



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
**SENATE COMMITTEE ON
TRANSPORTATION AND ENERGY**

Friday, February 9, 2018
1:35 p.m.
State Capitol, Conference Room 225

in consideration of
SB2019
RELATING TO BIOFUEL.

Chair Inouye, Vice Chair Espero, and Members of the Committee.

The Department of Business, Economic Development & Tourism (“DBEDT”) **offers comments on** SB2019, which requires motor vehicle fuel to contain at least 10 per cent biofuels (*inclusive of biodiesel and ethanol*) by volume that is produced in the State from agriculture products grown or sourced in the State, provided certain quantities of biofuel produced in the State are available. It also sets fines for distributors who do not meet the biofuel minimum requirement.

DBEDT supports the state’s objective for the ultimate elimination of fossil fuel in ground transportation. However, DBEDT does note that the move to renewable energy should be beneficial to Hawaii’s economy. Act 161 in 2015 repealed the requirement that gasoline for motor vehicles sold in the State include ten per cent (10%) ethanol. Act 161(15) cited that this repeal was made since the “requirement of blending ethanol into Hawaii’s gasoline does *not* produce any economic benefit for the State; further, the import of ethanol *creates an economic burden* for state residents.” (italics added)

Since enactment of Act 161 in 2015, DBEDT is unclear as to whether the market for biofuels, inclusive of ethanol and biodiesel, has materially and significantly changed in the State to warrant revisiting a 10 per cent mandate for motor vehicle fuel. Without such confirmation, DBEDT is concerned that enactment of SB2019 may continue to “create an economic burden for state residents” as the previous requirement for ethanol did not prohibit local production of biofuels and the current proposal eliminates what was previously the more economically competitive option of importing ethanol.

Thank you for the opportunity to offer these comments on SB2019.



COLLEGE OF SOCIAL SCIENCES

HAWAII ENERGY POLICY FORUM

UNIVERSITY OF HAWAI'I AT MĀNOA

Hawaii Energy Policy Forum

Jeanne Schultz Afuvai, Hawaii Inst. for Public Affairs
David Bissell, Kauai Island Utility Cooperative
Michael Brittain, IBEW, Local Union 1260
Jade Butay, Hawaii Dept of Transportation
Caroline Carl, Hawaii Energy
Albert Chee, Island Energy Services
Elizabeth Cole, The Kohala Center
Kyle Datta, Ulupono Initiative
Richard DeGarmo, Hawaii Gas
Mitch Ewan, UH Hawaii Natural Energy Institute
Jay Fidell, ThinkTech Hawaii
Carl Freedman, Haiku Design & Analysis
Matthias Fripp, REIS at University of Hawaii
Ford Fuchigami, Ofc of Hawaii State Governor
Will Giese, Inter-Island Solar Supply
Dale Hahn, Ofc of US Senator Brian Schatz
Michael Hamnett, SSRI at University of Hawaii
Senator Lorraine Inouye, Hawaii State Legislature
Randy Iwase, Public Utilities Commission
Darren Kimura, Energy Industries
Representative Chris Lee, Hawaii State Legislature
Gladys Marrone, Building Industry Assn of Hawaii
Stephen Meder, UH Facilities and Planning
Sharon Moriaki, UH Public Policy Center
Rocky Mould, Ofc of Climate Change
Aina Naniolo, Ofc of US Congresswoman Colleen Hanabusa
Ron Nelson, Defense Logistics Energy Agency
Dean Nishina, Division of Consumer Advocacy
Denise Oda, US Department of Agriculture
Stan Osserman, HCATT
Melissa Pavlicek, Hawaii Public Policy Advocates
Randy Perreira, Hawaii Government Employees Assn
Fredrick Redell, Maui County Energy Office
Rick Rocheleau, UH Hawaii Natural Energy Institute
Ross Roley, PACOM
Will Rolston, Hawaii County, Research & Development
Peter Rosegg, Hawaiian Electric Companies
Scott Seu, Hawaiian Electric Companies
Carlyn Shon, Hawaii State Energy Office, DBEDT
Joelle Simonpietri, Simonpietri LLC
Ben Sullivan, Kauai County
Lance Tanaka, Par Hawaii
Maria Tome, Public Utilities Commission
Kirsten Turner, Ofc of US Representative Tulsi Gabbard
Alan Yamamoto, Ofc of US Senator Mazie Hirono

