



**Congress of the United States**  
**House of Representatives**  
**Washington, D.C. 20515**  
**Finance Committee**

**Representative Marcus R. Oshiro, Chair**

**Representative Marilyn B. Lee, Vice Chair**

**Testimony for SB 512 from**

**U.S. Representative Neil Abercrombie**

**Member of Congress**

**April 2, 2009**

**4:30 p.m. - Room 308**

I strongly endorse SB 512 to encourage the production of biodiesel by expanding the existing ethanol facility tax credit. This well-intended ethanol facility tax credit needs to be updated to reflect current opportunities in the biofuels market. Local companies are waiting to utilize this incentive to expand biofuel production capacity state-wide. An expanded tax credit would move Hawaii toward greater energy self-sufficiency and increase job opportunities in green industry.

At the federal level, Congress has expanded opportunities for renewable energy development through extension of renewable tax credits for open and closed-loop biomass through 2014 and tax credits for biodiesel and renewable diesel through 2013 in the Energy Improvement and Extension Act. SB 512 would be a complementary action by the State Legislature to support and encourage sustainable energy development in our islands.

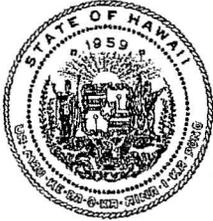
Additionally, SB 512 can help to create jobs and economic growth through locally owned agriculture and renewable energy businesses. Local biofuel production would allow farmers to avoid export costs and expand opportunities for niche agriculture on their land. Thus, our productive ag land is put back into use, we are growing more of our own food, we are diversifying our economy, and creating jobs in areas that need revitalization.

In short, SB 512 will help hasten the day that we are "paying ourselves" by employing Hawaii workers and producing locally grown biofuels rather than exporting our energy investment through the importation of fossil fuels.

Thank you for your time and consideration of this important legislation.

ORIGINATED FROM:

WASHINGTON OFFICE: 1502 LONGWORTH HOUSE OFFICE BUILDING, WASHINGTON, D.C. 20515 (202) 225-2726 / 225-4580 FAX  
✓ HOME OFFICE: ROOM 4-104, 300 ALA MOANA BLVD., HONOLULU, HAWAII 96850 (808) 541-2570 / 533-0133 FAX  
Homepage: <http://www.house.gov/abercrombie/> E-mail: [neil.abercrombie@mail.house.gov](mailto:neil.abercrombie@mail.house.gov)



**DEPARTMENT OF BUSINESS,  
ECONOMIC DEVELOPMENT & TOURISM**

LINDA LINGLE  
GOVERNOR  
THEODORE E. LIU  
DIRECTOR  
MARK K. ANDERSON  
DEPUTY DIRECTOR

No. 1 Capitol District Building, 250 South Hotel Street, 5th Floor, Honolulu, Hawaii 96813  
Mailing Address: P.O. Box 2359, Honolulu, Hawaii 96804  
Web site: [www.hawaii.gov/dbedt](http://www.hawaii.gov/dbedt)

Telephone: (808) 586-2355  
Fax: (808) 586-2377

Statement of  
**THEODORE E. LIU**  
Director  
Department of Business, Economic Development, and Tourism  
before the  
**HOUSE COMMITTEE ON FINANCE**  
Thursday, April 2, 2009  
4:30 PM  
State Capitol, Conference Room 308

in consideration of  
**SB 512 SD2**  
**RELATING TO TAXATION.**

Chair Oshiro, Vice Chair Lee, and Members of the Committee.

The Department of Business, Economic Development, and Tourism (DBEDT) supports the intent of SB 512, SD2, which would: 1) broaden the applicability of the ethanol facility incentive to other biofuels, such as biodiesel, produced in Hawaii; and 2) increase the incentive from thirty cents per gallon of capacity to forty cents per gallon produced.

The change proposed by this bill would increase the potential annual maximum tax credit received by each facility and therefore could potentially reduce the number of facilities eligible for the credit and the in-state capacity constructed. We recommend broadening the applicability of the credit, removing the caps on facility size and statewide production capacity, and retaining the level and method of calculating the incentive. We defer to the Department of Taxation with respect to implementation. and compatibility with the interstate commerce clause of the US Constitution.

To encourage greater fuel production capacity in the state, we suggest that the bill be amended to remove the facility size cap and statewide production cap. This can be done, without

additional revenue impacts, by maintaining the thirty percent level and the annual facility credit cap. To accomplish this, two changes are needed.

First, the section that begins on page 1, line 14, would be revised to read as follows:

"if the nameplate capacity of the qualified biofuel production facility is greater than five hundred thousand [~~but less than fifteen million~~] gallons. A taxpayer may claim this credit for the first fifteen million gallons of capacity of each qualifying [ethanol] biofuel facility, provided that:"

Second, the section that begins on page 7, line 21, would be deleted:

~~" [(g) Once the total nameplate capacities of qualifying ethanol production facilities built within the State reaches or exceeds a level of forty million gallons per year, credits under this section shall not be allowed for new ethanol production facilities. If a new facility's production capacity would cause the statewide ethanol production capacity to exceed forty million gallons per year, only the ethanol production capacity that does not exceed the statewide forty million gallon per year level shall be eligible for the credit.] "~~

Also, for consistency, the definition of "Qualifying [ethanol] biofuel production facility" on page 5, lines 5 through 9, should be modified to read as follows:

"Qualifying [ethanol] biofuel production facility" or "facility" means a facility located in Hawaii [~~which~~] that produces [meter fuel grade ethanol meeting the minimum specifications by the American Society of Testing and Materials standard D 4806, as amended.] biofuel.

