

**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 & ENVIRONMENTAL PROTECTION

Tuesday, February 2, 2016
8:30 a.m.
State Capitol, Conference Room 325

in consideration of
HB 2236
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 2236, which, among other provisions: (1) 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, 2018; (2) creates tax credits for solar energy properties that are grid-connected and incorporate an energy storage property; and (3) creates tax credits for energy storage properties that are connected to existing grid-connected solar energy properties.

While acknowledging the success of the REITC in decreasing Hawaii's reliance on fossil fuels, stimulating our economy, and driving innovation, DBEDT would support a ramp-down of the tax credit for traditional solar electrical generation systems if it was done in a way to make room in the State budget for other grid-supportive renewable energy resources. This is important given the limited State budgetary resources. Also, without further understanding the relative impact on the expansion of renewable energy resources, we are concerned about the unknown expansion of the aggregate storage tax credit provided by this bill.

Finally, we defer to the Department of Budget and Finance on the impact of the State budget from this bill and the Department of Taxation on its ability to administer its duties under this bill.

Thank you for the opportunity to offer these comments.

DAVID Y. IGE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR



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MARIA E. ZIELINSKI
DIRECTOR OF TAXATION

JOSEPH K. KIM
DEPUTY DIRECTOR

To: The Honorable Chris Lee, Chair
and Members of the House Committee on Energy and Environmental Protection

Date: February 2, 2016
Time: 8:30 A.M.
Place: Conference Room 325, State Capitol

From: Maria E. Zielinski, Director
Department of Taxation

Re: H.B. 2236, Relating to Renewable Energy

The Department of Taxation (Department) appreciates the intent of H.B. 2236, and offers the following comments for your consideration.

H.B. 2236 amends sections 196-6.5 and 235-12.5, Hawaii Revised Statutes, to significantly change the tax incentives applicable to what are currently referred to in the statutes as "renewable energy technology systems."

The Department notes that the renewable energy technologies income tax credit (RETITC) has historically been very difficult to administer, primarily due to the fact that the statute contains no definition for the word "system." One of the outcomes has been a much larger than anticipated number of RETITC claims made and the corresponding tax credit amounts claimed. The ambiguity in the statute was addressed by the Department's enactment of administrative rules pertaining to this tax credit in November 2012. H.B. 2236, as it currently reads, does not resolve the ambiguity present in the statute.

First, although H.B. 2236 removes the language in subsection (a) explicitly allowing a taxpayer to claim a credit for multiple installations of renewable energy technology, it persistently refers to the credit being available for "each solar energy property," and retains language allowing taxpayers to claim a credit for more than one solar energy property during a given taxable year. Additionally, the definition of "solar or wind energy property" included in H.B. 2236 makes the term "property" synonymous with "system" in the current text of the statute. H.B. 2236, therefore, retains the ambiguity that led to the substantial revenue loss prior to the adoption of the administrative rules.

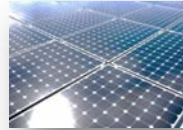
Similarly, the definition of "energy storage property" contains language that will result in the Department making an attempt to define what, precisely, constitutes "any identifiable facility,

equipment, apparatus, or the like" that meets the description provided of an energy storage property. The Department suggests clarification on how the cap each "property" should be specifically applied.

Second, the Department notes that the terms "solar energy property" and "wind energy property" are already defined in federal regulations pertaining to federal income tax incentives for renewable energy. (See 26 C.F.R. 1.48-9 "Definition of energy property.") These definitions are applied to federal tax incentives pertaining to renewable energy. As they are used in the federal regulations, these terms are descriptive of a class of property rather than a discrete item, i.e. they refer to all solar energy property installed by the taxpayer during a taxable year rather than to an "identifiable facility, equipment, apparatus, or the like," and therefore do not present the issue of multiple tax credits claimed by a single taxpayer during the taxable year.

If the intention of the Legislature is to make Hawaii's tax credit more similar with the federal tax credit, the Department suggests simply allowing taxpayers to claim a credit equal to a percentage of the federal tax credit available for renewable energy property without applying a cap. As explained above, the caps have caused confusion for taxpayers and administrative difficulty for the Department, and resulting in unintended revenue losses for the State.

