

SB 722

NEIL ABERCROMBIE
Governor



State of Hawaii
DEPARTMENT OF AGRICULTURE
1428 South King Street
Honolulu, Hawaii 96814-2512

RUSSELL S. KOKUBUN
Chairperson, Board of Agriculture

JAMES J. NAKATANI
Deputy to the Chairperson

TESTIMONY OF RUSSELL S. KOKUBUN
CHAIRPERSON, BOARD OF AGRICULTURE

BEFORE THE SENATE COMMITTEES ON ENERGY AND ENVIRONMENT AND
AGRICULTURE
TUESDAY, FEBRUARY 1, 2011
2:55 P.M.
Conference Room 225

SENATE BILL NO. 722
RELATING TO THE ENVIRONMENTAL RESPONSE, ENERGY, AND FOOD
SECURITY TAX

Chairs Gabbard and Nishihara and Members of the Committees:

Thank you for the opportunity to testify on Senate Bill No. 722. The purpose of this bill is to amend Section 243-3.5, the Environmental Response, Energy, and Food Security Tax by allocating an equal share of the sixty cents presently going to the General Fund to the Department of Business, Economic Development and Tourism's Energy Security Special Fund and the Department of Agriculture's Agricultural Development and Food Security Special Fund. The Department of Agriculture supports the intent of this measure but also realizes that the constraints on the State budget require balancing this request in the context of other priorities. However, should the funds become available for the purposes stated in this bill, the Department of Agriculture is prepared to utilize the revenues for the projects and programs as described in Attachment A to our testimony.

The equal distribution of the subject sixty cents between the Agriculture and Energy special funds is one of the recommendations made by the Hawaii Economic Development Task Force (HEDTF, created by Act 73, 2010 SLH) as seen in its Interim Report to the 2011 Legislature. In our 2010 Annual Report on the Agricultural



Development and Food Security Special Fund, a report required by Act 73, the stakeholder meetings we convened in late 2010 also came to the same conclusion about equally allocating the sixty cents to the Energy and Agriculture special funds. The stakeholders also agreed that the funds from the Agriculture special fund should be used to supplement existing funds for agriculture appropriated by the Legislature and should not supplant current funding. The stakeholders also provided a number of suggested projects by allowable uses for Fiscal Years 2012 to 2015 which we have attached to our testimony in their entirety.

Thank you, again, for the opportunity to testify on this measure.

Attachment

Estimated Cost Per Fiscal Year for All Agricultural Development & Food Security Special Fund Projects Organized by Allowable Uses (HRS Ch. 141)

Note: Priorities for HDOA operations are shown in bold.

Note: ** denotes funding from both the Agricultural Development & Food Security and Energy Security special funds.

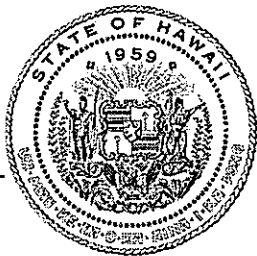
Note: Appendix B contains any proposals that were submitted. The numbers in parenthesis in the table below indicate the proposal # in Appendix B.

		FY 12	FY 13	FY 14	FY 15	Total
A. The awarding of grants to farmers for agricultural production or processing activity						
	Livestock Feed Reimbursement program (2 yrs)	2,000,000	2,000,000			4,000,000
	Grants to farmers to address pest issues, alternative energy	TBD				TBD
	Irrigated pasture	\$370,000	110,000	110,000	110,000	700,000
B. The acquisition of real property for agricultural production or processing activity						
	Acquire private agriculture lands or ag. easements	1,000,000	1,000,000	1,000,000	1,000,000	4,000,000
C. The improvement of real property, irrigation systems and transportation networks necessary to promote agricultural production or processing activity						
	County IAL mapping	200,000	200,000	200,000	200,000	800,000
	Private irrigation systems serving IAL -matching funds for CIP **	\$4,000,000	4,000,000	4,000,000	4,000,000	16,000,000
	Pipe Schofield R-1 wastewater for agriculture use in Kunia	TBD				TBD
	Well infrastructure renovation in Ka'u	TBD				TBD
	Water tunnel renovations and distribution pipelines on Kauai	TBD				TBD
	Assist with costs for dam safety certification	TBD				TBD
	Fund additional irrigation workers for state irrigation systems	TBD				TBD
	Value added facilities, certified kitchens	TBD				TBD
	Consolidation and marshalling facilities at the ports	TBD				TBD
	Improvements to Kula Vacuum Cooling Plant	TBD				TBD
	Subsidize transportation costs	TBD				TBD

D. The purchase of equipment necessary for agricultural production or processing activity						
		FY 12	FY 13	FY 14	FY 15	Total
	Establish Mobile slaughterhouse and processing unit	400,000				400,000
	Fund Kamuela Vacuum Cooling Plant repairs	TBD				TBD
	Funding to renovate aging processing facilities	TBD				TBD
	Fumigation chamber for export crops	TBD				TBD
E. The conduct of research on and testing of agricultural products and markets						
	New Varieties of Coffee (Appendix B #1)	45,000	45,000	45,000	45,000	180,000
	Selection of vegetable varieties (App.B #2)	63,000	53,000	49,000	49,000	214,000
	Coffee flower synchronization (App B #3)	45,000	45,000	45,000	45,000	180,000
	PBARC Coffee research (Appendix B #4)	105,000	105,000	105,000	105,000	420,000
	Rust-resistant coffee cultivars (App B #5)	80,000	80,000	80,000	80,000	320,000
	Coffee processing improvements (App B #6)	30,000	30,000	30,000	30,000	120,000
	Annual research funding for ag and aquaculture	1,000,000	1,000,000	1,000,000	1,000,000	4,000,000
	Improvement of food security and reduction of food safety problems (Appendix B #7)	50,000	100,000	100,000	200,000	450,000
	Farm level water and produce testing (Appendix B #8)	35,000	65,000	120,000	220,000	440,000
	Controlling Seasonal Production and Fruit Quality Problems in Pineapple (Appendix B #9)	90,105	89,105	89,105	0	268,315
	Sustainable Tropical Vegetable Production Systems (Appendix B #10)	106,500	106,500	106,500	0	319,500
	Taro Acridity (App B #11)	93,100	82,100	82,100	0	257,300
	Microbial And Pesticide Concerns With Leafy Vegetables (App B #12)	144,500	132,500	132,500	0	409,500

