PUBLIC UTILITIES COMMISSION

STATE OF HAWAII

ANNUAL REPORT

(HAW. REV. STAT. §§ 269-5 and 486J-5)

FISCAL YEAR 2005-06

NOVEMBER 2006

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PUBLIC UTILITIES COMMISSION
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I. INTRODUCTION.

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

The Public Utilities Commission ("Commission") of the State of Hawaii ("State") submits this Annual Report pursuant to Sections 269-5 and 486J-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, 2005 to June 30, 2006 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. It also oversees the administration of a one call center that provides advance warning to excavators of the location of subsurface installations in the area of an excavation in order to protect those installations from damage. In addition, the Commission has recently been tasked with the development and maintenance of the petroleum industry monitoring, analysis and reporting program that is intended to increase transparency within the petroleum industry. 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.

Responsibility for the establishment and administration of a one call center, which provides 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. In 2004, Chairman Caliboso was appointed as a member of the Federal Communications Commission's ("FCC") Intergovernmental Advisory Committee, which provides advice to the FCC on a broad range of telecommunications issues of interest to state, local, and tribal governments. 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, the Committee on International Relations, and the Ad Hoc Committee on Critical Infrastructure Protection. In addition, he serves on the State Energy Emergency Preparedness Advisory Committee. Chairman Caliboso earned a bachelor of business administration degree from the University of Hawaii and a law degree from the William S. Richardson School of Law at the University of Hawaii.

Wayne H. Kimura, Commissioner [1]

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 a 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 [2]

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

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[1]Commissioner Kimura retired from the Commission on July 31, 2006.

[2]Commissioner Kawelo retired from the Commission on June 30, 2006. Commissioner John Cole was appointed by Governor Linda Lingle and confirmed by the Senate to replace Commissioner Kawelo for the term July 1, 2006 through June 30, 2012.

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, 2006, 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.[3]

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

III. GOALS AND OBJECTIVES OF COMMISSION.

A. PRIMARY PURPOSE.

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

B. LONG-TERM GOALS.

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

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

Promote and encourage efficient and reliable production and delivery of all utility services.

Promote and encourage 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. Recruitment initiatives resulted in the hiring of eight (8) new staff members that has essentially supplemented the Commission's investigative/enforcement, documentation, research and legal sections and fulfilled the current need for in-house information technology and systems expertise. Commission staff and consultants continued to work on the development of a state of the art document and docket management system ("DMS") that will 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 a centralized database, share relevant information with the Department of Commerce and Consumer Affairs, Division of

Consumer Advocacy, increase the efficiency of internal document development and distribution, increase the efficiency of fees collections, and allow real time access to public documents on the Commission's website. The first phases of the DMS project are planned to be implemented by the end of Fiscal Year 2006-07.

Major administrative points of focus for Fiscal Year 2006-07 will include personnel recruitment and training, technological and regulatory process improvements, public education initiatives and information transparency enhancements, and enforcement activities expansion. Additionally, pursuant to Act 143, Session Laws of Hawaii 2006, the Commission will be conducting an in-depth organizational review to appropriately restructure and supplement the Commission's personnel resources.

V. REGULATORY ISSUES AND PROCEEDINGS.

A. MAJOR REGULATORY ISSUES.

The Commission is responsible for regulating 237 utility companies or entities (4 electric, 1 gas, 196 telecommunications, and 36 water and sewer companies), 4 water carriers, 597 passenger carriers and 451 property carriers in the State. During the Fiscal Year, the Commission opened 344 new dockets relating to those regulated utilities and transportation companies, completed and disposed of 377 dockets from its total case load and issued 698 decisions and orders relating to new dockets and to those carried over from prior years.

During the Fiscal Year, key proceedings in the electric utility area included the Commission's examination of issues related to distributed generation and its investigation on competitive bidding for new generation. It also continued its review of Hawaiian Electric Company, Inc.'s ("HECO") request for a general rate increase and its proceeding on energy efficiency and HECO's demand-side management programs and cost recovery that was bifurcated from HECO's rate proceeding.

In the telecommunications area, the Commission reviewed proposed mergers of Verizon Communications Inc. and MCI, Inc. and of AT&T Inc. and BellSouth Corporation. It also monitored the transition activities resulting from the sale of Verizon Hawaii Inc., now known as Hawaiian Telcom, Inc., to TC Group L.L.C., dba The Carlyle Group. Relating to eligible telecommunications carriers, the Commission adopted annual certification procedures that these carriers are to abide by in order to qualify for receipt of federal universal service funding. Also, the Commission extended the statewide telecommunications relay services contract with Sprint for an additional two (2) years, which allows persons with hearing or speech disabilities to communicate with others using telecommunications services.

Other key proceedings during the Fiscal Year related to Young Brothers, Ltd.'s request for an automatic fuel price adjustment mechanism and to discontinue its less than container load service to and from Kahului Harbor. The Commission also selected a provider of one call center services through June 30, 2009, to help in the administration of the State's One Call Center.

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. COMMISSION PROCEEDINGS.

a. EXAMINATION OF DISTRIBUTED GENERATION.

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

In January 2006, the Commission issued its decision and order setting forth essential policies and principles for the deployment of distributed generation in Hawaii and certain guidelines and requirements for distributed generation.[4] This decision and order required the electric utilities to file interconnection tariffs and standby service tariffs for the Commission's review and approval.[5]

b. COMPETITIVE BIDDING FOR NEW GENERATING CAPACITY.

In October 2003, the Commission opened an investigation to evaluate competitive bidding as a mechanism for acquiring or building new generation capacity in Hawaii, in an effort to develop a process by which any new generation would be provided at the lowest reasonable cost. Issues in this docket include: (1) evaluating the benefits and impacts of competitive bidding; (2) developing a fair competitive bidding system, if necessary, that ensures that competitive benefits result from the system and ratepayers are not placed at undue risk, clearly specifies competitive bidding guidelines and requirements for prospective bidders, and encourages broad participation from a range of prospective bidders; and (3) developing the necessary revisions to the integrated resource planning process, if necessary.

In May 2006, the electric utilities and the Consumer Advocate jointly filed a stipulation proposing a competitive bidding framework, while Hawaii Renewable Energy Alliance ("HREA") separately filed a proposed competitive bidding framework, for the Commission's consideration. In June 2006, the Commission issued its decision and order and a proposed framework to govern

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

[5] In July 2006, KIUC filed its proposed interconnection tariff and HECO, HELCO, and MECO filed proposed revisions to their existing interconnection tariff. HECO, HELCO, and MECO also filed their proposed standby service tariff in August 2006. KIUC's proposed standby service tariff will be filed in November 2006.

competitive bidding as a mechanism for acquiring or building new generation in Hawaii, and ordered the parties to submit comments on the proposed framework in July 2006.[6]

c. NET ENERGY METERING.

In April 2006, the Commission opened an investigation to evaluate whether the Commission should increase: (1) the maximum capacity of eligible customer-generators to more than fifty (50) kilowatts ("kW"); and (2) the total rated generating capacity produced by eligible customer-generators to an amount above 0.5 percent of an electric utility's system peak demand, under Hawaii's Net Energy Metering law, codified as HRS §§ 269-101 to 269-111. HECO, HELCO, MECO, KIUC, and the Consumer Advocate were designated parties to this investigative proceeding, and in June 2006, the Commission granted motions to intervene filed by HREA and Hawaii Solar Energy Association ("HSEA") and a motion for participation without intervention filed by Zero Emissions Leasing LLC.

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

In 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 utility planning. Generally, the process identifies and evaluates combinations of demand–side and supply-side energy resources that will achieve specified objectives and meet forecasted demand. The goal of IRP is the identification of the resources or the mix of resources for meeting near- and long-term consumer energy needs in an efficient and reliable manner at the lowest reasonable cost.

In 1992, the Commission required HECO, HELCO, MECO and Citizens Communications Company, Kauai Electric Division ("KE") (nka Kauai Island Utility Cooperative or "KIUC") to develop integrated resource plans in accordance with the IRP Framework. The IRP Framework, which was adopted in May 1992, requires each energy utility to develop a long-range, twenty-year IRP and a medium-range, five-year program implementation schedule (action plan) to be submitted on a three-year planning cycle for the Commission's review and approval. Generally, the IRP Framework further prescribes what the utilities are required to do and the factors to be considered in developing their respective integrated resource plans. Among other

[6] In September 2006, the Consumer Advocate; HECO, HELCO, and MECO; and HREA filed their comments on the Commission's proposed framework. KIUC informed the Commission that it had no comments to submit.

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).

Below is a summary of the status of electric utility IRPs and action plans as of June 30, 2006.

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 filed its third IRP on October 28, 2005.

MECO's first IRP and action plan were approved in May 1996. In May 2000, MECO filed its second IRP. In April 2004, the Commission approved the parties' agreement and required MECO to submit two (2) 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 and ordered that the third IRP and action plan be filed by October 31, 2006.[7]

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. In November 2005, the Commission granted HELCO an extension of time until December 29, 2006 to file its third IRP.

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 rather than a third IRP, as approved by the Commission. 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, and in March 2005, the Commission opened a proceeding to investigate KIUC's proposed revised IRP and DSM framework. In May 2006, the Commission ordered that KIUC's IRP framework be modified to recognize the utility's name change to KIUC, following the purchase of the electric utility from Citizens Communications Company, and the increased filing threshold for capital improvement projects ("CIPs") from $500,000 to $2.5 million. In addition, the Commission lifted the suspension of KIUC's IRP and DSM filings.

In June 2006, the Commission opened a new docket to examine KIUC's IRP efforts in its next IRP cycle and ordered KIUC to prepare its IRP schedule for its third IRP cycle.

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[7]On October 23, 2006, the Commission granted MECO's request for an extension of time to file its third IRP until April 30, 2007.

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 and 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 entirely through base rates; and (3) modify the cost recovery mechanism for its two (2) approved load management DSM programs. In December 2005, HECO requested approval on an interim basis of three existing DSM programs – Commercial and Industrial Energy Efficiency, Commercial and Industrial New Construction, and Commercial and Industrial Customized Rebate. It also requested approval to use a new interim Energy Solutions for the Home program. In April 2006, the Commission approved those interim proposals and required the discontinuance of HECO's recovery of lost gross margins and shareholder incentives for its DSM programs, until further ordered by the Commission.

d. COMMISSION APPROVES BUDGET INCREASE FOR HECO'S COMMERCIAL AND INDUSTRIAL DIRECT LOAD CONTROL ("CIDLC") PROGRAM.

HECO's CIDLC program, approved in October 2004 as a pilot 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 provides 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.

In March 2006, HECO requested approval to increase its 2006 equipment budget by $148,400 to reflect projected expenditures for the year. HECO noted that the CIDLC program is one of the load reduction measures that are crucial to help mitigate its reserve capacity shortfall situation. Additionally, in April 2006, HECO requested approval to modify the liability and indemnification provision in its CIDLC program contract. The Commission reviewed and analyzed the requests, and in June 2006, the Commission issued an order approving HECO's requests.

e. COMMISSION APPROVES MECO AND MAKILA HYDRO, LLC ("MAKILA") POWER PURCHASE CONTRACT ("PPC").

In June 2005, MECO requested approval of the PPC, dated May 10, 2005, by and between MECO and Makila. Makila was formed for the primary purpose of repowering the Makila hydro electric generating site, where Makila intends to own, operate and maintain an existing five hundred (500) kW hydro electric plant. This hydro electric facility is the decommissioned Kauaula Hydroelectric Plant previously owned by Pioneer Mill Company. Makila plans to operate the hydro electric facility as a small power production, non-fossil fuel producer of electric power. Also in its application, MECO requested that the Commission: (1) authorize MECO to include the purchased energy charges and related revenue taxes that MECO incurs under the PPC in MECO's Energy Cost Adjustment Clause ("ECAC") for the term of the PPC; (2) find that the purchased energy charges to be paid by MECO pursuant to the PPC are reasonable; and (3) find that the purchase power arrangements under the PPC are prudent and in the public interest.

In May 2006, the Commission approved the PPC between MECO and Makila and found that the purchased energy charges to be paid by MECO are reasonable and that the purchased power arrangements under the PPC are prudent and in the public interest. The Commission also allowed MECO to include in its ECAC the purchased energy charges and related revenue taxes that MECO incurs under the PPC for the term of the PPC, to the extent that such payments are not recovered in its base rates.

f. COMMISSION ADDRESSES NET ENERGY METERING TARIFFS.

In June 2005, the Commission reviewed and 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 increasing 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 amended 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.

In September 2005, the parties jointly filed stipulated revisions to Rule 18, in response to the Commission's June 2005 decision, which revise Rule 18 by incorporating certain changes to the Net Energy Metering Law promulgated by Act 104, SLH 2005. They submitted another joint filing in February 2006 proposing additional amendments in response to the Commission's inquiry on the effect of the energy cost adjustment clause. In March 2006, the Commission approved the parties' revised Rule 18, with an effective date of March 10, 2006.

In May 2006, the Commission opened an investigation to review KIUC's revised Rule 17, Net Energy Metering, filed in April 2006. KIUC proposes to revise its Rule 17 to incorporate certain changes to the Net Energy Metering Law, promulgated by Act 99, SLH 2004 and Act 104, SLH 2005.

g. TEN (10)-YEAR MASTER AGREEMENT FOR FACILITY ATTACHMENTS BETWEEN HECO AND TIME WARNER TELECOM OF HAWAII, L.P. IS APPROVED.

In March 2006, the Commission reviewed and approved the Master Agreement for Facility Attachments dated December 28, 2005 between HECO and Time Warner Telecom of Hawaii, L.P., ("Time Warner Telecom"). The Master Agreement sets forth the terms and conditions for granting Time Warner Telecom non-exclusive licenses to attach wireline communications equipment to all real and personal property owned or controlled by HECO, including poles, towers, and other structures for the purpose of providing competitive telecommunications services within Hawaii. The term of the Master Agreement is ten (10) years, subject to an additional ten (10)-year extension upon agreement of the parties. Each license that HECO grants to Time Warner Telecom under the Master Agreement has a term of five (5) years and may be extended for additional five-(5)-year periods if agreed to be the parties.

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

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

In December 2005, the Commission reviewed and approved HECO's proposal to construct temporary and permanent 46 kilovolt ("kV") subtransmission lines above the surface of the ground in connection with its Kamehameha Highway Kokololio Bridge Replacement Overhead Line Relocation project. The project is in response to a request from the State Department of Transportation ("DOT") to accommodate the DOT's plans to replace and widen the existing Kokololio Stream Bridge in Hauula, Oahu.

In December 2005, the Commission reviewed and approved HECO's request to construct a 46 kV subtransmission line above the surface of the ground in connection with its Ko Olina Parcel 50 46 kV Overhead Relocation project. The project was initiated at the request of Centex Destination Properties to accommodate the development of residential units on the developer's Parcel 50 property in Ko Olina, mauka of Aliinui Drive.

In June 2006, the Commission reviewed and approved HELCO's request for interim approval to permit HELCO to commit funds and, if necessary, to start installation in connection with the Queen Kaahumanu Highway Widening Project, Phase I, in the Kailua-Kona area. The project, which requires relocation of an overhead 69 kV transmission line, is expected to be completed by approximately June 2007.

i. COMMISSION REVIEWS PROPOSED UNDERGROUND POLICIES AND SUBSTATION GUIDELINES FILED BY HECO AND CONSUMER ADVOCATE.

In May 2004, the Commission approved HECO's request to expend approximately $7.3 million for its new Kuahua Substation, subject to certain conditions. One such condition required the parties to submit a stipulated filing addressing the concerns raised in the docket regarding HECO's policies on underground lines and requiring contributions, pursuant to the parameters set forth in the decision. In March 2006, the parties filed agreements that identify the criteria that should be considered in formulating the underground policy and substation guidelines. Specifically, the parties filed: (1) Policy on Underground Lines (dated March 2006); (2) HECO's Cost Contribution for Placing Overhead Distribution Lines Underground, Guideline Summary (updated March 2006); and (3) HECO's Dedicated and System Substation Guideline (dated March 2006). The first two documents are the policies and guidelines that HECO will apply to future projects involving the installation of new underground lines or the conversion of existing overhead lines to underground. The third document applies to projects involving the construction of new system substations or new dedicated substations. In May 2006, the Commission approved the parties' agreements, subject to the inclusion of one amendment to the Policy on Underground Lines.

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

In June 2006, the Commission reviewed and approved HECO's request for a waiver of Rule 13 of its tariff to allow HECO to pay approximately $77,884 (net) for the underground conversion of its 11.5 kV lines for the Auahi Street overhead to underground conversion project.[8] HECO initiated the proposed project on behalf of Victoria Ward, Ltd. who had expressed interest in undergrounding the 11.5 kV overhead lines fronting Ward Center on Auahi Street (between Kamakee and Queen Streets). The total cost of the proposed project is estimated to be $182,393 (excluding change-over and removal costs). Of this amount Victoria Ward, Ltd. will provide cash contribution-in-aid-of-construction ("CIAC") of $70,084 and an in-kind CIAC of approximately $34,425 (for the infrastructure). In its order, the Commission stated that the cost sharing formula being proposed by HECO appears to be consistent with HECO's commission-approved Policy on Underground Lines (dated March 2006) and Cost Contribution for Placing Overhead Distribution Lines Underground, Guideline Summary (updated March 2006).

k. COMMISSION SUSPENDS HECO'S REQUEST FOR A NEW GENERATING STATION.

In September 2005, in order to thoroughly review the proposed project, the Commission suspended HECO's application, filed in June 2005, requesting approval 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. The Commission will be holding an evidentiary hearing on this application in December 2006.

l. HECO'S 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 proposed as the appropriate "give back." HECO filed an application in June 2005 relating to this package of community benefits, 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. The Commission will be holding an evidentiary hearing on this application in November and December 2006.

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

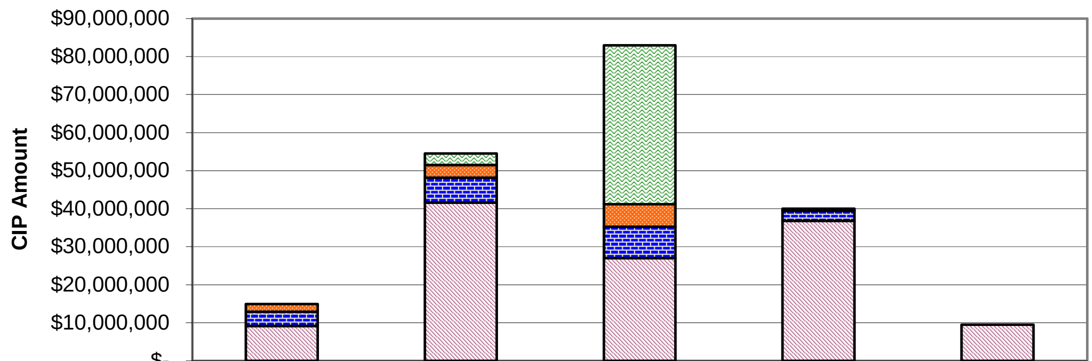
m. COMMISSION APPROVES CAPITAL IMPROVEMENTS.

Prior to July 1, 2004, electric and telecommunications utilities were required by the Commission's administrative rules to obtain approval for all 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, resulting in a reduction in the number of CIP applications requesting commission approval.

During the Commission's 2005-2006 Fiscal Year, HECO was authorized to expend $9.5 million for its capital improvements. Expenditures include $1.6 million for the Waikiki Rehabilitation Program, $0.9 million for the Mamala Substation, $2.8 million for the Ko Olina substation Transformer and Circuit, $3.6 million for the Ocean Pointe Substation Transformer and Circuit, and $0.6 million for the Waiau CT Separation Project.[9]

Primarily as a result of the increase to a $2.5 million threshold, there were no CIP filings approved by the commission for MECO, HELCO, KIUC, or Hawaiian Telcom.

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

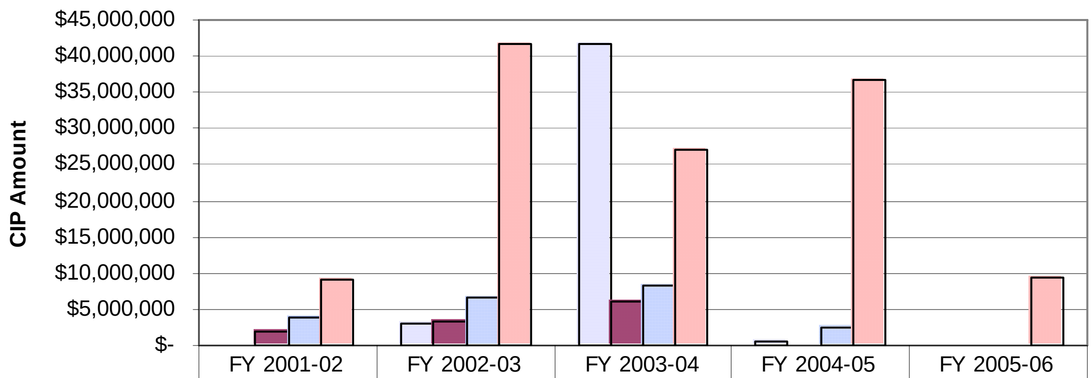


	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06
KE/KIUC	$-	$2,958,900	$41,750,000	$580,000	$-
MECO	$2,046,452	$3,379,707	$5,984,591	$-	$-
HELCO	$3,788,695	$6,502,973	$8,221,363	$2,585,463	$-
HECO	$9,109,866	$41,639,829	$26,999,323	$36,835,359	$9,500,000
Total CIP	$14,945,013	$54,481,409	$82,955,277	$40,000,822	$9,500,000

Fiscal Year ("FY")

[9]Includes applications filed prior to the July 1, 2004 change in threshold to $2.5 million.

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



	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06
KE/KIUC	$-	$2,958,900	$41,750,000	$580,000	$-
MECO	$2,046,452	$3,379,707	$5,984,591	$-	$-
HELCO	$3,788,695	$6,502,973	$8,221,363	$2,585,463	$-
HECO	$9,109,866	$41,639,829	$26,999,323	$36,835,359	$9,500,000

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.

Key proceedings in the gas service industry are summarized below:

1. NEW RESIDENTIAL RATE ON THE ISLAND OF LANAI IS REVIEWED AND APPROVED.

In July 2005, the Commission reviewed and approved TGC's request to establish a rate schedule to provide gas utility service to residential customers on the island of Lanai.

2. COMMISSION REVIEWS AND APPROVES TRANSFER OF CONTROL OF TGC.

TGC; HGC Holdings, LLC ("HGC Holdings"); k1 Ventures Limited ("k1 Ventures"); and Macquarie Gas Holdings LLC (MGH") jointly filed an application in October 2005 for approval of a proposed transfer of control over TGC. Under the proposal, MGH is to ultimately gain control of HGC Holdings and TGC for $238 million. In May 2006, the Commission approved the proposed transfer of control, subject to certain regulatory conditions set forth in the decision and order.

3. TGC REQUESTS APPROVAL OF CAPITAL EXPENDITURE FOR PIER 38 PROPANE-AIR STANDBY SYSTEM AND KAPALAMA REGULATOR STATION.

In May 2006, TGC filed an application requesting Commission approval to commit funds in excess of $500,000 to replace and relocate its Propane-air Standby System and its Kapalama Regulator Station to a new site at Pier 38 in Honolulu Harbor. TGC states that the project is required because the State Department of Transportation plans to develop the current site of the equipment as part of its Domestic Fishing Village Project. Commission approval was granted in November 2006.

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 REVIEWS AND APPROVES MERGER OF VERIZON COMMUNICATIONS INC. ("VERIZON") AND MCI, INC. ("MCI").

In September 2005, the Commission reviewed and approved an application filed jointly by Verizon and MCI, which proposed the merger of Verizon and MCI. Under the transaction, upon receipt of all necessary approvals, MCI will become a wholly-owned subsidiary of Verizon. However, it does not call for the merger of any assets, operations, lines, plants, franchises, or permits of MCI's regulated subsidiaries with those of any Verizon entities, nor will there be any changes in rates, terms or conditions governing the provision of telecommunications services in Hawaii.

2. COMMISSION REVIEWS AND APPROVES ACQUISITION OF STOCK OF NEXTEL PARTNERS, INC. BY NEXTEL WIP CORP.

In May 2006, the Commission reviewed and approved the proposed acquisition of stock of Nextel Partners, Inc. ("Nextel Partners") by Nextel WIP Corp. ("Nextel WIP"), which is a wholly owned subsidiary of Sprint Nextel Corporation fka Sprint Corporation ("Sprint Nextel"). The proposed transaction is a result of Nextel Partners' shareholders exercising their right to require Sprint Nextel to purchase the shares of Nextel Partners that it did not already own (i.e., 68% of Nextel Partners common stock). The acquisition of stock will not result in changes to the Sprint subsidiaries operating in Hawaii or to Nextel Partners' certificated entity in Hawaii, NPCR, Inc. dba Nextel Partners.

3. MERGER OF AT&T INC. ("AT&T") AND BELLSOUTH CORPORATION ("BELLSOUTH").

In June 2006, the Commission reviewed and approved the merger of AT&T and BellSouth, in which BellSouth is to become a wholly-owned subsidiary of AT&T. The proposed merger is to occur at the parent company level, and there will be no changes in ownership to the Hawaii subsidiaries and no transfers of assets.

4. COMMISSION REVIEWS AND APPROVES REORGANIZATION OF PARENT COMPANIES OF TIME WARNER TELECOM.

In December 2005, the Commission issued an order approving the reorganization of Time Warner Telecom's parent companies, which is intended to eliminate certain reporting requirements and inefficiencies related to their current corporate structure. Time Warner Telecom expects to directly benefit from reporting efficiencies realized through the reorganization and there will be no material impact on its operations or customers.

5. COMMISSION REVIEWS AND APPROVES TRANSFER OF CONTROL OF SPRINT LONG DISTANCE, INC. ("SPRINT LONG DISTANCE").

In May 2006, the Commission reviewed and approved a proposed transfer of control of Sprint Long Distance from Sprint Nextel Corporation fka Sprint Corporation ("Sprint Nextel") to Embarq Corporation ("Embarq"), a subsidiary of Sprint Nextel newly formed for the purpose of controlling Sprint Nextel's incumbent local exchange carrier ("ILEC") entities in other states. Upon consummation of the transaction, Sprint Communications Company L.P. ("Sprint Communications") will continue to offer the same facilities-based local exchange and interexchange services in Hawaii as it currently does under Sprint Nextel, while Sprint Long Distance will become the long distance carrier for the Embarq ILEC operations. Sprint Long Distance will be changing its name to be more in line with "Embarq."

6. COMMISSION REVIEWS AND AUTHORIZES TRANSFER OF CONTROL OF BUSINESS PRODUCTIVITY SOLUTIONS, INC. ("BPS").

In May 2006, the Commission reviewed and granted a request for approval to transfer control of BPS to Manhattan Telecommunications Corporation, dba Metropolitan Telecommunications ("MetTel"). Under a purchase agreement executed between MetTel, BPS, and Eschelon Operating Company (parent company of BPS), MetTel will acquire 100% of the stock of BPS. The transaction will be completed at the holding company level, will not change the rates, terms or conditions of BPS's services, and will result in MetTel continuing to provide service to BPS customers under the BPS brand name.

7. COMMISSION REVIEWS REQUIREMENTS RELATED TO TRANSFER OF CONTROL.

In April 2006, in recognition of competitive forces and to encourage competition, the Commission waived the requirements of HRS §§ 269-7(a) and 269-19 and Hawaii Administrative Rules ("HAR") §§ 6-61-101 and 6-61-105, to the extent applicable, for the proposed acquisition of assets and assumption of certain liabilities of Acceris Communications Corp. ("ACC") by Acceris Management and Acquisition LLC ("Acceris"). The Commission found that the telecommunications services currently provided by ACC are fully competitive and ACC is a non-dominant carrier in Hawaii. It also found that the proposed transaction is consistent with the public interest and that competition in this instance will serve the same purpose as public interest regulation.

In June 2006, the Commission waived the requirements of HRS §§ 269-19, 269-17, and 269-7(a), to the extent applicable, for the proposed transfer of control of all the membership interests of Electric Lightwave to Integra Telecom Holdings, Inc. and for related financing arrangements to effectuate the proposed transfer. Upon review of the record, the Commission found that the transfer of control and related financing arrangements are consistent with the public interest and that competition, in this instance, will serve the same purpose as public interest regulation.

8. COMMISSION GRANTS AUTHORITY FOR TRANSFER OF ASSETS OF MCI NETWORK SERVICES, INC.

In December 2005, the Commission reviewed and approved (1) the transfer of certain MCI Network Services, Inc.'s ("MCI Network") telecommunications assets to MCI Communications Services, Inc. ("MCI Communications"); and (2) the expansion of MCI Communications' certificate of authority ("COA") to allow it to provide facilities-based telecommunications services in Hawaii. The request for authority was filed by MCI, Inc. as part of efforts to streamline its corporate structure, achieve cost savings and eliminate any administrative duplication. Following the transfer, all of MCI Network's customers will be served by MCI Communications.

9. COMMISSION REVIEWS AND APPROVES TIME WARNER TELECOM'S PROPOSED FINANCIAL TRANSACTION.

In December 2005, the Commission reviewed and approved Time Warner Telecom's request for expedited approval of a proposed financial transaction, under which the company will be entering into a $200 million incremental term loan B loan. Proceeds from the financing will be used for capital expenditures and general corporate purposes. The transaction is not expected to materially impact Time Warner Telecom's operations, customers, the public interest, or existing tariff rates or customer services, but it will indirectly benefit Time Warner Telecom by providing its parent with increased financial flexibility.

10. COMMISSION CERTIFICATES NEW TELECOMMUNICATIONS CARRIERS.

The Commission certificated 16 new telecommunications companies in the Fiscal Year, including 15 resellers of various intrastate wireless, calling card, and interexchange (long-distance) telecommunications services; and 1 provider of paging services.

11. COMMISSION DISMISSES THE ISSUE OF HAWAIIAN TELCOM'S RECOVERY OF COSTS RELATING TO VERIZON OPERATIONS SUPPORT SYSTEMS AND NATIONAL MARKET CENTERS.

Activities in the Commission's communications infrastructure docket, Docket No. 7702, opened in May 1993, have focused on the development of the infrastructure necessary to support the introduction, deployment, and use of advanced communications technologies and services in the State. In Phase I of the Commission's investigation, HAR Chapters 6-80 and 6-81, relating to competition in telecommunications services and the universal service fund, respectively, were adopted in 1996. In January 1999, the commission addressed many of the Phase II issues including unbundled network elements ("UNEs"), collocation, and other issues.

In January 2000, the Commission granted the request of the non-Hawaiian Telcom parties for a generic proceeding ("Phase III") to review Hawaiian Telcom's costs studies on non-recurring charges ("NRCs") and collocation issues. In December 2000, the Commission adopted rates for UNEs and also approved the parties' stipulation on many of the Phase III issues regarding NRCs and collocation. In November 2001, the Commission, among other things, denied Hawaiian Telcom's cost recovery associated with its operations support services ("OSS") and national market centers ("NMCs"), but allowed the company another opportunity to pursue recovery of these costs. In response, Hawaiian Telcom filed a revised OSS/NMC cost study in May 2002.

