ANNUAL REPORT

FISCAL YEAR 2000-01

Public Utilities Commission
State of Hawaii

December 2001

PUBLIC UTILITIES COMMISSION

The Hawaii Public Utilities Commission is responsible for regulating all chartered, franchised, and certificated public service companies that provide electricity, gas, telephone, telecommunication, private water and sewage, and motor and water carrier transportation services in the State. The Commission has quasi-judicial authority to establish and enforce administrative rules and regulations, and set policies and standards.

History The Commission was established by Act 89, Session Laws of Hawaii (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 of the Hawaii Revised Statutes (HRS), is the basis for utility regulation in Hawaii. The Commission's authority to regulate various classes of motor carriers of passengers and property is derived from the Hawaii Motor Carrier Law (HRS c. 271) 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 (HRS c. 271G).

Today, the Commission is a full-time body comprised of three commissioners. The commissioners are appointed by the Governor, with the consent of the State senate, to serve six-year terms on a staggered basis.

Objective and Activities The primary objective that guides the Commission in carrying out its regulatory functions is to ensure that customers of the regulated companies receive adequate and efficient services at reasonable and fair rates, while providing a fair return to the regulated companies. In order to accomplish this objective, the Commission performs the following activities:

- Adopts rules and regulations governing the operations, standards of services and facilities, and fiscal management of utilities, including procedures and practices of the Commission.
- Prescribes rates, tariffs, charges, and fees, and determines the allowable rate of earnings in establishing rates.
- Issues orders and guidelines concerning the general management and operations of chartered, franchised, or certificated utility businesses.
- Acts on applications for certification and for the extension or abandonment of services.
- Prescribes the methods, service, and annual rates of depreciation for utility properties.
- Acts on requests for the acquisition, sale, disposition, or other exchange of utility properties, including mergers and consolidations.
- Acts on requests for the issuance and disposition of securities and other evidences of long-term indebtedness.

Administration and Offices The Commission is placed, for administrative purposes, under the State Department of Budget and Finance. The Commission has a staff of 33 employees, including three commissioners, an administrative director, lawyers, engineers, accountants, researchers, investigators, a chief clerk, clerical staff, and neighbor island representatives for Maui, Kauai, and Hawaii.

The Commission has four offices located throughout the State:

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

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

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

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

COMMISSIONERS DURING THE FISCAL YEAR 2000-01

Dennis Yamada, Chairman

Dennis Yamada was appointed to the Commission by Governor John Waihee in July 1994. He was named Chairman of the Commission in August 1998.

Prior to his appointment, Yamada was engaged in private law practice since 1968. He is a former member of the State House of Representatives and the University of Hawaii Board of Regents. He has also served as Deputy Corporation Counsel for the City and County of Honolulu.

Yamada received a bachelor of business administration degree from Drake University and a juris doctor degree from Drake University School of Law. His term expires June 2004.

Gregory G. Y. Pai, Ph.D., Commissioner

Gregory G. Y. Pai was appointed to the Commission by Governor Benjamin Cayetano in August 1998.

Prior to his appointment, Pai served as Chief Economist for First Hawaiian Bank and Director of the Office of State Planning. He also served as Special Assistant to the Governor for Economic Affairs under Governor John Waihee.

Pai received a bachelor of arts degree in architecture from the University of Hawaii and a master of arts degree in architecture from Harvard University. He also holds a doctor of philosophy degree in economics and regional planning from the Massachusetts Institute of Technology. His term expires June 2006.

David Morihara, Commissioner

David Morihara was appointed to the Commission by Governor Benjamin Cayetano in May 2001 to fill the vacancy left by former Commissioner Rae Loui.

David Morihara served in the State House of Representatives for 10 years, as Chairman of the Committee on Agriculture and the Committee on Higher Education. He also served as Vice Chairman of the Committee on Economic Development and Business Concerns and the Committee on Consumer Protection and Commerce.

Morihara also is President of his family-owned retail business. He holds a degree in economics from the University of Hawaii. His term expires June 2002.

ANNUAL REPORT FOR THE FISCAL YEAR

2000-01

This report presents an overview of the activities of the Public Utilities Commission during the period of July 1, 2000 through June 30, 2001. The report is organized in five parts:

Part I summarizes the significant regulatory proceedings of the Commission.

Part II describes enforcement activities and includes statistics on consumer complaints.

Part III contains new rules adopted by the Commission.

Part IV includes Commission-related legislation enacted by the 2001 Hawaii State Legislature.

Part V presents statistics on the number of dockets opened and completed during the fiscal year.

I.

SUMMARY OF REGULATORY PROCEEDINGS

The Commission is responsible for regulating 277 utility companies, 3 water carriers, and 857 passenger and property carriers in the State of Hawaii. This fiscal year, the Commission opened 461 dockets, and issued 851 decisions and orders related to the regulated utilities and transportation carriers. The Commission also approved over $46 million in utility capital improvements.

Key proceedings in the regulation of rates resulted in the approval of rate increases for Hawaii Electric Light Company, Inc. (HELCO). The Commission approved interim rate increases of $3.5 million and $2.6 million and a final rate increase of $8.4 million.

Commission activities in the area of telecommunications focused on expediting competition in the local industry marketplace. In December 2000, the Commission adopted rates for unbundled network elements. In the generic proceeding, the Commission approved the parties' agreement regarding non-recurring charges, collocation, and operator services/ directory assistance rates.

The following sections highlight the significant proceedings of the Commission. As noted below, an updated status of the proceedings is provided through November 2001.

ELECTRICITY

The Commission regulates four electric utility companies engaged in the production, purchase, transmission, distribution, and sale of electric energy in the State: Hawaiian Electric Company, Inc. (HECO), serving the island of Oahu; Maui Electric Company, Ltd. (MECO), serving the islands of Maui, Lanai, and Molokai; HELCO, serving the island of Hawaii; and Kauai Electric Division of Citizens Utilities Company (KE), a subsidiary of Connecticut-based Citizens, 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. (HEI).

HECO, MECO, HELCO, and KE proceedings include the following: *(Note: An updated status is provided for proceedings that have significant decisions/activities occurring after the fiscal year, between July and November 2001. These items are italicized.)*

Rate Proceedings The Commission=s general rate increase proceeding on an application filed by HELCO is described below.

HELCO Granted Interim and Final Rate Increases In October 1999, HELCO applied for a $15.5 million general rate increase to be implemented in four steps. HELCO revised its proposal to implement an increase in three steps: (1) Interim Step; (2) Hamakua Energy Partners (HEP), fka Encogen Hawaii, L.P., Phase 2 Step; and (3) General Step.

HEP Phase 1 was implemented in August 2000. In September 2000, the Commission granted an interim rate increase of $3.5 million in additional revenues. The interim increase included the recovery of HELCO's purchased power expenses for HEP phase 1. In January 2001, the Commission approved an interim rate increase of $2.6 million that included, among other things, the recovery of HELCO's expenses for HEP phase 2. In February 2001, the Commission approved a final rate increase of $8.4 million in additional revenues.

In June 2001, the Commission approved a stipulated standby service rider, Rider A, in the same rate case proceeding. Standby service refers to scheduled maintenance service or backup service, or both, supplied by HELCO for customers who obtain their electric power from sources other than HELCO.

Integrated Resource Planning (IRP) Activities The Commission's IRP guidelines, adopted in May 1992, require each energy utility to develop a long-range, twenty-year IRP and a medium-range, five-year program implementation schedule (action plan). The utility must submit to the Commission a triennial review of its IRP, and an annual update of its action plan. Subject to Commission review and approval, the utility is authorized to earn demand-side management (DSM) shareholder incentives and to recover IRP program costs and DSM net lost revenues.

Below is a summary of the status of electric utility IRPs and action plans as of June 30, 2001.

HECO=s first IRP and action plan were approved in March 1995. HECO=s revised IRP was filed in January 1998. In January 2001, the Commission approved the parties' agreement that, among other things, HECO's second IRP and action plans are sufficient to meet HECO's responsibilities under IRP guidelines. HECO's first evaluation report of its second IRP and action plans is due October 31, 2002. HECO's third IRP and action plans are due October 31, 2005.

MECO's first IRP and action plan were approved in May 1996. MECO's revised IRP was filed in May 2000. The parties filed position statements in May 2001.

HELCO's first IRP and action plan were approved in May 1996. The company's revised IRP was filed in September 1998.

KE=s first IRP was approved in July 1995. KE filed its revised IRP in April 1997. In August 2000, KE filed its annual update report of the IRP.

Power Purchase Agreements (PPAs) The Commission held the following proceedings relating to PPAs between the electric companies and independent power producers.

HELCO and Apollo Energy Corporation (Apollo) *In May 2001, the Commission ordered Apollo and HELCO to continue to negotiate a PPA and to submit a finalized PPA for the Commission's review and approval. In August 2001, the parties filed their respective status reports. The parties continue to meet and negotiate terms of a new PPA. The existing agreement expires on or about June 29, 2002. Under the terms of the PPA, Apollo sells energy produced by its wind farm to HELCO.*

HELCO and Kahua Power Partners LLC (Kahua) In June 2001, the Commission approved the PPA between HELCO and Kahua. Kahua will design, construct, own, operate, and maintain an approximately 10 MW wind farm in Kohala, Hawaii. HELCO is allowed to include, in its energy cost adjustment clause (ECAC), the purchased energy costs and related revenue taxes that it incurs under the PPA. The Commission also approved HELCO's request to commit funds for HELCO-owned interconnection facilities. The facilities are required to transfer energy from the Kahua wind farm to HELCO's system.

KE and Lihue Plantation Company, Limited (Lihue) In February 2001, the Commission approved the second amended and restated PPA between KE and Lihue. In November 2000, Lihue ceased its sugar cane and manufacturing operations and notified KE of its intention to terminate service under the existing PPA. The second amended PPA provides the reserve capacity and energy from Lihue until the Kauai Power Partners, L.P. (KPP) generating plant is in operation. The term of the second amended PPA will expire on December 31, 2002. KE is allowed to pass on to its ratepayers, through its energy rate adjustment clause (ERAC), the energy payments that it incurs under the second amended PPA, to the extent that such payments are not recovered in KE's base rates.

KE and KPP In February 2001, the Commission approved certain amendments to the PPA between KE and KPP that would enable KPP to meet new conditions imposed by the State of Hawaii Department of Health. The Commission approved, among other things, the increase in monthly capacity charges paid by KE to compensate KPP for the costs of installing selective catalytic reduction (SCR) equipment.

In June 2001, the Commission granted KE's request to amend the 1998 decision in which it approved the PPA between KE and KPP. As a result of the sudden cessation of operations of Lihue, KE was required to move up the in-service date by approximately two years for the KPP facility and to begin paying the capacity charge and the energy payments to KPP on July 1, 2002. Until KE's new rates become effective following its next rate case, KE is allowed to recover from its ratepayers, through its ERAC, the fuel component of the energy payment to the extent that such payments are not recovered in KE's base rates.

KE and Gay and Robinson, Inc. (Gay & Robinson) In February 2001, the Commission approved the replacement PPA between KE and Gay & Robinson. The replacement PPA amends the rates KE and Gay & Robinson pay for energy. KE is allowed to include, in its ERAC, the purchased energy costs it incurs under its replacement PPA.

KE and Agribusiness Development Corporation (ADC) In March 2001, the Commission approved the ADC PPA between KE and ADC. Effective February 28, 2001, Kekaha Sugar Company, Limited (Kekaha) terminated its amended and restated PPA, approved by the Commission, with KE due to the planned closure of all of its operations. The Department of Land and Natural Resources (DLNR) claimed Kekaha defaulted on its DLNR lease and granted ADC, a public instrumentality of the State of Hawaii, ownership of or the right to use and operate Kekaha's distribution line and hydroelectric power plants. KE and ADC entered into a PPA that provides for the purchase and sale of energy on terms similar to the Kekaha amended and restated PPA. The Commission approved KE's request to include, in its ERAC, the purchased energy costs it incurs under the ADC PPA.

Acquisition of KE by Co-op Denied In April 2000, Citizens Communications Company, formerly known as Citizens Utilities Company (Citizens), and the Kauai Island Utility Co-op (KIUC) filed an application for approval of the sale of certain KE assets to KIUC and other matters relating to the sale of the assets. In August 2000, the Commission denied the relief requested in the application by KIUC and Citizens.

Installation of Overhead Lines Approved Whenever a public utility applies for approval to place, construct, erect, or build a new 46 kV or greater high voltage electric transmission system, Section 269-27.6(a), HRS, requires the Commission to determine whether the proposed system shall be placed overhead or underground. During the fiscal year, the Commission approved two applications regarding installation of overhead lines.

In May 2001, the Commission approved HELCO's request to install a 69 kV transmission line, above ground, in the Hawaiian Paradise Park subdivision. The proposed project involves the conversion of HELCO's existing 34.5 kV substation to a 69 kV substation.

In May 2001, the Commission also approved HECO's request to install a 46 kV subtransmission line, above ground, in Ewa on property owned by Gentry Homes, Limited. The proposed project involved the removal, relocation, and re-installation of the subtransmission line.

HECO and MECO Financing Approved The Commission approved requests regarding special purpose revenue bonds for HECO and MECO and a financing arrangement for HECO.

In October 2000, HECO and MECO were granted approval to participate in the sale by the State Department of Budget and Finance (B&F) of refunding special purpose revenue bonds. The Commission authorized HECO and MECO to borrow from B&F or its trustee up to $46 million and $20 million, respectively. The proceeds from the sale or sales of the refunding bonds will be used to redeem the Series 1990B Bonds and/or the Series 1990C Bonds.
In June 2001, the Commission granted HECO's request for approval to enter into a financing arrangement with Hannon Armstrong Hawaii Funding Corp. (Hannon Armstrong) and to use the proceeds received from Hannon Armstrong for the construction of the energy conservation projects (ECPs) at the United States Department of Defense Naval Shipyard at Pearl Harbor, Hawaii. Hannon Armstrong paid HECO approximately $9.5 million to finance the construction of the ECPs.

Capital Expenditures Approved In fiscal year 2000-01, the Commission approved expenditures totaling over $38 million for electric utility capital improvements.

HECO was authorized to expend $23.4 million for its capital improvements. Expenditures include $6.7 million for air conditioning improvements to HECO's Ward Avenue complex, $6.6 million for the Salt Lake Boulevard widening phase 2A project, $6.6 million for the Opakapaka Substation project, $2.7 million for the conversion from overhead to underground within the Kakaako Community Redevelopment District, and $0.8 million for the installation of the Kahe 3 turbine control system upgrade.

MECO was authorized to expend $1.7 million for the Kahului Unit No. 4 boiler retubing and $0.7 million for the relocation of Lanai City units L7 and L8 to Hana Substation.

HELCO was authorized to expend $1.8 million for the installation of an underground distribution system for Kukio Bay Beach Club phase 1 and $0.5 million for HELCO-owned interconnection facilities.

KE was authorized to expend $10.1 million for its capital improvements. Expenditures include $7.8 million for the construction of the Lihue Energy Service Center infrastructure, $1.5 million for the construction of a 69kV overhead transmission line for the Lihue Energy Service Center, and $0.8 million for the upgrade of the combustion turbine unit GT2 at the Port Allen generating station.

GAS

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

Proceedings involving TGC are described below. *(Note: An updated status is provided for proceedings that have significant decisions/activities occurring after the fiscal year, between July and November 2001. These items are italicized.)*

TGC Granted Interim Rate Increase *In December 2000, TGC applied for a $8.9 million general rate increase for utility gas service on the islands of Oahu, Hawaii, Maui, Kauai, and Molokai, and changes to its rates, rate schedules, and rules.*

In September 2001, the parties filed their stipulation for Commission review and consideration. Among other things, the parties agreed that a revenue increase of $5.5 million is fair and reasonable for ratemaking purposes. In October 2001, the Commission accepted the parties' stipulation in lieu of an evidentiary hearing and approved the stipulation for the purposes of the Commission's interim decision only. Among other things, TGC was allowed to increase its rates, on an interim basis, by $5.5 million in additional revenues, effective October 11, 2001.

TGC's IRP Activities *In 1996, TGC was ordered to commence its next IRP cycle. In March 1999, TGC filed its revised IRP with the Commission. In November 2001, TGC filed a statement of position.*

Capital Expenditures Approved In fiscal year 2000-01, TGC was authorized to expend $1.9 million for the repair, renovation, and installation of an air conditioner at its headquarters in Honolulu.

TELECOMMUNICATIONS

The Commission oversees the cellular, paging, mobile telephone, and interisland data transmission services of telecommunications providers in addition to the services of Verizon Hawaii, Inc. (Verizon Hawaii), formerly known as GTE Hawaiian Telephone Company Incorporated (GTE Hawaiian Tel), the State's largest provider of intrastate services.

Key activities in telecommunications are highlighted below. *(Note: An updated status is provided for proceedings that have significant decisions/activities occurring after the fiscal year, between July and November 2001. These items are italicized.)*

Development of the State's Communications Infrastructure Activities in the Commission's ongoing communications infrastructure docket, Docket No. 7702, opened in May 1993, have focused on the development of the infrastructure necessary to support the introduction, deployment, and use of advanced communications technologies and services in the State of Hawaii. In Phase I of the Commission's investigation, Hawaii Administrative Rules (HAR) Chapters 6-80 and 6-81 relating to competition in telecommunications services and the universal service fund, respectively, were adopted in 1996. In January 1999, the Commission addressed many of the Phase II issues including unbundled network elements (UNEs), collocation, and other issues. Last fiscal year, the Commission granted, among other things, the request of the non-Verizon Hawaii parties for a generic proceeding (Phase III) to review Verizon Hawaii=s cost studies on non-recurring charges (NRCs) and collocation issues.

Proceedings on Phases II issues continued during this fiscal year. In December 2000, the Commission adopted the rates, as set forth in its decision, for UNEs, including local loops, network interface device, local switching, local interconnection, dedicated transmission links, common/shared transmission facilities, tandem switching, and databases and signaling systems. The Commission ordered Verizon Hawaii to submit reformulated maximum rates for access and attachments to its poles, ducts, conduits, and rights-of-way in accordance with the Commission's orders. Verizon Hawaii complied with this requirement in February 2001.

During this fiscal year, the Commission addressed the Phase III issues as set forth in the Commission's prehearing order. In November 2000, the parties filed stipulations during the evidentiary hearing on various Phase III issues. In December 2000, the Commission approved the parties' stipulation on many of the Phase III issues regarding NRC and collocation. The memorandum of understanding between Verizon Hawaii and Time Warner Telecom of Hawaii, L.P., dba Oceanic Communications containing their agreement on the rates for operator services and directory assistance services (OS/DA) was also approved. If OS/DA is determined to be an unbundled network element, the Commission will review the OS/DA rates to determine whether these rates should be applied to other telecommunications carriers.

In November 2001, the Commission ordered, among other things, that: (1) Verizon Hawaii is not allowed, at this time, to recover any of the operations support systems (OSS) transition, OSS transaction, and national open market center (NOMC) fixed/shared costs; (2) OS/DA is a UNE; and (3) Verizon Hawaii is not allowed to assess changeover charges. The Commission also addressed various physical collocation tariff issues and established a procedure for Verizon Hawaii to pursue recovery of its OSS and NOMC costs, if it so desires.

Carrier Certification and Merger Applications The Commission certificated 45 new telecommunications companies this fiscal year, including 5 providers of local exchange, wireless, mobile radio, and pay telephone services; 30 resellers of various intrastate cellular, calling card, and interexchange (long-distance) telecommunications services; and 10 providers/resellers of telecommunications services.

During the fiscal year, the Commission approved thirteen applications for acquisitions and mergers involving certificated telecommunications companies that provide intrastate, paging, commercial mobile radio, and resold services.

Interconnection Agreements Approved The Federal Telecommunications Act of 1996 and Section 6-80-53, HAR, authorized parties to petition the Commission to arbitrate any unresolved issues in negotiating an agreement with Verizon Hawaii for access, interconnection, unbundling, or network termination.

During the fiscal year, the Commission approved the following interconnection agreements between telecommunications service providers and Verizon Hawaii.

American Fiber Network, Inc. (AF Network) In July 2000, the Commission approved AF Network's proposal to adopt the Commission-approved arbitrated interconnection agreement between AT&T and GTE Hawaiian Tel (AT&T-GTE agreement). The Commission also approved the interconnection, resale, and unbundling agreement submitted by AF Network and GTE Hawaiian Tel. In October 2000, the Commission approved the interim agreement to extend the term of the agreement to December 31, 2000. AF Network is a certificated provider of facilities-based and resold intrastate telecommunications services in the State.

Northpoint Communications, Inc. (Northpoint) In August 2000, the Commission approved the proposal for Northpoint to adopt the terms and conditions of the AT&T and Verizon Hawaii agreement. The Commission also approved the interconnection between Verizon Hawaii and Northpoint. Northpoint is a certificated provider of facilities-based and resold intrastate telecommunications services in the State.

AT&T In August 2000, the Commission approved the interim agreement between AT&T and Verizon Hawaii. The interim agreement extended the term of the Commission-approved arbitrated interconnection agreement between AT&T and Verizon Hawaii until a new interconnection agreement was approved. In June 2001, the Commission approved the amendment to the interim agreement that extended the term of the agreement until June 13, 2001.

DSLnet Communications, L.L.C. (DSLnet) In October 2000, the Commission approved the interim interconnection agreement between DSLnet and Verizon Hawaii. The agreement extended the term of the interconnection agreement to December 31, 2000.

Island Page, Inc. (Island Page) In November 2000, the Commission approved the interconnection agreement submitted by Verizon Hawaii and Island Page. Island Page is a certificated provider of commercial mobile radio service, specifically wireless paging services, in the State.

Verizon Advanced Data, Inc. (Verizon Advanced Data) In November 2000, the Commission approved the negotiated interconnection agreement submitted by Verizon Hawaii and Verizon Advanced Data. Verizon Advanced Data is a certificated provider of resold and facilities-based intrastate telecommunications services in the State.

Proceedings for Alternative Service Providers Closed In 1996, the Puna Telecommunications Committee and the Kona Paradise Property Owners Association filed petitions to allow the Puna and South Kona districts, respectively, to be served by TelHawaii, Inc., or in the alternative, to authorize alternative telecommunications providers for their districts. The Commission instituted separate investigations to determine whether the telecommunications services provided by GTE Hawaiian Tel, nka Verizon Hawaii, to the Puna and South Kona districts are less than adequate.

In February 2001, the Commission closed the two proceedings. It was unable to conclude that the telecommunications services provided by Verizon Hawaii in the Puna and South Kona districts are less than adequate. The Commission noted that certain developments had occurred since it opened the investigations. In 1998, Verizon Hawaii completed the digital conversion of its central offices on the island of Hawaii and, in 2000, completed its statewide conversion from multi-party service to single-party service.