There is currently no definition for the term "Biofuel;" we recommend the following:

"Biofuel" means ethanol, biodiesel, diesel, jet fuel, or other liquid fuel meeting the relevant fuel specifications of ASTM International (formerly ASTM, the American Society for Testing and Materials), provided such fuel is produced from renewable,

organic feedstocks, or waste materials, including fats, oils, grease, and municipal solid waste.

These changes, together with the broader applicability to biodiesel production, will increase the attractiveness of the incentive to local biofuels projects.

Thank you for the opportunity to offer these comments.

LINDA LINGLE  
GOVERNOR

JAMES R. AIONA, JR.  
LT. GOVERNOR



KURT KAWAFUCHI  
DIRECTOR OF TAXATION

SANDRA L. YAHIRO  
DEPUTY DIRECTOR

STATE OF HAWAII  
DEPARTMENT OF TAXATION  
P.O. BOX 259  
HONOLULU, HAWAII 96809

PHONE NO: (808) 587-1510  
FAX NO: (808) 587-1560

**HOUSE COMMITTEE ON FINANCE  
TESTIMONY REGARDING SB 512 SD 2  
RELATING TO TAXATION**

**TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)**

**DATE: APRIL 2, 2009**

**TIME: 4:30PM**

**ROOM: 308**

---

This measure modifies the current ethanol production facilities tax credit to provide a tax credit for biofuel production facilities. This measure also includes a requirement that such a facility be located within the state and use local feedstock for the biofuel production.

The Department of Taxation (Department) has the following comments and defers to DBEDT for amendments to this measure.

**SUPPORT FOR ALTERNATIVE ENERGY**—The Department strongly supports the encouragement and implementation of alternative energy systems in Hawaii in order to lessen the State's dependence on alternative energy. As fossil fuel and petroleum prices become more volatile, Hawaii's ability to generate its own energy from home will make the State more secure and less reliant on others.

**CONCERNS WITH CREDIT CALCULATION METHODS**—The Department has concerns with the method for calculating the credit as modified. Rather than a percentage of nameplate capacity, the credit is determined based upon cents per gallon of nameplate capacity. The Department has greater concerns with the nameplate capacity determination. As amended, the bill allows the nameplate capacity to be determined by the owner of the facility, rather than the government. The Department suggests that the government retain some oversight over the size of the facility that is entitled to enjoy this credit.

**REQUIREMENT REGARDING LOCAL FACILITY AND FEEDSTOCK**—The Department has strong concerns regarding the amendments that require a local feedstock requirement in order to enjoy the credit. Provisions such as this are commonly found unconstitutional preferences for local participation, which can infringe upon interstate commerce. The Department defers to the Attorney General on this issue; however raises it nonetheless.

**REVENUE LOSS**—Assuming a current effective date, the potential revenue loss of this bill could be up to \$12 million per year, which is the maximum allowable credit by the law, beginning in FY12.

# TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Biofuel facility tax credit

BILL NUMBER: SB 512, SD-2

INTRODUCED BY: Senate Committee on Ways and Means

BRIEF SUMMARY: Amends HRS section 235-110.3 (d) to change the name of the ethanol facility tax credit to the biofuel facility tax credit including changing any reference to ethanol with biofuel. The credit shall be 40 cents per gallon of biofuel produced if the nameplate capacity is greater than 500,000 gallons but less than 15 million gallons. Stipulates that in order to claim the credit, the qualifying biofuel production facility shall be located within the state and utilize locally grown feedstock for at least 75% of its production output.

EFFECTIVE DATE: July 1, 2090; applicable to tax years beginning after December 31, 2089

STAFF COMMENTS: The legislature by Act 289, SLH 2000, established an investment tax credit to encourage the construction of an ethanol production facility in the state. The legislature by Act 140, SLH 2004, changed the credit from an investment tax credit to a facility tax credit. This measure proposes to change the ethanol facility tax credit to a biofuel facility tax credit.

While it has been almost nine years since the credit for the construction of an ethanol plant in Hawaii was enacted and ground has not broken yet, it appears that there are other far more efficient biofuels which could be developed and therefore the existing credit, which is specific to ethanol, might not be available to assist in the development of these other types of fuels.

As an alternative, lawmakers should consider repealing this credit and look for other types of alternate energy to encourage through the appropriation of a specific number of taxpayer dollars. At least lawmakers would have a better idea of what is being funded and hold the developers of these alternate forms of energy to a deliberate timetable or else lose the funds altogether. A direct appropriation would be preferable to the tax credit as this would provide some accountability for the taxpayers' funds being utilized to support this effort.

Digested 3/20/09

**SB 512, SD2**

**RELATING TO TAXATION**

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

**APRIL 2, 2009**

Chair Oshiro and Members of the House Finance Committee:

I am Joel Matsunaga, testifying on behalf of Hawaii BioEnergy on SB 512, SD2, "Relating to Taxation."

