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Hawaii Public Utilities Commission Approves Purchase of Kauai Electric By Kauai Island Utility Co-Op



KAUAI, Hawaii, Sept. 18 /PRNewswire/ -- The Hawaii Public Utilities Commission today issued its Decision and Order approving the purchase of Kauai Electric by Kauai Island Utility Co-Op, a consumer-owned electric cooperative.

The purchase agreement between KIUC and Citizens Communications Company of Stamford, Connecticut, KE's parent company, was signed on March 5, 2002. On March 15, 2002, Citizens and KIUC filed a joint application with the Commission asking it to approve the sale. The Hawaii Division of Consumer Advocacy (Consumer Advocate) and the Department of the Navy, both intervening parties in the Commission process, along with KE and KIUC, entered into a Stipulation Agreement on July 18, 2002 supporting the transaction with terms that provide for refunds to consumers to lower their electric bills.

On July 31, 2002, the Commission issued a preliminary indication of support for the sale in order to preserve access to low-cost government financing from the U.S. Department of Agriculture Rural Utilities Service that must be committed by September 30th, the end of the government's fiscal year. The interest rate savings attributable to this low-cost financing is a significant benefit to Kauai consumers and is a major contributor to the projected \$26 million of rate relief over the first ten years of KIUC's operations.

Final position statements were filed on September 10, 2002, by the parties to the Commission's process. The Consumer Advocate, Department of the Navy, KE and KIUC reaffirmed their support for the transaction with the Stipulation Agreement terms, and the County of Kauai filed a position statement recommending approval of the sale with additional terms attached.

"This is an historic step that will give the people of Kauai more control over their island's energy future in addition to reducing the island's high cost of electricity. It is a big win for the people of Kauai," said KIUC Chairman Gregg Gardiner.

Gardiner continued, "It is a big win for every family and every business, large and small, that has to pay electric bills. It is a big win for everyone who believes that Kauai's energy future should be controlled by people who live here and who are passionate about protecting our beautiful environment. It is a big win for our economy because in years to come it will keep tens of millions of dollars from leaving the island's economy."

"Over the next ten years, we expect that ratepayers will see over \$26 million in rate relief -- money returned to their pocketbooks -- while the co-op, which will be 100% owned and controlled by the people it serves, will build up a solid financial cushion," said Fran Brennan, KIUC board member. "Even after providing this rate relief, we expect that KIUC will build up nearly \$80 million of equity belonging to co-op members and generate over \$91 million of free cash flow over this same ten-year period. As a consumer owned co-op, these financial resources will enable the people of Kauai to have a meaningful voice in their future energy decisions."

Former Kauai Mayor and KIUC board member JoAnn Yukimura said that another benefit of co-op ownership of KE is that KIUC will be eligible for FEMA disaster assistance. "This assures us of our ability to withstand another disaster like Iniki, and with FEMA reimbursement for about 75% of the cost of restoration, we would not face the same likelihood of having to raise rates as was the case after Iniki."

The co-op has a long list of people to thank, starting with the people of Kauai, said Gardiner. "Their patience and support kept us going over the three long years since KIUC's inception. We were truly gratified at the support demonstrated by the "sea of green" t-shirts and testimony at the Commission's Public Hearing on May 22nd at the Kauai War Memorial Convention Hall. Those who opposed our plan, as well as those who supported it, deserve recognition for helping to focus attention on critical issues that were addressed by KIUC along the way."

The KIUC board also expressed thanks to the Commission's members and staff. "They are to be commended for their vision and foresight," Gardiner

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said. "Because of their hard work and expeditious process, KIUC will have access to the most attractive financing available through RUS, and it will directly benefit Kauai's ratepayers for decades in the future."

KIUC is also thankful to the Consumer Advocate office and the Department of the Navy for their hard-nosed investigation and ultimate support during the Commission process. "Because of them the public can be assured that every detail was carefully examined by qualified experts whose ideas greatly improved the final package approved today," said Gardiner.

