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Who Should Own Hawaii Electric?

By Dennis Hollier

Senior writer Dennis Hollier looks at whether the company should remain a privately owned utility or its units turned into customer-owned co-ops, like Kauai's electric utility, or into municipal agencies like the county water-supply boards.

There must be blood in the water.

Until last year, when Hawaiian Electric Industries announced its intent to merge with Florida energy giant NextEra, the company seemed like a permanent fixture of the local economy. Only a few zealous renewable-energy mavens spoke of its eventual demise. But the sharks are out now. Everyone seems to be talking about converting the company and its subsidiaries from private, investor-owned utilities (IOUs) into either community-owned cooperatives or into municipal utilities, owned and operated by the counties.

On Oahu, a group favoring the public acquisition of HECO created an organization called KULOLO – Keep Our Utility Locally Owned and Locally Operated. They believe a municipal utility owned by the City and County of Honolulu would be more responsive to the community and more able to meet the Island's 21st-century energy needs. This July, City Council chair Ernie Martin introduced a resolution requesting Mayor Kirk Caldwell study the feasibility of creating a cooperative or municipal utility.

"Without exaggeration, we can say this is a once-in-a-lifetime opportunity. What's the likelihood of another change in ownership of (HEI), one of the oldest, largest and most venerable companies in the state?"

— Marco Mangelsdorf, Owner of ProVision Solar and spokesman for Hawaii Island Energy Cooperative

Similarly, on the Big Island, a group called the Hawaii Island Energy Cooperative has been organized with the goal of eventually buying HELCO and turning it into a co-op. HIEC's board includes distinguished community members, including Richard Ha of Hamakua Farms, state Sen. Russell Ruderman and Department of Hawaiian Home Lands Commissioner Wallace Ishibashi. In September, HIEC hired the PR firm Hastings and Pleadwell to manage a public education campaign for the infant co-op.

In May, Maui Mayor Alan Arakawa, frustrated with MECO's apparent lack of responsiveness to the county's energy plans, issued an RFP for a study to determine the viability of a municipally owned utility. On Sept. 1, his office announced that the $70,000 contract had gone to Oklahoma consulting firm Guernsey.

Also in September, 40 legislators and county council members, lead by state House Energy Committee chair Chris Lee, gathered at the state Capitol to say they wanted to explore the option of public ownership of the electric utilities.

Given all this interest in dismembering the century-old monopoly, Hawaii's utility community is starting to look like a feeding frenzy.

The Co-Op Model

The interest in public power largely stems from the success of the only electric utility in the state outside of Hawaiian Electric's control: the Kauai Island Utility Cooperative. KIUC differs from HECO in several ways. Like all co-ops, it's owned by its members, not investors. That means it operates democratically; members vote for board members who are, at least theoretically, more responsive to the community. KIUC is also a nonprofit, so any excess earned income is returned to the members. In other words, the money stays in the community instead of paying dividends to out-of-state stockholders.

It's not hard to see why the KIUC model would be attractive to disgruntled utility customers on other islands. But is the co-op – or its cousin, the muni – really any better than an IOU like Hawaiian Electric? To figure that out, we need to look closely at the nature of public power.

"Today, there's $93 million of equity in the co-op. When we were formed, in 2002, we had zero equity."

— David Bissell, CEO, Kauai Island Utility Cooperative

American electricity cooperatives date to the 1930s and the New Deal. At that time, cities were thoroughly electrified, but IOUs didn't see any profit in putting up poles and power lines in sparsely inhabited rural areas. To help stimulate development in these areas, President Franklin Roosevelt authorized the creation of community-owned cooperatives and, through various Department of Agriculture programs, supplied them with cheap loans to cover the cost of bringing electric power to the countryside.

It worked. Today, there are over 900 electric co-ops in 47 states. Nearly 42 million customers get their power from a co-op, and co-ops account for 42 percent of all the transmission lines in the country. Consequently, even small co-ops like KIUC are part of a community of like-minded utilities.

