



**DEPARTMENT OF BUSINESS,
ECONOMIC DEVELOPMENT & TOURISM**

NEIL ABERCROMBIE
GOVERNOR

RICHARD C. LIM
DIRECTOR

MARY ALICE EVANS
DEPUTY DIRECTOR

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Statement of
RICHARD C. LIM
Director

Department of Business, Economic Development, and Tourism
before the

SENATE COMMITTEE ON WAYS AND MEANS

Friday, February 22, 2013
9:00 a.m.

State Capitol, Conference Room 211

in consideration of
SB 623, SD1

RELATING TO RENEWABLE ENERGY.

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

The Department of Business, Economic Development & Tourism (DBEDT) supports SB 623, SD1 to create an appropriate legislative solution regarding the renewable energy income tax credit to provide a predictable investment stimulus for renewable energy deployment in a manner the State can afford.

Continuing to support clean energy development is critical to Hawaii's economy: a prime example is that in 2012, 26% of all construction-related spending was attributed to the solar industry; in a time of declining construction spending, solar construction has helped provide welcomed relief to Hawaii's construction industry.

DBEDT recognizes the framework and mechanisms proposed in SB 623, SD1 which will bring clarity and ease of administration of the credit and reduce the level of incentive in a predictable and transparent manner that will provide support for continued clean energy development. We respectfully defer to the Department of Budget and Finance on the budgetary impacts and the Department of Taxation on the implementation of this proposal.

DBEDT offers a proposed amendment on the reporting required of the Department to conform to SB623, SD1. Because data is unavailable, DBEDT would propose to delete Section 1, (o)(3)(A)(ii).

DBEDT supports efforts by all stakeholders to forge an affordable and predictable long-term solution that can be efficiently and openly administered to ensure passage of an essential and coordinated solution during this Legislative Session.

Thank you for the opportunity to offer testimony in support of SB 623, SD1.

Proposed amendment to Section 1(o)(3):

"(3) The estimated economic benefit that may be attributed to the renewable energy technologies tax credits, including

(A) The impact on the economy, including:

(i) Economic stimulus;

~~(ii) Net flow of money into or out of the State;~~

(iii) General excise and income tax revenue

generated; and

(B) Jobs, including:

(i) The number of jobs maintained;

(ii) The number of jobs created and number of jobs

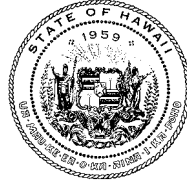
lost; and

(iii) The average pay of jobs maintained, created,

and lost."

NEIL ABERCROMBIE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1540
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FREDERICK D. PABLO
DIRECTOR OF TAXATION

JOSHUA WISCH
DEPUTY DIRECTOR

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

Date: Friday, February 22, 2013
Time: 9:00 a.m.
Place: Conference Room 211, State Capitol

From: Frederick D. Pablo, Director
Department of Taxation

Re: S.B. 623 S.D.1 Relating to Renewable Energy

The Department of Taxation (Department) appreciates the intent of S.B. 623 S.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 \$2,250 per property 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.
- Providing a renewable energy production tax credit at a rate of 4 cents per kilowatt hour produced and sold for projects with an alternating current capacity of one megawatt or higher. This production credit can be claimed by the taxpayer for the first 10 years after the project is placed in service. The Department estimates that for each megawatt of capacity installed, at a rate of 8 cents per kilowatt hour produced and sold, the production credit amount will be \$128,000 per year and \$1.28 million over a ten year period. This means that if a megawatt of capacity costs \$3 million to place in service the total credit received is approximately 42.67% of the cost to place in service per megawatt of capacity. The Department additionally notes that the federal production tax

credit is only 2.2 cents per kilowatt hour produced and sold; the 8 cent rate provided in this measure is almost four times the federal tax credit rate.

- Providing a renewable energy production tax credit at a rate of 8 cents per kilowatt hour produced and sold for projects with an alternating current capacity of one megawatt or higher, provided that the taxpayer can show evidence that the taxpayer either has a signed power purchase agreement, had been in negotiations with a utility for a power purchase agreement, has a utility conducting an interconnection requirement study, or is in the feed-in tariff active queue, on or before December 31, 2012. The Department estimates that for each megawatt of capacity installed, at a rate of 4 cents per kilowatt hour produced and sold, the production credit amount will be \$64,000 per year and \$640,000 over a ten year period. This means that if a megawatt of capacity costs \$3 million to place in service the total credit received is approximately 21.33% of the cost to place in service per megawatt of capacity.
- 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 the cap will be difficult to administer as the bill neither defines the cap, nor provides guidance, as to its application.
- Allowing full refundability for the production credit claimed, without discount, for solar energy property with an alternating current capacity of one megawatt or higher.
- Allowing taxpayers 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 opposed to the grandfathering aspect of this provision due to the difficulty in compliance and enforcement of the tax credit prior to the issuance of the current administrative rules.
- 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 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.

The Department estimates that this measure will have the following revenue impacts on the general fund:

- FY 2014 - \$34 million revenue loss
 - FY 2015 - \$17 million revenue loss
 - FY 2016 - \$9 million revenue loss
 - FY 2017 - \$10 million revenue gain
 - FY 2018 - \$8 million revenue gain
 - FY 2019 - \$28 million revenue gain
-
- The Department importantly notes that for a ten-year production credit, assuming the same amount of capacity is installed each year starting in 2014 and ending in 2019, the amount of the credits that show up in the budget window will be only 35% of the total credits due for the systems installed during these years. This is true, regardless of the amount of the production credit per kilowatt hour. For example, for the systems installed in 2014, 60% of the total cost of the credit will be paid out in the budget window, whereas for systems installed in 2019, only 10% of the total cost of the credit will be paid in the budget window. In other words, the revenue estimates for the production credit reflect only about one third of their overall cost to the State.

Thank you for the opportunity to provide comments.

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: SB 623, SD-1

INTRODUCED BY: Senate Committee on Energy & Environment

BRIEF SUMMARY: Amends HRS section 235-12.5 to provide that a solar energy property that is used to heat water shall be eligible for a tax credit of 35% of the basis and shall not exceed: (1) \$2,500 per property for single-family residential property; (2) \$500 per unit per property for multi-family residential property; and (3) \$250,000 per property for commercial property.

A solar energy property that is used primarily to generate electricity, is less than one megawatt in alternating current capacity and not part of a larger solar energy property shall be eligible for a tax credit of: (1) 30% of the basis for solar energy property placed in service after December 31, 2012 and before January 1, 2014; (2) 25% of the basis for solar energy property placed in service after December 31, 2013 and before January 1, 2016; (3) 20% of the basis for solar energy property placed in service after December 31, 2015 and before January 1, 2018; and (4) 15% of the basis for solar energy property placed in service after December 31, 2017.

A solar energy property that is used primarily to generate electricity that is greater than one megawatt in alternating current capacity shall be eligible for a tax credit of 4 cents per kilowatt-hour sold for the first 120 months of operation.

A wind energy property that is less than one megawatt in output and is not part of a larger wind energy property shall be eligible for a tax credit of 20% of the basis or \$500,000, whichever is less.

