Why It Took A Republican Governor To Get Blue Hawaii On The Path To Clean Energy

When Gov. Linda Lingle pushed for sweeping renewable energy legislation, Hawaiian Electric pushed back. But Lingle eventually won.

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In 2002, Linda Lingle became Hawaii's first Republican governor in two generations.

She was also the first female governor. And the first Jewish governor.

When she edged out then-Lt. Gov. Mazie Hirono with just 51 percent of the vote even Lingle didn't realize she'd also be the first to put Hawaii — finally — on the fast-track to renewable energy.

Maurice Kaya was the longtime director of the state's energy program and had a vision for major energy reform that had gone nowhere under previous administrations. He managed to get a proposal into the hands of a governor who surprised state energy officials with her interest.

"She was on a way to a meeting, and she called me, and said, 'This is great. Let's do it,'" recalls Ted Liu who, as the head of the Hawaii Department of Business, Economic Development and Tourism, was Kaya's boss.

In 2004, Hawaiian Electric Co. was still running its massive generators on imported oil. The two Arab oil crises of the 1970s had caused the utility — and the state — enough trouble to flirt with the idea of getting off oil. Once oil prices settled back to acceptable levels the promise of energy from the sun, the wind or even the ocean had faded.

But the price of crude oil had begun to climb. And Hawaiian Electric was certainly not oblivious to the potential problems from continuing to run its generators on oil.

In 2002, HECO helped fund the Hawaii Energy Policy Forum at the University of Hawaii. The group brought together representatives from government, business, academia and the community to work on a broad vision for energy policy through the year 2030 and a strategy to put it in place. A year later, it produced a draft of an energy vision for the islands that involved diversifying the state's sources of energy to lessen Hawaii's many vulnerabilities.

What was missing was a forceful commitment on the part of political decision-makers and the buy-in of Hawaiian Electric. Lingle decided to make energy reform an executive priority.


U.S. Navy/James E. Foehl

Gov. Linda Lingle, speaking here at Pearl Harbor in 2006, battled Hawaiian Electric over energy reform for most of her two terms in office.

She owed nothing to HECO, especially not her election. In fact, the GOP governor saw Hawaiian Electric as a Democratic company. The utility had hired influential Democrats like Robbie Alm, a HECO executive who had been an aide to Hawaii's most powerful Democrat — U.S. Sen. Daniel Inouye. Jeff Watanabe, Inouye's

attorney and close confidant, was on the Hawaiian Electric board of directors.

After taking office, Lingle had been able to make appointments to the Hawaii Public Utilities Commission, which among other things oversees electric rates and energy proposals. So the commission was largely in sync with her, says Sam Pintz, a former HECO senior analyst who's now writing a book about energy reform in Hawaii.

That put the Republican administration in a strong position to drive energy policy both within and beyond the Democrat-dominated Legislature.

Still, Hawaiian Electric didn't get to be the state's largest company without plenty of friends in high places. Those friends included former regulators, ex-state officials and even former journalists who had been hired by the company over the years. HECO had a contingent of well-paid lobbyists and was a major player in elections.

"To take them on was a dangerous proposition," says a longtime Democratic political operative who didn't want to be identified for fear of ruining relationships with Hawaiian Electric. Civil Beat agreed to the condition of anonymity in order to bring an insider's perspective to the power struggle between the Lingle administration and HECO. (Read Civil Beat's policy on the use of anonymous sources.)

"They weren't innovative in their work, but they were in controlling the Legislature. You could go down to the Legislature and say: 'That's HECO's guy, and that was HECO's guy — and they were key players in the Legislature."


PF Bentley/Civil Beat

Hawaiian Electric has long relied on oil shipped in from overseas to power its generators.

HECO's people were bent on protecting a company that often resisted change. "It is a stodgy company that is used to doing what it did for umpteen years," says the Democrat. "It wasn't a government bureaucracy, but it was a close cousin."

Liu, who was plucked from the world of venture capitalism to fill a critical energy-related role in the only Republican administration since 1962, speaks more openly about Hawaiian Electric's lobbying prowess.

