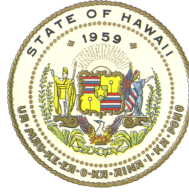
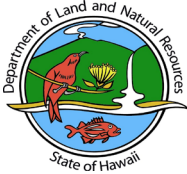


DAVID Y. IGE
GOVERNOR OF HAWAII



**STATE OF HAWAII
DEPARTMENT OF LAND AND NATURAL RESOURCES**

POST OFFICE BOX 621
HONOLULU, HAWAII 96809

**Testimony of
SUZANNE D. CASE
Chairperson**

**Before the Senate Committee on
WAYS AND MEANS**

**Wednesday, February 23, 2022
10:05 AM**

State Capitol Conference Room 211 & Videoconference

**In consideration of
SENATE BILL 3229, SENATE DRAFT 1
RELATING TO GEOTHERMAL ROYALTIES**

Senate Bill 3229, Senate Draft 1 proposes to: (1) Cap the amount of royalties from geothermal resources that are to be paid to the State and to the county in which the geothermal resources are located; (2) Establish the University of Hawaii Geothermal Exploration Special Fund for the Hawaii Groundwater and Geothermal Resources Center to further the discovery and development of geothermal resources; and (3) Require entities that receive geothermal royalties to submit an annual report to the Legislature. **The Department of Land and Natural Resources (Department) acknowledges the overall intent of this bill and provides the following comments.**

The Department notes that Section 1 of this measure proposes to create the Hawaii Geothermal Exploration Special Fund which would not be under the control of the Board of Land and Natural Resources. Accordingly, the Department suggests the creation of this special fund, and its reporting requirements to the Legislature, be established under Title 18, Chapter 304A, Hawaii Revised Statutes (HRS), which is the appropriate body of law for the University of Hawaii System.

Additionally, the purpose of the bill under SECTION 1 is to “further the discovery and development of geothermal resources.” The Department notes that term “discovery” is not defined in Section 182-1, HRS.

Currently, the Department is tasked with handling all of the leasing, lease management duties, and regulation of geothermal mining. In exchange, the State receives 50% of the geothermal royalties while the remaining proceeds are allocated as follows: 30% to the County of Hawaii, and 20% to the Office of Hawaiian Affairs (OHA) which represents its pro rata share of ceded land revenues. The Department understands that if the Hawaii Geothermal Exploration Special Fund were to receive any excess revenues, it would be responsible for paying the portion of OHA’s pro rata share for any revenues received. The Department would be responsible for

SUZANNE D. CASE
CHAIRPERSON
BOARD OF LAND AND NATURAL RESOURCES
COMMISSION ON WATER RESOURCE MANAGEMENT

ROBERT K. MASUDA
FIRST DEPUTY

M. KALEO MANUEL
DEPUTY DIRECTOR - WATER

AQUATIC RESOURCES
BOATING AND OCEAN RECREATION
BUREAU OF CONVEYANCES
COMMISSION ON WATER RESOURCE MANAGEMENT
CONSERVATION AND COASTAL LANDS
CONSERVATION AND RESOURCES ENFORCEMENT
ENGINEERING
FORESTRY AND WILDLIFE
HISTORIC PRESERVATION
KAHOOLAWE ISLAND RESERVE COMMISSION
LAND
STATE PARKS

payment of OHA's pro rata share only for revenues received by the Special Land Development Fund under the cap proposed by this measure.

The revenues from public lands, including the geothermal royalties, are deposited into the SLDF and funds the entire annual operating budget for the Department's Land Division, the Office of Conservation and Coastal Lands, and the Dam Safety Program in addition to the Mineral Resources Programs as noted previously. These revenues also fund over 80 Department staff positions, including 5 positions within the Commission on Water Resource Management, and provide funding support to the Division of State Parks and various resource protection programs administered by the Division of Forestry and Wildlife such as the protection of threatened and endangered species, removal of invasive species, wildland firefighting and lifeguard services. Revenues collected by other divisions have supported watershed protection, preservation of cultural and historical sites and public recreational resources. If geothermal royalties are not sufficient to cover the operating costs of the Mineral Resources program, then SLDF monies from other sources will subsidize geothermal regulation at the expense of other public trust resource management, protection and public health and safety programs.

If a cap of the Department's share of geothermal royalties is necessary, we believe an interim cap of \$1,500,000¹ would be necessary to cover the complex regulatory and geothermal mining lease management duties. The Department further notes that it is imperative that it retain a portion of geothermal royalties sufficient to support the Mineral Resources program that regulate geothermal development and dispositions. Additionally, staff costs are incurred for geothermal lease management, such as covering Land Division staff, billing, collection, annual insurance monitoring, or any of the other Department staff that will be called upon to assist a new applicant for a geothermal lease. Also, appraisal costs for special dispositions like geothermal are significant, plus substantially more if mediation and arbitration would be required under Section 171-17, HRS.

The Department recommends simplifying the proposed language in this measure by omitting SECTIONs 2 and 3 and by amending Section 182-7(c), HRS to read as follows:

"(c) The payments to the State as fixed by the board shall be specified; provided that:

- (1) In the case of bauxite, bauxitic clay, gibbsite, diaspore, boehmite, and all ores of aluminum, the amount of royalties for each long dry ton of ore as beneficiated shall not be less than twenty-five cents or the equivalent of the price of one pound of virgin pig aluminum, whichever is higher, nor shall it exceed the equivalent of the price of three pounds of virgin pig aluminum;
- (2) The rate of royalty for ore processed into aluminous oxide in the State shall be set at eighty per cent of the rate of royalty for

¹ In the event additional mining leases are issued or the Department's staffing and workload increases, the Department may need to seek an adjustment upwards on this interim cap.

ore not processed to aluminous oxide in the State; and

- (3) The royalty shall be fixed at a rate that will tend to encourage the establishment and continuation of the mining industry in the State.

The prices of virgin pig aluminum for the purpose of determining the royalties under this section shall be the basic price on the mainland United States market for virgin pig, not refined, f.o.b. factory. The royalties shall be in lieu of any severance or other similar tax on the extracting, producing, winning, beneficiating, handling, storing, treating, or transporting of the mineral or any product into which it may be processed in the State, and shall not be subject to reopening or renegotiating for and during the first twenty years of the lease term.

If the lessee desires to mine other minerals, the lessee, before mining the minerals, shall notify the board in writing, and the board and the lessee shall negotiate and fix the royalties for the minerals.

~~[Any other law to the contrary notwithstanding, thirty per cent of all royalties received by the State from geothermal resources shall be paid to the county in which mining operations covered under a state geothermal resource mining lease are situated; provided that if the geothermal resources are located on lands under the jurisdiction of the department of Hawaiian home lands, one hundred per cent of royalties received by the State shall be paid to the department of Hawaiian home lands.]~~

(4) Any other law to the contrary notwithstanding:

- (A) Thirty per cent of all royalties received by the State from geothermal resources shall be paid to the county in which mining operation covered under a state geothermal mining lease are situated; provided that the remainder of all royalties annually distributed to the county in which mining operations covered under a state geothermal resource mining lease are situated, in excess of \$600,000, shall be deposited in the Hawaii geothermal

- exploration special fund according to
- (B) The remainder of all royalties received
by the State annually from a state geothermal
shall not include royalties subject to
section 10-13.5, as amended, shall be
deposited in the Hawaii geothermal
exploration special fund according to
section , as amended; and
- (C) Provided that if the geothermal resources are
located on lands under the jurisdiction of
the department of Hawaiian home lands, one
hundred per cent of royalties received by the
State shall be paid to the department of
Hawaiian home lands."

The Department believes this proposed language accomplishes the same goals of this measure.

Also, with regards to Section 1 of this measure, the Department recommends that in lieu of creating a new section of law requiring annual reports to the Legislature, Section 182-18(c), HRS should be amended to read as follows:

"(c) The board shall submit a written report of
all geothermal royalty dispositions to the legislature
in accordance with section 171-29. Additionally, each
county in which mining operations covered under a
state geothermal resource mining lease are situated
shall submit an annual report to the legislature
regarding the use of the distributed geothermal
royalties no later than twenty days prior to the
convening of each regular session."

The Department reiterates that the reporting requirement for University of Hawaii's use of the proposed Hawaii Geothermal Exploration Special Fund should be established under Title 18, Chapter 304A, HRS.

Thank you for the opportunity to testify on this measure.



UNIVERSITY OF HAWAII SYSTEM

Legislative Testimony

Testimony Presented to the
Senate Committee on Ways and Means
Wednesday, February 23, 2022 at 10:05 a.m.
by
Vassilis L. Syrmos
Vice President for Research and Innovation
University of Hawai'i System

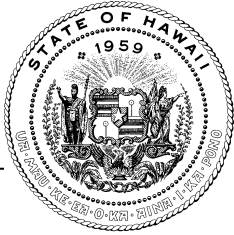
SB 3229 SD1 – RELATING TO GEOTHERMAL ROYALTIES

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

The University of Hawai'i (UH) is in support of SB 3229 SD1 as it establishes the University of Hawai'i Geothermal Exploration Special Fund for the Hawai'i Groundwater and Geothermal Resources Center (HGGRC) to further the discovery and development of geothermal resources.

The HGGRC is based in UH Mānoa's heralded School of Ocean and Earth Sciences and Technology and has the expertise in geothermal exploration to help the state secure another clean energy source in its drive to achieve a more sustainable future.

Thank you for the opportunity to testify in support of this measure.



HAWAII STATE ENERGY OFFICE STATE OF HAWAII

DAVID Y. IGE
GOVERNOR

SCOTT J. GLENN
CHIEF ENERGY OFFICER

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Testimony of
SCOTT J. GLENN, Chief Energy Officer

before the
SENATE COMMITTEE ON WAYS AND MEANS

Wednesday, February 23, 2022, 10:05 AM
State Capitol, Conference Room 211 & Videoconference

COMMENTS
SB 3229 SD1
RELATING TO GEOTHERMAL ROYALTIES.

Chair Dela Cruz, Vice Chair Keith-Agaran and Members of the Committee, the Hawai'i State Energy Office (HSEO), offers comments on SB 3229 SD1, which caps the amount of royalties from geothermal resources that are to be paid to the State and to the county in which the geothermal resources are located, establishes the University of Hawai'i Geothermal Exploration Special Fund for the Hawai'i Groundwater and Geothermal Resources Center to further the discovery and development of geothermal resources, and requires the entities that received geothermal royalties to submit an annual report to the Legislature. SD1 makes significant changes from the original SB 3229 that warrant further consideration and discussion.

HSEO's comments are guided by its mission to promote energy efficiency, renewable energy, and clean transportation to help achieve a resilient, clean energy, decarbonized economy. HSEO believes geothermal energy can play a significant role in achieving 100% renewable energy generation statewide and supports incentives for its development. Royalties from geothermal development play an important role in its regulation and the administration of state and county programs related to geothermal.

HSEO defers to the appropriate agencies for comment on the fiscal, administrative, and regulatory impacts.

Thank you for the opportunity to testify.

DAVID Y. IGE
GOVERNOR



LATE

CRAIG K. HIRAI
DIRECTOR

GLORIA CHANG
DEPUTY DIRECTOR

EMPLOYEES' RETIREMENT SYSTEM
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
OFFICE OF THE PUBLIC DEFENDER

**STATE OF HAWAII
DEPARTMENT OF BUDGET AND FINANCE**

P.O. BOX 150
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ADMINISTRATIVE AND RESEARCH OFFICE
BUDGET, PROGRAM PLANNING AND
MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION
OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

WRITTEN ONLY
TESTIMONY BY CRAIG K. HIRAI
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE SENATE COMMITTEE ON WAYS AND MEANS
ON
SENATE BILL NO. 3229, S.D. 1

**February 23, 2022
10:05 a.m.
Room 211 and Videoconference**

RELATING TO GEOTHERMAL ROYALTIES

The Department of Budget and Finance (B&F) offers comments on this bill.

Senate Bill (S.B.) No. 3229, S.D. 1, caps the amount of royalties from geothermal resources that are paid to the State and county and establishes the University of Hawai'i Geothermal Exploration Special Fund (GESF) for the Hawai'i Groundwater and Geothermal Resources Center to further the discovery and development of geothermal resources. This bill also requires an annual report to the Legislature.

As a matter of general policy, B&F does not support the creation of any special fund which does not meet the requirements of Section 37-52.3, HRS. Special funds should: 1) serve a need as demonstrated by the purpose, scope of work and an explanation why the program cannot be implemented successfully under the general fund appropriation process; 2) reflect a clear nexus between the benefits sought and charges made upon the users or beneficiaries or a clear link between the program and the sources of revenue; 3) provide an appropriate means of financing for the program or activity; and 4) demonstrate the capacity to be financially self-sustaining. Regarding

S.B. No. 3229, S.D. 1, it is difficult to determine whether the GESF would be self-sustaining.

Thank you for your consideration of our comments.

SB-3229-SD-1

Submitted on: 2/18/2022 9:39:49 PM

Testimony for WAM on 2/23/2022 10:05:00 AM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Alice Kim	Individual	Support	No

Comments:

Historically, Hawaii has had the highest electricity price in the nation. This price currently more than doubles the national average and adds to Hawaii's high cost of living. With Hawaii's volcanism, limited landmass, and fragile natural resources, geothermal can serve as Hawaii's only cost-effective, base-load renewable energy source. Out of all power sources, geothermal uses the least amount of land and can help the state to reach its 100% renewable source mandate by 2045.

Geothermal will also help the state of Hawaii reduce carbon emissions. Compared to fossil-fuel power plants, geothermal power plants of similar size emit 97 percent less sulfur compounds that cause acid rain and about 99 percent less carbon dioxide. Recently, the Hawaiian Electric Company announced that its climate action plan to cut carbon emissions. Hence, HECO plans to expand geothermal resources.

Currently, the Kilauea East Rift Zone (KERZ) on Hawaii Island is the only geothermal system in the Hawaiian archipelago from which geothermal electric power is being produced. Preliminary research by the Hawaii Groundwater and Geothermal Resources Center (University of Hawaii at Manoa) shows that all of the major Hawaiian Islands hold geothermal potential and that much of Hawaii's geothermal resources is unknown. Hence, funding is needed for further geothermal exploration.