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GOVERNOR OF HAWAII



**STATE OF HAWAII
DEPARTMENT OF LAND AND NATURAL RESOURCES**

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**Testimony of
WILLIAM J. AILA, JR.
Chairperson**

**Before the House Committee on
ENERGY & ENVIRONMENTAL PROTECTION**

**Thursday, April 21, 2011
9:35 AM
State Capitol, Conference Room 225**

**In consideration of
SENATE CONCURRENT RESOLUTION 85, SENATE DRAFT 1
REQUESTING THE AUDITOR TO CONDUCT AN AUDIT
RELATING TO GEOTHERMAL RESOURCES**

Senate Concurrent Resolution No. 85, Senate Draft 1 requests the Auditor to conduct an audit of the State's program of the State's program of geothermal leasing and royalty payments, including any consideration of the role of the Board of Land and Natural Resources and the Department of Business, Economic Development, and Tourism, and any other matters the Auditor deems relevant to the audit to ensure that the development of geothermal resources is continued in a fair, legal, and ethical manner, and to report its finding and make recommendations to the 2012 Legislature.

The Department of Land and Natural Resources (Department) will fully cooperate in any investigation conducted to ensure compliance with its statutory mandates. However, the Department believes that a "study" conducted by the Legislative Reference Bureau, in lieu of an "audit" conducted by the Auditor, could produce better results in achieving the intent of this measure. The reason is that a comprehensive "study" could go beyond an audit of government's roles and include fact finding of the process involved between the private utility company and the developer.

The Department would also like to offer the following comments:

- The Board of Land and Natural Resources (Board) granted a mining lease (not a public land lease) to Puna Geothermal Venture, as cited in the second paragraph.

WILLIAM J. AILA, JR.
CHAIRPERSON
BOARD OF LAND AND NATURAL RESOURCES
COMMISSION ON WATER RESOURCE MANAGEMENT

GUY H. KAULUKUKUI
FIRST DEPUTY

WILLIAM M. TAM
DEPUTY DIRECTOR - WATER

AQUATIC RESOURCES
BOATING AND OCEAN RECREATION
BUREAU OF CONVEYANCES
COMMISSION ON WATER RESOURCE MANAGEMENT
CONSERVATION AND COASTAL LANDS
CONSERVATION AND RESOURCES ENFORCEMENT
ENGINEERING

FORESTRY AND WILDLIFE
HISTORIC PRESERVATION
KAHOOLAWE ISLAND RESERVE COMMISSION
LAND
STATE PARKS

- Geothermal energy rates are established independently from royalty rates. Geothermal energy rates require the approval of a Power Purchase Agreement between Puna Geothermal Venture (PGV) and Hawaii Electric Light Co. by the Public Utilities Commission (PUC). Royalty rates are established by the Board pursuant to Section 182-18, Hawaii Revised Statutes (HRS), and Section 13-183-31, Hawaii Administrative Rules. The Board had approved the royalty rate calculation method on September 24, 1993. A copy of this Board submittal can be made available upon request. Royalties are charged on PGV's revenues, less certain allowed deductibles, and are paid directly to the Department. 50% of these royalty payments are retained by the Department, 30% is paid to the County of Hawaii, in this case, (in accordance with Section 182-7 HRS), and 20% is paid to the Office of Hawaiian Affairs.
- In accordance with Section 182-18 HRS, the Department submits an annual report to the Legislature identifying the disposition of the total geothermal royalties received from PGV in the preceding fiscal year. This report also identifies the status of any project PGV has performed at their facility in the preceding fiscal year. A copy of the latest report is available on the Department's website at the following link:

<http://hawaii.gov/dlnr/reports-to-the-legislature/2011/EN-Geothermal-Rpts-FY10-Secs182-18-196D-11.pdf>

Thank you for the opportunity to comment.

PUNA GEOTHERMAL VENTURE



April 21, 2011

Chair Denny Coffman
Committee on Energy and Environmental Protection
Hawaii State House of Representatives
State Capitol
Honolulu, Hawaii

SUBJECT: Testimony on SCR 85, SD1 REQUESTING THE AUDITOR TO CONDUCT AN AUDIT RELATED TO GEOTHERMAL RESOURCES.

Chair Coffman and Members of the Committee on Energy and Environmental Protection:

My name is Mike Kaleikini and I am the Plant Manager of Puna Geothermal Venture ("PGV") on the island of Hawaii. PGV is the only geothermal power plant in the State of Hawaii and currently provides approximately 18% of the electricity consumed on the Big Island.

We are not in support of SCR 85 in its present form and would encourage you to hold this resolution in committee. PGV has been in commercial operation for 18 years and holds a State Mining Lease issued by the Board of Land and Natural Resources. Under the terms of the Mining Lease, PGV pays a geothermal royalty monthly to the State Department of Land and Natural Resources and each annual report is audited by DLNR for compliance with terms of the lease.

Thank you for allowing me to present testimony on SCR 85.

Sincerely,



Michael L. Kaleikini
PGV Plant Manager

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