EXECUTIVE CHAMBERS

HONOLULU

LINDA LINGLE
GOVERNOR

December 15, 2004

The Honorable Robert Bunda, President
and Members of the State Senate
Twenty-Third State Legislature
State Capitol, Room 003
Honolulu, Hawaii 96813

Dear Mr. President and Members of the Senate:

For your information and consideration, I am transmitting herewith two (2) copies of the Public Utilities Commission's Annual Report for fiscal year ending June 30, 2004, pursuant to Section 269-5, Hawaii Revised Statutes.

Pursuant to Section 93-16, Hawaii Revised Statutes, I am also informing you that the report may be viewed electronically at www.hawaii.gov/budget/LegReports/Reports.htm.

With warmest personal regards,

Aloha,

/s/

LINDA LINGLE

Enclosures

EXECUTIVE CHAMBERS

HONOLULU

LINDA LINGLE
GOVERNOR

December 15, 2004

The Honorable Calvin K.Y. Say, Speaker
 and Members of the House of Representatives
Twenty-Third State Legislature
State Capitol, Room 431
Honolulu, Hawaii 96813

Dear Mr. Speaker and Members of the House:

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With warmest personal regards,

Aloha,

/s/

LINDA LINGLE

Enclosures

PUBLIC UTILITIES COMMISSION

STATE OF HAWAII

ANNUAL REPORT

(HAW. REV. STAT. § 269-5)

FISCAL YEAR 2003-04

NOVEMBER 2004

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ANNUAL REPORT

FISCAL YEAR 2003-04

(HAW. REV. STAT. § 269-5)

PUBLIC UTILITIES COMMISSION
STATE OF HAWAII

I. INTRODUCTION.

Public utilities continue to undergo significant changes due to developments in technology, markets, economic conditions, consumer needs, and environmental concerns. Regulatory commissions throughout the United States must recognize these changes and adapt and adjust regulatory practices to these changes to protect the public interest, while it simultaneously allows and encourages the public utilities to efficiently operate, grow, and develop in their respective industries.

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"). In short, this report summarizes the activities and operations of the Commission and the public utilities it regulates during the July 1, 2003 to June 30, 2004 fiscal year ("Fiscal Year"), as well as the Commission's goals and objectives.

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. 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, 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, 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.

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 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. Currently, Chairman Caliboso is 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. He is also a member of the National Association of Regulated Utilities Commissioners ("NARUC"), and serves on NARUC's Committee on Energy Resources and the Environment and Committee on International Relations. 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 of the University of Hawaii.

Wayne H. Kimura, Commissioner

Wayne Kimura was appointed to the Commission by Governor Benjamin J. Cayetano in December 2001. He served as Chairman of the Commission from July 2002 until April 2003.

Prior to his appointment, Commissioner Kimura served as the Hawaii State Comptroller in the Department of Accounting and General Services. He also served as Deputy Director of Finance and briefly as Interim Director of Finance in the Department of Budget and Finance. In the Office of the Governor, he worked as Planning and Policy Analyst. He also held various fiscal and policy analyst positions in the Office of the Lieutenant Governor, the Department of Budget and Finance, the Department of Social Services and Housing, the Hawaii State Senate, the State House of Representatives, and the 1978 Constitutional Convention. Commissioner Kimura holds a bachelor's degree, with work towards a master's degree in business administration, at the University of Southern California. His term expires June 30, 2008.

Janet E. Kawelo, Commissioner

Janet Kawelo was appointed to the Commission by Governor Benjamin J. Cayetano in January 2002.

Prior to her appointment, Commissioner Kawelo served as Deputy Director of the Hawaii State Department of Land and Natural Resources. She also served as Special Assistant and Research Supervisor in the Office of the Governor, researcher in the Office of the Lieutenant Governor, and Research Officer in the Economic Research Division of First Hawaiian Bank. Commissioner Kawelo holds a bachelor's degree in bacteriology from the University of California at Berkeley and a professional diploma in elementary education from the University of Hawaii. Her term expires June 30, 2006.

C. ADMINISTRATION AND OFFICES.

The Commission is comprised of three commissioners and, as of June 30, 2004, a staff of 30 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.[2]

A. PRIMARY PURPOSE.

The Commission's primary purpose is to efficiently, fairly, and impartially ensure that regulated utilities efficiently and safely provide utility customers with adequate and reliable utility services at just and reasonable rates, while providing regulated utilities with a reasonable opportunity to earn a fair 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 or renewable 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.

[2] For a detailed plan of action to implement the Commission's goals and objectives described herein, along with a description of measures to gauge the performance of the Commission in accomplishing its goals and objectives, please also see the Commission's Annual Report dated November 19, 2004, prepared pursuant to Section 7 of Act 100 SLH 1999.

IV. ADMINISTRATIVE UPDATE.

During the Fiscal Year, the Commission commenced implementation of its strategic plan that, among other things, focuses on filling position vacancies, increasing information accessibility and improving services to the public. Staffing initiatives included recruitment activities aimed to fill eight (8) of the Commission's vacancies during the past fiscal year. With respect to improving information accessibility and service to the public, the Commission, among other things, concentrated on improving its Internet website, which now features relevant content concerning major dockets and issues of public interest. For example, the website provides status or information on matters relating to the Motor Carrier "Zone of Reasonableness;" distributed generation and competitive bidding in the electric industry; the FCC's "Triennial Review Order" affecting local telecommunications competition; and the proposed sale of Verizon Hawaii Inc. ("Verizon Hawaii"). Additionally, the informal complaint process available to the public has been supplemented to include an Informal Complaint Survey that gives the public an opportunity to provide feedback on the Commission's handling and resolution of informal complaints.

Major administrative points of focus for Fiscal Year 2004-05 will continue to include personnel recruitment and training, technological and regulatory process improvements, and public education and information transparency enhancements.

V. REGULATORY ISSUES AND PROCEEDINGS.

A. MAJOR REGULATORY ISSUES.

The Commission is responsible for regulating 250 utility companies or entities (4 electric, 1 gas, 211 telecommunications, and 34 water and sewer companies), 3 water carriers, 533 passenger carriers and 375 property carriers in the State. During the Fiscal Year, the Commission opened 391 new dockets relating to those regulated utilities and transportation companies, completed and disposed of 294 dockets from its total case load and issued 815 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 examinations pertaining to the potential benefits and impacts of distributed generation and competitive bidding as a mechanism for acquiring or building new generating capacity in Hawaii. The Commission also opened proceedings to examine the third integrated resource plans ("IRP") for Hawaiian Electric Company, Inc. ("HECO"), Maui Electric Company, Ltd. ("MECO"), and Hawaii Electric Light Company, Inc. ("HELCO"). In another proceeding, the Commission approved a modification of General Order No. 7 which increased the monetary threshold that triggers the filing of capital expenditure applications with the Commission to streamline the regulatory approval process for such applications.

Commission activities in the telecommunications area focused on streamlining the regulation of wireless telecommunications carriers by waiving certain regulatory requirements in Chapter 269, HRS, and Chapter 6-80, HAR. In its proceeding to implement the FCC's Triennial Review Order, the Commission concluded that it should not undertake a 90-day review of the FCC's no impairment finding of switching for large business customers served by high-capacity loops. The Commission also approved the parties' agreement that the Commission need not conduct the 9-month review to determine whether or not economic and operational impairment exists in particular geographic markets for mass market customers.

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; 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. HECO, MECO, HELCO, AND KIUC PROCEEDINGS:

a. INTEGRATED RESOURCE PLANNING ACTIVITIES.

IRP has become a key vehicle for state regulatory commissions, electric utilities, energy stakeholders, and the public to understand and influence the planning process of identifying and evaluating combinations of demand–side and supply-side energy resources that will achieve specified objectives and meet forecasted demand. Specifically, 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, 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. Among other things, 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 demand-side management ("DSM") programs (i.e., shareholder incentives and lost margins[3]).

Below is a summary of the status of electric utility IRPs and action plans as of June 30, 2004.

HECO's first IRP and action plan were approved in March 1995. In January 2001, the Commission approved the parties' agreement that HECO's second IRP and action plans are sufficient to meet HECO's responsibilities under the IRP Framework. On December 31, 2002, HECO filed its evaluation report of its second IRP. In September 2003, the Commission opened

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[3]In November 2001, the Commission required, consistent with the parties' stipulation, that if HECO exceeds its current authorized rate of return of 9.16 per cent on its average rate base determined in its last rate case in 1995, as a result of its recovery of lost margins and shareholder incentives, HECO shall refund the amount by which its rate of return on average rate base exceeds 9.16 per cent, together with interest. D&O Nos. 19019 and 19020, November 15, 2001. The Commission issued similar decisions, consistent with the parties' stipulation, for HELCO (Amended D&O No. 19094, December 11, 2001) and MECO (D&O No. 19093, November 30, 2001). Under D&O No. 19658, KIUC waived "all claims they may have to recover earned, but unbilled demand side management shareholder incentives from KE customers."

a proceeding to examine HECO's third IRP. HECO's third IRP and action plans are due no later than October 31, 2005.

MECO's first IRP and action plan were approved in May 1996. In May 2000, MECO filed its second IRP. In April 2004, the Commission approved the parties' agreement and required MECO to submit two annual evaluation reports. On April 30, 2004, MECO filed its first evaluation report of its second IRP. The Commission also opened a proceeding to examine MECO's third IRP. MECO's third IRP and action plan are due no later than October 31, 2006.

HELCO's first IRP and action plan were approved in May 1996. The company's revised IRP was filed in September 1998. In February 2004, the Commission approved the parties' agreement. On March 31, 2004, HELCO filed its evaluation report of its second IRP. The Commission also opened a proceeding to examine HELCO's third IRP. HELCO's third IRP and action plans are due no later than October 31, 2005.

KIUC's first IRP was approved in July 1995. KIUC filed its revised IRP in April 1997. In August 2000, KIUC filed its annual update report of the IRP. In April 2004, the Commission approved KIUC's request to defer the December 31, 2003 proposed revision to the IRP and DSM programs for one (1) year to allow KIUC the time to examine and recommend an IRP and DSM plan that would address the needs and interests of its new structure as a member-owned cooperative. KIUC is required to submit a proposed IRP and DSM plan on or before December 31, 2004. The Commission also approved KIUC's request to suspend all other IRP and DSM filings until such time that a revised framework can be approved by the Commission.

As previously mentioned, one of the Commission's objectives is to review and resolve outstanding dockets. Concerning many of the IRP dockets that are presently pending for a number of years, the Commission has placed a high priority in finding innovative means to address and resolve these dockets.

b. COMMISSION APPROVES HECO AND AES HAWAII, INC. ("AES HAWAII") POWER PURCHASE AGREEMENT ("PPA") AMENDMENT.

In July 2003, the Commission approved Amendment No. 2 to the PPA between HECO and AES Hawaii. HECO purchases 180 MW of capacity and associated energy from AES Hawaii for a 30-year term, which commenced in September 1992. Amendment No. 2 provides for a reduction of the capacity charge for the cost of power supplied to HECO. AES Hawaii proposes to refinance its facility located in Campbell Industrial Park on Oahu. The primary consideration for HECO's consent to AES Hawaii's refinancing proposal was the reduction of the capacity charge over the remaining term of the PPA. In addition to approving Amendment No. 2, the Commission found that HECO's consent to the AES Hawaii refinancing is reasonable and approved HECO's rate reduction for electric service to reflect the estimated reduction in capacity payments to AES Hawaii.

c. COMMISSION APPROVES HELCO AND HAWI RENEWABLE DEVELOPMENT, INC. ("HRD") PPA.

In May 2004, the Commission approved the PPA between HELCO and HRD. HRD plans to expand its wind farm to 10.56 megawatts. It initially planned to construct and operate a 5.28 megawatt wind farm under a previous Commission-approved PPA. HRD also will construct, operate, and maintain a switching station for its wind farm. HELCO will construct, operate, and maintain all HELCO-owned interconnection facilities. The facilities are required to interconnect HELCO's system with HRD's wind farm. HRD will provide energy to HELCO on an unscheduled basis as energy is available.

The Commission also approved HELCO's request to commit funds of approximately $1,244,000 for the HELCO-owned interconnection facilities. This amount represents an additional $361,000 over the expenditure previously approved by the Commission. HELCO is allowed to include, in its energy cost adjustment clause, the purchased energy costs and related revenue taxes that it incurs under the PPA.

d. COMMISSION APPROVES SALE OF HELCO'S HONUAPO SUBSTATION.

In October 2003, the Commission approved the sale of HELCO's Honuapo Substation site to Ka'u Agribusiness Co., Inc., a subsidiary of C. Brewer and Company, Limited, at the purchase price of $6,500. Since 1993, HELCO has not utilized the site or incurred related operations or maintenance costs.

e. COMMISSION APPROVES HECO, HELCO, AND MECO FINANCING.

In February 2004, the Commission authorized HECO, HELCO, and MECO to participate in Cumulative Quarterly Income Preferred Securities ("QUIPS") financing. The Commission also authorized the issuance of indebtedness of up to $63,092,800 for HECO and $20,000,000 each for HELCO and MECO. The proceeds of the sale of the QUIPS will be used to refinance the 1997 and 1998 QUIPS financing. QUIPS is a method of financing with a lower after-tax cost resulting from the periodic tax deductible interest payments on the respective debentures.

f. COMMISSION APPROVES MODIFICATION OF GENERAL ORDER ("G.O.") NO. 7.

Pursuant to G.O. No. 7, paragraph 2.3 (g) 2, proposed capital expenditures for any project in excess of $500,000 or 10 per cent of the total plant service, whichever is less, are required to be submitted to the Commission for review. This threshold amount of $500,000 was established in 1965 when G.O. No. 7 was promulgated. In this Fiscal Year, HECO, HELCO, and MECO filed an application seeking a modification of G.O. No. 7 relating to the monetary threshold that triggers the filing of capital expenditure applications with the Commission. KIUC also filed an application seeking the same modification of G.O. No. 7.

In May 2004, for HECO/HELCO/MECO's and KIUC's applications, the Commission approved the parties' agreement, as modified by the Commission, and, effective July 1, 2004, modified G.O. No. 7, paragraph 2.3 (g) 2, by inserting the phrase "$2.5 million, excluding customer contributions," in place of the "$500,000" threshold. The Commission also required HECO, HELCO, and MECO to include additional information in their five (5)-year projected capital improvements budget reports and to file an annual report on the projects completed during the preceding year. The Commission approved the increase recognizing factors such as the increase in the costs of electric utility CIP projects that has occurred since the threshold was initially established and the need to streamline the regulatory review process.

g. COMMISSION REVIEWS HECO'S EAST OAHU TRANSMISSION PROJECT.

In December 2003, HECO filed an application requesting approval to commit approximately $55,424,000 for the East Oahu transmission project. In this proceeding, the parties are HECO, Department of Commerce and Consumer Affairs' Division of Consumer Advocacy ("Consumer Advocate"), Life of the Land, Carol Fukunaga, Scott K. Saiki, and Ann Kobayashi. This proceeding's participants include Palolo Community Council, Hoolaulima O Palolo, Malama O Manoa, and Kapahulu Neighbors. The Commission has scheduled a public hearing in Fiscal Year 2004-05.[4]

h. COMMISSION APPROVES CAPITAL IMPROVEMENTS.

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. In the Fiscal Year, the Commission approved expenditures totaling over $83 million for electric utility CIPs.

Effective July 1, 2004, the threshold increases from $500,000 to $2.5 million for the electric and telecommunications utilities. During next fiscal year, only those applications requesting approval for CIP expenditures over $2.5 million must be submitted to the Commission for review.

During this Fiscal Year, HECO was authorized to expend $27.0 million for its capital improvements. Expenditures include $7.3 million for the new Kuahua substation, $4.5 million for the installation of telecommunications systems and network project, $3.1 million for the Kamehameha Highway resurfacing project, $2.4 million for the Waiau 6 HP turbine blading project, $2.2 million for the Honolulu 8 HP/LP turbine blading project, $2.0 million for the Wal-Mart/Sam's Club Keeaumoku project, $1.3 million for the Kailua Road underground conversion, $1.2 million for the Kahe Unit No. 5 reheater element replacements project, $0.8 million for the installation of the Kahe 4 generator rotor rewind project, $0.8 million for the Waiau 3 main transformer replacement project, $0.7 million for the Kukui Gardens Corporation conversion, and $0.7 million for the conversion from overhead to underground within the Kakaako Redevelopment District.

HELCO was authorized to expend $8.2 million for its capital improvements. Expenditures include $3.5 million for the Puueo Hydroelectric Plant rehabilitation project, $2.1 million for the Hill 5 generator stator rewind project, $1.2 million for construction of HELCO-owned interconnection facilities, $0.8 million for the Kailua 19.2 MVAR capacitor bank installation project, and $0.6 million for the installation of an underground distribution system at Manini'owali Subdivision Phase 1.

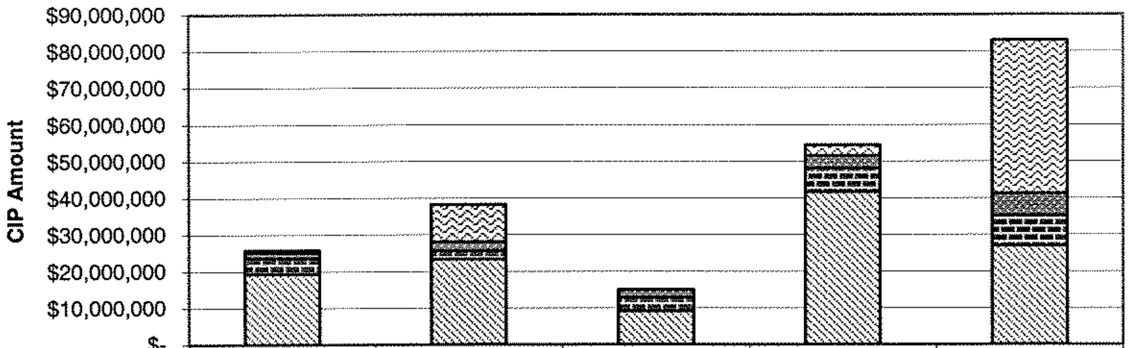
MECO was authorized to expend $6.0 million for its capital improvements. Expenditures include $3.4 million for the purchase of a GE Model LM2500PE CT engine for use as a spare, $1.7 million for the Launiupoko 69 kv line relocation of an existing overhead transmission system, and $0.9 million for the mobile 12.5 MVA substation.

KIUC was authorized to expend $41.8 million for the purchase of the Kauai Power Partners ("KPP") facility.

During the past five years, the total dollar value of Commission-approved electric utility CIPs (i.e., projects in excess of $500,000) peaked in the 2002-03 and 2003-04 fiscal years, as shown in Figures 1 and 2. The peak in the 2002-03 fiscal year was due in large part to HECO's $26.9 million approved expenditure for the Waiau fuel pipeline project, while the peak in 2003-04 was due, in large part, to KIUC's $41.8 million approved expenditure for the purchase of the KPP facility.

[4]The Commission held a public hearing in the proceeding on September 1, 2004.

Figure 1
Five Year Comparison of Electric Utility CIP



	FY 1999-00	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04
KE/KIUC	$723,600	$10,150,835	$-	$2,958,900	$41,750,000
MECO	$1,497,066	$2,435,540	$2,046,452	$3,379,707	$5,984,591
HELCO	$4,284,019	$2,311,179	$3,788,695	$6,502,973	$8,221,363
HECO	$19,313,575	$23,379,569	$9,109,866	$41,639,829	$26,999,323
Total CIP	$25,818,260	$38,277,123	$14,945,013	$54,481,409	$82,955,277

Fiscal Year ("FY")

Figure 2
Five-Year Comparison of Electric Utility CIP

	FY 1999-00	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04
KE/KIUC	$723,600	$10,150,835	$-	$2,958,900	$41,750,000
MECO	$1,497,066	$2,435,540	$2,046,452	$3,379,707	$5,984,591
HELCO	$4,284,019	$2,311,179	$3,788,695	$6,502,973	$8,221,363
HECO	$19,313,575	$23,379,569	$9,109,866	$41,639,829	$26,999,323

FY

2. COMMISSION INVESTIGATIVE PROCEEDINGS.

a. COMMISSION EXAMINES DISTRIBUTED ENERGY RESOURCES.

Distributed generation ("DG"), also referred to as "distributed energy resource" ("DER") or "distributed resources," involves the use of small scale electric generating technologies installed at, or in close proximity to, the end-user's location. The Commission anticipates that the use of DG and DER will grow substantially in the coming years throughout the nation including Hawaii.

In October 2003, the Commission opened an investigation to examine the potential benefits and impacts of DER on Hawaii's electricity distribution system. While DER encompasses other technologies, the focus of the Commission's investigation is on distributed generation. The Commission will address the following issues: (1) interconnection of a distributed generating facility with the electric utility's grid; (2) who should own and operate DG projects; (3) impacts, if any, DG will have on Hawaii's electric distribution systems and market; (4) the role of regulated electric utility distribution companies and the Commission in the deployment of DG in Hawaii; (5) the rate design and cost allocation; (6) the necessary revisions to the IRP process; (7) impacts of DG on power quality and reliability; (8) forms of DG that are feasible and viable for Hawaii; (9) the potential for DG to reduce the use of fossil fuels; (10) utility costs that can be avoided by DG; and (11) the externalities costs and benefits of DG.

The Commission made all electric utility distribution companies and the Consumer Advocate as parties to the proceeding. Other parties to the proceeding include the Hess Microgen, Life of the Land, Hawaii Renewable Energy Alliance ("HREA"), and County of Maui.[5] The County of Kauai is a participant in the proceeding.[6]

b. COMMISSION EVALUATES COMPETITIVE BIDDING FOR NEW GENERATING CAPACITY.

Competitive bidding for new generating capacity is often referred to as a wholesale market model that includes equity and efficiency considerations, encouragement of competitive generation options and new technologies, lower costs through competition, more choices, reliable supplies, and a level playing field on which all generation options could compete. The competitive bidding process has been widely implemented throughout the United States.

In October 2003, the Commission opened an investigation to evaluate competitive bidding as a mechanism for acquiring or building new generating capacity in Hawaii. The Commission believes that competitive bidding may provide a viable market competition alternative for the State of Hawaii. The issues in the proceeding are: (1) the benefits and impacts of competitive bidding; (2) the development of a competitive bidding system; and (3) revisions to the IRP process.

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[5]On July 29, 2004, the Commission approved the notices of withdrawal for Johnson Controls, Inc. ("JCI"), Pacific Machinery, Inc. ("PMI"), and The Gas Company, LLC ("TGC").

[6]On August 9, 2004, the Commission approved the State Department of Business, Economic Development, and Tourism's ("DBEDT") notice of withdrawal.

The Commission made HECO, MECO, HELCO, KIUC, and the Consumer Advocate as parties to the proceeding. Other parties to the proceeding include the HREA, JCI, County of Maui, Hess Microgen, and TGC.[7] The County of Kauai is a participant in the proceeding.[8]

C. GAS.

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.

Proceedings involving TGC are described below.

1. COMMISSION APPROVES ACQUISITION OF TGC.

In July 2003, the Commission approved the sale of TGC's assets from Citizens Communications Company ("Citizens") to Hawaii Gas Company, L.L.C., nka The Gas Company, LLC ("TGC-LLC"), subject to the Commission's terms and conditions. TGC-LLC was formed for the purpose of: (1) acquiring certain assets and assuming certain liabilities of TGC; and (2) owning and operating TGC's regulated and non-regulated gas operations. According to an asset purchase agreement between Citizens and K-1 USA Ventures, Citizens will sell TGC's assets to TGC-LLC for a base purchase price of $115 million, with TGC-LLC assuming TGC's liabilities.

2. CAPITAL IMPROVEMENTS OF TGC.

Gas utilities are required by the Commission's administrative rules to obtain approval for all CIP expenditures over $500,000. During the Fiscal Year, TGC did not file any CIP applications. For TGC's CIP trends, see the Commission's Annual Report, Fiscal Year 2002-03.

D. TELECOMMUNICATIONS.

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

During the Fiscal Year, the Commission opened a proceeding to implement the FCC's Triennial Review Order and issued its decision relating to the impairment reviews of the FCC's findings. The Commission also issued its decision to waive the regulation of commercial mobile radio services ("CMRS") providers. In other proceedings, the Commission approved several interconnection agreements between Verizon Hawaii and other telecommunications service providers. Other proceedings begun in the Fiscal Year included the proceeding related to the merger of Verizon Hawaii and the application filed by Time Warner Cable Information Services (Hawaii), LLC dba Oceanic Time Warner Cable requesting a certificate of authority to provide local and long distance internet protocol ("IP") voice service.

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[7]On September 22, 2004, the Commission approved PMI's notice of withdrawal.

[8]On September 22, 2004, the Commission approved DBEDT's notice of withdrawal.

Key activities in telecommunications are highlighted below.

1. 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. In Phase I of the Commission's investigation, 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. In January 2000, the Commission granted 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. In December 2000, the Commission adopted rates for UNEs and also approved the parties' stipulation on many of the Phase III issues regarding NRCs and collocation. In November 2001, the Commission, among other things, denied Verizon Hawaii cost recovery associated with its operations support services and national open market centers.

In July 2002, the Commission approved the various rates and determinations with regards to access and attachment to Verizon Hawaii's poles, ducts, conduits, and rights-of-way, as specified in the Commission's order. In October 2002, the Commission also approved the stipulated maximum pole rates for the year 2001 and the stipulated maximum pole and duct rates for the year 2002 filed by Verizon Hawaii, pursuant to the parameters established by the Commission. Additionally, the Commission approved Verizon Hawaii's revised collocation tariff in July 2002. Also, pursuant to the Commission's order, Verizon Hawaii and AT&T submitted proposed rates for the provisioning of DC power and backup DC power for adjacent on-site collocation arrangements for Commission review and approval.

During this Fiscal Year, the Commission approved the Joint Partial Settlement Agreement ("JPSA") to replace the 2001 California Joint Partial Settlement Agreement ("CJPSA"). The JPSA establishes standards for measuring Verizon Hawaii's wholesale operations support systems performance and replaces the CJPSA. In June 2001, the Commission adopted the CJPSA to replace initial JPSA.

2. COMMISSION IMPLEMENTS FCC'S TRIENNIAL REVIEW ORDER.

In August 2003, the FCC released its Triennial Review Order that establishes new rules governing the obligations of incumbent local exchange carriers ("ILECs") to make elements of their network available on an unbundled basis to competitive local exchange carriers ('CLECs"). The FCC delegated to state commissions the task of undertaking proceedings to determine the unbundling obligations of ILECs concerning certain network elements in specific geographic markets.

Commissions were given 90 days from the effective date of the Triennial Review Order (October 2, 2003) to rebut the FCC's "national finding" of no impairment for switching for large business customers, served by high-capacity loops. Commissions are also given 9 months from the effective date of the Triennial Review Order to determine whether or not economic and operational impairment exists in particular geographic markets for mass-market customers (residential and very small business customers) under the new FCC test for "impairment."

In September 2003, the Commission opened a proceeding to implement the FCC's Triennial Review Order in the State. The Commission conducted the reviews concurrently in two distinct and separate parts, Part I and Part II, relating to the 90-day review and the 9-month review, respectively.

For Part I of this proceeding, the Commission required any CLEC who wishes to rebut the FCC's no impairment finding for switching for large business customers that are served by large capacity loops, such as DS-1s, to file a motion to proceed within 20 days of its order. In December 2003, as no motion to proceed was filed by a CLEC in the proceeding, the Commission concluded that it should not undertake a 90-day review of the FCC's no impairment finding.

For Part II of this proceeding, the Commission required the parties in the proceeding to meet informally to formulate the issues, a schedule of proceedings, and other matters to govern the review under the 9-month review time line. In March 2004, the Commission approved the parties' agreements on all unresolved issues in the proceeding. The parties agreed that the Commission need not conduct any impairment or other reviews at this time. The agreement also sets forth how future reviews concerning the cross over point between enterprise and mass-market customers and impairment proceedings should be initiated and preliminarily conducted.

3. COMMISSION CERTIFICATES NEW TELECOMMUNICATIONS CARRIERS.

The Commission certificated 20 new telecommunications companies in the Fiscal Year, including 15 resellers of various intrastate wireless, calling card, and interexchange (long-distance) telecommunications services; 3 providers/resellers of intrastate telecommunications services; and 2 providers of payphone services.

4. COMMISSION APPROVES DESIGNATION OF ELIGIBLE TELECOMMUNICATIONS CARRIER ("ETC").

In June 2004, the Commission approved NPCR, Inc. dba Nextel Partners' ("Nextel Partners") request for designation as an ETC under federal law for its licensed service area. Federal law provides that only a common carrier that is designated an ETC is eligible to receive federal universal service support. Nextel Partners is a certificated provider of CMRS in the State.

With its designation as an ETC, Nextel Partners plans to: 1) obtain federal high-cost loop, interstate access, and interstate common line support; 2) offer a basic universal service package to subscribers who are eligible for Lifeline support; and 3) continue the expansion of its existing network facilities to enhance its ability to provide service to any customer requesting service within the designated service area. The expansion of Nextel Partners' existing network facilities will better serve customers in underserved, high-cost areas of the State. The Commission required Nextel Partners to file, on an annual basis, its formal build-out plan describing its expansion of its network infrastructure and facilities with the use of federal universal service support monies. Nextel Partners is required to identify the "problem areas" and consumers it intends to service, explain why these areas or consumers have the need for service by an ETC, and describe how it intends to provide the core services using federal universal support monies.

5. COMMISSION STREAMLINES REGULATORY REQUIREMENTS FOR WIRELESS TELECOMMUNICATIONS CARRIERS.

In recent years, the Commission recognized that there has been an expansion in the development and deployment of wireless telecommunications technologies and services internationally, nationally and locally, and that developing and promoting investment in new and innovative wireless telecommunications technologies will continue to impact the economy, education, health, safety, leisure, general welfare, and prosperity of the State and its people in the future. In addition, during the 2003 legislative session, various wireless telecommunications carriers in Hawaii supported measures intended to streamline the regulation of these carriers.

Consequently, in June 2003, the Commission instituted a proceeding to examine the issues surrounding whether it is consistent with the public interest to exempt CMRS providers, their services, or both from any provision of Chapter 269, HRS. CMRS providers are also commonly known as wireless telecommunications carriers. CMRS includes cellular, paging, and personal communications services. The Commission made the Consumer Advocate and all currently registered CMRS providers as parties to the proceeding.

In April 2004, the Commission waived certain regulatory requirements in Chapter 269, HRS and Chapter 6-80, HAR, as more specifically described in the Commission's decision, for all CMRS providers in Hawaii. For example, as a result of these waivers, CMRS providers in Hawaii will no longer be required to obtain prior Commission approval for any mergers, refinancing, or transfer of control transactions. In addition, CMRS providers need not file tariffs provided updated information regarding service plans and contact information is maintained and provided upon request.

The Commission also required the parties in the proceeding to submit to the Commission a stipulated "registration form" type of application or petition for a certificate of registration ("COR") for the Commission's approval.[9]

6. COMMISSION APPROVES TIME WARNER TELECOM OF HAWAII, L.P., DBA OCEANIC COMMUNICATIONS ("OCEANIC") FINANCING.

In January 2004, the Commission approved Oceanic's proposed financial transactions. The proposed transactions involve Time Warner Telecom, Inc.'s ("TWTC") plans to issue several unsecured notes. However, Oceanic later informed the Commission that its affiliates would not proceed with the proposed transactions approved by the Commission and that it had filed another application for different financing.

In March 2004, the Commission approved Oceanic's proposed financial transactions. More specifically, the proposed transactions involve TWTC's plans to: (1) issue up to $400 million in unsecured fixed rate senior notes, (2) issue up to $400 million in floating rate senior secured notes, and (3) enter into a new five-year $150 million senior securing revolving credit facility. The proceeds will be used to eliminate an existing secured bank credit facility by paying back approximately $396 million drawn on that facility.

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[9]In August 2004, the Commission denied the parties' request for approval of their proposed application form for COR. The Commission adopted its application form for COR and deemed it the official application form for COR for CMRS providers and cellular resellers.

7. COMMISSION APPROVES INTERCONNECTION AGREEMENTS.

The Federal Telecommunications Act of 1996 and Section 6-80-54, HAR, require telecommunications service providers to submit to the Commission for review and approval any agreements for access, interconnection, unbundling, or network termination adopted by negotiation or arbitration.

During the Fiscal Year, the Commission approved the following interconnection agreements and amended agreements between telecommunications service providers and Verizon Hawaii:

Time Warner of Hawaii, L.P. ("Time Warner"). In August 2003, the Commission approved the amendment to the interconnection agreement between Verizon Hawaii and Time Warner. The amendment modifies the original interconnection agreement by clarifying the internet service provisions regarding payment of reciprocal compensation and inter-carrier compensation for internet service provider-bound traffic. Time Warner is a certificated provider of facilities-based and resold telecommunications services in the State.

NOW Communications, Inc. ("NOW Communications"). In August 2003, the Commission approved the negotiated interconnection agreement between Verizon Hawaii and NOW Communications. The agreement sets forth the terms and conditions for various aspects of telecommunications services such as interconnection, resale, network element, and collocation attachments. NOW Communications is a certificated provider of resold telecommunications services.

Verizon Avenue. In October 2003, the Commission approved the amendment to the interconnection agreement between Verizon Hawaii and Verizon Avenue. The amendment modifies the original agreement by adding the central office remote terminal report and its associated nonrecurring charge.

In April 2004, the Commission approved the second amendment to the interconnection agreement between Verizon Hawaii and Verizon Avenue. The amendment makes changes reflecting the addition of rates, terms, and conditions set forth by the FCC's Triennial Review Order. Verizon Avenue is a certificated provider of facilities-based and resold telecommunications services in the State.

MCImetro Access Transmission Services LLC ("MCIm"). In October 2003, the Commission approved MCIm's adoption of the negotiated interconnection agreement between ICG Telecom Group Inc. and Verizon California Inc. ("Verizon California"). The agreement sets forth the terms and conditions for various aspects of telecommunications services such as interconnection, resale, network element, and collocation attachments.

In April 2004, the Commission approved the amendment to the interconnection agreement between Verizon Hawaii and MCIm. The amendment amends all interconnection agreements between MCIm and all Verizon incumbent local exchange carriers. It resolves issues relating to inter-carrier compensation. MCIm is a certificated provider of telecommunications services in the State.

KMC Data LLC ("KMC Data"). In December 2003, the Commission approved KMC Data's adoption of the interconnection agreement between Verizon California and Sprint Communications Company L.P. ("Sprint"). The agreement includes interconnection, resale, network elements, collocation, and other services. KMC Data is a certificated facilities-based carrier and reseller of telecommunications services in the State.

Tel-West Companies dba Hassle Free Phone ("Tel-West"). In February 2004, the Commission approved Tel-West's adoption of the interconnection agreement between NOW Communications and Verizon Hawaii. Tel-West is a certificated provider of telecommunications services in the State.

Granite Telecommunications, LLC ("Granite"). In April 2004, the Commission approved the negotiated interconnection agreement and amendment to the interconnection agreement between Verizon Hawaii and Granite. The interconnection agreement was amended to reflect changes prompted by the FCC's Triennial Review Order. Granite is a certificated facilities-based carrier and reseller of telecommunications services in the State.

8. COMMISSION APPROVES OPERATOR SERVICES AGREEMENTS.

During the Fiscal Year, the Commission approved the following operator services agreements between Verizon Hawaii and telecommunications services providers.

Time Warner Telecom of Hawaii, L.P. ("Time Warner Hawaii"). In April 2004, the Commission approved the operator services agreement between Verizon Operating Companies, which includes Verizon Hawaii, and Time Warner Hawaii. The agreement sets forth the rates, terms, and conditions under which Time Warner Hawaii agrees to purchase operator services from Verizon Hawaii. The agreement applies to local operator assistance, local directory assistance with call completion, and national directory assistance.

Tel-West. In June 2004, the Commission approved the operator services agreement between Verizon Hawaii and Tel-West. The agreement sets forth the rates, terms, and conditions under which Tel-West agrees to purchase operator services from Verizon Hawaii. It applies to local and intra-lata operator assistance, local directory assistance, and national directory assistance.

9. COMMISSION APPROVES POLE ATTACHMENT AND CONDUIT LICENSING OCCUPANCY AGREEMENT.

In April 2004, the Commission approved the pole attachment and conduit occupancy licensing agreement between Verizon Hawaii and Time Warner Hawaii. The agreement governs Time Warner Hawaii's non-exclusive revocable license to occupy, place, and maintain attachments to Verizon Hawaii's poles, ducts, and conduits for the provision of cable television and/or telecommunications services.

10. COMMISSION ADOPTS TELECOMMUNICATIONS RELAY SERVICES ("TRS") CARRIER 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 services during the preceding calendar year and a contribution factor determined annually by the

Commission. For the period from July 1, 2003 to June 30, 2004, the contribution factor was 0.00375.

In April 2004, the Commission initiated a proceeding to examine whether to modify the TRS carrier contribution factor and fund size for the period July 1, 2004 to June 30, 2005. In June 2004, the Commission adopted its proposed modifications to the existing contribution factor and fund size. The contribution factor for the period July 1, 2004 to June 30, 2005 is 0.0010. The projected TRS fund size as of July 1, 2004 is $680,000.

11. COMMISSION APPROVES TARIFF CHANGES.

During the Fiscal Year, the Commission approved the following tariff changes for Verizon Hawaii:

Local Package Basic ("LBP") Services. In August 2003, the Commission approved Verizon Hawaii's LPB, a new package of telecommunications services offered to residential customers, provided that Verizon Hawaii complies with all the changes and conditions set forth by the Commission. For a monthly charge of $44.95, customers are provided: residential line ("R1"), touch call, up to four custom calling features, optional residential home voice mail, and unlimited inter-island toll telecommunications services.

Verizon Island Calling Plan. In October 2003, the Commission approved Verizon Hawaii's Verizon Island Calling Plan and its request to jointly offer the plan with its Local Package and Local Package Standard. The Verizon Island Calling Plan is an optional interisland long distance discounted calling plan for residential subscribers of Verizon Hawaii's Local Package or Local Package Standard service offerings. The plan's $0.08 per minute rate is offered for direct dial interisland calls at all times.

FlexGrow Service. In October 2003, the Commission approved Verizon Hawaii's request to add FlexGrow service to its Corporate Rewards Business Optional Calling Plan ("Corporate Rewards Plan") and jointly offer FlexGrow service with interisland toll service. FlexGrow service provides high capacity digital facilities between the business customer's premise and the serving central office. Verizon Hawaii's Corporate Rewards Plan provides business customers with discounted interisland toll rates based on the amount of usage, type of access lines used, and the duration of customer's subscription.

Local Directory Assistance ("LDA"). In November 2003, the Commission approved Verizon Hawaii's request to increase its LDA charge for calls that exceed the call allowance from $0.20 to $0.50 per call. The Commission denied Verizon Hawaii's request to decrease its LDA service call allowance from ten (10) to two (2) calls per billing period and, instead, allowed Verizon Hawaii to reduce its allowance from ten (10) to five (5) calls per billing period. Customers are allowed to make ten (10) LDA calls (also known as 411 calls) per line without charge during each billing period.

12. COMMISSION APPROVES MODIFICATION OF ADMINISTRATIVE RULES AND G.O. NO. 8.

Pursuant to Section 6-80-90 (b), HAR, a telecommunications carrier that provides noncompetitive services is required to submit to the Commission for review proposed capital expenditures for any project that is estimated to exceed $500,000. G.O. No. 8, paragraph 2.3 (d) 2 requires that proposed capital expenditures for any single project in excess of $500,000, or 10 per cent of the total plant in service, whichever is less, be submitted to the Commission for review. This threshold amount of $500,000 was established in 1965 when G.O. No. 8 was promulgated. In September 2003, Verizon Hawaii requested the Commission to increase the monetary threshold that triggers the filing of capital expenditure applications with the Commission.

In May 2004, the Commission approved the parties' agreement and, effective July 1, 2004, modified by inserting the phrase "exceed $2.5 million, excluding customer contributions" in place of the current "$500,000" threshold in Section 6-80-90 (b), HAR, and G.O. No. 8. The Commission also required Verizon Hawaii to include additional information in its five (5)-year projected capital improvements budget report annually filed with the Commission. The report shall include a brief description of each project over $1 million, a brief explanation of how the project relates to Verizon Hawaii's overall operational objectives, and a projected timeline for each project. Verizon Hawaii is also required to file an annual report containing a narrative list of the projects completed during the preceding year.

13. CAPITAL EXPENDITURES APPROVED BY COMMISSION.

During the Fiscal Year, Verizon Hawaii filed two applications requesting approval of CIP expenditures. These applications were pending at the end of the Fiscal Year. For Verizon Hawaii's CIP trends, see the Commission's Annual Report, Fiscal Year 2002-03.

14. MERGER OF VERIZON HAWAII PROPOSED.

In June 2004, Paradise MergerSub ("MergerSub"), Inc., GTE Corporation, Verizon Hawaii, Bell Atlantic Communications, Inc., dba Verizon Long Distance, and Verizon Select Services Inc. jointly filed an application requesting the Commission's approval of their proposed transfer of control over Commission-regulated lines of business and the financing obligations from Verizon Hawaii to MergerSub, a subsidiary of TC Group L.L.C., dba The Carlyle Group. The parties and participants in the proceeding include: the Consumer Advocate; Jeremiah C. Genovia; Charles K. Hekekia, Jr.; International Brotherhood of Electrical Workers, Local 1357; U.S. Department of Defense and all other federal executive agencies; Pacific Lightnet, Inc., and Oceanic. During Fiscal Year 2004-05, the Commission will hold public hearings in the proceeding on all the islands.[10]

15. INTERNET PROTOCOL VOICE SERVICES PROPOSED.

In June 2004, Time Warner Cable Information Services (Hawaii), LLC dba Oceanic Time Warner Cable filed an application requesting the Commission to issue a certificate of authority to provide local and long distance IP voice service, also known as voice over internet protocol ("VoIP"), to Hawaii customers residing in Oceanic Time Warner Cable's Road Runner service areas.[11]

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[10]The Commission held public hearings in the proceeding on all the islands during October 2004 as follows: October 5, 2004 on Oahu; October 7, 2004 on Kauai; October 12, 2004 on Maui; October 13, 2004 on Molokai; October 14, 2004 on Lanai; October 19-20, 2004 on Hawaii.

[11]See also Section XIII. D.

E. PRIVATE WATER AND SEWAGE UTILITIES.

The Commission regulates 34 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 APPROVES RATE INCREASES.

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

Molokai Public Utilities, Inc. ("MPUI"). In July 2003, the Commission approved the parties' stipulation and granted MPUI a rate increase of $280,622 in additional revenues. MPUI provides residential water service on the island of Molokai.

Mauna Lani STP, Inc. ("Mauna Lani"). In August 2003, the Commission approved Mauna Lani's request to change its wastewater rates, consistent with the terms of the Commission's order. The parties' stipulation provides a rate increase of $360,258 in additional revenues. Mauna Lani provides wastewater services to the residents and occupants of the Mauna Lani Resort area on the island of Hawaii.

Hawaii-American Water Company, Inc. ("HAWC"). In April 2004, the Commission granted HAWC an interim rate increase of $245,813 in additional revenues. In May 2004, the Commission approved HAWC's request to change its wastewater rates, consistent with the terms of the Commission's order. The parties' stipulation provides a final rate increase of $245,813 in additional revenues.

2. COMMISSION APPROVES NEW AND AMENDED CPCNS.

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

Launiupoko Irrigation Company, LLC ("LIC"). In September 2003, the Commission granted a CPCN to LIC to provide non-potable water utility services in the area of West Maui.

Olowalu Water Company, LLC ("OWC"). In October 2003, the Commission granted OWC's request to amend its CPCN to provide non-potable water services in the area of Olowalu on the island of Maui. OWC is also authorized to provide potable water utility services in the same area.

Kapalua Waste Treatment Company, Ltd. ("KWTC"). In May 2004, the Commission approved KWTC's request for an extension of its service territory under its existing CPCN. KWTC's new service territory includes a new single-family residence located adjacent to its existing service territory. KWTC provides sewage collection and waste treatment service in the Kapalua area on the island of Maui.

Kapalua Water Company ("KWC"). In June 2004, the Commission approved KWC's request to expand its service area. KWC new service territory includes residences and properties in Honolua Ridge, Hawea Point, Alaelae Point, and Kalaepiha Point. KWC provides water utility service in the Kapalua area of the island of Maui.

3. COMMISSION APPROVES SOUTH SHORE COMMUNITY SERVICES LLC'S ("SSCS") TRANSFER OF ASSETS.

In November 2003, the Commission approved SSCS's request to transfer its utility operations, assets, and CPCN to Kukui'Ula South Shore Community Services, LLC. SSCS is authorized to provide sewage treatment service to the Kukui'Ula Project and the County of Kauai's Paanau Project, a low-income housing development. Kuku'Ula South Shore Community Services, LLC will be the new utility formed by Kukui'Ula Development Company (Hawaii), LLC, the owner and developer of the Kukui'Ula Project.

F. TRANSPORTATION CARRIERS.

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 limitations, 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 ratemaking proceedings before the Commission.

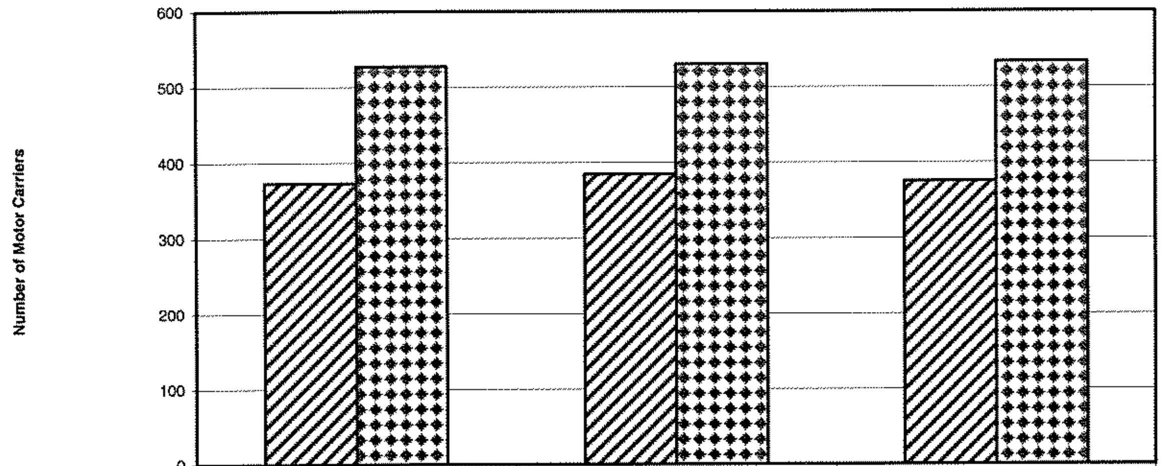
In accordance with its statutory requirements, the Commission performs the following functions in the regulation of motor carriers: (1) certification and licensing; (2) ratemaking; and (3) business regulation. The Commission's efforts are primarily spent on the licensing and ratemaking functions. During the Fiscal Year, the Commission issued many new certificates and licenses, reviewed requested rate increases, and established a zone of reasonableness pilot program for motor carriers.

a. COMMISSION APPROVES NEW MOTOR CARRIER CERTIFICATIONS.

The Commission regulates 533 passenger carriers and 375 property carriers in the State. During the Fiscal Year, new certificates or permits were issued to 72 motor carriers—51 passenger carriers and 21 property carriers.

While the number of property carriers is down slightly from last fiscal year, authorized passenger carriers have increased steadily over the past three (3) years, as shown in the graph and table reference.

Figure 3
Regulated Motor Carriers



	2001-02	2002-03	2003-04
Property Carriers	373	385	375
Passenger Carriers	527	530	533

Fiscal Year

b. COMMISSION APPROVES ZONE OF REASONABLENESS FOR MOTOR CARRIERS.

In August 2003, the Commission opened an investigation to examine the feasibility of establishing a zone of reasonableness for passenger and property motor carriers. Under such a mechanism, specific increases or decreases in a carrier's rates and charges within an established zone of reasonableness would be automatically approved, if the requested changes fall within the zone or range authorized by the Commission for that carrier's operations The Commission set forth a proposal establishing a zone of reasonableness applicable to all passenger and property motor carriers with points within the range of plus or minus ten (10) per cent from a motor carrier's base rate.

In December 2003, the Commission established a one-year zone of reasonableness pilot program governing the Commission's motor carrier rate review and approval process. The zone of reasonableness consists of points within the range of plus or minus ten (10) per cent from a motor carrier's base rate. The total range of a carrier's zone, thus, is twenty (20) per cent. The program is in effect from January 1, 2004 to December 31, 2004. Upon the completion of the pilot period, the zone of reasonableness will be terminated, unless otherwise continued or modified by the Commission.

c. COMMISSION REVIEWS REQUESTS FOR RATE CHANGES.

During the Fiscal Year, the Commission reviewed and approved rate increases and decreases prior to and after the zone of reasonableness pilot program went into effect on January 1, 2004. 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 31 motor carriers. The independent motor carrier who did not file requests for rate changes included: 182 on Oahu, 95 on Hawaii, 62 on Maui, and 37 on Kauai. None of the 217 motor carriers belonging to HSCCCA filed requests for rate changes. The Commission reviewed and approved the following motor carrier increases and decreases:

Rate Changes Prior to the Zone. The Commission approved the following motor carrier increases and decreases before the zone of reasonableness pilot program was established:

Type of Carrier/Company (County)	Rate Increase or Decrease
Dump Truck	
Pineridge Farms, Inc.(Oahu, Maui)	3.50%
General Commodities	
Tri Isle Incorporated, dba Valley Isle Express, and dba Haleakala Transportation & Warehousing (Maui)	3.00%
Passenger	
Arthur's – Star 21, Inc., dba Maui Classic Coach, and dba Arthur's Limousine Service (Maui)	10.00%
RDH Transportation Services, Inc., dba Superstar Hawaii Transit Service (Oahu)	5.00%
SpeediShuttle, LLC, dba SpeediShuttle, Airport Shuttle and ResortCar	10.00%
Various carriers (Oahu)	5.00%

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 seven (7) or ten (10) per cent. Other rate increases ranged from one (1) to six (6) per cent. The rate decreases ranged from two (2) to ten (10) 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	
Pine Enterprises, Inc.(Oahu)	10.00%
Dump Truck (Kauai)	10.00%
Dump Truck (Oahu)	10.00%
Various carriers (Oahu)	4.00%
Dump Truck (Hawaii)	7.00%
Dump Truck (Maui)	10.00%
West Hawaii (Hawaii)	3.00%
Kona Transportation Co., Inc. (Hawaii)	4.00%
Various carriers, selected rates (Hawaii)	3.00%
Pacific Transportation Services, Inc. (Hawaii)	4.00%
Ed Yamashiro, Inc. (Oahu)	10.00%
Kalaka Nui, Inc. (Oahu, Hawaii, Kauai)	10.00%

Nick's Hauling Services, LLC (Hawaii)	7.18%
Richard H. S. Lee, Inc. (Oahu)	10.00%
Tri Isle, Incorporated dba Valley Isle Express, and dba Haleakala Transportation & Warehousing (Maui)	7.00%
Big Island Topsoil, LLC (Hawaii)	7.00%
Big Island Topsoil, LLC (Oahu, Maui, Kauai)	10.00%
Emerald Pacific Trucking, Inc. (Hawaii)	7.17%
Nick's Hauling Services, LLC – selected rates (Hawaii)	-9.09%
Norina Dereis Souza dba Island Top Soil (Oahu)	10.00%
Big Island Topsoil, LLC (Hawaii)	2.00%
Tri Isle, Incorporated dba Valley Isle Express, and dba Haleakala Transportation & Warehousing – selected rates (Maui)	3.00%
Pineridge Farms, Inc. (Oahu)	10.00%

General Commodities

Statewide Household Goods	7.00%
Household Goods - Island Movers, Inc.	9.00%
General Commodities (Kauai)	10.00%
General Commodities (Oahu)	7.00%
Statewide Household Goods - various carriers	9.00%
International Express, Inc. (Oahu)	3.00%
Pine Enterprises, Inc. (Oahu)	10.00%
General Commodities (Hawaii)	7.00%
General Commodities (Maui)	10.00%
Edwin DeLuz Trucking & Gravel, LLC - selected rates (Hawaii)	-10.00%
Household Goods -Kona Transportation Co., Inc. (Hawaii)	9.00%
Kona Transportation Co., Inc. (Hawaii)	6.83%
Oahu Express, Ltd. – selected rates (Oahu)	4.97%; -2.42%; -6.36%
Tri Isle , Incorporated dba Valley Isle Express, and dba Haleakala Transportation & Warehousing - selected rates (Maui)	6.5%; 10.00%
B B Delivery Service, Inc. – selected rates (Maui)	8.00%; 10.00%
Frank M. Lawrence dba C& F Trucking – selected rates (Hawaii)	4.88%; 3.82%; 3.07%
Household Goods - Royal Hawaiian Movers, Inc. dba Royal Hawaiian Trucking & Warehousing (Oahu, Maui, Hawaii)	7.00%
Ed Yamashiro, Inc. (Oahu)	10.00%
Island Movers, Inc. (MauI)	10.00%
Kalaka Nui, Inc. (Oahu, Hawaii, Kauai)	7.00%
Kona Transportation Co., Inc. – selected rates (Hawaii)	0.99%; -7.18%

Nick's Hauling Service, LLC (Hawaii)	7.00%
Richard H. S. Lee (Oahu)	10.00%
Tri Isle, Incorporated dba Valley Isle Express, and dba Haleakala Transportation & Warehousing (Maui)	7.00%
Big Island Topsoil, LLC (Oahu, Hawaii)	7.00%
Big Island Topsoil, LLC (Maui, Kauai)	10.00%
Kelvin Cardoza dba KC Trucking (Hawaii)	-7.00%
DHX Maui, Inc. (Maui)	7.00%
Household Goods - DHX Maui, Inc. (Maui)	7.00%
Emerald Pacific Trucking, Inc. (Hawaii)	7.10%
Pacific Transfer LLC (Oahu)	7.00%
Sherman Enterprises, Inc. dba City Wide Transportation Company (Oahu)	7.00%
Household Goods – Sherman Enterprises, Inc. dba City Wide Transportation Company (Oahu)	7.00%
Mercantile Trucking Service , Ltd. (Oahu)	3.80%
Dependable Hawaiian Express, Inc. dba DHX (Oahu)	7.00%
Selected rates (Oahu)	-10.00%
Xpress Trucking, Inc. (Oahu)	7.00%
Xpress Trucking, Inc. (Maui)	10.00%
RPM Transportation (Hawaii), Inc. – selected rates (Oahu)	4.00%, 5.00%, 10.00%
Pineridge Farms, Inc. (Oahu)	7.82%

Specific Commodities

Ed Yamashiro, Inc. (Statewide)	10.00%

Break Bulk and Delivery

Break Bulk and Delivery (Kauai)	10.00%
International Express, Inc. (Oahu)	3.00%
Break Bulk and Delivery (Oahu)	7.00%
Break Bulk and Delivery (Hawaii)	7.00%
Break Bulk and Delivery (Maui)	10.00%
Island Movers, Inc. (Oahu)	10.00%
Island Movers, Inc. (Maui)	8.00%
Tri Isle, Incorportated dba Valley Isle Express and dba Haleakala Transportation & Warehousing (Maui)	3.00%; 4.00%
Sherman Enterprises, Inc. dba City Wide Transportation Company (Oahu)	7.00%
Mercantile Trucking Service, Ltd. (Oahu)	9.00%
Dependable Hawaiian Express, Inc. dba DHX (Oahu)	7.00%
Xpress Trucking, Inc. (Oahu)	7.00%
Xpress Trucking, Inc. (Maui)	10.00%

Hawaii Transfer Co., Ltd. (Oahu)	7.00%
Passenger	
Statewide Passenger - various carriers	7.00%
Jack's Tours, Inc. (Hawaii)	7.00%
Armijo, Inc. dba Kapalua Executive Transportation Services & Executive Shuttle (Maui)	7.00%
VIP Trans. Inc. – selected rates (Oahu)	2.27%
Jack' Tours, Inc. (Hawaii)	2.80%
Hawaii Forest & Trail, Ltd. – selected rates (Hawaii)	6.90%
Wailea Limousine Service, Inc. – selected rates(Maui)	7.00%
Akina Aloha Tours, Inc. – selected rates (Maui)	7.00%; 4.70%
Akina Bus Service, Ltd. – selected rates (Maui)	7.00%; 4.70%
Direct Support Resources, Inc. dba DSR – selected rates (Oahu)	10.00%;7.00%
Tropical Hydro, Inc.dba Lahaina Honu – selected rates (Maui)	10.00%
ABC Rider, Inc. (Maui)	7.00%

Rate Changes Outside the Ten (10) Per Cent Zone Limit. During the Fiscal Year, the Commission reviewed and approved requests from five (5) motor carriers for rate increases and decreases that did not fall within the zone of reasonableness. In its review of these requests, the Commission requested 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
General Commodities	
Oahu Express, Ltd. – selected rates (Oahu)	15.10%; 15.36%, 16.15%, 18.22%, 18.93%, 24.14%, 40.40%
Kona Transportation Co., Inc. – selected rates (Hawaii)	18.98%; 45.60%
Island Movers, Inc. – selected rates (Oahu)	-23.00% to -27.00%
Passenger	
VIP Trans, Inc. – selected rates (Oahu)	13.64%; -20.45%; -31.82%
Hawaii Forest & Trail, Ltd. – selected rates (Hawaii)	26.31%

2. WATER CARRIERS.

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

a. COMMISSION APPROVES YOUNG BROTHERS AMENDED COMMODITY RATES TARIFF.

In June 2004, the Commission approved Young Brothers' proposed commodity rates tariff changes. The tariffs relate to the shipment of cargo utilizing shipper-owned equipment and Young Brothers-owned equipment. For the tariff relating to shipper-owned equipment. Young Brothers requested to (1) change the method for calculating the charge for the shipment of cargo utilizing shipper-owned platforms and (2) add a long length penalty for the shipment of cargo utilizing shipper-owned equipment. For the tariff relating to Young Brothers-owned equipment, Young Brothers proposed certain non-substantive changes making the long length charges consistent in its tariff.

G. DOCKET PROCEEDINGS.

At the beginning of the Fiscal Year, 349 pending dockets were carried over from prior years, and 391 new dockets were opened during the Fiscal Year. Thus, during the Fiscal Year, a total of 740 dockets were before the Commission for review and consideration. Of the 740 dockets, 294 or approximately 40 per cent of the dockets were completed by the end of the Fiscal Year (June 30, 2004).

At the end of the Fiscal Year, 446 dockets were pending, including 217 dockets carried over from years prior to the Fiscal Year and 229 dockets that were opened during the Fiscal Year.

