

Could an energy co-op be a viable alternative to NextEra-HEI merger?

By CHRIS D'ANGELO
Hawaii Tribune-Herald

The pending \$4.3 billion sale of Hawaiian Electric Industries to Florida-based NextEra Energy has put Hawaii Island's energy future at a crossroads.

The two paths being discussed: Takeover by a mainland-based, investor-owned corporation, or public, local ownership in the form of a cooperative.



HIEC Director Marco Mangelsdorf and President Richard Ha
HOLLYN JOHNSON/Tribune-Herald

While HEI — the parent company of Hawaii Electric Light Co. on the Big Island — and NextEra continue to work their way through the regulatory acquisition process, those exploring the idea of public ownership are looking at an example at the end of the state — Kauai.

“I mean, getting a check in the mail from time to time from the utility company. What’s not to like about that?” Marco Mangelsdorf, president of ProVision Solar and director of the newly formed nonprofit Hawaii Island Energy Cooperative, said in an email.

In 1999, a group of Kauai leaders teamed together to form the nonprofit Kauai Island Utility Cooperative. Three years and one failed purchase attempt later, it successfully bought Connecticut-based Citizens Communications' Kauai Electric for \$215 million, financed at 100 percent through the U.S. Department of Agriculture's Rural Utility Service.

Since becoming the state's first and only electrical cooperative, KIUC has managed to put downward pressure on rates and continues an aggressive push toward its goal of 50 percent renewable energy by 2023, via the state's two largest solar arrays, as well as biomass, hydroelectric and pump storage projects.

KIUC President and CEO David Bissell said the utility situation on Hawaii Island is different, with its own set of unique challenges. However, he sees strong potential for it to follow in Kauai's footsteps.

“I think the Big Island seems right for a co-op,” he said. “There’s been quite a bit of interest over the last several years from community leaders. The people seem to support it. But the first thing is a co-op's got to come from within. The people of the Big Island have to really want it and want to make it happen, support it and stand up and say they want to take care of themselves.”

While a cooperative can't guarantee lower rates, it can control its own destiny, as Bissell often tells people. And that, he said, is the big issue facing Hawaii Island today.

"NextEra is a big company, very well-managed, very well run," he said. "But they're a huge company. Big Island is going to be a very small part of their operation. The issue that people have to ask themselves is: How much control will they have? How will they be heard?"

Last month, the fledgling Big Island energy co-op, a nonprofit group of community and business leaders, filed a motion with the state Public Utilities Commission to intervene in the pending NextEra-HEI merger to explore the idea of public ownership.

Mangelsdorf said there is growing support for the co-op option on the Big Island, as well as the municipal option on Maui, and that the benefits are numerous: local, democratic control; community-based priorities; the potential to lower electricity costs through tax-exempt status and access to lower-cost financing; and improved energy independence and sustainability.

While he said HIEC could not guarantee lower electric rates right off the bat, the case can be made that cheaper electricity to Big Island ratepayers should be possible. He sees KIUC as an example to be followed, and believes such an endeavor is not some "Pollyanna wishful-thinking pipe dream of do-gooder residents."

But there's one major hurdle: Unlike KIUC, HIEC does not have a willing seller — and may never.

A DIFFERENCE OF OPINION

Responding to an information request from intervenor Hawaii Renewable Energy Alliance, HEI and NextEra said that if HELCO or any other part of the businesses and assets NextEra would acquire as part of the proposed transaction were removed, it would be considered a "material adverse effect" that would endanger the transaction.

Rob Gould, spokesman for NextEra Energy, said his company could not speak to what a co-op would mean for Hawaii Island, but that out of the 50 nonprofit municipal and co-op utilities in NextEra's home state of Florida, all charge their customers higher rates. And none, he said, report the high level of reliability or customer service that NextEra provides customers of its utility, Florida Power & Light Co.

