PUBLIC UTILITIES COMMISSION

STATE OF HAWAII

ANNUAL REPORT

(HAW. REV. STAT. § 269-5 AND ACT 150, SLH 2008)

FISCAL YEAR 2007-08

NOVEMBER 2008

TABLE OF CONTENTS

ANNUAL REPORT

FISCAL YEAR 2007-08

(HAW. REV. STAT. § 269-5 AND ACT 150, SLH 2008)

PUBLIC UTILITIES COMMISSION
STATE OF HAWAII

I. INTRODUCTION.

Public utilities, like the customers they serve and the society and economy in which they operate, continue to undergo significant changes due to rapid developments in technology, markets, economic conditions, consumer needs, and environmental concerns. We must recognize these changes and update regulatory practices as we implement legislated public policies in the best interest of the public, while simultaneously encouraging public utilities to efficiently operate, grow, and develop in their respective industries, so that they can continue to provide customers with reliable services at reasonable rates.

The Public Utilities Commission ("Commission") of the State of Hawaii ("State") submits this Annual Report pursuant to Section 269-5, Hawaii Revised Statutes, as amended ("HRS"), and Act 150, Session Laws of Hawaii ("SLH") 2008. This report summarizes the Commission's goals and objectives, as well as the activities and operations of the Commission and the public utilities it regulates during the July 1, 2007 to June 30, 2008 fiscal year ("Fiscal Year"). In addition, this report includes Commission actions related to Net Energy Metering.

II. COMMISSION HISTORY AND BACKGROUND.

The Commission is responsible for regulating all chartered, franchised, certificated, and registered public utility companies that provide electricity, gas, telecommunications, private water and sewage, and motor and water carrier transportation services in the State. It also oversees the administration of a one call center that provides advance warning to excavators of the location of subsurface installations in the area of an excavation in order to protect those installations from damage and the development and maintenance of the petroleum industry monitoring, analysis and reporting ("PIMAR") program that is intended to increase transparency within the petroleum industry. In addition, the Commission has been tasked with establishing the public benefits fee, which will be used to support energy efficiency programs and services on the islands of Oahu, Maui, Molokai, Lanai and Hawaii. The Commission has statutory authority to establish and enforce applicable state statutes, administrative rules and regulations, and to set policies and standards.

A. HISTORY.

The Commission was established in 1913 by Act 89, SLH 1913, as a part-time, three-member body with broad regulatory oversight and investigative authority over all public utility companies doing business in the Territory of Hawaii. This act, amended over the years and codified in Chapter 269, HRS, is the basis for utility regulation in Hawaii. The Commission's authority to regulate various classifications of motor carriers of passengers and property is derived from the Hawaii Motor Carrier Law (Chapter 271, HRS) enacted in 1961. Responsibility for all commercial water transportation carriers of persons and property within the State is derived from the Hawaii Water Carrier Act of 1974 (Chapter 271G, HRS). Chapter 6-61, "Rules of Practice and Procedure Before the Public Utilities Commission," of the Hawaii Administrative Rules ("HAR") sets forth general procedural requirements for intervention and participation in proceedings before the Commission. Other HARs and general orders of the Commission set forth the standards, rules, and other procedures governing electric, gas, telecommunications, private water and sewage, and motor and water carrier transportation services.

The one call center was established in 2005, and in 2007, the Commission began reporting under the petroleum industry monitoring, analysis and reporting program. The public benefits fee is expected to be established in early 2009.

Today, the Commission is a full-time body comprised of three (3) Commissioners. The Governor, with the consent of the State Senate, appoints the Commissioners. They each serve six-year terms on a staggered basis.

B. COMMISSIONERS.

Carlito P. Caliboso, Chairman

Carlito P. Caliboso was appointed to the Public Utilities Commission and named Chairman of the Commission by Governor Linda Lingle on April 30, 2003. In 2004, he was reappointed to the Commission for a term to expire on June 30, 2010.

Prior to his appointment, Chairman Caliboso was engaged in private law practice since 1991. He is also a member of the National Association of Regulated Utilities Commissioners ("NARUC"), and serves on NARUC's Board of Directors, the Committee on Telecommunications, the Ad Hoc Committee on National Wireless Protection Standards, the Committee on International Relations, and the Committee on Critical Infrastructure Protection, and he is currently the President of the Western Conference of Public Service Commissioners. In 2004, Chairman Caliboso was appointed as a member of the Federal Communications Commission's ("FCC") Intergovernmental Advisory Committee, which provides advice to the FCC on a broad range of telecommunications issues of interest to state, local, and tribal governments. In October 2007, Chairman Caliboso was named to serve a second term on the FCC Intergovernmental Advisory Committee as the Vice Chair of the committee. In addition, he serves on the State Energy Emergency Preparedness Advisory Committee. Chairman Caliboso earned a bachelor of business administration degree from the University of Hawaii and a law degree from the William S. Richardson School of Law at the University of Hawaii.

John E. Cole, Commissioner

John E. Cole was appointed to the Commission by Governor Linda Lingle on April 24, 2006 for a term to expire on June 30, 2012.

Prior to his appointment, Commissioner Cole served as Executive Director of the Division of Consumer Advocacy of the Hawaii State Department of Commerce and Consumer Affairs. In May 2005, Commissioner Cole was appointed as a member of the FCC's Consumer Advisory Committee to help advise the FCC on consumer issues within the FCC's jurisdiction and to facilitate the participation of consumers in proceedings before the FCC. He is also a member of NARUC and serves on NARUC's Committee on Energy Resources and the Environment, and the Committee on Consumer Affairs. Commissioner Cole earned a bachelor's degree in biology from the University of Hawaii and a law degree from Washington University School of Law.

Leslie H. Kondo, Commissioner

Leslie H. Kondo was appointed on July 2, 2007, to serve as an interim commissioner of the Public Utilities Commission to fill the vacancy created by the retirement of Commissioner Wayne Kimura and to serve for the remainder of the six-year term that expired on June 30, 2008. Commissioner Kondo was subsequently appointed to a new six-year term, which expires June 30, 2014.

Since February 2003 until his appointment to the Commission, Commissioner Kondo served as director of the State of Hawaii Office of Information Practices ("OIP"), which administers Hawaii's open meetings and public records laws.

Prior to his appointment with OIP, Commissioner Kondo was a partner at the law firm of Chun & Nagatani. He also worked at the law firms of Tom & Petrus and McCorriston Miho Miller Mukai. He served as a law clerk for Chief Justice Herman T.F. Lum of the Supreme Court of Hawaii from 1990-1991.

Commissioner Kondo has a bachelor of science in industrial engineering from Northwestern University and juris doctor degree from the William S. Richardson School of Law at the University of Hawaii. He is a member of the Hawaii State Bar Association and has served as director of Make-A-Wish Hawaii since 2001.

C. ADMINISTRATION AND OFFICES.

The Commission is comprised of three commissioners and, as of June 30, 2008, a staff of 38 employees. These employees include an administrative director, attorneys, engineers, auditors, researchers, investigators, neighbor island representatives for Kauai, Maui County and Hawaii, documentation staff, and clerical staff. The Commission has four offices located throughout the State:

OAHU: Public Utilities Commission
Kekuanaoa Building
465 South King Street, #103
Honolulu, HI 96813
Phone: (808) 586-2020
Fax: (808) 586-2066

KAUAI: PUC Kauai District Office
3060 Eiwa Street, #302-C
Lihue, HI 96766
Phone: (808) 274-3232
Fax: (808) 274-3233

MAUI: PUC Maui District Office
State Office Building #1
54 S. High Street, #218
Wailuku, HI 96793
Phone: (808) 984-8182
Fax: (808) 984-8183

HAWAII: PUC Hawaii District Office
688 Kinoole Street, #106-A
Hilo, HI 96720
Phone: (808) 974-4533
Fax: (808) 974-4534

Email: Hawaii.PUC@hawaii.gov

Web: www.hawaii.gov/budget/puc/

For administrative purposes, the Commission is placed under the Department of Budget and Finance.[1]

[1] Haw. Rev. Stat. §§ 26-8, 26-35, 269-2, as amended.

III. GOALS AND OBJECTIVES OF COMMISSION.

A. PRIMARY PURPOSE.

The Commission's primary purpose is to ensure that regulated companies efficiently and safely provide their customers with adequate and reliable services at just and reasonable rates, while providing regulated companies with a fair opportunity to earn a reasonable rate of return.

B. LONG-TERM GOALS.

Modernize and re-organize the Commission as needed to adapt to changes in technology, markets, economic conditions, consumer needs, and environmental concerns to improve the efficiency and effectiveness of the Commission.

Foster and encourage competition or other alternatives where reasonably feasible in an effort to provide consumers with meaningful choices for services at lower rates that are just and reasonable.

Promote and encourage efficient and reliable production and delivery of all utility services. Promote and encourage efficient and reliable electricity generation, transmission and distribution.

Promote and encourage the use of alternative, renewable, and/or clean energy resources for the production of electricity to increase the efficiency, reliability, and sustainability of electricity generation and supply for consumers.

Assist in creating an environment conducive for healthy economic growth and stability in the public interest.

C. SHORT-TERM GOALS.

Increase the transparency of the regulatory process and public access to the Commission to ensure that the Commission efficiently, independently, fairly, and impartially regulates public utilities.

Streamline and modernize the regulatory process whenever reasonably feasible to increase the efficiency of the Commission and regulated utilities.

Re-evaluate and update internal Commission staff procedures to increase the efficiency and effectiveness of Commission activities.

IV. ADMINISTRATIVE UPDATE.

During the Fiscal Year, the Commission continued to implement initiatives that aim to meet our strategic plan's short and long-term goals. Recruitment initiatives resulted in the hiring of six (6) new staff members that essentially supplemented the Commission's clerical, research, and engineering sections. Commission staff and consultants successfully implemented the internal roll-out of the Commission's Document Management System ("DMS") that now serves as the electronic backbone of the Commission's operations and has increased the efficiency of document distribution and filing within the Commission. The Commission plans to complete implementation of the DMS project in Fiscal Year 2009. Remaining implantation phases include allowing public access to Commission public documents via the DMS website and allowing for efiling and epayment through the DMS website.

Major administrative points of focus for Fiscal Year 2008-09 will include personnel recruitment and training, technological and regulatory process improvements, public education and information transparency enhancements, and enforcement activities expansion. Pursuant to Act 177, SLH 2007, ("Act 177") the Commission will restructure its organization in FY 2009 by establishing seven (7) new positions, expanding the existing Research Section to include policy support positions and functions and renaming it the Office of Policy and Research, creating a Consumer Affairs and Compliance Section to be responsible for consumer relations and current investigative and enforcement activities, creating an Administrative Support Section to centralize clerical services, case management services, fiscal services and information technology staff, and the updating and redescription of fourteen (14) existing positions. Act 177 establishes seven (7) more positions in FY 2010, increasing the Commission's total permanent position count to sixty-two (62).

V. REGULATORY ISSUES AND PROCEEDINGS.

A. MAJOR REGULATORY ISSUES.

The Commission is responsible for regulating 220 utility companies or entities (4 electric, 1 gas, 178 telecommunications, and 37 water and sewer companies), 4 water carriers, 627 passenger carriers and 588 property carriers in the State. During the Fiscal Year, the Commission opened 370 new dockets relating to those regulated utilities and transportation companies, completed and disposed of 315 dockets from its total case load and issued 751 decisions and orders relating to new dockets and to those carried over from prior years.

During the Fiscal Year, key proceedings in the electric utility area included the Commission's examination of issues related to net energy metering, the Renewable Portfolio Standards Law and the investigation of intra-governmental wheeling of electricity. It continued to review Hawaiian Electric Company, Inc.'s ("HECO") request for a general rate increase for the 2005 calendar test year. It also reviewed HECO's new general rate increase for the 2007 calendar test year, as well as rate cases for Hawaii Electric Light Company, Inc. ("HELCO"), and Maui Electric Company, Ltd. ("MECO").

In the telecommunications area, the Commission continued to monitor the transition activities resulting from the sale of Verizon Hawaii Inc., now known as Hawaiian Telcom, Inc., to TC Group L.L.C., dba The Carlyle Group. It continues to examine Hawaiian Telcom, Inc.'s service quality and performance levels and standards in relation to its retail and wholesale customers. Also, the Commission modified the telecommunications relay services carrier contribution factor and fund size for the period July 1, 2008 to June 30, 2009.

In the water carrier transportation area, the Commission reviewed and approved a general rate increase and a flexible zone of reasonableness program for Young Brothers Limited.

Another key proceeding during the Fiscal Year related to facing a possible shutdown of vital water and wastewater services to customers in West Moloka'i, the Commission initiated a proceeding to consider providing temporary rate relief, via a temporary surcharge, to Molokai Public Utilities, Inc., Wai'ola O Moloka'i, Inc., and MOSCO, Inc.

The following sections highlight the significant proceedings of the Commission.

B. ELECTRICITY AND ENERGY PROCEEDINGS.

The Commission regulates four electric utility companies or entities engaged in the production, purchase, transmission, distribution, and sale of electric energy in the State: HECO, serving the island of Oahu; MECO, serving the islands of Maui, Lanai, and Molokai; HELCO, serving the island of Hawaii (collectively, "the HECO Companies"); and Kauai Island Utility Cooperative ("KIUC"), serving the island of Kauai. MECO and HELCO are wholly-owned subsidiaries of HECO, which is in turn a wholly-owned subsidiary of Hawaiian Electric Industries, Inc.

1. COMMISSION PROCEEDINGS.

a. EXAMINATION OF DISTRIBUTED GENERATION AND ASSOCIATED TARIFFS.

In October 2003, the Commission instituted a proceeding to examine the potential benefits and impacts of distributed generation on Hawaii's electric distribution systems and market, in order to foster and encourage the development of beneficial distributed generation projects in Hawaii. The Commission's intent was to address generic distributed generation issues affecting the electric industry in Hawaii, including: (1) addressing interconnection matters; (2) determining who should own and operate distributed generation projects; (3) identifying what impacts, if any, distributed generation will have on Hawaii's electric distribution systems and market; (4) defining the role of regulated electric utility companies and the Commission in the deployment of distributed generation in Hawaii; (5) identifying the rate design and cost allocation issues associated with the deployment of distributed generation facilities; and (6) developing any necessary revisions to the integrated resource planning process.

In January 2006, the Commission issued its decision and order setting forth essential policies and principles for the deployment of distributed generation in Hawaii and certain guidelines and requirements for distributed generation.[2] This decision and order required the electric utilities to file interconnection tariffs and standby service tariffs for the Commission's review and approval. The Commission approved the interconnection tariff and standby service tariffs for the HECO Companies and an interconnection tariff for KIUC during the Fiscal Year. In June 2008, the Commission determined that it would address a revised standby service tariff for KIUC in the company's next rate case.[3]

b. COMPETITIVE BIDDING FOR NEW GENERATING CAPACITY.

In October 2003, the Commission opened an investigation to evaluate competitive bidding as a mechanism for acquiring or building new generation capacity in Hawaii, in an effort to develop a process by which any new generation would be provided at the lowest reasonable cost. Issues in this docket include: (1) evaluating the benefits and impacts of competitive bidding; (2) developing a fair competitive bidding system, if necessary, that ensures that competitive benefits result from the system and ratepayers are not placed at undue risk, clearly

---

[2]In April 2006, the Commission clarified its January 2006 decision and order in response to a motion for clarification and/or partial reconsideration filed by the HECO Companies.

[3]In July 2007, the Commission declined to adopt the federal interconnection standards set forth in Section 2621(d)(15) of Public Utility Regulatory Policies Act of 1978 ("PURPA"), as amended by the Energy Policy Act of 2005 ("EPAct"), for the HECO Companies and KIUC. The Commission, among other things, recognized that interconnection standards must be specific to Hawaii and addressed in a comprehensive manner.

specifies competitive bidding guidelines and requirements for prospective bidders, and encourages broad participation from a range of prospective bidders; and (3) developing the necessary revisions to the integrated resource planning process, if necessary.

In May 2006, the electric utilities and the Consumer Advocate jointly filed a stipulation proposing a competitive bidding framework, while Hawaii Renewable Energy Alliance ("HREA") separately filed a proposed competitive bidding framework, for the Commission's consideration. In June 2006, the Commission issued its decision and order and ordered the parties to submit comments on the proposed framework. After considering parties' comments on the proposed framework, the Commission adopted a final framework in December 2006. The Commission granted KIUC's Motion for Exemption from the competitive bidding framework in March 2007.

Pursuant to this Framework for Competitive Bidding, in October 2007, a docket related to HECO's proposal to acquire approximately 100 MW of non-firm renewable energy for Oahu was opened. Given that this was the first competitive bidding process since the commission's adoption of the Framework, an Independent Observer was selected to oversee the process and in June 2008, HECO issued the Request For Proposals.[4] In December 2007, one related to MECO's proposal to acquire two separate increments of approximately 20 to 25 MW of firm generating capacity on Maui in the 2011 and 2015 timeframes was opened also with the selection of an Independent Observer.

In November 2007, the Commission approved HECO Companies tariffs for interconnection and transmission upgrades, designated as Rule 19.

c. NET ENERGY METERING.

In April 2006, the Commission opened an investigation to evaluate whether the Commission should increase: (1) the maximum capacity of eligible customer-generators to more than fifty (50) kilowatts ("kW"); and (2) the total rated generating capacity produced by eligible customer-generators to an amount above 0.5 per cent of an electric utility's system peak demand, under Hawaii's Net Energy Metering Law, codified as HRS §§ 269-101 to 269-111. The HECO Companies, KIUC, and the Consumer Advocate were designated parties to this investigative proceeding, and in June 2006, the Commission granted motions to intervene filed by HREA and Hawaii Solar Energy Association ("HSEA") and a motion for participation without intervention filed by Zero Emissions Leasing LLC. In September 2006, the Commission amended the Stipulated Procedural Order to include the issue of whether the Commission should adopt, modify, or decline to adopt, in whole or part, the standard for net energy metering ("NEM") articulated in Section 111(d)(11) of PURPA, as amended by EPAct, including consideration of whether, and the extent to which, the EPAct standard for NEM has already been met by Hawaii's Net Energy Metering Law.

In March 2008, the Commission issued a decision and order, approving stipulations relating to the HECO Companies and KIUC on the maximum size and system cap of eligible customer-generators and ordered the HECO Companies and KIUC to design and propose NEM pilot programs for Commission review.[5] The Commission approved an increase in the NEM generator size limit from 50 kW to 100 kW for customers of the HECO Companies, while allowing KIUC to keep its generator size limit at 50 kW. In their respective stipulations HECO agreed to reserve 40 per cent, while HELCO and MECO agreed to 50 per cent of the 1.0 per cent system peaks for smaller systems and KIUC agreed to allocate 50 per cent of its peak demand to the

[4]The proposals are due in September 2008 with selection of short-listed bidders in December 2008.

[5]The Commission also declined to adopt, in whole or in part, the standard for NEM articulated in Section 111(d)(11) of PURPA, as amended by the EPAct.

smaller systems that have a NEM generator size of 10 kW or less. The maximum allowable NEM cap increased from 0.5 per cent to 1.0 per cent of each utility's system peak demand.

In addition, the Commission ordered the HECO Companies and KIUC to design and propose NEM pilot programs for their respective service territories, which would allow a limited number of larger generating units (of up to 500 kW or greater) for NEM purposes. In April 2008, the HECO Companies submitted a proposal for a 4 year pilot program. In May 2008, KIUC filed a motion for reconsideration of the portion of the decision and order relating to the pilot program. Specifically, KIUC requested, among other things, the range for the program be lowered from "100 kW to 500 kW" to "50 kW to 200 kW". KIUC expressed concern with the potential impact of the required range, particularly the upper size requirement of 500 kW, on KIUC due to its size and operations. A decision from the Commission on both the HECO Companies' proposed NEM pilot program and KIUC's motion for reconsideration is pending.

In June 2008, the Commission requested the HECO Companies and KIUC to update their NEM status reports in response to KIUC's attaining its maximum peak demand. The HECO Companies filed their updates in June 2008, and KIUC filed its updates in July 2008.

d. MAJOR POWER OUTAGES OF OCTOBER 15-16, 2006.

In October 2006, the Commission opened an investigation to examine the major power outages that occurred on the islands of Oahu, Hawaii, and Maui on October 15-16, 2006. HECO, HELCO, MECO, and the Consumer Advocate were designated parties to this investigative proceeding. In November 2006, Life of the Land's ("LOL") Motion to Intervene was denied. In December 2006, HECO filed a report on the investigation of the power outage on Oahu, and in March 2007, the HECO Companies submitted reports on the outages that occurred on the islands of Hawaii and Maui.

The Consumer Advocate and HECO Companies filed their Statement of Positions in August 2007 and October 2007. HECO held a briefing in December 2007 to provide a more detailed explanation of the training programs in place and to review the broad array of training materials used by the HECO Companies. A decision on this matter is pending.[6]

e. RENEWABLE PORTFOLIO STANDARDS LAW.

In January 2007, the Commission opened an investigation pursuant to Act 162, SLH 2006, which amended Hawaii's Renewable Portfolio Standards ("RPS") Law, codified as Hawaii Revised Statutes §§ 269-91 – 269-95 to examine the appropriate penalty framework for non-compliance with the RPS. HECO, HELCO, MECO, KIUC, and the Consumer Advocate were designated as parties to this investigative proceeding and in February 2007, the Commission granted motions to intervene filed by LOL and HREA.

In December 2007, the Commission approved a framework for RPS to govern electric utilities' compliance with the RPS. It also denied a proposal in the stipulated framework for the implementation of a Renewable Energy Infrastructure ("REI") Program, including a temporary REI Surcharge, which was proposed by the HECO Companies. Instead, the Commission determined that it would open a separate docket to examine the proposed REI Program. At the same time, the Commission decided to further examine the subject of penalties on electric utilities that fail to meet the RPS and required the utilities to file supplemental briefs on the matter.

---

[6] In September 2008, the Consumer Advocate issued a letter to the commission stating that due to the many improvements in training instituted since the October 15, 2006 outage, the purpose of the investigative proceeding has been satisfied.

Supplemental briefs were filed by the parties in March 2008. A final decision from the Commission is pending.

f. RENEWABLE ENERGY INFRASTRUCTURE PROGRAM.

In December 2007, the Commission opened a proceeding to examine the HECO Companies' proposed REI Program. The HECO Companies initially proposed this program in the RPS proceeding, but the Commission determined that a separate docket should be opened on this matter. The REI Program, as proposed, consists of renewable energy infrastructure projects and the creation and implementation of a REI Surcharge to recover the utilities' investment in renewable infrastructure in a timely fashion. Also part of the REI Program is a proposed consolidation incentive mechanism, which generally works to credit customers of electric utility affiliates within a consolidated electric utility whose service territories exceed their RPS percentages on a stand-alone basis, to be paid through a surcharge on customers of the affiliated electric utilities, if any, whose service territories fall short of their RPS percentage on a stand-alone basis. In effect, the mechanism, if approved, would allow the HECO Companies to recover certain costs for renewable projects built in the County of Hawaii and the County of Maui from Oahu ratepayers.

Public hearings were held in May 2008 on the islands of Oahu, Hawaii, Molokai, Maui, and Lanai.[7]

g. INTRA-GOVERNMENTAL WHEELING OF ELECTRICITY.

In June 2007, the Commission instituted a proceeding to investigate the implementation of intra-governmental wheeling of electricity, through which government agencies would be allowed to transmit renewable energy to other government facilities over existing transmission lines owned by an electric utility. The docket will look into, among other things, the potential impacts and costs of the service. A procedural schedule to govern the proceeding was issued in January 2008. Technical workshops on intra-governmental wheeling were conducted by HECO, MECO, HELCO and KIUC in June, July and August 2008.[8]

h. THIRD PARTY ADMINISTRATION OF ENERGY EFFICIENCY PROGRAMS.

In September 2007, the Commission instituted an investigation to examine the issues and requirements raised by, and contained in, Part VII of Chapter 269, Sections 269-121, et seq., HRS, pertaining to Hawaii's Public Benefits Fee. This proceeding was initiated to select a Third Party Administrator ("TPA") to implement and administer energy efficiency programs within the HECO Companies' service territories. HECO, HELCO, MECO, and the Consumer Advocate

[7]In October 2008, the parties notified the Commission that they had reached an agreement on all of the issues in the docket.

[8]In October 2008, the HECO Companies and the Department of Business, Economic Development, and Tourism ("DBEDT") requested to amend the procedural schedule to allow adequate time for the parties to complete the informal phase of the docket.

In November 2008, DBEDT requested a 12-month suspension of this docket, pursuant to the energy agreement executed by the Governor of the State of Hawaii, the DBEDT, the Consumer Advocate, and the HECO Companies. See Section XVI.C – Hawaii Clean Energy Initiative.

were designated as parties to this investigative proceeding and in December 2007, the Commission granted motions to intervene filed by HREA, HSEA, LOL, Honeywell International, Inc., Energy Industries, LLC and Haiku Design and Analysis.

In May 2008 at a status conference of the parties in this docket, the Commission announced that a Contract Manager and Fiscal Agent to oversee aspects of third-party administration of energy efficiency programs would be selected prior to the TPA and that monies would be required to fund these start-up costs. In a subsequent order, the Commission required that rather than collecting funds through a separate surcharge at this time, the monies would be expensed in the current DSM surcharges of the HECO Companies. The Commission also ordered the HECO Companies to continue their current DSM programs, during the transition period from January 1, 2009 through June 30, 2009, as the new TPA completes its transition plan. In addition, the Commission ordered the load management and pilot programs to remain with the HECO Companies; and the HECO Companies to assist the TPA during the transition period. The Commission's order also stated that the HECO Companies may compete for implementation of programs as a subcontractor to the TPA.[9]

2. HECO, HELCO, MECO, AND KIUC PROCEEDINGS.

a. COMMISSION REVIEWS HECO'S 2005 TEST YEAR RATE INCREASE REQUEST.

In November 2004, HECO filed an application requesting a rate increase of 9.9 per cent over present rates, which includes the transfer of the cost of existing energy conservation programs from a surcharge line item on electric bills into base electricity charges, which appear on another line on electric bills. For HECO customers, the net rate increase would be 7.3 per cent. In September 2005, the Commission issued a decision granting an interim rate increase of $53,288,000, or a 4.36 per cent increase.

In October 2007, the Commission issued a proposed decision and order that would grant HECO a rate increase of $45,741,000 in additional revenues for the 2005 calendar test year, or a 3.74 per cent increase over revenues at present rates. In May 2008, the Commission issued its final decision and order, which approved an increase to HECO's rates to such levels that will produce, in the aggregate, $44,862,000 in additional revenues for test year 2005, or a 3.67 per cent increase over revenues at present rates. Since this amount was less than the $53,288,000 that was approved as HECO's interim rate increase, the Commission ordered HECO to submit a refund plan to return any amount that was collected per the interim rate increase that was in excess of this authorized increase together with interest to its ratepayers. In May 2008, HECO proposed to return $16,823,000 to its current customers, which was approved by the Commission in June 2008.[10]

Also in the proposed decision and order filed in October 2007, the Commission ruled that HECO is not required to utilize the interest synchronization method for calculating its interest expense. In response to the proposed decision and order, the Department of Defense ("DOD") filed an exception to the Commission's decision on interest synchronization. The Commission in its final decision and order, determined that interest synchronization would improve the ratemaking process by reducing the calculation of the interest expense to a single mathematical

[9] In August 2008, the Commission selected a Fiscal Agent and in October 2008, selected a Contract Manager. The Commission plans to select the TPA in December 2008.

[10] In October 2008, HECO informed the Commission that it had refunded $18,247,100, or $1,424,100 in excess of the amount proposed in its refund plan, and requested to recover this amount from its ratepayers. The Commission denied HECO's request to recover the amount it over-refunded to its ratepayers.

formula (i.e., rate base and weighted cost of debt), by using amounts that had already been established in the ratemaking process and thereby adopted the interest synchronization method as the mechanism for computing interest expense in the docket.

b. COMMISSION REVIEWS HECO'S 2007 TEST YEAR RATE INCREASE REQUEST.

In December 2006, HECO filed a request for a general rate increase of approximately $99,556,000, or 7.1 per cent over revenues at current effective rates, for the normalized 2007 test year. HECO also proposed several new rate designs and rate schedules, including an inclining rate block structure for residential customers, optimal time-of-use rates, and standby service rates.

In October 2007, the Commission approved, on an interim basis, a rate increase of $69,997,000 in additional revenues, or 4.96 per cent over revenues at current effective rates for the normalized 2007 test year. The Commission also approved, on an interim basis, the adoption of the pension and the Postretirement Benefits Other Than Pensions ("OPEB") tracking mechanisms, and interim rates that incorporate the test year net periodic pension costs ("NPPC") of $17,711,000, and net periodic benefit costs ("NPBC") of $6,350,000.

In May 2008, HECO filed a Motion to Adjust Interim Increase from $69,997,000 to $77,867,000 in order to tie the interim increase to the new rates being implemented in the 2005 test year rate case, which was approved by the Commission in June 2008. A final decision on this application was pending at the end of the Fiscal Year.

c. COMMISSION REVIEWS HELCO'S REQUEST FOR RATE INCREASE.

In May 2006, HELCO filed an application requesting a rate increase of 9.24 per cent over present rates and revised rate schedules and rules. The Commission issued a decision granting an interim rate increase of $24,564,500, or a 7.58 per cent increase in April 2007.

In the same interim order, the Commission approved on an interim basis, the adoption of the pension and OPEB tracking mechanisms and interim rates that incorporate the 2006 test year NPPC of $2,744,000, the test year NPBC of $1,530,400, and amortization of the pension asset of $2,554,000.

In August 2007, the Commission declined to adopt, the federal time-based metering and communications standards set forth in Section 111(d)(14) of the PURPA, as amended by the EPAct for HELCO.

In June 2008, the Commission issued information requests to HELCO to determine whether HELCO's energy cost adjustment clause ("ECAC") complies with the requirements of Hawaii Revised Statutes § 269-16(g). HELCO filed its responses and supplemental responses in July and August 2008. A final decision on this application is pending.

d. COMMISSION REVIEWS MECO'S REQUEST FOR RATE INCREASE.

In February 2007, MECO requested the Commission's approval of a general rate increase of approximately $18,977,000, or about 5.3 per cent over revenues at present rates. MECO also requested to establish an inclining rate block structure for residential customers; discontinue its Rider EV-R and Rider EV-C; add certain new schedules; and amend MECO's Rules 7 and 8.

In December 2007, the Commission approved on an interim basis, MECO's request to increase its rates to such levels as will produce, in the aggregate, $13,222,000 in additional revenues, or 3.70 per cent, over revenues at present rates for a normalized 2007 calendar test year. Also, on an interim basis, MECO may adopt the pension and OPEB tracking mechanisms as agreed to by the parties in the docket. Moreover, the Commission approved MECO's request to allocate the interim increase in electric revenues, granted in the order, in the same equal percentage to all divisions and rate schedules.

e. INTEGRATED RESOURCE PLANNING ("IRP") ACTIVITIES.

IRP has become a key vehicle for state regulatory commissions, electric utilities, energy stakeholders, and the public to understand and influence utility planning. Generally, the process identifies and evaluates combinations of demand–side and supply-side energy resources that will achieve specified objectives and meet forecasted demand. The goal of IRP is the identification of the resources or the mix of resources for meeting near- and long-term consumer energy needs in an efficient and reliable manner at the lowest reasonable cost.

In 1992, the Commission required HECO, HELCO, MECO and Citizens Communications Company, Kauai Electric Division ("KE") (nka Kauai Island Utility Cooperative or "KIUC") to develop integrated resource plans in accordance with the IRP Framework. The IRP Framework, which was adopted in May 1992, requires each energy utility to develop a long-range, twenty-year IRP and a medium-range, five-year program implementation schedule (action plan) to be submitted on a three-year planning cycle for the Commission's review and approval. Generally, the IRP Framework further prescribes what the utilities are required to do and the factors to be considered in developing their respective integrated resource plans. It also encourages public participation in the development of each utility's integrated resource plan, and subject to Commission review and approval, allows the utility to seek the recovery of all appropriate and reasonable integrated planning and implementation costs. In addition, the IRP Framework provides the Commission with the authority to establish various incentive mechanisms to encourage and reward aggressive utility pursuits of DSM programs (i.e., shareholder incentives and lost margins).

Below is a summary of the status of electric utility IRPs and action plans as of June 30, 2008.

HECO – In March 2007, the Commission instituted a proceeding to formally commence the next integrated resource planning cycle for HECO and to examine the utility's IRP-4, to be submitted to the Commission by June 30, 2008. At the request of HECO, the Commission extended this deadline to September 30, 2008.

MECO – In April 2007, MECO's filed its IRP-3. In July 2008, the Commission approved MECO's IRP-3 plan and action plan. Also, MECO shall file its IRP-4 no later than April 30, 2010.

HELCO – In January 2008, the Commission approved HELCO's IRP-3 plan and program implementation schedule. In its order, the Commission also required that HELCO's IRP-4 should be filed no later than May 31, 2010.

KIUC – In June 2006, the Commission opened a new docket to examine KIUC's IRP efforts in its next IRP cycle and ordered KIUC to prepare its IRP schedule for its third IRP cycle. KIUC's third IRP is expected to be filed no later than December 20, 2008.

f. COMMISSION REVIEWS REQUESTS FOR THE CONSTRUCTION OF OVERHEAD AND UNDERGROUND ELECTRIC LINES.

During the Fiscal Year, the Commission reviewed and approved the following requests for the construction of electric lines:

Waimea-Kawaihae Reconductor 7300 Line Project - HELCO's request for interim approval to permit HELCO to commit funds and, if necessary, to start installation for this project was approved in July 2007.

Kapolei Business Park 138kV Overhead Relocation Project - HECO's request to construct the relocated portion of an existing 138kV transmission line on overhead facilities for this project was approved in September 2007. The 138kV transmission line runs diagonally through an undeveloped property and a developer requested that HECO relocate a portion of the line 100 to 200 feet so that it travels along the perimeter of the parcel.

Kamehameha Highway North Kahana Bridge Replacement Overhead Line Relocation Project - HECO's request for approval to construct temporary 46kV overhead subtransmission lines and subsequently relocate and construct permanent 46kV overhead subtransmission lines to approximately their original alignment in and around Kahana Bay Beach Park was approved in September 2007.

East Oahu Transmission Project - HECO's request to construct 46kV subtransmission lines below the surface of the ground for the project, in October 2007.

g. COMMISSION REVIEWS AND APPROVES HECO'S REQUEST FOR WAIVER OF RULE 13 TO ALLOW HECO TO PAY FOR PORTION OF THE UNDERGROUND CONVERSION COST.