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

DOCKETS FILED, COMPLETED, AND PENDING
FISCAL YEARS 2001-02, 2002-03, and 2003-04

	Fiscal Year (July 1 - June 30)		
Dockets Pending on July 1	**2001-02**	**2002-03**	**2003-04**
Utilities			
Electric	39	39	42
Gas	4	4	2
Telecommunications	59	75	91
Private Water/Sewer	8	7	15
Subtotal	110	125	150
Transportation			
Motor Carriers	183	178	197
Water Carriers	1	1	2
Subtotal	184	179	199
Total	294	304	349

DOCKETS FILED, COMPLETED, AND PENDING
FISCAL YEARS 2001-02, 2002-03, and 2003-04

New Dockets Opened in Fiscal Year	**2001-02**	**2002-03**	**2003-04**
Utilities			
Electric	26	32	46
Gas	3	1	1
Telecommunications	144	115	97
Private Water/Sewer	6	11	10
Subtotal	179	159	154
Transportation			
Motor Carriers	238	276	236
Water Carriers	3	4	1
Subtotal	241	280	237
Total	420	439	391
Dockets Completed in FY	**2001-02**	**2002-03**	**2003-04**
Utilities			
Electric	26	29	38
Gas	3	3	3
Telecommunications	128	99	49
Private Water/Sewer	7	3	12
Subtotal	164	134	102
Transportation			
Motor Carriers	243	257	191
Water Carriers	3	3	1
Subtotal	246	260	192
Total	410	394	294

DOCKETS FILED, COMPLETED, AND PENDING
FISCAL YEARS 2001-02, 2002-03, and 2003-04

Dockets Pending on June 30	2001-02	2002-03	2003-04[12]
Utilities			
Electric	39	42	50
Gas	4	2	0
Telecommunications	75	91	139
Private Water/Sewer	7	15	13
Subtotal	125	150	202
Transportation			
Motor Carriers	178	197	242
Water Carriers	1	2	2
Subtotal	179	199	244
Total	304	349	446

VI. 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. 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 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; (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.

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[12] In the Fiscal Year, the Commission opened 75 dockets relating to orders to show cause for failure to comply with utility and motor carrier laws. The higher number of pending dockets may be attributed, in part, to the number of order to show cause dockets which remained pending at the end of the Fiscal Year. These dockets were closed in Fiscal Year 2004-05.

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.

Beginning this Fiscal Year, the Commission will be reporting complaints data on a fiscal year (July 1 to June 30) basis (in previous reports data was reported by calendar year). As shown in the table below, the Commission received a total of 581 written informal and verbal complaints in the Fiscal Year against regulated and unregulated utility and transportation companies. Complaints on Oahu amounted to 298 out of 581 complaints statewide, or 51 per cent of the total complaints.

Total Informal and
Verbal Complaints
Fiscal Year 2004

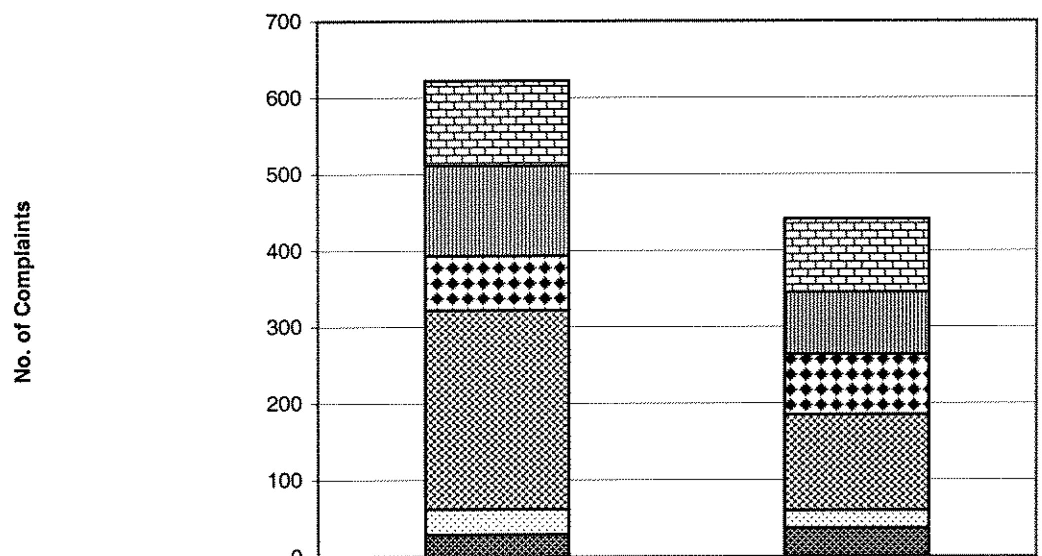
Utilities	
Telecommunications:	
Wireline (telephone)	96
Cellular and Paging	81
Other Telecom Providers	79
Total Telecom	256
Electricity	125
Gas	23
Water/Sewer	37
Transportation Carriers	
Water Carrier	9
Motor Carrier	131
Total Complaints	581

For all islands, the Commission received 256 written informal and verbal complaints involving telecommunications providers. The majority of telecommunications complaints (96) related to Verizon Hawaii. These complaints mainly involved service problems, mostly relating to interruptions and repairs. The cellular and paging companies received 81 complaints, mostly relating to billing problems (billing errors and service contracts). Most of the 79 complaints filed against other telecommunications providers, including interstate and unregulated communications equipment and service companies, were related to billing problems and unregulated long distance carriers.

The electric utilities received 125 complaints, mostly relating to service problems (interruptions and insurance claims). The complaints against gas utilities (23) were mostly relating to billing problems. The complaints relating to water and sewer facilities (37) were primarily over billing problems with water companies. The complaints against water carriers (9) involved primarily service problems (scheduling, and damages and claims processing) with property water carriers. Most of the 131 complaints against motor carriers were related to operating without CPCNs.

To illustrate complaint trends, Figures 4 to 9 summarize the complaints received by the Commission over the past two fiscal years for each of the regulated utility industries, statewide, and island-by-island.

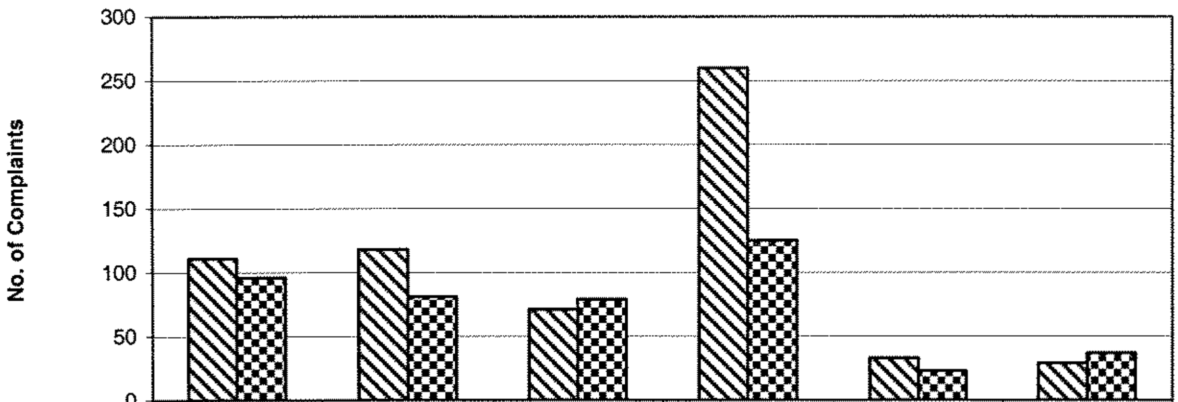
Figure 4
Informal and Verbal Complaints
Total All Utility Companies by Fiscal Years 2003-2004



	FY 2003	FY 2004
Telephone	111	96
Cellular and Paging	118	81
Other Telecom Providers	71	79
Electricity	260	125
Gas	33	23
Water/Sewer	29	37
Total Complaints	622	441

Fiscal Year ("FY")

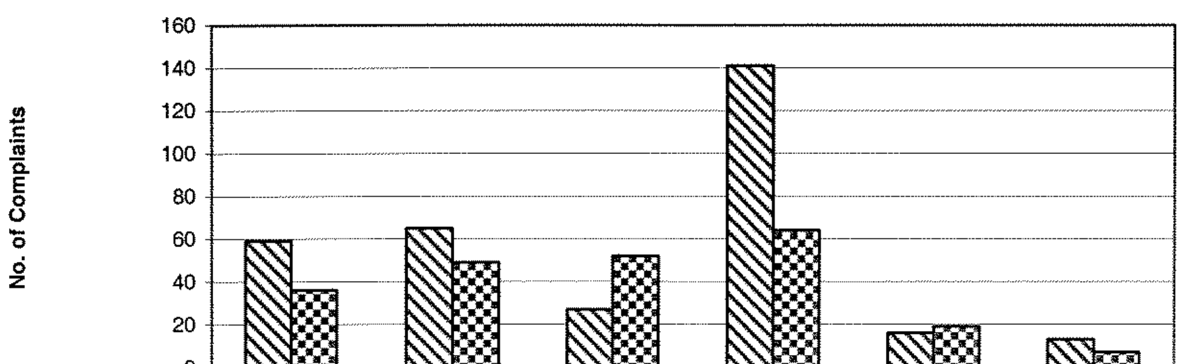
Figure 5
Informal and Verbal Complaints
Statewide - All Utility Companies - Fiscal Years 2003-2004



	Telephone	Cellular and Paging	Other Telecom Providers	Electricity	Gas	Water/Sewer
FY 2003	111	118	71	260	33	29
FY 2004	96	81	79	125	23	37

Type of Utility

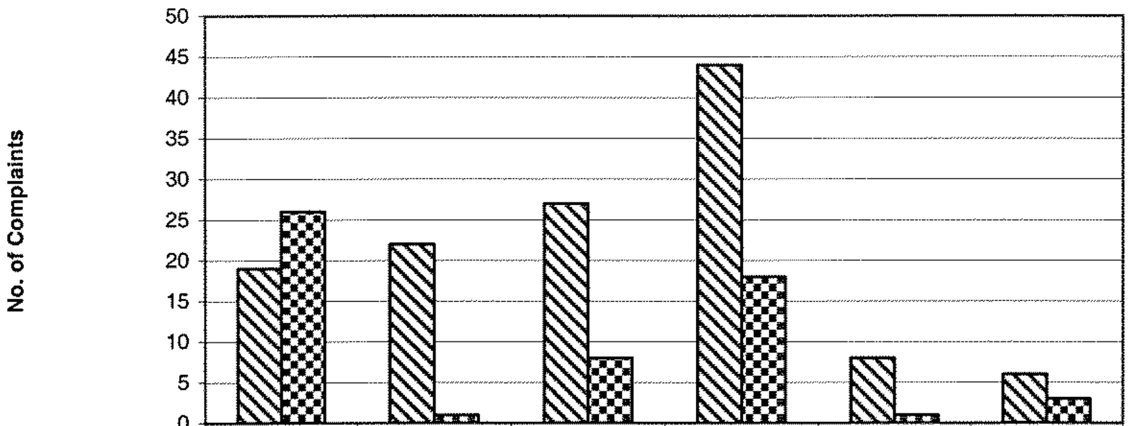
Figure 6
Informal and Verbal Complaints
Oahu - Utility Companies - Fiscal Years 2003-2004



	Telephone	Cellular and Paging	Other Telecom Providers	Electricity	Gas	Water/Sewer
FY 2003 Oahu	59	65	27	141	16	13
FY 2004 Oahu	36	49	52	64	19	7

Type of Utility

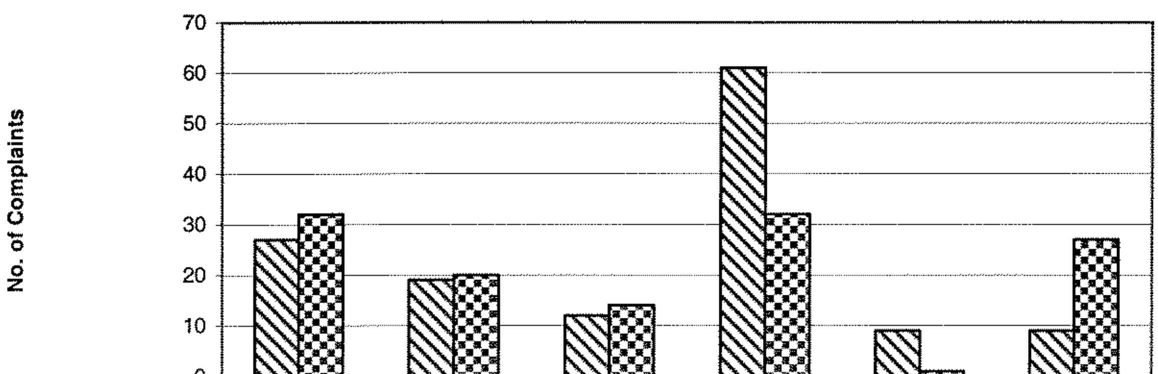
Figure 7
Informal and Verbal Complaints
Maui - Utility Companies - Fiscal Years 2003-2004



	Telephone	Cellular and Paging	Other Telecom Providers	Electricity	Gas	Water/Sewer
FY 2003 Maui	19	22	27	44	8	6
FY 2004 Maui	26	1	8	18	1	3

Type of Utility

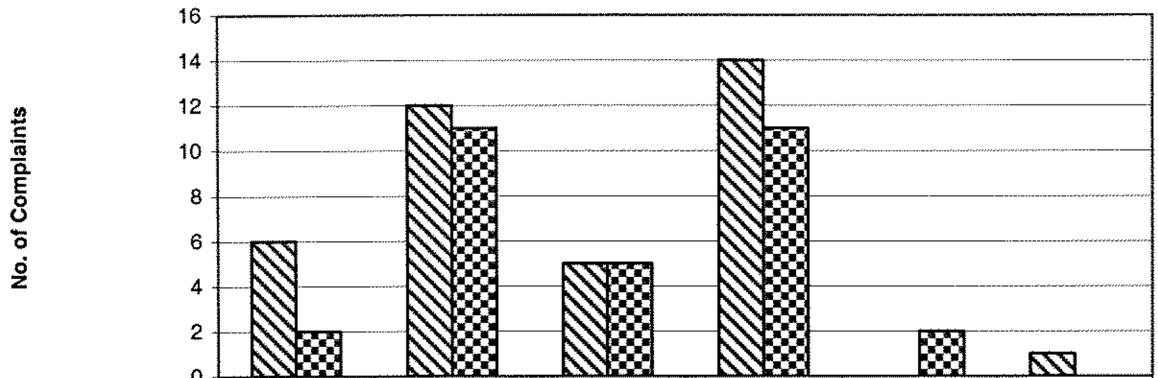
Figure 8
Informal and Verbal Complaints
Hawaii - Utility Companies - Fiscal Years 2003-2004



	Telephone	Cellular and Paging	Other Telecom Providers	Electricity	Gas	Water/Sewer
FY 2003 Hawaii	27	19	12	61	9	9
FY 2004 Hawaii	32	20	14	32	1	27

Type of Utility

Figure 9
Informal and Verbal Complaints
Kauai - Utility Companies - Fiscal Years 2003-2004

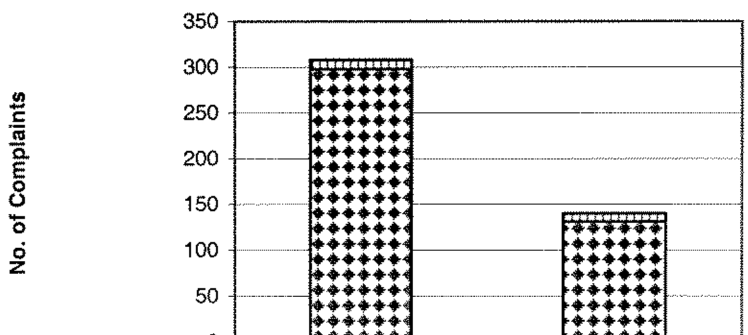


	Telephone	Cellular and Paging	Other Telecom Providers	Electricity	Gas	Water/Sewer
FY 2003 Kauai	6	12	5	14	0	1
FY 2004 Kauai	2	11	5	11	2	0

Type of Utility

Figures 10 to 13 illustrate complaint trends over the last two fiscal years for regulated motor carriers and water carriers, statewide and island-by-island.

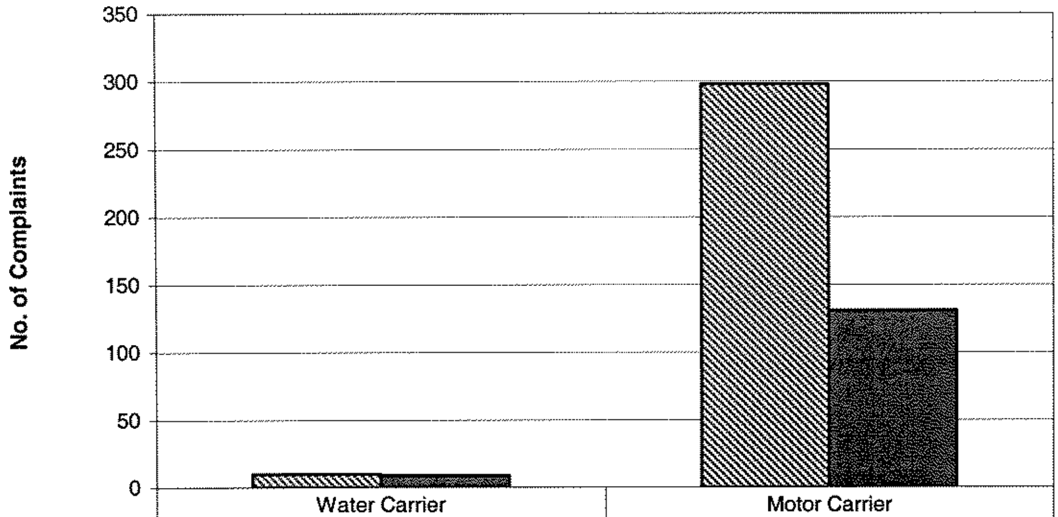
Figure 10
Informal and Verbal Complaints
Statewide All Transportation Carriers
Fiscal Years 2003-2004



	FY 2003	FY 2004
Water Carrier	10	9
Motor Carrier	298	131
Total Complaints	308	140

FY

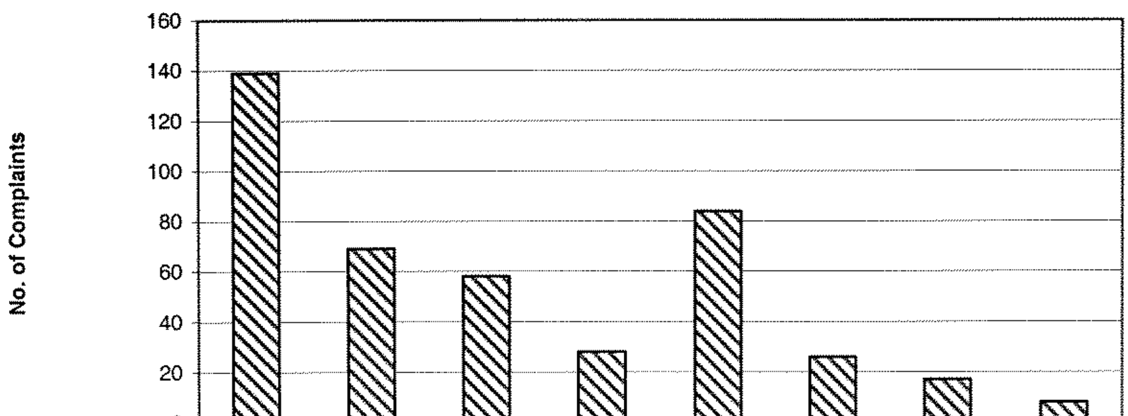
Figure 11
Informal and Verbal Complaints
Statewide - Water Carrier and Motor Carrier - Fiscal Years 2003-2004



	Water Carrier	Motor Carrier
FY 2003	10	298
FY 2004	9	131

Type of Carrier

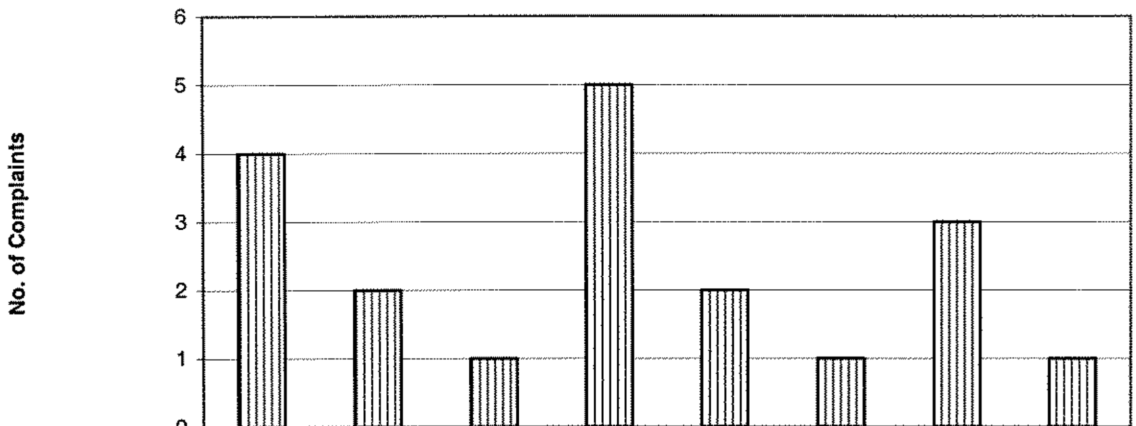
Figure 12
Informal and Verbal Complaints
Motor Carrier - By Islands - Fiscal Years 2003-2004



	Oahu FY 2003	Oahu FY 2004	Hawaii FY 2003	Hawaii FY 2004	Maui FY 2003	Maui FY 2004	Kauai FY 2003	Kauai FY 2004
Motor Carrier	139	69	58	28	84	26	17	8

Islands and FY

Figure 13
Informal and Verbal Complaints
Water Carrier - By Islands - Fiscal Years 2003-2004



	Oahu FY 2003	Oahu FY 2004	Hawaii FY 2003	Hawaii FY 2004	Maui FY 2003	Maui FY 2004	Kauai FY 2003	Kauai FY 2004
Water Carrier	4	2	1	5	2	1	3	1

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 the Fiscal Year. 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 56 responses to its informal complaint survey. Figures 14 to 18 show the results of the survey.

Figure 14
Informal Complaint Survey
Fiscal Year 2003-04

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

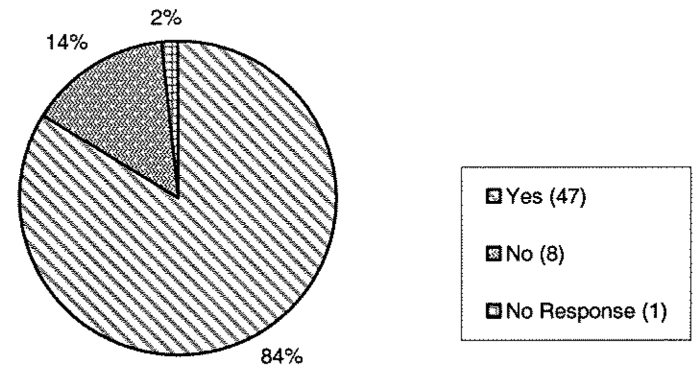


Figure 15
Informal Complaint Survey
Fiscal Year 2003-04

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

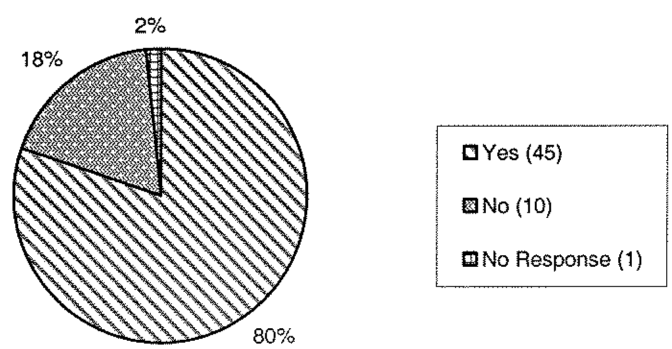


Figure 16
Informal Complaint Survey
Fiscal Year 2003-04

3-Was your complaint resolved to your satisfaction?

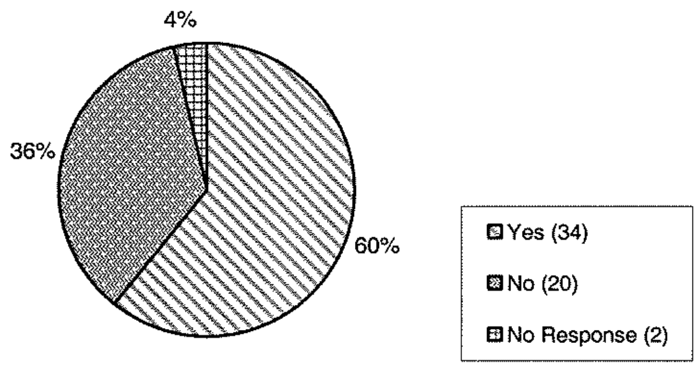
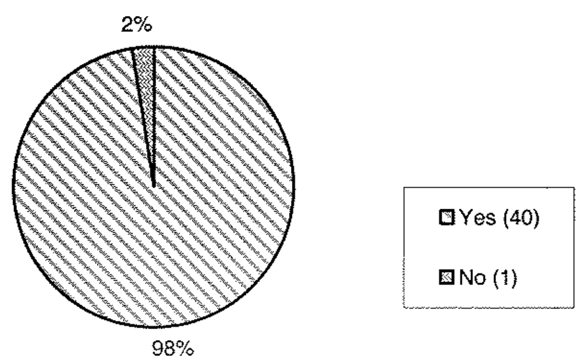


Figure 17
Informal Complaint Survey
Fiscal Year 2003-04

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



3. FORMAL COMPLAINTS.

During the Fiscal Year, proceedings on formal complaints included the following:

Pacific LightNet, Inc. ("Pacific LightNet"), Complainant, vs. Verizon Hawaii, Respondent. In March 2003, Pacific LightNet filed a complaint, against Verizon Hawaii requesting the Commission to issue an order requiring Verizon Hawaii to make payment to Pacific LightNet using one of two methods of calculating the costs of Pacific LightNet's interconnection facilities. In December 2003, the Commission granted Verizon Hawaii's motion to dismiss Pacific LightNet's complaint and required the parties to engage in the alternative dispute resolution procedures described in its interconnection agreement.

Akina Aloha Tours, Inc. and Akina Bus Service Ltd. ("Akina'),Complainants, vs. Robert's Hawaii, Inc. and Robert's Tours and Transportation, Inc. ("Robert's Tours"), Respondents. In November 2003, Akina filed a complaint against Robert's Tours alleging that Robert's Tours is operating a regular route service on the island of Maui along the same route used by Akina and that Robert's Tours is not authorized to provide such service. The complaint was pending at the end of the Fiscal Year.[13]

B. FINANCIAL REPORTING AND PAYMENT OF PUBLIC UTILITIES FEE.

The applicable law and administrative rules require regulated utilities and transportation carriers to annually submit financial reports and to pay certain public utility revenue fees.

During the Fiscal Year, the Commission issued 53 show cause orders to motor carriers and 19 orders to telecommunications providers who failed to submit financial reports and failed to pay required revenue fees. The Commission collected $25,442 in interest and penalties for the late payment of revenue fees. In the next fiscal year, the Commission revoked the CPCNs of 29 motor carriers and 14 certificates of authority and 1 certificate of registration of telecommunications providers for failure to comply with financial reporting and/or payment requirements as mandated by law and/or rules.

C. MOTOR CARRIER CITATIONS.

The Commission issues civil citations to motor carriers for violations of the Motor Carrier Law, Chapter 271, HRS. The citations impose a civil penalty, typically $500 or $1,000 per violation. At the request of the Commission, the State Department of Transportation ("DOT") 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. The most common types of motor carrier citations relate to the failure to maintain the required liability insurance and operating without a CPCN. For this Fiscal Year, civil penalties collected through motor carrier citations totaled $12,050. The Commission enforcement officers issued 80 motor carrier citations on the following islands: 50 on Oahu, 18 on Maui, 10 on Hawaii, and 2 on Kauai.

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[13]During the Fiscal Year 2004-05, the Commission held an evidentiary hearing to resolve the complaint.

VII. 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, and duplication fees. For the Fiscal Year, the regulated utilities and transportation carriers paid $10,450,287 in public utility fees and $916,283 in motor carrier fees, respectively. The total revenues of the Commission's Special Fund were $11,433,139.

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 $7,490,045 for personal services and other current expenses as shown in the table below. Allotments for the Commission's personal services expenses were $2,781,646 for 43 authorized permanent positions. The Commission was allotted $4,693,899 for other current expenses and $14,500 for equipment expenses. The Commission's other current expenses allotment included $2,445,969 that was transferred to the Consumer Advocate to cover its operating expenses.

	FY 2003-04 Appropriation	FY 2003-04 Allotment
Personal Services	$2,781,646	$2,781,646
Other Current Expense	4,693,899	4,693,899
Equipment	14,500	14,500
Total	$7,490,045	$7,490,045

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 $5,202,740 from the Special Fund was transferred to the general fund.[14]

VIII. THE AUDITOR'S MANAGEMENT AUDIT OF THE COMMISSION.

Act 94, SLH 2003 requested a management audit ("Audit") of the Commission and the Consumer Advocate. The Audit was published and submitted to the State Legislature in February 2004. In summary, the Auditor's recommendations for the Commission were as follows: develop a strategic plan for the Commission; prioritize personnel management, including addressing staffing shortages and vacancies; collaborate with the Consumer Advocate to hire a consultant to develop an information system; improve the complaint handling process; and adopt certain administrative rules.