Thank you for the opportunity to provide comments.



HOUSE COMMITTEE ON ENERGY & ENVIRONMENTAL PROTECTION

February 2, 2016, 8:30 A.M.

Room 325

(Testimony is 1 page long)

TESTIMONY IN SUPPORT OF HB 2236

Aloha Chair Lee, Vice Chair Lowen, and Committee members:

Blue Planet Foundation supports HB 2236, which revises the state's renewable energy tax credit to account for the growing need for energy storage paired with renewable energy sources. At the same time, HB 2236 provides a pathway for ramping down tax incentives for renewable energy systems in the future.

Energy storage will play an increasingly critical role in transforming the state's electricity system, and for ensuring that electricity customers have options for installing their own grid-connected clean energy infrastructure. It is sensible and appropriate to accelerate the pace of adoption of energy storage and laying groundwork for the transformed energy system. At the same time, it is sensible and appropriate to forecast a future ramp-down of these incentives, once the clean energy transition has commenced in earnest.

We note that the tax credit ramp down proposed in HB 2236 would commence sooner (2017) than recently adopted by the U.S. Congress, which will remain at its current level until 2020. If the Committee is considering amendments to HB 2236, the Committee may consider similarly delaying the ramp down (particularly for energy storage devices) to commence in 2020.

Thank you for the opportunity to testify.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Renewable Energy Tax Credits

BILL NUMBER: HB 2236

INTRODUCED BY: C. LEE

EXECUTIVE SUMMARY: Amends the renewable energy technologies income tax credit to change limitations for certain technology types, and to make the credit caps apply per energy property rather than per system. Provides increased caps for photovoltaic property that is grid-connected and incorporates energy storage property. 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.

BRIEF SUMMARY: Amends HRS section 235-12.5, the renewable energy technologies income tax credit, to allow credits for each energy property, as follows:

For each solar energy property used exclusively to heat water and is installed and first placed in service in the State by a taxpayer during the taxable year: 35% of the basis up to the applicable cap amount, which is determined as follows: (A) \$2,250 per solar energy property for single-family residential property; (B) \$350 per unit per solar energy property for multi-family residential property; and (C) \$250,000 per solar energy property for commercial property.

For each solar energy property used primarily to generate electricity and is installed and first placed in service in the State by a taxpayer during the taxable year: a certain percentage of the basis up to the applicable cap amount, which is determined as follows: (A) \$5,000 per solar energy property for single-family residential property, except that if all or a portion of the property is used to fulfill the substitute renewable energy technology requirement in section 196-6.5(a)(3), HRS, the credit will be reduced by 25% of basis or \$2,250, whichever is less; (B) \$350 per unit per solar energy property for multi-family residential property; and (C) \$500,000 per solar energy property for commercial property. The credit rate is 25% for calendar year 2017, 20% for calendar year 2018, and 15% thereafter.

If the solar energy property is grid-connected and incorporates an energy storage property, the applicable cap amount is changed to: (A) \$10,000 per solar energy property for single-family residential property, except that if all or a portion of the property is used to fulfill the substitute renewable energy technology requirement in section 196-6.5(a)(3), HRS, the credit will be reduced by 25% of basis or \$2,250, whichever is less; (B) \$700 per unit per solar energy property for multi-family residential property; and (C) \$500,000 per solar energy property for commercial property.

For each energy storage property installed and first placed in service in the State by a taxpayer during the taxable year, and is connected to a grid-connected solar energy property that was placed in service in a prior taxable year: a certain percentage of the basis up to the applicable

cap amount, which is determined as follows: (A) \$10,000 per energy storage property for single-family residential property; (B) \$700 per unit per energy storage property for multi-family residential property; and (C) \$500,000 per energy storage property for commercial property. The credit rate is 25% for calendar year 2017, 20% for calendar year 2018, and 15% thereafter.

Wind energy property is also creditable, and the credit rate is 20% basis or \$_____, whichever is less.

Provides that the tax credit under 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.

Provides that a planned community association, condominium association of owners, or cooperative housing corporation may claim the tax credit under this section in its own name for property or facilities placed in service and located on common areas.

