

STATE OF HAWAII
DEPARTMENT OF LAND AND NATURAL RESOURCES
Land Division
Honolulu, Hawai'i 96813

December 13, 2024

Board of Land and Natural Resources
State of Hawai'i
Honolulu, Hawai'i

Hawai'i Island

- A. Continuation of Revocable Permits for Water Use on the Island of Hawai'i.
See **Exhibit A** for list of Revocable Permits;
- B. Amend Revocable Permit S-7432 to Edmund C. Olsen, Trustee of the Edmund C. Olsen Trust No. 2 to acknowledge Paul Alston as Successor Trustee of the Edmund C. Olsen Trust No. 2; and clarify that the Keaiwa Reservoir (and access thereto) is included in the revocable permit; and
- C. Issuance of a Revocable Permit for Water Use to Moa`ula Farms Owners Association, Inc. for Irrigation and Ancillary Agricultural Purposes from the Moa`ula Gulch Tunnel, Ka`u Forest Reserve, Island of Hawai'i, Tax Map Key (3) 9-6-006:010.

LEGAL AUTHORITY:

Section 171-55, Hawaii Revised Statutes (HRS), as amended.

HRS CHAPTER 343 – ENVIRONMENTAL ASSESSMENT:

In accordance with the Exemption List for the Department of Land and Natural Resources, reviewed and concurred by the Environmental Council on November 10, 2020, the subject action is exempt from the preparation of an environmental assessment pursuant to General Exemption Type 1, "Operations, repairs, or maintenance of existing structures, facilities, equipment, or topographical features, involving minor expansion or minor change of use beyond that previously existing.", Part 1, Item 44, "Permits, licenses, registrations and rights-of-entry issued by the Department that are routine in nature, involving negligible impacts beyond that previously existing." The proposed actions are de minimis actions that will probably have minimal or no significant impact on the environment and should be declared exempt from the preparation of an environmental assessment and the requirements of § 11-200.1-17, HAR.

BACKGROUND

The current submittal seeks approval for the continuation of revocable permits for water use on the island of Hawai'i for the year 2025 on a temporary basis that will allow the applicants to continue to work in good faith with the Department to complete the requirements of the water leasing process. The submittal also includes a status update and additional discussion, including any staff recommendations to the Board.

DISCUSSION

For the island of Hawai'i, approval is requested to continue five water permits. RP S-7463, is issued to Hawai'i Electric Light Co., Inc. (HELCO) for hydroelectric power generation purposes on the Wailuku River in South Hilo, Hawai'i. The permit requires all water used under the permit to be returned to the Wailuku River at convenient points. The hydroelectric facility and various water dispositions to allow it to operate have been in place for many decades. At its meeting on August 12, 2022 under agenda item D-2, the Board approved the sale of a license at public auction for the non-consumptive use of water from the Wailuku River, Island of Hawaii, for hydroelectric generation purposes and accepted the proposed Wailuku Watershed Management Plan. The Board received both oral and written testimony from the Department of Hawaiian Home Lands (DHHL). During the meeting, DHHL verbally requested a contested case. Following an executive session, the Board voted to deny the request for contested case and proceeded to approve staff's recommendation. On August 22, 2022, the Department received DHHL's written request for contested case. At its meeting on December 9, 2022, under agenda item D-7, the Board denied DHHL's request for contested case. Staff has worked with the Attorney General to finalize the water license document and is currently working on the public auction documents. After working with the Attorney General on revisions to the public auction documents, Staff intends to schedule the public auction for early 2025.

The other four revocable permits are located in Ka'u, Hawai'i, and the permittees are smaller diversified agriculture users. Previously, Hawaiian Agricultural and Hutchinson Sugar Company, both subsidiaries of C. Brewer & Co., Ltd., developed a system of tunnels, flumes and ditches in Ka'u in the 1900s, using the water primarily for fluming sugarcane and for wash water in the mills. Beginning in the late 1990s, some of the tunnels and transportation systems were converted to provide water to farmsteads and diversified crop endeavors. Diversified agriculture, livestock pasturage, orchard and field crops have expanded within the Ka'u District since that time.

The five revocable permits are as follows:

1. RP S-7054 to Kapapala Ranch for watering livestock purposes.
2. RP S-7267 to Wood Valley Water & Farm Co-op for public drinking water, irrigation and watering livestock purposes.
3. RP S-7426 to Kuahiwi Contractors, Inc. for watering livestock purposes.

4. RP S-7432 to Edmund C. Olson, Trustee of the Edmund C. Olson Trust No. 2 for irrigation and watering livestock purposes.
5. RP S-7918 to Ka`u Mahi, LLC for ancillary agricultural and irrigation purposes.

