EXECUTIVE CHAMBERS

HONOLULU

LINDA LINGLE
GOVERNOR

December 15, 2005

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, 2005, 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, 2005

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:

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, 2005, 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

PUBLIC UTILITIES COMMISSION

STATE OF HAWAII

ANNUAL REPORT

(HAW. REV. STAT. § 269-5)

FISCAL YEAR 2004-05

NOVEMBER 2005

TABLE OF CONTENTS

ANNUAL REPORT
FISCAL YEAR 2004-05
(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, 2004 to June 30, 2005 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.

The Commission's statutory responsibilities also involve establishing the maximum pre-tax wholesale gasoline prices and regulating subsurface installations. The Commission's authority relating to the determination of the maximum pre-tax wholesale gasoline prices is derived from Chapter 486H, HRS. Responsibility for the establishment and administration of 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 is derived from Chapter 269E, HRS.

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, 2005, a staff of 35 employees. These employees include an administrative director, attorneys, engineers, auditors, researchers, investigators, neighbor island representatives for Kauai, Maui County and Hawaii, documentation staff, and clerical staff. The Commission has four offices located throughout the State:

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

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

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

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

Email: Hawaii.PUC@hawaii.gov

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

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

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

III. GOALS AND OBJECTIVES OF COMMISSION.

A. PRIMARY PURPOSE.

The Commission's primary purpose is to effectively, 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.

IV. ADMINISTRATIVE UPDATE.

During the Fiscal Year, the Commission continued to implement initiatives that aim to meet our strategic plan's short and long-term goals, which include increasing the transparency of the regulatory process and public access to the Commission, streamlining and modernizing the regulatory process, and improving services to the public by increasing operational efficiency. All of the aforementioned goals will be accomplished with the initiation of an information technology services contract in the Fiscal Year that will result in development and implementation of a state of the art document and docket management system ("DMS") to serve as the electronic backbone of the Commission's operations. Once fully functional, the DMS will enable the Commission to, among other things, electronically consolidate and store historical information in one database, share relevant information with the Department of Commerce and Consumer Affairs, Division of Consumer Advocacy ("Consumer Advocate"), increase the efficiency of internal document development and distribution, and allow the public to access public documents in real time via our website. Additionally, staffing initiatives to fill six (6) existing position vacancies and the creation of two new Commission positions, i.e., Chief Engineer and DPSA (Data Processing Systems Analyst) IV, occurred in the Fiscal Year.

Major administrative points of focus for Fiscal Year 2005-06 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 257 utility companies or entities (4 electric, 1 gas, 216 telecommunications, and 36 water and sewer companies), 4 water carriers, 531 passenger carriers and 384 property carriers in the State. During the Fiscal Year, the Commission opened 371 new dockets relating to those regulated utilities and transportation companies, completed and disposed of 575 dockets from its total case load and issued 792 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 review of Hawaiian Electric Company, Inc.'s ("HECO") request for a general rate increase. The Commission separated from the rate case docket HECO's request to modify its demand-side management programs and cost recovery. The Commission also opened a proceeding to examine Kauai Island Utility Cooperative's third integrated resource plan.

In the telecommunications area, the Commission reviewed and conditionally approved the proposed sale of Verizon Hawaii Inc., now known as Hawaiian Telcom, Inc., to TC Group L.L.C., dba The Carlyle Group. The Commission also approved the merger of Sprint Corporation and Nextel Communications, Inc. The Commission also granted a certificate of authority to Time Warner Cable Information Services (Hawaii) LLC to provide local and long distance Internet Protocol voice services (aka, Voice over Internet Protocol or VoIP).

During the Fiscal Year, a key water carrier proceeding related to granting Hawaii Superferry, Inc. a Certificate of Public Convenience and Necessity ("CPCN") to operate as common carrier of passengers and property.

Other key proceedings related to establishing the One Call Center advisory committee and examining the issues and requirements of the gasoline price cap law, Chapter 486H, HRS.

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; Maui Electric Company, Ltd. ("MECO"), serving the islands of Maui, Lanai, and Molokai; Hawaii Electric Light Company, Inc. ("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. COMMISSION REVIEWS HECO'S REQUEST FOR 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 rate 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. The Commission issued a decision granting an interim rate increase in Fiscal Year 2005-06.[2]

In the same rate increase application, HECO also requested approvals and/or modification of demand-side management ("DSM") programs and load management programs and recovery of costs and DSM utility incentives. (For a discussion of this part of HECO's request, see the section, "HECO Requests Approval of DSM Programs and Cost Recovery.")

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

IRP has become a key vehicle for state regulatory commissions, electric utilities, energy stakeholders, and the public to understand and influence 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 DSM programs (i.e., shareholder incentives and lost margins[3]).

---

[2]On September 27, 2005, the Commission issued a decision granting HECO an interim rate increase of $53,288,000 in additional revenues. Interim Decision and Order No. 22050, filed September 27, 2005, in Docket No. 04-0113.

[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."

Below is a summary of the status of electric utility IRPs and action plans as of June 30, 2005.

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 a proceeding to examine HECO's third IRP. HECO's third IRP and action plans are due no later than October 31, 2005.[4]

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.[5]

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. 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.

In December 2004, KIUC submitted its revisions to its IRP and DSM framework. In March 2005, the Commission opened a proceeding to investigate KIUC's proposed revised IRP and DSM framework. The issues to be examined are: (1) the changes, if any, that are required to the Commission's IRP framework and (2) the effect, impact, and appropriateness of KIUC's proposed revised framework.

c. HECO REQUESTS APPROVAL OF DSM PROGRAMS AND COST RECOVERY.

As described above, in November 2004, HECO filed an application requesting a rate increase and approval and/or modification of DSM and load management programs and recovery of program costs and DSM utility incentives. In March 2005, the Commission separated the proposed DSM programs case from the rate case and opened a new docket, the "Energy Efficiency Docket," to examine the proposed DSM programs.

In its DSM programs application, HECO requests approval to: (1) establish seven (7) new energy efficiency DSM programs and recover the programs' costs through base rates; (2) extend the residential customer energy awareness ("RCEA") program duration from two (2) to five (5) years and modify the cost recovery mechanism so that the program costs are recovered

---

[4]HECO filed its third IRP on October 28, 2005. Docket No. 03-0253.

[5]In November 2005, the Commission granted HELCO an extension to file its third IRP on December 29, 2005. Order No. 22105, filed November 4, 2005, in Docket No. 04-0046.

entirely through base rates; and (3) modify the cost recovery mechanism for its two (2) approved load management DSM programs. The Commission allowed HECO to temporarily continue its existing two (2) residential DSM programs and three (3) commercial and industrial DSM programs, until further ordered by the Commission.

d. COMMISSION APPROVES HECO RESIDENTIAL DIRECT LOAD CONTROL ("RDLC") PROGRAM AND COST RECOVERY.

In October 2004, the Commission approved HECO's RDLC program as a pilot project subject to the conditions stated in the Commission's decision and in the parties' settlement agreement. The Commission also approved recovery of program costs that are accrued through the date that estimated costs are incorporated into rates as a result of the next rate case through the IRP cost recovery provision. Under the five-year program, HECO will provide participating customers with a monthly electric bill credit of $3.00 and will install a radio-controlled switch next to their water heating unit, which in turn will turn off the water heater when signaled by HECO. The objective of this program is to provide HECO with approximately 17 megawatts ("MW") of interruptible load from residential water heaters during the system peak.

In April 2005, the Commission approved HECO's request to amend the RDLC program eligibility criteria to include customers who live in master metered single family homes or master metered multi-family homes provided that HECO requires its master metered customers participating in the program to notify all persons who may have their water heaters disconnected of the potential for such an event to occur.

e. COMMISSION APPROVES HECO COMMERCIAL AND INDUSTRIAL DIRECT LOAD CONTROL ("CIDLC") PROGRAM AND COST RECOVERY.

In October 2004, the Commission approved HECO's CIDLC program as a pilot program subject to the conditions stated in the Commission's decision and in the parties' settlement agreement. The Commission also approved recovery of program costs that are accrued through the date that estimated program costs are incorporated into rates as a result of the next rate case through the IRP cost recovery provision.

The CIDLC program offers eligible commercial and industrial electric customers the opportunity to nominate all or a portion of their demand as directly controllable or "controlled" (i.e., able to be controlled or interrupted by HECO under specific circumstances). HECO considers the remaining demand to be the customer's "firm service level." In exchange for agreeing to reduce electrical usage to their designated firm service level when required, HECO will provide participating customers with a monthly controlled demand incentive based on recorded usage above their firm service level, whether or not an interruption of load occurs. The objective of this program is to provide HECO with approximately 21 MW of interruptible load, beyond that provided by the existing customers on Rider I.

In April 2005, the Commission approved HECO's request to amend its standard CIDLC program contract for participating customers to include two (2) inadvertently omitted provisions. The omitted provisions relate to HECO's methodology for determining "Demand" and termination of a customer's participation in the CIDLC program.

f. COMMISSION APPROVES HELCO AND APOLLO ENERGY CORPORATION ("APOLLO") RESTATED POWER PURCHASE AGREEMENT ("PPA").

Apollo operates the Kamaoa wind farm on the island of Hawaii. Under the terms of a PPA, Apollo sells its as-available energy to HELCO. The PPA was scheduled to expire on or about June 29, 2002. The PPA continued in effect by the parties' mutual agreement. In August 2004, the Commission ordered Apollo and HELCO to submit their final executed restated and amended contract ("RAC") for Commission approval.

In March 2005, the Commission approved the RAC between HELCO and Apollo. The RAC will commence when Apollo first starts to sell energy to HELCO from Apollo's new wind turbines. Apollo will design, construct, own, and operate its expanded wind farm. Apollo's wind farm will have a total capacity of 21 MW. Apollo's projected date of operating in parallel with HELCO's system is March 2006. HELCO is allowed to include, in its energy cost adjustment clause ("ECAC"), the purchased energy costs and related revenue taxes that it incurs under the RAC.

The Commission also approved HELCO's request to construct its two (2) 69 kV line drops above the surface of the ground, as part of its interconnection facilities. Apollo will construct, operate, and maintain the interconnection facilities it owns. Apollo will also design and construct certain HELCO-owned interconnection facilities and, upon completion, transfer title of these facilities to HELCO. HELCO will design and construct the other HELCO-owned interconnection facilities.

g. COMMISSION APPROVES MECO AND KAHEAWA WIND POWER, LLC ("KWP") POWER PURCHASE CONTRACT ("PPC").

In March 2005, the Commission approved the as-available energy PPC between MECO and KWP. KWP's wind farm will be located at Kaheawa Pastures, Ukumehame, on the island of Maui. KWP is negotiating a lease with the State Board of Land and Natural Resources for the land. KWP will design, construct, own, operate, and maintain its wind farm with a total facility capacity of 30 MW, for the production of electrical energy. KWP will provide energy to MECO on an unscheduled basis as KWP determines energy to be available from the wind farm. MECO is allowed to include, in its ECAC, the purchased energy costs and related revenue taxes that it incurs under the PPC, for the term of the PPC, to the extent such payments are not recovered in its base rates.

The Commission approved MECO's request to construct its two (2) new 69 kV transmission line drops above the surface of the ground, as part of its interconnection facilities. KWP will construct, operate, and maintain the KWP-owned interconnection facilities. KWP will also design and construct certain MECO-owned interconnection facilities and transfer title to such facilities to MECO.

h. COMMISSION APPROVES HECO AND KALAELOA PARTNERS, L.P. ("KP") PPA AMENDMENTS.

In May 2005, the Commission approved Amendments No. 5 and No. 6 of the amended PPA between HECO and KP. Under the amended PPA, HECO is obligated to purchase 180 MW of firm capacity and energy supplied by KP's cogeneration facility. Amendments No. 5 and No. 6 of the amended PPA address certain issues relating to additional capacity, energy charge components, reliability, capacity evaluation protocol, and financial accounting. The amendments also memorialize the PPA parties' clarification and interpretation of certain provisions in the amended PPA and update certain attachments to the amended PPA.

The Commission also allowed HECO to include, in its ECAC, the fuel component and the additive component of the purchased energy costs and related revenue taxes to be incurred by HECO pursuant to the PPA amendments, to the extent such costs are not included in its base rates. HECO may include the costs of the additional capacity and the purchased power incurred by HECO pursuant to the PPA amendments, in its revenue requirements for ratemaking purposes and for the purposes of determining the reasonableness of HECO's rates.

i. COMMISSION APPROVES MODIFICATION OF NET ENERGY METERING AND INTERCONNECTION TARIFF RULES.

In June 2005, the Commission approved HECO, HELCO, MECO, and the Consumer Advocate's stipulated revisions to HECO's, HELCO's, and MECO's Rule 18, Net Energy Metering, and Rule 14H, Interconnection of Distributed Generating Facilities Operating in Parallel with the Company's Electrical System. Rules 18 and 14H amendments are in conformance with Act 99, SLH 2004, which amended Section 269-101, HRS, by revising the definition of eligible customer-generator to include government entities and increase the capacity of a qualifying eligible customer-generator's facility from ten (10) to fifty (50) kW. Rule 18 amendments are also in accord with Act 98, SLH 2004, which amends Section 36-41, HRS, by including lease-purchase, financing agreements, and third-party joint ventures as additional financing options for energy performance contracts for public facilities.

Rule 18 is revised by amending the definition of an eligible customer-generator to include qualifying facilities with a capacity of not more than fifty (50) kilowatts ("kW") and customers that contract with a third-party to operate a qualifying facility. The revisions to Rule 18 also incorporate: (1) a standard net energy metering agreement form for qualifying facilities of 10 kW or less; (2) a standard net energy metering and interconnection agreement form for qualifying facilities greater than 10 kW, but no more than 50 kW; and (3) a step-by-step energy metering interconnection overview process. The revisions to Rule 14H include non-substantive, stylistic changes and cross-referencing Rule 14H to the new Rule 18.

j. COMMISSION APPROVES REFUNDING SPECIAL PURPOSE REVENUE BONDS ("SPRBs") FOR HECO, HELCO, AND MECO.

In December 2004, the Commission authorized HECO, HELCO, and MECO to participate in the sale by the Department of Budget and Finance of refunding SPRBs for up to a total of $40 million, $5 million, and $2 million, respectively. The proceeds from the sale will be used to redeem, in whole or in part, the Series 1995A Bonds. Act 228, SLH 1992, authorized the issuance of the Series 1995A Bonds and refunding SPRBs.

k. COMMISSION APPROVES CHANGES IN HECO'S DEPRECIATION RATES AND VINTAGE AMORTIZATION ACCOUNTING.

In September 2004, the Commission approved the settlement agreement between HECO and the Consumer Advocate ("the parties") regarding HECO's application requesting approval to change its depreciation rates and approval of a procedure change to vintage amortization accounting for certain accounts. In addition, the Commission approved HECO's request to use vintage amortization accounting for the accounts identified in the Commission decision and order. The new depreciation rates and use of vintage amortization accounting for certain assets became effective on September 3, 2004.

l. COMMISSION APPROVES KIUC'S DEPRECIATION ACCRUAL RATES.

In June 2005, the Commission approved KIUC's proposed depreciation accrual rates set forth in the depreciation study. KIUC is allowed to simultaneously utilize the approved depreciation accrual rates and remove the lost gross margin component from its 2005 resource cost adjustment (DSM and IRP) surcharge. KIUC is required to separately identify the future net salvage value component in KIUC's depreciation rates and account for the amounts recovered through the depreciation expense consistent with the requirements of the Federal Energy Regulatory Commission. The changes proposed by KIUC are expected to effectively retain the existing revenue stream and mitigate and/or offset any potential adverse financial impacts to KIUC.

m. COMMISSION APPROVES PROJECT EXPENDITURES AND ACCOUNTING TREATMENT OF COMPUTER SOFTWARE DEVELOPMENT COSTS.

During the Fiscal Year, the Commission approved the expenditures and proposed accounting treatment for the following computer software development projects:

Customer Information System ("CIS") Project. In May 2005, the Commission approved a request by HECO, HELCO, and MECO ("utilities") to expend approximately $20,350,000 for the CIS project. The CIS project involves the purchase and installation of a new, commercially available, customer information system that will provide basic service functions, such as producing bills, collecting payments, establishing service, and fulfilling customer requests. The utilities' existing customer information system is outdated and many of its components are difficult and costly to maintain.

The Commission also approved the utilities' request to defer certain computer software developments costs, accumulate the allowance for funds used during construction ("AFUDC") on the deferred costs during the deferral period, amortize the deferred costs over a twelve (12)-year period, and include the unamortized deferred costs in rate base. The utilities are required to file the following reports or information with the Commission: (1) information on the performance and quality of service measures that are produced automatically by the new CIS; (2) information on the performance and quality of service measures the utilities will track on a going forward basis after the CIS project is placed into service; (3) annual report on five performance measures - same day billing, bills per billing representative, bills per customer, credit arrangements, and billing accuracy; (4) after completion of the bid process, an interim supplemental report; (5) prompt notification if there is a significant change in either the functionality or cost of the CIS project; and (6) a cost report providing the appropriate work orders that state whether the CIS costs were capitalized , deferred, or expensed.

Outage Management System ("OMS") Project. In June 2005, the Commission approved HECO's request to expend approximately $5.8 million for the OMS project. The OMS project involves the purchase and installation of a new, commercially available OMS. OMS is an information technology system that has capabilities such as collecting trouble information, providing updates of an outage, and identifying work crews capable of addressing the outage. The OMS will replace many of the functions performed manually by HECO.

The Commission also approved HECO's request to defer certain computer software development costs for the OMS, accumulate an AFUDC on the deferred costs during the deferral period, amortize the deferred costs over twelve (12) years, and include the unamortized deferred costs in rate base. HECO is required to file the following reports or information with the Commission: (1) information on the performance and quality of service measures that are produced automatically by the OMS; (2) an interim supplemental report after the OMS bid process is completed; (3) prompt notification if there is a significant change in either the functionality or cost of the OMS project; and (4) a cost report that provides the appropriate work orders that state whether the OMS costs were capitalized, deferred, or expensed.

n. COMMISSION APPROVES LOW SULFUR FUEL SUPPLY CONTRACT AMENDMENTS.

In December 2004, the Commission approved the amendments to the low sulfur fuel supply contracts between HECO and Chevron Products Company, a Division of Chevron U.S.A. ("Chevron") and HECO and Tesoro Hawaii Corporation ("Tesoro"). The two (2) fuel oil contracts were approved by the Commission in 1997 and were scheduled to expire on December 31, 2004. A major contract amendment includes the extension of the terms of the existing contracts for an additional ten (10) years. The Commission allowed HECO, on an interim basis, to continue to recover fuel oil costs through ECAC to the extent that the costs are not recovered in HECO's base rates. In HECO's pending rate case, the Commission plans to examine the continued use of the ECAC to recover the costs of the amended fuel contracts.

o. COMMISSION APPROVES INTER-ISLAND FUEL CONTRACT AMENDMENTS.

In December 2004, the Commission approved the amendments to the original contracts between the utilities HECO, HELCO and MECO and Chevron and Tesoro for purchase of No. 6 industrial fuel oil, No. 2 diesel fuel, and jet fuel. In 1997, the Commission approved the two (2) fuel contracts for the supply of fuel oil, diesel fuel and jet fuel with Chevron and Tesoro. The original contracts were scheduled to expire on December 31, 2004. One of the major contract amendments includes the extension of the terms of the existing contracts for an additional ten (10) years. The utilities are allowed, on an interim basis, to continue to recover the contract costs through their respective ECACs to the extent that the costs are not recovered in their base rates. The Commission intends to examine the continued use of the ECAC to recover the costs of the amended fuel contracts in the utilities' pending or next rate case.

p. COMMISSION APPROVES CONSTRUCTION OF OVERHEAD AND UNDERGROUND ELECTRIC LINES.

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

In July 2004, the Commission approved HECO's supplemental request to place two (2) 46 kilovolts ("kV") line extensions above ground for the Waiau fuel pipeline project. The Waiau fuel pipeline project, approved by the Commission in 2002, included the construction of a new 8-inch fuel pipeline connecting the Barber's Point Tank Farm and the Waiau generating station new system. The project also included the construction and modification of other ancillary facilities.

In September 2004, the Commission approved HECO's request to remove and relocate a 46 kV subtransmission line above ground for the Mililani Mauka North Gulley 46 kV line relocation project. The project involved the relocation of HECO's existing Wahiawa-Mililani 46 kV subtransmission line and its Kuahelani #1 12 kV overhead distribution line located in the Mililani Mauka area.

In April 2005, the Commission approved HECO's request for the overhead construction of a temporary 46 kV subtransmission line and the underground conversion of an existing 46 kV overhead line for the Palehua East 46 kV relocation project. The project was initiated to accommodate Castle & Cooke Homes Hawaii, Inc.'s plans to construct new residential units on its property in Makakilo, on the island of Oahu.

In June 2005, the Commission approved HECO's request to relocate a segment of its Makalapa 42 46 kV overhead subtransmission line above ground. The relocation of the line is needed to allow for the construction of a housing project on Hickam Air Force Base.

In February 2005, the Commission approved HELCO's request to reconstruct a 69 kV transmission line above ground. The Kuakini Highway improvement project requires HELCO to reconstruct a segment of the 69 kV overhead transmission line.

In January 2005, the Commission approved KIUC's request to construct portions of the Kukui'ula relocation project overhead as well as underground. KIUC will relocate portions of a 69 kV overhead transmission line overhead and underground running from KIUC's Port Allen power plant to its Koloa Substation.

q. HECO FILES REQUEST FOR A NEW GENERATING STATION.

In June 2005, HECO filed an application to commit approximately $134,310,260 to install a combustion turbine generating unit at its proposed Campbell Industrial Park ("Campbell") site located adjacent to the AES Substation. The proposed generating facility project will add approximately 76 MW to 107 MW of peaking generating capacity on HECO's system. The project includes the construction and acquisition of the equipment necessary to generate additional electrical power, expansion of HECO's existing Barbers Point Tank Farm site, construction of a second 138 kV transmission line between two of the substations in Campbell, and upgrade of three substations. It will be the first power plant on Oahu in 17 years by the time of its planned operation in 2009.

r. HECO FILES REQUEST FOR A COMMUNITY BENEFITS PACKAGE FOR THE NEW GENERATING STATION PROJECT.

In conjunction with the Campbell generating station project, HECO conducted community meetings to discuss the impact that the proposed project would have on the surrounding communities. As a result of the community meetings, a set of community benefits was agreed upon as the appropriate "give back."

In June 2005, HECO filed an application, as part of a community benefits package, requesting approval for: (1) funds for the purchase and installation of a water pipeline from Campbell to Kahe Power Plant; (2) funds for the purchase and installation of equipment needed for environmental monitoring; (3) the accounting and ratemaking treatment of the water pipeline and environmental monitoring programs; and (4) a rate reduction program. The cost of the community benefits package will be shared by HECO customers, the Board of Water Supply, and HECO's current operations and/or shareholders.

s. 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. Effective July 1, 2004, the threshold increased from $500,000 to $2.5 million for the electric and telecommunications utilities. Beginning this Fiscal Year, only those applications requesting approval for CIP expenditures over $2.5 million must be submitted to the Commission for review. In this Fiscal Year, the Commission approved expenditures totaling over $40 million for electric utility CIPs.

During this Fiscal Year, HECO was authorized to expend $36.8 million for its capital improvements. Expenditures include $22.9 million for the new dispatch center project, $9.1 million for the Ford Island substation project, $1.2 million for the Kahe Power Plant sanitary sewer replacement project, $1.2 million for the Waiau 9 exhaust duct replacement project, $1.1 million for the Waiau fuel oil tank 4 renovation project, $0.7 million for installation of the Kahe 6 fan enclosure, and $0.6 million for the Honolulu 8 generator rotor rewind project.

HELCO was authorized to expend $2.6 million for the Keahole CT-2 noise mitigation measures project.

KIUC was authorized to expend $0.6 million for the Port Allen steam plant automation project.

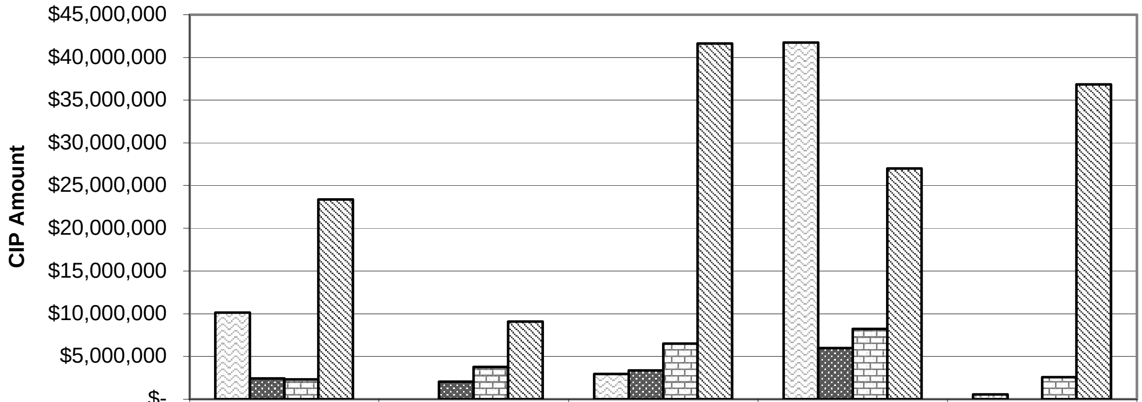
A comparison of prior fiscal years shows that the total dollar value of Commission-approved electric utility CIPs (i.e., projects in excess of $500,000) peaked in the 2002-03 and 2003-04 fiscal years, as shown in Figures 1 and 2. The peak in the 2002-03 fiscal year was due in large part to HECO's $26.9 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 Kauai Power Partners facility. This Fiscal Year's projects approved by the Commission included those submitted under the $500,000 threshold as well those submitted under the $2.5 million threshold.

Figure 1
Five-Year Comparison of Commission-Approved
Electric Utility CIPs

	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05
KE/KIUC	$10,150,835	$-	$2,958,900	$41,750,000	$580,000
MECO	$2,435,540	$2,046,452	$3,379,707	$5,984,591	$-
HELCO	$2,311,179	$3,788,695	$6,502,973	$8,221,363	$2,585,463
HECO	$23,379,569	$9,109,866	$41,639,829	$26,999,323	$36,835,359
Total CIP	$38,277,123	$14,945,013	$54,481,409	$82,955,277	$40,000,822

Fiscal Year ("FY")

Figure 2
Five-Year Comparison of Commission-Approved
Electric Utility CIPs



	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05
KE/KIUC	$10,150,835	$-	$2,958,900	$41,750,000	$580,000
MECO	$2,435,540	$2,046,452	$3,379,707	$5,984,591	$-
HELCO	$2,311,179	$3,788,695	$6,502,973	$8,221,363	$2,585,463
HECO	$23,379,569	$9,109,866	$41,639,829	$26,999,323	$36,835,359

FY

C. GAS PROCEEDINGS.

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

During the Fiscal Year, TGC filed an application requesting approval of a new residential rate on the island of Lanai. The application was pending at the end of the Fiscal Year.[6]

D. TELECOMMUNICATIONS PROCEEDINGS.

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

Key activities in telecommunications are highlighted below.

1. COMMISSION APPROVES MERGER TRANSACTION AMONG VERIZON HAWAII, CERTAIN VERIZON AFFILIATES, AND

[6]In July 2005, the Commission approved TGC's request to establish a rate schedule to provide gas utility service to residential customers on the island of Lanai. Decision and Order No. 21913, filed July 8, 2005, in Docket No. 05-0131.

HAWAIIAN TELCOM COMMUNICATIONS, INC. (“HT COMMUNICATIONS”).

In March 2005, the Commission approved, by a 2-1 vote, the merger transaction by which TC Group L.L.C., dba The Carlyle Group (“Carlyle”), through its affiliates, acquired control over Verizon Hawaii and other assets. HT Communications, which was formed expressly for the purpose of consummating the proposed merger transaction, owns all of the outstanding stock of Verizon Hawaii, now known as Hawaiian Telcom. HT Communications is wholly-owned by HT HoldCo which is controlled by affiliates of Carlyle. The base purchase price of the transfer of control was initially proposed as $1.65 billion, but was voluntarily adjusted to $1.6 billion following the Commission's conditional approval of the merger transaction.

The Commission approved the merger transaction provided that the following conditions, among other things, are adhered and/or agreed to: (1) Hawaiian Telcom commits to not submit a general utility rate increase application utilizing a prospective test year earlier than calendar year 2009; (2) the general rate increase moratorium shall not preclude the filing of proposed tariff changes for regulated services that are revenue neutral; (3) each residential and business retail access line customer shall receive a customer appreciation bill credit of approximately $20.70 per qualifying access line; (4) the terms and conditions of the stipulation filed by HT Communications and Time Warner Telecom of Hawaii, L.P., dba Oceanic Communications (“Oceanic”), as amended; (5) infusion of additional equity as necessary to achieve a consolidated capital structure of 76.3 per cent debt and 23.7 per cent equity; (6) any dividend proceeds shall be earmarked specifically and used only for debt repayment and dividend payments shall not be made until Hawaiian Telcom’s debt is reduced to 65 per cent, without prior Commission approval; and (7) to obtain the Commission’s approval before selling, divesting, transferring, mortgaging, or encumbering the directory assets.

2. COMMISSION APPROVES MERGER OF SPRINT CORPORATION (“SPRINT”) AND NEXTEL COMMUNICATIONS, INC. (“NEXTEL”).

In April 2005, the Commission approved an application filed by Sprint Communications Company, L.P. (“Sprint Communications”), Sprint Payphone Service, Inc. (“Sprint Payphone”), and ASC Telecom, Inc. (“ASC Telecom”) which proposed the merger of Sprint and Nextel. Sprint will be renamed Sprint-Nextel Corporation upon completion of the merger. Sprint Communications is authorized to provide intrastate telecommunications services in Hawaii as a facilities-based carrier and reseller. It also is the exclusive provider of intrastate telecommunications relay services (“TRS”) in Hawaii from July 1, 2003 to June 30, 2006. Sprint Payphone holds a certificate of registration (“COR’) to provide intrastate pay telephone services in the State. ASC Telecom is authorized to provide intrastate telecommunications services within the State as a reseller. Nextel is not providing any intrastate telecommunications services in the State.

3. COMMISSION APPROVES MERGER OF SBC COMMUNICATIONS INC. (“SBC”) AND AT&T CORP. (“AT&T”).

In May 2005, the Commission approved the merger of AT&T and a wholly-owned subsidiary of SBC. The merged entity will retain the AT&T name. AT&T Communications of Hawaii, Inc. (“AT&T Hawaii”) will remain a wholly-owned subsidiary of AT&T. AT&T Hawaii is an authorized provider of intrastate telecommunications services in the State on a facilities-based and resold basis.