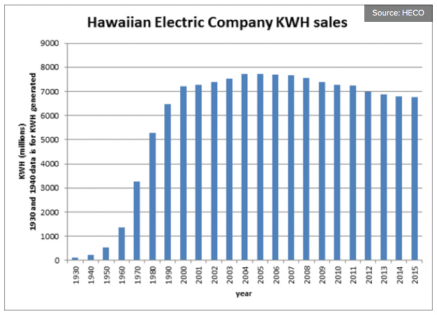
"HECO's organization has its tentacles deep in the political structure," he says. "Linda Lingle and I were outsiders."

Playing Hardball

In the early years of the Lingle administration, it wasn't just Republicans who were paying more attention to the rising cost of electricity in the islands. A growing number of Democratic state lawmakers were expressing frustration that the power company wasn't putting enough substantive effort into renewable energy.

By the time Kaya's plan made it into Lingle's hands, oil prices — and electricity rates for HECO's customers — were rising at an alarming pace.

And in 2004, Hawaiian Electric's electricity production, which had increased only slightly since the beginning of the century, hit a plateau as customers used less power.



Hawaiian Electric's exponential growth in electricity sales throughout the 20th century had slowed considerably by the mid-2000s.

Initially, the Lingle administration promoted a hodgepodge of legislative measures to facilitate renewable energy, including tax credits for rooftop solar while also seeking to promote the development of hydrogen energy and biofuels. Some measures got through, others did not.

In August 2005, Congress passed the federal Energy Policy Act. It's goal was to "ensure jobs for our future with secure, affordable, and reliable energy," and it included a section directing the U.S. Secretary of Energy to assess the economic implications of Hawaii's dependence on oil as its principal source of energy. It also called for an examination of the feasibility of using more renewable energy to generate electricity in the islands.

Power Politics

The Lingle administration took a package of bills it called "Energy For Tomorrow" to the 2006 Legislature aimed at moving Hawaii away from oil and on to renewable

energy sources. Among other things, the administration sought to place Hawaii at the forefront of hydrogen energy, while also tasking the Public Utilities Commission with overseeing a new fund aimed at promoting and developing large-scale renewable energy projects.

Renewable energy advocates — groups that Liu and others expected to be strong allies — weren't convinced Lingle could get any traction against the politically powerful Hawaiian Electric.

"'Everybody said, 'It won't see the light of day,'" he says about the legislative proposal.

"'HECO will say they support it," Liu was told, but "HECO will just find ways to destroy this bill."

And they were right. Hawaiian Electric fought the measures at the Legislature as well as proposals before the Public Utilities Commission that it didn't like.

So Lingle decided to play hardball with HECO in a way that no Democratic predecessor had ever done. She pushed for reforms that hit at the very heart of the utility's business model.

First, she threatened to eliminate Hawaiian Electric's flexibility to adjust rates based on the price it was paying for oil.


Cory Lum/Civil Beat

Ted Liu headed the state Department of Business, Economic Development and Tourism in the Lingle administration.

The "pass-through" was crucial to HECO's bottom line. Without it, the electric company would have to seek approval from the Public Utilities Commission every time the price of oil went up and it needed to raise rates.

In Hawaiian Electric's boardroom, Alm says, that issue caused the most angst. The pass-through, as Lingle had rightly recognized, was "pretty much the life-blood of the company."

The loss of its ability to pass on fuel costs to ratepayers could have far-reaching business consequences for Hawaiian Electric Industries. Beyond the practical hassle for the utility of slow rate increases, volatile oil prices would leave the company financially vulnerable, perhaps even to the point of bankruptcy.

HEI's board of directors reached out to influential members of the business community who picked up the message: Hurting Hawaiian Electric would hurt Hawaii.

"If you kill the utility, you could affect the state's bond rating," says Alm.

But Lingle had another idea that Hawaiian Electric also didn't like. She wanted to allow the state itself to sell power directly to other state structures in a process called "wheeling."

