



State of Hawaii
DEPARTMENT OF AGRICULTURE
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TESTIMONY OF SCOTT E. ENRIGHT
CHAIRPERSON, BOARD OF AGRICULTURE

BEFORE THE HOUSE COMMITTEE ON ENERGY & ENVIRONMENTAL
PROTECTION AND ECONOMIC DEVELOPMENT & BUSINESS
THURSDAY, FEBRUARY 06, 2014
8:40 A.M.
Conference Room 325

HOUSE BILL NO. 2256
RELATING TO THE ENVIRONMENTAL RESPONSE, ENERGY, AND FOOD
SECURITY TAX REPEAL DATE

Chairpersons Lee and Tsuji and Members of the Committees,

Thank you for the opportunity to testify on House Bill 2256. This bill would enable a resource strategy aligned with the State's 2030 clean energy laws and repeal the sunset date on the Environmental Response, Energy, and Food Security Tax to June 30, 2030. The Department is in strong support of this measure.

There is a growing public sentiment that realizes, as an island state, Hawaii is precariously dependent on imported food and energy. The legislature responded to this movement by passing Act 73, Session Laws of Hawaii 2010. As part of that Act, the Agricultural Development and Food Security Special Fund was created with the mandate to fund activities intended to increase agricultural production or processing that may lead to reduced importation of food, fodder, or feed from outside the state. The Department has moved forward with this mandate and has funded positions and programs to preserve agricultural lands, repair irrigation systems, lower the costs of farming, and raise both the supply and demand of local food.

The Department would like to continue moving forward with its effort towards food security and views the Environmental Response, Energy, and Food Security Tax



as a vital revenue source to provide the resources to realize the goal of greater food security and self-reliance.

The Department would defer to the Department of Business, Economic Development and Tourism as to the resource strategy to align with the State's 2030 clean energy goals.

We thank you for the opportunity to provide our testimony on this measure.

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SUBJECT: FUEL, Extend environmental response, energy and food security tax

BILL NUMBER: SB 2805; HB 2256 (Identical)

INTRODUCED BY: SB by Kim by request; HB by Souki by request

BRIEF SUMMARY: Amends Act 73, SLH 2010, to extend the repeal date of the environmental response, energy and food security tax from June 30, 2015 to June 30, 2030.

This act shall be repealed on June 30, 2030 and HRS 243-3.5 shall be reenacted in the form in which it read on June 30, 2010.

EFFECTIVE DATE: July 1, 2014

STAFF COMMENTS: This is an administration measure submitted by the department of business, economic development and tourism BED-07(14). The legislature by Act 300, SLH 1993, enacted an environmental response tax of 5 cents per barrel on petroleum products sold by a distributor to any retail dealer or end user. The legislature by Act 73, SLH 2010, increased the amount of the tax to \$1.05 per barrel and provided that 5 cents of the tax shall be deposited into the environmental response revolving fund; 15 cents shall be deposited into the energy security special fund, 10 cents shall be deposited into the energy systems development special fund; 15 cents shall be deposited into the agricultural development and food security special fund; and the residual of 60 cents shall be deposited into the general fund between 7/1/10 and 6/30/15.

It should be remembered that when the environmental response tax was initially adopted, it was established for the purpose of setting up a reserve should an oil spill occur on the ocean waters that would affect Hawaii's shoreline. The nexus was between the oil importers and the possibility that a spill might occur as the oil product was being imported into the state.

Now that the fund has become a cash cow, lawmakers have placed other responsibilities on the fund, including environmental protection and natural resource protection programs, such as energy conservation and alternative energy development, to address concerns related to air quality, global warming, clean water, polluted runoff, solid and hazardous waste, drinking water, and underground storage tanks, including support for the underground storage tank program of the department of health.

It should be noted that the enactment of the barrel tax for the environmental response revolving fund is the classic effort of getting one's foot in the door as it was initially enacted with a palatable and acceptable tax rate of 5 cents and subsequently increasing the tax rate once it was enacted which is what it has morphed into as evidenced by the \$1.05 tax rate. Because the tax is imposed at the front end of the product chain, the final consumer does not know that the higher cost of the product is due to the tax. Thus, there is little, if any, accountability between the lawmakers who enacted the tax and the vast majority of the public that ends up paying the tax albeit indirectly. Proponents ought to be ashamed that

they are promoting a less than transparent tax increase in the burden on families all in the name of environmental protection and food security.

