# SB 287

# Department of Taxation

## Position Summary

### Senate Committee on Ways & Means/March 2, 2009

| 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.<br>* 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 |

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|---|---|---|---|---|---|
| SB 287 SD 1 | ENERGY | Opposed to unbudgeted revenue loss | The Department recommends amending to preclude a taxpayer from claiming this credit and any other credit, in addition to the preclusion to claim the research credit. | The potential loss in revenue is estimated at $900,000 in FY10 & FY11. | Assuming 3 potential plants and $1.0 million construction cost per plant and 2 years to build.<br>(3 * $1 million * 30%= $900,000). |
| SB 512 SD 1 | TAXATION | Opposed to unbudgeted revenue loss | | Up to a $12 million per year revenue loss beginning in FY 12. | $12 million per year is the maximum allowable credit by the law. |
| SB 1165 | GENERAL EXCISE TAX | No position | No technical comments. | The Department is not currently collecting revenue on these proceeds as a result of the exemption. If the exemption sunsets on December 31, 2009 as required by current law, an additional $3.6 million per year would be collected. | The Time Share Occupancy Tax is levied at the rate of 7.25% on one-half of the daily maintenance costs of the timeshare unit. Collections from the tax totaled $9.7 million in 2008, which implies total maintenance costs of $267.6 million (= ($9.7 million X 2)/.0725. Assuming these are the costs of the operators of timeshare projects paid by the timeshare association and that 1/3 of this cost goes to wages, the GET that would be lost as a result of the exemption for these payments would be $3.6 million. |

**Testimony before the Senate Committee on**

**Ways and Means**

**S.B. 287 SD1-- Relating to Energy**

**Monday, March 2, 2009
9:30 am, Conference Room 211**

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

Chair Kim, Vice-Chair Tsutsui 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 SD1 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 and communications with community and cultural groups would be required before any exploration can take place in Kona.

Thank you for the opportunity to testify.

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 WAYS AND MEANS**
Monday, March 2, 2009
9:30 A.M.
State Capitol, Conference Room 211

in consideration of
**SB 287 SD1**
**RELATING TO ENERGY.**

Good morning, Chair Kim, Vice Chair Tsutsui, and Members of the Committee.

The Department of Business, Economic Development, and Tourism (DBEDT) supports the intent of SB 287 SD1 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 supports the intent of this bill and would like to offer some comments.

This bill requires the Energy Resources Coordinator to establish a pilot program by July 1, 2009 to develop 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; and further provides that the Public Utilities Commission may direct the utility serving the County of Hawaii to purchase the maximum electric 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 planned and being 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 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 testify.