HECO's Rule 13.D.4 states: When mutually agreed upon by the customer or applicant and the Company, overhead facilities will be replaced with underground facilities, provided the customer or applicant requesting the change makes a contribution of the estimated cost installed of the underground facilities less the estimated net salvage of the overhead facilities removed.

During the Fiscal Year, the Commission reviewed and approved the following requests for the waiver of Rule 13, to allow HECO to pay for a portion of underground conversion costs:

Keaahala CPR UG Conversion Project - HECO's request to allow HECO to contribute approximately $14,729 for the labor and materials to convert the secondary overhead lines to secondary underground lines for this project was approved in May 2008. According to HECO, due to the customer's tight schedule, the customer could not wait for HECO to submit the application and obtain Commission approval so they paid for the full cost of the conversion, estimated to be $56,729 (including change-over and removal costs). HECO will reimburse the customer $14,729.

Black Point Underground Conversion Project - HECO's request to allow HECO to contribute approximately $96,600 for the labor and materials to convert the existing 2.4 kV and secondary overhead lines to 2.4 kV and secondary underground lines for this project was approved in May 2008. The customer the full cost of the conversion up-front and HECO would reimburse the customers.

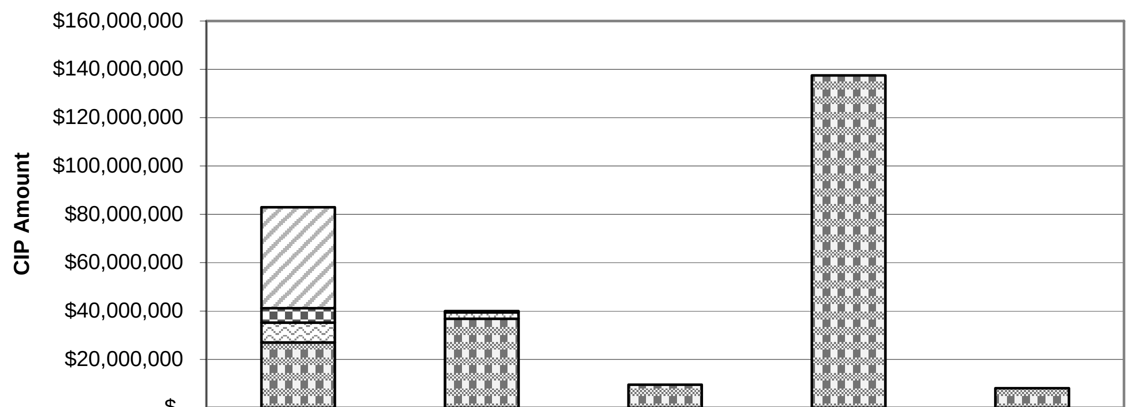
h. COMMISSION REVIEWS PROPOSED CAPITAL IMPROVEMENT PROJECTS.

Prior to July 1, 2004, electric utilities were required by the Commission's administrative rules to obtain approval for all capital improvement project ("CIP") expenditures over $500,000. Effective July 1, 2004, the threshold increased from $500,000 to $2.5 million for the electric utilities, resulting in a reduction in the number of CIP applications requesting Commission approval.

During the Fiscal Year, HECO was authorized to expend $8 million for its capital improvements. Expenditures include approximately $4 million for Waiau 8 Boiler Control System Upgrade and approximately $4 million for the Barbers Point Fuel Oil Tank 131 Renovation.

Neither MECO, HELCO, nor KIUC filed applications for CIP approvals for proposed projects over $2.5 million.

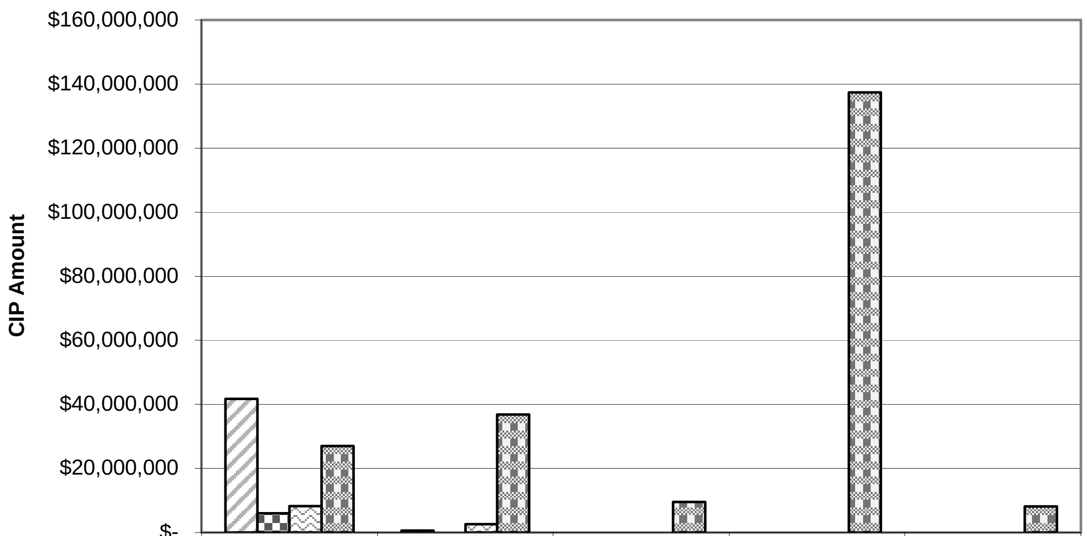
Figure 1
Five-Year Comparison of Commission-Approved
Electric Utilitiy CIP



	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08
KIUC	$41,750,000	$580,000	$-	$-	$-
MECO	$5,984,591	$-	$-	$-	$-
HELCO	$8,221,363	$2,585,463	$-	$-	$-
HECO	$26,999,323	$36,835,359	$9,500,000	$137,430,260	$8,062,814
Total CIP	$82,955,277	$40,000,822	$9,500,000	$137,430,260	$8,062,814

Fiscal Year (FY)

Figure 2
Five-Year Comparison of Commission-Approved
Electric Utilitiy CIP



	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08
KIUC	$41,750,000	$580,000	$-	$-	$-
MECO	$5,984,591	$-	$-	$-	$-
HELCO	$8,221,363	$2,585,463	$-	$-	$-
HECO	$26,999,323	$36,835,359	$9,500,000	$137,430,260	$8,062,814

Fiscal Year (FY)

C. GAS PROCEEDINGS.

The Gas Company, LLC ("TGC") is a duly franchised public utility providing gas service for residential, commercial, and industrial uses throughout the State. TGC's operations consist of the purchase, production, transmission, and distribution of gas through gas pipelines, and sale of synthetic natural gas ("SNG") and liquid propane gas.

A key proceeding in the gas service industry during the Fiscal Year related to TGC's request for a rate increase. In April 2008, TGC filed a notice that it intends to file an application for a general rate increase for its Oahu, Maui, Kauai, Hawaii (Hilo and Kona), Molokai, and Lanai utility districts. TGC plans to request rate relief based on a 2009 calendar year test period.[11]

D. TELECOMMUNICATIONS PROCEEDINGS.

The Commission oversees the intrastate cellular, paging, mobile telephone, and other services of telecommunications providers in addition to the services of Hawaiian Telcom, Inc. ("Hawaiian Telcom"), formerly known as Verizon Hawaii Inc. ("Verizon Hawaii"), the State's only incumbent local exchange carrier and largest provider of intrastate services.

Key activities in telecommunications are highlighted below.

[11]On August 4, 2008, TGC filed its application for a general rate increase.

1. COMMISSION CONTINUED INVESTIGATION REGARDING HAWAIIAN TELCOM'S SERVICE QUALITY AND PERFORMANCE LEVELS AND STANDARDS.

In October 2006, the Commission instituted a proceeding to examine Hawaiian Telcom's service quality and performance levels and standards in relation to its retail and wholesale customers. In the Decision and Order No. 21696, filed on March 16, 2005, in Docket No. 04-0140, in which the Commission conditionally approved the merger transaction, it stated that it would initiate an investigation regarding Hawaiian Telcom's service quality levels and standards approximately six (6) months after cutover from Verizon's systems to Hawaiian Telcom's systems. Hawaiian Telcom cutover from Verizon's systems to its own operating systems on April 1, 2006.

In July 2007, the Commission directed Hawaiian Telcom to file bi-weekly progress reports detailing its progress with Accenture under its current vendor agreement and any other ongoing effort by Hawaiian Telcom to resolve the remaining back office cutover issues. The first progress report was submitted on August 1, 2007, and subsequent reports are filed every other week thereafter, until completion of Accenture's services agreement with Hawaiian Telcom (and any extensions thereof) or until further order of the Commission.

2. COMMISSION CERTIFICATES NEW TELECOMMUNICATIONS CARRIERS.

The Commission certificated 7 new telecommunications companies in the Fiscal Year, which were resellers of various intrastate wireless, calling card, and interexchange (long-distance) telecommunications services.

3. COMMISSION MODIFIES TELECOMMUNICATIONS RELAY SERVICES ("TRS") CONTRIBUTION FACTOR AND FUND SIZE.

In May 2003, the Commission required every telecommunications carrier in Hawaii to contribute to the intrastate TRS fund. A carrier's contribution to the TRS fund is a product of its gross operating revenues from the retail provision of intrastate telecommunications service during the preceding calendar year and a contribution factor determined annually by the Commission.

In May 2008, the Commission initiated an investigation to examine whether to modify the TRS carrier contribution factor and fund size for the period July 1, 2008 to June 30, 2009. In June 2008, the Commission approved a contribution factor of 0.0008 for the period July 1, 2008 to June 30, 2009 and established the annual projected TRS fund size at approximately $332,103.

4. COMMISSION REVIEWS AND APPROVES HAWAIIAN TELCOM SERVICES COMPANY, INC.'S ("HTSC") SALE OF DIRECTORY PUBLISHING BUSINESS.

In November 2007, the Commission reviewed and conditionally approved HTSC's sale of its directory publishing business to CBD Investor, Inc. ("CBD") for an aggregate price of $435 million. The Commission found that generally, the transfer would be transparent given that the buyer would retain the services of L.M. Berry, which has been the outsourced provider since 2005. CBD will be the exclusive official directory publisher of the white and yellow pages directory products in Hawaii and will continue to utilize the "Hawaiian Telcom" name. Moreover, the Commission found that the transaction should benefit HTSC and Hawaiian Telcom and their customers, since the entire net sale proceeds from the transaction was intended and required to be used to pay down HT Communications' existing debt.

In June 2008, Hawaiian Telcom filed a Strategic and Debt Reduction Plan with the Commission.

5. COMMISSION REVIEWS REQUIREMENTS RELATED TO TRANSFER OF CONTROL.

Hawaii Revised Statutes § 269-16.9 allows the Commission to waive regulatory requirements applicable to telecommunications providers if it determines that competition will serve the same purpose as public interest regulation. Specifically, Hawaii Administrative Rules § 6-80-135 permits the Commission to waive the applicability of any of the provisions of Hawaii Revised Statutes chapter 269 or any rule, upon a determination that a waiver is in the public interest.

Comtel Telcom Assets LP In September 2007, the Commission waived the requirements of HRS §§269-7(a), 269-17 and 269-19 and HAR §§ 6-61-101 and 6-61-105 to the extent applicable, with respect to Comtel Telcom Assets LP's request to approve the indirect transfer of control from a minority member acquiring a majority interest in an upstream limited liability company. Comtel will continue to provide services to its existing customers under the same rates, terms and conditions of service and the transaction will be transparent to consumers.

First Communications, LLC. In September 2007, the Commission waived the requirements of HRS §§ 269-7(a), and 269-19 and HAR §§ 6-61-101 and 6-61-105, to the extent applicable, with respect to First Communications, LLC ("FCL"), and Gores FC Holdings, LLC's ("Gores FC") request to approve the indirect transfer of control of FCL that will result from Gores FC obtaining de facto control of FCL's parent company, First Communications, Inc. ("FCI"), by obtaining a right to appoint a majority of FCI's board of directors. This transaction is at the holding company level and will be entirely transparent to FCL's customers and that it will not result in any change to FCL's day-to-day operations or to its rates, terms, or conditions of service.

AccessLine Holdings, Inc. In November 2007, the Commission waived the requirements of HRS §§ 269-7(a), and 269-19 and HAR §§ 6-61-101 and 6-61-105, to the extent applicable, with respect to AccessLine Holdings, Inc. ("AccessLine"), AccessLine Communications Corporation ("ACC"), and Telanetix, Inc.'s ("Telanetix") request to approve the indirect transfer of control of ACC from AccessLine to Telanetix. Telanetix will acquire direct control of AccessLine and indirect control of ACC. The transaction will be seamless and transparent to ACC's customers, as ACC will continue to offer service under the same name with no change in rates, terms or conditions of service.

MobilePro Corp. In December 2007, the Commission waived the requirements of HRS §§ 269-7(a) and 269-19 and HAR §§ 6-61-101 and 6-61-105, to the extent applicable, for the proposed transfer of control of American Fiber Network, Inc. ("AFN"), from MobilePro Corp. ("MobilePro") to United Systems Access, Inc. ("USAI"). In an agreement between MobilePro and USAI, USAI will acquire 100 per cent of the stock of AFN. This transaction will be transparent to AFN's customers, as AFN will continue to offer service under the same rates, terms and conditions of service.

Startec Global Operating Company. In April 2008, the Commission waived the requirements of HRS §§ 269-7(a) and 269-19 and HAR §§ 6-80-135 to the extent applicable for the merger of Americatel Corporation ("Americatel") and Startec Global Operating Company ("Startec") with Americatel surviving. Startec's Certificate of Authority is transferred to Americatel to provide resold intrastate telecommunications services subject to conditions.

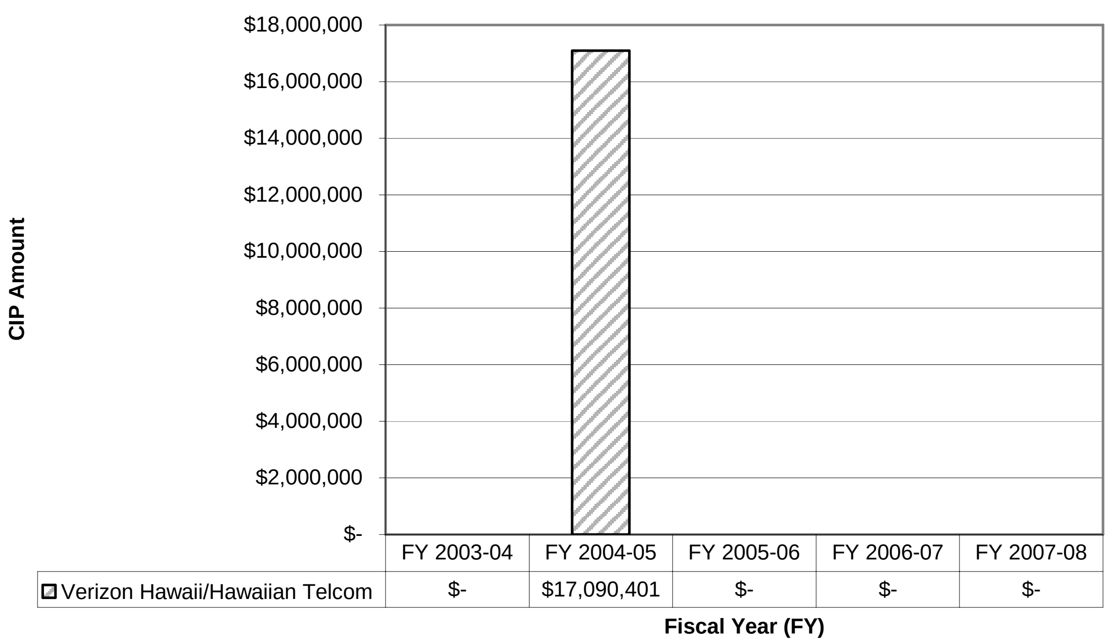
Inter-Tel Netsolutions, Inc. In May 2008, the Commission waived the requirements of HRS §§ 269-16.92 pursuant to HRS §§ 269-16.9(e) and HAR §§ 6-80-135, to the extent applicable, for the proposed transfer of Computer Network Technology Corporation's Certificate of Authority to Bandwidth.com CLEC, LLC, to provide resold and facilities-based telecommunications services subject to conditions.

6. COMMISSION RECEIVES NO APPLICATIONS FOR APPROVAL OF CAPITAL EXPENDITURES DURING FISCAL YEAR.

Prior to July 1, 2004, telecommunications carriers were required by the Commission's administrative rules to obtain approval for all CIP expenditures over $500,000. Similar to the threshold applicable to electric utilities, effective July 1, 2004, the threshold for telecommunications utilities increased from $500,000 to $2.5 million. Accordingly, only those applications requesting approval for CIP expenditures over $2.5 million must be submitted to the Commission for review. During the Fiscal Year, Hawaiian Telcom did not file any requests for CIP approvals.

Figure 3 shows the total dollar value of Commission-approved telecommunications utility CIPs during the past five (5) years.

Figure 3
Five-Year Comparison of Commission-Approved Telecommunications Utilitiy CIP



E. PRIVATE WATER AND SEWAGE UTILITIES PROCEEDINGS.

The Commission regulates 37 privately owned water and sewage treatment utilities that serve suburban, rural, and resort areas throughout the State. The majority of these utilities are located on the neighbor islands.

During the Fiscal Year, the Commission's key proceedings in this area included rate cases and requests for Certificates of Public Convenience and Necessity ("CPCNs").

1. COMMISSION REVIEWS AND APPROVES REQUESTED RATE INCREASES.

During this Fiscal Year, the Commission approved rate increases for the following water and sewage utilities:

Waikoloa Sanitary Sewer Co., Inc. dba West Hawaii Sewer Company ("WHSC"). In October 2007, the Commission issued a proposed decision and order, approving a general rate increase of $277,439, or approximately 42.1 per cent over revenues at present rates for WHSC, based on a total revenue requirement of $937,052 for the 2006 calendar test year.[12] WHSC provides wastewater collection and treatment system that services to the residential, multi-family, commercial, and public authority customers in the greater Waikoloa Village area on the island of Hawaii.

Waikoloa Resort Utilities, Inc., dba West Hawaii Utility Company ("WHUC"). In March 2008, the Commission approved (1) an across-the-board increase in water rates of 16.5 per cent; (2) an across-the-board increase in sewer rates of 42 per cent, under the first phase of a proposed two-step phase-in followed by an additional increase in sewer rates, ranging from approximately 27 per cent to 30 per cent; and (3) a decrease in non-potable irrigation service charge of 13.3 per cent for WHUC. The Commission determined that WHUC may increase its rates to such levels as will produce, in the aggregate, $1,146,512 in additional revenues for the 2007 calendar test year, or approximately 27 per cent over revenues at present rates, on a consolidated basis WHUC is a public utility that provides water and wastewater services to the condominiums, hotels, and other commercial establishments located within the Waikoloa Beach Resort service area on the island of Hawaii. It also provides non-potable irrigation water service to two golf courses.

North Shore Wastewater Treatment, LLC ("NSW"). In December 2007, the Commission issued a proposed decision and order approving, based on a 2007 calendar test year ("Test Year"): a $664,515 increase in NSW's revenues, resulting in a revenue requirement for NSW of $686,595; an average Test Year rate base of $863,790; and a return on rate base of 8.85 per cent. In the proposed decision and order, the Commission also authorized the implementation of an automatic power cost adjustment clause. In January 2008, the Commission adopted the proposed decision and order as the Commission's decision and order in the proceeding. NSW is a public utility that provides wastewater collection and treatment services to its customers located in Kahuku, Oahu.

---

[12] In September 2008, the Commission approved an increase in revenues of $275,337 over present rates (41.67 per cent) for WHSC based on a total revenue requirement of $936,108 for the 2006 calendar test year.

Kukio Utility Company, LLC ("Kukio"). In January 2008, the Commission issued a proposed decision and order approving a total rate increase of $232,341 or 10.71 per cent over revenues at present rates for Kukio Utility Company, LLC's water operations for the 2008 calendar test year and, for Kukio's sewer operations, the Commission approved an overall decrease of $28,030 or 3.23 per cent in revenues at present rates. The Commission also authorized the implementation of an Automatic Power Cost Adjustment Factor ("PCAF") for Kukio's water operations, and revised the PCAF for Kukio's wastewater operations. In February 2008, the Commission adopted the proposed decision and order as the Commission's decision and order in the proceeding. Kukio is a public utility that provides water and wastewater utility services within its authorized service area on the island of Hawaii.

2. COMMISSION GRANTS NEW AND AMENDED CPCNS.

During the Fiscal Year, the Commission granted new and amended CPCNs for water and sewage utilities, including the following:

Kapalua Water Company, Ltd. In May 2008, the Commission approved Kapalua Water Company, Ltd.'s application to expand its existing service territory to provide potable water service to the West Maui Village development. Kapalua Water Co., Ltd. is a wholly-owned subsidiary of Maui Land & Pineapple Company, Inc. that provides potable and non-potable water utility services in the Kapalua resort area.

3. COMMISSION REVIEWS AND APPROVES TRANSFER OF MAKENA WASTEWATER CORP. ("MWC") TO MEHEU, LLC ("MEHEU").

In February 2008, the Commission approved the transfer of 100 per cent of Makena Wastewater Corp.'s ("MWC") outstanding common stock from its parent company, Moani Corp to Meheu. MWC is a public utility authorized to provide wastewater treatment services within a portion of a master-planned real estate development project in the Makena area on the island of Maui. MWC will continue to operate as a public utility.

4. COMMISSION INSTITUTES A PROCEEDING TO PROVIDE TEMPORARY RATE RELIEF TO MOLOKAI PUBLIC UTILITIES, INC. ("MPU"), WAI'OLA O MOLOKA'I, INC. ("WAI'OLA"), AND MOSCO, INC. ("MOSCO").

In June 2008, the Commission initiated a proceeding to consider providing temporary rate relief, via a temporary surcharge, to MPU, Wai'ola, and MOSCO. The Commission proposed temporary rate relief for MPU and Wai'ola and no rate increase for Mosco, as Mosco appeared to be financially viable and operating at a profit.

All three utility companies are affiliated with Moloka'i Properties Limited, better known as Moloka'i Ranch, which had informed the Commission in March 2008 that services by these utilities would be discontinued if an entity is not found to take over the operations by the end of August. Facing a shutdown of vital water and wastewater services to customers in West Moloka'i, the Commission opened this rate proceeding in June in an unprecedented effort to enable MPU, Wai'ola and Mosco to remain in operation until their water and sewer systems can be operated by another entity.[13]

F. TRANSPORTATION CARRIERS PROCEEDINGS.

1. MOTOR CARRIERS.

The Commission regulates passenger and property motor carriers. Passenger carriers are classified by authorized vehicle seating capacity. They include tour companies, limousine services, and other transportation providers. Property carriers are classified by the types of commodities transported and the nature of services performed, namely: general commodities, household goods, commodities in dump trucks, and specific commodities.

By law, certain transportation services, including, without limitation, taxis, school and city buses, ambulance services, refuse haulers, farming vehicles, and persons transporting personal property, are exempt from Commission regulation.

Many of the State's motor carriers are members of either the Western Motor Tariff Bureau, Inc. ("WMTB") or the Hawaii State Certified Common Carriers Association ("HSCCCA"). WMTB and HSCCCA are nonprofit organizations engaged in the research, development, and publication of motor carrier tariffs. The two organizations represent their members in ratemaking proceedings before the Commission.

In accordance with its statutory requirements, the Commission performs the following functions in the regulation of motor carriers: (1) certification and licensing; (2) ratemaking; and (3) business regulation. During the Fiscal Year, the Commission issued many new certificates and licenses, reviewed requested rate increases, and extended the zone of reasonableness program for motor carriers to December 2011.

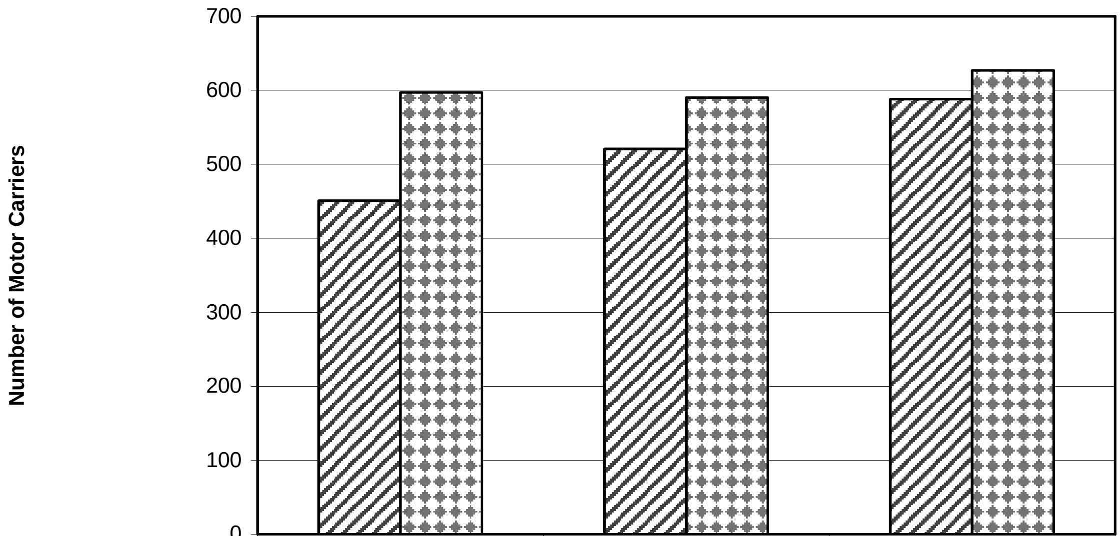
a. COMMISSION APPROVES NEW MOTOR CARRIER CERTIFICATIONS.

The Commission regulates 627 passenger carriers and 588 property carriers in the State. During the Fiscal Year, new certificates or permits were issued to 136 motor carriers, 59 passenger carriers and 77 property carriers.

In the Fiscal Year, both the number of authorized property carriers and passenger carriers increased over the previous fiscal year, as shown in Figure 4.

[13]In August 2008, the Commission approved temporary rate increases for MPU and Wai'ola.

Figure 4
Regulated Motor Carriers



	2005-06	2006-07	2007-08
Property Carriers	451	521	588
Passenger Carriers	597	590	627

FY

b. COMMISSION REVIEWS REQUESTS FOR RATE CHANGES.

During the Fiscal Year, the Commission reviewed and approved rate increases and decreases within and outside of the zone of reasonableness program which went into effect on January 1, 2004 and continues through December 31, 2011. During the Fiscal Year, all WMTB motor carriers filed requests for rate changes. Of the independent motor carriers, the Commission reviewed and approved requests from 90 motor carriers. All of the motor carriers belonging to HSCCCA filed requests for rate increases. The Commission reviewed and approved the following motor carrier increases and decreases:

Rate Changes Within the Ten (10) Per Cent Zone Limit. For the rate changes that were within the zone limit of ten (10) per cent, most were for rate increases of five (5) or ten (10) per cent. Other rate increases ranged from less than two (2) to four (4) per cent. The Commission approved the following motor carrier increases and decreases within the zone:

Type of Carrier/Company (County)		Rate Increase or Decrease
Dump Truck		
RRL, LLC	Oahu	8-10%
Kona Transp. Company	Hawaii	5%, 9%
Kona Transp. Company	Hawaii	5%, 9%
Kona Transp. Company	Hawaii	3-5%, 10%, (-2%)
T&S Trucking	Oahu	10.00%
Aiwohi Bros., Inc.	Oahu	10.00%
Kai's Trucking	Hawaii	10.00%
Hanoa Trucking LLC	Oahu	10.00%
Nohili Trucking, LLC	Oahu	10.00%
Rich Colburn, Kanai	Oahu	10.00%
SKF Services, LLC	Oahu	10.00%
JN Transport, Inc.	Maui	10.00%
JN Transport, Inc.	Maui	10.00%
Big Boys Trucking, LLC	Oahu	10.00%
Pacific Comm Services	Oahu	10.00%
All G. Entprse. Mark Carl	Hawaii	10.00%
Nick's Hauling Services	Hawaii	10.00%
D & D Towing, Inc	Maui	10.00%
Big Isle Topsoil, LLC	O,M,H,K	10.00%
Kali Corp.	Oahu	.3-10%
Kahumoku Bros., LLC	Oahu	10.00%
J.L Hauling, LLC	Hawaii	10.00%
Tri Isle, Incorporated	Maui	8.00%
Pomaika'I Transport Serv.	Oahu	10.00%
Pineridge Farms, Inc.	O,M	10.00%
RHS Lee	Oahu	10.00%
Kalaka Nui, Inc.	Oahu	10.00%
ER Ranch	Maui	10.00%
Genesis Trucking	Oahu	8-10%
Nakamura, Arthur M.	Hawaii	10.00%
Arthur Makoto, ATA Haul	Hawaii	10%
Moniz Trucking, LLC	Oahu	10.00%
Rodney Wilbur, R & C	Hawaii	10.00%
JC Trucking	Hawaii	10.00%
Pineridge Farms, Inc.	O,M	10.00%
Erwin Decoite & Sons	Maui	10.00%
Correa Hauling	Maui	10.00%
Diamond B Trucking	Maui	10.00%
Isle Lowboy & Trucking	Maui	10.00%
Jay Lo's Trucking, LLC	Maui	10.00%
Wassie's Trucking	Hawaii	10.00%
West Maui Rock	Maui	10.00%
Mathew Swain, dba Swain	Oahu	10.00%
Pine Enterprises	Oahu	10.00%

General Commodities		
Mercantile Trucking, Ltd.	Oahu	10.00%
Mercantile Trucking, Ltd.	Oahu	10.00%
Xpress Trucking	O,M	3.00%
Xpress Trucking	O,M	6%, 7%
Dependable-Hawaii	Hawaii	-9.00%
Pacific Bridges	Oahu	10.00%
Cargo Saints, Inc.	Oahu	10.00%
Roadmaster Services	Oahu	10.00%
Direct Support Res. Inc	Oahu	5 - 9.5%
Merlin L. Peters, G.P. Services	Oahu	10.00%
International Express, Inc.	Oahu	1.56%
International Express	Oahu	1.42%
DHX, Oahu	Oahu	7.00%
International Express	Oahu	0.97%
Royal Hawaiian Movers	O,M	5-10%
All American Movers	Oahu	8-10%
MPD Inc.	Oahu	10.00%
Hawaii Transfer	Oahu	3.75%
Conen's Freight Transport	Hawaii	10.00%
Conen's Freight Transport	Hawaii	10.00%
B.B. Delivery Srvc.	O,M	5%, 5%, 10%
DHX, Maui	Maui	2.25%
Dependable Hawn. Expr.	Oahu	7%,7%,1.86%
DHX, Oahu	Oahu	2.25%
Harris Trucking, Inc.	Oahu	8-10%
DHX, Maui	Maui	8.00%
Household Goods		
Honolulu Freight Srvc.	Oahu	6.50%
Others		
WMTB-Equip.Tran.Srvc.	Oahu	3.00%
WMTB - All	Oahu	10.00%
Break Bulk and Delivery		
Xpress Trucking	O,M	6%, 7%
Dependable Hawn. Expr.	Oahu	7.00%
DHX, Oahu	Oahu	-7.00%
Island Movers, Inc.	O,M	7%
Kuwaye Trucking, Inc.	Hawaii	7-10%
WMTB - Yamada	Hawaii	5.00%
WMTB - All	Oahu	10.00%
Passenger		
Foat, R. dba Resort Shuttle	Hawaii	10.00%
Platinum Management LLC	Maui	10.00%
Wailea Limo Service, Inc.	Maui	2.48-9.7%

Arthur's - Star 21, Inc.	Maui	(-4.3%), 5, 6%
Akina Aloha Tours, Inc.	Maui	5.00%
Akina Bus Service, LTD.	Maui	5.00%
Mahalo Tours & Trans.	Maui	5.00%
Tariff #12 - All	Oahu	10.00%
E Noa Corp.	Oahu	5.5-10%
Elite Limo Srvc, Inc .	Oahu	3.46-7.25%
Elite Limo Service, Inc.	Oahu	2.77-9.46%
Armijo, Kapalua Trans	Maui	(-1.85-10%), 10%
Mahalo Tours & Trans.	Maui	(-8.3%) & 10%
Mahalo Tours & Trans.	Maui	8.3%,(-10%),10%
Property		
Pacific Transfer, LLC	Oahu	-6.00%
Pacific Transfer, LLC	Oahu	.6 to .9 of 1%, 7%
UPS Cartage	Oahu	10.00%
WMTB - All	Oahu	10.00%
WMTB-Imperial Trucking	Oahu	4.76%
Tri Isle, Incorporated	Maui	3.24%
Honolulu Freight Srvc.	Oahu	4.50%
Kaluahine, Fredstan	Kauai	10.00%
Matsuyama Bros.	Hawaii	10.00%
Kaluahine, Fredstan	Kauai	10.00%
Santos Services LLC	Hawaii	10.00%
Safety First	Oahu	8.00%
Pineridge Farms, Inc.	Oahu	9.35,9.5%

Rate Changes Outside the Ten (10) Per Cent Zone Limit. The Commission reviews requests for rate increases that do not fall within the zone of reasonableness. In its review of these requests, the Commission requests the motor carriers to submit financial statements containing the companies' revenues, expenditures, and operating ratio. The Commission approves the rate increase or decrease based on an acceptable operating ratio reported in the financial statement. During the Fiscal Year, the Commission reviewed and approved the following rate changes that did not fall within the zone of reasonableness:

Type of Carrier/Company (County)		Rate Increase or Decrease
Passenger		
Jaime, Juan Jose	Oahu	7.69%-50%
Dump Truck		
Nohili Trucking, LLC	Oahu	20.00%

2. WATER CARRIERS.

The Commission regulates four water carriers: Young Brothers, Limited ("Young Brothers"), a provider of inter-island cargo service between all major islands; Sea Link of Hawaii, Inc. ("Sea Link"), a passenger and cargo carrier providing water transportation services between the islands of Maui and Molokai; Hone Heke Corporation ("Hone Heke"), a passenger and cargo carrier providing water transportation services between the islands of Maui and Lanai; and Hawaii Superferry, Inc., a passenger and cargo carrier between the islands of Oahu and Kauai, Maui and Hawaii. Water carrier docket proceedings are summarized below.

a. COMMISSION REVIEWS AND APPROVES YOUNG BROTHERS' REQUEST FOR A RATE INCREASE PURSUANT TO ITS NEW ZONE PRACTICE.