In the electric business wheeling generally involves a company like HECO selling power directly to another company outside of regulation. So one company generates the power and another company distributes it.

The Legislature already had agreed a few years earlier to explore intra-governmental wheeling, which refers to a government agency providing renewable electricity it generates to other agencies over the electric utility's power lines.

The state could develop its own solar or wind projects on state land, and then sell the power to other state agencies.

In 2006, the federal government with its large military operations in Hawaii was HECO's biggest customer. But state government was No. 2.

The idea was already before the Public Utilities Commission, where Lingle had political allies, and decision-makers at Hawaiian Electric recognized another threat that could hurt its bottom line.

"Lingle had really grabbed them by the nuts," says Ted Peck, who later replaced Maurice Kaya at the state energy office.

In other circumstances, it might have made strategic sense for Hawaiian Electric to stall by waiting out the end of Lingle's term in the hopes that a friendlier governor would be elected in 2006.

But Lingle was running for re-election that year and it seemed she would crush her Democratic opponent, Randy Iwase (who, ironically, is now the chair of the Public Utilities Commission.) Lingle ultimately outspent Iwase nearly 20-1.


Nathan Eagle/Civil Beat

Ted Peck was the administrator of the state energy office during the last years Linda Lingle was governor.

Lingle would be around for another four years. And in 2006, while not all of her ideas were gaining traction at the Legislature, some were. Others, like the pass-through elimination and wheeling, were being steered toward the Public Utilities Commission.

She had certainly gotten HECO's attention. But relations between the power company and the administration had definitely soured.

'Tell Me What It Looks Like'

It took a couple of people much lower down on the bureaucratic totem pole to wade into the political steam and get something constructive in the works.

Maurice Kaya, the state energy official who had been working on a new energy

plan for a very long time, found an ally in Bill Parks, a senior U.S. Department of Energy official who in mid-2007 was assigned to work as a policy advisor to the state Department of Business, Economic Development and Tourism — commonly called DBEDT. The state energy office is part of that agency.

The pair traveled to Washington, D.C. to convince federal energy officials that Hawaii should become a "test-bed for change" to reduce carbon use in the energy sector. Hawaii needed federal help because it simply didn't have the resources to make a dramatic shift toward renewable energy and conservation on its own, they said.

The fact that Lingle was a Republican proved helpful with a Republican — George W. Bush — in the White House.


Nathan Eagle/Civil Beat

Robbie Alm was a HECO vice president when Gov. Linda Lingle began a determined effort to get the power company to embrace renewable energy.

Kaya and Park returned to the islands with a plan, one that involved getting Lingle and Hawaiian Electric to set aside their animosities. They asked Lingle to sit down with HECO and talk.

It was probably not "the first idea in her head," Alm says now. And, he adds, it was a while before the governor and utility officials finally talked about the issue.

Next, Parks and Kaya sought out Alm with the request that he approach Hawaiian Electric's board of directors with the notion that the company needed to reduce its use of oil to generate electricity, improve efficiency and find alternative fuel sources.

He was intrigued, but wanted to make sure Kaya in particular had a deep understanding of Hawaiian Electric's business.

"I said: 'You're designing Hawaiian Electric from scratch — tell me what it looks like,'" Alm says. He handed Kaya a blank sheet of white paper.

Kaya drew up a power company with a fundamentally different focus than the utility's traditional model of generating and transmitting electricity and then selling it. He proposed building a company with customers at the center and thinking about their needs first — what information they needed to better manage their electricity use and control their costs. His company would utilize smart meters and photovoltaic panels and be connected to sophisticated control rooms that could send and receive energy as necessary.

Alm realized there were as many business opportunities for Hawaiian Electric in Kaya's vision as there had been for the traditional electric utility. He decided to take it to his board.

"A lot of you folks think this guy is the enemy," Alm told the board. "Let me tell you his vision of us. It may not be your vision of us or my vision, but he's not trying to destroy us."

The Birth Of A Clean Energy Plan

Alm's interest was in getting the fight out of the legislative arena and into a less adversarial situation.