4. COMMISSION CERTIFICATES NEW TELECOMMUNICATIONS CARRIERS.

The Commission certificated 19 new telecommunications companies in the Fiscal Year, including 14 resellers of various intrastate wireless, calling card, and interexchange (long-distance) telecommunications services; 1 provider of wireless services; 1 facility-based provider/reseller; and 3 providers of payphone services.

5. COMMISSION APPROVES INTERNET PROTOCOL ("IP") VOICE SERVICES.

In October 2004, the Commission granted Time Warner Cable Information Services (Hawaii) LLC ("TWCIS") a certificate of authority ("COA") to provide intrastate telecommunications services in the State as a reseller and facilities-based carrier. TWCIS plans to provide local and long distance IP voice services (aka, Voice over Internet Protocol or VoIP) targeted to Hawaii customers who reside in Time Warner Entertainment Company, L.P., dba Oceanic Time Warner Cable's Road Runner service areas. In addition to calling other subscribers, subscribers of the VoIP services will be able to call and be called by anyone connected to the public switched telephone network.

6. COMMISSION APPROVES REQUEST TO DISCONTINUE CONFERENCE CONNECTIONS SERVICE.

In July 2004, the Commission approved Verizon Hawaii's request to discontinue its Conference Connections service. Conference Connections is a discretionary service used normally by Verizon Hawaii's business customers to connect three (3) or more users through a conference bridge to converse with one another simultaneously. The manufacturer of Verizon Hawaii's Conference Connections service equipment discontinued the line of equipment used by Verizon Hawaii and ended all technical support by the end of June 2004. The demand for this service has dramatically declined due to the existence of more efficient and convenient conferencing services.

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:

Think 12 Corporation, dba Hello Depot ("Hello Depot"). In July 2004, the Commission approved the negotiated interconnection agreement and amendment to the interconnection agreement between Verizon Hawaii and Hello Depot. The scope of the agreement includes interconnection, resale, network elements, collocation and other services. The amendment proposes to give effect to the provisions of the FCC Triennial Review Order. Hello Depot is a reseller of telecommunications services in the State.

Pacific LightNet Inc. ("Pacific LightNet"). In August 2004, the Commission approved the fourth amendment to the interconnection agreement between Verizon Hawaii and Pacific LightNet. The amendment proposes to give effect to provisions of the FCC Triennial Review Order. Pacific LightNet is authorized to provide facilities-based local exchange and long distance telecommunications services in the State.

AT&T Wireless of Hawaii Inc. ("AWS"). In September 2004, the Commission approved the third amendment to the interconnection agreement between Verizon Hawaii and AWS. The amendment allows AWS to provide enhanced 911 ("E911") service to its end users and customers using systems and databases established and maintained by Verizon Hawaii. AWS is a certified provider of commercial radio mobile services ("CMRS") in the State.

American Fiber Network, Inc. ("AFN"). In December 2004, the Commission approved the amendment to the interconnection agreement between Verizon Hawaii and AFN. The amendment clarifies that Verizon Hawaii is only obligated to provide AFN access to unbundled network elements ("UNEs") and combinations of UNEs to the extent as required by the Federal unbundling rules. AFN is an authorized provider of facilities-based and resold telecommunications services in the State.

Southwestern Bell Communications, Inc., dba SBC Long Distance ("SBCS"). In January 2005, the Commission approved SBCS' adoption of the negotiated interconnection agreement between Hello Depot and Verizon Hawaii and the amendment to the interconnection agreement. SBCS is a reseller and facilities-based carrier of intrastate telecommunications services in the State.

Level 3 Communications, LLC ("Level 3"). In January 2005, the Commission approved the second amendment to the interconnection agreement between Verizon Hawaii and Level 3. The amendment establishes new terms and conditions that govern the rights and obligations of Verizon Hawaii and Level 3 with regards to intercarrier compensation and interconnection architecture. Level 3 is an authorized provider of facilities-based and resold telecommunications services in the State.

CommPartners, LLC ("CommPartners"). In February 2005, the Commission granted approval of CommPartners' adoption of the negotiated interconnection agreement between Hello Depot and Verizon Hawaii and the amendment to the interconnection agreement. CommPartners is an authorized reseller and facilities-based carrier of telecommunications services in the State.

AT&T Communications of Hawaii, Inc. ("AT&T"). In March 2005, the Commission approved the second amendment to the interconnection agreement between Verizon Hawaii and AT&T. The amendment reflects changes to certain intercarrier compensation, interconnection architecture and other related matters. AT&T is an authorized provider of intrastate telecommunications services in the State.

Coral Wireless ("Coral"). In May 2005, the Commission granted approval of Coral's adoption of the negotiated interconnection agreement between Verizon Hawaii and NPCR Inc., dba Nextel Partners and the amendment to the interconnection agreement. Coral is an authorized CMRS provider of intrastate wireless telecommunications services in the State.

MCImetro Access Transmission Services LLC ("MCImetro"). In June 2005, the Commission approved the second amendment to the interconnection agreement between Verizon Hawaii and MCImetro. The amendment modifies the interconnection agreement by establishing new monthly recurring charges that MCImetro agrees to pay Verizon Hawaii for DS0 UNE-P (or unbundled network element-platform) lines in service in the State as of March 10, 2005. MCImetro is an authorized provider of telecommunications services in the State.

8. COMMISSION APPROVES TARIFF CHANGES.

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

Local Package Plus ("LPP"). In August 2004, the Commission approved Verizon Hawaii's request to make LPP (now known as Verizon Regional Package Extra ("VRPE")) a permanent offering. In May 2003, the Commission initially approved Verizon Hawaii's LPP offering on a one-year promotional basis. LPP telecommunications services includes residential line, touch call, unlimited directory assistance ("DA"), up to 14 custom calling features, optional residential home voice mail, and unlimited inter-island toll.

Wireless E911 Service. In March 2005, the Commission approved Verizon Hawaii's tariff proposal to establish wireless E911 service throughout the State. Verizon Hawaii proposes to establish wireless E911 service in accordance with Phases I and II of Title 47, Part 20, Code of Federal Regulations, Commercial Mobile Radio Services. Phases I and II addresses the problem of identifying the location of wireless telephones by enabling the transfer of location information from the wireless service providers to a Public Safety Answering Point ("PSAP"). A PSAP routes a 911 telephone call to the appropriate emergency response team (i.e., police, fire department, ambulance).

9. COMMISSION OVERTURNS POOLING ADMINISTRATOR'S ("PA's") DENIAL.

In August 2004, the Commission overturned the PA's denial of MCImetro's June 16, 2004 request for numbering resources, provided that MCImetro is only authorized to receive and/or retain 1,000 numbers from each of the six (6) central office code thousands-block codes to serve the six (6) rate centers of Honolulu, Hilo, Lihue, Wailuku, Kaunakakai, and Lanai City on the islands of Oahu, Hawaii, Kauai, Maui, Molokai, and Lanai, respectively. MCImetro's new Hawaii switch will be used to provide voice service to customers in these rate centers.

10. COMMISSION ESTABLISHES TRS CONTRIBUTION FACTOR AND FUND SIZE.

In May 2003, the Commission required every telecommunications carrier in Hawaii to contribute to the intrastate TRS fund. A carrier's contribution to the TRS fund is a product of its gross operating revenues from the retail provision of intrastate telecommunications service during the preceding calendar year and a contribution factor determined annually by the Commission. For the period July 1, 2004 to June 30, 2005, the contribution factor was 0.0010.

In April 2005, the Commission initiated a proceeding to examine whether to modify the TRS carrier contribution factor and fund size for the period July 1, 2005 to June 30, 2006. In May 2005, the Commission adopted its proposal to continue the existing carrier contribution factor and TRS fund size. The contribution factor for the period July 1, 2005 to June 30, 2006 is 0.0010. The projected TRS fund size for the same period is approximately $680,000.

11. COMMISSION APPROVES TIME WARNER TELECOM OF HAWAII DBA OCEANIC COMMUNICATIONS ("OCEANIC") FINANCING.

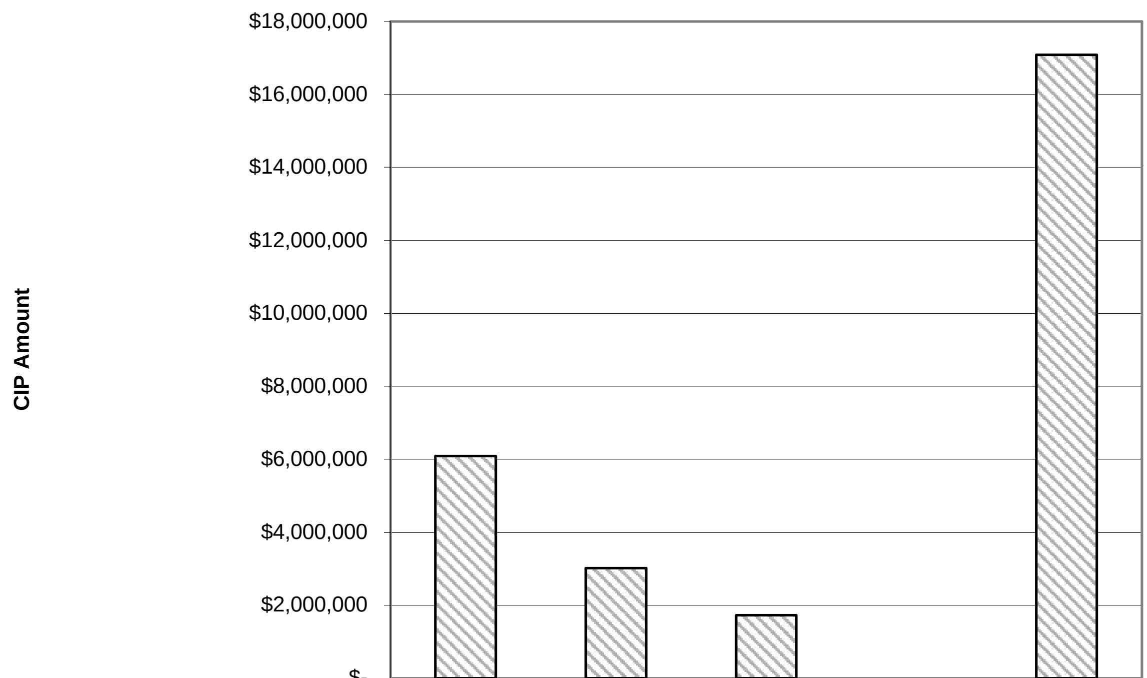
In April 2005, the Commission approved the issuance by Time Warner Telecom, Holdings, Inc. ("TWTH"), Oceanic's general partner, of a proposed debt financing. In the first quarter of 2004, TWTH closed on the debt financing approved by the Commission during last fiscal year and, as part of the debt financing, offered $200 million in the 2014 unsecured notes. TWTH intends to follow up on the 2004 offering by an additional offering of the 2014 unsecured notes. In the proposed debt financing, the additional offering, when combined with the 2004 offering, may result in the total issuance of up to $600 million of the 2014 unsecured notes. The proceeds will be used to redeem a significant portion, or all, of Time Warner Telecom, Inc.'s senior notes that are due in 2008.

12. COMMISSION APPROVES CAPITAL EXPENDITURES.

Prior to July 1, 2004, telecommunications carriers were required by the Commission's administrative rules to obtain approval for all CIP expenditures over $500,000. Similar to the threshold applicable to electric utilities, effective July 1, 2004, the threshold for telecommunications utilities increased from $500,000 to $2.5 million. Accordingly, beginning this Fiscal Year, only those applications requesting approval for CIP expenditures over $2.5 million must be submitted to the Commission for review. In the Fiscal Year, the Commission approved expenditures totaling over $17 million for Verizon Hawaii's CIPs.

Verizon Hawaii was authorized to expend $15.5 million for the Alakea fire sprinkler project, $0.9 million for the construction of feeder facilities in lower Mapunapuna and airport areas, and $0.7 million for the E911 service replacement project. Figure 3 shows the total dollar value of Commission-approved telecommunications utility CIPs during the past five (5) years.

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



	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05
Verizon Hawaii/Hawaiian Telcom	$6,089,171	$3,019,288	$1,734,200	$-	$17,090,401

FY

E. PRIVATE WATER AND SEWAGE UTILITIES PROCEEDINGS.

The Commission regulates 36 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:

> **MOSCO, Inc ("MOSCO").** In August 2004, the Commission approved MOSCO's request for a rate increase of $92,928 in additional revenues. MOSCO's increase in rates consist of increases in its monthly flat rate charge from $22 to $44 per unit and its minimum charge for inspecting a service connection and its deposit fee. MOSCO provides wastewater service in its service area of Kaluakoi on the island of Molokai.

Hawaii Water Service Company, Inc. ("HWSCI"). In February 2005, the Commission approved a rate increase of $238,500 in additional revenues for HWSCI. The Commission approved the parties' stipulation, in part, and denied it, in part. It disallowed the inclusion of the costs of the two (2) new wells in HWSCI's test year plant-in-service and rejected the parties' proposed rate design. The Commission instructed HWSCI to submit a new rate schedule. In April 2005, the Commission approved the parties' primary rate design, as proposed in their stipulated rate design. The rate increase consists of increases in the monthly standby charge by 22.4 per cent and the monthly water consumption charge by 6.5 per cent. HWSCI provides water service in its service area of Kaanapali on the island of Maui.

Puhi Sewer & Water Co., Inc. ("Puhi"). In August 2004, the Commission approved the parties' stipulated agreement providing a rate increase of $449,392 in additional revenues for Puhi. The parties agreed to a three (3)-year phase-in period for the 65 per cent rate increase. Puhi provides wastewater collection and treatment services to residential, commercial and industrial customers within its service territory on the island of Kauai.

Waikoloa Water Company, Inc., dba West Hawaii Water Company ("Waikoloa Water"). In June 2005, the Commission granted Waikoloa Water a general rate increase of $23,759 in additional revenues. The Commission authorized an increase in Waikoloa Water's fixed monthly charges and monthly consumption charges. The Commission granted this rate increase in a proposed decision and order.[7]

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:

Makena Wastewater Corp. ("MWC"). In September 2004, the Commission granted MWC a CPCN to provide wastewater treatment services for a master-planned development project developed by Makena Resort Corporation in the Makena area on the island of Maui.

North Shore Wastewater Treatment, L.L.C. ("NSWT"). In June 2005, the Commission granted NSWT a CPCN to provide wastewater service within its proposed service area in Kahuku on the island of Oahu.

Kukio Utility Company, LLC ("Kukio"). In May 2005, the Commission approved Kukio's application to expand its existing service territory to provide water and wastewater service to certain additional properties. Prior to the Commission approval, Kukio's existing service territory consisted of Phase 1 of a master planned community known as the Kukio Beach Club on the island of Hawaii. Kukio will expand its authorized service territory to include portions of: (1) Phase 2 of the master planned community, (2) Phase 3 north and south of the

[7]The Commission granted this rate increase in a proposed decision and order, as mandated by Act 168, SLH 2004 ("Act 168"). Act 168 streamlines the rate review process for public utilities with annual gross revenues under $2 million. The Commission is required to issue its decision within six (6) months from the filing date of a general rate increase application. In July 2005, the Commission adopted its proposed decision and order approving Waikoloa Water's general rate increase.

master planned community, (3) the Manini'owali subdivision, and (4) the State of Hawaii's Kua Bay Beach Park. The Commission also approved Kukio's request to establish a bulk rate for the sale of water from Kukio's system to the Kukio Golf and Beach Club.

3. COMMISSION APPROVES TRANSFER OF POIPU WATER RECLAMATION FACILITY ('PWRF").

In September 2004, the Commission approved the transfer of Obayashi Hawaii Corporation's ("OHC") and Marriott Ownership Resorts, Inc.'s ("MORI") respective interests in the PWRF to HOH Utilities, LLC ("HOH"). The Commission also approved the amendment of HOH's CPCN to expand HOH's service territory to cover the properties controlled, or previously controlled by OHC and MORI. HOH's expanded service territory includes two (2) hotels, the Kauai Sheraton Resort and Marriott Resort. HOH provides wastewater treatment services in the Poipu area on the island of Kauai.

4. COMMISSION APPROVES TRANSFER AND SALE OF PRINCEVILLE UTILITIES COMPANY, INC. ("PUCI").

In January 2005, the Commission approved the transfer and sale of PUCI's stock from Princeville Corporation to Princeville PUC, LLC. The Commission also approved the terms of the loan agreement between Princeville Associates, LLC and Princeville PUC, LLC, in an amount not to exceed $4 million, to finance the acquisition of new water facilities. PUCI provides water and wastewater utility services within the Princeville resort and community service area on the island of Kauai.

5. COMMISSION APPROVES HWSCI FINANCING.

In August 2004, the Commission approved HWSCI's financing request to issue $556,000 and $2.2 million in long-term debt. The loan amount of $556,000 will be used to fund test year 2004 capital improvements. The $2.2 million in loan amounts will be used to fund additional capital improvements and to maintain a reasonable capital structure of both debt and equity.

6. COMMISSION APPROVES WAIKOLOA RESORT UTILITIES, INC. DBA WEST HAWAII UTILITY COMPANY ("WHUC") FINANCING.

In April 2005, the Commission approved WHUC's request to enter into a $4,550,000 construction and term loan with HomeStreet Bank and to mortgage or encumber certain assets associated with the proposed financing arrangements. The loan proceeds will be used to finance the costs for the construction of two (2) 2.5 million gallon potable water storage tanks. The tanks are needed to meet storage capacity requirements for the Waikoloa Resort complex. WHUC is authorized to provide water (including irrigation water to two (2) golf courses) and wastewater services to the Waikoloa Beach Resort area on the island of Hawaii.

F. TRANSPORTATION CARRIERS PROCEEDINGS.

1. MOTOR CARRIERS.

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

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

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

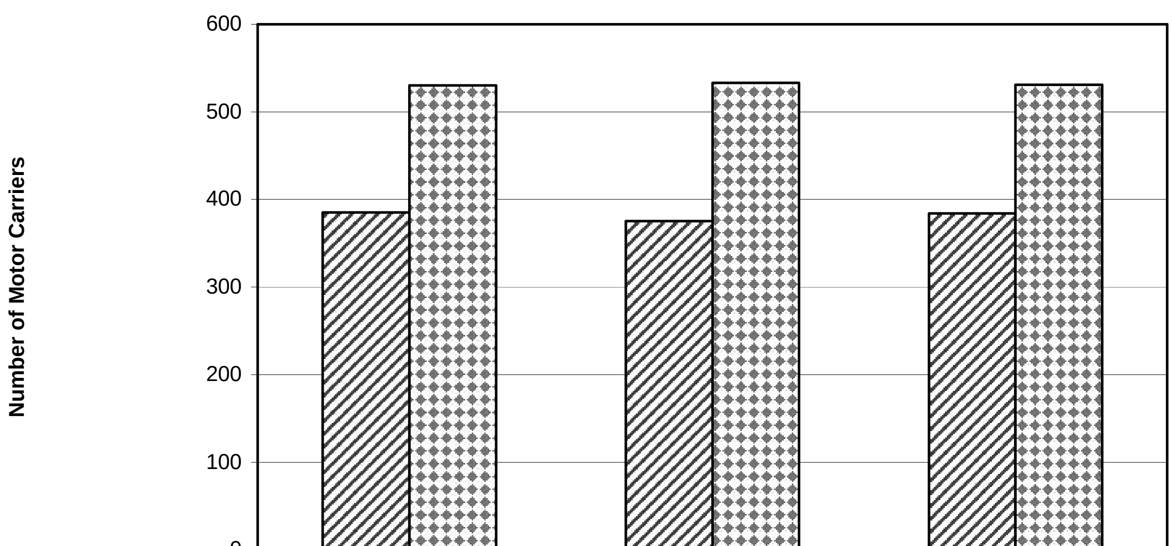
In accordance with its statutory requirements, the Commission performs the following functions in the regulation of motor carriers: (1) certification and licensing; (2) ratemaking; and (3) business regulation. During the Fiscal Year, the Commission issued many new certificates and licenses, reviewed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

a. COMMISSION APPROVES NEW MOTOR CARRIER CERTIFICATIONS.

The Commission regulates 531 passenger carriers and 384 property carriers in the State. During the Fiscal Year, new certificates or permits were issued to 98 motor carriers—61 passenger carriers and 37 property carriers.

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

Figure 4
Regulated Motor Carriers



	2002-03	2003-04	2004-05
Property Carriers	385	375	384
Passenger Carriers	530	533	531

FY

b. COMMISSION EXTENDS ZONE OF REASONABLENESS PILOT PROGRAM 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. In December 2003, the Commission established a one (1)-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.

In December 2004, the Commission extended the zone of reasonableness pilot program governing the Commission's motor carrier rate review and approval process, as approved by the Commission in its 2003 decision, for an additional three (3) calendar years, from January 1, 2005 up to and including December 31, 2007. In each year of the pilot program, a motor carrier's base rate is the applicable, approved tariff rate on file with the Commission, effective as of January 1 of that year. The Commission reserves the right, at any time, to adjust or change the zone of reasonableness or terminate the zone of reasonableness.

c. COMMISSION REVIEWS REQUESTS FOR RATE CHANGES.

During the Fiscal Year, the Commission reviewed and approved rate increases and decreases within and outside of the zone of reasonableness pilot program which 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. None of the motor carriers belonging to HSCCCA filed requests for rate changes. The Commission reviewed and approved the following motor carrier increases and decreases:

Rate Changes Within the Ten (10) Per Cent Zone Limit. For the rate changes that were within the zone limit of ten (10) per cent, most were for rate increases of seven (7) or ten (10) per cent. Other rate increases ranged from less than one (1) to six (6) per cent. The rate changes of only one (1) motor carrier included rate decreases. The Commission approved the following motor carrier increases and decreases within the zone:

Type of Carrier/Company (County)	Rate Increase or Decrease
Dump Truck	
Dump Truck (Hawaii)	7.00%
Dump Truck - selected rates (Hawaii)	2.80%
Kona Transportation, Inc. (Hawaii)	5.70%
Kona Transportation, Inc. - selected rates (Hawaii)	4.40%
Dump Truck (Hawaii)	2.80%
Pomaika'i Transport Services, Inc. dba P.T.S.I. (Oahu)	10.00%
Conen's Freight Transport, Inc. (Hawaii)	10.00%
Kalaka Nui, Inc. (Oahu, Hawaii, Maui, Kauai)	7.00%
Mamo K. Laranang dba Double H Trucking Co. - selected rates (Hawaii)	7.96%, 10.00%

Type of Carrier/Company (County)	Rate Increase or Decrease
Dump Truck (Oahu)	10.00%
Dump Truck (Maui)	10.00%
Dump Truck (Kauai)	10.00%
Dump Truck (Hawaii)	10.00%
Kona Transportation Co., Inc. - selected rates (Hawaii)	6.00%
Mamo K. Laranang dba Double H Trucking Co. - selected rates (Hawaii)	3.42%, 2.80%, 3.41%, 10.00%, 9.78%
Ed Yamashiro, Inc. - selected rates (Oahu)	10.00%
Rodney Everett Wilbur dba R & C Hauling - selected rates (Hawaii)	2.80%
Big Island Topsoil, LLC (Oahu, Maui, Kauai, Hawaii)	10.00%
Matsuyama Brothers Trucking, Inc. (Hawaii)	10.00%
Pineridge Farms, Inc. (Oahu)	4.49% to 10.00%
Pineridge Farms, Inc. (Maui)	10.00%
Rodney Everett Wilbur dba R & C Hauling (Hawaii)	10.00%
R.H.S. Lee, Inc. (Oahu)	10.00%
Tri Isle, Incorporated dba Valley Isle Express, and dba Haleakala Transportation & Warehousing (Maui)	6.00%
Nick’s Hauling Services, LLC (Hawaii)	10.00%
General Commodities	
Kona Transportation, LLC (Hawaii)	2.81%
General Commodities (Hawaii)	2.80%
Pomaika’i Transport Services, Inc. dba P.T.S.I. (Oahu)	7.00%
Pomaika’i Transport Services, Inc. dba P.T.S.I. - selected rates (Oahu)	8.00%
Conen’s Freight Transport, Inc. (Hawaii)	10.00%
Conen’s Freight Transport, Inc. - selected rates (Hawaii)	5.92%
Tri Isle, Incorporated dba Valley Isle Express, and dba Haleakala Transportation & Warehousing - selected rates (Maui)	1.90%
Mihara Transfer, Inc. (Hawaii)	10.00%
International Express, Inc. (Oahu)	5.00%
Kalaka Nui, Inc. (Oahu, Hawaii, Maui, Kauai)	7.00%
Mamo K. Laranang dba Double H Trucking Co. (Hawaii)	10.00%
General Commodities (Oahu)	8.50%
Hawaii Transfer Co., Ltd. (Oahu)	5.50%
General Commodities (Maui)	10.00%
General Commodities (Kauai)	10.00%
General Commodities (Hawaii)	10.00%
Kona Transportation Co., Inc. - selected rates (Hawaii)	6.00%
Mamo K. Laranang dba Double H Trucking Co. - selected rates (Hawaii)	10.00%, 2.48%, 2.80%
Island Movers, Inc. (Maui)	8.00%

Type of Carrier/Company (County)	Rate Increase or Decrease
Kuwaye Trucking Inc. (Hawaii)	8.50%
Pomaika'i Transport Services, Inc. dba P.T.S.I. - selected rates (Oahu)	10.00%
Direct Support Services, Inc. dba DSR - selected rates (Oahu)	9.50%
Ed Yamashiro, Inc. - selected rates (Oahu)	10.00%
Rodney Everett Wilbur dba R & C Hauling - selected rates (Hawaii)	2.80%
Martin Transportation, Inc. fka Martin Warehousing & Distribution, Inc. (Oahu)	8.50%
Big Island Topsoil., LLC (Oahu, Maui, Kauai, Hawaii)	10.00%
Matsuyama Brothers Trucking, Inc. (Hawaii)	10.00%
Pineridge Farms, Inc. - selected rates (Oahu)	8.50%, 10.00%
Pineridge Farms, Inc. - selected rates (Maui)	10.00%
Rodney Everett Wilbur dba R & C Hauling (Hawaii)	10.00%
Xpress Trucking, Inc. (Oahu, Maui)	8.50%
B B Delivery Service, Inc. (Maui)	10.00%
R.H.S. Lee, Inc. (Oahu)	10.00%
Tri Isle, Incorporated dba Valley Isle Express, and dba Haleakala Transportation & Warehousing (Maui)	6.00%
Tri Isle, Incorporated dba Valley Isle Express, and dba Haleakala Transportation & Warehousing - selected rates (Maui)	10.00%
Nick's Hauling Services, LLC (Hawaii)	10.00%
Household Goods	
All American Moving, Inc. - selected rates (Oahu)	7.49%, 7.00%
Kona Transportation Co., Inc. (Statewide)	6.00%
Kona Transportation Co., Inc. - selected rates (Statewide)	10.00%
Household Goods (Statewide)	2.80%
Island Movers, Inc. & Kona Transportation Co., Inc. (Statewide)	0.90%
Pomaika'i Transport Services dba P.T.S.I. (Oahu)	7.00%
Royal Hawaiian Movers, Inc. dba Royal Hawaiian Trucking & Warehousing - selected rates (Oahu, Maui, Hawaii)	2.80%
Mihara Transfer, Inc. (Hawaii)	10.00%
Household Goods (Statewide)	6.00%
Royal Hawaiian Movers, Inc. dba Royal Hawaiian Trucking & Warehousing (Oahu, Maui, Kauai)	8.97%
Sherman Enterprises, Inc. dba City Wide Transportation Company (Oahu)	5.00%
Other	
Special Freight (Oahu)	8.50%
Special Freight – Hawaii Transfer Co., Ltd. (Oahu)	5.50%

Type of Carrier/Company (County)	Rate Increase or Decrease
Break Bulk and Delivery	
Conen's Freight Transport, Inc. (Hawaii)	10.00%
Pacific Transfer LLC (Oahu)	7.00%
International Express, Inc. (Oahu)	5.00%
Break Bulk and Delivery (Statewide)	8.50%
Break Bulk and Delivery (Kauai)	10.00%
Break Bulk and Delivery (Hawaii)	10.00%
Kona Transportation Co., Inc. – selected rates (Hawaii)	6.00%
Island Movers, Inc. – selected rates (Oahu, Maui)	7.00%
Kuwaye Trucking Inc. (Hawaii)	8.50%
Hawaii Transfer Co., Ltd. (Oahu)	5.50%
Xpress Trucking, Inc. (Oahu, Maui)	8.50%
Sherman Enterprises, Inc. dba City Wide Transportation Company (Oahu)	5.00%
Passenger	
Passenger (Statewide)	2.80%
Jack's Tours, Inc. (Hawaii)	2.80%
Elite Limousine Service, Inc. (Oahu)	5.00%
CNA Senior Transport, LLC (Oahu)	10.00%
Akina Aloha Tours, Inc. – selected rates (Maui)	2.80%
Akina Bus Service, Ltd. – selected rates (Maui)	2.80%
RDH Transportation Services, Inc. – selected rates (Oahu)	7.00%
Aloha State Tour & Transportation Co., Ltd. (Oahu)	7.00%
Arthur's-Star 21, Inc. dba Maui Classic Coach and dba Arthur's Limousine Service – selected rates (Maui)	6.06%, between 5.53% & -9.85%, between 4.20% & -0.50%, 0.06% to 3.00%, between 6.45% & -9.88%
Hawaii Forest & Trail, Ltd. – selected rates (Hawaii)	4.10%, 2.50% to 6.90%
Alexander C. Naumu dba Anytime Island Express (Kauai)	10.00%
Passenger (Statewide)	7.00%
Travel Plaza Transportation, LLC & PHT Inc. dba Polynesian Hospitality (Statewide)	7.00%
Akina Aloha Tours, Inc. – selected rates (Maui)	9.09%, 10.00%, 1.54% to 7.69%, 7.00%, 7.07%, 7.02%, 7.04%, 6.92%, 6.83%, 9.96%, 9.93%, 7.08%, 6.79%
Akina Bus Service, Ltd. – selected rates (Maui)	9.09%, 10.00%, 1.54% to 7.69%, 7.00%, 7.11%
Adventurous, LLC (Hawaii)	10.00%
Raymond G. Foat dba Resort Shuttle – selected rates (Hawaii)	10.00%

Type of Carrier/Company (County)	Rate Increase or Decrease
Alexander C. Naumu dba Anytime Island Express – selected rates (Kauai)	10.00%
Katherine Cole Ross dba Shark's Tours – selected rates (Hawaii)	7.69%

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

Type of Carrier/Company (County)	Rate Increase or Decrease
Passenger	
Robert's Tours & Transportation – selected rates (Oahu)	25.28%

2. WATER CARRIERS.

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

a. COMMISSION GRANTS HAWAII SUPERFERRY A CERTIFICATE.

