

Clean Energy Agenda Languishes

Major clean energy initiatives significantly weakened at legislative crossover

STATE CAPITOL—The widely trumpeted clean energy agenda that was the darling of the Governor and legislators earlier in the session is largely languishing at the legislative halfway point, with major clean energy initiatives either taken off the table or significantly weakened.

“Moving the needle on Hawaii’s oil dependency will not happen this session unless legislators make significant amendments to measures before them,” said Jeff Mikulina, Executive Director of the Blue Planet Foundation, an organization dedicated to making Hawaii energy independent. “For most lawmakers, ‘supporting clean energy’ is an easy sound bite, but voting for effective policy to get it done is hard.”

Measures to prohibit the approval of any new or significantly expanded fossil fuel-fired power plants in Hawaii is an example of the recent legislative softening. The House version of this measure (HB 1464) now disallows only new facilities that are “solely” powered by fossil fuel, opening the door to new coal- and oil-fired powerplants that use only token amount of renewable energy, such as biomass. The Senate version (SB 1671) exempts new Kauai fossil powerplants from the law until 2015.

“If lawmakers are serious about weaning Hawaii from fossil fuels, this bill should be an easy one. Fossil fuels are simply not part of Hawaii’s clean energy future,” said Mikulina. “Hawaii state policy should reflect a future powered by clean, indigenous, renewable sources of electricity. But these bills fail to accomplish that.”

Some clean energy initiatives didn’t even last to be amended. Measures to adopt Clean Car efficiency standards similar to California’s law didn’t make it to third reading. President Barack Obama started the process to clear the path for states to adopt such standards his first week in office. Similarly, bills that would have required high performance energy efficient buildings and homes in Hawaii (HB 431, SB 871) were quickly dispatched in committee.

“Energy efficiency is the largest, cheapest, safest, and fastest energy option that Hawai’i can implement. We need to require high efficiency homes and buildings for new and existing structures,” said Mikulina. “We simply won’t be able to achieve our clean energy goals if we

waste our clean energy powering inefficient lights, appliances, and buildings. It's like trying to bail water with a fishing net.”

Promising measures remain alive at the State Capitol, however. Blue Planet is supportive of measures to set aggressive new targets for renewable energy generation and energy efficiency levels in Hawaii. Two bills (HB 1464, SB 1258) establish new “renewable portfolio standards” of 25% of total electricity sales in 2020 and 40% in 2030 (up from 20% in 2020) and the bills clarify that only renewable energy can count towards the goal. Similarly, two bills (HB 1464, SB 1173) create new energy efficiency portfolio standards that are equivalent to saving 30% of the anticipated statewide electricity demand in 2030.

“Blue Planet recognizes that these new goals, while important, will not alone make our clean energy future happen,” said Mikulina. “We need aggressive policies to make real change.”

One of those aggressive policies is the clean energy investment fund, currently contemplated in HB 1271. The bill establishes provides for a surcharge on each barrel of oil imported into Hawaii to be used for energy security and other uses. Blue Planet supports creating a \$5 per barrel surcharge (generating over \$200 million annually) for clean energy and energy efficiency uses.

“If we truly want to rapidly transition Hawaii away from imported fossil fuel, we have to be prepared to invest in that preferred future today,” said Mikulina. “This small surcharge will pay a handsome dividend to residents in energy savings year after year.”

Blue Planet believes the low oil price today presents a perfect opportunity to tap the source of our energy problem to fund our solutions—and create good, local, high-paying jobs in the process. The current version of the bill doesn’t specify the amount of the new barrel surcharge.

Lawmakers have an opportunity to forward a policy that would dramatically expand energy efficiency adoption statewide. The concept, “on-bill financing,” enables residents to pay for energy efficiency investments directly through the energy savings via their electricity bill. By eliminating the up-front cost of energy efficiency investments, on-bill financing is one of the most powerful tools to increase adoption of smart energy technologies (such as solar water heating, photovoltaic, and efficient appliances). Unfortunately, the current version of SB 1173 only allows—and does not require—the new “public benefits fee administrator” to make on-bill financing a program offered to electricity customers. Blue Planet believes the program should simply be a standard feature for all ratepayers statewide.

“Let’s give all residents the option of making solar energy a line-item on their bill,” said Mikulina. “This will allow all residents the ability to profit in Hawaii’s clean energy transition—regardless of their ability to make big upfront investments.”

A listing of Blue Planet’s dozen priority clean energy measures follows.

