Date: 02/28/2012

Committee: House Finance

Department: Education

Person Testifying: Kathryn S. Matayoshi, Superintendent of Education

Title of Bill: HB 2121,HD1 (hscr 592-12) RELATING TO RENEWABLE ENERGY.

Purpose of Bill: Prohibits state and county agencies from entering into an energy agreement or contract to install a renewable energy system with a private provider who has claimed the renewable energy technologies tax credit. Authorizes the issuance of general obligation bonds for renewable energy systems for state facilities. Effective July 1, 2012.

Department's Position:

The Department of Education (DOE) would support this bill if the appropriation amount were sufficient to fund the projects that should be undertaken with bonds instead of power purchase agreements (PPAs). If insufficient funds are appropriated to install state-owned renewable energy systems at schools, DOE would be opposed to this bill.

DOE estimates that approximately $160 million of general obligation bonds would be required to complete the installation of photovoltaic systems at public schools statewide. PPAs can reduce electricity costs by more than 50%, at current rates, with no up-front cost to the state, other than the renewable energy tax credit. DOE believes the $160 million of debt capacity required to install photovoltaic systems at all DOE schools would be better used to improve school facilities.

HAWAII COMMUNITY DEVELOPMENT AUTHORITY

KAKAAKO KALAELOA

Neil Abercrombie
Governor

Joseph L. Dwight, IV
Chairperson

Anthony J. H. Ching
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STATEMENT OF

ANTHONY J. H. CHING, EXECUTIVE DIRECTOR
HAWAII COMMUNITY DEVELOPMENT AUTHORITY

BEFORE THE

HOUSE COMMITTEE ON FINANCE

Tuesday, February 28, 2012

2:00 P.M.

State Capitol, Conference Room 308

in consideration of

H. B. 2121, H. D. 1 – RELATING TO RENEWABLE ENERGY.

Purpose: Prohibit State and County agencies from entering into an energy agreement or contract to install a renewable energy system with a private provider who has claimed the renewable energy technologies tax credit. Authorizes the issuance of general obligation bonds for renewable energy systems for State facilities.

Position: The Hawaii Community Development Authority ("HCDA") takes no position regarding the proposal, but offers the following comments:

- In an effort to reduce electricity costs and take advantage of renewable energy resources, the HCDA is currently considering installing photovoltaic ("PV") systems on buildings that the HCDA owns. This proposal would prohibit the HCDA from taking advantage of the electricity cost savings of having these systems on HCDA's facilities.

  <u>For Example</u>:

  - For the HCDA Container Freight Station 3 warehouse facility, it would cost $498,000 in State money to construct a PV facility that would generate sufficient electricity to offset current and projected use. Should the HCDA choose, it might instead allow the PV provider to install the system at no cost to the State and instead receive a 22.5% discount on the electricity that the PV facility produces. The project would either save the HCDA nearly $500,000 in upfront costs or reduce our electricity bill by 22.5%. This proposal would prohibit such a project from taking place.

- The HCDA is negotiating leases for the development of four 5-megawatt ("Mw") PV farms on HCDA lands in the Kalaeloa Community Development District. The PV farms will contribute 20 Mw to the Hawaiian Electric Company, Inc. Oahu power grid and assist in reducing the County and State's dependency on foreign oil. While the proposal as currently drafted would not appear to impact this project, it is my hope that any future drafts of the proposal doesn't unintentionally impact our proposed development of 20 Mw of renewable energy.
- While the HCDA understands the intent of the proposal is to prevent private solar power companies that are already benefitting from the renewable energy technologies income tax credit to also charge State agencies the full cost of installing PV facilities while receiving this subsidy, might the tax credit program be amended such that the credit could not be received when the PV facility is installed on any public facility?

Thank you for the opportunity to comment on this proposal.

Bernard P. Carvalho, Jr.
Mayor

Gary K. Heu
Managing Director

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TESTIMONY OF MAYOR BERNARD P. CARVALHO, JR. COUNTY OF KAUA'I

Before a Hearing of the House Committee on Finance
Tuesday, February 28, 2012
Conference Room 308
2:00 p.m.

