

STATE OF HAWAII
DEPARTMENT OF LAND AND NATURAL RESOURCES
Land Division
Honolulu, Hawaii 96813

October 12, 2018

Board of Land and Natural Resources
State of Hawaii
Honolulu, Hawaii

GL S-6110

Hawaii

**Consent to Sublease Under General Lease No. S-6110, Napu`u Water, Inc.,
Lessee/Sublessor, NWI Solar Project 1, LLC, Sublessee, for Solar Array
Purposes, Puuwaawaa, North Kona, Hawaii, Tax Map Key: (3) 7-1-001:010.**

APPLICANT:

Napu`u Water, Inc., a Hawaii corporation, as Lessee/Sublessor, to NWI Solar Project 1, LLC, a Hawaii limited liability company, as Sublessee.

LEGAL REFERENCE:

Section 171-36(a)(6), Hawaii Revised Statutes (HRS), as amended.

LOCATION:

Portion of Government lands situated at Puuwaawaa, North Kona, Hawaii, identified by Tax Map Key: (3) 7-1-001:010, as shown on the attached map labeled Exhibit A.

AREA:

1.743 acres, more or less.

TRUST LAND STATUS:

Section 5(b) lands of the Hawaii Admission Act
DHHL 30% entitlement lands pursuant to the Hawaii State Constitution: NO

LEASE CHARACTER OF USE:

Photovoltaic array system purposes.

SUBLEASE CHARACTER OF USE:

Installation, operation and maintenance of a photovoltaic array system purposes.

TERM OF LEASE:

55 years, commencing on July 1, 2017 and expiring on June 30, 2072. The first rental reopening is scheduled to occur on July 1, 2027.

TERM OF SUBLEASE:

25 years (25-year term with the option of 10 additional one-year extensions), commencing on date of notice to proceed (upon Board approval) and expiring 25 years later unless extensions are exercised. The decision on whether to extend will be based on the generating capacity of the system at that time.

ANNUAL LEASE RENTAL:

\$ 6,431.00.

ANNUAL SUBLEASE RENTAL:

\$ 6,431.00.

RECOMMENDED ADJUSTMENT TO LEASE RENTAL:

In accordance with the most recent Rent Participation Policy, approved by the Board at its meeting of August 24, 2012, item D-14, staff is recommending no adjustment to the lease rental. Refer to Exhibit B for calculations.

DCCA VERIFICATION:

SUBLESSOR: NAPU`U WATER, INC.

Place of business registration confirmed:	YES
Registered business name confirmed:	YES
Good standing confirmed:	YES

SUBLESSEE: NWI SOLAR PROJECT 1, LLC

Place of business registration confirmed:	YES
Registered business name confirmed:	YES
Good standing confirmed:	YES

REMARKS:

Napu`u Water, Inc. (Napu`u) is a non-profit, community based, private water system serving the local residents of Puuanahulu, Puu Lani Ranch and adjacent ranching areas of Puuwaawaa. Pursuant to Chapter 269-1, HRS, Napu`u is a public utility.

At its meeting of October 23, 2015, agenda item D-4, the Board approved a direct lease to Napu`u on the subject property for the purposes of developing a photovoltaic array system to provide electricity to power its water system.

Napu`u (lessee) has come to an agreement with NWI Solar Project 1, LLC (NWI) to have NWI install, operate and maintain a photovoltaic array system on the subject leased parcel adjacent and ancillary to its water system and is now requesting consent to this sublease of the land.

NWI will install 878 Neo Solar Power D6M-330-E4A panels with a total capacity rating of 289.7 kW. The expected output is an average of 301,516 kWh per year (ranging from 320,000kWh in year 1 to 283,729 kWh in year 25). The estimated initial costs of equipment and installation is \$500,000 and will be bore by NWI.

The power purchase agreement, negotiated between Napu`u and NWI, commits Napu`u to purchasing up to 320,000 kWh per year at a rate of \$0.20/kWh for an annual cost of up to \$64,000. Napu`u, while not obligated to, may purchase more power if it is available as its operations currently consume an average of 360,000 kWh annually.

NWI has negotiated net metering agreement with HELCO that allows storage of any excess power produced. The net metering agreement does not result in any financial gain as it allows for storage of generated power only, which can be accessed by NWI anytime within the 12 month metering agreement period.

Staff applied the formula from the Department's most current Rent Participation Policy and based on the calculations is recommending that no adjustment to the rent is warranted. Refer to Exhibit B for details.

The lessee is utilizing the land for the original purpose of the lease. The sublease allows the lessee to reduce its operating costs while also reducing its carbon footprint upon the environment. The sublessee is a necessary component of the system as it provides the initial capital outlay that the non-profit lessee could not accommodate and assumes the risk of operations, maintenance and repair during the sublease term.

Lessee/Sublessor is in compliance with all lease terms and conditions.

During the environmental assessment process, various government agencies and interest groups were solicited for comments. No objections were received from the respondents. The Final Environmental Assessment was published in the OEQC's Environmental

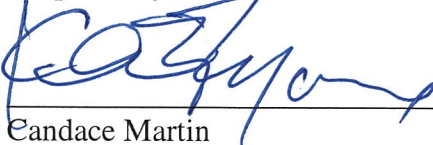
Notice on February 23, 2015, pursuant to Section 343-3, HRS.

