

STAND. COM. REP. NO. **2887**

Honolulu, Hawaii

MAR 17 2014

RE: H.B. No. 2060
H.D. 2
S.D. 1

Honorable Donna Mercado Kim
President of the Senate
Twenty-Seventh State Legislature
Regular Session of 2014
State of Hawaii

Madam:

Your Committee on Energy and Environment, to which was referred H.B. No. 2060, H.D. 2, entitled:

"A BILL FOR AN ACT RELATING TO TAXATION,"

begs leave to report as follows:

The purpose and intent of this measure is to:

- (1) Establish a renewable fuels production tax credit to achieve greater energy security for Hawaii; and
- (2) Repeal the ethanol facility tax credit.

Your Committee received testimony in support of this measure from the Ulupono Initiative; Renewable Energy Action Coalition of Hawaii; Hawaii Renewable Energy Alliance; Pacific Biodiesel; Upcountry Mobile Mechanic Service, LLC; Maui Recycling Service; and twenty-one individuals. Your Committee received comments on this measure from the Department of the Attorney General; Department of Business, Economic Development, and Tourism; Department of Taxation; and Tax Foundation of Hawaii.

Your Committee finds that Hawaii is extremely vulnerable to soaring prices or disruptions of its energy imports, which can hinder, cripple, or even devastate the State's economy and the well-being of its residents and visitors. As the most isolated land mass on Earth, Hawaii imports nearly ninety percent of its



energy supply. It is critical for Hawaii to ensure greater energy security by becoming more self-sufficient in its energy supply.

Your Committee intends this measure to be a test case to show that Hawaii needs an exemption from interstate commerce laws in order to achieve greater energy security. As the most isolated land mass on Earth, Hawaii has the longest energy supply line of any state in the nation and is thus vulnerable to supply disruptions. Hawaii currently imports virtually all of its crude oil from Indonesia, which is more than 6,700 miles from Honolulu. The nearest state, California, is more than 2,500 miles from Honolulu. Having locally produced renewable fuels made from local feedstock is necessary for Hawaii to achieve greater energy security.

Your Committee has amended this measure by deleting its contents and inserting the contents of S.B. No. 2197, S.D. 2, which are substantively similar, except that the measure:

- (1) Clarifies that a taxpayer is prohibited from claiming a renewable fuels production tax credit for more than five years beginning from the first taxable year in which the taxpayer begins qualifying renewable fuels production;
- (2) Establishes that the renewable fuels production tax credit shall be equal to 20 cents per one hundred fifteen thousand British thermal units of renewable fuels using the lower heating value produced and sold for distribution in Hawaii;
- (3) Establishes a cap of \$3,000,000 for the renewable fuels production tax credit that a taxpayer may claim per taxable year;
- (4) Defines "qualifying renewable fuels" to mean fuels produced within the State from renewable feedstocks transported less than two thousand miles from point of origin to the production facility located within the State; provided that the fuels shall be sold in the State as fuel; provided further that the renewable fuels meet the relevant ASTM International specifications for the particular fuel or other industry specifications for liquid or gaseous fuels;



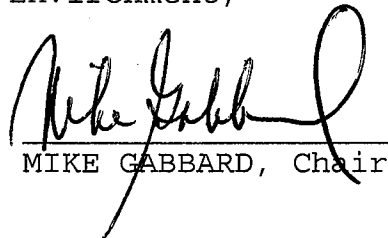
- (5) Deletes the definitions of "renewable fuels" and "thermal units";
- (6) Requires the Department of Business, Economic Development, and Tourism to discontinue certifying renewable fuels production tax credits if the annual amount of certified credits reaches \$12,000,000; provided that in no instance shall the total amount of certified credits exceed \$12,000,000;
- (7) Does not disqualify a taxpayer from claiming a renewable fuels production tax credit if the taxpayer does not provide written notice of the taxpayer's intention to begin production of qualifying renewable fuels;
- (8) Does not disqualify a taxpayer from claiming a renewable fuels production tax credit if the taxpayer does not provide written notice to the Director of Taxation and Director of Business, Economic Development, and Tourism, within thirty days following the start of production, of the production start date and expected production for the next twelve months;
- (9) Does not disqualify a taxpayer from claiming a renewable fuels production tax credit if the taxpayer does not provide information to the Director of Business, Economic Development, and Tourism for each calendar year during the credit period on the number of British thermal units of renewable fuels produced and sold, feedstocks used for renewable fuels production, the number of employees of the facility and each employee's state of residency, and the projected number of British thermal units of renewable fuels production for the succeeding year;
- (10) Deletes language that would have prohibited a taxpayer from claiming the renewable fuels production tax credit after taxable years beginning after December 31, 2025;
- (11) Deletes language that would have allowed the Director of Taxation to audit and adjust the certification process as necessary for renewable fuels production tax credits;
- (12) Includes a severability clause;



- (13) Has an effective date of July 1, 2050; and
- (14) Includes technical, nonsubstantive amendments for the purposes of clarity and consistency.

As affirmed by the record of votes of the members of your Committee on Energy and Environment that is attached to this report, your Committee is in accord with the intent and purpose of H.B. No. 2060, H.D. 2, as amended herein, and recommends that it pass Second Reading in the form attached hereto as H.B. No. 2060, H.D. 2, S.D. 1, and be referred to the Committee on Ways and Means.

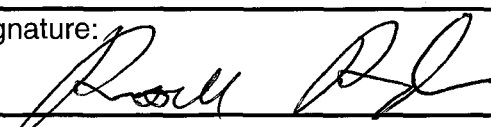
Respectfully submitted on
behalf of the members of the
Committee on Energy and
Environment,


MIKE GABBARD, Chair



The Senate
 Twenty-Seventh Legislature
 State of Hawai'i

Record of Votes
Committee on Energy and Environment
ENE

Bill / Resolution No.:* HB 2060 HD2	Committee Referral: ENE, WAM	Date: 3/11/14		
<input type="checkbox"/> The committee is reconsidering its previous decision on this measure. If so, then the previous decision was to: _____				
The Recommendation is: <input type="checkbox"/> Pass, unamended 2312 <input checked="" type="checkbox"/> Pass, with amendments 2311 <input type="checkbox"/> Hold 2310 <input type="checkbox"/> Recommit 2313				
Members	Aye	Aye (WR)	Nay	Excused
GABBARD, Mike (C)	<input checked="" type="checkbox"/>			
RUDERMAN, Russell E. (VC)	<input checked="" type="checkbox"/>			
CHUN OAKLAND, Suzanne				<input checked="" type="checkbox"/>
IHARA, Jr., Les				<input checked="" type="checkbox"/>
SLOM, Sam	<input checked="" type="checkbox"/>			
TOTAL	3			2
Recommendation: <input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted				
Chair's or Designee's Signature: 				
Distribution: Original Yellow Pink Goldenrod File with Committee Report Clerk's Office Drafting Agency Committee File Copy				

*Only one measure per Record of Votes