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To: The Honorable Lorraine Inouye, Chair
and Members of the Senate Committee on Transportation & Energy

Date: Thursday, February 1, 2018
Time: 12:45 P.M.
Place: Conference Room 225, State Capitol

From: Linda Chu Takayama, Director
Department of Taxation

Re: S.B. 2101, Relating to Renewable Energy Technologies.

The Department of Taxation (Department) appreciates the intent of S.B. 2101, but has concerns about its ability to administer the provisions of this bill and offers the following comments for your consideration.

S.B. 2101 amends Hawaii Revised Statutes (HRS) section 235-12.5, which governs the Renewable Energy Technologies Income Tax Credit (RETITC). This bill adds “ocean thermal energy conversion research and development system[s]” to the RETITC, allowing individual and corporate taxpayers who install such a system to claim a tax credit up to thirty-five percent of the actual cost of the system, or a cap of \$1.5 million, whichever is less.

The bill defines “ocean thermal energy conversion research and development system” as an energy conversion system that “uses the temperature difference between cooler, deep seawater and warmer, shallow or surface seawater to produce electricity” provided that the system “is constructed for purposes of research and development.”

First, the Department notes that the inclusion of an entire new category of “systems” for eligibility under the RETITC creates a number of potential issues. The Department has stated in prior testimony that the RETITC has historically been very difficult to administer, primarily due to the fact that the statute contains no definition for the word “system,” but still caps credit amounts on a per-system basis. The term “system,” which is not statutorily defined, has caused much confusion and uncertainty for taxpayers and industry participants and has resulted in a much larger than anticipated number of RETITC claims.

The ambiguity in the statute was addressed by the Department's enactment of administrative rules pertaining to this tax credit in November 2012. However, the addition of this new RETITC category, without a more detailed explanation of what does and what does not

qualify, may create new uncertainty and confusion for taxpayers and the industry.

Ocean thermal energy conversion is a relatively new technology that is still being refined; there is no comparable tax credit at the federal level. To resolve any ambiguity, the Department recommends statutorily defining the term “system.” The federal Bureau of Ocean Energy Management may be able to provide information and guidance on defining the term.

Finally, the Department notes that this measure applies to taxable years beginning after December 31, 2017. The Department requests that the effective date be changed to taxable years beginning after December 31, 2018, to allow the Department time to make the necessary changes to forms and instructions and the Department’s computer system.

Thank you for the opportunity to provide comments.



NATURAL ENERGY LABORATORY OF HAWAII AUTHORITY

An Authority of the State of Hawaii attached to the Department of Business, Economic Development & Tourism



Statement of
Gregory P. Barbour
Executive Director

Natural Energy Laboratory of Hawaii Authority
before the

SENATE COMMITTEE ON TRANSPORTATION AND ENERGY

Thursday, February 1, 2018
12:45 pm
State Capitol, Conference Room 225

in consideration of

SB 2101 RELATING TO RENEWABLE ENERGY TECHNOLOGIES.

The Natural Energy Laboratory of Hawaii Authority (NELHA) supports the intent of SB 2101 which would encourage private sector investment in renewable energy technologies that would broaden the States diverse portfolio in energy technologies.

We defer to the Department of Taxation and Department of Budget and Finance as to the impact on the States Financial plan.

Thank you for the opportunity to offer these comments.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Extend Renewable Energy Credit to Ocean Thermal

BILL NUMBER: SB 2101

INTRODUCED BY: INOUYE, ESPERO, KIDANI, Baker, S. Chang, Galuteria, Keith-Agaran, Riviere

EXECUTIVE SUMMARY: Expands the income tax credit for renewable energy technologies to include ocean thermal energy conversion systems constructed for the purposes of research and development.

SYNOPSIS: Amends HRS section 235-12.5 to provide a credit of 35% of actual cost of an ocean thermal energy conversion research and development system, up to a cost limit of \$1.5 million per system.

Defines “ocean thermal energy conversion research and development system” as a new thermal energy conversion system that uses the temperature difference between cooler, deep seawater and warmer, shallow or surface seawater to produce electricity and is constructed for purposes of research and development.

EFFECTIVE DATE: December 31, 2017.