F. The funding of agricultural inspector positions within the department of agriculture. (Statutory language should be expanded to include all biosecurity-related positions and activities in HDOA.)						
		FY 12	FY 13	FY 14	FY 15	Total
	Funding of PQ and commodities inspector positions	1,018,456	1,018,456	1,018,456	1,018,456	4,073,824
	Additional HDOA positions requested by industry	TBD				TBD
	Continue Invicta database development	200,000	200,000			400,000
	Maui Biosecurity harbor infrastructure improvements	TBD				TBD
G. The promotion and marketing of agricultural products grown or raised in the state						
	Developing a Hawaii Grown Tea Industry (Appendix B #13)	114,504	117,654	122,332	128,350	482,840
	Hawaii Coffee Growers Association Trade Shows (Appendix B #14)	40,000	40,000	40,000	40,000	160,000
	Hawaii House in Shanghai	50,000	50,000	50,000	50,000	200,000
	Public education, marketing and promotion	TBD				TBD
	Agricultural Education in schools	TBD				TBD
	Permanent locations to showcase agriculture	TBD				TBD
H. Any other activity intended to increase agricultural production or processing that may lead to reduced importation of food, fodder, or feed from outside the state.						
	Funding of Entomologist positions	255,995	255,995	255,995	255,995	1,023,980
	Energy & Food Security Planners **	214,286	214,286	214,286	214,286	857,144
	New Plant Distribution Center (Appendix B #15)	198,675	200,675	200,675	190,675	790,700
	Coffee berry borer fumigation station	50,000	0	0	0	50,000
	Sanitation measures to reduce coffee berry borer (App B #16)	127,000	127,000	127,000	127,000	508,000

H. Any other activity intended to increase agricultural production or processing that may lead to reduced importation of food, fodder, or feed from outside the state.						
		FY 12	FY 13	FY 14	FY 15	Total
	Hawaii Master Beef Producers (Appendix B #17)	198,868	198,868	198,868	198,868	795,472
	Farm Food Safety Coaching(Appendix B #18)	237,568	234,618	236,689	238,780	947,655
	Workforce Expansion	12,000	12,000	12,000	12,000	48,000
	State-Level Food Ombudsman	TBD	TBD	TBD	TBD	TBD
	Total Expenditures	12,574,557	11,912,757	9,770,506	9,558,410	43,816,230



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

NEIL ABERCROMBIE
GOVERNOR

RICHARD C. LIM
INTERIM DIRECTOR

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Statement of
RICHARD C. LIM
Interim Director
Department of Business, Economic Development, and Tourism
before the
COMMITTEE ON ENERGY AND ENVIRONMENT
and
COMMITTEE ON AGRICULTURE
Tuesday, February 1, 2011
2:55 p.m.
State Capitol, Conference Room 225

in consideration of
SB 722
**RELATING TO THE ENVIRONMENTAL RESPONSE, ENERGY, AND FOOD
SECURITY TAX.**

Good afternoon Chair Gabbard, Chair Nishihara, Vice Chair English, Vice Chair Kahele and Members of the Committees. My name is Richard Lim and I'm the Interim Director of the Department of Business, Economic Development, and Tourism (DBEDT).

SB722 amends the environmental response, energy, and food security tax to require that 45 cents of such tax be deposited into the energy security special fund, and 45 cents be deposited into the agricultural development and food security special fund. The Department of Business, Economic Development, and Tourism strongly supports this bill. This bill will provide a sustainable funding for the Hawaii State energy program and personnel which is critical in achieving Hawaii's energy security by reducing the state's dependence on imported fossil fuels by at least 70% by 2030.

The Hawaii State Energy Office personnel and programs are currently funded under the Federal State Energy Program Petroleum Violation Escrow Fund (PVE) and the American Recovery and Reinvestment Act of 2009 (ARRA). The PVE and the ARRA funds will run out by the end of FY-11 (June 2011), and April 2012, respectively. It is critical and imperative that we establish a sustainable funding for the Hawaii energy programs and personnel if we are to continue on our journey towards clean and sustainable energy future.

In the last three short years, the Hawaii energy program has achieved so much and has made a difference in effecting Hawaii's energy transformation. Some of these accomplishments include:

1. The launching of the Hawaii Clean Energy Initiative in partnership with the U.S. Department of Energy, which provided a framework for Hawaii's energy goal of reducing the state's dependence on imported fossil fuel by at least 70% by 2030. The achievement of this goal will greatly benefit Hawaii's economy, environment, energy security and sustainability, in many ways including achieving the following:
 - a. Energy security through reduced reliance on imported oil supplies and exposure to the volatile prices of the world oil market;
 - b. Risk management by increased diversification of the electricity generation portfolio;
 - c. Economic benefits including increased quality job creation, economic development and diversification, and fewer dollars leaving Hawaii's economy;
 - d. Reduced greenhouse gas emissions and the attendant negative impact on climate change, global warming, and Hawaii's environment.
2. The Hawaii State Energy Office's strong partnership with the US Department of Energy (USDOE) as exemplified by the launching of HCEI, has generated a total of USDOE funding of over \$10M for technical studies and planning support for HCEI such as the grid studies for Oahu, Maui, and the Big Island,

and the implementation studies for determining the feasibility of integrating the Big Wind projects to the HECO grid.