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1. Clean Energy Investment Fund (HB 1271)

This measure provides for a surcharge on each barrel of oil imported into Hawaii to be used for energy security and other uses. While we all likely agree that we need to aggressively increase our clean energy use in Hawai'i and decrease our reliance on imported crude, we cannot do it without funding for planning, implementation, development, and funding. House Bill 1271 wisely taps the source of our problem—imported oil—to fund clean energy programs.

If we truly want to rapidly transition Hawai'i to energy independence, we have to be prepared to invest in that preferred future today. We cannot afford to wait until the economy recovers and the price of oil returns to triple-digits as it did last summer. The low oil price today presents a perfect opportunity to tap the source of our energy problem to fund our solutions—and create good, high-paying jobs in the process.

This measure currently doesn't specify the amount of the new barrel surcharge. Blue Planet supports amending this measure so that it establishes a \$5 per barrel surcharge (providing over \$200 million annually) to provide significant funding for energy efficiency and clean energy investment. Alternatively, a "floor" on the price of each barrel of oil (perhaps \$60) would raise significant funds while the price is depressed and provide for more stable energy prices. We have no strong feelings about the establishment of a council or task force, as established programs can make immediate use of the additional funding. We would like to see the majority of surcharge applied to a Clean Energy Investment Fund used to vastly increase the capacity of the energy efficiency public benefit funds administrator, including increasing and adding efficiency incentives such as appliance buy-back programs, free home energy audits, solar water heater and compact fluorescent / LED rebates, and other efficiency programs.

2. No New Fossil Plants: (SB 1671; HB 1464)

These measures prohibit the approval of any new or significantly expanded fossil fuel-fired power plants in Hawaii. Fossil fuels are simply not part of Hawaii's clean energy future. Hawai'i state policy should reflect our preferred energy future powered by clean, indigenous, renewable sources of electricity.

To ensure that these measures produce the intended outcome—a clear policy signal that fossil fuel is not part of Hawaii's energy future—they need to be amended to clearly prohibit future fossil fuel facilities. Unfortunately, HB 1464 currently allows any type of fossil fuel combusting facility, as long as fossil fuel is not the sole resource used. This is not acceptable—all future fossil fuel facilities should simply be prohibited. Similarly, SB 1671 only applies to facilities that are public utilities—and it allows Kaua'i to permit coal or oil power plants until 2015.

New fossil fuel facilities play no role in Hawaii's clean energy future. A clear policy signal must be sent immediately to prevent an expensive investment in a power plant that may take generations to amortize, locking us in to continued fossil fuel dependence. Enactment of a true fossil fuel prohibition will make Hawai'i the first state in the nation to prospectively disallow future fossil fuel power plants. It will draw national and likely international media attention, and

send a clear market signal that Hawai'i is serious about transforming to clean, indigenous sources of energy.

3. On-bill Financing for Energy Efficiency (SB 1173)

On-bill financing—paying for energy efficiency investments directly through the energy savings via one's energy bill—makes energy efficiency far easier and more affordable to Hawai'i residents. By eliminating the up-front cost of energy efficiency investments, on-bill financing is one of the most powerful tools to increase adoption of smart energy technologies and appliances. Consumers have proven to be terribly myopic in their purchasing decisions when it comes to energy saving technologies. Despite the environmental and long-term economic advantages of converting to photovoltaic power, a miniscule percentage of Hawai'i homes take advantage of this technology. By eliminating the up-front cost and enabling residents to pay for the investment through the energy savings over time through on-bill financing, adoption of efficiency and clean energy will accelerate.

Unfortunately, SB 1173 currently only allows—and does not require—the new “public benefits fee administrator” to make on-bill financing a program offered to electricity customers. Blue Planet believes the program should simply be a standard feature for all ratepayers statewide.

4. Clean Energy Standards (SB 1258; HB 1464)

These measures increase the required percentage of clean energy-produced electricity sold by utilities in the state. The measure clarifies what qualifies as renewable energy for purposes of the standards. Clear, aggressive, clean energy standards will mobilize the whole state to move towards our preferred energy future. They will send a clear policy and market signal that Hawai'i is serious about transforming to clean energy and that the established utilities are on notice to facilitate that preferred future.

Blue Planet believes that Hawaii's clean energy objectives should be clarified to state that the renewable portfolio standards can be met only with clean, indigenous, and renewable sources of energy. The bill should state that no imported biofuels qualify for the renewable portfolio standard. Further, energy efficiency or offset technologies are not included (they will be captured in the energy efficiency portfolio standards). The existing “off-ramps” for the utilities failure to meet the standards should be deleted, and clear penalties for utilities' non-attainment of the clean energy standards should be established in the bill. Finally, while we appreciate the increased clean energy levels set by these measures, Blue Planet believes Hawai'i can be much more aggressive at increasing clean energy use. We suggest that the bills be amended to contain the following levels: 20% of net electricity sales by 2015; 30% by 2020; 40% by 2025; and 50% by 2030.

