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*Affiliate of Renewable Energy Associates, LLC*

Testimony on  
**S.B. NO. 745 –**  
**RELATING TO SEAWATER AIR CONDITIONING**

Before the  
Senate Committee on Energy and Environment  
Tuesday, February 1, 2011, 3:30 p.m., Conference Room 225

By Frederic Berg, Project Director  
Honolulu Seawater Air Conditioning, LLC

Good afternoon Chair Gabbard, Vice Chair English, and members of the Committee. My name is Frederic Berg and I am testifying on behalf of Honolulu Seawater Air Conditioning, LLC.

Honolulu Seawater Air Conditioning, LLC **strongly supports** S.B. 745, which allows the sale of chilled water service from a seawater air conditioning district cooling systems to qualify for state enterprise zone benefits.

Due to the difficult economic conditions facing the State, we are proposing SB 745 would only provide a GET exemption for Seawater Air Conditioning systems during the **operational phase** of their project. **No GET exemption benefit to SWAC systems will be realized during their construction phase.**

If passed, this bill will assist customers making the critical decision to eliminate their inefficient cooling systems in favor of utilizing a district cooling system driven by infinitely renewable cold deep seawater which nearly eliminates the use of fossil fuels in the production of air conditioning. **There are over 5,800 district energy systems in operation in the United States. The benefits have been proven over time. With**

**proper maintenance, the infrastructure supporting these systems has a useful life of more than 60 years.**

A downtown Honolulu seawater air conditioning project could generate an estimated **\$16M** in new taxes (GET and Income Taxes) during its construction phase (2011 to 2013). During this same period, SWAC projects will not require enterprise zone benefits in the form of GET exemptions to customers of the system.

Over the next 25 years, a project could generate \$52.4M in GET revenue. With SB 745, Seawater Air Conditioning customers could benefit from **\$11.2M** in GET exemptions during the first 7 years of operations and net GET revenue to the State of **\$41.1M**. SB 745 limits customers' risk in converting to a Seawater Air Conditioning district cooling system.

Recognizing the fiscal challenges the state is currently facing, SB 745 would result in no tax exemption for this fiscal biennium.

If a project is completed, there could be a net increase in State tax revenue of more than \$27M over the life of the project.

Customers of the downtown Honolulu Seawater Air Conditioning, LLC project have expressed concern over the costs of converting to Seawater Air Conditioning, including the risk of higher costs in the initial years of operation. The enterprise zone qualification could significantly assist customers in offsetting the costs inherent in converting to this green technology.

A downtown Honolulu Seawater Air Conditioning project could generate close to **\$200 million of dollars in construction project spending**. In addition, it could create a long-term, gainful employment and establish local companies as the leading authorities on Seawater Air Conditioning systems. Other local economic development benefits could accrue from money that stays in Hawaii and is not exported outside the State to purchase oil.

In addition to helping stimulate the State's economy, a downtown Seawater Air Conditioning project could provide the following benefits over the first 25 years of operation:

**Energy and Environmental Benefits Over First 25 Years**

<b>Electricity Savings</b>	<b>2,000,000,000 kWh</b>
<b>Reduction in Demand for New Fossil Fuel Fired Generation</b>	<b>14 MW</b>
<b>Reduction in Crude Oil Use</b>	<b>4,450,000 barrels</b>
<b>Reduction in Potable Water Use</b>	<b>6,500,000,000 gallons</b>
<b>Reduced Sewage Generation</b>	<b>2,130,000,000 gallons</b>

SB 745 adds seawater air conditioning 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 a downtown Honolulu Seawater Air Conditioning project) are in an enterprise zone. **This bill 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, during the operational phase only, could effectively reduce the costs of such systems to customers and could help introduce this promising technology to Hawaii.

Thank you for this opportunity to testify.

NEIL ABERCROMBIE  
GOVERNOR

BRIAN SCHATZ  
LT. GOVERNOR



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**LATE**

## SENATE COMMITTEE ON ENERGY & ENVIRONMENT

### TESTIMONY OF THE DEPARTMENT OF TAXATION REGARDING SB 745 RELATING TO SEAWATER AIRCONDITIONING

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

COMMITTEE:             ENE

DATE:                     FEBRUARY 1, 2011

TIME:                     3:30PM

POSITION:               NO POSITION; CONCERNED WITH COST

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This bill would include within the definition of "eligible business activity," any business engaged in producing air conditioning from a seawater air conditioning district cooling system for purposes of the State Enterprise Zone tax incentives.

The Department of Taxation (Department) takes no position on this measure; however is concerned with the revenue loss.

The Department supports the intent of minimizing the State's dependency upon foreign oil and fossil fuels. However, the Department must be cognizant of the biennium budget and financial plan. This measure has not been factored into either.

The revenue loss is estimated to be approximately \$605,200 per year when the project becomes operational