In December 2004, the Commission granted Hawaii Superferry a CPCN to operate as a common carrier by water of passengers and property, between the islands of Oahu and Kauai, Maui and Hawaii, subject to certain conditions set by the Commission. Hawaii Superferry is required to submit quarterly reports describing, among other things, the status of its progress in the construction and delivery of its vessels and in any improvements undertaken at the harbor facilities, the costs of such improvements, and the status of its progress in securing the appropriate financing. Hawaii Superferry will develop and operate a high-speed roll-on/roll-off service, using two (2) vessels.

b. COMMISSION APPROVES CONTINUATION OF ZONE OF REASONABLENESS PILOT PROGRAM.

In April 2005, the Commission approved the stipulation between Young Brothers and the Consumer Advocate which, among other things, agrees to extend the previously approved three (3)-year pilot program for an additional three (3) years, from December 20, 2004 to December 20, 2007. The Commission also approved Young Brothers' 2002 and 2003 cost of service studies, subject to the same terms and conditions set forth in the Commission's order approving the 2001 cost of service study. In December 2001, the Commission initially approved the three (3)-year pilot program which authorizes Young Brothers to file for rate flexibility within an approved zone of reasonableness.

c. COMMISSION APPROVES YOUNG BROTHERS AMENDED COMMODITY RATES TARIFF.

In May 2005, the Commission approved Young Brothers' commodity rates tariff changes on a permanent basis. These tariff changes were previously approved by the Commission for a one (1)-year trial period from July 1, 2004 to June 30, 2005. 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 changed the method for calculating the charge for the shipment of cargo utilizing shipper-owned platforms and added a long length penalty for the shipment of cargo utilizing shipper-owned equipment. For the tariff relating to Young Brothers-owned equipment, Young Brothers made certain non-substantive changes making the long length charges consistent in its tariff.

G. ONE CALL CENTER PROCEEDINGS.

The 2004 Legislature passed Act 141, SLH 2004 ("Act 141"), which establishes a one call center to coordinate the location of subsurface installations and to provide advance notice to subsurface installation operators of proposed excavation work. Pursuant to Act 141, the Commission is required to establish a One Call Center advisory committee ("Committee") to advise the Commission on the implementation of Act 141. Act 141 requires that the Commission establish and begin administration of a One Call Center by January 1, 2006. The Commission is responsible for awarding administration of the center to the provider it determines to be best qualified to provide center services.

1. COMMISSION ESTABLISHES ONE CALL CENTER ADVISORY COMMITTEE.

In August 2004, the Commission instituted a proceeding to establish a Committee and appoint the members of the Committee. Pursuant to Act 141, the Committee shall be comprised of 15 voting members and one ex officio nonvoting member. Of the 15 voting members, nine (9) voting members shall be appointed by the Commission and consist of: (1) one (1) member from the gas utility industry; (2) one (1) member from the electric utility industry; (3) one (1) member from the telecommunications utility industry; (4) one (1) member from the pipeline operator industry; (5) two (2) members from the General Contractors Association of Hawaii ("GCA"); (6) two (2) members from the Building Industry Association of Hawaii ("BIA"); and (7) one (1) member from the cable service industry.[8] As requested by the Commission, the Utilities Damage Task Force ("Task Force") submitted its list of recommended nominees to fill the nine (9) seats on the Committee.

In November 2004, the Commission formally established the Committee and approved the Task Force's recommended nominees submitted to the Commission. The Commission announced the 15 voting members comprised of representatives from the following: Steven Golden (gas utility industry); Ken T. Morikami (electric utility industry); Calvin Choy (telecommunications utility industry); Don Grimes (pipeline operator industry); Leonard Leong and Sidney Quintal[9] (GCA); John Cheung and Ron Oshiro (BIA); Lance Uno (cable service industry);

---

[8]Act 141 specifies that the additional six (6) members are: the Director of the State Department of Transportation ("DOT") or the Director's representative; (2) the Executive Director of the Division of Consumer Advocacy or the Executive Director's representative; and (3) one (1) member from each of the counties of Maui, Kauai, Hawaii and the city and county of Honolulu, designated by the respective mayors.

[9]Sidney Quintal has been replaced by Randall Ching.

Larry Leopardi[10] (City and County of Honolulu); Galen Kuba (County of Hawaii); Cary Yamashita (County of Maui); Wally Kudo (County of Kauai); Rodney Haraga[11] (Department of Transportation or "DOT"); and John Cole (Consumer Advocate).

2. COMMISSION INSTITUTES A PROCEEDING TO SELECT A ONE CALL CENTER PROVIDER.

In April 2005, the Commission instituted a proceeding to (1) investigate the availability of experienced One Call Center providers; (2) select a One Call Center provider that it determines to be best qualified to provide the services; and (3) name a new member to the Committee representing the DOT.[12] The Commission recognized the DOT Director's designated representative on the Committee.

H. GASOLINE PRICE CAP PROCEEDINGS.

The 2002 Legislature passed Act 77, SLH 2002, now codified as Chapter 486H, HRS, which established maximum pre-tax wholesale and retail prices on regular unleaded gasoline to be sold in the State. In 2004, the Legislature passed Act 242, SLH 2004, which amended Chapter 486H, HRS, by: (1) changing the baseline for determining maximum pre-tax wholesale gasoline prices by using the average of the spot prices for regular unleaded gasoline for the markets of New York Harbor, the United States Gulf Coast, and Los Angeles; (2) extending maximum pre-tax wholesale price limits to mid-grade and premium gasoline; (3) repealing the maximum pre-tax retail gasoline price; (4) establishing zones within the State and authorizing the Commission to adjust the maximum pre-tax wholesale gasoline prices in the various zones; (5) extending the effective date of the imposition of the maximum pre-tax wholesale gasoline price limit to September 1, 2005; and (6) making an appropriation, to be expended by the Commission, for the purposes of implementing Chapter 486H, HRS.

1. COMMISSION EXAMINES GASOLINE PRICE CAP ISSUES AND REQUIREMENTS.

In January 2005, the Commission instituted a proceeding to examine the issues and requirements raised by, and contained in Chapter 486H, HRS. The Commission examined the following issues and requirements: (1) the effect, impact, and appropriateness of the baseline price and options as to a more appropriate baseline or a more appropriate reporting service, if any; (2) the effect, impact, and appropriateness of the location adjustment factor established at $.04 per gallon, and options as to a more appropriate location adjustment factor; (3) the effect, impact, and appropriateness of the marketing margin factor established at $.18 per gallon, and options as to a more appropriate marketing margin factor; (4) the effect, impact and appropriateness of the mid-grade adjustment factor established at $.05 per gallon, and options as to a more appropriate mid-grade adjustment factor; (5) the effect, impact, and appropriateness of the premium adjustment factor established at $.09 per gallon, and options as to a more appropriate premium adjustment factor; (6) the types of documents, data, and information

---

[10] Leonard Leopardi has been replaced by George "Keoki" Miyamoto.

[11] Currently, Pratt Kinimaka is the duly designated representative of Rodney Haraga, the Director of DOT.

[12] On November 15, 2005, after thorough evaluation of proposals received in response to its request for proposal, the Commission issued an order selecting One Call Concepts, Inc. as the exclusive provider for the administration and operation of the One Call Center. Order No. 22121, filed November 15, 2005, in Docket No. 05-0079.

manufacturers, wholesalers, or jobbers must furnish to the Commission to make determinations on zone price adjustments; (7) zone price adjustments to the maximum pre-tax wholesale regular unleaded, mid-grade, and premium gasoline prices and the effect, impact, and appropriateness on a zone by zone basis; (8) the types of documents, data, and information necessary for the Commission to determine whether the manufacturer, wholesaler, or jobber is complying with any requirement imposed or rule adopted; and (9) any further adjustments necessary to establish maximum pre-tax wholesale gasoline prices that reflect and correlate with competitive market conditions.

The parties to this proceeding include Chevron, Tesoro, Shell Oil Company, Hawaii Petroleum Marketers Association and Consumer Advocate. In April 2005, the Commission issued a report prepared by ICF Consulting ("ICF"), professional consultants retained by the Commission to assist in its investigation. The Commission issued its decision in this proceeding in Fiscal Year 2005-06.[13]

I. DOCKET PROCEEDINGS.

At the beginning of the Fiscal Year, 446 pending dockets were carried over from prior years, and 371 new dockets were opened during the Fiscal Year. Thus, during the Fiscal Year, a total of 817 dockets were before the Commission for review and consideration. Of the 817 dockets, 575 or approximately 70 per cent of the dockets were completed by the end of the Fiscal Year (June 30, 2005).

At the end of the Fiscal Year, 242 dockets were pending, including 76 dockets carried over from years prior to the Fiscal Year and 166 dockets that were opened during the Fiscal Year.

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

[13] Decision and Order No. 21952, filed on August 1, 2005, in Docket No. 05-0002.

DOCKETS FILED, COMPLETED, AND PENDING
FISCAL YEARS 2002-03, 2003-04, and 2004-05

	Fiscal Year (July 1 - June 30)		
Dockets Pending on July 1	**2002-03**	**2003-04**	**2004-05**
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
Gas Price Cap	n/a	n/a	n/a
One Call Center	n/a	n/a	n/a
Total	304	349	446
New Dockets Opened in Fiscal Year	**2002-03**	**2003-04**	**2004-05**
Utilities			
Electric	32	46	30
Gas	1	1	2
Telecommunications	115	97	89
Private Water/Sewer	11	10	16
Subtotal	159	154	137
Transportation			
Motor Carriers	276	236	230
Water Carriers	4	1	1
Subtotal	280	237	231
Gas Price Cap	n/a	n/a	1
One Call Center	n/a	n/a	2
Total	439	391	371

DOCKETS FILED, COMPLETED, AND PENDING
FISCAL YEARS 2002-03, 2003-04, and 2004-05

Dockets Completed in FY	**2002-03**	**2003-04**	**2004-05**
Utilities			
Electric	29	38	38
Gas	3	3	1
Telecommunications	99	49	188
Private Water/Sewer	3	12	17
Subtotal	134	102	244
Transportation			
Motor Carriers	257	191	330
Water Carriers	3	1	0
Subtotal	260	192	330
Gas Price Cap	n/a	n/a	0
One Call Center	n/a	n/a	1
Total	394	294	575
Dockets Pending on June 30	**2002-03**	**2003-04**	**2004-05**[14]
Utilities			
Electric	42	50	42
Gas	2	0	1
Telecommunications	91	139	40
Private Water/Sewer	15	13	12
Subtotal	150	202	95
Transportation			
Motor Carriers	197	242	142
Water Carriers	2	2	3
Subtotal	199	244	145
Gas Price Cap	n/a	n/a	1
One Call Center	n/a	n/a	1
Total	349	446	242

[14]The lower number of total pending dockets may be primarily attributed to the greater number of prior fiscal years' dockets completed in this Fiscal Year.

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 and other requirements, and motor carrier citations. These enforcement activities are critical in ensuring that customers of the regulated companies receive adequate and efficient services.

A. COMPLAINT RESOLUTION.

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

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

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

1. WRITTEN INFORMAL AND VERBAL COMPLAINTS.

As shown in the table below, the Commission received a total of 596 written informal and verbal complaints in the Fiscal Year against regulated and unregulated utility and transportation companies. Complaints on Oahu amounted to 316 out of 596 complaints statewide, or 53 per cent of the total complaints.

Total Informal and
Verbal Complaints
Fiscal Year 2005

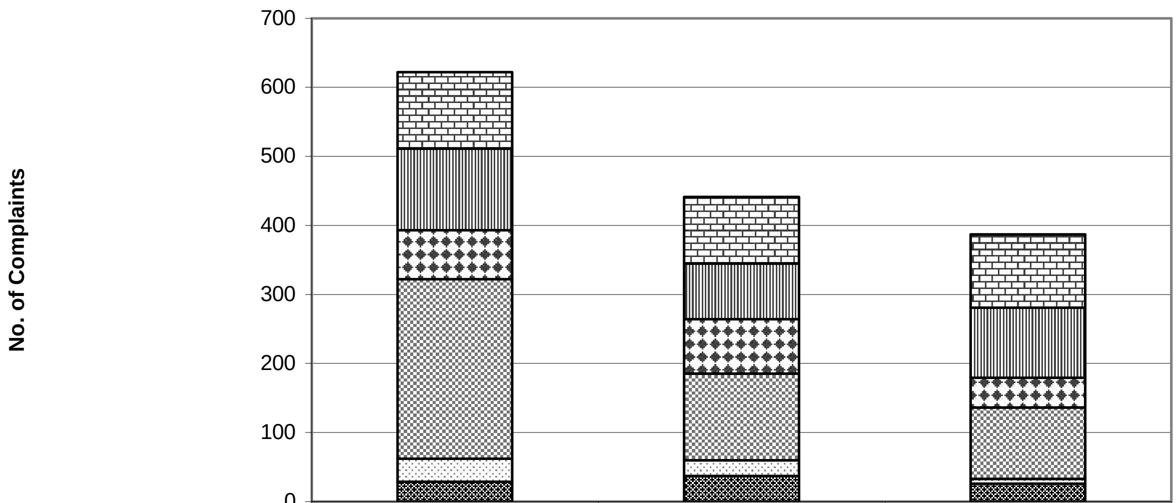
Utilities	
Telecommunications:	
Wireline (telephone)	106
Cellular and Paging	102
Other Telecom Providers	43
Total Telecom	251
Electricity	103
Gas	7
Water/Sewer	26
Transportation Carriers	
Water Carrier	2
Motor Carrier	207
Total Complaints	596

For all islands, the Commission received 251 written informal and verbal complaints involving telecommunications providers. The majority of telecommunications complaints (106) related to Verizon Hawaii, now known as Hawaiian Telcom. These complaints mainly involved service problems, mostly relating to interruptions, repairs, and installations. The cellular and paging companies received 102 complaints, mostly relating to billing problems (service contracts and charges). Most of the 43 complaints filed against other telecommunications providers, including interstate and unregulated communications equipment and service companies, were related to service and billing problems and unregulated long distance carriers.

The electric utilities received 103 complaints, mostly relating to billing problems (high consumption). The seven (7) complaints against gas utilities were mostly relating to service and billing problems. The 26 complaints relating to water and sewer facilities were primarily over tariffs (rates and charges) and billing (high consumption) problems. The two (2) complaints against water carriers involved primarily service problems and tariffs. Most of the 207 complaints against motor carriers were related to operating without CPCNs.

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

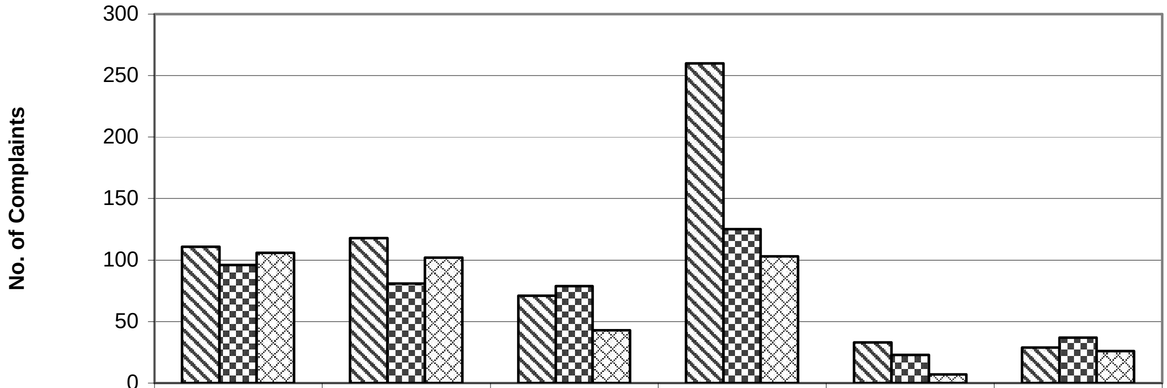
Figure 5
Informal and Verbal Complaints
Total All Utility Companies - Fiscal Years 2003-2005



	FY 2003	FY 2004	FY 2005
Telephone	111	96	106
Cellular and Paging	118	81	102
Other Telecom Providers	71	79	43
Electricity	260	125	103
Gas	33	23	7
Water/Sewer	29	37	26
Total Complaints	622	441	387

FY

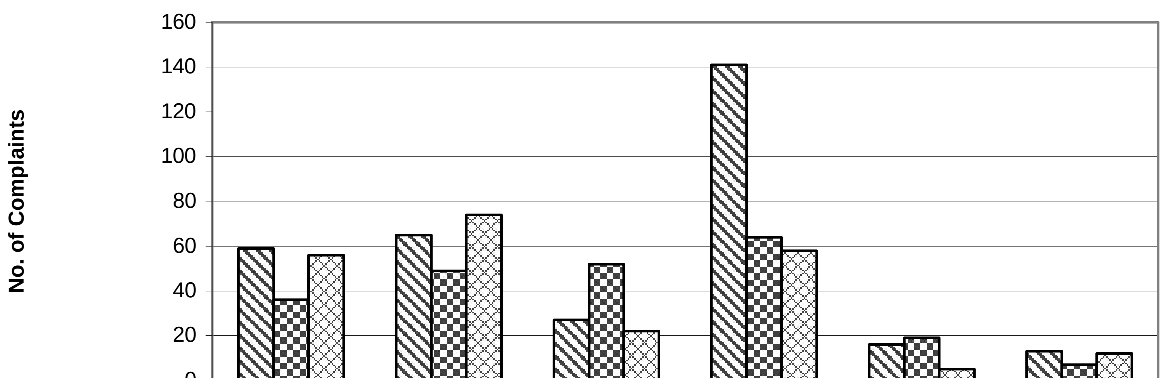
Figure 6
Informal and Verbal Complaints
Statewide - All Utility Companies - Fiscal Years 2003-2005



	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
FY 2005	106	102	43	103	7	26

Type of Utility

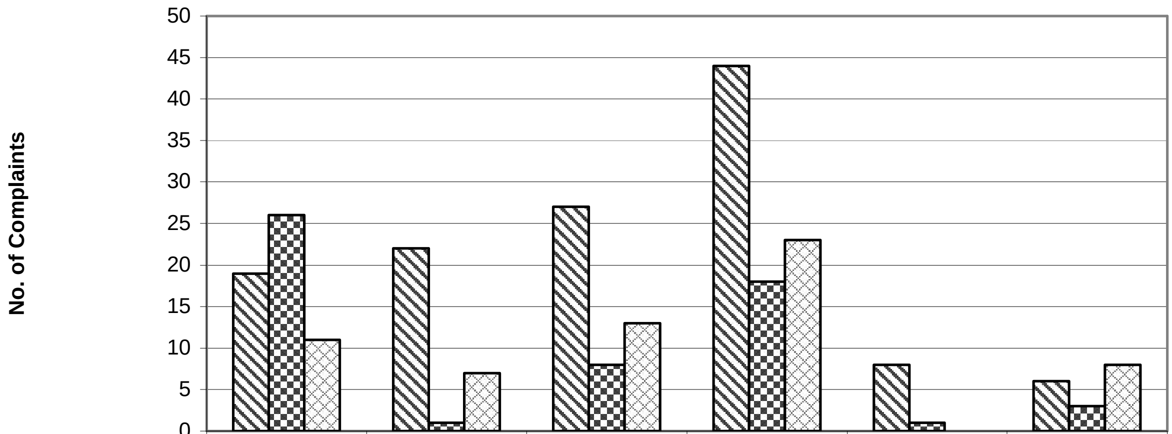
Figure 7
Informal and Verbal Complaints
Oahu - Utility Companies - Fiscal Years 2003-2005



	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
FY 2005 Oahu	56	74	22	58	5	12

Type of Utility

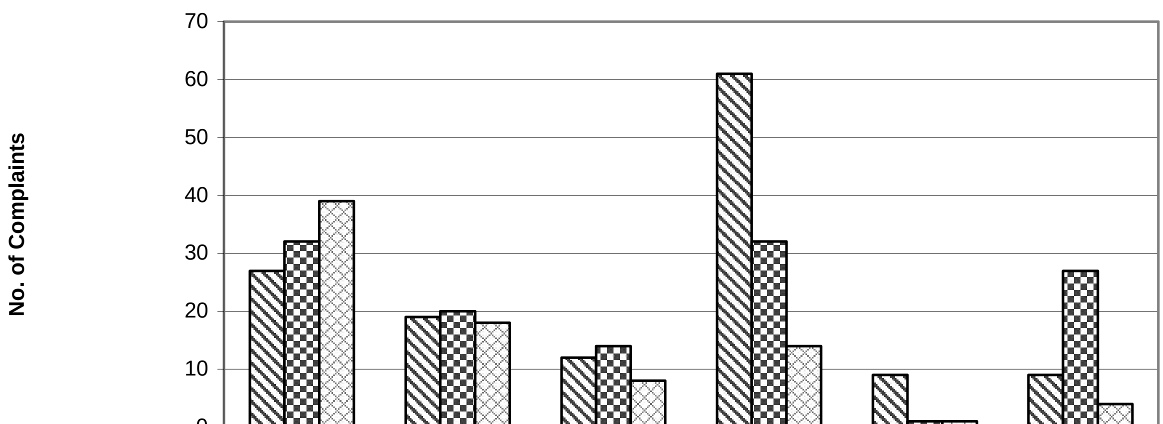
Figure 8
Informal and Verbal Complaints
Maui - Utility Companies - Fiscal Years 2003-2005



	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
FY 2005 Maui	11	7	13	23	0	8

Type of Utility

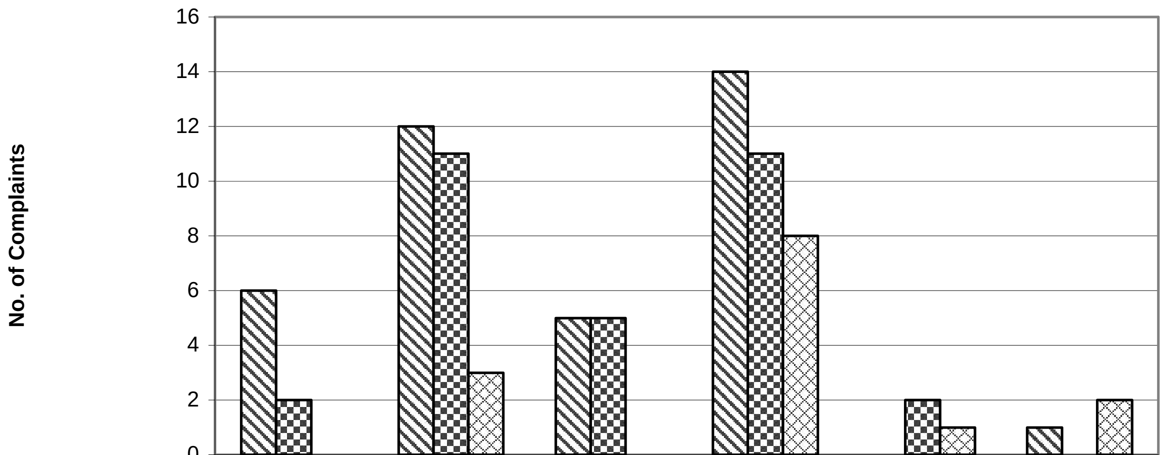
Figure 9
Informal and Verbal Complaints
Hawaii - Utility Companies - Fiscal Years 2003-2005



	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
FY 2005 Hawaii	39	18	8	14	1	4

Type of Utility

Figure 10
Informal and Verbal Complaints
Kauai - Utility Companies - Fiscal Years 2003-2005

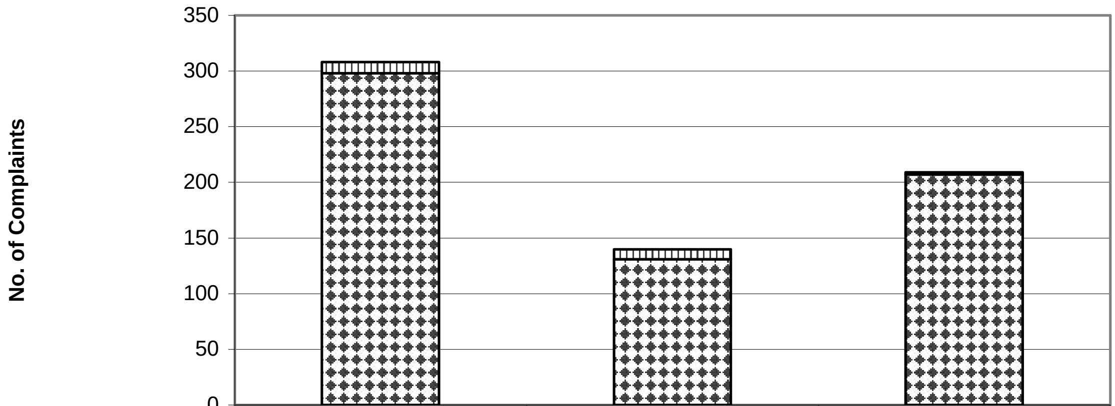


	Telephone	Cellular and Paging	Other Telecom Providers	Electricity	Gas	Water/Sewer
FY 2003 Kauai	6	12	5	14	0	1
FY 2004 Kauai	2	11	5	11	2	0
FY 2005 Kauai	0	3	0	8	1	2

Type of Utility

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

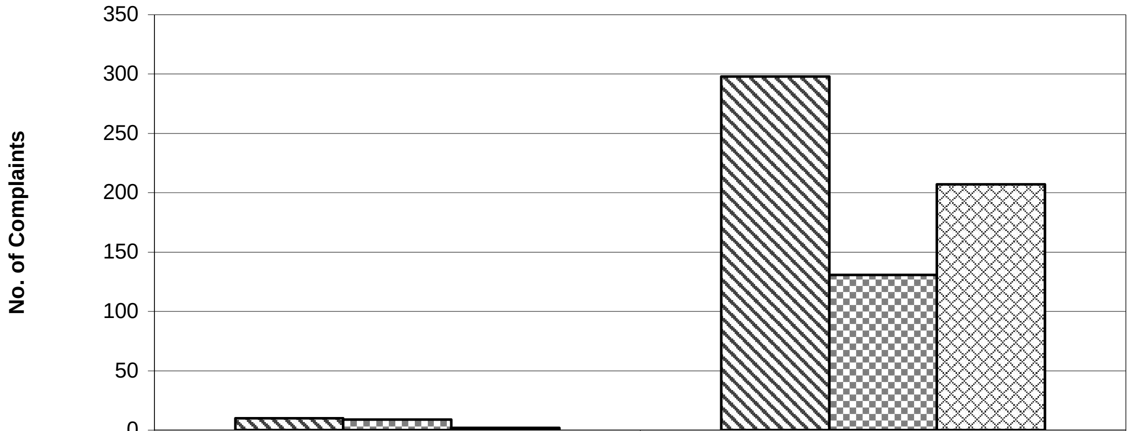
Figure 11
Informal and Verbal Complaints
Statewide All Transportation Carriers - Fiscal Years 2003-02005



	FY 2003	FY 2004	FY 2005
Water Carrier	10	9	2
Motor Carrier	298	131	207
Total Complaints	308	140	209

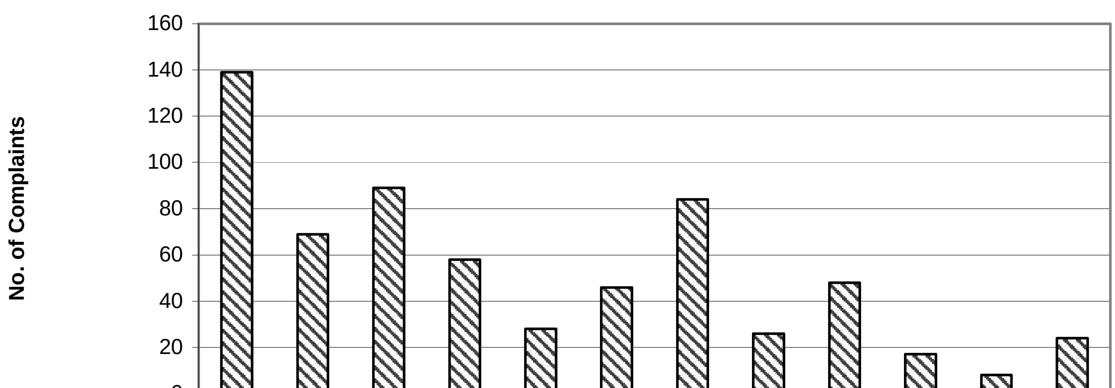
FY

Figure 12
Informal and Verbal Complaints
Statewide - Water Carrier and Motor Carrier - Fiscal Years 2003-2005



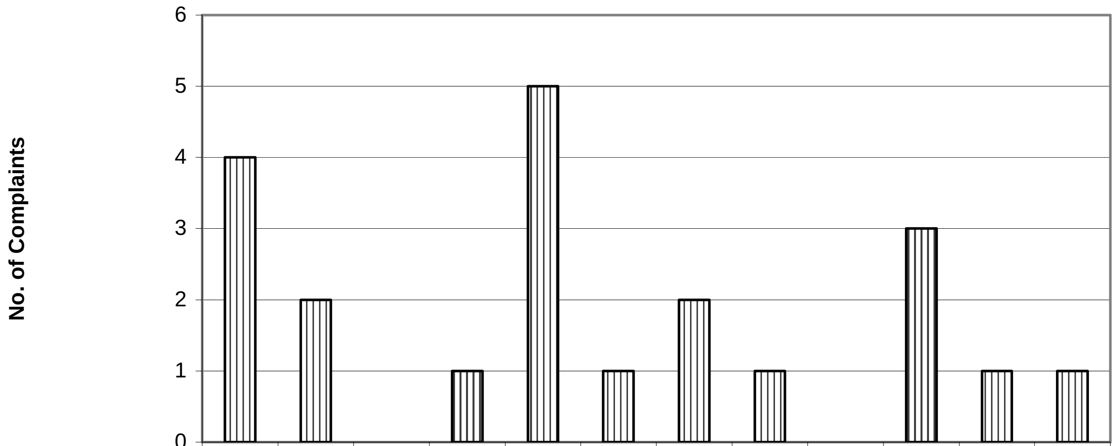
	Water Carrier	Motor Carrier
FY 2003	10	298
FY 2004	9	131
FY 2005	2	207

Figure 13
Informal and Verbal Complaints
Motor Carrier - By Islands - Fiscal Years 2003-2005



	Oahu FY 2003	Oahu FY 2004	Oahu FY 2005	Hawaii FY 2003	Hawaii FY 2004	Hawaii FY 2005	Maui FY 2003	Maui FY 2004	Maui FY 2005	Kauai FY 2003	Kauai FY 2004	Kauai FY 2005
Motor Carrier	139	69	89	58	28	46	84	26	48	17	8	24

Figure 14
Informal and Verbal Complaints
Water Carrier - By Islands - Fiscal Years 2003-2005



	Oahu FY 2003	Oahu FY 2004	Oahu FY 2005	Hawaii FY 2003	Hawaii FY 2004	Hawaii FY 2005	Maui FY 2003	Maui FY 2004	Maui FY 2005	Kauai FY 2003	Kauai FY 2004	Kauai FY 2005
Water Carrier	4	2	0	1	5	1	2	1	0	3	1	1

Islands and FY

2. INFORMAL COMPLAINT SURVEY

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

In the Fiscal Year, the Commission received 48 responses to its informal complaint survey. Figures 15 to 18 show the results of the survey.