HOUSE BILL 2121, HD1 RELATING TO RENEWABLE ENERGY

Chair Oshiro, Vice Chair Lee and Members of the House Finance Committee:

The County of Kaua'i strongly opposes HB 2121 HD1. The purpose of this measure as stated in the bill is to ensure the cost-effectiveness of renewable energy technologies projects by prohibiting government agencies from contracting with private energy providers that claim the renewable energy technologies tax credit. This action will result in having the opposite effect. Many state and county agencies are currently working to implement power purchase agreements (PPAs) because of the benefits of low electricity prices. These PPAs project are cost-effective to these agencies, help to lower operational costs and further moves Hawai'i towards its long term goal of less reliance on imported oil. This bill is also discriminatory as it singles out only state and county agencies.

Power purchase agreements allow private energy providers to qualify for the 30% federal tax credit and the 35% nonrefundable state tax credit or the 24.5% refundable state tax credit. This allows the PPA providers to sell power at a greatly reduced rate to state and county agencies. The PV contractor also maintains these systems for the life of the agreement which provides added benefits. It is also important to note that most of the money to fuel utility oil-fired generation goes out-of-state and the state does not realize any benefits from this outflow of capital for fuel. The state tax credit also must be taken AFTER the system has been built, inspected and operational so these renewable energy systems are solid, renewable projects that reduce our reliance on imported oil.

PPA's allow government agencies to have renewable energy AT NO UPFRONT COST so there is no investment needed by the respective agency. Because there is no investment by the respective agency, the Return on Investment (ROI) is positive from the first day of power production which is sold to the facility at a greatly reduced rate. PPAs also have buy out provisions usually after the 5th or 6th year and the PV system sale at that time would also yield a state GET of 4.66% of the sale price.

Fiscal responsibility is *not* simply a function of maintaining tax revenue. The tax credit is working as anticipated and is having a stimulating effect on the renewable energy industry, specifically the photovoltaic (PV) industry and the state economy. The tax credit helps to reduce fuel imports, create jobs, and increase tax revenues and move us towards a cleaner energy future. The jobs provided by the local solar industry through system installation and maintenance work generate general excise tax payments and payment of income taxes by workers. There is also the multiplier effect from the use of local labor and equipment.

The County of Kauai is currently negotiating a PPA for Lihue and Eleele Wastewater Treatment plants. The PPA developer is taking advantage of the State tax credit and has tentatively offered the County a rate of 14.7 cents per kWh as compared to our current rate of 38 cents per kWh. The State tax credits are definitely playing an important role in providing low PPA rates. We are also working on an Energy Savings Performance Contract for the Dept. of Public Works, Building Division and the Dept. of Parks and Recreation which will contain provisions for PPAs. This bill, with its effective date of January 1, 2013 would prevent the County from securing the best PPA proposals possible.

Prohibiting state and county agencies from entering into PPAs that use the state tax credit will definitely increase the PPA rate, making PPAs less attractive or impracticable, and reduce the amount of renewable energy installed in Hawai'i.

The County of Kaua'i respectfully requests that HB 2121, HD1 be held for the reasons above.

Mahalo,

Bernard P. Carvalho, Jr.
Mayor

OFFICE OF HAWAIIAN AFFAIRS
Legislative Testimony

HB2121 HD1
RELATING TO RENEWABLE ENERGY
House Committee on Finance

February 28, 2012 2:00 p.m. Room 308

The Office of Hawaiian Affairs (OHA) offers the following comments on HB2121 HD1, which prohibits state and county agencies from contracting with private energy providers who claim the renewable energy technologies tax credit, and authorizes the issuance of bonds to purchase renewable energy systems for state facilities.

HB2121 HD1's proposed limitation on the ability of government agencies to contract could have unintended consequences. Specifically, the bill would negatively impact the ability to improve property by persons that lease property from the government, affordable housing developments, and neighbor islands that have limited access to renewable energy installation contractors.

Mahalo for the opportunity to testify on this important measure.