States that no credit shall be allowed to any federal, state, or local government or any political subdivision, agency, or instrumentality thereof.

EFFECTIVE DATE: Applies to taxable years beginning after 12/31/16.

STAFF COMMENTS: 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 strengthening or fixing the existing program of low-interest loans known as GEMS. 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.

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.

In any event, lawmakers need to keep in mind two things. First, the tax system is the device that raises the money that they, lawmakers, like to spend. Using the tax system to shape social policy merely throws the revenue raising system out of whack, making the system less than reliable as there is no way to determine how many taxpayers will avail themselves of the credit and in what amount. The second point to remember about tax credits is that they are nothing more than the expenditure of public dollars, but out the back door. If, in fact, these dollars were subject to the appropriation process, would taxpayers be as kind about the expenditure of these funds when there isn't enough money for social service programs, or our state hospitals are on the verge of collapse?

Utilizing tax credits other than to alleviate an excessive tax burden cannot be justified and is of a questionable benefit relative to the cost for all taxpayers. If lawmakers want to subsidize the purchase of this type of technology, then a direct appropriation would be more accountable and transparent.

Furthermore, the additional credit would require changes to tax forms and instructions, reprogramming, staff training, and other costs that could be massive in amount. A direct appropriation may be a far less costly method to accomplish the same thing.

Digested 1/29/2016



Before the House Committee on Energy and Environmental Protection
Tuesday, February 2, 2016, Room 325
HB 2236: Relating to Renewable Energy

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

On behalf of the Distributed Energy Resources Council of Hawaii (“DER Council”), I would like to testify in strong support for HB 2236, which replaces the current renewable energy technology tax credit (“REITC”) with an updated tax credit framework for solar, wind, and energy storage property, beginning with systems installed and placed in service in 2017. The DER Council is a nonprofit trade organization formed to assist with the development of distributed energy resources and smart grid technologies which will support an affordable, reliable, and sustainable energy supply for Hawaii.

Hawaii has recently experienced many significant changes with its distributed energy market and the choices now available to consumers. Last year, the Public Utilities Commission (“Commission”) closed the net energy metering program, and replaced the NEM program with two new tariffs: grid-supply and self-supply systems. Grid supply systems can still export energy onto the grid like net energy metering, but the rate paid to customers for exported energy is significantly reduced. The Commission has further limited this grid-supply tariff by placing a cap of 35 MW for all HECO Companies. We estimate that the subscription to the grid-supply program will be full by the end of this year. The self-supply tariff sets up an expedited route for customers to install a distributed energy system, with or without storage. Self-supply systems do not export onto the grid and instead serve the customer’s load, and has the potential of participating in new tariffs and grid services such as time of use and various ancillary services which stand to provide significant value to the electrical grid and all utility customers.

The DER Council strongly supports HB 2236 because HB 2236 updates the current renewable energy technology tax credit to reflect the current choices available to customers, and HB 2236 provides incentives for technologies that will best support our continued progress towards an affordable, reliable, and sustainable energy supply for Hawaii. HB 2236 updates the REITC in several key ways:

HB 2236 incentivizes the right technology

HB 2236 keeps the current REITC structure in place for standard grid-supply systems. That way, customers who still wish to install roof-top solar can still make use of the tax incentive, but the incentive will continue to be limited by the \$5,000 cap per energy system. DERC believes that this provision recognizes that not all customers will wish to install storage or provide load shift or ancillary services to the electrical grid, but that a “vanilla” roof-top system has limits regarding grid benefits.

Next, HB 2236 updates the REITC by increasing the cap only for systems that combine photovoltaics and energy storage. By doing so, customers will have an additional incentive to include storage in their renewable energy system, and by doing so, can become a valuable resource to the electrical grid and provide a benefit to all electrical customers. For instance, customers who install systems with energy

storage can help to shift peak load by storing excess energy during the day and using the stored energy at peak. PV systems plus storage can also serve to off-set or reduce the need for grid improvements and upgrades, as energy produced locally could be stored and consumed locally as need, thus lessening the impact on distribution level infrastructure. Roof top systems with storage can also play a key role in providing distributed ancillary services to the electrical grid as needed such as volt/var support on the distribution circuit, in addition to system level services such as frequency support and emergency back-up.

