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Testimony of Gwen Yamamoto Lau, Executive Director
Hawaii Green Infrastructure Authority
before the
SENATE COMMITTEE ON WAYS AND MEANS
Wednesday, February 28, 2018 at 11:00 A.M.
State Capitol, Conference Room 211

in consideration of
SENATE BILL NO. 2752,SD1
RELATING TO ENERGY EFFICIENCY

Chair Dela Cruz, Vice Chair Keith-Agaran and Members of the Ways and Means Committee:

Thank you for the opportunity to testify and provide comments on Senate Bill 2752, SD1, relating to energy efficiency. This bill proposes to create a sub-fund under the umbrella of the Green Energy Market Securitization (“GEMS”) loan fund and convert $50.0 million into a revolving line of credit available for any state agency or department to obtain low-cost financing to install energy efficiency measures. As the Legislature’s intent of the GEMS fund was to be available for the underserved (i.e. low and moderate-income homeowners, renters and nonprofits) and as the Hawaii Public Utilities Commission’s Order no. 32318 requires that at least 51% of the GEMS funds benefit said underserved, if approved, the Department of Education’s existing $46.4 million loan should be included under the $50.0 million revolving line. The Hawaii Green Infrastructure Authority **strongly supports** this bill.

Using the expected benefits of the GEMS loan provided to the Department of Education (“DOE”) as a benchmark, the long-term impact of this financing mechanism is meaningful and measurable. Additionally, while, according to the *State of Hawaii Energy Efficiency Potential Study: Project 1448*, the DOE was the second largest consumer of electricity in the State, there are a number of other state agencies and departments that would benefit from a similar financing arrangement.

Reducing energy consumption and energy costs in state buildings would significantly and positively contribute to the achievement of Hawaii’s energy efficiency portfolio standard (“EEPS”) goals, while reducing and controlling costs for Hawaii’s taxpayers.

Thank you for this opportunity to testify and offer support and comments for SB 2752,SD1.

DAVID Y. IGE
GOVERNOR

LUIS P. SALAVERIA
DIRECTOR

MARY ALICE EVANS
DEPUTY DIRECTOR

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
SENATE COMMITTEE ON WAYS AND MEANS
Wednesday, February 28, 2018
11:00 a.m.

State Capitol, Conference Room 211

in consideration of
SB2752, SD1
RELATING TO ENERGY EFFICIENCY.

Chair Dela Cruz, Vice Chair Keith-Agaran, and Members of the Committees.

The Department of Business, Economic Development, and Tourism (DBEDT) strongly supports SB2752, SD1, with the objective of creating a sub-fund under the umbrella of the Green Energy Market Securitization (GEMS) Loan Fund and converting $50,000,000 of the [GEMS] fund into a revolving line of credit providing any state agency or department access to low-cost financing to install energy efficiency measures on an on-going basis.

This bill will provide all state agencies the opportunity to deploy energy efficiency that both decreases utility bill expenses for the state and assists with meeting the state's energy efficiency goals.

Thank you for the opportunity to offer these comments in support of SB2752, SD1.

Email: communications@ulupono.com

SENATE COMMITTEE ON WAYS & MEANS
Wednesday, February 28, 2018 — 11:00 a.m. — Room 211

Ulupono Initiative Supports SB 2752 SD 1, Relating to Energy Efficiency

Dear Chair Dela Cruz, Vice Chair Keith-Agaran, and Members of the Committee:

My name is Murray Clay and I am Managing Partner of the Ulupono Initiative, a Hawaiʻi-based impact investment firm that strives to improve the quality of life for the people of Hawaiʻi by working toward solutions that create more locally produced food; increase affordable, clean, renewable energy; and better management of waste and fresh water. 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 supports SB 2752 SD 1, which creates a revolving line of credit sub-fund for state government agencies under the green energy market securitization (GEMS) loan fund, because it aligns with our goal of increasing the production of clean, renewable energy in Hawaiʻi.

Ulupono believes this bill will help deploy GEMS funds faster as now state departments will be able to qualify for financing its internal energy efficiency projects. This could further provide additional flexibility for GEMS, one of the key issues that the GEMS program has encountered in its brief existence.

Ulupono is also supportive of this bill and will remain so as long as the GEMS funds are deployed as originally intended – with a payback structure – to help continuously replenish the fund and adhere to standard business practices.

As Hawaiʻi'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

LEGISLATIVE TAX BILL SERVICE

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304 Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: MISCELLANEOUS, Establish GEMS Sub-Fund to Loan to State Agencies

BILL NUMBER: SB 2752, SD-1

INTRODUCED BY: Senate Committee on Commerce, Consumer Protection, & Health, Senate Committee on Transportation & Energy

EXECUTIVE SUMMARY: Creates a $50,000,000 revolving line of credit sub-fund under the umbrella of the Green Energy Market Securitization (GEMS) loan fund for any state agency or department to finance energy efficiency measures. If the GEMS program is to be allowed to live, it must be able to make loans at commercially reasonable rates at commercially reasonable terms. If loans are to be repaid out of reduced utility costs, what happens if the utility rates go up and the reduction in utility costs fails to materialize?

SYNOPSIS: Adds definitions of "energy efficiency measures," "revolving line of credit," and "sub-fund" to section 196-61, HRS.

Amends section 196-62, HRS, to allow the Hawaii Green Infrastructure Authority to make loans to government entities, and sets aside a $50 million revolving fund to be used exclusively for this purpose.

Specifies that loans to government agencies shall be issued at an interest rate of 3.5% per annum, provided that the loans shall not adversely affect the sustainability of the sub-fund or Hawaii green infrastructure special fund such that the replenishment of funds requires a higher interest rate in other financing agreements or an appropriation from the general fund.

Specifies that loans are to be repaid "using general revenue savings resulting from reduced utility costs as a result of the implementation of energy efficient lighting and other energy efficiency measures."

EFFECTIVE DATE: This Act shall take effect on July 1, 2018.

STAFF COMMENTS: This is an Administration-sponsored measure backed by the Department of Business, Economic Development, and Tourism, and designated BED-09 (18).

The Green Energy Market Securitization or GEMS program is a financing program that was supposed to provide loans at a low interest rate to finance alternative energy systems and other clean energy improvements for those, such as nonprofits and individuals with lower credit scores, who might not be able to get other kinds of financing. Governor Abercrombie signed the program into law, after which a 2014 bond issue raised $150 million for the program.

Recently, in Order No. 34930, the Hawaii Public Utilities Commission (PUC) focused on how the GEMS program was coexisting with another ratepayer-funded program, which you may know as Hawaii Energy. That's the same Hawaii Energy that sends you a little chart every month showing how your energy use compares against that of (1) your neighbors, and (2) your *energy efficient* neighbors.

Back in 2014, the PUC was asked to, and did, approve a Green Infrastructure Fee that went on everyone's utility bill. For residents, it started at about $1.50 per month and is now down to $1.18 after periodic readjustments. The $150 million, after all, needs to be paid back with interest. The PUC noted that ratepayers were also paying a Public Benefits Fee of about $5 a month to fund Hawaii Energy and it didn't want to whammy ratepayers again, so it directed that the PBF be reduced by the GIF…temporarily. The PUC made it clear that it wanted the shortfall in the PBF to be paid back. Quickly. So as not to disrupt the energy efficiency programs that Hawaii Energy was carrying out.

GEMS, however, wasn't accomplishing the lofty goals that were set for it. Of the $150 million borrowed on the bond market, a measly 3%, or $5 million, had been loaned out as of July 31, 2017. The 2017 legislature, by Act 57, SLH 2017, required GEMS to loan $46.4 million to the Department of Education to cool the schools, but that wasn't helpful to GEMS because it also provided that the loan was to be at zero interest. Since its inception, GEMS administrative and program costs were nearly $2.8 million, against revenues just shy of $1 million. "If HGIA [the Hawaii Green Infrastructure Authority, which administers GEMS] does not collect loan repayments, with interest," the PUC said, it "in the long term, will be unable to support itself."

The PUC noted that Hawaii Energy claimed to have saved consumers over $1 billion in energy bill savings to date, with every dollar of investment generating $9 in benefits.

The PUC concluded that "HGIA has not demonstrated the ability to replenish the PBF," and that the prospects for GEMS repaying the revenue that it borrowed from the PBF are dim unless the PUC acts now. Therefore, it said, the dollars that GEMS gets from its loan repayments and such will be used to repay the PBF, starting *now*. And, these payments will be made *before* funding GEMS program administrative costs. Apparently, the GEMS staff had better get those green infrastructure loans deployed and get that interest coming in if they want to get paid.

What does this mean?

If you are a legislator, this is not just a wake-up call. The GEMS program has been a disaster from its inception, and the PUC has basically said that it expects the program to crash and burn. The program does not simply need polishing; it needs radical surgery if it is to survive. And, given the other pressing needs that our government faces, it may be that the correct decision is to cut our losses and scrap the program before the fallout from its death throes takes out other programs and agencies.

This bill, by walling off one-third of GEMS' funding for the exclusive use of state agencies, could be an opportunity – or another train wreck. Particularly troublesome is the language in section 9 of the bill: "Beginning with fiscal year 2018-2019, and annually thereafter, the department or agency shall begin to repay the loan pursuant to section 6 using general revenue savings resulting from reduced utility costs as a result of the implementation of energy efficient lighting and other energy efficiency measures." Because general law can and does specify what in a contract can be enforced, would section 9 allow an agency to avoid repaying a loan from GEMS if either (1) it does not achieve reduced utility costs, or (2) it doesn't know whether it has achieved reduced utility costs due to the energy efficiency measures it implements? What happens, for example, if the price of bunker fuel jumps precipitously, resulting in a sharp rise in electricity rates? The energy efficiency measures could be working splendidly, but there will be no reduced utility costs.

If GEMS is to be allowed to survive, it needs the ability to make its loans at commercially reasonable rates and terms.

Our first recommendation, therefore, is that section 9 of the bill be deleted. It's nice to know that energy efficiency measures are in fact paying for themselves, but if it doesn't actually turn out that way the risk needs to be on the borrower, not on the lender.

Our second recommendation is that section 6 of the bill needs to be cleaned up. It now specifies an interest rate of 3.5%, but then says that the loans shall not adversely affect the sustainability of the sub-fund or main fund. Instead of saying two things that may contradict, GEMS needs to be given the freedom to negotiate commercially reasonable rates that are above the program's actual cost of capital. If it is not, the PUC, in pursuit of its fiduciary duties, may well enter even more restrictive orders that further hamstrings the GEMS program.

Our third recommendation is to revisit the "loan" appropriated to the Department of Education under Act 57, SLH 2017. GEMS must be able to charge a commercially reasonable interest rate, and must be able to make loans on commercially reasonable terms, to the Department of Education the same as any other state agency.

Digested 2/22/2018

SB-2752-SD-1
Submitted on: 2/27/2018 9:25:09 AM
Testimony for WAM on 2/28/2018 11:00:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Melodie Aduja	Testifying for OCC Legislative Priorities Committee, Democratic Party of Hawai'i	Support	No

Comments: