DAVID Y. IGE
GOVERNOR

LUIS P. SALAVERIA
DIRECTOR

MARY ALICE EVANS
DEPUTY DIRECTOR

DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

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Statement of
LUIS P. SALAVERIA
Director
Department of Business, Economic Development, and Tourism
before the
HOUSE COMMITTEE ON ENERGY AND ENVIRONMENTAL PROTECTION

Thursday, February 12, 2015
8:30a.m.
State Capitol, Conference Room 325

in consideration of
HB 1472
RELATING TO RENEWABLE ENERGY.

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

The Department of Business, Economic Development & Tourism (DBEDT) offers comments on HB 1472, which, among other provisions, reduces the Hawaii Renewable Energy Technologies Income Tax Credit (REITC) for solar energy properties used to generate electricity from 35% (currently) to 15% after December 31, 2016[1], and requires DBEDT to conduct a cost-benefit analysis and provide recommendations to the Legislature on the tax credit.

While acknowledging the success of the REITC in decreasing Hawaii's reliance on fossil fuels, stimulating our economy, and driving innovation, DBEDT supports further discussion of the REITC from a broad utility planning context that supports greater renewable penetration. In this regard, non-export and smart-export solar/storage strategies are currently being reviewed under various interrelated PUC proceedings[2] to address interconnection of advanced Distributed Energy Resources (DERs). A dialogue on the REITC can benefit from energy stakeholders'

[1] Refers to when the solar energy property would be first placed into service.
[2] Reference Docket No. 2011-0206 Hawaiian Electric, Inc.'s Power Supply Improvement Plan, Docket No. 2012-0212 Hawaii Electric Light Power Supply Improvement Plan, Docket No. 2011-0092 Maui Electric Power Supply Improvement Plan, Docket No. 2014-0192 Instituting a Proceeding to Investigate Distributed Energy Resource Policies, Docket No. 2014-0192 Regarding a Proceeding Investigate Distributed Energy Resource Policies; Docket No. 2014-0130 Hawaiian Electric Companies, Inc. Application For Approval to Modify Rule 14H – Interconnection of Distributed Generating Facilities Operating in Parallel With the Companies' Electric System.

input[3] in these proceedings. Therefore, we suggest that this committee first convene key participants in the PUC proceeding to discuss the impact of this measure on the strategies under consideration and any further modifications that could stimulate greater rates of renewable penetration.

DBEDT also notes that the financial and human resources required to administer the duties of this bill are not fully addressed in its current budget. Also, should this measure advance, we prefer the online survey approach taken in Act 270 (13) for the Research Activities Tax Credit for the monitoring and data collection component.

Finally, we defer to the Department of Taxation on its ability to administer its duties under this bill.

Thank you for the opportunity to offer these comments on HB 1472.

[3] Per regulatory procedure under Docket No. 2014-0130, stakeholder recommendations on the interconnection process for PV plus storage, non-export and smart-export systems and related definitions are to be submitted to the PUC by February 19, 2015.

DAVID Y. IGE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR

MARIA E. ZIELINSKI
DIRECTOR OF TAXATION

STATE OF HAWAII
DEPARTMENT OF TAXATION
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To: The Honorable Chris Lee, Chair
and Members of the House Committee on Energy and Environmental Protection

Date: Thursday, February 12, 2015
Time: 8:30 A.M.
Place: Conference Room 325, State Capitol

From: Maria E. Zielinski, Director
Department of Taxation

Re: H.B. 1472, Relating to Renewable Energy

The Department of Taxation (Department) appreciates the intent of H.B. 1472 and offers the following comments.

H.B. 1472 makes numerous changes to the Renewable Energy Technologies Income Tax Credit, including removing caps on the credit for solar energy property other than water heaters. The credit percentage remains at 35% for water heaters, but is reduced for all other solar energy systems to 25% for systems installed and placed in service before January 1, 2016, 20% before January 1, 2017, and 15% after December 31, 2016. H.B. 1472 additionally requires the Department, in collaboration with the Department of Business, Economic Development, and Tourism, to submit a report to the legislature regarding the tax credit. This measure applies to taxable years beginning after December 31, 2014.

First, the Department notes that it is able to administer the changes in the tax credit that are proposed by this measure; however, the Department requests that the effective date for these changes apply to taxable years beginning after December 31, 2015.

