RISINGSUN SOLAR+ELECTRIC

March 28, 2012

Senate Committee on Ways and Means
WAM HB2417 SD2
9:00 a.m.

Re: Testimony in Support

Dear Chair IOge and Vice-Chair Kidani and Members of the Committee,

Rising Sun LLC and Rising Sun Solar Electric LLC supports SD1 of this measure because it allows the State of Hawaii, consumers of solar energy, and the solar industry as a whole to address challenges with the current system in a way that does not compromise construction activity and employment. It also resolves issues with administrative efficiency for the credit and lowers exposure of the General Fund. This is all accomplished in a way that is predictable and lowers the risks involved in investing in PV projects in the State. It will also provide clarity to homeowners, business owners, and investors about the level of the credit they receive for PV systems.

Despite the issues surrounding the section 235-12.5 renewable credit, the Department of Taxation has a well articulated system for determining the total value of tax incentives available for a specific project. This system has been in place since 2007 with the publishing of Tax Information Release 2007-02, and has been supported by various other TIR's and Letter Rulings steadily since that time, including as recently as February 2, 2012. As a result there has never been ambiguity about the possibility of residential, commercial, and utility scale consumers/developers of solar energy projects – that have followed the DoTax guidance – having the possibility of more than one PV system on a particular PV project.

However, there is room for improvement. The two primary challenges are the administrative efficiency of the measure and the possible exposure of the General Fund to the credit. SD1 shifts the near-term burden of the solar credit over ten years instead of one by transforming the credit for utility scale systems into a production credit rather than an income tax credit. In addition, it eliminates the issue of DoTax determining the number of systems on a given project by eliminating the cap, but then lowers the level of the credit.

Thank you for the opportunity to testify.

Bradley Albert, Manager

Rising Sun, a licensed electrical contractor, has been doing PV since 2003 and has been engaged in the installation of grid-tied PV systems since that time. Rising Sun is one of the top PV installers in Maui County and the State of Hawaii.

810 Kokomo Road Suite 160 Haiku HI 96708
P 808 575 2202 ~ F 808 575 9878
www.risingsunsolar.com

NEIL ABERCROMBIE
GOVERNOR

BRIAN SCHATZ
LT. GOVERNOR

FREDERICK D. PABLO
DIRECTOR OF TAXATION

RANDOLF L. M. BALDEMOR
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1540
FAX NO: (808) 587-1560

To: The Honorable David Y. Ige, Chair
and members of the Senate Committee on Ways and Means

Date: Thursday, March 29, 2012
Time: 9:00 A.M.
Place: Conference Room 211, State Capitol

From: Frederick D. Pablo, Director
Department of Taxation

Re: H.B. No. 2417 HD 2 SD1, Relating to Energy

The Department of Taxation (Department) opposes H.B. No. 2417 HD2 SD1, as written, and instead supports the language proposed in HD2. The Department defers to the Department of Business, Economic Development and Tourism regarding the revenue forecast for this measure.

H.B. 2417 HD2 SD1 alters the renewable energy technologies income tax credit by establishing a tiered system based on the percentage of actual cost, eliminating the cap per system, and by distinguishing between utility-scale and non-utility-scale energy systems.

The Department supports clarifying language which will better enable the Department to administer the tax credit. Due to the broad language in the statute that was adopted in 2009, the Department has experienced a number of complaints from taxpayers and tax practitioners about how to calculate the tax credit a homeowner may be eligible for. We have also received a number of complaints from renewable energy companies regarding how some companies are "gaming the system" to enable homeowners to take multiple tax credits. Finally, the Department would like to comment that while tax credits encourage homeowners to install renewable energy systems, only a small portion of homeowners can pursue this option.

The SD1 draft, as written, may substantially increase tax credits claimed by taxpayers without limit by:

- Removing the cap on the amount of tax credit a taxpayer may claim for solar energy systems under section 235-12.5(b)(2), Hawaii Revised Statutes. This could also encourage taxpayers to take tax credits in multiple years.

- Currently the definition of "actual cost" is limited to costs associated with the renewable energy system. In SD1, "actual cost" is so broad, it could include other related costs when calculating the tax credit, such as re-roofing or upgrading a home's electrical system to facilitate the installation of a renewable energy system. Although the tax credit calculation under subsection (a)(1) through (4) is similar to the federal tax credit provision, it did not adopt the more restrictive definition used by the Internal Revenue Service in determining what cost may be eligible.