DEPARTMENT OF WATER SUPPLY • COUNTY OF HAWAI'I
345 KEKŪANAŌ'A STREET, SUITE 20 • HILO, HAWAI'I 96720
TELEPHONE (808) 961-8050 • FAX (808) 961-8657

February 27, 2012

The Honorable Marcus R. Oshiro, Chair,
Committee on Finance
Hawai'i State Capitol, Room 306
Honolulu, HI 96813

HOUSE BILL 2121

Dear Honorable Chair Oshiro:

Hawai'i County Department of Water Supply (DWS) respectfully submits testimony in opposition of House Bill (HB2121).

The primary mission of all water supply companies is to serve safe drinking water, and not to generate electricity. Hawai'i County DWS will never borrow money through GO bond funds to develop and manage renewable energy generation projects. This type of project does not meet the Department's mission. Furthermore, borrowing money to develop renewable energy projects will raise, not lower, DWS water rates because a portion of the base water rates are used to service the interest on the GO bonds. A Third-Party electrical power generator receiving income tax credits would be the only way for this wind energy project to be built economically, and with the desired results of controlling and reducing energy costs to the Hawai'i County DWS customers. If this law moves ahead, please add an exemption for projects that pass along the savings to the customers.

Hawai'i County DWS has a State of Hawai'i Department of Land and Natural Resources lease to construct a wind farm on about 80 acres of State-owned property located adjacent to several of its wells in the Lalamilo region of South Kohala District, Hawaii Island. Hawai'i County DWS is making plans to re-power a wind farm that was originally constructed on this site in the mid-1980's. Hawai'i County DWS opposes HB 2121 because it will increase operating costs more than it will reduce energy costs and therefore raise the water rates to the citizens of Hawai'i County.

Every water department in the State passes its water pump's electric bills to their rate customers, and DWS is estimating $20 million dollars out of a TOTAL $44 million - 2012-2013 budget will be spent on electricity. Controlling these electric rates through the construction of renewable energy projects and entering into Third-Party Power Purchase Agreements will help the Island of Hawai'i control its water rates to its residential customers, the agricultural community, the resort and tourism industry, and especially the low-income rate payers, with no direct benefit at all to Hawai'i County DWS. Power Purchase Agreements allow the Hawai'i County DWS to purchase electricity at rates lower than can be provided by HELCO, thereby lowering and controlling its water rates to its water supply customers.

Power Purchase Agreements are an efficient way for the residents, farmers, and businesses of Hawai'i County to benefit from the aggressive federal tax incentives encouraging renewable energy generation installations. Without these tax benefits, there is no incentive for DWS to install renewable energy generation.

Thank you for your time and consideration on Hawai'i County DWS's testimony for this proposed bill. Should you have additional questions please do not hesitate to contact us at (808) 961-8050.

Sincerely yours,

Quirino Antonio, Jr., P.E.
Manager-Chief Engineer

JM:dmj

HAWAII PV COALITION

2/28/2012	**House Committee on Finance**	**FIN**
2:00 PM	**TESTIMONY IN OPPOSITION**	**HB2121 HD1**

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

The Hawaii PV Coalition (HIPVC) opposes this measure, which would limit the ability of state and county agencies to use wind and solar energy systems to lower their energy expenditures, which are currently one of the State's largest cost centers. State taxpayers benefit from installing solar and wind energy systems that fix the cost of power and make for stable, predictable costs over the long term. This is why various state agencies, including the Department of Education and the UH System, two of the State's largest power users, have signed such contracts in recent years. Put simply, taking away this option would increase the cost of operating the State and Counties.

HIPVC interprets the portion of HB 2121 HD1 dealing with general obligation bonds as intending to establish an alternative funding mechanism for state agencies' solar and wind projects. Obviously, HIPVC is not opposed in principle to the State seeking cost effective financing mechanisms for its projects, solar or otherwise. However, it is not clear that the cost to the State of using GO bond funding in lieu of tax credit funding to finance renewable energy projects is cheaper, even today with historically low interest rates. This is the case because federal tax benefits are eliminated when the State purchases systems directly. As a result, the least cost option for the State will, at best, vary on a project-by-project basis. Going forward, once interest rates rise from their historically low levels, financing solar and wind energy system purchases via bonds will clearly be more costly than power purchase agreements for state facilities.