Testimony of Lance Tanaka
Chair, Fuels Working Group
Hawaii Energy Policy Forum

To the
Senate Committee on Transportation and Energy

February 9, 2018 at 1:35 p.m. in Conference Room 225

OFFERING COMMENTS ON SENATE BILL 2019, RELATING TO BIOFUEL

Chair Inouye, Vice Chair Espero and Members of the Committee,

I am Lance Tanaka, Chair of the Fuels Working Group of the Hawaii Energy Policy Forum (Forum). The Forum, created in 2002, is comprised of over 40 representatives from Hawaii's electric utilities, oil and natural gas suppliers, environmental and community groups, renewable energy industry, and federal, state and local government, including representatives from the neighbor islands. Our vision and mission, and comprehensive "10 Point Action Plan" serves as a guide to move Hawaii toward its preferred energy goals.

SB 2019 requires fuel sold in Hawaii to contain no less than 10% biofuel by volume that is produced in the state from agriculture products grown or sourced in the state, provided certain quantities of biofuel produced in the State are available. The bill also sets the amount of fine for violating biofuel requirement, and amends the definition of "biofuels" to include ethanol and biodiesel.

The Forum supports the development of a sustainable and integrated food and fuel supply chain in the Islands, of which biofuels will play a major role. The supply chain would fully utilize locally sourced materials—grown as well as man-made waste materials—to convert into food and/or fuel feedstocks. Although SB 2019 is well-intended, it raises several issues that merit the Committee's consideration:

- The State of Hawaii opted-in to the federal Renewable Fuel Standard (as amended by the Energy Independence and Security Act of 2007), therefore local fuel producers and distributors continue to blend over 10% biofuel into the state's fuel supply, or purchase credits for advanced biofuels, to include from local vendors, as required by the federal RFS2. This calls into question the need for a duplicative state blending mandate.
- Biofuel that is co-mingled with jet fuel in distribution pipelines, barges, and storage tanks—which is the majority of the fuel distribution systems in the state—must meet ASTM D7566 hydro-treated biofuel standards in order to meet safety requirements of the Federal Aviation Administration, commercial airlines, and the military. None of Hawaii's four fuel production facilities (Par Hawaii, Island Energy, Pacific Biodiesel and Hawaii Gas) currently has D7566-compliant "drop in" biofuel refining capability.



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- Requiring that biofuel be refined exclusively from agriculture products that are grown in-state may run afoul of the U.S. Commerce Clause and/or the Interstate Commerce Act. Also, such definition specifying only agricultural sources would exclude waste-derived fuel feedstocks, such as from municipal solid waste or wastewater treatment effluent.

The Forum does support reconciliation of the differing definitions of “Biofuel,” “Renewable Fuel,” and “Renewable Feedstocks” in state statute, as prescribed in the bill. We recommend Hawaii simply define “biofuels” as “anything approved as a biofuel by the U.S. Environmental Protection Agency as regulator of the federal Renewable Fuel Standard” and update the definition in HRS §269-91, §235-110.31, and §486J-1 accordingly. All statutes could refer to or use the more detailed and updated language in §235-110.31, and add a reference in §235-110.31 under “Other” to define biofuel as “any fuel approved as a renewable fuel by the U.S. Environmental Protection Agency under the U.S. federal Renewable Fuel Standard.”

Thank you for the opportunity to testify.

This testimony reflects the position of the Forum as a whole and not necessarily of the individual Forum members or their companies



To: Senator Lorraine R. Inouye
Senator Will Espero
Members on the Senate Committee of Transportation and Energy

From: Kimo Haynes, President
Hawaii Petroleum, Inc.

RE: SB2019 Relating to Biofuel

Date: February 7, 2018

Thank you for the opportunity to provide testimony. Hawaii Petroleum is an independent petroleum marketer operating on the islands of Maui and Hawaii, and employees approximately 325 people on the two islands. Hawaii Petroleum opposes SB2019 as it is written for the following reasons.

- 1) **Biofuels (ethanol) are not a compatible fuel for marine use:** Ethanol does not mix with water, and most gasoline power boats currently use nonethanol fuel for fear of contamination. Requiring the use of biofuels for marine users would be a hardship, and possible a safety risk. If marine user chose to use nonethanol gasoline for marine use, the \$2.00 per gallon penalty would be a financial hardship. For commercial operators, this added cost would most likely be passed on to their customers, and or into the cost of their products.
- 2) **Reduced fuel tax revenue for the State and Counties:** State and County fuel tax revenues would be greatly reduced if biodiesel was mandated for on-highway use (see chart below). The State and Counties would receive \$0.256 - \$0.330 less in tax revenue for every mandated gallon of on-highway biodiesel used. Has the state considered how this revenue shortfall will be made up, or what costs will be reduced? My concern is that these reduced revenues will have to be made up by other additional taxes, which will be a further burden on the residents of Hawaii.

