



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

NEIL ABERCROMBIE
GOVERNOR

RICHARD C. LIM
INTERIM DIRECTOR

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LATE TESTIMONY

Statement of
RICHARD C. LIM
Interim Director

Department of Business, Economic Development, and Tourism
before the

**HOUSE COMMITTEES ON
ECONOMIC REVITALIZATION & BUSINESS
and
ENERGY AND ENVIRONMENTAL PROTECTION**

Tuesday, February 8, 2011

11:00 AM

State Capitol, Conference Room 325

in consideration of

HB 788

RELATING TO RENEWABLE FUELS.

Chairs McKelvey and Morita, Vice Chairs Choy and Coffman, and Members of the Committees.

The Department of Business, Economic Development, and Tourism (DBEDT) strongly supports HB 788, which would amend the ethanol facility tax credit to include other liquid biofuels and to enable larger facilities to be eligible for the incentive, without changing the level of the incentive or the potential revenue impact. This is similar to an Administration measure, HB 1018. We have one modification to suggest.

Beginning on page 7, line 21, we recommend deleting subsection (g). Under this subsection, if the total nameplate capacities of production facilities reach forty million gallons per year, no more tax credits will be allowed. To avoid the potential situation of a large production facility triggering the cap of forty million gallons per year, which would then exclude smaller scale facilities from qualifying for the tax credits, we recommend removal of the forty

million gallon production per year cap. The level of the tax incentive would remain unchanged at \$12 million.

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

NEIL ABERCROMBIE
GOVERNOR

BRIAN SCHATZ
LT. GOVERNOR



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INTERIM DIRECTOR OF TAXATION

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DEPUTY DIRECTOR

LATE TESTIMONY

HOUSE COMMITTEES ON ECONOMIC REVITALIZATION & BUSINESS AND ENERGY & ENVIRONMENTAL PROTECTION

TESTIMONY OF THE DEPARTMENT OF TAXATION REGARDING HB 788 RELATING TO RENEWABLE FUELS

TESTIFIER: FREDERICK D. PABLO, INTERIM DIRECTOR OF
TAXATION (OR DESIGNEE)

COMMITTEE: ERB-EEP

DATE: FEBRUARY 8, 2011

TIME: 11AM

POSITION: NO POSITION

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

The Department of Taxation (Department) takes **no position** on this measure.

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 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 IMPACT—This measure does not disturb the \$12 million cap that already is in place. However, expanding the credit could result in increased interest in claiming this credit.

LATE TESTIMONY

HB 788

RELATING TO RENEWABLE FUELS

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

FEBRUARY 8, 2011

Chairs McKelvey and Morita and members of the House Committees on Economic Revitalization and Business and Energy and Environmental Protection:

I am Joel Matsunaga, testifying on behalf of Hawaii BioEnergy, LLC on HB 788, "Relating to Renewable Fuels."

SUMMARY

Hawaii BioEnergy ("HBE") supports HB 788 (with amendments), which revises Section 235-110.3 of the Hawaii Revised Statutes by expanding the Ethanol Facility Credit to apply to liquid biofuels, encouraging the utilization of locally produced feedstock, and enabling facilities greater than 15 million gallons per year of production capacity to qualify. While HBE supports HB 788, the company believes some of the language contained in the proposed measure is unnecessarily limiting and therefore should be amended.

The amendments to HB 788 proposed below would apply the credit to investments made after December 31, 2010, and would eliminate the 40 million gallon cap on qualifying production in order to help attract new investment to the state and further expand the renewable fuels industry. HBE submits that the tax dollars allocated for the existing incentive and any subsequent increase would be more than offset by the direct and indirect tax revenue biofuel facilities would generate. Removing the 40 million gallon cap would help to attract additional investment in the sector and help the state to meet its increasing renewable fuels goals.

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. 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 Phase II of a Hawaii-based, DARPA-funded algae project. Along with providing a local, renewable, and lower-carbon fuel source, expanded algae-based biofuel production will benefit 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 moving forward with plans to develop locally produced high density fuels from sweet sorghum, eucalyptus and/or other dedicated energy crops. The feedstocks and conversion production pathways under consideration hold tremendous potential to displace fossil fuel imports given their relatively low input requirements, exceptionally high yields, and capacity to produce a portfolio of products including liquid fuels for transport and power generation while contributing feed, and other bio-based co-products to the local market.

In addition to the clear environmental and energy security benefits that local production would bring to bear, fostering Hawaii's biofuel industry would also provide needed economic stimulus to the state through direct investment, job creation, and demand for goods and services. Based on an independent analysis commissioned by HBE, it's projected that a large-scale agricultural operation coupled with biofuels facility could provide up to 1,400 new direct, indirect and induced 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. HB 788, with additional amendments removing the 40 million gallon cap, would be tied to the local market and provide needed support to a range of advanced and more efficient biofuel production technologies.