Defines “basis” as costs related to the energy property, including accessories, energy storage, and installation, but not including the cost of consumer incentive premiums unrelated to the operation of the energy property or offered with the sale of the energy property and costs for which another credit is claimed under this chapter. Any cost incurred and paid for the repair, construction, or installation and placing in service of solar or wind energy property shall not constitute a part of the basis for the purpose of this section. The basis used under this part shall be consistent with the use of basis in section 25D or section 48 of the Internal Revenue Code; provided that for the purposes of calculating the credit allowed under this chapter, the basis of the solar energy property or the wind energy property shall not be reduced by the amount of any federal tax credit or other federally subsidized energy financing received by the taxpayer.

Defines “placed in service,” “property” and “public sector agency” for purposes of the measure.

For a solar energy property that is used primarily to generate electricity that is greater than one megawatt in alternating current capacity, if the tax credit exceeds a taxpayer’s tax liability, the excess of the credit amount over payments due shall be refunded to the taxpayer. Tax credit amounts properly claimed by a

taxpayer who has no income liability shall be paid to the taxpayer provided that no refund on account of the tax credit allowed by this section shall be made for less than \$1.

In lieu of the credits described above, an individual or corporate taxpayer not currently regulated by the public utilities commission that had 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 may elect to receive tax credits for energy properties placed into service prior to January 1, 2014, on the same basis as if the energy property had been placed into service prior to January 1, 2013; provided that the taxpayer provide a copy of the agreement to the department of taxation.

Permits an association of apartment owners to claim the credit in its own name for property or facilities placed in service and located on common areas.

The credit may not be claimed by: (1) any federal, state, or local government or any political subdivision, agency, or instrumentality thereof; (2) any entity referred to in section 54(j)(4) of the Internal Revenue Code; or (3) certain partnerships or other pass-through entity that has as a partner or other holder of an equity or profit interest.

Requires the department of taxation and the department of business, economic development, and tourism (DBEDT) to collaborate to issue a joint report to the legislature prior to each regular session. Delineates what shall be included in the report.

Requires DBEDT to commence a study by July 1, 2016 on the costs incurred and benefits gained, as well as the extent to which the tax credits under HRS section 235-12.5 have helped the state achieve its energy goals. DBEDT shall consult with the department of taxation and industry trade groups and may consult with other stakeholders and shall submit a report to the legislature by December 31, 2017 which shall include the results of its study and recommendations on whether the various tax credits under HRS section 235-12.5 should be continued, eliminated, or revised.

EFFECTIVE DATE: Tax years beginning after December 31, 2012

STAFF COMMENTS: The existing renewable energy technologies income tax credit is 35% for solar energy systems or 20% for wind energy systems with dollar limits on the amount of credit that may be claimed depending on whether the system is used to heat water or generate electricity and whether the system is installed on a single or multi-family residential property or commercial property.

This measure reduces the amount of credit for solar energy property that produces less than 1 megawatt of electricity from 35% to 30% for systems placed in service for the 2013 tax year; 25% for the 2014-2015 tax year; 20% for the 2016-2017 tax year, and 15% for the 2018 tax year and thereafter. This measure would also extend the renewable energy technology tax credit to solar energy properties that generate over 1 megawatt of electricity, although no credit amount is provided. Although this slow weaning of the taxpaying public from its dependence on the tax incentive may sound like a great idea, it ignores the phenomenon that occurred this past year when taxpayers were given notice that there would be new rules for the ball game beginning with the first of the year. Instead, consideration should be given to setting the tax incentive rate at a more modest level and then warning taxpayers that it will

disappear in three or five years. This will help to even out the demand for installations as taxpayers assess the cost benefit of installing such devices.

While it appears that this measure is proposed to reduce the outflow of tax credits due to the misinterpretation of the existing tax credit provisions, it is questionable why the proposed measure expands the renewable energy technologies income tax credits to include larger solar energy facilities.

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. It should be noted that the state is again attempting to establish such a loan program. There is no doubt that such a loan program would not only make the devices available to those who cannot afford the up-front costs, but also be far less expensive than the current system of tax credits. It would also allow a more close monitoring of the quality and efficiency as well as the actual costs of such devices, which because of the current system of tax credits may be wildly over-inflated.

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.



SENATE COMMITTEE ON WAYS AND MEANS
Friday, February 22, 2013 — 9:00 a.m. — Room 211

**TESTIMONY SUPPORTING THE INTENT OF
SB 623, SD 1 RELATING TO RENEWABLE ENERGY**

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

Distributed Energy Partners is a Hawai'i based, owned, and operated firm specializing in the development of commercial-scale distributed renewable energy projects, which include solar, wind, and emerging technologies.

Distributed Energy Partners **supports the intent** of SB 623, SD 1 which will make needed reforms to the Renewable Energy Technologies Income Tax Credit ("RETITC") to reduce the credit's cost to the state. Specifically, SB 623, SD 1 takes the right approach for projects of under 1MW in size by generally following the existing federal structure and guidance, by providing a clear predictable rampdown of the incentive level, and by reducing the tax credits' cost to the state while maximizing the amount of residential and commercial solar that will be installed.

However, SB 623, SD 1 will severely limit the development of any projects larger than 1 MW in size by reducing the tax credit for those solar energy properties to four (4) cents per kilowatt-hour sold for the first one hundred twenty months of operation. At current prices, these larger projects would no longer be economically viable, and as a result, there would be very few utility scale projects going forward. Also, while the concept of providing a grandfathering provision where certain preconditions were met prior to December 31, 2012 is appreciated, it does not draw a clear line between projects at similar stages of development. Therefore, we respectfully ask that the bill be amended to provide for an 8 cents PTC in place of the 4 cents currently stated in the bill, and to allow the tax credit for electricity actually used to offset load as well as for electricity sold to an unrelated third party. Raising the base rate to 8 cents will also eliminate the need for any grandfathering, which would be much easier to administer.

We believe that this amendment will lead to a higher level of renewable energy installation while still reducing the credit's cost to the state. In doing so, it will maximize the use of state tax dollars and keep Hawai'i on the path to achieving its clean energy goals.

Sincerely,
Joshua Powell
Principal & RME



SENATE COMMITTEE ON WAYS AND MEANS
Friday, February 22, 2013 — 9:00 a.m. — Room 211

Comments on SB 623, SD1, Relating to Renewable Energy

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

My name is Jon Wallenstrom and I am the President of Forest City Hawaii. Forest City Hawaii is principally engaged in the ownership, development, management and acquisition of commercial and residential real estate and land in Hawaii. It is currently involved in a partnership with the Hawaii Housing Finance and Development Corporation (HHFDC) to develop Kamakana Villages, a mixed-use community of 2,206 homes on the Big Island, of which more than 50% will affordably priced. We have also put in place six photovoltaic farms on Oahu and are one of the largest owners of clean, renewable energy assets in the State. Forest City is one of the largest residential community and renewable energy developers in the state. At Forest City we leverage our real estate experience to create renewable energy projects. These developments help offset the high cost of energy in Hawaii for both our community as a whole, while also decreasing the state's dependence on fossil fuels.

Forest City supports the intent of SB 623, SD1 which will make needed reforms to the Renewable Energy Technologies Income Tax Credit ("RETITC") to reduce the credit's cost to the state. However, reducing the tax credits for solar energy properties used to generate electricity that are one megawatt or larger in alternating current capacity to four (4) cents per kilowatt-hour sold for the first one hundred twenty months of operation would not make most utility scale solar projects viable investments at current prices, and there would be very few utility scale projects going forward. Also, while the concept of providing a grandfathering provision where certain preconditions were met prior to December 31, 2012 is appreciated, it does not give fair notice to industry members so that they may have the opportunity to begin the process.