Second, the Department is unable to comply with the requirement that the report be submitted to the legislature no later than twenty days prior to the convening of each regular session with data on the previous taxable year in subsection (j). Because taxpayers are not required to file their tax returns until after the close of the taxpayer's taxable year, the Department generally does not receive and process all tax returns for a taxable year until approximately 15 months after the close of a taxable year.

Delays in generating tax credit data for a tax year are due to a number of factors, including the fact that taxpayers have twelve months to properly claim the tax credit. Additionally, entities that claim the credit may file tax returns which are not electronically processed, requiring Department statistical staff to manually aggregate any renewable energy tax credit claims from the returns which are not electronically processed by the computer system.

Third, the Department notes that the information required by subsection (l)(2)(C) cannot be provided because there are no state tax investment or production type credits. Data on the number of refundable and nonrefundable tax credit claims are already provided in the Department's annual report on tax credits.

Fourth, Department defers to DBEDT regarding its ability to perform the type of analysis necessary to estimate the economic benefit of the tax credit. The Department's staff is unable to perform this type of analysis.

The Department currently provides aggregate tax data on the credit amounts claimed by taxpayers (individuals, corporations, banks and other financial institutions) in its report on Tax Credits Claimed by Hawaii Taxpayers (Tax Credits), which is available on the Department's website. Table 4 of the Tax Credits report for tax year 2011 is included below for the Committee's reference. The Tax Credits report for tax year 2012 has been finalized and will be available through our website shortly.

Table 4. Claims for the Renewable Energy Technologies Income Tax Credit in Tax Year 2011

Carry over of the tax credit for systems installed and placed in service before July 1, 2009

	Number of returns 1/			Credit amount		
	All	Individuals	Corporations and others 2/	All	Individuals	Corporations and others 2/
	745	719	26	$2,709,840	$1,172,562	$1,537,278

Refundable tax credits for systems installed and placed in service on or after July 1, 2009

	Number of returns 1/			Credit amount		
	All	Individuals	Corporations and others	All	Individuals	Corporations and others 2/
Solar only	2,999	2,975	24	$28,521,487	$22,768,915	$5,752,572
Wind only	37	37	0	129,419	129,419	0
Solar & wind	19	19	0	92,181	92,181	0
Unknown	157	151	6	3,788,148	3,687,821	100,327
Total	3,212	3,182	30	$32,531,235	$26,678,336	$5,852,899

Nonrefundable tax credits for systems installed and placed in service on or after July 1, 2009

	Number of returns 1/			Credit amount		
	All	Individuals	Corporations and others 2/	All	Individuals	Corporations and others 2/
Solar only	7,125	7,088	37	$38,574,335	$36,395,393	$2,178,942
Wind only	22	22	0	61,954	61,954	0
Solar & wind	53	53	0	222,318	222,318	0
Unknown	1,008	1,005	3	4,405,254	3,649,249	756,005
Total	8,208	8,168	40	$43,263,861	$40,328,914	$2,934,947

1/ Number of tax returns with a claim for at least one tax credit in tax year 2011, including carryovers of tax credits claimed in a prior year.

2/ Includes nonfinancial corporations, fiduciaries, nonprofit organizations and financial corporations.

Finally, in order to obtain an estimated economic benefit as required in paragraph (3), the Department suggests amending the measure to require installers of the renewable energy to report the information to DBEDT, similar to the reporting requirement in section 235-110.91 (i), (j), (k), and (l), Hawaii Revised Statutes. The installers of the renewable energy systems are best equipped to provide the data requested under this measure, including reporting their general excise and income taxes paid for each taxable year, and job creation data.

Thank you for the opportunity to provide comments.

HOUSE COMMITTEE ON ENERGY & ENVIRONMENTAL PROTECTION
Thursday, February 12, 2015 — 8:30 a.m.

TESTIMONY OPPOSING HB1472 RELATING TO RENEWABLE ENERGY

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

Kairos Energy Capital OPPOSES HB1472, which would retroactively reduce the Renewable Energy Technologies Income Tax Credit ("RETITC") and add further disruption to the efforts of the State to move to a more sustainable energy future.

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 the RETITC and the capital markets that make Hawai`i's renewable energy initiatives possible.