What does that mean in practical terms? How can a small co-op compete with the resources of a large company like Hawaiian Electric, let alone a giant conglomerate like NextEra? I went to Kauai to find out.

Good co-op, bad co-op

As CEO of KIUC, David Bissell is probably the most powerful advocate for co-ops in the state. I ask him to explain the advantages of KIUC and why it should be a model for the rest of the state.

"In the first 10 years of the KIUC, directors dropped like flies."

— Dennis Esaki, Only founding board member still on KIUC's board

(There have been 45 directors in 15 years.)

"We're relatively small," he says. "We're certainly not a giant mainland utility with an $80 billion balance sheet.

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We have about $398 million in total assets. What we like to point out, while we're on the financials, is this number: Today, there's $93 million of equity in the co-op. When we were formed, in 2002, we had zero equity."

This accumulated equity, called "patronage capital," belongs to the members and is one key way they benefit from belonging to a co-op. Bissell explains how it works.

"Imagine there were only three members of the co-op," he says. "If the co-op had a $30 net margin at the end of the year, and we all used the same amount of electricity, we would each have $10 allocated to our equity account. In other words, we would get a theoretical position in the capital structure of the organization. But that's just one element. The other, more important element is something called 'retirements.' The board can elect to refund some of this patronage capital, to retire a piece of that allocated capital structure. Since KIUC was formed, in 2002, we've written checks totaling $32 million to our members."

Nearly all of those payments – about $28 million – were to retire the patronage capital accumulated by the members, Bissell says. "That's been paid out every year since we've been formed. In some years, it's been as high as $7 million. This year, I think it was about $2 million."

Not all co-ops are as generous retiring patronage capital. In fact, one of the recurring criticisms of the cooperative model – largely made by advocates of IOUs – is that some co-ops never pay retirements. This is especially prevalent in some of the oldest co-ops, those created in the 1930s as part of the Tennessee Valley Authority. In their defense, these TVA co-ops claim they use these funds to maintain even lower rates for their members. But there's no doubt some co-ops are mismanaged.

"That's one of the points I'd like to make," Bissell says. "The co-op model is just a model. Being a co-op is not going to immediately make you a better company. It's not going to solve all your problems. Ultimately, it's about how you act and function as an organization. A good co-op is going to do well; a good IOU is going to do well, also."

But, he says, one advantage that a small co-op like KIUC has is a laser-sharp focus on what the community wants and needs. An IOU has to placate shareholders and Wall Street, while a co-op's loyalties are solely to its members. This dichotomy, of course, is simplistic: IOUs also care about their customers. Nevertheless, it shapes how the different entities behave. The success of an IOU is measured largely by its return on investment for shareholders. A co-op is successful to the extent it satisfies its members. Those standards are very different.

"Here," Bissell says, "it was very clear that our island wanted renewables and wanted lower bills, so that's been our focus. We're starting to deliver some pretty astounding success on the renewable front. We've gone from 5 or 6 percent renewables back in 2009, to today, with our Anahola solar farm in it's testing stage – almost commercial – we'll be over 40 percent renewable for the year."

On the cost side, of course, KIUC members still pay among the highest electric prices in the country. But that's not the whole story. As advocates of public power point out, before KIUC was formed, Kauai residents were paying nearly 70 percent more for electricity than Oahu residents. Now, they're 22 percent higher. In other words, under KIUC, Kauai has closed the gap by 48 percentage points.

None of this has gone unnoticed. Indeed, the state Public Utilities Commission, in the famous "Intentions" statement it issued last year, highlighted the difference between KIUC's strategic plans and operations and those of the Hawaiian Electric companies, noting KIUC "has clearly articulated a strategic vision and made substantial progress in achieving their goals," and "has been able to manage utility operations over the last decade with far fewer, and substantially less, base-rate increases than each of the HECO companies."