**SUMMARY**

Hawaii BioEnergy ("HBE") supports, with amendments, SB 512, SD2, which would revise Section 235-110.3 of the Hawaii Revised Statutes to facilitate the development of local renewable energy sources by expanding the credit to apply to biofuels facilities, requiring qualifying facilities to be located within the State, and encouraging the use of locally grown feedstock. The amendment to SB512, SD2 proposed below would:

1. Extend tax credit eligibility to production facilities above fifteen million gallons per year production capacity, enabling producers to achieve economies of scale and maximize efficiency, without requiring an additional budget allocation from the State. Excluding facilities over fifteen million gallons per year capacity would discourage efficient investments and severely limit the economic development, environmental, energy security and tax revenue potential of biofuel production in the State.

## **HAWAII BENEFITS FROM LOCAL BIOFUEL PRODUCTION**

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. Since its inception in 2006, HBE has been researching various biofuels alternatives to clearly evaluate each biofuel's relative suitability and sustainability based on Hawaii's natural resource base, climate, market and infrastructure.

One of those biofuel alternatives that HBE is pursuing is the production of jet fuel and other oil derivatives from micro-algae. Preparations have been underway for many months and facilities to conduct on-site research and development are expected to be in place before this legislative session is done. Algae not only offers Hawaii the benefit of developing a locally produced fuel source, but it also benefits the agriculture industry by providing proteins for animal feed, fertilizers and other locally produced products.

HBE is also currently considering plans to develop locally produced ethanol from sugar cane, sweet sorghum, or other crops that can be processed into ethanol. The production of ethanol in Hawaii will provide its residents with better 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 biofuels production, Hawaii would benefit greatly from the energy security that would result from having a significant portion of its energy needs met by locally grown feedstocks. In addition to the energy

security, biofuels from locally grown feedstocks will also help to reduce the severe volatility of energy prices associated with the price of fossil fuels as they fluctuate with world demand and politics

While local biofuel production would benefit the State, the gains will be compounded if the feedstocks used to produce the biofuels are grown locally – as the increased demand for local inputs would create more jobs, increase demand from local businesses, and generate additional tax revenue for the State. As such, HBE supports the provision that requires facilities to be located within the State and encourages the use of locally grown feedstock.

### **SB512, SD2 REQUIRES AMENDMENT TO FULLY BENEFIT HAWAII**

At present, SB512, SD2 limits tax credit eligibility to small-scale facilities. In order for the State to realize the full benefits of Section 235-110.3, HBE recommends that SB 512, SD2 be amended as shown below to allow for economies of scale and efficient production:

**"§235-110.3 [~~Ethanol~~] Biofuel facility tax credit.** (a) Each year during the credit period, there shall be allowed to each taxpayer subject to the taxes imposed by this chapter, [~~an ethanol~~] a biofuel facility tax credit that shall be applied to the taxpayer's net income tax liability, if any, imposed by this chapter for the taxable year in which the credit is properly claimed.

For each qualified [~~ethanol~~] biofuel production facility, the annual dollar amount of the [~~ethanol~~] biofuel facility tax credit during the eight-year period shall be equal to [~~thirty per cent of its nameplate capacity~~] 40 cents per gallon produced if the nameplate capacity of the qualified biofuel production facility is greater than five hundred thousand gallons but less than up to fifteen million gallons of production.

The above referenced amendment would encourage efficient production by  
( ) extending the eligibility for the tax credit to facilities above fifteen million gallons of

capacity without requiring an additional budget allocation. Further, given the extension of the legislation to apply to 'biofuels,' section (g) of the legislation which limits the tax credit to the first forty million gallons of capacity should be eliminated. Without the amendments proposed above, the State would limit the credit to small-scale production, inhibiting project developers from achieving economies of scale and maximizing efficiency potentially thwarting HBE and other producers from pursuing larger-scale biofuel investments in Hawaii.

### **CONCLUSION**

HBE is moving forward with projects that will help to address Hawaii's energy future and believes that SB 512, SD2, with the amendments proposed, will encourage the development of renewable energy sources in Hawaii.

Based on the aforementioned, Hawaii BioEnergy respectfully requests your support for SB 512, SD2, with the above referenced amendment.

Thank you for the opportunity to testify.

**Testimony before the  
House Committee on**

**Finance**

**S.B. 512 SD2 -- Relating to Energy**

**Thursday, April 2, 2009  
4:30 pm, Conference Room 308**

**By Arthur Seki  
Director, Technology  
Hawaiian Electric Company, Inc.**

Chair Oshiro, Vice-Chair Lee and Members of the Committee:

My name is Arthur Seki. I am the Director of Technology for Hawaiian Electric Company. I am testifying on behalf of Hawaiian Electric Company (HECO) and its subsidiary utilities, Maui Electric Company (MECO) and Hawaii Electric Light Company (HELCO), hereby referred to collectively as the HECO Utilities.