PROPOSED AMENDMENTS TO HB 788

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 HB 788 in order to maximize the credit's reach and impact:

- To clarify that "investment" means a nonrefundable capital expenditure related to the development and construction of any qualifying [ethanol] biofuel production facility, including processing equipment, waste treatment systems, pipelines, and liquid storage tanks at the facility or remote locations, including expansions or modifications made after December 31, 2010;
- To eliminate section (g): ~~[Once the total nameplate capacities of qualifying ethanol production facilities built within the State reaches or exceeds a level of forty million gallons per year, credits under this section shall not be allowed for new ethanol production facilities. If a new facility's production capacity would cause the statewide ethanol production capacity to exceed forty million gallons per year, only the ethanol~~

~~production capacity that does not exceed the statewide forty million gallon per year level shall be eligible for the credit.]~~

CONCLUDING REMARKS

HBE is moving forward with projects that will help to address Hawaii's energy future and asserts that HB 788, 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 HB 788, with the above referenced amendments.

Thank you for the opportunity to testify.

Tuesday, Feb. 8, 2011
11:00 AM, Conference Room 325

LATE TESTIMONY

COMMITTEES ON Economic Revitalization & Business, and Energy & Environmental Protection

Rep. Angus L.K. McKelvey, Chair

Rep. Hermina M. Morita, Chair

Support HB 788, Relating to Biofuel Facilities, WITH CHANGES

Testimony of Pacific Biodiesel, Inc.

Pacific Biodiesel, Inc. is the oldest biodiesel production company in the U.S., in continuous operation since its first plant was constructed on Maui in 1996. Having opened America's very first retail biodiesel pump and developed proprietary technology, we have built a solid reputation as a leading pioneer in the biodiesel industry. Pacific Biodiesel owns and operates two biodiesel plants in Hawaii, employs at least 30 residents in this state and is currently developing a new, state-of-the-art, zero-waste biodiesel facility on the Big Island.

Pacific Biodiesel supports part of the intent of HB 788, which would amend an already existing and funded ethanol facility tax credit to also encourage increased production of biofuel in the State of Hawaii. Changing the support from just 'ethanol facility' to 'biofuel facility' would enable local companies to utilize this dormant incentive to expand biofuel production capacity statewide. This bill, however, excludes used cooking oil as a feedstock, which is the most efficient and environmentally beneficial feedstock for biofuels.

We respectfully propose the COMMITTEES instead consider House Bill 329 for several reasons:

1. Include used cooking oils, grease trap and waste animal fats as qualifying feedstock, thereby encouraging the continued and expanded use of recyclable materials for clean fuel production
2. Replace "nameplate capacity" with "measured production" to simplify management of this program by state agencies
3. Clarify "integrated" agricultural use (p 4) and adapt so that independent farmers also get the same advantage as big agricultural interests

Note to item 1: HB 788 is currently written to exclude the lowest carbon feedstock, used cooking oil, which the EPA has recognized as having the greatest greenhouse gas emission reduction. In developing biofuel production, flexibility is extremely important, and integrating waste vegetable oils as feedstock is crucial to the success of our biodiesel refineries. If the state continues to support local biodiesel production, using the smartest feedstocks, it will allow small businesses like ours the resources to be out there looking for

other local sources, supporting small farmers, waste oil haulers and even renderers of animal fats. The biodiesel industry has struggled under recent economic conditions as well as fluctuating petroleum prices. Many U.S. biodiesel production facilities are running at reduced capacity, have shut down entirely, or have gone bankrupt; furthermore, nearly all new biofuel facility construction has been stalled indefinitely. Current industry-wide costs for biodiesel plant construction are between \$2-\$3 per gallon of production capacity, depending on technology. Operation costs are increased by rising costs of supplies and input materials, labor, feedstock collection and processing, insurance, etc. The support for biofuels should include the best models, not just those that might need help.

Note to item 2: During Pacific Biodiesel's 15 years in the biofuels industry, we have experienced that "nameplate capacity" is an arbitrary number and is rarely confirmed by any official process. Awarding the biofuels credit based on actual production would best support the intent of this bill and does just as much to incentivize increased capacity.

Note to item 3: Since we have begun working with local farmers on the Big Island, we have been contacted by over a dozen individuals who want to get into growing biofuel crops. These local farms would bring much-needed economic development and diversified agriculture to the State of Hawaii. The way HB 788 currently reads, it appears that only large agricultural entities that own both the farm and fuel production would benefit, and that the local farmer working with a biofuel production operation is at a disadvantage.

Pacific Biodiesel would support the passage of HB 329, or HB 788 with proposed changes, which will allow more sustainable businesses to utilize an already funded policy, propelling the state forward towards energy independence and encouraging jobs and economic growth through locally owned businesses. Companies such as Pacific Biodiesel can lead the State of Hawaii forward towards energy independence, new job creation and economic growth through locally owned businesses.

Thank you for the opportunity to testify,

Kelly King, Vice President
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HAWAII RENEWABLE ENERGY ALLIANCE

LATE TESTIMONY

46-040 Konane Place #3816, Kaneohe, HI 96744 – Telephone/FAX: 247-7753 – Email: wsb@lava.net

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Inter Island Solar Supply

John Crouch
SPSI, LLC

Herbert M. (Monty) Richards
Kahua Ranch Ltd.