Co-oping with Changes

It hasn't all been easy or without conflict for the co-op. (Jim Kelly, communications manager for KIUC, says, "We joke sometimes that, on the other islands, everybody's always talking about what a great job KIUC is doing; then we come home and all we hear are complaints.") To get a sense of some of the early challenges faced by KIUC – and potentially by any new co-op in the state – I spoke with Dennis Esaki, the only remaining member from KIUC's founding board and a former board member of the National Rural Electric Cooperative Association, the co-ops' trade association and lobbying body.

Esaki says KIUC may not have even gotten off the ground without NRECA's support. "The NRECA had these training classes. We got a whole bunch of the senior staff and attended class. Usually, you've got to go to the mainland to do it, but the NRECA actually brought in instructors and we did it here."

Even more essential, the association sent staff from Washington, D.C., to help advocates garner community support for the fledgling co-op. This was key, because KIUC's $270 million initial bid was turned down by the PUC because the commission thought it was too high. There were competing bids for the utility, and the county council wanted a municipal utility rather than a co-op. It was only by renegotiating the buying price with the owner, Citizens Utilities – down to $215 million – and drumming up more public support that the co-op finally got the deal approved.

Martin Lowery, now NRECA's executive VP for member relations, remembers the period leading up to the PUC's approval:

"At that time, if you had polled the majority of the people on Kauai, they would not have been able to even define what a co-op was. We needed to have that grassroots education process to get support. So, we went out and got signatures from people all over the Island. We went to shopping malls, service stations and schools, basically proving our case to the commission that we had the support of the Island." The whole process, he says, took about three years.

But the challenges didn't end with PUC approval. As with most young organizations, it took time for KIUC to figure out how to operate the democratic machinery of a co-op.

"In the first 10 years of the KIUC," Esaki says, "directors dropped like flies (45 directors in 15 years). A couple resigned; most got voted off. We also went through quite a few CEOs, too."

It turns out it's difficult to run a utility, even – or maybe especially – a publicly owned one. Esaki says many of the early board members were professional people who found they couldn't afford to take time away from their day jobs to deal with their board responsibilities.

"You spend a lot of time on it if you're serious about it," he says. "Let's put it this way: This isn't an honorary board; it's a working board."

But companies, like people, learn with time, and the KIUC board seems to have found its footing. That's especially true, Esaki says, regarding the board's primary job: hiring and keeping a CEO.

"I think the misconception in the past was that you had to be an engineer to run the company. Now, we have a finance guy, in Bissell, and it's working great. You can always hire engineers for the technical stuff, but this is all about finance, really – from rates, to expenses, to being fair to all your members. I think he's got all that down. Anyway, you don't have to pick a plant operator to run the co-op."

The Big Island

So, KIUC seems to have figured out how to make a co-op work on Kauai. But is it the right model for the other islands? That's what the Hawaii Island Energy Cooperative is trying to decide for Hawaii County, says Marco Mangelsdorf, owner of ProVision Solar and spokesman for the nascent co-op. "The question is: What's best for the Big Island? Does the co-op model fit better under some conditions? Is it better suited to a rural/urban mix, or does it work more for the rural side?"

Mangelsdorf makes it clear that, for now, HIEC is agnostic about the future form that HELCO takes, whether it's a NextEra subsidiary or an independent cooperative. HIEC was created, he says, to keep all options on the table.

"We're neither for nor against the merger," he says. "That said, we've been explicitly proposing to the (PUC) that the concept of a cooperative utility for the Big Island is worthy of its consideration. That's especially true in light of the fact that, without exaggeration, we can say this is a once-in-a-lifetime opportunity. What's the likelihood of another change in ownership of one of the oldest, largest and most venerable companies in the state? That kind of opportunity comes around only at rare moments."

HIEC has already started to prepare for that opportunity, Mangelsdorf says.

"That means we've taken the formal steps to come into being. We've registered with the (state Department of Commerce and Consumer Affairs) as a 421C agricultural/fish co-op. That's the only kind of co-op available to us right now. It's a vestige of days gone by and the sugar industry. Even KIUC is an agricultural co-op."