It should be remembered that the State Auditor has singled out the environmental response revolving fund as not meeting the criteria established for legitimacy of special funds, and recommended that it be repealed. The Auditor criticized the use of such funds as they hide various sums of money from policymakers as they are not available for any other use and tend to be tacitly acknowledged in the budget process. More importantly, it is not only the users of petroleum products who benefit from a cleaner environment, but it is the public who benefits. If this point can be accepted, then the public, as a whole, should be asked to pay for the clean up and preservation of the environment.

Funds deposited into a revolving fund are not subject to close scrutiny as an assumption is made that such funds are self-sustaining. Earmarking of funds for a specific program represents poor public finance policy as it is difficult to determine the adequacy of the revenue source for the purposes of the program. To the extent that earmarking carves out revenues before policymakers can evaluate the appropriateness of the amount earmarked and spent, it removes the accountability for those funds. There is no reason why such programs should not compete for general funds like all other programs which benefit the community as a whole.

Rather than perpetuating the problems of the barrel tax, it should be repealed and all programs that are funded out of the environmental response fund should be funded through the general fund. At least program managers would then have to justify their need for these funds. By continuing to special fund these programs, it makes a statement that such programs are not a high priority for state government. This sort of proliferation of public programs needs to be checked as it appears to be growing out of hand and at the expense of the taxpayer.

Digested 1/29/14

Testimony of The Nature Conservancy of Hawai'i
Supporting H.B. 2256 Relating to the Environmental Response
Energy, and Food Security Tax Repeal Date
House Committee on Energy & Environmental Protection
Thursday, February 6, 2014, 8:40AM, Room 325

The Nature Conservancy of Hawai'i is a private non-profit conservation organization dedicated to the preservation of the lands and waters upon which life in these islands depends. The Conservancy has helped to protect nearly 200,000 acres of natural lands in Hawai'i. Today, we actively manage more than 35,000 acres in 11 nature preserves on Maui, Hawai'i, Moloka'i, Lāna'i, and Kaua'i. We also work closely with government agencies, private parties and communities on cooperative land and marine management projects.

The Nature Conservancy supports H.B. 2256 to extend the sunset dates on the barrel tax to June 30, 2030. We believe this is effective policy for investing in clean energy and local agriculture initiatives that reduce our dependence on imported fossil fuel and imported food, and help maintain the State's oil spill response capacity.

Climate change caused by burning fossil fuels is an imminent and unprecedented threat to every person in Hawai'i. It is our responsibility to do what we can and what is necessary reduce our own carbon emissions, however small on a global scale, to contribute to the worldwide effort needed to mitigate the growing effects of climate change.

Even if we drastically reduce CO₂ emissions now, however, we will still feel certain effects of climate change. In Hawai'i, science indicates that this will likely include:

- More frequent and more severe storms that can increase runoff and siltation;
- Overall, less rainfall and therefore less fresh water;
- Higher temperatures that affect watershed and agricultural health, while being beneficial to invasive species;
- Sea level rise and high waves that will harm coastal areas and groundwater systems;
- Ocean acidification that will inhibit the growth of protective coral reefs.

In response, we must plan and implement mitigative and adaptive measures to ensure the resilience of our natural and human systems. Protecting and enhancing the health of our forested watersheds as proposed by the Department of Land and Natural Resources is one critically important initiative. Likewise, investing in local energy and agriculture security are essential components of building self-reliance and resilience here in the middle of the Pacific Ocean.

Extending the sunset date on the barrel tax is a wise investment in our future. We urge your support.

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HOUSE COMMITTEE ON ENERGY & ENVIRONMENTAL PROTECTION
Thursday, February 6, 2014 – 8:40 a.m. – Room 325

Ulupono Initiative Strongly Supports HB 2256, Relating to the Environmental Response, Energy, and Food Security Tax

Dear Chair Lee, Vice Chair Thielen and Members of the Committee:

My name is Kyle Datta and I am general 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 invests in projects that have the potential to create large-scale, innovative change.

Ulupono strongly supports HB 2256, which will extend the Environmental Response, Energy and Food Security Tax on barrels of petroleum products from 2015 to 2030. This funding extension is critical in funding vital sustainability measures to help make our community more self-sufficient.

This tax was designed to support critical investments in clean energy, local agricultural production, and environmental response, reduce the State's dependence on imported fossil fuels and food products, and support environmental activities and programs. The tax represents a balanced approach to public policy where greater fossil fuel consumption would create more funding for these initiatives. Meanwhile, as fossil fuel use is reduced, the money collected from the residents of Hawai'i is also reduced.

This bill extends the scheduled repeal date of the tax from 2015 to 2030 to match funding with the Hawai'i Clean Energy Initiative 2030 goals. Since agriculture, energy, and conservation work requires consistent and sustained funding, extending this funding source will also encourage better long-term planning by practitioners.

We believe that working together we can help produce more local food, reduce our dependence on fossil fuels, and strengthen our community. Thank you for this opportunity to testify.

Respectfully,

Kyle Datta
General Partner

Email: communications@ulupono.com





**Testimony to the House Committee on Energy and Environmental Protection
Thursday, February 6, 2014 at 8:40 A.M.
State Capitol - Conference Room 325**

**RE: HOUSE BILL 2256 RELATING TO THE ENVIRONMENTAL RESPONSE, ENERGY, AND
FOOD SECURITY TAX REPEAL DATE**

Chair Lee, Vice Chair Thielen, and members of the committee:

The Chamber of Commerce of Hawaii **opposes** HB 2256 Relating to the Environmental Response, Energy, and Food Security Tax Repeal Date.

The Chamber is the largest business organization in Hawaii, representing more than 1,000 businesses. Approximately 80% of our members are small businesses with less than 20 employees. As the "Voice of Business" in Hawaii, the organization works on behalf of its members, which employ more than 200,000 individuals, to improve the state's economic climate and to foster positive action on issues of common concern.

The Chamber supports renewable energy as part of Hawaii's energy future. At the same time, the Chamber would like to see a review of the funds spent and the benefits to the taxpayer before this bill is enacted. These taxes affect both business and consumers and the programs should be reviewed to see if the programs receiving these funds were effective.

Thank you for the opportunity to express our views on this matter.



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Testimony of ERIK KVAM
President of Renewable Energy Action Coalition of Hawaii
e-mail: Kvam@REACHhawaii.org

**In SUPPORT of HB 2256 RELATING TO THE ENVIRONMENTAL RESPONSE,
ENERGY, AND FOOD SECURITY TAX REPEAL DATE**

**Before the
HOUSE COMMITTEE ON ENERGY AND ENVIRONMENTAL PROTECTION
and
HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT AND BUSINESS**

Thursday, February 6, 2014 8:40 a.m.

Good afternoon, Chair Lee, Chair Tsuji, Vice-Chair Thielen, Vice-Chair Ward and members of the Committees.

My name is Erik Kvam. I am the President of Renewable Energy Action Coalition of Hawaii (REACH), a trade association whose vision is a Hawaiian energy economy based 100% on renewable sources indigenous to Hawaii.

REACH is in **SUPPORT** of HB 2312.

Right now, most of Hawaii's energy is imported through an oil supply line that stretches 11,000 miles to the Persian Gulf. As imported fuels like oil get scarcer and more expensive, sooner or later these imported fuels will stop flowing to Hawaii. When imported fuels stop flowing to Hawaii, we necessarily will be at 100% renewable energy.

To plan for Hawaii's 100% renewable energy future, Hawaii's utilities will need the technical support of the energy planning related agencies of the State government –

primarily the Hawaii Natural Energy Institute (HNEI) and the Hawaii State Energy Office (HSEO).

Since 2010, many of the activities of HNEI and HSEO have been funded by the Energy Systems Development Special Fund (the “Fund”), which receives revenues from a 10 cents tax on each barrel of petroleum product (“Barrel Tax”). The Fund apparently is set to be repealed on June 30, 2015.

REACH SUPPORTS HB 2256 – extending the repeal date of the Fund to June 30, 2030 -- to fund the technical planning support activities of HNEI and HSEO needed to achieve 100% renewable energy for Hawaii.

Thank you for allowing me to testify.

HB2256

Submitted on: 2/4/2014

Testimony for AGR on Feb 6, 2014 08:40AM in Conference Room 325

Submitted By	Organization	Testifier Position	Present at Hearing
Carl	Individual	Support	No

Comments: My name is Carl Campagna and I am a local farmer-mentor from The Littlest Co-Op and Renewable Energy Professional for Kamaka Green. I support this Bill as it supports the achievements of both Food and Energy Security.