In December 2001, the Commission approved a 2001 Stipulation, which allowed Young Brothers to adjust its rates within a zone with a maximum annual increase of 5.5 per cent and a maximum annual decrease of 10 per cent over a twelve-month period ("Zone"), without a rate case proceeding, provided that Young Brothers does not exceed its authorized rate of return on its average depreciated rate base under a three-year pilot program. In April 2005, the Commission approved the 2004 Stipulation which allowed it to continue the Zone for three additional years.

In December 2007, Young Brothers and the Consumer Advocate filed the 2007 stipulation to extend the zone practice. In April 2008, the Commission approved the 2007 Stipulation, which is Young Brother's New Zone Practice effective April 9, 2008, that authorizes Young Brothers to seek a maximum overall rate increase of 5.5 per cent and a maximum overall rate decrease of 10 per cent over a twelve-month period. The New Zone Practice shall no longer be a pilot program and shall remain in effect until terminated or modified through an order of the Commission.

b. COMMISSION EXAMINES YOUNG BROTHERS' REQUEST FOR A GENERAL RATE INCREASE.

Shortly after receiving approval for an across-the-board rate increase of 5.5 per cent in September 2006, Young Brothers filed a Notice of Intent to file an application for approval of a general rate increase. Young Brothers then filed an application for an average overall rate increase of 10.7 per cent for certain types of cargo, based on a 2007 calendar test year, in December 2006. In its application, it also proposed to establish an automatic fuel price adjustment clause and a minimum charge for platforms. The Consumer Advocate's primary contention with respect to the application is that the application violates the terms of the 2001 and 2004 Stipulations in the Zone proceedings, as it seeks to increase rates beyond the 5.5 per cent annual threshold approximately 4.5 months after a 5.5 per cent increase in rates was implemented.

In January 2007, the Commission suspended Young Brothers' tariff application in order to fully examine and investigate the request on its merits.

In October 2007, the Commission approved a stipulation on settlement of all issues in the proceeding jointly filed by Young Brothers and the Consumer Advocate, thereby approving an intrastate revenue increase of $4,391,105, or approximately 7.51 per cent over intrastate revenues at present rates for the 2007 calendar test year. The Commission also authorized Young Brothers to implement a fuel price adjustment clause and annual fuel price reconciliation monitoring plan.

c. COMMISSION REVIEWS AND APPROVES YOUNG BROTHERS' REQUEST TO DISPOSE OF BARGES.

In February 2008, the Commission approved Young Brothers' request to dispose of the Malana and Kahoku barges, via sale to interested buyers. The sale of the Malana and the Kahoku closed on June 18, 2008 resulting in a final net gain of $835,678.[14]

d. COMMISSION REVIEWS AND APPROVES HONE HEKE'S APPLICATION TO SELL M/V EXPEDITIONS 3.

In March 2008, the Commission approved Hone Heke's request to sell the vessel, M/V Expeditions 3, to Hat Island Community Association for $150,000.

e. COMMISSION REVIEWS HONE HEKE'S REQUEST FOR RATE INCREASE.

In February 2008, Hone Heke filed its notice of intent to file a general rate increase application. In June 2008, Hone Heke filed its application to increase its fares of certain of its passenger classifications and to establish two new passenger classifications and corresponding fares.[15]

f. COMMISSION REVIEWS SEA LINK'S REQUEST TO ESTABLISH A FUEL SURCHARGE.

In June 2008, the Commission reviewed Sea Link's application for a temporary rate increase by establishing a fuel surcharge. In its request for immediate and temporary relief, Sea Link cited among other things, substantial increases in fuel prices and lower passenger counts that had financially impacted its ferry service between the islands of Maui and Molokai. Sea Link requested to implement a temporary fuel surcharge to all passengers except its employee commuter passengers.[16]

G. DOCKET PROCEEDINGS.

As of July 1, 2007, 202 pending dockets were carried over from prior years, and 370 new dockets were opened during the Fiscal Year. Thus, during the Fiscal Year, a total of 572 dockets

[14]In July 2008, the Commission approved Young Brothers' request to apply a two-year amortization period for ratemaking purposes for the net gain realized on the sale of the Malana and Kahoku barges.

[15]In August 2008, the Consumer Advocate, Hone Heke and the individuals from the general public all spoke in support of the general rate increase at the public hearings held on Maui and Lanai. In October 2008, the Commission approved Hone Heke's request for a rate increase.

[16]In July 2008, Sea Link filed an application for a general rate increase to establish a permanent fuel surcharge. In August 2008, the Commission approved Sea Link's request to establish and assess a temporary fuel surcharge, based on Sea Link's financial need and its potential abandonment of service. Also in August, public hearings were held on Molokai and Maui. In October 2008, the Commission approved the fuel surcharge on a permanent basis.

were before the Commission for review and consideration. Of the 572 dockets, 315 or approximately 55 per cent of the dockets were completed by the end of the Fiscal Year.

As of June 30, 2008, 257 dockets were pending, including 88 dockets carried over from years prior to the Fiscal Year and 169 dockets that were opened during the Fiscal Year.

The following table summarizes the Commission's dockets over the past three (3) fiscal years.

DOCKETS FILED, COMPLETED, AND PENDING
FISCAL YEARS 2005-06, 2006-07, and 2007-08

	Fiscal Year (July 1 - June 30)		
Dockets Pending on July 1	**2005-06**	**2006-07**	**2007-08**
Utilities			
Electric	42	42	36
Gas	1	1	0
Telecommunications	40	17	11
Private Water/Sewer	12	16	10
Subtotal	95	76	57
Transportation			
Motor Carriers	142	129	141
Water Carriers	3	1	3
Subtotal	145	130	144
Gas Price Cap	1	1	0
One Call Center	1	2	1
Total	242	209	202
New Dockets Opened in Fiscal Year	**2005-06**	**2006-07**	**2007-08**
Utilities			
Electric	25	36	32
Gas	2	1	2
Telecommunications	49	54	51
Private Water/Sewer	20	12	30
Subtotal	96	103	115
Transportation			
Motor Carriers	244	405	249
Water Carriers	2	2	6
Subtotal	246	407	255
Gas Price Cap	1	0	0
One Call Center	1	0	0
Total	344	510	370

DOCKETS FILED, COMPLETED, AND PENDING
FISCAL YEARS 2005-06, 2006-07, and 2007-08

Dockets Completed in FY	**2005-06**	**2006-07**	**2007-08**
Utilities			
Electric	25	42	10
Gas	2	2	0
Telecommunications	72	60	37
Private Water/Sewer	16	18	16
Subtotal	115	122	63
Transportation			
Motor Carriers	257	393	248
Water Carriers	4	0	4
Subtotal	261	393	252
Gas Price Cap	1	1	0
One Call Center	0	1	0
Total	377	517	315
Dockets Pending on June 30	**2005-06**	**2006-07**	**2007-08**
Utilities			
Electric	42	36	58
Gas	1	0	2
Telecommunications	17	11	25
Private Water/Sewer	16	10	24
Subtotal	76	57	109
Transportation			
Motor Carriers	129	141	142
Water Carriers	1	3	5
Subtotal	130	144	147
Gas Price Cap	1	0	0
One Call Center	2	1	1
Total	209	202	257

VI. NET ENERGY METERING, PURSUANT TO ACT 150, SLH 2008.

Act 150, SLH 2008, requires in part that the Commission submit a report to the Legislature regarding its actions relating to NEM. Specifically, the report must address the following, if available:

- Any rules, decisions, or orders submitted by the Commission regarding the total rated generating capacity produced by eligible customer-generators;
- Any rules, decisions, or orders submitted by the Commission regarding the maximum capacity for eligible residential or small commercial customer-generators; and
- Any results regarding the Commission's evaluation of the applicability of the generating capacity requirements on an island-by-island basis, and any decisions to exempt an island or a utility grid system from the generating capacity requirements.

As discussed briefly in Section V.B.1.c, the Commission issued a decision and order in March 2008 in its NEM proceeding to investigate whether to increase (1) the maximum capacity of eligible customer-generators to more than 50 kW; and (2) the total rated generating capacity produced by eligible customer-generators to an amount above 0.5 per cent of peak demand. In this decision and order, the Commission, among other things, approved the stipulations filed by the parties, including the HECO Companies and KIUC. As a result, the maximum allowable NEM cap increased from 0.5 per cent to 1.0 per cent of the respective utility's system peak demand. The maximum capacity for individual customer-generators increased from 50 to 100 kW for the HECO Companies' customers, and remains at 50 kW for KIUC customers.

In their respective stipulations with the other parties to the docket, the HECO Companies and KIUC also agreed to allocate 40 to 50 per cent of their system peak demand for small systems that have a NEM generator size of 10 kW or less. Specifically, in KIUC's stipulation, the utility agreed to allocate 50 per cent of its peak demand to the smaller systems. In the stipulation involving the HECO Companies, HECO agreed to reserve 40 per cent, while HELCO and MECO agreed to 50 per cent of the 1.0 per cent system peaks for smaller systems.

The Commission also required the HECO Companies and KIUC to expand their IRP planning processes to include studies on the rate and revenue impacts of NEM, reliability, safety, and power quality issues and the effects, if any, of changes in NEM on the utility's interconnection standards. Expanding the planning processes will provide the Commission a regular review of the NEM limits to ensure a sound basis for future decisions regarding NEM. Further, the electric utilities must include testimony regarding the economic effects of NEM in future rate case proceedings, which would then enable the Commission to analyze the effect of NEM in greater detail relating to revenues, rates, expenses, fuel consumption, and peak demands.

Additionally, the Commission required the establishment of a NEM pilot program that will allow a limited number of larger generating units (of up to 500 kW or greater) for NEM purposes. The Commission expects that the pilot program will assist it in evaluating the effects of further increasing the NEM unit size and system capacity units beyond those established in its March 2008 decision and order.

Following the issuance of the decision and order, the HECO Companies submitted their proposed NEM pilot program in April 2008. In May 2008, KIUC filed a motion for reconsideration of the portion of the decision and order relating to the pilot program. Specifically, KIUC requested, among other things, the range for the program be lowered from "100 kW to 500 kW" to "50 kW to 200 kW." KIUC expressed concern with the potential impact of the required range, particularly the upper size requirement of 500 kW, on KIUC due to its size and operations. A decision from the Commission on both the HECO Companies' proposed NEM pilot program and KIUC's motion for reconsideration is pending.

VII. ENFORCEMENT ACTIVITIES.

The Commission enforces its rules and regulations, standards, and tariffs by monitoring the operating practices and financial transactions of the regulated utilities and transportation carriers. Enforcement activities involve customer complaint resolution, compliance with financial reporting and other requirements, and motor carrier citations. These enforcement activities are critical in ensuring that customers of the regulated companies receive adequate and efficient services.

A. COMPLAINT RESOLUTION.

The Commission's role in protecting the public is carried out in part through its investigation and resolution of complaints. The Commission collects and compiles utility and consumer complaints to track trends and patterns in the utility and transportation industries. The Commission accepts verbal and written complaints against any public utility, water carrier, motor carrier, or others subject to the Commission's jurisdiction. Verbal complaints are received by telephone, or in person at the Commission's office. There are two (2) kinds of written complaints -- formal and informal.

The Commission's rules of practice and procedure, Chapter 6-61, HAR, provide the requirements for formal and informal written complaints. Written formal complaints should: (1) be in writing; (2) comply with filing and other requirements set forth in Sections 6-61-15 to 6-61-21, HAR; (3) state the full name and address of each complainant and of each respondent; (4) set forth fully and clearly the specific act complained of; and (5) advise the respondent and the Commission completely of the facts constituting the grounds of the complaint, the injury complained of, and the exact relief desired. If the Commission accepts a formal complaint for adjudication, it assigns a docket number and sets the matter for an evidentiary hearing, if necessary.

Written informal complaints should: (1) state the name of the respondent, the date and approximate time of the alleged act, and set forth fully and clearly the facts of the act complained of; (2) advise the respondent and the Commission in what respects the provisions of the law or rules have been or are being violated or will be violated and should provide the facts claimed to constitute the violation; and (3) specify the relief sought or desired. The Commission assigns a tracking number to each written informal complaint filed with the Commission. It also assigns these complaints to certain Commission staff, who are tasked to, among other things, investigate and attempt to resolve the complaints through correspondence or conference rather than through the formal complaint process.

1. WRITTEN INFORMAL AND VERBAL COMPLAINTS.

As shown in the table below, the Commission received a total of 487 written informal and verbal complaints in the Fiscal Year against regulated and unregulated utility and transportation companies. Complaints on Oahu amounted to 268 out of 487 complaints statewide, or 55 per cent of the total complaints.

Total Informal and
Verbal Complaints
Fiscal Year 2008

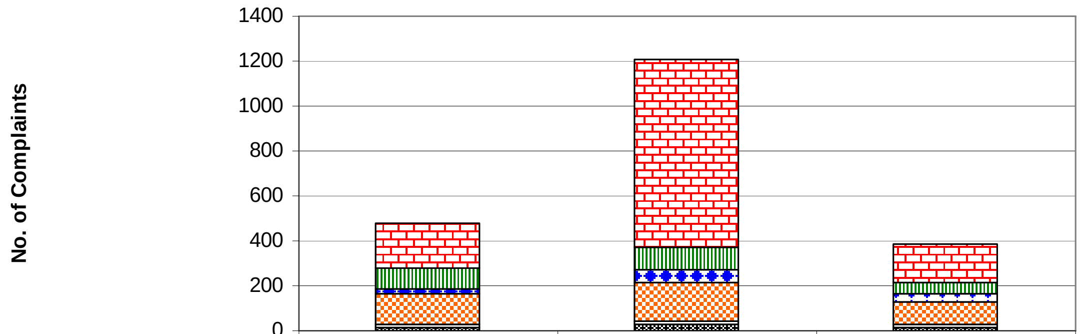
Utilities	
Telecommunications:	
Wireline (telephone)	176
Cellular and Paging	51
Other Telecom Providers	33
Total Telecom	260
Electricity	104
Gas	11
Water/Sewer	14
Transportation Carriers	
Water Carrier	6
Motor Carrier	92
Total Complaints	487

For all islands, the Commission received 260 written informal and verbal complaints involving telecommunications providers. The majority of telecommunications complaints (176) related to Hawaiian Telcom. These complaints mainly involved service problems, mostly relating to interruptions, repairs, and installations. The cellular and paging companies received 51 complaints, mostly relating to billing problems (service contracts and charges). Most of the 33 complaints filed against other telecommunications providers, including interstate and unregulated communications equipment and service companies, were related to service and billing problems and unregulated long distance carriers.

The electric utilities received 104 complaints, mostly relating to billing problems (high consumption). The 11 complaints against gas utilities were mostly relating to service and billing problems. The 14 complaints relating to water and sewer facilities were primarily over tariffs (rates and charges) and billing (high consumption) problems. The 6 complaints against water carriers involved primarily service problems and tariffs. Most of the 92 complaints against motor carriers were related to operating without CPCNs.

To illustrate complaint trends, Figures 5 to 10 summarize the complaints received by the Commission over the past three (3) fiscal years for each of the regulated utility industries, statewide and island-by-island.

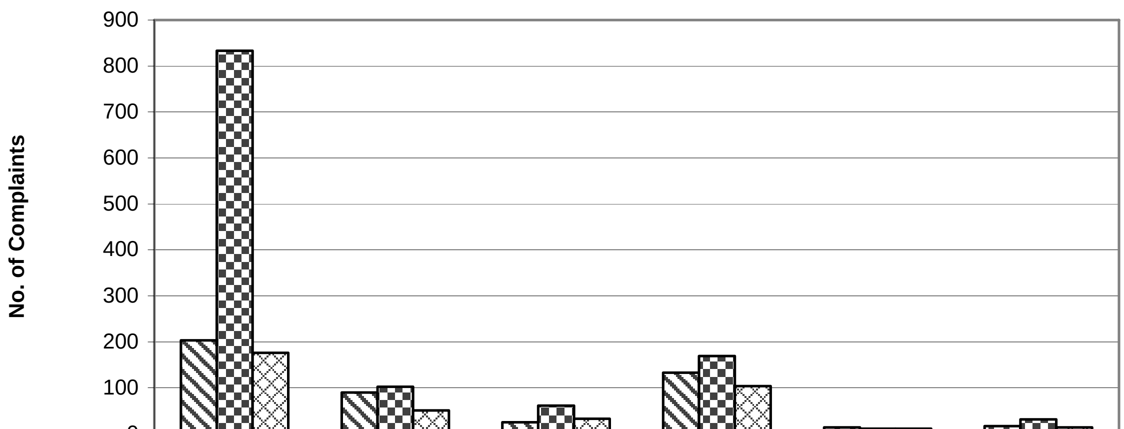
Figure 5
Informal and Verbal Complaints
Total All Utility Companies - Fiscal Years 2006-2008



	FY 2006	FY 2007	FY 2008
Telephone	203	833	176
Cellular and Paging	90	102	51
Other Telecom Providers	25	61	33
Electricity	133	169	104
Gas	14	11	11
Water/Sewer	17	31	14
Total Complaints	482	1207	389

FY

Figure 6
Informal and Verbal Complaints
Statewide - All Utility Companies - Fiscal Years 2006-2008



	Telephone	Cellular and Paging	Other Telecom Providers	Electricity	Gas	Water/Sewer
FY 2006	203	90	25	133	14	17
FY 2007	833	102	61	169	11	31
FY 2008	176	51	33	104	11	14

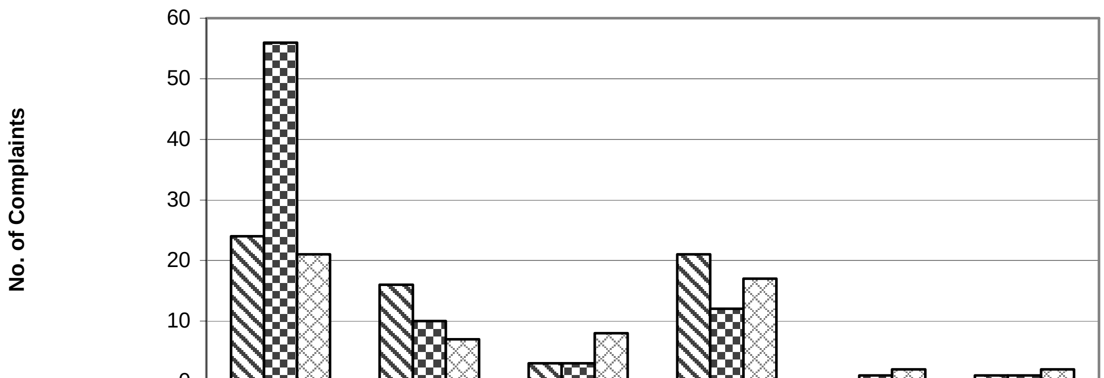
Type of Utility

Figure 7
Informal and Verbal Complaints
Oahu - Utility Companies - Fiscal Years 2006-2008

	Telephone	Cellular and Paging	Other Telecom Providers	Electricity	Gas	Water/Sewer
FY 2006 Oahu	128	64	12	69	13	8
FY 2007 Oahu	591	75	52	101	9	25
FY 2008 Oahu	112	33	21	50	9	2

Type of Utility

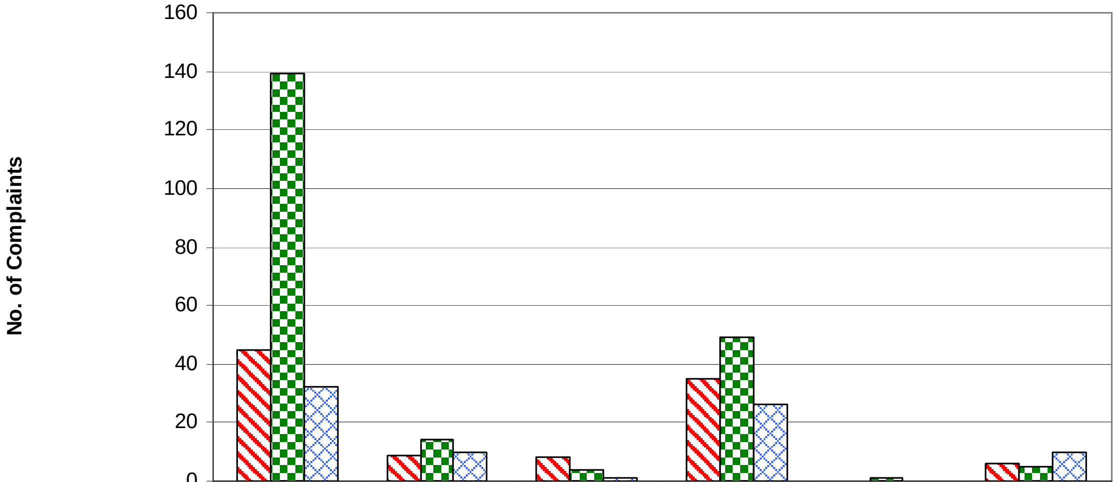
Figure 8
Informal and Verbal Complaints
Maui - Utility Companies - Fiscal Years 2006-2008



	Telephone	Cellular and Paging	Other Telecom Providers	Electricity	Gas	Water/Sewer
FY 2006 Maui	24	16	3	21	0	1
FY 2007 Maui	56	10	3	12	1	1
FY 2008 Maui	21	7	8	17	2	2

Type of Utility

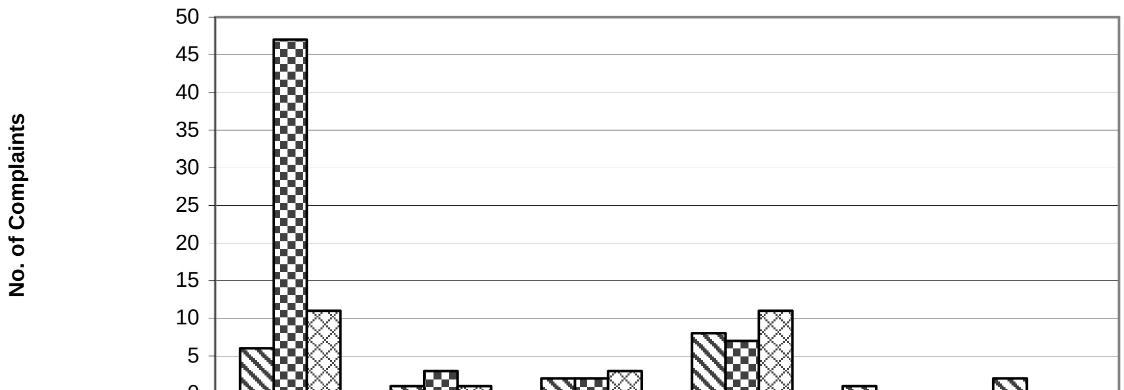
Figure 9
Informal and Verbal Complaints
Hawaii - Utility Companies - Fiscal Years 2006-2008



	Telephone	Cellular and Paging	Other Telecom Providers	Electricity	Gas	Water/Sewer
FY 2006 Hawaii	45	9	8	35	0	6
FY 2007 Hawaii	139	14	4	49	1	5
FY 2008 Hawaii	32	10	1	26	0	10

Type of Utility

Figure 10
Informal and Verbal Complaints
Kauai - Utility Companies - Fiscal Years 2006-2008

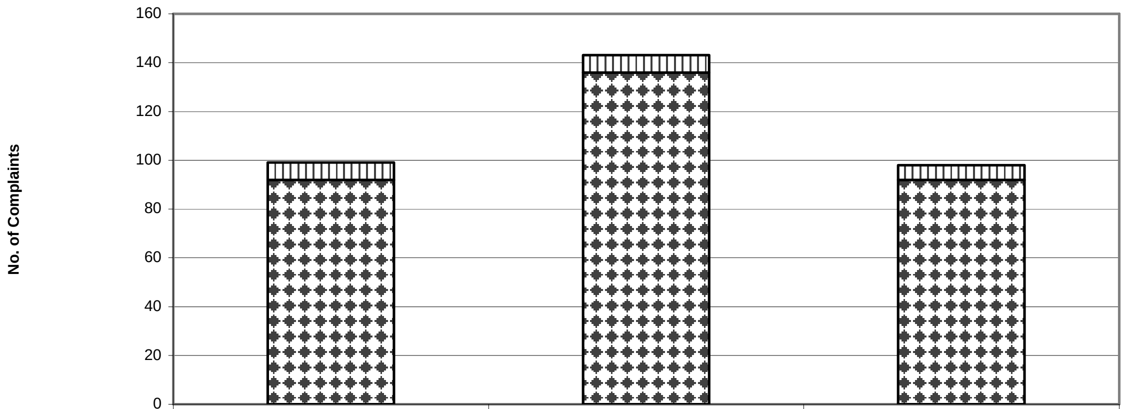


	Telephone	Cellular and Paging	Other Telecom Providers	Electricity	Gas	Water/Sewer
FY 2006 Kauai	6	1	2	8	1	2
FY 2007 Kauai	47	3	2	7	0	0
FY 2008 Kauai	11	1	3	11	0	0

Type of Utility

Figures 11 to 14 illustrate complaint trends over the last three (3) fiscal years for regulated motor carriers and water carriers, statewide and island-by-island.

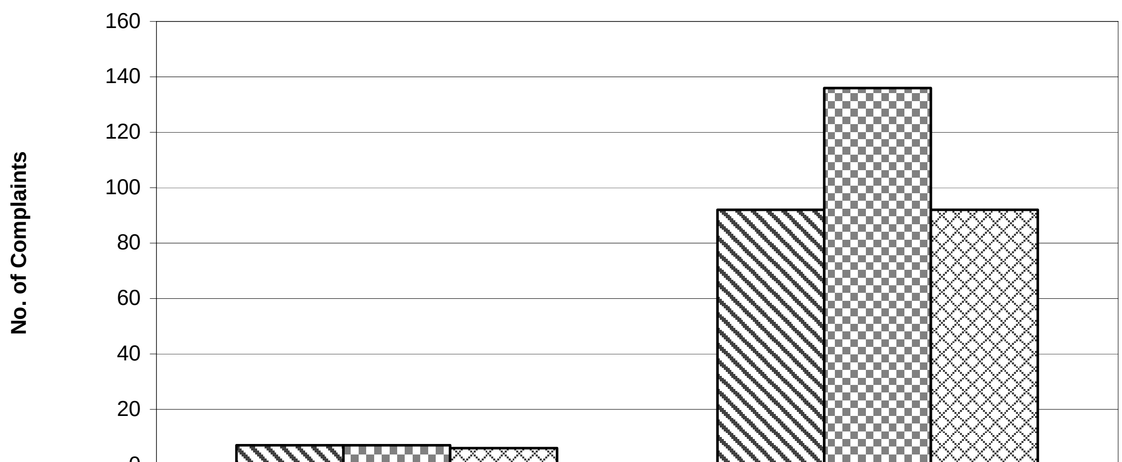
Figure 11
Informal and Verbal Complaints
Statewide All Transportation Carriers - Fiscal Years 2006-2008



	FY 2006	FY 2007	FY 2008
Water Carrier	7	7	6
Motor Carrier	92	136	92
Total Complaints	99	143	98

FY

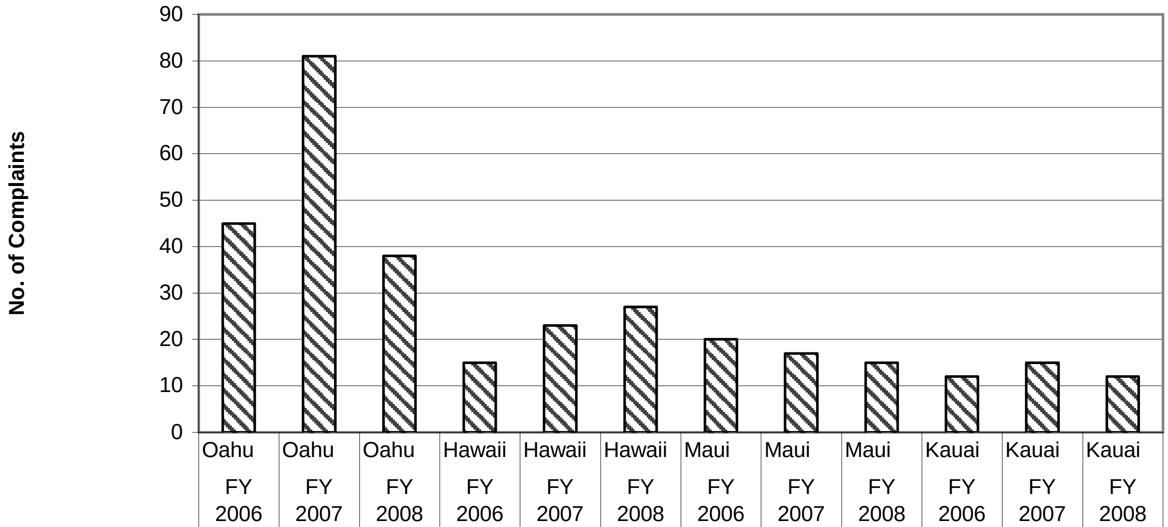
Figure 12
Informal and Verbal Complaints
Statewide - Water Carrier and Motor Carrier - Fiscal Years 2006-2008



	Water Carrier	Motor Carrier
FY 2006	7	92
FY 2007	7	136
FY 2008	6	92

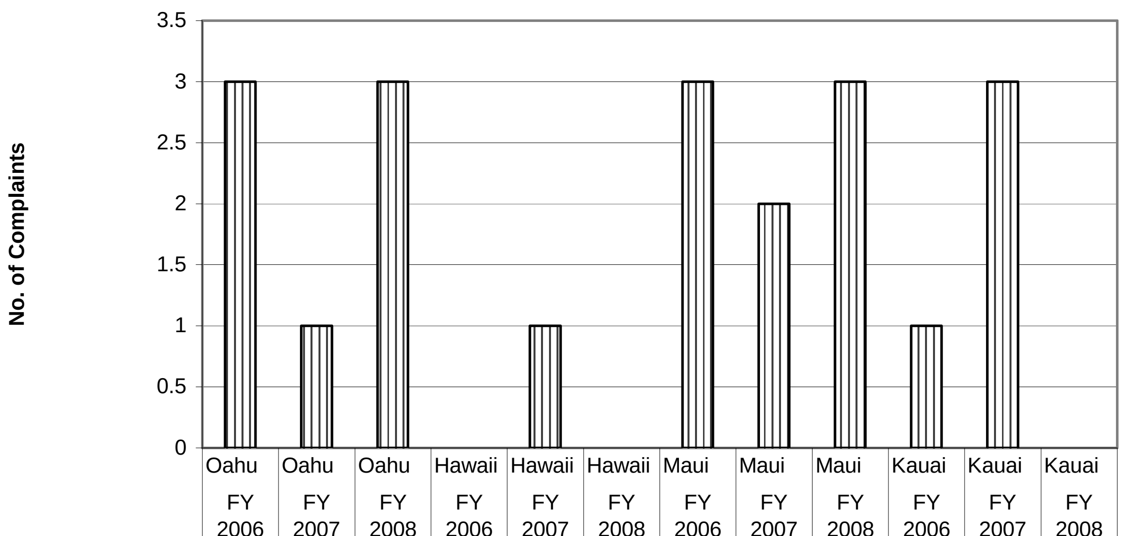
Type of Carrier

Figure 13
Informal and Verbal Complaints
Motor Carrier - By Islands - Fiscal Years 2006-2008



	Oahu FY 2006	Oahu FY 2007	Oahu FY 2008	Hawaii FY 2006	Hawaii FY 2007	Hawaii FY 2008	Maui FY 2006	Maui FY 2007	Maui FY 2008	Kauai FY 2006	Kauai FY 2007	Kauai FY 2008
Motor Carrier	45	81	38	15	23	27	20	17	15	12	15	12

Figure 14
Informal and Verbal Complaints
Water Carrier - By Islands - Fiscal Years 2006-2008



	Oahu FY 2006	Oahu FY 2007	Oahu FY 2008	Hawaii FY 2006	Hawaii FY 2007	Hawaii FY 2008	Maui FY 2006	Maui FY 2007	Maui FY 2008	Kauai FY 2006	Kauai FY 2007	Kauai FY 2008
Water Carrier	3	1	3	0	1	0	3	2	3	1	3	0

2. INFORMAL COMPLAINT SURVEY.

In an effort to improve the Commission's service to consumers, a survey of informal written complaints filed in the Fiscal Year with the Commission was initiated in Fiscal Year 2003-04. A survey is sent to complainants whose informal complaint cases are closed. The survey includes four (4) questions: (1) Do you feel that we responded to your complaint in a reasonable amount of time?; (2) Did we provide you with a response that was clear and understandable?; (3) Was your complaint resolved to your satisfaction?; and (4) If you called us and spoke with our staff, were they courteous and professional?

In the Fiscal Year, the Commission received 74 responses to its informal complaint survey. Figures 15 to 18 show the results of the survey.

Figure 15
INFORMAL COMPLAINT SURVEY
Fiscal Year 2007-08

1-Do you feel we responded to your complaint in a reasonable amount of time?

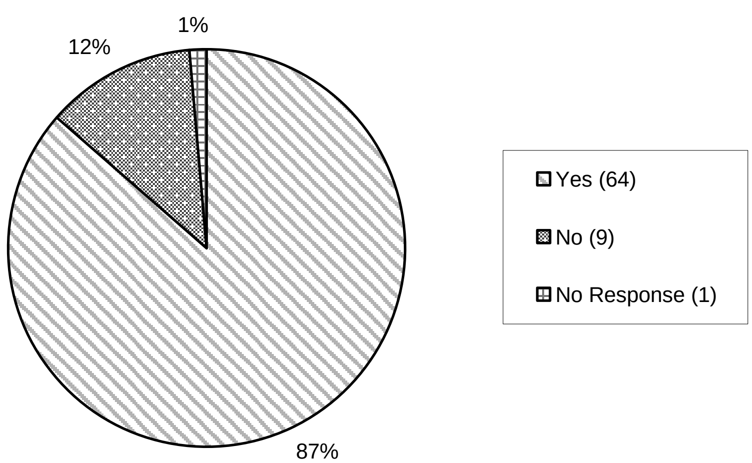


Figure 16
INFORMAL COMPLAINT SURVEY
Fiscal Year 2007-08

2-Did we provide you with a response that was clear and understandable?

