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RICHARD C. LIM
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DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

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Statement of
RICHARD C. LIM
Director
Department of Business, Economic Development, and Tourism
before the
HOUSE COMMITTEE ON FINANCE
Friday, February 22, 2013
3:00 p.m.
State Capitol, Conference Room 308

in consideration of
HB 497, HD2
RELATING TO RENEWABLE ENERGY.

Chair Luke, Vice Chairs Nishimoto and Johanson, and Members of the Committee.

The Department of Business, Economic Development & Tourism (DBEDT) supports HB 497, HD2, which contains two Parts: Part I establishes an appropriate legislative solution regarding the renewable energy income tax credit and Part II inserts language from HB 856, HD2 which establishes a Green Infrastructure financing program. **DBEDT strongly supports the green infrastructure legislation (Part II), but prefers HB 856, HD2**, as it distinctly provides its own vehicle in which to consider the merits of such a legal financing structure. DBEDT offers the following testimony on each Part, separately.

DBEDT supports Part I, which establishes an appropriate legislative solution regarding the renewable energy income tax credit to provide a predictable investment stimulus for renewable energy deployment in a manner the State can afford.

Continuing to support clean energy development is critical to Hawaii's economy: a prime example is that in 2012, 26% of all construction-related spending was attributed to the solar industry; in a time of declining construction spending, solar construction has helped provide welcomed relief to Hawaii's construction industry.

DBEDT recognizes the framework and mechanisms proposed in art I which will bring clarity and ease of administration of the credit and reduce the level of incentive in a predictable and transparent manner that will provide support for continued clean energy development. We respectfully defer to the Department of Budget and Finance on the budgetary impacts and the Department of Taxation on the implementation of this proposal.

DBEDT offers a proposed amendment on the reporting required of the Department to conform to Part I. Because data is unavailable, DBEDT would propose to delete Section 1, (o)(3)(A)(ii).

DBEDT strongly supports Part II, which inserts the language from HB 856, HD2, to effectuate the Green Infrastructure financing program, a priority of the Abercrombie Administration, to make affordable low-cost financing available for clean energy infrastructure installations that can immediately reduce utility bills and offer long term savings to consumers. As previously stated, for clarity, **DBEDT prefers HB 856, HD2**.

Part II establishes a regulatory financing structure to make low-interest credit available for consumers, including homeowners, renters and landlords, and nonprofits, to invest in green infrastructure today, and repay the costs over time through a charge on their utility bill.

There is strong interest by Hawaii residents for such low-cost financing. A survey conducted in November and December of 2012 by the research group OmniTrak showed that 70% responded positively that they were likely to make energy-saving improvements if low-interest loans were offered to make these investments. Results of the survey are attached.

Reducing Hawaii's dependence on imported fossil fuel and achieving our State's aggressive clean energy goals in 2030 will require significant infrastructure and investment. According to Booz Allen Hamilton, the Hawaii Clean Energy Initiative will require more than $15 billion of capital expenditures to fully implement, coming mostly from private sources. Because one of the biggest costs of infrastructure is the cost of capital, it is critical to identify innovative ways to lower the costs of capital and, ultimately, lower the cost of clean energy.

This financing structure enables the issuance of green infrastructure bonds in a manner to efficiently leverage public and private capital to bring in a new source of very low-cost funds for clean energy infrastructure in Hawaii. This measure is an enabling framework to raise low cost capital, and establishes processes and procedures to ensure responsible use of and deployment of funds, subject to regulatory approval. Because it leverages a utility surcharge, it creates no additional liability or obligation for the State and does not require any general funds.

Significant upfront costs and a lack of cost-effective financing products have prevented many customers from investing in and benefiting from clean energy investments. Part II will make cheap credit available, including to the underserved markets—low to moderate income homeowners, renters, churches, and non-profits—those who may not be able to access or afford clean energy installations today. One application of the program is that consumers will be able to install solar photovoltaic equipment and receive immediate benefits today, while amortizing the costs over time and paying for those benefits on their utility bill.

Based on collaboration with implementation stakeholders such as the Department of Budget and Finance and Hawaii Public Utilities Commission, DBEDT respectfully proposes the following agreed upon structural amendments to clarify financial, regulatory, and legal aspects of Part II, including:

(1) Adding language in Section 3 to articulate the intent of the bill to support implementation of clean energy financing programs – including on-bill financing and on-bill repayment programs; and removing duplicative provisions relating to on-bill financing;

(2) Clarifying provisions to further articulate the procedures for the application and issuance of financing orders and green infrastructure loan program orders;

(3) Adding provisions to further clarify the Public Utilities Commission's regulatory oversight of ratepayer funds and programs;

(4) Adding language and removing unnecessary provisions in order to simplify the creation of and processes associated with the green infrastructure fee;

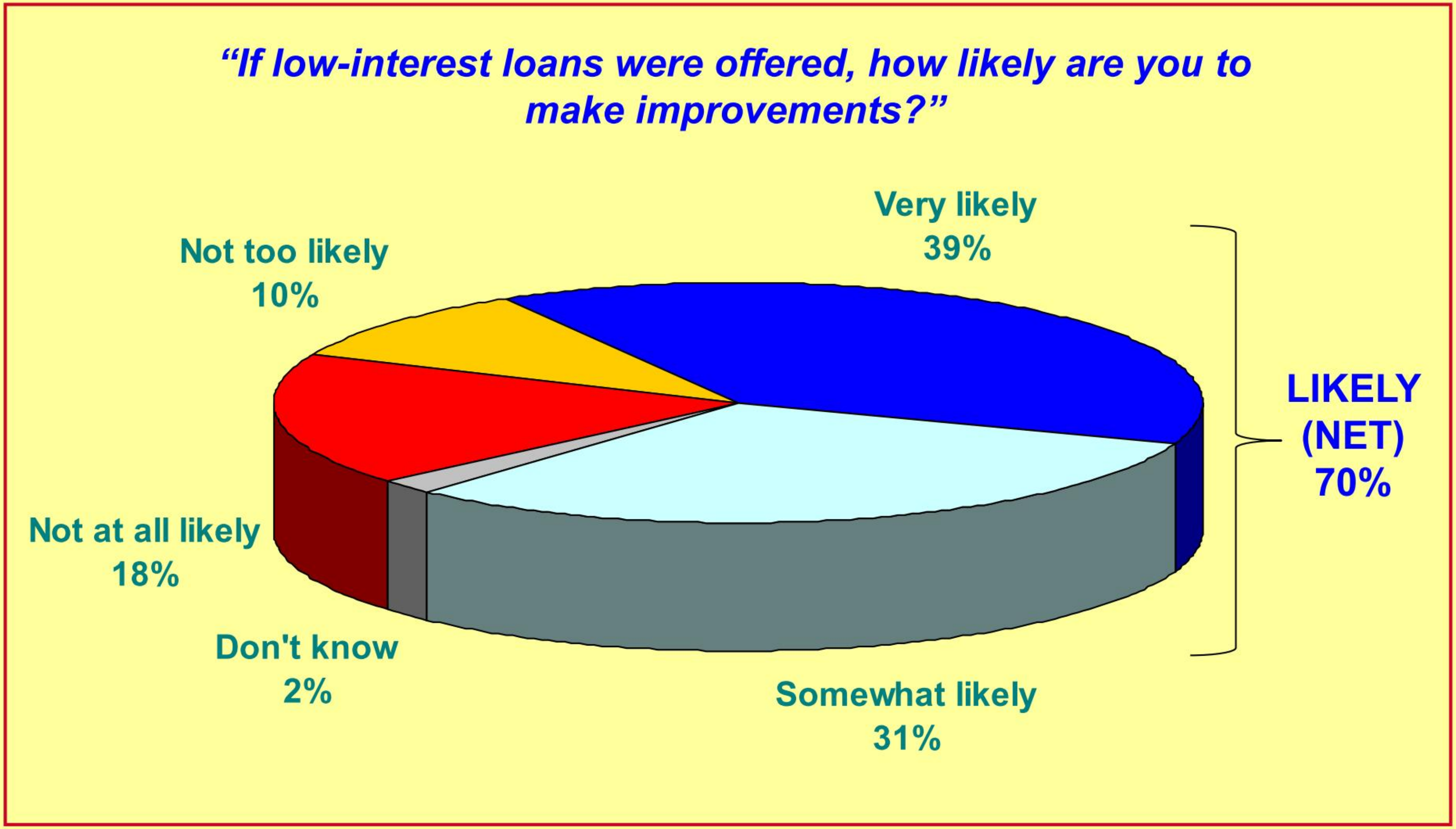
(5) Adjusting the appropriation amount requested out of the Hawaii Green Infrastructure Bond Fund in Section 11 to be consistent with the bond issuance authorization in Section 9; and

(6) Making various technical amendments to improve the reading of the measure, including the inclusion of definitions, where necessary, to further clarify the meaning of existing terms; relocation of existing provisions to better fit with the amendments noted above and with existing provisions; and the insertion of appropriate cross-references to incorporate the amendments noted above.

DBEDT supports efforts by all stakeholders to forge a transparent and predictable long-term solution that can be administered in a transparent manner, to ensure passage of an essential and coordinated solution during this Legislative Session.

Thank you for the opportunity to offer testimony in support of issues, with these proposed changes within each Part.

Loans For Energy-Saving Improvements



Q: The state is thinking of offering homeowners and businesses low-interest loans to make energy-saving improvements, such as installing solar panels, photo-voltaic systems or solar water heaters or in the case of businesses, renovating or replacing air conditioning systems. If low-interest loans were offered to make energy savings improvements, how likely would you be to make any of these improvements? Would you be very, likely, somewhat likely, not too likely, not likely at all?

TESTIMONY OF HERMINA MORITA
CHAIR, PUBLIC UTILITIES COMMISSION
DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE
HOUSE COMMITTEE ON FINANCE

FEBRUARY 22, 2013
3:00 p.m.

MEASURE: H.B. No. 497, H.D. 2
TITLE: Relating to Renewable Energy

Chair Luke and Members of the Committee:

DESCRIPTION:

Part I of this bill would make amendments to the State's renewable energy income tax credit system under Section 235-12.5, Hawaii Revised Statutes. Part II of this measure proposes to establish the Hawaii Green Infrastructure Loan Program ("Green Financing Program" or "Program") for the purpose of promoting the widespread adoption of clean energy technology and related clean energy-enabling infrastructure in Hawaii. This Program, which seeks and distributes low-cost capital using an electricity securitization model, will be administered by the Department of Business, Economic Development, and Tourism ("DBEDT") with the need to obtain financing and loan program order approvals from the Public Utilities Commission ("Commission").

POSITION:

The Commission supports Part II of this measure, but prefers H. B. No. 856, H.D. 2 as the vehicle to implement the Green Financing Program. The following comments are offered for the Committee's consideration.

COMMENTS:

The Commission supports Part II of this measure to enable the adoption of energy efficiency and renewable energy technologies in Hawaii on the broadest scale possible. However, given the complexity of Part II, the Commission would request that the Green

Financing Program provisions be the single subject of a bill and that H.B. No. 856, H.D. 2 be used as the vehicle to address this important issue.

With regard to Part II of this measure, the Commission has been actively engaged with DBEDT, the Department of Budget and Finance, the Consumer Advocate, and other agencies and stakeholders to fine tune the details of the Green Financing Program within this legislation, and the Commission strongly supports the amendments proposed by DBEDT concerning Part II of H.B. No. 497, H.D. 2.

Thank you for the opportunity to testify on this measure.

WRITTEN TESTIMONY

TESTIMONY BY KALBERT K. YOUNG
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON FINANCE
ON
HOUSE BILL NO. 497, H.D. 2

February 22, 2013

RELATING TO RENEWABLE ENERGY

House Bill No. 497 H.D. 2, amends the tax credit for renewable energy technologies and establishes a regulatory financing structure that authorizes the Public Utilities Commission (PUC) and the Department of Business, Economic Development and Tourism (DBEDT) to provide low-cost loans for green infrastructure equipment to achieve measurable cost savings and achieve Hawaii's clean energy goals.

The Department of Budget and Finance supports part II of this bill which establishes the regulatory and financing structure to authorize the PUC and DBEDT to establish a green infrastructure financing program, and believes this proposal is innovative in providing a financing resource to residents to take advantage of alternative energy opportunities. The Department has been working extensively with the PUC, DBEDT, Department of the Attorney General and the State's General Advice Bond Counsel to develop a statutory framework to authorize the green infrastructure financing program. The program will provide a lower cost financing alternative for Hawaii businesses and residents to utilize green infrastructure equipment and technology to reduce electricity consumption by leveraging clean energy technology. The innovative financing method being proposed will provide a secure financing structure to allow

DBEDT to issue revenue bonds at very competitive rates, which savings can be passed on to the consumers in the form of lower borrowing costs.

