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To: The Honorable Sylvia Luke, Chair
and Members of the House Committee on Finance

Date: February 23, 2016

Time: 2:00 P.M.

Place: Conference Room 308, State Capitol

From: Maria E. Zielinski, Director
Department of Taxation

Re: H.B.212, H.D. 1, Relating to Taxation.

The Department of Taxation (Department) appreciates the intent of H.B. 212, H.D. 1 and offers the following comments.

H.B. 212, H.D. 1 creates a nonrefundable income tax credit for purchase of a battery backup system used to store energy generated by a solar energy system, and removes costs associated with battery backup systems from the definition of "actual cost" in section 235-12.5, Hawaii Revised Statutes (HRS). The new tax credit is equal to twenty-five percent of the "actual cost" of the battery backup system, capped at various amounts for different types of property on which the battery backup equipment is installed. A battery backup system is defined as having a collective capacity of no more than five kilowatt-hours. The measure applies to taxable years beginning after December 31, 2015.

First, the Department notes that the tax credit described in H.B. 212, H.D. 1, uses language very similar to the existing Renewable Energy Technologies Income Tax Credit (RETITC) in section 235-12.5, HRS. The credit also has a similar structure, with a per-system cap on installed equipment. Although this measure defines a battery backup system as having a collective capacity of no more than five kilowatt-hours, the credit allows taxpayers to claim a credit for the installation of more than one system in a taxable year. For commercial projects, the likelihood of one taxpayer claiming multiple credits is high.

In the past, the RETITC had been difficult to administer and resulted in unanticipated revenue loss to the State, due in part to the ability of taxpayers to claim credit for more than one system installed and placed in service during the taxable year. Although this measure does not have the same ambiguity regarding the definition of a "system," some issues remain.

Given the similarity between the RETITC and the credit in this measure, the Department recommends that this measure be amended to explicitly limit taxpayers to one tax credit per year for the purchase of battery backup systems and to remove the cap amounts. Amending the credit in this fashion would remove any incentive for taxpayers to structure pricing or other factors to allow multiple credits and would likely limit unanticipated revenue consequences.

Additionally, the Department notes that this measure applies to taxable years beginning after December 31, 2015. For an entirely new tax credit, the Department requests that the effective date be changed to taxable years beginning after December 31, 2016, to allow time for changes to forms, instructions, and the Department's procedures and computer system.

Thank you for the opportunity to provide comments.



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

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Statement of
LUIS P. SALAVERIA
Director
Department of Business, Economic Development, and Tourism
before the
HOUSE COMMITTEE ON FINANCE

Tuesday, February 23, 2016
2:00 p.m.
State Capitol, Conference Room 308

in consideration of
HB 212, HD1
RELATING TO TAXATION.

Chair Luke, Vice Chair Nishimoto, and Members of the Committee.

The Department of Business, Economic Development & Tourism (DBEDT) offers comments on HB 212, HD1, which would create a tax credit for battery backup systems.

DBEDT appreciates the concept of providing incentives for grid-supportive energy storage, which is aligned with the State's energy policy vision of a creating a modernized, intelligently-networked grid that provides economic, environmental and system benefits in a balanced, cost-effective and equitable manner. However, we are concerned that providing incentives for battery backup systems that are not necessarily grid-connected would not be in the best interest of the State as it would not support overall grid modernization efforts.

Finally, we defer to the Department of Budget and Finance on the impact of the State budget from this bill and the Department of Taxation on its ability to administer its duties under this bill.

Thank you for the opportunity to offer these comments on HB 212, HD1.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

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SUBJECT: INCOME, Credit for battery backup for solar energy system

BILL NUMBER: HB 212, HD-1

INTRODUCED BY: House Committee on Energy & Environmental Protection

EXECUTIVE SUMMARY: Proposes an income tax credit for a battery backup for a solar energy system. The proposed credit would result in a subsidy of such devices as it would merely grant a tax credit for such purchase irrespective of a taxpayer's need for tax relief.

BRIEF SUMMARY: Adds a new section to HRS chapter 235 to allow taxpayers to claim a tax credit for a battery backup system installed and placed in service during a tax year. The amount of the credit shall be 25% of the actual cost of the system and shall not exceed \$10,000 per system for a single-family residential property; \$_____ per unit per system for a multi-family residential property; and \$250,000 per system for a commercial property.

Defines "battery backup system" as any identifiable facility, equipment, apparatus, or the like that uses batteries to store electrical energy generated by a solar energy system for use during times when no solar resources are available to generate power; provided that for each single-family, multi-family, or commercial property, a system shall consist of batteries with a collective capacity of no more than five kilowatt hours. Defines "actual cost" for purposes of the measure.

Credits in excess of a taxpayer's income tax liability may be applied to subsequent income tax liability until exhausted. Requires all claims for the credit to be filed on or before the end of the twelfth month following the close of the taxable year. The director of taxation may adopt rules pursuant to HRS chapter 91 and prepare the necessary forms to claim the credit and may require proof of the claim for the credit.