Verizon Hawaii's Depreciation Rates Adopted In August 2000, the Commission adopted and approved the depreciation rates and parameters on Verizon Hawaii's regulated investments as agreed upon by the Commission staff, the Federal Communications Commission, and Verizon Hawaii. The depreciation rates and parameters result in a composite depreciation rate of 7.5 per cent for Verizon Hawaii's regulated assets.

Financing for Sandwich Isles Communications, Inc. (SIC) Approved In May 2001, the Commission approved SIC's issuance of a Rural Utilities Service (RUS) mortgage note, Rural Telephone Bank (RTB) mortgage note, and a supplemental mortgage. SIC obtained a total of $97,485,400 in loans from the RUS and the RTB, both agencies of the United States Department of Agriculture. The proceeds of the loan will be used to fund the construction of SIC's telephone network. SIC is a certificated provider of interLATA and interstate telecommunications services in the State on lands administered by the State Department of Hawaiian Home Lands.

Capital Expenditures Approved During the fiscal year, Verizon Hawaii received approval to commit over $6 million for capital improvements. Expenditures include $3.8 million for the Honolulu digital cross connect system replacement project, $1.7 million for the Honolulu DMS-200 access tandem trunk addition project, and $0.6 million for the Wailuku main building air conditioning system project.

PRIVATE WATER AND SEWAGE UTILITIES

The Commission regulates 31 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.

Laie Water Company, Inc. (LWCI) Rate Increase Approved In March 2001, the Commission approved a rate increase producing a total annual sales revenue increase of $189,465.

New and Amended Certificates of Public Convenience and Necessity (CPCNs) Approved During the fiscal year, the Commission approved the following new and amended CPCNs for water and sewage utilities.

South Shore Community Services LLC (South Shore Community Services) In July 2000, the Commission approved a CPCN for South Shore Community Services to provide sewage treatment service for Kukui'Ula, Kauai.

Olowalu Water Company, LLC (Olowalu Water Company) In August 2000, the Commission approved a CPCN for Olowalu Water Company to provide water utility service to the Olowalu area on the island of Maui.

Waikoloa Resort Utilities, Inc., dba West Hawaii Utility Company (WHUC) In January 2001, the Commission approved WHUC's request to amend its CPCN by expanding its existing service territory to include the Nikken property and White property, properties adjacent to WHUC's existing service territory. WHUC provides water and wastewater services to the Waikoloa Beach Resort.

WHUC Financing Approved In May 2001, the Commission approved financing arrangements with HomeStreet Bank (HSB) including a $2,950,000 term loan, a $1,500,000 line of credit, and mortgage and security agreements granting WHUC's property to HSB to secure the debt obligations issued under the term loan and line of credit. The term loan and the line of credit will be used to finance the capital improvement costs of WHUC's sewage facilities and pay financing costs. The term loan also will be used to refinance the balance of a term loan.

TRANSPORTATION CARRIERS

Motor Carriers

The Commission regulates 512 passenger carriers and 345 property carriers in the State. During this fiscal year, new certificates or permits were issued to 71 passenger carriers and 28 property 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, 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 belong either to 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 proceedings before the Commission.

Motor carrier proceedings include the following: *(Note: An updated status is provided for proceedings that have significant decisions/activities occurring after the fiscal year, between July and November 2001. These items are italicized.)*

Rate Increases for Motor Carriers Approved *The Commission approved the following rate increases for property and passenger motor carriers.*

WMTB Property Carriers of Household Goods *In March 2000, WMTB filed two notices seeking rate increase for the intrastate movement of household goods, statewide. In July 2001, the Commission approved an overall weighted increase in rates of 6.46 per cent for the intrastate movement of household goods, effective July 20, 2001.*

WMTB Property Carriers of General Commodities and Break Bulk and Delivery *In December 2000, WMTB filed two rate notices requesting rate increases for its County of Hawaii carriers operating in the general commodities and break bulk and delivery classifications. In August 2001, the Commission approved increases of 7.63 per cent for general commodities, and 7.05 per cent for break bulk and delivery, respectively, effective August 28, 2001.*

WMTB Passenger Carriers *In June 2001, WMTB filed a rate notice requesting: (1) a rate increase, statewide, for its passenger carriers; and (2) the elimination of the fuel surcharge. In September 2001, the Commission approved an 8 per cent rate increase for passenger carriers, and the elimination of the fuel surcharge, both to take effect on January 1, 2002.*

Fuel Surcharges Approved In November 2000, the Commission allowed rate notices filed by WMTB reestablishing fuel surcharges for property and passenger carriers to take effect. The fuel surcharges include: (1) 2.99 per cent for dump trucks carriers on the island of Hawaii; (2) 1.81 per cent for general commodities carriers on the island of Kauai; (3) 2.27 per cent for general commodities carriers on the island of Hawaii; (4) 2.27 per cent and 1.81 per cent, for break bulk and delivery carriers, on the islands of Hawaii and Kauai, respectively; and (5) 1.15 per cent, statewide, for passenger carriers.