In July 2002, the Commission approved Hawaiian Telcom's revised collocation tariff. Pursuant to the Commission's order, Hawaiian Telcom and AT&T submitted proposed rates for the provisioning of DC power and backup DC power for adjacent on-site collocation arrangements for Commission review and approval.

In March 2005, the Commission requested the parties to this docket to review and consider the outstanding issues in the docket, along with the effect of recent developments (i.e., the Federal Communications Commission's Triennial Review Order and Triennial Review Remand Order and the sale of Verizon Hawaii to an affiliate of The Carlyle Group) on the issues, and file a stipulation or position statements discussing those issues. The outstanding issues were: (1) the establishment of rates for DC and backup DC power for adjacent on-site collocation; (2) Hawaiian Telcom's wholesale NRC study and proposed rates; and (3) the recovery of OSS transition and transaction costs and NMC shared and fixed costs. In September 2005, the Commission approved the parties' stipulation, in which they agreed on the disposition of issues (1) and (2) above and on the procedures to resolve the third issue of OSS and NMC cost recovery.

Following the filing of position statements on whether the OSS/NMC issue needed to be addressed and resolved for the advancement of competition in Hawaii, the Commission issued an order in June 2006 ordering that the issue be dismissed on the finding that recovery of the OSS and NMC costs is not necessary for the advancement of Hawaii's telecommunications market. It also ordered that the performance standards issue stemming from the sale of Verizon Hawaii that it had intended to address in Docket No. 7702 would instead be addressed in a future service quality investigation to be initiated. Finally, having addressed all of the issues in this docket, the Commission ordered that Docket No. 7702 be closed.

12. COMMISSION ESTABLISHES ANNUAL CERTIFICATION PROCEDURES FOR ELIGIBLE TELECOMMUNICATIONS CARRIERS FOR UNIVERSAL SERVICE FUND.

In January 2006, the Commission adopted as reasonable annual certification procedures and requirements applicable to entities designated as eligible telecommunications carriers ("ETCs") by the Commission. A designation as an ETC entitles a carrier to federal universal service funding under the Telecommunications Act of 1996. As of June 30, 2006, three carriers in Hawaii have been granted ETC status: Hawaiian Telcom, Sandwich Isles Communications, Inc. and NPCR, Inc., dba Nextel Partners.

13. COMMISSION REVIEWS AND 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 reviewed and approved the following interconnection agreements and amended agreements between telecommunications service providers and Hawaiian Telcom:

NPCR, Inc. dba Nextel Partners ("Nextel Partners"). In July 2005, the Commission approved Amendment No. 2 to the Interconnection Agreement negotiated by Hawaiian Telcom and Nextel Partners. The amendment modifies the Interconnection Agreement by replacing an existing section on 911 arrangements with a new attachment relating to terms and conditions that will allow Nextel Partners to access Hawaiian Telcom's E911 network systems and databases to provide wireless E911 services.

Hawaiian Telcom Services Company, Inc. ("HT Services"). In February 2006, the Commission approved HT Services' adoption of the negotiated interconnection agreement and Amendment No. 2 to the agreement between Hawaiian Telcom and Cellco Partnership, dba Verizon Wireless.

Hawaiian Telcom Services Company, Inc. ("HT Services"). In April 2006, the Commission approved HT Services' adoption of the negotiated interconnection agreement between Hawaiian Telcom and Think 12 Corporation dba Hello Depot ("Hello Depot"), subject to conditions set forth in an adoption letter signed by representatives of Hawaiian Telcom and HT Services.

14. COMMISSION OVERTURNS NATIONAL POOLING PLAN ADMINISTRATOR'S ("POOLING ADMINISTRATOR") DENIAL.

In February 2006, the Commission overturned the Pooling Administrator's denial of Pacific LightNet, Inc.'s ("PLNI") request for a block of 1,000 sequential numbers in the 5-series in the Honolulu rate center, provided that PLNI uses the numbers only for its intended customer, Servco Pacific Inc., and that it returns the numbers to the Pooling Administrator if this customer's request for numbering resources is withdrawn or declined.

Separately, the Commission overturned the Pooling Administrator's denial of PLNI's applications for a new numbering plan area-central office code ("NPA-NXX") in each of the Honolulu, Wailuku, Hilo and Lihue rate centers. The Commission noted that in order for PLNI to realize the expansion of its facilities-based network in Hawaii by employing a new switch, it must obtain and assign within the new switch new NPA-NXX for these rate centers. However, the Commission's decision was conditioned upon only the 1,000 block numbers necessary in each rate center being retained and all other numbering resources in the new NPA-NXX being returned to the Pooling Administrator.

15. COMMISSION EXTENDS TELECOMMUNICATIONS RELAY SERVICES ("TRS") PROVIDED BY SPRINT.

In May 2006, the Commission extended for an additional two (2) years the statewide TRS currently being provided by Sprint, which ensures the continued provision of telecommunications services for the hearing- and speech-impaired in Hawaii. Sprint was initially selected as the statewide TRS provider for a period of three (3) years beginning July 1, 2003. The Commission decided to extend Sprint's TRS contract pursuant to a contract provision allowing for the Commission to continue the service for two additional years beyond the initial three-year period. During the two year extension, Sprint will be providing the services at a charge of $1.90 per minute for each TRS session minute, with an additional fixed monthly charge of $34,000.

16. 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, 2005 to June 30, 2006, the contribution factor was 0.0010.

In May 2006, the Commission initiated a proceeding to examine whether to modify the TRS carrier contribution factor and fund size for the period July 1, 2006 to June 30, 2007. In

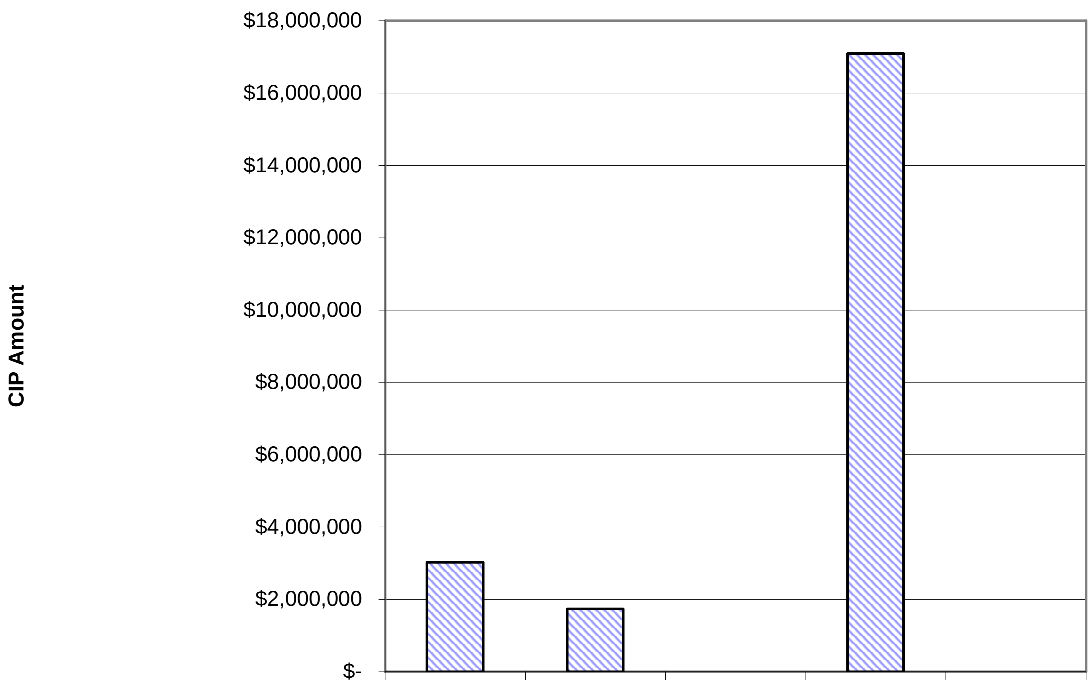
June 2006, the Commission adopted its proposal to continue the existing carrier contribution factor and TRS fund size. The contribution factor for the period July 1, 2006 to June 30, 2007 is 0.0010. The projected TRS fund size for the same period is approximately $591,605.

17. 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 last 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 Hawaiian Telcom had no CIP filings.

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 2001-02	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06
Verizon Hawaii/Hawaiian Telcom	$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 REVIEWS AND APPROVES REQUESTED RATE INCREASES.

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

HOH Utilities, LLC ("HOH"). On February 2006, the Commission approved HOH's request for a general rate increase of $95,678, or approximately 23.3% over revenues at present rates, for the 2005 calendar test year. The Commission also approved the establishment of an automatic power cost adjustment clause to provide for fluctuating electricity prices. HOH provides wastewater treatment services to bulk and individual customers in the Poipu area of Kauai.

Pukalani STP Co., Ltd. ("Pukalani"). In September 2005, the Commission issued a proposed decision and order approving a general rate increase of $282,752, or 134% over revenues at present rates. In the proposed decision and order, the Commission: (1) authorized an increase in the monthly sewer assessment fee charged to residential and commercial customers under a two (2)-year phase-in plan; (2) terminated Pukalani's replacement reserve fund; and (3) authorized the implementation of a power cost adjustment clause to take effect from February 1, 2006. Later in September 2005, the Commission adopted its proposed decision and order, subject to one (1) clarification made in response to the Consumer Advocate's request.

Kaupulehu Water Company ("KWC"). In December 2005, the Commission approved a general rate increase of $521,065, or 24.07% over revenues at present rates, based on a total revenue requirement of $2,685,869 for the July 1, 2005 to June 30, 2006 test year, and a rate of return of 3.45%. In so doing, the Commission authorized, among other things: (1) an increase in KWC's monthly water consumption charge for potable water, from $3.75 per thousand gallons ("TG") to $6.65 per TG; (2) an initial rate of $0.75 per TG for non-potable reject water; and (3) a change in the electricity cost used in computing KWC's power cost adjustment charge from $0.61605 per TG to $2.01325 per TG. Separately, the Commission approved the transfer of two (2) deep water wells, a water treatment plan, and a water reservoir from Kaupulehu Makai Venture to KWC.

South Kohala Wastewater Corp. ("SKWC"). In June 2006, the Commission issued a proposed decision and order approving a general rate increase of $271,168, or 40.01% over revenues at present rates for the test year ending December 31, 2006.

2. COMMISSION GRANTS NEW AND AMENDED CPCNS.

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

Kealia Water Company Holdings LLC ("Kealia Water"). In August 2005, the Commission granted Kealia Water a CPCN to provide water service within its proposed service area in the District of Kealia on the island of Kauai; and approved its initial rules, regulations, and rates for service.

HOH Utilities, LLC ("HOH"). In November 2005, the Commission approved HOH's application to expand its existing service territory to provide wastewater treatment services to additional properties and to allow HOH to acquire the remaining and outstanding 16.67% interest in the Poipu Water Reclamation Facility from CTF Hotel Sewage Treatment Corporation.

3. COMMISSION AUTHORIZES NEW RATE STRUCTURE FOR KAPALUA WATER COMPANY, LTD. ("Kapalua Water").

In July 2005, the Commission approved on a temporary, interim basis, Kapalua Water's proposed new rate structure for its Pineapple Hill, Phase I customers, effective from August 15, 2005. The sole supply of water to Pineapple Hill, Phase I, is potable water from underground wells, with no separate infrastructure for non-potable water deliveries. This results in customers having to use potable water for all purposes, including irrigation. The new rate structure will sunset upon the conclusion of Kapalua Water's next rate case or until an irrigation line is installed for Pineapple Hill, Phase I.

4. COMMISSION REVIEWS AND APPROVES SALE OF PUUWAAWAA WATERWORKS, INC.'S ("PWI") WATER SYSTEM ASSETS.

In December 2005, the Commission approved the joint request of PWI and Napu'u Water, Inc. ("NWI") to sell PWI's water system assets to NWI. NWI is a member-owned Hawaii nonprofit corporation established in February 2005 for the express purpose of purchasing and operating PWI's water system. The Commission found that under the specific facts set forth in this proceeding, NWI is not a public utility as defined in HRS § 269-1, and thus, is not subject to regulation under HRS Chapter 269. However, the Commission's decision to approve the transfer is subject to, among other things, NWI's pledge to poll its owner-customers after two (2) years of operating as a cooperative to determine whether a majority of its owner-customers wish to continue operating without commission regulation.

5. COMMISSION REVIEWS AND APPROVES SALE AND TRANSFER OF MAUNA LANI STP, INC. ("MAUNA LANI STP").

In February 2006, the Commission approved the sale and transfer of Mauna Lani STP's utility assets, operations, and certificate of public convenience and necessity ("CPCN") to Hawaii-American Water Company ("HAWC"), subject to certain conditions. HAWC will assume the duties to provide wastewater service to Mauna Lani STP's customers, which are residents and occupants of the Mauna Lani Resort. It will provide the service under the name of Hawaii-American Water Company, a separate operation from its existing operation in Hawaii Kai.

6. COMMISSION INITIATES INVESTIGATION INTO SEWERAGE SERVICES AT NO CHARGE TO THE CITY AND COUNTY OF HONOLULU AND THE STATE OF HAWAII UNDER 1961 AGREEMENT.

In February 2006, the Commission opened a proceeding to determine whether Act 59, Session Laws of Hawaii 1974, which amended HRS § 269-1, invalidates, voids, or renders unenforceable that certain agreement entered into by and between the Trustees Under the Will and of the Estate of Bernice P. Bishop, Kaiser Hawaii Kai Development Co., and the City and County of Honolulu ("City"). This investigation was instituted as a result of a petition for declaratory ruling filed by Hawaii-American Water Company ("HAWC") in June 2005. HAWC had asked the Commission for a declaratory ruling that the 1961 Agreement that provides for sewerage services at no charge to the City and the State is no longer valid due, in part, to the

1974 amendment, and as a result, the City and State are subject to HAWC's tariffs and are required to pay their arrears and future sewerage fees. Although the Commission denied HAWC's request for a declaratory ruling, the Commission stated its intention to initiate a new and separate proceeding to investigate and examine HAWC's allegation.

7. COMMISSION REVIEWS AND APPROVES PROPOSED TRANSACTION INVOLVING PARENT COMPANY OF HAWAII-AMERICAN WATER COMPANY'S ("HAWC").

In June 2006, the Commission denied HAWC's request for a declaratory ruling that the sale by Thames Water Aqua Holdings GmbH ("Thames GmbH) of up to 100% of the shares of common stock of American Water Works Company, Inc. ("American Water") in one or more public offerings and the merger of Thames Water Aqua US Holdings, Inc. ("Thames US Holdings") with and into American Water are not subject to the Commission's jurisdiction. The Commission also denied HAWC's request that it not exercise its jurisdiction to review and approve the transaction. However, after reviewing the proposed transaction, the Commission approved the transaction, finding it to be reasonable and consistent with the public interest.

8. COMMISSION INVESTIGATION OF NORTH SHORE WASTEWATER TREATMENT, L.L.C. ("NSWT") AND ITS PREDECESSOR-IN-INTEREST, KUILIMA RESORT COMPANY ("KRC").

The Commission opened an investigation of NSWT and its predecessor-in-interest, KRC, in September 2005, following the filing of informal complaints and a petition by the Association of Apartment Owners for the Kuilima Estates West and Kuilima Estates East. In February 2006, the Commission determined that KRC operated as a public utility without Commission authority by providing wastewater service to the Kuilima Estates East and Kuilima Estates West condominiums, and that NSWT's initial wastewater rates constituted a de facto rate increase under the facts and circumstances of this case. As such, the commission permanently suspended those rates, unless and until new wastewater rates were approved by the Commission following the conclusion of a general rate case. The Commission also found that KRC and NSWT's regulatory violations were not willful or intentional, and therefore, declined to impose sanctions. In June 2006, the Commission denied NSWT's and KRC's motion for reconsideration and/or clarification of portions of the Commission's February order.

9. COMMISSION REVIEWS AND APPROVES TRANSFER OF STOCK FROM KILAUEA IRRIGATION CO., INC.'S ("KICI") PARENT COMPANY TO HITCH CO. ("HITCH").

In November 2005, the Commission approved KICI's application to transfer 100% of KICI's stock from its parent company, C. Brewer and Company, Ltd. ("C. Brewer") to Hitch, and to expand KICI's existing service territory to include twelve (12) adjacent agricultural lots. C. Brewer was in the process of being liquidated and dissolved prior to the end of 2005. KICI's sole asset is the Kaloko Water System, which has been maintained and managed by Hitch for the last fifteen (15) years. KICI indicated that through Hitch, KICI will be fit and able to provide the proposed water service and that KICI's service is required by the future public convenience and necessity.

10. COMMISSION INVESTIGATES BREACH OF KALOKO RESERVOIR THAT OCCURRED ON MARCH 14, 2006.

In April 2006, the Commission initiated an investigation concerning Kilauea Irrigation Company, Inc. ("KICI") and the breach of the Kaloko Reservoir on March 14, 2006, as it pertains to the operations and services provided by KICI. Given the unfortunate and tragic loss of lives due to the breach of the Kaloko Reservoir on March 14, 2006, the Commission will be addressing the following issues: (1) whether the breach of the Kaloko Reservoir was caused, to any degree, by KICI's operations and services as a regulated public utility; (2) whether any statute or rule within the jurisdiction of the Commission was violated; (3) the subsequent impact of the breach of the Kaloko Reservoir on KICI's operations; and (4) in the event a causal connection between KICI's provision of utility services and the breach of the Kaloko Reservoir is found, the steps, if any, that may be taken to avoid similar accidents in the future.

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.

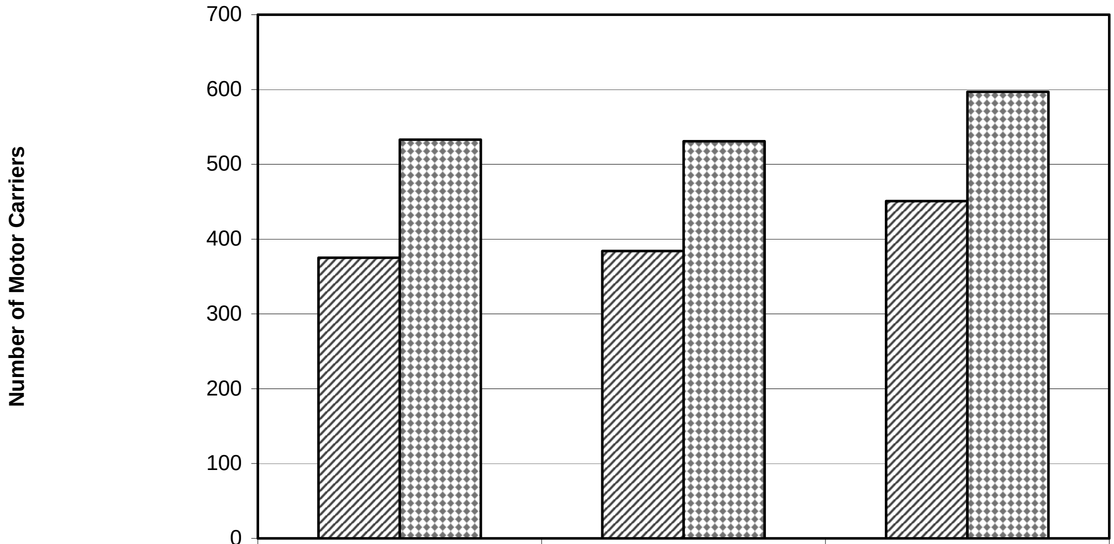
In accordance with its statutory requirements, the Commission performs the following functions in the regulation of motor carriers: (1) certification and licensing; (2) ratemaking; and (3) business regulation. During the Fiscal Year, the Commission issued many new certificates and licenses, reviewed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

a. COMMISSION APPROVES NEW MOTOR CARRIER CERTIFICATIONS.

The Commission regulates 597 passenger carriers and 451 property carriers in the State. During the Fiscal Year, new certificates or permits were issued to 118 motor carriers—56 passenger carriers and 62 property carriers.

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

Figure 4
Regulated Motor Carriers



	2003-04	2004-05	2005-06
Property Carriers	375	384	451
Passenger Carriers	533	531	597

FY

b. COMMISSION REVIEWS REQUESTS FOR RATE CHANGES.

During the Fiscal Year, the Commission reviewed and approved rate increases and decreases within and outside of the zone of reasonableness 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 Commission approved the following motor carrier increases and decreases within the zone:

Type of Carrier/Company (County)	Rate Increase or Decrease
Dump Truck	
John Charles Cadabona, dba J.C. Trucking (Hawaii)	10.00%
A & A Trucking Services, LLC (Hawaii)	10.00%
Conen's Freight Transport, Inc. (Hawaii)	10.00%
Pine Enterprises, Inc., dba Honolulu Transfer & Storage (Oahu)	10.00%
Aiwohi Bros., Inc. (Oahu)	10.00%
Pomaika'i Transport Services, Inc., dba P.T.S.I. (Oahu)	10.00%
Nick's Hauling Services, LLC (Hawaii)	10.00%

Pine Enterprises, Inc., dba Honolulu Transfer & Storage (Oahu)	10.00%
Statewide	10.00%
Hanoa Trucking, Inc. (Oahu)	10.00%
Rodney Everett Wilbur, dba R & C Hauling (Hawaii)	10.00%
Sanny P. Pacis, dba Pacis Trucking (Oahu)	10.00%
RHS Lee, Inc. (Oahu)	10.00%
Fredstan K. Kaluahine, dba Fredstan Kaluahine'sTowing & Service (Kauai)	10.00%
Kona Transportation Co., Inc. (Hawaii)	9.00%
Dependable Hawaiian Express, Inc., dba DHX (Oahu)	9.00%
Tri Isle, Incorporated, dba Valley Isle Express, and dba Haleakala Transportation & Warehousing (Maui)	8.00%

General Commodities

Hawaii Transfer Co., Ltd. (Oahu)	2.50%
General Commodities (Oahu)	1.40%
General Commodities (Oahu)	10.00%
John Charles Cadabona, dba J.C. Trucking - selected rates (Hawaii)	10.00%
Dependable Hawaiian Express, Inc., dba DHX (Oahu)	7.00%
DHX Maui, Inc. (Maui)	8.00%
A & A Trucking Services, LLC (Hawaii)	10.00%
Conen's Freight Transport, Inc. (Hawaii)	10.00%
International Express, Inc. (Oahu)	1.83%
Mercantile Trucking Service, Ltd. (Oahu)	8.00%
Pacific Transfer, LLC (Oahu)	8.00%
Pine Enterprises, Inc., dba Honolulu Transfer & Storage (Oahu)	10.00%
Tri Isle, Incorporated, dba Valley Isle Express, and dba Haleakala Transportation & Warehousing (Maui)	6.90%
All American Moving, Inc. (Oahu)	8.50%
Kona Transportation Co., Inc. (Hawaii)	3.80%
Pomaika'i Transport Services, Inc., dba P.T.S.I. (Oahu)	4.79% to 10.00%
Island Movers, Inc. (Oahu)	10.00%
Mihara Transfer, Inc. (Hawaii)	10.00%
All American Moving, Inc. (Oahu)	0.98%
John Charles Cadabona, dba J.C. Trucking - selected rates (Hawaii)	2.80% to 3.00%
Direct Support Resources, Inc., dba DSR (Oahu)	5.00%
International Express, Inc. (Oahu)	5.00%
Nick's Hauling Services, LLC (Hawaii)	10.00%
Pine Enterprises, Inc., dba Honolulu Transfer & Storage (Oahu)	10.00%
Royal Hawaiian Movers, Inc., dba Royal Hawaiian Trucking & Warehousing (Oahu)	10.00%
Xpress Trucking, Inc. (Oahu)	7.00%
General Commodities (Maui)	10.00%
General Commodities (Kauai)	10.00%
General Commodities (Hawaii)	10.00%
Hawaii Transfer Co., Ltd. (Oahu)	6.25%
John Charles Cadabona, dba J.C. Trucking - selected rates (Hawaii)	7.00%
Hanoa Trucking, Inc. (Oahu)	10.00%
Rodney Everett Wilbur, dba R & C Hauling - selected rates (Hawaii)	10.00%
Big Island Parcel Service, Inc. (Hawaii)	10.00%

Direct Support Resources, Inc., dba DSR (Oahu)	4.30%
Mercantile Trucking Service, Ltd. (Oahu)	10.00%
Sanny P. Pacis, dba Pacis Trucking (Oahu)	10.00%
RHS Lee, Inc. (Oahu)	10.00%
Ed Yamashiro, Inc. - selected rate (Oahu)	7.30%
Kona Transportation Co., Inc. (Hawaii)	9.00%
Dependable Hawaiian Express, Inc., dba DHX (Oahu)	9.00%
Dependable Hawaiian Express, Inc., dba DHX (Oahu)	7.00%
Kuwaye Trucking, Inc. (Hawaii)	10.00%
DHX Maui, Inc. (Maui)	8.00%
MPD, Inc., dba Multi Petroleum Distributors (Oahu)	10.00%
Tri Isle, Incorporated, dba Valley Isle Express, and dba Haleakala Transportation & Warehousing (Maui)	8.00%
Household Goods	
Household Goods (Statewide)	3.80%
Household Goods (Statewide)	10.00%
Household Goods (Statewide)	3.80%
Household Goods (Statewide)	10.00%
DHX Maui, Inc. (Maui)	8.00%
Royal Hawaiian Movers, Inc., dba Royal Hawaiian Trucking & Warehousing (Oahu, Hawaii, Maui, Kauai)	0.95%
All American Moving, Inc. (Oahu)	10.00%
Pomaika'i Transport Services, Inc., dba P.T.S.I. (Oahu)	10.00%
Mihara Transfer, Inc. (Hawaii)	10.00%
All American Moving, Inc. (Oahu)	0.98%
All American Moving, Inc. (Oahu)	10.00%
Royal Hawaiian Movers, Inc., dba Royal Hawaiian Trucking & Warehousing (Oahu)	10.00%
All American Moving, Inc. (Oahu)	10.00%
Big Island Parcel Service, Inc. (Hawaii)	10.00%
Honolulu Freight Service, Inc. (Oahu)	7.00%
DHX Maui, Inc. (Maui)	8.00%
Other	
Specific Freight (Oahu)	1.40%
Specific Freight (Oahu)	10.00%
Pacific Bridges, Inc. (Oahu)	10.00%
Pomaika'i Transport Services, Inc., dba P.T.S.I. (Oahu)	10.00%
Hawaii Transfer Co., Ltd. (Oahu)	6.25%
Bering Sea Eccotech, Inc. (Oahu)	1.50%
Fredstan K. Kaluahine, dba Fredstan Kaluahine'sTowing & Service (Kauai)	10.00%
Ed Yamashiro, Inc. - selected rate (Oahu)	10.00%
Safety First Equipment Sales and Rental, LLC (Oahu)	10.00%
Break Bulk and Delivery	
Break Bulk and Delivery (Oahu)	1.40%
Break Bulk and Delivery (Oahu)	10.00%
Dependable Hawaiian Express, Inc., dba DHX (Oahu)	7.00%
Hawaii Transfer Co., Ltd. (Oahu)	2.50%

International Express, Inc. (Oahu)	1.83%
Mercantile Trucking Service, Ltd. (Oahu)	8.00%
Pacific Transfer, LLC (Oahu)	8.00%
Kona Transportation Co., Inc. (Hawaii)	3.80%
Island Movers, Inc. (Oahu)	10.00%
Island Movers, Inc. (Maui)	10.00%
International Express (Oahu)	5.00%
Xpress Trucking, Inc. (Oahu)	10.00%
Break Bulk and Delivery (Hawaii)	10.00%
Break Bulk and Delivery (Kauai)	10.00%
Break Bulk and Delivery (Maui)	10.00%
H. Kono, Inc., dba HITCO Moving & Storage Company - selected rate (Hawaii)	-4.00%
Hawaii Transfer Co., Ltd. (Oahu)	6.25%
Honolulu Freight Service, Inc. (Oahu)	7.00%
Kona Transportation Co., Inc. (Hawaii)	10.00%
Dependable Hawaiian Express, Inc., dba DHX (Oahu)	7.00%
Tri Isle, Incorporated, dba Valley Isle Express, and dba Haleakala Transportation & Warehousing (Maui)	8.00%

Passenger

Passenger (Statewide)	10.00%
Passenger (Statewide)	2.80%
Elite Limousine Service, Inc. (Oahu)	5.00%
Platinum Management, LLC, dba The Limo Company (Maui)	5.00%
Akina Aloha Tours, Inc. (Maui)	2.70% to 2.96%
Akina Bus Service, Ltd. (Maui)	2.56% to 2.79%
Arthur's - Star 21, dba Maui Classic Coach and dba Arthur's Limousine Service (Maui)	2.21% to 7.75%
Molokai Outdoor Activities, LLC, dba Molokai Outdoors (Molokai)	10.00%
Platinum Management, LLC, dba The Limo Company (Maui)	2.00% to 4.50%
Wailea Limousine Service, Inc. - selected rates (Maui)	2.56% - 8.56%
Katherine Barr, dba Town and Country Limousine Service - selected rates (Maui)	-.33% to 9.68%
E Noa Corporation - selected rates (Oahu)	3.72% to 7.65%
ABC Rider , Inc., dba Coastline Limousine (Maui)	10.00%
Arthur's - Star 21, dba Maui Classic Coach and dba Arthur's Limousine Service - selected rates (Maui)	3.45% to 9.10%
RDH Transportation Services, Inc., dba Superstar Hawaii Transit Service - selected rates (Oahu)	6.00% to 10.00%
Akina Aloha Tours, Inc. (Maui)	10.00%
Akina Bus Service, Ltd. (Maui)	10.00%
E Noa Corporation - selected rates (Oahu)	-.67% to 10.00%
Hawaii Forest & Trail, Ltd. - selected rates (Hawaii)	2.60% to 3.77%
Alex C. Naumu, dba Anytime Island Express (Kauai)	10.00%
Platinum Management, LLC, dba The Limo Company (Maui)	.30% - 9.80%
Robert's Tours & Transportaton - selected rates (Oahu)	-2.85% to 5.26%
Jack's Tours, Inc. - selected rates (Hawaii)	-3.41% to -10.00%
Passenger (Statewide)	10.00%
Arthur's - Star 21, dba Maui Classic Coach and dba Arthur's Limousine Service (Maui)	10.00%
T.F. Tours & Transportation, Inc. (Oahu)	-2.10% to 7.80%

Travel Associates Group (TAG), Inc. - selected rates (Oahu)	10.00%
Arthur's - Star 21, dba Maui Classic Coach and dba Arthur's Limousine Service - selected rates (Maui)	-10.00%
Handi-Express, LLC (Oahu)	10.00%

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

Type of Carrier/Company (County)	Rate Increase or Decrease
Passenger	
E Noa Corporation - selected rates (Oahu)	10.62% to 13.64%
Hawaii Forest & Trail, Ltd. - selected rates (Hawaii)	10.10% to 12.66%
Travel Associates Group (TAG), Inc. - selected rates (Oahu)	46.00% to 50.00%
Property	
Frank M. Lawrence, dba C & F Trucking - selected rates (Hawaii)	61.58%
C.J. Peterson Services, Inc. - selected dump rates (Oahu)	18.00%

2. WATER CARRIERS.

The Commission regulates four water carriers: Young Brothers, Limited ("Young Brothers"), a provider of inter-island cargo service between all major islands; Sea Link of Hawaii, Inc., 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 REVIEWS AND DENIES YOUNG BROTHERS' REQUEST FOR EXPEDITED APPROVAL TO IMPOSE A FUEL PRICE ADJUSTMENT.