To the extent that bond financing is somehow found to be financially preferable to financing that employs the 235-12.5 credit, the $7.5 million dollar cap is far too low to account for the volume of potential installations that state and county agencies would need to even begin to make a dent in their energy costs. Constraining the state and county portion of the PV market would also have the negative impact of restricting growth and inducing joblessness in one of the most robust sectors of Hawaii's economy.

As a final concern, the bill proposes no mechanism for the Counties, who facing tight budgets have, like the State, turned to renewable energy systems to manage their costs. Taking this tool away from them without even the offer of an alternative will undermine the Counties ability to meet their other obligations.

Thank you for the opportunity to testify on this measure.

Thank you for the opportunity to testify on this measure.

Mark Duda
Government Affairs Committee Chair, Hawaii PV Coalition

HAWAII PV COALITION

About the Hawaii PV Coalition

The Hawaii PV Coalition was formed in 2005 to support the greater use and more rapid diffusion of solar electric applications across the state. Working with business owners, homeowners and local and national stakeholders in the PV industry, the Coalition has been active during the state legislative sessions supporting pro-PV and renewable energy bills and helping inform elected representatives about the benefits of Hawaii-based solar electric applications.

The Coalition has also taken a very active role in policy discussions to promote best practices for distributed generation and interconnection rules. The Hawaii PV Coalition is currently intervening in two open PUC dockets, the Reliability Standards Working Group (2011-0206) and Rule 14H (2010-0015).

PO Box 81501 | Haiku, HI 96708 | 808.579.8288 | 808.575.9878 (f) | info@hawaiipvcoalition.org | hawaiipvcoalition.org

TO: House Committee on Finance
Honorable Representative Marcus Oshiro, Chair
Honorable Representative Marilyn B. Lee, Vice Chair

RE: Testimony Opposing HB 2121 HD1 Relating To Renewable Energy.

Testimony is 2 pages long.

HEARING: Friday, February 28, 2:00 p.m., Room 308

Chairman Oshiro and members of the Committee:

My name is Larry Gilbert, and I am the Managing Partner and Chief Executive of Kairos Energy Capital LLC. Kairos Energy Capital is a Hawai'i merchant bank that focuses entirely on providing and arranging funding for renewable energy projects. We have become one of the leading experts in Hawai'i in solar project financing.

HB2121 proposes to bar state and county agencies from entering into contracts for renewable energy systems with parties who have claimed the Hawai`i renewable energy tax credit, and instead proposes to issue general obligation bonds so agencies can purchase systems outright. The measure should not be passed in its current form, for the following reasons:

<u>The Measure Fails to Accomplish Its Stated Purpose</u>

The stated purpose of HB2121 is to avoid the expense of the 35% state tax credit (or 24.5% refund of the credit), on the theory that "it would be more beneficial for government agencies to purchase a renewable energy system, rather than to enter into a power purchase agreement."

The primary reason power purchase agreements ("PPA's") exist is to permit energy buyers who cannot use the tax benefits of renewable energy to benefit from them by having systems owned by investors who can use the benefits. Those benefits include not only the state energy tax credit, but also a **30% Federal tax credit**, along with generous Federal depreciation deductions, which together are worth considerably more to investors than the state tax credit.

While the intention of the bill is unclear (outright ban or just ban on use of the state credit), it seems that the intent may have been to take away the state tax credit while still taking advantage of the Federal benefits, the language as written prohibits agencies from contracting with a party "who **<u>has claimed</u>**" (past tense) the state credit. Since virtually all PPA providers with whom the state or county agencies would do business have claimed the state credit at some point, it would disqualify them from providing PPAs, which would mean that the agencies would lose the benefit of the Federal incentives in order to save the state the incentive money. This is like "cutting off your nose to spite your face."

Even if the language of the bill were changed to make it clear that the prohibition is against entering into contracts where the provider will claim the state credit, the effect will essentially be the same, because PPA providers will simply choose to do business with parties other than state and county agencies so that the benefit will remain available.

Systems Would Cost The State About 40% More Via Direct Purchase

As noted, the Federal subsidy for renewable energy systems currently amounts to approximately 40% of the cost of the system (non-taxable 30% Federal credit, plus the value of accelerated depreciation benefits). If state and county agencies purchase the systems themselves, they are unable to use these benefits, and accordingly will pay the same price to the equipment provider, but will not get the Federal benefits.