Upon the completion of the public auction for the Wailuku River hydropower water license, staff intends to work with these permittees on bringing these dispositions to public auction. The outstanding requirements are the development of the watershed management plan, determination of the upset rent by appraisal and compliance with Chapter 343, HRS.

For RP S-7432, the Board is requested to amend the RP to acknowledge Paul Alston as the successor trustee of the Edmund C. Olsen Trust No. 2; and clarify that the Keaiwa Reservoir (and access thereto) is included in the revocable permit. The Permittee has informed Staff that the current trustee, Edmund C. Olsen is now deceased, and Paul Alston is the successor trustee. The issue of responsibility for the maintenance of the reservoir came up in discussions with DLNR Dam Safety as to repairs to the reservoir needed to bring the structure into compliance with dam safety regulations. Keaiwa Reservoir is located on Tax Map Key (3) 9-6-007:002, which is the same parcel covered under RP S-7432. However, RP S-7432 is not explicit as to whether the reservoir is included as part of the RP.¹ Nevertheless, Land Division's position is that the reservoir is included in the RP since it was the intent of both the Board and Permittee to include the reservoir in the RP. The Permittee has used the reservoir exclusively for its benefit, including conducting prior repair and maintenance. Furthermore, the Department did not use nor reserve any rights to the reservoir and has no interest in retaining the reservoir.

For RP S-7918, the Board approved a revocable permit to Ka`u Mahi for their use of water from the Moa`ula Gulch Tunnel located on Tax Map Key (3) 9-6-006:010 within the Ka`u Forest Reserve. The Permittee has requested that RP S-7918 be cancelled and a new RP for the same water use and terms and conditions to be issued to Moa`ula Farms Owners Association, Inc. ("Applicant"). The Permittee has sold its interests in the lands benefitted by RP S-7918 to individual lot owners who are all members of the Applicant.

Under RP S-7918, the water is used for ancillary agricultural purposes² and irrigation for initial crop plantings but the amount of water is not sufficient for regular irrigation purposes. The Applicant does not foresee any changes to the current use of water under the new revocable permit. Therefore, as a housekeeping measure, staff recommends that RP S-7918 be allowed to expire on December 31, 2024, and the Board approve a new revocable permit be issued to the Applicant under the same terms and conditions of the current RP S-7918, effective January 1, 2025. As the water is used in a manner consistent with past agricultural uses, staff recommends that the Board declare that the new revocable permit is exempt from the preparation of an environmental assessment. Staff also

1 The RP purpose is stated as "Development, diversion and use of water from the Noguchi and other ancillary tunnels within the Kau Forest Reserve that feed the Noguchi Tunnel irrigation system that begins at the Noguchi Tunnel and *terminates at the Keaiwa Reservoir*".

2 Such ancillary uses include hand washing or cleaning equipment, stock water for cattle and horses and mixing crop protection chemicals.

recommends that the revocable permit rent be set at \$51.21 per month, which is consistent with the proposed 2025 rent for RP S-7918. Applicant is in good standing with the Department of Commerce and Consumer Affairs.

As part of its approval for 2024, the Board authorized the adjustment of revocable permit rent to account for CPI. The 2024 revocable permit rents are as follows:

RP S-7054 (Kapapala Ranch)	\$50.38 per month or \$9.94 per million gallons (whichever is greater)
RP S-7267 (Wood Valley Water & Farm Co-op)	\$50.38 per month or \$8.13 per million gallons (whichever is greater)
RP S-7426 (Kuahiwi Contractors, Inc.)	\$116.87 per month
RP S-7432 (Edmund C. Olson, Trustee of the Edmund C. Olson Trust No. 2)	\$50.38 per month or \$7.46 per million gallons (whichever is greater)
RP S-7463 (HELCO)	\$2,290.13 per month
RP S-7918 (Ka`u Mahi)	\$49.77 per month

Adjusted for CPI calculated from October 2023 to October 2024 (2.9%), the recommended 2025 rents are as follows:

RP S-7054 (Kapapala Ranch)	\$51.84 per month or \$10.29 per million gallons (whichever is greater)
RP S-7267 (Wood Valley Water & Farm Co-op)	\$51.84 per month or \$8.37 per million gallons (whichever is greater)
RP S-7426 (Kuahiwi Contractors, Inc.)	\$120.26 per month
RP S-7432 (Edmund C. Olson, Trustee of the Edmund C. Olson Trust No. 2)	\$51.84 per month or \$7.68 per million gallons (whichever is greater)
RP S-7463 (HELCO)	\$2,356.54 per month
Moa`ula Farms Owners Association, Inc. (Proposed)	\$51.21 per month

Public Trust Doctrine and Carmichael Analysis

Title to water resources is held in trust by the State for the benefit of its people. Pursuant to *In re Water Use Permits*, 94 Hawaii 97, 9 P.3d 409 (2000) (*Waiāhole I*), and *In re*

Wai'ola O Moloka'i, Inc., 103 Hawai'i 401, 83 P.3d 664 (2004) the Hawai'i Supreme Court has identified four public trust purposes with respect to water:

1. Maintenance of waters in their natural state;
2. Domestic water use of the general public, particularly drinking water;
3. The exercise of Native Hawaiian and traditional and customary rights, including appurtenant rights; and
4. Reservations for Hawaiian home lands.