Moratorium on Property Carriers CPCNs Lifted In 1994, the Commission instituted an investigation of the property carrier industry and declared a temporary moratorium on the filing of property carrier applications for CPCNs. In 1995, the moratorium was extended and, one year later, was continued to allow time for the Commission to complete its investigation. In February 2001, the Commission ordered the temporary moratorium on issuance of CPCNs for property carriers to be lifted. Total gross revenues for the property carrier industry were on a declining trend from 1991 to 1998, but, in 1999, were exceeding 1998 gross revenues by $9.8 million.

Water Carriers

The Commission regulates three water carriers: Young Brothers, Limited (Young Brothers), a provider of interisland cargo service; Sea Link of Hawaii, Inc., a passenger and cargo carrier; and Hone Heke Corporation, a passenger and cargo carrier.

Water carrier proceedings include the following:

Young Brothers Stock Transfer Approved In January 2001, the Commission approved the transfer of Young Brothers' stock by Saltchuk Resources, Inc. (Saltchuk) to Marine Resources, Inc. (Marine). Under the proposed reorganization, Young Brothers will be a wholly-owned subsidiary of Marine.

II.

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 requirements, and motor carrier citations.

COMPLAINT RESOLUTION

The Commission accepts verbal and written complaints. Verbal complaints are received by telephone, or in person at the Commission's office. There are two kinds of written complaints -- formal and informal, and the requirements of each are stated in the Commission's rules of practice and procedure, Chapter 6-61, HAR.

Informal and Verbal Complaints

As shown in the table below, the Commission received a total of 638 informal and verbal complaints in calendar year 2000 against regulated and unregulated utilities and transportation companies. Complaints on Oahu amounted to 399 out of 638 complaints statewide, or 63 per cent of the total complaints.

The majority of complaints (215) involved telecommunications providers. Verizon Hawaii received 100 complaints, mostly relating to service (availability, interruptions, and practices and procedures) problems, billing practices, and tariffs. The cellular and paging companies received 14 complaints, mainly related to service problems. Most of the 101 complaints filed against other telecommunications providers, including interstate and unregulated communications equipment and service companies, were related to the business practices of long distance carriers.

The electric utilities received 101 complaints, relating to service (interruptions, and damages and claims processing) problems, tariffs, and billing practices. The complaints against the gas utility (10), and water and sewer facilities (9) were primarily over billing practices. The complaints against water carriers (6) involved primarily scheduling, insurance damages, and claims processing. Most of the 297 complaints filed against motor carriers were related to vehicle markings, classifications, and operating without CPCNs.

Informal and Verbal Complaints
Filed in Calendar Year 2000

	Oahu	Hawaii	Maui	Kauai	2000 Total	1999
Telecommunications:						
Verizon Hawaii	53	31	8	8	100	166
Cellular and Paging	5	4	5	0	14	31
Other Providers	39	43	8	11	101	169
Total Telecom	97	78	21	19	215	366
Electricity	38	34	4	25	101	97
Gas	4	3	0	3	10	23
Water/Sewer	1	7	0	1	9	9
Water Carrier	2	3	0	1	6	5
Motor Carrier	257	20	11	9	297	300
Total Other	302	67	15	39	423	434
Total Complaints	399	145	36	58	638	800

FINANCIAL REPORTING

The Commission's general orders require the submittal of financial reports and payment of revenue fees by all regulated utilities and transportation carriers.

During the fiscal year, the Commission issued 58 show cause orders to motor carriers and 20 orders to telecommunications providers who failed to submit financial reports and pay required revenue fees. Interest and penalties collected for the late payment of revenue fees totaled $38,015. The CPCNs of 37 motor carriers and certificates of authority of 16 telecommunications providers were revoked for lack of compliance with financial reporting requirements.

MOTOR CARRIER CITATIONS

The Commission receives assistance from the State Department of Transportation, through the assignment of a motor vehicle safety officer, to issue civil citations for violations of the Motor Carrier Law, Chapter 271, HRS. The citations impose a civil penalty, typically $500 or $1,000 per violation.

For this fiscal year, civil penalties collected through motor carrier citations totaled $66,900. The Commission enforcement officers issued 135 motor carrier citations on all the islands -- 102 on Oahu, 17 on Hawaii, 11 on Maui, 3 on Kauai, and 2 on Molokai.

III.