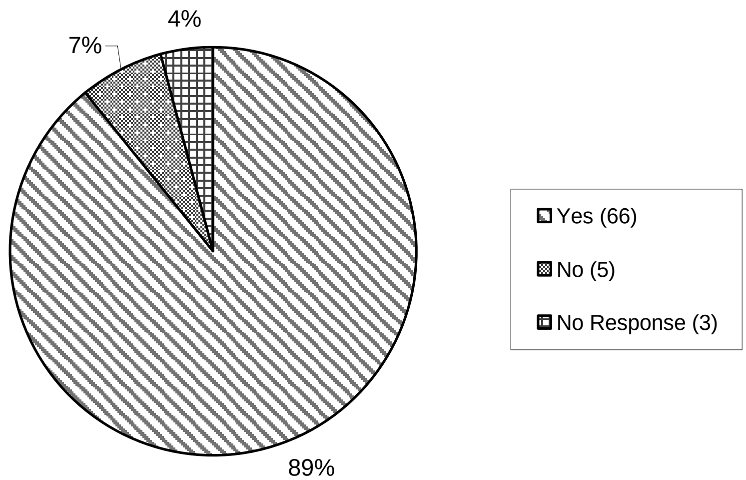


Figure 17
INFORMAL COMPLAINT SURVEY
Fiscal Year 2007-08

3-Was your complaint resolved to your satisfaction?

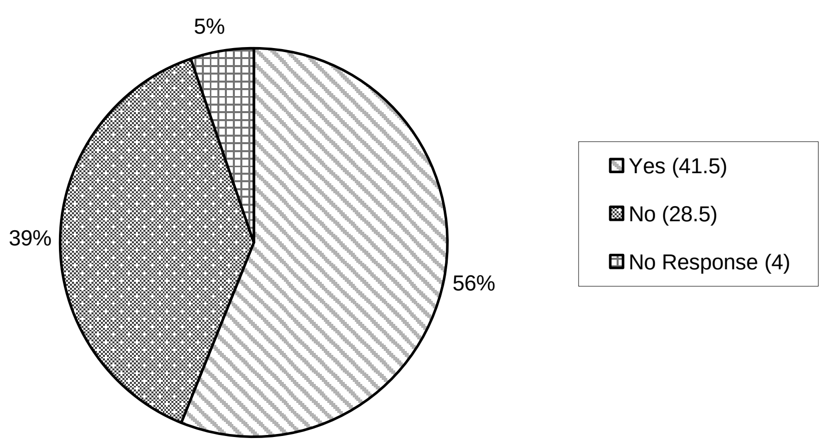
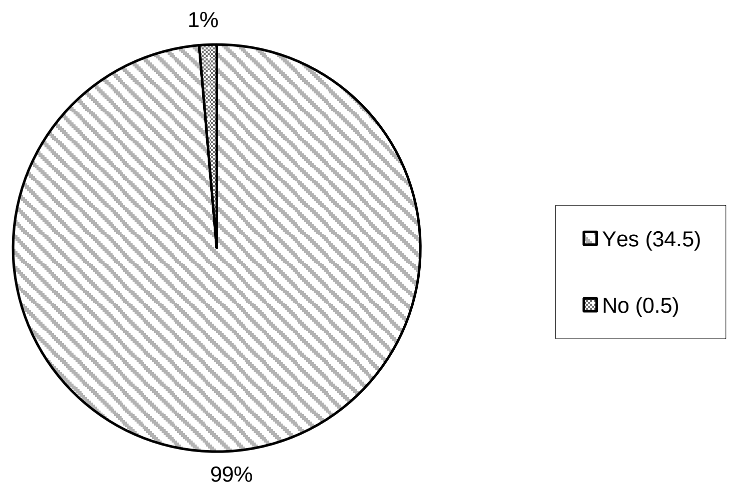


Figure 18
INFORMAL COMPLAINT SURVEY
Fiscal Year 2007-08

4-If you called us and spoke with our staff, were they courteous and professional?



B. MOTOR CARRIER CITATIONS.

The Commission issues civil citations to motor carriers for violations of the Motor Carrier Law, HRS Chapter 271. The citations impose a civil penalty, typically $500 or $1,000 per violation. At the request of the Commission, the State Department of Transportation is authorized to assign the department's motor vehicle safety officer to assist the Commission in assessing civil penalties.

The Commission has been successful in its efforts to enforce the law by issuing citations to discourage illegal motor carrier activities on Oahu and the neighbor islands. Some of the common types of motor carrier citations relate to operating without a CPCN, the failure to maintain the required liability insurance and improper vehicle marking. For this Fiscal Year, civil penalties collected through motor carrier citations totaled $82,082. The Commission enforcement officers issued 30 motor carrier citations on the following islands: Oahu (22), Hawaii (5), and Maui (3).

VIII. INQUIRIES.

In addition to consumer complaints, the Commission is responsible for collecting and compiling all inquiries concerning public utilities. Commission staff receives various requests for information relating to utilities, transportation carriers, gasoline price cap, one call center, general regulated matters, and non-regulated matters. As shown in the table below, the Commission received a total of 1,634 inquiries in the Fiscal Year, mostly relating to motor carriers.

Total Inquiries
Fiscal Year 2007-08

Utilities:	
Telecommunications	145
Electric	114
Gas	31
Water/Sewer	30
Transportation Carriers:	
Property Motor Carrier	591
Passenger Motor Carrier	506
General Motor Carrier	116
Water Carrier	42
Gas Price Cap	1
One Call Center	0
General Regulated & Unregulated	58
Total Inquiries	1,634

IX. ONE CALL CENTER.

A. Hawaii One Call Center

The 2004 Legislature passed Act 141, SLH 2004 ("Act 141"), which establishes a one call center to coordinate the location of subsurface installations and to provide advance notice to subsurface installation operators of proposed excavation work. Pursuant to Act 141 (codified as chapter 269E, HRS), the Commission is required to establish a One Call Center advisory committee ("Committee") to advise the Commission on the implementation of Act 141. Act 141 requires that the Commission establish and begin administration of a One Call Center by January 1, 2006.

In November 2005, the Commission selected and contracted with One Call Concepts, Inc. ("One Call Concepts") as the exclusive provider for the administration and operation of the Hawaii One Call Center, commencing December 1, 2005 through June 30, 2009. One Call Concepts provides one call services for one call centers in Minnesota, Kansas, Louisiana, Missouri, Oregon and Washington and has been providing one call center services since its formation in 1982. In January 2006, pursuant to HRS Chapter 269E, the Commission, through One Call Concepts, began operations of the One Call Center.

Having concluded a proceeding to determine the appropriate fees and assessments to finance the administration and operation of the One Call Center, pursuant to Section 269E-6, HRS, subsurface facility operators are now required to pay to the Commission a fee based on a schedule determined by the Commission. The Commission is also allowed to assess fees on excavators, but has elected not to do so at this time. In February 2007, the Commission issued an order establishing the methodology for public utilities falling under the purview of the one call law, to petition the Commission for a possible credit toward its One Call Center fees under sections 269E-6, and 269-30(d) HRS.

During the Fiscal Year, the advisory committee, through its five-member administrative rules subcommittee, continued with its efforts to supplement chapter 269E with new administrative rules to submit to the Commission for review and approval. Subsequent to Commission approval, the draft rules public hearings will be scheduled to obtain input and comments from interested parties.

X. PETROLEUM INDUSTRY MONITORING.

A. Weekly Reports

Pursuant to HRS Chapter 486J, on a weekly basis, beginning September 5, 2007, the Public Utilities Commission ("Commission") collects confidential petroleum industry data and information from distributors and major fuel users as part of the Petroleum Industry Monitoring, Analysis and Reporting ("PIMAR") Program. The weekly PIMAR reports that the Commission receives from reporting entities include company-specific, detailed data and information regarding petroleum product imports, exports, inventories, production, retail and wholesale transactions, and gross margins. All of the data and information submitted to the Commission is filed under confidential seal by the reporting entities under confidential protective order and Hawaii Revised Statutes ("HRS") Chapter 486J. Accordingly, the data and information cannot be publicly disclosed unless they are aggregated to the extent necessary to maintain confidentiality. In instances where data is provided by only a few reporting entities and aggregation does not ensure confidentiality, the Commission cannot release the data.[17]

Each PIMAR Weekly Report published by the Commission includes a compilation and aggregation of data and information that reporting entities file with the Commission in their weekly submissions. Where submitted data appears questionable or inconsistent with other information sources,[18] or otherwise suggests that further examination is warranted, the Commission conducts additional reviews to clarify them and resolve any discrepancies.

The PIMAR Weekly Report includes data on ending inventories, sales volumes and prices, and non-refiner gross margins. Please refer to the Commission's website for a complete set of weekly reports. Data from Weekly PIMAR Reports are collected in time series format in a Microsoft Excel (.xls) file available on the Commission website.

All of the data and information to be collected under the PIMAR Program is input and maintained by Commission staff into an interim database, through which staff (and its consultants) reviews and analyzes the data. Meanwhile, the Commission continues to move forward in its efforts to develop an automated PIMAR reporting system, pursuant to HRS § 486J-5.5. During the Fiscal Year, the Commission awarded a contract to design and build the automated petroleum database to ICF International ("ICF"). ICF and Commission staff are

[17]For instance, because there are only two refiners in Hawaii, there are not enough companies to aggregate the confidential information from the two refiners to maintain the confidentiality of the information. This includes information concerning imports and production by the refiners.

[18]For example, the Commission collects retail price information from Oil Price Information Service ("OPIS") for both Hawaii and the nation that are reflected in price comparison graphs on the Commission's website at: http://www.hawaii.gov/budget/puc/. The retail price information for Hawaii is obtained by OPIS from a sample of gasoline service stations located throughout Hawaii.

currently working on finalizing a work plan for building the automated system. Tentatively, the new system should be online by the middle of the 2009 calendar year.

B. Annual Report to the Legislature

As required by statute, the Commission must annually publish and submit to the governor and legislature a summary report on the information submitted to it by distributors, as defined in HRS § 486J-1. In November 2007, the Commission presented its inaugural report to the legislature on the petroleum industry in Hawaii. This report includes a summary document and a report entitled, “Initial Report on Gasoline Price Monitoring Under the Petroleum Industry Monitoring, Analysis & Reporting (PIMAR) Program,” prepared by ICF, which analyzes available petroleum industry data based on criteria set forth in HRS, Chapter 486J, as provided under HRS § 486J-5.1

Please refer to that report, available on the Commission’s website, for more information about the Commission’s analyses and interpretation of the data collected under the PIMAR Program.

C. Gasoline Transaction Data

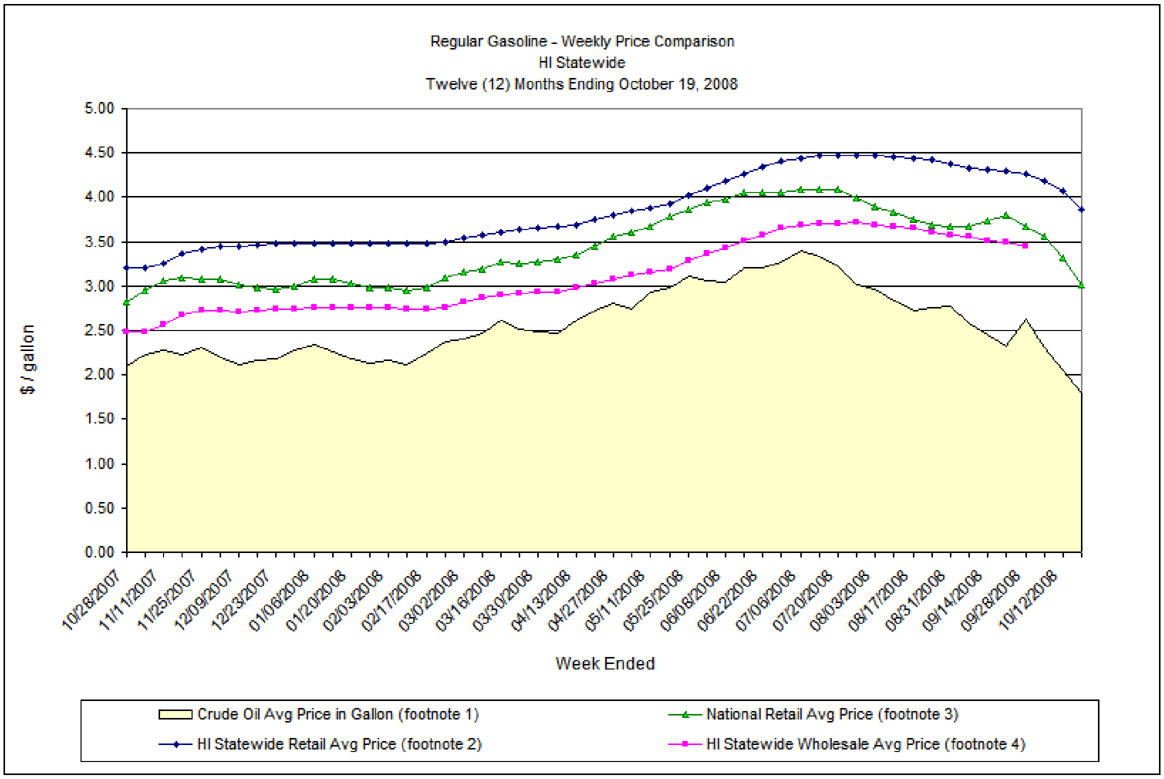
Since September 2005, the Commission has required petroleum manufacturers, wholesalers and jobbers to submit detailed gasoline wholesale sales and purchase information on a monthly basis. Hawaii’s gas cap law, which initiated this data collection to monitor for compliance, remains suspended pursuant to Act 78, SLH 2006. However, the Commission continues to collect the transaction-specific volume and price information from gasoline wholesalers for each grade of gasoline sold throughout the State.[19] In addition, other gasoline price data is obtained through public sources and subscriptions from price information reporting services.

To help inform gasoline consumers and others, the Commission has been using the transaction-specific gasoline and other data to create graphs for viewing on its website. The online graphs provide non-confidential statewide and Hawaii zones average prices for wholesale and retail regular unleaded gasoline, national average retail for regular unleaded, average crude oil price. The gas caps are also shown during the time they were in effect (from September 1, 2005 to May 5, 2006). Figure 19 is an example of the information and graphs that are available to the public on the Commission’s website at: http://hawaii.gov/budget/puc/pimar.html. They depict statewide price levels of regular unleaded gasoline during the last 12 months. Similar information for Zones 1, 2, 3, 7, and 8, along with historical information, is available on the Commission’s website.

.

[19]This information is being collected under the PIMAR Program through Forms M-100 and M-101 starting in August 2007.

Figure 19



(1) Crude Oil Prices provided by Energy Information Administration which listed daily NYMEX Future Prices for Crude Oil (Light-Sweet, Cushing Oklahoma).

(2) Hawaii retail prices provided by Oil Price Information Service ("OPIS") were aggregated and averaged for the applicable week. OPIS reports retail prices of gasoline obtained from a sample of gasoline service stations located throughout the State of Hawaii. OPIS did not provide retail prices for certain zones and for certain time periods.

(3) National retail average price is based on retail price information provided by OPIS. The national average is based on daily retail prices from about 100,000 gasoline service stations located throughout the United States.

(4) Pre-tax wholesale weighted average prices were derived based on volume and wholesale price information for DTW gasoline transactions (excluding hypermarker and military sales) reported by manufacturers, wholesalers, and jobber.

XI. FISCAL INFORMATION.

The Public Utilities Commission Special Fund ("Special Fund") is used to cover the operating expenses of the Commission and Consumer Advocate. The Special Fund's sources of income include public utility fees, motor carrier fees, penalties and interest, application and intervention filing fees, Hawaii One Call Center fees and duplication fees. For the Fiscal Year, the regulated utilities and transportation carriers paid $15,818,527 in public utility fees and

$1,395,545 in motor carrier fees, respectively. The total revenues of the Commission's Special Fund were $17,442,837.

The expenses of the Commission include personnel costs and other current expenses. The Commission's other major current expenses include transfers from its Special Fund to the Consumer Advocate to fund its operations.

For the Fiscal Year, the Commission received an appropriation of $8,695,562 for personal services and other current expenses as shown in the table below. Allotments for the Commission's personal services expenses were $3,782,772 for 44 authorized permanent positions. The Commission was allotted $5,016,192 for other current expenses. The Commission's other current expenses allotment included $2,705,793 that was transferred to the Consumer Advocate to cover its operating expenses.

The Commission received the following appropriations out of the Special Fund as shown in the table below:

	FY 2007-08 Appropriation	FY 2007-08 Allotment
Personal Services	$3,679,370	$3,782,772
Other Current Expense	5,016,192	5,016,192
Total	$8,695,562	$8,798,964

Pursuant to Section 269-33, HRS, any amount over $1,000,000 remaining in the Special Fund at the end of each fiscal year is transferred to the State's general fund. For the Fiscal Year, an excess balance of $9,723,574 from the Special Fund was transferred to the general fund. This excess balance amount includes the balance of the moneys appropriated through Act 213, SLH 2008, as amended by 158, SLH 2008 (2008 Appropriations Act).

XII. UTILITY COMPANY OPERATIONS, CAPITAL IMPROVEMENTS, AND RATES.

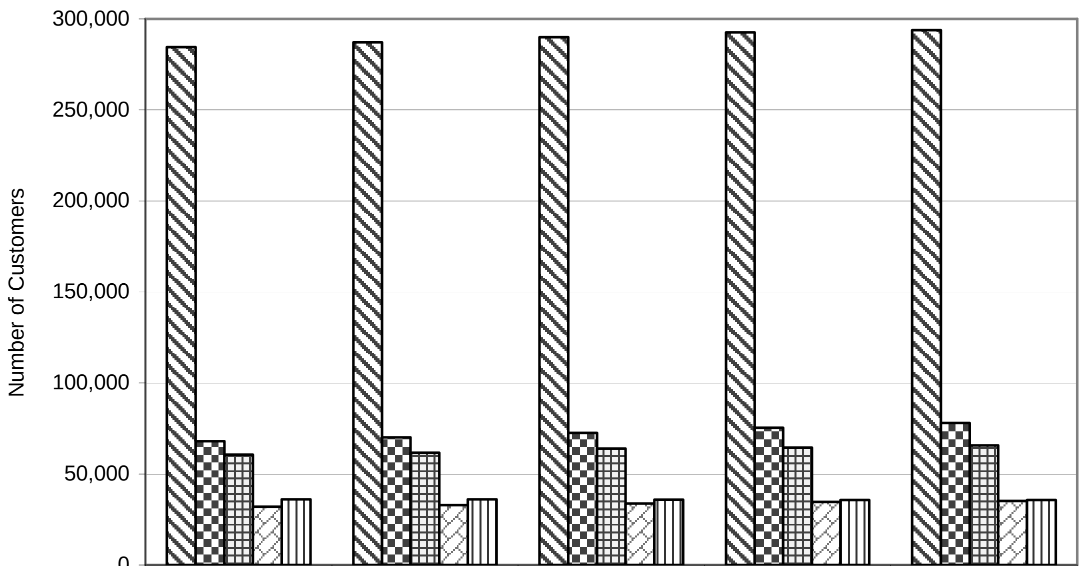
A. UTILITY COMPANY OPERATIONS.

1. CUSTOMERS SERVED BY UTILITY COMPANIES.

The number of customers served by electric and gas utility customers have been fairly stable, with a slight general increase for the electric utility customer numbers during the 2003 - 2007 time period, as shown in Figure 20.[20]

[20]Sources: HECO 2007 Service Reliability Report, MECO 2007 Service Reliability Report, HELCO 2007 Service Reliability Report, KIUC Annual Service Reliability Report and TGC Annual Reports to the PUC.

Figure 20
Number of Electric and Gas Utility Customers
2003 - 2007



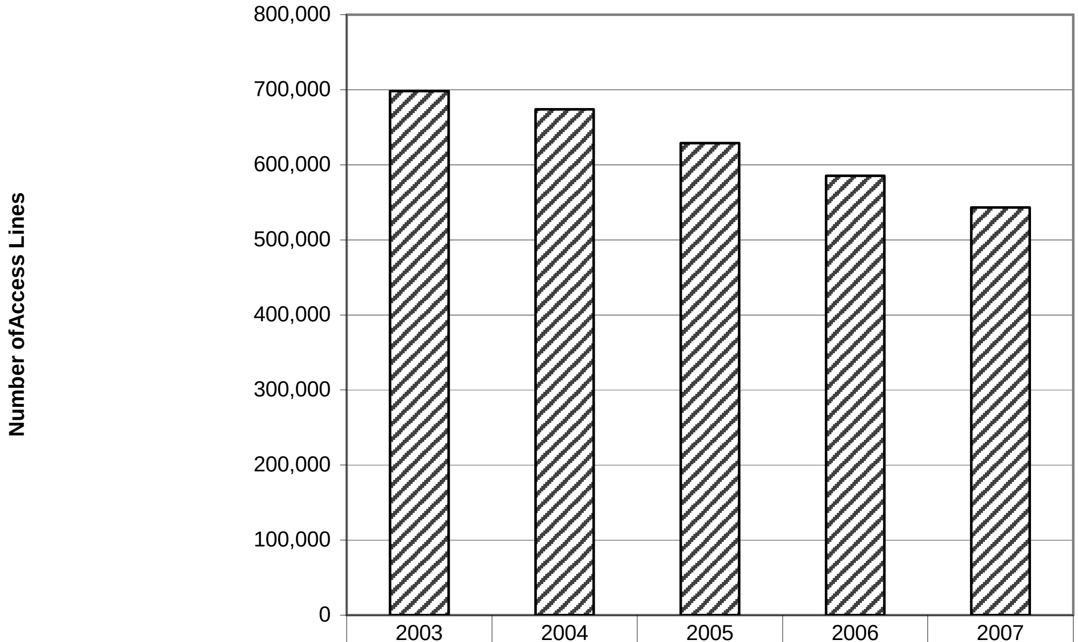
	2003	2004	2005	2006	2007
HECO	284,460	287,074	289,972	292,554	293,893
HELCO	67,879	70,124	72,513	75,353	77,933
MECO	60,651	61,684	63,901	64,405	65,728
KIUC	32,065	32,950	33,772	34,671	35,207
TGC	36,093	36,094	35,977	35,820	35,681

Annual Periods

As shown in Figure 21, Hawaiian Telcom's customer base, as measured by the number of access lines that it serves, after peaking at 743,370 in 2000, has decreased over the past four (4) years.[21] This decrease is believed to be due primarily to loss of business customers to competitors and increased competition from wireless telecommunications carriers and cable modem service (which does not require telephone lines for dial-up internet access).

[21]Hawaiian Telcom's ARMIS Operating Data Reports (FCC Report 43-08) for 2002 through 2006.

Figure 21
Hawaiian Telcom Total Switched Access Lines
2003-2007

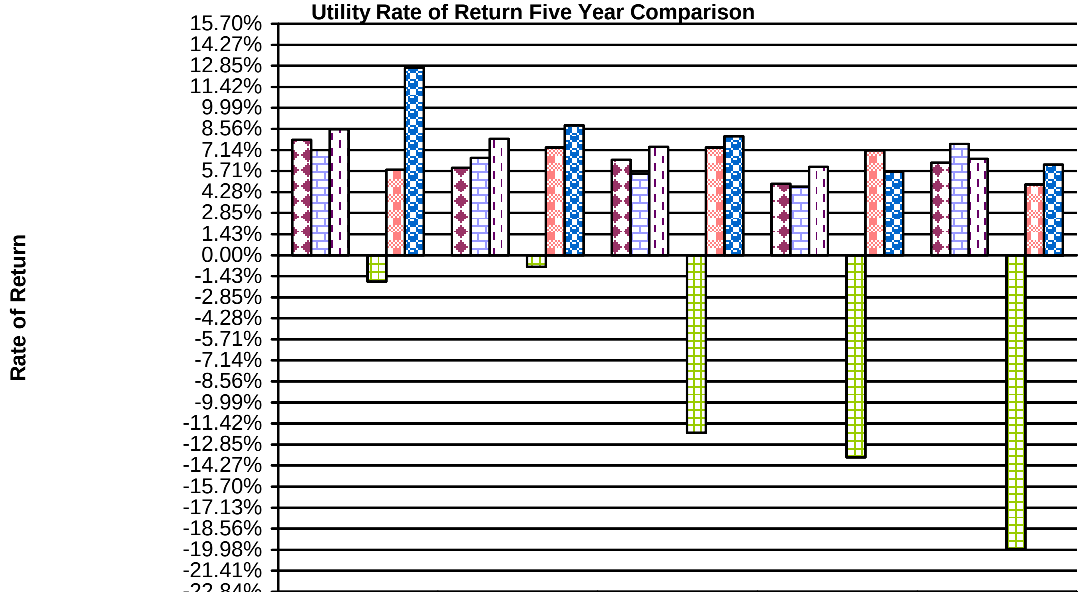


	2003	2004	2005	2006	2007
Total Switched Access Lines	698,355	674,078	628,921	585,434	543,230

2. RATES OF RETURN EARNED BY UTILITY COMPANIES.

Each regulated utility is entitled to an opportunity to earn a fair rate of return. Figure 22 summarizes the recent history and trends of rates of return earned by the various regulated utilities.

Figure 22
Utility Rate of Return Five Year Comparison



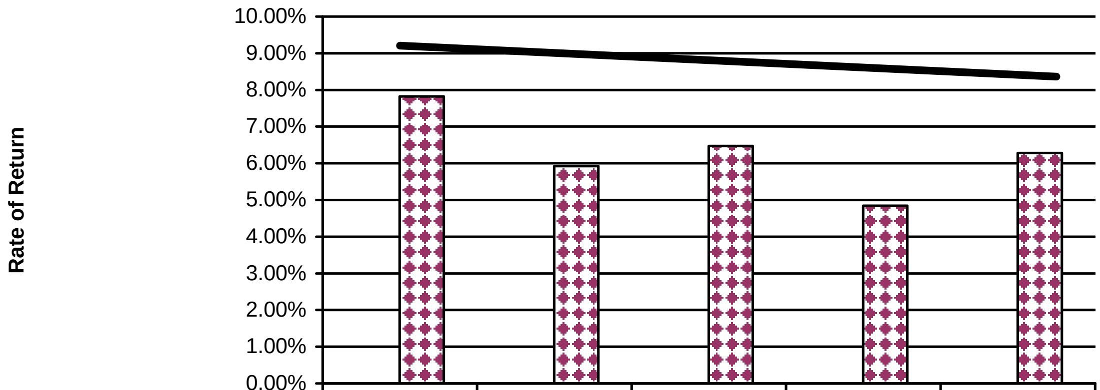
	Jun '04	Jun '05	Jun '06	Jun '07	Jun '08
HECO	7.82%	5.92%	6.47%	4.84%	6.28%
HELCO	7.12%	6.61%	5.54%	4.64%	7.55%
MECO	8.55%	7.89%	7.35%	6.00%	6.55%
KE/KIUC (1)	n/a (4)	n/a (4)	n/a (4)	n/a (4)	n/a (4)
Hawaiian Telcom (2)	-1.80%	-0.80%	-12.04%	-13.72%	-19.93%
TGC (3)	5.80%	7.30%	7.30%	7.10%	4.80%
Young Brothers	12.70%	8.81%	8.06%	5.64%	6.14%

12 MTD Ended June 30

(1) On September 17, 2002, the Commission approved the assignment of KE's legislatively-granted franchise to KIUC.
(2) On March 16, 2005, in Docket No. 04-0140, D&O No. 21696, the Commission approved the merger transaction that resulted in the sale of Verizon Hawaii, Inc. and certain affiliates to entities controlled by affiliates of the TC Group L.L.C., dba The Carlyle Group.
(3) Results are for the Honolulu Division.
(4) Beginning November 2002, KIUC began reporting TIER (Times Interest Earned Ratio).

As shown in Figures 23 to 25 and 27 to 29, for the most part, the utilities have not been earning their authorized rates of return over the past five (5) years. As KIUC converted to times interest earned ratio ("TIER") in 2002, Figure 26 shows KIUC's TIER for the past five (5) years.

Figure 23
Five Year Rate of Return Comparison - Hawaiian Electric Company

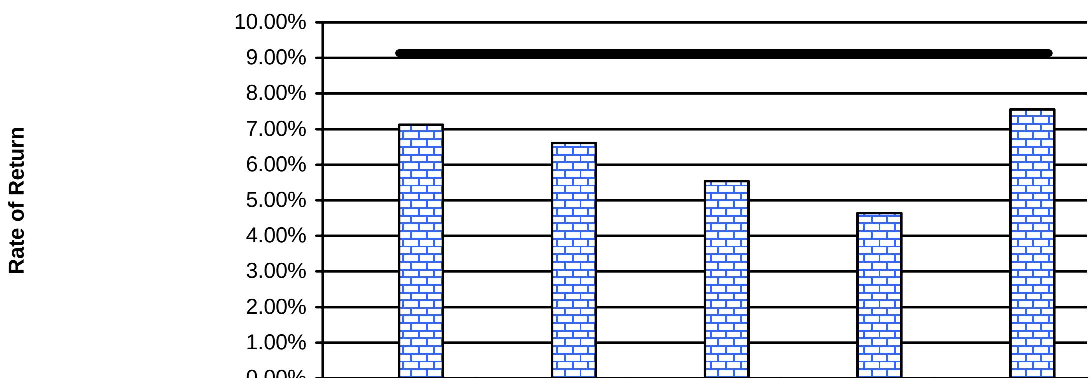


	Jun '04	Jun '05	Jun '06	Jun '07	Jun '08
Authorized Rate of Return	9.16%	9.16%	8.66%	8.66%	8.62% (1)
Rate of Return	7.82%	5.92%	6.47%	4.84%	6.28%

12 MTD Ended June 30

(1) HECO utilized a rate of return of 8.62% on average rate base in Docket No. 2006-0386, by Interim D&O No. 23749 filed on October 22, 2007.

Figure 24
Five Year Rate of Return Comparison - Hawaii Electric Light Company

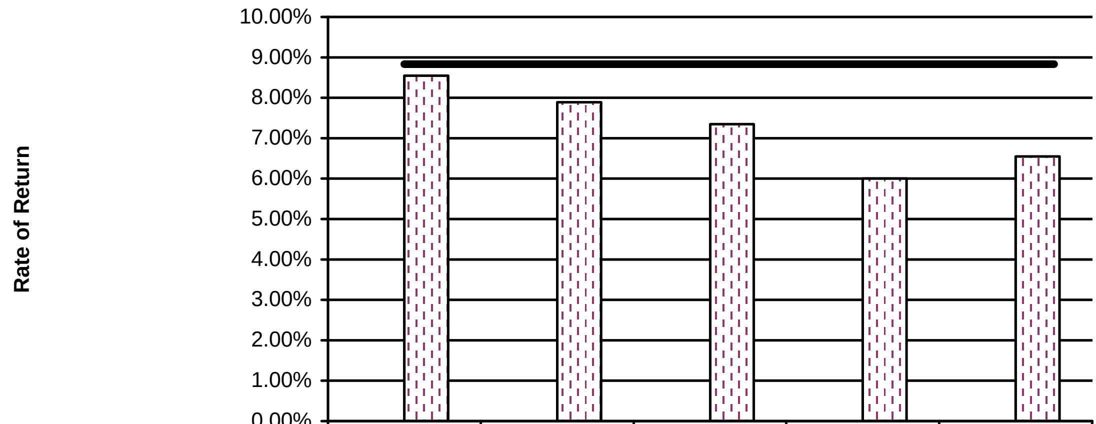


	Jun '04	Jun '05	Jun '06	Jun '07	Jun '08
Authorized Rate of Return	9.14%	9.14%	9.14%	8.33% (1)	8.33% (1)
Rate of Return	7.12%	6.61%	5.54%	4.64%	7.55%

12 MTD Ended June 30

(1) HELCO utilized a rate of return of 8.33% on average rate base in Docket No. 05-0315, by Interim D&O No. 23342, filed on April 4, 2007.

Figure 25
Five Year Rate of Return Comparison - Maui Electric Company

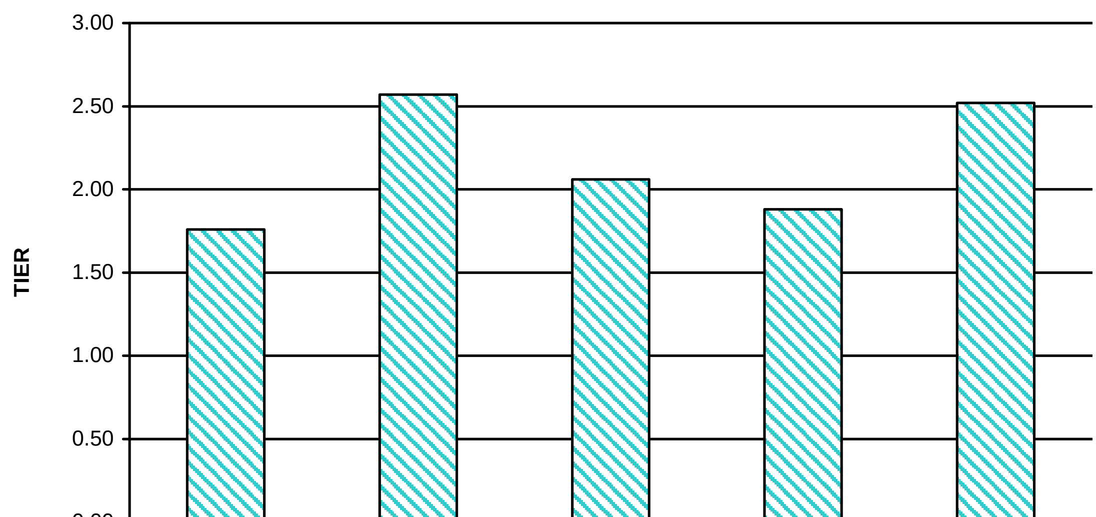


	Jun '04	Jun '05	Jun '06	Jun '07	Jun '08
Authorized Rate of Return	8.83%	8.83%	8.83%	8.83%	8.67% (1)
Rate of Return	8.55%	7.89%	7.35%	6.00%	6.55%

12 MTD Ended June 30

(1) MECO utilized a rate of return of 8.67% on average rate base in Docket No. 2006-0387, by Interim D&O No. 23926, filed on December 21, 2007.