We support S.B. 512 SD2 amending the definitions for biofuel facilities and providing incentives for biofuel development in Hawaii. Biofuels can be developed from a multitude of processes and technologies for the transportation and electrical generation sectors. Thus, we respectfully offer a few amendments (**in bold**) under Hawaii Revised Statutes ("HRS") § 235-110.3--biofuel facility tax credit to broaden the language:

- Under "qualifying biofuel production", page 4, lines 20 to 22 and page 5, lines 1 to 4 would read:

"Qualifying [~~ethanol~~] biofuel production" means ethanol or biodiesel produced from renewable, organic feedstocks, or waste materials, including fats, oils, grease, and municipal solid waste. All qualifying production shall be fermented, distilled, gasified, **processed, refined,** or produced by physical **or** chemical conversion methods such as, **but not limited to,** reformation and catalytic conversion and dehydrated at the facility."

- Under “qualifying biofuel production facility”, page 5, lines 5 to 9 would read:  
"Qualifying [~~ethanol~~] biofuel production facility" or "facility" means a facility located in Hawaii which produces motor fuel grade [~~ethanol~~] biofuel meeting the minimum specifications by the American Society of Testing and Materials standard D-4806[,] **or biofuel meeting the specifications for electrical production**, as amended.”

As you may know, HECO Utilities are committed to exploring and using biofuels in its existing and planned generating units. The amendments we propose will help biofuel production facility development. The use of biofuels can reduce the State’s dependence on imported oil and increase the amount of renewable energy from sustainable resources. This commitment by the HECO Utilities is demonstrated by the following initiatives:

- Installing the 2009 power plant (100 MW) at Campbell Industrial Park to be 100% biofueled;
- Testing biodiesel in its diesel engines and combustion turbine at MECO’s Maalaea power plant and conducting further tests;
- Planning for a 30-day test at Kahe 3 biofuel co-firing demonstration in a steam boiler generating unit for late 2009;
- Provided 2 years of seed funding to the Hawaii Agriculture Research Center (“HARC”) and the agriculture departments at the University of Hawaii’s Manoa and Hilo campuses to conduct biofuel crop research and a 3<sup>rd</sup> year funding to follow this year; and
- Evaluating micro-algae for biofuels and ocean energy projects.

In conclusion, HECO Utilities support S.B. 512 SD2 as a way to stimulate the biofuel development.

Thank you for the opportunity to present this testimony.



**Testimony to the House Committee on Finance  
Thursday, April 2, 2009; 4:30 p.m.  
Conference Room 308  
State Capitol  
Agenda #3**

**Re: SB 512. SD2 relating to Taxation**

Chair Oshiro, Vice Chair Lee and members of the committee:

My name is Jim Tollefson and I am the President and CEO of The Chamber of Commerce of Hawaii ("The Chamber"). The Chamber supports SB 512 relating to Taxation.

The Chamber is the largest business organization in Hawaii, representing more than 1,100 businesses. Approximately 80% of our members are small businesses with less than 20 employees. As the "Voice of Business" in Hawaii, the organization works on behalf of its members, which employ more than 200,000 individuals, to improve the state's economic climate and to foster positive action on issues of common concern.

The Chamber strongly supports SB 512, which would amend an already existing and funded ethanol facility tax credit to also encourage the production of biodiesel in the State of Hawaii.

Changing the support from only 'ethanol facilities' to 'biofuel facilities' would enable local companies to utilize this dormant incentive to expand biofuel production capacity statewide. Additionally, changes to base the incentive on gallons produced rather than self-proclaimed production capacity will create an even playing field for many different types of biofuel production. More biofuel facilities in the state will create new jobs in the agricultural sector as well. This bill will give Hawaii an opportunity to join other states in leading the development of locally produced biofuel.

Some benefits of locally produced biofuels are:

- Job creation in renewable energy and agricultural sectors
- Greatly reduced environmental impact
- Energy security
- Local economic benefit from fuel sales
- Increased price stability for fuel

Sustainable businesses could use this already well constructed policy to propel the state forward towards energy independence while creating jobs and economic growth through locally owned businesses.

Thank you for the opportunity to testify,



Thursday, April 2, 2009  
4:30 PM, Conference Room # 308

COMMITTEE ON FINANCE  
Representative Marcus R. Oshiro Chair  
Representative Marilyn B. Lee, Vice Chair

In support of SB 512, Relating to Taxation

Chair, Vice Chair and Members of the Committee:

The Hawaii Science and Technology Council strongly supports SB 512, which would amend an already existing and funded ethanol facility tax credit to also encourage the production of biodiesel in the State of Hawaii. Changing the support from only 'ethanol facilities' to 'biofuel facilities' would enable local companies to utilize this dormant incentive to expand biofuel production capacity statewide. Additionally, changes to base the incentive on gallons produced rather than self-proclaimed production capacity will create an even playing field for many different types of biofuel production. More biofuel facilities in the state will create new jobs in the agricultural sector as well. This bill will give Hawaii an opportunity to join other states in leading the development of locally produced biofuel.

Benefits of locally produced biofuels:

- Job creation in renewable energy and agricultural sectors
- Greatly reduced environmental impact
- Energy security
- Local economic benefit from fuel sales
- Increased price stability for fuel

Sustainable businesses could use this already well constructed policy to propel the state forward towards energy independence while creating jobs and economic growth through locally owned businesses.