So, HIEC formally exists. It has a state ID number and its federal 501(c)12 status. It has four board members and a five-person advisory panel. And it has high ambitions. Where does it go from there?

"Well, we're in the introduction and education mode right now," Mangelsdorf says. "The first step is introducing ourselves to Big Island residents. Even though the press we've received to date has been very positive, that doesn't mean all that many people on the Big Island know who we are, let alone what we're doing. To generate support, we have to first introduce ourselves."

Introducing themselves is just the beginning of what Mangelsdorf sees as a four-step process. Still to come: public education about what a co-op is and how it works; promotion of the advantages of co-ops; and conversion – persuading people to actively support HIEC.

The Co-Op Ethic

This kind of active support will be key, says Dennis Esaki. As the person with the longest co-op experience in the state, Esaki has heard from some of the groups just getting started up the road to public power. One person who called, he says, was his old friend Richard Ha.

"When he was representing Kuokoa, which was trying to buy HEI, I told him that he should just stick with HELCO and do a co-op. But he said, 'No, my group wants everything.' When that deal fell through, he called and said, 'What about this co-op idea? Can you come over to the Big Island and talk to us about that?' "

That's what Esaki and Bissell did.

One of the greatest advantages available to any new co-op in the state is that, like KIUC, they all have access to the resources and experience of NRECA, the national trade association. Similarly, new co-ops can get advice and low-cost capital from places such as the federal Department of Agriculture's Rural Utilities Services or the National Rural Utilities Cooperative Finance Corp. (CFC), a sort of co-op of co-ops. These resources can be critical, especially for startup co-ops. For example, much of KIUC's early public-information campaign was funded by a CFC loan.

"The primary difference between the investor-owned business model versus the community or public- power model is really about who your duty of loyalty lies with."

— Arlen Orchard, CEO, Sacramento Municipal Utility District

(There have been 45 directors in 15 years.)

But the greatest resource for any new Hawaii co-op is probably KIUC itself. That's not just because it's the co-op way. For co-ops, there's power in numbers. This is one reason KIUC is so interested in what happens on Maui and Hawaii Island. David Bissell points out that the presence of multiple co-ops in the state would be a win-win for all of them.

"One of the central principals of a co-op," he says, "is cooperation among cooperatives. We can provide a great amount of help. We've been fairly active with the Big Island's efforts, sharing how we operate, sharing contacts within our national organization, letting them learn from what we've gone through. Some of our founding directors, like Dennis Esaki, have even gone over and talked to them."

According to Bissell, all this can help HIEC avoid some problems KIUC faced. "We can share all that immediately," he says, "so, we can really help them hit the ground running."

Bissell notes that Kauai also benefits.

"We don't need each island to come up with and invest in separate accounting systems, member information systems, headquarters facilities and all those types of things. KIUC can offer all that to the other islands on a cost-sharing basis. That way, the people of Kauai win by being able to spread our costs out further, and the people of the other islands win by not having to create this duplicate infrastructure. I think it's a real win-win if there's more than one co-op."

Almost off the cuff, he adds, "That probably wouldn't carry forward, though, if there was a municipal utility. They have a completely different organization."

The Muni Example

That could be a problem for the public-power model on Maui and Oahu, where the main emphasis seems to be on creating a municipal utility to replace the existing HEI subsidiaries. New munis lack many of the resources that are available to co-ops. For example, the American Public Power Association, the trade association for munis, doesn't provide nearly the level of service that NRECA offers.

"We provide information to communities interested in public power," says Ursula Schryver, APPA's VP of education and customer programs. "We help explain how it works and what to expect." Beyond that, though, new munis have to navigate the process on their own, or by contracting with for-profit companies.

As Schryver explains, "There are a lot of law firms and engineering firms that work with communities that are interested in moving forward. They can help them with the feasibility studies, for example. Our role, though, is really just informational. We're not an advocacy group; we don't try to persuade towns to go to public power."

