

**TESTIMONY OF CARLITO P. CALIBOSO
CHAIRMAN, PUBLIC UTILITIES COMMISSION
DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE HOUSE COMMITTEE CONSUMER PROTECTION & COMMERCE
MARCH 23, 2009**

MEASURE: S.B. No. 1173 S.D. 2 H.D. 1
TITLE: Relating to Energy Efficiency.

Chair Herkes and Members of the Committee:

DESCRIPTION:

This bill proposes a comprehensive package to study and increase energy efficiency throughout the state.

POSITION:

The Commission has no objections to this bill that will further develop state energy policy and help meet the state's goals in energy efficiency efforts and programs.

COMMENTS:

Thank you for the opportunity to testify.

**Testimony Before the House Committee
On
Consumer Protection & Commerce**

March 23, 2009 (2:15 PM)

S.B. 1173 SD2 HD1 RELATING TO ENERGY EFFICIENCY

**By: Alan Hee
Energy Services Department
Hawaiian Electric Company, Inc.**

Chair Herkes, Vice-Chair Wakai, and Members of the Committee:

My name is Alan Hee, and I represent Hawaiian Electric Company (HECO) and its subsidiary utilities, Hawaii Electric Light Company (HELCO) and Maui Electric Company (MECO). I appreciate the opportunity to present testimony on S.B. 1173 SD2 HD1.

HECO supports S.B. 1173 SD2 HD1, but has a suggestion for an amendment.

Energy Efficiency Portfolio Standard

HECO supports the development of an energy efficiency portfolio standard. It reflects the commitment of the state to energy efficiency and creates a yardstick against which we can measure our progress as a community towards energy independence.

HECO also supports giving the Public Utilities Commission ("Commission") the authority to adjust the energy efficiency portfolio standard. It is the right agency to administer this standard because it has been involved in the utilities' integrated resource planning and demand-side management programs for over 13 years.

On-bill Financing of Energy Efficiency

HECO supports the intent of this bill to provide on-bill financing options to encourage consumer acquisition of more efficient major electrical appliances, solar water heaters, and photovoltaic systems. The utilities currently participate in an on-bill financing pilot for solar water heating.

This bill proposes that these new programs be administered by the PBF Administrator. However, since participants in the new programs will be making monthly payments through their electric bills, on-bill financing requires that the utilities assume the role of a loan servicing organization, a role that is not among the core functions of the utility. Therefore, there will likely be incremental costs to perform this new role including the cost of financial systems to track the installation, the initial cost, and the stream of payments received from program participants. HECO requests that language be added to the bill that allows the utilities to recover the additional costs of implementing on-bill financing. This proposed language is similar to that included in Act 240 (2006 Legislature) the legislation that initiated the pilot on-bill financing program at the utilities:

The commission shall ensure that all reasonable costs incurred by electric utilities to start up and implement on-bill financing are recovered as part of the utility's revenue requirement, including necessary billing system adjustments.

In summary, HECO supports SB 1173 SD2 HD1, but has a recommendation that would enhance the proposed language. Thank you for this opportunity to testify on this measure.

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SUBJECT: INCOME, Net zero energy building tax credit; energy tax credits

BILL NUMBER: SB 1173, HD-1

INTRODUCED BY: House Committees on Energy and Environmental Protection and Water, Land and Ocean Resources

BRIEF SUMMARY: Adds a new section to HRS chapter 235 to allow a taxpayer to claim a net zero energy building tax credit that shall be deductible from the taxpayer's income tax liability for the first taxable year in which the building meets the definition of net zero energy building. The tax credit shall be equal to:

Area of building (square feet)	Tax credit per square foot
1,000 or less	\$9
1,001 to 3,999	6
4,000 or larger	3

The tax credit shall not exceed \$50,000.

Defines "net zero energy building" as any building that produces more energy from renewable energy technology systems than it consumes from all sources on a monthly basis during any nine months of the tax year.

