# SB 405

# DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

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Statement of
**THEODORE E. LIU**
**Director**
Department of Business, Economic Development, and Tourism
before the
**SENATE COMMITTEE ON ENERGY AND ENVIRONMENT**
Thursday, February 12, 2009
4:00 PM
State Capitol, Conference Room 225

in consideration of
**SB 405**
**RELATING TO GASOLINE.**

Chair Gabbard, Vice Chair English, and Members of the Committee.

The Department of Business, Economic Development, and Tourism (DBEDT) opposes SB 405, which would repeal the ethanol content requirement on the basis that it hasn't yet accomplished the objective of stimulating local ethanol fuel production.

However, the potential for local fuel production remains, and the potential benefits from local fuel production are still recognized as desirable.

At the time the ethanol content requirement was enacted, it was stated that without local demand, local supply was extremely unlikely to be developed. We believe that this is still the case. To repeal the requirement at this date would put potential projects in jeopardy; signal to those in the investment community a lack of our commitment to the goals of diversification of energy supplies and use of renewable fuels; and weaken our progress to meet the energy objectives of the State.

Therefore, we oppose SB405 and request that this bill be held.

Thank you for the opportunity to offer these comments.

**SB 405**

**RELATING TO GASOLINE**

**JOEL K. MATSUNAGA**
**CHIEF OPERATING OFFICER & EXECUTIVE VP**
**HAWAII BIOENERGY**

**FEBRUARY 12, 2009**

Chair Gabbard and Members of the Senate Committee on Energy and Environment:

I am Joel Matsunaga, testifying on behalf of Hawaii BioEnergy on SB 405, "Relating to Gasoline".

**<u>SUMMARY</u>**

Hawaii BioEnergy ("HBE") is currently considering plans to develop locally produced ethanol in Hawaii. If HRS Section 486J-10 is repealed by SB 405, the continued demand for ethanol in Hawaii would be jeopardized curtailing any future development of ethanol projects in the State. If passed, SB 405 would deny Hawaii the economic, environmental and energy security benefits that would accrue from locally produced ethanol.

**<u>RENEWABLE ENERGY PROJECTS IN HAWAII</u>**

Hawaii BioEnergy is a local company with a mission to help Hawaii toward a sustainable energy future through the production of biofuels from locally grown feedstocks. Among its partners are three of the larger landowners in Hawaii who control in total over 430,000 acres of land. HBE and its partners would like to use significant portions of their land to address Hawaii's energy needs. Since its inception in 2006, HBE has been researching various biofuel alternatives to clearly evaluate each biofuel's relative suitability and sustainability based on Hawaii's natural resource base, climate, market and infrastructure.

One of the biofuel alternatives which HBE is currently considering is the development of locally produced ethanol through the growing of sugar cane, sweet sorghum, or other crops that can be processed into ethanol. The production of ethanol in Hawaii will provide its residents with greater energy security, create a significant number of jobs, reduce the burning of fossil fuels, and retain dollars in the State's economy rather than sending them overseas.

Based on an independent analysis commissioned by HBE, it's projected that a large scale agricultural operation along with an ethanol facility could provide up to 1,400 new jobs and over $115 million in added value in the State.

In addition to the economic benefits of local ethanol production, Hawaii would benefit greatly from the enhanced energy security that would result from local feedstock and local ethanol production. In addition to greater energy security, ethanol from locally grown feedstocks will also help to reduce the severe energy price volatility associated with fossil fuels that has resulted from fluctuations in world demand and political factors..

**REPEAL OF HRS SECTION 486J-10 (E10 MANDATE) WOULD ELIMINATE POSSIBILITY OF ETHANOL PRODUCTION IN HAWAII**

The blending mandated in HRS Section 486J-10 creates a level of demand for ethanol that significantly impacts the ability of potential producers to attract the necessary financing for investing in local ethanol production. Without the requirement to blend ethanol as provided by HRS Section 486J-10, the uncertainty of the ethanol demand in Hawaii would effectively terminate any further planning and development of potential ethanol production projects in the State. Further, with the elimination of HRS Section 486J-10, Hawaii would sacrifice the environmental benefits that would result from the reduction of fossil fuels, the economic benefits from job and tax revenue creation, and improved energy security from diversification of supply.

