



**HOUSE COMMITTEE ON ENERGY & ENVIRONMENTAL PROTECTION
HOUSE COMMITTEE ON AGRICULTURE**

February 4, 2010, 10:00 A.M.

Room 325

(Testimony is 1 page long)

TESTIMONY IN STRONG SUPPORT OF HB 2421, SUGGESTED AMENDMENTS

Chairs Morita and Tsuji and members of the committees:

The Blue Planet Foundation strongly supports House Bill 2421, providing for funding of food and energy security through a surcharge on each barrel of oil imported into Hawai'i. We believe this is keystone clean energy policy that will enable much of the energy transition to the preferred future Hawai'i has been seeking for generations. The critical elements of Hawai'i's clean energy future—energy efficiency, smart-grid infrastructure, planning and implementation—require up-front investment.

Blue Planet believes the best way to provide investment funds is by tapping the source of our problem—imported oil—to fund clean energy programs. This measure will help enable Hawai'i's clean energy future while creating good paying, local jobs in the high-tech renewable energy and energy efficiency fields. Further, according to market research commissioned by Blue Planet, over two-thirds of Hawai'i residents support paying an additional amount on their energy bills (with the mean equivalent to a \$5 per barrel tax) if the revenue was dedicated to Hawai'i's clean energy future.

To accelerate Hawai'i's transition to energy independence, Blue Planet proposes the following four amendments to HB 2421:

- Increase the oil tax to \$5 per barrel (yielding approximately \$160 million annually).
- Expand the uses of the barrel tax to include the following programs:
 1. Double the capacity of the **existing energy efficiency** Public Benefit Funds Administrator (regulated by the Public Utilities Commission), 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;

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2. Fund independent **distributed renewable energy grid connection studies** as required by the utility (via Rule 14H)—currently a major disincentive to grid interconnection by private clean energy developers; and
 3. Fund county energy office positions.
- Sunset the aviation fuel exemption on January 1, 2015.
 - Ensure that the aviation fuel exemption applies only to aviation fuel, not simply for fuels that aviation companies use for ground transportation and other non-flying uses.

Blue Planet would also support expanding the barrel tax to include other carbon fuel imports such as coal.

Proposed amendment language is included at the end of the testimony.

Rationale for Barrel Tax Policy in 2010

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 in 2008.

Hawai'i is the most dependent state in the nation on imported oil. Some 50 million barrels are imported annually, nearly 80% of which originate from foreign sources¹. In addition, over 805,000 tons of coal are imported into our state². These sources provide power for over 92% of Hawaii's electricity generation. The combustion of these resources also contributes over 23 million tons of climate changing greenhouse gas into our atmosphere annually³. Hawaii's economic, environmental, and energy security demand that we reduce the amount of fossil fuel imported and consumed in Hawai'i. To that end, new policies and sources of funding are critically needed that will dramatically increase energy efficiency, build our smart energy infrastructure with storage, and develop clean, renewable, and indigenous energy sources.

A \$5 per barrel tax on oil would provide the needed funding for clean energy and efficiency research, planning, implementation to transition to our preferred clean energy future. As we dramatically expand our clean energy capacity in Hawai'i, the real economic benefits of this carbon surcharge will far outweigh the additional burden it may present.

¹ The State of Hawaii Data Book, 2007

² *Ibid.*

³ ICF International. Inventory of Greenhouse Gas Emissions and Sinks in Hawaii: 1990 and 2007. December 2008.

Barrel Tax is Smart Tax Policy

A barrel fee (or “carbon tax”) is smart tax-shifting policy that discourages fossil fuel use while providing a source of revenue for clean energy planning and implementation. The concept behind the measure is to help “internalize” the external costs of certain activities; in this case, charge a fee for products that are damaging to the environment and use that money to help mitigate the damage. The link is quite clear between the use of petroleum products and corresponding impacts on our fragile island environments—not only in oil spills, which was the original impetus for the environmental response tax, but also in runoff from the roads our cars drive on, in degraded air quality, and in greenhouse gas emissions and climate change.

Unlike many other taxes, the barrel tax is largely avoidable by most residents. Energy efficiency, conservation, and switching to clean sources of power all reduce the burden of the tax. In fact, most residents could reduce the amount of barrel tax they pay by installing some compact fluorescent light bulbs at home and ensuring that car tires are properly inflated. Ensuring that a good portion of the oil tax revenues are spent on energy efficiency measures will help reduce the potential regressive nature of the policy.