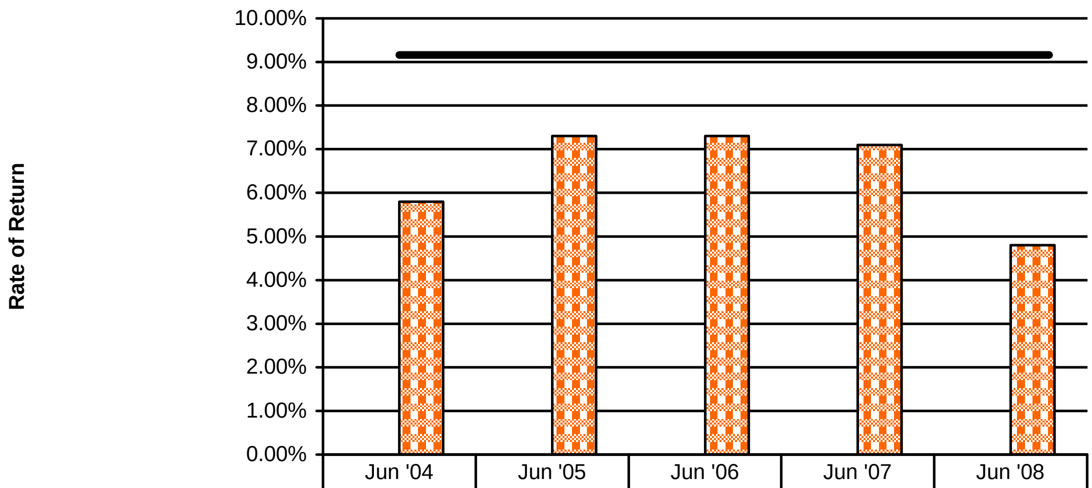
Figure 26
Five Year TIER Comparison - KIUC



	Jun '04	Jun '05	Jun '06	Jun '07	Jun '08
TIER	1.76	2.57	2.06	1.88	2.52

12 MTD Ended June 30

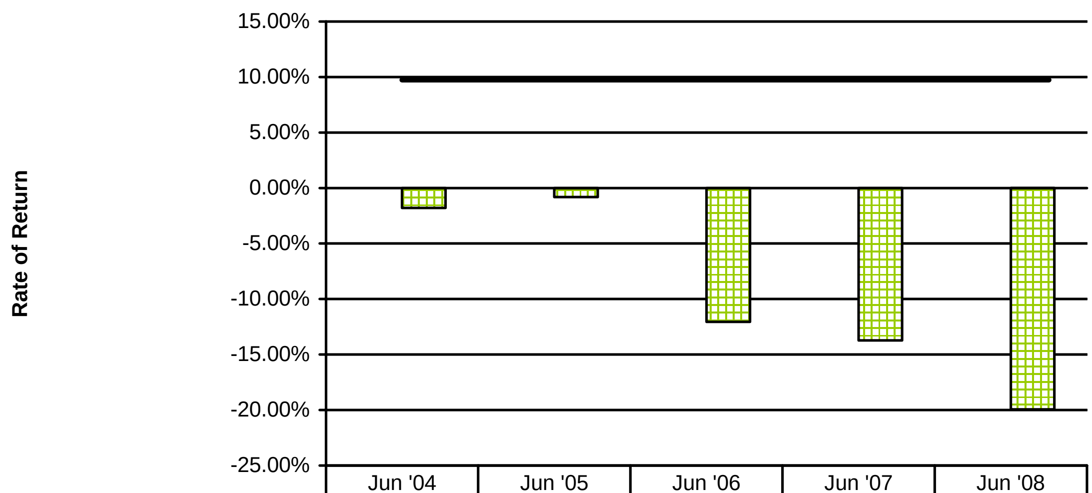
Figure 27
Five Year Rate of Return Comparison - The Gas Company



	Jun '04	Jun '05	Jun '06	Jun '07	Jun '08
Authorized Rate of Return	9.16%	9.16%	9.16%	9.16%	9.16%
Rate of Return	5.80%	7.30%	7.30%	7.10%	4.80%

12 MTD Ended June 30

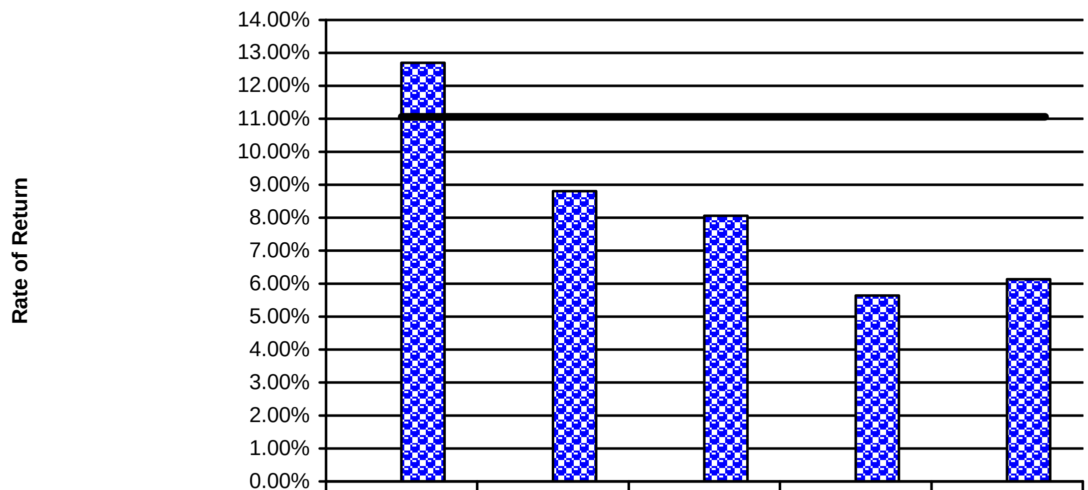
Figure 28
Five Year Rate of Return Comparison -
Verizon Hawaii/Hawaiian Telcom



	Jun '04	Jun '05	Jun '06	Jun '07	Jun '08
Authorized Rate of Return	9.73%	9.73%	9.73%	9.73%	9.73%
Rate of Return	-1.80%	-0.80%	-12.04%	-13.72%	-19.93%

12 MTD Ended June 30

Figure 29
Five Year Rate of Return Comparison - Young Brothers



	Jun '04	Jun '05	Jun '06	Jun '07	Jun '08
Authorized Rate of Return	11.06%	11.06%	11.06%	11.06%	10.76% (1)
Rate of Return	12.70%	8.81%	8.06%	5.64%	6.14%

12 MTD Ended June 30

(1) YB utilized a rate of return of 10.76% on average rate base in Docket No. 2006-0396, by D&O No. 23714, filed on October 12, 2007.

B. FORECASTED CAPITAL IMPROVEMENTS.

1. ELECTRIC UTILITY CIPs.

The total 2008 capital expenditure budget forecasted for HECO is approximately $204 million. Some of the major Capital Improvement Projects ("CIPs") in HECO's 2008 budget include the construction of the Campbell Industrial Park Generating Station and transmission line, miscellaneous underground service and extensions, transformer and equipment purchase/service, construction of the Mamala Substation, and East Oahu transmission project.

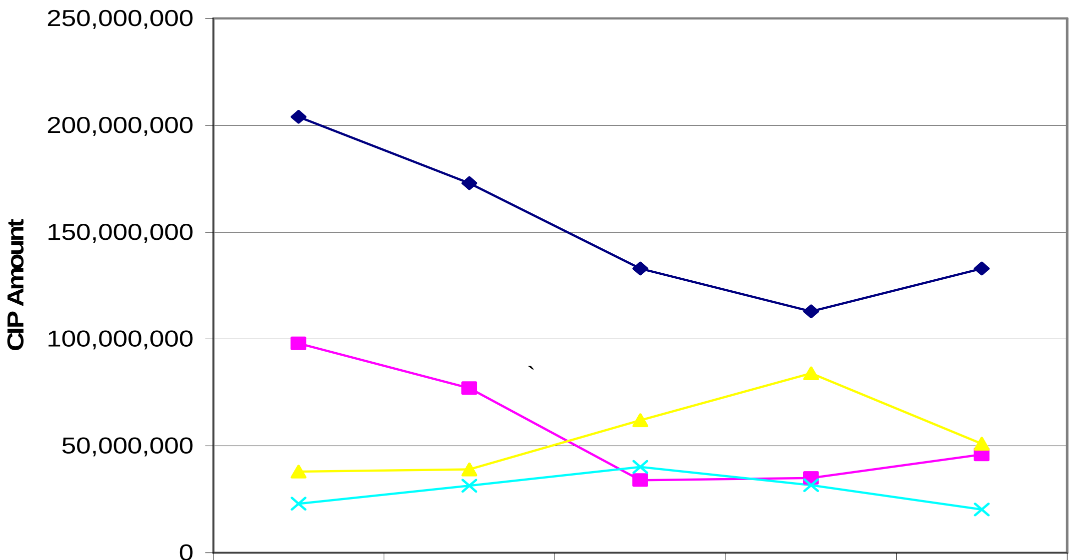
The total 2008 capital expenditure budget forecasted for HELCO is approximately $98 million. HELCO's major CIPs for 2008 include the purchase and installation of the Keahole 18 MW Steam Turbine, purchase of transformers and related equipments, overhead line projects, reconductoring of Keamuku-Waimea 7200 transmission line for increase capacity, and minor overhead extensions.

The total 2008 capital expenditure budget forecasted for MECO is approximately $38 million. Some of the major CIPs in MECO's 2008 budget include the installation of underground services and extensions, Puukolii Substation Expansion, Installation of one 20MW Combustion Turbine at Waena Generating Station, and operation and maintenance of a combined heat and power (CHP) 830-kW system at Manele Bay Hotel.

The total 2008 capital expenditure budget forecasted for KIUC is approximately $23 million. KIUC's major CIP for 2008 include Kukui'ula Substation, HRSG Tube Replacement, Lydgate Substation, Estimated Developer Work, Radio System Replacement Project and electrical utility service infrastructure projects.

Figure 30 shows the five (5)-year capital expenditure budget forecast for HECO, HELCO, MECO, and KIUC.

Figure 30
Electric Utilities Five-Year Capital Expenditures Forecast



	2008	2009	2010	2011	2012
HECO	204,000,000	173,000,000	133,000,000	113,000,000	133,000,000
HELCO	98,000,000	77,000,000	34,000,000	35,000,000	46,000,000
MECO	38,000,000	39,000,000	62,000,000	84,000,000	51,000,000
KIUC	23,067,600	31,436,900	40,186,300	31,658,500	20,272,700

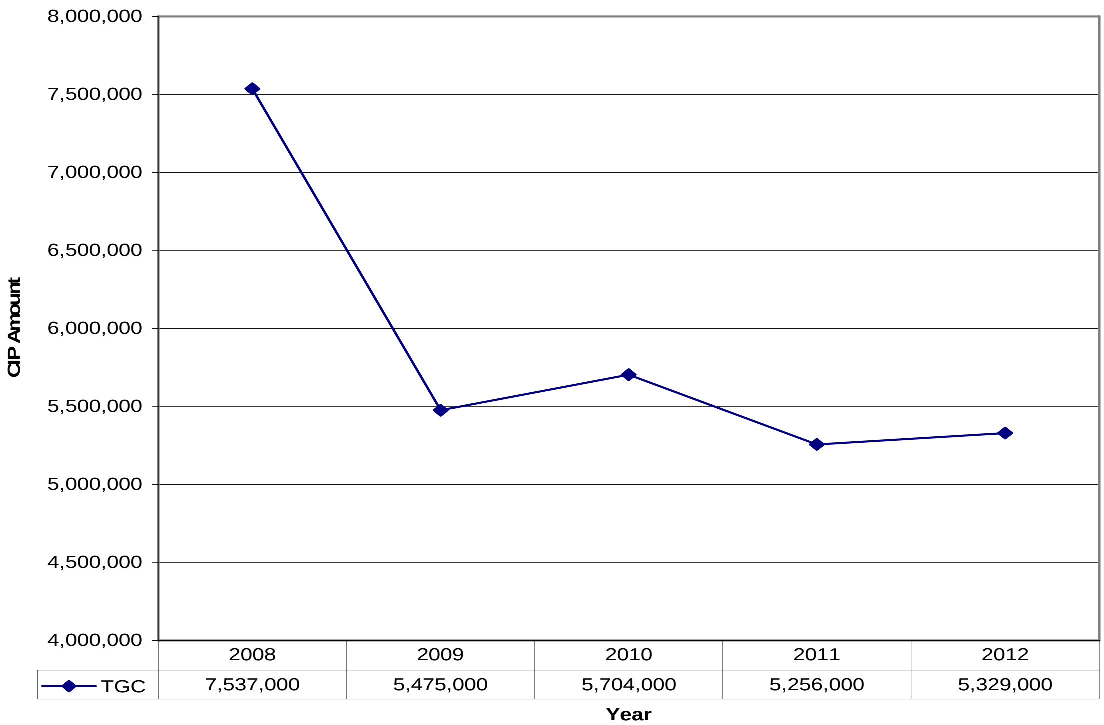
Year

2. GAS CIPs

The total 2008 capital expenditure budget forecasted for TGC is approximately $8 million. Some of the major projects in the TGC 2008 budget include new business, Kukui'ula Phase 1M in the Kauai district, and utility main pipeline renewal.

Figure 31 shows the five (5)-year capital expenditure budget forecast for TGC.

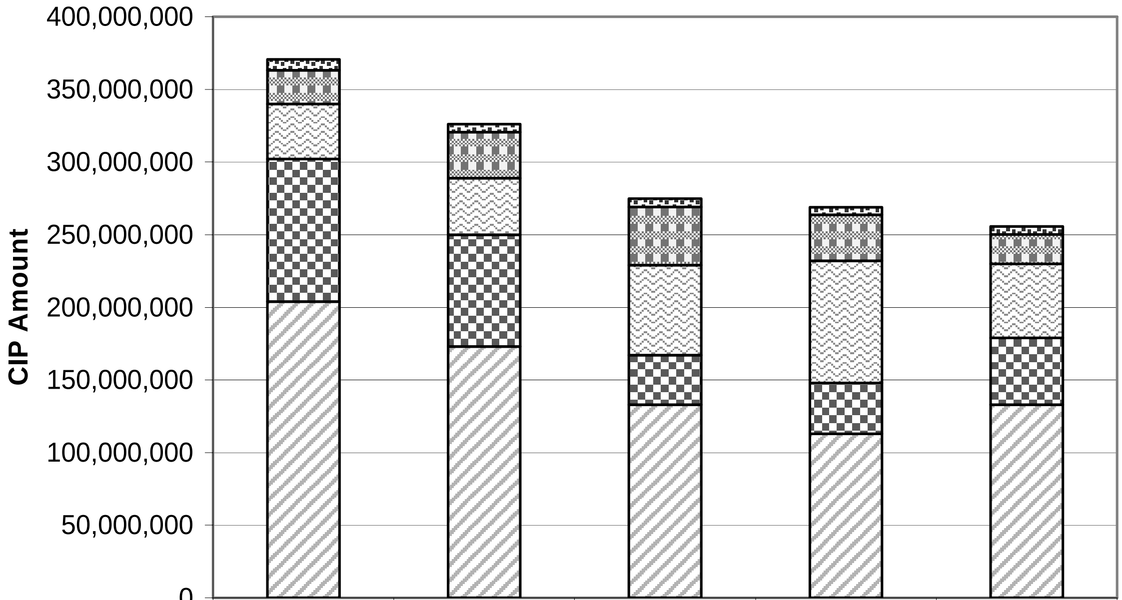
Figure 31
TGC Five-Year Capital Expenditures Forecast



3. FORECASTED UTILITY CIP EXPENDITURES.

Figure 32 shows the total five (5)-year capital expenditures forecast for the electric and gas utilities.

Figure 32
Capital Expenditures - Forecasted

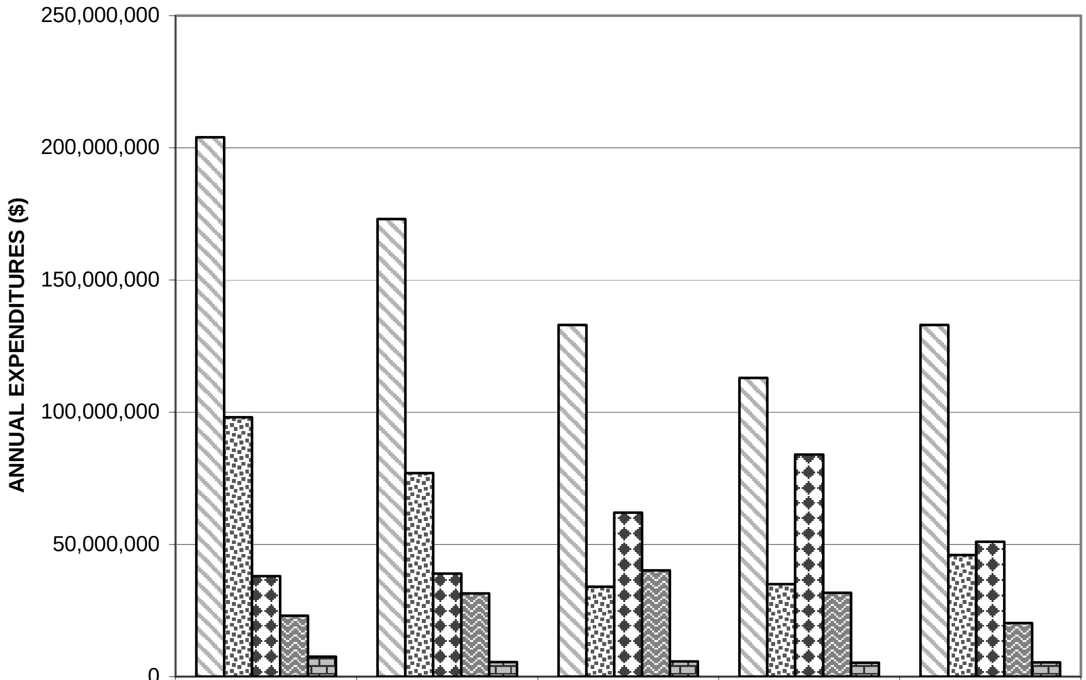


	2008	2009	2010	2011	2012
TGC	7,537,000	5,475,000	5,704,000	5,256,000	5,329,000
KIUC	23,067,600	31,436,900	40,186,300	31,658,500	20,272,700
MECO	38,000,000	39,000,000	62,000,000	84,000,000	51,000,000
HELCO	98,000,000	77,000,000	34,000,000	35,000,000	46,000,000
HECO	204,000,000	173,000,000	133,000,000	113,000,000	133,000,000
Total CIP	370,604,600	325,911,900	274,890,300	268,914,500	255,601,700

Year

Figure 33 shows the five (5)-year capital expenditure forecasts by utility company.

Figure 33
CAPITAL EXPENDITURES - FORECASTED



	2008	2009	2010	2011	2012
HECO	204,000,000	173,000,000	133,000,000	113,000,000	133,000,000
HELCO	98,000,000	77,000,000	34,000,000	35,000,000	46,000,000
MECO	38,000,000	39,000,000	62,000,000	84,000,000	51,000,000
KIUC	23,067,600	31,436,900	40,186,300	31,658,500	20,272,700
TGC	7,537,000	5,475,000	5,704,000	5,256,000	5,329,000

C. RATES OF MAJOR UTILITY COMPANIES.

Generally, base rates for most regulated utilities have not changed over the past several years. However, variable components of rates, such as energy rate adjustment factors, have changed the overall amounts billed to utility customers.

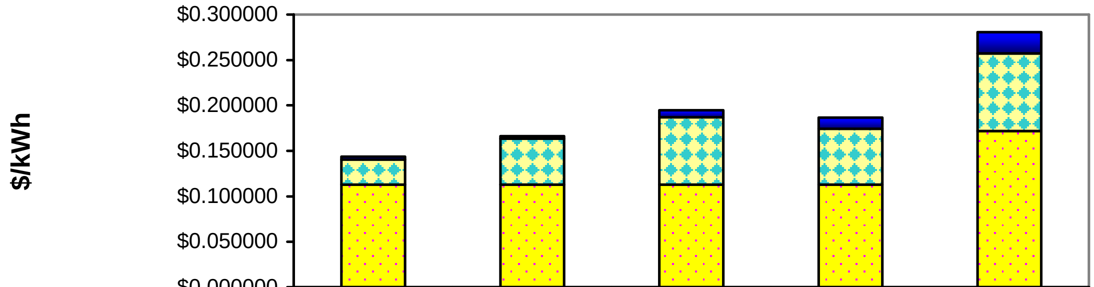
1. ELECTRICITY RATES.

In Figures 34 to 39, the electricity rates consist of the base energy rate plus the energy rate adjustment clause ("ERAC") and other adjustments.[22] The total of the base energy rate and the ERAC is referred to herein as the "Effective Energy Rate."

---

[22]ERAC (aka fuel adjustment clause) means a provision of a rate schedule approved by the Commission, which provides for increases or decreases, or both, without prior hearing, in rates reflecting changes in costs incurred by an electric or gas utility for fuel or purchased energy due to changes in the unit cost of fuel and purchased energy. See Chapter 6-60, HAR.

Figure 34
HECO Base Rates, ERAC, and Other Adjustments
2004 - 2008

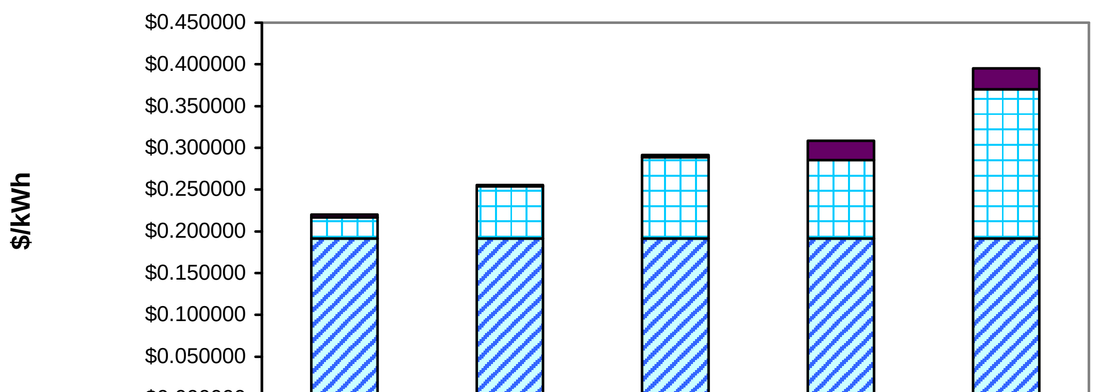


	Jun '04	Jun '05	Jun '06	Jun '07	Jun '08
Other Adjustments (1)	$0.003042	$0.002755	$0.007652	$0.012399	$0.023277
ERAC	$0.027500	$0.050370	$0.074210	$0.061420	$0.085360
Base Rates	$0.112954	$0.112954	$0.112954	$0.112954	$0.171896
Total	$0.143496	$0.166079	$0.194816	$0.186773	$0.280533

Year

(1) Other Adjustments did not reflect a one-time rate refund (TY 2005) of 17.45% on base rates, ordered by the Commission in Docket No. 04-0113, by D&O No. 24171, filed on May 1, 2008 and by Order Approving HECO's Revised Tariff Sheets and Rate Schedules, filed on June 20, 2008.

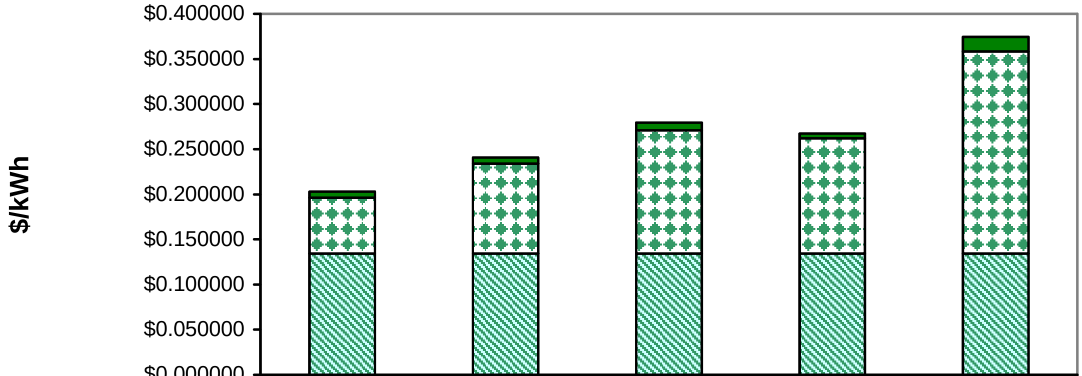
Figure 35
HELCO Base Rates, ERAC, and Other Adjustments
2004 - 2008



	Jun '04	Jun '05	Jun '06	Jun '07	Jun '08
Other Adjustments	$0.003418	$0.001570	$0.002694	$0.023022	$0.025006
ERAC	$0.025300	$0.062440	$0.097320	$0.093950	$0.178710
Base Rates	$0.191370	$0.191370	$0.191370	$0.191370	$0.191370
Total	$0.220088	$0.255380	$0.291384	$0.308342	$0.395086

Year

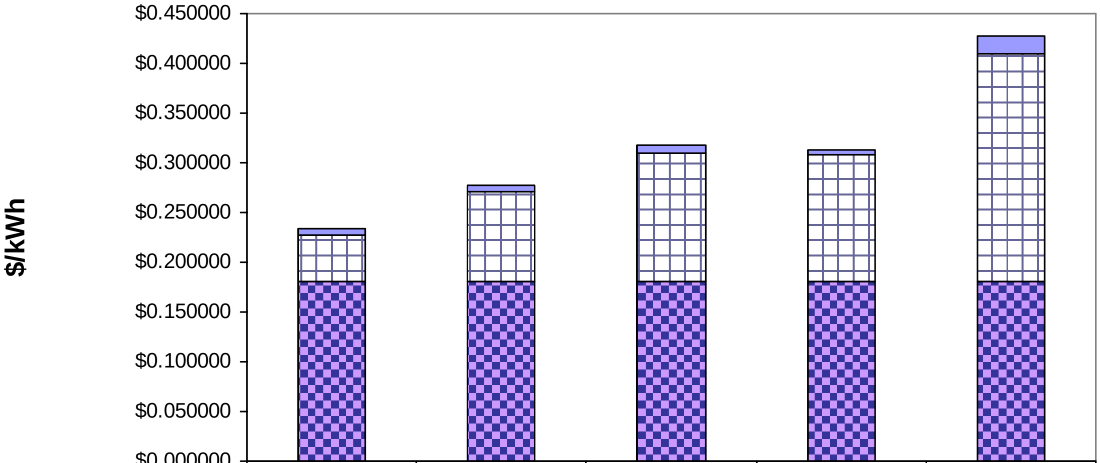
Figure 36
MECO - Maui Division Base Rates, ERAC, and Other Adjustments
2004 - 2008



	Jun '04	Jun '05	Jun '06	Jun '07	Jun '08
Other Adjustments	$0.006737	$0.006752	$0.008311	$0.005237	$0.015796
ERAC	$0.062130	$0.099710	$0.136800	$0.127920	$0.224320
Base Rates	$0.134231	$0.134231	$0.134231	$0.134231	$0.134231
Total	$0.203098	$0.240693	$0.279342	$0.267388	$0.374347

Year

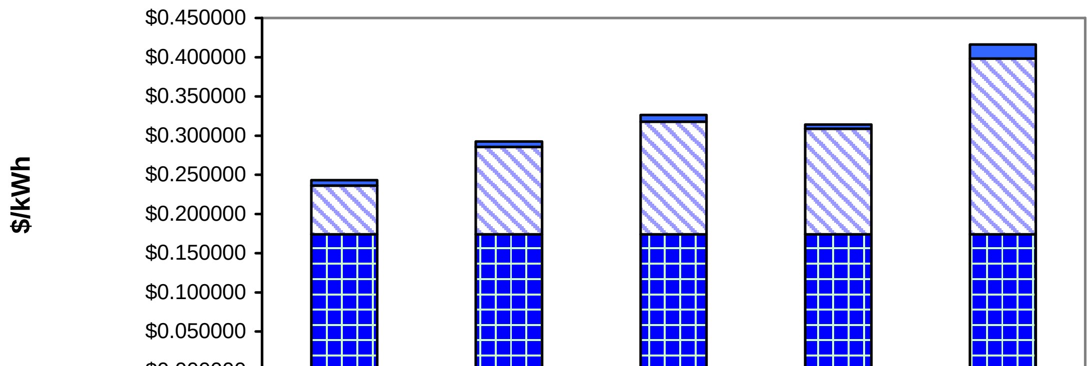
Figure 37
MECO - Lanai Division Base Rates, ERAC, and Other Adjustments
2004 - 2008



	Jun '04	Jun '05	Jun '06	Jun '07	Jun '08
Other Adjustments	$0.006889	$0.006889	$0.008542	$0.005429	$0.017420
ERAC	$0.047100	$0.090640	$0.128950	$0.127060	$0.228800
Base Rates	$0.180648	$0.180648	$0.180648	$0.180648	$0.180648
Total	$0.234637	$0.278177	$0.318140	$0.313137	$0.426868

Year

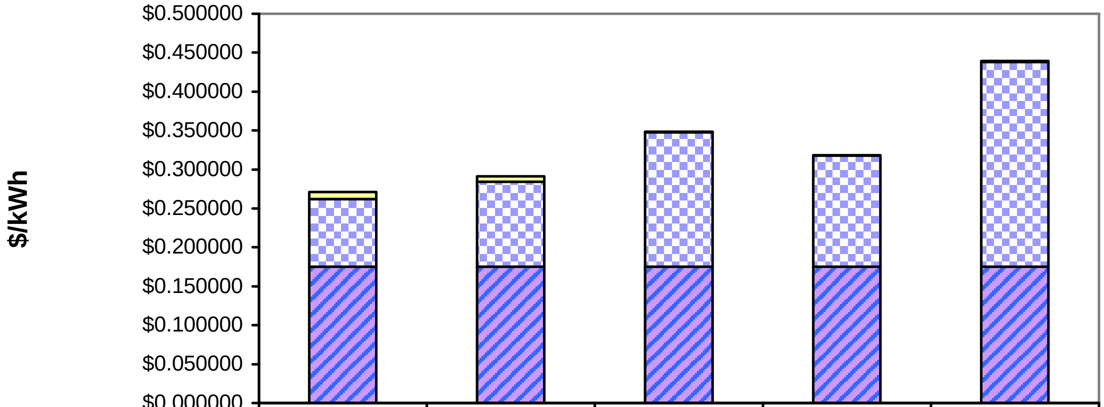
Figure 38
MECO - Molokai Division Base Rates, ERAC, and Other Adjustments
2004 - 2008



	Jun '04	Jun '05	Jun '06	Jun '07	Jun '08
Other Adjustments	$0.006832	$0.006832	$0.008356	$0.005330	$0.018015
ERAC	$0.061900	$0.111240	$0.143600	$0.134330	$0.223920
Base Rates	$0.174383	$0.174383	$0.174383	$0.174383	$0.174383
Total	$0.243115	$0.292455	$0.326339	$0.314043	$0.416318

Year

Figure 39
KIUC/KE Base Rate, ERAC, and Other Adjustments
2004 - 2008

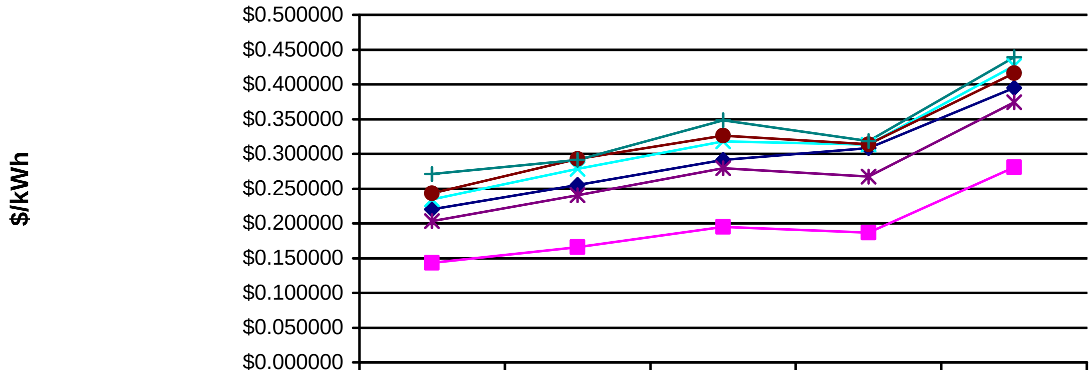


	Jun '04	Jun '05	Jun '06	Jun '07	Jun '08
Other Adjustments	$0.009156	$0.006942	$0.000674	$0.000303	$0.001050
ERAC	$0.086903	$0.109411	$0.172760	$0.143260	$0.263448
Base Rates	$0.174890	$0.174890	$0.174890	$0.174890	$0.174890
Total	$0.270949	$0.291243	$0.348324	$0.318453	$0.439388

Year

Figure 40 compares Effective Energy Rates (combined base rate and ERAC) for residential electricity customers across the State.

Figure 40
Five Year Comparison of Effective Residential Rates



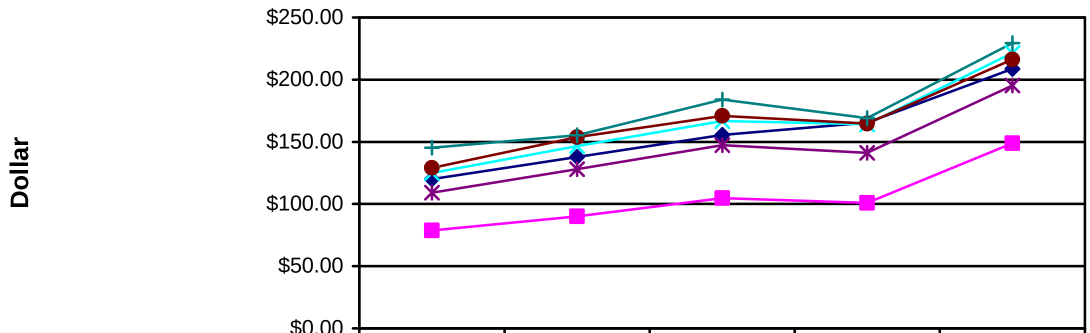
	Jun '04	Jun '05	Jun '06	Jun '07	Jun '08
HELCO	0.220088	0.255380	0.291384	0.308342	0.395086
HECO (1)	0.143496	0.166079	0.194816	0.186773	0.280533
MECO - Lanai Division	0.234637	0.278177	0.318140	0.313137	0.426868
MECO - Maui Division	0.203098	0.240693	0.279342	0.267388	0.374347
MECO - Molokai Division	0.243115	0.292455	0.326339	0.314043	0.416318
KIUC	0.270949	0.291243	0.348324	0.318453	0.439388

Year

(1) HECO's effective residential rate for June 2008 did not reflect a one-time rate refund (TY 2005) of 17.45% on base rates, ordered by the Commission in Docket No. 04-0113, by D&O No. 24171, filed on May 1, 2008 and by Order Approving HECO's Revised Tariff Sheets and Rate Schedules, filed on June 20, 2008.