The Department also notes several problems which would make H.B. 2417 HD2 SD1 difficult to administer:

- **Section 235-12.5(a)(1) – (4)**: References to "2013 tax year," "2014 tax year" and "2015 tax year" are confusing and inconsistent with general tax administration guidelines. The Department suggests replacing these terms as follows: Rather than "Prior to the 2013 tax year", the phrase should read "For taxable years ending December 31, 2012". Please also note that section 235-12.5(a)(2) also makes reference to the "2012 tax year" and should likewise be amended.
- **Section 235-12.5(a)(2)**: This paragraph is problematic because, as written, it allows a taxpayer to claim 120 months' worth of electricity production every year, forever. The Department recommends replacing the first sentence of HRS § 235-12.5(a)(2) with the following:

  "<u>For each utility scale solar electricity generating system installed and placed in service after December 31, 2011: 11.5 cents per kilowatt hour generated, provided that the credit may only be claimed for kilowatt hours generated during the first 120 months after the system is installed and placed in service.</u>"

The Department also suggests the following additional housekeeping amendments to Section 235-12.5:

- Amend subsection (f) to HRS § 235-12.5, to indicate that any election made under subsections (g) or (h) of the statute must be made at the time the credit is initially claimed; and
- Amend subsection (k) to reflect the effective date of this bill.

Thank you for the opportunity to provide comments.

Hawaii Solar Energy Association
Serving Hawaii Since 1977

March 27, 2012	**SENATE**	**Gabriel Chong**
2:45PM	**COMMITTEE ON WAYS AND MEANS (WAM)**	
	HB 2417 SD1	**President**

TESTIMONY IN SUPPORT

Chair Ige, Vice Chair Kidani, Members of the Committee,

My name is Gabriel Chong and I am the President of the Hawaii Solar Energy Association (HSEA). The HSEA was founded in 1977, is the longest running Solar Industry association and has grown to be the largest voice for the Solar Industry of Hawaii, representing more than 66 businesses and nearly 1,000 member employees.

The HSEA would like to testify in Support of the proposed HB2417 SD1 with recommendations for minor alterations of this proposal.

The key points in HB 2417 SD1 that the HSEA **supports** include the following:

- The HSEA supports SD1 as it addresses the current key issue by removing the cap for Photovoltaic (PV) systems to prevent contractors from attempting to comply with "multiple systems" credit caps. SD1 also proposes a ramp-down of the state-tax credit over the course of the next four years. By removing a cap on the current 35% state tax credit and the terminology "system", SD1 has effectively discouraged contractors from building multiple system designs and using more effective designs that will result in a lower system cost for homeowners as well as a reduced fiscal impact to the state.

- The HSEA supports the current draft of views on Solar Water Heating (SWH) systems. SD1 provides additional incentives for the SWH systems making it easier for homeowners to take advantage of the most efficient use of solar energy.

The key points in HB 2417 SD1 that the HSEA **has recommendations** include the following:

- The HSEA has recommendations for the current draft of utility scale project credits. The proposed credit, at $0.115/kWh for the first 10 years, may result in a tax credit equivalent of 45+% for the total system size. Ideally, the HSEA would support a scenario in which all cases remain consistent with one another, such as a 35% tax credit for residential, commercial, and utility scale projects. This would bring simplicity and consistency across all project sizes for the Solar Industry of Hawaii. Alternatively, the HSEA would support a "cap per D/C watt" installed as proposed in HD2 with no cap on total cost. The HSEA recommends that the utility incentive be equalized with the residential credit amount and reduced to $0.107/kWh.

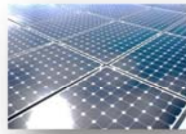
- The HSEA recommends that SD1 include stricter use of the SWH materials in new-construction homes. There are many loopholes that are allowing non-high-efficiency products (such as instant-hot water heating technologies) to be used in substitute to a SWH system, which is a renewable technology with a long-term lifespan.

In summary, the HSEA believes that the proposed HB2417 SD1, with the recommended alterations, provides a win-win scenario by supporting the Solar Industry of Hawaii while also supporting the economy of Hawaii.

Thank you for the opportunity to submit our views.