Credits in excess of a taxpayer's income tax liability shall be applied to subsequent tax liability. Claims for the credit, including any amended claims, must be filed on or before the end of the 12th month following the close of the taxable year. Allows the director of taxation to adopt necessary rules and forms pursuant to HRS chapter 91 to carry out this section. Taxpayers claiming tax credits for renewable energy systems under this section shall not be eligible for the state energy tax credits under HRS 235-12.5. Delineates recapture provisions in the event a building ceases to be a net zero energy building.

The credit shall be applicable to tax years beginning after December 31, 2009 and shall not apply to tax years beginning after December 31, 2019.

Makes other nontax amendments relating to energy efficiency.

EFFECTIVE DATE: January 1, 2090

STAFF COMMENTS: The proposed measure would allow a taxpayer to claim a net zero energy building tax credit depending on the square footage of the building up to a maximum of \$50,000. In order to claim the tax credit, the building must produce more electricity from renewable energy technology than it consumes from all sources during nine months of the year.

This measure proposes an incentive in the form of an income tax credit to encourage taxpayers to make buildings energy self-sufficient and efficient to the point that the buildings can generate their own energy. It would grant tax credits without a taxpayer's need for tax relief.

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 appropriations process, would taxpayers be as kind about the expenditure of these funds when schools go wanting for books and repairs, or for the lack of space prisoners are sent off to the mainland for incarceration or there isn't enough money for substance abuse treatment?

Given the current financial crisis faced by the state and the growing effects of the recession, proposals such as this will only exacerbate the situation. On the other hand, at least this measure does not propose to increase taxes in order to fund such energy efficiency initiatives. Any tax increase will only make recovery that much more difficult and even later than it could be.

The energy cost savings on an energy efficient building should be enough of an incentive without the need for a monetary handout by the state. Given the current state budget situation, it is questionable whether the state can afford to payout the credits proposed in this measure.

Digested 3/20/09



HOUSE COMMITTEE ON CONSUMER PROTECTION & COMMERCE

March 23, 2009, 2:15 P.M.

Room 325

(Testimony is 4 pages long)

TESTIMONY IN SUPPORT OF SB 1173 SD2 HD1, SUGGESTED AMENDMENTS

Chair Herkes and members of the committee:

The Blue Planet Foundation supports SB 1173 SD2 HD1, implementing energy efficiency policies to provide a strong foundation for Hawaii's clean energy future. We offer some suggested amendments to strengthen the effectiveness of this measure.

Energy efficiency, unfortunately, is the "dark horse" of clean energy resources. Energy efficiency—efficient lights, appliances, electronics, behavior changes, and the like—is the largest, cheapest, safest, and fastest energy option that Hawai'i can implement. Consider:

- Energy efficiency is the fastest-growing U.S. "energy source" (growth of ~2.5 to 3.5% annually)
- National energy efficiency programs save energy at an average cost of about 3 cents/kWh -- *about 1/10 the average electricity cost in Hawaii*
- Leading states are saving over 1% additional of total electricity sales annually
- Energy efficiency provides major local economic benefits: energy efficiency is 100% obtained from investment in local homes and businesses
- It is also the least visible, least understood, and most neglected

Efficiency Portfolio Standards

Blue Planet supports establishing energy efficiency portfolio standards. Directing the PUC to establish an energy efficiency portfolio standard would help Hawaii take advantage of this critical energy resource. The energy efficiency portfolio standard should complement a true renewable portfolio standard.

While Blue Planet supports the efficiency standards in SB 1173 SD2 HD1, we would prefer that the measure go further to establish aggressive building efficiency standards for new construction in Hawai'i. Strong energy efficiency building codes are critical to achieving our clean energy goals, as buildings are the largest consumer of electricity and the building stock turns over very slowly. **To this end, we support the adoption of more aggressive building**

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code standards by the counties—30% higher than the most recent guideline established by International Energy Conservation Code (IECC). Such a stringent building code would yield the construction of high performance buildings in Hawai'i—performance that would result in much lower energy bills over the life of the home or building.