Finally, HB 2236 incentivizes the technology that Hawaii needs by allowing customers to install storage to an existing system. This would allow customers to contribute grid services by combining storage with their existing systems and join in the effort to shift peak load and provide ancillary services to the grid. Under the current REITC, customers may only receive credit for storage when combined with photovoltaics in the same year, thus discouraging customers from upgrading their systems.

HB 2236 works in conjunction with the public utilities commission to incent technology for a better electrical grid

As mentioned above, the Commission closed the NEM program in Hawaii last year, and offered two new tariffs in its place for roof top customers. However, the grid-supply tariff will likely reach the 35 MW cap by the end of the year, and the only option for continued investment for residential and commercial customers at that point will be self-supply systems. Although storage is not a requirement of self-supply systems, many systems will include storage, depending upon the customer's use of energy during the day. More importantly, distributed energy systems with storage can provide the network of distributed energy resources which the Commission has envisioned as being a key part of our renewable development and progress.¹ HB 2236 bridges the gap between the policy direction provided by the Commission and the current choices available to customers by updating our renewable energy investment tax credit to reflect the next generation systems which customers need to install to remain relevant and serve as a resource for the entire electrical grid.

HB 2236 encourages customers to stay connected to the electrical grid

HB 2236 also has the additional benefit of encouraging customers to remain connected to the electrical grid by providing an additional incentive only for systems that are grid connected. Although renewable energy installations which are not grid connected have a purpose in the case where electrical service is not available and especially where a housing shortage could be helped by the ability to affordably invest in storage, it is not to the advantage of the utility or the ratepayers for customers to flee the grid and significantly remove load from the system. This bill would send a strong market signal to incentivize systems that are grid connected. These systems would serve as a stepping stone to a modern, interactive grid that makes the most of all of our energy resources.

¹ See the Commission's Inclinations in Docket No. 2012-0036 Exhibit A where they state that a critical component of distributed energy will be an DER utilization plan put forth by the utility that identifies how customers "will install, and the utility will utilize as an integrated DER portfolio advanced inverters, distributed energy storage, demand response, and electric vehicles to mitigate adverse grid impacts on utility distribution circuits and the system as a whole" at 15.

HB 2236 is fiscally prudent

HB 2236 is fiscally prudent and a sound investment in our state's future as we strive to reduce our dependence upon imported fossil fuels. HB 2236 updates our tax incentives in a fiscally prudent manner by ramping down the incentive from 35% to 15% over a three year period. This structure ensures that the credit will provide a clear incentive while recognizing that costs will likely come down over the next three years. In addition, HB 2236 will be easy to administer as it does not have any complex reporting or tracking requirements.

Now is the time to act

HB 2236 is key to moving forward with our energy future if we wish to rid the state of our dependence upon imported fossil fuels and reach our RPS goal of 100% by 2045. Now is the time to act to make the best use of all of our resources.

Thank you for the opportunity to testify

Leslie Cole-Brooks
Executive Director
Distributed Energy Resources Council of Hawaii

EEPttestimony

From: mailinglist@capitol.hawaii.gov
Sent: Monday, February 01, 2016 9:28 AM
To: EEPttestimony
Cc: hajime.alabanza@hsea.org
Subject: Submitted testimony for HB2236 on Feb 2, 2016 08:30AM
Attachments: HB 2236.docx

HB2236

Submitted on: 2/1/2016

Testimony for EEP on Feb 2, 2016 08:30AM in Conference Room 325

Submitted By	Organization	Testifier Position	Present at Hearing
Hajime Alabanza	Hawaii Solar Energy Association	Support	Yes

Comments:

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

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- In order to receive tax credit for storage, does PV systems have to be installed in the previous year? Refer to page 12 lines 3-9
- What happens when customers want to get both systems at the same time?
- Page 9, lines 8-13 refer to a tax credit for PV systems that will be grid connected and have storage system
- “Energy Storage Property”: Any identifiable facility, equipment, apparatus, or the like that is permanently fixed to a site and electrically fixed to a site distribution panel by means of an installed conduit, and that receives electricity generated from various sources, stores the electricity, and delivers the electricity to an electric utility or the user of the electric system
- “Solar Energy Property”: any identifiable facility, equipment, apparatus, or the like that converts solar energy to useful thermal or electrical energy for heating, cooling, or reducing the use of other types of energy that are dependent upon fossil fuel for their generation
-