Gabriel Chong
President, Hawaii Solar Energy Association

About Hawaii Solar Energy Association
The Hawaii Solar Energy Association (HSEA) is Hawaii's largest voice of the Solar Industry, representing over 66 member companies and over 1000 member employees. The HSEA is comprised of installers, distributors, manufacturers and financers of solar energy systems of all types, including hot water and PV and Concentrated Solar Power (CSP), 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. The HSEA represents the Hawaii Chapter of Solar Energy Industries Alliance (SEIA). The HSEA is paramount to the work on PUC related dockets Reliability Standards Working Group (RSWG) and Rule 14H (2010-0015).

SENATE COMMITTEE ON WAYS AND MEANS
March 29, 2012, 9:00 A.M.
Room 211
(Testimony is 1 page long)

TESTIMONY IN SUPPORT OF HB 2417 HD2 SD1

Chair Ige and members of the Ways and Means Committee:

The Blue Planet Foundation supports HB 2417 HD2 SD1, a measure which makes sensible modifications to Hawaii's highly successful renewable energy tax credit to enable continued growth of clean energy adoption while reducing the impact on the state budget.

Hawaii's solar tax credit has been extremely effective at making Hawai'i a leader in both solar water heating and photovoltaic installations—creating local jobs and providing steady revenue from its business creation. Moreover, the installation of solar water heaters, photovoltaic systems, and wind systems helps to plug the leak of billions of dollars out of the islands' economy. Further, investments in this technology—and the companies and jobs that provide it—pays dividends back to the state in the form of income tax, general excise tax, and outside investment—among other forms.

The Senate Draft 1 of HB 2417 provides an incremental, but significant, decrease in the state tax credit for distributed residential and commercial solar installations. The credit shrinks by about 14% to 20% annually through 2015, where the credit will remain at 20%. For utility-scale solar installations, the credit will be based on the actual amount of renewable electricity produced. The tax credits for residential and commercial wind energy systems do not change.

This measure addresses the fiscal impacts of Hawaii's renewable energy tax credit in a sensible way while providing enough incentive to enable more residents and businesses to invest private capital in Hawaii's clean energy future. The measure also addresses administrative efficiency issues by making the Department of Taxation's job clear and decisions unambiguous in regards to the solar credits.

Hawaii's renewable energy tax credits are a downpayment on Hawaii's clean energy future. We support HB 2517 SD1 as a reasoned approach to encourage investment in renewable energy while reducing the overall impact on the state budget.

Thank you for the opportunity to testify.

Jeff Mikulina, executive director • jeff@blueplanetfoundation.org
55 Merchant Street 17th Floor • Honolulu, Hawai'I 96813 • 808-954-6142 • blueplanetfoundation.org

L E G I S L A T I V E

TAXBILLSERVICE

126 Queen Street, Suite 304 TAX FOUNDATION OF HAWAII Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Renewable energy technology tax credit

BILL NUMBER: HB 2417, SD-1

INTRODUCED BY: Senate Committee on Energy and Environment

BRIEF SUMMARY: Amends HRS section 235-12.5(b) to provide that the tax credit for each solar electricity generating system that is not a utility scale solar electricity generating system placed in service: (1) prior to the 2013 tax year shall be 35% of the actual cost; (2) during the 2013 tax year shall be 30% of the actual cost; (3) during the 2014 tax year shall be 25% of the actual cost; and (4) during or after the 2015 tax year shall be 20% of the actual cost.

For each utility scale solar electricity generating system installed after the 2012 tax year, the tax credit shall be 11.5 cents per kilowatt hour generated during the first one hundred twenty months of the system's operation; provided that projects with contracts approved by the public utilities commission prior to the end of the 2013 tax year shall have the option of using the tax credit as it existed on the date the contract was submitted to the public utilities commission.

For solar energy systems that use the sun to heat water, increases the cap amount of the credit from $2,250 to $2,500 per system for single family residential properties and from $350 to $1,000 per unit per system for multi-family residential properties.

Defines "utility scale solar electricity generating system" as any solar electricity generating system that is interconnected to a utility grid at sub-transmission or transmission voltage. Defines "solar electricity generating system" as any system that uses the sun's energy to produce electricity directly with photovoltaics or indirectly with concentrating solar power technologies.

Requires taxpayers claiming the credit for utility scale solar electricity generating systems in a tax year to document each system's production with a notarized letter from an electrical engineer licensed in Hawaii attesting to the number of kilowatt hours produced by the system in that tax year.

Also provides that the tax credit for solar electricity generating systems that are not utility scale solar electricity generating systems shall be fully refundable without the necessity of reducing the eligible credit amount for systems installed during or after the 2016 tax year.

