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Affiliate of Renewable Energy Innovations, LLC

(Revised)

Testimony on

H.B. NO. 1950

RELATING TO SEAWATER AIR CONDITIONING

Before the
State of Hawaii House of Representative
COMMITTEE ON CONSUMER PROTECTION AND COMMERCE
Monday, January 27, 2014

By
Eric Masutomi, CEO and President
Honolulu Seawater Air Conditioning, LLC

Good afternoon Chair McKelvey, Vice Chair Kawakami, and members of the Committee.

Honolulu Seawater Air Conditioning, LLC strongly supports H.B. 1950, which would allow the sale of chilled water service from a seawater air conditioning district cooling system to qualify for state enterprise zone benefits.

Potential customers of the downtown Honolulu Seawater Air Conditioning, LLC project have expressed concern over the costs of converting to Seawater Air Conditioning, the risk of higher costs in the initial years of operation and the risk of adapting to a new system. The enterprise zone qualification would significantly assist customers in offsetting the cost and risk inherent in converting to this green technology.

If passed, this bill will assist potential customers of seawater air conditioning district cooling systems making the critical decision to eliminate inefficient cooling systems in favor of utilizing a district cooling system driven by infinitely renewable cold deep seawater. The system nearly eliminates the use of fossil fuels in the production of air conditioning. There are over 5,800 district energy systems in operation in the United States

with proven track records. With proper maintenance, the infrastructure supporting these systems has a useful life of more than 60 years.

If adopted by customers, a Seawater Air Conditioning project in Downtown Honolulu would generate close to \$200 million of dollars in construction spending and create more than 1,500 construction jobs in 2014 through 2016. In addition, it would create a long-term, gainful employment and establish local companies as the leading authorities on Seawater Air Conditioning systems. Other local economic benefits would accrue from money that stays in Hawaii and is not exported outside the State to purchase oil.

This bill adds seawater air conditioning district cooling systems among other renewable energy systems to the definition of "qualified business" to qualify for state enterprise zone benefits in an existing enterprise zone. Downtown Honolulu and Kakaako (the service area for a downtown Honolulu Seawater Air Conditioning project) are in an enterprise zone.

The purpose of providing benefits to qualified businesses in enterprise zones is to stimulate business and industrial growth by means of regulatory flexibility and tax incentives. Tax incentives include exemption of qualified businesses from the GET, and State income taxes (on a declining basis), for a period of seven years. Providing these benefits would effectively reduce the costs of such systems to customers and would help introduce this promising technology to Hawaii.

Thank you for this opportunity to testify.

**Testimony of Thomas J. Smyth, CEcD
Before the
Committee on Consumer Protection and Commerce**

**Monday, January 27, 2014 2:10 p.m. Conference Room 325
On
HB 1950 Relating to Seawater Air Conditioning**

Chair McKelvey, Vice Chair Kawakami and Committee Members:

As the former manager of the DBEDT Enterprise Zone (EZ) Partnership Program, I strongly support adding Seawater Air Conditioning (SWAC) District Cooling Systems to the types of businesses eligible to participate in the EZ Program.

Since its creation in 1986 the EZ Program has been relatively successful in helping more than 250 firms start and grow their workforce in areas that meet certain economic distress criteria. The counties have been active partners in the program by designating zones and establishing their own economic incentives.

To date the only alternative energy activities eligible for EZ benefits are wind farms. This approach is not consistent with the State's focus on developing a strong alternate energy and energy efficient programs. **Addition of those SWAC facilities that are in any of the existing 22 EZs across will certainly add to our energy independence emphasis.**

We understand that the SWAC District now being developed for the Downtown Honolulu area, an existing EZ, will not only contribute to fossil-fuel energy dependence but allow co-located state and C&C buildings to save money on their air conditioning costs. Coupled with other energy efficiency efforts this will help them with their budget difficulties. **It should be noted that since EZ firms are granted a GET exclusion, they may not pass any GET tax on to their customers.**

Other sites are being planned, some of which may also be located in currently designated EZs. Since there will not be more than a few such sites, the DBEDT staff effort needed to add them will, in my opinion, be minimal.

Finally, I believe that the exception to the licensed contractor GET exemption in the EZ program is appropriate and will significantly reduce the economic impact on the state. **When coupled with the cost saving for state buildings, the overall dynamic revenue cost-benefit analysis will show a relative balance.**

Thank you for the opportunity to provide comments.

kawakami3-Benigno

From: mailinglist@capitol.hawaii.gov
Sent: Thursday, January 23, 2014 1:12 PM
To: CPCtestimony
Cc: mendezj@hawaii.edu
Subject: *Submitted testimony for HB1950 on Jan 27, 2014 14:10PM*

HB1950

Submitted on: 1/23/2014

Testimony for CPC on Jan 27, 2014 14:10PM in Conference Room 325

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

Comments:

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ECONOMIC DEVELOPMENT & TOURISM**

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Statement of
RICHARD C. LIM
Director
Department of Business, Economic Development, and Tourism
before the
HOUSE COMMITTEE ON CONSUMER PROTECTION AND COMMERCE
Monday, January 27, 2014
2:10 PM
State Capitol, Conference Room 325

in consideration of

HB 1950
RELATING TO SEAWATER AIR CONDITIONING

Chair McKelvey, Vice-Chair Kawakami, and Members of the Committee.

The Department of Business, Economic Development, and Tourism (DBEDT) offers the following comments on HB 1950, which adds “production of air conditioning in an area or district from a seawater air conditioning system” to the list of business activities eligible for the Enterprise Zone GET exemption and income tax credits for seven years. The technology is in alignment with Hawaii’s Clean Energy Initiative, which supports renewable energy activities.

However, DBEDT has concerns because the proposed bill cites only one business example, which is project, site, and zone specific.

The primary mission of the Enterprise Zone program is to encourage the development of long-term, full-time jobs for local residents in Hawaii’s economically disadvantaged areas.

We defer to the Department of Taxation on the fiscal impact of this measure. Thank you for the opportunity to provide these comments.