

NELHA searches for identity as it strives to be self-sufficient

By Clynton Namuo

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A state-run science and technology park sprawled over 870 acres of lava fields and wasteland south of the Kona International Airport still seeks an identity after 31 years as it tries to become self-sufficient.

The Natural Energy Laboratory of Hawaii Authority is a mixture of biotechnology, agriculture and manufacturing companies, with no single industry or business dominating. Its most profitable tenant bottles deep seawater to sell to the Japanese.

There are 33 companies on the NELHA property employing about 340 people.

Despite a lack of identity and marketing resources, the science park is pushing forward with plans to become self-sufficient and increase revenue.

NELHA has seen many fluctuations over its three decades as its tenants shift in and out of profitability. While tenants say they contribute to Hawaii's economy like no other companies in the state can -- providing unique economic opportunities in advanced fields such as biotechnology -- that has not been reflected in NELHA's bottom line. The state poured almost \$600,000 into NELHA in fiscal year 2004 and has a goal of reducing that subsidy each year. It gave NELHA about \$350,000 in fiscal 2005 and has earmarked \$168,000 for fiscal 2006.

NELHA's biggest selling point has always been the ocean water it provides tenants, pumped from the surface as well as from cold depths of 2,000 to 3,000 feet. Tenants use the water for anything from raising fish to growing algae to desalinating and bottling it for sale.

NELHA has never lacked for ideas on how to best utilize the seawater to make money, including manufacturing and growing algae as biomass and converting it into energy.

"The future of NELHA rests in bringing in other tenants that are doing things other than food," said Executive Director Ron Baird.

With no other place in the world pumping water from those depths, NELHA offers something no other entity can. But providing seawater is not the same as providing a vision. With no clear picture of what kind of tenants to attract and how best to target marketing efforts, it has been left with about half its space unleased.

To increase revenue, NELHA is relying once again on its most valuable asset -- seawater.

The money NELHA receives from tenants for seawater is by far its largest source of revenue, vastly outpacing rents.

Businesses pay varying rates for the ocean water, including higher prices for the deep seawater than for surface water, but on average it costs companies 11 cents per 1,000 gallons. The NELHA board wants to raise that rate to about 16 cents per 1,000 gallons for aquaculture tenants to help cover the cost of actually delivering the water.

That price does not include the cost of building and maintaining the seawater pumps. Commercial industrial tenants, which at this point are just the ocean-water bottling companies, will see their water delivery rates skyrocket if the NELHA board, as expected, increases the rate to about 60 cents per 1,000 gallons.

Some tenants say they were blindsided by the rate increases. NELHA's board initiated discussion of the increases at its June 21 meeting with no warning and without posting the increases on its agenda. It was scheduled to approve the increases at its July 19 meeting, but delayed action after it was noted that it again had been left off the agenda, a violation of NELHA procedures. The board is expected to enact the rate increases at its next meeting on Aug. 16.

"Tenants were very upset when the initial proposed rate increases were approved by the board," said Gerry Cysewski, president of the Keahole Point Association, NELHA's tenants association.

Difficult to plan

Cysewski says NELHA tenants find it difficult to plan for the future, given the park's lack of vision and uncertainty over rates.

"One thing that is an uncertainty for a number of tenants is the fact that everything seems to be in flux," he said.

Yuan Wang, president of Moana Technologies, said that while he understands why rate increases are necessary, NELHA should not be making a profit.

"We are concerned about where sustainability and profitability break," he said.

Cysewski, who also is president and CEO of Cyanotech Corp., said that as a state agency NELHA should take its tenants' overall economic impact into account, which he said is substantial.

"NELHA is a success because of the great economic contribution made by the tenants, and we need to preserve that," he said.

But Baird says costs have been climbing steadily and must be passed on to tenants. He noted, for example, that energy costs last year totaled \$800,000 -- \$300,000 more than projected. He said the board decided years ago to recoup the costs of water delivery and is now in the middle of implementing a policy to increase rates by 20 percent each year until costs are covered.

Baird added that the rate increases are not intended to generate profits.

"NELHA has been directed to become self-sufficient," he said.

The key to NELHA's future success may lie in which tenants become most profitable.

Initial intent changed

When the state built the park in 1974, it was envisioned as a place to create renewable energy, using a system called ocean thermal energy conversion. It would generate electricity using the temperature differences between cold deep seawater and warmer surface water.

But NELHA has changed markedly from its initial intent. The renewable energy that was meant to be a solution to the oil crisis of the 1970s no longer made sense after crude prices dropped. Instead, the deep seawater itself became a commercial resource.

As companies flocked to use the tech park's seawater for various products, a shift toward biotechnology occurred in the 1990s as publicly traded companies such as Cyanotech and Mera Pharmaceuticals, which both make products out of microalgae, expanded with the technology bubble. At one point, Cyanotech's stock value hit \$15 per share. Today it's worth about \$1.

NELHA's most recent money-making venture is the desalination and bottling of deep seawater for export to Japan. In August 2003, Koyo USA became the first company to desalinate, bottle and export deep seawater to Japan from its \$10 million NELHA plant. The deep seawater, already popular in Japan, became an instant hit and Koyo constructed a second bottling plant, at a cost of \$33 million, to produce its Ma Ha Lo brand water.

Last year, Koyo made \$60 million, far more than Cyanotech, whose revenues were about \$15 million. Cyanotech is NELHA's largest land tenant, leasing 90 acres. Koyo currently leases 30 acres.

Koyo's success is reflected in its immaculate buildings and modern offices. Its conference room has furniture reminiscent of modern art with a large photograph of the company's CEO on the wall. The fact that it's a Japan-based company is evident in all its promotional materials, which not only are in Japanese but have diagrams with stick figures that are distinctly Japanese.

Koyo's deep seawater is so popular that it is constructing a third bottling plant, at a cost of \$33 million, to substantially increase production. It produces about 300,000 bottles per day, but with the third plant, set to begin production in July 2006, it will be able to produce nearly 1 million bottles per day. That will enable Koyo to expand sales to the United States.

The one thing holding Koyo back right now may actually be the Kawaihae Harbor, said Hiroshi Usami, general manager of Koyo's NELHA facility. He said the harbor may not be able to handle the increased capacity once Koyo increases production.

"Port improvement is key, otherwise we may have to go to Hilo," he said.

NELHA's newest tenant, Physics, Materials, & Applied Mathematics Research LLC, will be testing remote-operated vehicles and just signed its lease this week.

More interested companies

Koyo's success has attracted five other companies that would use the deep seawater as a beverage, although only one, Deep Sea Water International, has actually begun production. The water companies will be able to provide a large revenue stream to NELHA if its water delivery rates are increased, though Baird says that right now water bottling companies use only about 5 percent of the seawater NELHA pumps.

Koyo isn't the only company expanding. Both Mera, formerly known as Aquasearch, and Cyanotech have new plans for their microalgae supplements.

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