Amends HRS section 235-12.5 so as to make battery backup systems ineligible for that credit.

EFFECTIVE DATE: Applies to taxable years beginning after December 31, 2015.

STAFF COMMENTS: It appears that this measure is proposed to encourage taxpayers to purchase battery backup systems by allowing taxpayers to claim a 25% tax credit for the costs of a system.

While some may consider an incentive necessary to encourage the use of energy conservation devices as well as a battery backup system, it should be noted that the high cost of these energy systems limits the benefit to those who have the initial capital to make the purchase. It is doubtful that the state credits alone will encourage many more taxpayers to utilize this technology given the scarcity and the relative high cost to acquire.

Lawmakers need to remember two things. First, the tax system is the device that raises the money that they, lawmakers, like to spend. Using the tax system to shape social policy merely

throws the revenue raising system out of whack, making the system less than reliable as there is no way to determine how many taxpayers will avail themselves of the credit and in what amount. The second point to remember about tax credits is that they are nothing more than the expenditure of public dollars albeit out the back door. If, in fact, these dollars were subject to the appropriation process, would taxpayers be as kind about the expenditure of these funds when schools go wanting for books and repairs, or when there isn't enough money for social service programs?

Utilizing tax credits other than to alleviate an excessive tax burden cannot be justified and is of a questionable benefit relative to the cost for all taxpayers. If lawmakers want to encourage the use of clean energy storage systems by reducing the cost of such systems, then a direct appropriation to subsidize that cost would be more accountable and transparent.

Digested 2/18/2016

FINTestimony

From: mailinglist@capitol.hawaii.gov
Sent: Friday, February 19, 2016 6:32 AM
To: FINTestimony
Cc: kauaihale@gmail.com
Subject: Submitted testimony for HB212 on Feb 23, 2016 14:00PM

HB212

Submitted on: 2/19/2016

Testimony for FIN on Feb 23, 2016 14:00PM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Louisa Wooton	Individual	Support	No

Comments: Stand alone systems are becoming more practical and cost efficient. KIUC on Kaua'i is leading the way. Homeowners are sure to follow and this tax credit will help push this along as we move to energy independence for Hawaii.

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2/18/2016
Energy & Environmental Protection Committee

HB 212
RELATING TO TAXATION
Battery Backup System Tax Credit

Dear Chair, Vice-Chair, and Members of the Committee:

There have been many milestones in renewable energy here in Hawaii. Perhaps we are at the start of a new milestone. Batteries.

Six years ago and prior, many residents were installing solar water systems. Solar Water had always been a much more of a cash outlay for local residents. But when homeowners factored in the saving in electricity coupled with the tax credit, it made a lot of sense.

Five to six years ago we started to see PV systems installed. At this time it was always wise to install solar water first, then offset the rest of the electric bill with PV. These first systems were much more expensive than they are today. Yet, they still made sense. As PV has become more affordable, and solar water has remain unchanged, many are opting out of solar water. This is a significant milestone.

The early PV adopters paved the way for many who have recently installed PV. They have because just like with electric cars, which currently are not cost effective, the initial sales, spur innovation and economies of scale that lead to cost effectiveness over the long haul. Miles per gallon mandates can spur innovation as well.

When it comes to PV in Hawaii, we have the opposite of a miles per gallon mandate happening. We have HECO. And ultimately NextEra.

This is probably the most significant milestone. Just ask those in in Florida where it has become illegal for an individual homeowner to enjoy energy independence. What's next? Is Safeway going to ban me from growing my own vegetables?

As in the early days of PV, batteries are disproportionately expensive. I believe a tax credit similar to the solar credit would enable many early

adopters to install battery systems.

Batteries will prove important in many situations.

- 1) Grid outages are becoming all too common due to aging infrastructure.
- 2) For many Kupuna, electricity is a matter of life and death.
- 3) Mitigate the lower NEM compensation recently instituted by Heco
- 4) Take Heco approval out of the equation.
- 5) In situations where there is a different rate at different times of the day, known as tier shaving.
- 6) The next big storm, tsunami or lava flow.

Thank you for the opportunity to testify.

Mark Ida
markida@gmail.com



Testimony before the Committee on Finance
23FEB16, 2:00pm
Conference Room 308
H.B. 212, HD 1 – Relating to Taxation

LATE

By Keiki-Pua Dancil, Ph.D.
Director, Business Strategy Development
Hawaiian Electric Company, Inc.

Chair Luke, Vice Chair Nishimoto, and House Members of the Committee:

As the Director of Business Strategy Development at Hawaiian Electric Company, I am testifying on behalf of Hawaiian Electric and its subsidiary utilities, Maui Electric and Hawaii Electric Light (collectively “Companies”). The Companies would like to **offer comments** on this bill for consideration.