RECOMMENDATION:

That the Board consent to the sublease under General Lease No. S-6110 between Napu`u Water, Inc., as Sublessor, and NWI Solar Project 1, LLC, as Sublessee, subject to any applicable conditions cited above which are by this reference incorporated herein and further subject to the following terms and conditions:

1. The Lessee shall submit construction plans of the Sublessee's improvements to the Land Division for the Chairperson's approval prior to constructing any improvements on the demised premises;
2. The standard terms and conditions of the most current consent to sublease form, as may be amended from time to time;
3. Review and approval by the Department of the Attorney General; and
4. Such other terms and conditions as may be prescribed by the Chairperson to best serve the interests of the State.

Respectfully Submitted,


+ Candace Martin
Land Agent

APPROVED FOR SUBMITTAL:

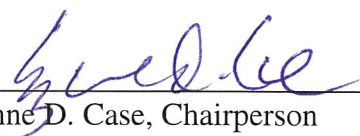

Suzanne D. Case, Chairperson

EXHIBIT A



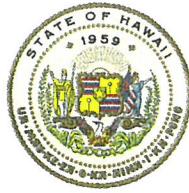


EXHIBIT B

**STATE OF HAWAII
DEPARTMENT OF LAND AND NATURAL RESOURCES
LAND DIVISION**

75 Aupuni Street, Room 204
Hilo, Hawaii 96720
PHONE: (808) 961-9590
FAX: (808) 961-9599

September 18, 2018

MEMORANDUM

TO: Suzanne D. Case, Chairperson

THROUGH: Russell Y. Tsuji, Division Administrator

FROM: Candace Martin, Land Agent

SUBJECT: In-House Recommendation – Sublease Participation Calculation

GL No.:	S-6110
Lessee/Sublessor:	Napu`u Water, Inc.
Sublessee:	NWI Solar Project 1, LLC
Location:	Puuwaawaa, North Kona, Hawai'i
Lease area:	1.743 acres
Sublease Area:	1.743 acres
Tax Map Key:	(3) 7-1-001:010
Character of Use:	Installation, operation and maintenance of a photovoltaic array system purposes

We have been requested to provide an in-house evaluation of the sublease premium due to the State for the subleasing of GL S-6110, Napu`u Water, Inc., Lessee/Sublessor to NWI Solar Project 1, LLC, Sublessee. The sublease document, power purchase agreement and information provided by lessee/sublessor were analyzed and staff applied the formula approved by the Land Board on January 26, 2001, agenda item D-8, and modified by the Board at its meeting on August 24, 2012, agenda item D-14, comprising the most current Sublease Rent Participation Policy.

Napu`u Water, Inc. (Napu`u) is a non-profit, community based, private water system serving the local residents of Puuanahulu, Puu Lani Ranch and adjacent ranching areas of Puuwaawaa. Pursuant to Chapter 269-1, HRS, Napu`u is a public utility and as such the State entered into a direct negotiation lease commencing on July 1, 2017 for the subject unimproved lands. Napu`u was required to perform an Environmental Assessment and subdivision of the subject parcel at a cost of ~\$30,000. The purpose of the lease is to provide unimproved land where installation of a ground mounted photovoltaic system array can be located. The photovoltaic system is ancillary

to the operations of the water system and is capable of generating enough electricity to meet the needs of the water system.

Fair market rent was determined, by independent appraisal, at \$6,431.00 annually with the first rent reopening scheduled to occur on July 17, 2027. The sublease rent is equal to the lease rent. The term of the sublease is 25 years with an option for 10, one-year extensions at Napu'u Water, Inc.'s discretion. The decision of whether to extend the sublease will be determined by the generating capacity at that time.

The lessee/sublessor will purchase power from the sublessee at a rate of \$0.20/kWh up to 320,000 kWh per year, which is \$0.19/kWh less than the current HELCO rate. The expected output of the photovoltaic array is estimated to be 301,516 kWh annually (ranging from 320,000kWh in year 1 to 283,729 kWh in year 25). This can generate ~\$60,000 of annual income to the sublessee. Initial system costs are estimated to be \$500,000 with annual operation and maintenance costs being undetermined.

It is noted that the lessee/sublessor will realize a substantial cost savings in electricity over time, which was the prime motivator in pursuing the lease. The environmental benefit of removing 300,000 kWh of electrical demand from the fossil-fueled electrical grid has not been quantified.

Further, the sublessee will more than likely realize a robust return on its investment. However, the financial return on investment will be realized over 25 years and the risks associated with the uncertainty of the system's production capabilities (and thus financial return) over the long term justify the potential profit margin.

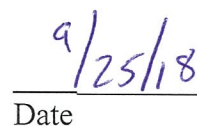
SUBLEASE PROFIT CALCULATIONS: GL No. S-6110

Annual Sublease Ground Rent	\$ 6,431.00	
LESS Annual Lease Ground Rent	- 6,431.00	
Additional Annual Rent	\$ --0.00--	--0.00--
Multiplied by 50%		x 50%
Additional Annual Rent Due DLNR		\$ --0.00--

Based on the formula indicated in item 1a¹ of the most current Rent Participation Policy, no additional annual rent is due to the State.

Approved/Disapproved:


Suzanne D. Case, Chairperson


Date

¹ For lessees paying fair market rent: If the lessee subleases unimproved lands, the Board shall revise the rent to include as additional rent, 50% of that portion of the sublease rent in excess of the original ground rent paid to the State.