Substantial progress has been made in refining the language in two similar bills relating to green infrastructure financing (S.B. No 1087, S.D 1 and H.B. 856, H.D. 2). DBEDT has submitted proposed amendments to HB No. 497, H.D. 2 to the Committee which the Department supports.

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

NEIL ABERCROMBIE
GOVERNOR

SHAN S. TSUTSUI
LT. GOVERNOR

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KEALI`I S. LOPEZ
DIRECTOR

JO ANN UCHIDA TAKEUCHI
DEPUTY DIRECTOR

TO THE HOUSE COMMITTEE
ON FINANCE

THE TWENTY-SEVENTH LEGISLATURE
REGULAR SESSION OF 2013

FRIDAY, FEBRUARY 22, 2013
3:00 P.M.

TESTIMONY OF JEFFREY T. ONO, EXECUTIVE DIRECTOR, DIVISION OF CONSUMER ADVOCACY, DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS, TO THE HONORABLE SYLVIA LUKE, CHAIR, AND MEMBERS OF THE COMMITTEE

HOUSE BILL NO. 497, H.D. 2 - RELATING TO RENEWABLE ENERGY

DESCRIPTION:

This measure proposes to establish a regulatory financing structure that authorizes the Public Utilities Commission ("PUC") and the Department of Business, Economic Development, and Tourism ("DBEDT") to provide low-cost loans for green infrastructure equipment to achieve measurable cost savings and achieve Hawaii's clean energy goals.

POSITION:

The Division of Consumer Advocacy (Consumer Advocate) strongly supports the green infrastructure financing provisions of HB 497, H.D. 2. The Consumer Advocate takes no position as to the tax credit provisions of this bill.

COMMENTS:

Part I of this bill are the tax credit provisions that fall outside of the statutory jurisdiction of the Consumer Advocate; therefore, the Consumer Advocate takes no position on Part I. Part II of this bill establishes a regulatory financing structure that authorizes the PUC and DBEDT to utilize securitization as a means of providing low-cost loans for the purchase of green infrastructure equipment. The Consumer Advocate strongly supports the provisions contained in Part II.

HB No. 497, H.D. 2 Part II is legislation that will enable the DBEDT to create a securitization process to obtain low cost financing that would be used to fund the purchase and installation of various clean energy and energy efficiency devices, such as solar water heaters and solar photovoltaic ("pv") systems. It contemplates the issuance of bonds that will be secured by a green infrastructure fee that will be collected from the electric utilities' customers. It is through this legislation that a low interest rate fund would be used for an on bill financing program.

Hawaii's electricity rates are the highest in the nation. Consumers need access to energy efficient devices that offer real electricity cost savings. Thus far, the upfront cash needed or access to credit to purchase solar hot water heaters and solar pv systems has been an impediment to low to moderate income homeowners and renters from being able to realize the benefits of these devices that will lower monthly electric bills.

The Consumer Advocate believes that clean energy and energy efficiency should not be for the wealthy only. Consumers who work hard and pay their bills, but find it difficult to save enough money or build enough credit to finance a solar hot water heater or solar pv system should not be shut out of this market. On bill financing allows the consumer to pay for these energy systems through the electricity cost savings on their monthly bill. This not only makes available energy cost savings to a greater number of Hawaii's consumers, but it also means less oil consumed for every kilowatt hour of energy being conserved or replaced by clean energy.

HB No. 497, H.D. 2 Part II will make low cost funding available for such an on bill financing program. The Consumer Advocate will work closely with DBEDT, the Hawaiian Electric Companies, the Public Utilities Commission, and all interested parties in designing an on bill financing program that minimizes the financial risk to electric utilities' ratepayers.

Thank you for this opportunity to testify.

NEIL ABERCROMBIE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR

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To: The Honorable Sylvia Luke, Chair
and Members of the House Committee on Finance

Date: Friday, February 22, 2013
Time: 3:00 p.m.
Place: Conference Room 308, State Capitol

From: Frederick D. Pablo, Director
Department of Taxation

Re: H.B. 497 H.D.2 Relating to Renewable Energy

The Department of Taxation (Department) appreciates the intent of H.B. 497 H.D.2, and provides the following summary and comments on Part I, Section 1, for your consideration.

Part I, Section 1 of this bill amends Hawaii Revised Statutes (HRS) section 235-12.5 by:

- Providing a renewable energy credit for solar water heaters at a rate of 35% with caps of $2,500 per property for single-family residential applications, $500 per unit per property, and $250,000 per property for commercial property.

- Providing a renewable energy tax credit for solar energy property that has an alternating current capacity which is less than one megawatt at a rate of 30% for solar energy property placed in service between January 1, 2013 and December 31, 2013, 25% between January 1, 2014 and December 31, 2015, 20% between January 1, 2016 and December 31, 2017, and 15% thereafter.

- Providing a renewable energy production tax credit at a rate of 4 cents per kilowatt hour produced and sold for competitively bid projects and 8 cents per kilowatt hour produced and sold by non-competitively bid projects with an alternating current capacity of one megawatt or higher. This production credit can be claimed by the taxpayer for the first 10 years after the project is placed in service. The Department has concerns that by providing a greater tax incentive to non-competitively bid projects, developers will favor these non-competitively bid projects to the detriment of the State. It is the Department's understanding that competitively bid projects are the most beneficial to the State because of the bidding process. The Department additionally notes that the federal production tax credit is only 2.2 cents per kilowatt hour produced and sold; the 8 cent rate provided in this measure is almost four times the federal tax credit rate.

- Providing a renewable energy tax credit for wind energy property at a rate of 20% with a cap of $500,000. The Department notes that the cap will be difficult to administer as the bill neither defines the cap, nor provides guidance, as to its application.

- Allowing full refundability for the production tax credit claimed, without discount, for solar energy property with an alternating current capacity of one megawatt or higher.

- Allowing taxpayers not currently regulated by the Public Utilities Commission that have by December 31, 2012, entered into an agreement with a public sector agency pursuant to a public solicitation and procurement process for the sale of electrical energy from non-residential solar energy property with less than one megawatt of alternating current capacity to claim the credit as if the solar energy property was placed in service prior to January 1, 2013 provided that the property is placed in service prior to January 1, 2014. The Department is opposed to the grandfathering aspect of this provision due to the difficulty in compliance and enforcement of the tax credit prior to the issuance of the current administrative rules.

- Disallowing the claiming of the credit by any governmental agency and qualified issuers under Internal Revenue Code section 54(j)(4).

- Requiring the Department along with the Department of Business, Economic Development, and Tourism (DBEDT) to compile a detailed joint report and submit the report to the legislature no later than 20 days prior to the convening of each regular session. The Department notes that this type of detailed reporting is difficult with the current computer system. In order to meet this requirement, it is likely that the Department will need to require mandatory electronic filing of the information by each taxpayer claiming the credit.

Section 2 of this bill requires DBEDT to commence a study on the credit no later than July 1, 2016.

The Department estimates that this measure will have the following impacts on the general fund:

- The Department estimates that for each megawatt of capacity installed, at a rate of 8 cents per kilowatt hour produced and sold, the production credit amount will be $128,000 per year and $1.28 million over a ten year period. This means that if a megawatt of capacity costs $3 million to place in service the total credit received is approximately 42.67% of the cost to place in service.

- At a rate of 4 cents per kilowatt hour produced and sold, the production credit amount will be $64,000 per year and $640,000 over a ten year period. This means that if a megawatt of capacity costs $3 million to place in service the total credit received is approximately 21.33% of the cost to place in service.

- The revenue impact for this measure is:
  - FY 2014 - $38 million revenue loss
  - FY 2015 - $15 million revenue loss
  - FY 2016 - $19 million revenue loss
  - FY 2017 - $2 million revenue gain
  - FY 2018 - $6 million revenue gain
  - FY 2019 - $12 million revenue gain

- The Department importantly notes that for a ten-year production credit, assuming the same amount of capacity is installed each year starting in 2014 and ending in 2019, the amount of the credits that show up in the budget window will be only 35% of the total credits due for the systems installed during these years. This is true, regardless of the amount of the production credit per kilowatt hour. For example, for the systems installed in 2014, 60% of the total cost of the credit will be paid out in the budget window, whereas for systems installed in 2019, only 10% of the total cost of the credit will be paid in the budget window. In other words, the revenue estimates for the production credit reflect only about one third of their overall cost to the State.

Thank you for the opportunity to provide comments.

TESTIMONY OF
THE DEPARTMENT OF THE ATTORNEY GENERAL
TWENTY-SEVENTH LEGISLATURE, 2013

ON THE FOLLOWING MEASURE:
H.B. NO. 497, H.D. 2, RELATING TO RENEWABLE ENERGY.

BEFORE THE:
HOUSE COMMITTEE ON FINANCE

DATE: Friday, February 22, 2013 **TIME:** 3:00 p.m.

LOCATION: State Capitol, Room 308

TESTIFIER(S): David M. Louie, Attorney General, or
Gregg J. Kinkley, Deputy Attorney General

Chair Luke and Members of the Committee:

The Department of the Attorney General provides the following comments regarding a constitutional issue in this bill.

The title of this bill is "A BILL FOR AN ACT RELATING TO RENEWABLE ENERGY." As originally submitted, and through House Draft 1, this bill proposed adjustments to the income tax credit for renewable energy technologies. In the House Draft 2 before us today, the bill has been amended by inserting the contents of H.B. No. 856, H.D. 1 ("A BILL FOR AN ACT RELATING TO GREEN INFRASTRUCTURE") as part II of the bill. Although the term in the title of H.B. No. 856, "green infrastructure," is itself undefined, this bill does define "green infrastructure equipment" to include improvements and equipment installed "to deploy clean energy technology, demand response technology, and energy use reduction and demand side management infrastructure."

Article III, section 14, of the Constitution of the State of Hawaii provides in part that "[e]ach law shall embrace but one subject, which shall be expressed in its title." Although "clean energy technology" may impact or relate to renewable energy, the other categories of green infrastructure equipment listed above (demand response technology, energy use reduction, and demand side management infrastructure) are targeted to energy efficiency without regard to whether the energy is from renewable sources or not. Thus it appears that this bill in its current form contains subject matter beyond the scope of the bill's title and may be subject to challenge as a violation of article III, section 14, of the State Constitution. We suggest that a bill with a broader title be used for the contents of this bill.

NEIL ABERCROMBIE
GOVERNOR

AARON S. FUJIOKA
ADMINISTRATOR

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TESTIMONY
OF
AARON S. FUJIOKA
ADMINISTRATOR
STATE PROCUREMENT OFFICE

TO THE
HOUSE COMMITTEE
ON
FINANCE

February 22, 2013

3:00 p.m.

HB 497, HD 2

RELATING TO RENEWABLE ENERGY.

Chair Luke, Vice-Chair Nishimoto, Vice-Chair Johanson, and committee members, thank you for the opportunity to submit testimony on HB 497, HD 2. The State Procurement Office's (SPO) comments are limited to SECTION 4 which includes an exemption from HRS chapter 103D, Hawaii Public Procurement Code (Code), for contracts executed by the Hawaii green infrastructure authority.

The SPO opposes this exemption. The Code is the single source of public procurement policy to be applied equally and uniformly, while providing fairness, open competition, a level playing field, and transparency in the procurement and contracting process vital to good government.

Public procurement's primary objective is to provide everyone equal opportunity to compete for government contracts, to prevent favoritism, collusion or fraud in awarding of contracts. To legislate that any one entity should be exempt from compliance with HRS chapter 103D conveys a sense of disproportionate equity in the law's application.

The SPO opposes the language on page 23, lines 15 to 17. Thank you.

SUBJECT: INCOME, Renewable energy technology tax credit

BILL NUMBER: HB 497, HD-2

INTRODUCED BY: House Committee on Consumer Protection & Commerce

BRIEF SUMMARY: Amends HRS section 235-12.5 to provide that a solar energy property that is used to heat water shall be eligible for a tax credit of 35% of the basis and shall not exceed: (1) $2,500 per property for single-family residential property; (2) $500 per unit per property for multi-family residential property; and (3) $250,000 per property for commercial property.

A solar energy property that is used primarily to generate electricity, is less than one megawatt in alternating current capacity and not part of a larger solar energy property shall be eligible for a tax credit of: (1) 30% of the basis for solar energy property placed in service after December 31, 2012 and on or before December 31, 2013; (2) 25% of the basis for solar energy property placed in service after December 31, 2013 and on or before December 31, 2015; (3) 20% of the basis for solar energy property placed in service after December 31, 2015 and on or before December 31, 2017; and (4) 15% of the basis for solar energy property placed in service after December 31, 2017.