*The Hawaii Science & Technology Council (HISciTech) is a 501(c)6 industry association with a 28-member board. HISciTech serves Hawaii companies engaged in ocean sciences, agricultural biotechnology, astronomy, defense aerospace, biotech/life sciences, information & communication technology, energy, environmental technologies, and creative media.*

Sincerely,

Lisa H. Gibson  
President  
Hawaii Science & Technology Council  
(808)536-4670  
lgibson@hiscitech.org

**PACIFIC WEST ENERGY LLC**

**1212 NUUANU #1704**

**HONOLULU, HI 96817**

**Tel. 808-927-0619**

March 31, 2009

Representative Marcus Oshiro, Chair  
Representative Marilyn Lee, Vice Chair  
And Members of the Committee on Finance  
Hawaii State Capitol  
415 S. Beretania  
Honolulu, HI 96813

Re: SB 512 SD2– Relating to Taxation

Dear Chair Oshiro, Vice Chair Lee, 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 support of the intent of SB 512 SD2, amending the nameplate capacity for biofuels facilities and revising the allowable tax credit to be equal to \$0.40 per gallon of biofuel produced – but importantly, modifying a tax credit designed for ethanol facilities to include different biofuels.

Pacific West Energy LLC intends to construct a 15 million gallon per annum fuel ethanol production facility on Kauai. The facility will include a green energy cogeneration facility. The project cost is \$125 million. We intend to expand sugar cane cultivation on Kauai to at least 12,000 acres (from the existing 7,000 acres). In addition to producing fuel ethanol for the local Hawaiian motor fuel market we intend to export 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 \$9 million and several years of effort in reliance on the Hawaii Facility Tax Credit. We believe that if SB 512 SD2 were to pass as currently drafted our facility would not be able to rely on the very tax credit designed to support our project, and with the State's commitment to local ethanol production is placed in doubt, our project will be unable to source any further equity or debt and our project, and the 300 jobs, tens of millions of dollars of economic activity, and significant displacement of imported energy our project will yield to Hawaii will be lost.

As some of you may recall, in 2000 and again in 2004 the legislature passed the ethanol facility investment tax credit. As part of its consideration of the ethanol facility

tax credit the legislature and administration undertook comprehensive reviews that included a detailed fiscal and economic analysis commissioned by DBEDT and prepared for the legislature by Decision Analysts Hawaii Inc. (“DAHI”), as well as studies by Stillwater Associates and BBI International that examined the impacts from a Hawaiian ethanol industry. The two cost / benefit analysis we were required to provide included a presentation of all our capital and operating budgets to DAHI. The finding of the DAHI analysis was that the incentive would be revenue positive for the State over the life of the project. At that time the project was to be primarily a molasses based facility – today it is a fully integrated sugar cane based facility preserving hundreds of direct jobs and creating directly 130 new jobs. The fiscal and economic benefits to the State from our project that were positive in 2004 would be far greater today with the expanded project scope.

Our project has taken much longer to develop than we originally envisaged. 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.

My own background is not just in ethanol, but biofuels generally. From 1998 through 2008 I served as Director of Business Development for ED & F Man Biofuels Inc. (“Man”). Man is one of the largest traders in ethanol, biodiesel, vegetable oils and tropical oils internationally, and provides feedstocks to biodiesel plants. In addition, they are significant equity holders in biodiesel production companies. In my capacity with Man I evaluated both ethanol and biodiesel project opportunities, including production facilities in Hawaii.

I outline below our major issues relating to the proposed amendments to the Ethanol Facility Tax Credit.

- While the expanded production of biodiesel in Hawaii is a desirable from energy independence and economic development standpoints, its development should not be at the expense of the local production of ethanol, and its related benefit of electricity cogeneration.
- Biodiesel and ethanol are both biofuels, but completely different products, with significantly different economics and markets. To simply add biodiesel to the carefully crafted Hawaii Ethanol Facility Tax Credit bears no relation to the relative economics of the two products, and would not be good public policy, with one, ethanol, being carefully evaluated, and the

other, biodiesel, not. The Committee should proceed to support the extension to biodiesel provided it has been examined as carefully as the ethanol industry had been in creating the original statute.

- A 15 million gallon per annum sugarcane based ethanol facility has a capital cost (excluding cogeneration) of over \$50 million, more than \$3.00 per gallon of installed capacity. A 15 million gallon biodiesel facility is likely to cost between \$7.5 and \$10 million, less than \$1.00 per gallon of installed capacity (the industry standard today is about \$0.50 per gallon of installed capacity, excluding seed crushing). Biodiesel plants are typically modular and pre-fabricated and fit in 40 ft. containers. Most of the capital for local biodiesel plants under the proposed law would likely be for storage tanks for oil feedstocks.
- Producing ethanol is a much different and more costly process than producing biodiesel, involving a biological process, fermentation, along with distillation and dehydration. Biodiesel production is a simpler, lower cost process, involving separating vegetable oil into biodiesel and glycerin by adding a transesterification agent, usually methanol, and a catalyst. The capital and operating costs are completely different.
- Under the existing Ethanol Facility Tax Credit an ethanol facility will not recover its capital costs from the credit over the 8 years that the incentive would be paid. As proposed, a biodiesel producer would likely recover 100% of capital costs in refundable tax credits within two years, so over the 8 years they would likely receive over 4 times their capital investment in refundable tax credits.
- To increase the level of credit beyond established capital costs as defined in the existing statute it is proposed to include “inventory costs” as capital costs. While it is understandable that a biodiesel producer would like to receive a tax credit for the purchase of feedstocks these costs would normally not be included as capital costs, and their inclusion may enable a biodiesel producer to receive a multiple of invested capital in refundable tax credits.
- The existing statute eliminates further credits once 40 million gallons of ethanol production capacity in-state is realized. The 40 million gallons equates to the level of ethanol required to support 10% ethanol blended in gasoline. If the proposed amendments are passed there will certainly be far more than 40 million gallons of biodiesel capacity in place within one year, before any ethanol facility could come on-line, crowding out credits and eliminating any ethanol facility from receiving any credits – unless a specific carve out for ethanol plants is added to the legislation.