1. Retroactive Application Would Disrupt Many Pending Projects and Deter Investment: As drafted, HB1472 proposes to reduce the current 35% RETITC rate to 25% for the entire current calendar year of 2015. Many major projects which are already committed and on which investment decisions have been made have relied on the law as currently written, with a 35% rate. Projects vital to Hawai`i's renewable energy future, such as the Department of Education's Ka Hei initiative to install solar PV on all 255 public schools to reduce energy costs, have already been structured and commitments made based on the existing rate. Other projects have already been completed and placed into service in 2015 in reliance on the current law. To change that rate retroactively would unfairly punish those who have trusted the State to honor its end of the bargain and provide the tax credit that was promised to incentivize these investments.

   Over half of all PV installations in the State are funded from money provided by third party investors, and those investors have provided that money in part because of the incentive offered by the State's tax credit. To retroactively take away the benefit which the State has promised would send shock waves through the investment community, reducing the amount of capital available not only for renewable energy projects but for all Hawai`i projects that seek to leverage the public-private partnership concept.

2. Changing the Hawai`i Tax Credit Now Would Further Damage an Already-Fragile Renewable Energy Environment: Renewable energy efforts, particularly solar PV, have been fighting an increasingly uphill battle over the past two years. Increasing difficulties in connecting to the utility company grid have caused an industry that was hailed only two years ago as Hawai`i's fastest growing sector to now be perhaps the fastest shrinking sector, with permits falling by double digit percentages month after month, year after year.

   Further uncertainty over the future of rooftop solar has been introduced by the proposed acquisition of the HECO companies by NextEra.

In addition, the 30% Federal tax credit is expiring at the end of next year, and because project development in Hawai`i often takes multiple years, we are already starting to see a rollback in the appetite for Hawai`i projects by major renewable energy investors.

Because renewable energy installations have fallen so much, the budget impact of the Hawai`i RETITC on the State's finances is much smaller than it was a couple of years ago when this issue was last considered, and the state of the State's economy is much better, making the impact even smaller.

Now is not the time to be "pulling back" from the State's support for renewable energy.

Kairos Energy Capital opposes this bill for passage this year, recommends that the Committee defer further consideration of it. Should the Committee feel it necessary to move the bill forward, then the years which would be impacted by the change (contained in revised Section (a)(2)(A), (B) and (C)) should all be pushed back two years to avoid coinciding with the impact of the reduction in the Federal credit, making the schedule of reductions start for calendar year 2017 and carry on through 2019, and a provision should be inserted to "grandfather" projects that were already under contract at the time of introduction of this legislation.

Thank you for the opportunity to provide this testimony.

Larry Gilbert
Managing Partner
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Kala Capital LLC
Power Purchase Agreements
Project Financing

HOUSE COMMITTEE ON ENERGY & ENVIRONMENTAL PROTECTION
Thursday, February 12, 2015 — 8:30 a.m.

TESTIMONY OPPOSING HB1472 RELATING TO RENEWABLE ENERGY

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

Kala Capital OPPOSES HB1472, which would retroactively reduce the Renewable Energy Technologies Income Tax Credit ("RETITC") and add further disruption to the efforts of the State to move to a more sustainable energy future.

The larger issue here however, is the lack of thought given to the long term ramifications that would occur if you changed a significant incentive without grandfathering in any project which capital has been expended upon. A major tool of government is the utilization of various incentive schemes whether rebates or tax reductions to partner with private industry to foster public policy goals and objectives. If private industry can no longer rely that a particular incentive is secure and that it won't be changed or modified without a proper notice period provided then this important governmental tool will no longer be effective. In its simplest analogy on a playground was it considered fair to change the rules mid game or was the appropriate time to change the rules once play stopped and everyone was given proper notice of the new rules before play resumed? We all know what fair play is and Government should lead by example. I think we can all agree that a retroactive changing of the rules violate common sense and thus should not be contemplated.

The two principals at Kala Capital have funded and maintain/operate over eight (8) megawatts of solar photovoltaic (PV) systems on Oahu, Maui, Molokai, and the Big Island. To put this into perspective, if the average home has 5 kW we have installed an amount equal to 1,600 homes. The total capital deployed to date exceeds $38,000,000 which was primarily paid to local contractors that support local jobs and local families. We serve a niche market that would not be able to obtain PV systems that reduce their energy costs without the RETITC. Our customers include public charter schools, condo associations, churches, private schools, and non-profits such as Child and Family Services. It is cost prohibitive for these entities to purchase PV because they cannot use the state and federal tax incentives. Our partnership with them allows them to reduce their energy costs and supports the State's sustainable energy plan.