In December 2005, the Commission denied a Young Brothers' request for expedited approval to amend its tariff to impose a fuel price adjustment. The adjustment would have allowed it to automatically increase or decrease its rates to reflect changes in Young Brothers' costs for diesel fuel above or below levels included in Young Brothers' base rates upon thirty days' notice. In its order, the Commission stated, among other things, that Young Brothers did not meet the standard for approval of a tariff change on an expedited basis and that the proposed fuel price adjustment constitutes single-issue ratemaking that should be denied in this case.

b. YOUNG BROTHERS PROPOSES TO DISCONTINUE ITS LESS THAN CONTAINER LOAD SERVICE TO AND FROM KAHULUI HARBOR.

In May 2006, the Commission suspended a tariff transmittal filed by Young Brothers that proposed to discontinue less than container load ("LCL") service and rates for the transportation of cargo to and from Kahului Harbor, and opened an investigation to examine the merits of this proposal. Under LCL service, Young Brothers consolidates and deconsolidates cargo at the harbors for shippers that do not place their cargo in containers. Young Brothers stated that the change is needed to address the critical shortage of harbor space, made more evident in light of the future commencement of water carrier service operations by the Hawaii Superferry in 2007. The shortage of harbor space is more acute at Pier 2 of Kahului Harbor since the pier is undersized and is Maui's only site for receiving and sending interisland cargo. However, Young Brothers' application was later withdrawn.[10]

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. The One Call Center has been in operation since January 1, 2006.

1. COMMISSION SELECTS A ONE CALL CENTER PROVIDER.

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

2. COMMISSION INSTITUTES A 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) Waikoloa 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 Time Warner Cable; (11) Pacific LightNet, Inc.; (12) HECO, HELCO, and MECO; and (13) Hawaii-American Water Company. The Commission received a recommendation on appropriate fees and assessments from the One Call Center Advisory Committee ("Advisory Committee") and comments from the parties in response to the Advisory Committee's recommendation. A final decision from the Commission is pending.

[10]During Fiscal Year 2006-07, Young Brothers withdrew this application after entering into a memorandum of understanding with the Consumer Advocate and the State Department of Transportation that provided for additional harbor space and for harbor improvements for Young Brothers. The Commission then approved Young Brothers' withdrawal.

H. DOCKET PROCEEDINGS.

At the beginning of the Fiscal Year, 242 pending dockets were carried over from prior years, and 344 new dockets were opened during the Fiscal Year. Thus, during the Fiscal Year, a total of 586 dockets were before the Commission for review and consideration. Of the 586 dockets, 377 or approximately 64 per cent of the dockets were completed by the end of the Fiscal Year (June 30, 2006).

At the end of the Fiscal Year, 209 dockets were pending, including 62 dockets carried over from years prior to the Fiscal Year and 147 dockets that were opened during the Fiscal Year.

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

DOCKETS FILED, COMPLETED, AND PENDING
FISCAL YEARS 2003-04, 2004-05, and 2005-06

	Fiscal Year (July 1 - June 30)		
Dockets Pending on July 1	**2003-04**	**2004-05**	**2005-06**
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

DOCKETS FILED, COMPLETED, AND PENDING
FISCAL YEARS 2003-04, 2004-05, and 2005-06

New Dockets Opened in Fiscal Year	**2003-04**	**2004-05**	**2005-06**
Utilities			
Electric	46	30	25
Gas	1	2	2
Telecommunications	97	89	49
Private Water/Sewer	10	16	20
Subtotal	154	137	96
Transportation			
Motor Carriers	236	230	244
Water Carriers	1	1	2
Subtotal	237	231	246
Gas Price Cap	n/a	1	1
One Call Center	n/a	2	1
Total	391	371	344

Dockets Completed in FY	**2003-04**	**2004-05**	**2005-06**
Utilities			
Electric	38	38	25
Gas	3	1	2
Telecommunications	49	188	72
Private Water/Sewer	12	17	16
Subtotal	102	244	115
Transportation			
Motor Carriers	191	330	257
Water Carriers	1	0	4
Subtotal	192	330	261
Gas Price Cap	n/a	0	1
One Call Center	n/a	1	0
Total	294	575	377

DOCKETS FILED, COMPLETED, AND PENDING
FISCAL YEARS 2003-04, 2004-05, and 2005-06

Dockets Pending on June 30	2003-04	2004-05	2005-06
Utilities			
Electric	50	42	42
Gas	0	1	1
Telecommunications	139	40	17
Private Water/Sewer	13	12	16
Subtotal	202	95	76
Transportation			
Motor Carriers	242	142	129
Water Carriers	2	3	1
Subtotal	244	145	130
Gas Price Cap	n/a	1	1
One Call Center	n/a	1	2
Total	446	242	209

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; and (5) advise the respondent and the Commission completely of the facts constituting the grounds of the complaint, the injury complained of, and the exact relief desired. If the Commission accepts a formal complaint for adjudication, it assigns a docket number and sets the matter for an evidentiary hearing, if necessary.

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

1. FORMAL COMPLAINTS.

In November 2003, Akina Aloha Tours, Inc. and Akina Bus Service, Ltd. (collectively, "Akina") filed a formal complaint against Robert's Hawaii, Inc. and Robert's Tours and Transportation, Inc. (collectively, "Robert's") alleging that Robert's is operating a regular route service, known as the "Employee Shuttle," beyond the scope of its authority as permitted by the Commission and in violation of HRS §§ 271-8, 271-12, and 271-27. In September 2004, the Commission's duly-appointed hearings officer conducted an evidentiary hearing regarding the complaint and issued a recommended decision in September 2005. The hearings officer recommended that the Commission: (1) issue an order affirming the allegations set forth in the complaint; and (2) authorize Robert's to temporarily operate the Employee Shuttle for a period of no more than ninety (90) days from the date of the Commission's final order, subject to certain conditions. In January 2006, the Commission issued a decision and order adopting the hearings officer's recommended decision.

2. WRITTEN INFORMAL AND VERBAL COMPLAINTS.

As shown in the table below, the Commission received a total of 581 written informal and verbal complaints in the Fiscal Year against regulated and unregulated utility and transportation companies. Complaints on Oahu amounted to 342 out of 581 complaints statewide, or 59 per cent of the total complaints.

Total Informal and
Verbal Complaints
Fiscal Year 2006

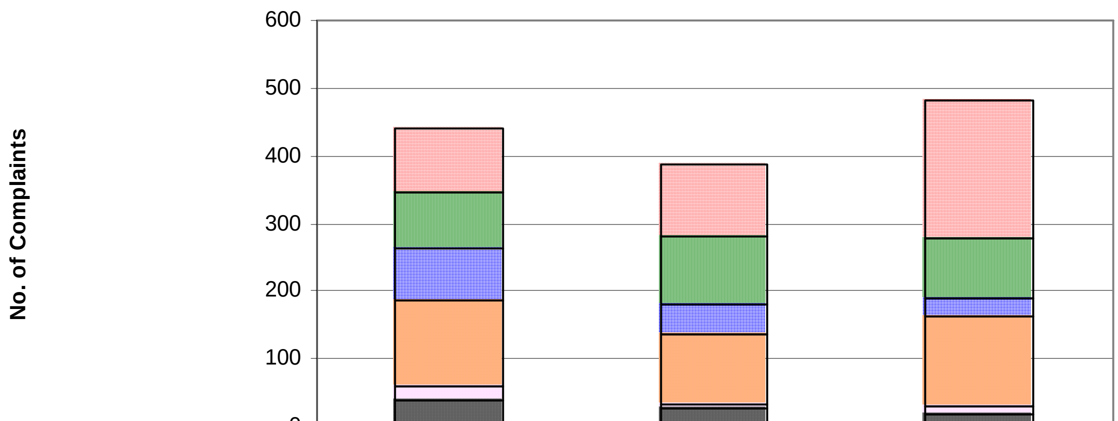
Utilities	
Telecommunications:	
Wireline (telephone)	203
Cellular and Paging	90
Other Telecom Providers	25
Total Telecom	318
Electricity	133
Gas	14
Water/Sewer	17
Transportation Carriers	
Water Carrier	7
Motor Carrier	92
Total Complaints	581

For all islands, the Commission received 318 written informal and verbal complaints involving telecommunications providers. The majority of telecommunications complaints (203) related to Hawaiian Telcom. These complaints mainly involved service problems, mostly relating to interruptions, repairs, and installations. The cellular and paging companies received 90 complaints, mostly relating to billing problems (service contracts and charges). Most of the 25 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 133 complaints, mostly relating to billing problems (high consumption). The fourteen (14) complaints against gas utilities were mostly relating to service and billing problems. The 17 complaints relating to water and sewer facilities were primarily over tariffs (rates and charges) and billing (high consumption) problems. The two (7) complaints against water carriers involved primarily service problems and tariffs. Most of the 92 complaints against motor carriers were related to operating without CPCNs.

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

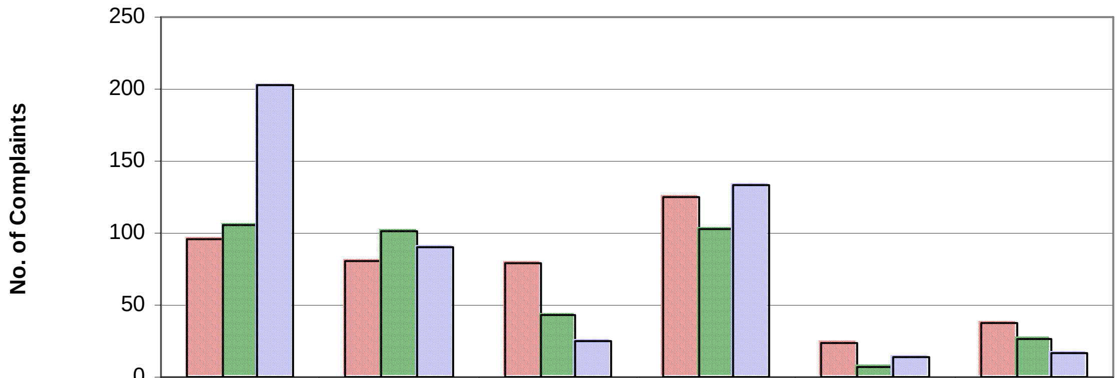
Figure 5
Informal and Verbal Complaints
Total All Utility Companies - Fiscal Years 2004-2006



	FY 2004	FY 2005	FY 2006
Telephone	96	106	203
Cellular and Paging	81	102	90
Other Telecom Providers	79	43	25
Electricity	125	103	133
Gas	23	7	14
Water/Sew er	37	26	17
Total Complaints	441	387	482

FY

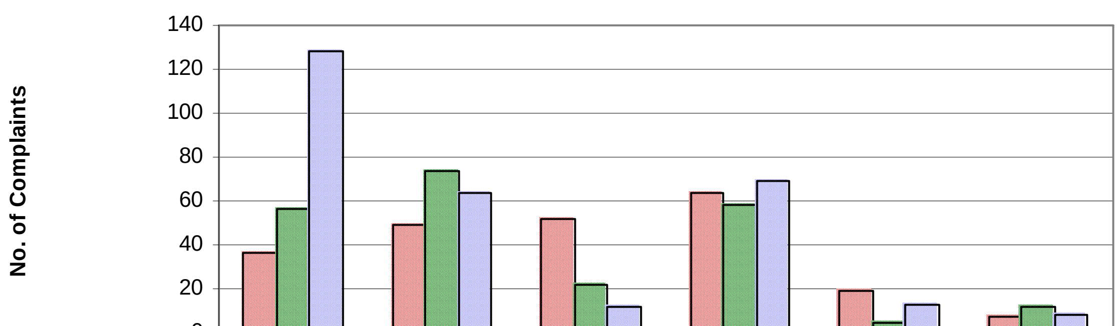
Figure 6
Informal and Verbal Complaints
Statewide - All Utility Companies - Fiscal Years 2004-2006



	Telephone	Cellular and Paging	Other Telecom Providers	Electricity	Gas	Water/Sew er
FY 2004	96	81	79	125	23	37
FY 2005	106	102	43	103	7	26
FY 2006	203	90	25	133	14	17

Type of Utility

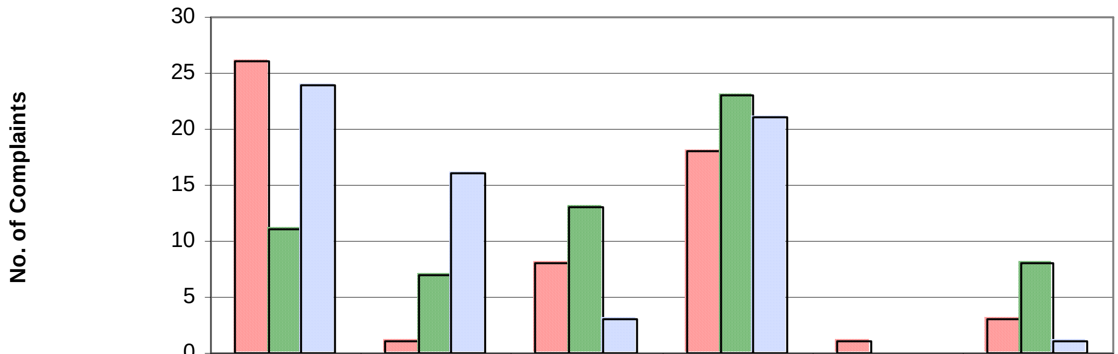
Figure 7
Informal and Verbal Complaints
Oahu - Utility Companies - Fiscal Years 2004-2006



	Telephone	Cellular and Paging	Other Telecom Providers	Electricity	Gas	Water/Sew er
FY 2004 Oahu	36	49	52	64	19	7
FY 2005 Oahu	56	74	22	58	5	12
FY 2006 Oahu	128	64	12	69	13	8

Type of Utility

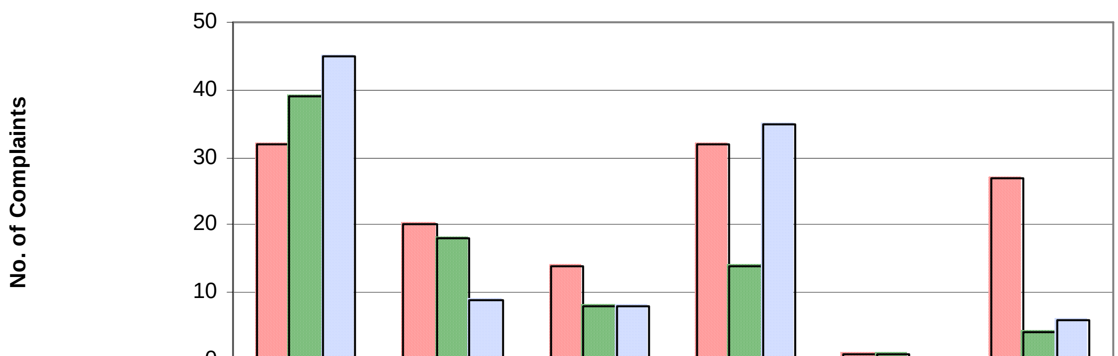
Figure 8
Informal and Verbal Complaints
Maui - Utility Companies - Fiscal Years 2004-2006



	Telephone	Cellular and Paging	Other Telecom Providers	Electricity	Gas	Water/Sewer
FY 2004 Maui	26	1	8	18	1	3
FY 2005 Maui	11	7	13	23	0	8
FY 2006 Maui	24	16	3	21	0	1

Type of Utility

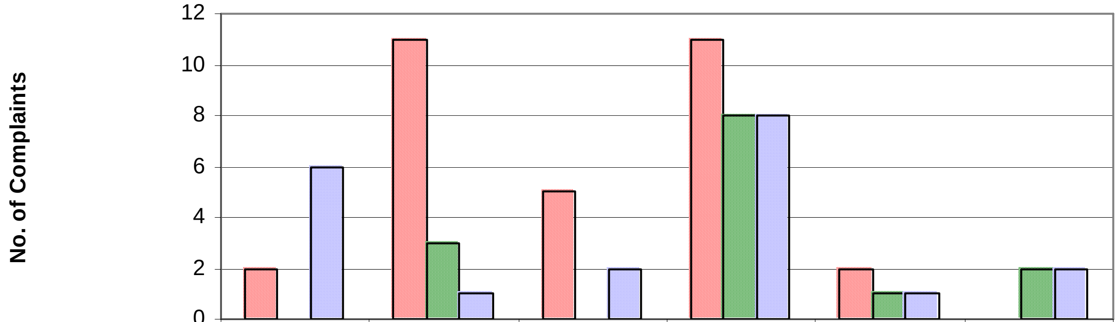
Figure 9
Informal and Verbal Complaints
Hawaii - Utility Companies - Fiscal Years 2004-2006



	Telephone	Cellular and Paging	Other Telecom Providers	Electricity	Gas	Water/Sewer
FY 2004 Hawaii	32	20	14	32	1	27
FY 2005 Hawaii	39	18	8	14	1	4
FY 2006 Hawaii	45	9	8	35	0	6

Type of Utility

Figure 10
Informal and Verbal Complaints
Kauai - Utility Companies - Fiscal Years 2004-2006

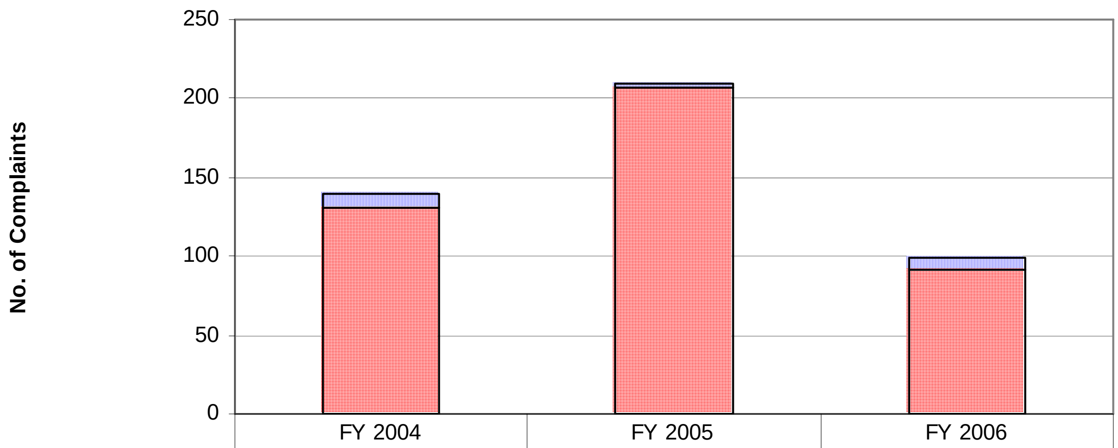


	Telephone	Cellular and Paging	Other Telecom Providers	Electricity	Gas	Water/Sewer
FY 2004 Kauai	2	11	5	11	2	0
FY 2005 Kauai	0	3	0	8	1	2
FY 2006 Kauai	6	1	2	8	1	2

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.

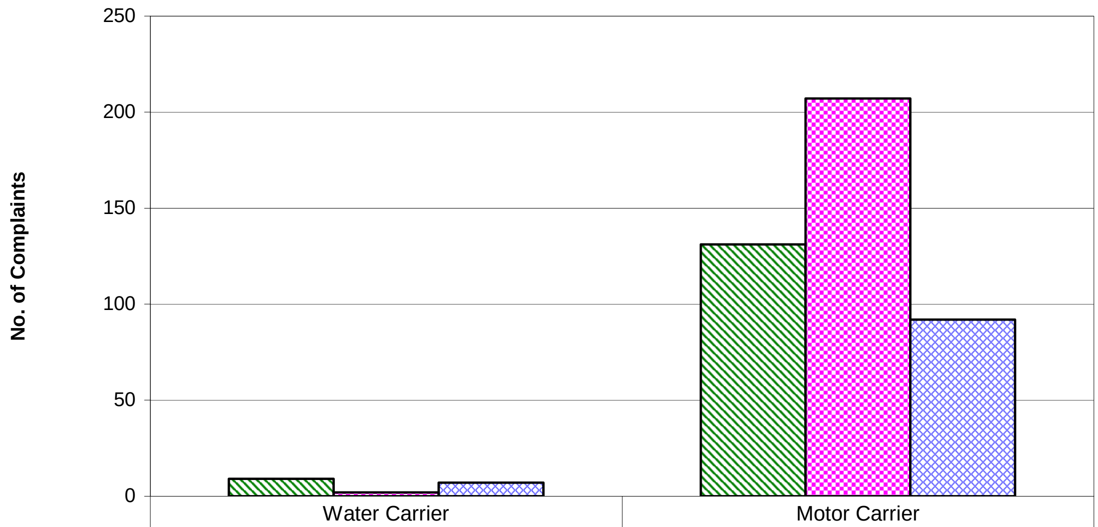
Figure 11
Informal and Verbal Complaints
Statewide All Transportation Carriers - Fiscal Years 2004-2006



	FY 2004	FY 2005	FY 2006
Water Carrier	9	2	7
Motor Carrier	131	207	92
Total Complaints	140	209	99

FY

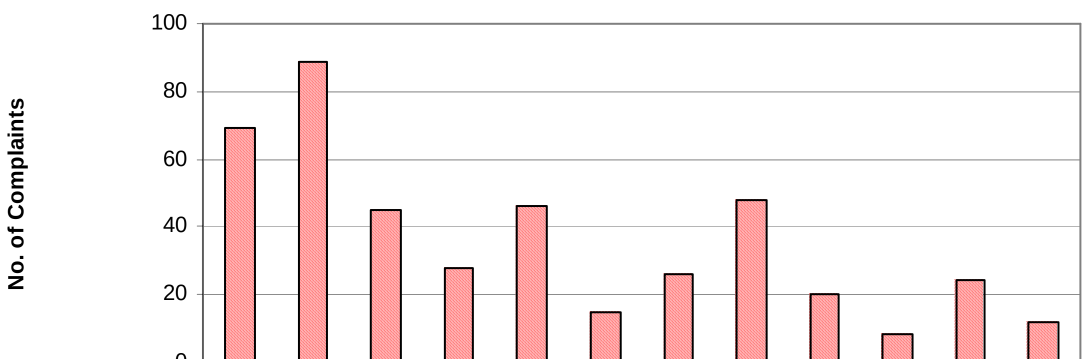
Figure 12
Informal and Verbal Complaints
Statewide - Water Carrier and Motor Carrier - Fiscal Years 2004-2006



	Water Carrier	Motor Carrier
FY 2004	9	131
FY 2005	2	207
FY 2006	7	92

Type of Carrier

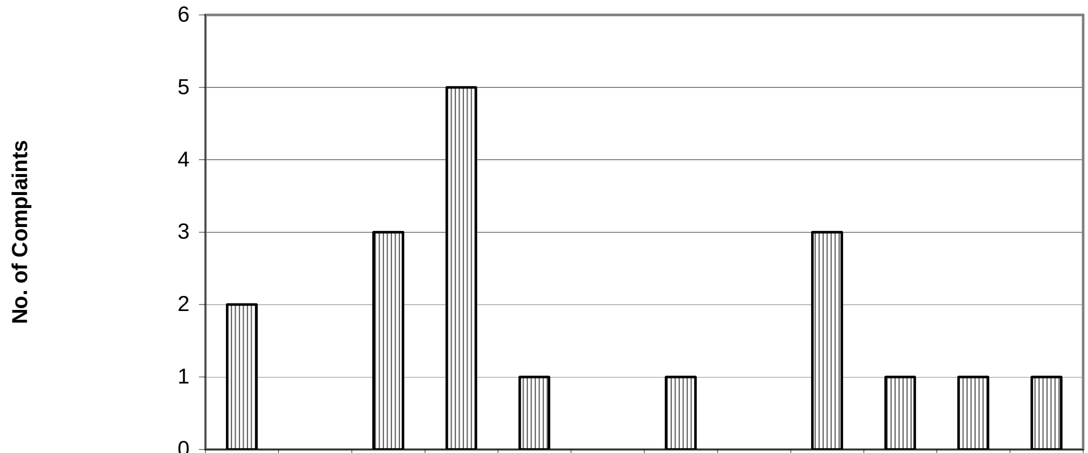
Figure 13
Informal and Verbal Complaints
Motor Carrier - By Islands - Fiscal Years 2004-2006



	Oahu FY 2004	Oahu FY 2005	Oahu FY 2006	Haw aii FY 2004	Haw aii FY 2005	Haw aii FY 2006	Maui FY 2004	Maui FY 2005	Maui FY 2006	Kauai FY 2004	Kauai FY 2005	Kauai FY 2006
Motor Carrier	69	89	45	28	46	15	26	48	20	8	24	12

Islands and FY

Figure 14
Informal and Verbal Complaints
Water Carrier - By Islands - Fiscal Years 2004-2006



	Oahu FY 2004	Oahu FY 2005	Oahu FY 2006	Hawaii FY 2004	Hawaii FY 2005	Hawaii FY 2006	Maui FY 2004	Maui FY 2005	Maui FY 2006	Kauai FY 2004	Kauai FY 2005	Kauai FY 2006
Water Carrier	2	0	3	5	1	0	1	0	3	1	1	1

Islands and FY

3. 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 42 responses to its informal complaint survey. Figures 15 to 18 show the results of the survey.

Figure 15
INFORMAL COMPLAINT SURVEY
Fiscal Year 2005-06

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

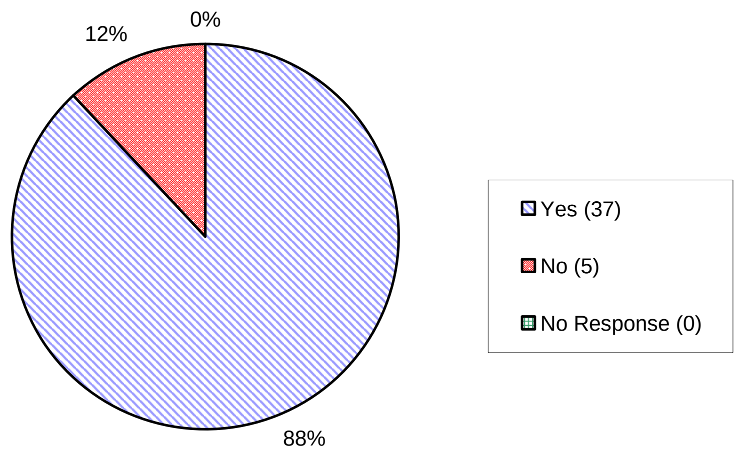


Figure 16
INFORMAL COMPLAINT SURVEY
Fiscal Year 2005-06

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

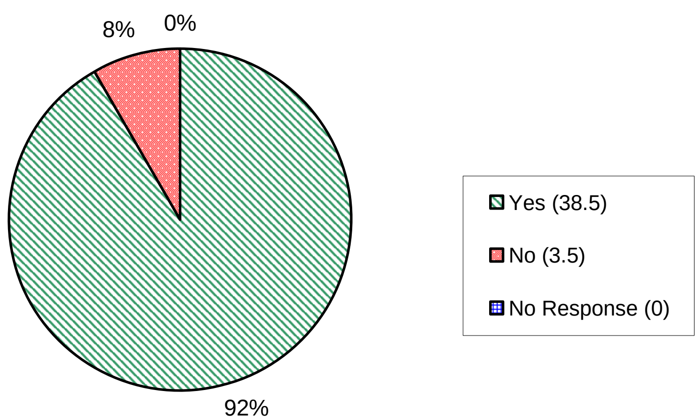


Figure 17
INFORMAL COMPLAINT SURVEY
Fiscal Year 2005-06

3-Was your complaint resolved to your satisfaction?

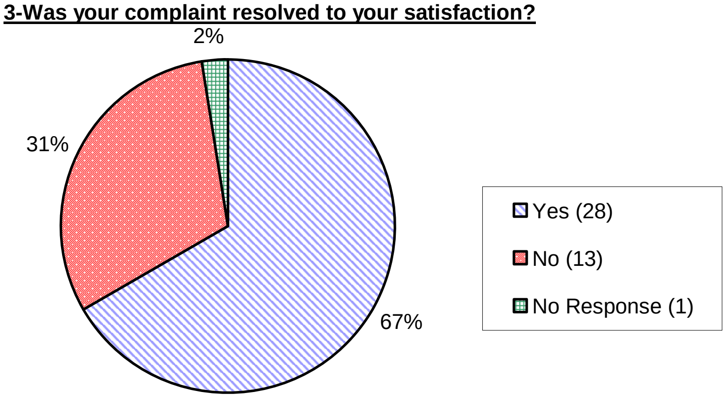
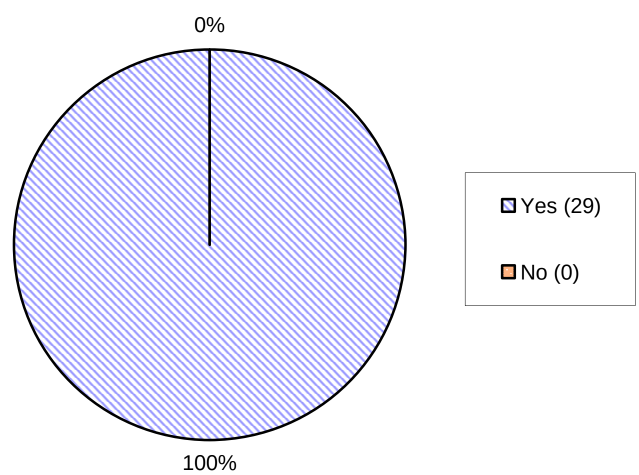


Figure 18
INFORMAL COMPLAINT SURVEY
Fiscal Year 2005-06

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



B. 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. One year later, the Commission found that MW is a public utility, as defined by HRS § 269-1, and that MW’s transfer of its water distribution system to the Association without Commission approval violated HRS § 269-19, and is thus void. The Commission ordered MW to apply for a CPCN and for Commission approval to sell its assets, pursuant to HRS § 269-19, if it desires to transfer its water distribution assets.

C. MOTOR CARRIER CITATIONS.

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

The Commission has been successful in its efforts to enforce the law by issuing citations to discourage illegal motor carrier activities on Oahu and the neighbor islands. Some of the common types of motor carrier citations relate to operating without a CPCN, the failure to maintain the required liability insurance and improper vehicle marking. For this Fiscal Year, civil penalties collected through motor carrier citations totaled $42,850. The Commission enforcement officers issued 52 motor carrier citations on the following islands: Oahu (29), Hawaii (10), Kauai (2), and Maui (11).

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 2,437 inquiries in the Fiscal Year, mostly relating to motor carriers.

Total Inquiries
Fiscal Year 2005-06

Utilities:	
Telecommunications	344
Electric	115
Gas	10
Water/Sewer	41
Transportation Carriers:	
Property Motor Carrier	931
Passenger Motor Carrier	726
General Motor Carrier	83
Water Carrier	50
Gas Price Cap	6
One Call Center	11
General Regulated & Unregulated	120
Total Inquiries	2,437

VIII. MAXIMUM PRE-TAX WHOLESALE GASOLINE PRICES ("GAS CAPS") AND PETROLEUM MONITORING.

A. CALCULATION AND PUBLISHING OF GAS CAPS.

Pursuant to Act 242, SLH 2004, codified in HRS Chapter 486H ("gas cap law"), the Commission began calculating, publishing and enforcing gas caps effective September 1, 2005. Under this gas cap law, no petroleum manufacturer, wholesaler or jobber in the State is permitted to sell regular unleaded, mid-grade or premium gasoline at wholesale prices above the gas caps calculated by the Commission on a weekly basis. Retail gasoline prices are not capped under the gas cap law.