A solar energy property that is used primarily to generate electricity that is greater than one megawatt in alternating current capacity shall be eligible for a tax credit as follows: (1) for solar energy property that is not competitively bid solar energy property placed in service after December 31, 2012, for the first ten years the solar energy property is in service: 8 cents multiplied by the number of kilowatt hours produced and sold by the taxpayer to an unrelated entity during the taxable year, or produced by the solar energy property and used on-site to offset the site's demand for electricity; or (2) for competitively bid solar energy property placed in service after December 31, 2012, for the first ten years the solar energy property is in service: 4 cents multiplied by the number of kilowatt hours produced and sold by the taxpayer to an unrelated entity during the taxable year, or produced by the solar energy property and used on-site to offset the site's demand for electricity.

A wind energy property that is less than one megawatt in output and is not part of a larger wind energy property shall be eligible for a tax credit of 20% of the basis or $500,000, whichever is less.

Defines "basis" as costs related to the energy property, including accessories, energy storage, and installation, but not including the cost of consumer incentive premiums unrelated to the operation of the energy property or offered with the sale of the energy property and costs for which another credit is claimed under this chapter. Any cost incurred and paid for the repair, construction, or installation and placing in service of solar or wind energy property shall not constitute a part of the basis for the purpose of this section. The basis used under this part shall be consistent with the use of basis in section 25D or section 48 of the Internal Revenue Code; provided that for the purposes of calculating the credit allowed under this chapter, the basis of the solar energy property or the wind energy property shall not be reduced by the amount of any federal tax credit or other federally subsidized energy financing received by the taxpayer.

Defines "competitively-bid solar energy property," "placed in service," "property" and "public sector agency" for purposes of the measure.

Provides that for a solar energy property that is used primarily to generate electricity that is greater than one megawatt in alternating current capacity, if the tax credit exceeds a taxpayer's tax liability, the excess of the credit amount over payments due shall be refunded to the taxpayer. Tax credit amounts properly claimed by a taxpayer who has no income liability shall be paid to the taxpayer provided that no refund on account of the tax credit allowed by this section shall be made for less than $1.

In lieu of the credits described above, an individual or corporate taxpayer not currently regulated by the public utilities commission that had by December 31, 2012, entered into an agreement with a public sector agency pursuant to a public solicitation and procurement process for the sale of electrical energy from non-residential solar energy property with less than one megawatt of alternating current capacity may elect to receive tax credits for energy properties placed into service prior to January 1, 2014, on the same basis as if the energy property had been placed into service prior to January 1, 2013 provided that the taxpayer shall provide a copy of the agreement to the department of taxation.

The credit may not be claimed by: (1) any federal, state, or local government or any political subdivision, agency, or instrumentality thereof; (2) any entity referred to in section 54(j)(4) of the Internal Revenue Code; or (3) certain partnerships or other pass-through entity that has as a partner or other holder of an equity or profit interest.

Requires the department of taxation and the department of business, economic development, and tourism (DBEDT) to collaborate to issue a joint report to the legislature prior to each regular session. Delineates what shall be included in the report.

Requires DBEDT to commence a study by July 1, 2016 on the costs incurred and benefits gained, as well as the extent to which the tax credits under HRS section 235-12.5 have helped the state achieve its energy goals. DBEDT shall consult with the department of taxation and industry trade groups and may consult with other stakeholders and shall submit a report to the legislature by December 31, 2017 which shall include the results of its study and recommendations on whether the various tax credits under HRS section 235-12.5 should be continued, eliminated, or revised.

EFFECTIVE DATE: Tax years beginning after December 31, 2012

STAFF COMMENTS: The existing renewable energy technologies income tax credit is 35% for solar energy systems or 20% for wind energy systems with dollar limits on the amount of credit that may be claimed depending on whether the system is used to heat water or generate electricity and whether the system is installed on a single or multi-family residential property or commercial property.

This measure reduces the amount of credit for solar energy property that produces less than one megawatt of electricity from 35% to 30% for systems placed in service for the 2013 tax year; 25% for the 2014-2015 tax year; 20% for the 2016-2017 tax year, and 15% for the 2018 tax year and thereafter.

This measure would also extend the renewable energy technology tax credit to solar energy properties that generate over one megawatt of electricity. Although this slow weaning of the taxpaying public from its dependence on the tax incentive may sound like a great idea, it ignores the phenomenon that occurred this past year when taxpayers were given notice that there would be new rules for the ball game beginning with the first of the year. Instead, consideration should be given to setting the tax incentive rate at a more modest level and then warning taxpayers that it will disappear in three or five years. This will help to even out the demand for installations as taxpayers assess the cost benefit of installing such devices.

While it appears that this measure is proposed to reduce the outflow of tax credits due to the misinterpretation of the existing tax credit provisions, it is questionable why the proposed measure expands the renewable energy technologies income tax credits to include larger solar energy facilities.

While some may consider an incentive necessary to encourage the use of alternate energy devices, it should be noted that the high cost of these energy systems limits the benefits to those who have the initial capital to make the purchase. If it is the intent of the legislature to encourage a greater use of renewable energy systems by increasing and expanding the existing system of energy tax credits, as an alternative, consideration should be given to a program of low-interest loans. However, if the taxpayer avails himself of the loan program, the renewable energy credit should not be granted for projects utilizing the loan program as the project would be granted a double subsidy by the taxpayers of the state. Such low-interest loans, that can be repaid with energy savings, would have a much more broad-based application than a credit which amounts to nothing more than a "free monetary handout" or subsidy by state government. A program of low or no-interest loans would do much more to increase the acquisition of these devices.

It should be noted that the state is again attempting to establish such a loan program. There is no doubt that such a loan program would not only make the devices available to those who cannot afford the up-front costs, but also be far less expensive than the current system of tax credits. It would also allow a more close monitoring of the quality and efficiency as well as the actual costs of such devices which, because of the current system of tax credits, may be wildly over inflated.

Instead of providing tax incentives for the purchase of existing technology, lawmakers may want to take advantage of Hawaii's natural environment which lends itself to all sorts of possibilities to explore and develop more efficient means of harnessing the natural resources that pervade the Islands, from wind to sun to geothermal to hydrogen from Hawaii's vast resources, all of which could be further developed with the assistance and cooperation of government in Hawaii.

Finally, the current statute providing these tax incentives for renewable energy technologies reflects the lack of due diligence and good hard research on the part of lawmakers. Apparently the caps imposed on the tax incentive for the solar electric generating systems are far from being realistic. For example, the $5,000 cap for residential installations translates into about $15,000 of "actual cost." Anything greater than that amount would exceed the cap of the 35% tax credit. On the commercial side, the half million-dollar cap may be insufficient for a commercial building to generate a net-zero status that would avoid a stand-by charge by the local electric company. Those stand-by charges have been reported to sometimes exceed the bills had the building owner not installed such solar electric generating systems. Thus, the law, as currently written, does not take into account these resulting contradictions.

While this and other measures demand serious consideration in order to stem the abuse of the current tax credit provisions, lawmakers and staff need to spend time during the interim researching and honing the tax incentive to be a more reasonable incentive that is forged in a good understanding of the developing technology. What is currently on the books reflects a technology long deemed archaic and, therefore, the tax incentive is less than efficient.

Digested 2/21/13

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February 22, 2013
Testimony Before the House Committee on Finance
Representative Sylvia Luke, Chair
In Regard to H.B. 497, H.D. 2, Relating to Renewable Energy

Chair Luke, Vice Chair Nishimoto, and members of the committee I am Rick Reed, the president of Inter-Island Solar Supply. Our company was founded in 1973, incorporated in 1975, and is one of the largest distributors of renewable energy equipment in the United States.

Inter-Island Solar Supply supports the passage of H.B. 497, H.D. 2.

Comments Specific to Part I: Changes to HRS 235-12.5

HRS 235-12.5, despite its inadequacies and ambiguous language, has been extremely successful in inducing home and business owners to purchase solar water heating and PV systems. The recent uptake, particularly for net-energy metered systems, has been breathtaking. According to documents recently filed by the Hawaiian Electric group of companies with the PUC, over 73 MW (megawatts) of new net-metered PV were installed in their service territories in 2012. This is precisely the speed, scale and traction required for Hawaii to meet its statutory renewable energy obligations under the Hawaii Clean Energy Initiative.

By redefining eligible renewable energy property, H.B. 497, H.D. 2, closes the loophole that has allowed for a single individual or business to claim multiple PV tax credits, thus avoiding the artificially low cap levels imposed by a previous legislature. This key definitional change will lead to increased fairness and much greater transparency. The change, moreover, will not lead to over-sized PV systems since there is absolutely no economic incentive or rationale to do so within the utility regulations and rules for net-energy metered systems. In short, ratepayers seeking an off-ramp from unsustainable high utility costs will continue to purchase properly sized PV systems for their homes and businesses.

One of the most important provisions provided by H.B. 497, H.D. 2, is the annual reporting requirement. There is simply no excuse for not knowing the real time cost and benefit of any State of Hawaii tax credit or incentive, especially those incentives that are linked by statute to an essential public purpose or objective. Do not be swayed by DoTax or DBEDT claims that do not have the technical or human resources to provide real-time fiscal and economic information. The public debate surrounding the renewable energy investment tax credits has been much poorer for the lack of current and accurate information on both the costs and the full fiscal and economic benefits associated with this credit.

One final note. It is incongruous to continue to impose caps on solar water heating systems that are not imposed on PV systems. Again, there is no economic incentive to over-size a solar water heating system for tax credit purposes alone. Lifting the cap will have no bearing on either the number of claims or the amount of those claims. Systems will continue to be sized to load, not available tax credits. Solar water heating systems historically have not been subject to multiple credit claims or abuse.

Comments specific to Part II: Relating to Green Infrastructure Loans and Administration

It is clear that Hawaii needs access to affordable capital for renewable energy investments to the tune of hundreds of millions of dollars a **year for decades** in order to meet its statutory Hawaii Clean Energy Initiative mandates. Tax credits, leases, power purchase agreements, on-bill financing, and green bond funds can all play an important role in the clean energy transition.

It is a mistake to think that any single financial mechanism – taxpayer or ratepayer funded - is a panacea. We will continue to need all proven financial options for decades. Cheap money, however, isn't the issue. Money is as cheap now as it is ever going to be. Qualifying for the money, or the loan is another matter. And qualification requirements will be similar regardless of whether it is DBEDT or the Bank of Hawaii that does the lending. In addition, leases and power-purchase agreements now provide home and business owners with limited access to conventional financing with a viable alternative.

That said, if the proposed green bond fund will not increase utility rates, will actually grow the financial pie by providing a facility not offered by any bank or private entity, and can be cost-effectively administered by a new government agency, then it is our recommendation that the legislature continue to carefully vet this new financial option.

Thank you for the opportunity to present these comments.

RISINGSUN SOLAR+ELECTRIC

To: **Rep. Linda Luke, Chair   Rep. Nishimoto, Vice Chair, Rep. Johanson, Vice Chair & Members of the House Committee on Finance**

From: **Bradley Albert, Owner, Rising Sun Solar and Electric**

Re: **Hearing on Renewable Energy HB 497 HD2** February22, 2013 at 3:00 pm

Hawaii State Capitol, Room 308

TESTIMONY IN SUPPORT

Dear Chair Luke, Vice Chairs Nishimoto & Johanson and Members:

Thank you for the opportunity to provide testimony in support of HB 497 HD2 regarding renewable energy. It will make needed reforms to the Renewable Energy Technologies Income Tax Credit ("RETITC") to reduce the credit's cost to the State. Specifically, HB 497 HD2 takes a reasonable approach towards reforming the RETITC by generally following the existing federal structure and guidance, by providing a clear predictable slow reduction of the incentive level, by reducing the tax credit's cost to the State while maximizing the amount of solar that will be installed, and by preserving all sectors of the solar photovoltaic industry, especially utility sized projects.

These changes to the tax credit structure will make the RETITC easier to administer and will ensure that Hawai'i's homeowners and businesses are able to participate in helping Hawai'i achieve its ambitious clean energy goals and become more energy independent. We support the fair and balanced approach of HB 497 HD2, and urge the committee to pass this measure.

I respectfully urge you to pass HB 497 HD2.

Sincerely,

Bradley Albert

Owner

810 Kokomo Road Ste 160 Haiku HI 96708
P 808 575 2202, F 808 575 9878
www.risingsunsolar.com

FINTestimony

From: Bob Johnston [grj@landtecinc.com]
Sent: Tuesday, February 05, 2013 2:22 PM
To: FINTestimony
Subject: HB497

HOUSE COMMITTEE ON ENERGY AND ENVIRONMENTAL PROTECTION

Tuesday, February 5, 2013 – 10 a.m. – Room 325

Testimony Supporting the Intent of HB 497 Relating to Renewable Energy

Chair Lee, Vice Chair Thielen, and Members of the Committee:

Hawaii Pacific Solar **supports the intent** of HB 497, which is to reform the Renewable Energy Technologies Income Tax Credit ("RETITC") while maintaining the viability of all sectors of the solar industry. We share this goal. However, we are concerned that HB 497 does not sufficiently reduce the incentive level of the RETITC. This means that under HB 497, the RETITC could continue to have a larger than desirable impact on the state's general fund.

