



**Speech Given By Neil “Dutch” Kuyper, President & CEO, Parker Ranch Inc.
Electric Utilities: “The Future Is Not What It Used To Be” Conference
March 27th 2014 – Maui, Hawaii**

Aloha.

My name is Dutch Kuyper and I am CEO of Parker Ranch.

You might ask why a cattle ranch is at an energy conference?

Well ... I am worried. I am really worried.

For decades, the profitability of the ranch could be tracked with rainfall. The rise in the price of oil and electricity has disrupted this relationship with Mother Nature.

And because of energy prices, incomes have not kept pace with the cost of living. It is arguable that this has disproportionately affected agriculture more than tourism and the working class more than the professional class.

We unfortunately are not as exposed to the upside of tourism like other landowners and the utility.

Hawaii has always come with the “price of paradise”, but how much can a community take?

To many it seems the utility is profiting at the expense of residents and businesses, which may or may not be true, but it certainly feels that way.

To me there is a basic question: Is there an alternative to the apparent incremental approach of our utility? I think that is what the conference organizers meant when they created this panel of “redefining the customer’s role in the utility of the future.”

We at Parker Ranch control significant potential energy resources.

We wondered whether those resources could help and perhaps our community could benefit from them.

We decided to undertake our own integrated resource planning effort by hiring Siemens and Booz Allen at our own expense.

We have prioritized the study of a micro grid for Greater Waimea. We are also studying the potential of island-wide solutions – evaluating the potential for large-scale renewables combined with conventional technologies to lower electricity rates.



You could say our consumer response is to study the alternative strategy of outright leaving the incumbent utility's grid altogether.

HISTORY and BACKGROUND

Parker Ranch is the oldest private business in Hawaii. It was founded during a time when whaling in the Pacific was in its peak years – 20 years before the Civil War.

John Parker married the granddaughter of Kamehameha, forever intertwining Parker Ranch in Hawaiian history and its royal heritage.

Sam Parker, grandson of John Parker and 3/4th Hawaiian, served in the cabinets of both King Kalakaua and Queen Liliuokalani – during a period of spectacular and tumultuous change in our beautiful home land.

The hometown of Parker Ranch is Waimea - a ranching and farming community for many generations.

The last Parker to control the ranch, Richard Smart, left it to a trust to benefit education and healthcare in Waimea – very much like our Queen Emma's gift in founding Queens Hospital in Honolulu.

The mission of Parker Ranch is stewardship, to perpetuate and improve the quality of life and lifestyle of Waimea through the Beneficiaries, who include the Parker School Trust Corporation, Hawai'i Preparatory Academy, Hawai'i Community Foundation's Richard Smart Fund, and North Hawai'i Community Hospital.

In general, and particularly in Hawaii, there is a lot of talk about the interconnection between food, water, and energy. I would add rural communities to that trio. We are at the center of it all.

Our mission has compelled us to prioritize energy because of its devastating impact on our ranching operations, our Beneficiaries and our community.

In our case, electricity is a major cost because we pump significant amounts of water across the ranch.

The rise in oil and electricity prices has virtually wiped-out the profit margin from half of our ranching operations.

We have a heritage to preserve and families relying on us for their livelihoods.

Instead of idling half of our production, we decided to elevate energy to our highest strategic priority.

CONFIDENTIAL and PROPRIETARY. NOT FOR DISTRIBUTION.
Copyright notice: © 2014 Parker Ranch, Inc. All rights reserved.



We have decided to shift from self-advocacy to pursue a strategy of self-reliance. Rural communities are known for taking care of their own and sticking together.

As you may know, Parker Ranch is substantially larger than the island of Lanai and probably possesses the largest onshore wind resources of any single landowner in the State of Hawaii.

Our thinking is fairly straightforward. If we can solve the energy challenge for the ranch, we might be able to solve it for our community as well.

TWO TIPPING POINTS

We believe that Hawaii has been hit hard with two major tipping points– both the result of the rise in energy prices.

The first tipping point is the impact of high oil on the capacity for food production. The capacity to produce food on a commercial scale in Hawaii is uneconomic for many because of the high cost of electricity, necessary to move water.