Prior to implementing the gas cap law, the Commission opened Docket No. 05-0002 on January 4, 2005, to examine the issues and requirements raised by HRS Chapter 486H. Through Decision and Order No. 21952, filed on August 1, 2005, the Commission set forth the factors to be used in the calculation of the gas caps, the procedures for filing petitions and complaints with the Commission, the publication procedures for gas caps, and risks identified in implementing HRS Chapter 486H. Consistent with Decision and Order No. 21952, the Commission calculated and published its first set of gas caps on August 31, 2005, with an effective date of September 1-4, 2005, that applied to the eight (8) zones into which the State was geographically divided.

Thereafter, the Commission continued to examine other issues relevant to the calculation of gas caps that reflect and correlate with competitive market conditions, in accordance with HRS § 486H-13. For example, in Docket No. 05-0002, the Commission investigated whether and how to adjust the gas cap formula to incorporate the ethanol content requirement set forth in HRS § 486J-10 and Hawaii Administrative Rules § 15-35-3,[11] and, on May 3, 2006, the

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[11]Starting on April 2, 2006, at least eighty-five per cent (85%) of all gasoline supplied to a retailer, sold at retail, or sold to a private, state, or municipal fleet for use in motor vehicles, and intended as a final product for fueling motor vehicles in the State of Hawaii shall contain ten per cent (10%) ethanol by volume ("E-10").

Commission issued Decision and Order No. 22451, which set forth required modifications to the existing formula. The Commission intended to have the first set of E-10 gas caps to be effective May 15, 2006.

However, on May 5, 2006, before the calculation of the initial E-10 gas caps, the Commission stopped calculating and publishing gas caps altogether, pursuant to Act 78, SLH 2006 ("Act 78"). Act 78, among other things, indefinitely suspended the Commission's duties to calculate the gas caps and gave the Governor the authority to reinstate them if doing so would be beneficial to the economic well-being, health, and safety of the people of Hawaii.

B. INDUSTRY COMPLIANCE.

Since September 2005, the Commission required petroleum manufacturers, wholesalers and jobbers to submit detailed gasoline sale and purchase information to the Commission on a monthly basis, broken down by weeks.[12] By closely reviewing and examining the data, the Commission monitored actual wholesale prices charged by the petroleum companies as compared with each week's gas caps, as well as volume information, for each grade of gasoline sold throughout the State. As the Commission reported to the Legislature during the 2006 Regular Session, based on the Commission's examination of the reported data, it does not appear that any manufacturer, wholesaler or jobber knowingly violated the gas cap law by pricing above the gas caps during this time period.[13]

C. EFFECT OF GAS CAPS.

Whether or not gasoline consumers benefited from the gas caps was debated throughout the time when the gas caps were in effect and following the suspension. Reactions appeared to be mixed, with some proponents claiming the gas caps would have worked had it not been for unfortunate timing. (Just as the Commission began calculating gas caps using spot prices from New York Harbor, U.S. Gulf Coast, and Los Angeles, Gulf of Mexico oil production and refining capacity were substantially reduced as a result of Hurricanes Katrina and Rita. Also at about this time, Los Angeles was hit by a costly fire at a major refinery.) These proponents have argued that the gas caps should have been given more time than the eight months in which they were enforced. Opponents, meanwhile, spoke out against linking local prices to the three (3) U.S. Mainland locations, thereby making Hawaii's market vulnerable to negative effects of U.S. Mainland events – such as the devastation from Hurricanes Katrina and Rita – that would have otherwise minimally affected the State. They also expressed frustration over high volatility in retail prices from week to week. Unfortunately, a conclusion on the question of consumer and societal benefits of the gas caps cannot be drawn with absolute certainty and accuracy.

However, the Commission has studied the levels of Hawaii regular unleaded retail prices as compared with national prices both before and after September 1, 2005. While Hawaii's prices have historically been significantly higher than national prices, the amount of that difference generally increased when the price caps were in effect. For example, as indicated in the

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[12]While the gas cap law remains suspended, the Commission continues to collect transaction-specific monthly reports from the manufacturers, wholesalers and jobbers today.

[13]While the Commission is not aware of any knowing violations of HRS Chapter 486H, there were instances in which companies appeared to have inadvertently charged small amounts over the gas cap, but corrected those charges when the Commission inquired about them.

following table, Oahu's average difference in retail prices for regular unleaded increased from $0.34 during the Pre-Cap Period to $0.39 during the Price Cap Period.[14]

The Zone Averages of the Hawaii Retail Average Price Above the National Retail Average Price		
Zone	Pre-Cap Period (1/18/1999 – 8/28/2005)	Price Cap Period (9/1/2005 – 5/5/2006)
1 (Oahu)	$0.34 (23.19%)	$0.39 (16.01%)
2 (Kauai)	$0.54 (36.80%)	$0.57 (23.48%)
3 (Maui w/o Hana)	$0.63 (42.26%)	$0.69 (28.12%)
4 (Hana)	$0.79 (49.88%)	$1.45 (37.36%)
5 (Molokai)	$0.90 (46.63%)	$0.86 (35.13%)
6 (Lanai)	NA	NA
7 (Hilo)	$0.46 (31.92%)	$0.48 (19.70%)
8 (Kona)	$0.63 (42.62%)	$0.63 (25.91%)

D. INCREASED TRANSPARENCY THROUGH ACT 78.

In addition to suspending the calculation and enforcement of gas caps indefinitely, as stated above, Act 78 established the Petroleum Industry Monitoring, Analysis, and Reporting Program ("Petroleum Monitoring Program") within HRS Chapter 486J to provide for greater transparency in the petroleum industry and required the Commission to develop and maintain the new program. An initial amount of $1 was appropriated by the Legislature to carry out these new responsibilities, but with the assistance of the Department of Budget and Finance, Department of Business, Economic Development and Tourism ("DBEDT"), and Department of Attorney General, the Commission was able to access additional monies prior to the end of the fiscal year (approximately $427,000 for this fiscal year and $312,000 for fiscal year 2006-07)[15] to fund expenditures related to HRS Chapter 486J, such as costs associated with setting up a new system to organize and maintain petroleum data and various operating expenses. At this time, the Commission continues to address final details of an agreement with a vendor for the design of a petroleum monitoring system. It is also focusing on filling vacant positions as quickly as possible that will be used, in part, to help establish the procedures and other details for the Petroleum Monitoring Program.

Meanwhile, the Commission continues the monthly collection of transaction-specific data from the petroleum industry, as established at the start of the gas cap implementation. It has also received historical data from DBEDT that the petroleum industry previously reported to it, and the Commission is now the clearinghouse for all petroleum information collected pursuant to HRS Chapter 486J. As part of the development of the petroleum monitoring system, the Commission intends to include as much of the historical information as possible to maximize efficiency, uniformity and consistency.

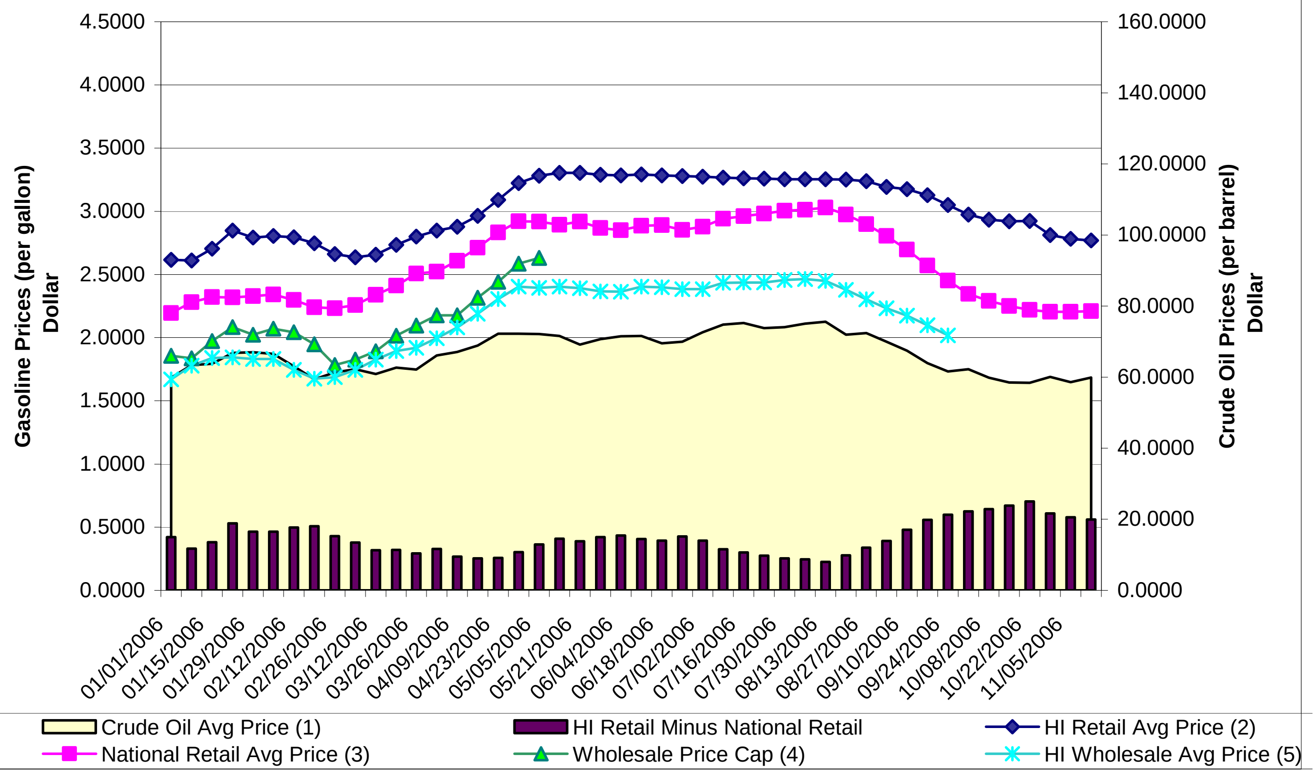
In addition, to help inform gasoline consumers and others, the Commission has been making regular unleaded wholesale and retail price information available for viewing on its website. Based on the wholesale and retail information it continues to collect, the on-line graphs present aggregated wholesale prices, retail prices and national retail prices for regular unleaded

[14] Since gasoline price caps were suspended in May 2006, Oahu regular unleaded retail prices average $0.44 per gallon higher than the national average through November 12, 2006.

[15] These monies had been appropriated in 2005 to DBEDT to carry out its then duties under HRS Chapter 486J.

for each zone. The gas caps are also shown during the time they were in effect (from September 1, 2005 to May 5, 2006), as well as crude oil price information. Figures 19 to 21 are examples of the information and graphs that are available to the public on the Commission's website at: http://www.hawaii.gov/budget/puc/pucgascapswholesaleretailcomp.htm. They depict price levels of regular unleaded gasoline for Zone 1 (Oahu) during: (1) 2006; (2) 2005; and (3) 1999 – 2004. Similar information for the remaining Zones 2 – 8 is available on the Commission's website.

Figure 19
Regular Unleaded Gasoline - Weekly Price Comparison
Zone 1 - Oahu
2006



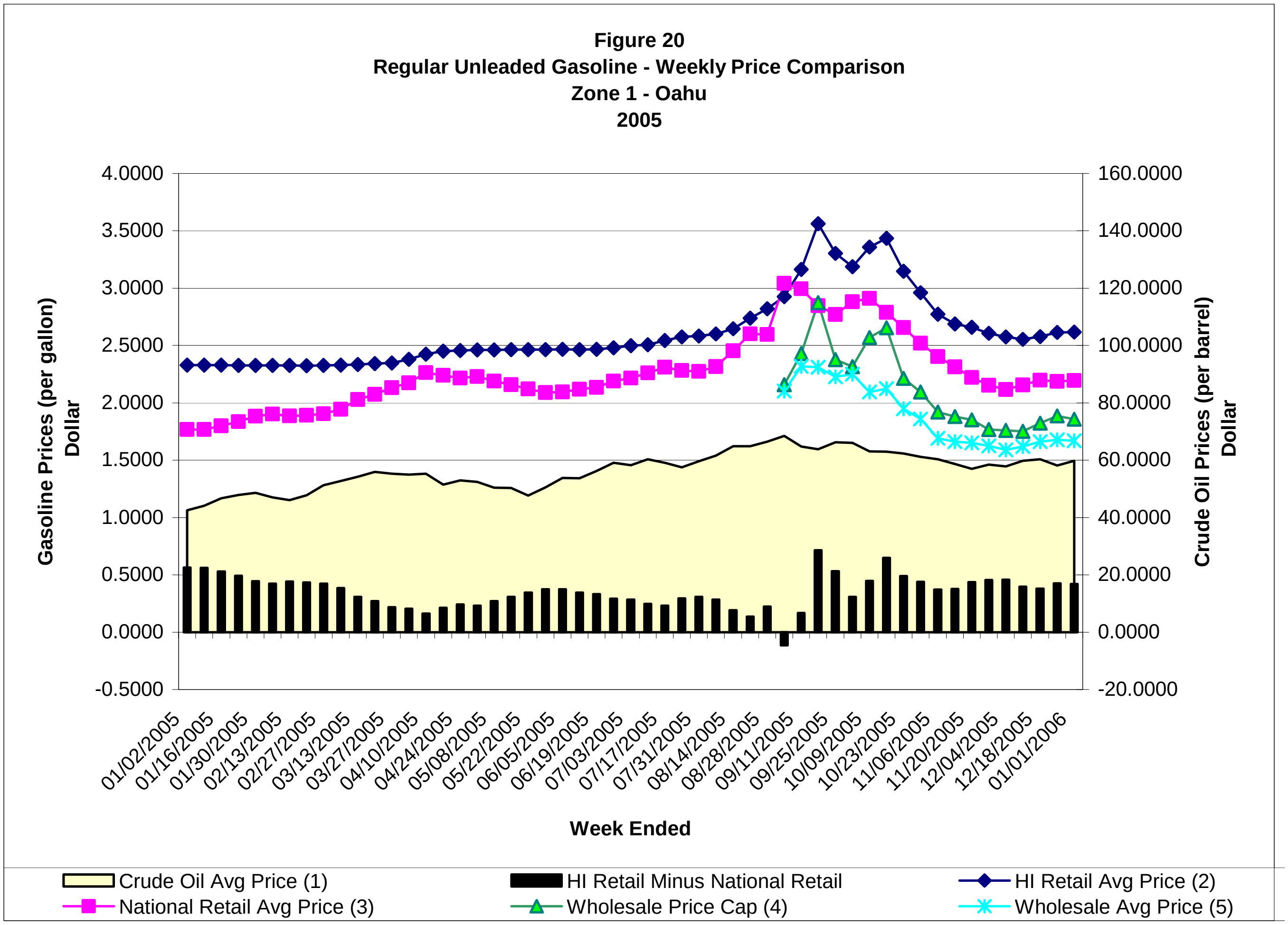
(1) Crude Oil Prices provided by Energy Information Administration which listed daily NYMEX Futures Prices for Crude Oil (Light-Sweet, Cushing Oklahoma).

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

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

(4) Maximum pre-tax wholesale price of gasoline ("Wholesale Price Cap") calculated pursuant to Hawaii Revised Statutes § 486H-13 (2004). In accordance with Act 78, Session Laws of Hawaii 2006, the Commission suspended the calculation and publishing of wholesale gasoline price caps on May 5, 2006.

(5) Pre-tax wholesale weighted average prices were derived based on volume and wholesale price information for all gasoline transactions reported by manufacturers, wholesalers, and jobbers.



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

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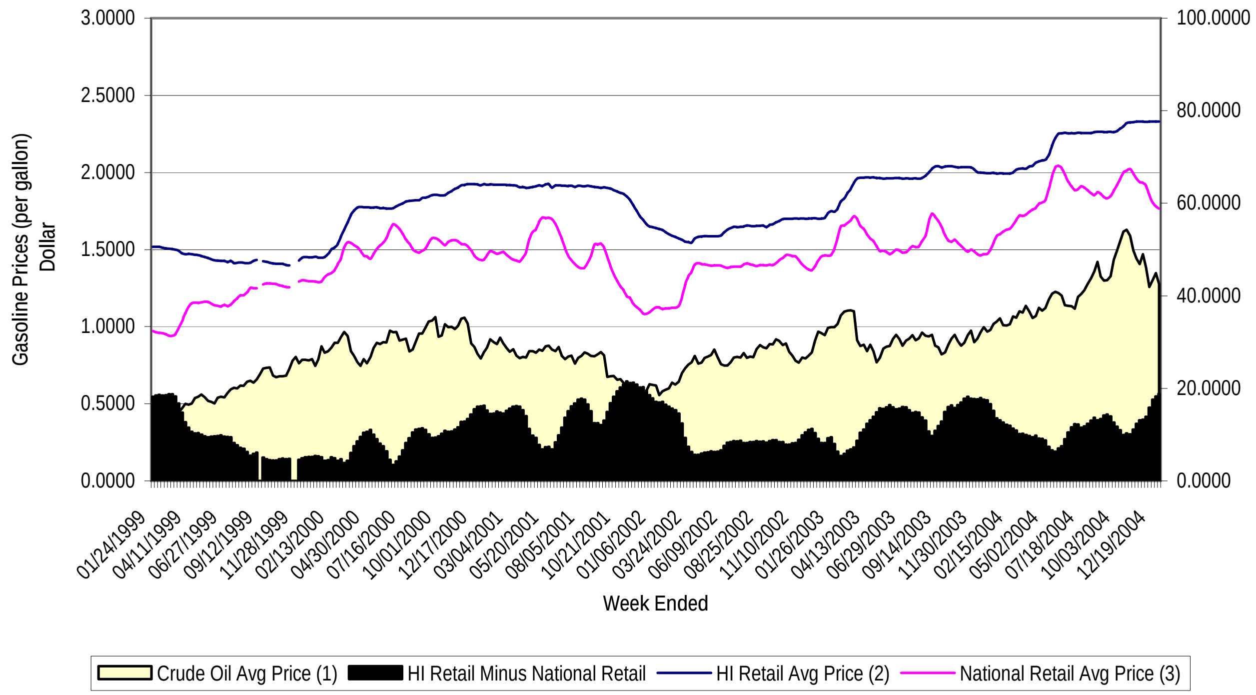
(5) Pre-tax wholesale weighted average prices were derived based on volume and wholesale price information for all gasoline transactions reported by manufacturers, wholesalers, and jobbers.

Figure 21
Regular Unleaded Gasoline - Weekly Price Comparison
Zone 1 - Oahu
1999 - 2004



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

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

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

IX. 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 $12,959,079 in public utility fees and $1,202,595 in motor carrier fees, respectively. The total revenues of the Commission's Special Fund were $14,229,235.

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

For the Fiscal Year, the Commission received an appropriation of $8,505,197 for personal services and other current expenses as shown in the table below. Allotments for the

Commission's personal services expenses were $3,361,238 for 41 authorized permanent positions. The Commission was allotted $5,202,499 for other current expenses. The Commission's other current expenses allotment included $2,592,100 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:

	FY 2005-06	FY 2005-06
	Appropriation	Allotment
Personal Services	$3,302,698	$3,361,238
Other Current Expense	5,202,499	5,202,499
Total	$8,505,197	$8,563,737

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 $6,448,533 from the Special Fund was transferred to the general fund. This excess balance amount includes the balance of the moneys appropriated through Act 178, SLH 2005 (2005 Appropriations Act).

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

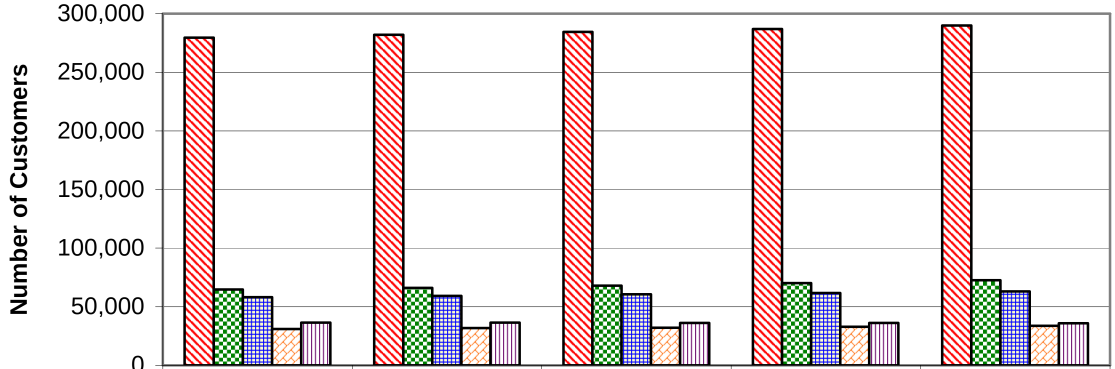
A. UTILITY COMPANY OPERATIONS.

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 2001-2005 time period, as shown in Figure 22.[16]

[16]Sources: HECO 2005 Service Reliability Report, MECO 2005 Service Reliability Report, HELCO 2005 Service Reliability Report, and KIUC Annual Report to the PUC.

Figure 22
Number of Electric and Gas Utility Customers
2001 - 2005



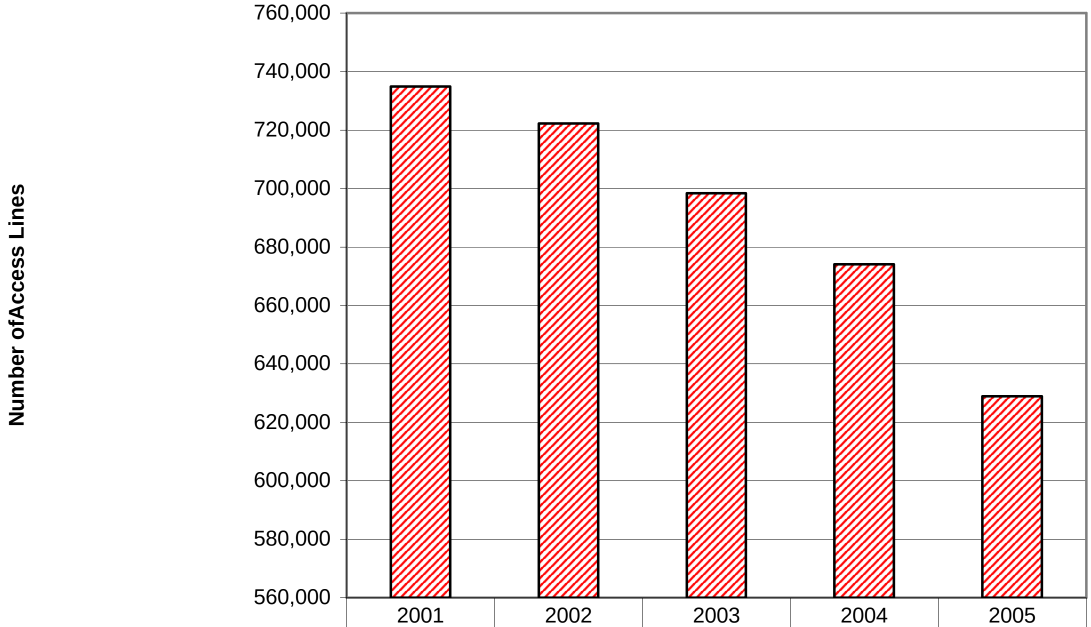
	2001	2002	2003	2004	2005
HECO	279,534	281,922	284,460	287,074	289,972
HELCO	64,660	66,034	67,879	70,124	72,513
MECO	58,308	59,410	60,651	61,684	63,103
KIUC	30,969	31,768	32,065	32,950	33,772
Gasco	36,379	36,322	36,093	36,093	35,977

Annual Periods

As shown in Figure 23, Hawaiian Telcom's customer base, as measured by the number of access lines that it serves, after peaking at 743,370 in 2000, has decreased over the past four (4) years.[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] Hawaiian Telcom's ARMIS Operating Data Reports (FCC Report 43-08) for 2001 through 2005.

Figure 23
Hawaiian Telcom Total Switched Access Lines
2001-2005

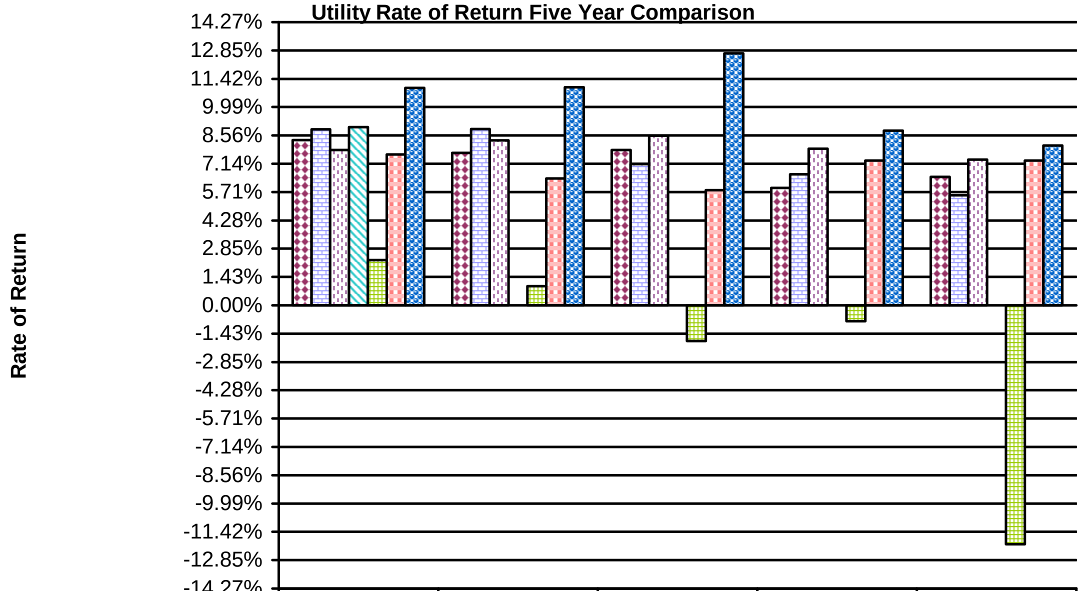


	2001	2002	2003	2004	2005
Total Switched Access Lines	734,881	722,291	698,355	674,078	628,921

2. RATES OF RETURN EARNED BY UTILITY COMPANIES.

Each regulated utility is entitled to an opportunity to earn a fair rate of return. Figure 24 summarizes the recent history and trends of rates of return earned by the various regulated utilities.

Figure 24
Utility Rate of Return Five Year Comparison



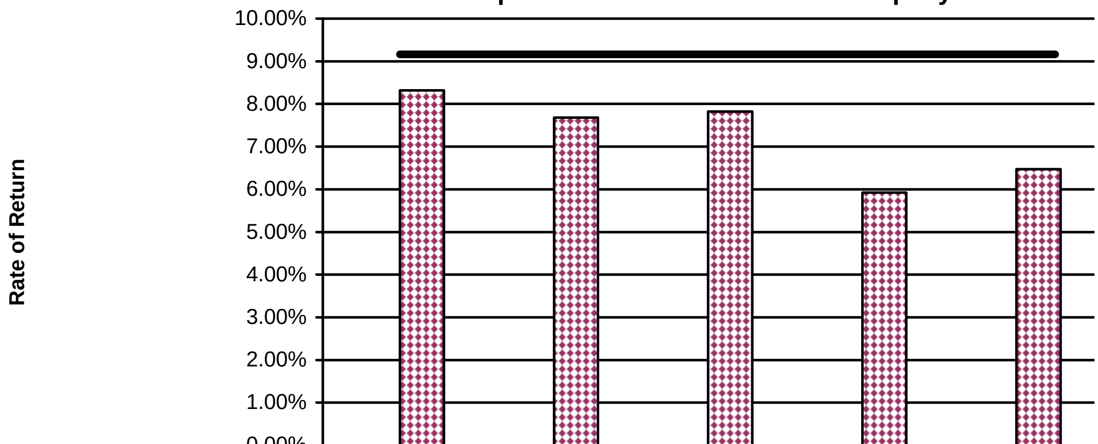
	Jun '02	Jun '03	Jun '04	Jun '05	Jun '06
HECO	8.32%	7.68%	7.82%	5.92%	6.47%
HELCO	8.87%	8.89%	7.12%	6.61%	5.54%
MECO	7.82%	8.31%	8.55%	7.89%	7.35%
KE/KIUC (1)	8.99%	n/a (4)	n/a (4)	n/a (4)	n/a (4)
Hawaiian Telcom (2)	2.29%	0.96%	-1.80%	-0.80%	-12.04%
TGC (3)	7.60%	6.40%	5.80%	7.30%	7.30%
Young Brothers	10.96%	11.00%	12.70%	8.81%	8.06%

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 25 to 28 and 30 to 32, 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 29 shows KIUC's TIER for the past four (4) years.