The Commission generally did not disagree with the findings of the Audit. In its written response to the Audit dated January 30, 2004, the Commission indicated that strategic planning had already commenced and that careful evaluation would be employed in finding ways to streamline the regulatory process.

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[14] See the "Public Utilities Commission Special Fund Report, Fiscal Year 2003-04" for detailed information on the Commission's actual revenues and expenditures for the Fiscal Year, which the Commission submits to the Legislature pursuant to Section 269-33, HRS.

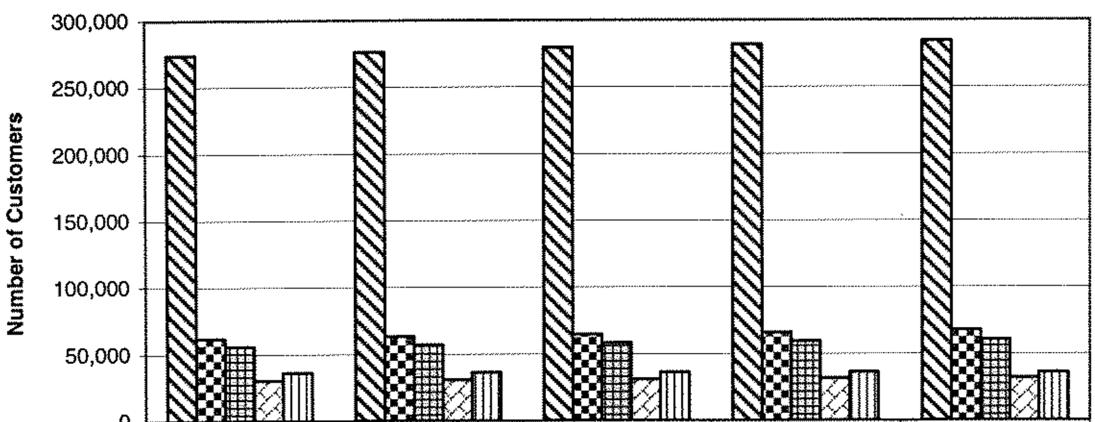
IX. UTILITY COMPANY OPERATIONS, CAPITAL IMPROVEMENTS, AND RATES.

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, although there was a slight general increase in the number of utility customers during the 1999 – 2003 time period, as shown in Figure 18.[15]

Figure 18
Number of Electric and Gas Utility Customers
1999 - 2003



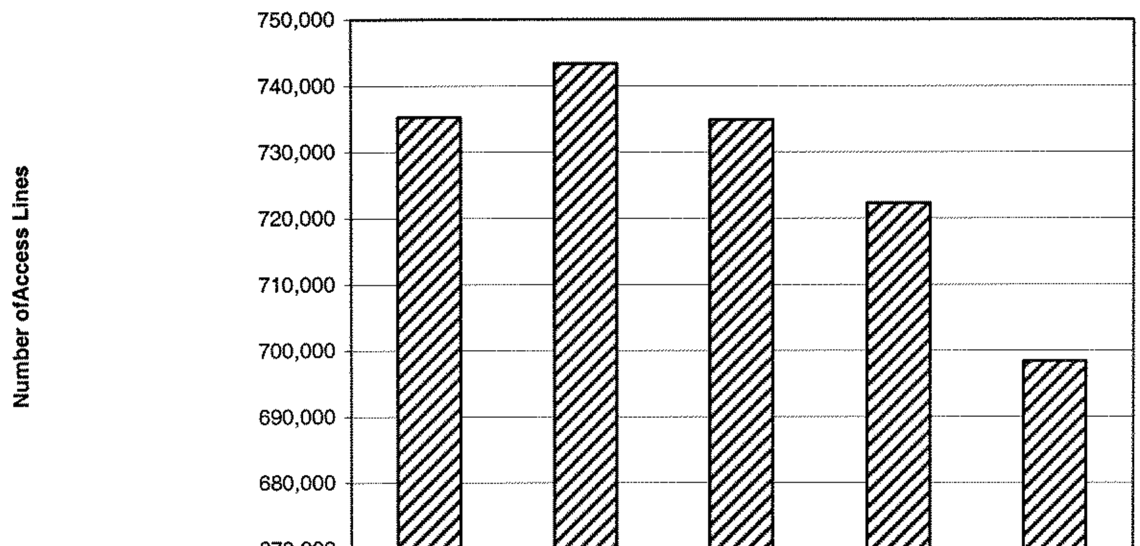
	1999	2000	2001	2002	2003
HECO	274,017	276,447	279,534	281,922	284,460
HELCO	61,796	63,207	64,660	66,034	67,879
MECO	55,786	57,000	58,308	59,410	60,651
KIUC	30,248	30,715	30,969	31,768	32,065
Gasco	36,236	36,321	36,379	36,322	36,093

Annual Periods

[15] Sources: HECO 2003 Service Reliability Report, MECO 2003 Service Reliability Report, HELCO 2003 Service Reliability Report, and KIUC Annual Report to the PUC.

As shown in Figure 19, Verizon Hawaii's customer base, as measured by the number of access lines that it serves, after peaking in 2000, has decreased over the past three years. [16] 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).

Figure 19
Verizon Hawaii Total Switched Access Lines
1999-2003



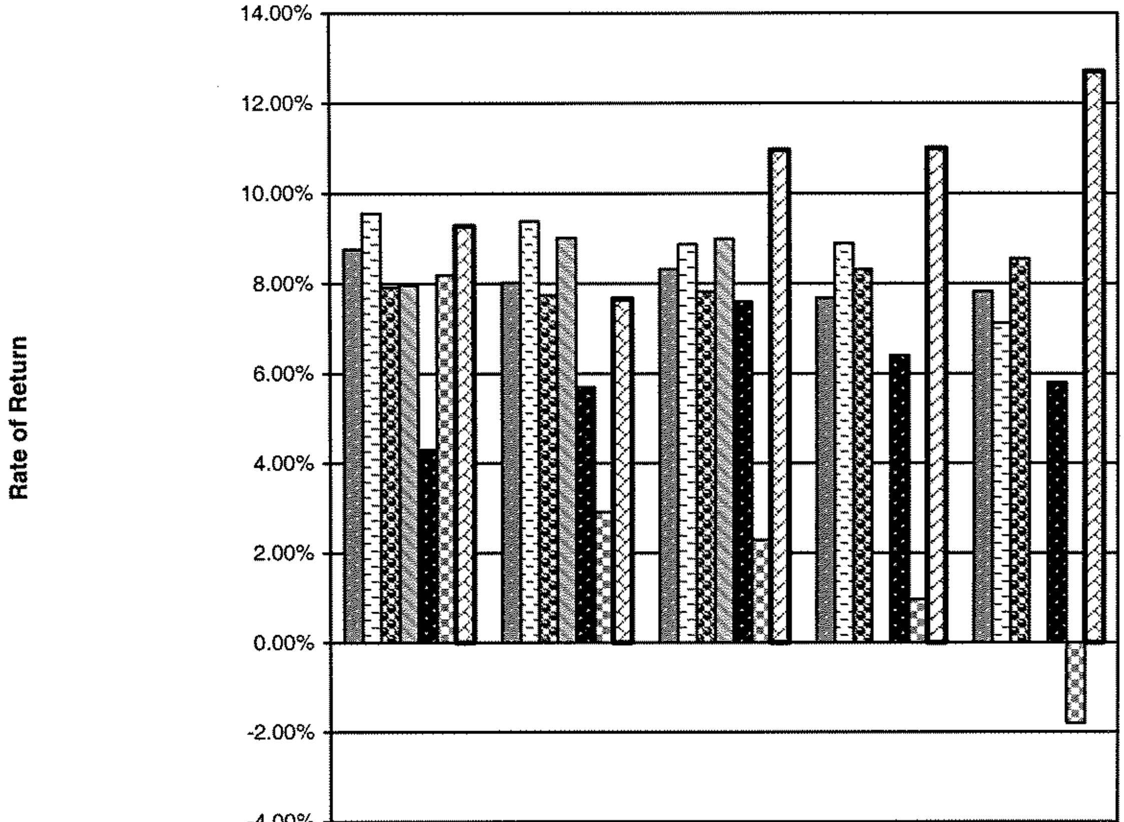
	1999	2000	2001	2002	2003
Total Switched Access Lines	735,241	743,370	734,881	722,291	698,355

2. RATES OF RETURN EARNED BY UTILITY COMPANIES.

Each regulated utility is entitled to a fair opportunity to earn a fair rate of return. Figure 20 summarizes the recent history and trends of rates of return earned by the various regulated utilities.

[16] Verizon Hawaii's ARMIS Operating Data Reports (FCC Report 43-08) for 1999 through 2003.

Figure 20
Utility Rate of Return Five Year Comparison



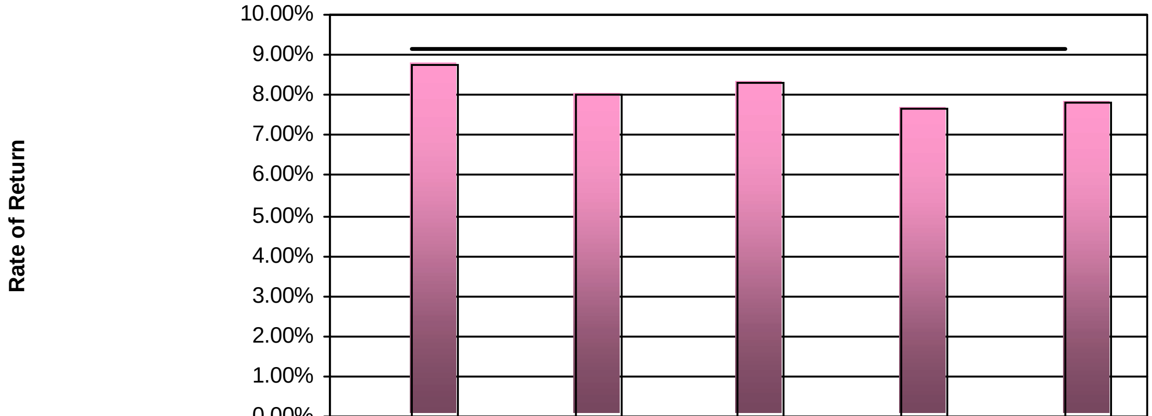
	2000	2001	2002	2003	2004
Hawaiian Electric Company, Inc.	8.76%	8.02%	8.32%	7.68%	7.82%
Hawaii Electric Light Company, Inc.	9.56%	9.39%	8.87%	8.89%	7.12%
Maui Electric Company, Ltd.	7.91%	7.74%	7.82%	8.31%	8.55%
Kauai Electric/KIUC (1)	7.96%	9.01%	8.99%	n/a	n/a
The Gas Company	4.30%	5.70%	7.60%	6.40%	5.80%
Verizon Hawaii, Inc.	8.18%	2.92%	2.29%	0.96%	-1.80%
Young Brothers, Ltd.	9.28%	7.66%	10.96%	11.00%	12.70%

12 MTD Ended June 30

(1) Beginning November 2002, KIUC began reporting TIER (Times Interest Earned Ratio).

As shown in Figures 21 to 24 and 26 to 28, 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 25 shows KIUC's TIER for the past two years.

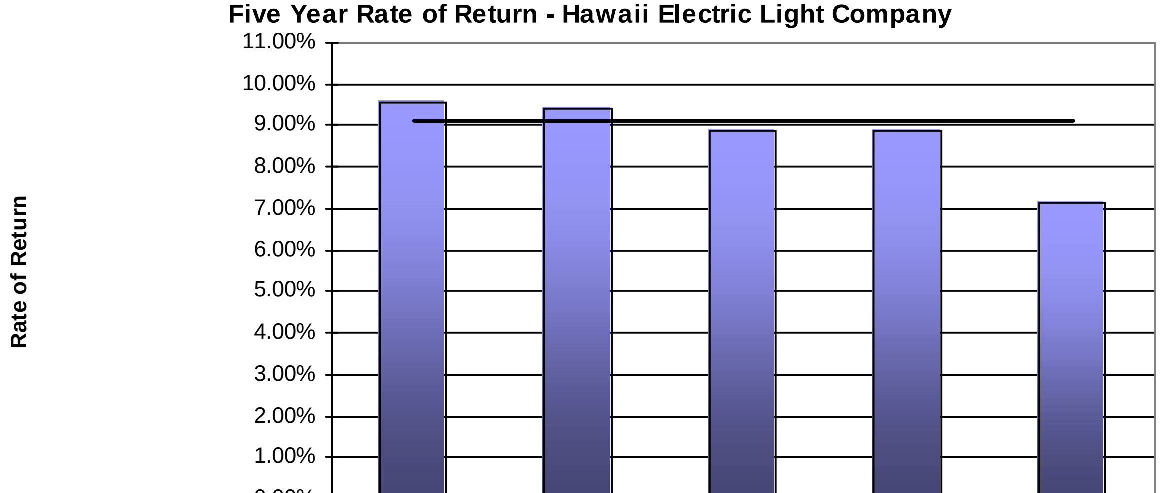
Figure 21
Five Year Rate of Return Comparison - Hawaiian Electric Company



	2000	2001	2002	2003	2004
Authorized Rate of Return	9.16%	9.16%	9.16%	9.16%	9.16%
Rate of Return	8.76%	8.02%	8.32%	7.68%	7.82%

12 MTD ended June 30

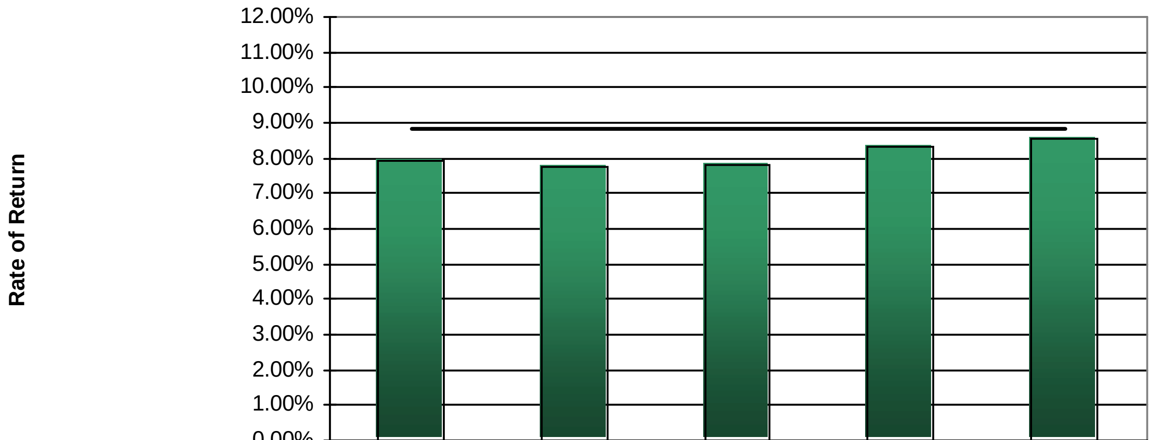
Figure 22
Five Year Rate of Return - Hawaii Electric Light Company



	2000	2001	2002	2003	2004
Authorized Rate of Return	9.14%	9.14%	9.14%	9.14%	9.14%
Rate of Return	9.56%	9.39%	8.87%	8.89%	7.12%

12 MTD ended June 30

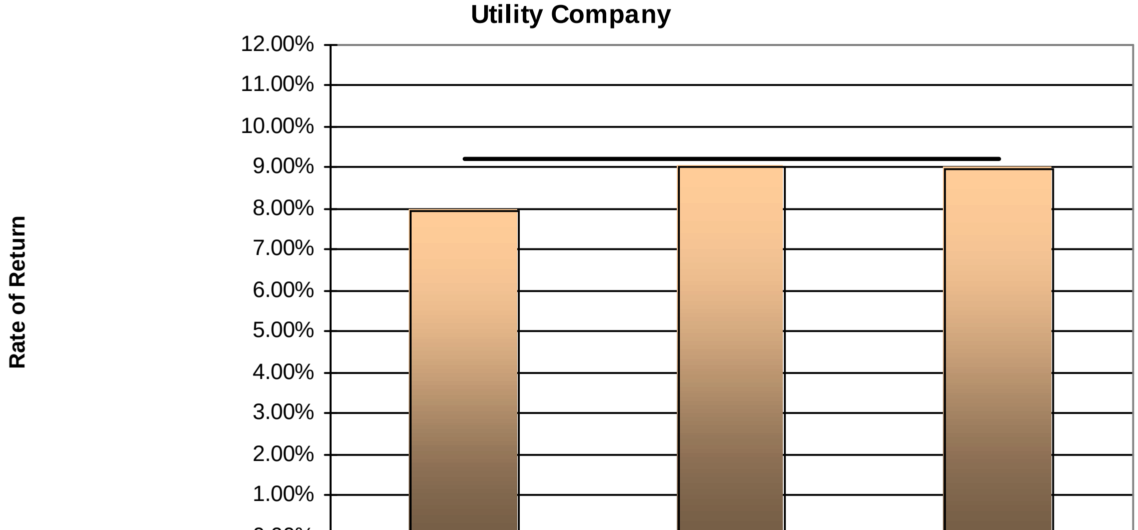
Figure 23
Five Year Rate of Return Comparison - Maui Electric Company



	2000	2001	2002	2003	2004
Authorized Rate of Return	8.83%	8.83%	8.83%	8.83%	8.83%
Rate of Return	7.91%	7.74%	7.82%	8.31%	8.55%

12 MTD ended June 30

Figure 24
Three Year Rate of Return Comparison - Kauai Electric/Kauai Island Utility Company

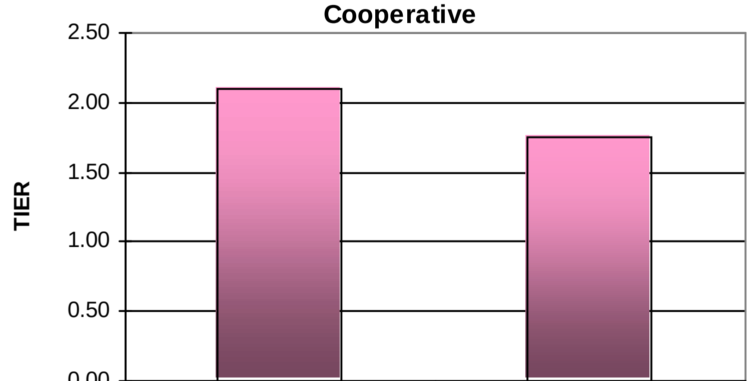


	2000	2001	2002
Authorized Rate of Return	9.23%	9.23%	9.23%
Rate of Return	7.96%	9.01%	8.99%

12 MTD ended June 30

Beginning November 2002, KIUC began reporting TIER (Times Interest Earned Ratio).

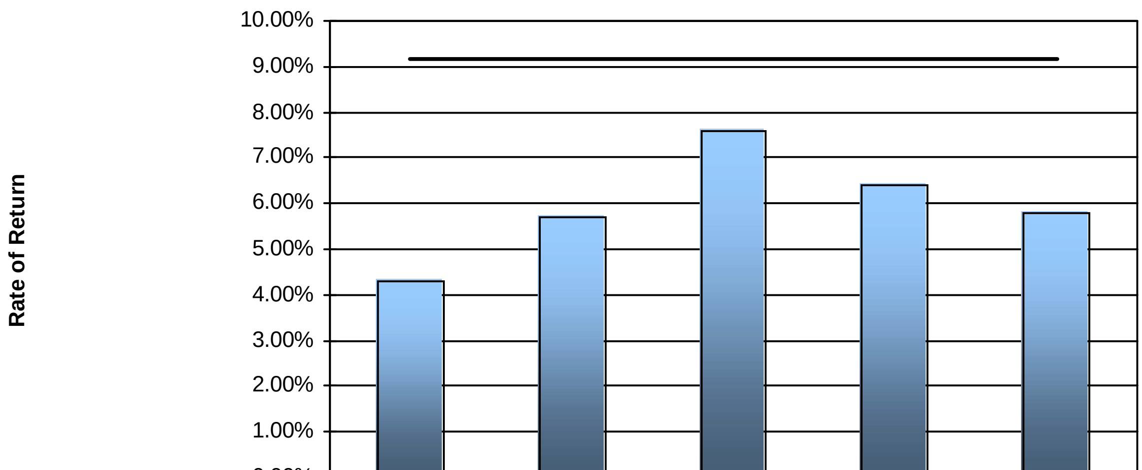
Figure 25
Two Year TIER Comparison - Kauai Island Utility Cooperative



	2003	2004
TIER	2.10	1.76

12 MTD Ended June 30

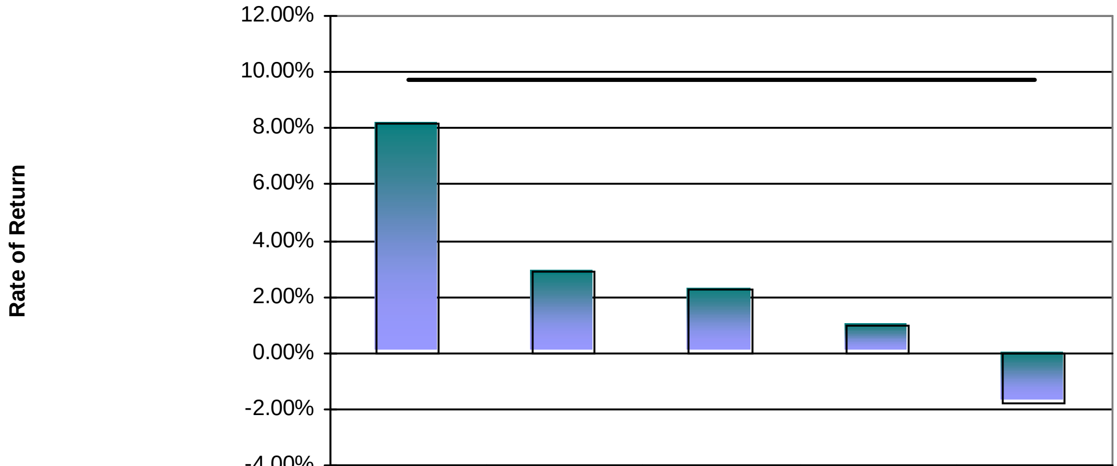
Figure 26
Five Year Rate of Return Comparison - The Gas Co



	2000	2001	2002	2003	2004
Authorized Rate of Return	9.16%	9.16%	9.16%	9.16%	9.16%
Rate of Return	4.30%	5.70%	7.60%	6.40%	5.80%

12 MTD Ended June 30

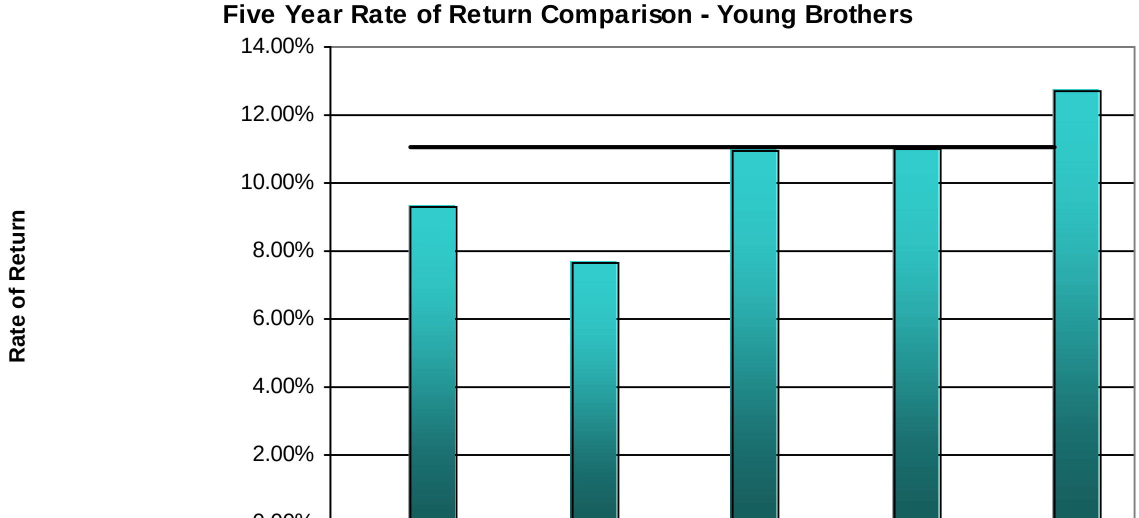
Figure 27
Five Year Rate of Return Comparison - Verizon



	2000	2001	2002	2003	2004
Authorized Rate of Return	9.73%	9.73%	9.73%	9.73%	9.73%
Rate of Return	8.18%	2.92%	2.29%	0.96%	-1.80%

12 MTD Ended June 30

Figure 28
Five Year Rate of Return Comparison - Young Brothers



	2000	2001	2002	2003	2004
Authorized Rate of Return	11.06%	11.06%	11.06%	11.06%	11.06%
Rate of Return	9.28%	7.66%	10.96%	11.00%	12.70%

12 MTD Ended June 30

B. FORECASTED CAPITAL IMPROVEMENTS.

1. ELECTRIC UTILITY CIPs.

The total 2004 capital expenditures budget forecasted for HECO is approximately $129 million. Some of the major CIPs in HECO's 2004 budget include the East Oahu Transmission Project, the construction of a new dispatch center, the construction of a combustion turbine unit at Barbers Point, and the installation of the Barbers Point Waiau fuel pipeline.

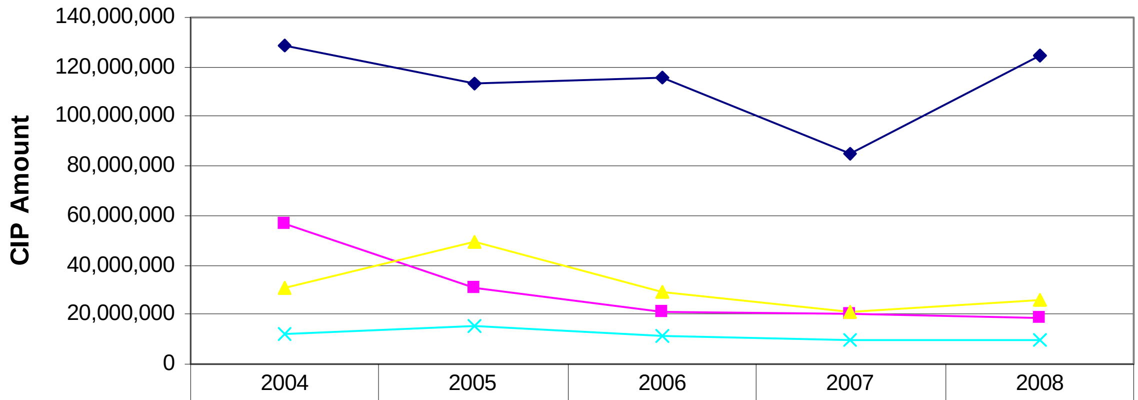
The total 2004 capital expenditure budget forecasted for HELCO is approximately $57 million. HELCO's major CIPs for 2004 include the installation of the Keahole 20mW combustion turbine 4; the installation of the Keahole 20mW combustion turbine 5; and the installation of the Keahole warehouse facilities, water treatment systems and fire protection systems.

The total 2004 capital expenditure budget forecasted for MECO is approximately $31 million. Some of the major CIPs in MECO's 2004 budget include the Maalaea Power Plant M18 Project and the combined heat and power projects.

The total 2004 capital expenditure budget forecasted for KIUC is approximately $12 million. KIUC's major CIPs for 2004 include a development driven construction of a substation, as well as, construction of distribution and the relocation/undergrounding of transmission lines in Kukuiula; the replacement of Port Allen generating station's air quality emissions monitoring system; and a 12kV transformer bus upgrade.

Figure 29 shows the five-year capital expenditure budget forecast for HECO, HELCO, MECO, and KIUC. All electric utilities capital expenditure trends show that, for the most part, expenditures will decrease over the next five years.

Figure 29
Electric Utilities Five-Year Capital Expenditures Forecast



	2004	2005	2006	2007	2008
HECO	129,000,000	113,000,000	116,000,000	85,000,000	125,000,000
HELCO	57,000,000	31,000,000	21,000,000	20,000,000	19,000,000
MECO	31,000,000	49,000,000	29,000,000	21,000,000	26,000,000
KIUC	11,962,900	15,409,200	11,451,500	9,995,000	9,814,800

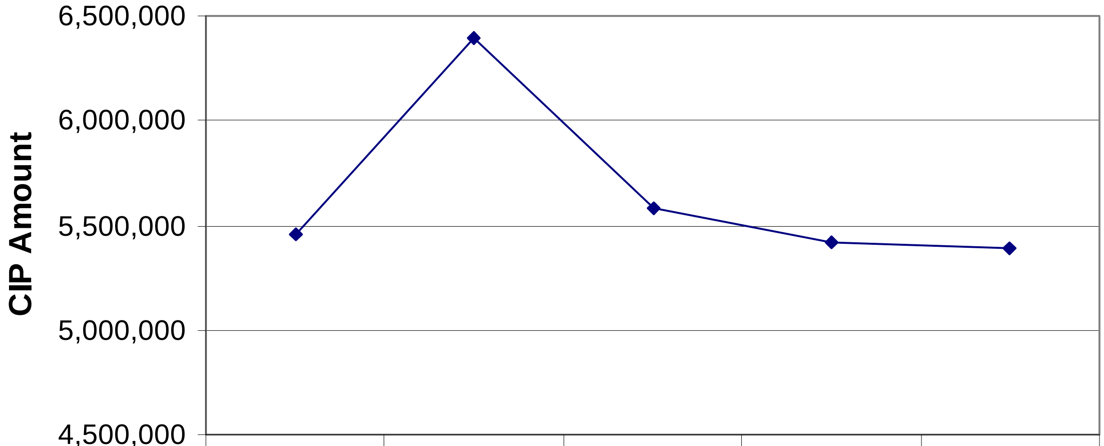
Year

2. GAS CIPs

The total 2004 capital expenditure budget forecasted for TGC is approximately $5 million. Some of the major projects in the TGC 2004 budget include the utility main pipeline renewal and utility services pipeline renewal projects on Oahu.