Figure 41 compares monthly residential ***bills*** across the State over the past five (5) years, assuming 500 kwh is used by the customer during the month.[23]

Figure 41
Five Year Comparison of Average Monthly Residential Electric Bill Based on 500 kWh



	Jun '04	Jun '05	Jun '06	Jun '07	Jun '08
HELCO	$120.05	$137.69	$155.70	$165.26	$208.63
HECO (1)	$78.77	$90.04	$104.66	$100.82	$148.84
MECO - Lanai Division	$124.83	$146.59	$166.61	$164.10	$221.42
MECO - Maui Division	$109.06	$127.85	$147.21	$141.23	$195.24
MECO - Molokai Division	$129.08	$153.73	$170.71	$164.55	$216.20
KIUC	$145.20	$155.34	$183.88	$168.95	$229.42

Year

(1) HECO's average monthly residential electric bill based on 500 kWh for June 2008 did not reflect a one-time rate refund (TY 2005) of 17.45% on base rates, ordered by the Commission in Docket No. 04-0113, by D&O No. 24171, filed on May 1, 2008 and by Order Approving HECO's Revised Tariff Sheets and Rate Schedules, filed on June 20, 2008.

2. TELECOMMUNICATION RATES.

Hawaiian Telcom's basic rates have remained unchanged over the past several years.[24] The following table shows amounts by islands that customers have been paying since 1997 for residential service.

[23]The Residential 500 kwh calculation includes the Effective Energy Rate and other charges and adjustments that the utility is authorized to assess (e.g., customer charge, IRP/DSM surcharges, etc. – it varies by company).

[24]In fact, the current rates have been in effect since 1995. However, since 1997, with the approval of the Commission, Hawaiian Telcom has assessed an 11.23 per cent surcharge on most intrastate services, including basic services.

Island	Residential Service (1997 – Present)[25]
Oahu	$16.02
Hawaii	$14.57
Maui	$13.90
Kauai	$13.90
Molokai	$12.07
Lanai	$11.01

XIII. UTILITY COMPANY PERFORMANCE.

A. ELECTRIC UTILITIES EFFICIENCY AND SERVICE QUALITY.

The following electric utility service quality reports were based on or excerpted directly from the 2007 Service Reliability Report submitted to the Commission by HECO, MECO, HELCO, and KIUC. The reports cover the 2007 calendar year ("2007"). A complete copy is available for review at the Commission's office.

The reliability indices are calculated using the data from all sustained[26] system outages except customer maintenance outages. If data normalization is required, it is done using the guidelines specified in the report on reliability that was prepared for the Public Utilities Commission, titled "Methodology for Determining Reliability Indices for HECO Utilities," dated December 1990. That report indicates that normalization is allowed for "abnormal" situations such as hurricanes, tsunamis, earthquakes, floods, catastrophic equipment failures, and single outages that cascade into a loss of load greater than 10% of the system peak load. These normalizations are made in calculating the reliability indices because good engineering design takes into account safety, reliability, utility industry standards, and economics, and cannot always plan for catastrophic events.

Indices measure reliability in terms of the overall availability of electrical service (ASA), the frequency or number of times a company customers experience an outage during the year (SAIF), the average length of time an interrupted customer is out of power (CAID), and the average length of time the company's customers are out of power during the year (SAID). SAID is an indication of overall system reliability because it is the product of SAIF and CAID and incorporates the impact of frequency and duration of outages on the company's total customer base.

This analysis of the system reliability for the company is for the year 2007. To determine the relative level of reliability, the statistics for five to six prior years through 2007, are used for comparison.

[25]The figures listed include an approved 11.23 per cent intrastate surcharge. Charges, other surcharges and taxes not reflected in the amounts include PUC service fee, telecommunications relay services surcharge, and statewide enhanced 911 service surcharge, and state and federal taxes and surcharges, such as interstate access charge, general excise tax, federal excise tax, and federal universal service fee.

[26]An interruption of electrical service of 1 minute or longer.

1. HECO 2007 SERVICE QUALITY – NORMALIZED RESULTS.

This is the 2007 annual service reliability report of the Hawaiian Electric Company (HECO). The average number of electric customers increased from 292,554 in 2006 to 293,893 in 2007 (a 0.5% increase). The peak 2007 demand for the system was 1,262 MW (evening peak); however, the highest system peak demand remains at 1,327 MW set on the evening of October 12, 2004.

Annual Service Reliability Indices

The annual service reliability for 2007 was the best in the past 5 years in terms of frequency of customer interruptions (SAIF). The reliability results for 2007 and four prior years are shown in the Table of Annual Service Reliability Indices.

Table of

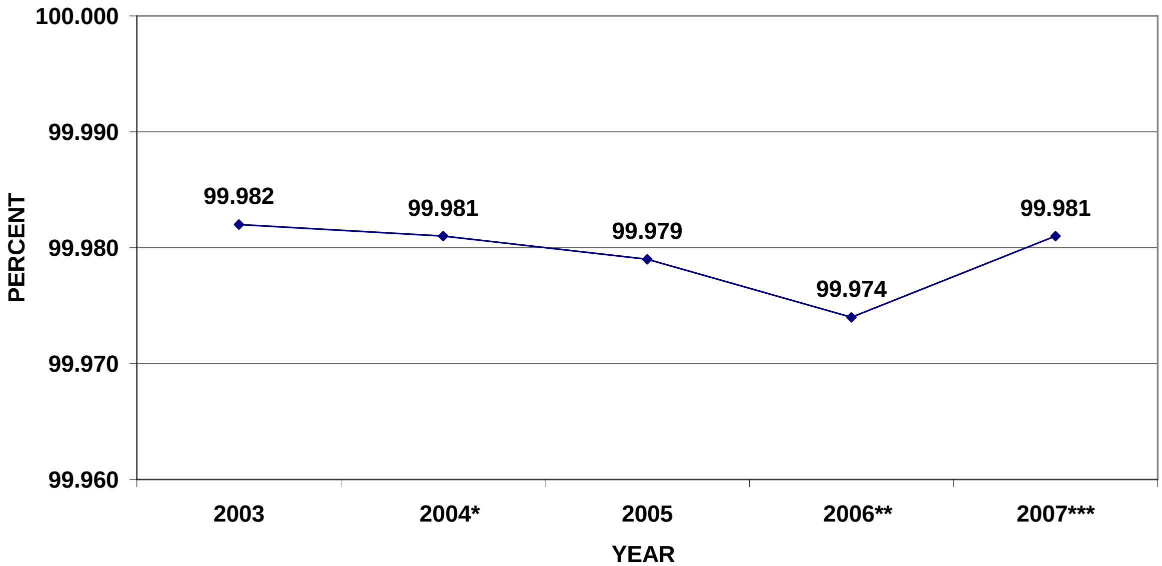
Annual Service Reliability Indices

	2003	2004*	2005	2006**	2007***
Number of Customers	**284,460**	**287,074**	**289,972**	**292,554**	**293,892**
Customer Interruptions	**469,372**	**364,491**	**383,410**	**420,749**	**367,837**
Customer-Hours Interrupted	**450,530**	**480,299**	**532,156**	**666,188**	**488,144**
ASA (Percent)	**99.982**	**99.981**	**99.979**	**99.974**	**99.981**
SAIF (Occurrences)	**1.650**	**1.270**	**1.322**	**1.438**	**1.252**
CAID (Minutes)	**57.59**	**79.06**	**83.28**	**95.00**	**79.62**
SAID (Minutes)	**95.03**	**100.39**	**110.11**	**136.63**	**99.66**

NOTE:

2004* **Data normalized to exclude 1/14/04 - 1/15/04 High Wind Outages**
Data normalized to exclude 2/26/04 - 2/28/04 Storm
Data normalized to exclude 3/3/04 Pukele Outage
2006** **Data normalized to exclude 6/01/06 Load Shedding Outage and 10/15/06 Earthquake Outage**
2007*** **Data normalized to exclude 1/29/07 and 02/02/07 High Wind Outages**
Data normalized to exclude 11/04/07 - 11/05/07 and 12/04/07 – 12/06/07 Storms

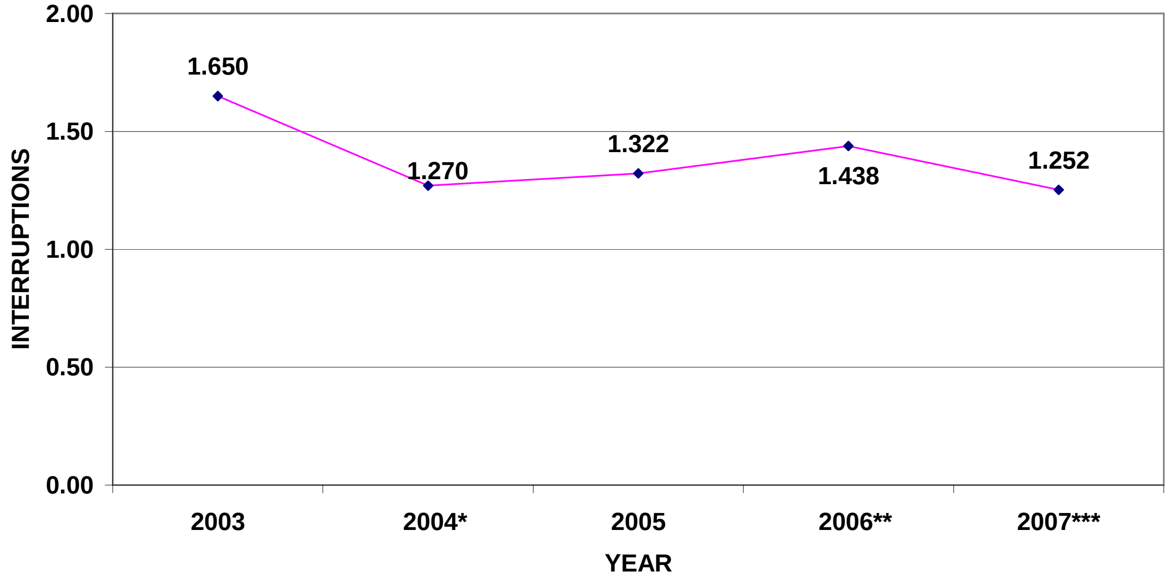
Figure 42
HECO Average Service Availability (ASA)
(Higher is better)



***Data normalized to exclude 1/14-15/04 High Winds, 2/26-28/04 Storm, and 3/3/04 Pukele outages**
****Data normalized to exclude 6/01/06 Load Shedding and 10/15/06 Earthquake outages**
*****Data normalized to exclude 1/29/07 and 02/02/07 High Wind Outages, 11/04-05/07 and 12/04/07 – 12/06/07 Storms**

Figure 42 shows that the 2007 Average Service Availability (ASA) index increased from the 2006 results after a period of decline from 2003 to 2006. Approximately 52,912 less customers experienced sustained service interruptions during 2007 compared to the previous year, an improvement of 13%. Also, the number of Customer-Hours Interrupted as shown in the Table of Annual Service Reliability Indices improved by 27% compared to 2006.

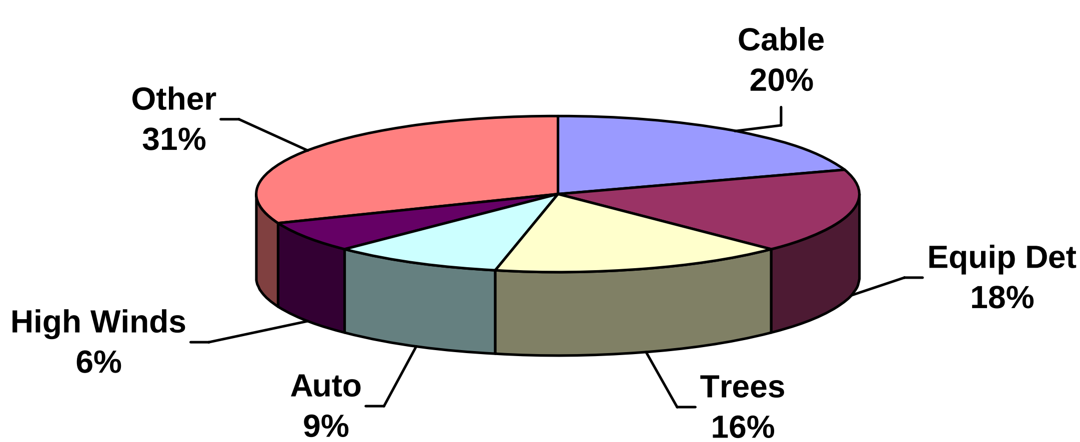
Figure 43
HECO System Average Interruption Frequency (SAIF)
(Lower is better)



***Data normalized to exclude 1/14-15/04 High Winds, 2/26-28/04 Storm, and 3/3/04 Pukele outages**
****Data normalized to exclude 6/01/06 Load Shedding and 10/15/06 Earthquake outages**
*****Data normalized to exclude 1/29/07 and 02/02/07 High Wind Outages, 11/04-05/07 and 12/04/07 – 12/06/07**

Figure 43 shows the System Average Interruption Frequency (SAIF) indices for the past five years. It shows that in 2007 the SAIF was the lowest in the past five years at 1.252, and the best system performance since 2002.

Figure 44: Outage Causes

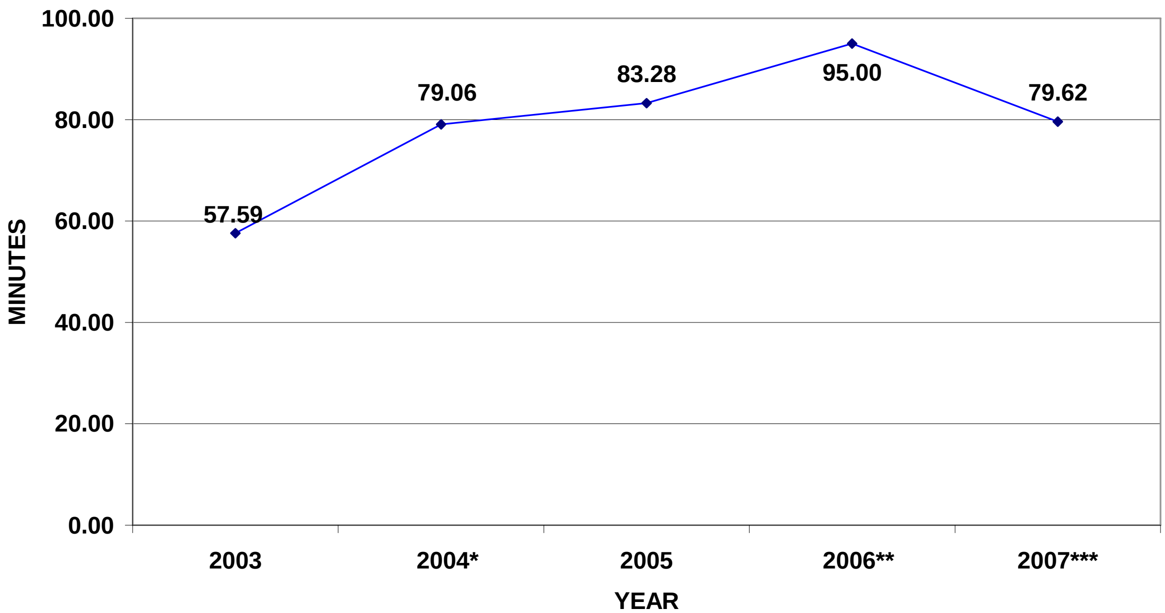


The Top 5 Outage Causes, as shown in Figure 44, explained about 0.862 or about 69% of the total Customer Interruptions in 2007; these causes are "Cable Faults", "Equipment Deterioration", "Trees/Branches in Lines", "Auto Accidents", and "High Winds". All of these were also major cause factors in 2006 with the exception of "High Winds" which replaced "Unknown" as a top contributor from 2006.

The number of Customer Interruptions due to "Cable Faults" was reduced from 106,653 in 2006 to 73,965 in 2007, an improvement of 31%. The number of Customer Interruptions due to "Equipment Deterioration" also improved, from 95,950 in 2006 to 64,386 in 2007, an improvement of 33%. Since these are the two leading causes of outages, this led to the dramatic improvement in the SAIF results in 2007 as compared to 2006.

Only one sustained interruption affected 10,000 or more customers during 2007. This interruption affected approximately 15,180 customers and contributed 0.049 to the SAIF. The interruption occurred on October 17, 2007 when the Koolau-Kaneohe 46 kV line tripped open due to trees/vegetation contacting the line while the Koolau-Kahuku 46 kV line, the alternate feeder to the Kaneohe and Waihee areas, was out of service so that crews could replace a wood pole. This event contributed to about 26% of the "Trees" cause results for 2007.

Figure 45
HECO Customer Average Interruption Duration (CAID)
(Lower is better)



***Data normalized to exclude 1/14-15/04 High Winds, 2/26-28/04 Storm, and 3/3/04 Pukele outages**
****Data normalized to exclude 6/01/06 Load Shedding and 10/15/06 Earthquake outages**
*****Data normalized to exclude 1/29/07 and 02/02/07 High Wind Outages, 11/04-05/07 and 12/04/07 – 12/06/07**

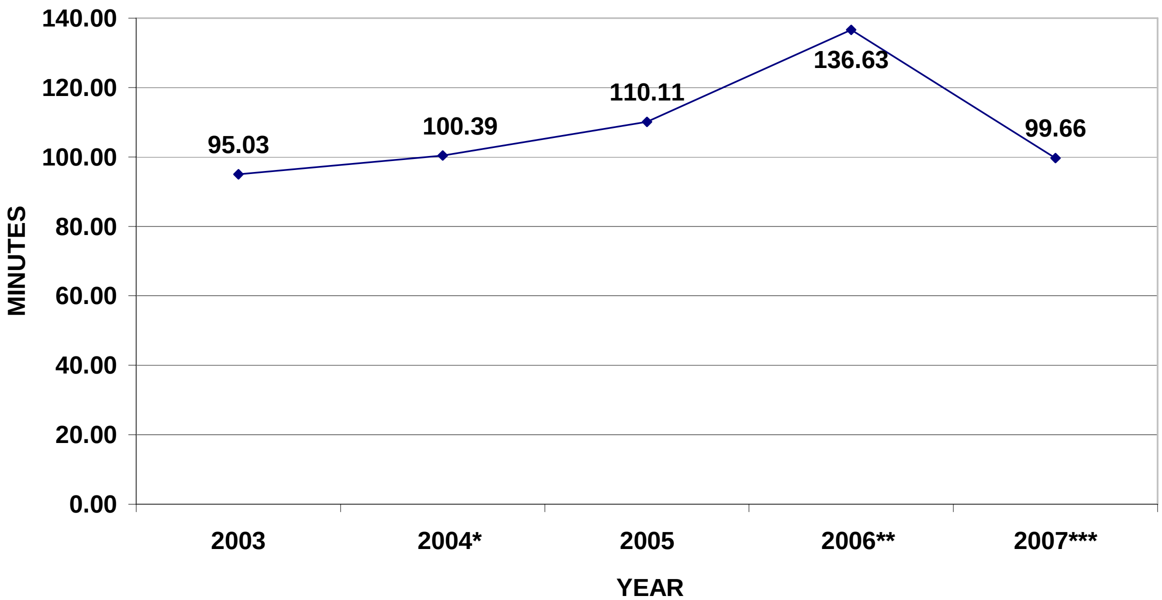
.

Figure 45 shows that the average duration of a customer's outage (CAID) for 2007 ranked third in the past 5 years. This showed that a good effort was made in minimizing the time a customer was out of service. The average electrical outage duration (CAID) for 2007 was 79.62 minutes, a 16% improvement from the 95 minutes for the 2006 results. Improvements in outage durations compared to the 2006 results were noted for "Cable Faults", "Equipment Deterioration", and "Trees/Branches in Lines", which were the most prevalent causes in 2007.

Four major events affected the CAID results in 2007:

1. High, gusty winds on January 31, 2007 caused many outages in Windward Oahu affecting 14,596 customers from 1 hour and 6 minutes to 37 hrs and 45 minutes.
2. An automobile accident on Moanalua Rd. caused a wood pole to break, affecting 1,238 customers from 1 hour and 23 minutes to 12 hours and 37 minutes on November 3, 2007.
3. A double cable fault (where both the primary and back up feeds were out of service), on the Kuahelani 4 12kV circuit on December 1, 2007 affected 855 customers from 2 hours and 45 minutes to 5 hours and 53 minutes. Most customers could not be restored until one of the faulted cables was repaired.
4. A large tree falling caused a wood pole on Kalanianaole Hwy. fronting Waimanalo Polo Field to break, affecting 1,498 customers from 2 hours and 18 minutes to 7 hours and 58 minutes on January 31, 2007.

Figure 46
HECO System Average Interruption Duration (SAID)
(Lower is better)



***Data normalized to exclude 1/14-15/04 High Winds, 2/26-28/04 Storm, and 3/3/04 Pukele outages**
****Data normalized to exclude 6/01/06 Load Shedding and 10/15/06 Earthquake outages**
*****Data normalized to exclude 1/29/07 and 02/02/07 High Wind Outages, 11/04-05/07 and 12/04/07 – 12/06/07 Storms**

Figure 46 shows the System Average Interruption Duration (SAID) indices for the past five years. It shows that the 2007 SAID of 99.66 minutes, a 27% improvement as compared to the 2006 SAID results, was the second lowest during the last five years. The SAID is the composite of both the SAIF and CAID indices and produces a broader benchmark of system reliability by combining both the duration and the number of customer interruptions during a given period of time. The improvement of the SAID result was due to a decrease in both the SAIF and CAID statistics as noted previously.

2. MECO 2007 SERVICE QUALITY – NORMALIZED RESULTS.

The following MECO electric utility service quality discussion is based on or excerpted directly from the MECO Annual Service Reliability Report 2007 submitted to the Commission by MECO. The report covers the 2007 calendar year. A complete copy is available for review at the Commission's office.

The 2007 service reliability report for Maui Electric Company, Limited (MECO). The average number of electric customers increased from 64,405 in 2006 to 65,728 in 2007 (an increase of 2.05%). The peak 2007 demand for the system was 209.3 MW (gross) that occurred on November 7, 2007. The peak 2007 demand was lower than the 2006 peak demand of 210.8 MW (gross) on August 14, 2006 (a decrease of .71%).

Graphs of the ASA (Figure 47), SAIF (Figure 48), CAID (Figure49), and SAID (Figure 50) for the six years are included.

2007 NORMALIZED RESULTS

The 2007 service reliability results were normalized to exclude the January 29th, 2007 Kona storm, when extremely high winds of 40 to 80 mph were experienced on parts of Maui and the December 5th Kona Storm, when extremely high winds of 50 to 80 mph and flooding were experienced on parts of Maui. The 2007 service reliability results (normalized) indicate that MECO made improvements in the ASA, SAIF, CAID and SAID indices compared to 2006.

- The ASA index of 99.9692% is an improvement from 2006 and is ranked fifth best for the last six years. (Higher is better.)

- The SAIF index of 2.593 is an improvement from 2006 and is ranked fifth best for the last six years. (Lower is better.)

- The CAID index of 62.52 minutes is an improvement from 2006 and is ranked fifth best for the last six years. (Lower is better.)

- The SAID index of 162.13 minutes is an improvement from 2006 and is ranked fifth best for the last six years. (Lower is better.)

Cable faults were the leading cause of outages in 2007, with 115 outages, which accounted for 19.56% of all outages. This was a decrease of 7.3% from 2006. Tree or branches were the second leading cause of outages in 2007, with 89 outages and accounted for 15.14% of all outages. This was an increased of 25.3% from 2006.

MECO experienced 26 load shed events in 2007. Maui experienced 12 load shed events, Molokai experienced 2 load shed events and Lanai experienced 12 load shed events in 2007.

Annual Service Reliability Indices

The normalized results for 2007, the previous un-normalized indices for 2002, 2003 and 2005 and the normalized indices for 2004 and 2006 are shown in the table "Annual Service Reliability Indices". Figures 47 through 50 contain the same data shown in graphical form.

MECO

Table of Annual Service Reliability Indices

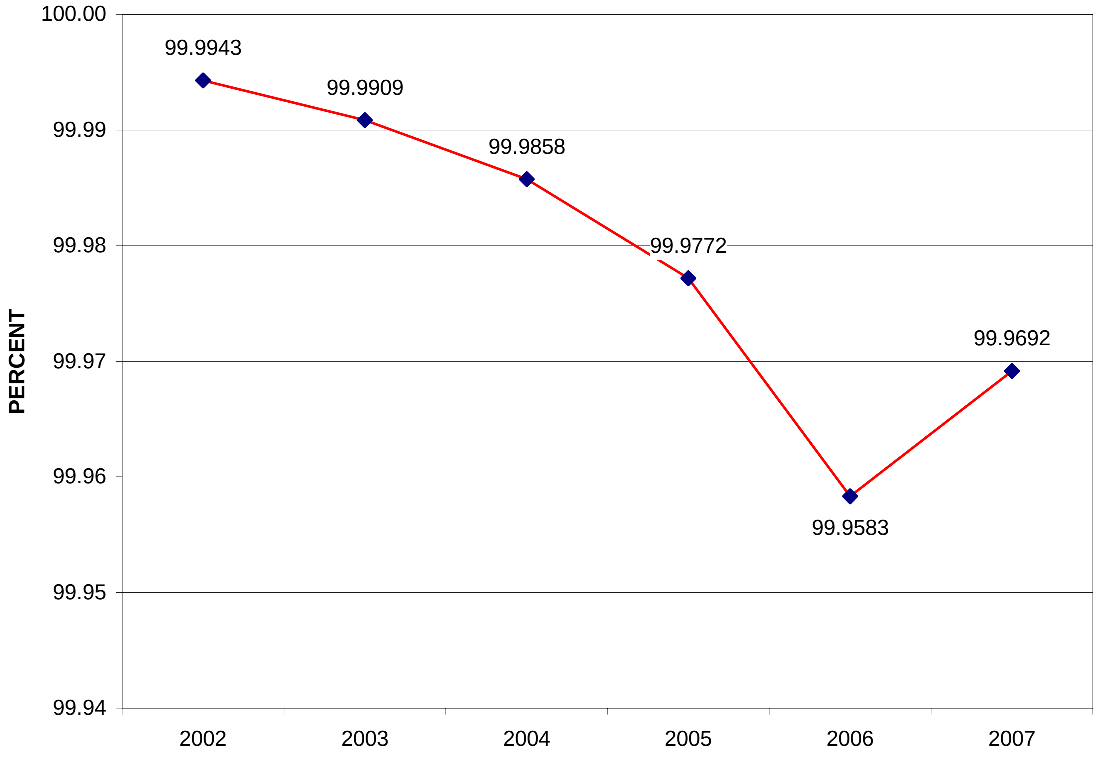
SYSTEM TOTALS	2002	2003	2004 *	2005	2006 **	2007 ***
Number of Customers	59,410	60,651	61,846	63,103	64,405	65,728
Customer Hrs. Interrupted	29,201	48,567	77,122	126,010	235,186	186,022
Customer-Interruptions	34,388	45,446	99,424	162,827	249,485	170,299
ASA (Percent)	99.9943	99.9909	99.9858	99.9772	99.9583	99.9692
SAIF (Occurrence)	0.579	0.749	1.608	2.580	3.874	2.593
CAID (Minutes)	50.95	64.12	46.54	46.43	56.56	62.52
SAID (Minutes)	29.49	48.05	74.82	119.81	219.10	162.13

* 2004 - Data normalized to exclude January 14, 2004 storm.

** 2006 - Data normalized to exclude October 15, 2006 earthquake.

*** 2007 - Data normalized to exclude January and December Kona storms.

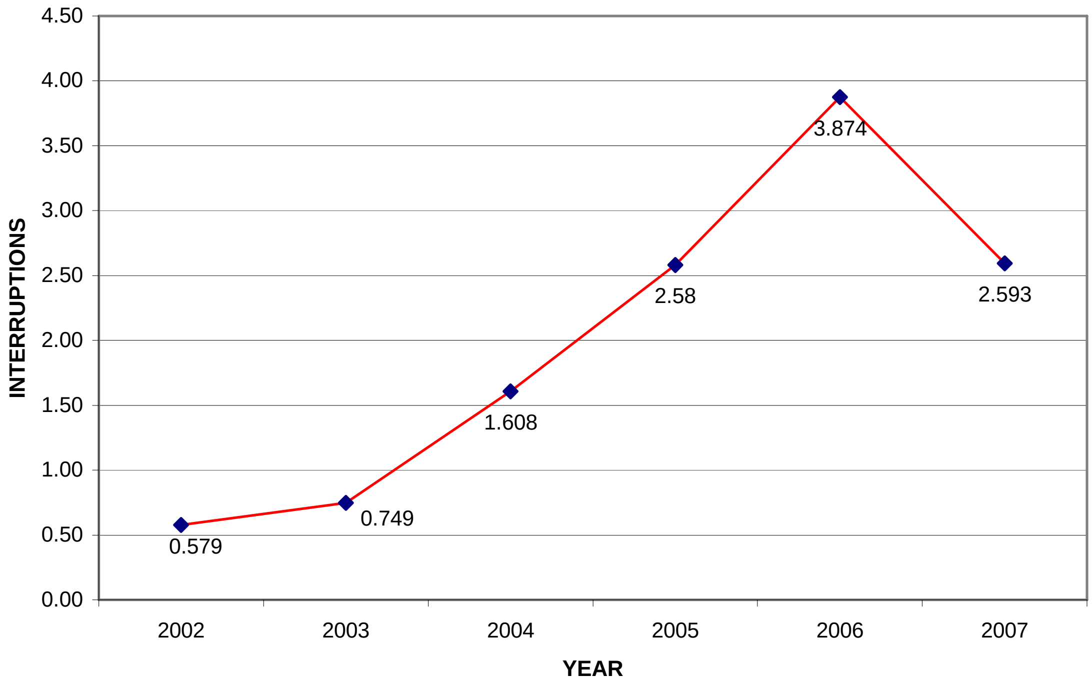
FIGURE 47
MECO AVERAGE SERVICE AVAILABILITY (ASA)
(Higher is better)



Note: 2004 - Data normalized to exclude 1/14/2004 storm
2006 - Data normalized to exclude 10/15/2006 earthquake
2007 - Data normalized to exclude 1/29/2007 and 12/5/2007 storms

Figure 47 shows that the 2007 Average Service Availability (ASA) index has increased from the 2006 results of 99.9583% to 99.9692% during 2007. This was an increase of approximately 0.0109% in the 2007 Average Service Availability compared to the previous year. The 2007 service reliability results (normalized) showed that MECO made improvements in the SAIF and SAID indices compared to 2006, while the CAID index had increased compared to 2006.

FIGURE 48
MECO SYSTEM AVERAGE INTERRUPTION FREQUENCY (SAIF)
(Lower is better)

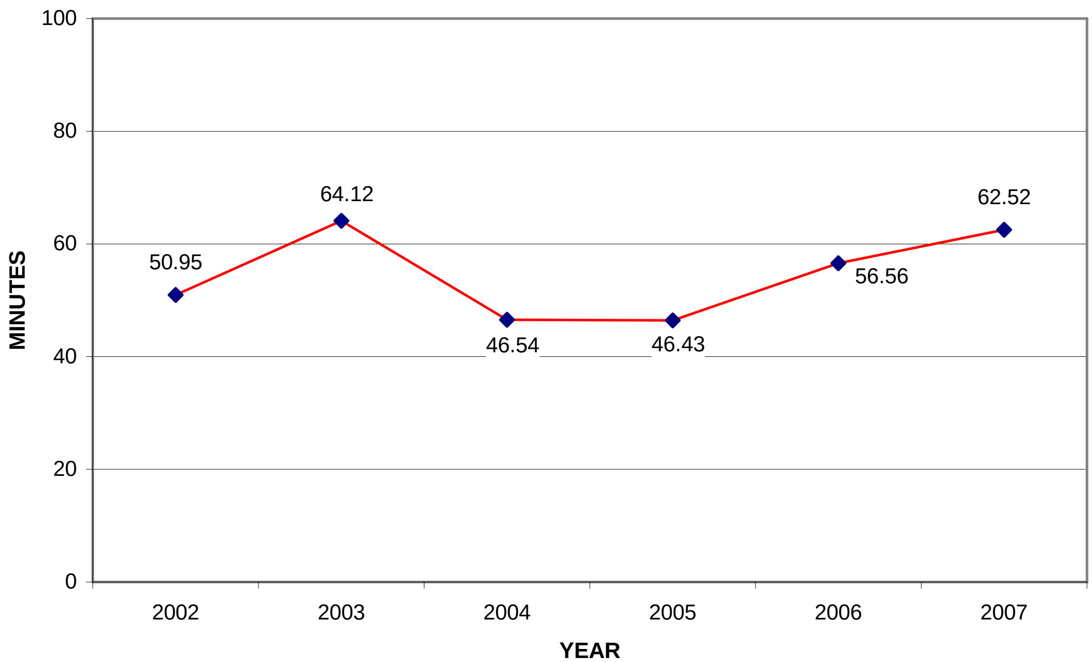


Note: 2004 - Data normalized to exclude 1/14/2004 storm
2006 - Data normalized to exclude 10/15/2006 earthquake
2007 - Data normalized to exclude 1/29/2007 and 12/5/2007 storms

Figure 48 shows the System Average Interruption Frequency (SAIF) indices for the past six years. It shows that in 2007, the recorded SAIF index was 2.593 and it had decreased from 2006 by 33.1%.

A decrease in Cable Faults, Equipment Failures and Operator or Switching Errors contributed to a lower SAIF for 2007.