Figure 15
INFORMAL COMPLAINT SURVEY
Fiscal Year 2004-05

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

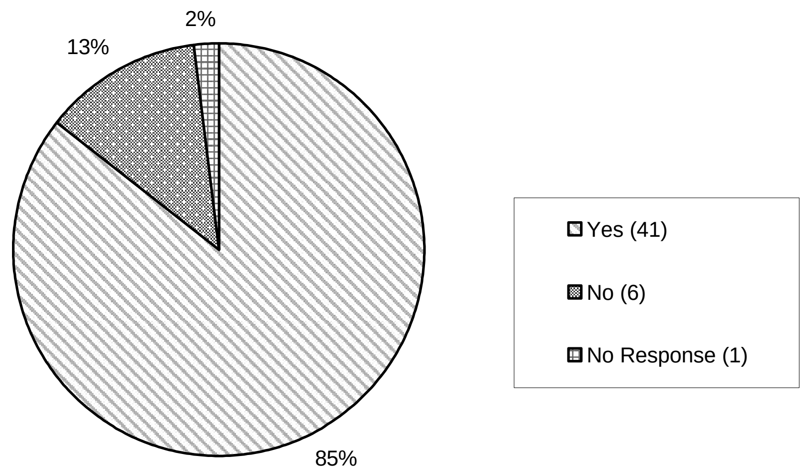


Figure 16
INFORMAL COMPLAINT SURVEY
Fiscal Year 2004-05

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

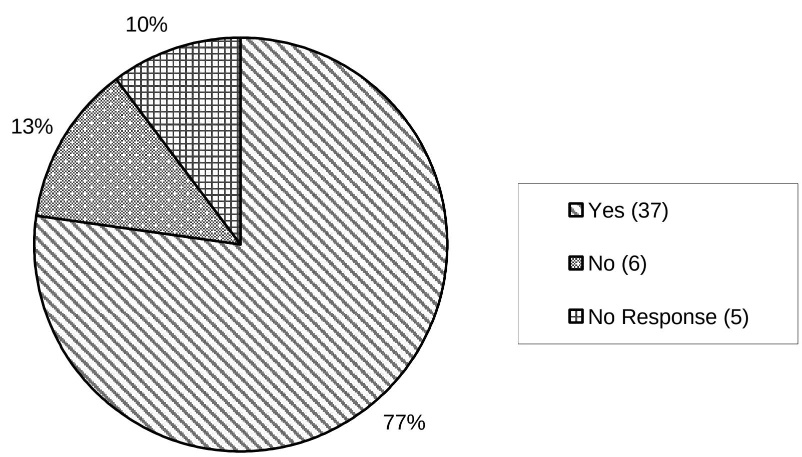


Figure 17
INFORMAL COMPLAINT SURVEY
Fiscal Year 2004-05

3-Was your complaint resolved to your satisfaction?

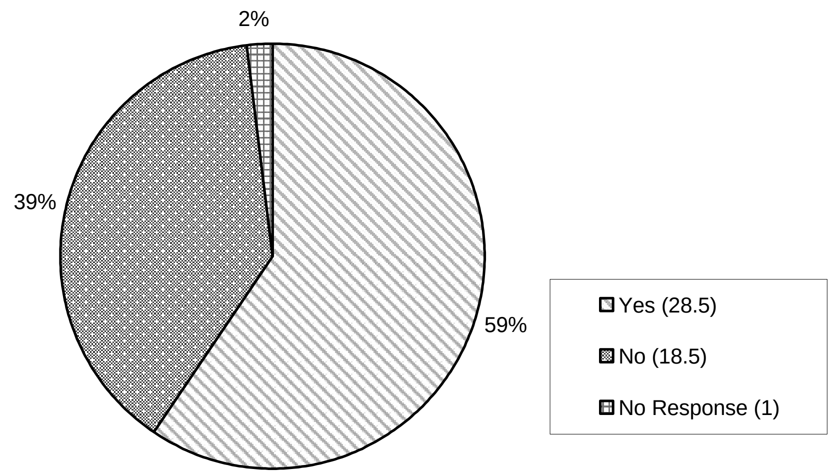
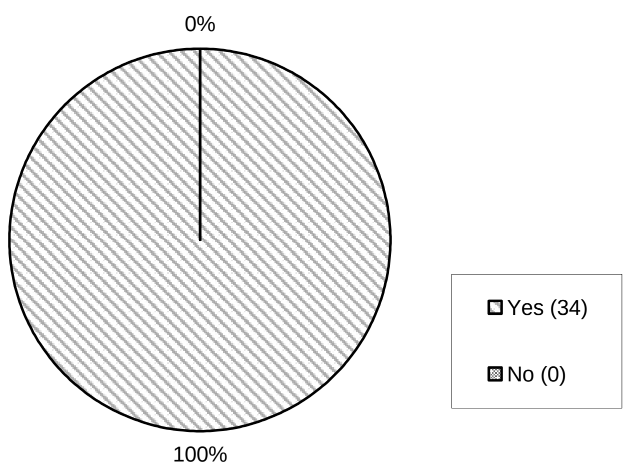


Figure 18
INFORMAL COMPLAINT SURVEY
Fiscal Year 2004-05

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



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 25 show cause orders to motor carriers and 24 orders to telecommunications providers who failed to submit financial reports and failed to pay required revenue fees. The Commission collected $6,463 in interest and penalties for the late payment of revenue fees. At the end of the Fiscal Year, all, except two (2), order to show cause dockets were pending.

C. OPERATING AS A PUBLIC UTILITY WITHOUT A CERTIFCATE.

The Commission is authorized to institute order to show cause proceedings to investigate alleged or suspected violations of any rule, regulation, order, or other requirement. The Commission may assess a civil penalty not to exceed $25,000 for each day of violation, neglect, or failure to conform to or comply with Chapter 269, HRS, or any lawful order of the Commission.

In June 2004, the Commission opened an investigation of an informal complaint filed by Mokuleia Beach Colony against Mokuleia Water, LLC ("MW") and Mokuleia Water Users Association ("Association"). Based on its investigation of the complaint, the Commission concluded that MW and the Association are providing water service to the public as a public utility without a CPCN. In January 2005, the Commission issued an order to show cause to MW and the Association for failure to comply with Chapter 269, HRS, by operating as a public utility without a CPCN. In June 2005, the Commission held an order to show cause hearing. At the end of the Fiscal Year, the Commission's decision in this proceeding was pending.

D. 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 is authorized to assign the department's motor vehicle safety officer to assist the Commission in assessing civil penalties.

The Commission has been successful in its efforts to enforce the law by issuing citations to discourage illegal motor carrier activities on Oahu and the neighbor islands. Some of the common types of motor carrier citations relate to operating without a CPCN, the failure to maintain the required liability insurance and improper vehicle marking. For this Fiscal Year, civil penalties collected through motor carrier citations totaled $6,700. The Commission enforcement officers issued 22 motor carrier citations on the following islands: Oahu (10), Hawaii (7), Kauai (4), and Maui (1).

VII. INQUIRIES.

In addition to consumer complaints, the Commission is responsible for collecting and compiling all inquiries concerning public utilities. Commission staff receives various requests for information relating to utilities, transportation carriers, gasoline price cap, one call center, general regulated matters, and non-regulated matters. As shown in the table below, the Commission received a total of 2,302 inquiries in the Fiscal Year, mostly relating to motor carriers.

Total Inquiries
Fiscal Year 2004-05

Utilities:	
Telecommunications	419
Electric	73
Gas	3
Water/Sewer	33
Transportation Carriers:	
Property Motor Carrier	784
Passenger Motor Carrier	806
General Motor Carrier	47
Water Carrier	26
One Call Center	1
General Regulated & Unregulated	110
Total Inquiries	2,302

VIII. 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 $11,112,105 in public utility fees and $1,034,797 in motor carrier fees, respectively. The total revenues of the Commission's Special Fund were $12,204,752.

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 $6,968,888 for personal services and other current expenses as shown in the table below. Allotments for the Commission's personal services expenses were $2,661,085 for 39 authorized permanent positions. The Commission was allotted $4,352,673 for other current expenses. The Commission's other current expenses allotment included $2,473,837 that was transferred to the Consumer Advocate to cover its operating expenses.

The Commission also received the following appropriations out of the Special Fund as shown in the table below: (1) $300,000 for the purpose of establishing and operating a one call center, pursuant to Act 141, SLH 2004 ("Act 141") and (2) $104,664 for two (2) permanent positions, an engineer IV and an investigator IV, pursuant to Act 154, SLH 2004 ("Act 154").

	FY 2004-05 Appropriation	FY 2004-05* Allotment
Personal Services	$2.616,215	$2,661,085
Other Current Expense	4,352,673	4,352,673
Total	$6,968,888	$7,013,758
One Call Center	$300,000	$300,000
Two (2) Permanent Positions	$104,664	$104,664

*Allotment for personal services includes collective bargaining amount ($44,870).

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 $5,616,362 from the Special Fund was transferred to the general fund. This excess balance amount includes the balance of the moneys appropriated through Act 41, SLH 2004 (2004 Supplemental Appropriations Act), Act 141, and Act 154. [15]

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

A. UTILITY COMPANY OPERATIONS.

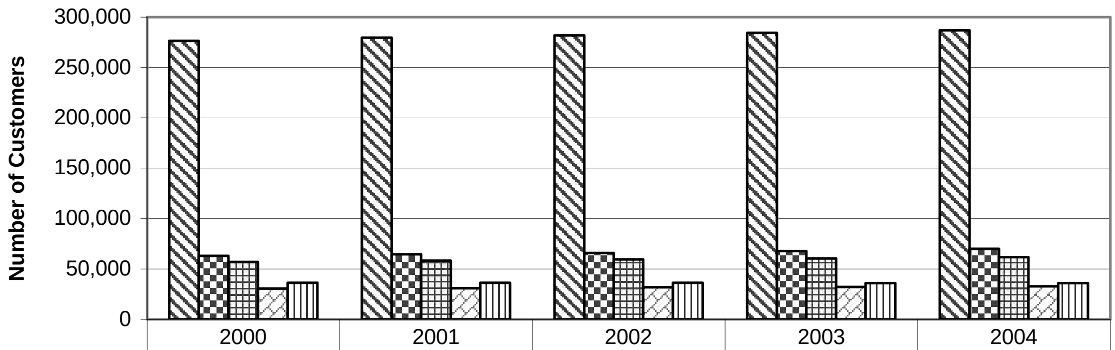
1. CUSTOMERS SERVED BY UTILITY COMPANIES.

The number of customers served by electric and gas utility customers have been fairly stable, with a slight general increase for the electric utility customer numbers during the 2000 – 2004 time period, as shown in Figure 19.[16]

[15]See the "Public Utilities Commission Special Fund Report, Fiscal Year 2004-05" 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.

[16]Sources: HECO 2004 Service Reliability Report, MECO 2004 Service Reliability Report, HELCO 2004 Service Reliability Report, and KIUC Annual Report to the PUC.

Figure 19
Number of Electric and Gas Utility Customers
2000 - 2004



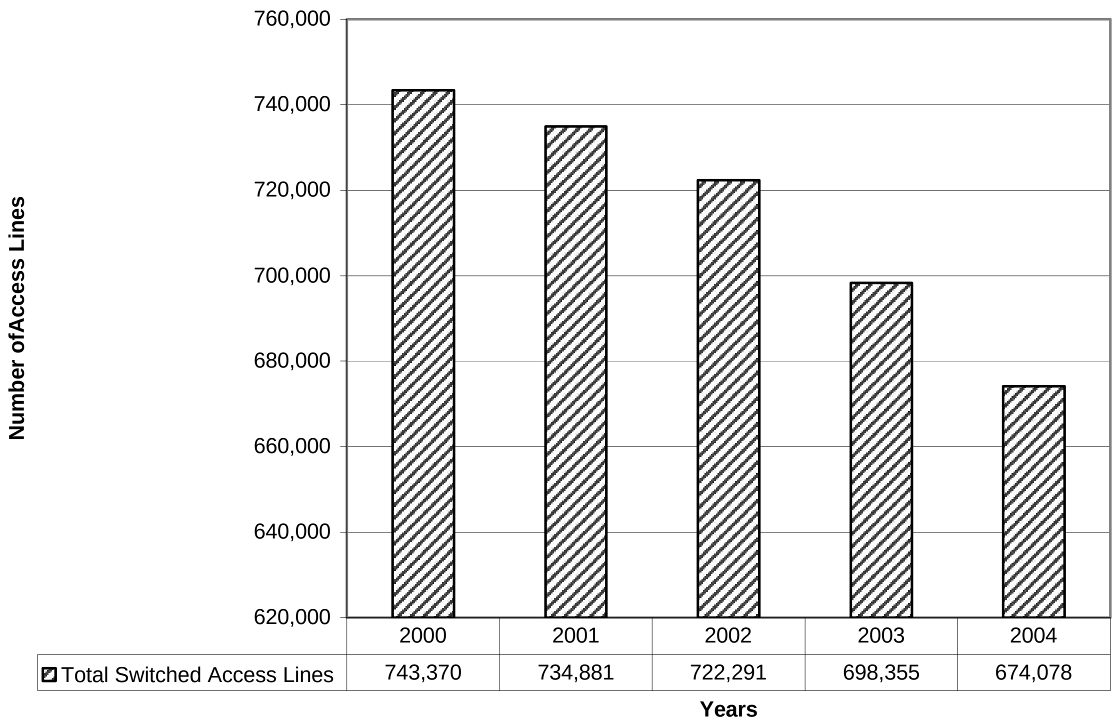
	2000	2001	2002	2003	2004
HECO	276,447	279,534	281,922	284,460	287,074
HELCO	63,207	64,660	66,034	67,879	70,124
MECO	57,000	58,308	59,410	60,651	61,684
KIUC	30,715	30,969	31,768	32,065	32,950
Gasco	36,321	36,379	36,322	36,093	36,093

Annual Periods

As shown in Figure 20, 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 four (4) years.[17] 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).

[17]Verizon Hawaii's ARMIS Operating Data Reports (FCC Report 43-08) for 2000 through 2004.

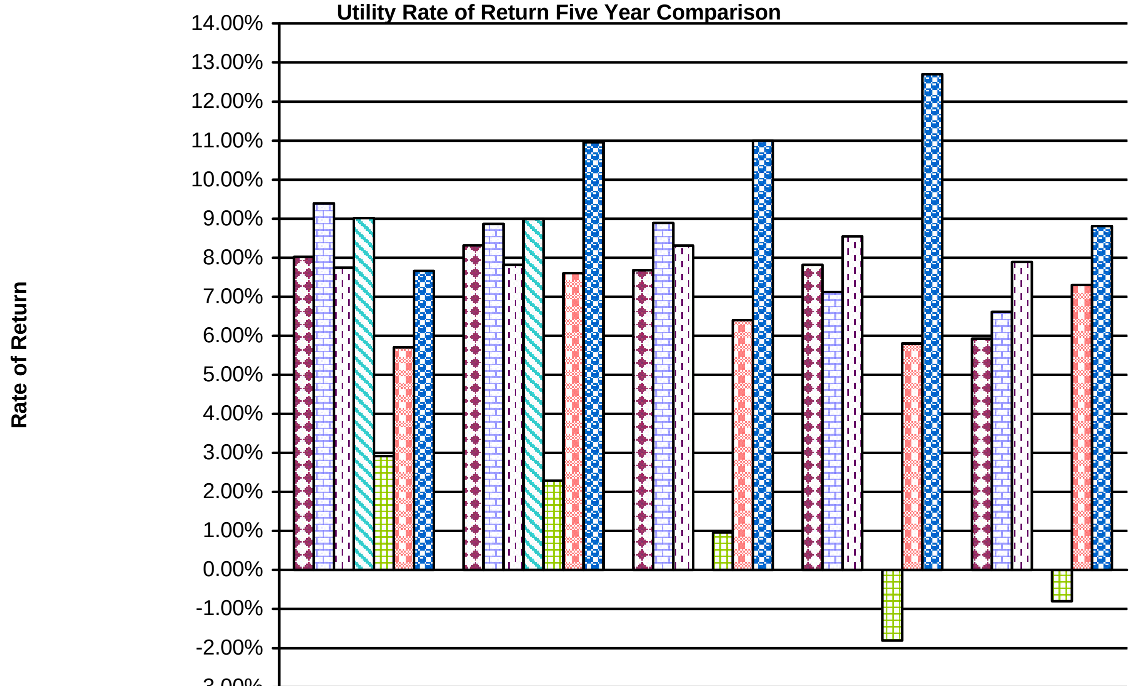
Figure 20
Verizon Hawaii Total Switched Access Lines
2000-2004



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 21 summarizes the recent history and trends of rates of return earned by the various regulated utilities.

Figure 21
Utility Rate of Return Five Year Comparison



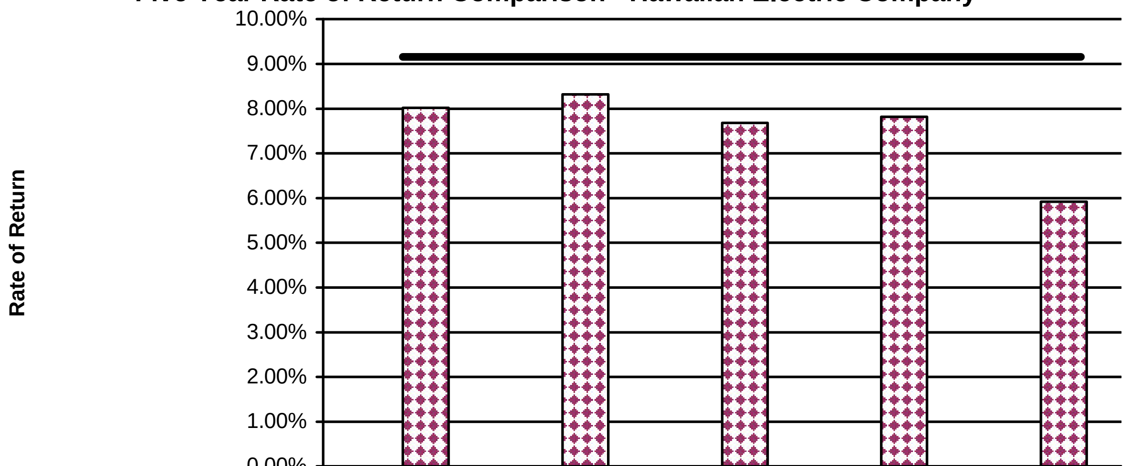
	Jun '01	Jun '02	Jun '03	Jun '04	Jun '05
HECO	8.02%	8.32%	7.68%	7.82%	5.92%
HELCO	9.39%	8.87%	8.89%	7.12%	6.61%
MECO	7.74%	7.82%	8.31%	8.55%	7.89%
KE/KIUC (1)	9.01%	8.99%	n/a (4)	n/a (4)	n/a (4)
Hawaiian Telcom (2)	2.92%	2.29%	0.96%	-1.80%	-0.80%
TGC (3)	5.70%	7.60%	6.40%	5.80%	7.30%
Young Brothers	7.66%	10.96%	11.00%	12.70%	8.81%

12 MTD Ended June 30

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

As shown in Figures 22 to 25 and 27 to 29, for the most part, the utilities have not been earning their authorized rates of return over the past five (5) years. As KIUC converted to times interest earned ratio ("TIER") in 2002, Figure 26 shows KIUC's TIER for the past three (3) years.

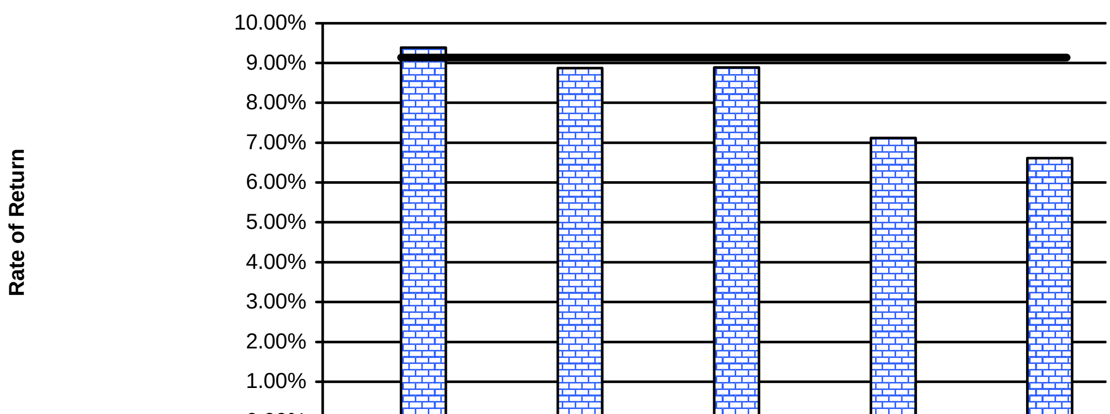
Figure 22
Five Year Rate of Return Comparison - Hawaiian Electric Company



	Jun '01	Jun '02	Jun '03	Jun '04	Jun '05
Authorized Rate of Return	9.16%	9.16%	9.16%	9.16%	9.16%
Rate of Return	8.02%	8.32%	7.68%	7.82%	5.92%

12 MTD Ended June 30

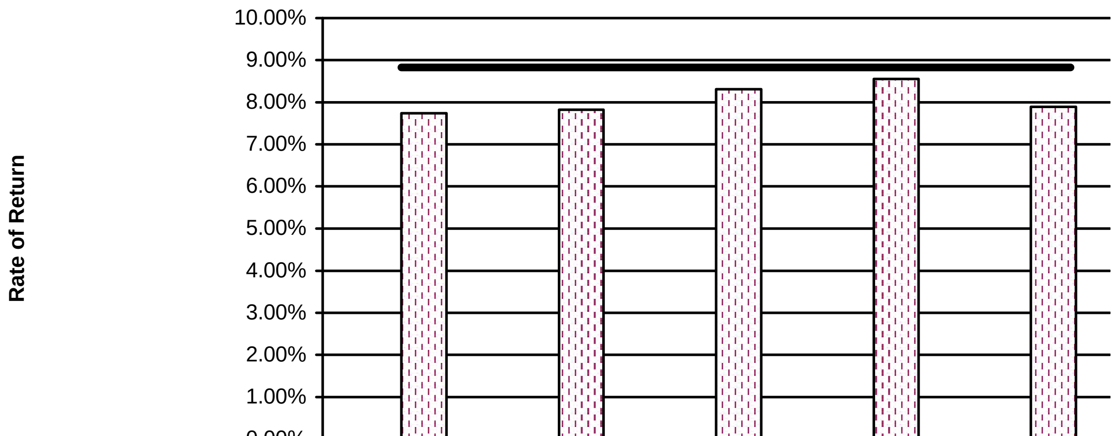
Figure 23
Five Year Rate of Return Comparison - Hawaii Electric Light Company



	Jun '01	Jun '02	Jun '03	Jun '04	Jun '05
Authorized Rate of Return	9.14%	9.14%	9.14%	9.14%	9.14%
Rate of Return	9.39%	8.87%	8.89%	7.12%	6.61%

12 MTD Ended June 30

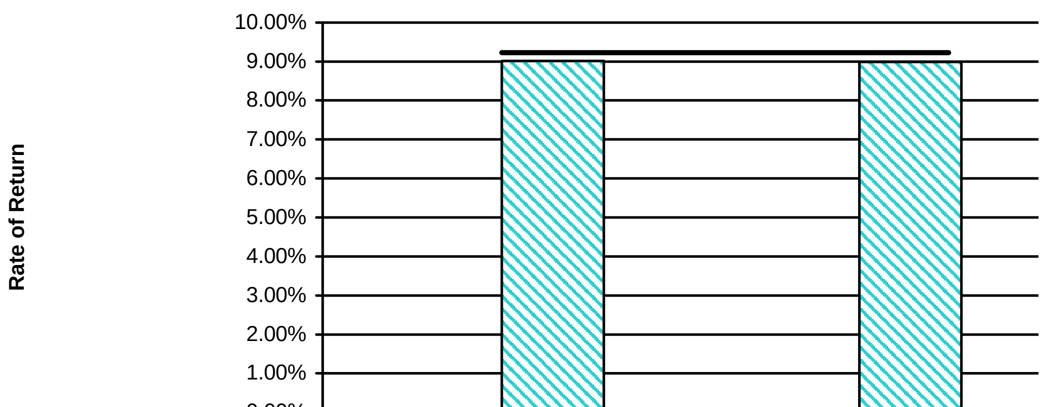
Figure 24
Five Year Rate of Return Comparison - Maui Electric Company



	Jun '01	Jun '02	Jun '03	Jun '04	Jun '05
Authorized Rate of Return	8.83%	8.83%	8.83%	8.83%	8.83%
Rate of Return	7.74%	7.82%	8.31%	8.55%	7.89%

12 MTD Ended June 30

Figure 25
Two Year Rate of Return Comparison - Kauai Electric

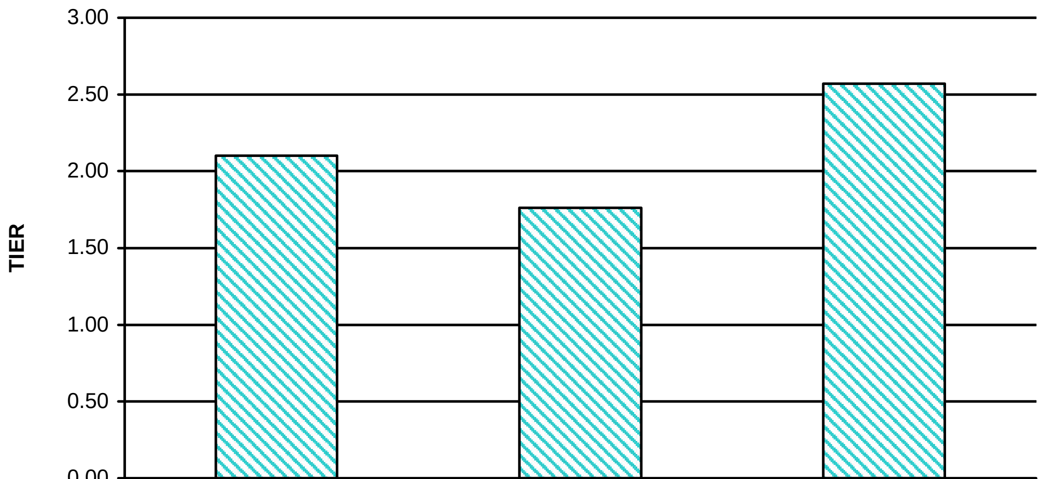


	Jun '01	Jun '02
Authorized Rate of Return	9.23%	9.23%
Rate of Return	9.01%	8.99%

12 MTD Ended June 30

Beginning November 2002, KIUC began reporting TIER.

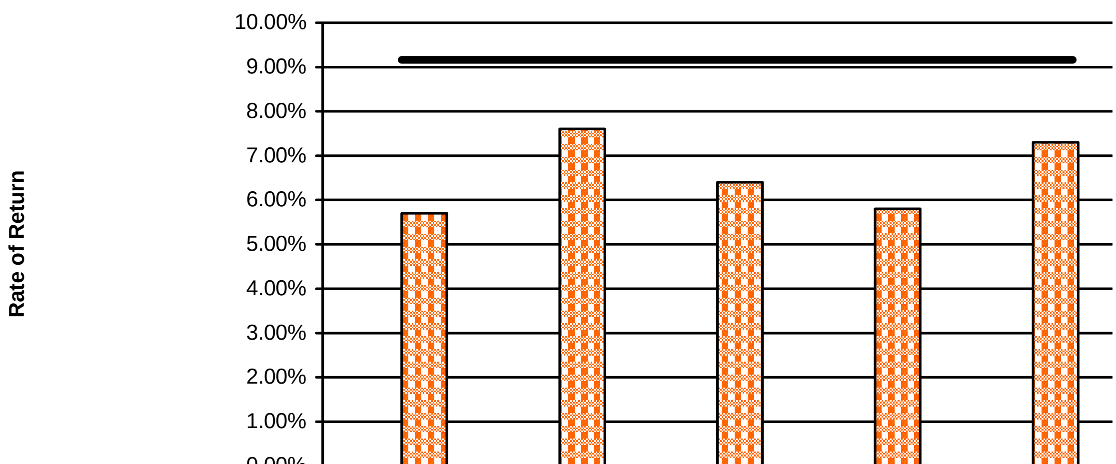
Figure 26
Three Year TIER Comparison - KIUC



	Jun '03	Jun '04	Jun '05
TIER	2.1	1.76	2.57

12 MTD Ended June 30

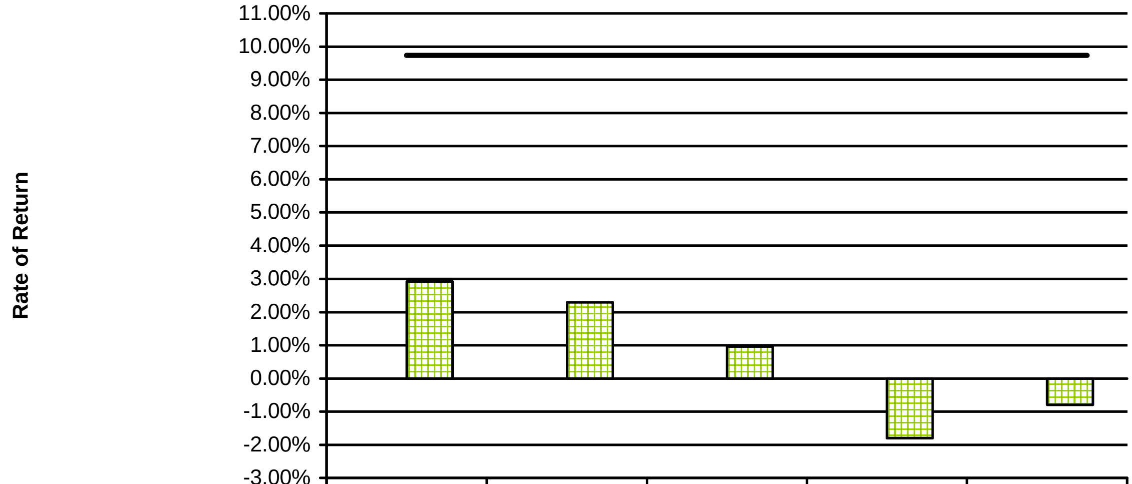
Figure 27
Five Year Rate of Return Comparison - The Gas Company



	Jun '01	Jun '02	Jun '03	Jun '04	Jun '05
Authorized Rate of Return	9.16%	9.16%	9.16%	9.16%	9.16%
Rate of Return	5.70%	7.60%	6.40%	5.80%	7.30%

12 MTD Ended June 30

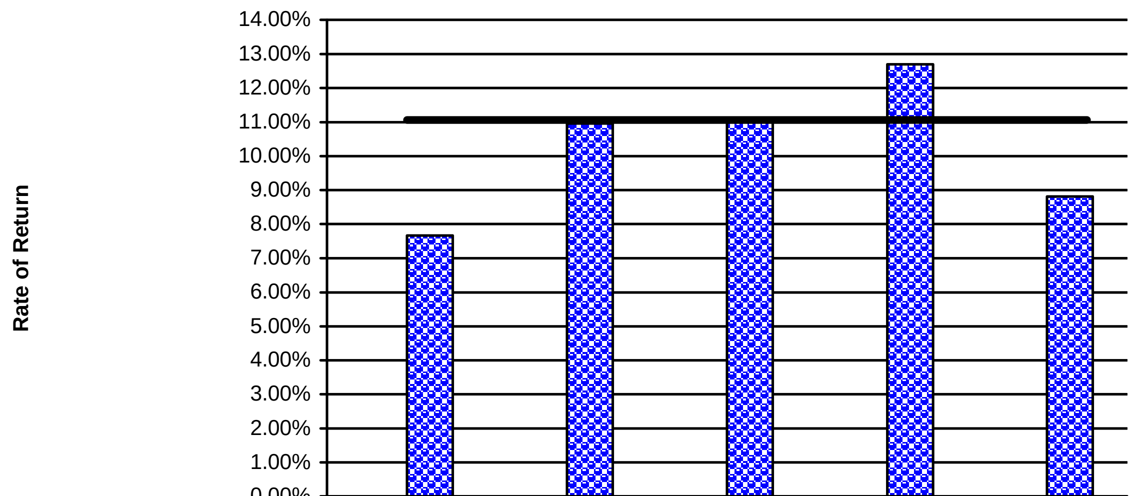
Figure 28
Five Year Rate of Return Comparison - Verizon Hawaii, Inc./Hawaiian Telcom, Inc.