3. The signing of the Energy Agreement between the State and the HECO Companies which committed the utilities to procure and integrate approximately 1100 MW of renewable energy resources in their generation portfolios.
4. The development, adoption, and implementation of major State energy policies including the enhancement of Hawaii's Renewable Portfolio Standards (Hawaii's RPS Law) increasing the 2020 RPS goal of 20% to 25% and the establishment of an RPS goal of 40% by 2030; and the adoption of the Energy Efficiency Portfolio Standards (EEPS) goal of 4,300 gigawatt-hours by 2030. DBEDT's initial estimates indicate that the achievement of both the RPS and the EEPS goals will reduce our fuel imports used for electricity generation by over 90% by 2030.
5. The adoption of major regulatory transformation including the adoption of a decoupling mechanism for the HECO Companies, and the approval and implementation of the Feed-in Tariffs Tier 1 and Tier 2 programs in the HECO Companies' service territories. There are currently over 30 energy policy related regulatory proceedings before the PUC, and the Hawaii State Energy Office is intervening in seven of the major dockets that would affect the achievement of Hawaii's energy goals.
6. The Hawaii clean energy programs and initiatives have induced and facilitated the creation of approximately 11,145 green jobs in Hawaii by private industry.
7. A DBEDT survey of 161 private and public businesses/institutions indicated that investments for 2009 amounted to \$345 million, and is projected to be \$917 million in 2010 and reach \$1.2 billion in 2011.
8. The Hawaii State Energy Office continues to develop and manage over 40 energy contracts worth a total of \$36 million funded under ARRA. These energy contracts are aimed at helping reduce Hawaii's dependence on imported fuels and encompass key areas of the energy sectors including installation of energy storage batteries in the islands of Maui and Hawaii as mitigation

measures to increase the islands' grid's capability to interconnect renewable energy resources; the initiation of the Hawaii EV Ready Program aimed at installing electric vehicle (EV) charging stations; funding the EIS requirements for the undersea cable to bring the wind resources to where the demand for energy is highest; and several contracts aimed at increasing energy efficiency including some that are specifically targeted to decreasing the state facilities' electricity consumption and electricity costs.

9. The Hawaii State Energy Office also has the statutory duties to facilitate permitting of renewable energy projects.
10. The Hawaii State Energy Office also has the statutory responsibility for the State's energy emergency preparedness planning and maintaining and enhancing the State's emergency response capability.

These achievements and responsibilities demonstrate the breadth and depth of the Hawaii State Energy Office's capability in effecting the transformation of Hawaii's energy landscape. Although our team has done so much in such a short period, there is still much to be done, and the need for a sustainable and predictable funding for the energy programs and personnel such as proposed in this bill is critical if we are to move forward in this great journey.

Expected Use of Funds

Based on current fund balance, an additional 30 cents per barrel is expected to add \$5.7 million to the ESSF per fiscal year, bringing the estimated total fund balance to \$8.5 million per fiscal year. For FY 12, the \$8,581,667 will be used to:

1. Support energy efficiency projects, renewable energy pilot programs, permit facilitation projects totaling \$950,000.
2. Make grants to government agencies and entities for clean energy projects totaling \$2,390,000.
3. Fund task forces; provide education; and perform studies, surveys and plans relating to clean energy totaling \$950,000.
4. Facilitate interisland undersea cable project development totaling \$1,500,000.

5. Support energy program administration and fund personnel costs totaling approximately \$2,791,667.

Impact of this SB 722

The passage of this measure will allow the Hawaii State Energy Office to:

1. Support energy efficiency programs such as updating building codes for increased energy efficiency and promoting sustainable buildings.
2. Assist in the planning and development of more than 45 utility-scale renewable energy projects throughout Hawaii, from project financing to project assessment.
3. Expedite permitting for renewable energy projects and develop a one-stop online permitting portal for projects.
4. Prepare and respond to Hawaii energy emergencies.
5. Coordinate with government agencies and industry to prepare for widespread use of alternative fueled and advanced technology vehicles in Hawaii.
6. Provide guidance and expertise in the development of alternative fuel projects.
7. Intervene in regulatory dockets that facilitate the achievement of the State's energy goals and policies.
8. Support the development of interisland undersea cable project.
9. Participate in energy conferences, workshops, seminars, expos that include presentation and training focused on building standards and codes, LEED, energy efficiency rebates/loans, lighting efficiency, solar energy/PV, ocean thermal and wave energy, wind energy, geothermal energy, biofuels, and electric vehicles/transportation.

Given the State's current economic condition, putting Hawaii's residents back to work is the State's top priority, and we believe the clean energy sector is a vital contributor. From planners, architects, and attorneys developing projects, to carpenters and electricians building them, to energy consumers enjoying more stable energy prices, many sectors of the economy benefit from clean energy.

DBEDT strongly supports this bill as critical to continuing our long-term commitment to reducing our dependence on imported fossil fuels. We respectfully request your committees to support the passage of SB 722.

Thank you for the opportunity to offer these comments in support of SB722.



UNIVERSITY OF HAWAII SYSTEM

Legislative Testimony

Written Testimony Presented Before the
Senate Committee on Energy and Environment
& Senate Committee on Agriculture
February 1, 2011, 2:55PM

by
Virginia S. Hinshaw, Chancellor
and
Richard Rocheleau, Director
Hawaii Natural Energy Institute
School of Ocean and Earth Science and Technology
University of Hawaii at Mānoa

SB 722 - RELATING TO THE ENVIRONMENTAL RESPONSE, ENERGY, AND FOOD
SECURITY TAX

Chair Gabbard, Chair Nishihara, Vice-Chair English, Vice-Chair Kahele, and members of the
committees:

My name is Richard Rocheleau, Director of the Hawaii Natural Energy Institute at the University
of Hawaii at Mānoa. I support SB 722 which proposes to amend Section 243-3.5, Hawaii
Revised Statutes to allocate 45 cents of the tax on each barrel into the energy security special
fund and 45 cents into the agricultural development and food security fund. I believe these
changes are consistent with the original intent of the tax and are critical to achieve the advances
required to maintain recent progress to insure energy and food security for the State of Hawaii.

I would also like to take this opportunity to comment on the energy systems development
special fund established under 304A-2169. Although the energy systems development special
fund was established in 2007, funding for the activities of the fund was not made available until
passage of ACT 73 (oil barrel tax) in 2010. However, while ACT 73 imposes a June 30, 2015
repeal of the tax on oil and the other special funds, the legislation establishing the energy
systems development special fund (ACT 253) imposes a repeal date of June 30, 2012. Due to
the three-year delay funding the energy systems development special fund, I am requesting that
the committees consider amending the repeal date for the energy systems development special
fund to June 30, 2015 to be consistent with the other activities funded by ACT 73.