FIGURE 49
MECO CUSTOMER AVERAGE INTERRUPTION DURATION (CAID)
(lower is better)

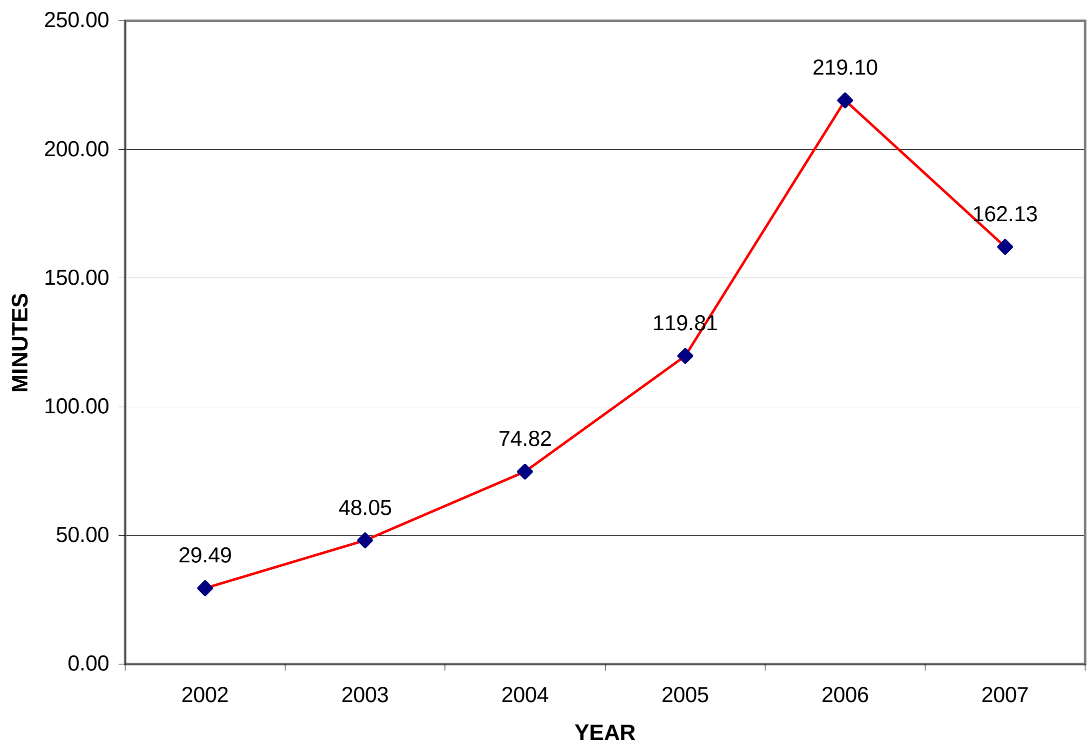


Note: 2004 - Data normalized to exclude 1/14/2004 storm
2006 - Data normalized to exclude 10/15/2006 earthquake
2007 - Data normalized to exclude 1/29/2007 and 12/5/2007 storms

Figure 49 shows the Customer Average Interruption Duration (CAID) indices for the past six years.

The average electrical outage duration of 62.52 minutes per customer for 2007 is an increase of 10.5% from the previous year. A contributing factor to the increase of the CAID index is outages related to vehicle accidents. Outages due to vehicle accidents increased in 2007, which incurred 33,877.1 customer interruption hours and accounted for 19.1% of all customer interruption hours in 2007. Outages related to vehicle accidents in 2007 caused extensive damage to MECO property and required time consuming work (i.e. the replacement of poles and transformers), which increases the duration of the outage. Also, a majority of the vehicle accidents occurred in the evening and early morning hours, when personnel were needed to be called out, which also added to the outage duration.

FIGURE 50
MECO SYSTEM AVERAGE INTERRUPTION DURATION (SAID)
(Lower is better)



Note: 2004 - Data normalized to exclude 1/14/2004 storm
2006 - Data normalized to exclude 10/15/2006 earthquake
2007 - Data normalized to exclude 1/29/2007 and 12/5/2007 storms

Figure 50 shows the System Average Interruption Duration (SAID) indices for the past six years. It shows that in 2007, the recorded SAID index was 162.13 and it had decreased from 2006 by 26%.

The SAID is the composite of both the SAIF and CAID indices and produces a broader benchmark of system reliability by combining both the duration and the number of customer interruptions during a given period of time. The lower SAID result was due to a decrease in the SAIF statistics as noted previously.

3. HELCO 2007 SERVICE QUALITY – NORMALIZED AND UNNORMALIZED RESULTS.

The following HELCO electric utility service quality discussion is based on or excerpted directly from the HELCO Annual Service Reliability Report 2007 submitted to the Commission by HELCO. The report covers the 2007 calendar year. A complete copy is available for review at the Commission's office.

The average customer count increased 3.4% from 75,353 in 2006 to 77,933 in 2007.

On a not-normalized basis, in 2007 a total of 257,924 Customer Interruptions were recorded for a total of 305,681 Customer Hours of Interruption. The System Average Interruption Frequency (SAIF) index was 3.310 and the Customer Average Interruption Duration (CAID) was 71.11 minutes.

On the normalized basis, a total of 208,000 Customer Interruptions were recorded for a total of 269,475 Customer Hours of Interruptions. The System Average Interruption Frequency (SAIF) index was 2.669 and the Customer Average Interruption Duration (CAID) was 77.73 minutes.

On a not-normalized basis, the following were the leading causes of customer interruptions in 2007:

1. Trees and Branches. There were 74,583 Customer Interruptions.

2. Failure of Customer Equipment. There were 64,232 Customer Interruptions, 64,217 (nearly 100%) of those were related to Independent Power Producers (non-HELCO Generation)

3. Faulty Equipment Operation. There were 35,006 Customer Interruptions, 28,246 (81%) of those were related to HELCO Generation.

There were 92,463 generation related Customer Interruptions in 2007, of which 28,246 were related to HELCO Generation sources (31%) and 64,217 were related to Independent Power Producers (non-HELCO Generation) sources (69%). In 2007 Hamakua Energy Partners (HEP) and Pakini Nui Windfarm were the two non-HELCO generation sources that caused customer interruptions.

In 2007 HELCO normalized data per guidelines specified in a special report on reliability prepared for the Public Utilities Commission. This report, "Methodology for Determining Reliability Indices for HECO Utilities", dated December 1990, indicates that normalization may be utilized for "abnormal" situations such as hurricanes, tsunamis, earthquakes, floods, catastrophic equipment failures, and a single equipment outage that cascades into a loss of load that is greater than 10% of the system peak load. HELCO has normalized data for the 2007 events listed below:

- High Winds on January 29 that caused faults on both transmission lines connecting to Puna Geothermal Ventures (PGV) that then triggered an Underfrequency Loadshedding event that resulted in 20,164 Customer Interruptions and 31,017 Customer Hours of Interruption.

- Underfrequency Loadshedding event on September 25 due to Hamakua EnergyPartners (HEP) tripping off-line while exporting 58 MW resulted in 29,760 Customer Interruptions and 5,189 Customer Hours of Interruption.

Significant interruptions, contributing more than 5,000 Customer Interruptions (CI) or Customer Interruption Duration (CID) greater than 5,000 Customer Hours of Interruption, that did not meet the normalization criteria were:

Date	Problem	CI	CID
February 19	High winds in Kohala area caused 34.5kV transmission pole to break	1,876	10,569
June 6	Relay problem at Kilauea Switching Station caused CB 3402 to operate	4,940	7,173
September 12	Underfrequency loadshedding – Keahole CT-4 tripped off-line	11,266	2,408
September 22	Underfrequency loadshedding – Pakini Nui Windfarm sudden output reduction	5,605	493
October 1	Underfrequency loadshedding – Puna Steam tripped off-line	5,606	138
October 16	Underfrequency loadshedding – HEP CT-1 tripped off-line	11,502	1,388
November 4	Tree fell on 69kV and 34.5kV transmission lines along Hamakua coast	2,816	6,416
November 4	Tree fell on distribution lines in Hawaiian Ocean View Estates area	1,393	7,996
November 19	Underfrequency loadshedding – HEP CT-2 tripped off-line	9,611	438
November 20	Underfrequency loadshedding – Puna Steam tripped off-line	7,315	587
December 5	Winter storm (lightning and high winds) that caused problems islandwide	31,613	48,228
December 14	High winds downed distribution poles in the Kohala Ranch area	419	6,836
December 15	Scheduled maintenance for Kohala area, and to allow reconductoring of Waimea-Kawaihae 69kV transmission line	1,892	14,631

Normalized

Year	ASA	Number of Customers	Customer Interruptions	CID	SAIF	CAID
2002	99.973	66,034	195,614	154,064	2.962	47.26
2003	99.962	67,879	213,873	225,439	3.151	63.24
2004	99.976	70,124	163,745	150,905	2.335	55.30
2005	99.968	72,513	153,982	200,374	2.124	78.08
2006	99.971	75,353	188,602	190,061	2.503	60.46
2007	99.961	77,933	208,000	269,475	2.669	77.73

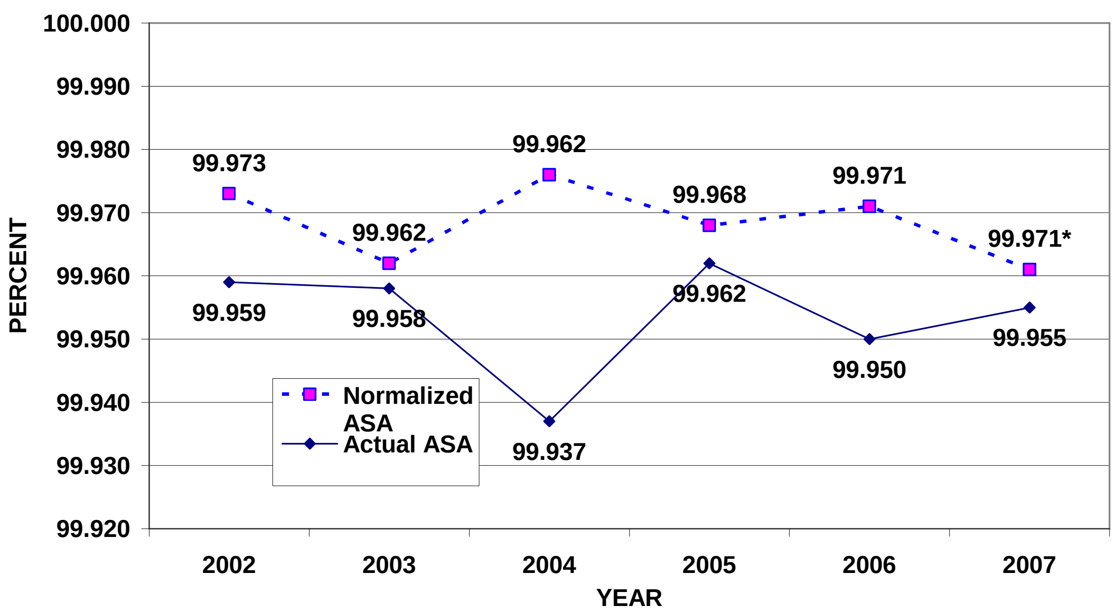
Not-Normalized

Year	ASA	Number of Customers	Customer Interruptions	CID	SAIF	CAID
2002	99.959	66,034	339,184	238,789	5.137	42.24
2003	99.958	67,879	289,027	251,280	4.258	52.16
2004	99.937	70,124	417,462	388,891	5.953	55.89
2005	99.962	72,513	246,557	239,935	3.400	58.39
2006	99.950	75,353	341,289	328,758	4.529	57.80
2007	99.955	77,933	257,924	305,681	3.310	71.11

AVERAGE SERVICE AVAILABILITY INDEX

(ASA IN %)

Figure 51
HELCO Average Service Availability (ASA)
(Higher is better)

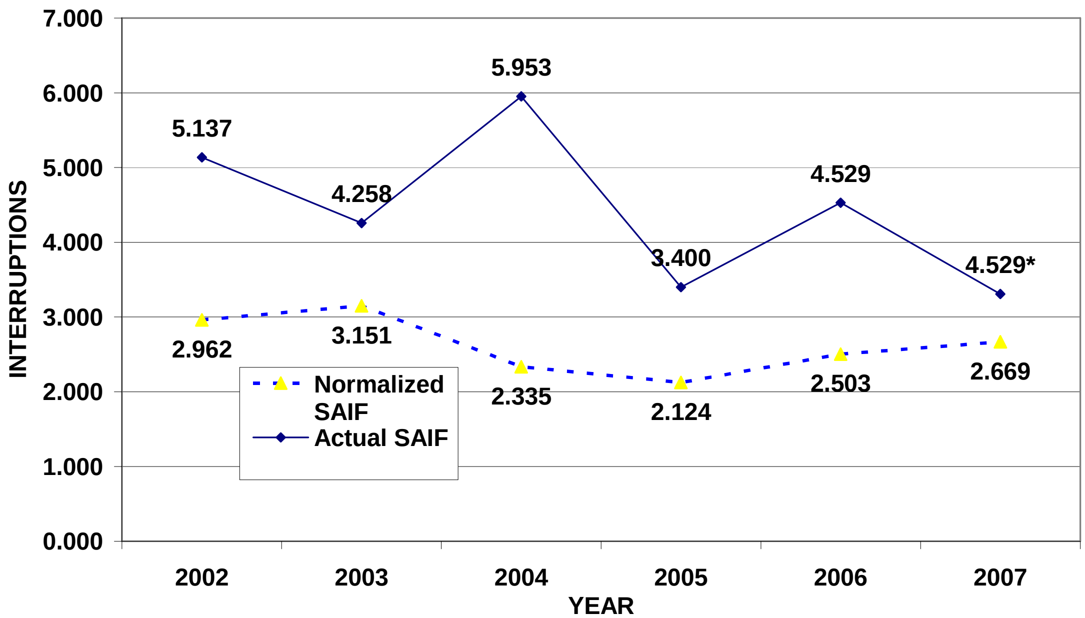


(*Data normalized to account for "abnormal" situations)

SYSTEM AVERAGE INTERRUPTION FREQUENCY

(SAIF)

Figure 52
HELCO System Average Interruption Frequency (SAIF)
(Lower is better)

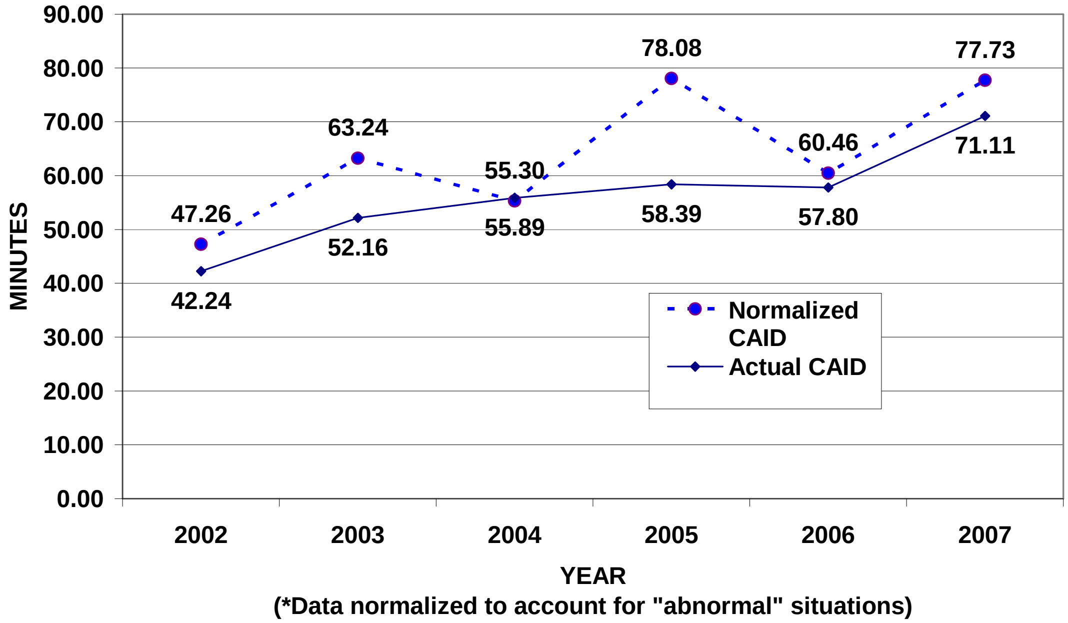


(*Data normalized to account for "abnormal" situations)

CUSTOMER AVERAGE INTERRUPTION DURATION

(CAID)

Figure 53
HELCO Customer Average Interruption Duration (CAID)
(Lower is better)



4. KAUAI ISLAND UTILITY COOPERATIVE ("KIUC") 2007 SERVICE QUALITY – UNNORMALIZED RESULTS.

The following KIUC electric utility service quality discussion is based on or excerpted directly from the KIUC Annual Service Reliability Report 2007 submitted to the Commission by KIUC. The report covers the 2007 calendar year. A complete copy is available for review at the Commission's office.

The average number of electric ratepayers increased in 2007 to 35,207 (1.52%) over 2006's 34,671. The system peak was 77.75 MW which were recorded. The 2006 system peak demand increased by 0.99 MW or 1.26% over 2006's peak of 76.78 MW.

KIUC has not normalized any of its data for the period 2003 through 2007. The reliability indices are calculated using the data from all system interruptions except scheduled interruptions for maintenance.

The unnormalized reliability results for 2003, 2004, 2005, 2006 and 2007 are shown in the table "KIUC Annual Service Reliability Indices." Figures 54 to 57 contain the data discussed above in graphical form.

KIUC Annual Service Reliability Indices					
	2003	**2004**	**2005**	**2006**	**2007**
Number of Customers	32,361	33,232	33,772	34,671	35,207
ASA (Per cent)	99.967	99.965	99.976	99.969	99.961
SAIF (Occurrences)	7.73	6.98	4.89	8.17	8.43
CAID (Minutes)	22.43	26.26	25.63	20.16	24.35
SAID (Minutes)	173.42	184.92	124.92	164.7	205.15

Figure 54
KIUC Average Service Availability (ASA)
(Higher is better)

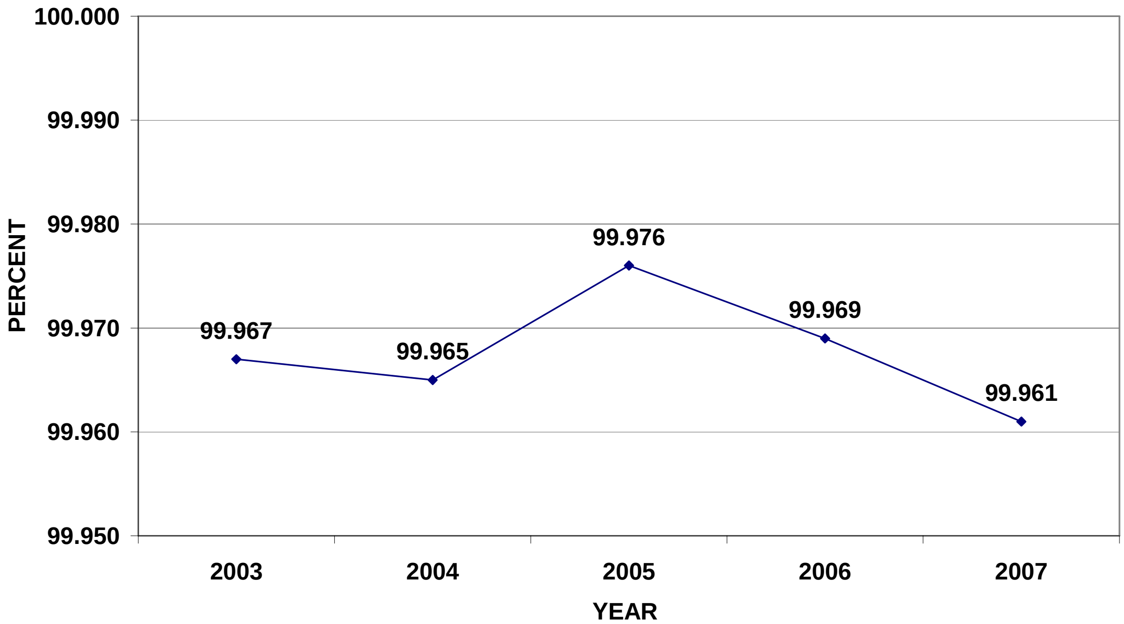


Figure 54 shows the Average System Availability Index (ASA) for the past five years. ASA has decreased since 2005, which was the best year since a few major impacts to the system offered in late 2002: initial commercial operation the Kapaia unit, the sale of Kauai Electric (KE) to KIUC, and the retirement of Lihue Plantation. In addition, the 2007 ASA of 99.96% in 2006 is 0.01% lower than 2006's 99.969%. It was the worst of the five year period and worse than the five-year average of 99.968%.

Figure 55
KIUC System Average Interruption Frequency (SAIF)
(Lower is better)

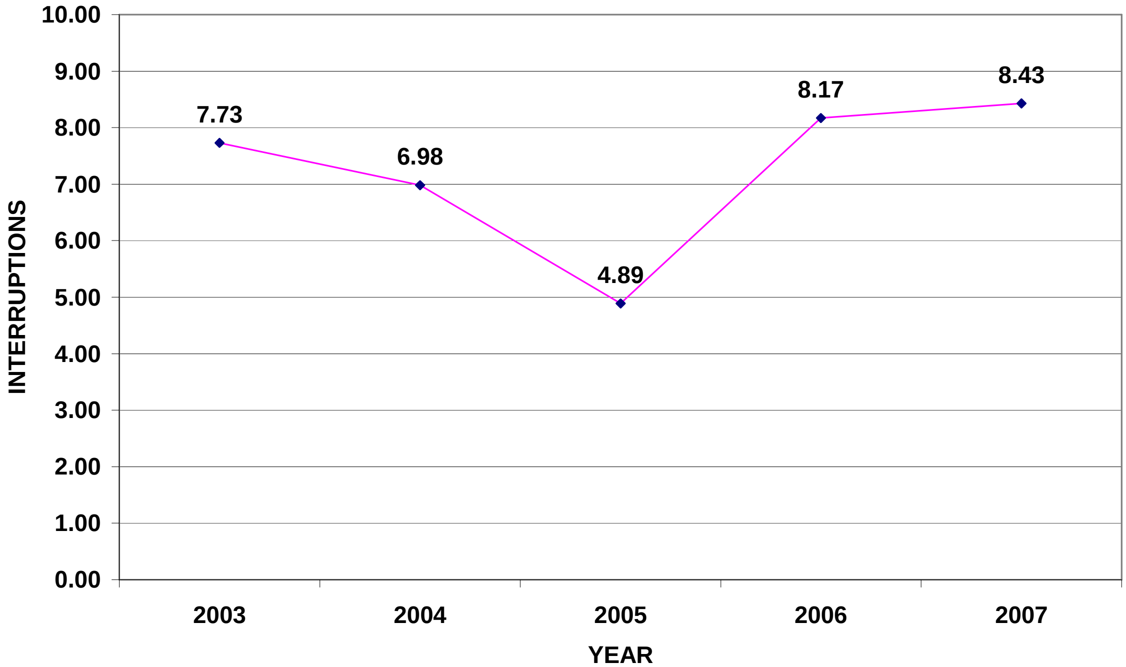


Figure 55 shows the System Average Interruption Frequency Index (SAIF) for the past five years. The SAIF index of 8.43 occurrences in 2007 has increased by 3.08% from 4.89 occurrences in 2006. The 2007 SAIF was the worst of the five year period and worse than the five-year average of 7.24.

Figure 56
KIUC Customer Average Interruption Duration (CAID)
(Lower is better)

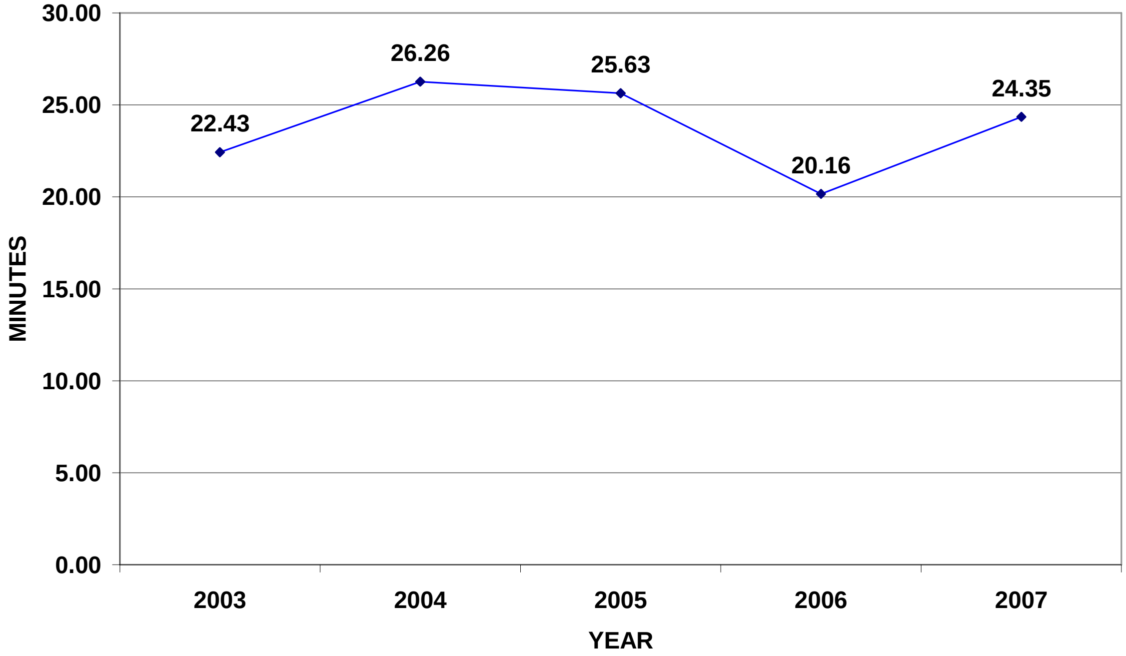


Figure 56 shows the Customer Average Interruption Duration Index (CAID) for the past five years. The CAID index of 24.35 minutes in 2007 is 17.21% higher than 2006's 20.16 minutes. The 2007 CAID was the third best of the five-year period but worse than the five-year average of 23.77.

Figure 57
KIUC System Average Interruption Duration (SAID)
(Lower is better)

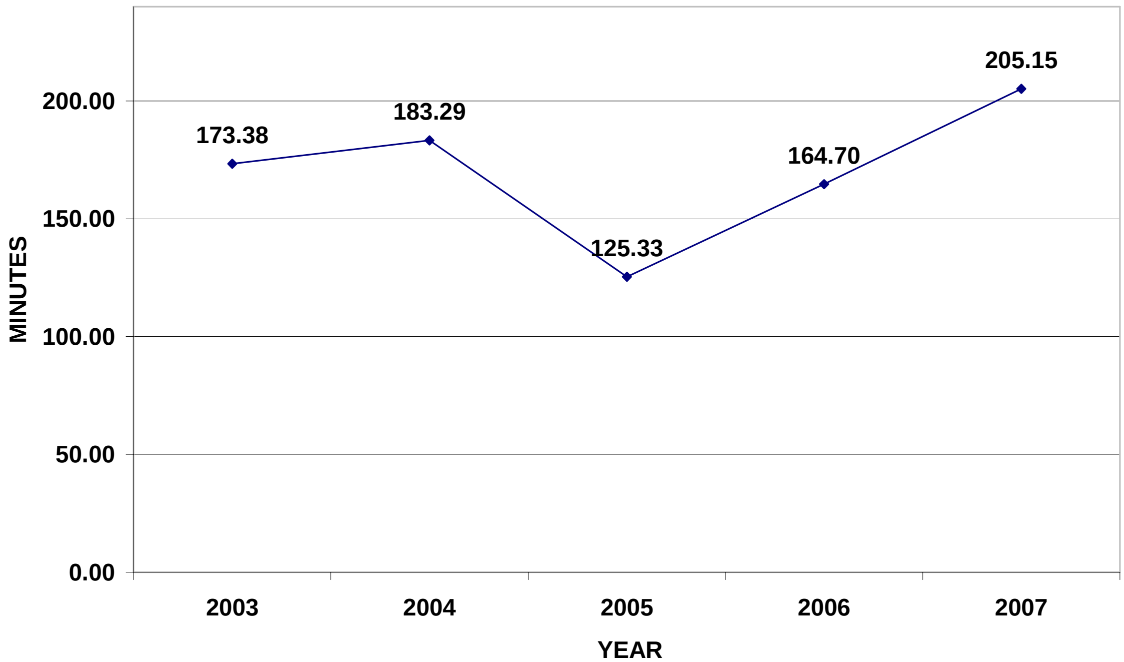


Figure 57 shows the System Average Interruption Duration Index (SAID) for the past five years. The SAID index of 205.15 minutes is 19.72% higher than 2006's 164.7 minutes. The 2007 SAID was the worst of the five-year period and worse than the five-year average of 170.37.

KIUC focused on two areas of causing sustained interruptions: causes by frequency (what caused the most interruptions) and causes by magnitude (what caused the most severe interruptions).

Figure 58
Sustained Interruptions by Frequency

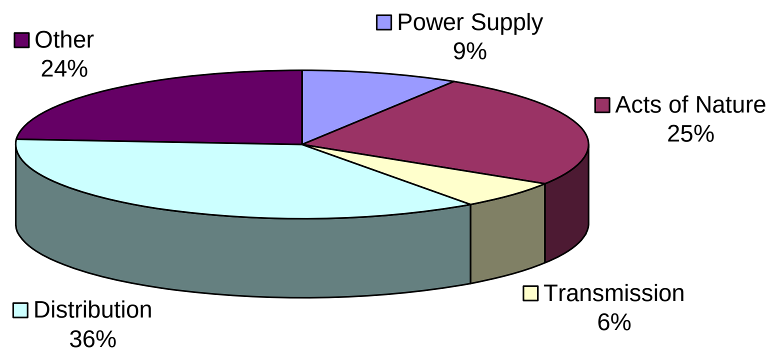


Figure 58 shows the breakdown by frequency. The cause of most interruptions was Distribution: failure or malfunction of distribution equipment owned by KIUC. Examples of distribution equipment include cables, fuses, guy wires, insulators, poles, and transformers. The cause of the second most interruptions was Acts of Nature: high winds causing debris such as trees to contact or topple wires. The cause of the third most interruptions was Others: persons or equipment not related to or owned by KIUC. Examples of Other interruption causes included auto accidents that contact utility poles or wires, non-KIUC contractors such as construction crews that dig into underground cables or tree trimmers that contact overhead wires, and tree that contact wires due to overgrowth. The cause of the fourth most interruptions was Power Supply, examples which are generating unit problems that result in reduction of output, causing an under frequency load shed. The cause of the fifth most, or least, interruptions was Transmission: Failure or malfunction of transmission equipment owned by KIUC. Examples of transmission equipment include insulators, large transformers, lightning arrestors, and switches.

Figure 59
Sustained Interruptions by Magnitude

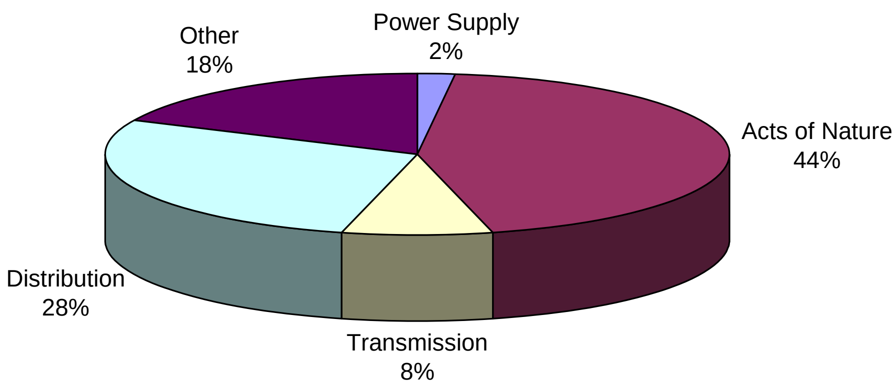
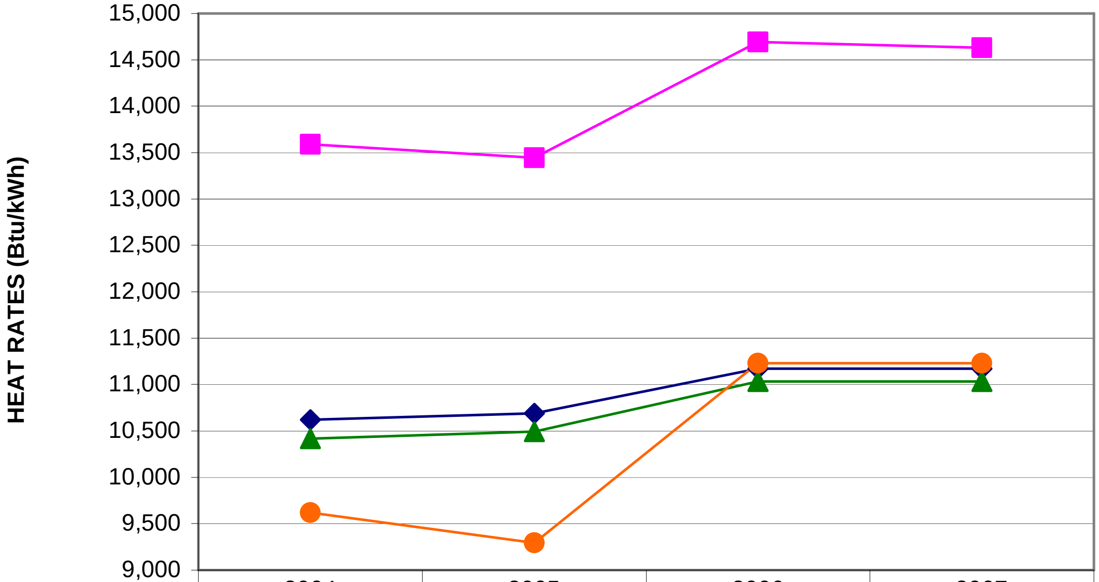


Figure 59 shows the breakdown by magnitude. The cause of the most severe interruption was Acts of Natures, followed by Distribution, Others, Transmission and Power Supply.

5. ELECTRIC UTILITIES GENERATING EFFICIENCY RESULTS.

The following provides the annual heat rate values for HECO, HELCO, MECO, and KIUC for the past four (4) years. Heat rates are measured in btu/kWh, and equate to the amount of energy consumed by the generating units (in btu) per kWh of electricity produced. The heat rates provide a measure of the generating efficiency of the utility, with a lower value indicative of greater generating efficiency. The heat rate is generally dependent on the age and type of generating units used by a given utility. Figure 60 shows the heat rates of the electric utilities from 2004 to 2007

Figure 60
Electric Utility Heat Rates



	2004	2005	2006	2007
HECO	10,621	10,690	11,170	11,170
HELCO	13,591	13,443	14,692	14,629
MECO	10,418	10,493	11,032	11,032
KIUC	9,618	9,293	11,230	11,230

YEAR

B. RENEWABLE PORTFOLIO STANDARDS.

In 2001, the Hawaii State Legislature (“Legislature”) passed Act 272, SLH 2001 (“Act 272”), which is now codified in HRS Sections 269-91 through 269-94. Act 272 was adopted for the purpose of lessening Hawaii’s dependence on imported oil by, among other things, establishing goals for electric utility companies in implementing renewable portfolio standards by including a minimum percentage of renewable energy resources within an overall resource portfolio.

Act 272 specifically stated that “[e]ach electric utility company that sells electricity for consumption in the State shall establish a renewable portfolio standard goal of:

(1) Seven per cent of its net electricity sales by December 31, 2003;
(2) Eight per cent of its net electricity sales by December 31, 2005; and
(3) Nine per cent of its net electricity sales by December 31, 2010.”

Act 272 also allowed an electric utility company and its electric utility affiliates to aggregate their renewable portfolios in order to achieve the renewable portfolio standard. For example, HECO and its affiliates, HELCO and MECO, may add together their renewable energy numbers to meet the requisite goal.