Absent strong support, most recent attempts to create a municipal utility have failed. This year, for example, Washington, D.C.'s City Council voted down public power.

Yet, some of the best run utilities in the country are munis. The most cited example is SMUD, the Sacramento Municipal Utility District, in Central California. SMUD has many admirable achievements. It has consistently lowered rates over the last several years. It has one of the highest reliability records of any utility in the country. And, perhaps most relevant, it has a spotless record of responding to the democratic will of its members, including aggressively supporting renewable energy. These, of course, are the very characteristics that critics say Hawaiian Electric lacks.

But SMUD – and most of the large, successful mainland munis – is not the ideal comparison for public power in Hawaii. To begin, SMUD has a different portfolio of energy resources than Hawaiian Electric's. Most of its generation comes from natural gas, an option likely foreclosed to Hawaiian Electric (and KIUC, for that matter) when Gov. David Ige ruled out liquefied natural gas development in the state. SMUD also derives much of its power from legacy hydroelectric projects that were developed decades ago by the federal government. This means it gets an admirable share of its power from renewable sources, but ones that can't be duplicated in Hawaii. Neither can its average residential rate of 12 cents per kilowatt-hour.

That's not to say Hawaii doesn't have anything to learn from SMUD. The utility's CEO, Arlen Orchard, for example, emphasizes the differing incentives of the muni and the IOU.

"The primary difference," he says, "between the investor-owned business model versus the community or public-power model is really about who your duty of loyalty lies with. At SMUD, we're always focused on what makes the most sense for our customers, whereas the investor-owned utilities have split loyalties. They have to serve their customers, but they also have to maximize investor value. Those things don't always mesh neatly.

Long History

➤ Electricity cooperatives in America began in the 1930s under the New Deal. Here's where they stand today:

- 900 co-ops in 47 states;
- Nearly 42 million customers;
- Ownership of 42 percent of all the transmission lines in the country.

The classic example – and one that observers of Hawaiian Electric are familiar with – is the question of distorted incentives. According to Robert Harris, director of public policy for solar company Sunrun and spokesman for KULOLO, correcting this distortion is a primary reason to switch to public power.

"The traditional business model," he says, "has been for the utility to borrow money cheaply, then go out and build something – whether it's a large power plant, transmission systems or distribution lines – then get a rate of return, over time, that pays that back. That, in a nutshell, is how the utility makes money. And, for 100 years, that model has worked well. Now, we're starting to see consumers being able to generate their own power and take control of that production, so we want people to invest in a modern grid that's decentralized. But that creates a problem for investor-owned utilities. The way they get compensated no longer relates with what the public wants."

That's what makes public power attractive to the advocates of renewable energy, like Harris: It has the potential to align utility actions with the public interest. It's less clear why they prefer munis over co-ops. Sometimes, it's simply because of size. Co-ops are more common in smaller markets. Even HELCO, which serves 195,000 people and 84,000 customers, would be a good-size co-op; HECO, on Oahu, would be the largest in the country. Munis, on the other hand, can be quite large. SMUD serves 1.4 million customers. The Los Angeles Department of Water and Power is one of the nation's largest electric utilities of any kind.

Many people also believe that munis offer many of the same advantages as co-ops. Because they're ultimately accountable to elected officials, they're more in tune with the expectations of citizens, including the growing expectation for more renewables. "To put it succinctly," Harris says, "a public utility is much more likely to be responsive to what the public wants. There's a greater degree of accountability."

Bad Examples

It's worth remembering this vision of a muni is the ideal; the reality can often be different. In fact, there are many examples of quasi-independent, municipally run entities in Hawaii, and people differ on whether they're well run. These include the various boards of water supply, the Honolulu Community Development Authority and, even, the Public Utilities Commission. People's appetite for a municipal electric utility may depend on their opinion of how well these other entities are run.