Retroactive Application Would Kill Many Pending Projects and Stop Further Investment: As drafted, HB1472 proposes to reduce the current 35% RETITC rate to 25% for the entire current calendar year of 2015. Many major projects which are already committed and on which investment decisions have been made have relied on the law as currently written, with a 35% rate. Bank lending terms are based on the 35% RETITC and the energy charge rate that we have contracted with our customers is based on the 35% RETITC. If the RETITC is reduced to 25% our bank covenants will

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not be met and we will likely immediately stop all projects that have not already broken ground. Any project in design, engineering, or permitting would be canceled immediately. We have several projects that were either completed in early 2015 or are substantially completed and will be placed in service by mid-year 2015. To change that rate retroactively would unfairly punish those who have trusted the State to honor its commitment and provide the tax credit that was promised to incentivize these investments. In many cases these projects take up to a year to obtain approval from the customer to more forward and then you have up to another year before they are placed in service. Design, engineering, permitting, utility approval, material procurement, construction, testing, and closure. We have projects that our customers agreed to in 2013 that are just now in the construction phase.

Kala Capital opposes this bill for passage this year, recommends that the Committee defer further consideration of it. Should the Committee feel it necessary to move the bill forward, then the years which would be impacted by the change (contained in revised Section (a)(2)(A), (B) and (C)) should all be pushed back two years to avoid coinciding with the impact of the reduction in the Federal credit, making the schedule of reductions start for calendar year 2017 and carry on through 2019, and a provision should be inserted to "grandfather" projects that were already under contract at the time this legislation became binding.

Thank you for the opportunity to provide this testimony.

Aloha,

Scott LaRue
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SUBJECT: INCOME, Renewable energy tax credits

BILL NUMBER: HB 1472

INTRODUCED BY: Luke

EXECUTIVE SUMMARY: Amends the renewable energy technologies income tax credit to change limitations for certain technology types. Generally the credit is being phased down, perhaps in recognition that the technology involved is no longer new. Tightens up definitions to ensure greater conformity with the Internal Revenue Code. The phase-down is retroactive, which may create issues for taxpayers that have placed projects in service earlier in the year, or for which construction is now in progress.

BRIEF SUMMARY: Amends HRS section 235-12.5 to provide that a tax credit may be claimed for each solar energy property that is used exclusively to heat water and is installed and first placed in service during the taxable year in the amount of 35% of the basis up to the applicable cap amount, which is determined as follows: (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.

Provides that for each solar energy property that is used primarily to generate electricity, and is installed and first placed in service during the taxable year, the credit shall be: (1) 25% of the basis for solar energy property first placed in service after December 31, 2014, and before January 1, 2016; (2) 20% of the basis for solar energy property first placed in service after December 31, 2015, and before January 1, 2017; and (3) 15% of the basis for solar energy property first placed in service after December 31, 2016.

Provides that for each wind energy property the credit shall be 20% of the basis or $ _____, whichever is less.

Defines "basis" as costs related to the solar or wind energy property 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, such as the re-roofing of single-family residential property, multi-family residential property, or commercial property, shall not constitute a part of the basis for the purpose of this section; provided that costs incurred for the physical support of the solar or wind energy property, such as racking and mounting equipment and costs incurred to seal or otherwise return a roof to its pre-installation condition shall constitute part of the basis for the purposes of this section. Provides that the basis used under this section shall be consistent with the use of basis in section 25D or section 48 of the Internal Revenue Code.

Provides for a joint report by the department of taxation and DBEDT to be submitted to the legislature annually, which report is to contain, among other things: (1) tax credit type (investment or production) and (2) refundability type (refundable or nonrefundable). Also requires the report to include the estimated economic benefit that may be attributable to the renewable energy tax credit, including: (1) impact on the economy, including: (a) economic boost; (b) net flow of money into or out of the State; and (c) general excise and income tax revenue generated; and (2) jobs, including: (a) number of jobs maintained; (b) number of jobs created and the number of jobs lost; and (c) average pay.
Further requires DBEDT to commence a study no later than July 1, 2016, on the costs incurred and benefits generated by this section, as well as the extent to which the tax credit under this section has helped the State to achieve its energy goals. The DBEDT may consult with the department of taxation, industry trade groups and other stakeholders. Requires the DBEDT to submit a report to the legislature no later than December 31, 2017.