Specifically, HB 497 maintains a relatively high investment tax credit incentive level and provides for full refundability of the credit (without the current 30% discount level) after 2016. It also creates a permanent production tax credit that could eventually become costly to the State.

While HB 497 would clearly benefit the industry in the short term, we are concerned that the impact on the RETITC going forward would lead the legislature to again seek reforms of the RETITC in the next few years. This would ultimately harm both the industry and the State.

By contrast, HB 756 would enact responsible reforms of the RETITC that would reduce the impact on the general funds while still allow the industry to remain viable and maximizing renewable energy installation in the state.

Hawaii Pacific Solar therefore recommends that you pass HB 756 to reform the RETITC rather than HB 497. Thank you for the opportunity to provide this testimony.

Sincerely,

G. Robert Johnston
President
Hawaii Pacific Solar LLC
2010 Honoapiilani Hwy. C1
Lahaina, HI 96761
(808) 661-1166

bob@hawaiipacfiicsolar.com
www.hawaiipacificsolar.com

Hawaii Solar Energy Association
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Before the House Committee on Finance
Friday, February 22, 2013, 3:00 P.M., Conference Room 308
HB 497 H.D. 2: RELATING TO RENEWABLE ENERGY

Aloha Chair Luke, Vice-Chairs Nishimoto and Johanson, and members of the House Committee on Finance,

On behalf of the Hawaii Solar Energy Association (HSEA), I would like to testify **in partial support for HB 497 H.D 2**, which calls for a ramp down of the residential and commercial tax credit (ITC) from 30% to 15%, an 8 cent/kWh production tax credit (PTC) for photovoltaic projects (PV) of 1 MW or greater, and a 4 cents/kWh PTC for competitively bid PV projects. HB 497 H.D. 2 also holds steady the tax credit for solar hot water to 35% and provides for a refundable credit with a 30% discount for projects under 1 MW and a refundable credit without discount for all other PV projects.

HSEA is a non-profit trade organization that has advocated for both solar hot water and photovoltaics since 1977, with an emphasis on residential distributed generation (DG) and commercial SHW and PV. We currently represent 66 companies, and our members include installers, contractors, manufacturers, distributers, the utility, and others. With 35 years of advocacy behind us, HSEA's goal is to work for a sustainable energy future for all of Hawaii.

<u>BACKGROUND</u>
Although HSEA supports the sustained credit for solar hot water, and welcomes the mandate for DBEDT to provide data on the yearly costs and benefits of the renewable energy tax credit, HSEA is very concerned that the residential and commercial ramp down will stifle installations on Hawaiian residences and businesses once the tax credit drops below 20%. In addition, HSEA believes that the 8 cents/kWh for utility scale projects is not equitable and would pose a financial burden for the state while supporting PV installations which do not lower people's bills and are at the mercy of the utility's grid requirements and limitations. <u>HSEA therefore requests that the ramp down for PV under 1 MW stop at 20%, and proposes that the PTC also ramp down to reflect reduced costs for utility scale projects, and to provide a more equitable tax credit framework.</u>

<u>The Tax Incentive Best Applied to Hawaiian Homes and Businesses</u>
HB 497 H.D. 2 provides a tax credit framework for two distinct groups: small scale PV installations on homes and businesses (DG) and PTC projects. HSEA believes that both groups are part of our green energy plan, <u>but PTC projects should not be supported to the detriment of the ITC credit for homes and businesses.</u>

<u>Advantages of Distributed Generation</u>
DG has several advantages over utility scale installations. First, the installation of PV on a home or business is not delayed by years of permitting and financial issues, and once installed the utility customer gets an immediate savings—a true power to the people. In addition, because of the relatively small scale of DG projects, grid saturation is rarely an issue, and transmission loss never is. DG in aggregate has made substantial contributions to our overall energy goals, and is the lion's share of the market here in Hawaii.

P.O. Box 37070 Honolulu, Hawaii 96837
SOLAR HOTLINE (808)521-9085

	DISTRIBUTED GENERATION/ITC (installations on homes and businesses)	PTC (projects of 1 MW or greater)
FINANCIAL STRUCTURE	These installations reduce the home owner's or businesses' electric bill. Purpose is to save money and invest in state's clean energy infrastructure.	Purpose is to make money for developer. Once installed, invests in green energy for state. Probably no reduction in utility bill for Hawaiian utility customer.
GRID SATURATION	Generally not an issue. On Maui, If 10kW or less, does not require IRS study if does not exceed 75% min. day time load.	Large projects saturate circuits, and installation is dependent upon utility approval.
GRID LOSS	Generated on-site. No transmission loss.	Loss increases with transmission distance.
% MARKET IN HAWAII	Majority of PV in Hawaii is NEM residential. In 2012, of all PV installed, 92.8 MW, approximately 75% of those installations were residential NEM.	Both commercial and utility scale installations in 2012 less than 25% of all PV installed
TIMING	2-3 days for residential installation	3-5 years to contend with permitting and financial issues
REFUNDABLE?	HB 497 HD 2 maintains 30% discount for refundable credit.	HB 497 H.D. 2 grants refundable **without discount** for utility scale, thus opening the door for large cash payments out of state.

PROPOSED AMENDMENTS

1. Stop DG Ramp Down at 20%
   - Time to make best use of Federal Tax Credit which expires in 2016

     Now is the time to make the best use of the 30% Federal Tax Credit, which is due to expire 12/31/2016, with no guarantee that it will be renewed. With the federal tax credit gone, the installation of solar hot water and PV will be out of reach for many home owners and businesses. Since DG is the most efficient way to lower bills and encourage investment in green energy infrastructure, it makes sense to make the most of the additional federal tax credit while it is still in place.
   - Tax credit below 50% shows dramatic reduction in residential installations

     Research shows that once the price for solar and other technologies drops below 50%, installations slow dramatically. If the state incentive is reduced to 15% in 2016, the state will likely see a dramatic decrease in size and scale of DG installations.
   - Hawaii still far from energy goals

     Although DG residential installs have increased significantly, they are still a small part of our overall energy portfolio, with residential NEM providing only about 1.5% of the overall energy for Hawaii.

2. Clarify that HB 497 H.D. 2 allows subsequent installations

   P. 2 section (2) states that a credit may be taken for a solar energy project which is used primarily to generate electricity and is less than 1 MW in alternating current capacity, and is "not part of a larger solar energy property." HSEA respectfully asks for clarification on this section as it may be interpreted to mean that additions on a system in subsequent years **would not** be eligible for a tax credit, the opposite of current policy.

   - Allowing credit on subsequent installations makes solar more affordable for tax payer

     The current tax incentive under the administrative rules allows for a tax credit to be taken in subsequent years if the system is expanded. Allowing taxpayers to take the tax credit in subsequent years lets home owners and businesses install "mini" systems that may later be expanded, which makes a suitably sized system affordable for tax payer.

   - Subsequent tax credits allow the tax payer to adjust the solar system should load increase, such as for an electric vehicle
   - Allowing the tax incentive to be taken in subsequent years extends the tax burden for the state over a longer period of time.

3. Ramp Down PTC to account for decreasing installation costs

   - Is 8 cents/kWh equitable for PTC?

     Using the current competitive installation cost for a PTC project and a PTC of 8 cents/kWh, the effective tax credit would be about 35%. HSEA believes that in the interest of equity, this initial rate for the PTC should be at least the same as the ITC, which begins at 30% for 2013.

   - Ramp down should reflect decreased installation costs

     Installations costs for PTC projects have continued to drop, and as install costs go down, the effective tax rate will increase. For instance, at $2.50/watt install cost, a future trended price on large scale projects across the country, the effective tax credit on a project with a PTC of 8 cents/kWh would be almost 50%. Also, it should be noted that PTC projects enjoy the tax benefits of depreciation both on the state and federal level, a benefit not available to a homeowner.

4. Apply refundable credit with a discount for both ITC and PTC

   - HB 497 H.D. 2 gives the added incentive of a refundable credit without the 30% discount for PTC

     HB 497 H.D. 2 proposes that for most ITC projects, the refundable credit is taken with a 30% discount, where the refundable credit for PTC may be taken without discount. Since the taxpayers for many PTC projects have no Hawaii state tax liability, the majority of the tax credit will be refundable. By allowing the refundable for PTC to be paid without a discount, the cost to the state could be considerable, especially given that HB 497 H.D. 2 lifts the caps for both ITC and PTC PV.

5. HSEA supports intent of Green Energy Infrastructure Loans

   HB 497 H.D. 2 also outlines a program to provide green energy loans for the purchase of renewable equipment and efficiency. HSEA supports the intent of this section of HB 497 H.D. 2, and looks forward to the further development of this program. HSEA wants to see, however, that this green energy loan program is firmly in place before the current tax incentives are phased out.

Summary

HSEA supports a new tax incentive framework that provides a fair and clear program to help Hawaii reach its clean energy goals. We support the ongoing incentive for solar hot water, and the mandate for a yearly study on the cost/benefits of the tax incentive program. To ensure that installations on residences and businesses continue at a reasonable rate, we respectfully request that the ramp down stop at 20%. In addition, in the interest of equity and concern over state finances, we ask that the PTC be reconsidered and ramped down along with the ITC, so that it reflects a fair rate as costs for installations reduce, with a uniform refundable credit.

Thank you for the opportunity to testify.

Leslie Cole-Brooks
Executive Director
Hawaii Solar Energy Association

AET, LLC	Affordable Solar Contracting	Allana Buick & Bers
Alternate Energy	American Electric Company, LLC	B. Bautista Electrical
Bonterra Solar	Bureau Veritas North America	Cano Electric
C & J Solar Solutions	Coffman Engineers, Inc.	Allen's Plumbing
Conergy	DHX	Dr. Stephen Allen
Energy Industries	En-Phase	Energy Industries
Dependable Hawaii Express	Energy Unlimited, Inc.	EnergyPro Hawaii
Ferguson	Forest City Residential Group	Gexpro
Giant Solar	Grand Solar	Haleakala Solar
Hawaii Energy Connection	Hawaii Home Expo & Marbelhaus Trading	Hawaii Electric Company
Hawaii Island Solar	Hi-Tech Plumbing	HNU Energy
Hoku Scientific	Honeywell Utility Solutions	Inter-Island Solar Supply
Island Pacific Energy	Island Solar Service	Kheiron Partners
Ku'oko'a	Kyocera Solar Inc.	Lumen Solar, LLC
Maui Pacific Solar	Mercury Solar	Morikawa & Associates
Pacific Basin	Phoenix Solar	PhotonWorks Engineering
Poncho's Solar	R & R Solar Supply	REC Solar, Inc.
Rheem Manufacturing	Schenk's Specialized Services LLC	Schlissel & Associates
Smart Energy Hawaii	Solar Services Hawaii	SolarCity
SolarWave Hawaii	SolarWorld California	Sun King
Sun Earth, Inc.	Sunectric	SunHedge
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February 22, 2013
Testimony Before the House Committee on Finance
Representative Sylvia Luke, Chair
In Regard to H.B. 497, H.D. 2, Relating to Renewable Energy

Chair Luke, Vice Chair Nishimoto, and members of the committee I am Rick Reed, the president of Inter-Island Solar Supply. Our company was founded in 1973, incorporated in 1975, and is one of the largest distributors of renewable energy equipment in the United States.

Inter-Island Solar Supply supports the passage of H.B. 497, H.D. 2.

Comments Specific to Part I: Changes to HRS 235-12.5

HRS 235-12.5, despite its inadequacies and ambiguous language, has been extremely successful in inducing home and business owners to purchase solar water heating and PV systems. The recent uptake, particularly for net-energy metered systems, has been breathtaking. According to documents recently filed by the Hawaiian Electric group of companies with the PUC, over 73 MW (megawatts) of new net-metered PV were installed in their service territories in 2012. This is precisely the speed, scale and traction required for Hawaii to meet its statutory renewable energy obligations under the Hawaii Clean Energy Initiative.

By redefining eligible renewable energy property, H.B. 497, H.D. 2, closes the loophole that has allowed for a single individual or business to claim multiple PV tax credits, thus avoiding the artificially low cap levels imposed by a previous legislature. This key definitional change will lead to increased fairness and much greater transparency. The change, moreover, will not lead to over-sized PV systems since there is absolutely no economic incentive or rationale to do so within the utility regulations and rules for net-energy metered systems. In short, ratepayers seeking an off-ramp from unsustainable high utility costs will continue to purchase properly sized PV systems for their homes and businesses.