Nationally, there's no shortage of poorly run munis. The Puerto Rico Electric Power Authority is essentially a government-run utility that supplies power to the entire territory. That's the equivalent of converting all of HEI to a municipal utility and it being run by an entity like HCDA.

This model hasn't worked out well for Puerto Rico: Its grid is even more dilapidated than Hawaii's, and PREPA is currently more than $9 billion in debt and facing the possibility of insolvency. To be fair, though, most of that debt is due to the unpaid electricity bills of the Puerto Rican government, which is famously facing its own insolvency issues. Moreover, Puerto Rico law requires the utility to sell power at a loss to poor residents. Remember, the island territory is one of the poorest parts of the United States.

When KIUC's $50 million, 12 megawatt solar farm in Anahola comes on line later this year, it will be the largest in Hawaii. "I think we added an extra panel so it would be larger than our Koloa Mill project," jokes CEO David Bissell. Photo: Courtesy of KIUC

When KIUC's $50 million, 12 megawatt solar farm in Anahola comes on line later this year, it will be the largest in Hawaii. "I think we added an extra panel so it would be larger than our Koloa Mill project," jokes CEO David Bissell. Photo: Courtesy of KIUC

Other large munis have struggled in recent years. The Los Angeles system has been plagued by problems with its billing system. Some customers don't receive bills for months; others have been double- and triple-billed. Overall, the scandal has cost the utility $230 million and forced the resignation of the CEO.

Perhaps the best-known example of a muni gone bad is the Long Island Power Authority. LIFA was created as a public-power entity in 1985; but, in 2013, its response to Hurricane Sandy was so slow and ineffective that New York Gov. Andrew Cuomo essentially re-privatized the utility. At the beginning of 2014, he handed control to PSEG, the contractor that had been brought in to manage day-to-day operations.

Many Buyers, No Seller

Co-ops and munis share one Achilles' heel. To successfully create either of them, you need a willing seller. This wasn't a problem for KIUC. Its predecessor, investor-owned Citizens Utilities, was eager to get out of the electric business and focus on its telecom operations. So, although there were other complications, including a skeptical community and a city council that wanted to create a muni, at least the utility was actively for sale. In Hawaiian Electric's case, there was no sign the utility was on the market until the NextEra offer was announced.

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The municipal model seems to offer a way around this problem. The counties could, theoretically, invoke their powers of eminent domain to compel a sale. In practice, though, this is expensive and time consuming.

"The typical challenge to public power is that the existing utility isn't interested in selling," says APPA's Schryver. "In that case, it can put up a lot of legal obstacles and community information campaigns to prevent the takeover. Unless it's willing to sell and the utility can come to an agreement with the community on a price without going to court, it's probably going to have a PR campaign and say it isn't in the best interest of the community."But, according to state Rep. Chris Lee, the counties have another option, albeit one that would require help from the state. "Not many people know this," he says, "but, in the state Constitution, the Legislature is granted exclusive rights to authorize the franchise to operate the electric utility."

In other words, he believes Hawaiian Electric's authority to operate in the state can be revoked by a simple majority vote of the Legislature. That might work. A lot of utilities have franchise agreements with a specified end-date, and that's traditionally when communities consider public power.

Lee also doesn't flinch from the prospect of using eminent domain to acquire Hawaiian Electric's assets. "Government has a fundamental obligation to look out for the best interests of the people," he says. "If it means using eminent domain to achieve that, I don't see that as any different from taking a building that's in the way of a public park, if that park is created for the benefit of the people. Of course, there's just compensation provided for by law."

The "Do-Nothing" Option

The simplest solution to the "willing-seller" problem may be just to wait.

One player that's been relatively quiet through all the co-op versus muni debate is Hawaiian Electric itself. It has largely treated public power as a distraction from its preparations for the NextEra takeover. Yet, as the key players have come out against the takeover – including the state's consumer advocate, the governor and essentially all the interveners in the PUC docket – the takeover looks increasing doubtful. Still, HEI's response to what's really an existential crisis for the company has been muted.