A “clean energy” surcharge on a barrel of oil of \$5 is approximately the same as a carbon tax of \$10.45 per ton of carbon dioxide (CO₂)⁴. It would have a marginal impact on petroleum users, yet significantly increase the state’s ability to deliver energy efficiency investments and clean energy project funding. A \$10.35 “carbon fee” is average. Many European countries have carbon taxes that exceed \$10.00 per ton. In 2008, the Canadian province of British Columbia enacted a carbon fee that started at approximately \$8.00 per ton (English) in July, 2008, and increases to \$24 per ton by 2012.

Public Support

Blue Planet Foundation conducted market research in December 2009 to discern the level of public support for a barrel tax for clean energy investment. The statewide survey of residents found broad support for a barrel tax with over two-thirds supporting a tax of some amount. The average level of support was equivalent to a \$5 per barrel tax. Forty-two percent of residents supported paying an additional \$15 on their monthly energy bills, equivalent to a \$9 per barrel tax. These findings should provide comfort to decision makers wrestling with how to develop funding for Hawaii’s clean energy future—Hawaii’s residents are willing to pay to wean Hawai’i from its oil dependence.

⁴ At 23 lbs CO₂ produced per gallon oil and 42 gallons per barrel.

Limited Exemption for Aviation Fuel

In 2009, the interisland air carriers raised objections to the inclusion of jet fuel in the barrel tax. Unlike ground transportation and electricity (and even marine transportation), no ready fuel substitutes exist for jet fuel presently. Blue Planet supports a limited airline fuel exemption with a 5-year sunset date (January 1, 2015) to overcome these concerns.

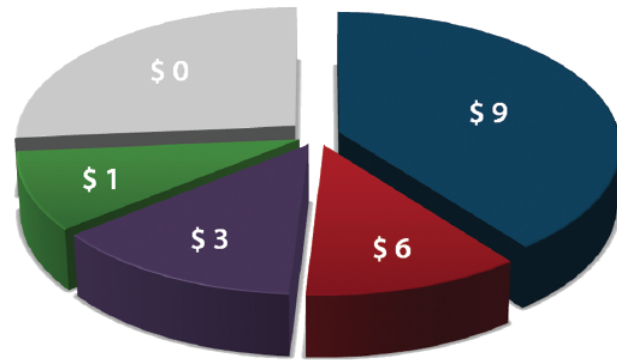
Need for Efficiency Funding

The revenue developed from the barrel tax must be dedicated to the most effective levers to accelerate the transition to our clean energy future: providing incentives, removing roadblocks, integration planning, and efficiency. Increasing energy efficiency must be a high priority use of these funds, as efficiency is typically the fastest, cheapest, and most effective way to reduce fossil fuel use. Further, efficiency improvements have the broadest resident benefit and are a straightforward way to decrease the impact of the barrel tax.

House Bill 2421 does not explicitly provide for using the barrel tax revenues for direct energy efficiency programs. Fortunately, a program has been established to administer energy efficiency programs via a third-party administrator under the public utilities commission (PUC). The public benefits fund administrator (PBFA), established in §269-122, receives funds from the public benefits fee charged to the electric utility. This PBFA is held accountable to strict standards on how the funds can be spent, with at least 90% of expenditures to be used on direct efficiency programs and the balance for overhead and management (pursuant to §269-122). The current PBFA is under a two-year contract with the PUC. Their performance will be reviewed in terms of measureable and verifiable energy savings per dollar spent.

The PBFA provides incentives and education to accelerate the investment in energy efficiency. The financial support is typically in the form of rebates and incentives to encourage the adoption of efficiency measures. This support has been effective in increasing efficiency, however, the

Resident Support For Barrel Tax



A total of 500 interviews with registered voters state-wide were conducted between December 3 - 12, 2009. The margin of error for the sample +/- 4.38 percentage-points with a 95% confidence level.

SURVEY QUESTION:

“Reducing Hawaii’s dependence on imported oil requires investing in new clean energy systems. How much would you be willing to pay additionally per month on your total energy bill (electricity and fuel) if the revenue was dedicated to creating new clean energy systems and reducing dependence on oil”

funding is limited; solar rebates on O‘ahu this year, for example, are being reduced from \$1000 per installation to \$800. Doubling the current amount of funding to the PBFA would make efficiency improvements more accessible and affordable to a greater number of Hawai‘i residents.

