THE SENATE
TWENTY-NINTH LEGISLATURE, 2018
STATE OF HAWAII

S.B. NO. 3077 S.D. 1

A BILL FOR AN ACT

RELATING TO BIOFUELS.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

PART I

SECTION 1. The legislature finds that the State of Hawaii has set a goal of achieving one hundred per cent clean energy by the year 2045. Hawaii is the most fossil fuel dependent state in the nation, which can be explained in large part by the State's economic dependence on tourism and the military, as well as the reliance on the shipping industry to deliver consumer goods and industrial materials. Reducing Hawaii's reliance on fossil fuels and getting one hundred per cent of the State's energy from renewable resources will help Hawaii's economy by keeping an estimated $3,000,000 in the State that would otherwise be spent on imported oil.

Biofuels could significantly advance the State's clean energy goals. Biofuels use organic matter to produce a predictable supply of green energy that can be stored in presently used power plants and consumed locally by air, marine, and ground transportation. Additionally, biofuels can be

locally produced, directly creating job growth in Hawaii's energy, farming, and manufacturing industries. In May of 2016, the sustainable biodiesel alliance provided a Pacific Biodiesel plant with the first United States-based certification of sustainability for a biodiesel plant. This certification demonstrates that investing in biofuel technology can lead to increases in the technology's efficiency, profitability, and sustainability as a renewable energy source.

In 2016, the legislature passed and the governor signed into law Act 202, Session Laws of Hawaii 2016, which created a nonrefundable tax credit for the production of renewable fuels, including biodiesel, to be implemented through 2021. According to Pacific Biodiesel President Robert King, the measure will encourage investment in renewable fuel production in Hawaii, create jobs, provide clean energy security, and fight climate change. In 2017, the legislature unanimously adopted S.C.R. No. 121, Regular Session of 2017, calling for a Hawaii green fuels initiative to increase jobs and local food and biofuel feedstock production across the State.

Furthermore, increasing biofuel production may increase food security for Hawaii. Currently, nearly ninety per cent of

Hawaii's food is imported, making Hawaii's population especially vulnerable to shipping and food supply disruptions resulting from natural disasters and other global events. Research conducted by the World Bank in 2010 and ABF Economics in 2013 found no direct correlation between biofuels and elevated food prices. Therefore, investing in biofuel production can improve agricultural development and crop yields that are important to Hawaii's food security without increasing costs for consumers.

The legislature further finds that as of January 2018, out of all the positions currently funded by the energy security special fund at the Hawaii state energy office under the department of business, economic development, and tourism, there are no positions clearly identified, staffed, and funded to:

(1) Facilitate the permitting process for renewable fuel projects;

(2) Facilitate renewable fuel production; or

(3) Manage marine and air transportation renewable replacement and energy efficiency.

None of the positions currently funded by the energy security special fund include biofuels oversight in their job functions, and none have air or marine transportation, which together

comprise over forty per cent of the State's petroleum consumption, in their job description. Additionally, an audit of the Hawaii state energy office dated January, 2018, notes that little of the work being performed by Hawaii state energy office staff members is visible or relevant to practitioners in the field attempting to achieve the State's ambitious renewable electricity and transportation goals.

The purpose of this Act is to:

(1) Expand the renewable fuel tax credit by increasing the total amount of tax credits that can be claimed and making the tax credit permanent; and

(2) Create a renewable fuel facilitator position within the department of business, economic development, and tourism.

PART II

SECTION 2. Section 235-110.31, Hawaii Revised Statutes, is amended as follows:

1. By amending the definitions of "renewable feedstocks" and "renewable fuels" to read:

""Renewable feedstocks" means:

(1) Biomass crops[~~,~~] and other renewable organic material, such as logs, wood chips, wood pellets, and wood bark;

(2) Agricultural residues;

(3) Oil crops, including but not limited to algae, canola, jatropha, palm, soybean, and sunflower;

(4) Sugar and starch crops, including but not limited to sugar cane and cassava;

(5) Other agricultural crops;

(6) Grease and waste cooking oil;

(7) Food wastes;

(8) Municipal solid wastes and industrial wastes;

(9) Water; and

(10) Animal residues and wastes,

that can be used to generate energy.

"Renewable fuels" means fuels produced from renewable feedstocks, provided that the fuel:

(1) Is sold as a fuel in Hawaii; and

(2) Meets the relevant ASTM International specifications or other industry specifications for the particular fuel, including but not limited to:

(A) Methanol, ethanol, or other alcohols;

(B) Hydrogen;

(C) Biodiesel or renewable diesel;

(D) Biogas;

(E) Other biofuels; [~~or~~]

(F) Renewable jet fuel or renewable gasoline[~~.~~]; or

(G) Logs, wood chips, wood pellets, or wood bark."

2. By amending subsection (b) to read:

"(b) Each year during the credit period, there shall be allowed to each taxpayer subject to the taxes imposed by this chapter, a renewable fuels production tax credit that shall be applied to the taxpayer's net income tax liability, if any, imposed by this chapter for the taxable year in which the credit is properly claimed.

For each taxpayer producing renewable fuels, the annual dollar amount of the renewable fuels production tax credit during the five-year credit period shall be equal to 20 cents per seventy-six thousand British thermal units of renewable fuels using the lower heating value sold for distribution in Hawaii; provided that the taxpayer's production of renewable fuels is not less than fifteen billion British thermal units of renewable fuels per calendar year; provided further that the

amount of the tax credit claimed under this section by a taxpayer shall not exceed [~~$3,000,000~~] $3,500,000 per taxable year. No other tax credit may be claimed under this chapter for the costs incurred in producing the renewable fuels that are used to properly claim a tax credit under this section for the taxable year."