TESTIMONY OF WARREN BOLLMEIER ON BEHALF OF THE HAWAII RENEWABLE ENERGY ALLIANCE BEFORE THE HOUSE COMMITTEES ON ECONOMIC REVITALIZATION & BUSINESS , AND ENERGY & ENVIRONMENTAL PROTECTION

HB 788 RELATING TO RENEWABLE FUELS

February 8, 2011

Chairs McKelvey and Morita, Vice-Chairs Choy and Coffman and members of the Committees, I am Warren Bollmeier, testifying on behalf of the Hawaii Renewable Energy Alliance (HREA). HREA is an industry-based, nonprofit corporation in Hawaii established in 1995. Our 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 our 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 purposes of SB 788 are to amend the ethanol facility income tax credit to include other liquid biofuels and to enable larger facilities to be eligible for the tax incentive. **HREA supports the intent of the proposed measure**, which we understand is to create an incentive mechanism to leverage private investment in biofuel production facilities and therefore support our clean energy objectives. We offer the following comments and recommendations **consistent with modifying this measure to be a producer credit**:

1. We believe a **producer credit**, e.g., \$.30/gallon produced and sold, provides a more direct and flexible incentive for actual production than the proposed measure. It incentivizes production directly, and allows the developer/facility owner-operator to share incentive funds with **feedstock suppliers**.
2. **Feedstocks** should include “unused byproducts of food, feed, or other products, including used cooking oils and grease.” While most developers are seeking to produce biofuels from **locally-grown** feedstocks, such as jatropha and palm oil, **locally-sourced** cooking oils, gorse or waste wood products, will generally be needed to initiate operation as **local sources** for other feedstocks are being cultivated and harvested.
3. Also important is the need to support **development, construction and operation of advanced technologies** for production of biofuels. These technologies would include transesterification, gasification, pyrolysis, and Fischer-Tropsch synthesis. We believe said technologies can offer the pathway to cost-effective, sustainable approaches to help wean us off of oil.

. Thank you for this opportunity to testify.

PACIFIC WEST ENERGY LLC

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HONOLULU, HI 96817
Tel. 808-927-3608

LATE TESTIMONY

February 7, 2011

Representative Angus L.K. McKelvey, Chair
Representative Isaac W. Choy
And Members of the Committee on Economic Revitalization & Business

Representative Hermina M. Morita, Chair
Representative Denny Coffman, Vice-Chair
And Members of the Committee on Energy and Environmental Protection
Hawaii State Capitol
415 S. Beretania
Honolulu, HI 96813

Re: HB 788 – Relating to Renewable Fuels

Dear Chairs McKelvey and Morita, Vice-Chairs Choy and Coffman and Members of the Committees,

My name is William Maloney and I am the President and Chief Executive Officer of Pacific West Energy LLC and its affiliate, Pacific West Energy Kauai LLC, the developers of an integrated agriculture to green power and biofuel project on Kauai. I testify today in support of HB 788, with some recommended amendments that I think would be helpful in clarifying eligible expenditures and ask the Committees to consider the intent and whether the incentives should be expanded to bioenergy facilities and not just biofuel facilities.

Pacific West Energy LLC continues to intend to construct a biofuel production facility on Kauai, integrated with a renewable energy electricity cogeneration facility. The total project cost is approximately \$140 million, with \$40 million of this representing the biofuel facility. We recently acquired the former Kekaha sugar mill industrial site. We are in the land lease negotiations, and negotiating contract farming agreements, and have entered into several contracts in support of this project. In addition to producing biofuels for the local Hawaiian motor fuel market we intend to produce renewable electricity for sale to Kauai Island Utility Cooperative (“KIUC”).

With advances in technology it is apparent that opportunities exist to produce a range of renewable fuels in Hawaii, not just ethanol, from local agricultural feedstocks. It is a good idea at this stage to expand the incentive to cover biofuels generally, and, as the current bill’s language includes that such biofuels may not solely be for use in motor fuel, as was the original intent of the Statute, but also for electricity production, I suggest consideration should be given to further expansion to include bioenergy facilities, e.g., agricultural biomass to electricity facilities. This is a logical step, as the final market, electricity use, is the same whether the intermediate step of biofuels is produced or direct electricity is produced.

I also wish to bring to the Committee’s attention that the Ethanol Facility Tax Credit was only approved by the legislature in both 2000 and 2004 after comprehensive reviews that included a detailed fiscal and economic analysis commissioned by DBEDT and prepared for the legislature by Decision Analysts Hawaii Inc. (“DAHI”). These cost / benefit analysis required the presentation of all our capital and operating budgets to DAHI. The findings were that the

incentive would be revenue positive for the State over the life of the project. However, no such reviews have been undertaken on the potential alternative biofuels, and I suggest that these be conducted as part of the legislative process.

Finally, I note that the language “grown on farms that were not previously used for other purposes” is used under the definition of “Agricultural Feedstock”. This language may lead one to conclude that land that has had any previous agricultural use is precluded from qualification. I suggest that the text “that were not previously used for other purposes” be deleted.

Sincerely,

William Maloney

William Maloney
President & Chief Executive Office
Pacific West Energy LLC