In an email, VP of corporate relations Lynne Unemori stakes out the company's fundamental critique of public power. The main problem: a potential loss of tax revenue:

➤ HELCO, the Hawaii Island electric utility, serves 195,000 people and 84,000 customers. If it converted, it would be one of America's biggest electricity co-ops. If Oahu's HECO converted, it would be by far the largest co-op in the country.

The co-op with the most electric meters (one way to measure utilities) is the Pedernales Electric Cooperative in Texas. It has 203,000 meters; HECO has 302,000. Also, HECO is a generating co-op. Pedernales is just a distributive co-op; it buys power from other utilities.

"Among the many considerations in looking at business models should be the contributions that an investor-owned utility makes to our state and local government, including the hundreds of millions in taxes paid that help fund government services. For example, based on our 2014 tax liability estimates, more than $130 million in revenue taxes paid by the Hawaiian Electric Companies would not be paid to the counties by a municipal electric utility."

But public power advocates say this simply isn't the case. APPA's Ursula Schryver says, "Public power utilities – and that's both co-op and municipal utilities – normally make 'payments in lieu of taxes'. In fact, their contributions are typically higher than a comparably sized, investor-owned utility."

And some publicly owned utilities do pay taxes. For example, KIUC's tax bill for last year came to $15 million. That's 8.4 percent of the co-op's total revenue. As Bissell points out, that's more than the amount KIUC spent on distribution, maintenance or salaries. Proportionally, based on revenue, KIUC reported paying twice as much in taxes as Hawaiian Electric reported paying.

Unemori also says small public power utilities don't have the economies of scale to provide the services and pricing that large IOUs offer. In a sense, this rehashes the company's primary justification for the NextEra merger. Unemori writes:

"For our service territories, we believe the customer benefits some may be looking for in alternative ownership models can be better attained through the investor-owned model. For example, we can achieve greater cost savings for customers by taking advantage of the significant economies of scale, access to lower interest costs, technology expertise and other resources that NextEra Energy can provide. And merger aside, on a smaller scale, our three Hawaiian Electric utilities have already been improving efficiency through actions such as sharing services across our tri-company organization."

"The Legislature is granted exclusive rights to authorize the franchise to operate the electric utility."

— Chris Lee, State representative and chair of the House Energy Committee

This argument misses some of the fundamental advantages of public power, especially co-ops. Not only do they have access to low-cost capital – underwritten, in some cases, by the federal government – the 900-plus co-ops across the country are also able to pool resources through membership in their trade association and in what might be called "meta-cooperatives."

Bissell explains how the spirit of cooperatives benefits small KIUC.