While some may believe it is best to wait to fully review the current PBFA before providing additional funding for the program, Blue Planet believes that it is best for this measure to set policy for the long term—that is, ample funding for energy efficiency programs for Hawai‘i residents and businesses. The PBFA is the most sensible place to direct oil tax funding to achieve immediate, measureable, verifiable, and accountable decreases in oil consumption.

Amendments

While we all likely agree that we need to aggressively increase our energy efficiency and clean energy use in Hawai‘i and decrease our reliance on imported crude, we cannot do it with funding for planning, implementation, development, and funding. House Bill 2421 wisely taps the source of our problem—imported oil—to fund clean energy programs.

Proposed amendments to HB 2421 follow. Blue Planet is happy to work with the Committee to develop appropriate language to accomplish that outcome.

Thank you for the opportunity to testify.

PROPOSED AMENDED LANGUAGE IN HB 2421

SECTION 4. Section 243-3.5, Hawaii Revised Statutes, is amended as follows:

1. By amending its title and subsection (a) to read:

"§243-3.5 Environmental response, energy, and food security tax; uses. (a) In addition to any other taxes provided by law, subject to the exemptions set forth in section 243-7, there is hereby imposed a state environmental response, energy, and food security tax of \$5.05 (five dollars and five cents) on each barrel or fractional part of a barrel of petroleum product sold by a distributor to any retail dealer or end user, other than a refiner, of petroleum product; provided that each barrel or fractional part of a barrel of petroleum product sold by a distributor to any retail dealer or end user, other than a refiner, of petroleum product that is aviation fuel shall be subject to a state environmental response, energy, and food security tax of 5 cents; provided further that of the tax collected pursuant to this subsection:

- (1) 5 cents of the tax on each barrel, including all tax revenues received under this section for the sale of aviation fuel shall be deposited into the environmental response revolving fund established under section 128D-2;
- (2) 100 cents of the tax on each barrel shall be deposited into the energy security special fund established under section 201-12.8;
- (3) 45 cents of the tax on each barrel shall be deposited into the energy systems development special fund established under section 304A-2169;

- (4) 100 cents of the tax on each barrel shall be deposited into the agricultural development and food security special fund established under section 141-18;
- (5) 100 cents of the tax on each barrel shall be deposited into the energy efficiency special fund established under section 269- ; and
- (6) 150 cents of the tax on each barrel shall be deposited into the general fund.

The tax imposed by this subsection shall be paid by the distributor of the petroleum product."

PROPOSED NEW LANGUAGE FOR HB 2421

SECTION XXX. Chapter 269, Hawaii Revised Statutes, is amended by adding a new section to be appropriately designated and to read as follows:

"§269- Energy Efficiency special fund; establishment. (a) There is established within the state treasury the energy efficiency special fund.

(b) The following shall be deposited into the special fund:

- (1) The portion of the environmental response, energy, and food security tax specified under section 243-3.5;
- (2) Any appropriation by the legislature into the special fund;
- (3) Any grant or donation made to the special fund; and
- (4) Any interest earned on the balance of the special fund.

(c) Subject to legislative appropriation, moneys in the special fund shall be expended by the public utilities commission for the same purposes as the public benefit fees collected pursuant to section 269-121.

SECTION XXX. Section 269-122, Hawaii Revised Statutes, is amended as follows:

§269-122 Public benefits fee administrator; establishment.

(a) The public utilities commission may contract with a third-party administrator, to operate and manage any programs established under section 269-121. The administrator shall not be deemed to be a "governmental body" as defined in section 103D-104[; provided that all moneys transferred to the third-party administrator shall be comprised solely of public benefit fees collected pursuant to section 269-121]. The administrator shall not expend more than ten per cent of the collected public benefits fees or legislative appropriations pursuant to section 269- in any fiscal year, or other reasonable percentage determined by the public utilities commission, for administration of the programs established under section 269-121.

(b) The public benefits fee administrator shall be subject to regulation by the public utilities commission under any provision applicable to a public utility in sections 269-7, 269-8, 269-8.2, 269-8.5, 269-9, 269-10, 269-13, 269-15, 269-19.5, and 269-28, and shall report to the public utilities commission on a regular basis. Notwithstanding any other provision of law to the contrary, the public benefits fee administrator shall not be an electric public utility or an electric public utility affiliate.