rd year, 67%. The GET rate is 4%. The total net income for a 3-year period is assumed to be 5% of the total gross income. The net income is distributed as follows: 1st year, 0%; 2nd year, 25%; 3rd year, 75%. The average income tax rate is 6%. The annual amount of employment security contributions is assumed to be 1% of the total gross income. The premium tax rate is 2.5%. The business tax credit equals 80% of tax liability in the 1st year, 70% in the 2nd year, and 60% in the 3rd year.