Therefore, we respectfully ask that the bill be amended at page 3, lines 4-19 to provide for an 8 cents PTC in place of the 4 cents currently stated in the bill. We also ask that the grandfathering provision be extended to December 31, 2013 to allow entities the opportunity to comply with the stated preconditions.

We believe that these amendments will lead to a higher level of renewable energy installation while still reducing the credit's cost to the state. In doing so, it will maximize the use of state tax dollars and keep Hawai'i on the path to achieving its clean energy goals.

Thank you for the opportunity to provide these comments.



2/22/2013

Senate Ways and Means Committee

WAM

9:00 a.m.

SB 623

TESTIMONY IN SUPPORT

Dear Chair Ige, Vice Chair Kidani, and Members of the Committee:

Hawaii PV Coalition **supports** SB 623, SD1, which will reform the Renewable Energy Technologies Income Tax Credit (“RETTIC”) while maintaining the viability of most sectors of the solar industry. Specifically, SB 623, SD 1 takes the right approach for projects of under 1MW in size by generally following the existing federal structure and guidance, by providing a clear predictable rampdown of the incentive level, and by reducing the tax credits' cost to the state while maximizing the amount of residential and commercial solar that will be installed.

We also appreciate SB 623, SD1's implementation of a production tax credit for projects larger than one megawatt in size. This production tax credit is modeled on the federal renewable energy production tax credit. 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.

However, we note that the use of the production tax credit and the development of larger projects will be severely limited by the specified rate of four (4) cents per kilowatt-hour sold for the first one hundred twenty months of operation. At current prices, these larger projects would no longer be economically viable, and as a result, there would be very few utility scale projects going forward. Also, while the concept of providing a grandfathering provision where certain preconditions were met prior to December 31, 2012 is appreciated, it does not draw a clear line between projects at similar stages of development. Therefore, we respectfully ask that the bill be amended to provide for an 8 cents PTC in place of the 4 cents currently stated in the bill, and to allow the tax credit for electricity actually used to offset load as well as for electricity sold to an unrelated third party. Raising the base rate to 8 cents will also eliminate the need for any grandfathering, which would be much easier to administer.

We believe that this amendment will lead to a higher level of renewable energy installation while still reducing the credit's cost to the state. In doing so, it will maximize the use of state tax dollars and keep Hawai'i on the path to achieving its clean energy goals.

We would also like to take this opportunity to offer three technical amendments to the bill, which are outlined below.



(1) Definition of "Property"

This draft of SB 623 rightly attempts to rely on the federal definition of energy “property” in its reform of HRS § 235-12.5 by defining "property" as having "the same meaning as in section 25D, 45, or section 48 of the Internal Revenue Code." Unfortunately, however, "property" is not defined as a stand-alone term in any of those three sections of the IRC, and to the extent it is defined in conjunction with other terms — e.g., "energy property" and "qualified solar electric property expenditure"—the definitions are inconsistent and/or contradictory. For example, "energy property" in Sec. 48 is defined so as to exclude property that is not depreciable, since Sec. 48 only applies to commercial property. This won't work for HRS § 235-12.5, where the definition of property is intended to apply to both residential and commercial property. In any case, HD2 of HB497 maintains a tie-in to the federal IRC for interpretation of these terms via its section (j), which provides that "The tax credits provided for in this section shall be construed in accordance with Treasury Regulations and judicial interpretations of similar provisions in sections 25D, 45, and 48 of the Internal Revenue Code." In order to address this technical flaw, we recommend that the definition of "Property" used in SB 623, SD1 be replaced with the following definition:

"Property" means (i) equipment which uses wind or solar energy to generate electricity; (ii) the construction, reconstruction, or erection of which is completed by the taxpayer, or which is acquired by the taxpayer if the original use of such property commences with the taxpayer.

(2) Definition of "Basis"

SB 623, SD1’s definition of “basis” also complicates the effort to follow the federal guidance in administering Hawaii’s energy credit. The third sentence of this proposed definition fully accomplishes the goal of “following the federal” by stating:

“The basis used under this part shall be consistent with the use of basis in section 25D or section 48 of the Internal Revenue Code of 1986, as amended; provided that for the purposes of calculating the credit allowed under this chapter, the basis of the solar energy property or the wind energy property shall not be reduced by the amount of any federal tax credit or other federally subsidized energy financing received by the taxpayer.”

In this context, the sentence that precedes it stating: “Any cost incurred and paid for the repair, construction, or installation and placing in service of solar or wind energy property shall not constitute a part of the basis for the purpose of this section” muddies the waters and will result in the potential for different system components to be included and excluded from the tax basis of solar projects under state and federal tax law. This situation, in which Hawaii law would conflict with federal law, can be resolved by simply eliminating the second sentence.



(3) Clarification of the Credit for Utility Scale Wind Energy Property.

It is our understanding that the intent of SB 623, SD1 is not to include a tax credit for projects larger than 1 MW. As drafted, however, a larger wind energy project comprised of turbines whose individual rated capacities are below 1 MW would arguably be eligible for an investment tax credit because it is possible that each turbine would be considered separate “property.” If the intent of the Committee is to limit the investment tax credit's availability to solar and wind developments in which the overall project is less than one MW in size, the Committee may wish to substitute "not part of a larger wind energy property" in section (a)(4) with "not part of a larger wind energy development". A similar change could be made in section (a)(2) by replacing "not part of a larger solar energy property" with "not part of a larger solar energy development" or "not part of a larger solar energy facility."

Once again we support this bill, and we hope that the technical recommendations offered above may be of some use to the Committee. Thank you for the opportunity to provide this testimony.

Mark Duda
President, Hawaii PV Coalition

The Hawaii PV Coalition was formed in 2005 to support the greater use and more rapid diffusion of solar electric applications across the state. Working with business owners, homeowners and local and national stakeholders in the PV industry, the Coalition has been active during the state legislative sessions supporting pro-PV and renewable energy bills and helping inform elected representatives about the benefits of Hawaii-based solar electric applications.

SENATE COMMITTEE ON WAYS AND MEANS

Friday, February 22, 2013 — 9:00 a.m. — Room 211

**TESTIMONY SUPPORTING THE INTENT OF
SB 623 SD1 RELATING TO RENEWABLE ENERGY**

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

Kairos Energy Capital supports the intent of SB 623 SD1, which will make needed reforms to the Renewable Energy Technologies Income Tax Credit (“RETITC”) to reduce the credit’s cost to the State. Specifically, SB 623 SD1 takes the right approach for projects of under 1MW in size by generally following the existing federal structure and guidance, by providing a clear predictable ramp down of the incentive level, and by reducing the tax credits’ cost to the State while maximizing the amount of residential and commercial solar that will be installed.

Kairos Energy Capital is a Hawai’i merchant bank that focuses entirely on providing and arranging funding for renewable energy projects. We have become one of the leading experts in Hawai’i in solar project financing.

Because our business is about financing renewable energy systems, I will focus my testimony today on the interaction between Hawai’i’s renewable energy technology investment tax credit (the “Hawai’i Tax Credit”) and the capital markets that make Hawai’i’s renewable energy initiatives possible.