There were other good reasons to try something new. In January 2008, the federal Energy Department had signed an agreement with Lingle that would ultimately become the Hawaii Clean Energy Initiative. Hawaii would produce 70 percent of its energy from clean sources by 2030, including 40 percent from renewable sources and 30 percent from conservation efforts.

By March, state and federal officials were working with representatives from nonprofits, trade associations, businesses and the university to refine the vision of the initiative before taking it to public hearings.

Moreover, the U.S. Energy Department was offering to put staff, national laboratory expertise and even grant funds at the state's disposal. Lingle jumped at that. Hawaiian Electric also saw the potential benefits.

In June 2008, the board agreed it was time to negotiate with the state.


PF Bentley/Civil Beat

The Hawaii Clean Energy Initiative envisioned clean energy accounting for 70 percent of Hawaii's power supply by 2030.

By that time, Maurice Kaya had retired from the state and Bill Parks acted as a mediator. Alm said he came across as an honest broker with "no particular animosity toward anybody."

The fact that Parks was working under a Republican administration in the White House suggested to Alm that he was more likely to understand Hawaiian Electric's business concerns.

"I thought we might get a fairly depoliticized decision," Alm says, and perhaps even secure a deal under Lingle.

In fact, after all the political battles of the previous legislative sessions, the negotiations between the state and HECO seemed tame. They "were more like legal settlement talks than raw-knuckled horse trading," Sam Pintz, who attended the talks for HECO, would later write in his book.

But still looming in the background was Lingle's insistence that HECO should no longer be able to pass spikes in the cost of oil along to customers.

The "major bargaining lever used by the state in the negotiations was the threat of modifying HECO's automatic recovery of fuel costs," Pintz writes. "Participants in the negotiations all suggest that the threat of revoking or modifying this automatic cost recovery provision was repeatedly used by the government to resolve major differences of opinion."

Finally, in late summer 2008 Alm spoke directly with Gov. Lingle, as the last remaining points were being hashed out.

The End Of A Century-Old Mindset

On Oct. 20, 2008, Alm waited in the governor's office along with others who would sign the Hawaii Clean Energy Initiative agreement in an official state ceremony. Among those present that day were Bill Parks of the U.S. Energy Department and Maurice Kaya of the Hawaii Renewable Energy Development Venture would sign as witnesses.

Then, U.S. Sen. Daniel Inouye walked in.

Inouye was one of the most influential Democrats in the country and certainly Hawaii's most famous political figure. Alm, who had worked as an aide to the senator, was as surprised as anyone to see him.

"My people told me not to do this," Alm recalls Inouye telling him. They were concerned that his presence would suggest a closeness with the Republican Lingle that wouldn't look good just two weeks before the 2008 presidential election in which Democrat Barack Obama was in a tight race against Republican John McCain.

But Inouye believed the Hawaii Clean Energy Initiative was more significant than electoral politics or partisan sniping, according to Alm.

Inouye believed Hawaii's dependence on foreign oil supplies was an economic, financial and military security risk not only for the islands but for the whole country.

"He said, 'It didn't matter. I don't care if it makes her look good. That was a really important deal to sign,'" Alm said.

"And of course, he was on the front page the next day."

Hawaii Sen. Dan Inouye showed up in Gov. Linda Lingle's office to witness the signing of the Hawaii Clean Energy Initiative's energy agreement in October 2008.

The deal amounted to a commitment to move "decisively and irreversibly" away from imported fossil fuels for electricity and transportation.

A premium was placed on locally produced renewable energy and efficiency, but there was also a nod to the larger operating risks that moving toward renewable and distributed power sources meant for Hawaiian Electric.

And, perhaps most importantly to the power company given some of the negotiations, there was a recognition that a "financially sound" electric utility was a vital component for the transition toward renewable energy.

But the utility had agreed to change a way of doing business that had lasted more than 100 years.

"People were in shock," says Duke Aiona, then Lingle's lieutenant governor.

Next: HECO's aging facilities have been a problem for a state moving toward a renewable energy future.

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