Efficiency investments pay back to Hawai'i's residents and economy in numerous ways.

1. First, the investment in efficiency pays back in savings during the home or building's occupancy and use.
2. Second, building more high performance buildings is typically more labor and material intensive than structures that are inefficient, resulting in more job creation—the tradeoff being money is directed toward local jobs and contractors instead of going overseas to purchase fossil fuel.
3. Finally, building high performance buildings is the only way for Hawai'i to achieve its clean energy future. We simply cannot meet our growing energy demands in the short term without radically improving the efficiency of our buildings.

State Building Efficiency Retrofits

Blue Planet supports the requirement that state-owned buildings to be retrofitted with efficiency improvements. It is critical that the state operate high performance buildings. Not only should be state be leading by example in energy efficiency, but taxpayers are paying the energy costs for state buildings. Blue Planet particularly appreciates the direction that state buildings must be retrofitted to achieve 30% higher than the most recent guideline established by the IECC, and the requirement that performance-based contracting be employed to meet the targets. This makes energy efficiency improvements more affordable, as the investment is paid off over time through energy cost savings.

Consumer Energy Efficiency Information

Blue Planet supports directing the PUC to establish a consumer information program on energy efficient properties. Home buyers or renters deserve to know what they will likely be paying per month for energy.

Hawaii residents pay the highest electricity rates in the nation. Many homeowners have vastly inefficient homes and operate inefficient appliances simply because they are not aware of the energy they are wasting or they don't want to make the investment to improve the situation. Unfortunately, energy efficiency investments are sometimes penalized in the marketplace as homes or apartments that have invested in energy efficient appliances or solar water heaters cost more up front (or have a higher rent)—despite being less expensive to live in on a monthly basis. This measure would change that by creating a program whereby potential homebuyers or tenants could see what the monthly energy cost of the home would be. This information disclosure would enable an honest assessment of the true costs of home ownership or renting and encourage energy efficiency investments by homeowners.

Blue Planet supports amending SB 1173 SD2 HD1 to go further in fostering high performance and energy efficient homes in Hawai'i by requiring that homes achieve a certain efficiency standard at the time of sale. Such a "Time of Sale Efficiency Standard" would ensure that homes in Hawai'i meet a minimum level of efficiency, saving homeowners money in energy bills over the long term. The standard should be tied to the energy code established for new buildings, such as 30% higher than the latest IECC.

Zero Net Energy Buildings

Blue Planet supports establishing tax credits for developers to build net-zero energy buildings. Blue Planet supports this incentive to encourage the development of high performance, zero energy buildings of the future in Hawai'i.

On-Bill Financing for Energy Efficiency

As currently drafted, SB 1173 SD2 HD1 allows the new Public Benefit Funds Administrator to implement a "pay as you save," or on-bill financing option to make energy efficiency investments more affordable to Hawai'i residents (Page 13, line 20). On-bill financing is one of the most powerful tools to increase adoption of energy efficiency and clean energy investments. **Blue Planet believes that SB 1173 SD2 HD1 should be amended to make on-bill financing a regular program administered by the public benefits fund administrator.**

On-bill financing is a critical tool to overcome the biggest barrier to energy efficiency and clean energy investment: the up-front cost. Consumers have proven to be terribly myopic in their purchasing decisions when it comes to energy saving technologies. Despite the environmental and long-term economic advantages of converting to photovoltaic power, a miniscule percentage of Hawai'i homes take advantage of this technology. Even less expensive purchases, like high efficiency refrigerators, are passed over because of their initial cost. By eliminating the up-front cost and enabling residents to pay for the investment through the energy savings over time, adoption of efficiency and clean energy will accelerate.

An examination of some of the economic barriers present in the diffusion of energy efficiency technologies provides insight into the challenges of greater adoption of efficient appliances and photovoltaic. Empirical studies examining the purchase of energy-saving devices reveal that high initial investment costs—regardless of the money savings from reduced electricity use—fosters to a tendency to avoid energy saving innovations. These decisions can result in outcomes that are economically suboptimal considering likely investment alternatives available to the decision maker. By foregoing certain energy efficiency investments, individuals demonstrate implied discount rates that are frequently an order of magnitude or higher over the prevailing discount rate.

A 1983 study on refrigerators¹ is notable for being one of the first to use very specific data and a simple technique. They examined two refrigerator models sold by the same national retailer between 1977 and 1979. The two refrigerators were identical in nearly every way except their energy use and cost: one used 410 kilowatt-hour (kWh) per year less electricity but cost \$60 more. Using a 6% discount rate and a 20-year lifetime, the more efficient refrigerator saved energy at an electricity cost of just over one cent per kWh—lower than electricity prices prevailing in every state at the time. Despite being widely advertised and being recommended by a prominent consumer magazine, the energy-efficient refrigerator was purchased by customers less frequently than the less expensive inefficient model. Using regional electricity cost data, Meier and Whittier calculated the implied discount rate by these purchases, which varied between 34% and 59%, depending on the region's prevailing residential electricity rate.

The issues that give rise to the “energy-efficiency paradox” are likely to be more pronounced in the decision to purchase a photovoltaic system, with high initial investment costs and lengthy payback times. Expanding the on-bill financing program to energy efficient appliances (such as high efficiency refrigerators) and residential photovoltaic systems will help to eliminate this barrier and make these money-saving technologies more accessible to local residents.

Renewable Energy Income Tax Credits

Blue Planet supports the tax credits amendments in SB 1173 SD2 HD1. To further accelerate the adoption of residential clean energy technologies, we would additionally support making the solar and wind tax credits 100% refundable for individuals with limited income.

Thank you for the opportunity to testify.

¹ Meier, A., and Whittier, J. (1983). Consumer Discount Rates Implied by Purchases of Energy-Efficient Refrigerators. *International Journal of Energy*, 8(12), 957-962.

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TESTIMONY OF WARREN BOLLMEIER ON BEHALF OF THE HAWAII
RENEWABLE ENERGY ALLIANCE BEFORE THE HOUSE COMMITTEE
CONSUMER PROTECTION AND COMMERCE

SB 1173 SD2 HD1, RELATING TO ENERGY EFFICIENCY

March 23, 2009

Chair Herkes, Vice-Chair Wakai and members of the Committee, I am Warren Bollmeier, testifying on behalf of the Hawaii Renewable Energy Alliance (HREA). HREA is a nonprofit corporation in Hawaii, established in 1995 by a group of individuals and organizations concerned about the energy future of Hawaii. HREA's mission is to support, through education and advocacy, the use of renewables for a sustainable, energy-efficient, environmentally-friendly, economically-sound future for Hawaii. One of HREA's goals is to support appropriate policy changes in state and local government, the Public Utilities Commission ("Commission") and the electric utilities to encourage increased use of renewables in Hawaii.

The purpose of SB 1173 SD2 HD1 is to establish energy-efficiency initiatives necessary for and contributing to the transition of Hawaii's energy sector to non-petroleum energy sources.

HREA **supports** the **intent** of this bill and offers the following comments on Sections 1 and 2 and recommended amendments to Section 2:

- (1) Energy-efficiency portfolio standard. We understand the EPS is to be a companion to our RPS law, but in the Section 1 this is not made clear. In Section 2, we believe the EPS should be:
 - (a) the responsibility of the Public Benefits Fund ("PBF") Administrator, and
 - (b) realigned to focus the PBF Administrator's scope of work on energy savings measures.
- (2) Energy Savings Measures. HREA recommends that the EPS include the following energy savings measures:
 - (a) Traditional energy efficiency measures,
 - (b) Off-set renewable technologies, and
 - (c) Net Metered renewable systems.

With our proposed amendments in the attachment, HREA can support this bill.

Thank you for this opportunity to testify.

HREA Testimony Before CPC – 03/23/09
Excerpt from SB 1173 SD2 HD1

SECTION 2. The Hawaii Revised Statutes is amended by adding three new sections to be appropriately designated and to read as follows:

"§ - Energy-efficiency portfolio standards. (a) The public utilities commission shall establish energy-efficiency portfolio standards that will maximize cost-effective energy-efficiency programs and technologies. Energy-efficiency measures shall include electrical energy savings brought about by the use of traditional energy efficiency technologies, including heat pump water heating, ice storage, ratepayer-funded energy efficiency programs, and use of rejected heat from co-generation and combined heat and power systems, excluding fossil-fueled qualifying facilities that sell electricity to electric utility companies and central station power projects.

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(b) The energy-efficiency portfolio standards shall be designed to achieve four thousand three hundred gigawatt hours of electricity use reductions statewide by 2030; provided that the commission shall establish interim goals for electricity use reduction to be achieved by 2015, 2020, and 2025 and may also adjust the 2030 standard by rule or order to maximize cost-effective energy-efficiency programs and technologies.

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(c) The commission shall assign the responsibility for achievement of the energy-efficiency portfolio standards to the Public Benefits Fund Administrator. The Public Benefits Fund Administrator may elect to subcontract for certain energy-efficiency services via competitive bidding processes. In turn, the utility company and any of its subsidiaries may elect to respond to any solicitations from the Public Benefits Fund Administrator for energy-efficiency services.

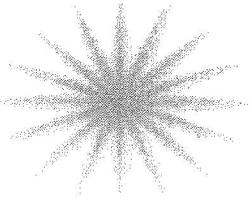
**HREA Testimony Before CPC – 03/23/09
Excerpt from SB 1173 SD2 HD1**

(d)–The commission shall establish incentives and penalties based on performance in achieving the energy-efficiency portfolio standards by rule or order.

(e) The public utilities commission shall evaluate the energy-efficiency portfolio standard every five years, beginning in 2013, and may revise the standard, based on the best information available at the time, to determine if the energy-efficiency portfolio standard established by this section remains achievable. The commission shall report its findings and revisions to the energy-efficiency portfolio standard, based on its own studies and other information, to the legislature no later than twenty days before the convening of the regular session of 2014, and every five years thereafter.

(f) Beginning in 2015, in addition to traditional energy-efficiency measures, energy-efficiency measures shall also include shall count toward this standard: (i) electric energy savings brought about by the use of renewable displacement or off-set technologies, including solar water heating, ~~and~~ seawater air conditioning district cooling, and solar air conditioning systems; and (ii) customer sited, grid connected, net metered renewable energy systems, ~~shall count toward this standard.~~

~~(f) An electricity utility company and its electric utility affiliates may aggregate their efficiency portfolios in order to achieve the energy-efficiency portfolio standard.~~



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Testimony on

S.B. NO. 1173, S.D. 2, H.D. 1 – RELATING TO ENERGY EFFICIENCY

Before the

House Committee on Consumer Protection & Commerce
Monday, March 23, 2009, 2:15 p.m., Conference Room 325

By

David Rezachek, Consultant
Honolulu Seawater Air Conditioning, LLC

WRITTEN TESTIMONY ONLY

Good afternoon Chair Herkes, Vice Chair Wakai, and members of the Committee. My name is David Rezachek and I am testifying on behalf of Honolulu Seawater Air Conditioning, LLC (HSWAC).

HSWAC strongly supports the intent of S.B. 1173, S.D. 2, H.D. 1, which, among other things, directs the public utilities commission to establish energy efficiency portfolio standards.

In general, HSWAC supports most sections of this bill; however, **HSWAC cannot support Section 2 of this bill as it is currently written.**

HSWAC, and other testifiers, have previously supported the establishment of an energy efficiency portfolio standard for various energy efficiency technologies that are now incorrectly included in the State's renewable portfolio standard.

At the same time, HSWAC, and others, have provided considerable evidence as to why renewable energy electricity displacement technologies should continue to be included in the renewable energy portfolio standard.

Renewable energy electricity displacement technologies include solar water heating, seawater air conditioning district cooling systems, and solar air-conditioning.

While these technologies do not generate electricity, they do provide electricity savings through displacement of the electricity used to perform the same tasks. They definitely use renewable energy resources, but they are not energy efficiency technologies.

HSWAC maintains that displacement of electricity use by thermal applications of renewable energy technologies, is just as important and beneficial as electricity generation from renewable resources. And, as a result, renewable energy electricity displacement technologies should continue to be part of the renewable energy portfolio standard.

Including such electricity displacement technologies will help the utilities to more easily reach RPS mandates and will increase the number of candidate renewable energy technologies. This is particularly important for a high population, high electricity use location with limited land area, such as Oahu.

However, if this bill passes, and the PUC is directed to establish an energy efficiency portfolio standard, then HSWAC respectfully requests that:

(1) renewable energy electricity displacement technologies should continue to be part of the renewable energy portfolio standard, or

(2) no further efforts be made to remove renewable energy electricity displacement technologies from the renewable portfolio standard unless, and until, a separate energy efficiency portfolio standard has been developed which includes these technologies.

Furthermore, HSWAC would respectfully request that renewable energy electricity displacement technologies continue to be included in any definition of renewable energy for the purpose of being eligible to meet federal mandates and goals for renewable energy use and to allow these technologies to be eligible for any incentives provided to other renewable energy technologies (e.g., preference for priority processing of permits, renewable energy facility siting and permitting assistance, etc.)

Thank you for this opportunity to testify.



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March 22, 2009

The Honorable Robert N. Herkes, Chair
House Committee on Consumer Protection & Commerce
State Capitol, Room 325
Honolulu, Hawaii 96813

RE: S.B. 1173, S.D.2, H.D.1 Relating to Energy Efficiency

HEARING: Monday, March 23, 2009 at 2:15 p.m.

Aloha Chair Herkes and Members of the Committee:

I am Myoung Oh, here to testify on behalf of the Hawai'i Association of REALTORS® (HAR) and its 9,600 members. HAR **opposes** S.B. 1173, S.D.2, H.D.1, at Section 2 (page 7, lines 3-12, which requires that, prior to the sale or lease of all real property, a homeowner or manager must pass "energy consumption information" to the purchaser or lessee of the property.

S.B. 1173, S.D. 2, H.D. 1, was amended by the House Committee on Energy and Environmental Protection to include additional language that requires the Energy Coordinator to set forth guidelines on the "format and content" of the energy consumption information to be disclosed, as follows:

Beginning January 1, 2010, energy consumption information shall be disclosed by the seller or lessor in the sale or lease of real property. Financial institutions and new occupant consumers shall be provided energy information by the seller or lessor before the sale or lease of real property. The energy coordinator shall develop guidelines for the format and content to assist the seller or lessor in providing the required energy consumption information to be disclosed.

While HAR appreciates the stated intent of this measure to provide a "clean energy economy", in these challenging economic times, HAR asks the Committee to consider the considerable impact it would have on the real estate industry to require "energy consumption information" prior to the sale or lease of property. Even if the Energy Coordinator were to set forth guidelines on format and content" of energy consumption information, this measure presumes that it would be the cost and burden of the seller or lessor to obtain the required information, and does not indicate who would or could provide such information. Moreover, the measure is ambiguous as to the specific information that would be required to pass on to purchasers or lessors.

HAR believes that this bill proposes requirements on sellers and lessors at the point of sale that would cause delays, and ultimately raise the cost for consumers to sell or lease property. This would also have other impacts on sellers, lessors, real estate licensees, financial institutions, and all parties involved in real estate transactions which are vital to Hawaii's economy. HAR would submit that, if the Legislature finds establishing an energy consumption information program is important, the first step should be to conduct a study on how such a program could be implemented.



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For these foregoing reasons, HAR respectfully requests that this portion of Section 2 (page 7, lines 3-12) be stricken from the bill.

Thank you for the opportunity to testify.