1. Adopting a Clear, Predictable Rampdown is Crucial to Maintain Lowest Cost Funding: The Hawai’i Tax Credit currently brings \$3 of other people’s money for every dollar of state investment. According to data from the Department of Taxation, DBEDT and county building permit offices, the actual rate at which the Hawai’i Tax Credit is claimed is about 23% of the system value, rather than the “nominal” rate of 35% in the statute. A great deal of this is due to taxpayers claiming the refund at a 30% discount – i.e. 24.5% of the system value – and some amount of unclaimed credits, defective applications and the like. The rest of the money – 77% of the cost of every installation – comes from a combination of Federal money in the form of the Federal tax credit, and private funds.

This “leverage” is very valuable, not only for the State’s renewable energy objectives, but also for the capital markets. One of the biggest threats to investors in Hawai’i renewable energy projects has been the highly unstable nature of the State tax credit incentive. This bill sets a predictable schedule and will allow investors to plan and fund projects in a lower-risk environment, helping to keep capital costs in Hawai’i lower.

2. Production Tax Credit Rate for 1MW-Plus Projects is Self-Destructive to State’s Interests: SB 623 SD1 will severely limit the development of any projects larger than 1 MW in size by reducing the tax credit for those solar energy properties to four (4) cents per kilowatt-hour sold for the first one hundred twenty months of operation. At current

prices, these larger projects would no longer be economically viable, and as a result, there would be very few utility scale projects going forward.

3. Sudden Changeover to Lower Production Tax Credit is Unfair: While the concept of providing a grandfathering provision where certain preconditions were met prior to December 31, 2012 is appreciated, it does not give fair notice to industry members so that they may have the opportunity to begin the process. Therefore, we respectfully ask that the bill be amended to provide for an 8-cent PTC in place of the 4 cents currently stated in the bill, and to allow the tax credit for electricity actually used to offset load as well as for electricity sold to an unrelated third party. Raising the base rate to 8 cents will also eliminate the need for any grandfathering, which could be administratively difficult to administer.

For all of these reasons, we believe that this amendment will lead to a higher level of renewable energy installation while still reducing the credit's cost to the State. In doing so, it will maximize the use of State tax dollars and keep Hawai'i on the path to achieving its clean energy goals.

Thank you for the opportunity to submit this testimony, and please feel free to contact me if I can be of further assistance.

Larry Gilbert
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Hawaii Solar Energy Association
Serving Hawaii Since 1977

Before the Senate Committee on Ways and Means
Friday, February 22, 2013, 9:00 a.m., Conference Room 211
SB 623 SD 1: RELATING TO RENEWABLE ENERGY

Aloha Chair Ige, Vice-Chair Kidani, and members of the Senate Committee on Ways and Means,

On behalf of the Hawaii Solar Energy Association (HSEA), I would like to testify **in partial support for SB 623 SD 1**, which calls for a ramp down of the residential and commercial tax credit (ITC) from 30% to 15% and a 4 to 8 cent production tax credit (PTC) for photovoltaic projects (PV) of 1 MW or greater. SB 623 SD 1 also holds steady the tax credit for solar hot water to 35% and provides for a refundable credit with a 30% discount for projects under 1 MW, and a refundable credit without discount for all other PV projects.

HSEA is a non-profit trade organization that has advocated for both solar hot water and photovoltaics since 1977, with an emphasis on residential distributed generation (DG) and commercial SHW and PV. We currently represent 66 companies, and our members include installers, contractors, manufacturers, distributors, the utility, and others. With 35 years of advocacy behind us, HSEA's goal is to work for a sustainable energy future for all of Hawaii.

BACKGROUND

Although HSEA supports the sustained credit for solar hot water, and welcomes the mandate for DBEDT to provide data on the yearly costs and benefits of the renewable energy tax credit, HSEA is very concerned that the residential and commercial ramp down will stifle installations on Hawaiian residences and businesses once the tax credit drops below 20%. In addition, HSEA believes that the 8 cents/kWh for utility scale projects is not equitable and would pose a financial burden for the state while supporting PV installations which do not lower people's bills and are at the mercy of the utility's grid requirements and limitations. HSEA therefore requests that the ramp down for PV under 1 MW stop at 20%, and proposes that the 4 cents/kWh apply to all utility scale projects unless the Department of Taxation has already issued a letter ruling allowing a tax credit based on the 2012 state tax credit framework.

The Tax Incentive Best Applied to Hawaiian Homes and Businesses

SB 623 SD 1 provides a tax credit framework for two distinct groups: small scale PV installations on homes and businesses (DG) and PTC projects. HSEA believes that both groups are part of our green energy plan, but PTC projects should not be supported to the detriment of the DG credit for homes and businesses.

Advantages of Distributed Generation

DG has several advantages over utility scale installations. First, the installation of PV on a home or business is not delayed by years of permitting and financial issues, and once installed the utility customer gets an immediate savings—a true power to the people. In addition, because of the relatively small scale of DG projects, grid saturation is rarely an issue, and transmission loss never is. DG in aggregate has made substantial contributions to our overall energy goals, and is the lion's share of the market here in Hawaii.

	DISTRIBUTED GENERATION (installations on homes and businesses)	PTC (projects of 1 MW or greater)
FINANCIAL STRUCTURE	These installations reduce the home owner's or businesses' electric bill. Purpose is to save money and invest in state's clean energy infrastructure.	Purpose is to make money for developer. Once installed, invests in green energy for state. Probably no reduction in utility bill for Hawaiian utility customer.
GRID SATURATION	Generally not an issue. On Maui, If 10kW or less, does not require IRS study if does not exceed 75% min. day time load.	Large projects saturate circuits, and installation is dependent upon utility approval. Grid saturation would prevent homes and businesses from entering into NEM agreements.
GRID LOSS	Generated on-site. No transmission loss.	Loss increases with transmission distance.
% MARKET IN HAWAII	Majority of PV in Hawaii is NEM residential. In 2012, of all PV installed, 92.8 MW, approximately 75% of those installations were residential NEM.	Both commercial and utility scale installations in 2012 were less than 25% of all PV installed
TIMING	2-3 days for residential installation	3-5 years to contend with permitting and financial issues
REFUNDABLE?	SB 643 SD 1 maintains 30% discount for refundable credit.	SB 643 SD 1 grants refundable without discount for utility scale, thus opening the door for large cash payments out of state.

PROPOSED AMENDMENTS

1. Stop DG Ramp Down at 20%

- Time to make best use of Federal Tax Credit which expires in 2016

Now is the time to make the best use of the 30% Federal Tax Credit, which is due to expire 12/31/2016, with no guarantee that it will be renewed. With the federal tax credit gone, the installation of solar hot water and PV will be out of reach for many home owners and businesses. Since DG is the most efficient way to lower bills and encourage investment in green energy infrastructure, it makes sense to make the most of the additional federal tax credit while it is still in place.

- Tax credit below 50% shows dramatic reduction in residential installations

Research shows that once the price for solar and other technologies drops below 50%, installations slow dramatically. If the state incentive is reduced to 15% in 2016, the state will likely see a dramatic decrease in size and scale of DG installations.

- Hawaii still far from energy goals

Although DG residential installs have increased significantly, they are still a small part of our overall energy portfolio, with residential NEM providing only about 1.5% of the overall energy for Hawaii. It therefore does not make sense to slow the speed and scale of installations by lowering the incentive below 20%.