	Jun '01	Jun '02	Jun '03	Jun '04	Jun '05
Authorized Rate of Return	9.73%	9.73%	9.73%	9.73%	9.73%
Rate of Return	2.92%	2.29%	0.96%	-1.80%	-0.80%

12 MTD Ended June 30

Figure 29
Five Year Rate of Return Comparison - Young Brothers



	Jun '01	Jun '02	Jun '03	Jun '04	Jun '05
Authorized Rate of Return	11.06%	11.06%	11.06%	11.06%	11.06%
Rate of Return	7.66%	10.96%	11.00%	12.70%	8.81%

12 MTD Ended June 30

B. FORECASTED CAPITAL IMPROVEMENTS.

1. ELECTRIC UTILITY CIPs.

The total 2005 capital expenditure budget forecasted for HECO is approximately $124 million. Some of the major CIPs in HECO's 2005 budget include the East Oahu Transmission Project, the construction of a new dispatch center, including a new Energy Management System, and the construction of the Ford Island 46kV Substation and the New Kuahua 46-12kV Substation.

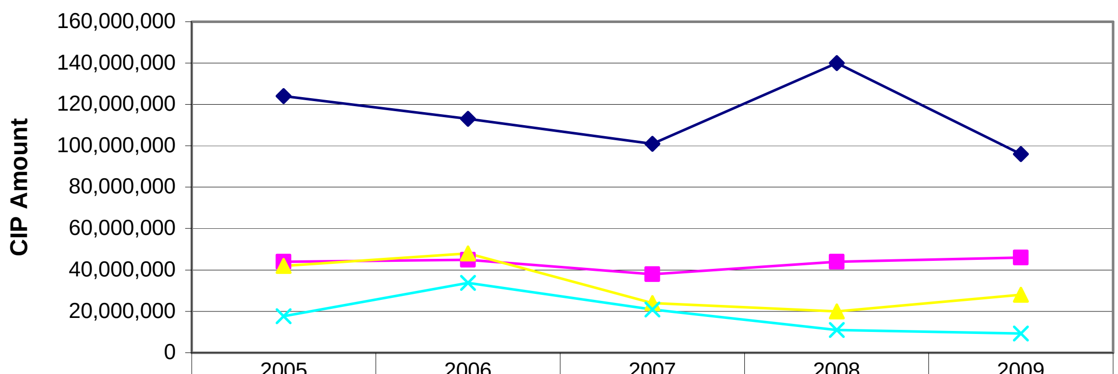
The total 2005 capital expenditure budget forecasted for HELCO is approximately $44 million. HELCO's major CIPs for 2005 include the Kukio 69kV UG Conversion, equipment installations at the Hokukano Substation, and the reconstruction and capacity expansion of the Keamuku-Waimea 7200 Line.

The total 2005 capital expenditure budget forecasted for MECO is approximately $42 million. Some of the major CIPs in MECO's 2005 budget include the 6th Increment of the Kahului Distribution Rebuild, the Waiale to Sub 36 T&D Line Reconstruction, and installations at the New Piilani Substation.

The total 2005 capital expenditure budget forecasted for KIUC is approximately $18 million. KIUC's major CIPs for 2005 include two (2) projects involving the Kukui'ula Transmission Line construction.

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

Figure 30
Electric Utilities Five-Year Capital Expenditures Forecast



	2005	2006	2007	2008	2009
HECO	124,000,000	113,000,000	101,000,000	140,000,000	96,000,000
HELCO	44,000,000	45,000,000	38,000,000	44,000,000	46,000,000
MECO	42,000,000	48,000,000	24,000,000	20,000,000	28,000,000
KIUC	17,669,000	33,857,700	20,893,000	11,000,500	9,369,000

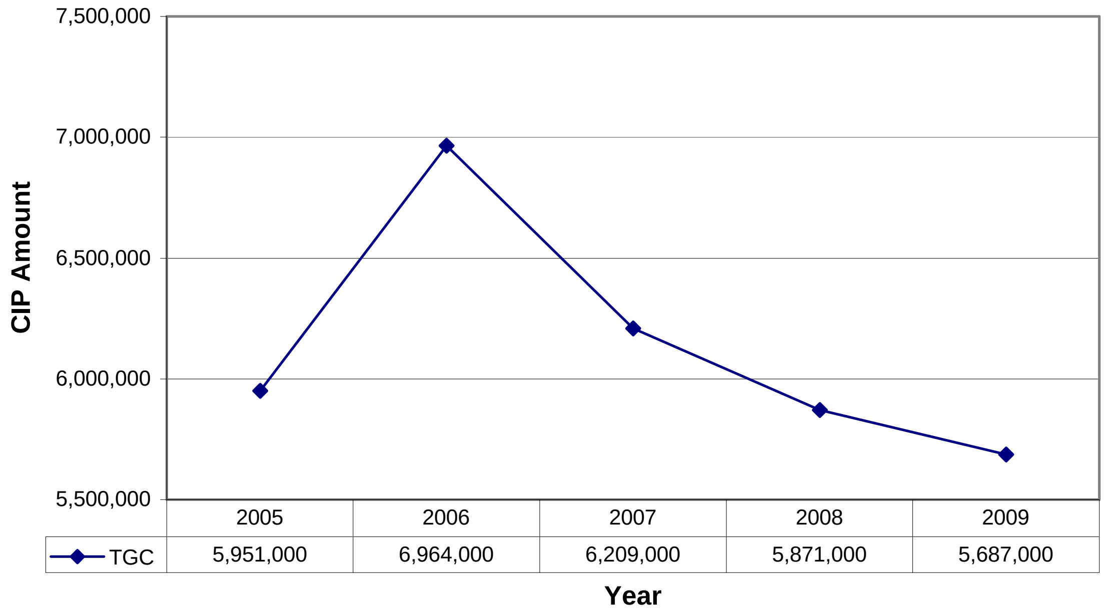
Year

2. GAS CIPs

The total 2005 capital expenditure budget forecasted for TGC is approximately $6 million. Some of the major projects in the TGC 2005 budget include the utility main pipeline renewal and utility services pipeline renewal projects on Oahu.

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

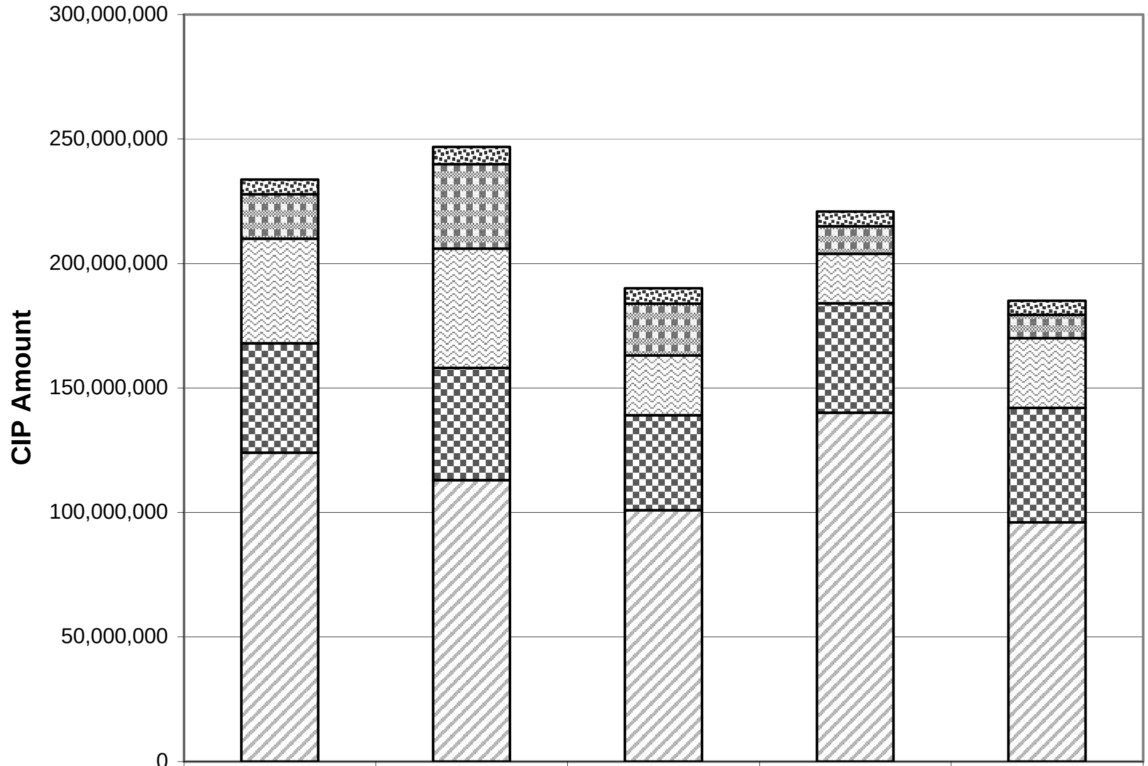
Figure 31
TGC Five-Year Capital Expenditures Forecast



3. FORECASTED UTILITY CIP EXPENDITURES.

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

Figure 32
Capital Expenditures - Forecasted

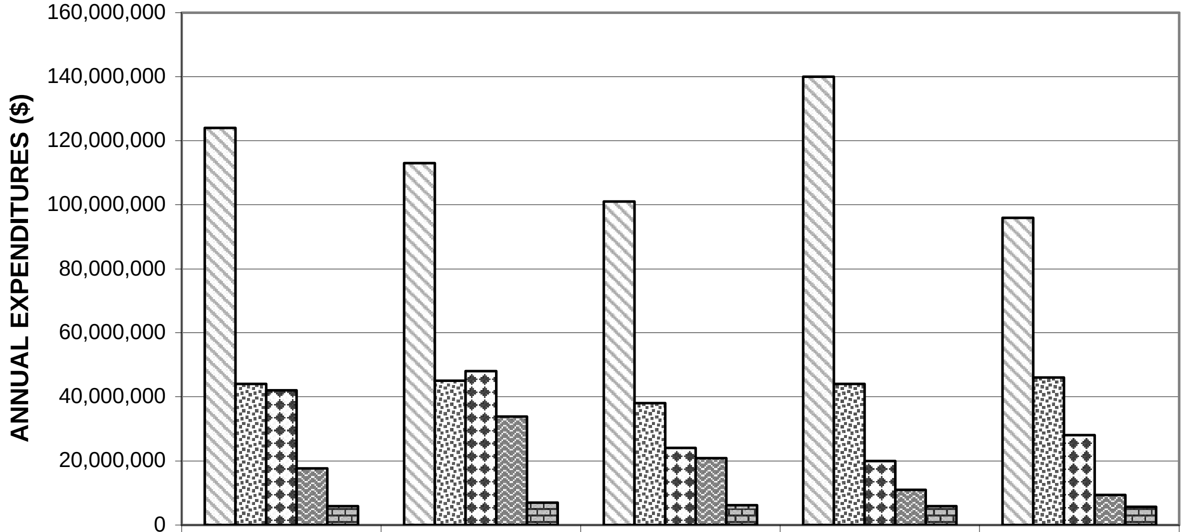


	2005	2006	2007	2008	2009
GASCO	5,951,000	6,964,000	6,209,000	5,871,000	5,687,000
KIUC	17,669,000	33,857,700	20,893,000	11,000,500	9,369,000
MECO	42,000,000	48,000,000	24,000,000	20,000,000	28,000,000
HELCO	44,000,000	45,000,000	38,000,000	44,000,000	46,000,000
HECO	124,000,000	113,000,000	101,000,000	140,000,000	96,000,000
Total CIP	233,620,000	246,821,700	190,102,000	220,871,500	185,056,000

Year

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

Figure 33
Capital Expenditures - Forecasted



	2005	2006	2007	2008	2009
HECO	124,000,000	113,000,000	101,000,000	140,000,000	96,000,000
HELCO	44,000,000	45,000,000	38,000,000	44,000,000	46,000,000
MECO	42,000,000	48,000,000	24,000,000	20,000,000	28,000,000
KIUC	17,669,000	33,857,700	20,893,000	11,000,500	9,369,000
GASCO	5,951,000	6,964,000	6,209,000	5,871,000	5,687,000

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 amounts billed to utility customers.

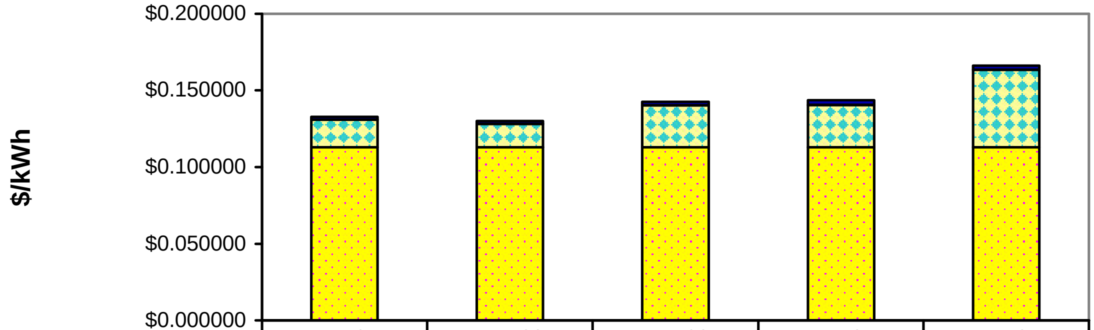
1. ELECTRICITY RATES.

In Figures 34 to 39, the electricity rates consist of the base energy rate plus the energy rate adjustment clause ("ERAC") and other adjustments.[18] The total of the base energy rate and the ERAC is referred to herein as the "Effective Energy Rate."

---

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

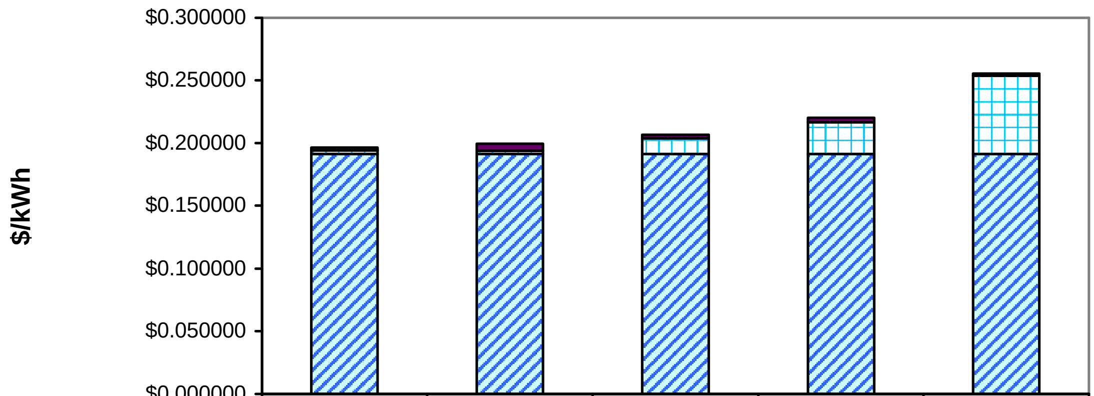
Figure 34
HECO Base Rates, ERAC, and Other Adjustments
2001 - 2005



	Jun '01	Jun '02	Jun '03	Jun '04	Jun '05
Other Adjustments	$0.001859	$0.002005	$0.002271	$0.003042	$0.002755
ERAC	$0.017880	$0.015060	$0.027340	$0.027500	$0.050370
Base Rates	$0.112954	$0.112954	$0.112954	$0.112954	$0.112954
Total	$0.132693	$0.130019	$0.142565	$0.143496	$0.166079

Year

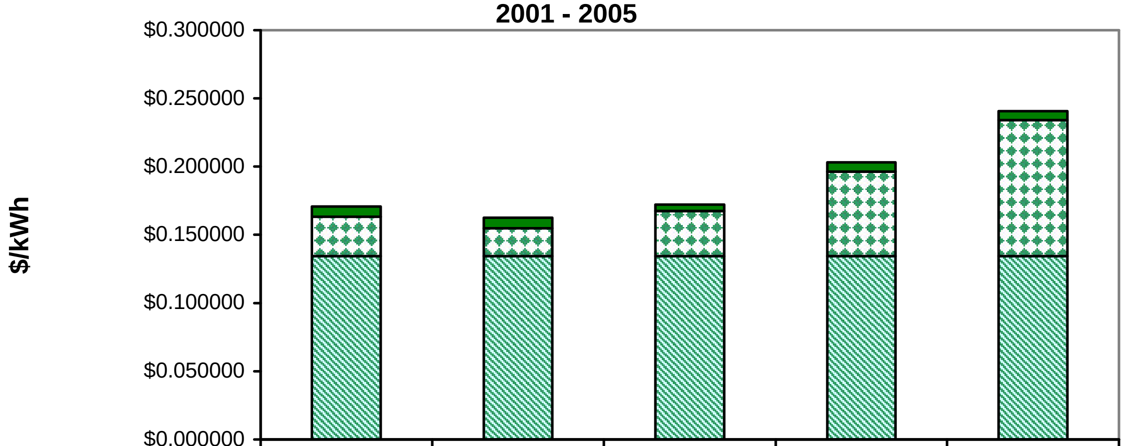
Figure 35
HELCO Base Rates, ERAC, and Other Adjustments
2001 - 2005



	Jun '01	Jun '02	Jun '03	Jun '04	Jun '05
Other Adjustments	$0.002251	$0.005658	$0.002726	$0.003418	$0.001570
ERAC	$0.002720	$0.002450	$0.012460	$0.025300	$0.062440
Base Rates	$0.191370	$0.191370	$0.191370	$0.191370	$0.191370
Total	$0.196341	$0.199478	$0.206556	$0.220088	$0.255380

Year

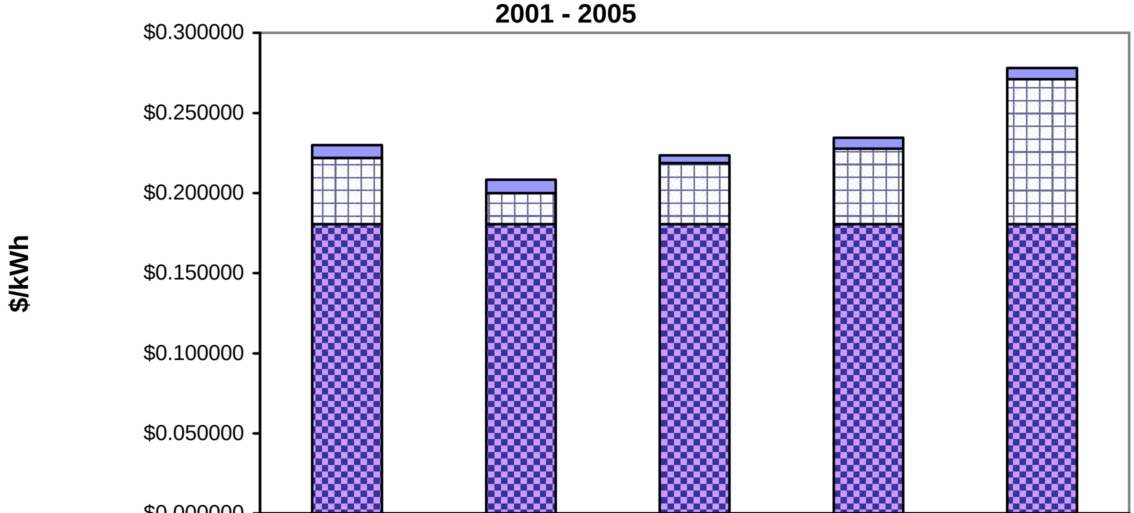
Figure 36
MECO - Maui Division Base Rates, ERAC, and Other Adjustments
2001 - 2005



	Jun '01	Jun '02	Jun '03	Jun '04	Jun '05
Other Adjustments	$0.007662	$0.007689	$0.004636	$0.006737	$0.006752
ERAC	$0.028870	$0.020500	$0.033090	$0.062130	$0.099710
Base Rates	$0.134231	$0.134231	$0.134231	$0.134231	$0.134231
Total	$0.170763	$0.162420	$0.171957	$0.203098	$0.240693

Year

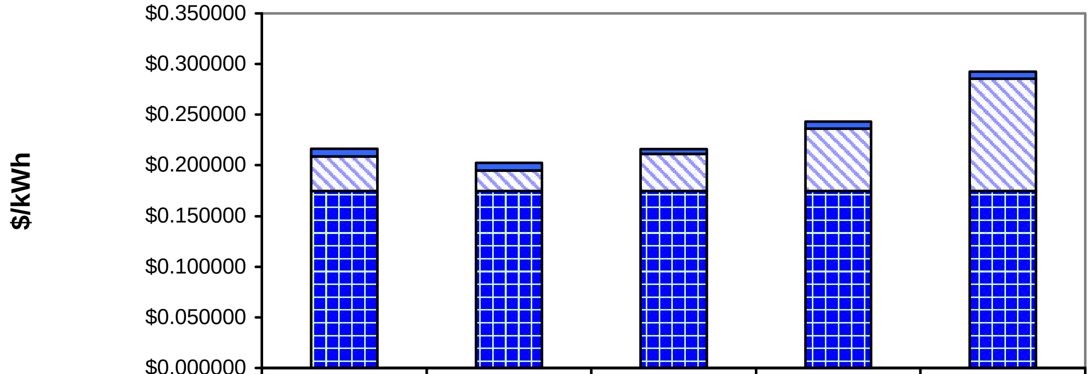
Figure 37
MECO - Lanai Division Base Rates, ERAC, and Other Adjustments
2001 - 2005



	Jun '01	Jun '02	Jun '03	Jun '04	Jun '05
Other Adjustments	$0.008113	$0.008372	$0.004803	$0.006889	$0.006889
ERAC	$0.041320	$0.019390	$0.038190	$0.047100	$0.090640
Base Rates	$0.180648	$0.180648	$0.180648	$0.180648	$0.180648
Total	$0.230081	$0.208410	$0.223641	$0.234637	$0.278177

Year

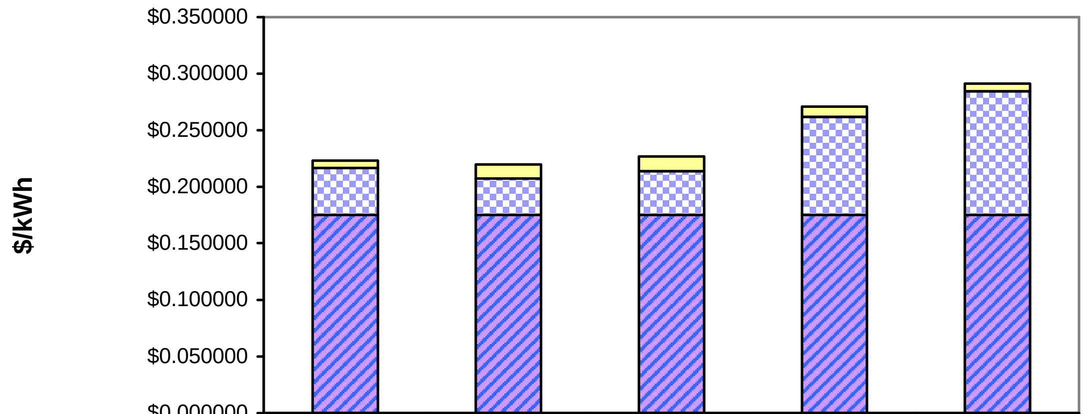
Figure 38
MECO - Molokai Division Base Rates, ERAC, and Other Adjustments
2001 - 2005



	Jun '01	Jun '02	Jun '03	Jun '04	Jun '05
Other Adjustments	$0.007333	$0.007610	$0.004740	$0.006832	$0.006832
ERAC	$0.034390	$0.020410	$0.036830	$0.061900	$0.111240
Base Rates	$0.174383	$0.174383	$0.174383	$0.174383	$0.174383
Total	$0.216106	$0.202403	$0.215953	$0.243115	$0.292455

Year

Figure 39
KIUC/KE Base Rate, ERAC, and Other Adjustments
2001 - 2005

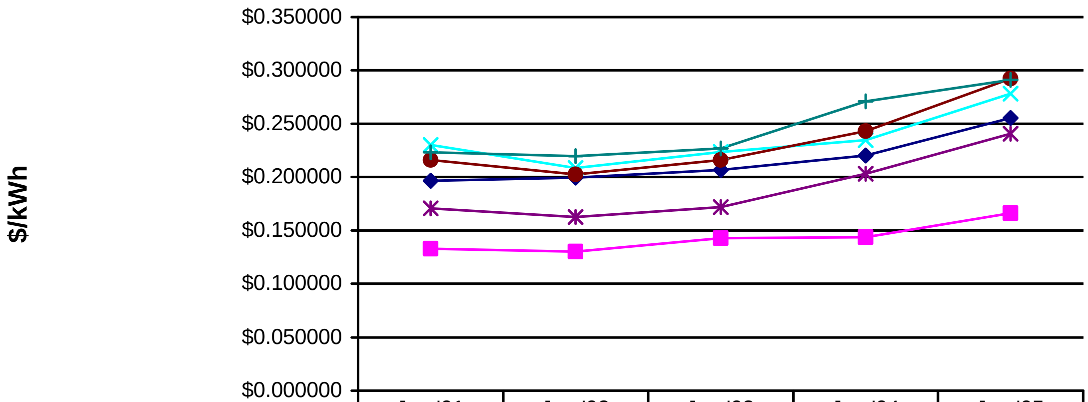


	Jun '01	Jun '02	Jun '03	Jun '04	Jun '05
Other Adjustments	$0.006588	$0.012240	$0.012967	$0.009156	$0.006942
ERAC	$0.041702	$0.032480	$0.038933	$0.086903	$0.109411
Base Rates	$0.174890	$0.174890	$0.174890	$0.174890	$0.174890
Total	$0.223180	$0.219610	$0.226790	$0.270949	$0.291243

Year

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

Figure 40
Five Year Comparison of Effective Residential Rates



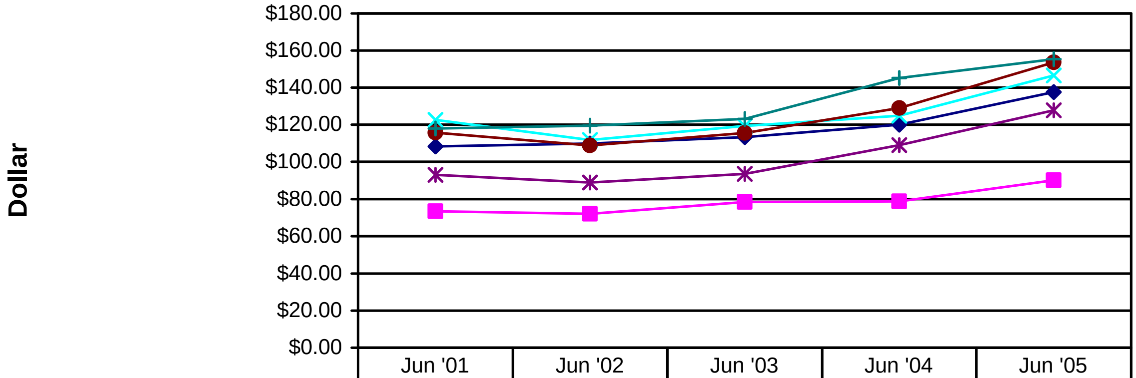
	Jun '01	Jun '02	Jun '03	Jun '04	Jun '05
HELCO	0.196341	0.199478	0.206556	0.220088	0.255380
HECO	0.132693	0.130019	0.142565	0.143496	0.166079
MECO - Lanai Division	0.230081	0.208410	0.223641	0.234637	0.278177
MECO - Maui Division	0.170763	0.162420	0.171957	0.203098	0.240693
MECO - Molokai Division	0.216106	0.202403	0.215953	0.243115	0.292455
KIUC	0.223180	0.219610	0.226790	0.270949	0.291243

Year

Figure 41 compares monthly residential ***bills*** across the State over the past five (5) years, assuming 500kwh is used by the customer during the month.[19]

[19]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).