EFFECTIVE DATE: Tax years beginning after December 31, 2014

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 would retain the 35% credit amount for solar water heating systems and increase the dollar limits depending whether the system is installed on a single or multi-family residential property or commercial property. The measure would reduce the credit for solar systems that generate power from the current 35% to 25% which is subsequently reduced to 15% for systems installed after 12/31/16.

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 through the use of tax credits, as an alternative, consideration should be given to a program of low-interest loans. 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.

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.

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 handout for existing technology, and might not be efficient to encourage innovation.

The measure adds to the extensive reporting requirements regarding the amounts of tax credit claimed for each type of energy properties, as well as the study of the effectiveness of the renewable energy tax income tax credits. This should have been done when the credits were first adopted.

We also note that the changes proposed by the bill would be retroactive to the beginning of 2015. That might not be fair to taxpayers who have signed contracts, taxpayers for which construction is now in progress, and taxpayers that have already completed construction and have placed projects in service in 2015.

Digested 2/10/2015

Hawaii Solar Energy Association
Serving Hawaii Since 1977

Before House Committee on Energy and Environmental Protection
Thursday, February 12, 2015, 8:30 a.m., form 325
HB 1472: Relating to Renewable Energy

Aloha Chair Lee, Vice Chair Lowen, and members of the Committee,

On behalf of the Hawaii Solar Energy Association (HSEA), I would like to testify in partial support with comments for HB 1472 which replaces the current renewable energy investment tax credit with an incentive which ramps down over time and removes the current cap. HSEA is a non-profit trade organization that has been advocating for solar energy since 1977, with an emphasis on both solar hot water (SHW) and residential and small commercial distributed generation (PV). We currently represent 90 member companies, which employ thousands of local employees working in the solar industry. With 38 years of advocacy behind us, HSEA's goal is to work for a sustainable energy future for all of Hawaii.

Renewable energy investment tax credit key to continued renewable installation in Hawaii

The state renewable energy investment tax credit (REITC) has played a key role in supporting the installation of renewable energy in Hawaii for both solar hot water, and residential and commercial rooftop photovoltaics. With more than 350 MW installed capacity of residential and small commercial PV, Hawaii has increased its independence from imported fossil fuels, and avoids the extraction, transport, and burning more than 1 million barrels of oil each year over the thirty year life time of all of the systems installed. However, although the number of solar installations has grown significantly since 2008, roof top PV still only provides a small fraction of the overall energy generated in Hawaii—roughly 3.6% based upon the 2014 NEM annual report—and customer interest in investing in clean energy has not slowed down.

Customers continue to ask for the means to reduce their bills and invest in green energy through efficiency, solar hot water, and PV, and Hawaii has begun to find ways to provide more choices to more customers through the GEMS program, the Bill Saver Program, and the current support for creating community solar tariff through HB 484. HB 1472 replaces the current tax incentive structure by ramping down the credit while removing the cap. HSEA respectfully offers the following comments with some suggested amendments on the proposed changes.

Removing the cap would allow customers to install storage

As the REITC currently stands, the tax payer may apply for a tax credit on 35% of the cost of the system, up to $5,000 cap with a system size of 5kW. Energy storage may be included in the system cost, but since the cost of storage easily exceeds the cap amount, a tax payer would not get credit for storage with the exception of a very small system. By reducing the overall percentage amount from 35% to 25%, the credit is reduced, but the credit without a cap would also incentivize storage.

Energy storage is the missing link that will allow Hawaii to make the best use of our many indigenous resources, and to greatly reduce our dependence upon imported fossil fuels. Unlike other jurisdictions, Hawaii's load and renewable generation do not necessarily occur at the same. This means that excess energy generated from renewable resources is wasted and results in our continued reliance upon fossil fuels to provide energy when renewables are not available. Energy storage fixes this issue, both by

providing the means to store excess energy for when we need it, in addition to providing a variety of grid services that would serve to enhance grid reliability and safety for all ratepayers.