In addition, the Courts have indicated that the “dual mandate” of the public trust not only calls for the protection of water resources, but also requires the Board to promote the reasonable and beneficial use of water resources in order to maximize their social and economic benefits to the people of this state. *Waiāhole I*, 94 Hawai'i at 139, 141, 9 P.3d at 451, 453 (“The public has a definite interest in the development and use of water resources for various reasonable and beneficial public and private offstream purposes, including agriculture.”). In order to satisfy its public trust obligations, the Board must balance the proposed use of water against the foregoing public trust purposes, as well as competing uses.

Of these four purposes, domestic water use is implicated in RP S-7267 to Wood Valley Water and Farm Cooperative. The remaining revocable permits are for agricultural use or hydroelectric power generation. In addition to its public trust duties, the Board also has a constitutional duty to promote diversified agriculture. With respect to the agricultural use of water, the Hawai'i Constitution provides:

The State shall conserve and protect agricultural lands, promote diversified agriculture, increase agricultural self-sufficiency and assure the availability of agriculturally suitable lands.

Hawai'i Constitution, Article XI, Section 3.

The public lands shall be used for the development of farm and home ownership on as widespread a basis as possible, in accordance with procedures and limitations prescribed by law.

Hawai'i Constitution, Article XI, Section 10.

Pursuant to the Hawaii Supreme Court's ruling in *Carmichael v. Board of Land and Natural Resources*, the Board may allow the revocable permits to continue on a month-to-month basis for additional one-year periods. However, a decision by the Board to continue the subject revocable permits must demonstrate that such a decision is made in

consideration of the “best interests of the State”, as required in section 171-55, Hawaii Revised Statutes (HRS),³ which states:

“Notwithstanding any other law to the contrary, the board of land and natural resources may issue permits for the temporary occupancy of state lands or an interest therein on a month-to-month basis by direct negotiation without public auction, under conditions and rent which will **serve the best interests of the State**, subject, however, to those restrictions as may from time to time be expressly imposed by the board. A permit on a month-to-month basis may continue for a period not to exceed one year from the date of its issuance; provided that the board may allow the permit to continue on a month-to-month basis for additional one year periods.”

(Emphasis added.)

In staff's view, making irrigation water available to farmers and ranchers supports the long-term viability and security of local agricultural operations, and is both in the best interest of the State and critical to the State's compliance with the constitutional mandates of Article XI. It also allows for the local production of food, supporting the goal of food sustainability and food security for Hawai'i. It may also translate into lower prices for consumers when produce does not have to be shipped to Hawai'i from outside of the state. Any tension between identified public trust uses of water and the constitutional mandates above will be resolved in the process of issuing water leases, because Section 171-58, HRS, requires the joint development of a water reservation to support current and future DHHL homestead needs.

For the agricultural users on the island of Hawai'i, the only apparent alternative would be to leave the water in its natural state, with no diversion. However, the amount of water diverted is minimal, especially in comparison to the available amount of water. The permittees collectively use less than 1 mgd, against a sustainable yield of the source aquifer at over 100 mgd. Furthermore, the Ka'u permittees are diverting groundwater, not surface water. Also, the permittees are working in good faith to convert their revocable permits to long term leases. In view of these considerations, staff believes that allowing the revocable permits to continue on a temporary basis in support of the State's agricultural goals is consistent with the public trust.

The hydroelectric use of water allows utility companies to provide clean energy to domestic and commercial users and furthers the State's renewable energy goals set forth in Act 95, Session Laws of Hawaii 2015. This method of energy production also supports Hawaii's Clean Energy Initiative, which sets goals for the state to achieve 100 percent clean energy by 2045 coming from locally generated renewable sources. Although hydroelectric projects are not an identified public trust use of State waters, the public trust concerns will be addressed by the completion of the requirements under Section 171-58, HRS.

³ The Court noted that the Board may continue revocable permits for the temporary use of water pursuant to Section 171-55, HRS.