EFFECTIVE DATE: Tax years beginning after December 31, 2012

STAFF COMMENTS: This measure establishes separate renewable energy tax credits for a utility scale solar electricity generating system and a non utility scale solar electricity generating system. A utility scale solar electricity generating system is a system that is connected to a utility grid at sub-transmission or transmission voltage while a non utility scale solar electricity generating system would not be connected to a utility grid. As this measure proposes, a utility scale solar electricity generating system would be eligible for an income tax credit for ten years at 11.5 cents per kilowatt hour while the non utility scale solar electricity generating systems would be eligible for a tax credit of a percentage of the actual cost of the system.

This measure acknowledges the high cost of renewable energy technologies and further encourages the use or purchase of such renewable energy technologies through the use of tax credits for such systems.

While some may consider an incentive necessary to encourage the use of alternate energy devices, it should be noted that the high cost of these energy systems limits the benefits to those who have the initial capital to make the purchase. If it is the intent of the legislature to encourage a greater use of renewable energy systems by increasing and expanding the existing system of energy tax credits, as an alternative, consideration should be given to a program of low-interest loans. However, if the taxpayer avails himself of the loan program, the renewable energy credit should not be granted for projects utilizing the loan program as the project would be granted a double subsidy by the taxpayers of the state. Such low-interest loans, that can be repaid with energy savings, would have a much more broad-based application than a credit which amounts to nothing more than a "free monetary handout" or subsidy by state government. A program of low or no-interest loans would do much more to increase the acquisition of these devices.

Instead of providing tax incentives for the purchase of existing technology, lawmakers may want to take advantage of Hawaii's natural environment which lends itself to all sorts of possibilities to explore and develop more efficient means of harnessing the natural resources that pervade the Islands, from wind to sun to geothermal to hydrogen from Hawaii's vast resources, all of which could be further developed with the assistance and cooperation of government in Hawaii.

Finally, the current statute providing these tax incentives for renewable energy technologies reflects the lack of due diligence and good hard research on the part of lawmakers. Apparently the caps imposed on the tax incentive for the solar electric generating systems are far from being realistic. For example, the $5,000 cap for residential installations translates into about $15,000 of "actual cost." Anything greater than that amount would exceed the cap of the 35% tax credit. On the commercial side, the half million-dollar cap may be insufficient for a commercial building to generate a net-zero status that would avoid a stand-by charge by the local electric company. Those stand-by charges have been reported to sometimes exceed the bills had the building owner not installed such solar electric generating systems. Thus, the law, as currently written, does not take into account these resulting contradictions.

While this and other measures demand serious consideration in order to stem the abuse of the current tax credit provisions, lawmakers and staff need to spend time during the interim researching and honing the tax incentive to be a more reasonable incentive that is forged in a good understanding of the developing technology. What is currently on the books reflects a technology long deemed archaic and therefore the tax incentive is less than efficient.

Digested 3/28/12

SUNPOWER

Room # 211 9:00 AM March 29, 2012

Senate Committee on Ways and Means

HB 2417, SD1 RELATING TO RENEWABLE ENERGY

Chair Ige, Vice-Chair Kidani and Committee Members:

Introduction: My name is Riley Saito Senior Manager, Hawaii Projects, for SunPower Systems Corporation. SunPower is a dedicated supporter and active participant in Hawaii's renewable energy initiatives and has been an active in policy shaping for over 14 years.

- Charter member of the Hawaii Energy Policy Forum,
- Steering Committee -Hawaii Clean Energy Initiative, Hawaii
- Energy Generation Working Group -Hawaii Clean Energy Initiative, Hawaii

SunPower is focused to work with the energy partners in Hawai‘i to reduce importation of fossil fuels, improve the quality of life for Hawai'i future generations.

Although, SunPower strongly opposed HB2417 in its original form. The amendments adopted by the Senate Committee on Energy and Environment is a great compromise and addresses our concerns. Accordingly, we are in **support of HB 2417, SD1.**

Mahalo,

Riley Saito
Senior Manager, Hawaii Projects
SunPower

Sierra Club
Hawai'i Chapter
PO Box 2577, Honolulu, HI 96803
808.538.6616 hawaii.chapter@sierraclub.org

SENATE COMMITTEE ON WAYS AND MEANS

March 29, 2012, 9:00 A.M.
(Testimony is 1 pages long)

TESTIMONY IN SUPPORT OF HB 2417 (HD2, SD1)

Aloha Chair Ige and Members of the Committee:

The Sierra Club of Hawai'i, with over 10,000 members and supporters, supports HB 2417 (HD2, SD1). This measure would advance the State's clean energy efforts setting up a long-term plan for our renewable energy tax credit to slowly wean down over time.