## CONCLUSION

Based on the aforementioned, Hawaii BioEnergy respectfully requests that SB 405 be held in committee so that it does not prevent the development of local ethanol production facilities.

Thank you for the opportunity to testify.

# PACIFIC WEST ENERGY LLC

**1212 NUUANU #1704**
**HONOLULU, HI 96817**
**Tel. 808-927-0619**


February 10, 2009

Senator Mike Gabbard, Chair
Senator J. Kalani English, Vice-Chair
And Members of the Committee on Energy and Environment
Hawaii State Capitol
415 S. Beretania
Honolulu, HI 96813

Re: SB 405 – Relating to Gasoline

Dear Chair Gabbard, Vice-Chair English and Members of the Committee,

My name is William Maloney and I am the President and Chief Executive Officer of Pacific West Energy LLC and its subsidiaries, Kauai Ethanol LLC and G&R Ag-Energy LLC, the developers of the integrated sugarcane to ethanol and green power project on Kauai. I testify today in opposition to SB 405, repealing the ethanol content requirement in gasoline.

Pacific West Energy LLC intends to construct a 15 million gallon per annum fuel ethanol production facility on Kauai, integrated with a sugar cane and other feedstock processing facility and including a green energy cogeneration facility. The project cost is \$125 million. We intend to expand the cultivation of sugar cane and other feedstocks on Kauai to at least 15,000 acres. In addition to producing fuel ethanol for the local Hawaiian motor fuel market we intend to produce approximately 150 million kWh's per year of green electricity for the island's electricity requirements. We recently signed a joint-development agreement with Kauai Island Utility Cooperative ("KIUC") to provide for a power purchase agreement and the securing of debt financing from the US Department of Agriculture's Rural Utility Services agency. Our technology is proven and would involve a process that will yield an energy conversion ratio in excess of 9:1, including cogenerated electricity. To date, we have expended over \$8 million and several years of effort to bring this project to fruition.

We share the sponsor's frustration with the pace of the development of ethanol production facilities in Hawaii. Our project has taken much longer to develop than we originally envisioned. There have been many challenges, including the current turmoil in the financial sector, volatility in the energy markets, and securing lands suitable for sugar cane against competing uses. However, we have received our air permit and, as noted above, believe our recent accord with KIUC sets a firm foundation for our project to move forward at an accelerating pace. In recent months we have secured equity commitments for the project and as noted above we intend to pursue debt financing through the US Department of Agriculture, as well as from private lenders who offered debt financing last fall just prior to the recent lending freeze. Our project is a model for an integrated bio-energy refinery, and it is consistent with the expressed intentions of the Hawaiian legislature to develop indigenous energy resources. However, the repealing of the ethanol content requirement in gasoline would have the immediate impact of killing our project entirely. All the equity invested to date would be lost.

If the local content requirement were repealed it would mean that there is absolutely no assurance that there will be any local market for ethanol in Hawaii. Without an assured local market for ethanol no ethanol project can receive financing as they and their debt and equity providers can then only assume that their production will have to be exported to US West Coast markets, resulting in a net price reduction of at least $0.25 per gallon – rendering any project uneconomic.

As some of you may recall, the blending requirement was enacted in 1994, but it was only in 2004 that the rules were promulgated and a date was established to commence ethanol blending (April 2006). Up to that time the State's refiners had refused to produce the base gasoline required for ethanol blending, thereby impeding the ability of those non-refiners that might otherwise voluntarily blend ethanol from blending ethanol. One reason that the refiners refused to enable any ethanol blending was because the net cost of ethanol after state and federal tax credits and exemptions is less than gasoline and therefore either increases the blender's margins, or allows a distributor to lower its price to consumers and thereby increase market share.