Gardiner said he owes a personal debt of gratitude that can never be fully repaid to the 16 other unpaid directors whose thousands of hours of hard work made it all possible. "We came together from diverse backgrounds in a high profile transaction, and we learned to work together to find the best solution for this island we all love so dearly."

Gardiner commended the efforts of Hawaii's Congressional Delegation. "The work of Hawaii's Senators Inouye and Akaka and Representatives Mink and Abercrombie will directly amount to tens of millions of dollars of savings for the people of Kauai thanks to the low-interest RUS financing where their help in Washington was instrumental."

"KIUC assembled an extraordinary team of experts to facilitate this acquisition", said Dennis Esaki, Vice-chair of KIUC's board. That team included investment banker, Christenberry Collet & Company, Inc., led by Bill Collet; the accounting firm of Deloitte and Touche LLP, which assisted in financial modeling and finance due diligence; the law firms of McCorriston Miller Mukai MacKinnon LLP led by Brian Hirai and Belles Graham Proudfoot & Wilson led by David Proudfoot; KIUC's engineering experts, Dutch Achenbach and the Lower Valley Energy Co-op from Jackson Hole WY; and KIUC's environmental experts, Masa Fujioka & Associates.

"It is a once in a lifetime opportunity to work with an all-star professional team like that," said board Treasurer Jerry Gibson, Hyatt Hotel general manager. "We were blessed to work with people of many talents, a team whose expertise is unrivaled anywhere in the U.S."

Gardiner thanked the National Rural Electric Cooperative Association (NRECA) and the National Rural Utilities Cooperative Finance Corporation (CFC) of Washington, DC for their tireless effort on KIUC's behalf. "We have seen first-hand that as a cooperative, KIUC will be able to draw on the strength and wisdom of a national network of successful cooperatives. Without their support this never would have been possible," he said.

Board Secretary Peggy Cha, Kauai Community College provost, said that a new nine-member Board of Directors will be elected by a vote of the island's electric consumers. "The beauty of a co-op is that it's one person, one vote. The retired person's vote counts just as much as the largest resort owner."

Information will soon be sent to all electric customers on the island explaining the privileges of co-op membership and allowing anyone who chooses not to be a member to opt out. "We respect each person's right to decide for themselves if they want to be members, and we sincerely hope that everyone will so that we can all share in the benefits of the co-op," said Walt Barnes, KIUC board member and engineer with AT&T. Members will be entitled to vote and receive money back in the form of checks for their patronage capital credits, which are in effect a rate rebate paid by a cooperative.

Board member Mary Thronas said it is important to understand that cooperative membership in no way, shape, or form obligates any business or individual to repay the co-op's debt. "The benefits of co-op membership do not cost you anything, but they can really add up over the years," she said.

KIUC has been working for the past 39 months to gain public and regulatory support to purchase Kauai Electric and make it a co-op utility. More than 930 customer-owned co-op utilities exist around the country, and offer local control and more personalized service.

KIUC would become Hawaii's first electric co-op. KIUC's mission is to provide reliable, low cost electric service in an environmentally responsible manner, consistent with sound business practices.

Statement of Glenn English, Chief Executive Officer National Rural Electric Cooperative Association on Hawaii PUC Approval of the Purchase of Kauai Electric by the Kauai Island Utility Cooperative, September 17, 2002

The nation's electric cooperatives applaud today's decision by the Hawaii Public Utilities Commission and enthusiastically welcome the Kauai Island Utility Cooperative (KIUC) to the family of member-owned utilities. Effective immediately, the Kauai co-op is recognized as a full member of the National Rural Electric Cooperative Association.

With today's decision the Public Utility Commission and the people of Kauai have taken another step toward gaining control of their energy future. Gregg Gardiner and the 16-member volunteer board are to be commended for their stewardship of the co-op during the approval process; it is their vision for a locally owned and democratically administered utility that has carried the day.

NRECA is the national service organization that represents the nation's more than 900 private, consumer-owned electric cooperatives, which provide electric service to 35 million people in 46 states. For more information: Eleanor Miller, 703-907-5721 or Patrick Lavigne, 703-907-5732.

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