The Sierra Club originally opposed this measure because it harshly limited the current renewable energy tax credit in the short-term, and would likely have killed an industry that provided fifteen percent of all of the construction jobs in the state last year.

The current version of the measure, however, smartly sets up a schedule to wean down the tax credit over time and as the solar industry becomes more and more able to compete with oil on a cost basis. It maintains in the short-term an important policy tool intended to encourage investment in clean energy, reduce Hawai'i's dependence on unstable foreign oil, and improve Hawai'i's environment.

Our renewable energy tax credit is an important investment for the state. Hawai'i depends on imported oil for nearly 90% of its energy needs. This dependence results in the outflow of the State's financial resources and creates a tenuous reliance on an unsustainable and unstable resource. Moreover, with the increased certainty of climate change as a result of fossil fuel usage and the emerging treaties on greenhouse gas emissions, as well as the global depletion of natural resources, encouragement of renewable energy sources is timely and strategic.

Hawai'i has been a leader in the inevitable renewable energy revolution—but continued success will take a continued commitment from the public policy makers. This measure shows that commitment, but also sets up a long-term path for the solar industry to eventually compete without government assistance. Mahalo for the opportunity to testify.

Recycled Content **Robert D. Harris, Director**

R&R Solar Supply

808.842.0011 808.847.4938 F
922 Austin Lane Building D Honolulu HI 96817

SENATE COMMITTEE ON WAYS AND MEANS

IN REGARD TO
HB2417 SD1
ON
THURSDAY, MARCH 29, 2012

Testimony in support with recommendations

Chair Ige, Vice Chair Kidani, dear committee members, my name is Rolf Christ and I am the President and CEO of R&R Solar Supply, a local solar collector manufacturer and wholesaler. I am also active as treasurer on the board of the Hawaii Solar Energy Association .

R&R supports HB2417 SD1 with recommendations for minor changes.

The proposed draft addresses most issues with the current law by removing the cap for PV systems to prevent expensive system designs to take advantage of "per system" caps and ramping down the credits to limit the fiscal impact of tax credits.

On the other hand, to our surprise, this draft increases the fiscal impact to the state by granting utility scale projects a production tax credit that equals a 40% to 50% tax credit on the estimated system cost for those projects.

We favor a cap of $1.50 per D/C watt installed for utility scale project as proposed in the original House version. We feel this would give this draft more chances of survival in the Conference Committee.

Thank you for the opportunity to present these comments.

Rolf Christ
President

SunRun Inc. | 1.855.4SUNRUN | sunrunhome.com

TESTIMONY IN SUPPORT OF HB2417_SD1

To: Senate Ways and Means Committee
Hearing on March 29, 2012 at 9:00 a.m., Senate Conference Room 211

From: Sunrun

Aloha Chair Ige and members of the Committee:

SunRun strongly supports HB2417_SD1.

SunRun is a residential solar power service company that has been making rooftop solar accessible to Hawaiian homeowners since 2010 through zero-down residential solar power purchase agreements and partnerships with local installation companies. In addition to advancing the state's laudable renewable energy goals, SunRun's commitment to solar in Hawaii directly supports new local jobs.

Sunrun has invested more than $5M in residential solar projects in Hawaii since 2010 and has generally found Hawaii's business climate attractive and reasonable, with one notable exception; the annual re-examination of the Renewable Energy Technologies Income Tax Credit (RETITC) creates uncertainty that reduces Sunrun's confidence in the Hawaiian solar market.

Sunrun supports HB2417_SD1 because it revises the RETITC in such a way as to improve long-term transparency for market participants. Sunrun believes that this is in the best interest of all parties; transparency instills confidence, attracts investment, and fosters competition, thus driving scale and efficiency in Hawaii's solar industry, reducing the cost of solar for consumers, and moving the state closer to its renewable energy goals.

HB2417_SD1 also eliminates any incentive to design residential systems such that multiple tax credits per property can be claimed, and Sunrun supports this modification to the RETITC.

Thank you for the opportunity to testify on this matter.