One of the most important provisions provided by H.B. 497, H.D. 2, is the annual reporting requirement. There is simply no excuse for not knowing the real time cost and benefit of any State of Hawaii tax credit or incentive, especially those incentives that are linked by statute to an essential public purpose or objective. Do not be swayed by DoTax or DBEDT claims that do not have the technical or human resources to provide real-time fiscal and economic information. The public debate surrounding the renewable energy investment tax credits has been much poorer for the lack of current and accurate information on both the costs and the full fiscal and economic benefits associated with this credit.

One final note. It is incongruous to continue to impose caps on solar water heating systems that are not imposed on PV systems. Again, there is no economic incentive to over-size a solar water heating system for tax credit purposes alone. Lifting the cap will have no bearing on either the number of claims or the amount of those claims. Systems will continue to be sized to load, not available tax credits. Solar water heating systems historically have not been subject to multiple credit claims or abuse.

<u>Comments specific to Part II</u>: Relating to Green Infrastructure Loans and Administration

It is clear that Hawaii needs access to affordable capital for renewable energy investments to the tune of hundreds of millions of dollars a **year for decades** in order to meet its statutory Hawaii Clean Energy Initiative mandates. Tax credits, leases, power purchase agreements, on-bill financing, and green bond funds can all play an important role in the clean energy transition.

It is a mistake to think that any single financial mechanism – taxpayer or ratepayer funded - is a panacea. We will continue to need all proven financial options for decades. Cheap money, however, isn't the issue. Money is as cheap now as it is ever going to be. Qualifying for the money, or the loan is another matter. And qualification requirements will be similar regardless of whether it is DBEDT or the Bank of Hawaii that does the lending. In addition, leases and power-purchase agreements now provide home and business owners with limited access to conventional financing with a viable alternative.

That said, if the proposed green bond fund will not increase utility rates, will actually grow the financial pie by providing a facility not offered by any bank or private entity, and can be cost-effectively administered by a new government agency, then it is our recommendation that the legislature continue to carefully vet this new financial option.

Thank you for the opportunity to present these comments.

Keahole Solar Power

HOUSE COMMITTEE ON FINANCE

Friday, February 22, 2013 — 3:00 p.m. — Room 308

TESTIMONY SUPPORTING HB 497 HD2

RELATING TO RENEWABLE ENERGY

Chair Luke, Vice Chair Nishimoto, Vice Chair Johanson, and Members of the Committee:

Keahole Solar Power LLC supports HB 497 HD2, which will make needed reforms to the Renewable Energy Technologies Income Tax Credit ("RETITC") to reduce the credit's cost to the State. Specifically, HB 497 HD2 takes a reasonable approach towards reforming the RETITC by generally following the existing federal structure and guidance, by providing a clear predictable rampdown of the incentive level, by reducing the tax credit's cost to the State while maximizing the amount of solar that will be installed, and by preserving all sectors of the solar photovoltaic industry.

These changes to the tax credit structure will make the RETITC easier to administer and will ensure that Hawai'i's homeowners and businesses are able to participate in helping Hawai'i achieve its ambitious clean energy goals and become more energy independent. We support the fair and balanced approach of HB 497 HD2, and urge the committee to pass this measure.

Thank you for the opportunity to provide this testimony.

Sincerely,

Harry Jackson

President

P: (808) 237-2401 · F: (808) 356-0565 | 550 Paiea Street, Suite 236 · Honolulu, HI 96819 | www.keaholesolarpower.com

firstwind
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TESTIMONY IN SUPPORT
KELLY O'BRIEN, VICE-PRESIDENT FOR DEVELOPMENT
FIRST WIND

REGARDING H.B. 497 HD2, RELATING TO RENEWABLE ENERGY

BEFORE THE
HAWAI'I STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
COMMITTEE ON FINANCE

FRIDAY, FEBRUARY 22, 2013
CONFERENCE ROOM 308
3:00 PM

Aloha, Chair Luke, Vice Chair Nishimoto, Vice Chair Johanson and Distinguished Members of the Committee on Energy and Environmental Protection. My name is Kelly O'Brien and I am the Vice-President for Development for First Wind.

First Wind has been developing and operating utility scale wind energy projects in Hawai'i since 2006 and to date has invested nearly $600 million in Hawai'i. We own and operate Kaheawa Wind Power I & II on Maui (51 MW) and Kahuku Wind Power (30 MW) and Kawailoa Wind Power (69 MW) on O'ahu. First Wind currently employs 25 people in Hawai'i with plans to add 5 more in the near term. We are also involved with several utility-scale solar projects in Hawai'i. We are firmly committed to helping to improve Hawai'i's energy security by decreasing its reliance on fossil fuels for its energy needs. We have a demonstrated record in establishing long-term dialogues and partnerships with the communities we join and we are proud of our accomplishments in establishing successful Habitat Conservation Plans for our projects which ensure a "net benefit" to native wildlife that could be affected by our projects.

Hawai'i has made great strides in utilizing renewable resources for its electricity needs in the past decade, but much more needs to be done to decrease Hawai'i's reliance on fossil fuels. Renewable Energy tax credits have a significant economic impact on each project. While First Wind supports the concept of tax credits for residential, commercial and feed-in-tariff solar projects, we are not taking a position on how the credits for those projects should be structured. Our interests are in the area of solar tax credits for utility scale projects and our testimony is focused solely on the language in Section (a)(3) proposing different credits for competitively bid versus non-competitively bid utility scale solar projects. First Wind supports efforts to establish a consistent tax credit structure that ensures a level playing field for all utility-scale project developers.

By providing a higher tax credit for projects that are not competitively bid, HB 497 HD2 would provide a competitive advantage to projects that result from bilateral negotiations with the utility versus projects that participate in any utility request for proposals (RFP) process. This would create an incentive for the utility to take more bilaterally negotiated projects due to the likelihood that the price will be lower at the expense of the State's taxpayers. The Hawaii Public Utilities Commission has encouraged the State's utilities to issue RFPs for projects as competition can be expected to insure that bidders offer their best prices thereby benefiting the ratepayers. Any legislation which provides a pricing advantage to projects which are not competitively bid essentially undermines the effort to increase competition and drive down prices.

Therefore, First Wind would fully support this bill if amended to equalize the treatment of projects regardless of how their contracts were negotiated. The language regarding credits for utility scale solar projects in SB 623 SD1 is an example of how this issue could be addressed.

Thank you for the opportunity to testify on this bill.

FORESTCITY
HAWAII

HOUSE COMMITTEE ON FINANCE
Friday, February 22, 2013 —3:00 p.m. — Room 308

HB 497, HD 2 Relating To Renewable Energy
Testimony in Support

Chair Luke, Vice Chairs Nishimoto and Johanson, and Members of the Committee:

My name is Jon Wallenstrom and I am the President of Forest City Hawaii. Forest City Hawaii is principally engaged in the ownership, development, management and acquisition of commercial and residential real estate and land in Hawaii. It is currently involved in a partnership with the Hawaii Housing Finance and Development Corporation (HHFDC) to develop Kamakana Villages, a mixed-use community of 2,206 homes on the Big Island, of which more than 50% will affordably priced. We have also put in place six photovoltaic farms on Oahu and are one of the largest owners of clean, renewable energy assets in the State. Forest City is one of the largest residential community and renewable energy developers in the state. At Forest City we leverage our real estate experience to create renewable energy projects. These developments help offset the high cost of energy in Hawaii for both our community as a whole, while also decreasing the state's dependence on fossil fuels.

Forest City **supports** HB 497, HD 2, which seeks to reform the Renewable Energy Technologies Income Tax Credit ("RETITC") while maintaining the viability of the solar industry. We believe that the bill will preserve the residential and commercial sectors of the solar industry and ensure that homeowners and businesses are able to continue to adopt solar technologies to reduce their electricity costs and save money. This measure will reduce the tax credit's long-term impact on the general fund by tens of millions of dollars annually by steadily decreasing the credit from its current level of 35% to a 15% level by 2018.

These changes to the tax credit structure will make the RETITC easier to administer and will ensure that Hawai'i's homeowners and businesses are able to participate in helping Hawai'i achieve its ambitious clean energy goals and become more energy independent. We support the fair and balanced approach of HB 497 HD2, and urge the committee to pass this measure.

Thank you for the opportunity to provide this testimony.

5173 NIMITZ ROAD HONOLULU, HI 96818
(808) 839-8771 fax: (808) 836-7008

TESTIMONY IN **SUPPORT of HB497 HD2**
To: HOUSE COMMITTEE ON FINANCE
Hearing on February 22, 2013 at 3:00 p.m. Room 308
Aloha Chair Luke, Vice Chair Nishimoto, Vice Chair Johanson and members of the Committee:

Introduction: My name is Riley Saito Senior Manager, Hawaii Projects, for SunPower Systems Corporation. SunPower has been a strong supporter of renewable energy initiatives in Hawaii for the last 15 years. It is a Member (charter) of Hawaii Energy Policy Forum and the Hawaii Clean Energy Initiative-Steering Committee and Energy Generation Working Group. SunPower has also participated in various, energy related, PUC dockets.

Mahalo in advance, for accepting testimony in **support of HB497 HD2.**

SunPower supports HB 497 HD2, which will make needed reforms to the Renewable Energy Technologies Income Tax Credit ("RETITC") to reduce the credit's cost to the State. Specifically, HB 497 HD2 takes a reasonable approach towards reforming the RETITC by generally following the existing federal structure and guidance, by providing a clear predictable rampdown of the incentive level, by reducing the tax credit's cost to the State while maximizing the amount of solar that will be installed, and by preserving all sectors of the solar photovoltaic industry.

These changes to the tax credit structure will make the RETITC easier to administer and will ensure that Hawai'i's homeowners and businesses are able to participate in helping Hawai'i achieve its ambitious clean energy goals and become more energy independent. We support the fair and balanced approach of HB 497 HD2, and urge the committee to pass this measure.

We believe that this amendment will lead to a higher level of renewable energy installation while still reducing the credit's cost to the State. In doing so, it will maximize the use of State tax dollars and keep Hawai'i on the path to achieving its clean energy goals.

Mahalo for the opportunity to testify.

Riley Saito
Senior Manager, Hawaii Projects
SunPower Systems, Corporation

Hawaii Solar Energy Association
Serving Hawaii Since 1977

Before the House Committee on Finance
Friday, February 22, 2013, 3:00 P.M., Conference Room 308
HB 497 H.D. 2: RELATING TO RENEWABLE ENERGY

Aloha Chair Luke, Vice-Chairs Nishimoto and Johanson, and members of the House Committee on Finance,

On behalf of the Hawaii Solar Energy Association (HSEA), I would like to testify **in partial support for HB 497 H.D 2**, which calls for a ramp down of the residential and commercial tax credit (ITC) from 30% to 15%, an 8 cent/kWh production tax credit (PTC) for photovoltaic projects (PV) of 1 MW or greater, and a 4 cents/kWh PTC for competitively bid PV projects. HB 497 H.D. 2 also holds steady the tax credit for solar hot water to 35% and provides for a refundable credit with a 30% discount for projects under 1 MW and a refundable credit without discount for all other PV projects.

HSEA is a non-profit trade organization that has advocated for both solar hot water and photovoltaics since 1977, with an emphasis on residential distributed generation (DG) and commercial SHW and PV. We currently represent 66 companies, and our members include installers, contractors, manufacturers, distributers, the utility, and others. With 35 years of advocacy behind us, HSEA's goal is to work for a sustainable energy future for all of Hawaii.

BACKGROUND

Although HSEA supports the sustained credit for solar hot water, and welcomes the mandate for DBEDT to provide data on the yearly costs and benefits of the renewable energy tax credit, HSEA is very concerned that the residential and commercial ramp down will stifle installations on Hawaiian residences and businesses once the tax credit drops below 20%. In addition, HSEA believes that the 8 cents/kWh for utility scale projects is not equitable and would pose a financial burden for the state while supporting PV installations which do not lower people's bills and are at the mercy of the utility's grid requirements and limitations. HSEA therefore requests that the ramp down for PV under 1 MW stop at 20%, and proposes that the PTC also ramp down to reflect reduced costs for utility scale projects, and to provide a more equitable tax credit framework.

The Tax Incentive Best Applied to Hawaiian Homes and Businesses

HB 497 H.D. 2 provides a tax credit framework for two distinct groups: small scale PV installations on homes and businesses (DG) and PTC projects. HSEA believes that both groups are part of our green energy plan, but PTC projects should not be supported to the detriment of the ITC credit for homes and businesses.

Advantages of Distributed Generation

DG has several advantages over utility scale installations. First, the installation of PV on a home or business is not delayed by years of permitting and financial issues, and once installed the utility customer gets an immediate savings—a true power to the people. In addition, because of the relatively small scale of DG projects, grid saturation is rarely an issue, and transmission loss never is. DG in aggregate has made substantial contributions to our overall energy goals, and is the lion's share of the market here in Hawaii.