INTER-ISLAND SOLAR SUPPLY

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16-206 Wiliama St.	Keaau, HI	96749	East Hawai'i Island	Tel: (808) 935-0948	Fax: (808) 498-4606
400 Ala Makani St. #103	Kahului, HI	96732	Maui	Tel: (808) 871-1030	Fax: (808) 873-7825
1764 Haleukana St.	Lihue, HI	96766	Kauai	Tel: (808) 378-4080	Fax: (808) 378-4078

February 2, 2016

Testimony Before the House Committee on Energy and Environmental Protection

Representative Chris Lee, Chair

In Regard to H.B.2236, Relating to Renewable Energy

Chair Lee, Vice Chair Lowen, and members of the committee I am Rick Reed, the president of Inter-Island Solar Supply. Our company was founded in 1973 and is now one of the largest distributors of renewable energy equipment in the United States, with branches on each of the primary Hawaiian Islands.

Inter-Island Solar Supply supports the intent of H.B. 2236 and we offer the following comments.

H.B. 2236 is a forward looking bill. It acknowledges that renewable energy in Hawaii is in a period of transition. The measure cites our new 100% RPS goal and the end of Net-Energy Metering (NEM) as evidence of this transition. More importantly, this legislation sees "self-supply" DG PV, with battery storage, as the heir apparent to NEM. H.B. 2236 sees the limited remaining "grid supply" queue caps being reached as early as June 2016. While we believe the June date to be somewhat premature, the transition to battery storage - which will be required by both PUC order and inclination - must commence immediately to avoid catastrophic market consequences sometime within the next twelve months.

The bill further assumes that both the solar industry and solar technologies, including battery storage, are now, or will soon be, sufficiently robust to withstand a significant step-down in the incentive levels over a three year period (2017 – 2019). The proposed step down from 35% to 15% over three years is more acute the federal renewable energy income tax credit statute. It is also out of sync with the federal credit in regard to when the step downs begin and end. This may be intentional. Perhaps not. In either case, we would like to better understand the logic of the step-downs as proposed in this bill.

Given that the federal tax incentives revert to a commercial only credit (which includes third-party owned systems) in 2022, the step-down regime defined in H.B. 2236 will provide greater incentives to commercial (and lease/PPA) projects in the future than residential systems. We disagree with this approach and logic. In 2022, for example, the combined federal and state credits for commercial projects (or aggregated residential lease systems) in Hawaii will total 25%, while the residential credit will be 15%. It is our belief that residential and commercial projects are of equal value and should be incentivized at the same credit levels. Both markets must remain robust and on equal footing for Hawaii to reach its 100% RPS goal.

In accordance with the current assumption that DG PV incorporating battery storage represents the long-term successor to NEM, H.B. 2236 raises the system cap level for new and retrofit PV systems that include or add battery storage. This provision is most welcome, however, the proposed retrofit credit must be further vetted to ensure that it does not void or conflict with any current provisions of the NEM contract between the HECO companies and the ratepayer. Clearly any provision that would void the existing NEM agreements of current NEM participants is not helpful and requires further scrutiny.

We also would like to take a closer analytical look at the actual market implications of this bill, at the credit levels proposed, should it move forward this session. Thank you for the opportunity to present these comments.

EEPttestimony

From: mailinglist@capitol.hawaii.gov
Sent: Monday, February 01, 2016 12:14 PM
To: EEPtestimony
Cc: mendezj@hawaii.edu
Subject: *Submitted testimony for HB2236 on Feb 2, 2016 08:30AM*

HB2236

Submitted on: 2/1/2016

Testimony for EEP on Feb 2, 2016 08:30AM in Conference Room 325

Submitted By	Organization	Testifier Position	Present at Hearing
Javier Mendez-Alvarez	Individual	Support	No

Comments:

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

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