"Generating clean, affordable and reliable energy requires scale, access to capital, and an extremely strong balance sheet that provides financial stability and an ability to invest in new technology," he wrote in an emailed statement. "Co-ops typically possess none of these attributes."

Bissell and KIUC Board Chairman Jan TenBruggencate see things very differently. While each acknowledged co-ops have certain disadvantages, access to capital — through the Rural Utility Service and the National Rural Utilities Cooperative Finance Corp. — is not one of them.

Sheldon Petersen, CEO of the NRUCFC, said the organization was founded in 1969 for the purpose of taking the loan needs of electric co-ops to Wall Street. Since then, CFC has divvied out a total \$22 billion in financing to co-ops across the country, including KIUC. It's a figure he said "speaks for itself."

And the assistance doesn't stop there. Bissell said electric co-ops have access to a strong national trade organization, the National Rural Electric Cooperative Association, as well as cooperative banks and a cooperative information service.

“What’s important about all that is even though, back to the size issue, co-ops are small on standalone basis, we’ve got a large national organization and a chance to combine our size to get cost savings and efficiencies,” he said.

“From the power-generation perspective, they will band together to attain scale,” Petersen said of co-ops.

Another financial advantage, according to TenBruggencate, is that co-ops don't have to make a profit and can structure rates to collect either barely enough, or enough with a small margin to cover costs. And when money's left over, KIUC gives it back to its customers.

Since becoming a cooperative, KIUC says it has built \$93 million in equity and returned \$32.6 million to its members — money left over after paying all expenses and meeting its lenders' expectations for financial stability.

KAUAI'S SUCCESS

When KIUC launched in 2002, electricity rates on Kauai were 69 percent higher than on Oahu. In 2014, they were 22 percent higher and only slightly above rates on the Big Island, despite KIUC having less than half the customers.

Since 2008, KIUC's rates have remained essentially flat, while Oahu has seen almost a 30 percent increase in the same period, according to Bissell.

In May, residential electricity on Kauai cost 32.3 cents per kilowatt-hour, compared with 32.7 cents on Hawaii Island, 29.5 cents on Maui and 26 cents on Oahu.

Asked how KIUC has managed to keep rates from going up, Bissell said the co-op is very serious about cost-control, challenging every position and every dollar spent. If one were to compare where KIUC's costs have gone over the past five years to where they've gone at Hawaiian Electric Co., he said KIUC has been “remarkably effective.”

Mangelsdorf said that for the Big Island, getting the best deal possible from the island's independent power producers, such as Puna Geothermal Ventures and Hamakua Energy Partners, will be key in bringing down electricity costs.

Equally as important, he said, will be bringing on new renewable power generation at a lower cost than existing generation.

NOW OR NEVER?

Bissell and others at KIUC believe their experience has shown that electric cooperatives are a viable business model in Hawaii, and they are willing to share what they know with those exploring public ownership.

In addition to traveling to the Big Island to meet with community groups, Bissell said he has been involved in periodic discussions with Mangelsdorf and HIEC President Richard Ha, and will continue to provide support.

He said there's an opportunity for the Big Island, if it chooses, to learn from Kauai.

"In my mind, the key thing is this is probably a once-in-a-lifetime, maybe once in your lifetime and your children's lifetime, opportunity to take control of your own electrical destiny," Bissell said. "You know, if it doesn't happen now, it's likely it will never happen. And Kauai has been a success. We were formed same as this, 100 percent formed with debt. We've built a strong balance sheet. We've put downward pressure on rates. A lot of renewables. And a lot of parallels over to the Big Island."

If and when an operating co-op is formed on the Big Island, Bissell said he thinks it's inevitable there would be some type of a shared service arrangement with KIUC — one he feels would "benefit both sides."

Mangelsdorf said HIEC can't, and won't, take for granted that just because they think a co-op would be great for the island, that ratepayers should support them.