Figure 30 shows the five-year capital expenditure budget forecast for TGC.

Figure 30
TGC Five-Year Capital Expenditures Forecast



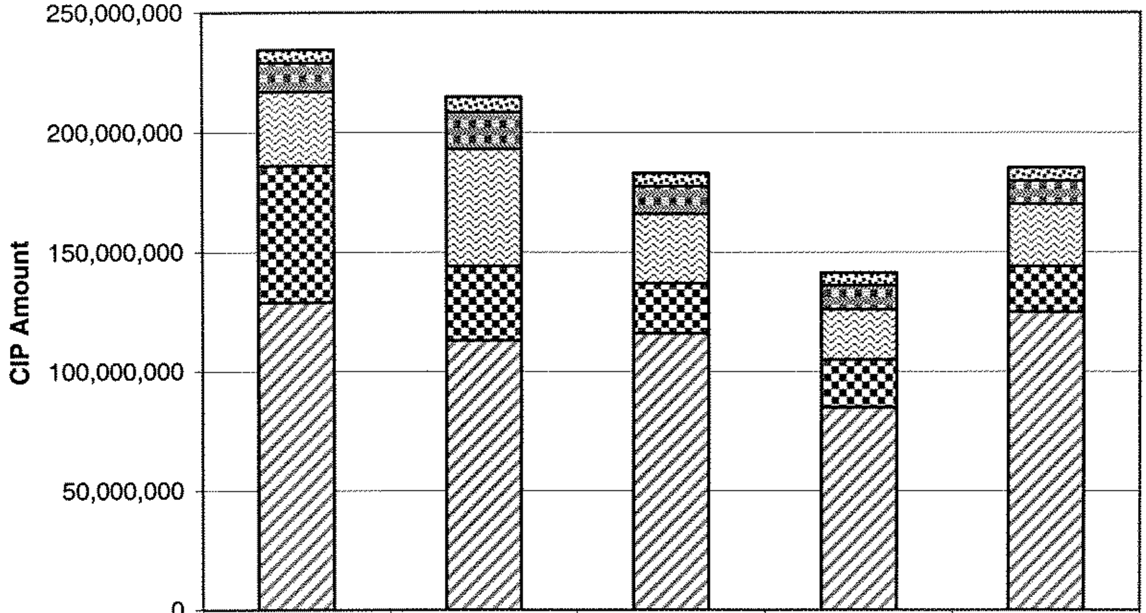
	2004	2005	2006	2007	2008
TGC	5,458,000	6,392,000	5,580,000	5,422,000	5,393,000

Year

3. FORECASTED UTILITY CIP EXPENDITURES.

Figure 31 shows the total 5-year capital expenditures forecast for the electric and gas utilities.

Figure 31
Capital Expenditures - Forecasted

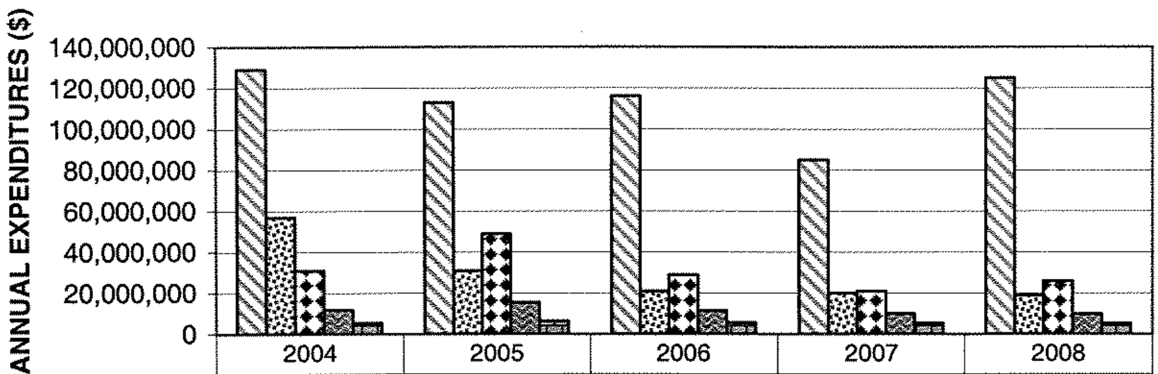


	2004	2005	2006	2007	2008
GASCO	5,458,000	6,392,000	5,580,000	5,422,000	5,393,000
KIUC	11,962,900	15,409,200	11,451,500	9,995,000	9,814,800
MECO	31,000,000	49,000,000	29,000,000	21,000,000	26,000,000
HELCO	57,000,000	31,000,000	21,000,000	20,000,000	19,000,000
HECO	129,000,000	113,000,000	116,000,000	85,000,000	125,000,000
Total CIP	234,420,900	214,801,200	183,031,500	141,417,000	185,207,800

Year

Figure 32 shows the five-year capital expenditures forecasts by utility company.

Figure 32
Capital Expenditures - Forecasted



	2004	2005	2006	2007	2008
HECO	129,000,000	113,000,000	116,000,000	85,000,000	125,000,000
HELCO	57,000,000	31,000,000	21,000,000	20,000,000	19,000,000
MECO	31,000,000	49,000,000	29,000,000	21,000,000	26,000,000
KIUC	11,962,900	15,409,200	11,451,500	9,995,000	9,814,800
GASCO	5,458,000	6,392,000	5,580,000	5,422,000	5,393,000

Year

C. RATES OF MAJOR UTILITY COMPANIES.

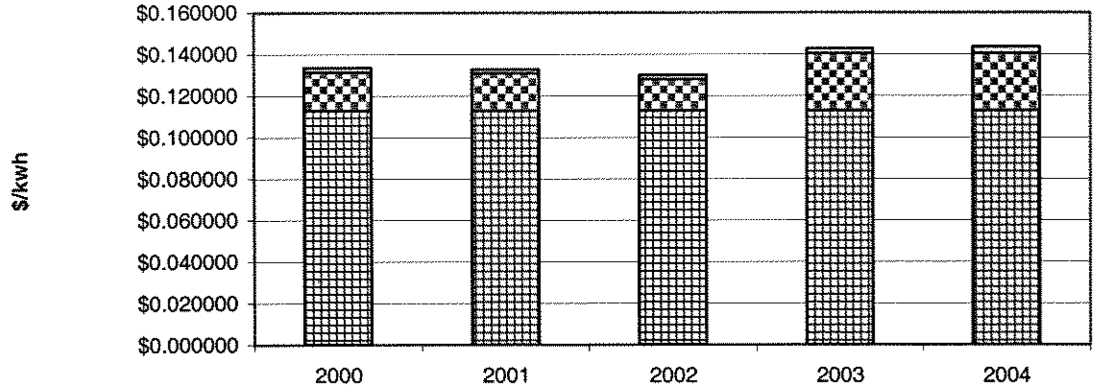
Generally, base rates for most regulated utilities have not changed over the past several years. However, variable components of rates such as energy rate adjustment factors, have changed the overall rates paid by utility customers.

1. ELECTRICITY RATES.

In Figures 33 to 38, the electricity rates consist of the base energy rate plus the energy rate adjustment clause ("ERAC") and other adjustments.[17] The total of the base energy rate and the ERAC is referred to herein as the "Effective Energy Rate."

[17]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 increases or decreases or both 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.

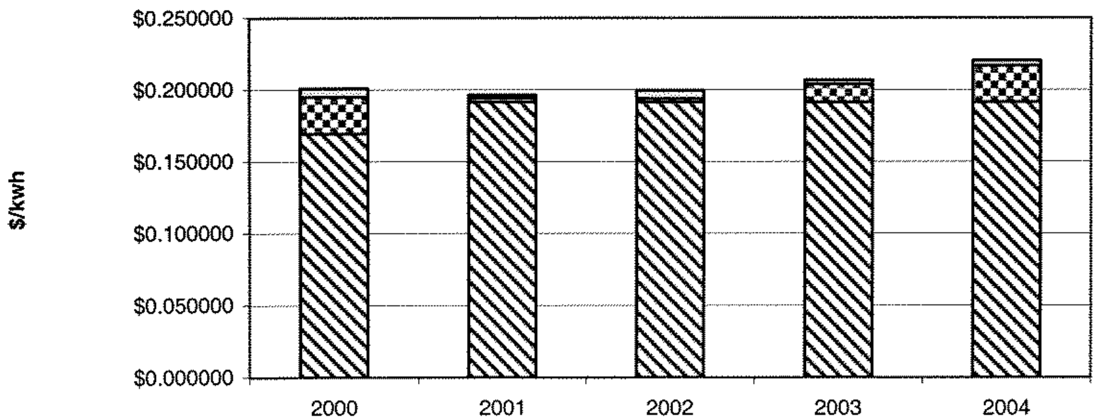
Figure 33
HECO Base Rates, ERAC, and Other Adjustments
2000 - 2004



	Jun-00	Jun-01	Jun-02	Jun-03	Jun-04
Other Adjustments	$0.002086	$0.001859	$0.002005	$0.002271	$0.003042
ERAC	$0.018460	$0.017880	$0.015060	$0.027340	$0.027500
Base Rates	$0.112954	$0.112954	$0.112954	$0.112954	$0.112954
Total	$0.133500	$0.132693	$0.130019	$0.142565	$0.143496

Year

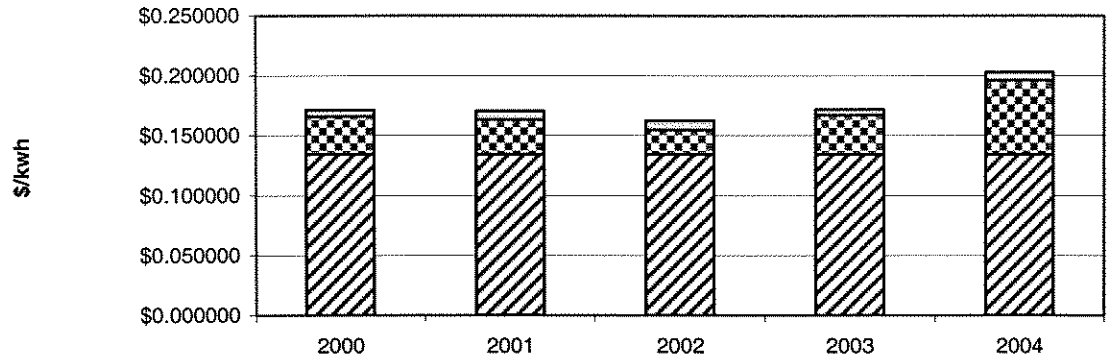
Figure 34
HELCO Base Rates, ERAC, and Other Adjustments
2000 - 2004



	Jun-00	Jun-01	Jun-02	Jun-03	Jun-04
Other Adjustments	$0.005833	$0.002251	$0.005658	$0.002726	$0.003418
ERAC	$0.025550	$0.002720	$0.002450	$0.012460	$0.025300
Base Rates	$0.169357	$0.191370	$0.191370	$0.191370	$0.191370
Total	$0.200740	$0.196341	$0.199478	$0.206556	$0.220088

Year

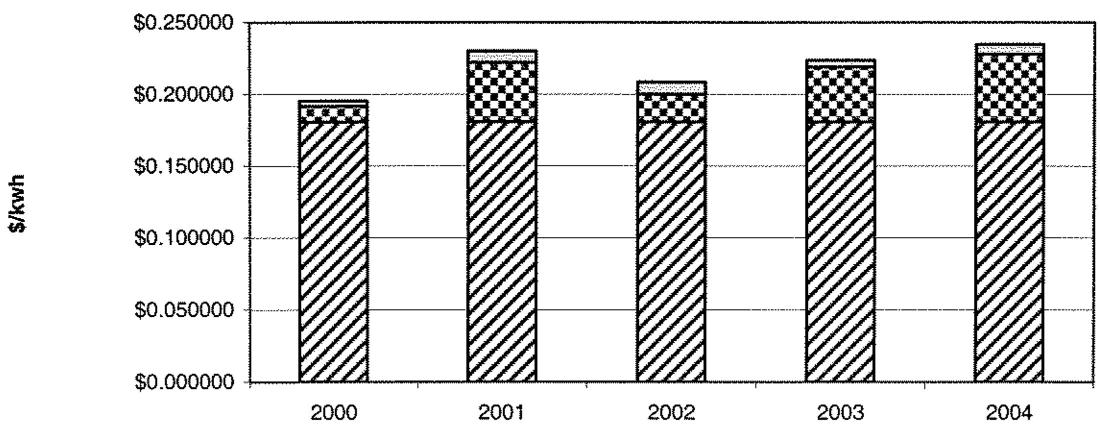
Figure 35
MECO - Maui Division Base Rates, ERAC, and Other Adjustments
2000 - 2004



	Jun-00	Jun-01	Jun-02	Jun-03	Jun-04
Other Adjustments	$0.005263	$0.007662	$0.007689	$0.004636	$0.006737
ERAC	$0.031930	$0.028870	$0.020500	$0.033090	$0.062130
Base Rates	$0.134231	$0.134231	$0.134231	$0.134231	$0.134231
Total	$0.171424	$0.170763	$0.162420	$0.171957	$0.203098

Year

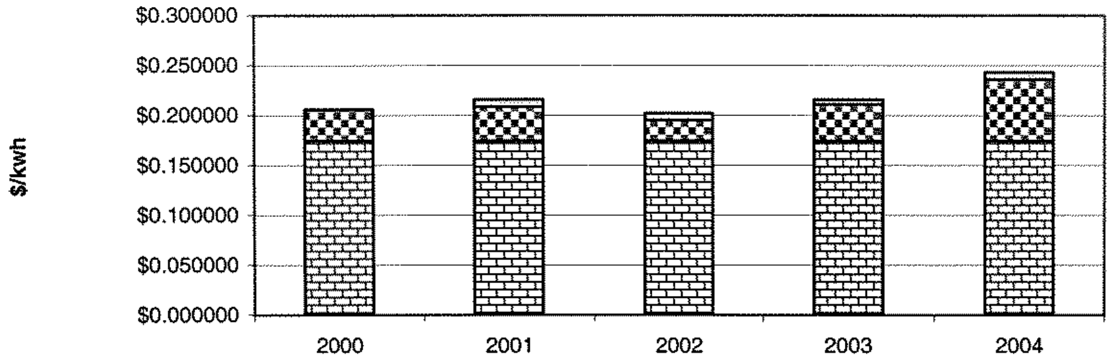
Figure 36
MECO - Lanai Division Base Rates, ERAC, and Other Adjustments
2000 - 2004



	Jun-00	Jun-01	Jun-02	Jun-03	Jun-04
Other Adjustments	$0.003785	$0.008113	$0.008372	$0.004803	$0.006889
ERAC	$0.010770	$0.041320	$0.019390	$0.038190	$0.047100
Base Rates	$0.180648	$0.180648	$0.180648	$0.180648	$0.180648
Total	$0.195203	$0.230081	$0.208410	$0.223641	$0.234637

Year

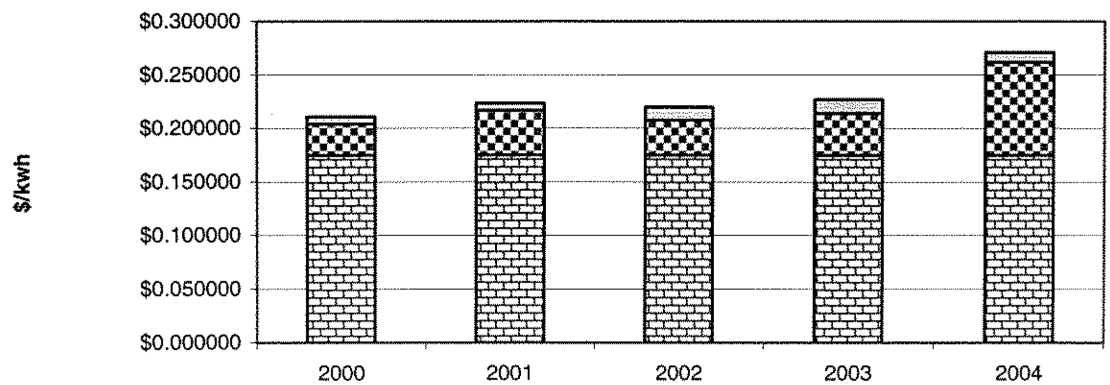
Figure 37
MECO - Molokai Division Base Rates, ERAC, and Other Adjustments
2000 - 2004



	Jun-00	Jun-01	Jun-02	Jun-03	Jun-04
Other Adjustments	$0.000174	$0.007333	$0.007610	$0.004740	$0.006832
ERAC	$0.031530	$0.034390	$0.020410	$0.036830	$0.061900
Base Rates	$0.174383	$0.174383	$0.174383	$0.174383	$0.174383
Total	$0.206087	$0.216106	$0.202403	$0.215953	$0.243115

Year

Figure 38
KIUC/KE Base Rate, ERAC, and Other Adjustments
2000 - 2004

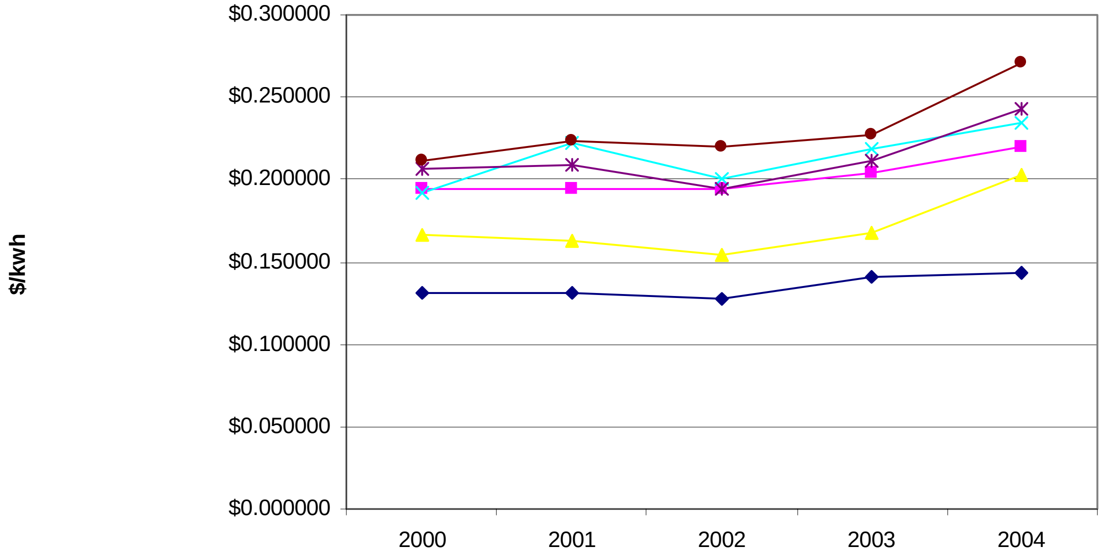


	Jun-00	Jun-01	Jun-02	Jun-03	Jun-04
Other Adjustments	$0.007008	$0.006588	$0.012240	$0.012967	$0.009156
ERAC	$0.028942	$0.041702	$0.032480	$0.038933	$0.086903
Base Rates	$0.174890	$0.174890	$0.174890	$0.174890	$0.174890
Total	$0.210840	$0.223180	$0.219610	$0.226790	$0.270949

Year

Figure 39 compares Effective Energy Rates (combined base rate and ERAC) for residential electricity customers across the State.

Figure 39
Five Year Comparison of Effective Residential Rates

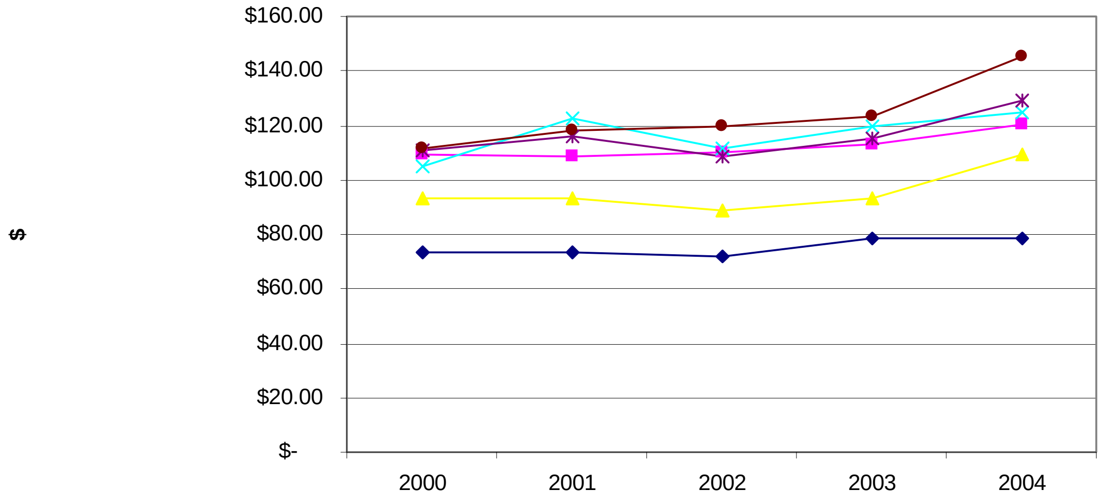


	Jun-00	Jun-01	Jun-02	Jun-03	Jun-04
HECO	$0.131414	$0.130834	$0.128014	$0.140294	$0.143496
HELCO	$0.194907	$0.194090	$0.193820	$0.203830	$0.220088
MECO - Maui Division	$0.166161	$0.163101	$0.154731	$0.167321	$0.203098
MECO - Lanai Division	$0.191418	$0.221968	$0.200038	$0.218838	$0.234637
MECO - Molokai Division	$0.205913	$0.208773	$0.194793	$0.211213	$0.243115
KIUC/KE	$0.210840	$0.223180	$0.219610	$0.226790	$0.270949

Year

Figure 40 compares monthly residential ***bills*** across the State over the past five years, assuming 500kwh is used by the customer during the month.[18]

Figure 40
Five Year Comparison of Average Monthly Residential Electric Bill Based on 500 kwh



	Jun-00	Jun-01	Jun-02	Jun-03	Jun-04
HECO	$73.75	$73.39	$72.02	$78.29	$78.77
HELCO	$109.40	$108.29	$109.90	$113.28	$120.05
MECO - Maui Division	$93.22	$93.04	$88.87	$93.50	$109.06
MECO - Lanai Division	$105.10	$122.66	$111.85	$119.33	$124.83
MECO - Molokai Division	$110.56	$115.67	$108.83	$115.50	$129.08
KIUC/KE	$111.64	$118.01	$119.53	$123.12	$145.20

Year

2. TELECOMMUNICATION RATES.

Verizon Hawaii's basic rates have remained unchanged over the past several years.[19] The following table shows amounts by islands that customers have been paying since 1997 for residential service.

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[18]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).

[19]In fact, the current rates have been in effect since 1995. However, since 1997, with the approval of the Commission, Verizon Hawaii has assessed an 11.23 percent surcharge on most intrastate services, including basic services.

Island	Residential Service (1997 – Present)[20]
Oahu	$16.02
Hawaii	$14.57
Maui	$13.90
Kauai	$13.90
Molokai	$12.07
Lanai	$11.01

X. UTILITY COMPANY PERFORMANCE.

A. ELECTRIC UTILITIES EFFICIENCY AND SERVICE QUALITY.

1. HECO 2003 SERVICE QUALITY – NORMALIZED RESULTS.

The following HECO electric utility service quality report was based on or excerpted directly from the 2003 Service Reliability Report submitted to the Commission by HECO. The report covers the 2003 calendar year ("2003"). A complete copy is available for review at the Commission's office and will be made available on the Commission's website.

The average number of electric customers increased from 281,922 in 2002 to 284,460 in 2003 (a 0.9% increase). A new peak demand was set on the evening of October 27, 2003 for the system at 1,284 MW, the highest system peak demand since the evening of October 3, 2002, at 1,250 MW.

Indices measure reliability in terms of the overall availability of electrical service (ASA), the frequency or number of times HECO's 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 HECO'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 HECO's total customer base (in this case 284,460 customers).

To determine the relative level of reliability, the statistics for four prior years, 1999 through 2002, are used for comparison.

The reliability indices are calculated using the data from all sustained system outages except customer maintenance outages. If data normalization is required, it is done using the guidelines specified in the report on reliability that are prepared for the 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,

[20]The figures listed include an approved 11.23 percent intrastate surcharge. Charges, other surcharges and taxes not reflected in the amounts include touch tone service charge, PUC service fee, telecommunications relay services surcharge, and statewide enhanced 911 service surcharge, and federal taxes and surcharges, such as interstate subscriber line charge, federal excise tax, service provider number portability fee, and federal universal service fee.

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.

The annual service reliability for 2003 was the second lowest in the past 5 years in terms of ASA. The reliability results for 2003 and four prior years are shown in the table of "Electricity Annual Service Reliability Indices".

Electricity Annual Service Reliability Indices

	1999	2000	2001	2002*	2003
Number of Customers	274,017	276,447	279,534	281,922	284,460
Customer Interruptions	338,716	349,683	492,309	325,332	469,372
Customer-Hours Interrupted	340,530	408,909	553,544	359,810	450,530
ASA (Percent)	99.986	99.983	99.977	99.985	99.982
SAIF (Occurrences)	1.236	1.265	1.761	1.154	1.650
CAID (Minutes)	60.32	70.16	67.46	66.36	57.59
SAID (Minutes)	74.56	88.75	118.81	76.58	95.03

*Note: 2002 Data normalized to exclude 12/19/02 AES Load Shedding outage

Figure 41
HECO Average Service Availability (ASA)
(Higher is better)

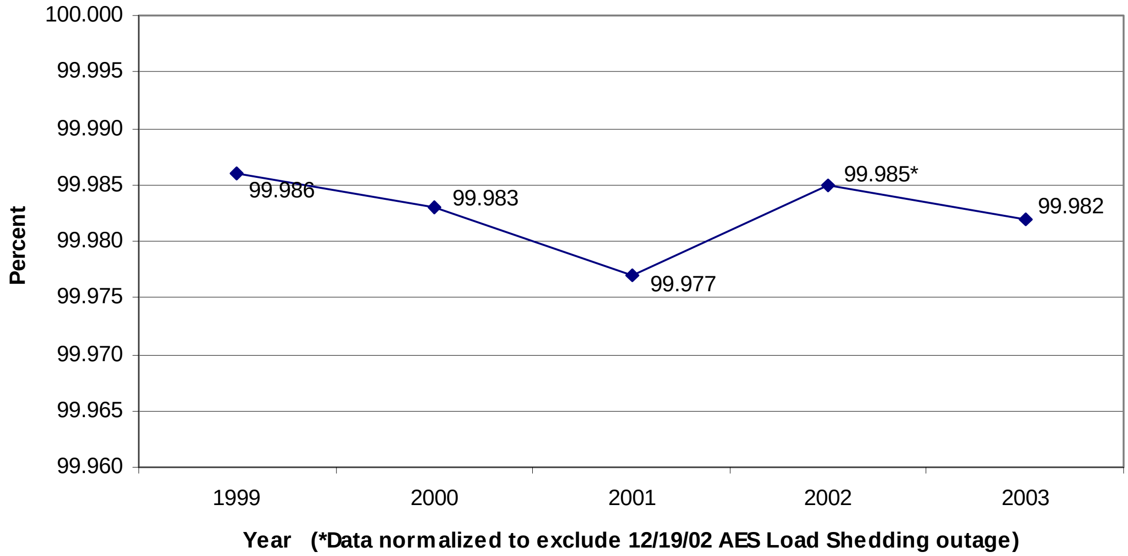


Figure 41 shows that the 2003 ASA index has decreased from 2002 results of 99.985 to 99.982 during 2003. Approximately 144,000 more customers experienced sustained service interruptions during 2003 compared to the previous year.

Figure 42
HECO System Average Interruption Frequency (SAIF)
(Lower is better)

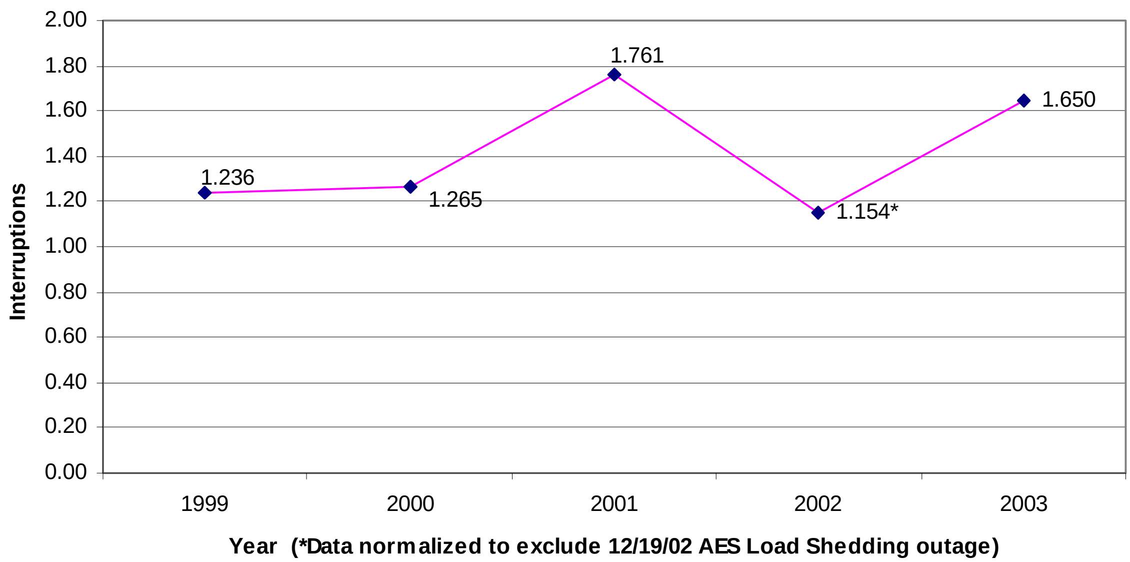


Figure 42 shows the SAIF indices for the past five years. It shows that in 2003 the SAIF was the second highest in the past five years at 1.65, or slightly lower than two outages per customer for the year. Compared to past history, the 2003 SAIF of 1.65 was slightly below the 10 year SAIF average of 1.67.