Our vision is to deliver cost-effective, clean, reliable, and innovative energy services to ALL of our customers, creating meaningful benefits for Hawaii's economy and environment, and making Hawaii a leader in the nation's energy transformation. To drive our vision for Hawaii, we anchor our strategies in a set of common objectives; lowering customer bills 20 percent by 2030, increasing renewables in our generation portfolio, modernizing our grid, and expanding customer options.

Hawaiian Electric is committed to reach 100% RPS by 2045. This will require us to transform our business to include modernization of the generating fleet/grid, increased renewables, and expanded customer options. As we increase the amount of renewable energy production, energy storage, as well as other technologies, will play a significant role in distributing that energy throughout the day to coincide with demand and providing ancillary services. Hawaiian Electric is supportive of energy storage as a customer option and has prepared the following guiding principles to assist in enacting policy for the benefit of ALL customers:

- Energy storage policies should promote or enable renewable energy production to help Hawaii achieve the state's mandate of 100% RPS by 2045.
- Energy storage policies should provide overall cost effective grid benefits to ALL customers, not just those who choose to install batteries on their property.
- Should the state choose to enact policy to promote energy storage through investment tax credits (ITC) to customers who install energy storage, these customers should remain connected to the electric system to support the societal benefit for which these ITC are intended -- integrating more cost-effective renewable energy as we progress toward our state's 100% RPS.

H.B. 212 HD 1 will establish a nonrefundable income tax credit for taxpayers who purchase and install battery backup systems for solar energy systems. The Companies suggest that the technology not be limited to just battery backup systems for solar energy systems and the technology be expanded to include other technologies that may provide the same benefits to the modernization of the grid.

There are several other bills that expand the scope to energy storage properties. Energy storage is a set of rapidly advancing technologies and the Companies believe that there will continue to be transformative shifts that will further enable the integration of renewables onto the system. The use, understanding, economics, and performance of energy storage technologies as well as other technologies and grid operations will continue to evolve rapidly during the time horizon of these tax credits. Such changes will impact the optimal resource portfolio on an integrated grid of renewable energy, energy storage and other solutions toward our 100% RPS. Thus, the Companies suggest that these tax credits be allocated in a phased approach with periodic evaluations (e.g., every two to three years, etc...) to determine the optimal technologies needed to get to 100% RPS, and to avoid unintended consequences affecting our customers.

The Companies also suggest that these battery storage systems be grid connected and controllable to provide the much needed services to enable more renewables.

Thank you for the opportunity to provide these comments.



LATE

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TO THE HOUSE COMMITTEE ON FINANCE

THE TWENTY-EIGHTH LEGISLATURE
REGULAR SESSION OF 2016

TUESDAY, FRIDAY 23, 2016
2:00 P.M.

TESTIMONY OF JEFFREY T. ONO, EXECUTIVE DIRECTOR, DIVISION OF
CONSUMER ADVOCACY, DEPARTMENT OF COMMERCE AND CONSUMER
AFFAIRS, TO THE HONORABLE SYLVIA LUKE, CHAIR, AND MEMBERS OF THE
COMMITTEE

HOUSE BILL NO. 212, HD1 - RELATING TO TAXATION

DESCRIPTION:

This measure proposes to establish a nonrefundable income tax credit for taxpayers who purchase and install battery backup systems for solar energy systems.

POSITION:

The Division of Consumer Advocacy ("Consumer Advocate") opposes this bill.

COMMENTS:

Energy storage undoubtedly will play an important role in stabilizing the electricity grid as greater amounts of intermittent renewable energy are added to the electricity generation mix. On the other hand, energy storage is not the only means by which grid stabilization can be achieved. Energy efficiency, demand response, and fast starting and ramping generating units will also be key components in accommodating intermittent resources. Providing a tax credit for any given resource picks winners and losers in a time of rapidly changing technology. The Consumer Advocate believes that economics and market-driven pricing, without subsidies, should drive the selection of energy resources.

At present, energy storage technologies, such as battery storage, have been improving with costs declining in recent years. In spite of this recent trend, energy

House Bill No. 212, HD1
House Committee on Finance
Tuesday, February 23, 2016, 2:00 p.m.
Page 2

storage systems are still very expensive as compared to other alternatives that can be used to modernize the grid. As a result, energy storage systems are likely to be affordable to only the wealthiest consumers until further significant price decreases occur. A tax credit that might encourage wealthy consumers to disconnect from the grid would have the potential unintended consequence of placing a greater financial burden on less affluent consumers who must remain connected to the grid without being able to offset their load with rooftop solar photovoltaic systems and/or take advantage of energy storage systems. The Consumer Advocate therefore objects to this proposed tax credit that will be potentially detrimental to low income ratepayers and may unduly affect technology investment decisions that should be primarily guided by market forces.

Thank you for this opportunity to testify.