- The proposed revisions enable a producer to name their own nameplate capacity, and to use a simple 7 day figure for production multiplied by 52 to determine the nameplate. This increases the credit as the existing statute used a 340 day year instead of a 365 day year, as plants tend to be down for a certain number of days for maintenance. Using any seven days also potentially lends itself to abuse, as sustained operations rarely achieve an optimum seven days production.
- From a fiscal standpoint, it is unlikely that an ethanol producer will be in a position to claim a credit until 2012 (after coming on-line in 2011). With the low cost of biodiesel plants, and short lead time to develop (as little as a few weeks for package plants) the full amount of tax credits would likely be earned by biodiesel producers in 2009, creating an immediate fiscal impact and exacerbating the State's near-term fiscal crisis.

Therefore, we recommend that the Committee evaluate carefully the proposed amendments, and in the event that the Committee determines that they want to provide an increased incentive to all biofuels, by extending the ethanol incentive to biodiesel production facilities, it should do so but only after receiving a detailed independent cost / benefit analysis similar to that undertaken by the ethanol industry so that it can be sure that all biofuels related incentives are based on their specific economics and merits.

In any case, a biodiesel related incentive should not be to the detriment of ethanol production, as would be the case as the language currently is in SB 512 SD2. One means of doing this would be to remove the overall 40 million gallon cap for biofuels, another way would be to divide the total incentives and reserve at least 50% of any total for ethanol facilities.

We respectfully request that the Committee keep in mind the very differing economics and project lead-times note4d above and not modify the existing statute in such a way that will negatively impact the existing ethanol facility investment tax credit.

Thank you for your consideration.

Sincerely,

*William M. Maloney*

William M. Maloney  
President & Chief Executive Office  
Pacific West Energy LLC

Thursday, April 2, 2009  
4:30 PM, Conference Room # 308

COMMITTEE ON FINANCE  
Representative Marcus R. Oshiro, Chair  
Representative Marilyn B Lee, Vice Chair

Testimony of Robert King, Pacific Biodiesel

**In support of SB 512, Relating to Taxation**

Headquartered in Kahului, Pacific Biodiesel is a respected technology and operations expert in the rapidly expanding biodiesel industry. Since opening and operating the very first retail biodiesel pump in America, Pacific Biodiesel has built a solid reputation as a pioneer and leading advocate for the establishment of community-based biodiesel

Pacific Biodiesel strongly supports SB 512, which would amend an already existing and funded ethanol facility tax credit to also encourage the production of biodiesel in the State of Hawaii. Changing the wording 'ethanol facility' to 'biofuel facility' would enable local companies to utilize this dormant incentive to expand biofuel production capacity statewide.

**We respectfully propose the following amendment to improve this bill:**

1. The specification for biodiesel, ASTM D6751, be added next to ethanol specification on page 5, line 9

The included language limiting qualifying facilities to production capacities of 15 million gallons per year or less will encourage the construction of multiple sustainably-scaled facilities, providing a diverse and flexible biofuel production network within the state. Increasing the size and scope of applicants while limiting aggregate funding to \$12 million per year will incur the problems encountered by the federal bioenergy program. This created an oversized pool of applicants for a limited amount of funding, ultimately reducing the shares of credits to individual companies significantly. In order for incentives to encourage real projects, there must be a meaningful pool of funds that we can count on, at least for a significant period.

While we realize the incentives in this bill were originally written for ethanol, they were also created more than eight years ago. In that time, the production cost of for both ethanol and biodiesel have risen significantly. Pacific Biodiesel cannot speak authoritatively about the ethanol industry, we do know the biodiesel industry has been struggling under the recent economic conditions as well as significantly reduced petroleum prices. A majority of the biodiesel producers already in operation are running at reduced capacity or have entirely shut down;

furthermore nearly all new facility construction has been stalled indefinitely. Current industry-wide costs for biodiesel plant construction are between \$1-\$3 per gallon of production capacity, depending on technology. After that expense, the cost of production is increased by: the rising cost methanol (necessary for processing), labor, feedstock collection and processing, insurance, etc. For these reasons, Pacific Biodiesel is confident that the \$0.40 per gallon incentive provided by this bill is not overly generous for a biodiesel producer, or for any type of biofuel production. As an example, Pennsylvania recently instated a \$0.75 per gallon incentive to save the biodiesel producers in the state from shutting down production.

Pacific Biodiesel urges the committee to pass SB 512 which will allow more sustainable businesses to utilize an already well constructed policy, propelling the state forward towards energy independence and encouraging jobs and economic growth through locally owned businesses.