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



	Jun '01	Jun '02	Jun '03	Jun '04	Jun '05
HELCO	$108.29	$109.90	$113.28	$120.05	$137.69
HECO	$73.39	$72.02	$78.29	$78.77	$90.04
MECO - Lanai Division	$122.66	$111.85	$119.33	$124.83	$146.59
MECO - Maui Division	$93.04	$88.87	$93.50	$109.06	$127.85
MECO - Molokai Division	$115.67	$108.83	$115.50	$129.08	$153.73
KIUC	$118.01	$119.53	$123.12	$145.20	$155.34

Year

2. TELECOMMUNICATION RATES.

Hawaiian Telcom's basic rates have remained unchanged over the past several years.[20] The following table shows amounts by islands that customers have been paying since 1997 for residential service.

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

Island	Residential Service (1997 – Present)[21]
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 2004 SERVICE QUALITY – NORMALIZED RESULTS.

The following HECO electric utility service quality report was based on or excerpted directly from the 2004 Service Reliability Report submitted to the Commission by HECO. The report covers the 2004 calendar year ("2004"). 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 284,460 in 2003 to 287,074 in 2004 (a 0.9% increase). A new peak demand was set on the evening of October 12, 2004 for the system at 1,327 MW, the highest system peak demand since the evening of October 11, 2004, at 1,319 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 287,074 customers).

To determine the relative level of reliability, the statistics for four (4) prior years, 2000 through 2003, are used for comparison.

The reliability indices are calculated using the data from all sustained[22] system outages except customer maintenance outages. If data normalization is required, it is done using the guidelines specified in the report on reliability that was prepared for the Commission, titled "Methodology for Determining Reliability Indices for HECO Utilities," dated December 1990. That report indicates that normalization is allowed for "abnormal" situations such as hurricanes, tsunamis, earthquakes, floods, catastrophic equipment failures, and single outages that cascade into a loss of load greater than 10% of the system peak load. These normalizations are made in

[21]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, and federal universal service fee.

[22]An interruption of electrical service of one (1) minute or longer.

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 2004 service reliability results are normalized for the January 14, 2004 High Wind Storm - February 26, 2004 Rain Storm - and March 3, 2004 loss of Pukele Transmission Substation. The normalization meets the guidelines published in the December 1990 report, "Methodology for Determining Reliability Indices."

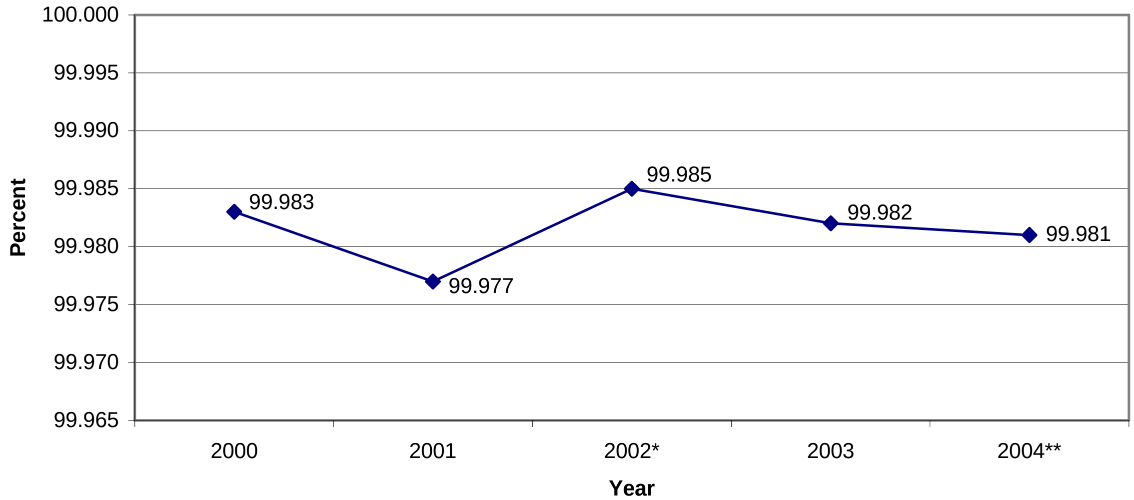
On a normalized basis, the annual service reliability for 2004 was the 3rd best in the past five (5) years in terms of system reliability. The reliability results for 2004 and four (4) prior years are shown in the table of "Electricity Annual Service Reliability Indices."

Electricity Annual Service Reliability Indices

	2000	2001	2002*	2003	2004**
Number of Customers	276,447	279,534	281,922	284,460	287,074
Customer Interruptions	349,683	492,309	325,332	469,372	364,491
Customer-Hours Interrupted	408,909	553,544	359,810	450,530	480,299
ASA (Percent)	99.983	99.977	99.985	99.982	99.981
SAIF (Occurrences)	1.265	1.761	1.154	1.650	1.270
CAID (Minutes)	70.16	67.46	66.36	57.59	79.06
SAID (Minutes)	88.75	118.81	76.58	95.03	100.39

Note: *Data normalized to exclude 12/19/02 AES Load Shedding outage
**Data normalized to exclude 1/14/04 - 1/15/04 High Wind outages, 2/26/04 - 2/28/04 Storm, 3/3/04 Pukele outage

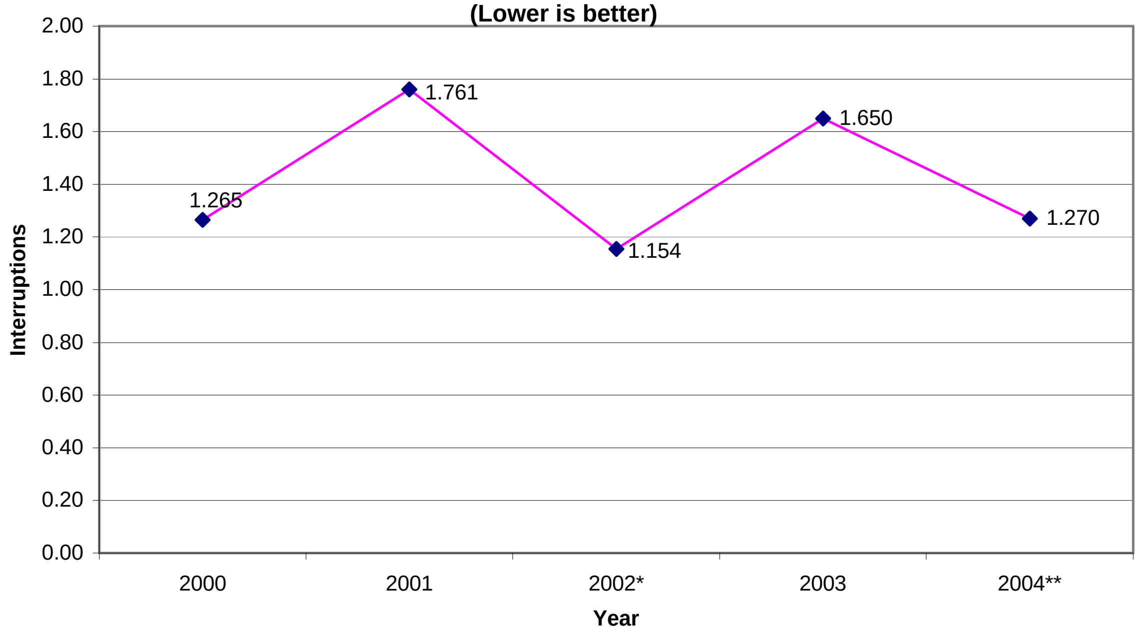
Figure 42
HECO Average Service Availability (ASA)
(Higher is better)



***Data normalized to exclude 12/19/02 AES Load Shedding outage;**
****Data normalized to exclude 1/14/04-1/15/04 High Winds, 2/26/04-2/28/04 Storm, and 3/3/04 Pukele Outages**

Figure 42 shows that the 2004 ASA index has decreased from 2003 results of 99.982 to 99.981 during 2004. Approximately 104,800 fewer customers experienced sustained service interruptions during 2004 compared to the previous year. However, the number of Customer-Hours Interrupted as shown in the table of Electricity Annual Service Reliability Indices was the second highest within the five (5) year period.

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



***Data normalized to exclude 12/19/02 AES Load Shedding outage**
****Data normalized to exclude 1/14/04-1/15/04 High Winds, 2/26/04-2/28/04 Storm, and 3/3/04 Pukele Outages**

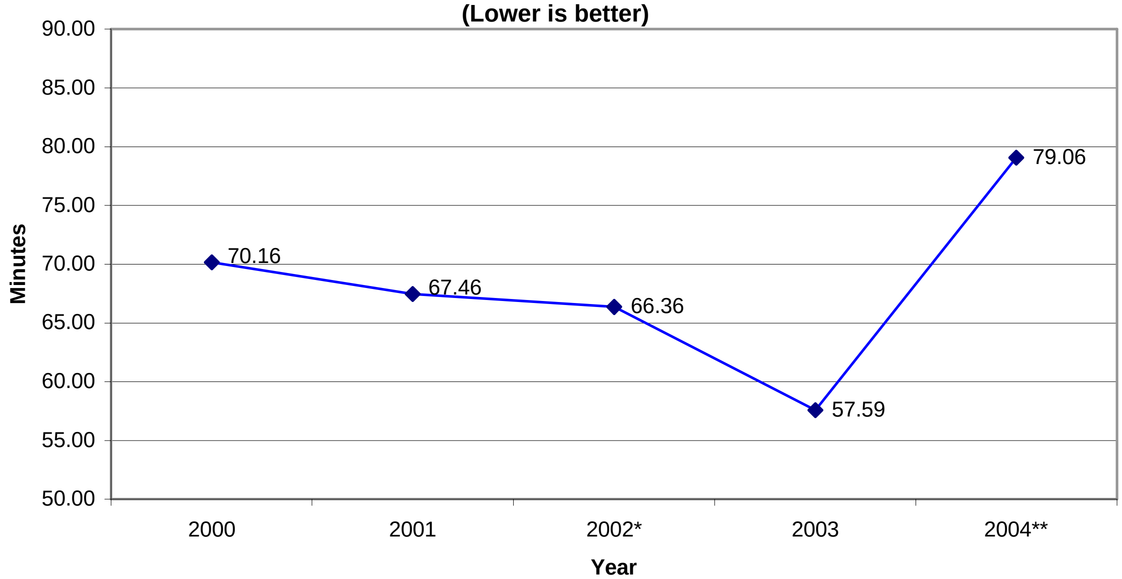
Figure 43 shows the SAIF indices for the past five (5) years. It shows that in 2004 the SAIF was the third lowest in the past five (5) years at 1.27, or slightly more than one (1) outage per customer for the year. Compared to past history, the 2004 SAIF of 1.27 was significantly below the ten (10) year 1.57 SAIF average.

An increase in winter weather outages contributed to a higher SAIF for 2004. The four (4) major weather related categories - High Winds, Trees or Branches[23], Lightning and Unknown Failures affected a total of 107,303 customers during 2004 compared to a total of 72,242 customers during 2003, an increase of 48%. However, improvements were noted in the areas of Equipment Deterioration, Auto Accidents, and Switching Errors over 2003 SAIF results.

Two (2) sustained interruptions affected 10,000 or more customers during 2004. Approximately 22,466 customers were affected by these top two (2) interruptions for 2004, contributing 0.08 to the SAIF. Of the two (2) sustained interruptions, one (1) occurred on the sub-transmission system while tied to the adjacent line for maintenance work, and the second occurred on the sub-transmission system during a Lightning Storm in the Mililani area on January 22, 2004.

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

Figure 44
HECO Customer Average Interruption Duration (CAID)
(Lower is better)

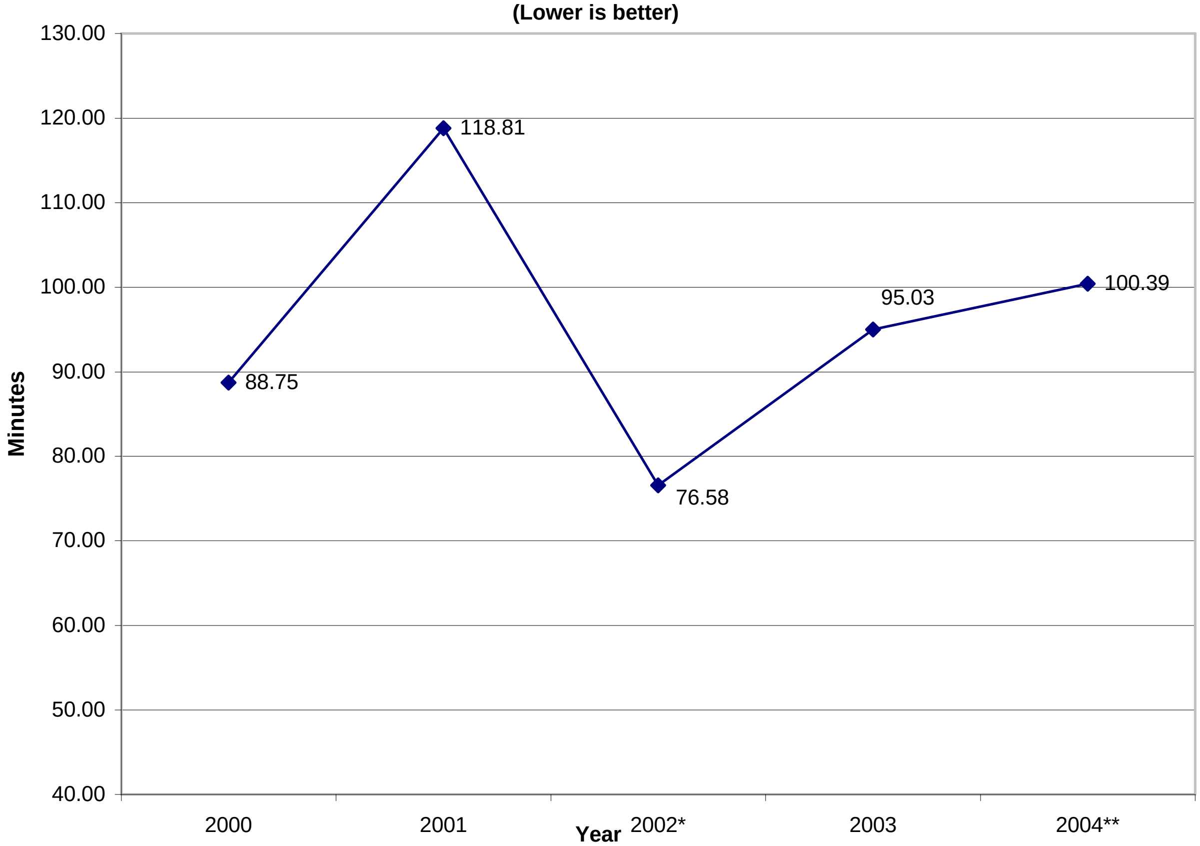


***Data normalized to exclude 12/19/02 AES Load Shedding outage**
****Data normalized to exclude 1/14/04-1/15/04 High Winds, 2/26/04-2/28/04 Storm, and 3/3/04 Pukele Outages**

Figure 44 shows the CAID for 2004 ranked the worst in the past five (5) years in minimizing the time a customer was out of service. An increase in response times were noted for Cable Failures (13 minutes), Equipment Deterioration (41 minutes) and High Winds (63 minutes) over the 2003 results.

The average electrical outage duration (CAID) for 2004 was 79.06 minutes. Within the last five (5) years, 2004 had the longest duration increase (CAID) with nearly 22 minutes over 2003 results.

Figure 45
HECO System Average Interruption Duration (SAID)
(Lower is better)



*Data normalized to exclude 12/19/02 AES Load Shedding outage
**Data normalized to exclude 1/14/04-1/15/04 High Winds, 2/26/04-2/28/04 Storm, and 3/3/04 Pukele Outages

Figure 45 shows the SAID indices for the past five (5) years. It shows that the 2004 SAID of 100.39 minutes was the second highest during the last five (5) years. The SAID is the composite of both the SAIF and CAID indices and produces a broader benchmark of system reliability by combining both the duration and the number of customer interruptions during a given period of time. The higher SAID result was due to an increase in the CAID statistics as noted previously.

2. MECO 2004 SERVICE QUALITY – NORMALIZED RESULTS.

The following MECO electric utility service quality discussion is based on or excerpted directly from the MECO Annual Service Reliability Report 2004 submitted to the Commission by MECO. The report covers the 2004 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 60,651 in 2003 to 61,846 in 2004 (a 1.97% increase). The peak 2004 demand for the system was 210.9 MW (gross) that occurred on October 11, 2004. This peak 2004 demand is now the highest peak demand for the system, increasing from 202.0 MW (gross) on December 30, 2003 (a 4.4% increase).

To determine the relative level of reliability, the statistics for four (4) prior years, 2000 through 2003, 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 2000, 2001, 2002, and 2003. Normalizing of data would be in accordance with the guidelines specified in the report on reliability that was prepared for the Commission, titled "Methodology for Determining Reliability Indices for HECO Utilities," dated December 1990.

MECO has not normalized data since 1996. The 2004 reliability indices for MECO exclude the effects of the January 14th Kona storm. Data was normalized because the outages met normalizing guidelines published in the December 1990 report, "Methodology for Determining Reliability Indices."

Graphs of the ASA (Figure 46), SAIF (Figure 47), CAID (Figure 48), and SAID (Figure 49) for the five (5) years are included below.

The 2004 service reliability results are normalized to exclude the January 14, 2004 Kona Storm, when extremely high winds of 50 to 80 mph were experienced on parts of Maui.

Another factor affecting the Indices in 2004 was the incorporation of new customer counts for each circuit, standardizing MECO's Indices with HECO and HELCO. As a result, the 2004 Indices rank fifth for the last five (5) years, with the exception of CAID, which is a record best for MECO, thus setting a new benchmark for succeeding years.

The ASA index of 99.9858% is ranked fifth best for the last five (5) years. (Higher is better.)

The SAIF index of 1.608 is ranked fifth best for the last five (5) years. (Lower is better.)

The CAID index of 46.54 minutes is a record best for MECO. (Lower is better).

The SAID index of 74.82 minutes is ranked fifth best for the last five (5) years. (Lower is better).

Tree related outages accounted for 13.07% of the total of all outages for 2004. This remains relatively unchanged from 2003 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 10.34% of the total of all outages for 2004, with high wind related causes affecting 23,814 customers.

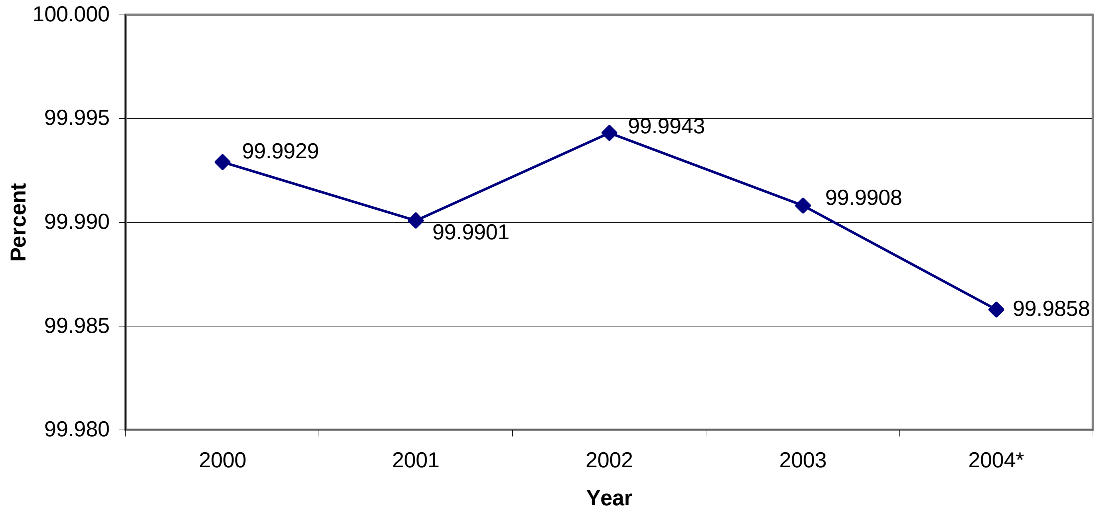
Another Kona Storm on February 27th and February 28th caused considerable damage due to thunderstorms, rain and high winds, and was not excluded in the normalized data like the January 14th storm.

The normalized results for 2004 and the previous unnormalized four (4) years 2000 to 2003 are shown in the table "MECO Table of Annual Service Reliability Indices." Figures 46 to 49 contain the same data shown in graphical form.

MECO Table of Annual Service Reliability Indices

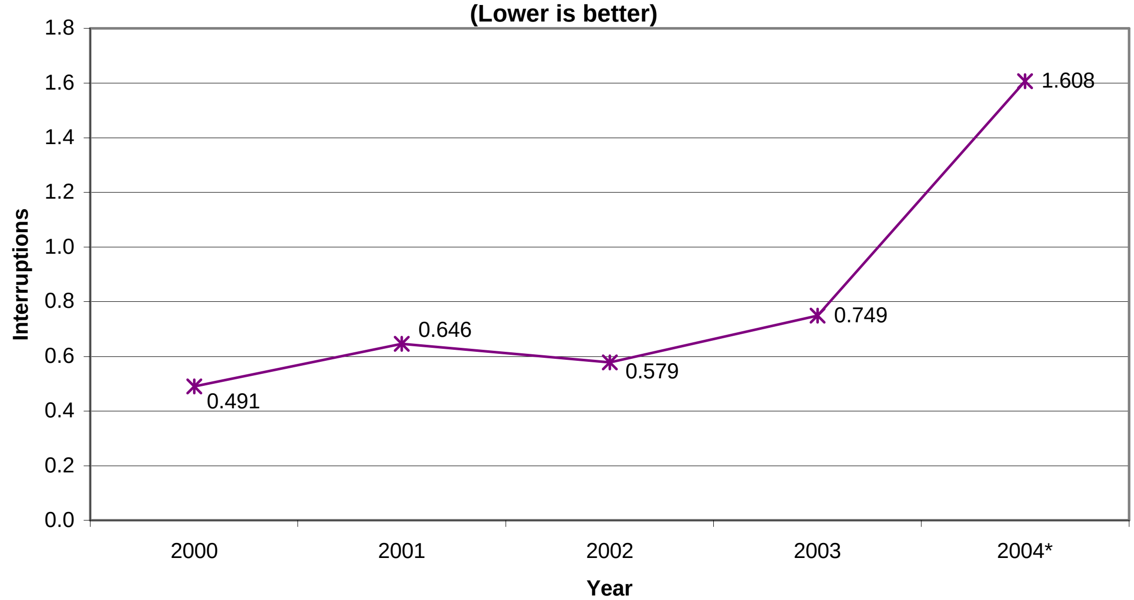
	2000	2001	2002	2003	2004
Number of Customers	57,000	58,308	59,410	60,651	61,846
Customer Hrs. Interrupted	38,288	50,665	29,201	48,567	77,122
Customer-Interruptions	27,987	37,691	34,388	45,446	99,424
ASA (Percent)	99.9929	99.9901	99.9943	99.9908	99.9858
SAIF (Occurrence)	0.491	0.646	0.579	0.749	1.608
CAID (Minutes)	75.65	80.65	50.95	64.12	46.54
SAID (Minutes)	37.15	52.14	29.49	48.05	74.82

Figure 46
MECO Average Service Availability (ASA)
(Higher is better)



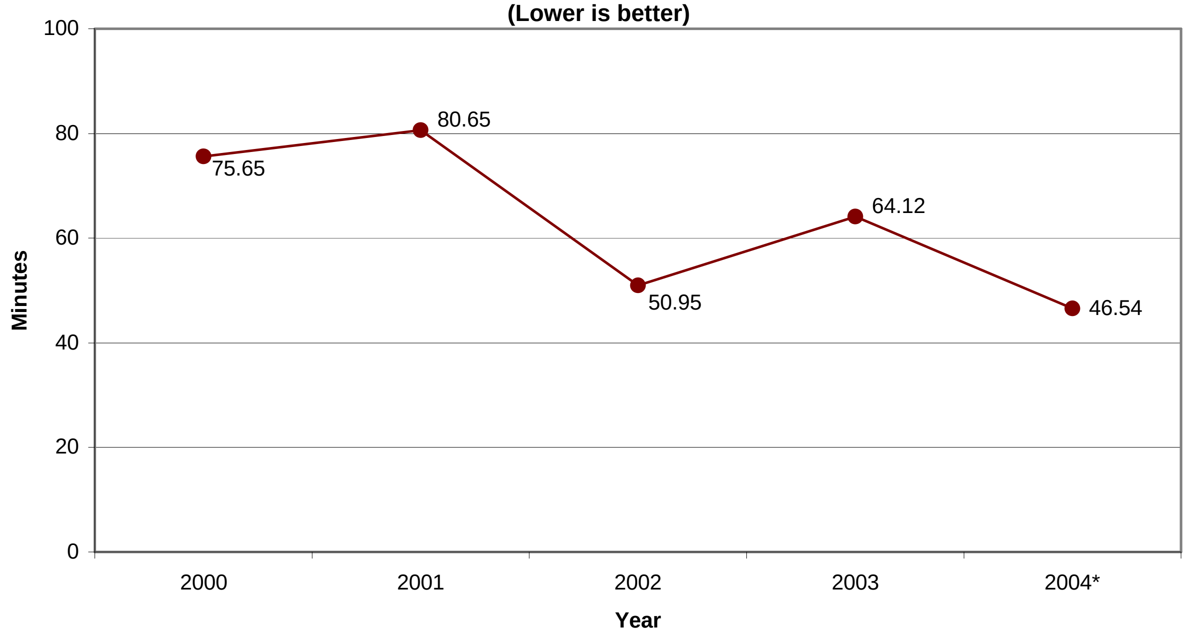
(2004* Data normalized to exclude 1/14/04 storm)

Figure 47
MECO System Average Interruption Frequency (SAIF)
(Lower is better)



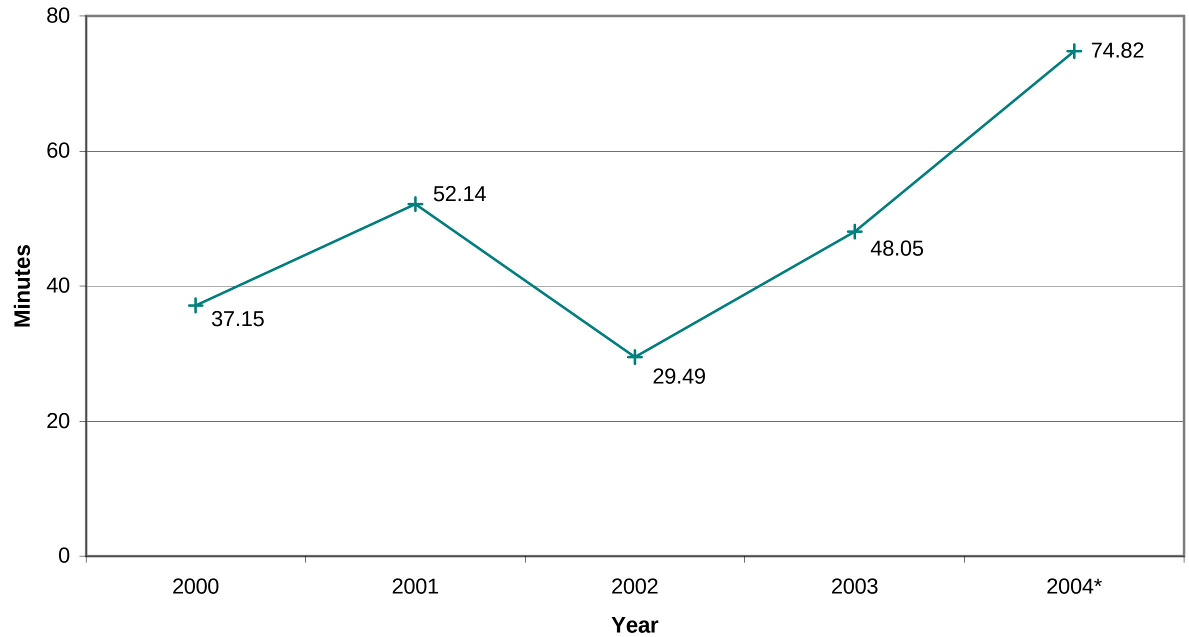
(2004* Data normalized to exclude 1/14/04 storm)

Figure 48
MECO Customer Average Interruption Duration (CAID)
(Lower is better)



Note: 2004* Data normalized to exclude 1/14/04 storm

Figure 49
MECO System Average Interruption Duration (SAID)
(Lower is better)



Note: 2004* Data normalized to exclude 1/14/04 storm

3. HELCO 2004 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 2004 submitted to the Commission by HELCO. The report covers the 2004 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 customer count in 2004 was 70,124, an increase of about 6% over 2003. In 2004 a total of 417,462 customer interruptions and a total of 388,891 customer hours of interruption were recorded. The SAIF index was 5.953 and the CAID index was 55.89 minutes. Storms and generation related outages severely impacted HELCO's system reliability in 2004.

Storms during the first three (3) months of the year and again in November brought high winds and lightning that caused 81,052 customer interruptions and a total of 92,229 customer hours of interruption. Storm conditions were experienced on January 14-15, January 23-29, February 27-March 2, and November 23-28. The stormy conditions experienced on February 27, caused damage that required several days to complete repairs. This storm alone accounted for 13,295 customer interruptions and 26,896 hours of customer interruption. Much of the storm related damage was due to high winds causing trees and branches to fall into power lines. A total of 68,108 customer interruptions were related to trees and branches in 2004 of which 55,940 were attributed to stormy conditions. There were a total of 24,030 customer interruptions due to high winds and 57,022 customer interruptions due to lightning in 2004.

There were 230,670 generation related customer interruptions in 2004, of which 89,233 were related to HELCO generation sources and 141,437 were related to non-HELCO generation sources. In 2004 Hamakua Energy Partners ("HEP") was the only non-HELCO generation source to cause customer interruptions.

Other leading causes of customer interruptions were equipment failure causing 26,601 customer interruptions, automobile accidents causing 10,809 customer interruptions and cable fault causing 6,272 customer interruptions.

In 2004 HELCO normalized data per guidelines specified in a special report on reliability prepared for the Commission. This report, "Methodology for Determining Reliability Indices for HELCO Utilities," dated December 1990, indicates that normalization may be utilized for "abnormal" situations such as hurricanes, tsunamis, earthquakes, floods, catastrophic equipment failures, and a single equipment outage that cascades into a loss of load that is greater than 10% of the system peak load. HELCO has normalized data for the 2004 events listed below:

- Severe weather events occurring on:
    - January 14-15 due to high winds
    - January 23-29 due to storm conditions
    - February 27 – March 2 due to storm conditions
    - November 23-28 due to storm conditions
- Underfrequency Load shedding events on:
    - January 19 due to HELCO CT-4
    - January 20 due to HEP
    - February 20 due to HEP
    - March 14 due to HEP
    - April 11 due to HEP
    - April 12 due to HEP
    - May 17 due to HEP
    - May 21 due to HELCO CT-4
    - August 11 due to HEP
    - October 10 due to HEP

- o November 14 due to HELCO CT-3
- o November 15 due to HEP

Graphs of the ASA (Figure 50), SAIF (Figure 51), and CAID (Figure 52) for the six (6) years are included below.