5. Statewide Energy Efficiency Standards (SB 1173; HB 1464)

This measure directs the public utilities commission (PUC) to establish energy efficiency portfolio standards equivalent to 30% of the anticipated statewide electricity demand in 2030. Energy efficiency—efficient lights, appliances, electronics, behavior changes, and the like—is

the largest, cheapest, safest, and fastest energy option that Hawai'i can implement. Similar to the new clean energy efficiency standards, a statewide energy efficiency portfolio standard will send a clear policy and market signal about Hawai'i's preferred energy future. Further, establishing incentives and penalties today—as these bills direct the PUC to do—will ensure that Hawai'i stays on track to achieve these goals.

6. Solar Roofs Act Amendments (SB 390; HB 1464)

These measures amend last year's landmark Solar Roofs Act—which requires that most new homes in Hawaii come equipped with energy- and electricity-saving solar water heaters—by clarifying that the tax credit for existing home retrofits remains and making other housekeeping amendments. Blue Planet believes that it is critically important that these bills also remove the gas water heater variance currently allowed in the Solar Roofs Law. We fear that the current language in the law may provide a loophole and create new all-gas subdivisions (particularly if the Gas Company provides free or greatly reduced cost appliances to new developers to encourage gas use). The on-demand gas option should only be allowed (and perhaps required) if the first and second variances are met—that is, the home has poor solar resource and solar would fail the cost-effectiveness test. Blue Planet also supports requiring a post-installation inspection process funded through a portion of the demand side management surcharge. Such an inspection would verify that the solar water heater was installed in accordance with the quality and performance standards established in §269-44.

Last year's law put Hawai'i on the map as a national leader in clean energy. Being the first state in the nation with such a progressive energy requirement launched Hawaii into the *New York Times*, *USA Today*, MSNBC, and CNN. But we want to make sure the law does what it intended. The variances should only be exercised in rare circumstances where solar doesn't make sense or is not cost effective. Further, inspections should be part of the Solar Roofs Act implementation to ensure that only high-quality, high-performance solar water heaters are installed (so that energy—and financial—savings are achieved). Since the law takes effect in 2010, we have only a narrow window this year to tweak the measure to make sure it accomplishes its intended goals.

7. Clean Energy Cost Cap (SB 461; HB 1270)

These measures remove a potential barrier to investment in new clean energy sources by allowing the PUC to approve the purchase of renewable electricity that may be more expensive than the cost of fossil fuel-produced electricity. With the highly volatile price of petroleum, the “avoided cost” of fossil-produced electricity is difficult to calculate and makes long term energy planning difficult. It is important to enact this measure this session as a “feed-in tariff”—a policy that would set a clear price for clean energy sold to the power grid—is currently under consideration by the PUC. The PUC plans to issue a decision on the docket by July 2009, but it is unclear if they can establish a feed-in tariff with the existing language of the existing statute.

8. Electric Vehicles Incentives (SB 1202)

This measure originally provided various tax credit and rebate incentives for the purchase of electric vehicles or electric vehicle charge spots. Electric vehicles (EV) will play a major role in Hawaii's energy independence by making use of clean, indigenous sources of electricity and serving as energy storage devices when they are plugged into the grid. Incentives are needed to overcome the "chicken and the egg" problem of customer EV adoption; if residents know that infrastructure is coming, they will feel more comfortable about investing in a vehicle. Electric vehicles will likely play an integral role in Hawaii's clean energy future. By using stored electrical energy, EVs can take advantage of intermittent solar, wind, and other clean energy resources. Most vehicles sit idle 22+ hours of the day, so they become *de facto* energy storage devices if their batteries are plugged into the grid when they are not in use. With smart grid infrastructure in place, EVs become an essential component to electricity load and clean energy resource balancing—in addition to providing clean mobility solutions for Hawai'i residents.

Blue Planet supports an earlier version of SB 1202 (SD1) with appropriate deadlines inserted. Additionally, we support amending this measure to establish preferential electricity rates to encourage EV charging off-peak with electricity from clean energy sources. Such a policy would support three clean energy goals: encouraging EV use, increasing clean energy consumption, and leveling out the electricity demand on the grid. Finally, Blue Planet supports amending SB 1202 that would establish a schedule of steadily increasing parking stall EV charging capacity requirements over time. This would prepare building owners and managers for the upcoming requirements and help their EV investment decision making.