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

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LATE

HOUSE COMMITTEE ON ENERGY & ENVIRONMENTAL PROTECTION

February 6, 2014, 8:40 A.M.
(*Testimony is 1 page long*)

**TESTIMONY IN SUPPORT OF HB 2256
WITH PROPOSED AMENDMENTS**

Aloha Chair Lee and Members of the Committee:

The Sierra Club of Hawai'i, with over 12,000 dues paying members and supporters statewide, *supports* HB 2256 but offers proposed amendments. If amended, this measure extends a smart tax-shifting policy designed to foster greater energy and food independence by tapping into the source of our problem so as to fund our preferred future.

The concept behind this measure is to help “internalize” the external costs of certain activities; in this case, charge a fee for products that are damaging to the environment and use that money to help mitigate the damage. This measure would provide additional funds to programs to offset the environmental impacts of oil, provide funding for energy efficiency projects and development of renewable energy, as well as spark greater amounts of local food development critical for Hawai'i's long-term future.

While we all likely agree we need to aggressively increase our clean energy use and local food production in Hawai'i, we cannot do it with funding for research, development, and policy implementation. This measure gives us the tools to accomplish these goals.

PROPOSED AMENDMENTS:

As drafted, this measure only extends the fee on each barrel of imported petroleum. With respect, we suggested that the entirety of the original law be extended, including the special funds that obtain funding from this fee.

Mahalo for the opportunity to testify.



HOUSE COMMITTEE ON ENERGY & ENVIRONMENTAL PROTECTION

February 6, 2014, 8:40 A.M.

Room 325

(Testimony is 4 pages long)

LATE

TESTIMONY IN SUPPORT OF HB 2256

Chair Lee and members of the Energy & Environmental Protection Committee:

The Blue Planet Foundation supports HB 2256, extending the sunset of the Environmental Response, Energy, and Food Security Tax to 2030. Hawaii's barrel tax law is keystone clean energy policy that provides a dedicated investment in clean energy, funding the critical planning, development, and implementation of clean energy programs that will foster energy security for Hawaii. Blue Planet believes the best way to provide investment funds is by tapping the source of our problem—imported fossil fuel. We have also found, through three separate surveys commissioned by Blue Planet, that Hawaii residents strongly support this taxing policy. House Bill 2256 extends this smart policy through 2030 (although Blue Planet supports eliminating the sunset date on Hawaii's barrel tax entirely).

Blue Planet supports further amendments to Hawai'i's successful barrel tax law, via other legislation, including reallocating the existing funding to carry out the intended sustainability purposes of the policy and extending the existing tax to include other fossil fuels (coal and natural gas).

Rationale for reallocation of the fossil fuel fee

If we truly want to rapidly transition Hawaii to a clean, sustainable energy future, we have to be prepared to invest in that preferred future today. The reallocation of the fossil energy tax would provide needed funding for clean energy and efficiency research, planning, implementation to transition to our preferred clean energy future. As we dramatically expand our clean energy capacity in Hawaii, the real economic benefits of this carbon surcharge will far outweigh the additional burden it may present. The majority of these revenues should be directed to clean energy planning, development, integration, incentives, and other activities facilitating Hawaii's energy transformation.

Carbon Tax is Smart Tax Policy

A fossil fuel fee (or “carbon tax”) is smart tax-shifting policy that discourages fossil fuel use while providing a source of revenue for clean energy planning and implementation. The concept behind the measure is to help “internalize” the external costs of certain activities; in this case, charge a fee for products that are damaging to the environment and use that money to help mitigate the damage. The link is quite clear between the use of petroleum products and corresponding impacts on our fragile island environments—not only in oil spills, which was the original impetus for the environmental response tax, but also in runoff from the roads our cars drive on, in degraded air quality, and in greenhouse gas emissions and climate change.

Unlike many other taxes, the barrel tax is largely avoidable by most residents. Energy efficiency, conservation, and switching to clean sources of power all reduce the burden of the tax. In fact, most residents could reduce the amount of barrel tax they pay by installing some compact fluorescent light bulbs at home and ensuring that car tires are properly inflated.

