Breaking: NextEra's $4.3 Billion HECO Acquisition Rejected By Hawaii's PUC In 2-0 Vote

Hawaii's public utility commission sends NextEra back to the mainland, settles for status quo and internecine warfare.

by Eric Wesoff

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Almost two years after the initial proposal, Hawaii's pubic utility commission voted to reject NextEra's offer to acquire Hawaiian Electric Industries, the island chain's electric utility.

According to Civil Beat, in a 2-0 vote, "Chair Randy Iwase and Commissioner Lorraine Akiba dismissed the application without prejudice. Newly appointed Commissioner Tom Gorak abstained but expressed his full support for the decision."

In December of 2014, energy giant NextEra Energy offered to acquire Hawaiian Electric Industries in a transaction valued at $4.3 billion, which includes the assumption of $1.7 billion in HEI debt. HEI shareholders would receive a premium of approximately 21 percent on the share price. Citigroup Global Markets was the financial advisor to NextEra Energy. J.P. Morgan Securities advised HEI.

NextEra owns and operates a sizable share of U.S. wind and utility-solar capacity and a number of nuclear reactors. As Hawaii's utility, HEI supplies power to almost half a million customers on Hawaii, Oahu and Maui. Hawaii has the nation's highest electricity prices and roughly 75 percent of the island's electrical power comes from imported oil. The entire island chain of Hawaii has just 2,400 megawatts of generating capacity

On the day of the proposal, NextEra CEO James Robo said that NextEra would "find Hawaiian solutions to Hawaiian problems."

That's not the way it's worked out. After 20 months of campaigns and political intrigue, NextEra is being sent back to the mainland.

According to the PUC's Summary of Decision:

"After reviewing the entire record, the Commission concluded that while NextEra is fit, willing, and able to step into the shoes of the HECO Companies without a loss in performance, the Application for the proposed Change of Control is not in the public interest."

“Applicants had not shown the Application to be reasonable and in the public interest with respect to five fundamental areas of concern: (1) benefits to ratepayers; (2) risks to ratepayers posed by NextEra’s complex corporate structure; (3) Applicants’ clean energy commitments; (4) the proposed Change of Control’s effect on local governance; and (5) the proposed Change of Control’s effect on competition in local energy markets. Benefits To Ratepayers.”

“The Commission concluded that Applicants did not demonstrate, by a preponderance of the evidence, that their proposed benefits (represented through a combination of rate credits, investment funds, and a rate case moratorium) would provide adequate or assured benefits to ratepayers.”

“NextEra provided commitments to collaborate with governmental agencies to develop an updated resource plan, engage with stakeholders and communities about its resource plans, fully support the State’s 100% RPS goal, and continue to support the HECO Companies’ work in the areas of green technology innovation. The Commission concluded that these commitments essentially repeat existing statutory, regulatory, and other standards. In short, Applicants’ commitments in this area were simply too broad and vague to satisfy the public interest standard.”

“Applicants failed to provide any specific details to reassure the Commission that local decisions, culture, and policy would be adequately represented and respected under the proposed Change of Control.”

“In dismissing the Application, the Commission was careful to clarify that its decision did not mean that the commission would not approve, in the future, a merger, acquisition, or other change in control of the HECO Companies. Rather, the Commission emphasized that its decision is specific to the Application and record in this proceeding. In an attempt to provide guidance on any future application for a change of control, the Commission included a section in which it discussed the key areas which should form the foundation of any future application: ratepayer benefits, mitigation of risks, achievement of the State’s clean energy goals, competition, corporate governance, and the transformation of the HECO Companies.”

The decison follows a tumultuous month with Hawaii’s governor Ige making a last-minute replacement on the PUC. Gov. David Ige named attorney Thomas Gorak to the Public Utilities Commission putting the deal into a “new state of limbo.”

What happens next?

Status quo, utility cooperative or white knight? Does it make sense to allow a local cooperative to buy the Big Island utility or Maui’s utility?

As we’ve reported, the Hawaii Island Energy Cooperative (HIEC), a group led by local farmer Richard Ha, Marco Mangelsdorf, owner of ProVision Solar, a solar integrator company based in Hilo, and other community and business leaders, is an intervenor in the PUC merger docket.

As we’ve reported, the Hawaii Island Energy Cooperative (HIEC), a group led by local farmer Richard Ha, Marco Mangelsdorf, owner of ProVision Solar, a solar integrator company based in Hilo, and other community and business leaders, is an intervenor in the PUC merger docket.

Mangelsdorf told GTM today: “We have said in our public filings on the docket that we believe exploring a cooperative alternative for Hawaii Island is in the best interests of our community, and we stand ready to begin that process at any time.”

As GTM’s Tam Hunt reported, “There is a good recent precedent for what new cooperative efforts like HIEC is seeking to achieve. Kauai’s utility, now the Kauai Island Utility Cooperative (KIUC), was formed in 2002 after purchasing Kauai Electric Company from the Citizens Utilities Company, a Connecticut-based company. KIUC paid $215 million for the utility that now serves about 32,000 customers. KIUC has been doing its part in shifting to a renewable energy grid, despite the fact that it is not subject to PUC regulation.”

In addition to hopes of a cooperative, recent news that billionaire Warren Buffett’s Berkshire Hathaway Energy Company just registered as a new business in Hawaii might indicate that Buffet is interested in HEI. His firm just made an offer for Texas distribution utility Oncor.