2. Clarify that SB 623 SD 1 allows subsequent installations

P. 2 section (2) states that a credit may be taken for a solar energy project which is used primarily to generate electricity and is less than 1 MW in alternating current capacity, and is “not part of a larger solar energy property.” HSEA respectfully asks for clarification on this section as it may be interpreted to mean that additions on a system in subsequent years **would not** be eligible for a tax credit, the opposite of current policy.

- Allowing credit on subsequent installations makes solar more affordable for tax payer
The current tax incentive under the administrative rules allows for a tax credit to be taken in subsequent years if the system is expanded. Allowing taxpayers to take the tax credit in subsequent years allows home owners and businesses to install “mini” systems that may later be expanded, which makes a suitably sized system affordable for tax payer.
- Subsequent tax credits allow the tax payer to adjust the solar system should load increase, such as for an electric vehicle
- Allowing the tax incentive to be taken in subsequent years extends the tax burden for the state over a longer period of time.

3. Make 4 cents per kWh effective for all PTC unless the project has already been issued a letter ruling

- SB 623 SD 1 provides a generous “grandfather” clause
P. 3 section (3) of SB 623 SD1 states that for projects of 1 MW and larger, the PTC is 4 cents per kWh sold unless the project already has “evidence that the tax payer either has a signed power purchase agreement, **had been** in negotiations with a utility for a power purchase agreement, has a utility conducting an interconnection requirement study, or is in the feed-in tariff active queue, **on or before December 31, 2012.**” Should any of these many circumstances apply, the project would qualify for 8 cents per kWh.
- 8 cents/kWh is not equitable for PTC
Using the current competitive installation cost for a PTC project at 8 cents/kWh, the effective tax credit would be approximately 35%. Installations costs for PTC projects have continued to drop, and many projects in Hawaii are projecting installation costs as low as \$2.50/watt. As install costs go down, the effective tax rate will increase. For instance, at \$2.50/watt install cost, a future trended price on large scale projects across the country, the effective tax credit at 8 cents/kWh would be almost 50%. Also, it should be noted that PTC projects enjoy the tax benefits of depreciation both on the state and federal level, a benefit not available to a homeowner.

4. Apply refundable credit with a discount for both ITC and PTC

- SB 623 SD 1 gives the added incentive of a refundable credit without the 30% discount for PTC
SB 623 SD 1 proposes that for most ITC projects, the refundable credit is taken with a 30% discount, where the refundable credit for PTC may be taken without discount. Since the taxpayers for many PTC projects have no Hawaii state tax liability, the majority of the tax credit will be refundable. By allowing the refundable for PTC to be paid without a discount, the cost to the state could be considerable, especially given that SB 623 SD 1 lifts the caps for both ITC and PTC PV.

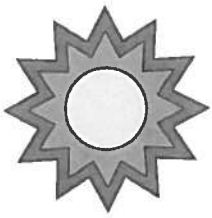
Summary

HSEA supports a new tax incentive framework that provides a fair and clear program to help Hawaii reach its clean energy goals. We support the ongoing incentive for solar hot water, and the mandate for a yearly study on the cost/benefits of the tax incentive program. To ensure that installations on residences and businesses continue at a reasonable rate, we respectfully request that the ramp down stop at 20%. In addition, in the interest of equity and concern over state finances, we ask that the PTC rate of 4 cents/kWh be applied to all PTC projects, unless already issued a letter ruling from the State Department of Taxation.

Thank you for the opportunity to testify.

Leslie Cole-Brooks
Executive Director
Hawaii Solar Energy Association

AET, LLC	Affordable Solar Contracting	Allana Buick & Bers
Alternate Energy	American Electric Company, LLC	B. Bautista Electrical
Bonterra Solar	Bureau Veritas North America	Cano Electric
C & J Solar Solutions	Coffman Engineers, Inc.	Allen's Plumbing
Conergy	DHX	Dr. Stephen Allen
Energy Industries	En-Phase	Energy Industries
Dependable Hawaii Express	Energy Unlimited, Inc.	EnergyPro Hawaii
Ferguson	Forest City Residential Group	Gexpro
Giant Solar	Grand Solar	Haleakala Solar
Hawaii Energy Connection	Hawaii Home Expo & Marbelhaus Trading	Hawaii Electric Company
Hawaii Island Solar	Hi-Tech Plumbing	HNU Energy
Hoku Scientific	Honeywell Utility Solutions	Inter-Island Solar Supply
Island Pacific Energy	Island Solar Service	Kheiron Partners
Ku'oko'a	Kyocera Solar Inc.	Lumen Solar, LLC
Maui Pacific Solar	Mercury Solar	Morikawa & Associates
Pacific Basin	Phoenix Solar	PhotonWorks Engineering
Poncho's Solar	R & R Solar Supply	REC Solar, Inc.
Rheem Manufacturing	Schenk's Specialized Services LLC	Schlissel & Associates
Smart Energy Hawaii	Solar Services Hawaii	SolarCity
SolarWave Hawaii	SolarWorld California	Sun King
Sun Earth, Inc.	Sunetric	SunHedge
Talent HR Solutions	WESCODistribution	Unirac



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February 22, 2013

Testimony Before the Senate Committee on Ways and Means
Senator David Ige, Chair
In Regard to S.B. 623 S.D. 1, Relating to Renewable Energy

Inter-Island Solar Supply supports the passage of S.B. 623, S.D. 1.

HRS 235-12.5, despite its inadequacies and ambiguous language, has been extremely successful in inducing home and business owners to purchase solar water heating and PV systems. The recent uptake particularly for net-energy metered systems, has been breathtaking. According to documents recently filed by the Hawaiian Electric group of companies with the PUC, over 73 MW (megawatts) of new net-metered PV were installed in their service territories in 2012. This is precisely the speed, scale and traction required for Hawaii to meet its statutory renewable energy obligations under the Hawaii Clean Energy Initiative.

By redefining eligible renewable energy property, S.B. 623, S.D. 1, closes the loophole that has allowed for a single individual or business to claim multiple PV tax credits, thus avoiding the artificially low cap levels imposed by a previous legislature. This key definitional change will lead to increased fairness and much greater transparency. The change, moreover, will not lead to over-sized PV systems since there is absolutely no economic incentive or rationale to do so within the utility regulations and rules for net-energy metered systems. In short, ratepayers seeking an off-ramp from unsustainable high utility costs will continue to purchase properly sized PV systems for their homes and businesses.

One of the most important provisions provided by S.B. 623, S.D. 1 is the annual reporting requirement. There is simply no excuse for not knowing the real time cost and benefit of any State of Hawaii tax credit or incentive, especially those incentives that are linked by statute to an essential public purpose or objective. Do not be swayed by DoTax or DBEDT claims that do not have the technical or human resources to provide real-time fiscal and economic information. The public debate surrounding the renewable tax credits has been much poorer for the lack of current and accurate information on both the costs and the full fiscal and economic benefits associated with this credit.

One final note. It is incongruous to continue to impose caps on solar water heating systems that are not imposed on PV systems. Again, there is no economic incentive to over-size a solar water heating system for tax credit purposes alone. Lifting the cap will have no bearing on either the number of claims or the amount of those claims. Systems will continue to be sized to load, not available tax credits. Solar water heating systems historically have not been subject to multiple credits claims or abuse.

Thank you for the opportunity to present these comments.