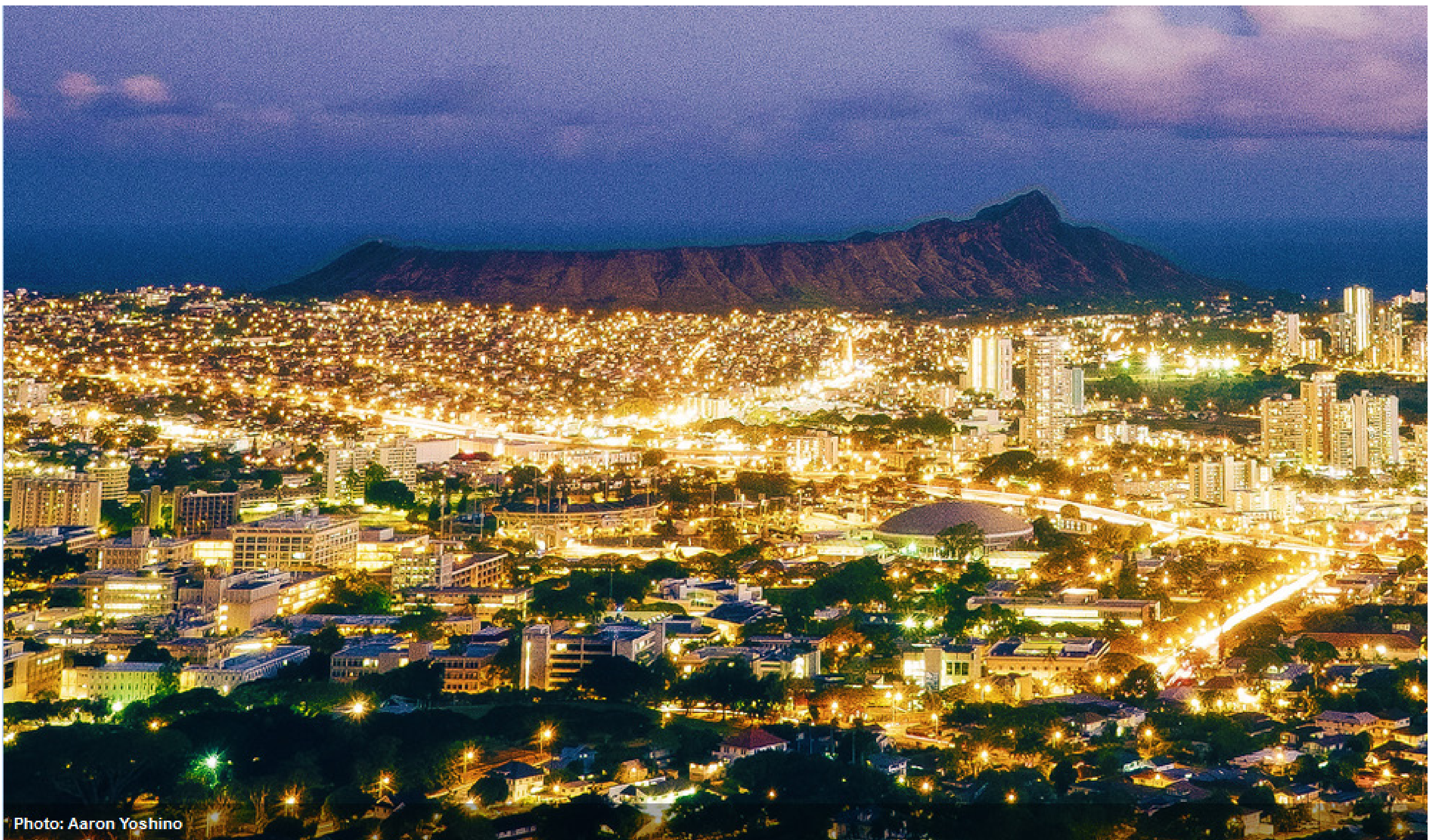
"For example," he says, "the NRECA does our pension plans and provides a lot of our employee benefits. It also provides training for our staff and board. We have access to capital through cooperative-owned banks. There's the CFC, and CoBank, which is kind of like our Fannie Mae. We can also borrow from the Rural Utilities Service. Our computer system, our customer-service system, our accounting system – they're all owned and operated by cooperatives.

"Here's where I'm going with all this," he says. "NextEra, in its merger docket, has made a point of saying you have to have size to function as an effective utility. We vehemently disagree that you can't have a successful co-op utility, particularly on the smaller islands. Co-ops, while we're small, do have access to low-cost capital. We have access to pooled resources that allow us to have any of the technologies or the bells and whistles that the large IOUs have access to – a lot of times, at a fraction of the cost."

He gives a specific example.

We're putting in a new customer information system here," he says, "and I think the total cost is going to be about $350,000. HECO spent tens of millions of dollars on theirs. Because we're sharing all the development costs with 300 or 400 other members of that co-op, it's a very efficient approach. It really does away with those economies-of-scale issues."

The question, of course, is whether rational arguments like Bissell's will make any difference. We'll probably have to wait until next June, when the PUC rules on the NextEra merger, before we find out.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