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NextEra adviser: Co-ops not cost-effective

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HIEC Director Marco Mangelsdorf

Efforts to pursue public ownership of Hawaii Island's electric utility came under fire Monday in testimony supporting the proposed $4.3 billion acquisition of the Hawaiian Electric companies.

The Hawaii Island Electric Cooperative (HIEC) is one of multiple intervenors in a proposal before the state Public Utilities Commission to allow Florida-based NextEra Energy to assume control of Hawaiian Electric Industries' utilities on Oahu, Maui and the Big Island.

HIEC is an association of community and business leaders exploring the possibility of public ownership of the Big Island's electric utility, Hawaii Electric Light Co. The co-op model currently is in use on Kauai, where residents have purchased their power from the Kauai Island Utility Cooperative since 2002.

Many such cooperatives operate across the U.S., typically in rural areas, by reinvesting profits into infrastructure, or by distributing dividends back to electricity consumers.

Portions of testimony submitted Monday to the PUC by an energy adviser speaking on behalf of the NextEra-HEI merger took aim at public ownership of utilities, saying the commission should not delay or reject the transaction to include the consideration of municipal or cooperative utilities.

"At this stage, the notion of a cooperative or municipal electric utility is at the very early concept stage of development and, as will be further explained, these efforts usually are unsuccessful," said John Reed, chairman and CEO of Massachusetts-based Concentric Energy Advisors Inc. and CE Capital Inc.

In response to a question from intervenors about whether a municipal or cooperative utility might be more cost effective than the Hawaiian Electric companies, Reed offered an unequivocal, "No."

"The economics of forming a new utility are very challenging," he said. "The cost to acquire a utility often overshadows the new utility for decades. In addition to the high acquisition costs involved … there is no inherent advantage of a co-op or muni on the largest component of a customer's bill — fuel mix. As the commission points out (in a previous decision), 'the Hawaiian Electric Companies essentially do not earn a profit or experience a loss due to changes in fuel prices. These expenses represent 80 to 85 percent of the total power supply functional costs and 60 to 65 percent of the total cost of electric service.' … In Hawaii, the advantages related to fuel diversity do not exist for a newly formed utility."

HIEC director and spokesman Marco Mangelsdorf, who also is president of Hilo-based ProVision Solar, responded via an emailed statement Tuesday, saying Reed's testimony belied "a regrettable ignorance of the diverse generating portfolio existing today on Hawaii Island, a portfolio heavy on renewable energies that NextEra utilities can only dream of."

As an example, Mangelsdorf pointed to the fact 50 percent of the kilowatt hours consumed on the island last year came from renewable energy sources, including geothermal, wind, solar and hydroelectric power.

"And that diversity will continue to grow robustly here in a timeline measured in years, not decades," he said.

Mangelsdorf argues HIEC would have multiple tools at its disposal to lower electric rates on the Big Island, including "tax exempt status, the lower cost of capital available to co-ops and the ability to keep all profits … on island, as opposed to being beholden to profit-driven shareholders far and wide."

Reed held that the recent trend has been toward privatization of utilities instead of municipalization, with his research showing 8 of 10 privatization efforts since 2000 were approved.

"Nearly all of the more than 900 cooperatives and 2,200 municipal electric systems were formed in the early 1900s, and rarely through an acquisition approach," he said.

Mangelsdorf countered that recent years have seen a renewed interest in the co-op utility model.

"While it's true that the 1930s and 1940s experienced the boom in co-ops sprouting across parts of the mainland, thanks to the 1936 Rural Electrification Act, there's been something of a renaissance in the co-op movement over the past 20 years, with dozens of co-ops being added to the over 900-strong existing co-op family," he said.

In Monday's testimony, Reed also warned the PUC the time required for a co-op to explore the possibility of acquiring HELCO's assets could be counterproductive, and a delay of the proposed transaction for even a year "would likely lead to the current offer from NextEra Energy being terminated."

He added "when the financial analysis has been conducted, and all the costs have been identified, municipalization efforts are most often abandoned."

"Of the 22 municipalization efforts that were studied since 2000, only two have been completed," he said. "Nearly all of these efforts were either rejected by voters, denied by the regulatory commissions or abandoned by the municipality during the process."

Mangelsdorf, however, argues his organization intends to see the process through.

"HIEC remains as committed and confident as ever that the cooperative model for our island offers compelling advantages and benefits that are well worthy of consideration during this once-in-a-lifetime period for us to boldly determine the best path for Hawaii Island's energy future," he said.