	DISTRIBUTED GENERATION/ITC (installations on homes and businesses)	PTC (projects of 1 MW or greater)
FINANCIAL STRUCTURE	These installations reduce the home owner's or businesses' electric bill. Purpose is to save money and invest in state's clean energy infrastructure.	Purpose is to make money for developer. Once installed, invests in green energy for state. Probably no reduction in utility bill for Hawaiian utility customer.
GRID SATURATION	Generally not an issue. On Maui, If 10kW or less, does not require IRS study if does not exceed 75% min. day time load.	Large projects saturate circuits, and installation is dependent upon utility approval.
GRID LOSS	Generated on-site. No transmission loss.	Loss increases with transmission distance.
% MARKET IN HAWAII	Majority of PV in Hawaii is NEM residential. In 2012, of all PV installed, 92.8 MW, approximately 75% of those installations were residential NEM.	Both commercial and utility scale installations in 2012 less than 25% of all PV installed
TIMING	2-3 days for residential installation	3-5 years to contend with permitting and financial issues
REFUNDABLE?	SB 643 SD 1 maintains 30% discount for refundable credit.	SB 643 SD 1 grants refundable **without discount** for utility scale, thus opening the door for large cash payments out of state.

PROPOSED AMENDMENTS

1. <u>Stop DG Ramp Down at 20%</u>
   - <u>Time to make best use of Federal Tax Credit which expires in 2016</u>
     Now is the time to make the best use of the 30% Federal Tax Credit, which is due to expire 12/31/2016, with no guarantee that it will be renewed. With the federal tax credit gone, the installation of solar hot water and PV will be out of reach for many home owners and businesses. Since DG is the most efficient way to lower bills and encourage investment in green energy infrastructure, it makes sense to make the most of the additional federal tax credit while it is still in place.
   - <u>Tax credit below 50% shows dramatic reduction in residential installations</u>
     Research shows that once the price for solar and other technologies drops below 50%, installations slow dramatically. If the state incentive is reduced to 15% in 2016, the state will likely see a dramatic decrease in size and scale of DG installations.
   - <u>Hawaii still far from energy goals</u>
     Although DG residential installs have increased significantly, they are still a small part of our overall energy portfolio, with residential NEM providing only about 1.5% of the overall energy for Hawaii.

2. Clarify that SB 623 SD 1 allows subsequent installations

   P. 2 section (2) states that a credit may be taken for a solar energy project which is used primarily to generate electricity and is less than 1 MW in alternating current capacity, and is "not part of a larger solar energy property." HSEA respectfully asks for clarification on this section as it may be interpreted to mean that additions on a system in subsequent years **would not** be eligible for a tax credit, the opposite of current policy.

   - Allowing credit on subsequent installations makes solar more affordable for tax payer

     The current tax incentive under the administrative rules allows for a tax credit to be taken in subsequent years if the system is expanded. Allowing taxpayers to take the tax credit in subsequent years lets home owners and businesses install "mini" systems that may later be expanded, which makes a suitably sized system affordable for tax payer.
   - Subsequent tax credits allow the tax payer to adjust the solar system should load increase, such as for an electric vehicle
   - Allowing the tax incentive to be taken in subsequent years extends the tax burden for the state over a longer period of time.

3. Ramp Down PTC to account for decreasing installation costs
   - Is 8 cents/kWh equitable for PTC?

     Using the current competitive installation cost for a PTC project and a PTC of 8 cents/kWh, the effective tax credit would be about 35% . HSEA believes that in the interest of equity, this initial rate for the PTC should be at least the same as the ITC, which begins at 30% for 2013.
   - Ramp down should reflect decreased installation costs

     Installations costs for PTC projects have continued to drop, and as install costs go down, the effective tax rate will increase. For instance, at $2.50/watt install cost, a future trended price on large scale projects across the country, the effective tax credit on a project with a PTC of 8 cents/kWh would be almost 50%. Also, it should be noted that PTC projects enjoy the tax benefits of depreciation both on the state and federal level, a benefit not available to a homeowner.

4. Apply refundable credit with a discount for both ITC and PTC
   - SB 623 SD 1 gives the added incentive of a refundable credit without the 30% discount for PTC

     SB 623 SD 1 proposes that for most ITC projects, the refundable credit is taken with a 30% discount, where the refundable credit for PTC may be taken without discount. Since the taxpayers for many PTC projects have no Hawaii state tax liability, the majority of the tax credit will be refundable. By allowing the refundable for PTC to be paid without a discount, the cost to the state could be considerable, especially given that SB 623 SD 1 lifts the caps for both ITC and PTC PV.

5. HSEA supports intent of Green Energy Infrastructure Loans

   HB 497 H.D. 2 also outlines a program to provide green energy loans for the purchase of renewable equipment and efficiency. HSEA supports the intent of this section of HB 497 H.D. 2, and looks forward to the further development of this program. HSEA wants to see, however, that this green energy loan program is firmly in place before the current tax incentives are phased out.

Summary

HSEA supports a new tax incentive framework that provides a fair and clear program to help Hawaii reach its clean energy goals. We support the ongoing incentive for solar hot water, and the mandate for a yearly study on the cost/benefits of the tax incentive program. To ensure that installations on residences and businesses continue at a reasonable rate, we respectfully request that the ramp down stop at 20%. In addition, in the interest of equity and concern over state finances, we ask that the PTC be reconsidered and ramped down along with the ITC, so that it reflects a fair rate as costs for installations reduce, with a uniform refundable credit.

Thank you for the opportunity to testify.

Leslie Cole-Brooks
Executive Director
Hawaii Solar Energy Association

AET, LLC	Affordable Solar Contracting	Allana Buick & Bers
Alternate Energy	American Electric Company, LLC	B. Bautista Electrical
Bonterra Solar	Bureau Veritas North America	Cano Electric
C & J Solar Solutions	Coffman Engineers, Inc.	Allen’s Plumbing
Conergy	DHX	Dr. Stephen Allen
Energy Industries	En-Phase	Energy Industries
Dependable Hawaii Express	Energy Unlimited, Inc.	EnergyPro Hawaii
Ferguson	Forest City Residential Group	Gexpro
Giant Solar	Grand Solar	Haleakala Solar
Hawaii Energy Connection	Hawaii Home Expo & Marbelhaus Trading	Hawaii Electric Company
Hawaii Island Solar	Hi-Tech Plumbing	HNU Energy
Hoku Scientific	Honeywell Utility Solutions	Inter-Island Solar Supply
Island Pacific Energy	Island Solar Service	Kheiron Partners
Ku’oko’a	Kyocera Solar Inc.	Lumen Solar, LLC
Maui Pacific Solar	Mercury Solar	Morikawa & Associates
Pacific Basin	Phoenix Solar	PhotonWorks Engineering
Poncho’s Solar	R & R Solar Supply	REC Solar, Inc.
Rheem Manufacturing	Schenk’s Specialized Services LLC	Schlissel & Associates
Smart Energy Hawaii	Solar Services Hawaii	SolarCity
SolarWave Hawaii	SolarWorld California	Sun King
Sun Earth, Inc.	Sunectric	SunHedge
Talent HR Solutions	WESCO Distribution	Unirac

Testimony of Cindy McMillan
The Pacific Resource Partnership

House Committee on Finance
Representative Sylvia Luke, Chair
Representative Scott Y. Nishimoto, Vice Chair

HB 497, HD2 – Relating to Renewable Energy
Friday, February 22, 2013
3:00 pm
Conference Room 308

Aloha Chair Luke, Vice Chair Nishimoto and Members of the Committee:

The Pacific Resource Partnership (PRP) is a labor-management consortium representing over 240 signatory contractors and the Hawaii Regional Council of Carpenters

PRP **supports** HB 497, HD2, which will make needed reforms to the Renewable Energy Technologies Income Tax Credit ("RETITC") to reduce the credit's cost to the State. Specifically, this measure takes a reasonable approach towards reforming the RETITC by generally following the existing federal structure and guidance, by providing a clear predictable rampdown of the incentive level, by reducing the tax credit's cost to the State while maximizing the amount of solar that will be installed, and by preserving all sectors of the solar photovoltaic industry.

The State of Hawaii's goal is to meet 70% of our energy needs by 2030 through energy efficiency and renewable energy. In order to meet this goal, we must overcome the barriers to the widespread installation of green energy infrastructure equipment and this measure will help do that in very significant ways.

For many home owners and small businesses, the cost of green infrastructure equipment is prohibitive. Many are struggling to get by, and retrofits requiring major capital costs upfront are off the table, even if the system would save money in the long run. HB 497, HD2 helps allow the people who could benefit most from energy-efficiency improvements to help pay for them.

These changes to the tax credit structure will make the RETITC easier to administer and will ensure that Hawai‘i’s homeowners and businesses are able to participate in helping Hawai‘i achieve its ambitious clean energy goals and become more energy independent. We support the fair and balanced approach of HB 497, HD2, and urge the committee to pass this measure.

Thank you for the opportunity to provide this testimony.

HOUSE COMMITTEE ON FINANCE
Friday, February 22, 2013 — 3:00 p.m. — Room 308

TESTIMONY SUPPORTING HB 497 HD2
RELATING TO RENEWABLE ENERGY

Chair Luke, Vice Chair Nishimoto, Vice Chair Johanson, and Members of the Committee:

Kairos Energy Capital supports HB 497 HD2, which will make needed reforms to the Renewable Energy Technologies Income Tax Credit ("RETITC") to reduce the credit's cost to the State. Specifically, HB 497 HD2 takes a reasonable approach towards reforming the RETITC by generally following the existing federal structure and guidance, by providing a clear predictable rampdown of the incentive level, by reducing the tax credit's cost to the State while maximizing the amount of solar that will be installed, and by preserving all sectors of the solar photovoltaic industry.

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.

Because our business is about financing renewable energy systems, I will focus my testimony today on the interaction between Hawai`i's renewable energy technology investment tax credit (the "Hawai`i Tax Credit") and the capital markets that make Hawai`i's renewable energy initiatives possible.

1. <u>Adopting a Clear, Predictable Rampdown is Crucial to Maintain Lowest Cost Funding</u>: The Hawai`i Tax Credit currently brings $3 of other people's money for every dollar of state investment. According to data from the Department of Taxation, DBEDT and county building permit offices, the actual rate at which the Hawai`i Tax Credit is claimed is about 23% of the system value, rather than the "nominal" rate of 35% in the statute. A great deal of this is due to taxpayers claiming the refund at a 30% discount – i.e. 24.5% of the system value – and some amount of unclaimed credits, defective applications and the like. The rest of the money – 77% of the cost of every installation – comes from a combination of Federal money in the form of the Federal tax credit, and private funds.

This "leverage" is very valuable, not only for the State's renewable energy objectives, but also for the capital markets. One of the biggest threats to investors in Hawai`i renewable energy projects has been the highly unstable nature of the State tax credit incentive. This bill sets a predictable schedule and will allow investors to plan and fund projects in a lower-risk environment, helping to keep capital costs in Hawai`i lower.

2. <u>Production Tax Credit Rates for 1MW-Plus Projects is a Win-Win for the State</u>: HB 497 HD2 provides production tax credits to projects larger than 1 MW in size at the rate of eight (8) cents per kilowatt-hour for non-competitively bid projects and 4 cents for competitively bid projects. Because almost all projects of this size currently in

development are of the non-competitively bid type and have relied on the earlier 35% investment tax credit, the use of the 8 cent rate for those projects provides similar levels of benefit to the project developers who have expended significant money and effort, and yet allows the State to absorb the cost of the incentives over ten years, rather than taking the hit in one year when the project is placed into service. This is a win-win for getting projects developed while minimizing the impact on the State budget, and we strongly support it.

The lower credit for those competitively-bid projects of four (4) cents per kilowatt-hour will provide a level playing field for those developers currently considering bidding on the upcoming HECO RFP, and thus again provide a win-win for getting private investment into projects while minimizing state budget impact.

The changes to the tax credit structure contained in HB497 HD2 will make the RETITC easier to administer and will ensure that Hawaiʻi's homeowners and businesses are able to participate in helping Hawaiʻi achieve its ambitious clean energy goals and become more energy independent. We support the fair and balanced approach of HB 497 HD2, and urge the committee to pass this measure.

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

SolarCity

TESTIMONY IN SUPPORT OF HB 497, HD 2

To: Honorable Sylvia Luke, Chair, House Committee on Finance

From: SolarCity

Hearing on Feb. 22, 2013, at 3:00 p.m., Room 308

Aloha Chair Luke, Vice Chair Nishimoto, Vice Chair Johanson, and Members of the Committee:

Thank you for the opportunity to provide testimony in strong support of HB 497, HD 2, which balances Hawaii's pursuit of a clean energy future with the cost of the Renewable Energy Technologies Income Tax Credit (RETITC).

SolarCity provides clean energy to homeowners, businesses, not-for-profit organizations, and government entities, primarily via photovoltaic systems. SolarCity serves Hawai'i from its operations center in Mililani, which employs 70 local residents. The company's customers and partners in Hawai'i include the Hawai'i Department of Transportation, the Maui Arts & Cultural Center, KIUC, the Ulupono Initiative, the University of Hawai'i, and the U.S. Military.

SolarCity supports HB 497, HD 2 because it follows the framework of the federal renewable energy tax credit which eliminates multiple credit abuse and reduces the cost to the state. HB 497, HD 2 will continue to promote the goals of the RETITC including job creation and energy independence.

Thank you for this opportunity to testify in support of HB 497, HD 2.

Mahalo,

Jon Yoshimura, Director of Government Affairs, Hawaii

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February 21, 2013

The Honorable Sylvia Luke, Chair
House Committee on Finance
Hawaii State Capitol, Room 308
Honolulu, HI 96813

RE: House Bill 497 HD2 – Renewable Energy Technologies; Tax Credit – Support

Dear Representative Luke:

Mainstream Energy Corp. supports House Bill 497 HD2, which makes needed reforms to the current Renewable Energy Technologies Income Tax Credit (RETITC). This bill significantly reduces the tax credit's long-term general fund impact by reducing the RETITC from its current level of 35% to 15% by 2018 for small to mid-sized solar systems, and converting the RETITC to a production tax credit for larger projects. We remain concerned, however, that the bill makes retroactive impacts to projects currently under construction – which will be placed in service in 2013 – and ask for a technical amendment to address this issue.

Mainstream Energy Corp. is the parent company of REC Solar, a national installer of grid-tied residential, commercial, government, and utility solar, and AEE Solar, one of the country's largest distributors of renewable energy equipment. Our companies have a presence in all major solar markets and employ more than 800 people. We've installed more than seven megawatts of commercial systems in Hawaii – for schools, public buildings, retailers, and utilities – and have more than sixteen megawatts under construction. Changes to current RETITC structure will have a major impact on these and future projects.

As currently written, HB 497 HD2 modifies the RETITC for systems placed in service between December 31, 2012 and January 1, 2014 relative to the Department of Taxation's existing Temporary Administrative Rules. To avoid negative retroactive impacts to projects currently under construction, we suggest the following language be inserted into the bill:

For solar energy properties placed in service after December 31, 2012, and before January 1, 2014, a taxpayer may elect tax credits under this section or under the department's temporary administrative rules that became effective January 1, 2013.

Again, Mainstream Energy Corp., REC Solar, and AEE Solar support HB 497 HD2, and we appreciate your leadership in renewable energy issues. Thank you for the opportunity to provide this testimony.

Sincerely,

Benjamin Higgins

Benjamin L. Higgins
Director of Government Affairs

Testimony Before the House Committee on
Finance

By: Michael V. Yamane, P.E.
Chief of Operations
Kauai Island Utility Cooperative
4463 Pahee Street, Suite 1, Lihue, Hawaii, 96766-2000

Friday, February 22, 2013, 3:00pm
Conference Room # 308

House Bill No. 497, HD2 – Relating to Renewable Energy

To the Honorable Sylvia Luke, Chair; Scott Y. Nishimoto, Vice Chair; Aaron Ling Johanson, Vice-Chair, and members of the Committee:

Kauai Island Utility Cooperative ("KIUC") opposes House Bill 497, HD2. This proposed legislation as written would negatively impact KIUC and its subsidiaries by not allowing electric cooperatives to qualify for any State tax credits or tax refunds. Electric cooperatives are specifically listed under the Internal Revenue Code under Section 54 (j) (4).

n) No credit under this section shall be allowed to:

(1) Any federal, state, or local government or any political subdivision, agency, or instrumentality thereof;

(2) Any entity referred to in section 54(j)(4) of the Internal Revenue Code; or

(3) Any partnership or other pass-thru entity that has as a partner or other holder of an equity or profits interest that is described in paragraph (1) or (2).

As you know KIUC is a member-owned cooperative with nine elected Board of Directors. Being member-owned, KIUC has set a renewable generation goal of 50% by 2023. KIUC plans to use a portfolio approach to achieve its goals by using a combination of Hydro, Biomass, and Solar Photovoltaic generation to achieve its renewable goals. KIUC has planned for two 12MW PV farms located in Anahola and Poipu which will provide Kauai with approximately 12% of its energy from the sun. The fact that this is a KIUC-owned project along with the State tax credits, make it an affordable source of energy for our members and help stabilize rates in the future. Thank you for the opportunity to testify on this matter.

HOUSE COMMITTEE ON FINANCE

TESTIMONY IN SUPPORT OF HB 497_HD2 RELATING TO RENEWABLE ENERGY

Testimony of Sarah Bertram, Sr. Manager, Policy & New Markets, Sunrun

Friday, February 22, 2013; House Conference Room 308

Chair Luke, Vice Chair Nishimoto, Vice Chair Johanson, and Members of the Committee:

Sunrun **supports** HB 497_HD2, which will make much needed reforms to the Renewable Energy Technologies Income Tax Credit ("RETITC") that reduce the credit's cost to the state and make it easier for the Department of Taxation to administer and for the public to understand, while maintaining the viability of the solar industry.

As one of Hawaii's leading residential solar companies, Sunrun's support is specific to the considerations of the residential sector. Sunrun's testimony focuses on the RETITC portion of HD 497_HD2, but Sunrun also supports on-bill financing as a means to build upon existing solar financing options, such as leases and power purchase agreements, in Hawaii. We offer one technical amendment below to improve Part II of HD 497_HD2. Sunrun does not take a position on the commercial or utility-scale RETITC provisions, other than that we would like to see RETITC reform legislation that supports continued development across segments of the solar industry.

Since 2010, Sunrun has partnered with 7 local solar installers to allow more than 2,000 Hawaiian households to adopt home solar. Solar leasing makes clean energy available to homeowners with little or no money down. Under our solar lease, Sunrun, not the homeowner, pays the upfront costs of buying and installing solar. The homeowner pays only for the electricity they generate on their own roof. Thus families can use their disposable income in other ways to support Hawaii's economy.

Sunrun asks that the Committee consider three important technical amendments:

1. HB 497_HD2 is currently written to apply to taxable years beginning after December 31, 2012. In its current form, the bill modifies the RETITC for systems placed in service between December 31, 2012 and January 1, 2014 relative to the existing Temporary Administrative Rules (published by DoTax in November 2012). As a result, this bill creates risk that there will be retroactive impacts to solar projects placed in service during 2013. To avoid a negative retroactive impact, Sunrun suggests that following language from SB 623 be inserted into the bill:

For solar energy properties placed in service after December 31, 2012, and before January 1, 2014, a taxpayer may elect tax credits under this section or under the department's temporary administrative rules that became effective on January 1, 2013.

2. Consistent with the HI PV Coalition testimony before the Consumer Protection Committee, we suggest that the definition of basis and energy property be clarified to more clearly follow federal definitions. Specifically, we suggest the following definition for property:

"'Property' means (i) equipment which uses wind or solar energy to generate electricity; (ii) the construction, reconstruction, or erection of which is completed by the taxpayer, or which is acquired by the taxpayer if the original use of such property commences with the taxpayer."

In addition, we suggest that the following language – currently included in SB 623_SD1 is sufficient and clear for the definition of "basis."

"The basis used under this chapter shall be consistent with the use of basis in section 25D or section 48 of the Internal Revenue Code; provided that, for the purposes of calculating the credit allowed under this chapter, the basis of the solar energy property or the wind energy property shall not be reduced by the amount of any federal tax credit or other federally subsidized energy financing received by the taxpayer."

We suggest that the following sentence be removed from the bill, as it is unnecessary and potentially confusing:

"Basis" means costs related to the energy property under subsection (a), including accessories, energy storage, and installation, but does not include the cost of consumer incentive premiums unrelated to the operation of the energy property or offered with the sale of the energy property and costs for which another credit is claimed under this chapter. Any cost incurred and paid for the repair, construction, or reconstruction of a structure in conjunction with the installation and placing in service of solar or wind energy property shall not constitute a part of the basis for the purpose of this section."

3. To clarify that "green infrastructure costs" mean costs incurred to adopt green technology, we suggest that the definition of "green infrastructure costs" be amended to read as follows (proposed additions underlined):

"Green infrastructure costs" means costs incurred or to be incurred by the electric utility customers to pay for clean energy technology <u>or the electricity generated by customer-sited clean energy technology</u>, demand response technology, and energy use reduction and demand side management infrastructure including, without limitation, the purchase or installation of green infrastructure equipment, programs, and services authorized by the green infrastructure loan program.

Thank you for the opportunity to provide this testimony.

Sincerely,
Sarah Bertram

SunEdison®

HOUSE COMMITTEE ON FINANCE

TESTIMONY IN SUPPORT OF
HB 497 HD 2 RELATING TO RENEWABLE ENERGY

Testimony of
SunEdison
Friday, February 22, 2013
House Conference Room 308

Chair Luke, Vice Chair Nishimoto, Vice Chair Johanson, and Members of the Committee:

Thank you for the opportunity to provide testimony in support of the intent of HB 497 HD 2 regarding renewable energy. HB 497 HD 2 will make needed reforms to the Renewable Energy Technologies Income Tax Credit ("RETITC") to reduce the credit's cost to the State. However, SunEdison does have concerns about HB 497 HD 2's retroactive application of the tax credit reforms to January 1, 2013.

SunEdison is one of the largest solar PV energy service providers in the United States. In Hawaii, SunEdison has been active in developing and operating commercial and utility-scale solar PV systems since 2006.

HB 497 HD 2 provides that a new tax credit of 30% for solar systems less than 1MW is effective for systems placed in service after December 31, 2012. Applying this change retroactive to the end of 2012 will cause material harm to many projects that are currently under construction and have been developed and financed with the expectation that the tax credits as they exist today will apply. SunEdison is currently constructing several such projects, which it expects to complete in the first half of 2013. As an alternative to the provision in HB 497 HD 2, SunEdison suggests the following language:

> For solar energy properties placed in service after December 31, 2012, and before January 1, 2014, a taxpayer may elect tax credits under this section or under the department's temporary administrative rules that became effective on January 1, 2013.

We believe this change will avoid undermining projects currently in construction while achieving reforms that will enable Hawaii to cost-effectively achieve its ambitious clean energy goals and reach energy independence. We urge the committee to pass this measure with the suggested amendment.

Thank you for the opportunity to provide this testimony.

Sincerely,

Curtis Seymour
Director of Government Affairs
SunEdison

2/22/2013	**House Committee on Finance**	**FIN**
3:00 p.m.		**HB 497**

TESTIMONY IN SUPPORT

Dear Chair Luke, Vice Chair Nishimoto, Vice Chair Johanson, and Members of the Committee:

Hawaii PV Coalition **supports** HB 497, HD2, which creates a green infrastructure financing program and also reforms the Renewable Energy Technologies Income Tax Credit ("RETITC") while maintaining the viability of the solar industry. We support all sections of the measure but make specific comments and suggestions only on the measure's steps to reform the tax credit.

We believe that as currently drafted, HB 497, HD2 will preserve all sectors of the solar industry and ensure that homeowners and businesses are able to continue to adopt solar technologies to reduce their electricity costs and save money. This reform measure will reduce the tax credit's long-term impact on the general fund by tens of millions of dollars annually by steadily ramping the credit down from its current level of 35% to a 15% level by 2018.

In addition HB 497, HD2 implements a production tax credit for projects larger than one megawatt in size. This production tax credit is modeled on the federal renewable energy production tax credit, and the value of the credit is determined by the amount of electricity produced by the facility and either sold to an unrelated third party or consumed on-site to offset load, rather than by the cost of the system. The primary benefit of such a credit would be to reduce the general fund impact of incentivizing utility scale solar projects because it will allow the state to spread the cost of the tax credit out over a longer period of time. It will also ensure that the credit is only paid for systems that are actually producing electricity, and only for electricity that is actually used.

In short, HB 497, HD2 will save the State tens of millions of dollars in tax credit related outlays, while continuing to promote solar energy technologies that will allow Hawai'i to reach its clean energy goals and reduce our depends on imported fossil fuels.

We would also like to take this opportunity to offer three technical amendments to the bill, which are outlined below.