STAFF COMMENTS: Lawmakers need to keep in mind 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, but out the back door. If, in fact, these dollars were subject to the appropriation process, would taxpayers be as generous about the expenditure of these funds when our kids are roasting in the public school classrooms, there isn't enough money for social service programs, or our state hospitals are on the verge of collapse?

If lawmakers want to subsidize the purchase of this type of technology, then a direct appropriation would be more accountable and transparent.

Furthermore, the additional credit would require changes to tax forms and instructions, reprogramming, staff training, and other costs that could be massive in amount. A direct appropriation, or adding on to an existing program such as Hawaii Energy, may be a far less costly method to accomplish the same thing.

Digested 1/30/2018

SB-2101

Submitted on: 1/31/2018 9:44:31 PM

Testimony for TRE on 2/1/2018 12:45:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Melodie Aduja	OCC Legislative Priorities	Support	No

Comments:

**PRESENTATION OF THE
OAHU COUNTY COMMITTEE ON LEGISLATIVE PRIORITIES
TO THE [COMMITTEE ON TRANSPORTATION & ENERGY](#)**

THE SENATE

THE TWENTY-NINTH LEGISLATURE

REGULAR SESSION OF 2018

Thursday, February 1, 2018

12:45 p.m.

Hawaii State Capitol, Conference Room 225

RE: TESTIMONY IN SUPPORT OF SB 2101, RELATING TO RENEWABLE ENERGY TECHNOLOGIES

To the Honorable Lorraine R. Inouye, Chair; the Honorable Will Espero, Vice Chair; and Members of the Committee on Transportation and Energy:

Good afternoon. My name is Melodie Aduja. I serve as Chair of the Oahu County Committee (“OCC”) on Legislative Priorities. Thank you for the opportunity to provide written testimony on Senate Bill No. 2101, relating to Renewable Energy Technologies. The OCC Legislative Priorities Committee is strongly in favor of Senate Bill No. 2101.

Ocean Thermal Energy Conversion (OTEC) produces electricity by using the temperature difference between deep cold water and warm tropical surface waters. OTEC plants pump large quantities of deep cold seawater and surface seawater to run a power cycle and produce electricity. OTEC is firm power (24/7), a clean energy source, environmentally sustainable and capable of providing massive levels of energy.

The Environmental Caucus favors measures that support renewable sustainable energy sources; therefore, expanding renewable energy tax credits to include the OTEC industry is highly recommended as the OTEC industry reduces dependency on fossil fuels which pose an increase to the carbon footprint and increased risk of greenhouse emissions contributing to climate change.

The Oahu County Legislative Priorities Committee encourages the OTEC industry, and thus, favors expanding tax credit incentives to renewable energy technologies including OTEC.

Thank you very much for your kind consideration.

Sincerely yours,

/s/ Melodie Aduja

Melodie Aduja

Chair, OCC Legislative Priorities Committee

Email: legislativepriorities@gmail.com, Tel.: (808) 258-8889



Email: communications@ulupono.com

SENATE COMMITTEE ON TRANSPORTATION & ENERGY
Thursday, February 1, 2018 — 12:45 p.m. — Room 225

Ulupono Initiative Strongly Supports SB 2101, Relating to Renewable Energy Technologies

Dear Chair Inouye, Vice Chair Espero, and Members of the Committee:

My name is Murray Clay and I am 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 produced food; increase affordable, clean, renewable energy; and reduce waste. Ulupono believes that self-sufficiency is essential to our future prosperity and will help shape a future where economic progress and mission-focused impact can work hand in hand.

Ulupono strongly supports SB 2101, which provides an income tax credit for ocean thermal energy conversion systems, because it aligns with our goal of increasing the production of clean, renewable energy in Hawai'i.

Ulupono is supportive of new renewable technologies to help Hawai'i wean itself off imported fossil fuels. New technologies are expensive to research and develop but once it demonstrates viability, it can attract other funding sources. The impact of new, clean renewable energy generation systems will provide benefits to society in the long run.

As Hawai'i's energy issues become more complex and challenging, we appreciate this committee's efforts to look at policies that support renewable energy production.

Thank you for this opportunity to testify.

Respectfully,

Murray Clay
Managing Partner

Investing in a Sustainable Hawai'i

SB-2101

Submitted on: 1/29/2018 1:21:29 PM

Testimony for TRE on 2/1/2018 12:45:00 PM

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

Comments: