Testimony Before the Senate Committee on
Ways and Means

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Senate Bill No. 2986, – Relating to Taxation

To the Honorable David Y. Ige, Chair; Michelle N. Kidani, Vice-Chair,
and Members of the Committee:

Thank you for the opportunity to testify on this measure. I am Michael Yamane, Chief of Operations at Kauai Island Utility Cooperative ("KIUC"). I am here today to testify on Senate Bill No. 2986, that removes the sunset date initially established in Act 103, Session Laws of Hawaii 2007, as further extended until December 31, 2012 by Act 198, Session Laws of Hawaii, 2009 and leaves naphtha, a fuel used in a power-generating facility, to the fuel tax at a rate of 2 cent per gallon.

Act 103 was the result of a question raised regarding interpretation of language contained in HRS §243 pertaining to which types of liquid fuels are subject to which types of taxes.

Specifically at issue is how naphtha should, or should not, be taxed.

KIUC continues to believe that the primary purpose of the fuel tax is to provide funds for highway construction and maintenance (or in the case of aviation fuels, funds for airport construction and maintenance). This has been accomplished over the years by imposing the tax on fuel sold for on-highway use. KIUC believes that the intent of the law is to exclude naphtha sold and used for power generation purposes from the State vehicle transportation and respective County fuel taxes and be treated similar to diesel with a 1 cent per gallon tax.

Act 103 clarified this interpretation.

KIUC annually uses approximately 15 million gallons of naphtha annually in the generation of electricity, which represents approximately 50% of KIUC's yearly electrical energy production.

Applying the current 16¢/gallon state transportation tax to the 15 million gallons of naphtha KIUC uses annually would result in a $2.4 million annual tax liability that would need to be passed on to KIUC's members.

Applying the current 13¢/gallon County of Kauai fuel tax to the 15 million gallons of naphtha KIUC annually uses would result in a $2.0 million annual tax liability that would be passed on to KIUC's members.

The additional $4.4 million tax expense would have increased KIUC's cost of purchased fuel and raised KIUC member s' energy bills by approximately 7%.

As you know, KIUC is a member-owned electric cooperative. Unlike for-profit corporations (i.e. investor owned utilities), cooperatives are not-for-profit and member-run. Without the need for profits and shareholder dividends, cooperatives are free to invest what would normally be profits (cooperatives call them "margins") in the business by allocating margins to the cooperative's members as capital credit contributions, or, eventually, by making patronage capital refunds to its members; and otherwise generally using the monies collected for the general welfare of the cooperative members. Any additional expenses would be passed through to our members and reduce KIUC margins that would impact patronage capital refunds back to our members.

KIUC is also committed to reducing its dependency on imported fossil fuels as KIUC’s Strategic Plan calls for 50% renewable generation by 2023. However, this will take time as any investment in renewable energy will be borne by KIUC members/shareholders and economics and reliability should be properly evaluated.

For these reasons, KIUC supports Senate Bill No. 2986 and, therefore asks that this bill be passed.

Thank you again for the opportunity to inform you of KIUC's position on this matter.