3. By amending subsection (f) to read:

"(f) The total amount of tax credits allowed under this section shall not exceed [~~$3,000,000~~] $3,500,000 for all eligible taxpayers in any calendar year. In the event that the credit claims under this section exceed [~~$3,000,000~~] $3,500,000 for all eligible taxpayers in any given calendar year, the [~~$3,000,000~~] $3,500,000 shall be divided between all eligible taxpayers for that year in proportion to the total amount of renewable fuels produced by all eligible taxpayers. Upon reaching [~~$3,000,000~~] $3,500,000 in the aggregate, the department of business, economic development, and tourism shall immediately discontinue issuing certificates and notify the department of taxation. In no instance shall the total dollar amount of certificates issued exceed [~~$3,000,000~~] $3,500,000 per year."

SECTION 3. Act 202, Session Laws of Hawaii 2016, is amended by amending section 6 to read as follows:

"SECTION 6. This Act shall take effect upon its approval and shall apply to taxable years beginning after December 31, 2016 [~~; provided that section 2 shall be repealed on December 31, 2021~~]."

PART III

SECTION 4. Chapter 201, Hawaii Revised Statutes, is amended by adding a new section to be appropriately designated and to read as follows:

"**§201- Renewable fuel facilitator; establishment; duties.** (a) There is established within the department of business, economic development, and tourism the position of renewable fuel facilitator, which shall be a full-time, temporary position exempt from chapters 76 and 89. The renewable fuel facilitator shall possess a requisite level of knowledge and expertise in the areas of renewable fuel, state and county permitting processes, and management necessary to carry out the duties of the position. The salary of the renewable fuel facilitator shall not exceed $100,000.

(b) The renewable fuel facilitator shall have the following duties:

(1) Facilitate collaboration between the Hawaii state energy office, department of agriculture, other state and federal agencies, county governments, nonprofit organizations, and private businesses to:

(A) Plan and implement renewable fuel projects;

(B) Streamline project permitting requirements and processes to better advance the realization of these projects; and

(C) Address the development of these projects and a biofuels supply chain based in Hawaii;

(2) No later than December 31, 2019, and each year thereafter as appropriate, assess the implementation of renewable fuel projects, including the projects':

(A) Effectiveness for:

(i) Producing clean energy, local food, local value-added products, and reducing carbon emissions; and

(ii) Reducing dependence on fossil fuels and load on waste disposal infrastructure;

(B) Identification of:

(i) Production and economic connections between biofuel and farming industries;

(ii) Possibilities for developing biofuel production on vacant public, private, or department of Hawaiian homelands land, or any combination of the three;

(iii) Best practices for modernizing and optimizing biofuel technology; and

(iv) Appropriate methods of pricing, valuing, and delivering biofuels to businesses and consumers; and

(C) Recommendations for a statewide program to increase biofuel production and capacity, including the potential number of jobs created by increasing investment in biofuel production;

(3) Update the Hawaii bioenergy master plan to incorporate all recent and available data, including but not be limited to data on biofuels suitable for military, aviation, and marine sectors; inputs for biofuel, including waste stream feedstock and dedicated crops;

the federal renewable fuel standard and comparable programs in other states; integrated food and energy systems; the project permitting process and facilitation; and other relevant data determined by the department or recommended by experts in the field;

(4) Catalog and provide information on suitable sites and feedstock to include waste streams as well as agricultural and post-consumer materials;

(5) Develop and maintain communication and education materials;

(6) Coordinate with the renewable energy facilitator to facilitate project planning and permitting;

(7) Maintain current technical information on conversion and refining technologies suitable for island economies and material flows;

(8) Survey and report on relevant fuel distribution systems and standards in the State, including distribution via pipeline, barge, or vehicle;

(9) Convene federal, state, and county agencies, non-governmental organizations, industry practitioners, and interested members of the general public to:

(A) Identify cost inputs to renewable fuel production and distribution; and

(B) Identify, communicate, and prioritize methods to reduce cost and improve efficiency and yield of renewable fuel projects and project proposals;

(10) Administer the day-to-day coordination for renewable fuel projects on behalf of the department; and

(11) Submit periodic reports to the legislature on renewable energy facilitation activities.

(c) The renewable energy facilitator position shall be funded by the energy security special fund.

(d) The department shall submit a report of its findings and recommendations, including any proposed legislation, to the legislature no later than twenty days prior to the convening of the regular session of 2021."

PART IV

SECTION 5. Statutory material to be repealed is bracketed and stricken. New statutory material is underscored.

SECTION 6. This Act shall take effect on July 1, 2050; provided that section 2 of this Act shall apply to taxable years beginning after December 31, 2017.

S.B. NO. 3077 S.D. 1

Report Title:
Renewable Fuel Tax Credit; Renewable Fuel Facilitator

Description:
Increases the renewable fuel tax credit cap to $3,500,000 and makes the tax credit permanent. Creates a renewable fuel facilitator position within the department of business, economic development, and tourism. Requires reporting to the legislature. Applies to taxable years after 12/31/2017. Takes effect on 7/1/2050. (SD1)

The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.