LATE

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HOUSE COMMITTEE ON CONSUMER PROTECTION AND COMMERCE
Monday, February 11, 2013 – 3:30 p.m. – Room 325

Testimony in Support of HB 497, HD 1 Relating to Renewable Energy

Chair McKelvey, Vice Chair Kawakami, and Members of the Committee:

My name is Murray Clay and I am Managing Partner of the Ulupono Initiative, a Hawaiʻi-based impact investment firm that strives to improve the quality of life for the people of Hawaiʻi by working toward solutions that create more locally grown food, increase renewable energy, and reduce/recycle waste. Ulupono invests in projects that have the potential to create large-scale, innovative change.

Ulupono **supports** HB 497, HD 1, which is to reform the Renewable Energy Technologies Income Tax Credit ("RETITC") while maintaining the viability of the solar industry. We believe that as currently drafted, HB 497, HD 1 will preserve the residential and commercial sectors of the solar industry and ensure that homeowners and businesses are able to continue to adopt solar technologies to reduce their electricity costs and save money. This reform measure will reduce the tax credit's long-term impact on the general fund by tens of millions of dollars annually by steadily ramping the credit down from its current level of 35 percent to a 15 percent level by 2018.

As currently drafted, HB 497, HD 1 does not specify how solar projects of greater than one megawatt in size – i.e., "utility scale" installations – will be treated. We recommend that projects larger than one megawatt be made ineligible for the investment tax credit available to smaller projects, and instead be offered a production tax credit that is based structurally on the federal renewable energy production tax credit. The value of such a credit would be determined by the amount of electricity produced by the facility and either sold to an unrelated third party or consumed on-site to offset load. The primary benefit of such a credit would be to reduce the general fund impact of incentivizing utility scale solar projects because it will allow the state to spread the cost of the tax credit out over a longer period of time. It will also ensure that the credit is only paid for systems that are actually producing electricity, and only for electricity that is actually used.

Should the Committee choose to enact a production tax credit for larger scale projects, we recommend that the credit rate be equal to **8 cents per kilowatt-hour**. Assuming that the refundability provisions of HB 497, HD 1 are retained, then 8 cents per kilowatt-hour over ten years is the minimum production tax credit level necessary to ensure the continued viability of the utility-scale sector of the solar industry. We also recommend that in the event that one of Hawaiʻi's utilities runs a competitive procurement process for large scale renewable energy projects that the tax credit rate for these “competitively bid” projects be set at **4 cents per kilowatt-hour**.

While we are adding our voice of support for this bill inclusive of an 8 cent production tax credit for non-competitively bid utility scale projects and 4 cents for competitively bid utility scale, it is important to note that this will result in lower returns for the solar industry and solar investors. Given the time and difficulty in shepherding these larger projects to completion, we will see some projects and investors drop out. However, we are aware of the other substantial demands on the general fund. This bill then, and our support of it, should be viewed as a substantial compromise between the solar industry, investors, and renewable energy advocates on one hand, and the State's other needs on the other hand.

The production tax credit will be administratively straightforward because the concept is already well-established under Federal tax law and because very few projects will ever qualify for it because few are greater than one megawatt in size. This approach will provide the state with general fund relief while ensuring the ongoing viability of the market for large scale solar in Hawaiʻi.

Thank you for the opportunity to provide this testimony.

Murray Clay
Managing Partner

LATE

Directors

Jody Allione
AES-Solar

Joe Boivin
The Gas Company

Kelly King
Pacific Biodiesel

Warren S. Bollmeier II
WSB-Hawaii

TESTIMONY OF WARREN BOLLMEIER ON BEHALF OF THE
HAWAII RENEWABLE ENERGY ALLIANCE BEFORE THE
HOUSE COMMITTEE ON CONSUMER PROTECTION AND COMMERCE

HB 497 HD1, RELATING TO RENEWABLE ENERGY

February 11, 2013

Chair McKelvey, Vice-Chair Kawakami, and members of the Committee, I am Warren Bollmeier, testifying on behalf of the Hawaii Renewable Energy Alliance (HREA). HREA is an industry-based, nonprofit corporation in Hawaii established in 1995. Our 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 our 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 purposes of HB 497 HD1 are to: (i) amend the tax credit for renewable energy technologies; and (ii) apply to taxable years beginning after December 31, 2012.

HREA **supports this measure** and offer the following comments for consideration :

1) What Is It That We Are Trying To Do? HREA supports an appropriate and reasonable modification of the RETITC to close loopholes and restrain the fiscal impact to the state, while allowing industry to continue to thrive and grow in order to meet consumer demand and support our clean energy goals.