Combined Fuel Taxes per Gallon	City and County of Honolulu	County of Maui	County of Hawaii	County of Kauai
On-Highway Diesel (ULSD)	\$0.325	\$0.390	\$0.310	\$0.330
On-Highway Alternative Fuel (biodiesel)	\$0.000	\$0.134	\$0.040	\$0.000
Net Fuel Tax Shortfall per Gallon	\$0.325	\$0.256	\$0.270	\$0.330

- 3) **Higher biodiesel costs:** The cost of biodiesel is substantially higher than ultra low sulfur diesel (ULSD). Requiring the use of biodiesel would be a legislative requirement that would add costs to the end user.

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Hilo: 16 Railroad Avenue, #202 | Hilo, Hawaii 96720 | t: 808.935.6641 | f: 808.934.7197

Kona: 74-5558 B Kaiwi Street | Kailua-Kona, Hawaii 96740 | t: 808.329.1862 | f: 808.326.2755

e-mail: sales@hawaiipetroleum.com | www.hawaiipetroleum.com | www.ohanafuels.com | www.minitstop.com

- 4) **Higher distribution costs for biodiesel:** Unlike most state in the continental United States, distribution within our island state is difficult, and requires transportation both on land and over water. The infrastructure is in place to distribute ethanol blended gasoline throughout the state, but does not exist for biodiesel. Biodiesel distribution does not have the scale and is much more labor intense then the current distribution infrastructure for ULSD. Requiring the use of biodiesel would be a legislative requirement that would add costs to the end user.

I urge you to consider the above items when considering SB2019, and whether a state biofuel blending mandate is in the best interest of Hawaii residents.

Mahalo.



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February 8, 2018

TESTIMONY IN SUPPORT OF SB 2019 RELATING TO BIOFUEL

Chairperson Inouye and Members of the Committee
Senate Conference Room 225
February 9, 2018 1:35pm

Pacific Biodiesel is in strong support of SB 2019.

The State of Hawaii has made great strides in moving towards 100% renewable electricity production, and now desires to duplicate this success with transportation. A first step is very important. This bill represents that first step.

Many states currently have biodiesel mandates, ranging from B5 (5% biodiesel) to B20 (20% biodiesel). The City and County of Honolulu has been running over 1,000 vehicles on B20 for more than a decade. HECO has also logged over a million road miles on B20 biodiesel. This is the time for the State to join the movement and create a beginning blend mandate.

Our company goal is local production of fuel and feedstock. It may come up again that the language in this bill regarding in-state production is problematic for some groups due to interstate commerce issues. Eliminating this portion of the bill, and eliminating the debate is preferable to us.

Mahalo,

Robert King, Presiden
Pacific Biodiesel Technologies, LLC

Jenna Long, Director of Operations
Pacific Biodiesel Technologies, LLC

renewable • sustainable • community-based

THE SENATE
THE TWENTY-NINTH LEGISLATURE
REGULAR SESSION OF 2018

COMMITTEE ON TRANSPORTATION AND ENERGY

Senator Lorraine R. Inouye, Chair

Senator Will Espero, Vice Chair

DATE: Friday, February 9, 2018
TIME: 1:35 pm
PLACE: Conference Room 225
State Capitol
415 South Beretania Street

Hawaii Bioeconomy Trade Organization

Position: Support with modifications

We give testimony in support with modifications for **SB2019**.

Hawaii opted-in to the federal Renewable Fuel Standard mandate and adopted its rules and regulations via that option. We do not recommend the state take on the overhead and administrative cost of duplicating a 500+ page federal statute and multi-year federal program that is currently regulated through full life cycle by the EPA for each individual gallon of biofuel.

The locally grown feedstock requirement probably violates interstate commerce law. This intent can be met with current federal programs such as RFS2, which applies a carbon lifecycle to the supply chain, and therefore would factor in transoceanic transportation – therefore importation - carbon costs.