Additionally, I would like to make the committees aware that the authorization to access the
energy system development special funds was included in the Budget Worksheets under
Program ID#BED120, under the Department of Business, Economic Development and Tourism
(DBEDT). To date, this has prevented UH/HNEI from accessing these funds. UH is working
with DBEDT to determine means for UH to access the funds, consistent with legislative
language. UH/HNEI is ready to initiate activities under this program once this situation is
resolved.

Thank you for the opportunity to testify.

TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: FUEL, Environmental response, energy and food security tax

BILL NUMBER: SB 722

INTRODUCED BY: Gabbard and 1 Democrat

BRIEF SUMMARY: Amends HRS section 243-3.5 to increase the amount deposited into the energy security special fund from 15 cents to 45 cents. Also increases the amount deposited into the agricultural development and food security special fund from 15 cents to 45 cents.

EFFECTIVE DATE: Upon approval

STAFF COMMENTS: The legislature by Act 300, SLH 1993, enacted an environmental response tax of 5 cents per barrel on petroleum products sold by a distributor to any retail dealer or end user. Last year, the legislature by Act 73, SLH 2010, increased the amount of the tax to \$1.05 per barrel and provided that 5 cents of the tax shall be deposited into the environmental response revolving fund; 15 cents shall be deposited into the energy security special fund, 10 cents shall be deposited into the energy systems development special fund; 15 cents shall be deposited into the agricultural development and food security special fund; and the residual of 60 cents shall be deposited into the general fund between 7/1/10 and 6/30/15.

This measure proposes to increase the amount deposited into the energy security special fund from 15 cents to 45 cents and the agricultural development and food security special fund from 15 to 45 cents. This will result in no residual funds deposited into the general fund.

It should be remembered that the environmental response tax was initially adopted for the purpose of setting up a reserve should an oil spill occur on the ocean waters that would affect Hawaii's shoreline. The nexus was between the oil importers and the possibility that a spill might occur as the oil product was being imported into the state. Now that the fund has become a cash cow, lawmakers have placed other responsibilities on the fund, including environmental protection and natural resource protection programs, such as energy conservation and alternative energy development, to address concerns related to air quality, global warming, clean water, polluted runoff, solid and hazardous waste, drinking water, and underground storage tanks, including support for the underground storage tank program of the department of health.

It should be noted that the enactment of the barrel tax for the environmental response revolving fund is the classic effort of getting one's foot in the door as it was initially enacted with a palatable and acceptable tax rate of 5 cents and subsequently increasing the tax rate once it was enacted which is what it has morphed into as evidenced by the \$1.05 tax rate. Because the tax is imposed at the front end of the product chain, the final consumer does not know that the higher cost of the product is due to the tax. Thus, there is little, if any, accountability between the lawmakers who enacted the tax and the vast majority of the public that ends up paying the tax albeit indirectly. Proponents ought to be ashamed that

they are promoting a less than transparent tax increase in the burden on families all in the name of environmental protection and food security.

It should be remembered that the State Auditor has singled out the environmental response revolving fund as not meeting the criteria established and recommended that it be repealed. The Auditor criticized the use of such funds as they hide various sums of money from policymakers as they are not available for any other use and tend to be tacitly acknowledged in the budget process. More importantly, it should be recognized that it is not only the users of petroleum products who benefit from a cleaner environment, but it is the public who benefits. If this point can be accepted, then the public, as a whole, should be asked to pay for the clean up and preservation of the environment.

Funds deposited into a revolving fund are not subject to close scrutiny as an assumption is made that such funds are self-sustaining. It should be remembered that earmarking of funds for a specific program represents poor public finance policy as it is difficult to determine the adequacy of the revenue source for the purposes of the program. To the extent that earmarking carves out revenues before policymakers can evaluate the appropriateness of the amount earmarked and spent, it removes the accountability for those funds. There is no reason why such programs should not compete for general funds like all other programs which benefit the community as a whole.

This measure was approved last year on the basis that it would insure energy self-sufficiency and food security, but instead of devoting the proceeds from the entire dollar increase to these purposes the legislature instead used 60 cents of every dollar to shore up the state general fund. This measure now proposes to restore that amount to the various programs it was supposed to have funded. If nothing else, this is a demonstration of expediency, if not a disingenuous act on the part of lawmakers. Taxpayers should demand on-going accountability of how this money will be used and whether or not the expenditure of these funds undergoes the same close scrutiny of other taxpayer dollars.

It should be noted that the measure to increase the environmental response, energy, and food security tax was vetoed by the governor and subsequently overridden by the legislature. The governor's message stated that the measure was vetoed "because it raises taxes on Hawaii residents and businesses by an estimated \$22 million per year at a time when the community cannot afford these taxes, and deceptively implies these funds will be used to address the state's dependence on imported fuel and food. This tax will impact virtually everything we do or use in Hawaii including electricity, gasoline, trucking, shipping, retail goods, food, and even the propane for our backyard barbeques. The impacts will ripple through our entire economic system. I am particularly concerned that the tax increase occurs at a precarious moment when the State economy is beginning to stabilize and progress out of the slump created by the global recession."

Rather than perpetuating the problems of the barrel tax, it should be repealed and all programs that are funded out of the environmental response fund should be funded through the general fund. At least program managers would then have to justify their need for these funds. By continuing to special fund these programs, it makes a statement that such programs are not a high priority for state government. This sort of proliferation of public programs needs to be checked as it appears to be growing out of hand and at the expense of the taxpayer.

Testimony of The Nature Conservancy of Hawai'i
(Provided by Mark Fox, Director of External Affairs)
Supporting with Amendments S.B. 722 Relating to the Environmental
Response, Energy, and Food Security Tax
Senate Committee on Energy and Environment
Senate Committee on Agriculture
Tuesday, February 1, 2011, 2:55PM, Rm. 225

The Nature Conservancy **supports with the attached amendments** S.B. 722. In addition to addressing Hawaii's energy and food security goals, we think the barrel tax revenue should help address the direct affects of climate change caused by burning fossil fuels.

Act 73 (2010) establishing the barrel tax and the subsequent report of the Economic Development Task Force both acknowledge that consumption of fossil fuels contributes to climate change and the deterioration of Hawaii's environment. Both state their purpose to "[h]elp Hawaii's natural resources and population adapt and be resilient to the inevitable challenges brought on by climate change caused by...burning fossil fuels." Act 73 further acknowledges that our lives and the economy are intertwined with the health and function of the natural world around us. Yet, surprisingly, neither Act 73 nor the Task Force report take any specific action or make any recommendation to address the direct effects of climate change.

We recommend this bill be amended (see attached) to require a small portion (5-10%) of the barrel fee be used to actually help communities and our natural resources cope with the inevitable challenges of climate change caused by emissions from burning fossil fuels. A good start would be to fund and implement the Climate Change Task Force (Act 20; 2009) created by the Legislature.

Climate change is an imminent and unprecedented threat to both natural systems (e.g., forests, coastlines, coral reefs, wetlands) and to every person in Hawai'i that—whether they know it or not—depends on services from the natural environment for their livelihoods, health and welfare. Scientists have examined the evidence and rapid climate change is real; it is clearly caused by human activity; it is already a problem for habitat for plants and animals; and, if sources of CO₂ are not dramatically reduced, climate change could well have catastrophic results for people and their relationship with the natural environment.

Even if we drastically reduce CO₂ emissions now, we will still feel the effects of climate change. In Hawai'i, science indicates that this may include:

- More frequent and more severe storms;
- Overall, less rainfall and therefore less fresh water;
- Higher temperatures that may affect the health of forested watersheds;
- Climatic conditions even more conducive to invasive plants, insects and diseases;
- Sea level rise and high wave events that will harm coastal areas and cause seawater infiltration into groundwater systems; and
- Ocean acidification that will inhibit the growth of coral reefs.

In addition, to achieving energy security through vastly greater energy efficiency, technology and renewable energy development, we must plan and implement mitigative and adaptive measures to ensure the resilience of our natural and human systems.

Proposed amendments attached.

BOARD OF TRUSTEES

S. Haunani Apoliona Christopher J. Benjamin Anne S. Carter Richard A. Cooke III Peter H. Ehrman Kenton T. Eldridge
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A BILL FOR AN ACT

RELATING TO THE ENVIRONMENTAL RESPONSE, ENERGY, AND FOOD SECURITY TAX.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

SECTION 1. Section 243-3.5, Hawaii Revised Statutes, is amended by amending subsection (a) to read as follows:

"(a) In addition to any other taxes provided by law, subject to the exemptions set forth in section 243-7, there is hereby imposed a state environmental response, energy, and food security tax on each barrel or fractional part of a barrel of petroleum product sold by a distributor to any retail dealer or end user of petroleum product, other than a refiner. The tax shall be \$1.05 on each barrel or fractional part of a barrel of petroleum product that is not aviation fuel; provided that of the tax collected pursuant to this subsection:

- (1) 5 cents of the tax on each barrel shall be deposited into the environmental response revolving fund established under section 128D-2;
- (2) [~~15~~] 40 cents of the tax on each barrel shall be deposited into the energy security special fund established under section 201-12.8;
- (3) 10 cents of the tax on each barrel shall be deposited into the energy systems development special fund established under section 304A-2169; and
- (4) [~~15~~] 40 cents of the tax on each barrel shall be deposited into the agricultural development and food security special fund established under section 141-10.

(5) 10 cents of the tax on each barrel shall be deposited into the climate change resilience and adaptation special fund established under section 195D-

The tax imposed by this subsection shall be paid by the distributor of the petroleum product."

SECTION 2. Section 128D-2, Hawaii Revised Statutes, is amended by amending subsection (b) to read as follows:

"(b) Moneys from the fund shall be expended by the department for response actions and preparedness, including removal and remedial actions, consistent with this chapter; provided that the revenues generated by the environmental response, energy, and food security tax deposited into the environmental response revolving fund:

- (1) Shall be used:
 - (A) For oil spill planning, prevention, preparedness, education, research, training, removal, and remediation; and
 - (B) For direct support for county used oil recycling programs; and
- (2) May also be used to support environmental protection and natural resource protection programs, including energy conservation and alternative energy development, and to address concerns related to air quality, global warming climate change, clean water, polluted runoff, solid and hazardous waste, drinking water, and underground storage tanks, including support for the underground storage tank program of the department and funding for the acquisition by the State of a soil remediation site and facility.

SECTION 3. Chapter 195D, Hawaii Revised Statutes, is amended by adding a new section to be appropriately designated and to read as follows:

"§195D- Climate change resilience and adaptation special fund; establishment. (a) There is established within the state treasury the climate change resilience and adaptation special fund.

(b) The following shall be deposited into the special fund:

- (1) The portion of the environmental response, energy and food security tax specified under section 243-3.5;
- (2) Any appropriation by the legislature into the special fund;
- (3) Any grant or donation made to the special fund; and
- (4) Any interest earned on the balance of the special fund.

(c) Subject to legislative appropriation, moneys in the special fund may be expended to promote the resilience and adaptation of indigenous plants, animals, aquatic life, and their associated ecosystems to ensure their ongoing health, function and ability to deliver public services such as fresh

water, sediment control, shoreline protection, and food in the face of the effects of global climate change, including but not limited to the following:

- (1) The awarding of grants to governmental and non-governmental entities and individuals;
- (2) The acquisition of real property;
- (3) The protection, management and restoration of forests, watersheds, coastal resources, and fresh water and marine ecosystems;
- (4) Addressing threats posed by invasive species;
- (5) The restoration of forests for the purposes of carbon sequestration and other ecosystem services;
- (6) The purchase of necessary equipment;
- (7) The conduct of necessary research and planning;
- (8) To fund, to the extent possible, the climate change task force; and

Any other activity intended to preserve the function and health of natural systems to adapt and be resilient to the effects of climate change.

(d) The department shall manage the special fund, including any expenditures from the fund, in consultation with the division of forestry and wildlife, the division of aquatic resources, the natural area reserve system commission, the forest stewardship commission, and the University of Hawaii Center for Island Climate Adaptation and Policy."

(e) The department shall submit a report to the legislature no later than twenty days prior to the convening of each regular session on the status and progress of existing programs and activities, and the status of new programs and activities funded under the climate change resilience and adaptation special fund. The report shall also include the spending plan of the climate change resilience and adaptation special fund, all expenditures of climate change resilience and adaptation special fund moneys, the specific objectives of the expenditures, and measurable outcomes."

SECTION 4. There is appropriated out of the climate change resilience and adaptation special fund, the sum of \$ _____ or so much thereof as may be necessary for each of fiscal years 2011-2012 and 2012-2013 for the climate change task force established pursuant to Act 20, Session Laws of Hawaii 2009.

The sum appropriated shall be expended by the office of planning within the department of business, economic development, and tourism for the purposes of this part.

SECTION 5. Statutory material to be repealed is bracketed and stricken. New statutory material is underscored.

SECTION 6. This Act shall take effect upon its approval.



Sierra Club

Hawai'i Chapter

PO Box 2577, Honolulu, HI 96803

808.538.6616 hawaii.chapter@sierraclub.org

SENATE COMMITTEE ON ENERGY AND ENVIRONMENT SENATE COMMITTEE ON AGRICULTURE

February 1, 2011, 2:55 P.M.
(Testimony is 1 page long)

TESTIMONY IN STRONG SUPPORT OF SB 722

Aloha Chair Gabbard, Chair Nishihara, and Members of the Committees:

The Hawai'i Chapter of the Sierra Club *strongly supports* SB 722, which re-establishes financing to ensure Hawai'i's energy and food security security. The bill is a smart and need improvement to last year's historic policy.

We suggest, however, consider funding:

- (1) Contributions to the existing energy efficiency Public Benefit Funds Administrator (regulated by the Public Utilities Commission), which would directly increase and add efficiency incentives (such as appliance buy-back programs, free home energy audits, solar water heater and compact fluorescent/LED rebates, and other efficiency programs. In addition, contributions should be made into direct incentive programs that are designed to maximize small, local renewable energy sources.
- (2) Agricultural land use planning. It's apparent we need a long term plan that lays out Hawaii's food security future. Where are we going to grow our own food? A small amount of funding to plan our future could go a long way to adopting real and necessary policy changes
- (3) Climate change/adaptation planning. Two years ago, this Legislature passed a Climate Change task force. We suggest allocating a small portion to ensure this task force may proceed.

Mahalo for the opportunity to testify.

HAWAII RENEWABLE ENERGY ALLIANCE

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

Officers

President
Warren S. Bollmeier II

Vice-President
John Crouch

Directors

Warren S. Bollmeier II
WSB-Hawaii

Cully Judd
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 SENATE COMMITTEES ON ENERGY AND ENVIRONMENT AND AGRICULTURE

SB 722, RELATING TO ENVIRONMENTAL RESPONSE, ENERGY, AND FOOD SECURITY TAX

February 1, 2011

Chairs Gabbard and Nishihara, Vice-Chairs English and Kahele and members of the Committees, 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 722 is to amend the environmental response, energy, and food security tax, requiring 45 cents of such tax to be deposited into the energy security special fund and 45 cents of such tax to be deposited into the agricultural development and food security special fund. (\$)

HREA strongly supports this measure as it will provide for more funds to support energy and food security initiatives and programs

Thank you for this opportunity to testify.



Hawaii Solar Energy Association
Serving Hawaii Since 1977

February 1, 2011
2:55PM

SENATE
COMMITTEE ON ENERGY AND ENVIRONMENT
&
COMMITTEE ON AGRICULTURE
SB 722

Christy Imata

TESTIMONY IN SUPPORT

Aloha Chair Gabbard, Vice Chair English, Chair Nishihara, Vice Chair Kahele, and Members of the Committee:

In 2010, the Hawaii State Legislature passed a keystone clean energy policy intended to provide funding for food and energy security through a surcharge on each barrel of imported oil to Hawaii. Unfortunately, by the time the bill reached its final draft, the amount of money dedicated to these initiatives had been substantially decreased, allocating less than half of the monies collected from the 'Barrel Tax' towards the food and energy security special funds.

In order for Hawaii to succeed in its goal of becoming energy and food self-sufficient, it is imperative that the monies collected from the 'Barrel Tax' be used wisely to build the capacity needed to facilitate this transformation. HSEA supports SB 722 as it re-allocates these funds in a manner that is consistent with the original intent of the tax.

Thank you for the opportunity to provide testimony on this measure.

Christy Imata
Hawaii Solar Energy Association

About Hawaii Solar Energy Association

Hawaii Solar Energy Association (HSEA) is comprised of installers, distributors, manufacturers and financers of solar energy systems, both hot water and PV, most of which are Hawaii based, owned and operated. Our primary goals are: (1) to further solar energy and related arts, sciences and technologies with concern for the ecologic, social and economic fabric of the area; (2) to encourage the widespread utilization of solar equipment as a means of lowering the cost of energy to the American public, to help stabilize our economy, to develop independence from fossil fuel and thereby reduce carbon emissions that contribute to climate change; (3) to establish, foster and advance the usefulness of the members, and their various products and services related to the economic applications of the conversion of solar energy for various useful purposes; and (4) to cooperate in, and contribute toward, the enhancement of widespread understanding of the various applications of solar energy conversion in order to increase their usefulness to society.



Hawaii Farm Bureau
F E D E R A T I O N

2343 Rose Street, Honolulu, HI 96819
Phone: (808) 848-2074; Neighbor Islands: 1-800-482-1272
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Senate
Committee on Energy and Environment
and
Committee on Agriculture

February 1, 2011

SB 722 RELATING TO THE ENVIRONMENTAL RESPONSE, ENERGY AND FOOD SECURITY ACT

Chair Gabbard, Chair Nishihara, and Members of the Committees,

Hawaii Farm Bureau Federation, on behalf of our commercial farm and ranch families and organizations across the State, **strongly supports SB 722**, amending the allocation of funds in the energy and food security tax.

There are many capital improvement projects urgently needed across the state for agriculture. The reason agriculture supported this measure in 2010 was to secure a **more stable source of funding than the general fund for agricultural infrastructure and development**. This measure will allow us to return to the intent of the law passed last year, and is in the best interest of the State. It will rightfully increase agricultural viability and Hawaii's self sufficiency for food and energy.

As we seek to increase our infrastructure capacity, other laws and regulations are working in the opposite direction with provisions that may reduce our capacity. A good example of this is the case of dams and reservoirs safety. This is a critical component to water infrastructure across the State. Because these very costly and burdensome proposals came up within the last few months and after the language for food and energy security was passed, we need this amendment to resolve this problem. New infrastructure is extremely costly, therefore it is critical to maintain what we already have. Public private partnerships are essential for the success of this effort.

We respectfully request amending HRS 141-10(c)3 to read:

The improvement of real property, irrigation systems, and transportation networks necessary to promote agricultural production or processing activity, including investigative studies to identify and assess necessary improvements to dams, reservoirs, irrigation systems, and transportation networks;

Of course, disbursement of the funds identified above is still subject to legislative appropriation.

Thank you for this opportunity to provide our opinion on this important matter. If there are questions, please contact Warren Watanabe, at 2819718.

gabbard1 - Carlton

From: Windward Ahupua`a Alliance [info@waa-hawaii.org]
Sent: Tuesday, February 01, 2011 9:38 AM
To: ENETestimony
Subject: SB 722 testimony

COMMITTEE ON ENERGY AND ENVIRONMENT

Senator Mike Gabbard, Chair
Senator J. Kalani English, Vice Chair

COMMITTEE ON AGRICULTURE

Senator Clarence K. Nishihara, Chair
Senator Gilbert Kahele, Vice Chair

2:55 pm
Tuesday, February 1, 2011
Conference Room 225

SB 722 - RELATING TO THE ENVIRONMENTAL RESPONSE, ENERGY, AND FOOD SECURITY
TAX

On behalf of the *Windward Ahupua`a Alliance*, one of many organizations which worked to get the original legislation establishing the "barrel tax" to underwrite Hawai`i's food & fuel security future passed, we support this particular bill.

However, we ask that you amend the bill to add ten cents from the "barrel tax" to fund the **Climate Change Task Force** which was never implemented under the previous administration but is now being brought back to life this Session in **SB 80**. Any funds left over can then put into a not-yet-created **Climate Change Mitigation Fund**.

Mahalo for the opportunity to present my testimony.

Shannon Wood, *President & Co-Founder*
Windward Ahupua`a Alliance

PLANT A NATIVE TREE CAMPAIGN

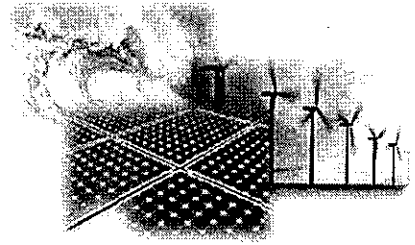
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Website: <http://www.waa-hawaii.org>; E-mail: <mailto:info@waa-hawaii.org>

Website: <http://www.plantanativetree.org>; <mailto:info@plantanativetree.org>



**SENATE COMMITTEE ON ENERGY AND ENVIRONMENT
SENATE COMMITTEE ON AGRICULTURE**

February 1, 2011, 2:55 P.M.

Room 225

(Testimony is 4 pages long)

TESTIMONY IN STRONG SUPPORT OF SB 722, SUGGESTED AMENDMENT

Chairs Gabbard and Nishihara and members of the Committees:

The Blue Planet Foundation strongly supports SB 722, a measure to increase the percentages of the tax collected on petroleum imports for food and energy security programs and planning. We believe this amendment will help this policy achieve its original intent by directing all of the funds to clean energy and agriculture. Hawaii's barrel tax law is keystone clean energy policy that will foster Hawaii's clean energy transition as the critical planning, development, and implementation of clean energy require dedicated investment.

Blue Planet believes the best way to provide investment funds is by tapping the source of our problem—imported oil—to fund clean energy programs. According to three separate surveys commissioned by Blue Planet, over two-thirds of Hawai'i residents support paying an additional amount on their energy bills (with the mean equivalent to a \$5 per barrel tax) **if the revenue was dedicated to Hawaii's clean energy future.**

To truly accelerate Hawaii's transition to energy independence, **Blue Planet Foundation proposes that SB 722 be amended by increasing the oil tax to \$5 per barrel** (yielding approximately \$120 million annually). The majority of these revenues should be directed to clean energy planning, development, integration, incentives, and other activities facilitating Hawaii's energy transformation.

Blue Planet would also strongly support expanding the barrel tax to include other carbon fuel imports such as coal, but we recognize that coal represents less than 5% of the energy currently consumed in Hawai'i.

Jeff Mikulina, executive director • jeff@blueplanetfoundation.org

55 Merchant Street 17th Floor • Honolulu, Hawai'i 96813 • 808-954-6142 • blueplanetfoundation.org

Rationale for expanding the Barrel Tax Policy in 2011

If we truly want to rapidly transition Hawai'i to energy independence, we have to be prepared to invest in that preferred future today. We cannot afford to wait until the economy recovers and the price of oil returns to triple-digits as it did in 2008.

Hawai'i is the most dependent state in the nation on imported oil. Some 50 million barrels are imported annually, nearly 80% of which originate from foreign sources¹. In addition, over 805,000 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 and sources of funding are critically needed that will dramatically increase energy efficiency, build our smart energy infrastructure with storage, and develop clean, renewable, and indigenous energy sources.

A \$5 per barrel tax on oil would provide the needed funding for clean energy and efficiency research, planning, implementation to transition to our preferred clean energy future. As we dramatically expand our clean energy capacity in Hawai'i, the real economic benefits of this carbon surcharge will far outweigh the additional burden it may present.

Barrel Tax is Smart Tax Policy

A barrel fee (or "carbon tax") is smart tax-shifting policy that discourages fossil fuel use while providing a source of revenue for clean energy planning and implementation. The concept behind the measure is to help "internalize" the external costs of certain activities; in this case, charge a fee for products that are damaging to the environment and use that money to help mitigate the damage. The link is quite clear between the use of petroleum products and corresponding impacts on our fragile island environments—not only in oil spills, which was the original impetus for the environmental response tax, but also in runoff from the roads our cars drive on, in degraded air quality, and in greenhouse gas emissions and climate change.