2) Assessment of this Measure. HREA believes this measure is pointed in the right direction, but needs to be amended to achieve the goals as stated above:

   a) Residential. HREA supports the lowering the Investment Tax Credit ("ITC") for residential solar projects to 30% and the proposed project CAPs ($2,500 for residential SHW and $12,500 for residential PV). However, we suggest leaving the ITC at 30%, in order to assess the market response.

   b) Utility-Scale. Unfortunately, this measure does not propose a tax treatment for solar-electric projects above 1 MW. Thus, we support a Production Tax Credit ("PTC") at 8 cents for utility-scale solar-electric projects that by 12-31-12 had:

      (i) signed a power purchase agreement ("PPA") with the utility,

      (ii) initiated an Interconnection Requirements Study ("IRS") with the utility, or

      (iii) initiated PPA negotiations with the utility.

   In addition, we support a PTC all other utility-scale projects at 4 cents/kWh, and a PTC option at 1.5 cents/kWh for wind projects above 1 MW. We suggest that the aggregate CAP be removed, as it would likely be problematic to administer. Finally, we believe the PTC should be available as a "tax credit" or as a "refundable tax credit" at the 8 cents/kWh, 4 cents/kWh and 1.5 cents/kWh rates proposed above. Specifically, we don't see a persuasive argument for the need to discount the refundable.

   c) DBEDT Study. While we support the "no sunset date" provision of this measure and the need for the proposed DBEDT study, we believe DBEDT's first review should be completed in advance of the 2016 session, in order to assess the market response and fiscal impacts in advance of the current sunset of the federal credits on 12-31-16.

Mahalo for this opportunity to testify

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LATE

To: The Honorable Angus L.K. McKelvey, Chair
and Members of the House Committee on Consumer Protection and Commerce

Date: Monday, February 11, 2013
Time: 3:30 p.m.
Place: Conference Room 312, State Capitol

From: Frederick D. Pablo, Director
Department of Taxation

Re: H.B. 497 H.D.1 Relating to Renewable Energy

The Department of Taxation (Department) appreciates the intent of H.B. 497 H.D.1, and provides the following summary and comments for your consideration.

Section 1 of this bill amends Hawaii Revised Statutes (HRS) section 235-12.5 by:

- Providing a renewable energy credit for solar water heaters at a rate of 35% with caps of $2,500 for single-family residential applications, $500 per unit per property, and $250,000 per property for commercial property.

- Providing a renewable energy tax credit for solar energy property that has an alternating current capacity which is less than one megawatt at a rate of 30% for solar energy property placed in service between January 1, 2013 and December 31, 2013, 25% between January 1, 2014 and December 31, 2015, 20% between January 1, 2016 and December 31, 2017, and 15% thereafter. The Department

  The Department recommends that a fixed percentage, rather than a sliding scale be adopted. The Department notes that the declining rates for each year will create an unnecessary rush for systems to be installed and placed in service at the end of each year. This rush will cause compliance and enforcement issues for the Department, because taxpayers have an incentive to claim the credit in the earlier year. In addition, the Department does not believe that the declining rates are necessary if the credit rate is set reasonably, because the actual credit amount will increase and decrease with changes in the price of the equipment and installation.

- Providing a renewable energy tax credit at an unspecified rate for solar energy property with an alternating current capacity of one megawatt or higher.

- Providing a renewable energy tax credit for wind energy property at a rate of 20% with a cap of $500,000. The Department notes that it will not be able to administer this provision as there is no language to define the cap or provide guidance as to its application.

- Allowing full refundability for tax credits claimed for solar energy property with a alternating current capacity of one megawatt or higher. The Department notes that full refundability for projects of one megawatt or higher, will cost the State significantly more than under the current statute which requires a reduction of 30%.

- Allowing independent power producers not currently regulated by the Public Utilities Commission that have, by December 31, 2012, entered into an agreement with a public sector agency pursuant to a public solicitation and procurement process for the sale of electrical energy from non-residential solar energy property with less than one megawatt of alternating current capacity to claim the credit as if the solar energy property was placed in service prior to January 1, 2013; provided that the property is placed in service prior to January 1, 2014. The Department is strongly opposed to the grandfathering aspect of this provision due to the difficulty in compliance and enforcement of the credit prior to the issuance of the temporary administrative rules in November 2012. The Department also notes that allowing for the grandfathering of the tax credit could have a direct impact on the FY2013 and FY2014 budget of the State.

- Disallowing the claiming of the credit by any governmental agency and qualified issuers under Internal Revenue Code section 54(j)(4).

- Requiring the Department, along with the Department of Business, Economic Development, and Tourism (DBEDT), to compile a detailed joint report and submit the report to the legislature no later than 20 days prior to the convening of each regular session. The Department notes that this type of detailed reporting is difficult with the technological challenges of the current computer system. In order to meet this requirement, it is likely that the Department will need to require mandatory electronic filing of the information by each taxpayer claiming the credit.

Section 2 of this bill requires DBEDT to commence a study on the credit no later than July 1, 2016.

Thank you for the opportunity to provide comments.

February 10, 2013

TESTIMONY BY
JODY ALLIONE, PROJECT DEVELOPMENT HAWAII
AES SOLAR POWER, LLC
REGARDING S.B. 497 HD1,
RELATING TO RENEWABLE ENERGY
BEFORE THE
HAWAII STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
COMMITTEE ON ENERGY AND ENVIRONMENTAL PROTECTION
MONDAY, FEBRUARY 11, 2013
CONFERENCE ROOM 325
3:30 AM

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Aloha Chairman Lee and Distinguished Members of the Committee on Energy and Environment. My name is Jody Allione and I am the Project Development Manager for AES Solar in Hawaii. AES Solar has been developing and operating utility scale PV solar projects in Hawaii since 2009. We are firmly committed to helping to improve Hawaii's energy security by decreasing its reliance on fossil fuels for its energy needs. We have a demonstrated record in establishing long-term dialogues and partnerships with the communities we have joined around the world and have worked under a variety of government incentives for promoting renewable energy.

While Hawaii has made great strides in utilizing renewable resources for its electricity needs in the past decade, much more needs to be done to decrease Hawaii's reliance on fossil fuels. Renewable Energy tax credits have a significant economic impact on each project. While AES Solar supports the concept of tax credits for residential, commercial and feed-in-tariff solar projects, we are not taking a position on how the credits for those projects should be structured. Our interests are in the area of solar tax credits for utility-scale projects. AES Solar supports efforts to establish a consistent tax credit structure that ensures a level playing field for all utility-scale project developers. We also believe that caps on the tax credits will not be needed with the PTC approach and that the existence of caps will be problematic for these projects to obtain financing given the level of uncertainty this would produce in projecting future revenues.

As currently drafted, this measure does not propose a tax treatment for solar electric projects above 1 MW. AES Solar supports a Production Tax Credit ("PTC") for these utility-scale solar projects at the following rates:

1. 8 cents per kWh for utility-scale solar-electric projects that had at least one of the following by December 31, 2012:
   a. a signed power purchase agreement ("PPA");
   b. a signed Interconnection Requirements Study ("IRS") agreement with a State utility;
   c. initiated PPA negotiations with a State utility
2. 4 cents per kWh for all other utility-scale solar projects

We look forward to continuing to work with you and our colleagues in the renewable energy industry to refine this measure as it moves through the legislative process.

Sierra Club
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LATE

HOUSE COMMITTEE ON CONSUMER PROTECTION & COMMERCE

February 11, 2013, 3:30 P.M.
(Testimony is 1 page long)

TESTIMONY IN SUPPORT OF HB 497, HD1 WITH PROPOSED AMENDMENTS

Aloha Chair McKelvey and Members of the Committee:

The Sierra Club of Hawai'i, with over 10,000 members and supporters, ***supports*** HB 497, HD1, but offers some amendments. This measure would advance the State's clean energy efforts by continuing our renewable energy tax credit.

This measure 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 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.

Requested Amendments: We suggest (1) establishing a definition of the term "Property"; (2) defining the term "Basis"; and (3) establishing a credit rate of 8 cents per kilowatt hour for projects 1 megawatt or bigger.

Mahalo for the opportunity to testify.

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

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Solar Power Systems International

TESTIMONY OF JOHN CROUCH ON BEHALF OF SPSI, A RENEWABLE ENERGY COMPANY BASED IN HAWAII, BEFORE THE HOUSE COMMITTEE ON CONSUMER PROTECTION AND COMMERCE

HB 497 HD1, RELATING TO RENEWABLE ENERGY

February 11, 2013

Chair McKelvey, Vice-Chair Kawakami, and distinguished members of the Committee, my name is John Crouch. I and my two local partners have been involved in the design and installation of renewable energy projects in Hawaii since the first large unit at Mauna Lani Bay Hotel and Bungalows in 1998. We are very concerned that the Hawaii renewable energy state tax credit policy expresses some degree of consistency and reality in the business community of renewable energy. Any adjustments need to be gradual.

The purposes of HB 497 HD1 are to: (i) amend the tax credit for renewable energy technologies; and (ii) applies to taxable years beginning after December 31, 2012.