An increase in winter weather outages contributed to a higher SAIF for 2003. The four major weather related categories - High Winds, Trees or Branches[21], Lightning and Unknown Failures - affected a total of 72,242 customers during 2003 compared to a total of 48,529 customers during 2002, an increase of 49%. However, improvements were noted in the areas of IPP Equipment Failure, Rot or Termite Failure, and Fault Equipment Failure over 2002 SAIF results.

Two sustained interruptions affected 10,000 or more customers during 2003. Approximately 36,300 customers were affected by these top two interruptions for 2003, contributing 0.13 to the SAIF. Of the two sustained interruptions, one occurred on the sub-transmission system while tied to the adjacent line for emergency maintenance work, and the second occurred on the sub-transmission system while performing routine switching in the Mililani area on January 27, 2003.

[21]A vegetation management program has also helped to reduce tree-related outages.

Figure 43
HECO Customer Average Interruption Duration (CAID)
(Lower is better)

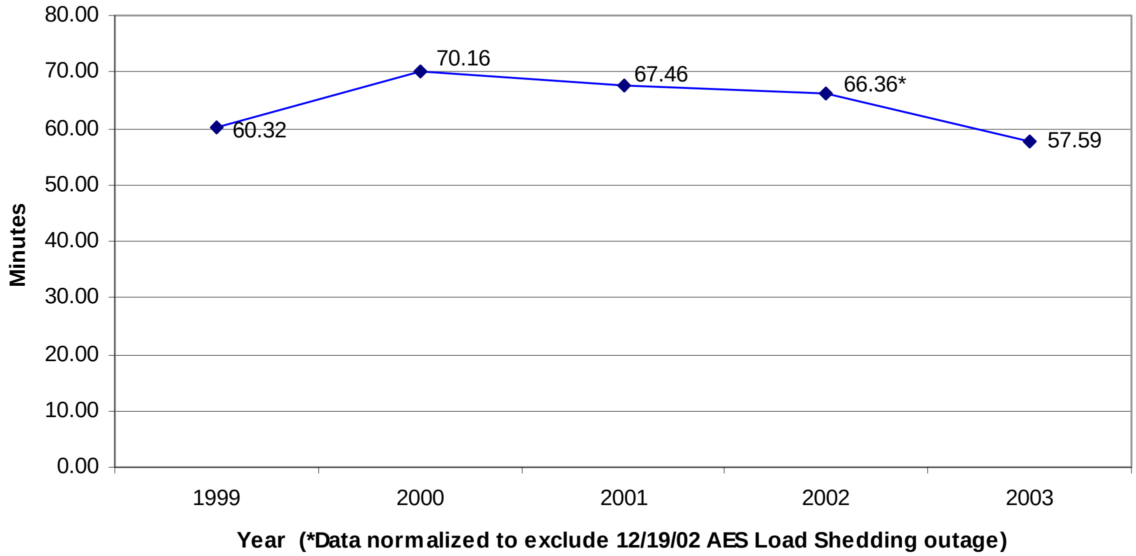


Figure 43 shows the CAID for 2003 ranked the best in the past 5 years in minimizing the time a customer was out of service. Improvements in response times were noted for Cable Failures (1 minute), Equipment Deterioration (30 minutes) and Forced Maintenance (29 minutes) over the 2002 results.

The CAID for 2003 was 57.59 minutes. Within the last five years, 2003 had the shortest CAID with an improvement of nearly 9 minutes over 2002 results.

Figure 44
HECO System Average Interruption Duration (SAID)
(Lower is better)

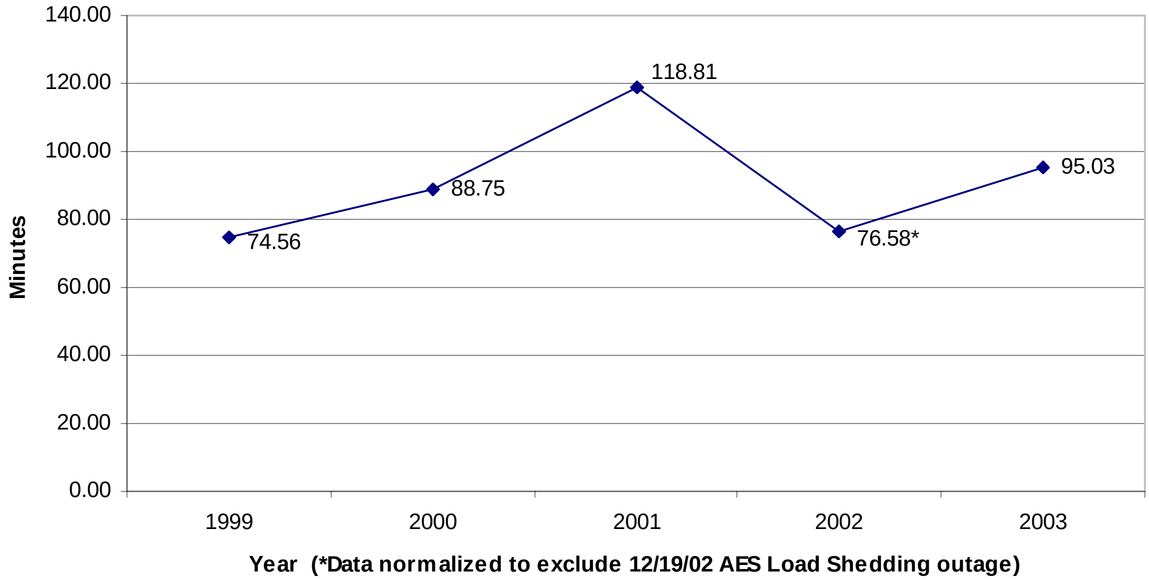


Figure 44 shows the SAID indices for the past five years. It shows that the 2003 SAID of 95.03 minutes was the second highest during the last five years. The SAID is the composite of both the SAIF and CAID indices and produces a broader benchmark of system reliability by combining both the duration and the number of customer interruptions during a given period of time.

2. MECO 2003 SERVICE QUALITY – UNNORMALIZED RESULTS.

The following MECO electric utility service quality discussion is based on or excerpted directly from the MECO Annual Service Reliability Report 2003 submitted to the Commission by MECO. The report covers the 2003 calendar year. A complete copy is available for review at the Commission's office and will be made available on the Commission's website.

The average number of electric customers increased from 59,410 in 2002 to 60,651 in 2003 (a 2.09% increase). The peak 2003 demand for the system was 202.0 MW (gross) that occurred on December 30, 2003. This peak 2003 demand is now the highest peak demand for the system, increasing from 193.9 MW (gross) on August 13, 2002 (a 4.18% increase).

To determine the relative level of reliability, the statistics for four prior years, 1999 through 2002 are used for comparison.

The reliability indices are calculated using the data from all system outages except customer maintenance outages. MECO has not normalized any data for 1999, 2000, 2001, 2002, and 2003. Normalizing of data would be in accordance with the guidelines specified in the HECO Reliability Indices Report.

Graphs of the ASA (Figure 45), SAIF (Figure 46), CAID (Figure 47), and SAID (Figure 48) for the five years are included below.

The MECO 2003 service reliability results (unnormalized) indicate that MECO had a similar year to 2001 with a decrease in CAID of 20.49%.

The ASA index of 99.9908% is ranked fourth best for the last five years.

The SAIF index of 0.749 is ranked fifth best for the last five years.

The CAID index of 64.12 minutes is ranked second best for the last five years. Traffic congestion continues to be a big contributor in keeping this index high.

The SAID index of 48.05 minutes is ranked fourth best for the last five years.

Tree related outages accounted for 6.56% of the total of all outages for 2003. This remains relatively unchanged from 2002 due to a tree trimming program which continues to have the support and joint effort of county government and private landowners.

Weather related outages accounted for 11.33% of the total of all outages for 2003, with high wind related causes affecting 6,332 customers. The most significant incident occurred during a period of heavy rain, on February 20, 2003 at 0205 hrs., when a 23KV conductor fell and burnt through the spar on H-Frame structure E-82, near Kailua Substation. The weather and terrain hindered repairs and affected approximately 900 customers, from 3 hours and 35 minutes to 14 hours and 38 minutes from Huelo to Hana. The Hana Generators were utilized to restore service to the customers from 3 hours and 35 minutes to 10 hours and 20 minutes.

The unnormalized reliability results for 1999, 2000, 2001, 2002, and 2003 are shown in the “MECO Table of Annual Service Reliability Indices”. Figures 45 to 48 contain the data discussed above in graphical form.

MECO Table of Annual Service

Reliability Indices

	1999	2000	2001	2002	2003
Number of Customers	55,786	57,000	58,308	59,410	60,651
Customer Hrs. Interrupted	38,894	38,288	50,665	29,201	48,567
Customer-Interruptions	26,936	27,987	37,691	34,388	45,446
ASA (Percent)	99.9920	99.9929	99.9901	99.9943	99.9908
SAIF (Occurrence)	0.483	0.491	0.646	0.579	0.749
CAID (Minutes)	86.64	75.65	80.65	50.95	64.12
SAID (Minutes)	41.83	37.15	52.14	29.49	48.05

Figure 45
MECO Average Service Availability (ASA)
(Higher is better)

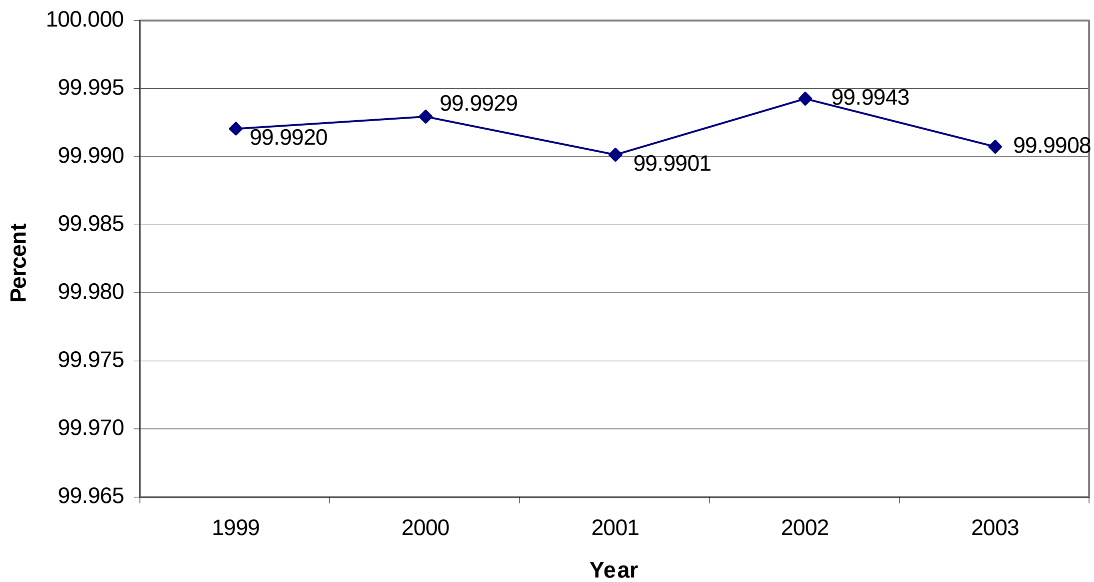


Figure 46
MECO System Average Interruption Frequency (SAIF)
(Lower is better)

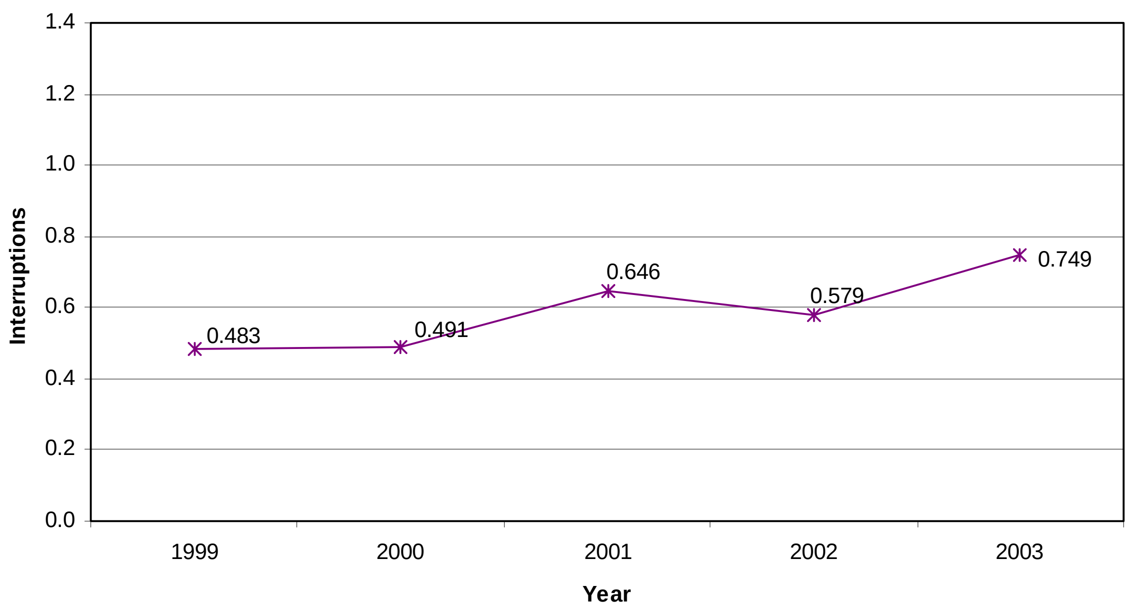


Figure 47
MECO Customer Average Interruption Duration (CAID)
(Lower is better)

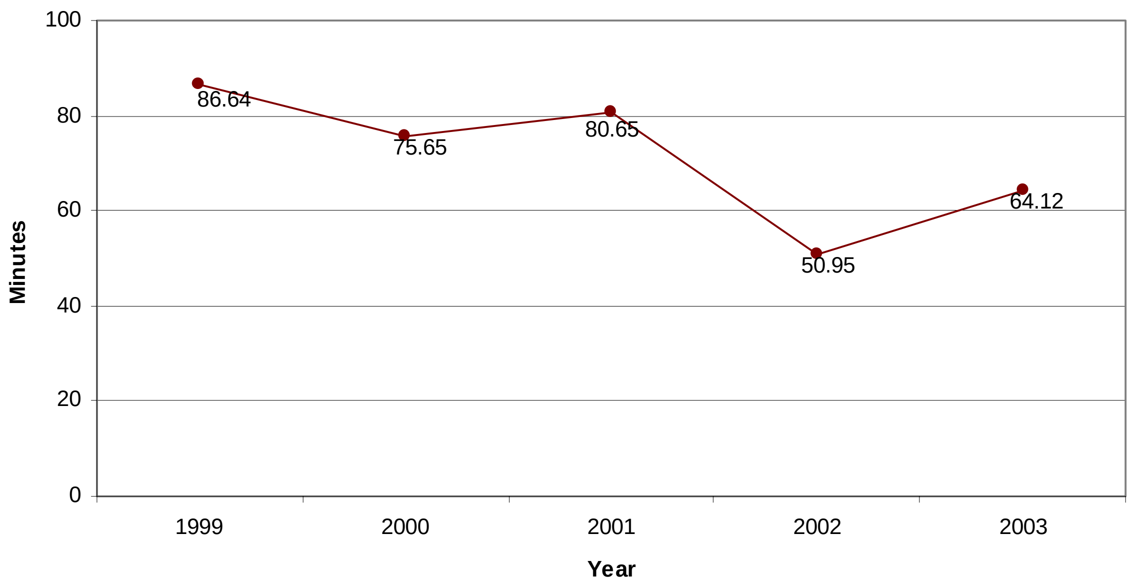
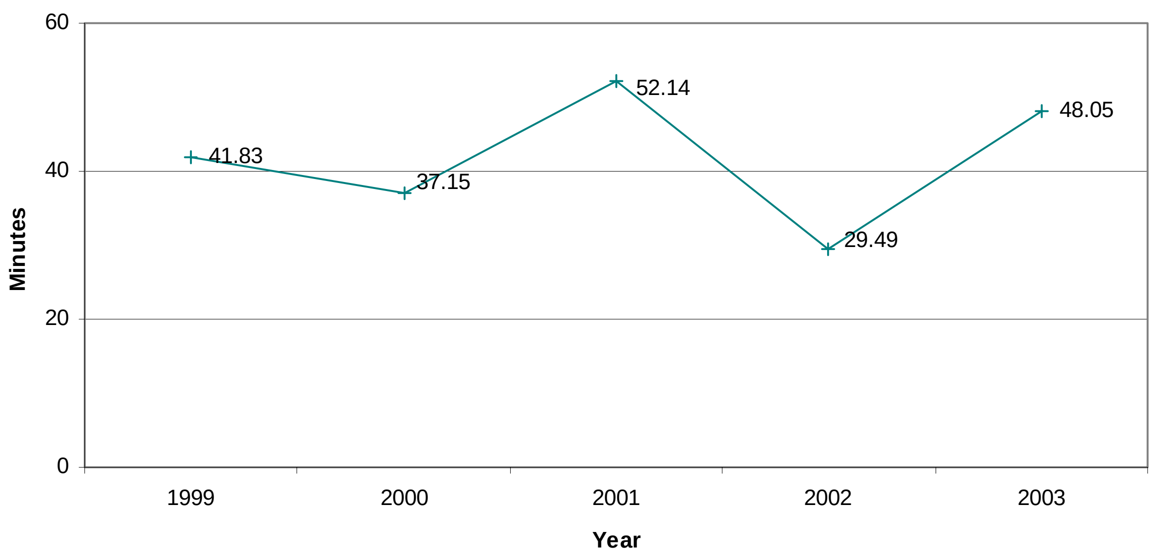


Figure 48
MECO System Average Interruption Duration (SAID)
(Lower is better)



3. HELCO 2003 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 2003 submitted to the Commission by HELCO. The report covers the 2003 calendar year. A complete copy is available for review at the Commission's office and will be made available on the Commission's website.

The reliability indices are calculated using the data from all system outages with the exception of customer maintenance outages.

Guidelines for normalizing data were specified in Determining Reliability Indices Report prepared for the Commission. HELCO has normalized data for 2003 as follows:

> On the morning of July 21, Hamakua Energy Partners ("HEP") generator tripped off-line unexpectedly. HEP's trip resulted in the loss of 28.5 MW making it necessary to disconnect customers to maintain system stability. The incident affected service to 24,500 customers and accounted for 2,998 customer interruption hours.
>
> As Hurricane Jimena approached the Big Island, various areas around the island experienced power interruptions on the evening of Sunday, August 31 and continued throughout Monday, September 1. The incident affected service to 2,930 customers and accounted for 22,346 customer interruption hours.
>
> On the morning of September 6, a mylar balloon contacted a 69,000 volt transmission line on Kawaihae Road, South Kohala. As a result two 69,000 volt transmission lines tripped open and HELCO's Combustion Turbine #2 in Keahole, Kona and Hill Plant #6 generators in Hilo tripped off-line making it necessary to disconnect customers to maintain system stability. The incident affected service to 16,659 customers and accounted for 4,652 customer interruption hours.
>
> On the morning of December 2, HELCO's Hill 6 Steam Generator suddenly disconnected from the power grid, resulting in the loss of 14 MW. A short time later, half of HEP output of 30 MW suddenly disconnected from the system making it necessary to disconnect customers to maintain system stability. The incident affected service to 30,965 customers and accounted for 14,485 customer interruption hours.

Statistics for 2003 are compared to the five prior years, 1998 through 2002, to determine the relative level of HELCO system reliability. Graphs of the ASA (Figure 49), SAIF (Figure 50), and CAID (Figure 51) for the six years are included below.

In 2003, generation related power interruptions, storms and automobile accidents made significant impacts to HELCO System Reliability. There were a total of 289,027 customer interruptions in 2003 of which 110,669 were related to generation causes. Of the 110,669 customer interruptions related to generation causes, Independent Power Producer generators caused 73,007 customer interruptions and HELCO generators caused 37,662 customer interruptions. In 2003, all of the customer interruptions related to generation were load-shedding events after a sudden trip of a generator unit. There were no events of rolling blackouts or generation shortfalls. HEP continued to experience problems with their units suddenly tripping off-line and prompting automatic load shedding. In 2003, all of the 73,007 Independent Power Producers related customer interruptions were due to HEP units tripping. HELCO's own combustion turbine units CT-2 and CT-3, and Steam Plants Hill 5, Hill 6 and Puna also experienced sudden unit trips that resulted in load shedding events.

Other significant causes of power interruptions were trees and branches, which caused 25,422 customer interruptions, High Wind, which caused 21,472 customer interruptions and automobile accidents, which caused 20,561 customer interruptions. Stormy weather conditions on January 15, February 21, September 1, and December 30, 2003 were a major factor in the number of interruptions related to trees and branches and high winds. During those storms there were numerous instances of high winds breaking pole line hardware and trees falling across power lines affecting 20,087 customers.

There is a noted increase in the number of customer interruptions related to automobile accidents. There were 20,561 customer interruptions related to automobile accidents in 2003, 12,745 in 2002 and 7,161 in 2001. As the number of motorists on the island grows this trend of increasing number of power interruptions related to automobile accidents could continue.

There were a total of 251,280 hours of customer interruption in 2003. With respect to hours of customer interruption, the leading cause was automobile accidents, which accounted for 41,540 hours of customer interruption. The second leading cause was trees and branches, which accounted for 38,795 hours of customer interruption. Generation related interruptions was the third, causing 37,751 hours of customer interruption and the fourth leading cause was high wind, which accounted for 27,923 customer hours of interruption.

In 2003, on an unnormalized basis, the SAIF index was 4.258, of which 1.63 was related to Generation and 2.627 was related to Transmission and Distribution causes. The SAIF of 4.258 was the fourth highest in the last six years. The 1.63 for SAIF related to generation causes was the third highest in the last six years. The 2.627 for SAIF related to Transmission and Distribution was the third highest in the last six years. On a normalized basis the SAIF index was 3.151, which was the third highest in the last six years.

In 2003, on an unnormalized basis, the CAID index was 52.16 minutes which was ranked the second highest in the last six years. The CAID index for power interruptions related to generation causes was 33.37 minutes which is the highest in the last six years. The CAID index for power interruptions related to Transmission and Distribution causes was 71.74 minutes which was the highest in the last six years. On a normalized basis, the CAID index was 63.24 minutes, which is the highest in the last six years.

Figure 49
HELCO Average Service Availability (ASA)
(Higher is better)

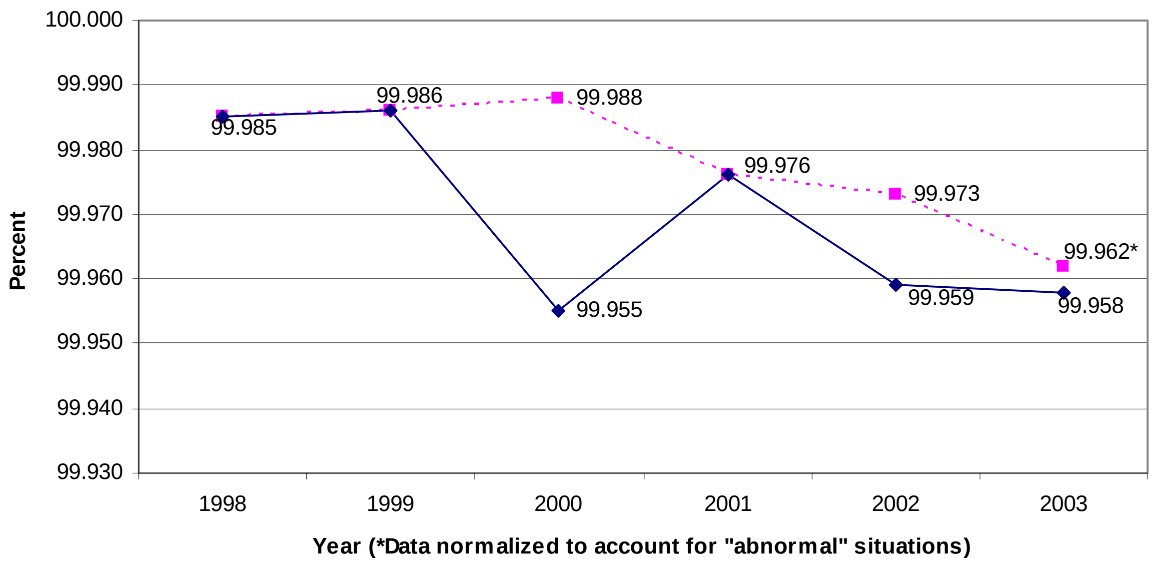


Figure 50
HELCO System Average Interruption Frequency (SAIF)
(Lower is better)

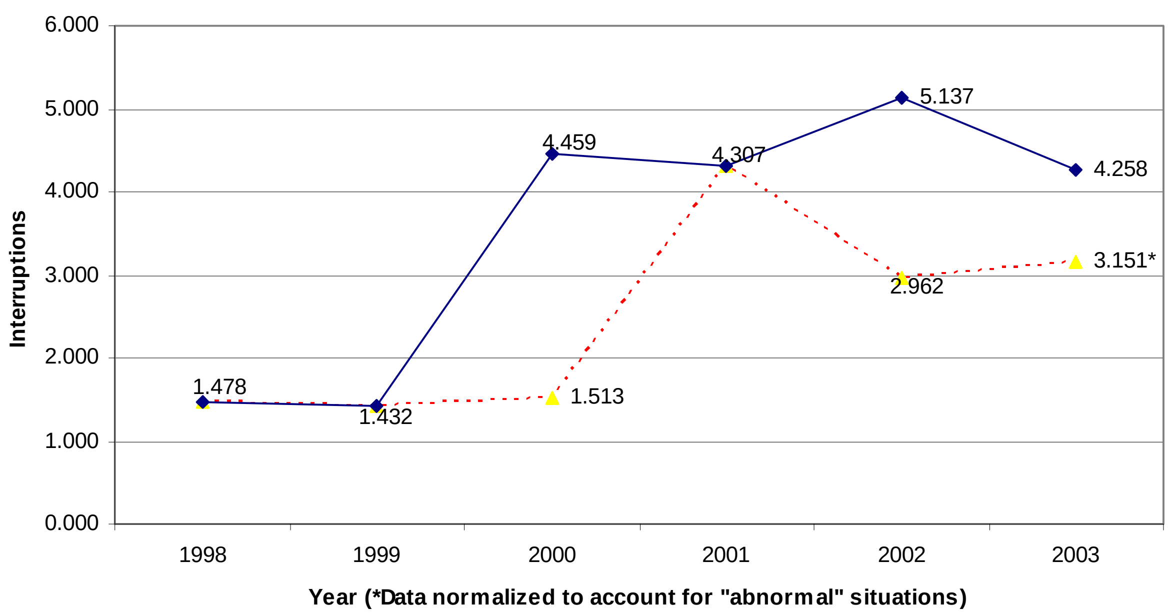
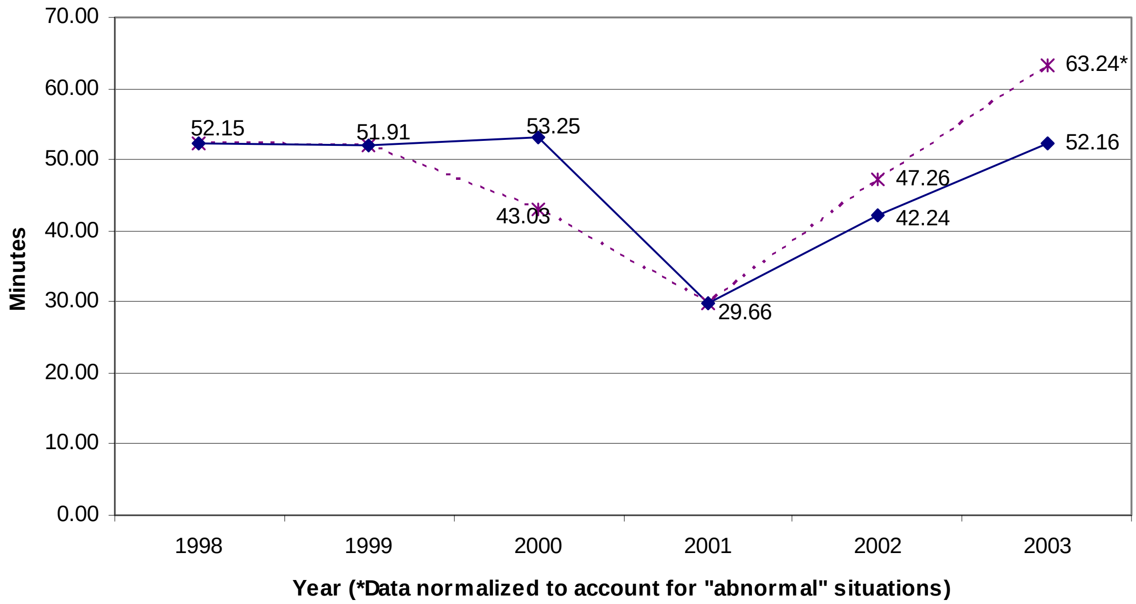


Figure 51
HELCO Customer Average Interruption Duration (CAID)
(Lower is better)



The normalized and unormalized reliability results for 1998 to 2003 are shown below in the "HELCO Table of Annual Service Reliability Indices."