"We have to earn that trust and support through an extensive and very visible and inclusive outreach program," he said. "Hopefully, after that outreach effort, people will conclude that going in the co-op direction is a no-brainer, compared to the status quo or ownership of one of the island's most important public infrastructures by a company close to 5,000 miles away."

'Spinning off' HELCO not an option

June 14, 2015

By CHRIS D'ANGELO Hawaii Tribune-Herald

If Hawaii Island Utility Cooperative decided to make a push at purchasing Hawaii Electric Light Co., several things would have to happen.

First and foremost, HIEC Director Marco Mangelsdorf said parent company Hawaii Electric Industries Inc. would have to be a willing seller, which it is not.

In a document filed June 1 with the Public Utilities Commission, HEI and NextEra made their position clear: "Spinning off the Maui Electric Company Limited (MECO) and Hawaii Electric Light Company Inc. (HELCO) is not something the applicants have considered or plan to consider at this time."

MECO and HELCO, they wrote, are "integral" parts of HEI, and there is "absolutely no reason to believe that a newly formed cooperative or municipal electric department will be able to manage any portion of the Hawaiian Electric Companies' system better than NextEra Energy can."

Furthermore, PUC Chairman Randy Iwase said HIEC would have to go through the same process Kauai Island Utility Cooperative went through when it purchased the Kauai utility, including filing a petition with the PUC, going through the process and having the commission ultimately decide that such a sale is in the best interest of the public.

So far, none of that has happened.

HIEC is one of 29 entities granted intervenor status by the PUC. The co-op has been careful not to take a position in favor of or in opposition to the proposed merger.

Mangelsdorf said that at the end of the discovery portion of the merger process — likely in August — intervenors, including his co-op, will have an opportunity to make position statements.

In a recent information request, HIEC questioned HEI and NextEra about what authority they think the PUC has to condition the sale of HELCO to HIEC. Their answer: None.

“Neither HIEC nor any other party has submitted for commission approval a proposal to transfer ownership of Hawaii Electric Light Company to another party,” HEI and NextEra wrote. “If they did, the commission would review it in a separate proceeding and not in this proceeding. Therefore, (we) respectfully submit that it would be outside the purview of this docket to consider an alternative ownership structure for (HELCO).”

Mangelsdorf said the companies are simply stating their belief, and that doing so does not make it true.

“The PUC will do what they do,” he said. “And frequently, if they’re going to approve something, they’ll do it with various stipulations.”

David Bissell, president and CEO of Kauai Island Utility Cooperative, said the issue likely would require legal analysis, and that in most cases the PUC has very broad authority regarding docket issues. The PUC, which still has to sign off on the proposed merger for it to go through, has set an interim deadline of Aug. 31 for all intervenor testimony to be complete.

Both the Federal Energy Regulatory Commission and HEI shareholders have approved the sale.

Big money at stake for power executives

June 14, 2015

By CHRIS D'ANGELO Hawaii Tribune-Herald

If the proposed merger between Hawaiian Electric Industries and NextEra Energy goes through, HEI executives stand to make a pretty penny — \$17.15 million, to be exact.

HEI shareholders on Wednesday approved both the merger agreement with NextEra and the compensation the company's three top executives stand to make as a result.

If the deal goes through, Constance Lau, the company's president and CEO, would take home \$10.66 million, including \$6.85 million in cash and \$3.03 million in equity, according to a document filed by NextEra with the U.S. Securities and Exchange Commission.

In 2014, Lau reportedly made \$5.6 million in total compensation, including a base salary of \$815,000.

James Ajello, HEI's executive vice president and chief financial officer, would receive \$3.7 million, including \$2.13 million in cash and \$1.22 million in equity. Chet Richardson, executive vice president and general counsel, would receive \$2.8 million, including \$1.64 million in cash and \$820,000 in equity.

While 76 percent of HEI's approximately 107 million shares outstanding voted in favor of the merger, 68 percent approved the compensation figures, according to a filing with the SEC.