SENATE COMMITTEE ON WAYS AND MEANS

Friday, February 22, 2013 — 9:00 a.m. — Room 211

**TESTIMONY SUPPORTING THE INTENT OF
SB 623 SD1 RELATING TO RENEWABLE ENERGY**

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

Kairos Energy Capital supports the intent of SB 623 SD1, which will make needed reforms to the Renewable Energy Technologies Income Tax Credit (“RETITC”) to reduce the credit’s cost to the State. Specifically, SB 623 SD1 takes the right approach for projects of under 1MW in size by generally following the existing federal structure and guidance, by providing a clear predictable ramp down of the incentive level, and by reducing the tax credits’ cost to the State while maximizing the amount of residential and commercial solar that will be installed.

Kairos Energy Capital is a Hawai’i merchant bank that focuses entirely on providing and arranging funding for renewable energy projects. We have become one of the leading experts in Hawai’i in solar project financing.

Because our business is about financing renewable energy systems, I will focus my testimony today on the interaction between Hawai’i’s renewable energy technology investment tax credit (the “Hawai’i Tax Credit”) and the capital markets that make Hawai’i’s renewable energy initiatives possible.

1. Adopting a Clear, Predictable Rampdown is Crucial to Maintain Lowest Cost Funding: The Hawai’i Tax Credit currently brings \$3 of other people’s money for every dollar of state investment. According to data from the Department of Taxation, DBEDT and county building permit offices, the actual rate at which the Hawai’i Tax Credit is claimed is about 23% of the system value, rather than the “nominal” rate of 35% in the statute. A great deal of this is due to taxpayers claiming the refund at a 30% discount – i.e. 24.5% of the system value – and some amount of unclaimed credits, defective applications and the like. The rest of the money – 77% of the cost of every installation – comes from a combination of Federal money in the form of the Federal tax credit, and private funds.

This “leverage” is very valuable, not only for the State’s renewable energy objectives, but also for the capital markets. One of the biggest threats to investors in Hawai’i renewable energy projects has been the highly unstable nature of the State tax credit incentive. This bill sets a predictable schedule and will allow investors to plan and fund projects in a lower-risk environment, helping to keep capital costs in Hawai’i lower.

2. Production Tax Credit Rate for 1MW-Plus Projects is Self-Destructive to State’s Interests: SB 623 SD1 will severely limit the development of any projects larger than 1 MW in size by reducing the tax credit for those solar energy properties to four (4) cents per kilowatt-hour sold for the first one hundred twenty months of operation. At current

prices, these larger projects would no longer be economically viable, and as a result, there would be very few utility scale projects going forward.

3. Sudden Changeover to Lower Production Tax Credit is Unfair: While the concept of providing a grandfathering provision where certain preconditions were met prior to December 31, 2012 is appreciated, it does not give fair notice to industry members so that they may have the opportunity to begin the process. Therefore, we respectfully ask that the bill be amended to provide for an 8-cent PTC in place of the 4 cents currently stated in the bill, and to allow the tax credit for electricity actually used to offset load as well as for electricity sold to an unrelated third party. Raising the base rate to 8 cents will also eliminate the need for any grandfathering, which could be administratively difficult to administer.

For all of these reasons, we believe that this amendment will lead to a higher level of renewable energy installation while still reducing the credit's cost to the State. In doing so, it will maximize the use of State tax dollars and keep Hawai'i on the path to achieving its clean energy goals.

Thank you for the opportunity to submit this testimony, and please feel free to contact me if I can be of further assistance.

Larry Gilbert
Managing Partner
Kairos Energy Capital LLC
55 Merchant Street, Suite 1560
Honolulu, HI 96813
Tel 808 457-1600
Email: LGilbert@kairosenergycapital.com

Testimony Before the Senate Committee on
Ways and Means

By: Michael V. Yamane, P.E.
Chief of Operations
Kauai Island Utility Cooperative
4463 Pahee Street, Suite 1, Lihue, Hawaii, 96766-2000

Friday, February 22, 2013, 9:00am
Conference Room # 211

Senate Bill No. 623, SD1 – Relating to Renewable Energy

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

Kauai Island Utility Cooperative (“KIUC”) opposes Senate Bill 623, SD1. This proposed legislation as written would negatively impact KIUC and its subsidiaries by not allowing electric cooperatives to qualify for any State tax credits or tax refunds. Electric cooperatives are specifically listed under the Internal Revenue Code under Section 54 (j) (4).

n) No credit under this section shall be allowed to:

- (1) Any federal, state, or local government or any political subdivision, agency, or instrumentality thereof;
- (2) Any entity referred to in section 54(j)(4) of the Internal Revenue Code; or
- (3) Any partnership or other pass-thru entity that has as a partner or other holder of an equity or profits interest that is described in paragraph (1) or (2).

As you know KIUC is a member-owned cooperative with nine elected Board of Directors. Being member-owned, KIUC has set a renewable generation goal of 50% by 2023. KIUC plans to use a portfolio approach to achieve its goals by using a combination of Hydro, Biomass, and Solar Photovoltaic generation to achieve its renewable goals. KIUC has planned for two 12MW PV farms located in Anahola and Poipu which will provide Kauai with approximately 12% of its energy from the sun. The fact that this is a KIUC-owned project along with the State tax credits, make it an affordable source of energy for our members and help stabilize rates in the future. Thank you for the opportunity to testify on this matter.



February 21, 2013

The Honorable David Ige, Chairman
Senate Committee on Ways & Means
Hawaii State Capitol, Room 211
Honolulu, HI 96813

RE: Senate Bill 623 SD1 – Renewable Energy Technologies; Tax Credit – Support

Dear Chairman Ige:

Mainstream Energy Corp. supports SB623 SD1, which makes needed reforms to the Renewable Energy Technologies Income Tax Credit (RETITC). This bill significantly reduces the tax credit's long-term general fund impact by reducing the RETITC from its current level of 35% to 15% by 2018 for small to mid-sized solar systems, and converting the RETITC to a production tax credit for larger systems. We remain concerned, however, that the bill makes retroactive impacts to projects currently under construction – which will be placed in service in 2013 – and ask for a technical amendment to address this issue.

Mainstream Energy Corp. is the parent company of REC Solar, a national installer of grid-tied residential, commercial, government, and utility solar, and AEE Solar, one of the country's largest distributors of renewable energy equipment. Our companies have a presence in all major solar markets and employ more than 800 people. We've installed more than seven megawatts of commercial systems in Hawaii – for schools, public buildings, retailers, and utilities – and have more than sixteen megawatts under construction. Changes to current RETITC structure will have a major impact on these and future projects.

As currently written, SB623 SD1 modifies the RETITC for systems placed in service between December 31, 2012 and January 1, 2014 relative to the Department of Taxation's existing Temporary Administrative Rules. To avoid negative retroactive impacts to projects currently under construction, we suggest the following language be inserted into the bill:

For solar energy properties placed in service after December 31, 2012, and before January 1, 2014, a taxpayer may elect tax credits under this section or under the department's temporary administrative rules that became effective January 1, 2013.

Again, Mainstream Energy Corp., REC Solar, and AEE Solar support SB623 SD1 with the above amendment and we appreciate your leadership in renewable energy issues. Thank you for the opportunity to provide this testimony.

Sincerely,

A handwritten signature in cursive script that reads "Benjamin Higgins".