Expanding “carbon tax” to all fossil fuels fair and sensible

Blue Planet believes that Hawai‘i’s “carbon tax” should be amended to include other fossil fuels to ensure that if Hawai‘i chooses to import industrial liquefied methane (i.e. natural gas, or “LNG”) barrel tax revenues will not be detrimentally impacted, as well as have coal pay its fair share. This is sensible and responsible. The petroleum products currently covered by the barrel tax are fossil fuels, just like LNG and coal. The environmental response, energy, and food security issues addressed by the barrel tax are no less threatened by LNG and coal imports than by any other fossil fuel

The preferred approach to do this in legislation is basing the fossil tax on energy content (as was proposed in HB 451 HD1 of 2013). By taxing all fossil fuels based on their *energy content* (using an approximation of 5.8 Mbtu per barrel of petroleum as the benchmark), the various fuels are rewarded for efficient end-use. For example, if a fuel’s energy content is more efficiently converted to power, the total barrel tax revenues from that fuel source will be lower (because less of the fuel will be imported to produce a given amount of power). Similarly, if a fuel’s energy content is not converted efficiently, then the barrel tax revenues for that fuel will be higher (because more fuel must be imported to make a given amount of power). This approach based on energy content, is fair, sensible, and rationally related to the environmental and energy purposes of the barrel tax. We further support the amending Hawai‘i’s carbon tax to set the energy content for each ton of coal, for tax purposes, to 25 million British Thermal Units.

All fossil fuels have significant negative impacts

The myth that LNG is a “clean energy” resource has been scientifically debunked. “Natural” gas is comprised primarily of methane (CH₄). Methane is a potent greenhouse gas – more potent than CO₂. According to the U.S. EPA, “methane emissions released to the atmosphere (without burning) are about 21 times more powerful than CO₂ in terms of their warming effect on the atmosphere.”¹ This is critical, because LNG production is known to release large quantities of methane into the atmosphere, long before the LNG reaches a power plant to be burned. For example, on January 3, 2013, the highly respected scientific journal *Nature* reported on findings presented by NOAA scientists who measured methane leakage rates from LNG wells. The title of that report is “Methane leaks erode green credentials of natural gas.”² Among other things, the report notes that the NOAA scientists measured methane leakage from LNG wells in Utah equating to 9% of well production. This is approximately three times higher than “the 3.2% threshold beyond which gas becomes worse for the climate than coal.”³ Studies of other well fields and natural gas systems have similarly reported methane leakage exceeding the 3.2% threshold.⁴

Similarly, coal is the dirtiest fossil fuel and produces the most carbon dioxide per energy output at the point of combustion (with significant upstream environmental impacts as well).⁵ Therefore, it would be unfair, and make little analytical sense, to exempt gaseous and solid fossil fuels from the barrel tax.

Public Support

Blue Planet Foundation conducted market research in December 2009, March 2010, and December 2010 to discern the level of public support for a barrel tax for clean energy investment. The statewide survey of residents found broad support for a barrel tax with roughly 70% supporting a tax of some amount. Each survey had a random sample of 500 residents statewide, providing a margin of error of 4.4% at a 95% confidence level.

¹ See <http://www.epa.gov/cleanenergy/energy-resources/refs.html>

² See Tollefson, Methane Leaks Erode Green Credentials of Natural Gas, *NATURE* (January 3, 2013) (reporting “alarmingly high” leaks of 9% of well production).

³ See Alvarez et al., Greater focus needed on methane leakage from natural gas infrastructure, *PROC. NAT'L ACAD. SCI.* (April 24, 2012).

⁴ See, e.g., Pétron et al., Hydrocarbon emissions characterization in the Colorado Front Range: A pilot study, *J. GEOPHYS. RES.* 117; (2012); Howarth et al., Methane Emissions from Natural Gas Systems, Background Paper Prepared for the National Climate Assessment, Ref. no. 2011-0003, available at <http://www.eeb.cornell.edu/howarth/Howarth%20et%20al.%20--%20National%20Climate%20Assessment.pdf>

⁵ Energy Information Administration, Emissions of Greenhouse Gases in the United States 1985-1990, DOE/EIA-0573 (Washington, DC, September 1993), p. 16.

The average level of support was equivalent to a \$5 per barrel tax. Forty-five percent of residents supported paying an additional \$15 on their monthly energy bills, equivalent to a \$9 per barrel tax. These findings should provide comfort to decision makers wrestling with how to develop funding for Hawaii's clean energy future—Hawaii's residents are willing to pay to wean Hawaii from its oil dependence. *Please see chart at end of testimony.*

While it's clear that we need to aggressively increase our energy efficiency and clean energy use in Hawaii to decrease our reliance on imported crude, we cannot do it without adequate funding for development and implementation. We believe with appropriate amendments to Hawaii's carbon tax policy, we can wisely tap the source of its problem—imported fossil fuel—to fund a food- and energy-secure future.

We respectfully ask that the Energy & Environmental Protection Committee forward HB 2256 and consider additional measures to amend Hawaii's carbon tax policy.