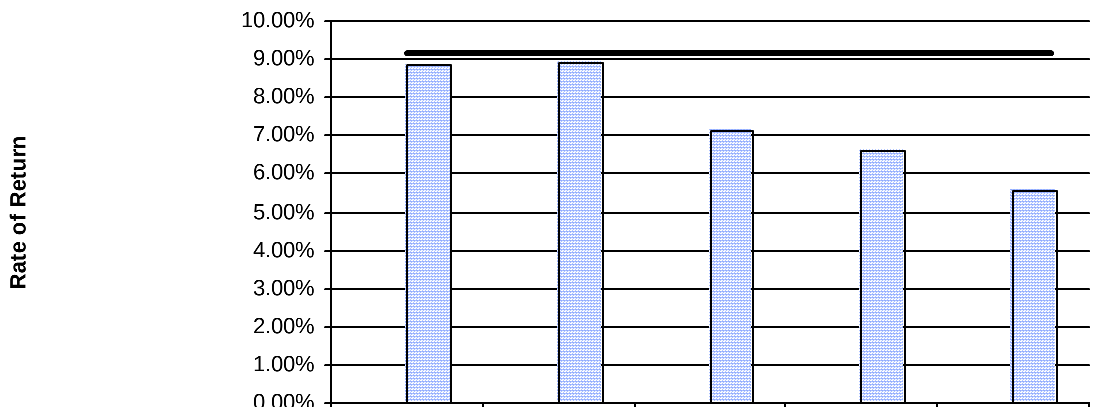
Figure 25
Five Year Rate of Return Comparison - Hawaiian Electric Company



	Jun '02	Jun '03	Jun '04	Jun '05	Jun '06
Authorized Rate of Return	9.16%	9.16%	9.16%	9.16%	9.16%
Rate of Return	8.32%	7.68%	7.82%	5.92%	6.47%

12 MTD Ended June 30

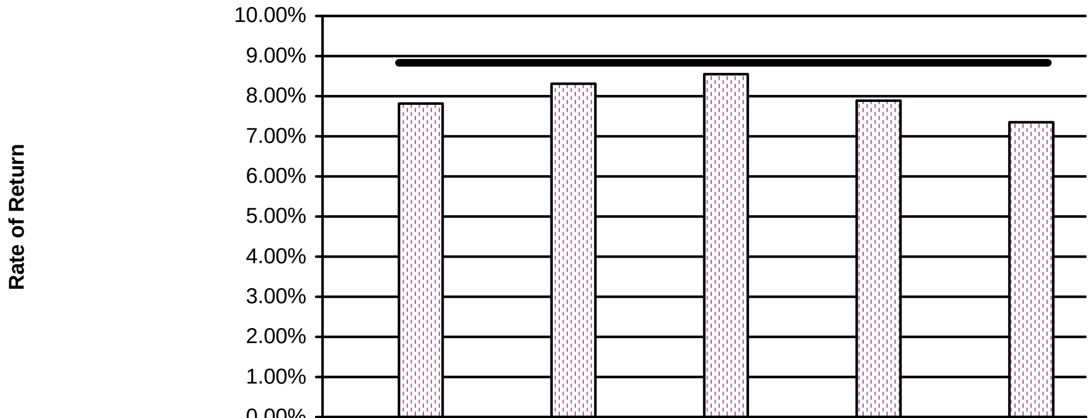
Figure 26
Five Year Rate of Return Comparison - Hawaii Electric Light Company



	Jun '02	Jun '03	Jun '04	Jun '05	Jun '06
Authorized Rate of Return	9.14%	9.14%	9.14%	9.14%	9.14%
Rate of Return	8.87%	8.89%	7.12%	6.61%	5.54%

12 MTD Ended June 30

Figure 27
Five Year Rate of Return Comparison - Maui Electric Company



	Jun '02	Jun '03	Jun '04	Jun '05	Jun '06
Authorized Rate of Return	8.83%	8.83%	8.83%	8.83%	8.83%
Rate of Return	7.82%	8.31%	8.55%	7.89%	7.35%

12 MTD Ended June 30

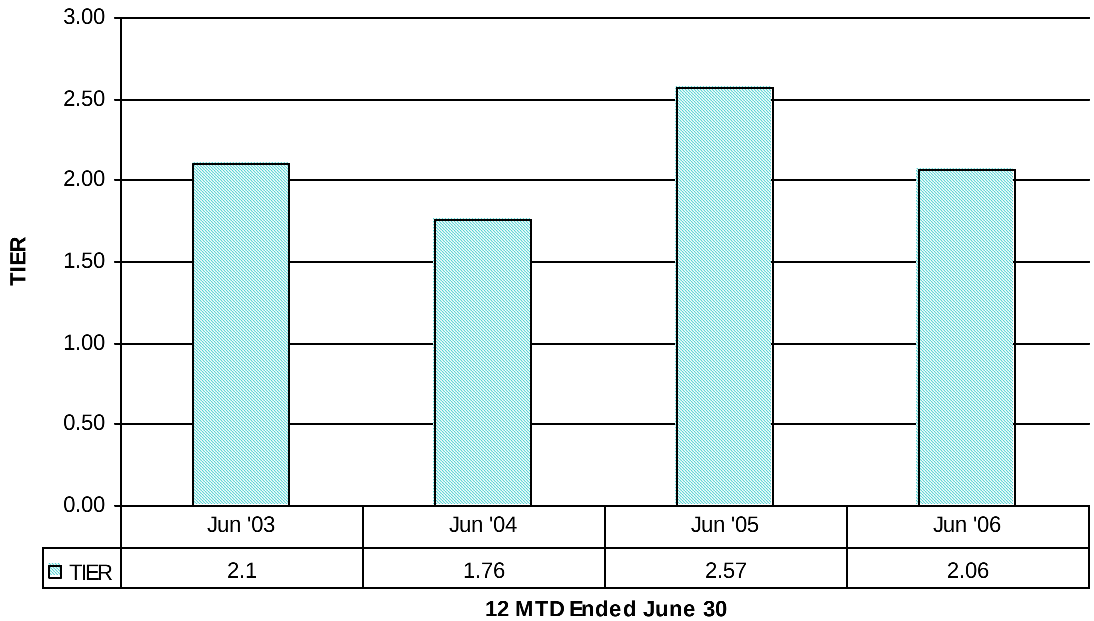
Figure 28
Two Year Rate of Return Comparison - Kauai Electric

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

12 MTD Ended June 30

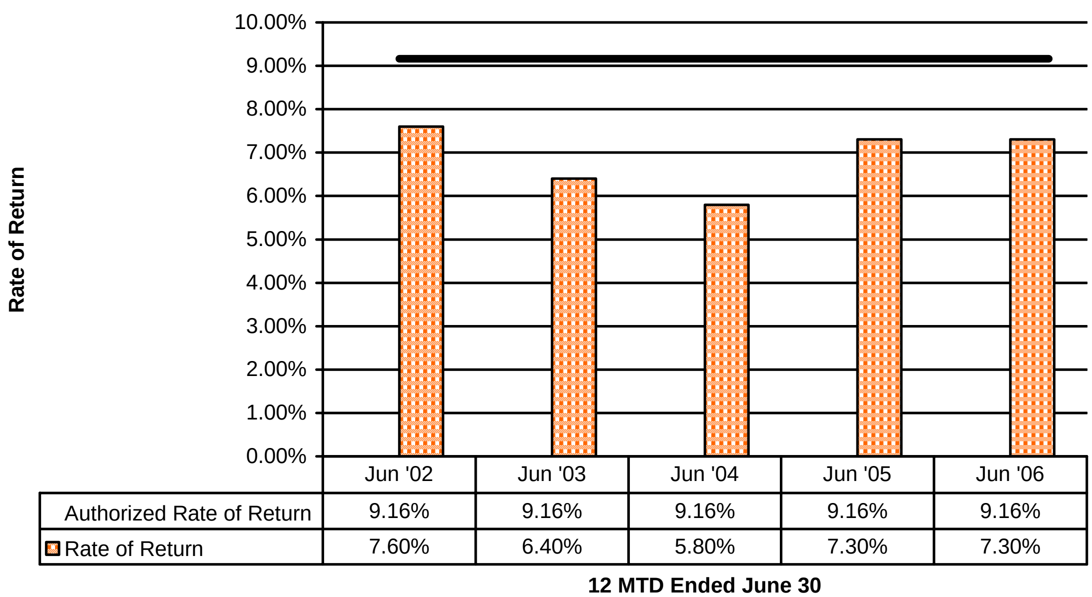
Beginning November 2002, KIUC began reporting TIER.

Figure 29
Three Year TIER Comparison - KIUC



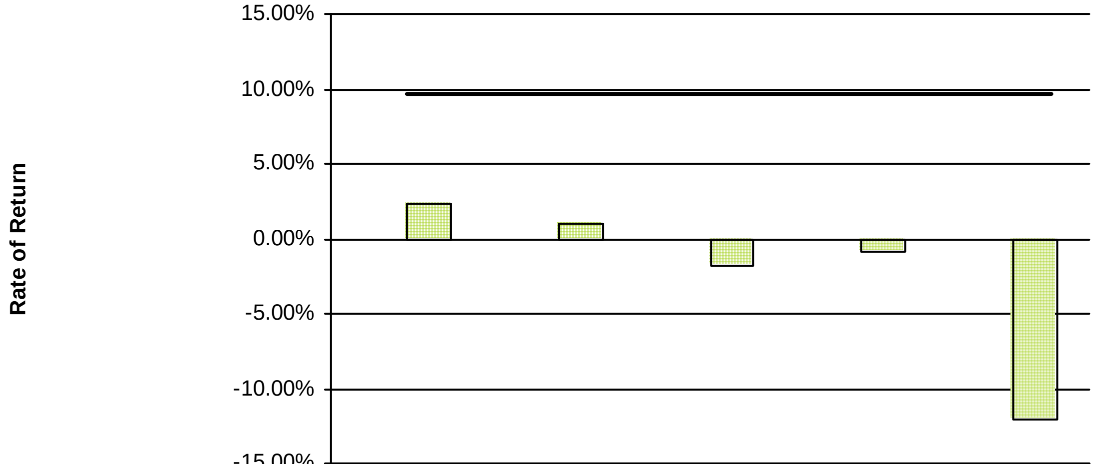
	Jun '03	Jun '04	Jun '05	Jun '06
TIER	2.1	1.76	2.57	2.06

Figure 30
Five Year Rate of Return Comparison - The Gas Company



	Jun '02	Jun '03	Jun '04	Jun '05	Jun '06
Authorized Rate of Return	9.16%	9.16%	9.16%	9.16%	9.16%
Rate of Return	7.60%	6.40%	5.80%	7.30%	7.30%

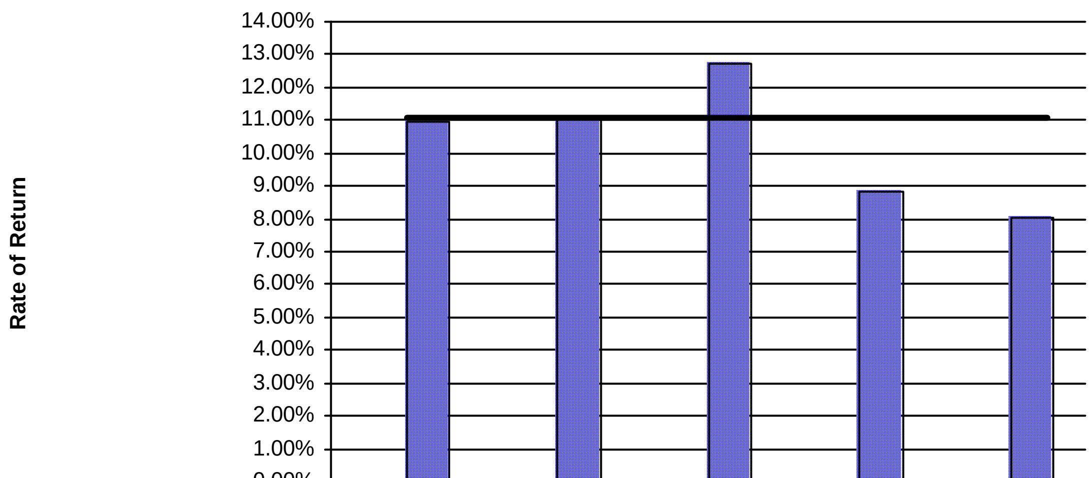
Figure 31
Five Year Rate of Return Comparison -
Verizon Hawaii/Hawaiian Telcom



	Jun '02	Jun '03	Jun '04	Jun '05	Jun '06
Authorized Rate of Return	9.73%	9.73%	9.73%	9.73%	9.73%
Rate of Return	2.29%	0.96%	-1.80%	-0.80%	-12.04%

12 MTD Ended June 30

Figure 32
Five Year Rate of Return Comparison - Young Brothers



	Jun '02	Jun '03	Jun '04	Jun '05	Jun '06
Authorized Rate of Return	11.06%	11.06%	11.06%	11.06%	11.06%
Rate of Return	10.96%	11.00%	12.70%	8.81%	8.06%

12 MTD Ended June 30

B. FORECASTED CAPITAL IMPROVEMENTS.

1. ELECTRIC UTILITY CIPs.

The total 2006 capital expenditure budget forecasted for HECO is approximately $102 million. Some of the major Capital Improvement Projects ("CIPs") in HECO's 2006 budget include the East Oahu Transmission Project, the construction of a new dispatch center, including a new Energy Management System, the construction of the Ford Island, Ocean Pointe, and Ko Olina 46 kV Substations, and the construction of the Campbell Industrial Park Generating Station and Transmission Line.

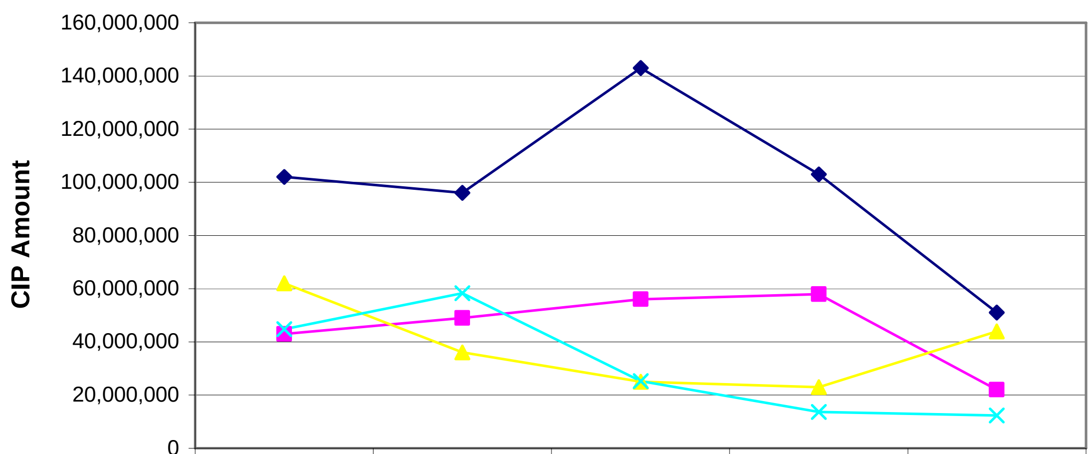
The total 2006 capital expenditure budget forecasted for HELCO is approximately $43 million. HELCO's major CIPs for 2006 include the reconductoring of the Keamuku-Waimea 7200 Line, the installation of the Palani Substation and the Waikoloa Pump substation, and the purchase and installation of the Keahole 18 MW Steam Turbine Addition.

The total 2006 capital expenditure budget forecasted for MECO is approximately $62 million. Some of the major CIPs in MECO's 2006 budget include the Waikapu 69 kV Relocation, and the purchase and installation of the Maalaea Power Plant 18 MW Steam Turbine.

The total 2006 capital expenditure budget forecasted for KIUC is approximately $45 million. KIUC's major CIPs for 2006 include the Kukui'ula Transmission Line Relocation and Kukui'ula Substation construction, and the construction of the Hanahanapuni Transmission Switching Station.

Figure 33 shows the five (5)-year capital expenditure budget forecast for HECO, HELCO, MECO, and KIUC.

Figure 33
Electric Utilities Five-Year Capital Expenditures Forecast



	2006	2007	2008	2009	2010
HECO	102,000,000	96,000,000	143,000,000	103,000,000	51,000,000
HELCO	43,000,000	49,000,000	56,000,000	58,000,000	22,000,000
MECO	62,000,000	36,000,000	25,000,000	23,000,000	44,000,000
KIUC	44,768,600	58,319,800	25,321,400	13,704,200	12,373,300

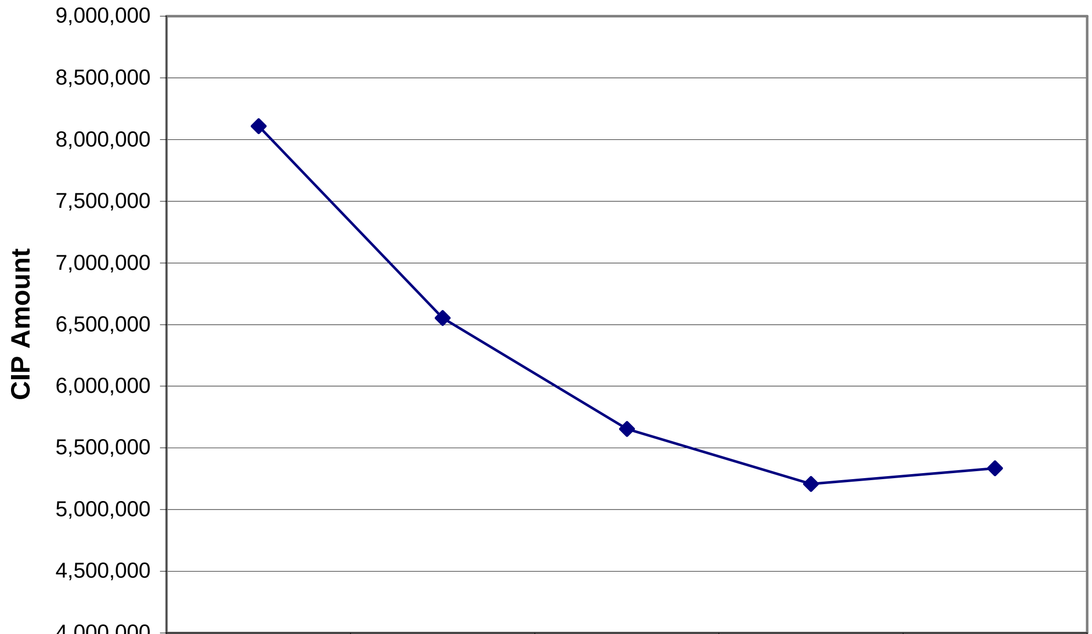
Year

2. GAS CIPs.

The total 2006 capital expenditure budget forecasted for TGC is approximately $8 million. Some of the major projects in the TGC 2005 budget include the utility main pipeline renewal and Propane Air Relocation projects on Oahu.

Figure 34 shows the five (5)-year capital expenditure budget forecast for TGC.

Figure 34
TGC Five-Year Capital Expenditures Forecast

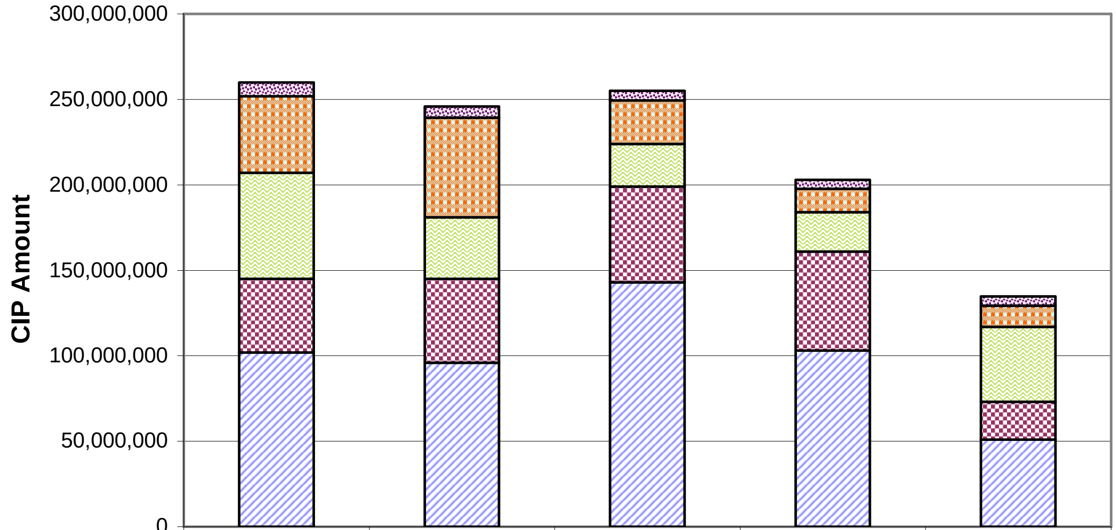


	2006	2007	2008	2009	2010
TGC	8,108,000	6,553,000	5,655,000	5,207,000	5,336,000

3. FORECASTED UTILITY CIP EXPENDITURES.

Figure 35 shows the total five (5)-year capital expenditures forecast for the electric and gas utilities.

Figure 35
Capital Expenditures - Forecasted

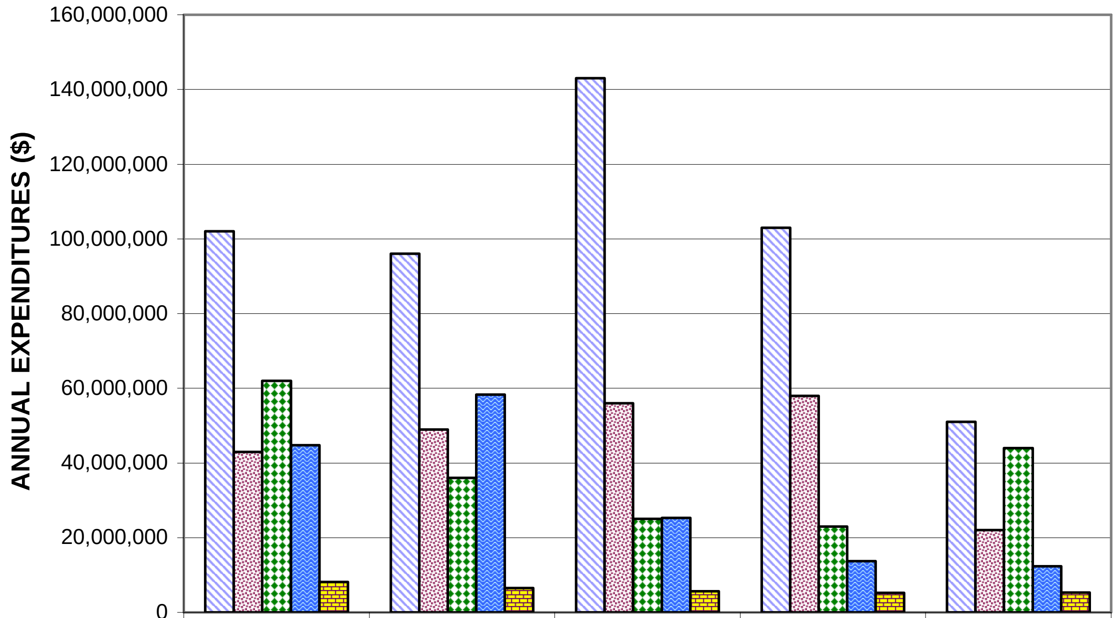


	2006	2007	2008	2009	2010
GASCO	8,108,000	6,553,000	5,655,000	5,207,000	5,336,000
KIUC	44,768,600	58,319,800	25,321,400	13,704,200	12,373,300
MECO	62,000,000	36,000,000	25,000,000	23,000,000	44,000,000
HELCO	43,000,000	49,000,000	56,000,000	58,000,000	22,000,000
HECO	102,000,000	96,000,000	143,000,000	103,000,000	51,000,000
Total CIP	259,876,600	245,872,800	254,976,400	202,911,200	134,709,300

Year

Figure 36 shows the five (5)-year capital expenditure forecasts by utility company.

Figure 36
Capital Expenditures - Forecasted



	2006	2007	2008	2009	2010
HECO	102,000,000	96,000,000	143,000,000	103,000,000	51,000,000
HELCO	43,000,000	49,000,000	56,000,000	58,000,000	22,000,000
MECO	62,000,000	36,000,000	25,000,000	23,000,000	44,000,000
KIUC	44,768,600	58,319,800	25,321,400	13,704,200	12,373,300
TGC	8,108,000	6,553,000	5,655,000	5,207,000	5,336,000

Year

C. RATES OF MAJOR UTILITY COMPANIES.

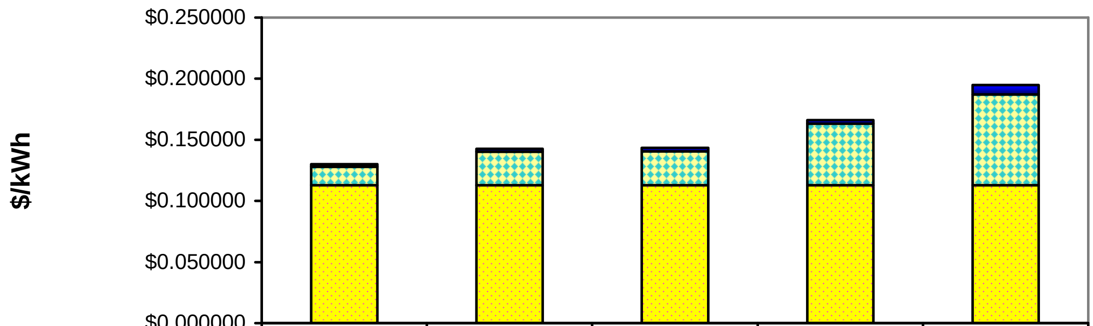
Generally, base rates for most regulated utilities have not changed over the past several years. However, variable components of rates, such as energy rate adjustment factors, have changed the overall amounts billed to utility customers.

1. ELECTRICITY RATES.

In Figures 37 to 42, 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.

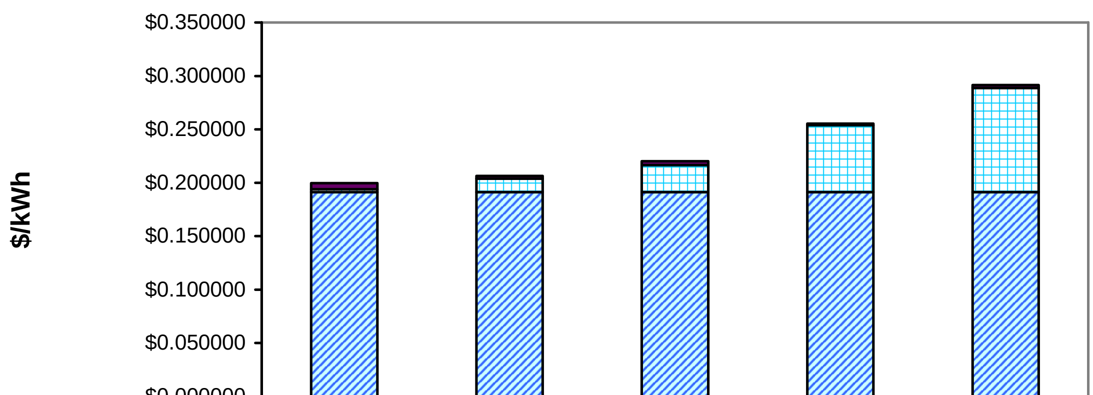
Figure 37
HECO Base Rates, ERAC, and Other Adjustments
2002 - 2006



	Jun '02	Jun '03	Jun '04	Jun '05	Jun '06
Other Adjustments	$0.002005	$0.002271	$0.003042	$0.002755	$0.007652
ERAC	$0.015060	$0.027340	$0.027500	$0.050370	$0.074210
Base Rates	$0.112954	$0.112954	$0.112954	$0.112954	$0.112954
Total	$0.130019	$0.142565	$0.143496	$0.166079	$0.194816

Year

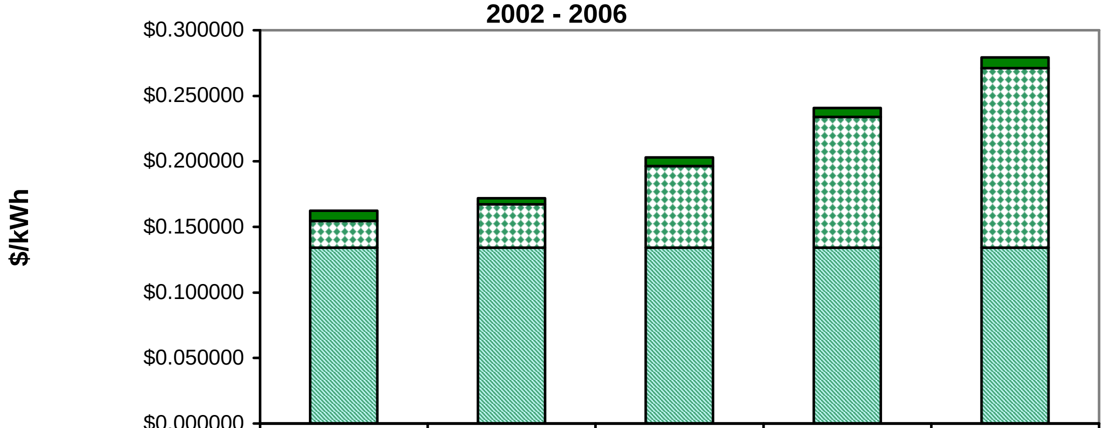
Figure 38
HELCO Base Rates, ERAC, and Other Adjustments
2002 - 2006



	Jun '02	Jun '03	Jun '04	Jun '05	Jun '06
Other Adjustments	$0.005658	$0.002726	$0.003418	$0.001570	$0.002694
ERAC	$0.002450	$0.012460	$0.025300	$0.062440	$0.097320
Base Rates	$0.191370	$0.191370	$0.191370	$0.191370	$0.191370
Total	$0.199478	$0.206556	$0.220088	$0.255380	$0.291384

Year

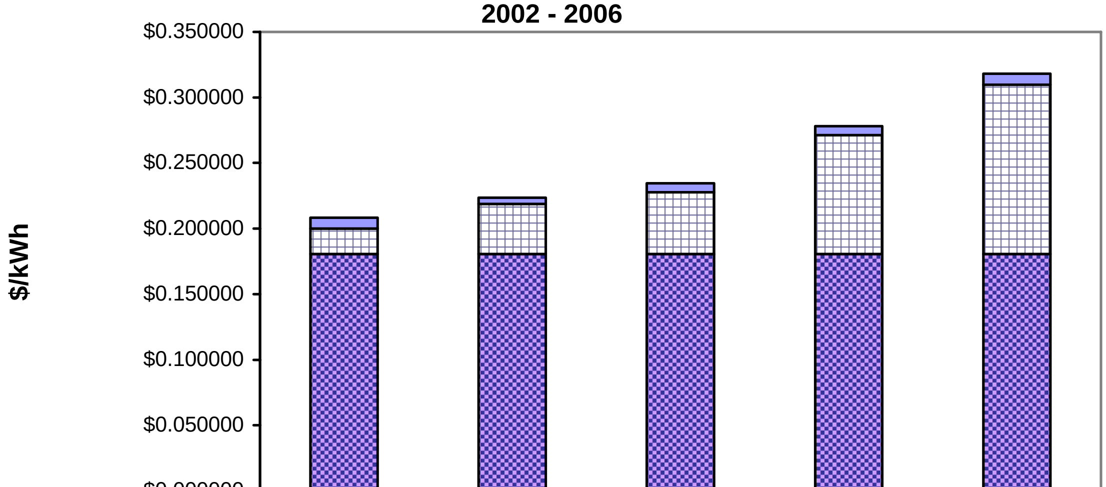
Figure 39
MECO - Maui Division Base Rates, ERAC, and Other Adjustments
2002 - 2006



	Jun '02	Jun '03	Jun '04	Jun '05	Jun '06
Other Adjustments	$0.007689	$0.004636	$0.006737	$0.006752	$0.008311
ERAC	$0.020500	$0.033090	$0.062130	$0.099710	$0.136800
Base Rates	$0.134231	$0.134231	$0.134231	$0.134231	$0.134231
Total	$0.162420	$0.171957	$0.203098	$0.240693	$0.279342

Year

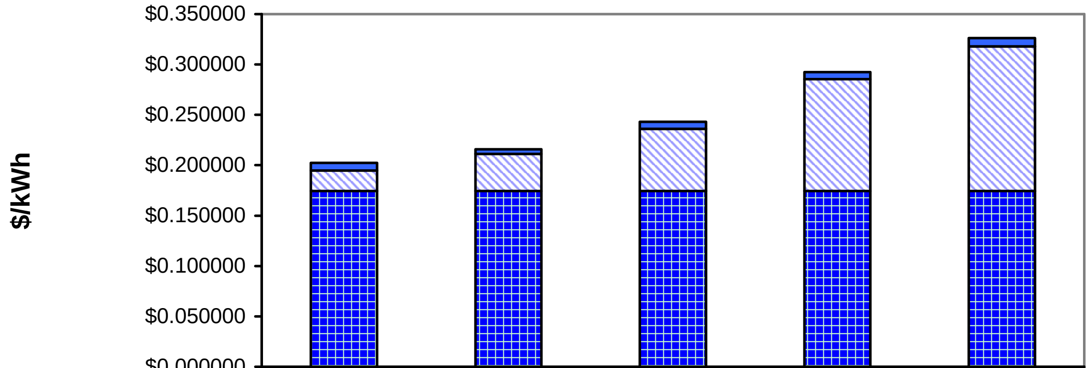
Figure 40
MECO - Lanai Division Base Rates, ERAC, and Other Adjustments
2002 - 2006