HELCO Table of Annual Service Reliability Indices

	1998	1999	2000	2001	2002	2003
Number of Customers	60,585	61,796	63,207	64,660	66,034	67,879
Normalized:*						
Customer Interruptions	89,564	88,461	95,604	278,507	195,614	213,873
Customer Hours Interrupted	77,846	76,532	68,562	137,659	154,063.8	225,439
ASA (Percent)	99.985	99.986	99.988	99.976	99.973	99.962
SAIF (Occurrence)	1.478	1.432	1.513	4.307	2.962	3.151
CAID (Minutes)	52.15	51.91	43.03	29.66	47.26	63.24
Not Normalized:						
Customer Interruptions	89,564	88,461	281,818	278,507	339,184	289,027
Customer Hours Interrupted	77,846	76,532	250,115	137,659	238,789.8	251,280
ASA (Percent)	99.985	99.986	99.955	99.976	99.959	99.958
SAIF (Occurrence)	1.478	1.432	4.459	4.307	5.137	4.258
CAID (Minutes)	52.15	51.91	53.25	29.66	42.24	52.16

*Note: Data normalized to account for "abnormal" situations.

4. KIUC 2003 SERVICE QUALITY – UNNORMALIZED RESULTS.

The KIUC electric utility service quality report was based on or excerpted directly from the Monthly Interruption Summary Report submitted to the Commission. The report covers the 2003 calendar year ("2003"). A complete copy is available for review at the Commission's office and will be made available on the Commission's website.

The average number of electric customers increased from 31,487 in 2002 to 32,069 in 2003 (a 1.85% increase). A new peak demand was set on the evening of October 23, 2003 for the system at 72.980 mWs, the highest system peak demand since the evening of November 26, 2002, at 71.380 mWs, or a 2.24% increase.

KIUC has not normalized any of its data for the period 1999 through 2003. The reliability indices are calculated using the data from all system interruptions except scheduled interruptions for maintenance.

Graphs of the ASA (Figure 52), SAIF (Figure 53), CAID (Figure 54), and SAID (Figure 55) for the five years are included below.

The KIUC 2003 service reliability results indicate that KIUC;s CAID results worsened by an increase of 54.80% between 2002 and 2003.

The ASA index of 99.9672% in 2003 is 1.92% lower than for 2002, and is the lowest in five years.

The SAIF index of 7.73 is ranked the highest for the reported five-year period.

The CAID index of 22.43 minutes is the highest in five years.

The SAID index of 713.42 minutes is the highest in five years.

Generation-related interruptions, including but not limited to KPP's, an independent power producer, start-up problems, were involved in approximately 41.9% of all interruptions in 2003 and contributed to 66.1% of total kW load lost. The KPP unit which was acquired by KIUC in 2004 appears to have resolved most of its problems and reliability has improved.

The unnormalized reliability results for 1999, 2000, 2001, 2002, and 2003 are shown in the table "KIUC Annual Service Reliability Indices." Figures 52 to 55 contain the data discussed above in graphical form.

KIUC Annual Service Reliability Indices

	1999	**2000**	**2001**	**2002**	**2003**
Number of Customers	29,918	30,503	30,965	31,487	32,069
Customer Interruptions	31	27	26	32	43
Customer Hours Interrupted	13,605	30,296	24,013	38,235	92,646
ASA (Per cent)	99.9948	99.9887	99.9911	99.9861	99.9672
SAIF (Occurrences)	2.80	3.43	2.61	5.03	7.73
CAID (Minutes)	9.72	17.36	17.86	14.49	22.43
SAID (Minutes)	27.23	59.54	46.62	72.89	173.42

Figure 52
KIUC Average Service Availability (ASA)
(Higher is better)

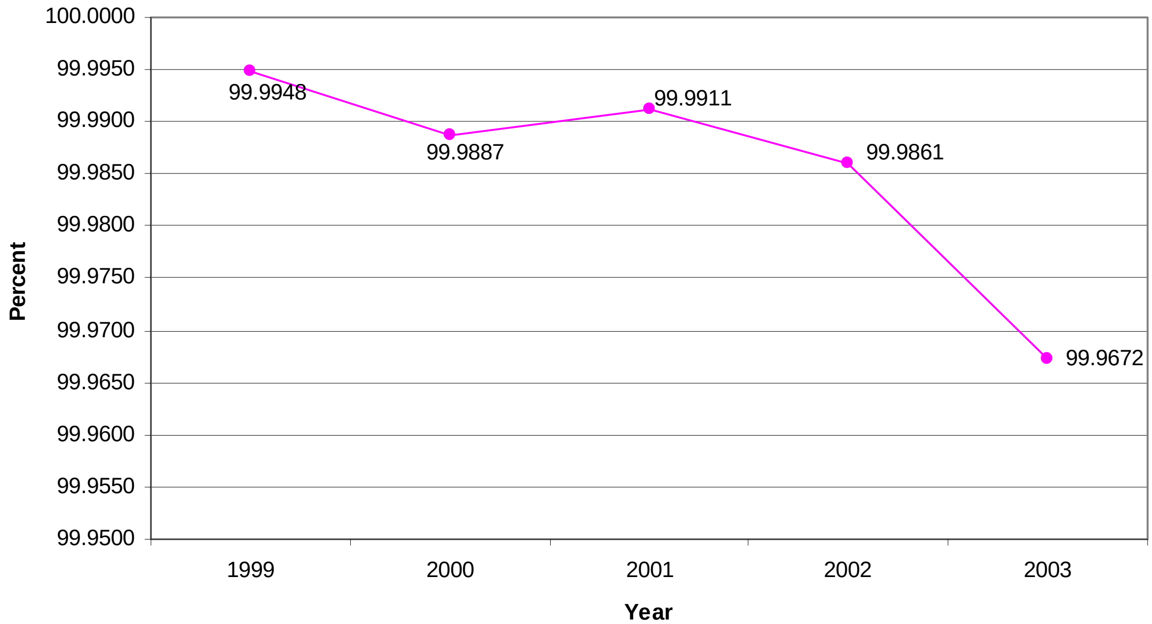


Figure 53
KIUC System Average Interruption Frequency (SAIF)
(Lower is better)

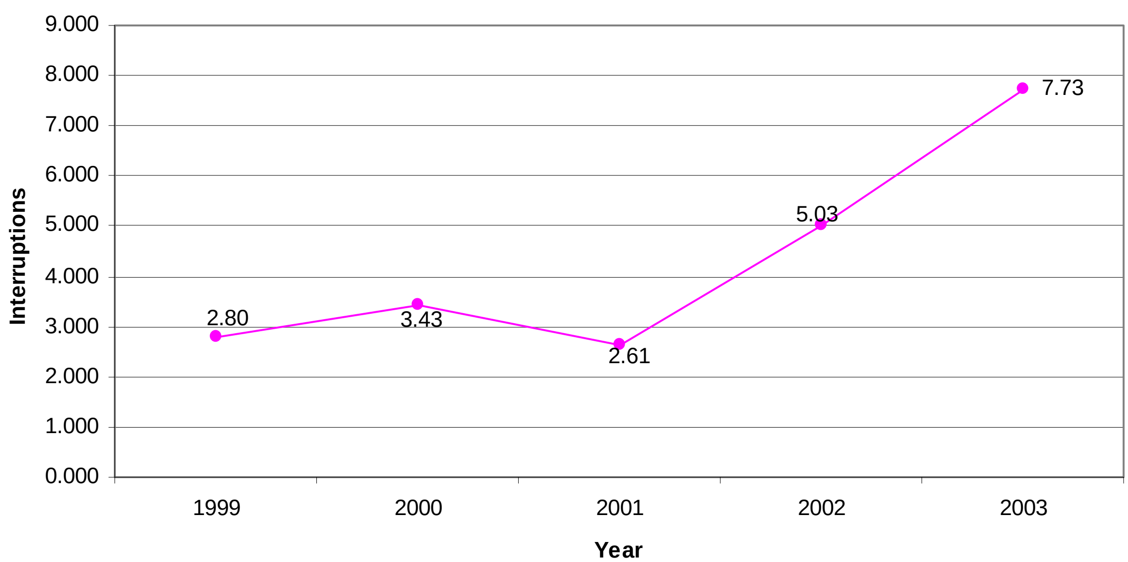


Figure 54
KIUC Customer Average Interruption Duration (CAID)
(Lower is better)

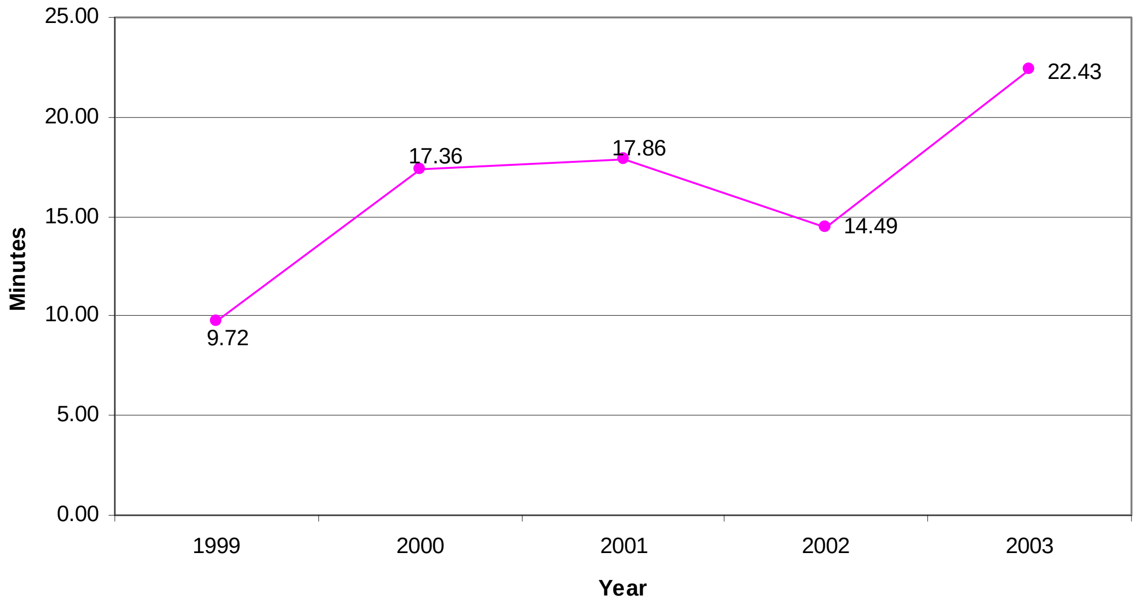
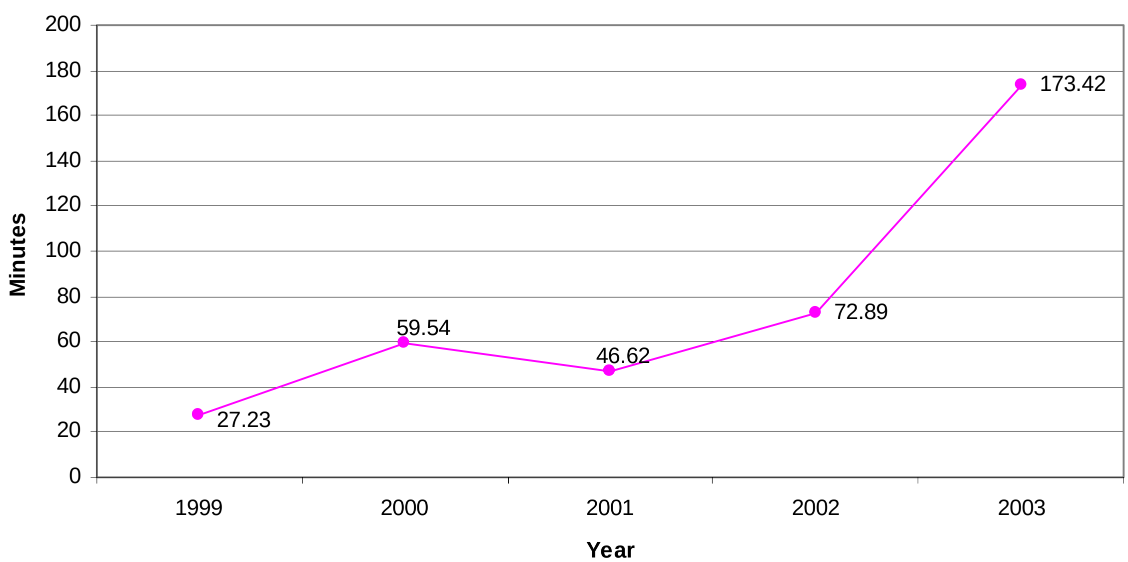


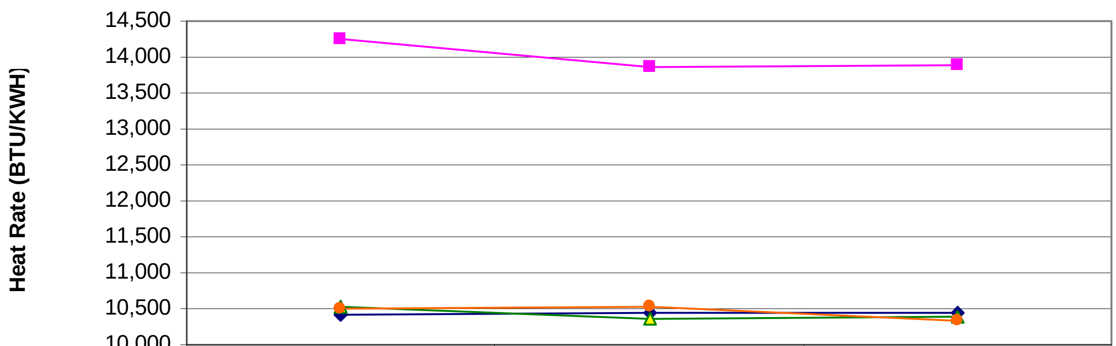
Figure 55
KIUC System Average Interruption Duration (SAID)
(Lower is better)



5. ELECTRIC UTILITIES GENERATING EFFICIENCY RESULTS.

The following provides the annual heat rate values for HECO, HELCO, MECO, and KIUC for the past three 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 56 shows the 2001, 2002 and 2003 heat rates for the electric utilities.

Figure 56
Electric Utility Heat Rates



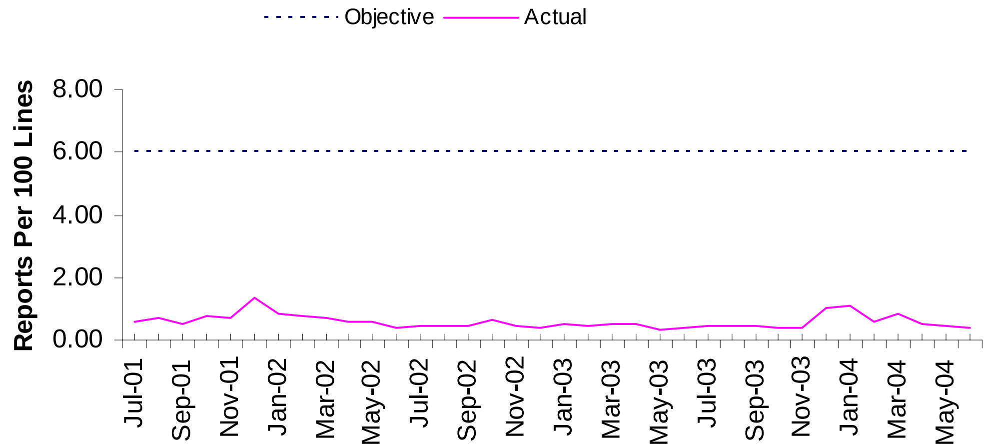
	2001	2002	2003
HECO	10,406	10,436	10,452
HELCO	14,250	13,861	13,881
MECO	10,538	10,367	10,400
KIUC	10,490	10,515	10,340

Year

B. TELECOMMUNICATIONS UTILITIES EFFICIENCY AND SERVICE QUALITY.

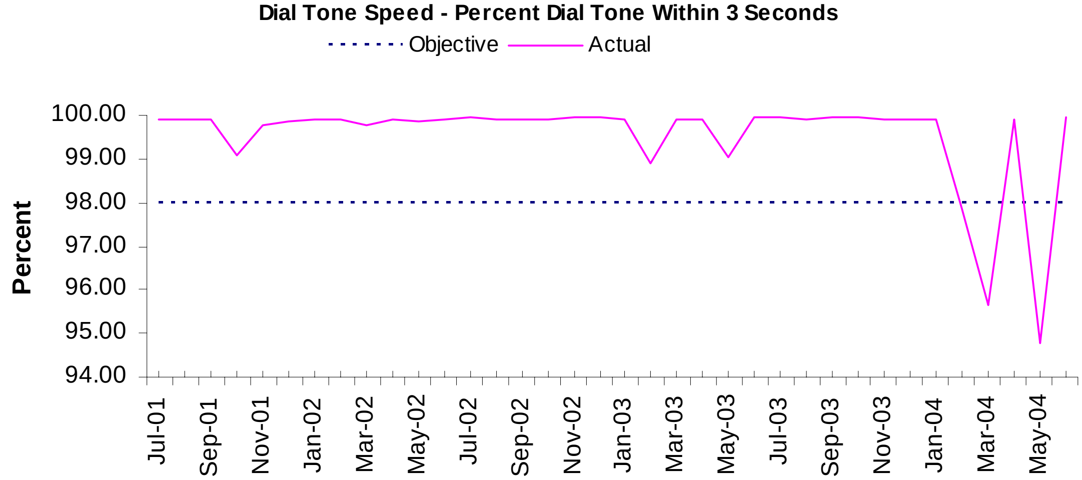
The following service quality data was provided by Verizon Hawaii in its monthly reports to the Commission as required under HAR Sections 6-80-92 through -98. Figures 57 to 68 shows Verizon Hawaii's service quality results for the last three years.

Figure 57
Total Customer Trouble Reports Per 100 Lines



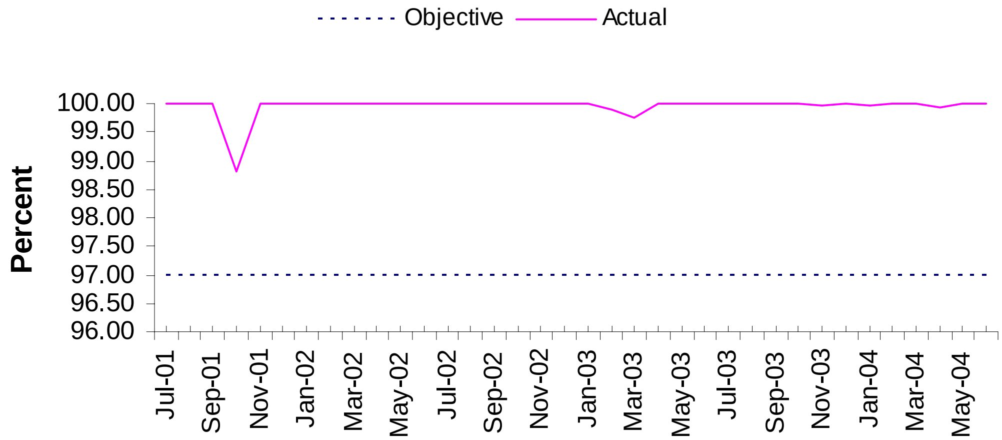
Total Customer Trouble Reports Per 100 Lines - This performance area measures customer network trouble reports per 100 access lines. It is calculated by taking the total customer network trouble reports divided by total access lines times 100. As shown in Figure 57, Verizon Hawaii has been able to meet the objective for this performance standard during the period reported.

Figure 58
Dial Tone Speed - Percent Dial Tone Within 3 Seconds



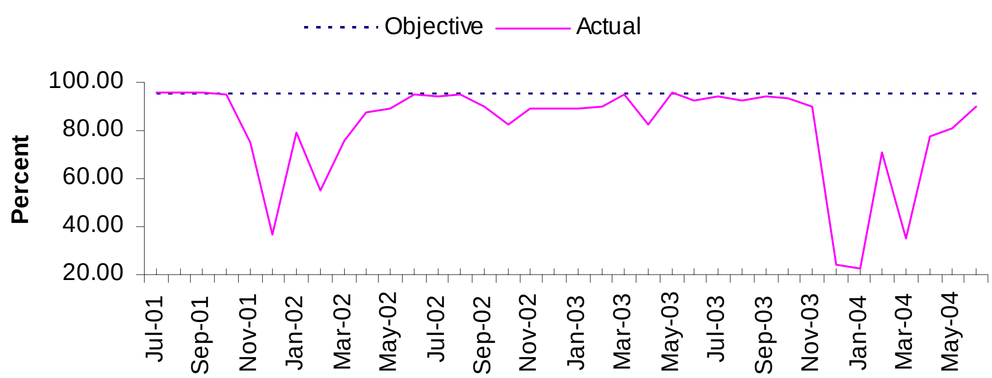
Dial Tone Speed - % Dial Tone Within 3 Seconds - This performance area measures the percentage of calls receiving dial tone within three (3) seconds. It is calculated by taking the number of calls in which dial tone was provided within three (3) seconds divided by the total number of calls times 100. Figure 58 shows Verizon Hawaii's performance for this standard during the period reported.

Figure 59
Dial Service Results - Percent Completion



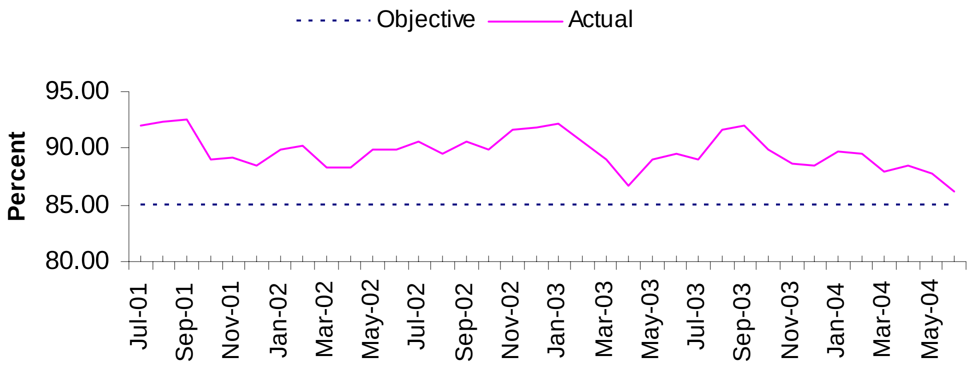
Dial Service Results - % Completion - This performance area measures call completion performance on interoffice trunk groups. It is calculated by taking the number of unblocked calls on interoffice trunk groups divided by the total number of attempts on interoffice trunk groups times 100. As shown in Figure 59, Verizon Hawaii has been able to meet its objective for this performance standard during the period reported.

Figure 60
Percent Out-of-Service Troubles Cleared in 24 Hours



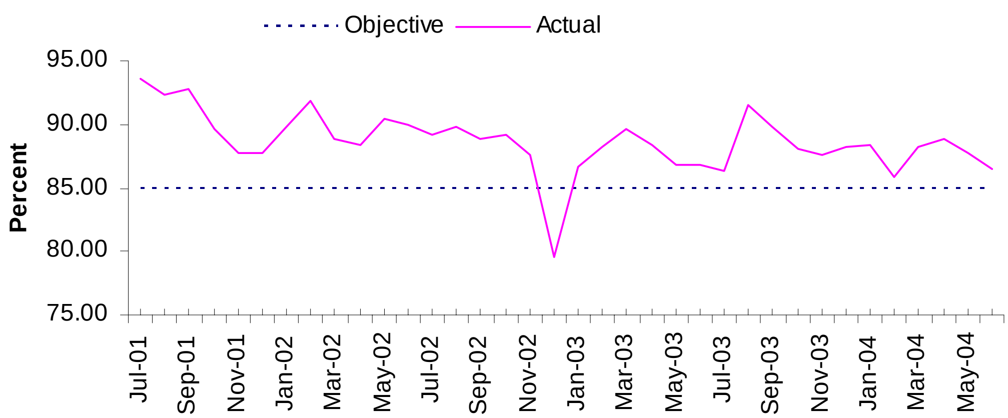
% OOS Trouble Cleared in 24 Hours - This performance area measures customer out-of-service ("OOS") network trouble reports cleared within 24 working hours. It is calculated by taking the total customer OOS network reports cleared within 24 working hours divided by the total customer OOS network trouble reports times 100. As shown in Figure 60, Verizon Hawaii had difficulty meeting this standard in the second half of the Fiscal Year.

Figure 61
Percent of Operator Toll Calls Answered Within 10 Seconds



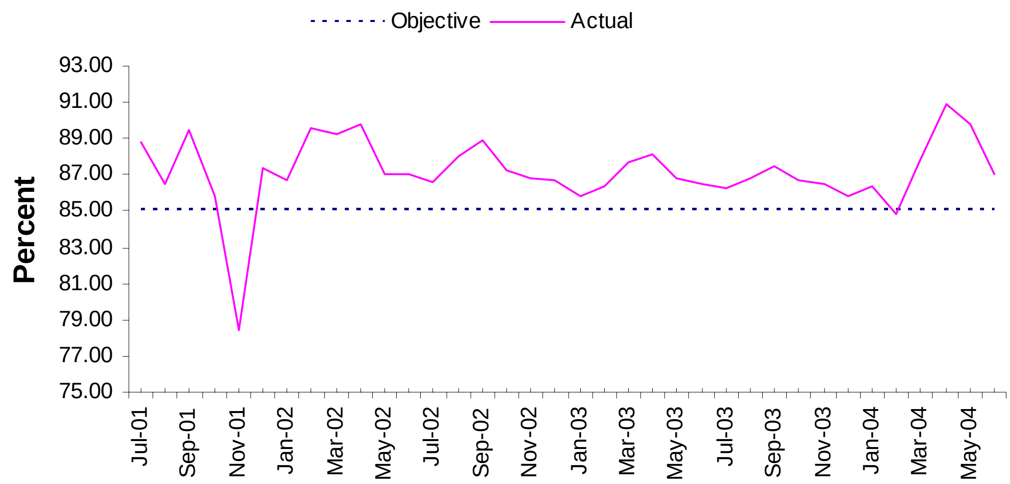
% Operator Toll Calls Answered Within 10 Seconds - This performance area measures the number of calls handled within ten (10) seconds divided by the total number of calls handled times 100 for calls to the toll operator. As shown in Figure 61, Verizon Hawaii has been able to meet the objective for this performance standard during the period reported.

Figure 62
Percent of Operator Directory AssistanceCalls
Answered Within 10 Seconds



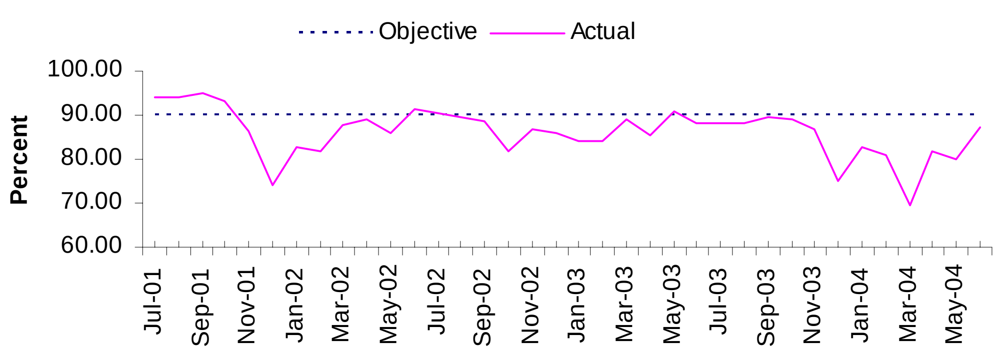
% Operator Directory Assistance Calls Answered Within 10 Seconds - This performance area measures the number of calls handled within ten (10) seconds divided by the total number of calls handled times 100 for calls to the directory assistance operator. As shown in Figure 62, except for a brief period in late 2002, Verizon Hawaii has been able to meet the objective for this performance standard during the period reported.

Figure 63
Percent of Repair Calls Answered Within 20 Seconds



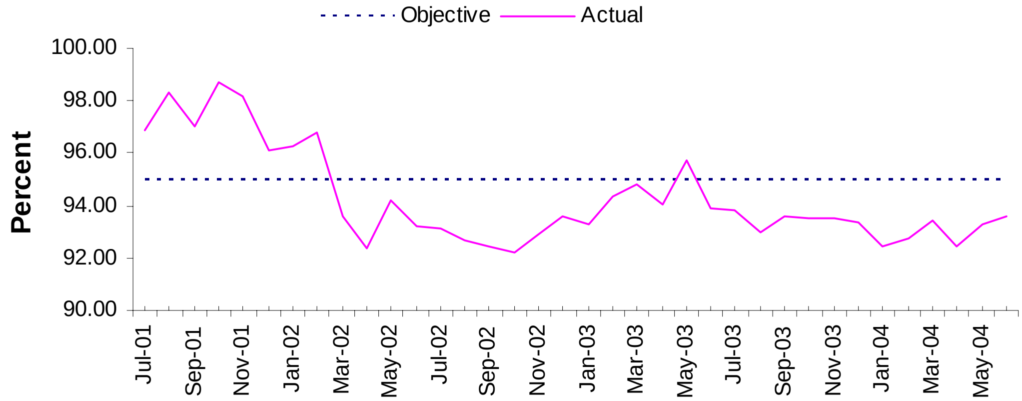
% Repair Calls Answered Within 20 Seconds - This performance area measures the number of calls answered within twenty (20) seconds divided by the total number of calls times 100 for calls to the repair answer center. As shown in Figure 63, except for a brief period in late 2001, Verizon Hawaii has been able to meet the objective for this performance standard during the period reported.