Unlike many other taxes, the barrel tax is largely avoidable by most residents. Energy efficiency, conservation, and switching to clean sources of power all reduce the burden of the tax. In fact,

¹ The State of Hawaii Data Book, 2007

² *Ibid.*

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

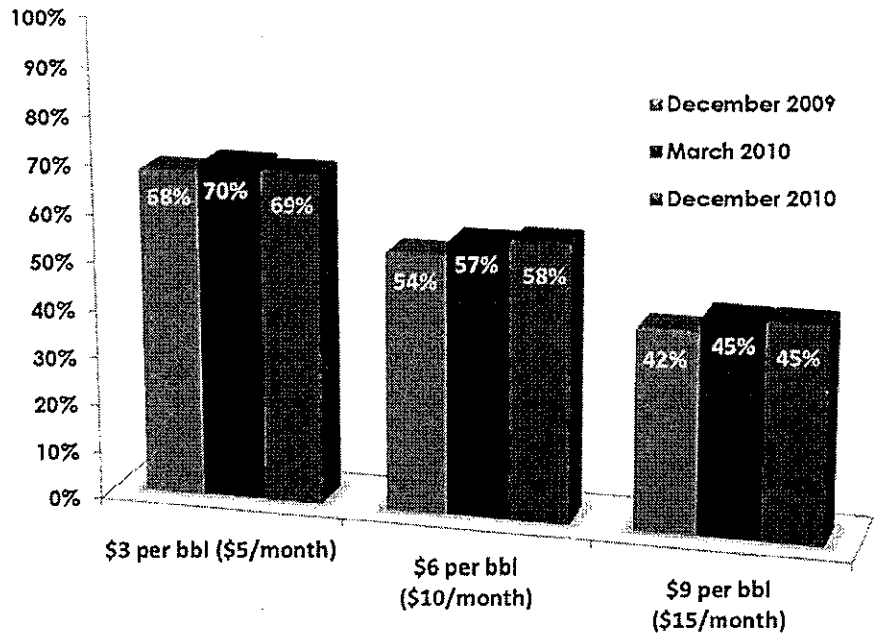
most residents could reduce the amount of barrel tax they pay by installing some compact fluorescent light bulbs at home and ensuring that car tires are properly inflated. Ensuring that a good portion of the oil tax revenues are spent on energy efficiency measures will help reduce the potential regressive nature of the policy.

A “clean energy” surcharge on a barrel of oil of \$5 is approximately the same as a carbon tax of \$10.45 per ton of carbon dioxide (CO₂)⁴. It would have a marginal impact on petroleum users, yet significantly increase the state’s ability to deliver energy efficiency investments and clean energy project funding. A \$10.45 “carbon fee” is average. Many European countries have carbon taxes that exceed \$10.00 per ton. In 2008, the Canadian province of British Columbia enacted a carbon fee that started at approximately \$8.00 per ton (English) in July, 2008, and increases to \$24 per ton by 2012.

Public Support

Blue Planet Foundation conducted market research in December 2009, March 2010, and December 2010 to discern the level of public support for a barrel tax for clean energy investment. The statewide survey of residents found broad support for a barrel tax with roughly

Resident Support for Barrel Tax



⁴ At 23 lbs CO₂ produced per gallon oil and 42 gallons per barrel.

70% supporting a tax of some amount. Each survey had a random sample of 500 residents statewide, providing a margin of error of 4.4% at a 95% confidence level.

The average level of support was equivalent to a \$5 per barrel tax. Forty-five percent of residents supported paying an additional \$15 on their monthly energy bills, equivalent to a \$9 per barrel tax. These findings should provide comfort to decision makers wrestling with how to develop funding for Hawaii's clean energy future—Hawaii's residents are willing to pay to wean Hawaii from its oil dependence.

While we all likely agree that we need to aggressively increase our energy efficiency and clean energy use in Hawaii and decrease our reliance on imported crude, we cannot do it with funding for planning, implementation, development, and funding. Senate Bill 722 wisely taps the source of our problem—imported oil—to fund clean energy programs.

Thank you for the opportunity to testify.



S.B. 722, Relating to the Environmental Response, Energy, and Food Security Tax
Comments to the Senate Committees on Energy & Environment and Committee on Agriculture
February 1, 2011

Aloha Senator Gabbard, Senator Nishihara, Senator English, and Senator Kahele. My name is Kekoa Kaluhiwa and I am the Director of External Affairs for First Wind.

I humbly request that you **support** S.B. 722, relating to the environmental response, energy, and food security tax. Specifically, we support the intent of allocating barrel tax funds to support the Hawaii State Energy Office.

In 2008, a significant milestone was achieved with the creation of the Hawaii Clean Energy Initiative (HCEI) which sets Hawaii's goal of achieving 70% clean energy by 2030. The objective is ambitious, but we believe that through the combined efforts of all our renewable energy sectors - wind, solar, bio-fuels, etc., and continued emphasis on energy efficiency, this goal can be achieved. The Hawaii State Energy Office continues to successfully advocate for the HCEI with legislators, business community and general public. They have also assisted in accelerating and bringing clarity to a multi-agency permitting process for renewable energy projects in Hawaii. We need this funding allocation to ensure that this advocacy within our state government is continued in years ahead.

As background, First Wind is the majority owner and operator of Hawaii's largest wind energy project on the island of Maui, Kaheawa Wind Power, which provides 30 MW of clean energy to Maui residents. In 2011, we plan to bring on line a 30 MW project in Kahuku, Oahu and a 21 MW expansion of our Maui project. There is no doubt that the staff of the Hawaii State Energy Office has played a major role in assisting First Wind throughout the permitting process and community outreach efforts for these projects.

In closing, we kindly ask that you **support** this measure in allocating barrel tax funds to support the Hawaii State Energy Office.

gabbard1 - Carlton

From: mailinglist@capitol.hawaii.gov
Sent: Monday, January 31, 2011 10:33 PM
To: ENETestimony
Cc: atiller@sunetric.com
Subject: Testimony for SB722 on 2/1/2011 2:55:00 PM

Testimony for ENE/AGL 2/1/2011 2:55:00 PM SB722

Conference room: 225
Testifier position: support
Testifier will be present: No
Submitted by: Alexander Tiller
Organization: Elemental Energy LLC dba Sunetric
Address: 905 Kalaniana'ole Hwy.#21 Kailua, HI
Phone: 808-262-6600
E-mail: atiller@sunetric.com
Submitted on: 1/31/2011

Comments:

The approximate 100 employees of Sunetric supports SB722! We need this bill.

Alex Tiller,CEO
Sunetric