	Jun '02	Jun '03	Jun '04	Jun '05	Jun '06
Other Adjustments	$0.008372	$0.004803	$0.006889	$0.006889	$0.008542
ERAC	$0.019390	$0.038190	$0.047100	$0.090640	$0.128950
Base Rates	$0.180648	$0.180648	$0.180648	$0.180648	$0.180648
Total	$0.208410	$0.223641	$0.234637	$0.278177	$0.318140

Year

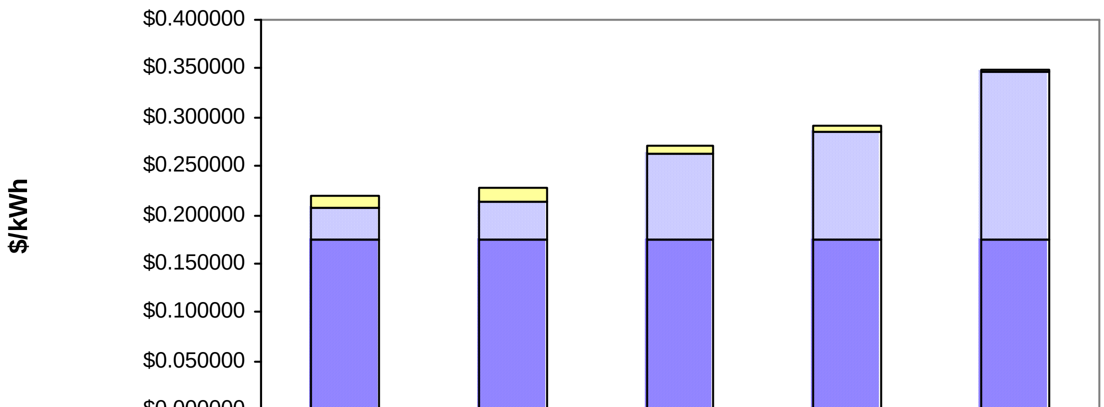
Figure 41
MECO - Molokai Division Base Rates, ERAC, and Other Adjustments
2002 - 2006



	Jun '02	Jun '03	Jun '04	Jun '05	Jun '06
Other Adjustments	$0.007610	$0.004740	$0.006832	$0.006832	$0.008356
ERAC	$0.020410	$0.036830	$0.061900	$0.111240	$0.143600
Base Rates	$0.174383	$0.174383	$0.174383	$0.174383	$0.174383
Total	$0.202403	$0.215953	$0.243115	$0.292455	$0.326339

Year

Figure 42
KIUC/KE Base Rate, ERAC, and Other Adjustments
2002 - 2006

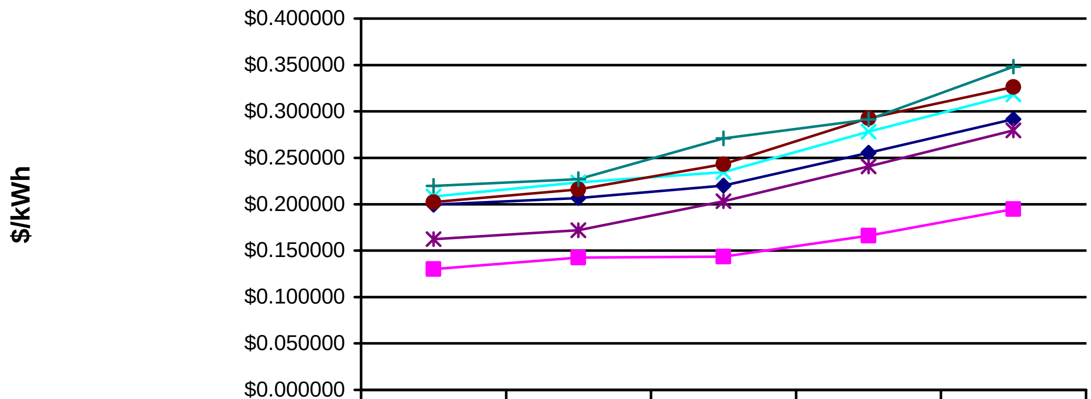


	Jun '02	Jun '03	Jun '04	Jun '05	Jun '06
Other Adjustments	$0.012240	$0.012967	$0.009156	$0.006942	$0.000674
ERAC	$0.032480	$0.038933	$0.086903	$0.109411	$0.172760
Base Rates	$0.174890	$0.174890	$0.174890	$0.174890	$0.174890
Total	$0.219610	$0.226790	$0.270949	$0.291243	$0.348324

Year

Figure 43 compares Effective Energy Rates (combined base rate and ERAC) for residential electricity customers across the State.

Figure 43
Five Year Comparison of Effective Residential Rates



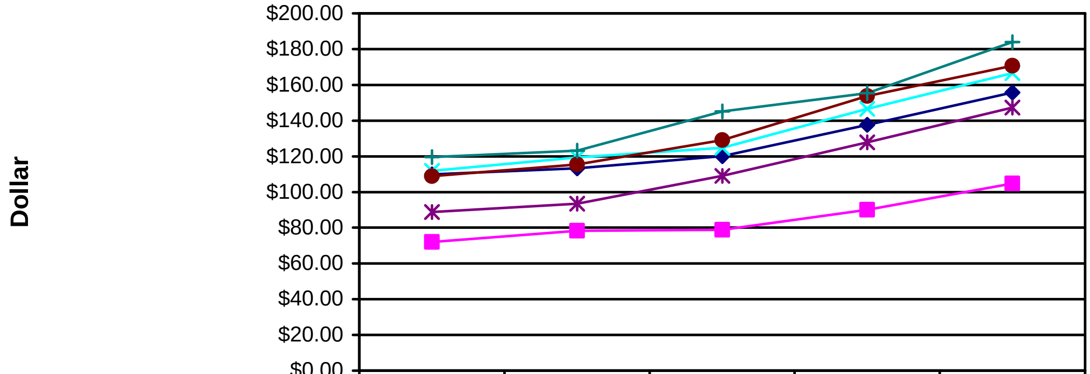
	Jun '02	Jun '03	Jun '04	Jun '05	Jun '06
HELCO	0.199478	0.206556	0.220088	0.255380	0.291384
HECO	0.130019	0.142565	0.143496	0.166079	0.194816
MECO - Lanai Division	0.208410	0.223641	0.234637	0.278177	0.318140
MECO - Maui Division	0.162420	0.171957	0.203098	0.240693	0.279342
MECO - Molokai Division	0.202403	0.215953	0.243115	0.292455	0.326339
KIUC	0.219610	0.226790	0.270949	0.291243	0.348324

Year

Figure 44 compares monthly residential ***bills*** across the State over the past five (5) years, assuming 500 kwh 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 44
Five Year Comparison of Average Monthly Residential Electric Bill Based on 500 kWh



	Jun '02	Jun '03	Jun '04	Jun '05	Jun '06
HELCO	$109.90	$113.28	$120.05	$137.69	$155.70
HECO	$72.02	$78.29	$78.77	$90.04	$104.66
MECO - Lanai Division	$111.85	$119.33	$124.83	$146.59	$166.61
MECO - Maui Division	$88.87	$93.50	$109.06	$127.85	$147.21
MECO - Molokai Division	$108.83	$115.50	$129.08	$153.73	$170.71
KIUC	$119.53	$123.12	$145.20	$155.34	$183.88

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.

Island	Residential Service (1997 – Present)[21]
Oahu	$16.02
Hawaii	$14.57
Maui	$13.90
Kauai	$13.90
Molokai	$12.07
Lanai	$11.01

[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.

[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 state and federal taxes and surcharges, such as interstate subscriber line charge, general excise tax, federal excise tax, and federal universal service fee.

XI. UTILITY COMPANY PERFORMANCE.

A. ELECTRIC UTILITIES EFFICIENCY AND SERVICE QUALITY.

1. HECO 2005 SERVICE QUALITY – NORMALIZED RESULTS.

The following HECO electric utility service quality report was based on or excerpted directly from the 2005 Service Reliability Report submitted to the Commission by HECO. The report covers the 2005 calendar year ("2005"). 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 287,074 in 2004 to 289,972 in 2005 (a 1% increase). The peak 2005 demand for the system was 1,273 MW; however, the highest system peak demand remains at 1,327 MW set on the evening of October 12, 2004.

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 289,972 customers).

This analysis of the system reliability for HECO is for the year 2005. To determine the relative level of reliability, the statistics for four prior years, 2001 through 2004, 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 Public Utilities Commission, titled "Methodology for Determining Reliability Indices for HECO Utilities," dated December 1990. That report indicates that normalization is allowed for "abnormal" situations such as hurricanes, tsunamis, earthquakes, floods, catastrophic equipment failures, and single outages that cascade into a loss of load greater than 10% of the system peak load. These normalizations are made in calculating the reliability indices because good engineering design takes into account safety, reliability, utility industry standards, and economics, and cannot always plan for catastrophic events.

The annual service reliability for 2005 was the third best in the past 5 years in terms of system reliability (SAIF). The reliability results for 2005 and four prior years are shown in the Table of Annual Service Reliability Indices.

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

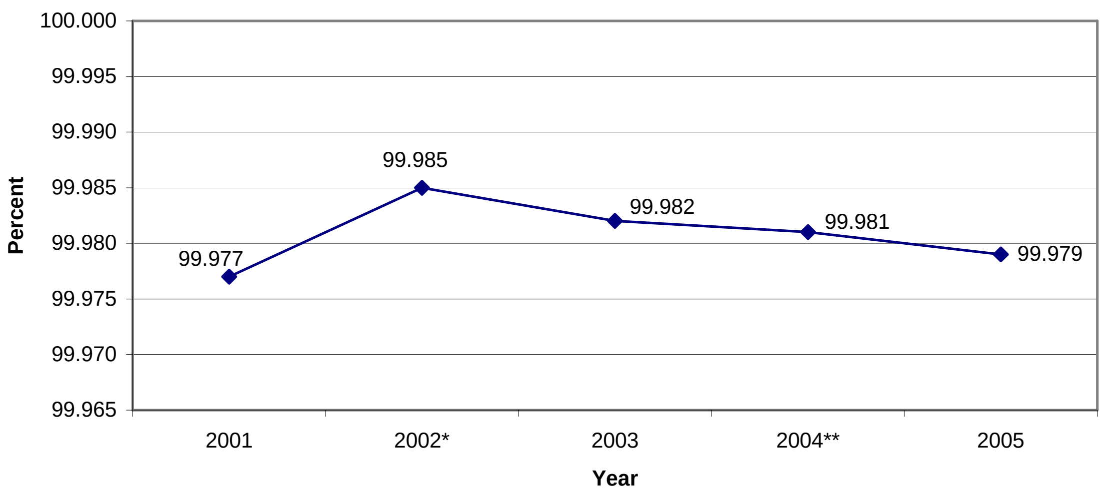
Table of

Annual Service Reliability Indices

	2001	2002*	2003	2004**	2005
Number of Customers	279,534	281,922	284,460	287,074	289,972
Customer Interruptions	492,309	325,332	469,372	364,491	383,410
Customer-Hours Interrupted	553,544	359,810	450,530	480,299	532,156
ASA (Percent)	99.977	99.985	99.982	99.981	99.979
SAIF (Occurrences)	1.761	1.154	1.650	1.270	1.322
CAID (Minutes)	67.46	66.36	57.59	79.06	83.28
SAID (Minutes)	118.81	76.58	95.03	100.39	110.11

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

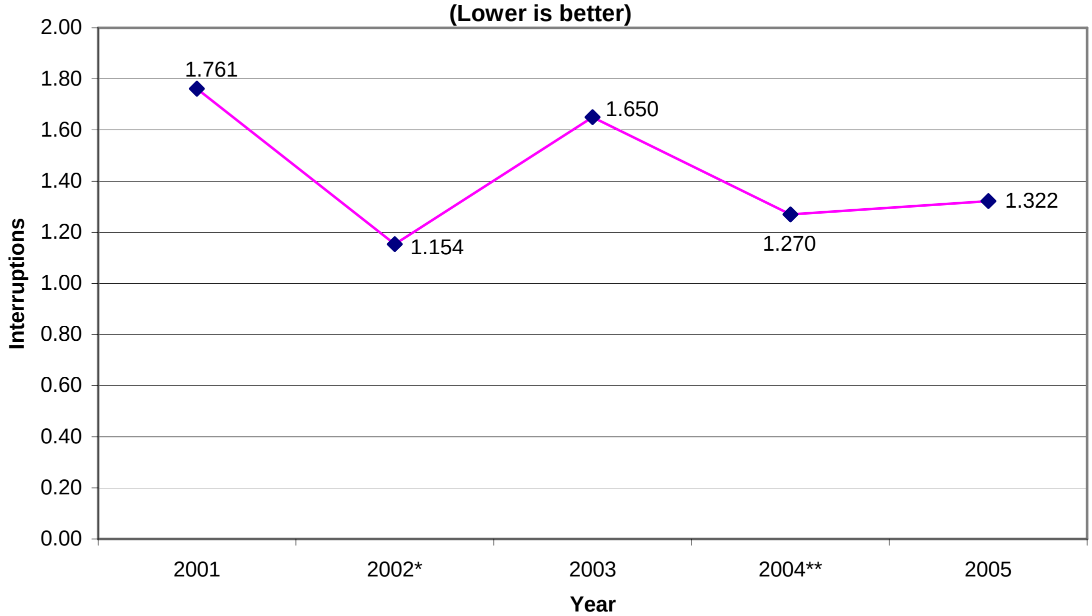
Figure 45
HECO Average Service Availability (ASA)
(Higher is better)



***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 Outage**

Figure 45 above shows that the 2005 Average Service Availability (ASA) index has decreased from 2004 results of 99.981 to 99.979 during 2005. Approximately 18,919 more customers experienced sustained service interruptions during 2005 compared to the previous year. Also, the number of Customer-Hours Interrupted as shown in the Table of Annual Service Reliability Indices was the second highest within the 5 year period.

Figure 46
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 Outage**

Figure 46 above shows the System Average Interruption Frequency (SAIF) indices for the past five years. It shows that in 2005 the SAIF was the third lowest in the past five years at 1.32, or slightly more than one outage per customer for the year. Compared to past history, the 2005 SAIF of 1.32 was significantly below the 10 year 1.47 SAIF average.

The four major weather related categories - High Winds, Trees or Branches,[23] Lightning and Unknown Failures interrupted a total of 96,005 customers during 2005 compared to a total of 107,303 customers during 2004, a decrease of 11%. Also, improvements were noted in the areas of Transformer Failures, Auto Accidents, Unknowns, and Company Personnel Errors over 2004 SAIF results.

One sustained interruption affected 10,000 or more customers during 2005. Approximately 12,402 customers were affected by one interruption for 2005, and contributing 0.04 to the SAIF. The interruption occurred on November 12, 2005 when a Load Shedding "A" Bus PT failed on the 46 kV Waiau Substation bus which caused a cascading outage that eventually led to both the Waiau #3 and Waiau #4 generators going off-line

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

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

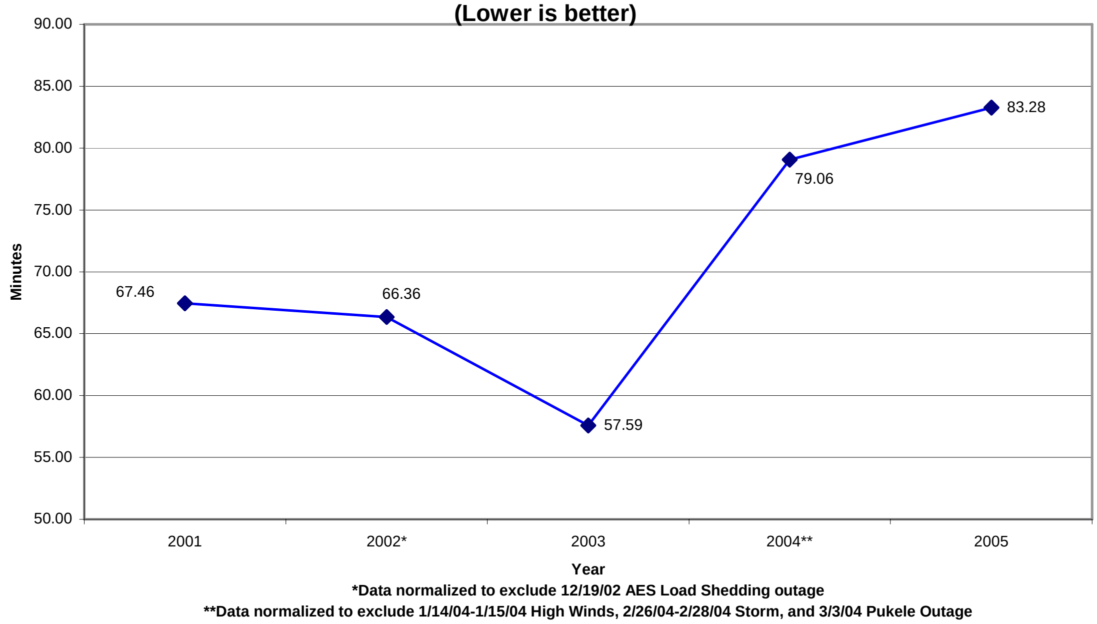
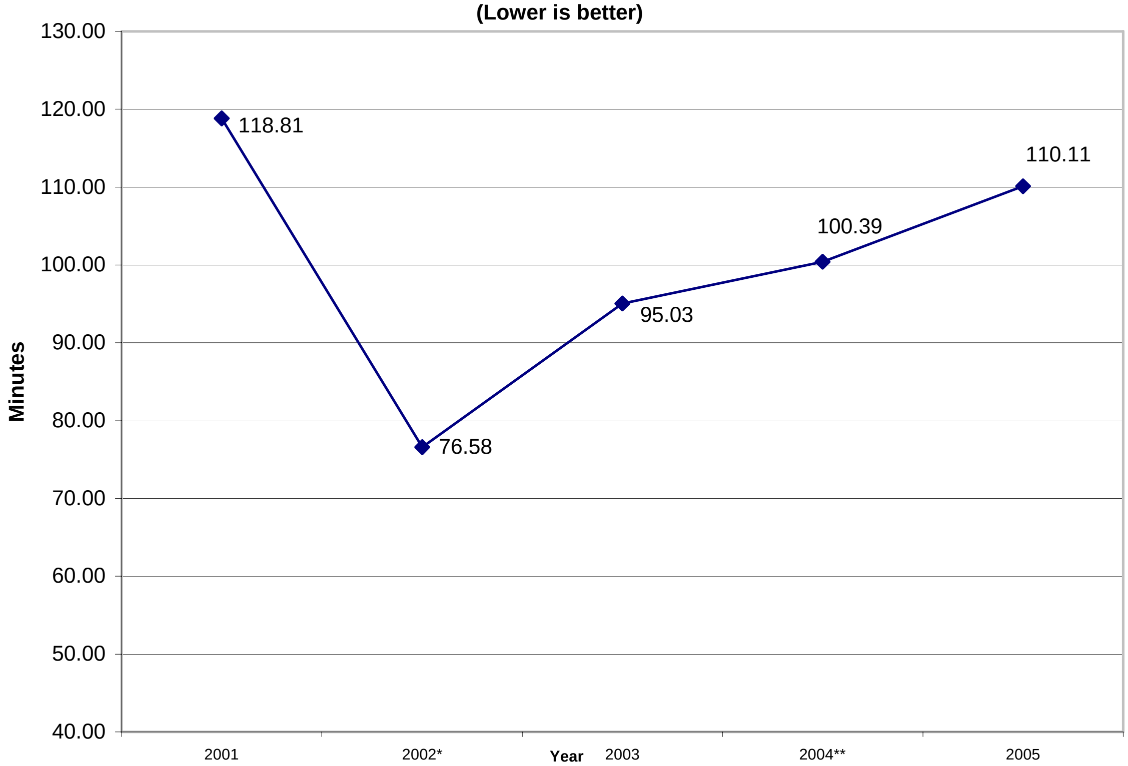


Figure 47 above shows the average duration of a customer's outage (CAID) for 2005 ranked the worst in the past 5 years in minimizing the time a customer was out of service. An increase in outage durations over the 2004 results were noted for Auto Accidents (24 minutes), Faulty Equipment Operations (45 minutes) and Lightning (163 minutes), due to a lightning storm on January 8th and 9th which affected the Wahiawa and Haleiwa areas.

The average electrical outage duration (CAID) for 2005 was 83.28 minutes. Within the last five years, 2005 had the longest (CAID) duration with an increase of nearly 4 minutes over 2004 results.

Figure 48
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 Outage

Figure 48 above shows the System Average Interruption Duration (SAID) indices for the past five years. It shows that the 2005 SAID of 110.11 minutes was the second highest during the last five years. The SAID is the composite of both the SAIF and CAID indices and produces a broader benchmark of system reliability by combining both the duration and the number of customer interruptions during a given period of time. The higher SAID result was due to an increase in the CAID statistics as noted previously.

2. MECO 2005 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 2005 submitted to the Commission by MECO. The report covers the 2005 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 61,846 in 2004 to 63,103 in 2005 (a 2.03% increase). The peak 2005 demand for the system was 206.5 MW (gross) that occurred on August 8, 2005. The peak 2005 demand was lower than the 210.9 MW (gross) on October 11, 2004 (a decrease of 2.09%) primarily due to cooler and less humid weather. The peak 2005 demand was higher than the peak 2003 demand of 202.0 MW (an increase of 2.23%).

The system interruption summary for the past year and the system reliability indices for the four prior years are presented to depict the quality of service to the electrical energy consumer.

The Average Service Availability Index (ASA), the System Average Interruption Frequency Index (SAIF), the Customer Average Interruption Duration Index (CAID), and the System Average Interruption Duration Index (SAID) are indicators of service reliability. These indices measure reliability in terms of the overall availability of electrical service (ASA), the frequency or number of times MECO's customers experience an outage during the year (SAIF), and the average length of time an interrupted customer is out of power (CAID). 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 MECO's total customer base (in this case 63,103 customers).

The reliability indices are calculated using the data from all sustained[24] system outages except customer maintenance outages. MECO has not normalized any data for 2001, 2002, and 2003. The 2004 reliability indices for MECO were normalized to exclude the effects of the January 14th Kona Storm (when extremely high winds were experienced on parts of Maui) in accordance with the guidelines specified in the report on reliability that was prepared for the Public Utilities Commission, titled "Methodology for Determining Reliability Indices for HECO Utilities," dated December 1990. That report indicates that normalization is allowed for "abnormal" situations such as hurricanes, tsunamis, earthquakes, floods, catastrophic equipment failures, and a single outage that cascades into a loss of load that is greater than 10% of the system peak load. These normalizations are made in calculating the reliability indices, because good engineering design takes into account safety, reliability, utility industry standards, and economics, and cannot always plan for catastrophic events.

Graphs of the ASA (Figure 49), SAIF (Figure 50), CAID (Figure 51), and SAID (Figure 52) for the five years are included.

The 2005 service reliability results are unnormalized. Those results, along with the previous unnormalized years 2001 to 2003 and the normalized indices for 2004, are shown in the table "Annual Service Reliability Indices". Figures 49-52 contain the same data shown in graphical form.

MECO Table of Annual Service Reliability Indices

	2001	2002	2003	2004	2005
Number of Customers	58,308	59,410	60,651	61,846	63,103
Customer Hrs. Interrupted	50,665	29,201	48,567	77,122	126,010
Customer-Interruptions	37,691	34,388	45,446	99,424	162,827
ASA (Percent)	99.9901	99.9943	99.9908	99.9858	99.9772
SAIF (Occurrence)	0.646	0.579	0.749	1.608	2.580
CAID (Minutes)	80.65	50.95	64.12	46.54	46.43
SAID (Minutes)	52.14	29.49	48.05	74.82	119.81

[24] An Interruption of electrical service of 1 minute or longer

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

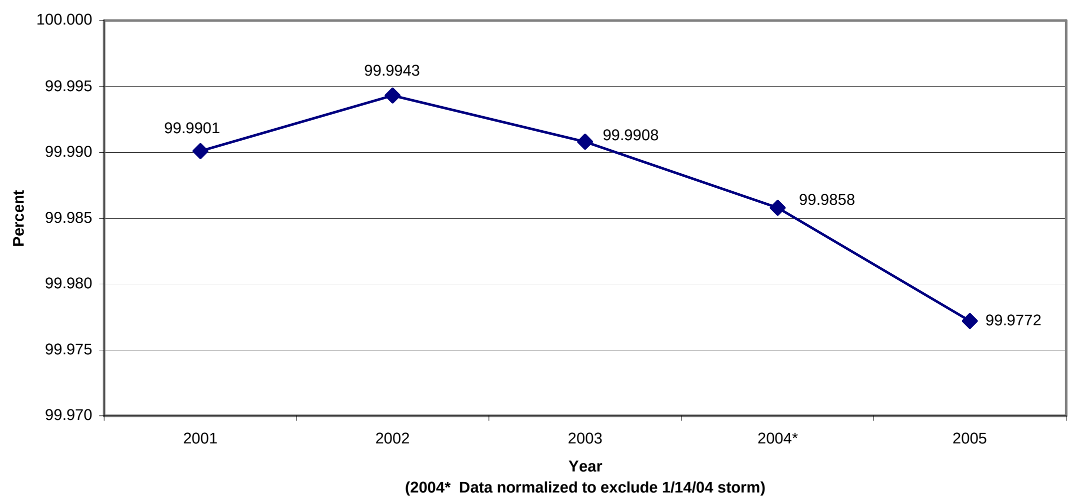


Figure 49 above shows that the 2005 Average Service Availability (ASA) index has decreased from the 2004 results of 99.9858 to 99.9772 during 2005. Approximately 64% more customers experienced sustained service interruptions during 2005 compared to the previous year. The number of Customer-Hours Interrupted as depicted in the Table of Annual Service Reliability Indices was the highest within the five year period.

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

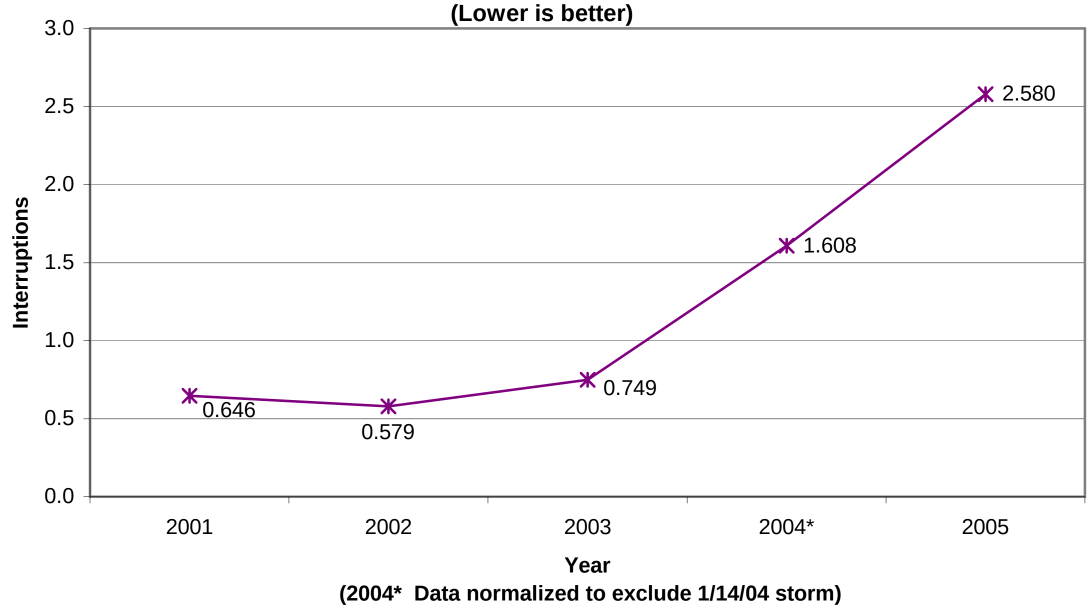
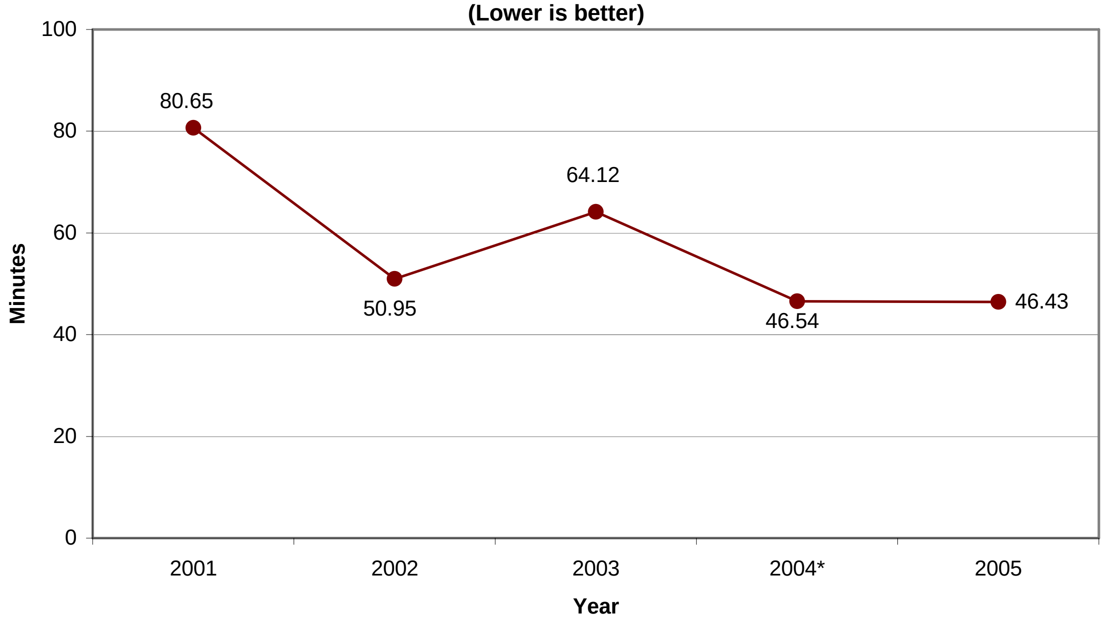


Figure 50 above shows the System Average Interruption Frequency (SAIF) indices for the past five years. It shows that in 2005 the SAIF was the highest in the past five years at 2.58, or slightly less than 3 outages per customer for the year.

An increase in weather related outages contributed to a higher SAIF for 2005. The major weather related categories – High Winds, Trees[25] or Branches in Lines, Lightning, Flashover and Unknown Failures affected a total of 55,660 customers in 2005 and accounted for 35% of the total number of Interruptions for 2005.

Equipment failure contributed to 32% of the 2005 SAIF Indices, affecting 51,769 customers, primarily due to several loadshed events which were attributed to the equipment failure category. The most significant occurred on May 28, 2005, when two Combustion Turbine Generators at Maalaea Power Plant tripped simultaneously while two other units were off-line for preventative maintenance, resulting in a system wide loadshed that affected approximately 15,456 customers.