Figure 64
Percent Repair Commitments Met



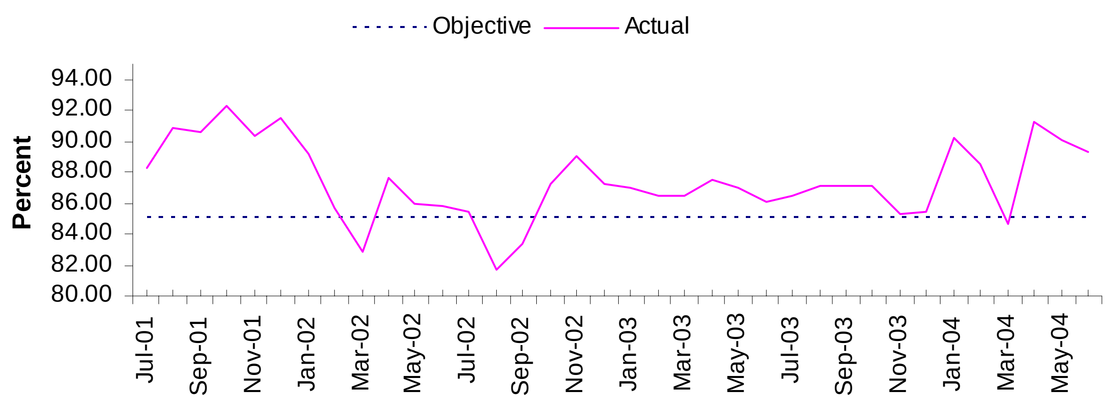
% Repair Commitments Met - This performance area measures the repair tickets completed by the committed due date. It is calculated by taking the total customer network trouble reports for which the commitments were met divided by total customer network troubles times 100. As shown in Figure 64, Verizon Hawaii has had difficulty attaining the targeted objective on a consistent basis.

Figure 65
Percent Installations Completed Within 3 Days



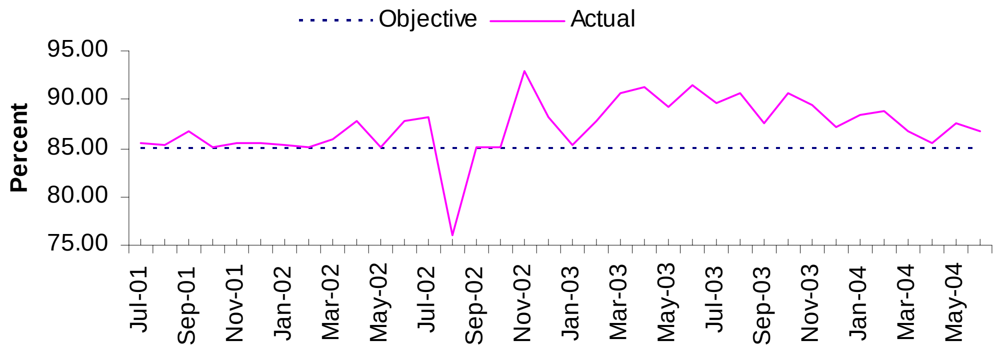
% Installations Completed Within 3 Days - This performance area measures the percent of basic orders completed within three (3) working days. It is calculated by taking the total installation ("I"), move ("M") and change ("C") basic orders completed within three (3) working days divided by the total number of I, M and C orders times 100. As shown in Figure 65, Verizon Hawaii showed improvement throughout the prior fiscal year, but it had difficulty attaining the targeted objective in the Fiscal Year.

Figure 66
Percent Combined Business Installation/Billing Office Calls Answered Within 20 Seconds



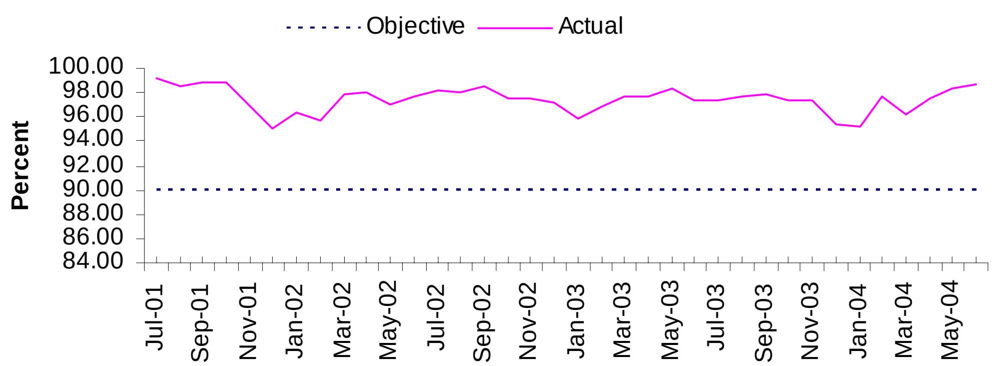
% Combined Business Installation/Billing Office Calls Answered Within 20 Seconds - This performance area measures the number of calls answered within twenty (20) seconds divided by the total number of calls times 100 for calls to the business installation and billing center. As shown in Figure 66, Verizon Hawaii has attained the targeted objective on a consistent basis since the second half of the prior fiscal year.

Figure 67
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. As shown in Figure 67, except for a brief period in mid 2002, Verizon Hawaii has been able to meet the objective for this performance standard during the period reported.

Figure 68
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. As shown in Figure 68, Verizon Hawaii has been able to meet the objective for this performance standard during the period reported.

C. 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.

"Renewable energy" means electrical energy produced by wind, solar energy, hydropower, landfill gas, waste to energy, geothermal resources, ocean thermal energy conversion, wave energy, biomass including municipal solid waste, biofuels or fuels derived entirely from organic sources, hydrogen fuels derived entirely from renewable energy, or fuel cells where the fuel is derived entirely from renewable sources. It also means electrical energy savings brought about by the use of solar and heat pump water heating.

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.

As of December 31, 2003, all electric utility companies in the State reached and exceeded the 7 per cent target, as set forth in Act 272. Accordingly, no waivers or extensions were necessary for this target.

Specifically, HECO, HELCO and MECO, in the aggregate, reported on February 27, 2004 that they have reached a consolidated renewable energy penetration of 8.40 per cent, as of December 31, 2003. The remaining electric utility company, KIUC, reported on March 31, 2004 that renewable energy resources supplied 7.5 per cent of KIUC's net electricity sales, as of December 31, 2003.

In 2004, the Legislature amended Act 272 through the promulgation of Act 95, SLH 2004 ("Act 95"). A summary of Act 95 and its amendments to Act 272 will be further discussed in Section XI. below.

XI. LEGISLATION ENACTED BY 2004 LEGISLATURE AFFECTING PUBLIC UTILITIES.

A. THE 2004 LEGISLATURE ENACTED THE FOLLOWING LEGISLATIVE MEASURES RELATING TO THE PUBLIC UTILITIES COMMISSION:

1. RENEWABLE PORTFOLIO STANDARDS.

Act 95 amends Chapter 269, HRS, by requiring the Commission to adopt incentives and implement a utility ratemaking structure by December 31, 2006 to provide incentives that will encourage electric utility companies to use cost-effective renewable energy resources to meet renewable portfolio standards. It also requires the Commission to determine the proposed ratemaking structure's impact on utility companies' profit margins. The Commission is also required to contract with the Hawaii Natural Energy Institute of the University of Hawaii to conduct independent studies on the capability of Hawaii's electric utility companies to achieve renewable portfolio standards in a cost-effective manner and on projected standards for five (5) and ten (10) years beyond the current standards. The Commission is required to report its findings to the 2009 Legislature and every five (5) years thereafter.

The renewable portfolio standard goals are amended by increasing the standard to be met by December 31, 2010 from nine (9) to ten (10) per cent of net electricity sales and adding goals of 15 per cent of net electricity sales by December 31, 2015 and 20 per cent by December 31, 2020. 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.

2. NET ENERGY METERING.

Act 99, SLH 2004, amends Section 269-101, HRS, by increasing the maximum allowable generating capacity of an eligible customer-generator from ten (10) to fifty (50) kilowatts. The definition of "eligible customer-generator" is amended by including government entities as a meter residential or commercial customer.

3. ONE CALL CENTER.

Act 141, SLH 2004, establishes, by January 1, 2006, a one call center which will provide advance warning to excavators in the State of the location of subsurface installations in the area of an excavation for the purpose of protecting those installations from damage. The Commission is required to begin administration of a one call center by January 1, 2006. The Commission shall select a provider to provide services of the center.

The Commission is required to establish a one call center advisory committee to advise the Commission on the implementation of the new law. The committee shall advise the Commission on the establishment of rules, appropriate fees, selection of the center provider, enforcement of the law, and other aspects.

The costs of the establishment and operation of the center and the Commission's administrative costs are to be covered by fees charged to operators of underground facilities. The Commission may also assess fees on excavators. The fees shall be deposited into the Public Utilities Commission's special fund. An appropriation of $300,000 for Fiscal Year 2004-05 from the special fund is provided for the establishment and operation of a one call center.

4. RATE INCREASES FOR UTILITIES HAVING LESS THAN $2 MILLION ANNUAL GROSS REVENUES.

Act 168, SLH 2004, establishes rate filing procedures for public utilities with annual gross revenues under $2 million. It requires that such public utility companies file annual financial statements prepared in accordance with a prescribed standard chart of accounts. It requires the filing of a standard form application for general rate increases to be developed by the Commission. The Commission is required to make every effort to complete its deliberations and issue a decision within six (6) months from the application filing date.

5. REVOCATION OF CPCNS OF UNLICENSED COMMERCIAL DRIVERS.

Act 199, SLH 2004, amends Section 271-19, HRS, by requiring the Commission to revoke the certificate or permit of a motor carrier that knowingly and wilfully engages the services of a driver who is not licensed as a commercial driver under Part XIII of Chapter 286, HRS. It also prohibits a motor carrier whose certificate or permit has been revoked for knowingly or willfully engaging the services of an unlicensed commercial driver, from applying for a new certificate or permit for a period of five (5) years after revocation.

6. GASOLINE PRICE CAPS.

In 2002, the Legislature passed Act 77, SLH 2002, which amended Chapter 486H by prohibiting the wholesale and retail sale of regular unleaded gasoline at a price above the maximum pretax wholesale price and retail price of regular unleaded gasoline. Beginning in July 1, 2004, the Commission was required to determine the wholesale and retail gasoline price caps on a weekly basis.

Act 242, SLH 2004, amends Chapter 486H as follows: (1) extends maximum pre-tax wholesale price limits to mid-grade and premium gasoline; (2) repeals the maximum pre-tax retail gasoline price; (3) establishes zones within the State and authorizes the Commission to adjust the maximum pre-tax wholesale gasoline price in the various zones; and (4) extends the effective date for the imposition of the maximum pre-tax wholesale gasoline price limit to September 1, 2005. It establishes a special task force to investigate the petroleum industry on the islands of Kauai, Maui, Molokai, Lanai, and Hawaii. The Commission is required to provide staff and logistical support to the task force. For the purposes of Chapter 486H and Act 242, the Commission is appropriated $500,000 out of the general fund for Fiscal Year 2004-05.

B. THE 2004 LEGISLATURE ENACTED OTHER UTILITY-RELATED MEASURES RELATING TO:

1. WIRELESS ENHANCED 911 SERVICE.

Act 159, SLH 2004, establishes a monthly surcharge of 66 cents per month on mobile phone connections to fund implementation of wireless enhanced 911 by wireless providers and county public safety agencies. A Wireless Enhanced 911 Fund (“Fund”) is established consisting of the amounts collected through the surcharge. The wireless providers may recover wireless enhanced 911 commercial mobile radio costs. After January 1, 2005, every public safety answering point and wireless provider may seek reimbursement from the Fund for their costs. A wireless enhanced 911 board is established within the State Department of Accounting and General Services to administer the Fund.

C. DURING THE 2004 LEGISLATURE, THE FOLLOWING RESOLUTIONS RELATING TO TRANSPORTATION AND UTILITY ISSUES WERE ADOPTED:

1. PROCESSING PERMITS FOR HAWAII SUPERFERRY, INC.

Senate Concurrent Resolution ("S.C.R.") No. 149 requests the Commission to expeditiously process any required certification of Hawaii Superferry, Inc. It also requests the State Department of Transportation to assist in the expeditious planning and implementation of the ferry system. Hawaii Superferry, Inc. plans to introduce low cost inter-island roll-on/roll-off passenger and freight ferry service within the Hawaiian Islands in 2006.

2. EXPLORING CONCEPT OF INTRA-GOVERNMENTAL WHEELING.

S.C.R. No. 180, H. D. 1 requests the Commission to explore how to implement the concept of intra-governmental wheeling to facilitate government wheeling of electricity and other regulatory measures to support the development of renewable energy systems by federal, state, and county agencies. Wheeling is the process of transmitting electric power from a seller's point of generation across third-party-owned transmission and distribution systems to the seller's retail customer. Intra-governmental wheeling occurs when government agencies are allowed to transmit electricity to other governmental facilities over existing transmission lines of an electric public utility.

XII. ACTIONS OF THE FEDERAL GOVERNMENT AFFECTING THE REGULATION OF PUBLIC UTILITIES IN HAWAII.

A. REVISED FEDERAL RULES ON LOCAL TELEPHONE SERVICE COMPETITION

On February 20, 2003 the FCC adopted new rules governing competition for local telephone service. The rules were formally released on August 21, 2003 and became effective on October 2, 2003. Shortly thereafter, however, the rules were, in part, vacated pursuant to judgment of the U.S. Court of Appeals for the District of Columbia Circuit ("D.C. Circuit") and remanded to the FCC for revision.

The D.C. Circuit's primary objections to the new rules concerned, among other things, the FCC's nationwide findings that competitive local exchange carriers are impaired without access to mass market switching and dedicated transport, and the FCC's delegation of authority to the state commissions to investigate and make determinations as to impairments within their respective jurisdictions.[22]

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[22]In response to the D.C. Circuit's decision, the FCC released interim rules on August 20, 2004, designed to stabilize the telecommunications market and avoid disruption and risk to the industry during the period in which the FCC is writing alternative unbundling rules. In addition to setting forth interim rules, the FCC issued a notice of proposed rulemaking seeking, among other things, public comment on how it should revise its unbundling rules in response to the D.C. Circuit's decision. The FCC stated that it plans to issue revised rules before the close of 2004. Incumbent local exchange carriers subsequently filed a petition for a writ of mandamus ("Petition") with the D.C. Circuit asking it to strike down the interim rules and maintain jurisdiction over this matter to ensure future compliance. In October 2004, the D.C. Circuit issued an order to

B. NATIONWIDE IMPLEMENTATION OF WIRELESS LOCAL NUMBER PORTABILITY ("LNP")

Consistent with its goal to advance facilities-based competition within the telecommunications industry, the FCC expanded to cover the entire nation its November 2003 mandate that wireless carriers in the largest 100 metropolitan statistical areas support wireless LNP, under which wireless customers have the option to "port" or transfer their phone number to a new wireless carrier. With the nationwide expansion, LNP now provides to all wireline and wireless consumers the freedom to keep their phone numbers when switching among service providers, including wireline to wireline, wireline to wireless (and vice versa), and wireless to wireless.

There are constraints on number portability, including: 1) that it applies when switching carriers within a local geographic or exchange area; 2) that the FCC retains the authority to grant waivers to small rural carriers where compliance with the requirements would be unreasonable or not in the public interest; 3) that consumers still remain responsible for contractual provisions relating to early termination of service, along with associated fees; and 4) that wireless customers porting their phone number to a new wireless carrier may have to purchase a new wireless handset due to compatibility issues. However, since November 2003, when wireless LNP began, the numbers of informal complaints to the FCC regarding LNP issues have steadily declined, presumably indicating a greater degree of technical proficiency on the part of carriers and increased awareness on behalf of both carriers and consumers.

C. BROADBAND OVER POWERLINES ("BPL").

As part of its primary objectives in promoting access to broadband services nationwide, the FCC adopted certain amendments to its rules on October 14, 2004 to encourage the development of BPL systems while safeguarding existing licensed services against harmful interference.[23] In its simplest terms, BPL is a new technology that provides access to high speed broadband services using the largely untapped communications capabilities of our nation's power grid. This new low-power, unlicensed BPL systems provide high speed digital communications capabilities by coupling radio frequency energy onto either the power lines inside a building ("In-House BPL") or onto the medium voltage power delivery lines ("Access BPL"). In-House BPL systems use the electrical outlets available within a building or home to transfer information between computers and between other home electric devices, eliminating the need to install new wires between devices, and hence facilitating the implementation of home networks.[24] Access BPL systems, on the other hand, deliver high speed Internet and other broadband services to homes and businesses. In addition, electric utility companies can use Access BPL systems to monitor, and thereby more effectively manage their electric power distribution operations.[25]

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hold the Petition in abeyance until January 4, 2005, effectively giving the FCC time to develop new permanent rules by year-end 2004.

[23]*See In re Amendment of Part 15 Regarding New Requirements and Measurement Guidelines for Access Over Power Line*, ET Docket No. 04-37, *and In re Carrier Current Systems, including Broadband over Power Line Systems*, ET Docket No. 03-104, FCC Report and Order (October 14, 2004).

[24]*Id.*

[25]*Id.*

In its Report and Order, the FCC recognized the apparent concerns of certain licensed radio service users in both the private and government sectors regarding the possibility that BPL systems may cause harmful interference to their operations.[26] To address this issue, the FCC adopted certain rules to provide a framework that will both facilitate the rapid introduction and development of BPL systems while, at the same, protect licensed radio services from harmful interference.[27] Specifically, the FCC adopted: (1) new operational requirements for BPL to promote avoidance and resolution of harmful interference; (2) new administrative requirements to aid in identifying BPL installations; and (3) specific measurement guidelines and certification requirements to ensure accurate and repeatable evaluation of emissions from BPL and other related systems.[28] The FCC is confident that these new rules will promote the development of BPL systems by removing regulatory uncertainties for BPL operators and equipment manufacturers while ensuring that licensed radio services are protected from harmful interference.[29]

Locally, the Commission is not aware of any new facilities-based broadband platforms in the State. However, HECO, an electric utility for the island of Oahu, has advised the Commission that it is currently implementing trials on various BPL technologies, and it intends to implement a pilot program sometime in 2005 focusing on utilizing BPL technologies to assist in managing and controlling its electric system, and to also provide its customers the opportunity to better manage their operations and energy costs. The Commission has not taken any regulatory action on BPL issues affecting the State. However, it intends to keep a watchful eye on these issues as they develop on a national and statewide level.

D. VOICE OVER INTERNET PROTOCOL (“VOIP”).

“Internet Voice Communications”, also known as Voice over Internet Protocol (“VoIP”) is a relatively new type of technology that allows you to make telephone calls using a broadband Internet connection instead of a regular (or analog) phone line. VoIP converts the voice signal from your telephone into a digital signal that travels over the Internet.

The Commission recognizes that the regulatory landscape with respect to VoIP services is rapidly changing on both the national and state levels. Regulatory issues relating to VoIP services are presently being extensively examined and decided by the FCC and other state commissions. These issues include, without limitation: (1) whether VoIP services should be extensively regulated on both the national and state levels; (2) whether VoIP services should be classified as a “telecommunications” or “information” services under the Telecommunications Act of 1996; and (3) whether VoIP services should be required to fulfill social policy obligations such as universal service, traditional public safety services (i.e., E911 and the ability to comply with law enforcement requirements), and necessary safeguard for consumer protection and disability access.

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[26] *Id.*

[27] *Id.*

[28] *Id.*

[29] *Id.*

In February 2004, the FCC initiated a major rulemaking proceeding to address and clarify the regulatory status of VoIP services.[30] Notwithstanding the FCC's actions, certain states have begun to diverge in their approaches to the regulation of VoIP services. For instance, some states have required VoIP providers to be certified to provide such services in those states, while other states have precluded subject to certain limitations.[31]

In the State of Hawaii, the Commission has not taken any regulatory actions relating to VoIP services similar to those taken by other states. Nonetheless, on October 22, 2004, the Commission granted Time Warner Cable Information Services (Hawaii), LLC's ("TWCIS") a certificate of authority to provide VoIP services within the State.[32] TWCIS is affiliated to both Oceanic Time Warner Cable, which provides cable services in State, and Oceanic Communications, which presently holds a certificate of public convenience and necessity in the State to provide intrastate telecommunications services.[33]

XIII. PREVIEW FISCAL YEAR 2004-05

In Fiscal Year 2004-05, the key proceedings and activities of the Commission include: (1) a request for a HECO rate increase; (2) a request for a CPCN to operate as a water carrier to transport passengers and property between islands on ferries; (3) a proceeding to establish a One Call Center advisory committee; (4) rule-making proceedings; and (5) workshops on renewable portfolio standards.

The following sections highlight the significant proceedings opened in Fiscal Year 2004-05.

A. HECO FILES RATE INCREASE.

In November 2004, HECO filed an application requesting a rate increase of 9.9 per cent 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 increase is 7.3 per cent. HECO's request for a rate increase will be needed to ensure the continuation and expansion of its energy efficiency and conservation programs.

B. HAWAII SUPERFERRY, INC. ("HAWAII SUPERFERRY") FILES REQUEST FOR A CPCN.

In July 2004, Hawaii Superferry filed an application for a CPCN to operate as a water carrier in Hawaii.[34] Hawaii Superferry intends to transport passengers and property between the

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[30] *See In re IP-Enabled Services*, WC Docket No. 04-36, , FCC Notice of Proposed Rulemaking (February 12, 2004).

[31] *Id.*

[32] Decision and Order No. 21427, filed on October 22, 2004, in Docket No. 04-0135.

[33] *Id.*

[34] Docket No. 04-0180.

island of Oahu and Kauai, Maui, and Hawaii. It will use new, high-speed roll-on/roll-off catamaran ferries. In Fiscal Year 2004-05, the Commission will hold hearings on the islands of Oahu, Hawaii, Maui and Kauai to solicit public comments on Hawaii Superferry's application.

C. COMMISSION INSTITUTES PROCEEDING TO ESTABLISH ONE CALL CENTER ADVISORY COMMITTEE.

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. In August 2004, the Commission instituted a proceeding to establish a One Call Center advisory committee ("Committee") and appoint members of the Committee, pursuant to Act 141.[35] Act 141 requires that nine (9) members of the Committee appointed by the Commission consist of: (1) one from the gas utility industry; (2) one from the electric utility industry; (3) one from the telecommunications utility industry; (4) one from the pipeline operator industry; (5) two from the General Contractors Association of Hawaii ("GCA"); (6) two from the Building Industry Association of Hawaii ("BIA"); and (7) one from the cable service industry.[36]

D. RULE-MAKING PROCEEDINGS.

In Fiscal Year 2004-05, the Commission intends to draft administrative rules for the following:

<u>Draft HAR Chapter 6-83, Applications for a Business or Development-Related Permit, License or Approval.</u>

Purpose: Adopt rules to implement Act 164, SLH 1998, codified in HRS Section 91-13.5, also known as "The Automatic Approval Law."

<u>Draft Administrative Rules to Implement the "Gasoline Price Cap Law."</u>

Purpose: Adopt rules, as may be necessary, to implement Act 242, SLH 2004, codified in HRS Chapter 486H, as amended (i.e., procedures for filing petitions and standards for rendering adjustments to the gas price cap factors).

<u>Draft Administrative Rules to Implement the "Renewable Portfolio Standards Law."</u>

Purpose: Adopt rules implementing Act 95, SLH 2004, codified in HRS Chapter 269, as amended (i.e., development and implementation of a utility ratemaking structure which may include, without limitation, performance-based ratemaking to provide incentives that encourage Hawaii's electric utility

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[35]Docket No. 04-0195.

[36]In November 2004, the Commission formally established the Committee and announced 15 Committee members comprised of representatives from the following: TGC; HECO; Verizon Hawaii; Airport Group, representing the pipeline operators industry; Royal Contracting Co., Ltd. and Grace Pacific Corp., representing the GCA; CC Engineering and Construction, Inc. and Ron's Construction Corp., representing the BIA; Oceanic Time Warner Cable; City and County of Honolulu; County of Hawaii; County of Maui; County of Kauai; State Department of Transportation; and Consumer Advocate.

companies to use cost-effective renewable energy resources found in Hawaii to meet the renewable portfolio standards established in HRS Section 269-92).

Draft Administrative Rules to Establish the Policies and Framework Relating to Docket No. 03-0371 – Investigation Concerning Distributed Generation.

Purpose: Docket No. 03-0371 was opened to investigate distributed generation, and the Commission intends to develop by administrative rulemaking the policies and framework to govern participation in Hawaii's electricity market through distributed generation.

Draft HAR Chapter 6-70, Standards for Electric Utility Service.

Purpose: (1) Revise, update and convert General Order No. 7, Standards for Electric Utility Service in the State of Hawaii, into HAR format; (2) revise and transfer the applicable provisions of HAR Chapter 6-60, Standards for Electric and Gas Utility Services in the State of Hawaii, to the proposed HAR Chapter 6-70; and (3) repeal General Order No. 7 and HAR Chapter 6-60.

Draft HAR Chapter 6-72, Standards for Gas Service, Calorimetry, Holders & Vessels.

Purpose (1) Revise, update and convert General Order No. 9, Standards for Gas Service, Calorimetry, Holders & Vessels in the State of Hawaii, into HAR format; (2) revise and transfer the applicable provisions of HAR Chapter 6-60, Standards for Electric and Gas Utility Services in the State of Hawaii, to the proposed HAR Chapter 6-72; and (3) repeal General Order No. 9 and HAR 6-60.

Draft HAR Chapter 6-73, Installation, Operation, and Maintenance of Overhead and Underground Electrical Supply and Communications Lines.

Purpose: (1) Repeal General Orders No. 6, Rules for Overhead Electric Line Construction in the State of Hawaii, and No. 10, Rules for Construction of Underground Electric and Communications Systems; and (2) the adoption of HAR Chapter 6-73 in place of General Orders No. 6 and 10.

Draft Administrative Rules to Implement the "One Call Center Law."

Purpose: Adopt rules implementing Act 141, SLH 2004, codified in HRS Chapter 269, as amended (i.e., procedures for filing complaints and establishing a mechanism in assessing fees to operators and excavators).

The Commission anticipates that it will complete the draft rules and seek approval to hold public hearings beginning in Fiscal Year 2004-05.

E. RENEWABLE PORTFOLIO STANDARDS WORKSHOPS.

In Fiscal Year 2004-05, the Commission will begin to implement the provisions set forth in Act 95, relating to renewable portfolio standards. Act 95 requires the Commission to perform the following:

1. By December 31, 2006, develop and implement a utility ratemaking structure that may include but is not limited to performance-based ratemaking, to provide incentives encouraging Hawaii's electric utilities to use cost-effective renewable

energy resources found in Hawaii to meet the renewable portfolio standards established in Section 269-92, HRS, while allowing for deviations from the standards in the event that the standards cannot be met in a cost-effective manner, or as a result of circumstances that could not have been reasonably anticipated or ameliorated and are beyond the control of the utility; and

2. Gather, review, and analyze data to determine the extent to which any proposed utility ratemaking structure would impact electric utilities' profit margins, and to ensure that these profit margins do not decrease as a result of the implementation of the proposed rate structure.[37]

The Commission has selected a collaborative workshop approach encouraging public discussion of its work-in-progress. The Commission observes that the successful design and implementation of regulation seem to result from balanced, open, and inclusive discussions in the form, for example, of collaborative workshops. A series of workshops involving stakeholders is likely to facilitate the identification of key issues and the development of appropriate policies that are expected to enjoy broad support. It also provides the Commission with an opportunity to articulate its vision for regulatory policy in Hawaii.

The Commission plans to hold three (3) two-day workshops: the first on November 22 and 23, 2004, the second, in February or March 2005, and the third, in May or June 2005. Three (3) to four (4) weeks before each workshop, the Commission will publish a paper describing its approach, along with actual or expected results, and inviting stakeholders to provide written comments. The deadline for the submission of written stakeholder comments is one (1) or two (2) weeks before the workshop. Prior to each workshop, the Commission will publish a schedule describing a sequence of presentations and panel discussions at the workshop.

The goals of the first scheduled workshop are to describe and gather comments on the Commission's methodology in fulfilling its legislative mandate. The Commission is publishing its Initial Concept Paper as an instrument for opening the channels of communication before the workshop and for initiating discussions at the workshop itself.

The goals of the second planned workshop are to describe and gather comments on the key factors driving successful renewable portfolio standards schemes and performance-based ratemaking regimes as well as on their use as inputs to the design of electric utility rates in Hawaii.

The goals of the third planned workshop are to describe and gather comments on the simulation of the power market of Hawaii as well as on its use as a tool for electric utility rate design in Hawaii.

[37]The Commission will seek an amendment to the legislation to remove the requirement that the Commission ensure that electric utilities' profit margins do not decrease, but to affirm that the opportunity of electric utilities to earn a reasonable rate of return shall not be diminished as a result of the implementation of the proposed rate design.