Mandatory blending is unworkable for the state's current fuel distribution system, which is all designed to distribute jet fuel and would render any jet fuel commingled with biodiesel, ethanol, or non "Drop-in" fuels unacceptable to airlines and to the FAA. Note Hawaii's existing "barrel tax" (Food and Energy Security Act) already has a blending penalty that is in effect: it is applied only to ground transportation and electrical fuels. Since biofuels are exempt, it creates a de facto credit.

HBeTO does support all facilitation and cost reduction the State can provide to make more "drop in" local renewable fuel production projects feasible and successful in the state.

Potential amendments:

Change mandatory at state level to refer to the current federal Renewable Fuel Standard 2 mandate [as enacted in the Energy Independence and Security Act of 2007 (EISA 2007)].

Support reconciliation of differing definitions of "Biofuel," "Renewable Fuel," and "Renewable Feedstocks" defined in at least 5 different statutes: HRS §269-91, §235-110.31, §243-1, §103D-412 and §486J-1. Have all statutes refer or use the more detailed and updated language in §235-110.31, and add a reference in "Other" within §235-110.31 to mean "any fuel approved as a renewable fuel under the U.S. federal Renewable Fuel Standard [as enacted in the Energy Independence and Security Act of 2007]."

Many thanks for your time and consideration

Carl Campagna

Executive Director

Hawaii Bioeconomy Trade Organization

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Testimony of Jim Yates,
President of the Hawaii Petroleum Marketers Association

**OFFERING COMMENTS ON SENATE BILL 2019,
RELATING TO BIOFUEL**

Senate Committee on Transportation & Energy
The Honorable Lorraine Inouye, Chair
The Honorable Will Espero, Vice Chair

Friday, February 9, 2018 at 1:35 p.m.
Hawaii State Capitol, Conference Room 225

Chair Inouye, Vice Chair Espero and Members of the Committee,

I am Jim Yates, President of the Hawaii Petroleum Marketers Association ("HPMA"). HPMA is a non-profit trade association comprised of members who directly market liquid motor fuel products across the Hawaiian Islands. Our membership includes individuals and companies who operate as independent marketers, jobbers or distributors of petroleum products and who buy liquid motor fuel products at the wholesale level and sell or distribute products to retail customers, other wholesalers, and other bulk consumers. HPMA's primary purpose is to protect and advance its members' legislative and regulatory interests in the Hawaiian Islands and Washington, DC.

SB 2019 requires motor vehicle fuel sold in the state to contain no less than 10% biofuel by volume that is produced in the state from agriculture products grown or sourced in the state, provided sufficient quantities of competitively-priced biofuel produced in the state are available. The bill also sets fines for violating the biofuel requirement, amends the definition of "biofuels" to include ethanol and biodiesel, and establishes reporting requirements for distributors.

HPMA would like to cite two potential issues about the bill as written:

- As a result of Hawaii opting in to the federal Renewable Fuel Standard ("RFS"), motor fuel producers and distributors in Hawaii are currently required to blend up to 10% biofuel—principally ethanol and a percentage of biodiesel—into motor fuel sold in the state. A state mandate would be duplicative of the federal mandate.

Testimony of Jim Yates
President, Hawaii Petroleum Marketers Association
Offering Comments on Senate Bill 2019, Relating to Biofuel
Senate Committee on Transportation & Energy
Friday, February 9, 2019 at 1:35 p.m. in Conference Room 225
Page 2

- Requiring producers in Hawaii to refine biofuel using only agriculture products locally grown or sourced in Hawaii could violate the Interstate Commerce Act and/or the U.S. Commerce Clause.

HPMA requests that the Committee carefully weigh these factors in determining whether a state biofuel blending mandate is needed when the RFS is already in place.

Thank you for this opportunity to testify.

SB-2019

Submitted on: 2/7/2018 12:18:42 PM

Testimony for TRE on 2/9/2018 1:35:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Margaret Maupin		Support	No

Comments:

SB-2019

Submitted on: 2/8/2018 9:46:21 PM

Testimony for TRE on 2/9/2018 1:35:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
James McCay		Support	No

Comments:

Aloha TRE Members,

As a resident, I support this measure to help transition our fuel supply to more sustainable and local production. It would be good to have some estimate on any cost increase if possible in conjunction with this Bill, however I still support paying more for this than continuing to rely on imported fuel where all the money to buy the fuels are from foreign companies and countries.

So perhaps a maximum cost increase buffer could also be considered if possible.

Many thanks,

James McCay

2957 Kalakaua Ave Honolulu HI 96815