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

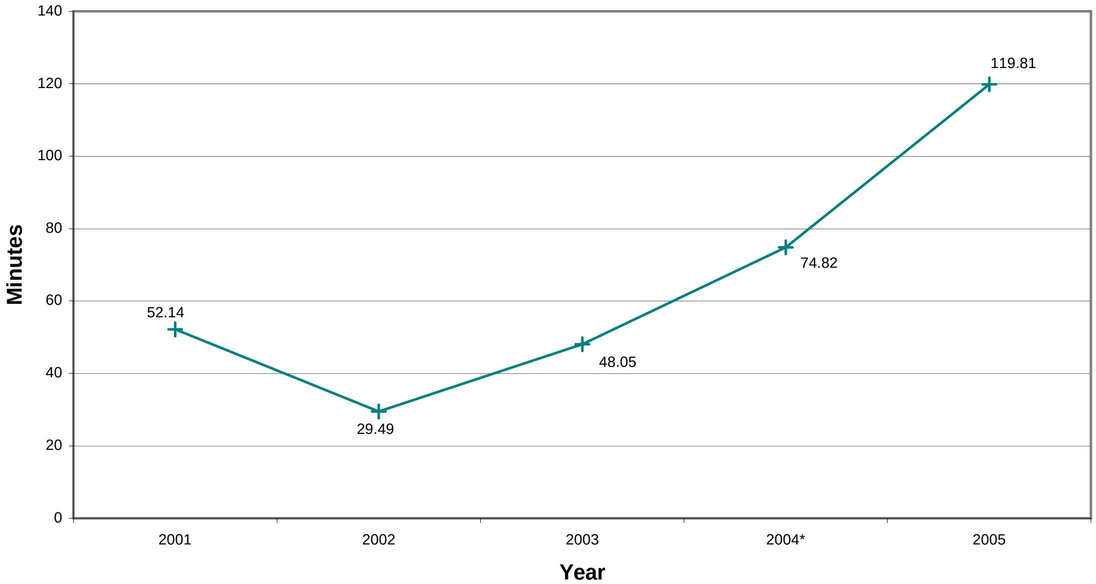


Note: 2004* Data normalized to exclude 1/14/04 storm

Figure 51 above shows the Customer Average Interruption Duration (CAID) indices for the past five years. The average electrical outage duration of 46.43 minutes per customer for 2005 is a record best for MECO. A faster response time within the last five years has reduced the Customers' average outage duration by 34 minutes.

[25] MECO Tree Trimming Program has helped to reduce tree-related outages.

Figure 52
MECO System Average Interruption Duration (SAID)
(Lower is better)



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

Figure 52 above shows the System Average Interruption Duration (SAID) for the past five years. It shows that the 2005 SAID of 119.81 minutes was the highest in the past five years. The SAID is the composite of both the SAIF and CAID indices and produces a broader benchmark of system reliability by combining both the duration and the number of customer interruptions during a given period of time. The higher SAID result was due to an increase in the SAIF statistics as noted previously.

3. HELCO 2005 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 2005 submitted to the Commission by HELCO. The report covers the 2005 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 2005 was 72,513, an increase of 3.4% over 2004. In 2005, a total of 246,557 customer interruptions and a total of 239,935 customer hours of interruptions were recorded. The System Average Interruption Frequency (SAIF) index was 3.400 and the Customer Average Interruption Duration (CAID) was 58.39 minutes.

The following were the leading causes of customer interruptions in 2005:

1. **Faulty equipment operations**. There were 70,209 customer interruptions, 65,986 of those were related to HELCO generation.
2. **Failure of customer equipment**. There were 36,998 customer interruptions, 36,956 of those were related to non-HELCO Generation.
3. **Auto accident**. There were 29,773 customer interruptions, with 57,127 customer hours of interruption. The following table shows auto accidents that caused more than 1,000 hours of customer interruption.

There were 106,465 generation related customer interruptions in 2005, of which 69,509 were related to HELCO Generation sources and 36,956 were related to non-HELCO Generation sources. In 2005 Hamakua Energy Partners (HEP) and Puna Geothermal Ventures (PGV) were the two non-HELCO generation sources that caused customer interruptions.

In 2005 HELCO normalized data per guidelines specified in a special report on reliability prepared for the Public Utilities Commission. This report, "Methodology for Determining Reliability Indices for 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 2005 events listed below:

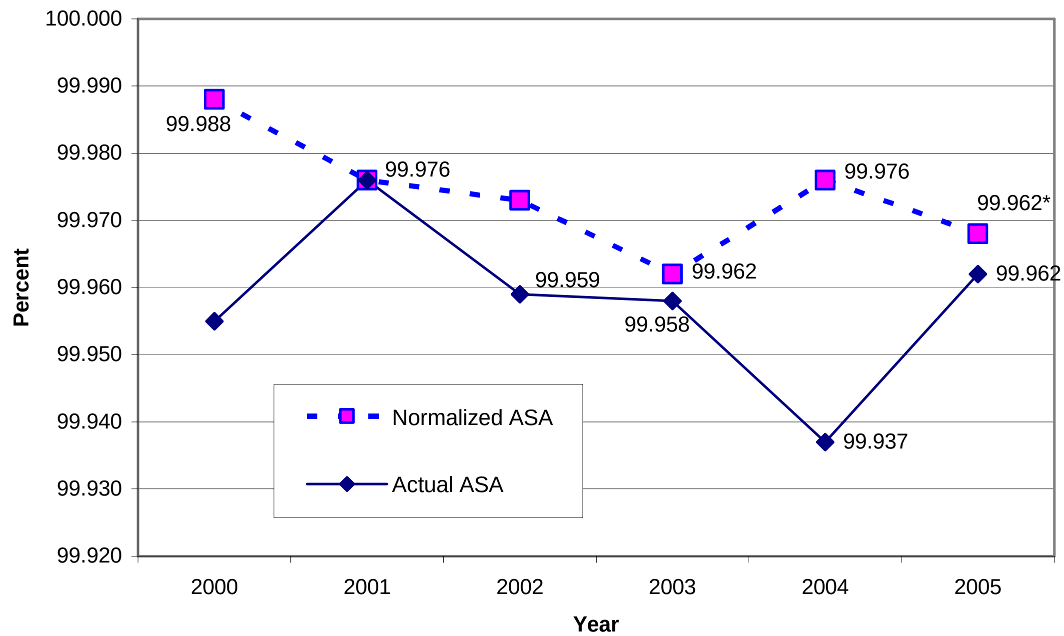
- Underfrequency Loadshedding events on:
  - January 16 due to HEP affecting 17,703 customers (3,417 cust hrs)
  - December 7 due to PGV and HELCO's Hill 6, Puna Steam and CT-5 affecting 42,976 customers (12,765 cust hrs)
- Severe Weather events on:
  - December 7 due to lightning affecting 8,484 customers (1,890 cust hrs)
  - December 18 due to windy conditions affecting 5,053 customers (11,897 cust hrs)
- Equipment failure on:
  - August 24 due to failed transmission line insulator affecting 18,362 customers (9,612 cust hrs)

HELCO Table of Annual Service Reliability Indices

	2000	2001	2002	2003	2004	2005
Number of Customers	61,796	63,207	64,660	66,034	70,124	72,513
Normalized:*						
Customer Interruptions	95,604	278,507	195,614	213,873	163,745	153,982
Customer Hours Interrupted	68,562	137,659	154,064	154,064	150,905	200,374
ASA (Percent)	99.988	99.976	99.973	99.962	99.976	99.968
SAIF (Occurrence)	1.513	4.307	2.962	3.151	2.335	2.124
CAID (Minutes)	43.03	29.66	47.26	63.24	55.30	78.08
Unnormalized:						
Customer Interruptions	281,818	278,507	339,184	289,027	417,462	246,557
Customer Hours Interrupted	250,115	137,659	238,789	251,280	388,891	239,935
ASA (Percent)	99.955	99.976	99.959	99.958	99.937	99.962
SAIF (Occurrence)	4.459	4.307	5.137	4.258	5.953	3.400
CAID (Minutes)	53.25	29.66	42.24	52.16	55.89	58.39

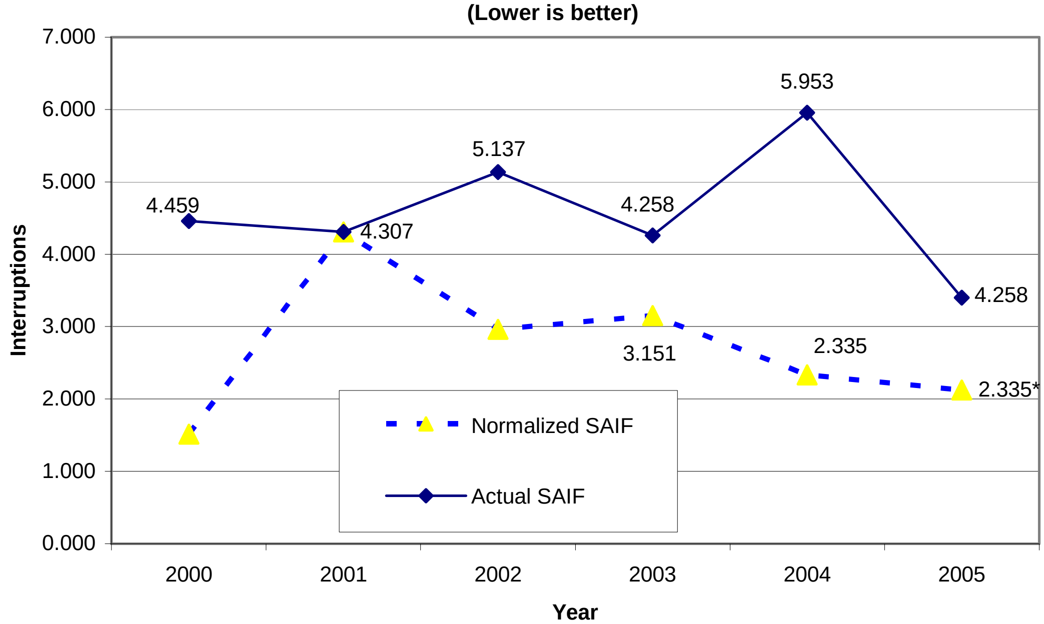
*Note: Data normalized to account for "abnormal situations.

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



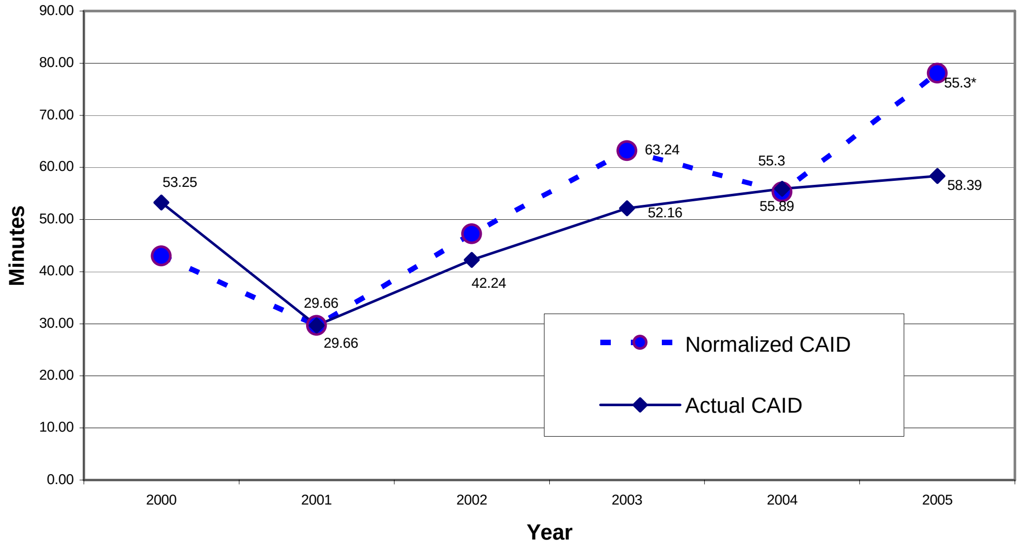
(*Data normalized to account for "abnormal" situations)

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



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

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



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

4. KAUAI ISLAND UTILITY COOPERATIVE ("KIUC") 2005 SERVICE QUALITY – UNNORMALIZED RESULTS.

The KIUC electric utility service quality report was based on or excerpted directly from KIUC's Monthly Interruption Summary Report submitted to the Commission. The report covers the 2005 calendar year ("2005"). 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 by 1.62%, from 33,232 in 2004 to 33,772 in 2005. The 2005 system peak demand of 75.130 MW was recorded on the evening of November 22, 2005. The 2005 system peak demand decreased by 1.62 MW or 2.11% over 2004's peak of 76.750 MW, set during the evening of December 30, 2004.

KIUC has not normalized any of its data for the period 2001 through 2005. The reliability indices are calculated using the data from all system interruptions except scheduled interruptions for maintenance.

The ASA index of 99.9762% in 2005 is 0.0114% higher than 2004's 99.9648%.

The SAIF index of 4.89 occurrences in 2005 has declined by 29.94% from 6.98 occurrences, in 2004.

The CAID index of 25.63 minutes in 2005 is 2.41% lower than 2004's 26.26 minutes.

The SAID index of 124.92 minutes is 32.45% % lower than 2004's 184.92 minutes.

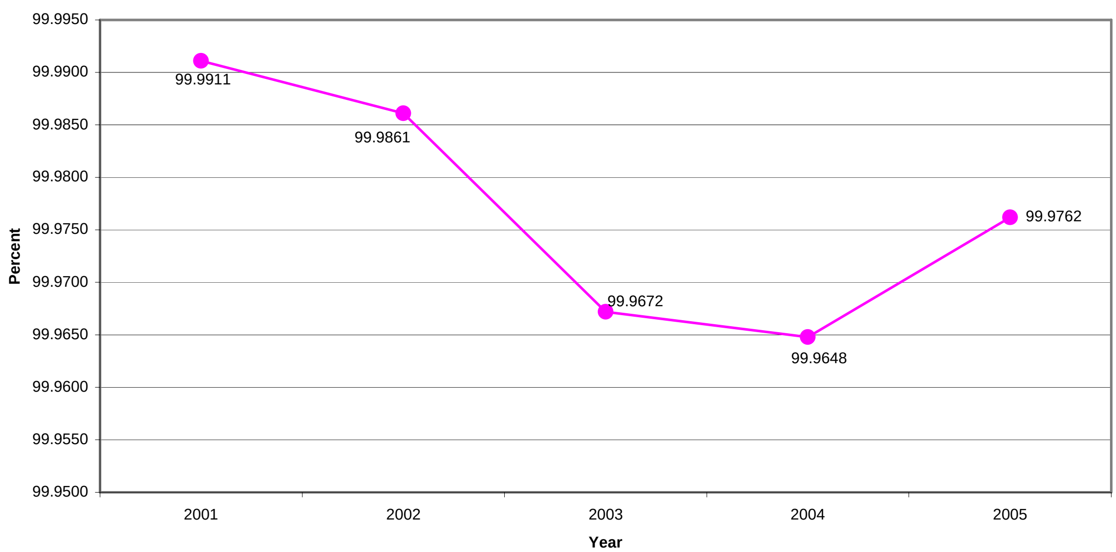
Forty (40) interruptions caused 275,680 kW of losses for KIUC in 2005. The 40 interruptions caused kW losses as follows: 18-transmission and distribution ("T&D") - 72,830 kW (26.42%); 12-generation - 85,460 kW (31.0%); and 10-external[26] - 117,390 kWs (42.58%). It is noted that 42.58% of total kW losses for the year caused by external interruptions were exaggerated by the Kapaia Power Station's ("KPS's") 26.4 MW combustion turbine tripping offline due to its inability to withstand transient instability, or the inability of the electric system to continue a steady-state operating condition following a transient condition, to include but not limited to, lightning strikes or vehicular accidents on the transmission or distribution system.

The unnormalized reliability results for 2001, 2002, 2003, 2004 and 2005 are shown in the table "KIUC Annual Service Reliability Indices." Figures 56 to 59 contain the data discussed above in graphical form.

KIUC Annual Service Reliability Indices

	2001	**2002**	**2003**	**2004**	**2005**
Number of Customers	30,965	31,487	32,069	33,232	33,772
Customer Interruptions	26	32	43	39	40
Customer Hours Interrupted	24,013	38,235	92,646	100,874	70,186
ASA (Per cent)	99.9911	99.9861	99.9672	99.9648	99.9762
SAIF (Occurrences)	2.61	5.03	7.73	6.98	4.89
CAID (Minutes)	17.86	14.49	22.43	26.26	25.63
SAID (Minutes)	46.62	72.89	173.42	184.92	124.92

Figure 56
KIUC Average Service Availability (ASA)
(Higher is better)



[26] External interruptions, among others, include wind and electrical storms, motor vehicle and contractor caused interruptions.

Figure 57
KIUC System Average Interruption Frequency (SAIF)
(Lower is better)

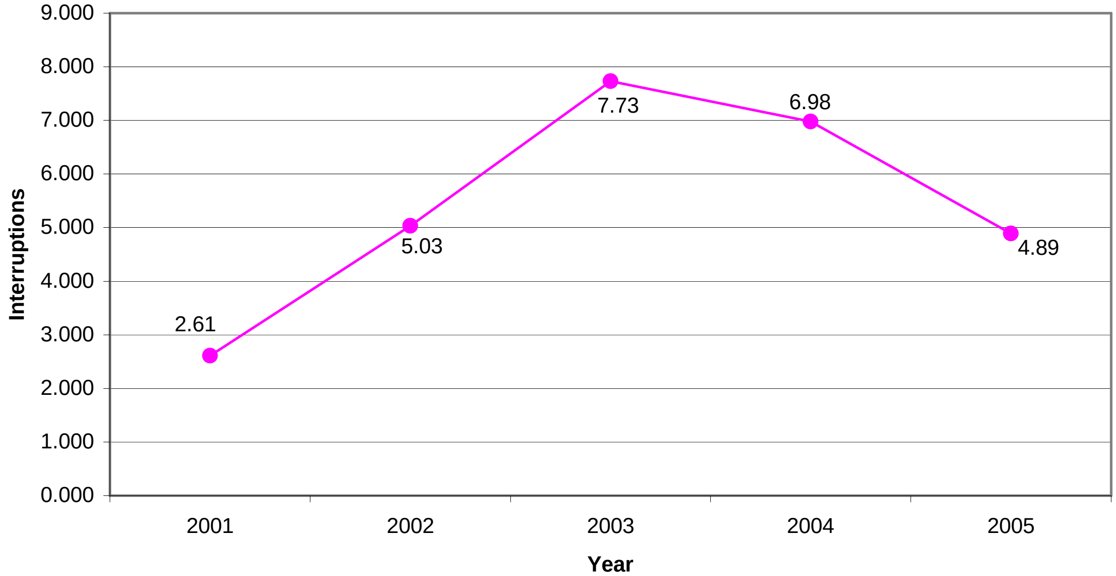


Figure 58
KIUC Customer Average Interruption Duration (CAID)
(Lower is better)

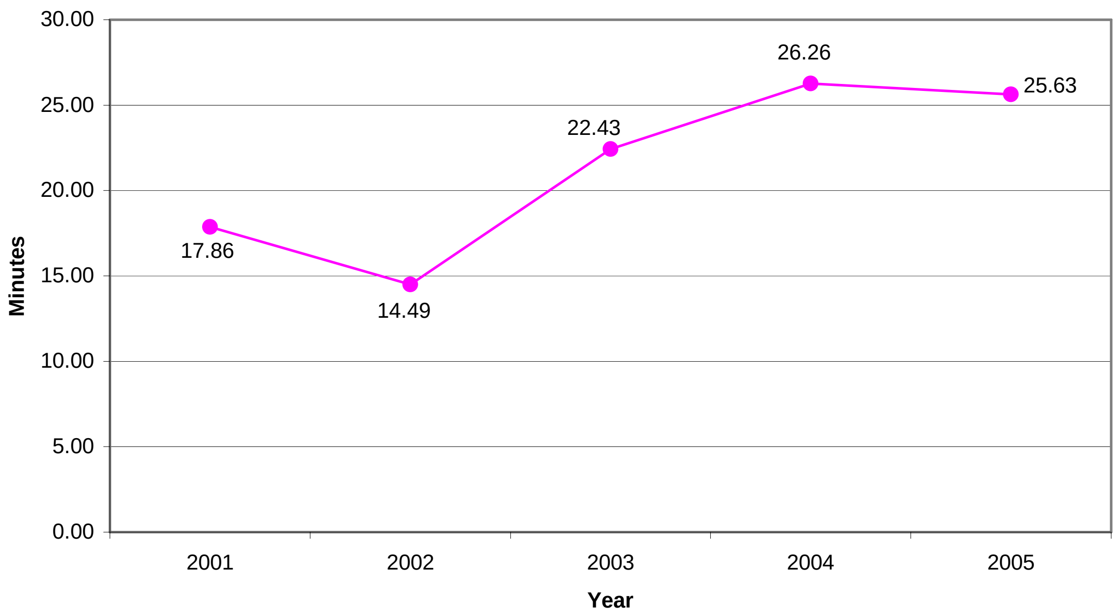
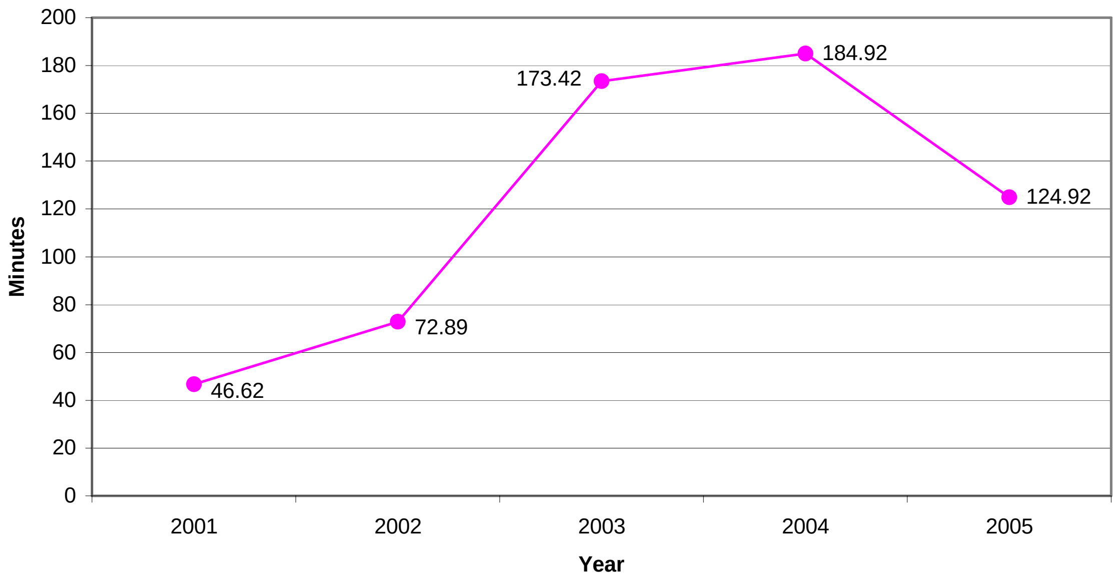


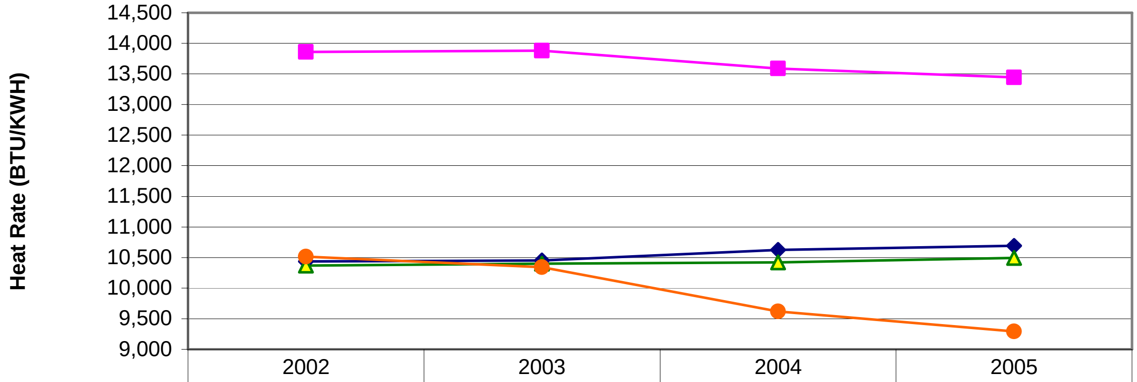
Figure 59
KIUC System Average Interruption Duration (SAID)
(Lower is better)



5. ELECTRIC UTILITIES GENERATING EFFICIENCY RESULTS.

The following provides the annual heat rate values for HECO, HELCO, MECO, and KIUC for the past four (4) years. Heat rates are measured in btu/kWh, and equate to the amount of energy consumed by the generating units (in btu) per kWh of electricity produced. The heat rates provide a measure of the generating efficiency of the utility, with a lower value indicative of greater generating efficiency. The heat rate is generally dependent on the age and type of generating units used by a given utility. Figure 60 shows the 2002, 2003, 2004 and 2005 heat rates for the electric utilities.

Figure 60
Electric Utility Heat Rates



	2002	2003	2004	2005
HECO	10,436	10,452	10,621	10,690
HELCO	13,861	13,881	13,591	13,443
MECO	10,367	10,400	10,418	10,493
KIUC	10,515	10,340	9,618	9,293

Year

B. RENEWABLE PORTFOLIO STANDARDS.

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

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

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

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

In 2004, the Legislature passed Act 95, SLH 2004 ("Act 95"), which amended HRS Sections 269-27.2, 269-91, 269-92, and added HRS Section 269-95. Act 95 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 renewable energy electricity sales that an electric utility must achieve in 2010 from nine (9) to ten (10) per cent and established new milestones for

2015 and 2020 of fifteen (15) and twenty (20) per cent, respectively. The Commission is required to determine if an electric utility company is unable to meet the renewable portfolio standards in a cost-effective manner, or as a result of circumstances beyond its control which could not have been reasonably anticipated or ameliorated

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.

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

"Biofuels" means liquid or gaseous fuels produced from organic sources such as biomass crops, agricultural residues and oil crops, such as palm oil, canola oil, soybean oil, waste cooking oil, grease, and food wastes, animal residues and wastes, and sewage and landfill wastes.

"Renewable electrical energy" means: "(1) Electric energy generated using renewable energy as the source; and (2) Electrical energy savings brought about by the use of renewable displacement or off-set technologies, including solar water heating, seawater air-conditioning district cooling systems, solar air-conditioning, and customer-sited, grid-connected renewable energy systems; or (3) Electrical energy savings brought about by the use of energy efficiency technologies, including heat pump water heating, ice storage, ratepayer-funded energy efficiency programs, and 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."

"Renewable energy" was redefined to mean energy generated or produced by wind, the sun, falling water, biogas, including landfill and sewage-based digester gas, geothermal, ocean water, currents and waves, biomass, including biomass crops, agricultural and animal residues and wastes, and municipal solid waste, biofuels, and hydrogen produced from renewable energy sources.

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

(1) Ten per cent of its net electricity sales by December 31, 2010;

(2) Fifteen per cent of its net electricity sales by December 31, 2015; and

(3) Twenty per cent of its net electricity sales by December 31, 2020.

Act 162 further amended HRS Section 269-92 by authorizing the Commission to "establish standards for each utility that prescribe what portion of the renewable portfolio standards shall be met by specific types of renewable electrical energy resources", and that "if the Commission determines that an electric utility company failed to meet the renewable portfolio standard, after a hearing in accordance with chapter 91, the utility shall be subject to penalties to be established by the public utilities commission; provided that if the commission determines that the electric utility company is unable to meet the renewable portfolio standards due to reasons beyond the reasonable control of an electric utility, as set forth in subsection (d), the commission, in its discretion, may waive in whole or in part any otherwise applicable penalties."

Act 162 also amended the language contained in Act 95 relating to the date whereby the Commission shall develop and implement a utility ratemaking structure, which may include performance-based ratemaking. The date was extended from December 31, 2006 to December 31, 2007.

As of December 31, 2005, all electric utility companies in the State reached and exceeded the 8 per cent target set for 2005. Accordingly, no waivers or extensions were necessary for these targets.

Specifically, HECO, HELCO and MECO, in the aggregate, reported on October 12, 2006 that they have reached a consolidated renewable energy penetration of 11.7 per cent, as of December 31, 2005, which was up from 11.4 per cent in 2004. The increase in aggregate RPS percentage between 2004 and 2005 was primarily due to flat sales growth coupled with: (1) increased energy savings from demand-side management programs; and (2) an increase in energy savings from Solar Water Heater participation. Also, HELCO received 10 GWh of additional generation from Puna Geothermal Venture in 2005 compared to 2004. This was offset by a reduction in generation from H-POWER (decrease of 33 GWh).

Examples of recently implemented renewable energy projects that will impact HECO, HELCO, and MECO's aggregate RPS percentage from 2006 are the Kaheawa Wind Farm on Maui and the Hawi Renewable Development Wind Farm on the island of Hawaii. The 30-MW Kaheawa Wind Farm, which provides as-available energy from Kaheawa Pastures, Maui, became operational in June 2006. Discussions are currently underway between MECO and Kaheawa Wind Power, LLC for a possible expansion of the wind farm by 27 MW.

The 10.56-MW Hawi Renewable Development Wind Farm provides as-available energy from Hawi, Hawaii. Construction of the wind farm and interconnection facilities was completed in February 2006. The wind farm completed acceptance testing and became operational in May 2006.

The remaining electric utility company, KIUC, reported on March 30, 2006 that renewable energy resources supplied 13.9 per cent of KIUC's net electricity sales, as of December 31, 2005, an increase from 2004's 13.2 per cent.[27] This percentage was achieved through KIUC's own renewable generation (hydro) and non-firm (100 per cent renewable) power purchases from Gay & Robinson (bagasse), Kauai Coffee (hydro) and Agribusiness Development Corp. (hydro). Also reflected in the percentage is the amount of energy conserved through use of solar water hearing, photovoltaic systems and demand-side management measures.

C. TELECOMMUNICATIONS UTILITIES EFFICIENCY AND SERVICE QUALITY.

The following service quality data was provided by Hawaiian Telcom in its monthly reports to the Commission as required under HAR Sections 6-80-93 through -98. Figures 61 to 72 show Hawaiian Telcom's service quality results for the last three (3) fiscal years; i.e., from July 2003 through June 2006.