Figure 50
HELCO Average Service Availability (ASA)
(Higher is better)

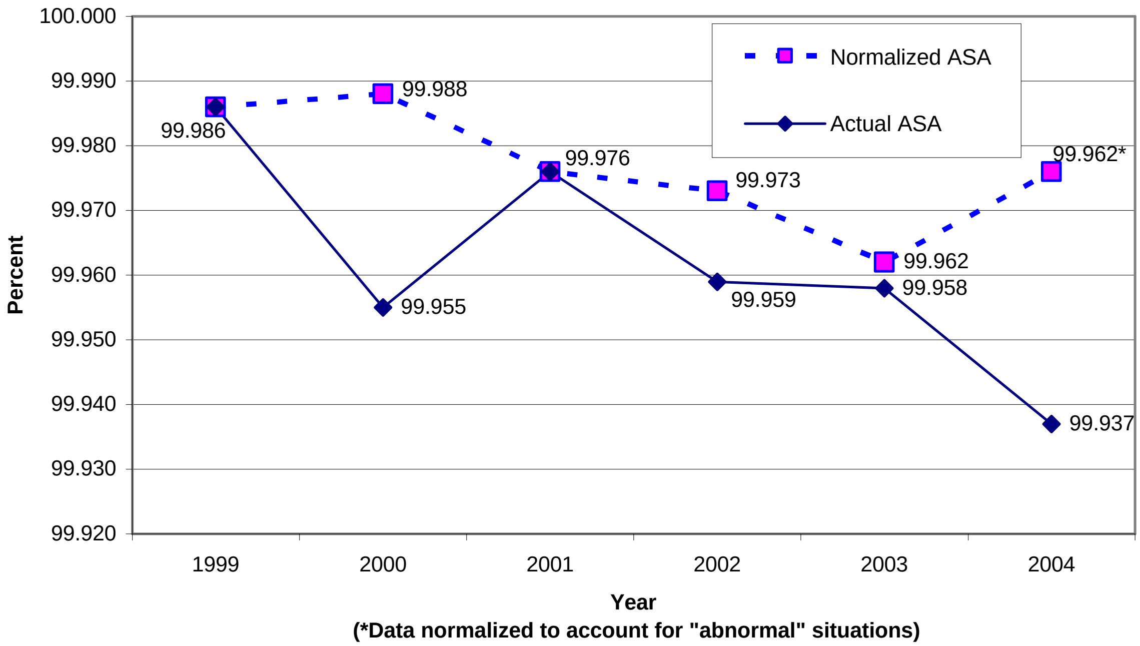
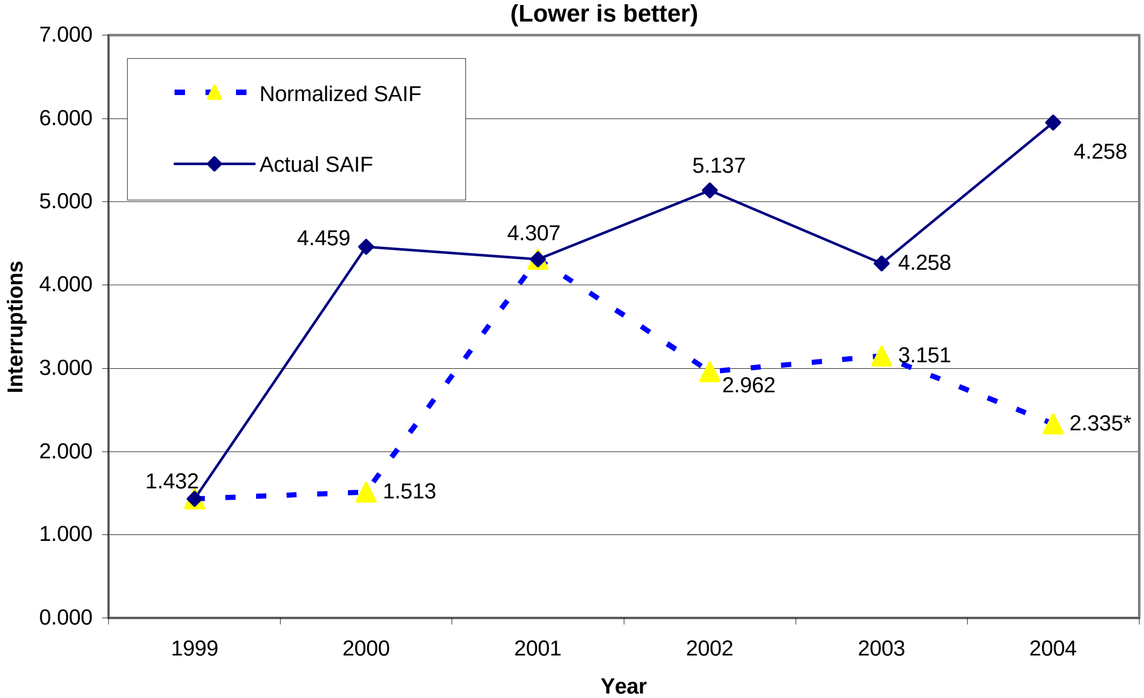
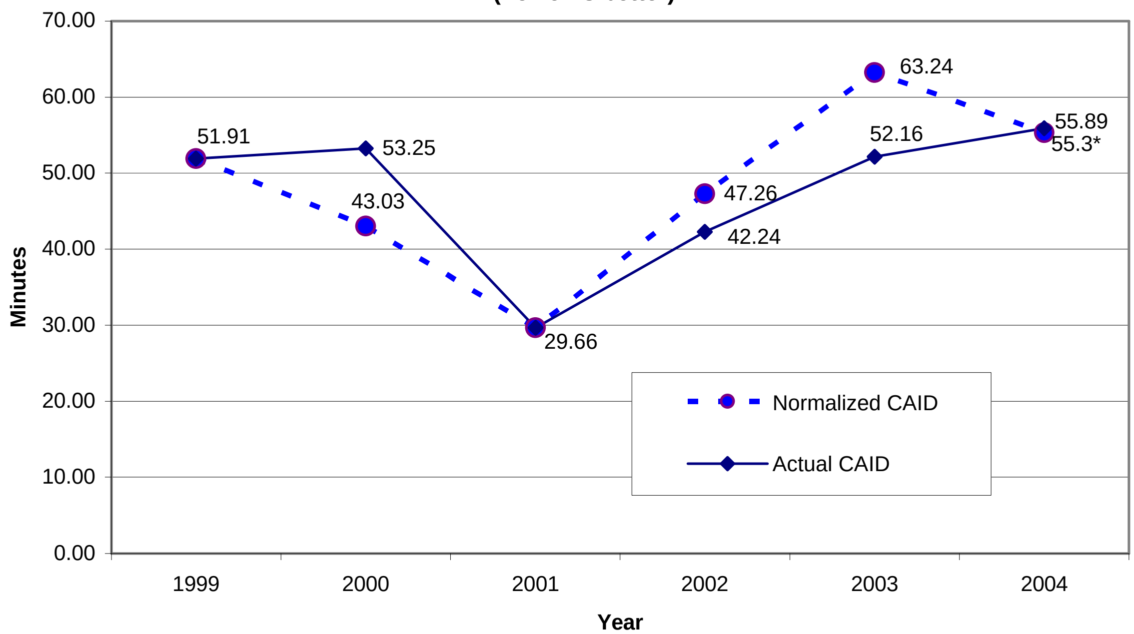


Figure 51
HELCO System Average Interruption Frequency (SAIF)
(Lower is better)



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

Figure 52
HELCO Customer Average Interruption Duration (CAID)
(Lower is better)



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

The normalized and unnormalized reliability results for 1999 to 2004 are shown below in the "HELCO Table of Annual Service Reliability Indices."

HELCO Table of Annual Service Reliability Indices

	1999	2000	2001	2002	2003	2004
Number of Customers	60,585	61,796	63,207	64,660	66,034	70,124
Normalized:*						
Customer Interruptions	88,461	95,604	278,507	195,614	213,873	163,745
Customer Hours Interrupted	76,532	68,562	137,659	154,064	154,064	150,905
ASA (Percent)	99.986	99.988	99.976	99.973	99.962	99.976
SAIF (Occurrence)	1.432	1.513	4.307	2.962	3.151	2.335
CAID (Minutes)	51.91	43.03	29.66	47.26	63.24	55.30
Not Normalized:						
Customer Interruptions	88,461	281,818	278,507	339,184	289,027	417,462
Customer Hours Interrupted	76,532	250,115	137,659	238,789	251,280	388,891
ASA (Percent)	99.986	99.955	99.976	99.959	99.958	99.937
SAIF (Occurrence)	1.432	4.459	4.307	5.137	4.258	5.953
CAID (Minutes)	51.91	53.25	29.66	42.24	52.16	55.89

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

4. KIUC 2004 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 2004 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 2.75%, from 32,069 in 2003 to 32,950 in 2004. The 2004 system peak demand of 76.750 mWs was recorded on the evening of December 30, 2004. The 2004 system peak demand increased by 3.77 mWs or 5.17% over 2003's peak of 72.980 mWs, set during the evening of October 23, 2003.

KIUC has not normalized any of its data for the period 2000 through 2004. The reliability indices are calculated using the data from all system interruptions except scheduled interruptions for maintenance.

Graphs of the ASA (Figure 53), SAIF (Figure 54), CAID (Figure 55), and SAID (Figure 56) for the five (5) years are included below.

The ASA index of 99.9648% in 2004 is 0.0024% lower than 2003's, 99.9672% and is the lowest in five (5) years.

The SAIF index of 6.98 occurrences in 2004 has declined by 9.70% from 7.73 occurrences, in 2003.

The CAID index of 26.26 minutes in 2004 is the highest in five (5)-years, and 17.08% higher than 2003's CAID, 22.43 minutes.

The SAID index of 184.92 minutes is the highest in five (5) years, and 6.63% higher than 2003's SAID, 173.42 minutes.

There were a total of thirty-nine (39) interruptions for 2004. Eighteen (18) transmission and distribution interruptions, or 46.15% of the year's total interruptions, caused 27.40% of all kW losses for the year. Fifteen (15) generation interruptions, or 38.46% of the yearly interruptions, caused a total kW loss of 33.06% for the year. Interruptions relating to the Kapaia Power Station's 26.4 mW combustion turbine ("CT") and the four-StorkWarsilla Diesel units at the Port Allen Power Station ("PAPS") contributed to the year's kW generation losses of 29.87% and 33.56%, respectively. The remaining 36.56% of the kW generation losses were attributed to PAPS's CTs No. 1, No. 2 and the steam turbine. Six (6) external events, including but not limited to storms, contributed to 15.39% of all interruptions for 2004, or 39.54% of all kWs lost for the year. A single storm event in early 2004 accounted for 21.58% of all kWs lost for the entire year.

The unnormalized reliability results for 2000, 2001, 2002, 2003 and 2004 are shown in the table "KIUC Annual Service Reliability Indices." Figures 53 to 56 contain the data discussed above in graphical form.

KIUC Annual Service Reliability Indices

	2000	2001	2002	2003	2004
Number of Customers	30,503	30,965	31,487	32,069	32,950
Customer Interruptions	27	26	32	43	39
Customer Hours Interrupted	30,296	24,013	38,235	92,646	100,874
ASA (Per cent)	99.9887	99.9911	99.9861	99.9672	99.9648
SAIF (Occurrences)	3.43	2.61	5.03	7.73	6.98
CAID (Minutes)	17.36	17.86	14.49	22.43	26.26
SAID (Minutes)	59.54	46.62	72.89	173.42	184.92

Figure 53
KIUC Average Service Availability (ASA)
(Higher is better)

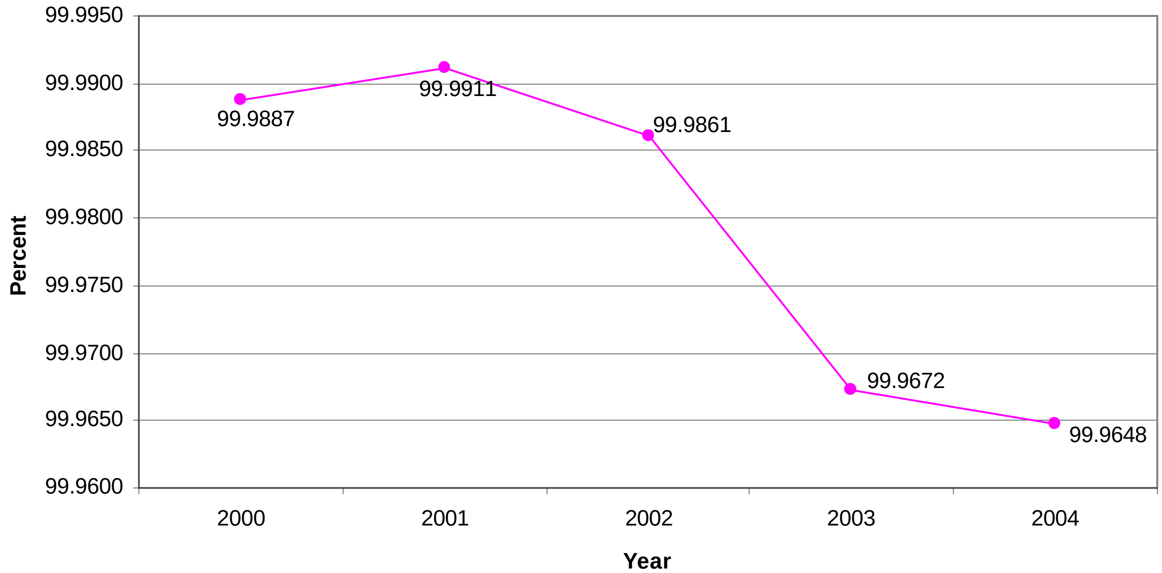


Figure 54
KIUC System Average Interruption Frequency (SAIF)
(Lower is better)

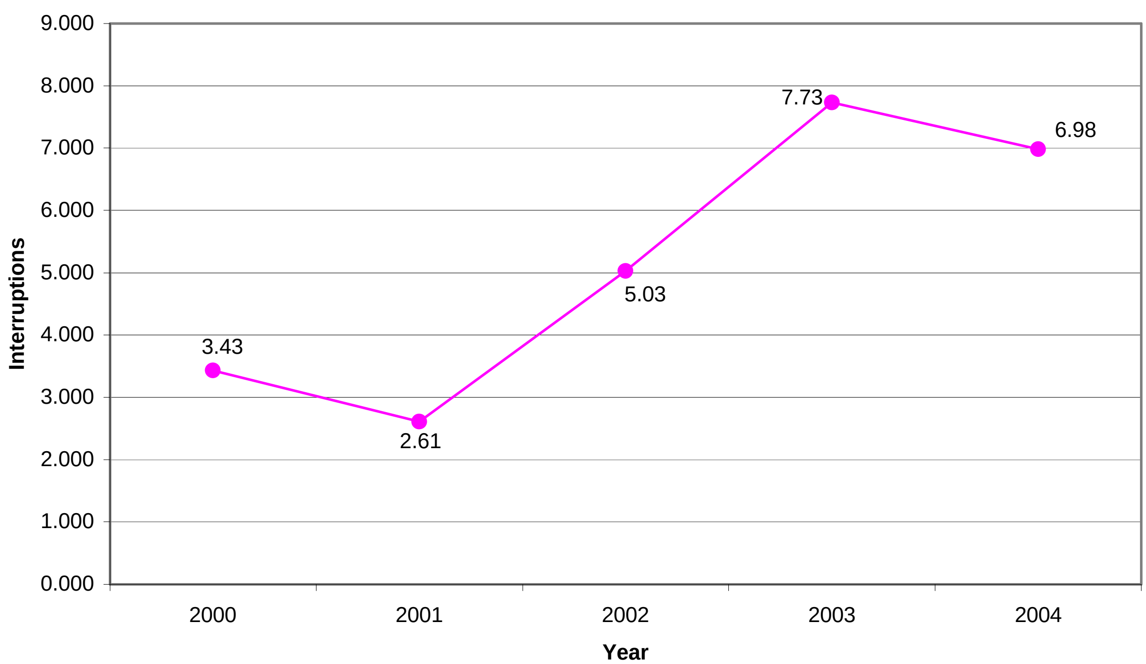


Figure 55
KIUC Customer Average Interruption Duration (CAID)
(Lower is better)

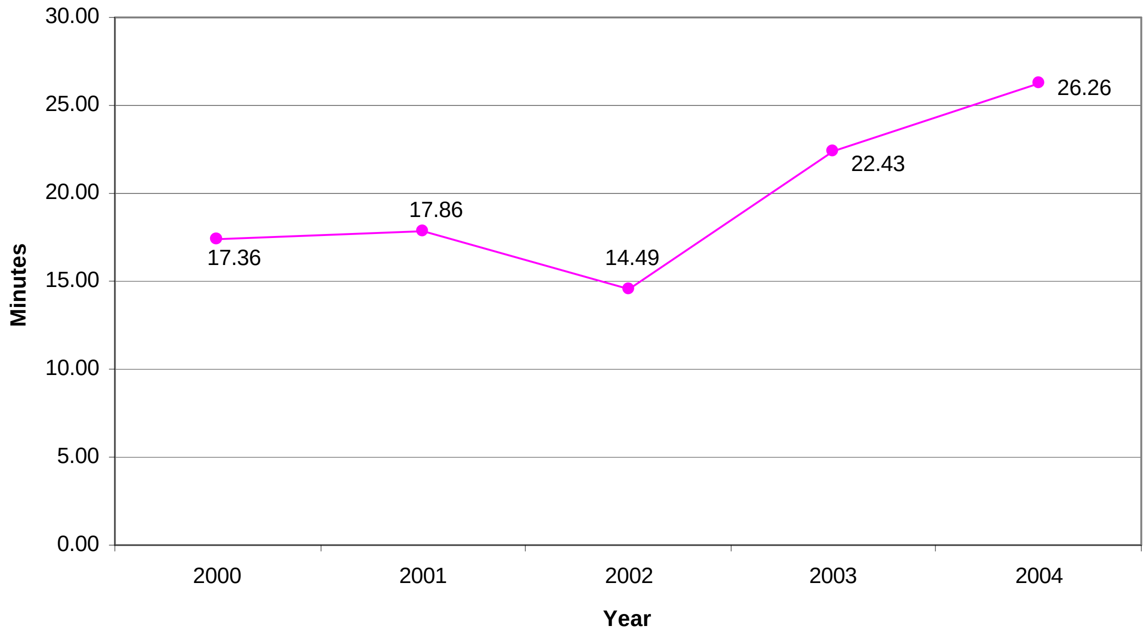
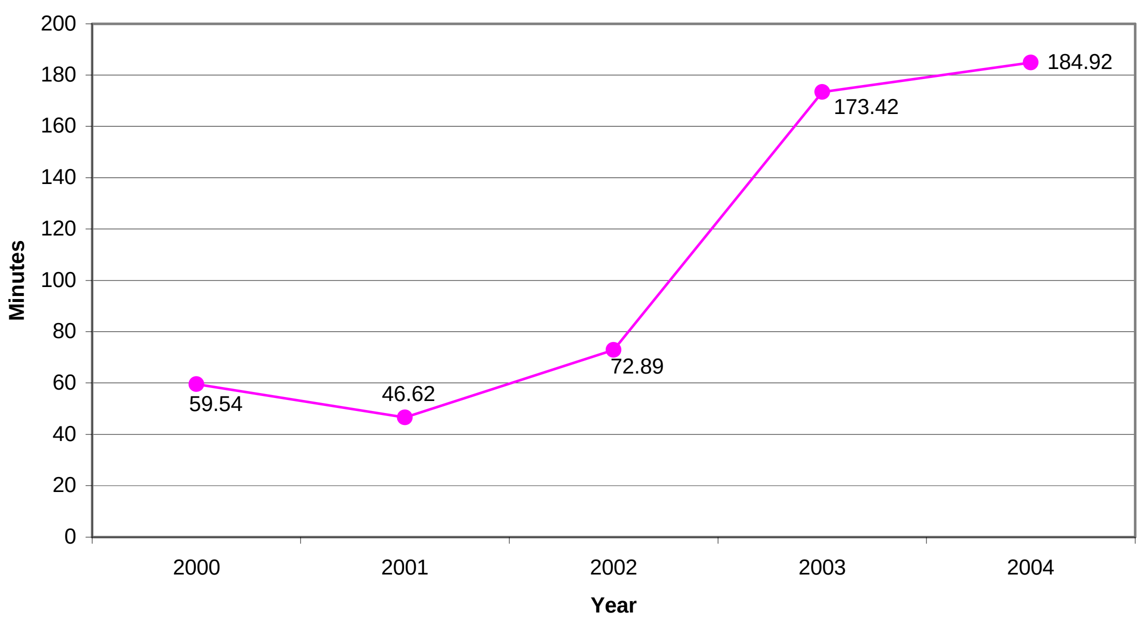


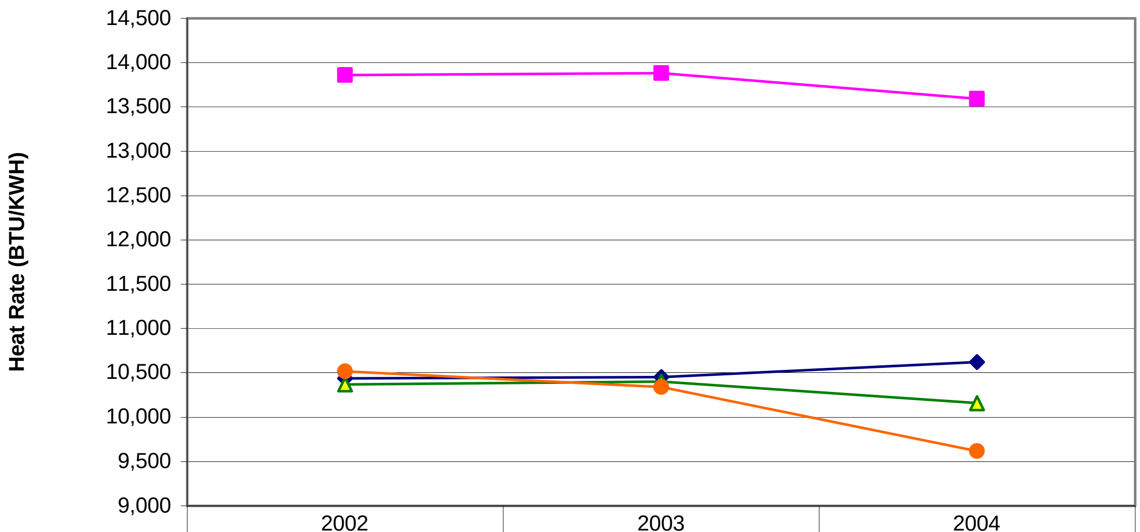
Figure 56
KIUC System Average Interruption Duration (SAID)
(Lower is better)



5. ELECTRIC UTILITIES GENERATING EFFICIENCY RESULTS.

The following provides the annual heat rate values for HECO, HELCO, MECO, and KIUC for the past three (3) 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 57 shows the 2002, 2003, and 2004 heat rates for the electric utilities.

Figure 57
Electric Utility Heat Rates



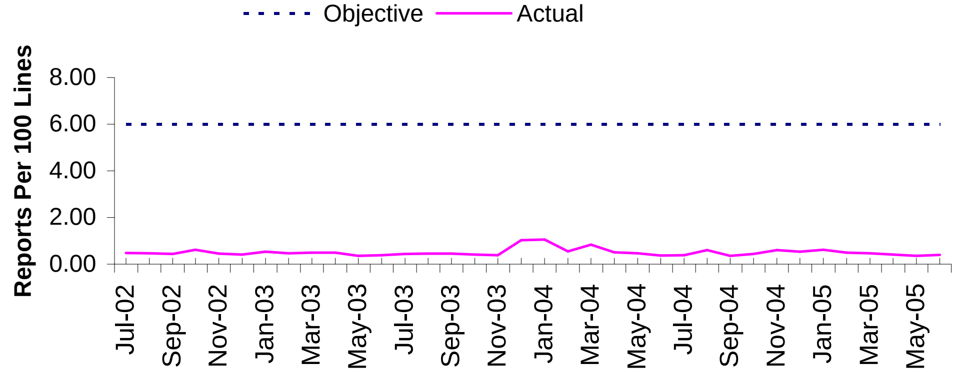
	2002	2003	2004
HECO	10,436	10,452	10,621
HELCO	13,861	13,881	13,591
MECO	10,367	10,400	10,157
KIUC	10,515	10,340	9,618

Year

B. TELECOMMUNICATIONS UTILITIES EFFICIENCY AND SERVICE QUALITY.

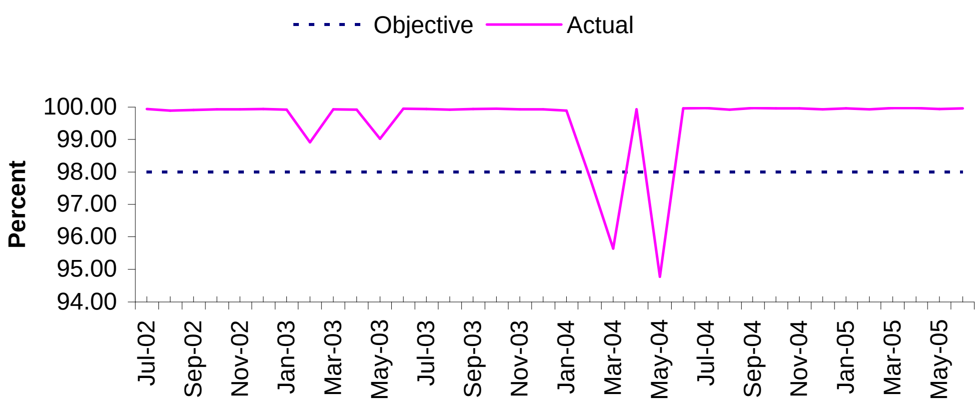
The following service quality data was provided by Hawaiian Telcom in its monthly reports to the Commission as required under HAR Sections 6-80-92 through -98. Figures 58 to 69 show Hawaiian Telcom's service quality results for the last three (3) years.

Figure 58
Total Customer Trouble Reports Per 100 Lines



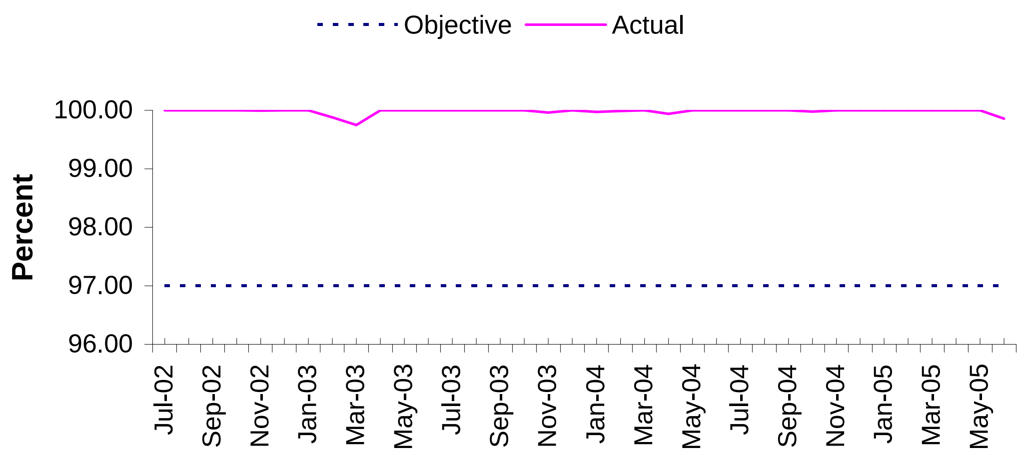
Total Customer Trouble Reports Per 100 Lines - This performance area measures customer network trouble reports per 100 access lines. It is calculated by taking the total customer network trouble reports divided by total access lines times 100. As shown in Figure 58, Hawaiian Telcom met the objective for this performance standard during the period reported.

Figure 59
Dial Tone Speed - Percent Dial Tone Within 3 Seconds



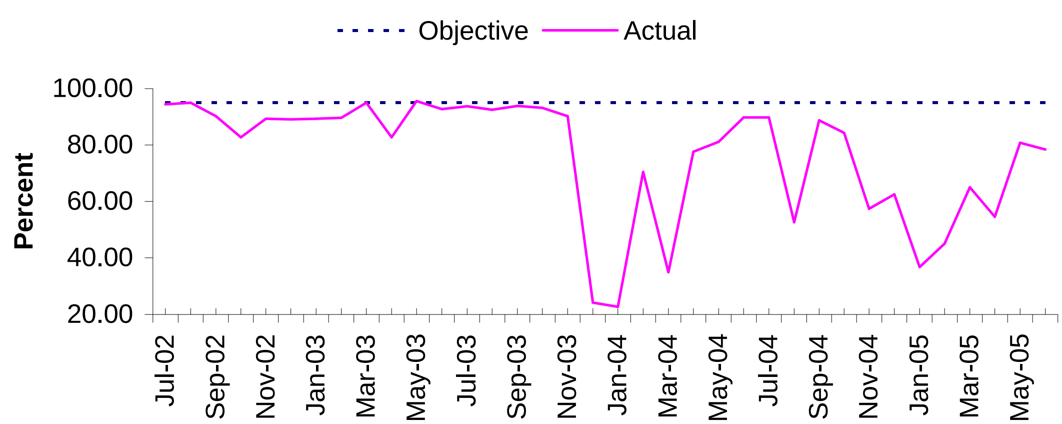
Dial Tone Speed - % Dial Tone Within 3 Seconds - This performance area measures the percentage of calls receiving dial tone within three (3) seconds. It is calculated by taking the number of calls in which dial tone was provided within three (3) seconds divided by the total number of calls times 100. Figure 59 shows Hawaiian Telcom's performance for this standard during the period reported. During the Fiscal Year, in particular, Hawaiian Telcom's dial tone speed met the objective every month.