The use of water under RP S-7463⁴ is non-consumptive, which returns the diverted water to the same stream source from which it was drawn. The Board has already approved the public auction in this matter and staff intends to move forward with the public auction process pending the resolution of DHHL's contested case request. In view of these considerations, staff believes that allowing the revocable permits to continue on a temporary basis in support of the State's renewable energy goals until the public auction is completed and a long-term license is executed is in the best interest of the State and consistent with the public trust.

Furthermore, staff notes that all but one of the permits subject to this action involved the use of groundwater well below the sustainable yield of the aquifer. The single permit that involves the use of surface water is of a non-consumptive nature. Therefore, staff believes that any impact of the permits to other public trust uses of water is minimal.

Finally, continuation of the revocable permits pursuant to staff's recommendations would be consistent with legal requirements that they be temporary and under such conditions and rent which serve the best interest of the State. All of the permittees have taken steps to convert their permits to long term leases, including working with the Department and DHHL regarding DHHL's water reservations, seeking or obtaining an IIFS determination from CWRM, and complying with Chapter 343, HRS, including conducting environmental studies where appropriate.

RECOMMENDATION: That the Board:

1. Declare that, after considering the potential effects of the proposed dispositions as provided by Chapter 343, HRS, and Chapter 11-200.1, HAR, the proposed actions is a de minimis action that will probably have minimal or no significant impact on the environment and should be declared exempt from the preparation of an environmental assessment and the requirements of § 11-200.1-17, HAR.
2. Find that the continuation of the revocable permits listed in Exhibit A is consistent with the public trust doctrine;
3. Based on the testimony and facts presented, find that approving the revocable permits, under the conditions and rent forth herein, would serve the best interests of the State;
4. Subject to the terms and conditions noted in this submittal, approve the continuation of the subject revocable permits listed in Exhibit A at the rent set forth above on a month-to-month basis effective January 1, 2025, for another one-year period through December 31, 2025;
5. Amend Revocable Permit S-7432 to Edmund C. Olsen, Trustee of the Edmund C. Olsen Trust No. 2 to acknowledge Paul Alston as the successor trustee of the Edmund C. Olsen Trust No. 2; and clarify that the Keaiwa Reservoir (and access

⁴ HELCO's water RP at Wailuku River mentioned above.

thereto) is included in the revocable permit; and

6. Approve the issuance of a Revocable Permit for Water Use to Moa'ula Farms Owners Association, Inc. for irrigation and ancillary agricultural purposes from the Moa'ula Gulch Tunnel, Ka'u Forest Reserve, Island of Hawai'i, Tax Map Key (3) 9-6-006:010, under the terms and conditions cited above, which are by this reference incorporated herein and further subject to the following:
 - a. The standard terms and conditions of the most current revocable permit form, as may be amended from time to time;
 - b. Review and approval by the Department of the Attorney General; and
 - c. Such other terms and conditions as may be prescribed by the Chairperson to best serve the interests of the State.

Respectfully Submitted,



Ian Hirokawa
Special Projects Coordinator

APPROVED FOR SUBMITTAL:



Dawn N.S. Chang, Chairperson

RT

Revocable Permits for Water on Hawaii Island

Permittee	Location	Proposed Use of Water	Consumptive or Non-consumptive	Proposed 2025 Monthly Rent
HAWAII ELECTRIC LIGHT CO., INC. (RP7463)	South Hilo, Hawaii; (3) 2-6-009	Hydroelectric power generation.	Non-consumptive, except for system losses	\$2,356.54 per month
KAPAPALA RANCH (RP7054)	Kau, Hawaii; (3) 9-8-1:3,9,10; 9-7-1:1	Watering livestock and wildlife.	Consumptive	\$51.84 per month or \$10.29 per million gallons (whichever is greater)
KUAHIWI CONTRACTORS, INC. (RP7426)	Kau, Hawaii; (3) 9-7-1:1,15	Watering livestock.	Consumptive	\$120.26 per month
OLSON, TRUSTEE, EDMUND C. (RP7432)	Kau, Hawaii; (3) 9-6-6; 9-6-7; 9-6-8; 9-7-1	Irrigation and watering livestock.	Consumptive	\$51.84 per month or \$7.68 per million gallons (whichever is greater)
WOOD VALLEY WATER & FARM COOPERATIVE (RP7267)	Kau, Hawaii; (3) 9-7-001:001	Public drinking water, irrigation and watering livestock.	Consumptive	\$51.84 per month or \$8.37 per million gallons (whichever is greater)
MOA`ULA FARMS OWNERS ASSOCIATION, INC. (Proposed)	Kau, Hawaii; (3) 9-6-006:010	Ancillary agricultural and irrigation.	Consumptive	\$51.21 per month

EXHIBIT A