9. Right to Dry (SB 1338; HB 1273)

Everyone's favorite bills, SB 1338 and HB 1273 ensure that Hawai'i homeowners have the choice to save money and save energy by using a clothesline to dry their clothes. The measure disallows homeowner association codes and covenants that effectively prevent the use of a clothesline. While we know the clothesline measure has drawn chuckles from some, its value is very serious: to provide residents the option of reducing their energy use if they chose. Given the cost of electricity and urgent need to move toward energy independence, Hawai'i homeowners should have the choice to save money and save energy by using the hot sun and trade winds to dry their clothes. This may sound frivolous, but considering that the average family produces over one ton of greenhouse gas annually from typical electric clothes dryer usage, any restriction on clothesline use seems inappropriate. Clotheslines can also save substantial amounts of money. Families switching to a clothesline can expect to save hundreds annually on their electricity bill.

Blue Planet prefers the Senate version of this measure, which makes it clear that homeowners will be allowed to use a clothesline for its intended purpose—drying clothes. The House version simply disallows prohibition of a clothesline, but may allow associations to restrict their use in such a way that they are ineffective.

10. Opening Up the Grid (SB 1675)

Earlier versions of this measure expanded the successful net energy metering law to allow more clean energy customers to plug in to the grid. Under net metering, customers can run their

power meter backwards as they send clean power to the grid (up to the amount of power they purchase over a one year time period). Net energy metering has experienced explosive growth in the past year. It provides a clear incentive to homeowners and businesses who want to invest in solar or wind to do so, as they know that they will be able to send surplus clean electricity to the grid when they have it and buy it back when they need it. But the existing limits may put the brakes on the number of net metered systems unless it is expanded. Further, there is no good reason to cap the system size that can net meter, as most systems are designed simply to meet the electricity demand of the home or business (because surplus electricity produced is simply gifted to the utility at the end of the year period).

Blue Planet supports earlier versions of SB 1675, which would have eliminated the system cap, allowing more customers to plug in to the grid and run their meters backward. The bill would have also increased the allowable system size on the grid from 100 kilowatts to 1 megawatt, allowing larger systems to net meter. This is similar to what California and other states have enacted. Such amendments will keep the small renewable market primed and accelerate the adoption of photovoltaic and other clean energy devices by increasing the availability of net metering in Hawai'i.

11. Increasing Private Clean Energy Investment (SB 464)

This measure expands the class of investors who can use the renewable energy tax credit, thereby attracting much more investment capital to renewable energy in Hawai'i. By leveraging private investment in clean energy, state tax incentives will yield numerous benefits through job creation, reduced dependency on imported fossil fuel, reduced greenhouse gas emissions, and economic development. Investment experts estimate that the Hawai'i market has the potential to immediately attract \$100 million to \$200 million per year in investment capital for renewable energy projects in the state. These projects would generate hundreds if not thousands of jobs, reduce Hawaii's dependence on imported oil, and protect our environment.

While current law provides for a tax credit for various renewable energy devices, investors have found it to apply to too narrow a class of taxable income. Senate Bill 464 wisely expands the types of income that the tax credits can be taken against and expands the types of taxpayers who can take the credits. Blue Planet supports the earlier version of SB 464 which would make the tax credit refundable for certain investors.

12. Closing the Fossil Fuel Loophole (SB 1260)

This measure closes a loophole in Hawaii's existing Clean Air Act that allows large polluters to pay less per ton of air emissions they create as compared with smaller polluters. In establishing clean energy policies, one of the first places to fix is laws that provide a perverse incentive to do the wrong thing. Under Chapter 342B-29, covered source permit holders pay per ton of pollution emitted annually. These fees fund the Department of Health's (DOH) Clean Air Branch and other programs. Covered source permit holders, however, are not assessed fees for any tons of pollutants beyond 4,000 tons. The current law is not only unfair to covered source permit holders that emit less than 4,000 tons, it provides disincentive to reduce pollution that exceeds 4,000 tons annually. We understand that only Hawaiian Electric currently benefits from this

clause (as the only covered source permit holder with more than 4,000 tons of pollutants per year). Why shouldn't they pay the costs of emitting these pollutants like all other permitted businesses? Eliminating this clause would eliminate another subsidy for fossil fuels, enabling clean energy sources to compete more fairly.

Moreover, the DOH environmental division and the Department of Business, Economic Development, and Tourism energy resources group is short of resources and staff to implement environmental and clean energy projects and manage the new greenhouse gas limit task force and rulemaking process. By removing this loophole in the Clean Air Act, additional funds could be provided for these purposes.