Figure 60
Dial Service Results - Percent Completion



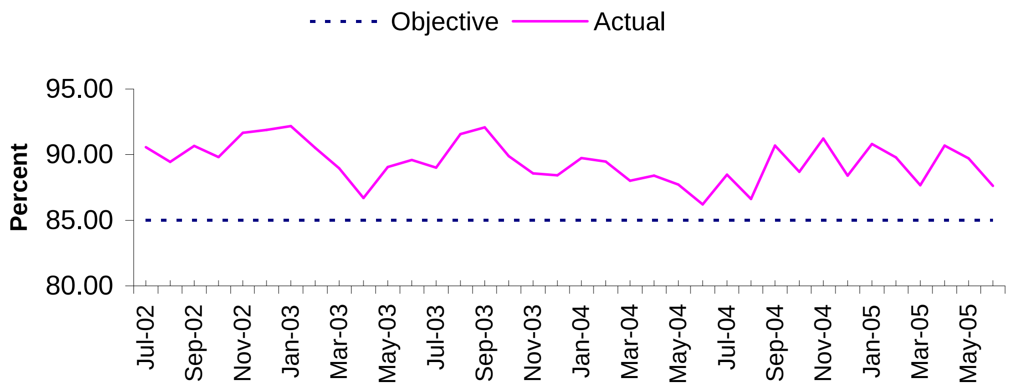
Dial Service Results - % Completion - This performance area measures call completion performance on interoffice trunk groups. It is calculated by taking the number of unblocked calls on interoffice trunk groups divided by the total number of attempts on interoffice trunk groups times 100. As shown in Figure 60, Hawaiian Telcom met its objective for this performance standard during the period reported.

Figure 61
Percent Out-of-Service Troubles Cleared in 24 Hours



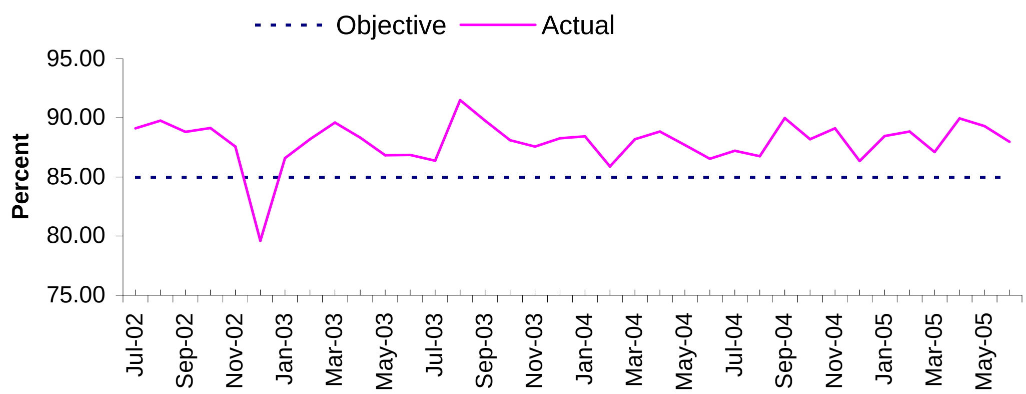
% OOS Trouble Cleared in 24 Hours - This performance area measures customer out-of-service ("OOS") network trouble reports cleared within 24 working hours. It is calculated by taking the total customer OOS network reports cleared within 24 working hours divided by the total customer OOS network trouble reports times 100. As shown in Figure 61, Hawaiian Telcom had difficulty meeting this standard throughout the Fiscal Year.

Figure 62
Percent of Operator Toll Calls
Answered Within 10 Seconds



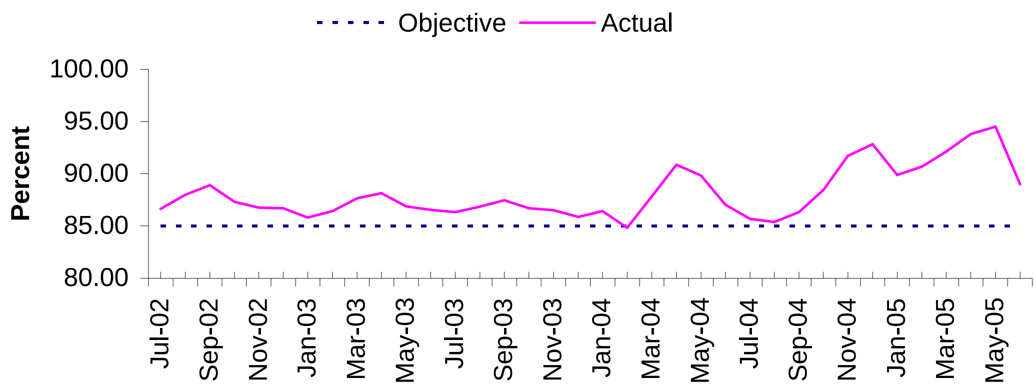
% Operator Toll Calls Answered Within 10 Seconds - This performance area measures the number of calls handled within ten (10) seconds divided by the total number of calls handled times 100 for calls to the toll operator. As shown in Figure 62, Hawaiian Telcom met the objective for this performance standard during the period reported.

Figure 63
Percent of Operator Directory Assistance Calls
Answered Within 10 Seconds



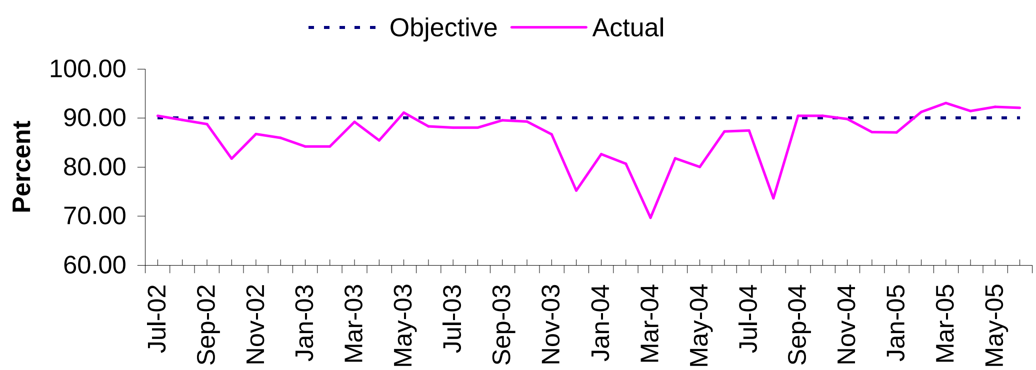
% Operator Directory Assistance Calls Answered Within 10 Seconds - This performance area measures the number of calls handled within ten (10) seconds divided by the total number of calls handled times 100 for calls to the directory assistance operator. As shown in Figure 63, except for a brief period in late 2002, Hawaiian Telcom met the objective for this performance standard during the period reported.

Figure 64
Percent of Repair Calls Answered Within 20 Seconds



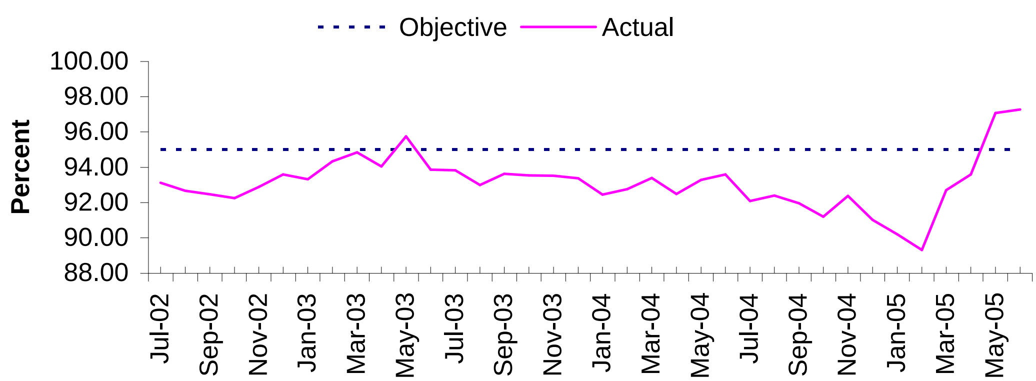
% Repair Calls Answered Within 20 Seconds - This performance area measures the number of calls answered within twenty (20) seconds divided by the total number of calls times 100 for calls to the repair answer center. As shown in Figure 64, except February 2004, Hawaiian Telcom met the objective for this performance standard during the period reported.

Figure 65
Percent Repair Commitments Met



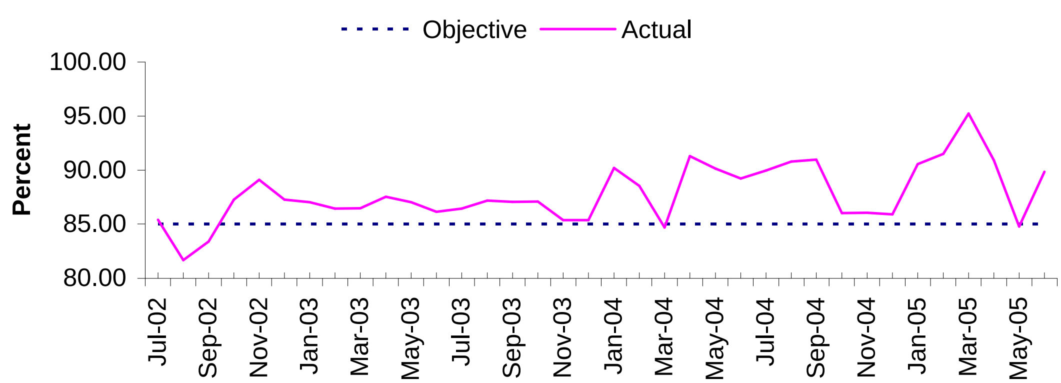
% Repair Commitments Met - This performance area measures the repair tickets completed by the committed due date. It is calculated by taking the total customer network trouble reports for which the commitments were met divided by total customer network troubles times 100. As shown in Figure 65, Hawaiian Telcom has had difficulty attaining the targeted objective on a consistent basis, but it showed improvement during the second half of the Fiscal Year.

Figure 66
Percent Installations Completed Within 3 Days



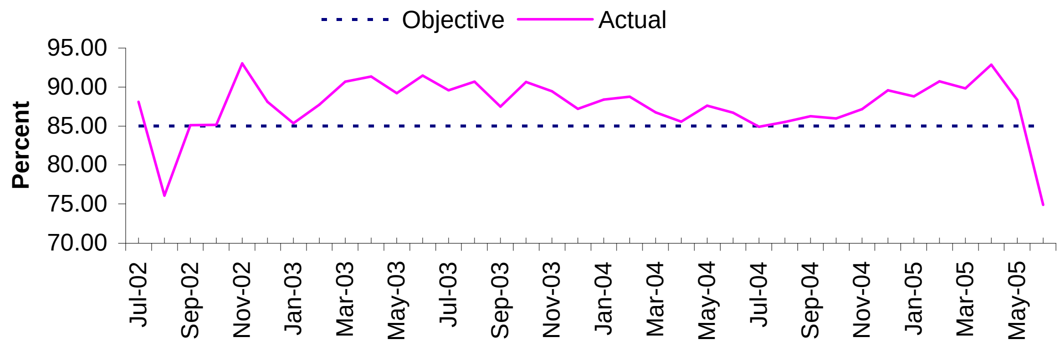
% Installations Completed Within 3 Days - This performance area measures the percent of basic orders completed within three (3) working days. It is calculated by taking the total installation ("I"), move ("M") and change ("C") basic orders completed within three (3) working days divided by the total number of I, M and C orders times 100. As shown in Figure 66, Hawaiian Telcom has had difficulty attaining the targeted objective on a consistent basis, but it showed improvement in May and June 2005.

Figure 67
Percent Combined Business Installation/Billing Office Calls Answered Within 20 Seconds



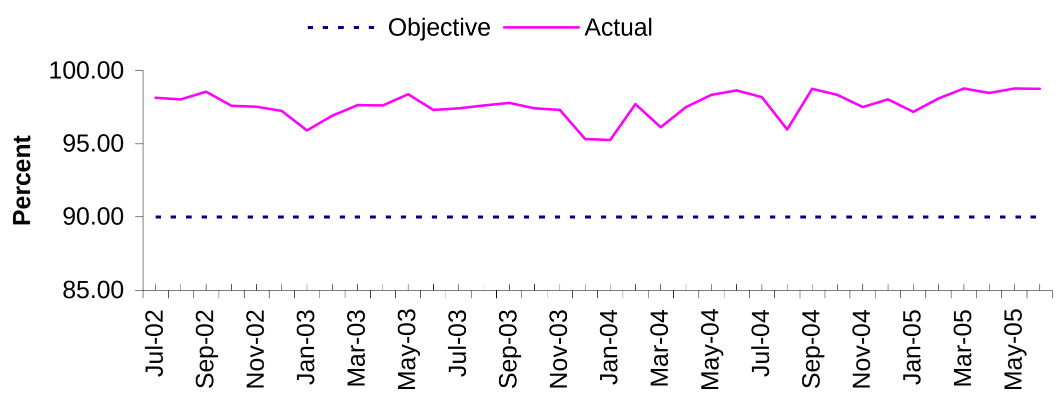
% Combined Business Installation/Billing Office Calls Answered Within 20 Seconds - This performance area measures the number of calls answered within twenty (20) seconds divided by the total number of calls times 100 for calls to the business installation and billing center. As shown in Figure 67, Hawaiian Telcom attained the targeted objective throughout the Fiscal Year, except in May 2005.

Figure 68
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 68, except for a brief period in mid 2002, Hawaiian Telcom had difficulty meeting the objective for this performance standard at the start and end of the Fiscal Year.

Figure 69
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 69, Hawaiian Telcom met 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.

In 2004, the Legislature passed Act 95, SLH 2004 ("Act 95"), which amended HRS Sections 269-27.2, 269-91, 269-92, and added HRS Section 269-95. Act 95 was adopted for the purpose of decreasing Hawaii's need to import large amounts of oil, and increase import substitution, economic efficiency, and productivity, by increasing the use and development of Hawaii's renewable energy resources through a partnership between the State and the private sector.

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

Act 95 required the Commission to: (1) Develop 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; (2) Determine the proposed ratemaking structure's impact on utility companies' profit margins; (3) 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; (4) Revise the standards based on the best information available at the time if the studies conflict with the established standards; and (5) Report its findings to the 2009 Legislature and every five (5) years thereafter.

The definition of "Renewable energy" was amended by Act 95. "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 from organic sources, hydrogen fuels derived from renewable energy, or fuel cells where the fuel is derived from renewable sources. Where biofuels, hydrogen, or fuel cell fuels are produced by a combination of renewable and nonrenewable means, the proportion attributable to the renewable means shall be credited as renewable energy. Where fossil and renewable fuels are co-fired in the same generating unit, the unit shall be considered to produce renewable electricity in direct proportion to the percentage of the total heat value represented by the heat value of the renewable fuels. It also means electrical energy savings brought about by the use of solar and heat pump water heating, seawater air conditioning district cooling systems, solar air conditioning and ice storage, quantifiable energy conservation measures, use of rejected heat from co-generation and combined heat and power systems excluding fossil-fueled qualifying facilities that sell electricity to electric utility companies, and central station power projects.

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, 2004, all electric utility companies in the State reached and exceeded not only the seven (7) per cent target set for 2003, but the eight (8) per cent 2005 target, as well. Accordingly, no waivers or extensions were necessary for these targets.

Specifically, HECO, HELCO and MECO, in the aggregate, reported on June 27, 2005 that they have reached a consolidated renewable energy penetration of 11.4 per cent, as of December 31, 2004. The remaining electric utility company, KIUC, reported on March 18, 2005 that renewable energy resources supplied 13.2 per cent of KIUC's net electricity sales, as of December 31, 2004.

XI. LEGISLATION ENACTED BY 2005 LEGISLATURE AFFECTING PUBLIC UTILITIES.

A. THE 2005 LEGISLATURE ENACTED THE FOLLOWING LEGISLATIVE MEASURES RELATING TO THE PUBLIC UTILITIES COMMISSION:

1. TECHNICAL AMENDMENTS TO CHAPTER 269, HRS, AND ACT 141, SLH 2004.

Act 22, SLH 2005, ("Act 22") amends Chapter 269, HRS, by: (1) adding the reference to "Section 271-19" in the definition of "enforcement officer" in Section 269-1, HRS, to conform to the 2004 amendment of Section 271-38, HRS; (2) changing the reference in Section 269-2(b), HRS, to "Chapter 87, HRS", the Hawaii Public Employees Health Fund law, to Chapter 87A, HRS; (3) replacing "United States Immigration and Naturalization Services" in Section 269-17.5(b), HRS, with "United States Citizenship and Immigration Services," which was placed in the new United States Department of Homeland Security in 2002; and (4) adding the reference to "Section 271-19" in the definition of "enforcement officer" in Section 271-4(15), HRS, to conform to the 2004 amendment of Section 271-38, HRS.

Act 22 also amends Act 141, SLH 2004, ("Act 141") which established the One Call Center, codified as Chapter 269E, HRS, by reenacting Sections 269-30 and 269-33, HRS. Act 141, which will be repealed on June 30, 2009, made conforming amendments to Sections 269-30 and 269-33, HRS. Act 22 ensures that, at the time of repeal, these sections will revert to the form in which they read prior to the effective date of Act 141.

2. PERMIT APPROVALS.

Act 68, SLH 2005, amends Section 91-13.5, HRS, by exempting proceedings of the Commission from the automatic permit approval provisions. Under Section 91-13.5, HRS, agencies must take action to grant or deny any application for business or development-related permits, licenses, and approvals within a maximum time period as adopted in the agency's rules. If no decision is reached within that time period, the application is automatically approved.

3. STANDARDS FOR NET METERED RENEWABLE ENERGY SYSTEMS.

Act 69, SLH 2005, requires the Commission to adopt interconnection standards and regulations removing impediments to the installation of eligible customer-generator systems with a capacity greater than ten (10) kilowatts. Specifically, the Commission is required to: (1) set forth safety, performance, and reliability standards and requirements and (2) establish the qualifications for exemption from a requirement to install additional controls, perform or pay for additional tests, or purchase additional liability insurance.

4. NET ENERGY METERING.

Act 104, SLH 2005, establishes provisions relating to maximum capacity of eligible customer generator. The eligible customer-generator shall have a capacity of not more than fifty (50) kilowatts. The Commission is allowed to increase the maximum allowable capacity. The Commission is allowed to increase the total rated generating capacity produced by eligible customer-generators to an amount above .5 per cent of the electric utility's system peak demand. The Commission is authorized to amend the rate structure or standard contract or tariff. Excess electricity generated by the customer-generator in each monthly billing period is required to be carried over to the next month as a monetary value to the credit of the eligible customer-generator. The electric utility is required to reconcile the eligible customer-generator's electricity production and consumption of energy for each twelve (12)-month period.

5. REGULATION OF SEAWATER AIR CONDITIONING.

Act 164, SLH 2005, exempts persons who own, control, operate, or manage seawater air conditioning district cooling projects from regulation by the Commission. The exemption applies when at least fifty (50) per cent of the energy required for the seawater air conditioning district cooling system is provided by a renewable energy resource, such as cold, deep seawater.

6. COMMISSION SALARIES.

Act 226, SLH 2005, adjusts the salary of the chairperson of the Commission by setting it at eighty-seven (87) per cent of the director of the Department of Human Resources Development.

B. THE 2005 LEGISLATURE ENACTED OTHER UTILITY-RELATED MEASURES RELATING TO:

1. APPROPRIATION FOR WIRELESS ENHANCED 911 FUND.

Act 42, SLH 2005, makes an emergency appropriation of $3,050,000 for the Wireless Enhanced 911 Fund ("Fund"), which is administered by the State Department of Accounting and General Services, to reimburse public safety answering points and wireless providers for technical improvements and for the operating costs of the Fund. Act 159, SLH 2004, which established the Fund, did not provide an appropriation from the Fund.

2. WIRELESS ENHANCED 911 BOARD.

Act 49, SLH 2005, amends the composition of the wireless enhanced 911 board ("board") by including the Comptroller as a voting member of the board and removing the Director of Health from the board. As stated above, Act 159, SLH 2004, established the board within the State Department of Accounting and General Services to administer the Fund.

3. UNCLAIMED PROPERTY OF ELECTRIC UTILITY COOPERATIVES.

Act 52, SLH 2005, amends Chapter 421C, HRS, by exempting electric utility cooperative associations from Chapter 523A, the Uniform Unclaimed Property Act. This measure enables an electric utility cooperative association to retain and utilize unclaimed property funds for their members and the community. Electric utility cooperative associations are required to file an annual report of unclaimed property with the Director of Finance and remain responsible for the payment of all claims relating to unclaimed property. All non-escheat patronage refunds must be transferred to a nonprofit corporation incorporated pursuant to Chapter 414D. These refunds must be used for electric energy assistance programs, charitable and community organizations, educational scholarships, and benefit of the general membership of the cooperative.

4. SPRBS FOR ELECTRIC UTILITIES.

Act 78, SLH 2005, authorizes the Department of Budget and Finance to issue up to $160,000,000 in SPRBs to assist HECO, MECO, and HELCO with capital improvement projects. Of the total authorized SPRB amount, $100,000,000 shall be for HECO, $20,000,000 for MECO, and $40,000,000 for HELCO. The Commission's approval is required for any project financed by the issuance of the SPRBs.

5. ASSESSMENT OF PUBLIC SERVICE COMPANY TAX ON PRIVATE SEWER COMPANIES OR FACLITIES.

Act 146, SLH 2005, authorizes the assessment of the public service company tax on a private sewer company or facility by amending the definition of "gross income" in Chapter 239, HRS, to include gross income from the operation a private sewer company or facility.

C. DURING THE 2005 LEGISLATURE, THE FOLLOWING RESOLUTION RELATING TO UTILITY ISSUES WAS ADOPTED:

1. STUDY ON THE FUTURE OF PHOTOVOLTAIC ELECTRICITY IN HAWAII.

House Resolution No. 159, H.D. 1 requests the Department of Business, Economic Development and Tourism to prepare a report examining and discussing: (1) the historical price trend for photovoltaic electricity use in Hawaii and the mainland United States; (2) the historical price trend for utility-provided electricity in Hawaii; (3) the date when these two (2) trends are likely to converge; and (4) a sensitivity analysis of the previous trends for both financed and non-financed photovoltaic systems, a high and low future price of petroleum, and other factors. The report is due to the Legislature no later than twenty (20) days prior to the convening of the 2006 legislative session.

XII. FEDERAL ISSUES AND ACTIVITIES.

A. EPA ("U.S. ENVIRONMENTAL PROTECTION AGENCY")-STATE ENERGY EFFICIENCY AND RENEWABLE ENERGY ("EERE") PROJECTS.

In February 2005, the Commission, through its membership in NARUC, was selected by the EPA to participate in the newly formed EPA-State EERE Projects. The EPA-State EERE Projects are a joint initiative between state utility regulators from six (6) states and the EPA to explore ways to encourage use of cost-effective energy efficiency, renewable energy, and clean energy resources, while lowering consumer energy bills. Through the EPA-State EERE Projects, the Commission seeks to establish and implement policies and practices that will promote clean and efficient energy resources in Hawaii.

B. REVISED FEDERAL RULES ON LOCAL TELEPHONE SERVICE COMPETITION

On February 20, 2003, the FCC adopted new rules governing competition for local telephone service through its Triennial Review Order. 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 unbundled 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.

In response to the D.C. Circuit's decision, the FCC adopted new rules on December 15, 2004, and issued its Triennial Review Remand Order on February 4, 2005. In that order, the FCC established a twelve (12)-month plan for competing carriers to transition away from use of unbundled mass market switching, high capacity loops and dedicated transport, where they are not impaired. The Triennial Review Remand Order became effective on March 11, 2005.

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. In its simplest terms, BPL is a relatively new technology that provides access to high-speed broadband services using communications capabilities of the nation's power grid, and thereby adds another option for receipt of broadband by consumers. This low-power, unlicensed BPL technology provides high speed digital communications capabilities by coupling radio frequency energy onto either the power lines within the building ("In-House BPL"), or onto the medium voltage power delivery lines ("Access BPL"). In-House BPL systems leverage the universally used electrical outlets available within a building, or home, to transmit information between computers and/or other electronic devices, eliminating the need to install new wires between devices and, hence, facilitating the implementation of business or home networks. Access BPL systems, on the other hand, deliver high-speed Internet and other broadband services to homes and businesses from the outside. Electric utility companies can use Access BPL systems to help monitor, and more effectively manage, their electric power distribution operations, and customers, as end users, can more accurately control consumption.

In its October 2004 Report and Order, the FCC recognized the concerns of certain existing licensed radio service users, in both the private and government sectors, regarding the perception that BPL systems might cause harmful interference to their operations. To address that issue, the FCC adopted rules to provide a framework that will both facilitate the rapid introduction and development of BPL systems while, at the same time, protect licensed radio services from harmful interference. 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. 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.

Locally, HECO, has advised the Commission that it is currently conducting trials of various BPL technologies, and has also begun a pilot program focusing primarily on utilizing the technologies to better monitor, manage and control its substantial generation and transmission assets. It intends also to provide its business and residential customers with the ability to readily access, either on demand, or at scheduled intervals, readings of their own power consumption information, enabling them to better manage their individual operating and energy costs. HECO is presently installing new, advanced meters that will assist in these BPL enabled initiatives. It believes that it can accomplish all the above and still have available bandwidth on their power lines to accommodate Internet and Voice over Internet Protocol services. The Commission is monitoring these issues as they develop on both the national and state levels.

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

"Internet Voice Communications," also known as VoIP, is a relatively new technology enabling telephone calls to be made using broadband Internet connection instead of the traditional (analog) phone line. VoIP technology converts voice signals from a telephone into packeted digital signals that travel over the Internet and are then reassembled into voice signals on the receiving end.

The Commission recognizes that the regulatory environment, with respect to VoIP technology and services, is rapidly evolving on both federal and state levels. VoIP regulatory issues continue to be extensively examined by the FCC, state commissions, and public and private interest groups. Included among these issues are: (1) whether VoIP services should be extensively regulated on both the national and state levels; (2) whether VoIP services should be classified as "telecommunications" or "information" services under the Telecommunications Act of 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 safeguards for consumer protection and disability access.

In February 2004, the FCC initiated a major rulemaking proceeding (WC Docket No.04-36) to address and clarify the regulatory status of VoIP services, in response to mounting concern throughout the telecommunications industry that an air of regulatory uncertainty was stifling growth. In addition, several individual states, including Minnesota, were beginning to place their own regulations on VoIP providers, threatening the fledgling sector with a patchwork of divergent state regulations. In an important development, in November 2004, the United States Court of Appeals for the Eighth Circuit affirmed a lower federal court ruling that the Minnesota Public Utilities Commission could not regulate voice calls made via VoIP like those made on traditional telephone lines. The Appeals Court noted that the FCC, in its Memorandum Opinion and Order No. 04-264, WC Docket No. 03-211, had found that, among other things, the interstate and intrastate components of VoIP service could not be separated and, therefore, could not be regulated by the state without interfering with or negating federal policy and rules. Since the Eighth Circuit's ruling, several states, including Minnesota, have appealed that FCC order.

With respect to VoIP and public safety services such as E911, the FCC in May 2005 (WC Docket No. 05-196), took steps to protect the growing number of VoIP subscribers by requiring all interconnected VoIP service providers to adopt E911 solutions as a top priority, and by placing obligations on interconnected VoIP providers that are similar to those placed on traditional telephone service providers, within the limitations of current technology.

Locally, the Commission granted a certificate of authority to Time Warner Cable Information Services, LLC on October 22, 2004 to provide VoIP services in the State. It also continues to monitor federal activities relating to VoIP for possible impact to Hawaii consumers.

XIII. PREVIEW FISCAL YEAR 2005-06.

In Fiscal Year 2005-06, the key proceedings and activities of the Commission include: (1) a proceeding to establish One Call Center fees; (2) rule-making proceedings; and (3) workshops on renewable portfolio standards.

The following sections highlight the significant proceedings opened in Fiscal Year 2005-06.

A. COMMISSION INSTITUTES PROCEEDING TO ESTABLISH FEES FOR ONE CALL CENTER.

In August 2005, the Commission instituted a proceeding to determine the appropriate fees and assessments to finance the administration and operation of the One Call Center. Pursuant to Section 269E-6, HRS, operators are required to pay to the Commission a fee based on a schedule determined by the Commission. The Commission is also allowed to assess fees on excavators. The intervenors in this proceeding include: (1) Waikokoa Sanitary Sewer Company, Inc., dba West Hawaii Sewer Company; (2) Waikoloa Resort Utilities, Inc., dba West Hawaii Utility Company; (3) Waikoloa Water Company, Inc., dba West Hawaii Water Company; (4) Hawaiian Telcom; (5) Sandwich Isles Communications, Inc.; (6) Makena Wastewater Corp.; (7) South Kohala Wastewater Corp.; (8) Board of Water Supply; (9) Time Warner Telecom of Hawaii, L.P., dba Oceanic Communications; (10) Time Warner Entertainment Company, L.P., dba Oceanic Timer Warner Cable; (11) Pacific Lightnet, Inc.; (12) HECO, HELCO, and MECO; and (13) Hawaii-American Water Company.

B. RULE-MAKING PROCEEDINGS.

In Fiscal Year 2005-06, the Commission intends to begin proceedings to develop and adopt administrative rules for the following:

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

Establishment of 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.

Implementation of 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 to assess fees on operators and excavators).

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.

C. RENEWABLE PORTFOLIO STANDARDS WORKSHOPS.

The Commission has begun 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.[24]

The Commission selected a collaborative workshop approach to encourage 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, like, for example, 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 held two (2) of three (3) planned two-day workshops: the first on November 22 and 23, 2004 and the second on October 3 and 4, 2005. The third workshop is scheduled for early 2006. The Commission also held its first technical workshop on October 5, 2005 to gather information and comments to its approach to simulate, using a computer model, Hawaii's energy market. For the first two (2) workshops, the Commission published a paper many weeks before each workshop, describing its approach along with actual or expected results, and invited stakeholders to provide written comments. The deadline for the submission of written stakeholder comments has ranged from one (1) to two (2) weeks before the workshop. Prior to each workshop, the Commission published a schedule describing a sequence of presentations and panel discussions at the workshop.

The goals of the first scheduled workshop were to describe and gather comments on the Commission's methodology in fulfilling its legislative mandate. The goals of the second workshop were to analyze the design and implementation of various RPS programs in the U.S., to examine potential alternative renewable energy resources in Hawaii, and to identify proposed or potential ratemaking structures and incentives consisting of candidate RPS components and incentive regulation mechanisms for implementing Hawaii's RPS. The goals of the third planned workshop are to further describe and gather additional comments on the incentive regulation mechanisms preferred by the Commission, based upon the input provided at the second workshop, to review preliminary simulation results for Hawaii's power market, and to discuss an outline for potential administrative rules that the Commission may adopt to implement the mandates of Act 95.

---

[24]In 2005, the Commission sought 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. The Commission will continue to support legislation seeking to achieve such an amendment.