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Who should own the electric company?

As a Florida-based utility seeks to take control of HEI, those who want a different option see an opportunity for a customer-owned energy cooperative

By Vicki Viotti

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Historically, Hawaii residents have felt powerless where electric power is concerned — most are customers of Hawaiian Electric Industries (HEI) subsidiaries, all privately owned utilities. But history has been changing.

The advance of solar photovoltaic (PV) technology has offered the lure of independence to those who can afford it. Even those who can't might have a way to own a piece of their own power generation through community solar projects, a program proposed in House Bill 484 and Senate Bill 1050 (see story, Page E4).

But it's the truly customer-owned model, the cooperative, that has been the buzzword lately.

"There have been a number of people on this island talking about this for some time," said Marco Mangelsdorf, spokesman for the Hawaii Island Energy Cooperative. "But the crystallizing event that got a lot of people thinking was the proposed merger between HEI and NextEra."

The state with the highest fuel costs in the country — and thus the highest electricity rates — is dependent to an enormous extent on the import of oil, a commodity with extremely volatile prices. The dominant players have been HEI's Hawaiian Electric Co., Maui Electric Co. and Hawaii Electric Light Co. (HELCO), the latter serving Hawaii island.

The NextEra deal is the subject of a pending review by the state Public Utilities Commission. Mangelsdorf's group is a newly formed cooperative wanting status as an intervenor in that review; it is among 28 interested parties asking the PUC to formally be a part of its decision.

Mangelsdorf acknowledged that HELCO is not for sale, but the group wants a front-row view of the PUC action, as preparation in case a buyer ever is sought.

"It became clear to us that if we are going to get a seat at the table, the time would be now," Mangelsdorf added. "That's where the main game is being played now."

The co-op members — as well as consumers statewide — have been watching the precedent set by Kauai. In 2002, the Connecticut-based Citizens Communications Co. sold its subsidiary Kauai Electric Co. to the Kauai Island Utility Cooperative (KIUC), which is a nonprofit owned by its customers. Whenever there's a revenue surplus, it is reinvested in the co-op or rebated to the ratepayer/members.

The company has a current operating budget of $178 million, with total assets of $327.1 million, said Jan TenBruggencate, chairman of the KIUC board.

It employs 151 people, a 10 percent cut since 2008 when the board saw the need to reduce costs. But there's progress, too, he added: About 27 percent of the original loan of $215 million has been paid off, all equity owned by the customers.

At the time of the purchase, Kauai residents paid the highest electric rates in the state; in recent months, TenBruggencate said, they've dropped below rates paid on Maui and Hawaii. Oahu's economies of scale give HECO that advantage, he said.

Utility cooperatives were pioneered nationally in the 1930s with the help of the federal government, which sought to get the broad expanses of rural America electrified despite their sparse population and customer base.

The National Rural Electric Cooperative Association is the national service organization representing about 900 of the nonprofit businesses, all governed by their "consumer-members." Federal regulations require them to have "democratic governance," according to the association, and to operate at cost.

Consumer-members can elect local boards to provide oversight. And the co-op is required, in most cases, to return to consumer-members any revenue above what is needed to cover operational expenses.

These co-ops still have the benefit of federal loan assistance, through the U.S. Department of Agriculture's Rural Utilities Service. And because of population growth, some areas are no longer rural. There are also nonprofit finance institutions, such as the National Rural Utilities Cooperative Finance Corp., that provide loans; this was the entity that financed KIUC.

Jasper Schneider, USDA's acting administrator of the Rural Utilities Service, said in an e-mail statement to the Star-Advertiser that the model is used by a "wide range of businesses in both rural and urban areas."

For example, he said, the Northern Virginia Electric Cooperative near metropolitan Washington, D.C., used a $90 million USDA loan to help build a biomass facility, which produced both electricity and jobs.

"The project illustrates how natural resources in rural areas can help meet the energy needs of more developed, densely populated areas and contribute to rural economic growth," Schneider added.

One person who is very interested in the changing landscape is state Rep. Cynthia Thielen. Even though Oahu is not positioned for such an option, Thielen doesn't think Oahu should be excluded from the discussion.

"Oahu is not too big to become its own stand-alone energy co-op," Thielen said. "The major flaw is, in today's era we should not have a monopoly utility beholden to its shareholders. We need to look at what better model we should have."

Thielen has been a champion for renewable energy for years, but this session the Republican legislator from Kailua introduced House Bill 3. The bill would require the University of Hawaii to consult with the state Department of Business, Economic Development and Tourism on a study gauging "the benefits of establishing public electric utilities in the state that are publicly owned."

The alternatives, according to the bill, include co-ops "that are owned by the customers" such as KIUC, as well as municipal utilities and "the establishment of a public power district, which is created with the specific legislative intent to take over territory being served by privately-owned public utilities."

The bill did not get a hearing — not unusual for a measure introduced from the minority caucus in a Legislature dominated by Democrats. But Thielen is encouraged by small steps toward the distribution of power generation to small entities and individuals, from those who install their own PV to participants in community projects; she supports HB 484, which aims to create a community-based renewable-energy system.

"Control of the market is what has driven people away into PV," she said, "so we don't need the control by a single entity."

Even advocates of co-ops will affirm that they don't represent a panacea, and they come with their own set of challenges. KIUC has navigated through two member-initiated disputes of board decisions, related to the installation of "smart meters" enabling control of energy use by individual customers and a contractor hired to study hydroelectric resources, TenBruggencate said.

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"We have had to understand what it is to be a cooperative," he said. "We've had to learn how best to communicate with our membership; that's been the sometime-rocky learning experience."

Larger areas can have capital needs best met by sources available to a private corporate utility, he said.

"But the sources available to us are absolutely appropriate to our needs," TenBruggencate added.

"All in all, the record shows it's been a benefit to our members," he said. "We've returned $40 million to our members, which otherwise would have gone to off-island investors."