(1) Definition of "Property"

This draft of HB 497 rightly attempts to rely on the federal definition of energy "property" in its reform of HRS § 235-12.5 by defining "property" as having "the same meaning as in section 25D, 45, or section 48 of the Internal Revenue Code." Unfortunately, however, "property" is not defined as a stand-alone term in any of those three sections of the IRC, and to the extent it is defined in conjunction with other terms — e.g., "energy property" and "qualified solar electric property expenditure"—the definitions are inconsistent and/or contradictory. For example, "energy property"

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in Sec. 48 is defined so as to exclude property that is not depreciable, since Sec. 48 only applies to commercial property. This won't work for HRS § 235-12.5, where the definition of property is intended to apply to both residential and commercial property. In any case, HD2 of HB497 maintains a tie-in to the federal IRC for interpretation of these terms via its section (j), which provides that "The tax credits provided for in this section shall be construed in accordance with Treasury Regulations and judicial interpretations of similar provisions in sections 25D, 45, and 48 of the Internal Revenue Code." In order to address this technical flaw, we recommend that the definition of "Property" used in HB 497, HD2 be replaced with the following definition:

> "Property" means (i) equipment which uses wind or solar energy to generate electricity; (ii) the construction, reconstruction, or erection of which is completed by the taxpayer, or which is acquired by the taxpayer if the original use of such property commences with the taxpayer.

(2) Definition of "Basis"

HB 497 HD2's definition of "basis" also complicates the effort to follow the federal guidance in administering Hawaii's energy credit. The third sentence of this proposed definition fully accomplishes the goal of "following the federal" by stating:

"The basis used under this part shall be consistent with the use of basis in section 25D or section 48 of the Internal Revenue Code of 1986, as amended; provided that for the purposes of calculating the credit allowed under this chapter, the basis of the solar energy property or the wind energy property shall not be reduced by the amount of any federal tax credit or other federally subsidized energy financing received by the taxpayer."

In this context, the sentence that precedes it stating: "Any cost incurred and paid for the repair, construction, or installation and placing in service of solar or wind energy property shall not constitute a part of the basis for the purpose of this section" muddies the waters and will result in the potential for different system components to be included and excluded from the tax basis of solar projects under state and federal tax law. This situation, in which Hawaii law would conflict with federal law, can be resolved by simply eliminating the second sentence.

(3) Clarification of the Credit for Utility Scale Wind Energy Property.

It is our understanding that the intent of HB 497 HD2 is not to include a tax credit for projects larger than 1 MW. As drafted, however, a larger wind energy project comprised of turbines whose individual rated capacities are below 1 MW would arguably be eligible for an investment tax credit because it is possible that each turbine would be considered separate "property." If the intent of the Committee is to limit the investment tax credit's availability to solar and wind developments in which the overall project is less than one MW in size, the Committee may wish to substitute "not part of a larger wind energy property" in section (a)(4) with "not part of a larger wind energy development". A similar change could be made in section (a)(2) by replacing "not part of a larger solar energy property" with "not part of a larger solar energy development" or "not part of a larger solar energy facility."

Once again we support this bill, and we hope that the technical recommendations offered above may be of some use to the Committee. Thank you for the opportunity to provide this testimony.

Mark Duda
President, 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.

HOUSE COMMITTEE ON FINANCE
Friday, February 22, 2013 — 3:00 p.m. — Room 308

TESTIMONY SUPPORTING HB 497, HD 2
RELATING TO RENEWABLE ENERGY

Chair Luke, Vice Chair Nishimoto, Vice Chair Johanson, and Members of the Committee:

RevoluSun is a locally-owned solar company that works in the residential, commercial, and utility-scale sectors of the photovoltaic solar industry in Hawai'i.

RevoluSun supports HB 497, HD 2, which will make needed reforms to the Renewable Energy Technologies Income Tax Credit ("RETITC") to reduce the credit's cost to the state. Specifically, HB 497, HD 2 takes a reasonable approach towards reforming the RETITC by generally following the existing federal structure and guidance, by providing a clear predictable rampdown of the incentive level, by reducing the tax credits' cost to the state while maximizing the amount of solar that will be installed, and by preserving all sectors of the solar photovoltaic industry.

These changes to the tax credit structure will make the RETITC easier to administer and will ensure that Hawaii's homeowners and businesses are able to participate in helping Hawaii achieve its ambitious clean energy goals and become more energy independent. We support the fair and balanced approach of HB 497, HD 2, and urge the committee to pass this measure.

Thank you for the opportunity to provide this testimony.

Colin Yost
Principal & General Counsel

Distributed Energy Partners
Performance in Power

HOUSE COMMITTEE ON FINANCE
Friday, February 22, 2013 — 3:00 p.m. — Room 308

TESTIMONY SUPPORTING HB 497, HD 2
RELATING TO RENEWABLE ENERGY

Chair Luke, Vice Chair Nishimoto, Vice Chair Johanson, and Members of the Committee:

Distributed Energy Partners is a Hawaii based, owned, and operated firm specializing in the development of commercial-scale distributed renewable energy projects, which include solar, wind, and emerging technologies.

Distributed Energy Partners **supports HB 497, HD 2**, which will make needed reforms to the Renewable Energy Technologies Income Tax Credit ("RETITC") to reduce the credit's cost to the state. Specifically, HB 497, HD 2 takes a reasonable approach towards reforming the RETITC by generally following the existing federal structure and guidance, by providing a clear predictable rampdown of the incentive level, by reducing the tax credits' cost to the state while maximizing the amount of solar that will be installed, and by preserving all sectors of the solar photovoltaic industry.

These changes to the tax credit structure will make the RETITC easier to administer and will ensure that Hawaii's homeowners and businesses are able to participate in helping Hawaii achieve its ambitious clean energy goals and become more energy independent. We support the fair and balanced approach of HB 497, HD 2, and urge the committee to pass this measure.

Thank you for the opportunity to provide this testimony.

Sincerely,

Joshua Powell
Principal & RME

1600 Kapiolani Blvd., Suite 1700, Honolulu, Hawaii 96814

Sovereign Councils of the Hawaiian Homelands Assembly

89-1888 Farrington Hwy.
Waianae, HI 96792
Ph: (808) 620-9070
info@schha.com

February 20, 2013

To: **Rep. Linda Luke, Chair**
Rep. Nishimoto, Vice Chair, Rep. Johanson, Vice Chair &
Members of the House Committee on Finance

From: **Kali Watson**
Chairman of Statewide Economic/Housing Development
SCHHA
Honolulu, Hawaii 96792

Re: **Hearing on Renewable Energy HB 497 HD2**
February22, 2013 at 3:00 pm
Hawaii State Capitol, Room 308

TESTIMONY IN SUPPORT

Dear Chair Luke, Vice Chairs Nishimoto & Johanson and Members:

Thank you for the opportunity to provide testimony in support of HB 497 HD2 regarding renewable energy. It will make needed reforms to the Renewable Energy Technologies Income Tax Credit ("RETITC") to reduce the credit's cost to the State. Specifically, HB 497 HD2 takes a reasonable approach towards reforming the RETITC by generally following the existing federal structure and guidance, by providing a clear predictable slow reduction of the incentive level, by reducing the tax credit's cost to the State while maximizing the amount of solar that will be installed, and by preserving all sectors of the solar photovoltaic industry, especially utility sized projects.

These changes to the tax credit structure will make the RETITC easier to administer and will ensure that Hawai'i's homeowners and businesses are able to participate in helping Hawai'i achieve its ambitious clean energy goals and become more energy independent. We support the fair and balanced approach of HB 497 HD2, and urge the committee to pass this measure.

The Sovereign Councils of the Hawaiian Homelands Assembly, formerly the State Council of Hawaiian Homestead Associations was founded more than 25 years ago to unite homestead communities and to advocate for the beneficiaries of the Hawaiian Homes Commission Act of 1921. The SCHHA is the oldest statewide advocacy organization representing the interests of more than 30,000 beneficiaries and families residing in the communities of the Hawaiian Home Land Trust. Its mission is to promote the self determination of native Hawaiians and the well being of homestead communities. As Chairman of Economic/Housing /Committee, it's critical that we have a more conducive and viable approach to financing of solar projects.

I respectfully urge you to pass HB 497 HD2.

Sincerely,

Kali Watson

Kali Watson
Chairman of Economic Development

Testimony Before the House Committee
On
Finance

February 22, 2013 (3:00 PM); Agenda #3

H.B. 497 HD2 RELATING TO RENEWABLE ENERGY

By: Alan Hee
Director, New Energy Initiatives
Hawaiian Electric Company, Inc.

Chair Luke, Vice Chairs Nishimoto and Johanson, and Members of the Committee:

My name is Alan Hee, and I represent Hawaiian Electric Company, and its subsidiary utilities Hawaii Electric Light Company and Maui Electric Company. I appreciate the opportunity to present testimony on H.B. 497 HD2.

The Companies' testimony addresses only Part II of the bill; we take no position on Part I. The Companies support the intent of Part II of H.B. 497 HD2 which proposes to establish a Green Infrastructure Program to provide low cost clean energy financing to underserved markets. The Companies have also supported on-bill financing during the proceeding at the Commission (Docket No. 2011-0186) in which the Companies indicated their willingness to assist with billing, collecting, and transmitting customer payments related to on-bill financing.

The Companies have been working with DBEDT and the PUC on amending H.B. 856, which is the companion bill to Part II of HB 497, HD 2. That collaborative effort has resulted in language which the Companies strongly support. Therefore, we request that the House amend the appropriate part of H.B. 497 HD2 to match the version of H.B. 856 that includes DBEDT's and the PUC's amendments, or hold the appropriate part of H.B. 497 HD2 so that the amended H.B. 856 can advance.

Thank you for the opportunity to testify on this measure.

TESTIMONY OF WARREN BOLLMEIER ON BEHALF OF THE HAWAII RENEWABLE ENERGY ALLIANCE BEFORE THE HOUSE COMMITTEE ON FINANCE

HB 497 HD2, RELATING TO ENERGY

February 22, 2013

Chair Luke, Vice-Chairs Nishimoto and Johanson, and members of the Committee, I am Warren Bollmeier, testifying on behalf of the Hawaii Renewable Energy Alliance (HREA). HREA is an industry-based, nonprofit corporation in Hawaii established in 1995. Our 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 our goals is to support appropriate policy changes in state and local government, the Public Utilities Commission and the electric utilities to encourage increased use of renewables in Hawaii.

The purposes of HB 497 HD2 are to: (i) amend the tax credit for renewable energy technologies, (ii) apply to taxable years beginning after December 31, 2012, and (iii) establish a regulatory financing structure that authorizes the Public Utilities Commission and the Department of Business, Economic Development, and Tourism to provide low-cost loans for green infrastructure equipment to achieve measurable cost savings and achieve Hawaii's clean energy goals.

HREA **supports** Part 1 of this measure and offers the following comments:

1) Residential-Small Commercial-Scale (<1 MW). We support:
   a) the 35% Investment Tax Credit ("ITC") for solar water heating systems,
   b) the 30% ITC for distributed generators ("DGs"), but without the ramp down as proposed starting 2014, as we do not believe a ramp down is justified at this time. Thus, we recommend that the credit level remain at 30%, and that we then watch closely the market response moving forward to this new ITC treatment, and
   c) A grandfather provision for commercial solar projects that has not been included in sections (j) to (l). Specifically, we recommend inserting a "new" (j) [before the existing (j) that then would become the new (l) and so on] as follows:

      "For solar energy properties greater than 100 kilowatts and less than one megawatt placed in service after December 31, 2012, and before January 1, 2014, a taxpayer may elect tax credits under this section or under the department's temporary administrative rules that became effective on January 1, 2013."
2) Utility-Scale (≥ 1 MW). This measure provides Production Tax Credits ("PTCs") for utility-scale solar projects at 8.0 cents/kWh for a class of grandfathered projects. Moving forward, we support the lower PTC at 4.0 cents/kWh for all new projects, and the provisions that allow a taxpayer to take the PTC as a "credit" or as refundable." Importantly, we believe these provisions set a level playing field moving forward for all utility-scale projects, whether they are bi-lateral, feed-in tariff or competitive bid.
3) Recommendations. We recommend that the committee **pass** this measure with our proposed amendments.

Mahalo for this opportunity to testify.

46-040 Konane Place #3816, Kaneohe HI 96744 • www.http://hawaiirenewableenergy.org • p: 808.247.7753 • wsb@lava.net

FINTestimony

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HB497
Submitted on: 2/21/2013
Testimony for FIN on Feb 22, 2013 15:00PM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Shannon Rudolph	Individual	Support	No

Comments:

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HB497
Submitted on: 2/21/2013
Testimony for FIN on Feb 22, 2013 15:00PM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Judith Flanders	Individual	Support	No

Comments:

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HB497
Submitted on: 2/21/2013
Testimony for FIN on Feb 22, 2013 15:00PM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Michele Nihipali	Individual	Support	No

Comments: This bill is a no-brainer. Hawaii needs to keep tansforming from an inported oil based energy source to one that is clean from the sun. By providing loans and tax incentives, residents can continue taking advantage of incentives to reduce dependence on foreign oil.

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