Even with the favorable interest rates available to the State via general obligation bonds, the lifetime cost of energy from a system will be about 30% to 35% more to the State due to the loss of the Federal benefits.

The Existing Structure Is Saving Agencies a Lot of Money

Government agencies are desirable customers for PPA providers because of their strong credit and stable finances. Accordingly, there is vigorous competition among providers for State and county agency contracts, and the energy rates offered to agencies are currently often less than half of what those agencies would be paying the utility for the same energy.

According to our calculations, if the value of the state tax credit were removed from these contracts, the energy rate required to attract capital would be approximately double what is currently being charged on PPAs – i.e. much closer to what the utilities are charging.

Accordingly, the state credit is not being "wasted" or going to windfall profits for PPA providers, but instead is being flowed through to the agencies, who are enjoying the benefit of it while simultaneously supporting the state's commitment to renewable energy.

HB2121 should be deferred indefinitely, because it will cost state agencies more money.

Thank you for the opportunity to submit this testimony, and please feel free to contact me if I can be of further assistance.

Larry Gilbert
Managing Partner
Kairos Energy Capital LLC
55 Merchant Street, Suite 1560
Honolulu, HI 96813
Tel 808 457-1600
Email: LGilbert@kairosenergycapital.com

FINTestimony

'rom:	mailinglist@capitol.hawaii.gov
ent:	Monday, February 27, 2012 4:53 PM
To:	FINTestimony
Cc:	jmccay@hotmail.com
Subject:	Testimony for HB2121 on 2/28/2012 2:00:00 PM

Testimony for FIN 2/28/2012 2:00:00 PM HB2121

Conference room: 308
Testifier position: Oppose
Testifier will be present: No
Submitted by: James McCay
Organization: Individual
E-mail: jmccay@hotmail.com
Submitted on: 2/27/2012

Comments:
This bill must be opposed please or the Hawai'i clean energy initiative will be even harder to achieve. If this passes, the state moves BACKWARDS...
Aloha,
James

FINTestimony

From: mailinglist@capitol.hawaii.gov
Sent: Monday, February 27, 2012 7:51 PM
To: FINTestimony
Cc: Brenda.Kosky@gmail.com
Subject: Testimony for HB2121 on 2/28/2012 2:00:00 PM

Testimony for FIN 2/28/2012 2:00:00 PM HB2121

Conference room: 308
Testifier position: Support
Testifier will be present: No
Submitted by: Brenda Kosky
Organization: Individual
E-mail: Brenda.Kosky@gmail.com
Submitted on: 2/27/2012

Comments:

OFFICE OF THE MAYOR

CITY AND COUNTY OF HONOLULU

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PETER B. CARLISLE
MAYOR

DOUGLAS S. CHIN
MANAGING DIRECTOR

CHRYSTN K. A. EADS
DEPUTY MANAGING DIRECTOR

March 1, 2012

The Honorable Marcus Oshiro, Chair
House Committee on Finance
Twenty-Sixth Legislature
Regular Session of 2012
State of Hawaii

Re: Testimony of Managing Director Douglas S. Chin on H.B. 2121, H.D. 1, Relating to Renewable Energy

Chair Oshiro and members of the House Committee on Finance, I submit the following comments respectfully opposing House Bill 2121, H.D. 1.

The preamble to the bill states, "the legislature recognizes the importance of developing and utilizing renewable energy resources to reduce dependence on imported fossil fuels;" however, in effect, the bill eliminates a vital tool used to finance the development of resources. Limiting the government's ability to enter into an energy agreement or contract with any entity claiming the renewable energy technologies income tax credit negates the stated purpose of the bill.

Without the use of alternative financing methods such as power purchase agreements, the City would have to spend more tax dollars to develop renewable resources. Further, alternative financing methods allow the City to pursue energy projects without paying large upfront costs, which will not only cost more tax dollars, but encumber the City's ability to pursue renewable energy resources.

For the stated reasons, the City and County of Honolulu respectfully **opposes** House Bill 2121, H.D. 1.

Thank you for the opportunity to testify.