In 2004, the Legislature passed Act 95, SLH 2004 ("Act 95"), which amended HRS Sections 269-27.2, 269-91, 269-92, and added HRS Section 269-95. Act 95 increased the percentage of net renewable energy electricity sales that an electric utility must achieve in 2010 from nine (9) to ten (10) per cent and established new milestones for 2015 and 2020 of fifteen (15) and twenty (20) per cent, respectively. The Commission is required to determine if an electric utility company is unable to meet the renewable portfolio standards in a cost-effective manner, or as a result of circumstances beyond its control which could not have been reasonably anticipated or ameliorated

Any electric utility company not meeting the renewable portfolio standard by the goal dates set forth above must report to the Commission within ninety (90) days following the goal dates, and provide an explanation for not meeting the renewable portfolio standards. The Commission has the option to either grant a waiver from the renewable portfolio standard or an extension for meeting the prescribed standard. The Commission may also provide incentives to encourage electric utility companies to exceed their renewable portfolio standards or to meet their renewable portfolio standards ahead of time, or both.

Act 162 passed by the Hawaii State Legislature (S.B. No. 3185, SLH 2006) amended HRS Sections 269-91, 269-92, and 269.95. Section 269-91 was amended by adding a definition for Biofuels and Renewable electrical energy, and to redefine Renewable energy.

HRS Section 269-92 was amended by requiring each electric utility company that sells electricity for consumption in the State to establish a renewable portfolio standard of:

(1) Ten per cent of its net electricity sales by December 31, 2010;
(2) Fifteen per cent of its net electricity sales by December 31, 2015; and
(3) Twenty per cent of its net electricity sales by December 31, 2020.

For the year ended December 31, 2007, HECO, HELCO and MECO, in the aggregate, reported that they have reached a consolidated renewable energy penetration of 16.1 per cent, which was up from 13.8 per cent in 2006. The increase in aggregate RPS percentage between 2006 and 2007 is a result of increases in RPS percentages for each of the 3 companies. HECO increased from 10.3 per cent in 2006 to 11.0 per cent in 2007; HELCO from 31.3 per cent to 39.8 per cent; and MECO from 19.3 per cent to 24.7 per cent.

The remaining electric utility company, KIUC, reported that renewable energy resources supplied 11.42 per cent of KIUC's net electricity sales, as of December 31, 2007, a decrease from 2006's 13.92 per cent.

C. TELECOMMUNICATIONS UTILITIES EFFICIENCY AND SERVICE QUALITY.

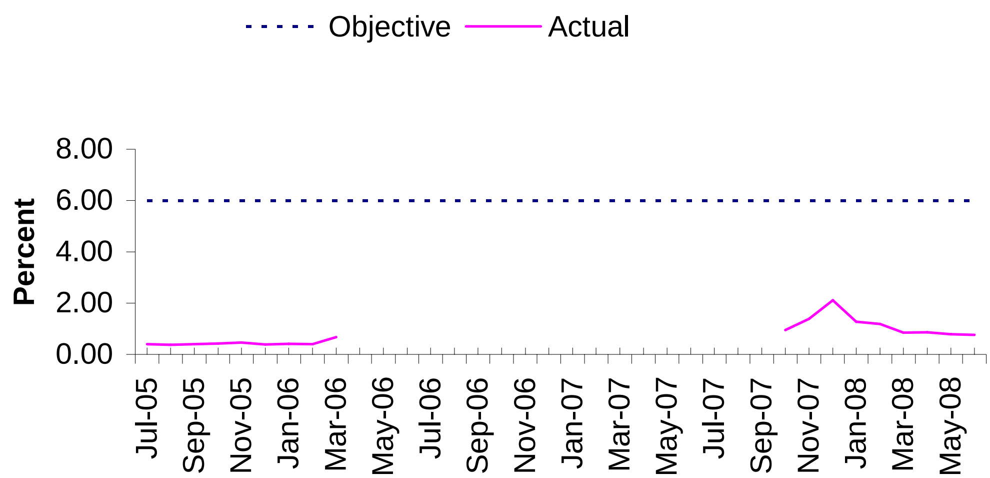
The following service quality data was provided by Hawaiian Telcom in its monthly reports to the Commission as required under HAR Sections 6-80-93 through -98. Figures 61 to 72 show Hawaiian Telcom's service quality results for the last three (3) fiscal years; i.e., from July 2005 through June 2008.

In many of the figures, however, the service quality results for the months of April 2006 through August or September 2007 were not provided, due to issues related to the April 1, 2006 cutover of Hawaiian Telcom's back office systems from Verizon Communications to its own newly-created systems. Largely because of impacts from this cutover, Hawaiian Telcom also experienced very significant slow-downs in call answer and handling times in its customer contact centers and errors in its billing during this time.[27]

Looking at performance during the Fiscal Year, the measurements show that the company usually met or exceed objectives for most of them. Three (3) areas in which Hawaiian Telcom fell below objectives were: (1) Percent Out-of-Service Troubles Cleared in 24 Hours; (2) Percent Repair Commitments Met; and (3) Percent Installations Completed Within 3 Days.

The Commission continues to monitor Hawaiian Telcom's systems problems and actions to rectify the problems, while also helping to address customer concerns and complaints. Its formal investigation of the company's service quality and performance levels and standards is also ongoing.

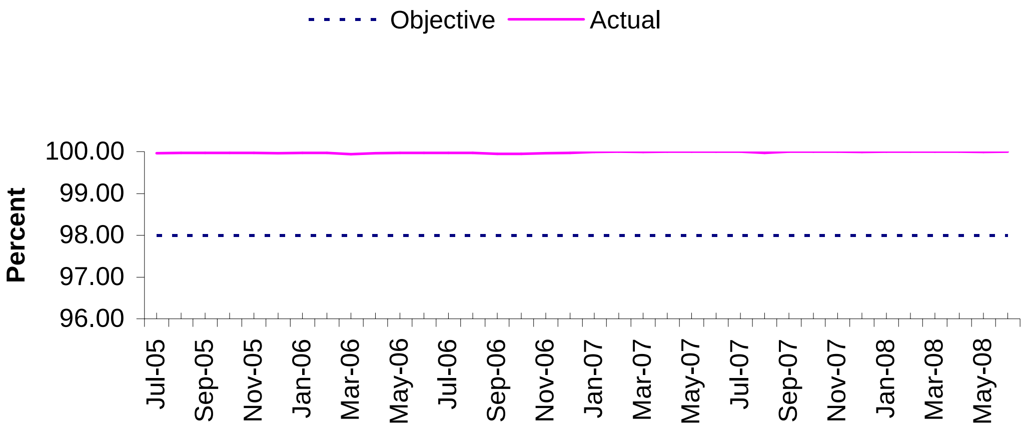
Figure 61
Total Customer Trouble Reports Per 100 Lines



Total Customer Trouble Reports Per 100 Lines - This performance area measures customer network trouble reports per 100 access lines. It is calculated by taking the total customer network trouble reports divided by total access lines times 100. Since October 2007, the results include additional trouble report activity that would normally not be included in this metric. Hawaiian Telcom's systems are currently unable to exclude FCC regulated services when computing these results. The actual results may be more favorable than shown herein.

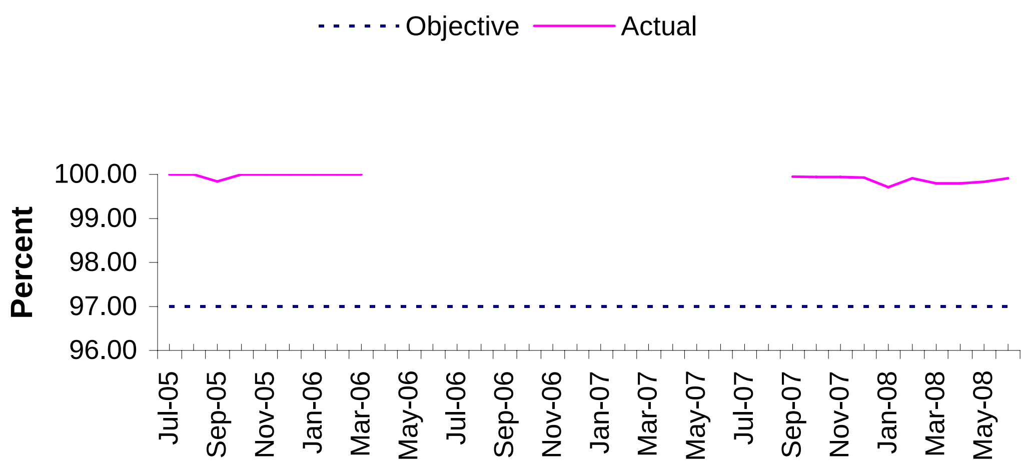
[27]However, the operations of Hawaiian Telcom's network have continued to function at or better than standards since the cutover.

Figure 62
Dial Tone Speed - Percent Dial Tone Within 3 Seconds



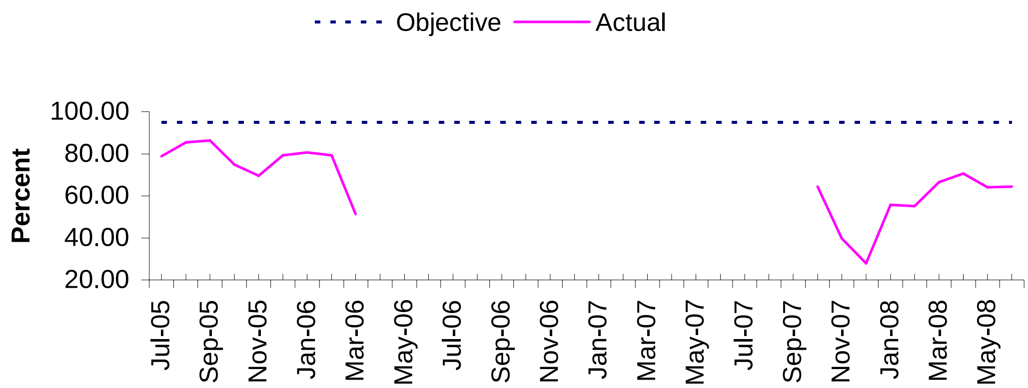
Dial Tone Speed - % Dial Tone Within 3 Seconds - This performance area measures the percentage of calls receiving dial tone within three (3) seconds. It is calculated by taking the number of calls in which dial tone was provided within three (3) seconds divided by the total number of calls times 100.

Figure 63
Dial Service Results - Percent Completion



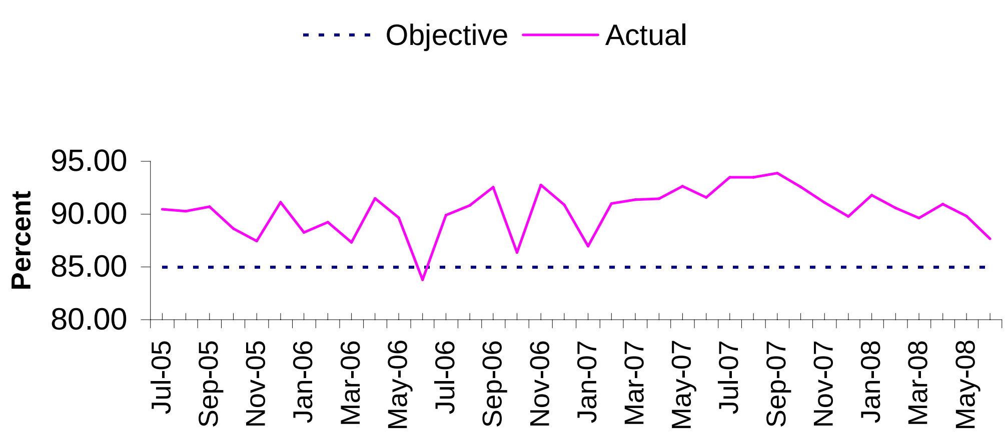
Dial Service Results - % Completion - This performance area measures call completion performance on interoffice trunk groups. It is calculated by taking the number of unblocked calls on interoffice trunk groups divided by the total number of attempts on interoffice trunk groups times 100.

Figure 64
Percent Out-of-Service Troubles Cleared in 24 Hours



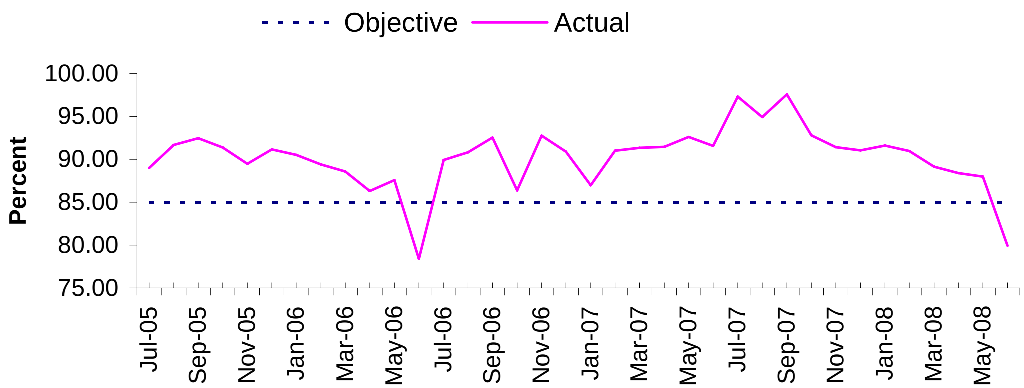
% OOS Trouble Cleared in 24 Hours - This performance area measures customer out-of-service ("OOS") network trouble reports cleared within 24 working hours. It is calculated by taking the total customer OOS network reports cleared within 24 working hours divided by the total customer OOS network trouble reports times 100. Since October 2007, the results include additional trouble report activity that would normally not be included in this metric. Hawaiian Telcom's systems are currently unable to exclude FCC regulated services when computing these results. The actual results may be more favorable than shown herein.

Figure 65
Percent of Operator Toll Calls
Answered Within 10 Seconds



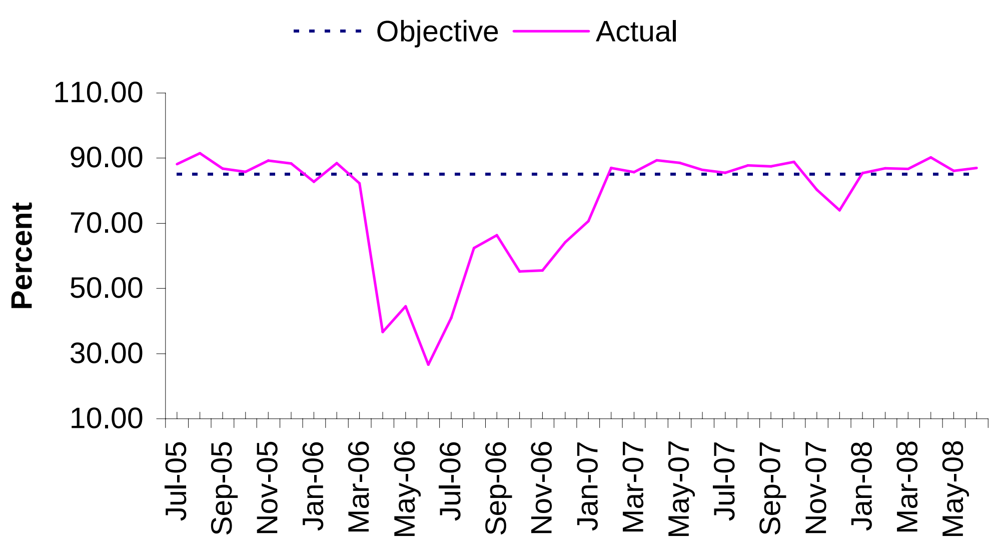
% Operator Toll Calls Answered Within 10 Seconds - This performance area measures the number of calls handled within ten (10) seconds divided by the total number of calls handled times 100 for calls to the toll operator.

Figure 66
Percent of Operator Directory Assistance Calls Answered Within 10 Seconds



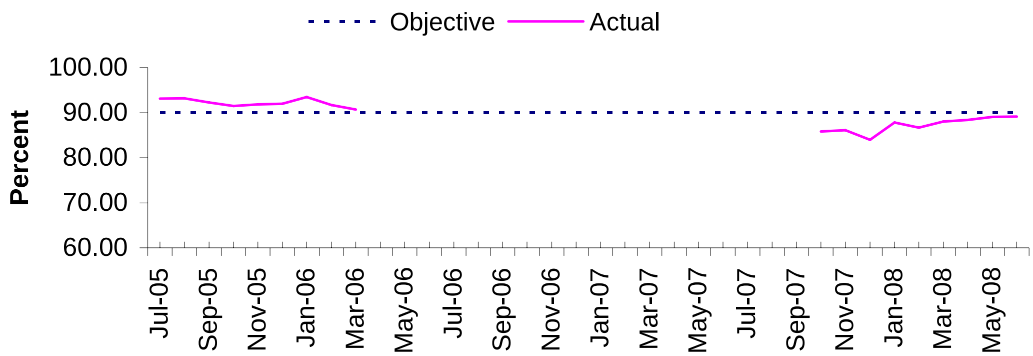
% Operator Directory Assistance Calls Answered Within 10 Seconds - This performance area measures the number of calls handled within ten (10) seconds divided by the total number of calls handled times 100 for calls to the directory assistance operator.

Figure 67
Percent of Repair Calls Answered Within 20 Seconds



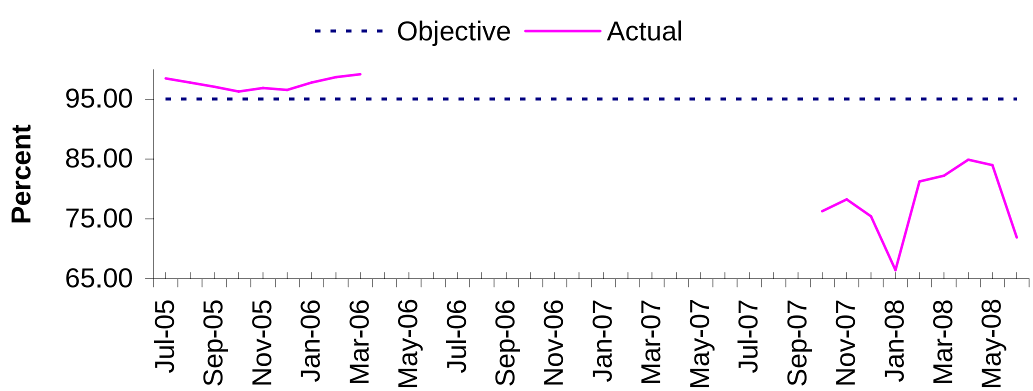
% Repair Calls Answered Within 20 Seconds - This performance area measures the number of calls answered within twenty (20) seconds divided by the total number of calls times 100 for calls to the repair answer center.

Figure 68
Percent Repair Commitments Met



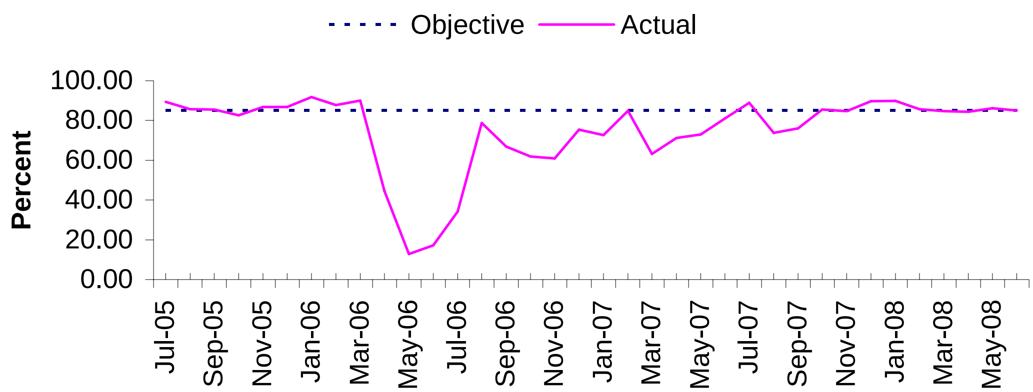
% Repair Commitments Met - This performance area measures the repair tickets completed by the committed due date. It is calculated by taking the total customer network trouble reports for which the commitments were met divided by total customer network troubles times 100. Since October 2007, the results include additional trouble report activity that would normally not be included in this metric. Hawaiian Telcom's systems are currently unable to exclude FCC regulated services when computing these results. The actual results may be more favorable than shown herein.

Figure 69
Percent Installations Completed Within 3 Days



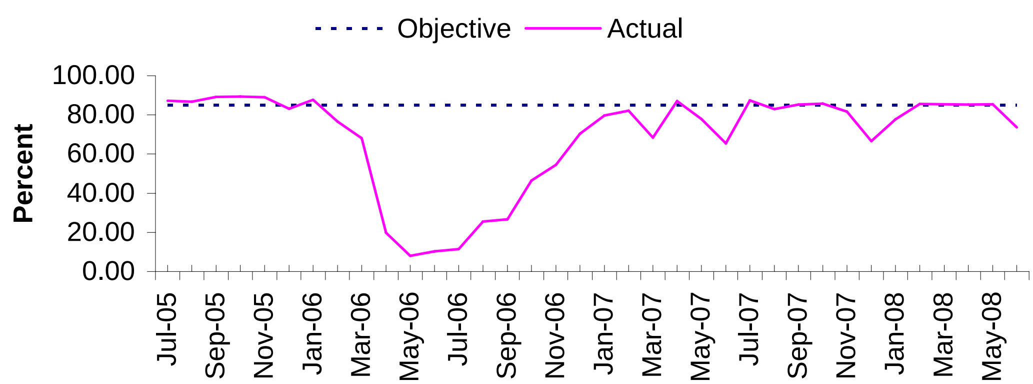
% Installations Completed Within 3 Days - This performance area measures the percent of basic orders completed within three (3) working days. It is calculated by taking the total installation ("I"), move ("M") and change ("C") basic orders completed within three (3) working days divided by the total number of I, M and C orders times 100. Since October 2007, the results include additional order activity that would normally not be included in this metric. Hawaiian Telcom's systems are currently unable to separately track the incumbent local exchange carrier ("ILEC") regulated activity (such as installation of a primary line) from the non-ILEC regulated activity (such as provision of DSL service) if they are included on the same order. Exclusion of these non-ILEC regulated services would produce results that are more favorable than shown herein.

Figure 70
Percent Combined Business Installation/Billing Office Calls Answered Within 20 Seconds



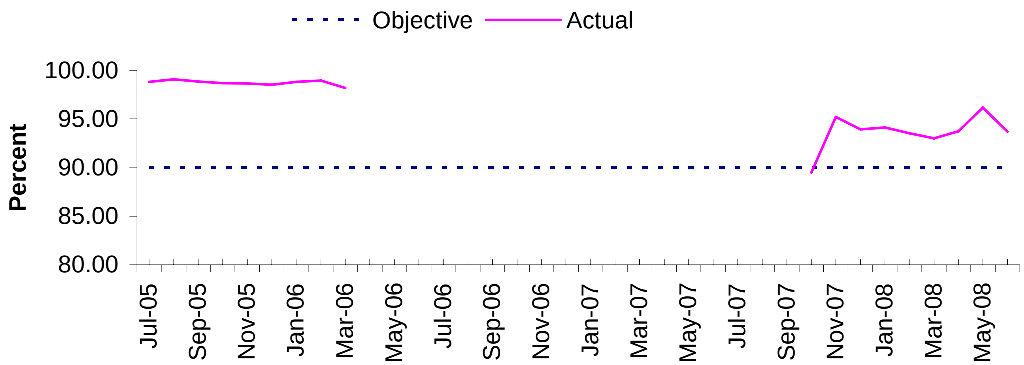
% Combined Business Installation/Billing Office Calls Answered Within 20 Seconds - This performance area measures the number of calls answered within twenty (20) seconds divided by the total number of calls times 100 for calls to the business installation and billing center.

Figure 71
Percent Combined Residence Installation/Billing Office Calls Answered Within 20 Seconds



% Combined Residence Installation/Billing Office Calls Answered Within 20 Seconds - This performance area measures the number of calls answered within twenty (20) seconds divided by the total number of calls times 100 for calls to the residence installation and billing center.

Figure 72
Percent Installation Commitments Met



% Installation Commitments Met - This performance area measures the percent of basic orders where the work for the customer is complete and service is available for use by no later than the commitment made to the customer. It reflects the percent as calculated by taking the installation ("I"), move ("M") and change ("C") order installation commitments met divided by the total number of I, M and C orders taken times 100. Since October 2007, the results include additional order activity that would normally not be included in this metric. Hawaiian Telcom's systems are currently unable to separately track the ILEC regulated activity (such as installation of a primary line) from the non-ILEC regulated activity (such as provision of DSL service) if they are included on the same order.

XIV. LEGISLATION ENACTED BY 2008 LEGISLATURE AFFECTING PUBLIC UTILITIES.

A. 2008 LEGISLATIVE MEASURES RELATING TO THE PUBLIC UTILITIES COMMISSION.

1. PROPERTY TRANFERS BY PUBLIC UTILITIES.

Act 7, SLH 2008, expressly authorizes a public utility to transfer, assign, or otherwise dispose of property, other than real property, without prior Commission approval, under circumstances that call for timely, decisive action by that utility in order aid customers whose operations have been disrupted due to unforeseeable events. In the past, unusual events have occurred during which the public safety or essential services were at risk of disruption, and section 269-19, Hawaii Revised Statutes, had prohibited utilities from transferring, assigning, etc., without prior approval from the Commission.

2. ENERGY EFFICIENCY; PUBLIC BENEFITS FEE.

Act 118, SLH 2008, clarifies provisions of chapter 269, part VII, Hawaii Revised Statutes, relating to the administration and use of moneys supporting energy-efficiency and demand-side management programs and services. The Commission, under this law, may require that all, or a portion, of the moneys collected by Hawaii's electric utilities from ratepayers through a demand-side management surcharge, be transferred to a third-party administrator contracted by the Commission. The moneys transferred are to be known as the public benefits fee and are not construed as state or public moneys and are not subject to appropriation by the state legislature. The public benefits fee shall be used to support energy-efficiency and demand-side management programs and services, subject to review and approval of the Commission.

3. PUBLIC UTILITIES; NET ENERGY METERING.

Act 150, SLH 2008, requires the Commission to ensure that a percentage of the total rated generating capacity produced by eligible customer-generators be reserved for electricity produced by eligible residential or small commercial customer-generators. Allows the Commission to define the maximum capacity for eligible residential or small commercial customer-generators and to evaluate on an island-by-island basis, the applicability of the generating capacity requirements and, in its discretion, exempt and island or a utility grid system from the generating capacity requirements.

4. PHOTOVOLTAIC REBATE PROGRAM; RENEWABLE ENERGY.

Act 151, SLH 2008, authorizes the Commission to establish a ratepayer-funded photovoltaic rebate program, upon assessing the beneficial impact of such program on Hawaii's ratepayers.

5. RENEWABLE ENERGY FACILITY SITING PROCESS.

Act 207, SLH 2008, establishes a renewable energy facility siting process to expedite the review and action upon state and county permits necessary for siting, development, construction, and operation of renewable energy facility of at least two-hundred megawatts. In addition, in order to assist the energy resources coordinator, the Act amends section 269-27.2, Hawaii Revised Statutes, by authorizing the Commission to develop reasonable guidelines and timetables for the creation and implementation of power purchase agreements.

6. AGRICULTURAL WATER RATES.

Act 169, SLH 2008, authorizes the Commission to establish preferential potable water rates for agricultural activities in a public water utility's service area in order to promote the long-term viability of agricultural activities in Hawaii.

7. ENERGY RESOURCES.

Act 204, SLH 2008, requires the installation of solar water heater systems, comparable renewable energy systems, or demand gas water heaters in all new residential development projects constructed after January 1, 2010, and restricts the solar thermal energy system tax credit available for single-family residential properties to properties for which building permits were issued prior to January 1, 2010; also requires the Commission to adopt or establish by rule tariff, or order, standards for solar water heater systems.

B. OTHER 2008 LEGISLATIVE MEASURES RELATING TO UTILITIES.

1. RENEWABLE ENERGY FACILITATOR.

Act 208, SLH 2008, establishes the renewable energy facilitator position within the state Department of Business, Economic Development, and Tourism.

2. AGRICULTURAL WATER SECURITY.

Act 97, SLH 2008, ensures that security of the agricultural water supply is maintained during periods the Governor has declared that a disaster has occurred for a portion of the State, by allowing negotiation of agreements for emergency power for the agricultural water systems affected.

XV. FEDERAL ISSUES AND ACTIVITIES.

A. FEDERAL UNIVERSAL SERVICE FUND (“USF”) ELIGIBLE TELECOMMUNICATIONS CARRIERS (“ETC”) – ANNUAL RECERTIFICATION.

The Federal Universal Service Fund program, created by the U.S. Congress through the Telecommunications Act of 1934, as amended in 1996 ("Act"), is designed: 1) to promote the availability of quality telecommunications services at just, reasonable, and affordable rates; 2) to increase access to advanced telecommunications services throughout the Nation; 3) to advance the availability of such services to all consumers, including those in low income, rural, insular, and high cost areas; and 4) at rates reasonably comparable to those charged in urban areas. The Act also requires that all providers of telecommunications services should contribute to Federal universal service in some equitable and nondiscriminatory manner; that there be specific, predictable, and sufficient Federal and State mechanisms to preserve and advance universal service; that all schools, classrooms, healthcare providers, and libraries should, generally, have access to advanced telecommunications services; and finally, that the Federal-State Joint Board and the Federal Communications Commission ("FCC") should determine those additional principles that, consistent with the Act, are necessary to protect the public interest.

As provided by the Act, the USF receives contributions from providers of telecommunications services to support four programs: 1) Lifeline/Link-up; 2) High-Cost; 3) Schools and Libraries; and 4) Rural Health Care. Those contributions are then pooled, calculations made, and the moneys paid out to those carriers designated as ETCs, in order to assist them in recovering costs of providing telecommunications services in areas where otherwise it would not be financially feasible. As of June 30, 2008, the Hawaii Commission has granted ETC status to four carriers: Hawaiian Telcom, Inc., Sandwich Isles Communications, Inc., Sprint Nextel, and Coral Wireless, LLC, d/b/a Mobi PCS.

Amid continued concern over large increases in USF payments to ETCs over the last decade, there is now, on the national and state levels, and from public and private entities, a greater focus on ensuring that the moneys from the fund are being spent by the recipient ETCs as intended – only for the provision, maintenance, and upgrading of facilities to advance the availability of telecommunications services to all consumers, including those in low income, rural, insular, and high cost areas at rates that are reasonably comparable to those charged in urban areas of the nation.

B. VOICE OVER INTERNET PROTOCOL ("VOIP").

"Internet Voice Communications", also known as Voice over Internet Protocol ("VoIP"), is a relatively new, yet rapidly evolving technology enabling telephone calls to be made using broadband Internet connection instead of the traditional (analog) phone line. VoIP technology converts voice signals from an originating telephone call, into packeted digital signals that travel at high speed over the Internet, and are then reassembled into voice signals on the receiving end. Using appropriate wireless technologies, VoIP providers are increasingly encroaching on the traditional wireline and wireless telephone industries, leading to increased competition, more services, and lower costs for users.

The Commission continues to remain focused on the regulatory environment, regarding VoIP technology and product offerings, which is constantly evolving on federal, state, and local levels. VoIP regulatory issues that are under continuing examination by the FCC, state commissions, and public and private interest groups include: (1) whether VoIP services should be regulated on both the national and state levels; (2) whether VoIP services should be classified as "telecommunications" or "information" services under the Telecommunications Act of 1934, as amended ("Act"); and (3) whether VoIP products and services should be required to fulfill social policy obligations such as universal service, traditional public safety services (i.e., the ability to comply with law enforcement requirements, and E911), and necessary safeguards for disability access and consumer protection. Of these current issues, those relating to (1) and (2), above, remain unresolved at present. Forward movement has been made recently on some of the issues mentioned in (3), most notably involving the FCC, per its October 31, 2007 Report and Order, FCC 07-188, in CC Docket No. 99-200 by extending Local Number Portability ("LNP") obligations to interconnected VoIP providers, ensuring that consumers can now take their telephone numbers with them when switching to, or from, a VoIP provider, and by clarifying that no entity obligated to provide LNP may obstruct that process. These mandates should facilitate greater competition between service providers by allowing consumers increased flexibility in response to price and service changes, fundamental goals of the Act.

XVI. PREVIEW FISCAL YEAR 2008-09.

The following sections highlight some of the significant proceedings and activities of the Commission for Fiscal Year 2008-09.

A. COMMISSION OPENS AN INVESTIGATION TO EXAMINE THE ISSUES IN ESTABLISHING STANDARDS FOR SOLAR WATER HEATER SYSTEMS.

In September 2008, the Commission initiated an investigation to examine the issues and requirements of adopting or establishing standards for solar water heater systems as mandated by Act 204, SLH 2008, Section 3. This section specifically directs the Commission to adopt or establish by rule, tariff, or order, standards for solar water heater systems to include, but not be limited to, specifications for the performance, materials, components, durability, longevity, proper sizing, installation, and quality to promote the objectives by July 1, 2009.

B. COMMISSION SOLICITS SERVICES OF A PROGRAM ADMINISTRATOR FOR THE HAWAII ENERGY EFFICIENCY PROGRAM.

In September 2007, the Commission initiated an investigation to examine the issues and requirements raised by and contained in the law pertaining to the State's Public Benefits Fee. In particular, through the proceeding, the Commission will be selecting a Program Administrator and implementing a new market structure for energy efficiency demand-side management programs. This proceeding is a result of the Commission's determination in the Energy Efficiency docket that all of the energy efficiency demand-side management programs of HECO, HELCO and MECO will transition from those companies to a third-party administrator and that it will establish a Public Benefits Fund and appoint a fund administrator. A Request for Proposals for a Program Administrator was issued in September 2008 and will be selected in December 2008.

C. HAWAII CLEAN ENERGY INITIATIVE.

In January 2008, a Memorandum of Understanding was executed by the State of Hawaii and the U.S. Department of Energy that will result in a fundamental and sustained transformation in the way in which renewable energy efficiency resources are planned and used in the State.

In October 2008, the Governor of the State of Hawaii, the Department of Business, Economic Development and Tourism, the Consumer Advocate, and the HECO companies entered into an energy agreement to move the State of Hawaii from its dependence on imported fossil fuels for electricity and ground transportation and toward renewable energy produced locally and a strong awareness on energy efficiency."

The Commission opened two investigative dockets in October 2008, related to the initiatives discussed in the agreement. One is to examine implementing a decoupling mechanism for the HECO Companies and the other is to examine the implementation of feed-in tariffs in the service territories of the HECO Companies.