Benjamin L. Higgins
Director of Government Affairs



**Hawaiian Homelands
Assembly**

89-1888 Farrington Hwy.
Waianae, HI 96792
Ph: (808) 620-9070
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Chair
O'ahu

Kammy Purdy
Vice-Chair
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Kauai

May Liliuokalani Ross
Treasurer
Hawai'i

Jared Aiwohi
Executive Officer
Maui

Renee Plunkett
Director
Lanai

Annie Au Hoon
Executive Director

February 20, 2013

To: **Senator David Ige, Chair**
Senator Michelle Kidani, Vice Chair & Members of the Senate
Committee on Ways and Means

From: **Kali Watson**
Chairman of Statewide Economic/Housing Development
SCHHA
Honolulu, Hawaii 96792

Re: **Hearing on Renewable Energy SB 623 SD1**
February 22, 2013 at 9:00 am
Hawaii State Capitol, Room 211

TESTIMONY IN SUPPORT

Dear Chair Ige, Vice Chair Kidani and Members:

Thank you for the opportunity to provide testimony in support of the intent of SB 623 SD1 regarding renewable energy. It will make needed reforms to the Renewable Energy Technologies Income Tax Credit ("RETITC") to reduce the credit's cost to the State.

However, SB 623 SD1 will severely limit the development of any projects larger than 1 MW in size by reducing the tax credit for those solar energy properties to four (4) cents per kilowatt-hour sold for the first one hundred twenty months of operation. At current prices, these larger projects would no longer be economically viable, and as a result, there would be very few utility scale projects going forward. This may kill several 5 MW we are currently doing. Also, while the concept of providing a grandfathering provision where certain preconditions were met prior to December 31, 2012 is appreciated, it does not apply to our projects or give us fair notice so that we would have had the opportunity to begin the process in a more timely fashion. Therefore, we respectfully ask that the bill be amended to provide for an 8-cent PTC in place of the 4 cents currently stated in the bill, and to allow the tax credit for electricity actually used to offset load as well as for electricity sold to an unrelated third party. Raising the base rate to 8 cents will also eliminate the need for any grandfathering, which could be administratively difficult to administer.

The Sovereign Councils of the Hawaiian Homelands Assembly, formerly the State Council of Hawaiian Homestead Associations was founded more than 25 years ago to unite homestead communities and to advocate for the beneficiaries of the Hawaiian Homes Commission Act of 1921. The SCHHA is the oldest statewide advocacy organization representing the interests of more than 30,000 beneficiaries and families residing in the communities of the Hawaiian Home Land Trust. Its mission is to promote the self determination of native Hawaiians and the well being of homestead communities. As Chairman of Economic/Housing /Committee, it's critical that we have a more conducive and viable approach to financing of our solar projects.

I respectfully urge you to pass SB 623 SD1 with the suggested amendments.

Sincerely,

Kali Watson
Chairman of Economic Development



SENATE COMMITTEE ON WAYS AND MEANS
Friday, February 22, 2013 — 9:00 a.m. — Room 211

**TESTIMONY SUPPORTING THE INTENT OF
SB 623, SD 1 RELATING TO RENEWABLE ENERGY**

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

RevoluSun is a locally-owned solar company that works in the residential, commercial, and utility-scale sectors of the photovoltaic solar industry in Hawai'i.

RevoluSun **supports the intent** of SB 623, SD 1 which will make needed reforms to the Renewable Energy Technologies Income Tax Credit ("RETITC") to reduce the credit's cost to the state. Specifically, SB 623, SD 1 takes the right approach for projects of under 1MW in size by generally following the existing federal structure and guidance, by providing a clear predictable rampdown of the incentive level, and by reducing the tax credits' cost to the state while maximizing the amount of residential and commercial solar that will be installed.

However, SB 623, SD 1 will severely limit the development of any projects larger than 1 MW in size by reducing the tax credit for those solar energy properties to four (4) cents per kilowatt-hour sold for the first one hundred twenty months of operation. At current prices, these larger projects would no longer be economically viable, and as a result, there would be very few utility scale projects going forward. Also, while the concept of providing a grandfathering provision where certain preconditions were met prior to December 31, 2012 is appreciated, it does not draw a clear line between projects at similar stages of development. Therefore, we respectfully ask that the bill be amended to provide for an 8 cents PTC in place of the 4 cents currently stated in the bill, and to allow the tax credit for electricity actually used to offset load as well as for electricity sold to an unrelated third party. Raising the base rate to 8 cents will also eliminate the need for any grandfathering, which would be much easier to administer.

We believe that this amendment will lead to a higher level of renewable energy installation while still reducing the credit's cost to the state. In doing so, it will maximize the use of state tax dollars and keep Hawai'i on the path to achieving its clean energy goals.

Sincerely,

Colin Yost
Principal & General Counsel



SENATE COMMITTEE ON WAYS AND MEANS

**TESTIMONY IN SUPPORT OF
SB 623 SD 1 RELATING TO RENEWABLE ENERGY**

Testimony of
SunEdison
Friday, February 22, 2013
Senate Conference Room 211

Chair Ige, Vice-Chair Kidani, and members of the Committee:

Thank you for the opportunity to provide testimony in support of the intent of SB 623 SD1 regarding renewable energy. SB 623 SD1 will make needed reforms to the Renewable Energy Technologies Income Tax Credit ("RETITC") to reduce the credit's cost to the State. However, SunEdison does have concerns about SB 623 SD 1's retroactive application of the tax credit reforms to January 1, 2013.

SunEdison is one of the largest solar PV energy service providers in the United States. In Hawaii, SunEdison has been active in developing and operating commercial and utility-scale solar PV systems since 2006.

SB 623 SD 1 provides that a new tax credit of 30% for solar systems less than 1MW is effective for systems placed in service after December 31, 2012. Applying this change retroactive to the end of 2012 will cause material harm to many projects that are currently under construction and have been developed and financed with the expectation that the tax credits as they exist today will apply. SunEdison is currently constructing several such projects, which it expects to complete in the first half of 2013. As an alternative to the provision in SB 623 SD 1, SunEdison suggests the following language:

For solar energy properties placed in service after December 31, 2012, and before January 1, 2014, a taxpayer may elect tax credits under this section or under the department's temporary administrative rules that became effective on January 1, 2013.

We believe this change will avoid undermining projects currently in construction while achieving reforms that will enable Hawaii to cost-effectively achieve its ambitious clean energy goals and reach energy independence. We urge the committee to pass this measure with the suggested amendment.

Thank you for the opportunity to provide this testimony.

Sincerely,

A handwritten signature in black ink, appearing to read "C Seymour".

Curtis Seymour
Director of Government Affairs
SunEdison



SENATE COMMITTEE ON WAYS AND MEANS

TESTIMONY IN SUPPORT OF SB 623_SD1 RELATING TO RENEWABLE ENERGY

Testimony of Sarah Bertram, Sr. Manager, Policy & New Markets, Sunrun

Friday, February 22, 2013; Senate Conference Room 211

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

Sunrun **supports** SB 623_SD1, which will make much needed reforms to the Renewable Energy Technologies Income Tax Credit ("RETITC") that reduce the credit's cost to the state and make it easier for the Department of Taxation to administer and for the public to understand, while maintaining the viability of the solar industry.

As one of Hawaii's leading residential solar companies, Sunrun's support is specific to the considerations of the residential sector. Since 2010, Sunrun has partnered with 7 local solar installers to allow more than 2,000 Hawaiian households to adopt home solar.

Sunrun does not take a position on the commercial or utility-scale provisions, other than that we would like to see RETITC reform legislation that supports continued development across segments of the solar industry.