It should be noted that the requirement to blend ethanol in gasoline is only for 85% of Hawaii's gasoline, so that clear gasoline may be offered to those consumers that require ethanol-free product (i.e., approximately 50 million gallons of gasoline is not required to be blended with ethanol). Also, the requirement to blend ethanol in gasoline is contingent on ethanol being competitively priced – i.e., lower priced than wholesale gasoline after factoring in the tax credits and exemptions provided to the petroleum sector.

While it was and should still be the intent of the ethanol content requirement to spur investment in local production facilities, it should be recognized that the there have been benefits to the state from the ethanol content requirement, even though it is imported ethanol that has met the requirement to date. These benefits include:

- One ethanol supplier to the state has also contributed approximately $2 million to the Kauai ethanol project.

- For each gallon of ethanol sold in the state, whether from local production or imported production, the state has retained $0.51 per gallon (adjusted to $0.45 in 2009) that would otherwise be paid in taxes to the federal government. These funds, approximately $16 million per annum remain in the state's economy, increasing state tax revenues and are also in part passed directly on to consumers in the form of lower gasoline prices. That is a direct savings subject to economic multipliers, a clear advantage over imported oil/gasoline.

- The content requirement added an additional 40 million gallons of fuel supply to the local gasoline pool, creating more competition and lowering gasoline prices to consumers.

The current law allows the director to reduce or suspend the ethanol content requirement. This can be done at any time if there are not positive benefits to the state – while still preserving the commitment to creating a local market for local production facilities. We suggest that if the above-noted benefits are not considered sufficient to maintain the ethanol content requirement, then a suspension of the requirement that can be done administratively would be a far more preferable course to pursue. Repealing the ethanol content requirement would be the death-knell to local ethanol production, an unnecessary death-knell, as despite the challenges and travails and real hurdles to our project imposed in large part by local landowners and controllers of land, we believe our project is finally gaining traction and can become a reality in the not too distant future.

We urge you to oppose SB 405, and to let the existing law and its provisions and protections remain.

Sincerely,

*William Maloney*

William Maloney
President & Chief Executive Office
Pacific West Energy LLC

WSPA

**Western States Petroleum Association**

February 12, 2009
4:00 p.m.
Senate Committee on Energy & Environment
Room 225

Re: SB 405 Relating to Gasoline

We are testifying in support of SB 405 on behalf of the Western States Petroleum Association ("WSPA") a non-profit trade organization representing a broad spectrum of companies in the petroleum industry in Hawaii.

WSPA supports SB 405 which would eliminate the state's current ethanol blending mandate in favor of allowing the market to determine if making ethanol-blended gasoline available is a prudent measure.

Thank you for the opportunity to testify.

841 Bishop Street, Suite 2100, Honolulu, Hawaii 96813 (808) 447-1840

COMMITTEE ON ENERGY AND ENVIRONMENT

Sen. Mike Gabbard, Chair
Sen. J. Kalani English, Vice Chair

DATE: Thursday, Feb. 12, 1009

TIME: 4:00 pm

PLACE: Conference Room 225 ____ Copies to members

BILL: SB 405 RELATING TO GASOLINE

SUPPORT

Aloha Chair Gabbard, Vice Chair English, and Members of the Committee:

It has been well documented in both the popular and scientific press that the making of ethanol takes more energy than the ethanol can produce. This is particularly true when irrigation of crops and transportation of the end product are involved.

That 10% ethanol lowers mpg in cars and ruins many boat engines has added to the absurdity of the 2006 law (486-J10). It is time mo move off 10% ethanol and on to genuine renewable energy.

We look forward to buying a plug-in all electric car and powering it with the 30 photovoltaic panels on our home.

Thank you.

Duane & Sarah Preble
3347 Anoai Place
Honolulu HI 96822 988-7500