Energy storage can provide many grid benefits

The implementation of a robust network of energy storage would provide a variety of grid benefits. First, energy storage would allow excess energy from renewable generation to be shifted for use at peak load—a valuable service that could be provided both by customers with roof top PV and by the utility with community storage installations. In addition, energy storage would serve to off-set or reduce the need for grid improvements and upgrades, as energy produced locally could be stored and consumed locally as needed, thus lessening the impact on distribution level infrastructure. Energy storage can also play a key role in providing grid services such as voltage and var support on the distribution level, in addition to system wide services such as frequency support and emergency backup. For these reasons, HSEA believes that incentivizing customers to include storage makes sense.

Reduced incentive should not go below 20%

However, HSEA does not believe that it would serve the state's energy policy to reduce the REITC below 20%. First, net energy metering (NEM) might already be undergoing a significant reduction with the recent application by the utility to close NEM and put all subsequent customers on a transitional tariff which would reduce the amount customers receive for exported energy by approximately 42% (proposed rates would change from retail for exported power to approximately 15 cents/kWh). If the PUC approves this application, the new tariff would significantly increase the costs of investing in green energy. This reduced incentive would apply to those who to wish to enroll in the GEMS program as well. Also, as the incentive goes down, it is less advantageous to install smaller systems, or systems without batteries. Although an incentive that truly allows for storage makes sense, the option to install smaller systems should not be lost, and an incentive that goes too low will tend to drive up system size.

In addition, the federal renewable energy income tax credit is due to expire at the end of 2016 for residential systems, and that means that system costs will increase by 30% at the end of 2016. To keep the industry sustainable and to help weather the loss of the ITC, HSEA requests that the credit not drop lower than 20%.

New tax credit should not be active until tax year 2016

HB 1472 reduces the tax credit amount from 35% to 25% for all systems installed and placed in service starting January 1, 2015. HSEA respectfully requests that the new rule go into effect January 1, 2016 out of fairness for those who have already installed smaller systems this year with the expectation of receiving a 35% tax credit. HSEA believes that attempting to apply any new rule retroactively will only cause confusion, and would likely be delayed through legal challenges.

As such, HSEA recommends the following amendments:

235-12.5 (a)(2) For each solar energy property that is used primarily to generate electricity, and is installed and first placed in service in the State by a taxpayer during the taxable year:

(A) Twenty-five per cent of the basis for solar energy property first placed in service after December 31, ~~2014~~ 2015 and before January 1, ~~2016~~ 2017;

(B) Twenty per cent of the basis for solar energy property first placed in service after December 31, 2016, ~~and before January 1, 2018,~~ and;

~~(C) Fifteen percent of the basis for solar energy property first placed in service after December 31, 2016, and;~~

Thank you for the opportunity to testify
Leslie Cole-Brooks
Executive Director HSEA

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

HB 1472, RELATING TO ENERGY

February 12, 2015

Chair Lee, Vice-Chair Lowen 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 1472 are to (i) replace the current renewable energy technology systems tax credit with tax credits for solar energy property and wind energy property; (ii) requires the Department of Taxation and Department of Business, Economic Development, and Tourism to report tax credits claimed under the renewable energy technology tax credit and make recommendations to the legislature.

HREA **strongly opposes** this measure for the following reasons:

1) Clean Energy Goals. This measure will have a deleterious effect on our ability to meet our clean energy goals. Specifically, it will exacerbate steps already taken when DoTax issued its revised rules in November 2013, and HECO issued its revised interconnection rules in November 2014.

2) Now is not the Time – Part 1. There might be a time to reexamine the RETITC, but now is not the time. A good time might be when all oil incentives are repealed.

3) Now is not the Time – Part 2. Another time might after December 31, 2016 when the federal tax credits are due to expire and we will further down the road in understanding how to:

   a) implement additional variable renewables in our electric grid, and

   b) address customer choice issues.

4) Three Bills for a Renewable Energy Technology System that Produces a Fuel. Re p.3, l.15-18, the definition of renewable energy technology system would allow, for example, a credit for hydrogen produced from wind or solar, which sounds like a good thing. However, if either of HB 618 or SB 349 (both of which include a production tax credit that could a system to produce hydrogen from wind or solar), are passed out along with this measure, a producer could be eligible for two tax credits.

5) Recommendations: Please hold this bill.

Mahalo for this opportunity to testify.