Sunrun asks that the Committee consider two important technical amendments:

1. SB 623_SD1 is currently written to apply to taxable years beginning after December 31, 2012. In its current form, the bill modifies the RETITC for systems placed in service between December 31, 2012 and January 1, 2014 relative to the existing Temporary Administrative Rules (published by DoTax in November 2012). As a result, this bill creates risk that there will be retroactive impacts to solar projects placed in service during 2013. To avoid a negative retroactive impact, Sunrun suggests that following language from SB 623 be re-inserted into the bill:

For solar energy properties placed in service after December 31, 2012, and before January 1, 2014, a taxpayer may elect tax credits under this section or under the department's temporary administrative rules that became effective on January 1, 2013.

2. Consistent with the HI PV Coalition testimony before the Consumer Protection Committee, we suggest that the definition of basis and energy property be clarified to more clearly follow federal definitions. Specifically, we suggest the following definition for property:

"'Property' means (i) equipment which uses wind or solar energy to generate electricity; (ii) the construction, reconstruction, or erection of which is completed by the taxpayer, or which is acquired by the taxpayer if the original use of such property commences with the taxpayer."



In addition, we suggest that the following language – currently included in SB 623_SD1 is sufficient and clear for the definition of “basis.”

“The basis used under this chapter shall be consistent with the use of basis in section 25D or section 48 of the Internal Revenue Code; provided that, for the purposes of calculating the credit allowed under this chapter, the basis of the solar energy property or the wind energy property shall not be reduced by the amount of any federal tax credit or other federally subsidized energy financing received by the taxpayer.”

We suggest that the following sentence be removed from the bill, as it is unnecessary and potentially confusing:

“Basis” means costs related to the energy property under subsection (a), including accessories, energy storage, and installation, but does not include the cost of consumer incentive premiums unrelated to the operation of the energy property or offered with the sale of the energy property and costs for which another credit is claimed under this chapter. Any cost incurred and paid for the repair, construction, or reconstruction of a structure in conjunction with the installation and placing in service of solar or wind energy property shall not constitute a part of the basis for the purpose of this section.”

With these technical amendments, we support SB 623_SD1. Thank you for the opportunity to provide this testimony.

Sincerely,

Sarah Bertram



Email: communications@uluponoinitiative.com

SENATE COMMITTEE ON WAYS AND MEANS
Friday, February 22, 2013 — 9 a.m. — Room 211

Ulupono Initiative Supports the intent of SB 623 SD 1, Relating to Renewable Energy

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

My name is Murray Clay, Managing Partner of the Ulupono Initiative, a Hawai'i-based impact investment firm that strives to improve the quality of life for the people of Hawai'i by working toward solutions that create more locally grown food, increase renewable energy, and reduce/recycle waste.

Ulupono supports the intent of SB 623 SD1, which will make needed reforms to the Renewable Energy Technologies Income Tax Credit ("RETITC") to reduce the credit's cost to the State. Specifically, SB 623 SD1 takes the right approach for projects of under 1 MW in size by generally following the existing federal structure and guidance, by providing a clear predictable ramp-down of the incentive level, and by reducing the tax credits' cost to the State while maximizing the amount of residential and commercial solar that will be installed.

However, SB 623 SD1 will severely limit the development of any projects larger than 1 MW in size by reducing the tax credit for those solar energy properties to four (4) cents per kilowatt-hour sold for the first one hundred twenty months of operation. At current prices, these larger projects would no longer be economically viable, and as a result, there would be very few utility-scale projects going forward. While the concept of providing a grandfathering provision where certain preconditions were met prior to December 31, 2012 is appreciated, it does not give fair notice to industry members so that they may have the opportunity to begin the process. Therefore, we respectfully ask that the bill be amended to provide for an 8-cent PTC in place of the 4 cents currently stated in the bill, and to allow the tax credit for electricity actually used to offset load as well as for electricity sold to an unrelated third party. Raising the base rate to 8 cents will also eliminate the need for any grandfathering, which could be administratively difficult to administer.

We believe that this amendment will lead to a higher level of renewable energy installation while still reducing the credit's cost to the State. In doing so, it will maximize the use of State tax dollars and keep Hawai'i on the path to achieving its clean energy goals.

Sincerely,

Murray Clay
Managing Partner

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Cc: mendezj@hawaii.edu
Subject: *Submitted testimony for SB623 on Feb 22, 2013 09:00AM*
Date: Tuesday, February 19, 2013 10:49:20 AM

SB623

Submitted on: 2/19/2013

Testimony for WAM on Feb 22, 2013 09:00AM in Conference Room 211

Submitted By	Organization	Testifier Position	Present at Hearing
Javier Mendez-Alvarez	Individual	Support	No

Comments:

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SB623

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Submitted By	Organization	Testifier Position	Present at Hearing
Judith Flanders	Individual	Support	No

Comments:

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TESTIMONY OF WARREN BOLLMEIER ON BEHALF OF THE
HAWAII RENEWABLE ENERGY ALLIANCE BEFORE THE
SENATE COMMITTEE ON WAYS AND MEANS

SB 623 SD1, RELATING TO RENEWABLE ENERGY

February 22, 2013

Chair Ige Vice-Chair Kidani, 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 SB 623 SD1 are to: (i) define solar energy property and wind energy property and classify utility scale solar energy facility, competitively-bid utility scale solar energy facility, and ordinary utility scale solar energy facility, (ii) establish a method for calculating tax credits for solar or wind energy property, and (iii) require department of business, economic development, and tourism to monitor and report tax credits claimed under section 235-12.5, Hawaii Revised Statutes.

HREA **supports this measure** and offers the following comments:

- 1) Definitions. We recommend that the term “competitive bid solar energy property” (p. 5, l.13) be deleted as it is not used in the text. We also note that “ordinary utility scale solar energy facility,” is neither defined nor used in the text of this measure.
- 2) Residential-Small Commercial-Scale (<1 MW). This measure provides:
 - a) a 35% Investment Tax Credit (“ITC”) for solar water heating systems with a \$2,250 CAP for residential projects. We support the 35% credit, but recommend that the residential CAP be increased to \$2,500,
 - b) an initial credit for distributed generators (“DGs”) at 30% with a ramp down to 15% beyond 2017, and no project CAPs. We do not believe a ramp down is justified at this time, and recommend that the credit level remain at 30%, and that we watch closely the market response to this new ITC treatment, and.
 - c) Finally, to provide or commercial solar projects, that have not been included in sections (j) to (l), we recommend adding a “new” (j) as follows:

“For solar energy properties under one megawatt placed in service after December 31, 2012, and before January 1, 2014, a taxpayer may elect tax credits under this section or under the department’s temporary administrative rules that became effective on January 1, 2013.”
- 3) Utility-Scale (≥ 1 MW). This measure provides Production Tax Credits (“PTCs”) utility-scale solar projects at 8.0 cents/kWh or a class of grandfathered projects. We support this provision, along with lower PTC at 4.0 cents/kWh for all projects moving forward. We also support the provisions that allow a taxpayer to take the PTC as a “credit” or as refundable.” In short, we believe this sets a level playing field for all utility-scale projects, whether they by bi-lateral, feed-in tariff or competitive bid.
- 4) Recommendations. We recommend that the committee **pass** this measure with our proposed amendments.

Mahalo for this opportunity to testify.