POLICY-MAKING ACTIVITIES

Policy-making activities of the Commission include the adoption of administrative rules, standards, and procedures that govern the oversight of the regulated utilities and transportation carriers.

During the fiscal year, the Commission adopted amendments to Section 6-62-8, HAR. The amendments increase the vehicular insurance requirements for motor carriers of passengers and property. Section 6-62-8, HAR, took effect on February 9, 2001.

IV.

LEGISLATION

The 2001 Hawaii State Legislature enacted the following measure relating to the Public Utilities Commission:

Renewables Portfolio Standard; Net Energy Metering Act 272 encourages greater use of renewable energy by establishing goals for electric utilities in implementing renewable portfolio standards. Each electric utility company is required to establish a renewables portfolio standard goal as follows: (1) seven per cent of its net electricity sales by December 31, 2002; (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 requires any electric utility company not meeting the standards to report to the Commission within ninety days of the goal dates. The Commission has the option to either grant a waiver from the standard or an extension for meeting the standard.

Act 272 also amends Chapter 269, HRS, by adding a new part enabling qualified customer-generators to utilize net energy metering. Under Act 272, every electric utility is required to develop a standard contract or tariff providing for net energy metering and make this contract available to eligible customer-generators, upon request, on a first-come, first-served basis until the time that the total rated generating capacity produced by eligible customer-generators equals 0.5 per cent of the electric utility's system peak demand. Act 272 requires, beginning in 2003, every electric utility to annually make available to the Commission information on the total rated generating capacity produced by eligible customer-generators that are customers of that utility.

In response to Act 272, HECO, HELCO, and MECO filed their respective tariffs in June 2001. KE filed its tariff in October 2001. These filings were allowed to take effect by the Commission.

V.

DOCKET STATISTICS

During fiscal year 2000-01, the Commission opened a total of 461 dockets. Of the 461 dockets, 291 or approximately 63 per cent were completed by June 30, 2001.

At the end of the fiscal period, 294 dockets were pending, including 124 dockets filed prior to fiscal year 2000-01.

Dockets Filed and Completed During FY 2000-01 and Dockets Pending at June 30, 2001

	Dockets Filed in Fiscal Year 00-01			Pending Dockets Filed Prior to FY 00-01	Total Dockets Pending at FY End
	Opened	Completed	Pending		
Utilities					
Electric	29	19	10	29	39
Gas	3	1	2	2	4
Telecommunications	117	76	41	18	59
Private Water/Sewage Companies	6	4	2	6	8
Subtotal	155	100	55	55	110
Transportation					
Motor Carriers	305	190	115	68	183
Water Carriers	1	1	0	1	1
Subtotal	306	191	115	69	184
Total	461	291	170	124	294

GLOSSARY OF TERMS

Central Office - a telephone company facility where subscriber lines are joined to switching equipment for interconnecting other customer lines and trunks, locally and long distance.

Certificate of Public Convenience and Necessity (CPCN) - a certificate or permit issued by the Public Utilities Commission authorizing the operation of a utility or transportation carrier.

Cogeneration - the combined production of electric power and useful thermal energy, such as heat or steam.

Demand-Side Management (DSM) - refers to reducing a consumer's demand for and use of energy through various programs, including conservation, load management, and efficiency resource programs.

Externalities - indirect costs and benefits, including (in IRP) the cost and beneficial impacts on the environment, people's lifestyle and culture, and the State's economy.

Federal Communications Commission (FCC) - the federal agency primarily responsible for regulating interstate communications.

Fiber Optic - the technology consisting of thin filaments of glass through which light beams are used to transmit data from one point to another.

General Rate Increase - an increase in the general level of rates or charges for all classes of customers.

Integrated Resource Planning (IRP) - a process by which utilities and regulatory commissions assess the cost of, and choose among, various resource options.

Interconnection - the interface of the network of one telecommunications carrier with that of another telecommunications carrier.

Interstate - between and among other states, U.S. territories, and the District of Columbia.

Intrastate - within the state; interisland.

Number Portability- the ability of a telephone service customer to retain, at the same location, an existing telephone number when changing service provider.

Small Power Production Facility - under the Public Utility Regulatory Policies Act, an electricity producer whose primary energy source is biomass, waste, renewable (wind, solar energy, and water), or geothermal energy, or any combination thereof equal to more than 75% of the total energy input, with production capacity no greater than 80 megawatts.

Tariff - the entire body of approved rules and regulations, rates, charges, and definitions of a regulated utility.

Universal Service - the offering and providing of basic services to all customers at affordable, just, and reasonable rates.

Note: Definitions provided are limited to general usage in this report and are not necessarily legal definitions used in statutes, or rules and regulations governing the Commission's activities.