#### **Benefits of locally produced biofuels:**

- Job creation for renewable energy and agricultural sectors
- Greatly reduced environmental impact
- Energy security
- Local economic benefit from fuel sales
- Increased stability for fuel pricing

Thank you for the opportunity to testify,

Robert King, President  
Pacific Biodiesel, Inc.  
40 Hobron Ave  
Kahului, Hawaii 96732  
Ph: (808) 877-3144  
[www.biodiesel.com](http://www.biodiesel.com)



Thursday, April 2, 2009  
4:30 PM, Conference Room # 308

COMMITTEE ON FINANCE

Representative Marcus R. Oshiro Chair

Representative Marilyn B. Lee, Vice Chair

Testimony of Miriam Beams

**In support of SB 512, Relating to Taxation**

I am Miriam Beams and I work at the Chamber of Commerce of Hawaii and I strongly supports SB 512, which would amend an already existing and funded ethanol facility tax credit to also encourage the production of biodiesel in the State of Hawaii. Changing the support from only 'ethanol facilities' to 'biofuel facilities' would enable local companies to utilize this dormant incentive to expand biofuel production capacity statewide. Additionally, changes to base the incentive on gallons produced rather than self-proclaimed production capacity will create an even playing field for many different types of biofuel production. More biofuel facilities in the state will create new jobs in the agricultural sector as well. This bill will give Hawaii an opportunity to join other states in leading the development of locally produced biofuel.

Benefits of locally produced biofuels:

- Job creation in renewable energy and agricultural sectors
- Greatly reduced environmental impact
- Energy security
- Local economic benefit from fuel sales
- Increased price stability for fuel

Sustainable businesses could use this already well constructed policy to propel the state forward towards energy independence while creating jobs and economic growth through locally owned businesses.

Thank you for the opportunity to testify,

**Miriam Beams**

Testimony of Edward F. Zwick, Pukalani, Maui - Secretary & Director of the Sustainable Biodiesel Alliance

**In support of SB 512, Relating to Taxation**

The Sustainable Biodiesel Alliance is an international organization focusing on the environmental, social and economic sustainability issues facing biodiesel. The SBA believes that the key to the sustainability of biodiesel in the USA is the community based model.

I am very supportive of this bill because it will assist biodiesel companies in the State of Hawaii to increase their investment and capacity for the production of sustainable alternate energy using local feedstocks that not only meet the community's energy needs, but create jobs, increases community involvement and insures energy security.

One of these companies, Pacific Biodiesel, is headquartered in Kahului on Maui. They pioneered the production and distribution of biodiesel fuels throughout the country. Companies such as Pacific Biodiesel can lead the State of Hawaii forward towards energy independence, new job creation and economic growth through locally owned businesses.

Thank you for the opportunity to testify.

Edward F. Zwick, Secretary & Director  
Sustainable Biodiesel Alliance  
282 Hololani Street  
Pukalani, HI 96768  
808 573-2628

## FINTestimony

---

**From:** mailinglist@capitol.hawaii.gov  
**Sent:** Tuesday, March 31, 2009 3:49 PM  
**To:** FINTestimony  
**Cc:** mrgach@att.net  
**Subject:** Testimony for SB512 on 4/2/2009 4:30:00 AM

Testimony for FIN 4/2/2009 4:30:00 AM SB512

Conference room: 308  
Testifier position: support  
Testifier will be present: No  
Submitted by: Michael Reed Gach  
Organization: Individual  
Address: Kihei, Maui HI  
Phone:  
E-mail: mrgach@att.net  
Submitted on: 3/31/2009

**Comments:**

I am writing the state legislature to support SB 512 - a bill which would create more clean energy jobs here in Hawaii and be good for our environment and natural resources.

Changing the wording 'ethanol facility' to 'biofuel facility' would enable biofuel companies to put this dormant tax credit to use and expand biofuel production capacity statewide.

Support for SB512 would enable new biodiesel facilities in Hawaii within the next year -- which could create jobs for our economy and the health of our islands.

## FINTestimony

---

**From:** mailinglist@capitol.hawaii.gov  
**Sent:** Tuesday, March 31, 2009 4:58 PM  
**To:** FINTestimony  
**Cc:** eChrisR@gmail.com  
**Subject:** Testimony for SB512 on 4/2/2009 4:30:00 AM

Testimony for FIN 4/2/2009 4:30:00 AM SB512

Conference room: 308  
Testifier position: support  
Testifier will be present: No  
Submitted by: Christopher Robbins  
Organization: Individual  
Address: 600 Queen St., #1405 Honolulu, HI 96813  
Phone: 808-545-4300  
E-mail: eChrisR@gmail.com  
Submitted on: 3/31/2009

Comments:  
Thursday, April 2, 2009  
4:30 PM, Conference Room # 308

COMMITTEE ON FINANCE  
Representative Marcus R. Oshiro Chair  
Representative Marilyn B. Lee, Vice Chair

Testimony of Mr. Chris Robbins

In support of SB 512, Relating to Taxation

I strongly support SB 512, which would amend an already existing and funded ethanol facility tax credit to also encourage the production of biodiesel in the State of Hawaii. Changing the support from only 'ethanol facilities' to 'biofuel facilities' would enable local companies to utilize this dormant incentive to expand biofuel production capacity statewide. Additionally, changes to base the incentive on gallons produced rather than self-proclaimed production capacity will create an even playing field for many different types of biofuel production. More biofuel facilities in the state will create new jobs in the agricultural sector as well. This bill will give Hawaii an opportunity to join other states in leading the development of locally produced biofuel.