This is a REAL problem as locally produced food is supposed to be a hedge against rising energy prices. In our case, this tipping point appears to be \$90 to \$100 per barrel. The performance of our ranching business declines precipitously at higher oil prices.

The second tipping point is the impact of high oil prices on our utility. The rise in oil prices has caught our island's utility in the unenviable position of having its long-lived assets in the wrong position for the next era of energy in Hawaii.

We learned from Hawaii Clean Energy Initiative that oil is not a competitive energy source, as compared to our potential for renewables, when oil prices rise above \$65 to \$85 per barrel.

In the case of both tipping points, I am increasingly convinced that this next era should be comprised of an aggressive shift to community level solutions and large-scale renewable energy.

On the Big Island, we pay the highest rates in the State of Hawaii but we possess massive amounts of renewable energy. This is nonsense to us and to the average resident and business owner.

People are not curious; they are furious.

An angry cowboy is scary. But a mad farmer is even scarier – they have pitchforks.



TAKING ACTION

We have asked our utility many times about the possibility of using our wind. Their answer has been consistently that they cannot take more wind onto the grid.

Finally, we decided to explore options without the utility. As the title of this conference puts it: “The future is not what it used to be.”

If the utility doesn’t want our wind, maybe our community does.

In addition to exploring the merits of a micro grid, we are also conducting our own integrated resource plan for the Big Island to see if an alternative strategy is compelling.

The primary objective of our alternative IRP is to explore the possibility of lowering the price of electricity in the next 10 years. This is in direct contrast to the IRP conducted by our utility, which focused on the RPS targets and projects higher prices for electricity.

The inspiration to expand our micro grid project to an island wide IRP came from Hawaii Clean Energy Initiative.

HCEI indicated that there were billions of dollars of value available by achieving lower rates in the future under the various scenarios.

At about \$130 per barrel as the long-term average cost of oil delivered to Hawaii, according to the HEI 2013 10-K, the potential value of large-scale renewables was estimated at around \$10-\$12 billion. This potential direct benefit overshadows the total assets of the utility. What does this mean? It means there is a lot of money left on the table...and a lot of money flowing through your pockets and leaving Hawaii.

The original HCEI study was almost six years ago, and it was meant to be an order of magnitude analysis. This study should be updated. We now know from more recent work that higher RPS targets would reduce electricity rates. My guess is that the benefits would be substantially greater taking into account the potential for undersea cables to Maui and the Big Island. This would mean the \$12 billion of direct benefit is actually understated.

We saw the HCEI analysis as a market signal intended for private interests to enter the energy debate. We also interpreted this to mean that there could be upwards of \$500 million to \$1 billion of value on the Big Island alone, if rates could be lowered.

Hawaii Clean Energy Initiative inspired us to adopt a proactive approach and explore the potential to lower rates for our community.



SUMMING IT ALL UP

The uncertainty in the world around us is the major reason to be discussing these questions. The future of our utility is only a part of the narrative during the inevitable impending transition.

The utility will need to develop its own new strategy during this upcoming transition.

The greater economic value is only achievable if we collectively are able to focus on the overall potential social benefit.

[I don't sound much like a rancher, do I? It must be my liberal arts education.]

The total social benefit is likely much larger than just direct benefit of lower rates.

A multiplier effect seems highly plausible. Indeed, in our case, it is possible real estate values could actually rise from the economic boost derived from lower rates.

If the cost of living is more affordable, people can afford to stay in Hawaii instead of leaving or buy a house instead of renting.

If the price of electricity is lower, the productivity of our food systems will rise and enable commercial scale production to be profitable relative to import substitutes.

We should be pursuing these potential social benefits with aggressive strategies and seek ways to bypass the apparent incremental strategy of our utility.

The largest untapped social benefits appear to be available to our society largely through neighborhood or community solutions and large-scale renewables. These social benefits may be unlocked though rethinking the home as the powerhouse, too.

The utility's strategy appears to reflect the lives of its assets. We think that a strategy that reflects the lives of the ratepayer would produce more benefit to our society.

We will be advocating for an alternative compelling competitive plan to transform the Big Island energy landscape over the next 10 years. We look forward to sharing it with our community in the coming months.

Mahalo and aloha.

#