THE ALLIANCE FOR SOLAR CHOICE

HOUSE COMMITTEE ON ENERGY & ENVIRONMENTAL PROTECTION

February 11, 2015, 8:30 A.M.
(Testimony is 1 page long)

LATE

TESTIMONY IN OPPOSITION TO HB 1472

Aloha Chair Lee and Members of the Committee:

The Alliance for Solar Choice (TASC) appreciates the opportunity to submit testimony in opposition to HB 1472, relating to solar tax policy. TASC advocates for maintaining successful distributed solar energy policies and markets throughout the United States. TASC members collectively serve a majority of the solar customers in Hawaii.

Hawaii's solar industry is under attack. As DBEDT recently noted, utilities are wrongfully using the interconnection process as a means to prevent customers from installing rooftop solar. And recently, utilities started assaulting net-energy metering, following a national utility playbook, as a means to eliminate competition from rooftop solar. These relentless attacks have caused the loss of hundreds of solar jobs and prevented thousands of customers to enjoy the benefits of self-generation.

Until interconnection and net metering issues are resolved, we recommend deferring this measure. TASC welcomes a conversation about changing Hawaii's solar tax program, but in association with the broader distributed energy resources docket: laying out the future energy planning for the State of Hawaii. Only then can we be certain that that disputes over interconnection limits and net metering are resolved in a way that allows for continued customer choice. Changing the solar tax law now creates too much uncertainty and may chase away investors and companies with a proven record of assisting Hawaii's families.

In addition, we have several specific concerns with this measure:

- **Retroactivity.** We note concern with the potential retroactivity of the measure. The current tax laws should not change for customers who relied on the existing law and taken substantive steps to install solar.
- **Lack of support for energy storage implementation.** Currently there is no viable pathways for customers to install energy storage and interconnect to the grid. Unless this issue is resolved, it will be impossible to build the grid of the future. Moreover, changing the "basis" language of the credit to include energy storage does little to assist creating the grid of the future.

LATE

2/12/2015	**House Committee on Energy & Environmental Protection**	**EEP**
8:30 a.m.		**HB 1472**

TESTIMONY IN OPPOSITION

Dear Chair Lee, Vice Chair Lowen, and Members of the Committees:

This measure's look at the renewable energy technologies income tax credit (RETITC) has clearly benefitted from much the hard work put in by various stakeholders in the process that yielded SB623 SD2, which ultimately failed in conference in the 2013 legislative session. HB1472 shares a number of key provisions of that bill, including a rampdown of the solar PV credit, and vast improvements in the clarity and administer-ability of the incentive. Together these changes would reduce the credit's fiscal impact while reducing the need for complicated interpretations or arcane administrative rules by high-cost tax professionals.

That said, the measure suffers from several flaws that make it impossible to support. Chief among these is the retroactive applicability of the changes to the credit. Pre-dating the effective date of changes proposed in the measure to January 1 of this year makes it utterly unfair to those who have made financial commitments on the basis of existing law. This includes households and businesses that have placed projects in service already in 2015 as well as, in essence, all of those that have made binding financial commitments to proceed with PV installations on the basis of the current rules. Because of the various interconnection delays plaguing the solar industry now, there are unfortunately a number of these. Further, even in the normal course of business (*i.e.,* without unreasonably long and nationally unique interconnection delays), the development timeline on a solar PV project lasts months on smaller projects and years on larger ones. For developers and investors that were induced into investing in renewable energy projects in Hawaii in part by particular tax policies, removing this support after they have invested thousands or millions of dollars as the case may be is, again, unfair and unreasonable. It can only serve to diminish the state's credibility with the very people it may need to rely on to help accomplish various public policy goals in the future.

In order to address the worst aspects of retroactivity, we propose making two changes. First, the credit's changes should not take effect until the end of this calendar year. Second, projects that have significant and direct public policy implications should be given special dispensation to proceed under the pre-HB1472 rules in order to avoid destroying them at or near the finish line. Examples of such projects include public sector PPAs through which the state itself stands to save millions of dollars and projects that supply power directly to the utility. Giving ongoing projects than can document the fact that they existed prior to the start of 2015 and that they can provide this kind of public policy benefit the ability to proceed through development using the rules under which their financing was arranged, will ensure that these projects are able to reach fruition and deliver their proposed public benefit. To this end, we note that language of this type was included in SB 623 SD2

from several years ago, where it protected projects underway at the UH Community College system, and that it would now safeguard projects such as those at the Department of Education.

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.