SPSI **supports this measure** and offer the following comments:

1) Assessment of this Measure. SPSI believes this measure is pointed in the right direction, but needs to be amended to achieve the State of Hawaii goals:

   a) Residential. SPSI supports the lowering the Investment Tax Credit ("ITC") for residential solar projects to 30% and the proposed project CAPs ($2,500 for residential SHW and $12,500 for residential PV). However, we suggest leaving the ITC at 30%, in order to assess the market response.

   b) Utility-Scale. 1. We support a Production Tax Credit ("PTC") at 8 cents for utility-scale solar-electric projects that had a signed power purchase agreement ("PPA"), initiated an Interconnection Requirements Study ("IRS") with the utility, or initiated PPA negotiations with the utility as of 12-31-12. 2. We suggest that the aggregate CAP be removed, as it would likely be problematic to administer. Finally, we believe the PTC should be available as a "tax credit" or as a "refundable tax credit" at the 8 cents/kWh for 2012 projects and 4 cents/kWh rates for 2013 and forward projects.

Mahalo for the opportunity to testify.

HOUSE COMMITTEE ON CONSUMER PROTECTION & COMMERCE

February 11, 2013, 3:30 P.M.

TESTIMONY IN SUPPORT OF HB 497

Aloha Chair McKelvey and Members of the Committee,

The solar industry is still new and still just getting established. It is expanding rapidly and has generated thousands of jobs. Clearly it makes sense to sunset the tax credit – but not in a way that would slam the brakes on the healthy developments in this sector. This bill would reduce the credit in a moderate, steady, sensible and predictable way.

Please pass it.

anthony aalto

LATE

HOUSE COMMITTEE ON CONSUMER PROTECTION & COMMERCE
February 11, 2013, 3:30 A.M.
Room 325
(Testimony is 2 pages long)

TESTIMONY IN SUPPORT OF HB 497 HD1

Chair McKelvey and members of the Consumer Protection & Commerce Committee:

The Blue Planet Foundation supports HB 497 HD1, a measure which makes reasonable and prudent amendments to Hawaii's highly successful clean energy tax credit incentive.

Solar energy is currently a bright spot in Hawaii's progress toward energy independence, and the solar tax credit has been extremely effective at making Hawai'i a leader in solar 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.

Senate Bill 11 contains a number of elements which make it an attractive policy, for the state economy, the solar sector, and for achievement of Hawaii's aggressive clean energy goals. First, the measure follows the framework and definitions of the federal tax credit law, making it easier for the state to administer. Second, the proposed policy ratchets down the state renewable energy tax credit for photovoltaic in a fair and predictable manner, reducing job-jeopardizing volatility in the solar sector.

As currently drafted, this measure does not propose a tax incentive for solar electric projects above 1 megawatt. Blue Planet supports a Production Tax Credit (PTC) for these utility-scale solar projects. A PTC would encourage the most efficient renewable energy installations while spreading out the cost of the credit over a longer period (likely 10-years).

Blue Planet has released a report in January, 2013, detailing the economic impacts of Hawai'i's renewable energy tax credit. The analysis, conducted by former University of Hawai'i economist Dr. Thomas Loudat is updated from last spring, peer-reviewed, and includes demographic

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information from building permits for O‘ahu photovoltaic installations over the past 12 years. (Dr. Loudat’s earlier analysis of renewable energy tax credits was presented in a report to the state legislature in 2002.)

The findings show that the existing tax incentive yields a clear, significant net fiscal benefit to the state. Every commercial PV tax credit dollar invested yields $7.15 that stays in Hawai‘i and $55.03 in additional sales, which generates $2.67 in new tax revenue. For a typical 118 kW commercial PV installation, the state gains 2.7 local jobs each year over the 30-year lifetime of the system.

According to the state Department of Business, Economic Development, and Tourism (DBEDT), solar accounts for 15% of all construction expenditures in Hawai‘i. The solar industry employs more than 2,000 people locally.

Any stimulation in solar installations also brings federal dollars (from the 30% federal renewable energy tax credit) into our local economy. These dollars have a full multiplier effect equivalent to tourist dollars coming to Hawai‘i.

Blue Planet's analysis shows that the use of solar is increasing more rapidly in less wealthy neighborhoods. An examination of O‘ahu residential PV permits from the past decade indicates that while overall number of installations are located in zip codes that have higher median incomes, the rate at which PV installations occurred in 2012 versus 2002-2011 was significantly higher in lower median income areas. For example, Wai‘anae (with a median household income of $55,836) saw a 300% increase in PV permits in 2012 compared with the previous decade combined (173 total permits between 2002 and 2011; 521 permits in 2012 alone). Hawai‘i's solar tax credit—coupled with new third party-owned PV programs—have enabled a broadening range of O‘ahu homeowners to escape the burden of high energy costs and benefit from a clean energy solution.

Hawai‘i's renewable energy tax credit is a catalyst in driving positive economic growth through solar. When we shift our energy dollars away from foreign oil and to local clean energy sources, those dollars circulate in Hawai‘i's economy to the benefit of everyone. Ultimately, the tax credit is a smart investment in a better, cleaner tomorrow, a future we value beyond dollars and cents.

Please forward HB 497 HD1.

Thank you for this opportunity to testify.