Benefits of locally produced biofuels:

- Job creation in renewable energy and agricultural sectors
- Greatly reduced environmental impact
- Energy security
- Local economic benefit from fuel sales
- Increased price stability for fuel

Sustainable businesses could use this already well constructed policy to propel the state forward towards energy independence while creating jobs and economic growth through locally owned businesses.

Thank you for the opportunity to testify,

Chris Robbins

## FINTestimony

---

**From:** mailinglist@capitol.hawaii.gov  
**Sent:** Tuesday, March 31, 2009 8:47 PM  
**To:** FINTestimony  
**Cc:** joycotter@gmail.com  
**Subject:** Testimony for SB512 on 4/2/2009 4:30:00 AM

Testimony for FIN 4/2/2009 4:30:00 AM SB512

Conference room: 308  
Testifier position: support  
Testifier will be present: No  
Submitted by: Joyanna Cotter  
Organization: Individual  
Address:  
Phone:  
E-mail: joycotter@gmail.com  
Submitted on: 3/31/2009

Comments:  
Thursday, April 2, 2009  
4:30 PM, Conference Room # 308

COMMITTEE ON FINANCE  
Representative Marcus R. Oshiro Chair  
Representative Marilyn B. Lee, Vice Chair

estimony

In support of SB 512, Relating to Taxation

I am a community service advocate supporting health and self responsibility in life style, and I strongly supports SB 512. This would amend an already existing and funded ethanol facility tax credit to also encourage the production of biodiesel in the State of Hawaii. Changing the support from only 'ethanol facilities' to 'biofuel facilities' would enable local companies to utilize this dormant incentive to expand biofuel production capacity statewide. Additionally, changes to base the incentive on gallons produced rather than self-proclaimed production capacity will create an even playing field for many different types of biofuel production. More biofuel facilities in the state will create new jobs in the agricultural sector as well. This bill will give Hawaii an opportunity to join other states in leading the development of locally produced biofuel.

Benefits of locally produced biofuels:

- Job creation in renewable energy and agricultural sectors
- Greatly reduced environmental impact
- Energy security
- Local economic benefit from fuel sales
- Increased price stability for fuel

Sustainable businesses could use this already well constructed policy to propel the state forward towards energy independence while creating jobs and economic growth through locally owned businesses.

Thank you for the opportunity to testify,

Joyanna Cotter

## **FINTestimony**

---

**From:** mailinglist@capitol.hawaii.gov  
**Sent:** Tuesday, March 31, 2009 3:41 PM  
**To:** FINTestimony  
**Cc:** miznerv001@hawaii.rr.com  
**Subject:** Testimony for SB512 on 4/2/2009 4:30:00 AM

Testimony for FIN 4/2/2009 4:30:00 AM SB512

Conference room: 308  
Testifier position: support  
Testifier will be present: No  
Submitted by: Valerie Mizner  
Organization: Individual  
Address:  
Phone:  
E-mail: miznerv001@hawaii.rr.com  
Submitted on: 3/31/2009

**Comments:**

Since Hawaii is not producing ethanol, I support changing the bill to include all biofuels as this would give increased awareness and productivity of locally made fuels.

## FINTestimony

---

**From:** mailinglist@capitol.hawaii.gov  
**Sent:** Tuesday, March 31, 2009 4:23 PM  
**To:** FINTestimony  
**Cc:** aronhoffman@gmail.com  
**Subject:** Testimony for SB512 on 4/2/2009 4:30:00 AM

Testimony for FIN 4/2/2009 4:30:00 AM SB512

Conference room: 308  
Testifier position: support  
Testifier will be present: No  
Submitted by: aron hoffman  
Organization: Individual  
Address: 330 napoko pl Kula HI 96790  
Phone: 808-281-8344  
E-mail: aronhoffman@gmail.com  
Submitted on: 3/31/2009

Comments:  
Please pass this for us!

## FINTestimony

---

**From:** mailinglist@capitol.hawaii.gov  
**Sent:** Tuesday, March 31, 2009 7:14 PM  
**To:** FINTestimony  
**Cc:** lucreziacreation@gmail.com  
**Subject:** Testimony for SB512 on 4/2/2009 4:30:00 AM

Testimony for FIN 4/2/2009 4:30:00 AM SB512

Conference room: 308  
Testifier position: comments only  
Testifier will be present: No  
Submitted by: Lucrezia Oddie  
Organization: Individual  
Address: 700 East Kuiaha Rd Haiku, HI  
Phone: 283-4418  
E-mail: lucreziacreation@gmail.com  
Submitted on: 3/31/2009

**Comments:**

Please include biodeisel in SB 512. It is a great alternative to deisel fuel, being less pollutive to burn, less destructive to produce and less politically volitile. Promoting the production of biodeisel should be part of a comprehensive plan including various forms of more responsible energy sources.  
Aloha and thank you for considering these comments.  
Lucrezia Oddie