In many of the figures, however, the service quality results for the months of April, May and June 2006 were not provided, due to issues related to the April 1, 2006 cutover of Hawaiian Telcom's back office systems from Verizon Communications to its own newly-created systems. Largely because of impacts from this cutover, Hawaiian Telcom also experienced very significant slow downs in call answer and handling times in its customer contact centers and errors in its billing.[28] As a result, the Commission has been closely monitoring Hawaiian Telcom's cutover process, systems problems and actions to rectify the problems, while also helping to address customer concerns and complaints.[29]

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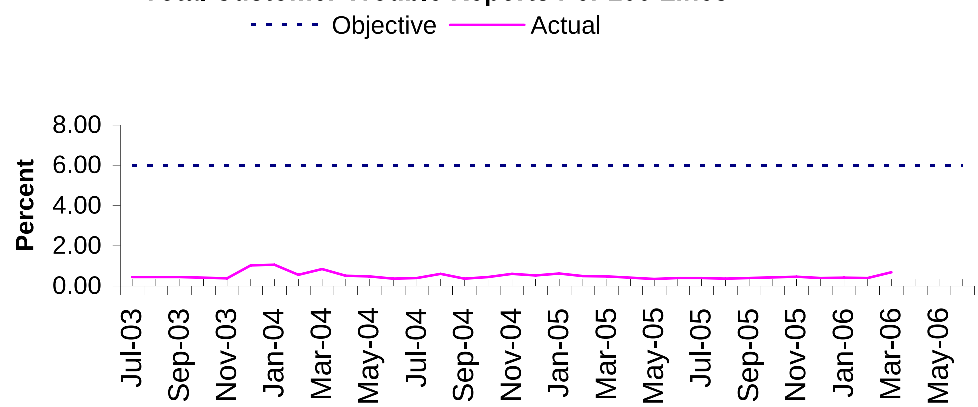
[27] KIUC's Renewable Portfolio Standards Status Report for year ending December 31, 2005, dated March 30, 2006.

[28] However, the operations of Hawaiian Telcom's network are reported to have functioned at or better than standards since the cutover.

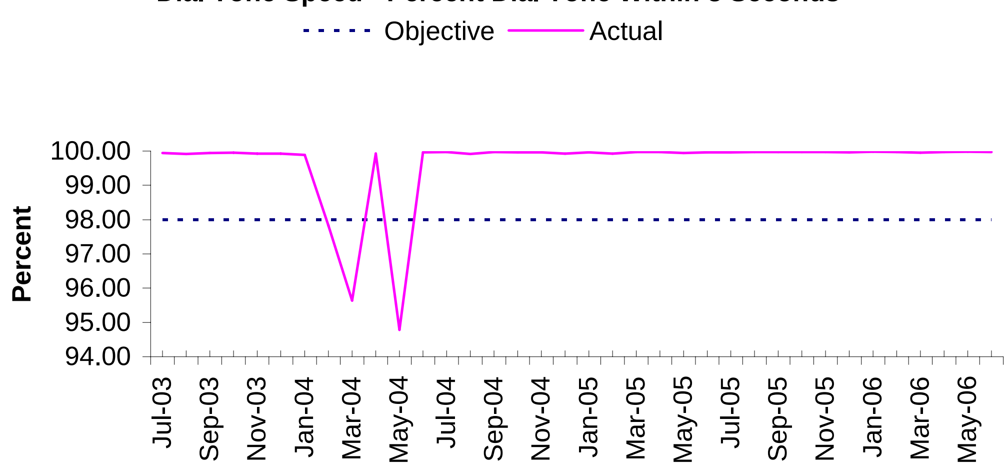
[29] As further discussed below, the Commission opened a proceeding in October 2006 to examine Hawaiian Telcom's service quality and performance levels and standards following its cutover to its new back office systems, including the slow downs in call answer and handling times reflected in Hawaiian Telcom's service quality results.

Figure 61
Total Customer Trouble Reports Per 100 Lines



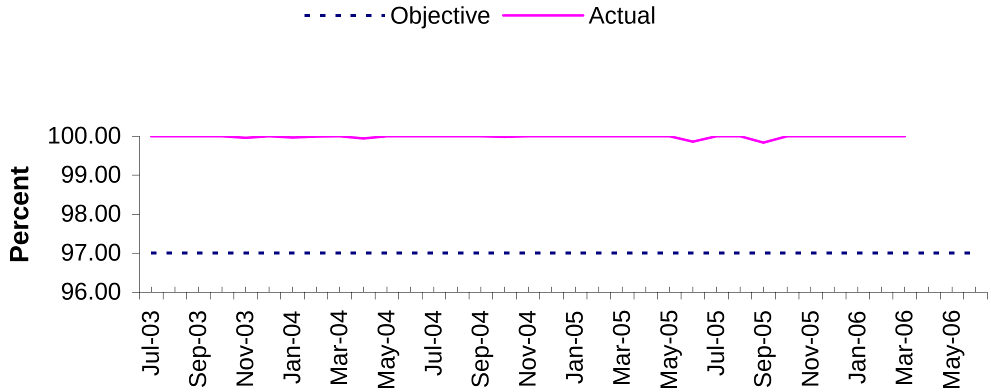
Total Customer Trouble Reports Per 100 Lines - This performance area measures customer network trouble reports per 100 access lines. It is calculated by taking the total customer network trouble reports divided by total access lines times 100. As shown in Figure 61, Hawaiian Telcom met the objective for this performance standard through March 2006, the last month for which results were filed.

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



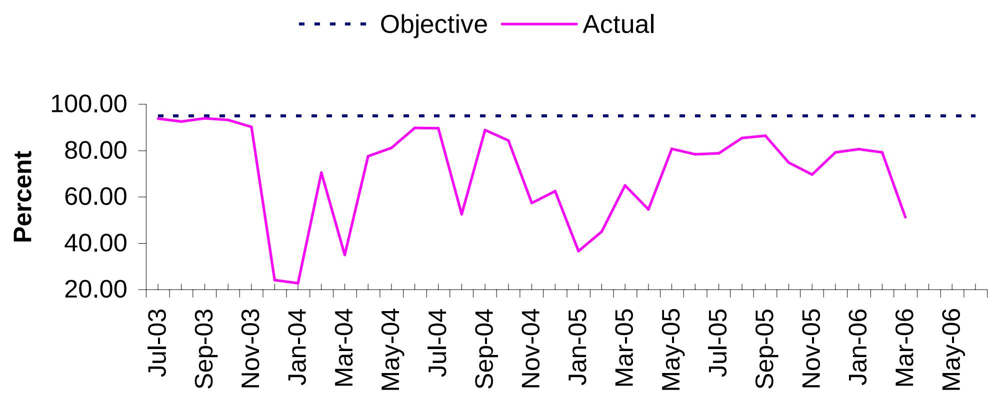
Dial Tone Speed - % Dial Tone Within 3 Seconds - This performance area measures the percentage of calls receiving dial tone within three (3) seconds. It is calculated by taking the number of calls in which dial tone was provided within three (3) seconds divided by the total number of calls times 100. Figure 62 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 and was unaffected by the back office systems cutover on April 1, 2006.

Figure 63
Dial Service Results - Percent Completion



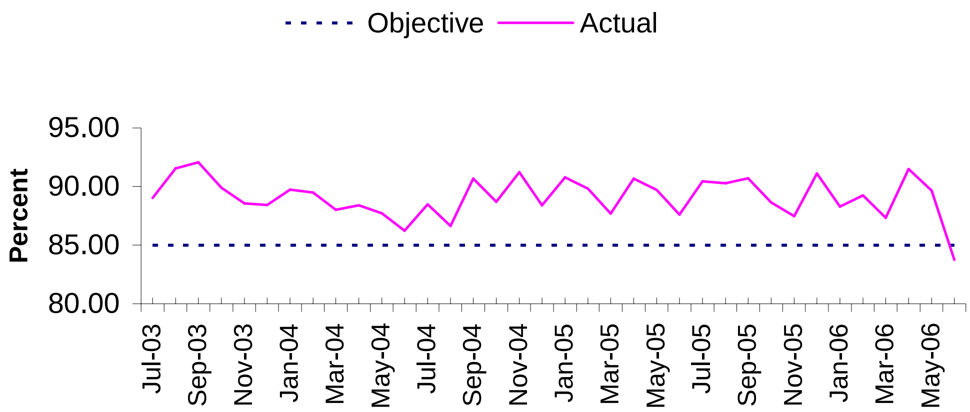
Dial Service Results - % Completion - This performance area measures call completion performance on interoffice trunk groups. It is calculated by taking the number of unblocked calls on interoffice trunk groups divided by the total number of attempts on interoffice trunk groups times 100. As shown in Figure 63, Hawaiian Telcom met its objective for this performance standard through March 2006, the last month for which results were filed.

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



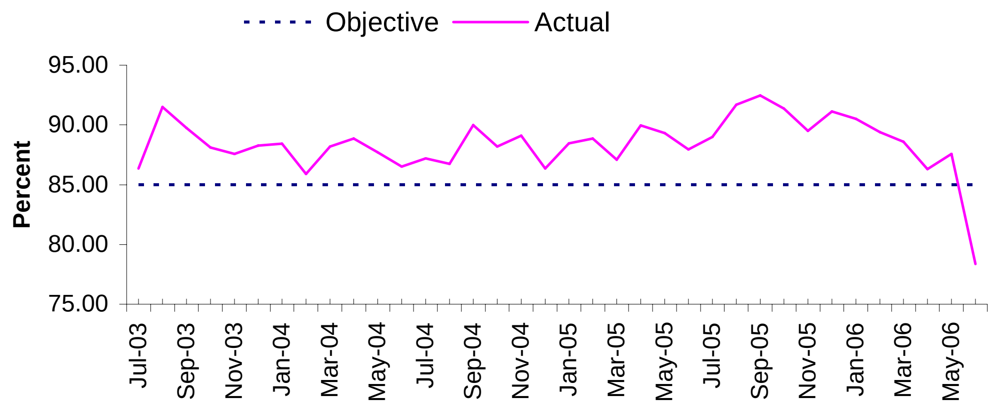
% OOS Trouble Cleared in 24 Hours - This performance area measures customer out-of-service ("OOS") network trouble reports cleared within 24 working hours. It is calculated by taking the total customer OOS network reports cleared within 24 working hours divided by the total customer OOS network trouble reports times 100. As shown in Figure 64, Hawaiian Telcom had difficulty meeting this standard through March 2006, the last month for which results were filed.

Figure 65
Percent of Operator Toll Calls
Answered Within 10 Seconds



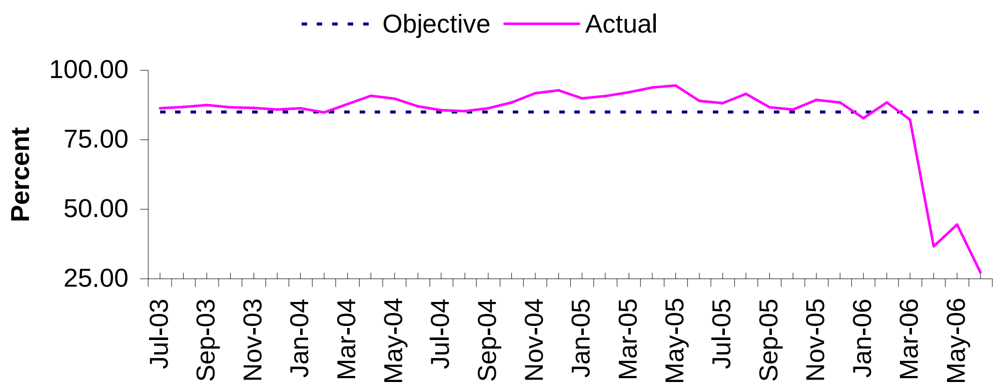
% Operator Toll Calls Answered Within 10 Seconds - This performance area measures the number of calls handled within ten (10) seconds divided by the total number of calls handled times 100 for calls to the toll operator. As shown in Figure 65, Hawaiian Telcom met the objective for this performance standard through May 2006. The result for June 2006 reflects increased call volumes due to impacts from the back office systems cutover.

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



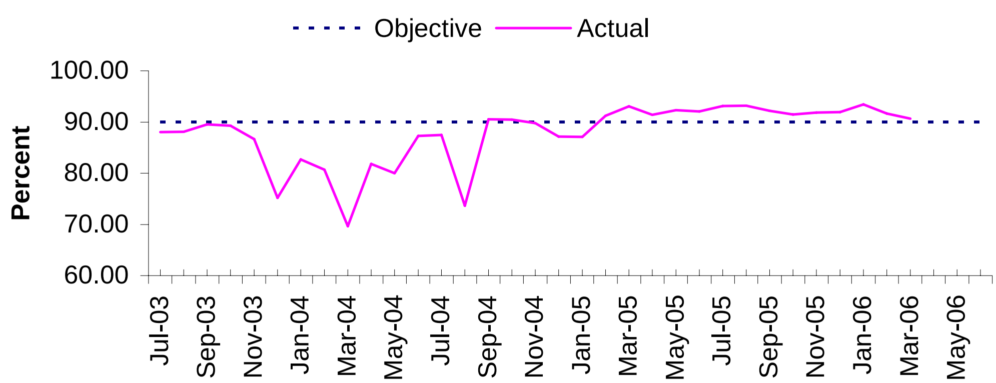
% Operator Directory Assistance Calls Answered Within 10 Seconds - This performance area measures the number of calls handled within ten (10) seconds divided by the total number of calls handled times 100 for calls to the directory assistance operator. As shown in Figure 66, Hawaiian Telcom met the objective for this performance standard through May 2006. The result for June 2006 reflects increased call volumes due to impacts from the back office systems cutover.

Figure 67
Percent of Repair Calls Answered Within 20 Seconds

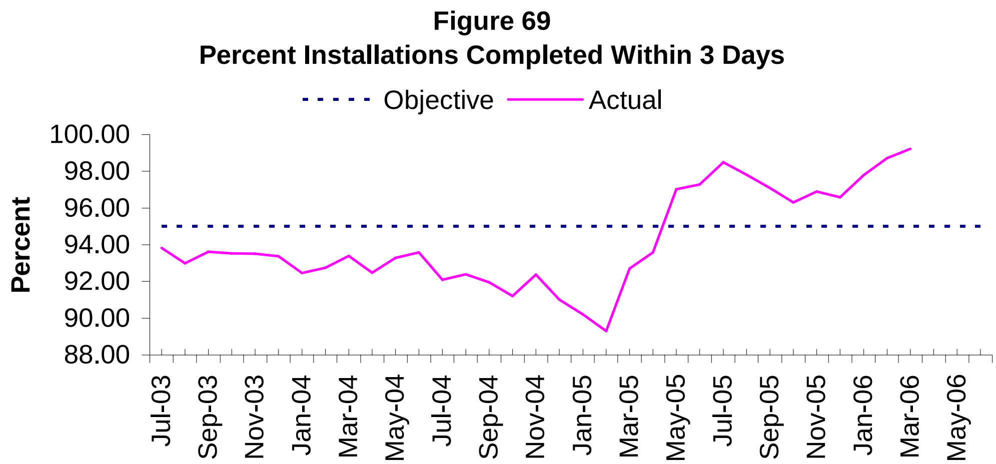


% Repair Calls Answered Within 20 Seconds - This performance area measures the number of calls answered within twenty (20) seconds divided by the total number of calls times 100 for calls to the repair answer center. As shown in Figure 67, Hawaiian Telcom met the objective for this performance standard during most of the reporting period. However, the results for April through June 2006, in particular, reflect increased call volumes due to impacts from the back office systems cutover.

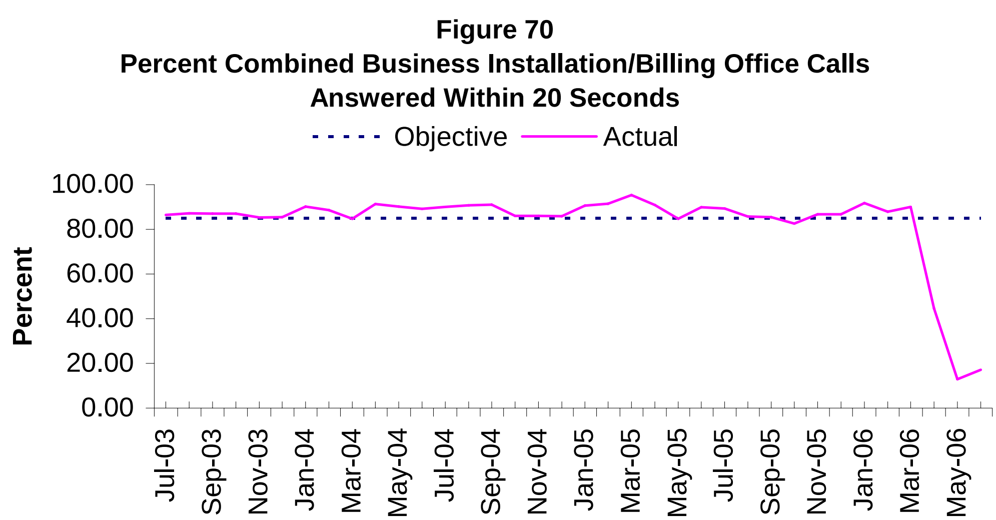
Figure 68
Percent Repair Commitments Met



% Repair Commitments Met - This performance area measures the repair tickets completed by the committed due date. It is calculated by taking the total customer network trouble reports for which the commitments were met divided by total customer network troubles times 100. As shown in Figure 68, Hawaiian Telcom had difficulty attaining the targeted objective during calendar year 2004, but exceeded the objective from February 2005 through March 2006, the last month for which results were filed.

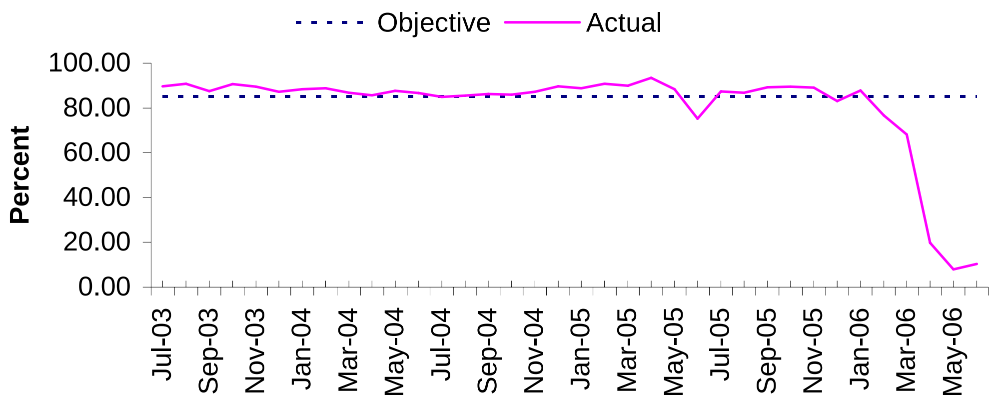


% Installations Completed Within 3 Days - This performance area measures the percent of basic orders completed within three (3) working days. It is calculated by taking the total installation ("I"), move ("M") and change ("C") basic orders completed within three (3) working days divided by the total number of I, M and C orders times 100. As shown in Figure 69, Hawaiian Telcom was able to exceed the objective from May 2005 through March 2006, the last month for which results were filed.



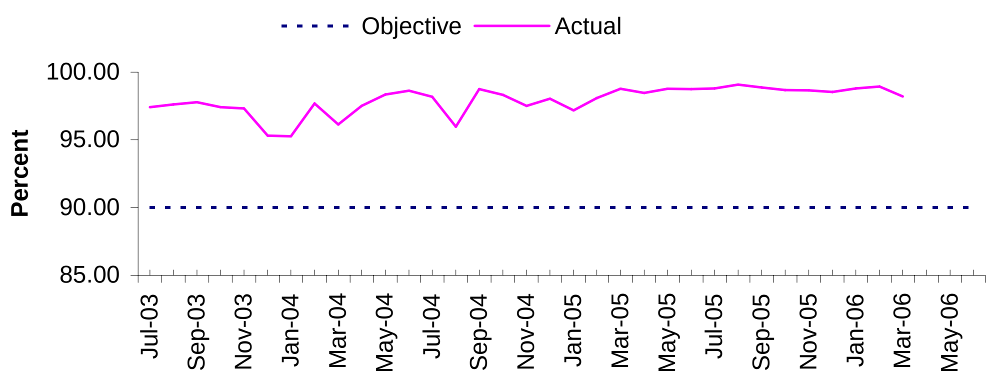
% Combined Business Installation/Billing Office Calls Answered Within 20 Seconds - This performance area measures the number of calls answered within twenty (20) seconds divided by the total number of calls times 100 for calls to the business installation and billing center. As shown in Figure 70, Hawaiian Telcom's results for April through June 2006 reflect increased call volumes due to impacts from the back office systems cutover.

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



% Combined Residence Installation/Billing Office Calls Answered Within 20 Seconds - This performance area measures the number of calls answered within twenty (20) seconds divided by the total number of calls times 100 for calls to the residence installation and billing center. As shown in Figure 71, Hawaiian Telcom's results for April through June 2006 reflect increased call volumes due to impacts from the back office systems cutover.

Figure 72
Percent Installation Commitments Met



% Installation Commitments Met - This performance area measures the percent of basic orders where the work for the customer is complete and service is available for use by no later than the commitment made to the customer. It reflects the percent as calculated by taking the installation ("I"), move ("M") and change ("C") order installation commitments met divided by the total number of I, M and C orders taken times 100. As shown in Figure 72, Hawaiian Telcom met the objective for this performance standard through March 2006, the last month for which results were filed.

XII. LEGISLATION ENACTED BY 2006 LEGISLATURE AFFECTING PUBLIC UTILITIES.

A. 2006 LEGISLATIVE MEASURES RELATING TO THE PUBLIC UTILITIES COMMISSION.

1. PETROLEUM INDUSTRY MONITORING, ANALYSIS, AND REPORTING PROGRAM.

Act 78, SLH 2006 ("Act 78"), amends HRS Chapters 486H and 486J, to provide Hawaii's gasoline consumers with fair market-related gasoline prices by: (1) increasing transparency in the Hawaii petroleum industry through increased scrutiny provided by the Commission's development and maintenance of the petroleum industry monitoring, analysis, and reporting system; (2) establishing the petroleum industry monitoring, analysis, and reporting special fund; (3) indefinitely suspending the wholesale gas cap; and (4) giving the governor the authority to reinstate the wholesale gas cap for limited periods of time in the event that the governor determines that it would be beneficial to the economic well-being, health and safety of the people of the State.

Act 78 also adds a new chapter to the HRS specifically delineating and prohibiting unfair trade practices in the petroleum industry.

2. ENERGY SELF-SUFFICIENCY – EFFICIENCY AND RENEWABLE RESOURCES IN STATE FACILITIES.

Act 96, SLH 2006 ("Act 96"), authorizes the issuance of general bonds to make funds available for a comprehensive approach to achieving energy self-sufficiency in the State through: (1) development and implementation of a pilot project to install photovoltaic systems at select public schools within Oahu, Hawaii, Kauai, and Maui counties; (2) establishment of new planning and budgeting preparation goals for state agencies to incorporate green building practices, installation of renewable energy resources such as solar water heaters, increased efficiency, conservation, and procurement of environmentally preferable products; and (3) promoting use of green building practices by counties by requiring them to establish priority in permitting for building, construction, or development-related projects that incorporate sound energy and environmental design building standards.

3. ENERGY SELF-SUFFICIENCY – STATE SUPPORT FOR RENEWABLES – TAX CREDITS.

Also supporting the State's goal of energy self-sufficiency is Act 240, SLH 2006 ("Act 240"), which approaches the task by: (1) amending HRS Chapter 235-12.5, increasing the renewable energy technologies income tax credit for certain solar-thermal, wind-powered, and photovoltaic energy systems; (2) amending HRS Chapter 103D, the State procurement code, creating a biofuel preference in contracts for the purchase of diesel fuel or boiler fuel; (3) amending HRS Chapter 196 by adding a new section facilitating State support for development of alternative fuels, and support for achieving a statewide alternate fuel standard of 10% of highway fuel demand to be provided by alternate fuels by 2010, 15% by 2015, and 20% by 2020; (4) establishing a program and strategy for increased hydrogen and biofuel research and use in the State; and (5) establishing a pay-as-you-save pilot project to provide a financing mechanism to make purchases of residential solar hot water heater systems more affordable.

4. RENEWABLE PORTFOLIO STANDARDS.

Act 162, SLH 2006 ("Act 162"), amends HRS Chapter 269 by adding four new sections authorizing the Commission to create a public benefits fund to be funded by redirecting all, or a portion, of the funds collected through the current demand-side management surcharge by Hawaii's electric utilities, for the purpose of supporting increased energy-efficiency and demand-side management programs and services.

Act 162 also amends HRS section 269-16, Regulation of Utility Rates; Ratemaking Procedures, by adding language that requires that any automatic fuel rate adjustment clause requested by a public utility shall be designed to: (1) fairly share the risk of fuel cost changes between the public utility and its customers; (2) provide the public utility with sufficient incentive to reasonably manage or lower its fuel costs and encourage greater use of renewable energy; (3) allow the public utility to mitigate the risk of sudden or frequent fuel cost changes that cannot otherwise reasonably be mitigated through other commercially available means, such as through fuel hedging contracts; (4) preserve, to the extent reasonably possible, the public utility's financial integrity; and (5) minimize, to the extent reasonably possible, the public utility's need to apply for frequent applications for general rate increases to account for the changes to its fuel costs. Additionally, Act 162 gives the Commission the authority to establish standards for each utility that prescribe what portion of the renewable portfolio standards shall be met by specific types of renewable electrical energy resources.

5. NOTICE OF COMMISSION PROCEEDINGS.

Act 9, SLH 2006, gives utility consumers notice of a Commission proceeding that may affect their rates and charges, by requiring applicants for a CPCN to provide utility services to the public, to notify any existing patrons, or customers, of the rates and charges proposed under the new application.

6. COMMISSION OPERATIONS.

Act 143, SLH 2006, authorizes the Commission chairperson to appoint research assistants, economists, legal secretaries, utility analysts, legal assistants, and enforcement officers with or without regard to chapter 76. It also requires the Commission and the Consumer Advocate to conduct an in-depth review of their respective operations to develop a plan to restructure and supplement their resources and to submit a report, together with any necessary legislation, specifying what additional resources are necessary to function more effectively and efficiently.

B. OTHER 2006 LEGISLATIVE MEASURES RELATING TO UTILITIES.

1. ONE CALL CENTER ADVISORY COMMITTEE.

Act 95, SLH 2006, added two members to the One Call Center Advisory Committee, one each from the water and wastewater utilities, making the Advisory Committee more representative of the total utility sector.

2. HAWAII ENERGY POLICY FORUM.

Act 163, SLH 2006, appropriates funds to reconvene the Hawaii Energy Policy Forum to develop an action plan, timeline, and benchmarks, and to further engage Hawaii's leaders and stakeholders in implementing the Forum's visions, concepts, and recommendations for Hawaii's preferred energy future, and assess the feasibility of the State participating in the Chicago Climate Exchange.

C. 2006 RESOLUTION RELATING TO UTILITY ISSUES.

1. INVESTIGATION OF KALOKO RESERVOIR DAM COLLAPSE.

House Concurrent Resolution 192, SLH 2006, requests the Attorney General to appoint a special deputy attorney general to independently and impartially investigate the Kaloko Reservoir Dam collapse.

XIII. 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. During Fiscal Year 2005-06, through this program, the EPA assisted the Commission in reviewing and evaluating energy efficiency issues in the proceeding on HECO's proposed demand-side management programs.

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

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

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., the ability to comply with law enforcement requirements, and E911 services), and necessary safeguards for consumer protection and disability access. Of these current issues, only those relating to (3), above, have seen movement toward definitive resolution. First, the FCC, per its June 21, 2006 Order, FCC 06-94, has concluded that the public would be best served by requiring providers of interconnected VoIP service to contribute to the universal service fund. Second, the FCC, through its May 3, 2006 Order, FCC 05-153, determined that interconnected VoIP is subject to the Communications Assistance for Law Enforcement Act (CALEA), the federal law that facilitates the ability of law enforcement agencies in the conduct of electronic surveillance by requiring telecom carriers, and manufacturers of telecom equipment, to modify and design their services, equipment, and facilities to ensure that they have the needed surveillance capabilities. Third, with respect to E911, the FCC, in Order FCC 05-116, adopted rules requiring interconnected VoIP service providers to supply enhanced 911 (E911) to their customers.

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 the perception 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, among other things, that 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 have appealed that FCC order.

Locally, the Commission granted a certificate of authority ("COA") to Time Warner Cable Information Services, LLC ("Time Warner Cable") in October 2004, to provide VoIP services in the State. In February 2006, upon review and consideration of Time Warner Cable's request to withdraw its VoIP tariff and the present state of uncertainty with respect to VoIP service regulation, the Commission allowed Time Warner Cable to withdraw its tariff. Time Warner Cable continues to maintain its COA and status as a competitive local exchange carrier subject to the Commission's jurisdiction.

The Commission continues to monitor federal activities relating to VoIP for potential impact to Hawaii consumers.

XIV. PREVIEW FISCAL YEAR 2006-07.

The following sections highlight some of the significant proceedings and activities of the Commission for Fiscal Year 2006-07.

A. COMMISSION OPENS INVESTIGATION TO EXAMINE HAWAIIAN TELCOM'S SERVICE QUALITY AND PERFORMANCE LEVELS AND STANDARDS.

In October 2006, the Commission opened a proceeding to examine Hawaiian Telcom's service quality and performance levels and standards in relation to its retail and wholesale customers. This proceeding results from the Commission's March 2005 conditional approval of the sale of Verizon Hawaii from Verizon to affiliates of The Carlyle Group. Recognizing that the proposed sale may negatively impact the quality of service being provided to the general public, the Commission stated that it would initiate an investigation regarding service quality levels and standards approximately six (6) months after cutover from Verizon's systems. Hawaiian Telcom cutover from Verizon's systems to its own operating systems in April 2006. Accordingly, the Commission initiated the new proceeding in October 2006.

B. COMMISSION OPENS INVESTIGATION TO EXAMINE MAJOR POWER OUTAGES ON OCTOBER 15–16, 2006.

Also in October 2006, the Commission initiated an investigation to examine the major power outages that occurred on the islands of Oahu, Hawaii and Maui on October 15 – 16, 2006. The power outages were a result of a series of events associated with a 6.7 magnitude earthquake that occurred west of the island of Hawaii on October 15. HECO and MECO experienced island-wide blackouts and HELCO, while avoiding an island-wide outage, had numerous problems with its transmission and distribution circuits. Through this proceeding, the Commission intends to have a complete and independent review of the power outages in an orderly and timely manner.

C. RULE-MAKING PROCEEDINGS.

In Fiscal Year 2006-07, the Commission intends to begin or continue proceedings to develop and adopt administrative rules for the following:

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.

D. RENEWABLE PORTFOLIO STANDARDS.

The Commission has begun to implement the provisions set forth in Act 95 and Act 162, relating to renewable portfolio standards in order to encourage and promote the increased use of renewable energy resources in Hawaii. Act 95 and Act 162 require the Commission to perform the following:

1. By December 31, 2007, 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 ensure the electric utility's opportunity to earn a fair rate of return is not diminished.

As a prelude to rulemaking proceedings or an investigative docket, 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 through 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) planned two-day workshops: the first on November 22 and 23, 2004 and the second on October 3 and 4, 2005. 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 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 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.

Since the workshops, the renewable portfolio standards law was substantively amended by Act 162, as discussed above. Most significantly, the requirement that the Commission ensure that the utilities' profit margins not be decreased as a result of a ratemaking structure to provide incentives to use renewable energy resources was deleted from the renewable portfolio standards law. Accordingly, the Commission will proceed in its efforts to implement the renewable portfolio standards law and policy to encourage and foster the increased use of renewable energy resources in Hawaii.