PUBLIC UTILITIES COMMISSION

STATE OF HAWAII

ANNUAL REPORT

(HAW. REV. STAT. § 269-5)

FISCAL YEAR 2006-07

NOVEMBER 2007

TABLE OF CONTENTS

ANNUAL REPORT

FISCAL YEAR 2006-07

(HAW. REV. STAT. § 269-5)

PUBLIC UTILITIES COMMISSION
STATE OF HAWAII

I. INTRODUCTION.

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

The Public Utilities Commission ("Commission") of the State of Hawaii ("State") submits this Annual Report pursuant to Section 269-5, Hawaii Revised Statutes, as amended ("HRS"). In short, this report summarizes the activities and operations of the Commission and the public utilities it regulates during the July 1, 2006 to June 30, 2007 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.[1] He is also a member of the National Association of Regulated Utilities Commissioners ("NARUC"), and serves on NARUC's Board of Directors, the Committee on Telecommunications, the Committee on International Relations, and the 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

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. On July 31, 2006, Commissioner Kimura retired from the Commission.[2]

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.

[1] In October 2007, Chairman Caliboso was named to serve a second term on the FCC Intergovernmental Advisory Committee.

[2] Commissioner Leslie H. Kondo was appointed by Governor Linda Lingle on July 3, 2007 and confirmed by the Senate to replace Commissioner Wayne Kimura for the remainder of the six-year term that expires on June 30, 2008.

John E. Cole, Commissioner

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

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

C. ADMINISTRATION AND OFFICES.

The Commission is comprised of three commissioners and, as of June 30, 2007, 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 efficient and reliable electricity generation, transmission and distribution.

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

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

C. SHORT-TERM GOALS.

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

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

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

IV. ADMINISTRATIVE UPDATE.

During the Fiscal Year, the Commission continued to implement initiatives that aim to meet our strategic plan's short and long-term goals. Recruitment initiatives resulted in the hiring of nine (9) new staff members for the Commission's clerical, documentation, research, engineering and legal sections. 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 in Fiscal Year 2007-08.

Major administrative points of focus for Fiscal Year 2007-08 will include personnel recruitment and training, technological and regulatory process improvements, public education and information transparency enhancements, and enforcement activities expansion. Additionally, pursuant to Act 177, Session Laws of Hawaii 2007, the Commission will begin to implement the first phase of a restructuring plan that will, among other things, expand the existing Research Section to include policy support positions and functions; create a Consumer Affairs and Compliance Section to be responsible for consumer relations and current investigative and enforcement activities; create an Administrative Support Section to centralize clerical services, case management services, fiscal services and information technology staff; update and redescribe fourteen (14) existing positions; convert seven (7) temporary petroleum related positions to permanent status; and allow for leasing of additional space and office relocation. Future phases of the restructuring plan are intended to collectively add fourteen (14) new positions, bringing the Commission's total permanent position count to sixty-two (62) when completed.

V. REGULATORY ISSUES AND PROCEEDINGS.

A. MAJOR REGULATORY ISSUES.

The Commission is responsible for regulating 221 utility companies or entities (4 electric, 1 gas, 179 telecommunications, and 37 water and sewer companies), 4 water carriers, 590 passenger carriers and 521 property carriers in the State. During the Fiscal Year, the Commission opened 510 new dockets relating to those regulated utilities and transportation companies, completed and disposed of 517 dockets from its total case load and issued 936 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, its investigation on competitive bidding for new generation and issues related to the Renewable Portfolio Standards Law. It continued to review Hawaiian Electric Company, Inc.'s ("HECO") request for a general rate increase for the 2005 calendar test year. It also reviewed HECO's new general rate increase for the 2007 calendar test year, as well as rate cases for Hawaii Electric Light Company, Inc. ("HELCO"), and Maui Electric Company, Ltd. ("MECO"). In its proceeding on energy efficiency and HECO's demand-side management programs, which was bifurcated from HECO's 2005 rate proceeding, the Commission established a non-utility market structure with energy efficiency programs administered by a third party and funded through a Public Benefits Fund surcharge.

In the telecommunications area, the Commission continued to monitor the transition activities resulting from the sale of Verizon Hawaii Inc., now known as Hawaiian Telcom, Inc., to TC Group L.L.C., dba The Carlyle Group. It instituted a proceeding to examine Hawaiian Telcom, Inc.'s service quality and performance levels and standards in relation to its retail and wholesale customers. Also, the Commission modified the telecommunications relay services carrier contribution factor and fund size for the period July 1, 2007 to June 30, 2008.

Other key proceedings during the Fiscal Year related to the sale of Mokuleia Water, LLC's water system assets to North Shore Water Company, LLC. The Commission also approved Young Brothers' request for an across the board rate increase pursuant to its Zone.

The following sections highlight the significant proceedings of the Commission.

B. ELECTRICITY AND ENERGY PROCEEDINGS.

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

1. COMMISSION PROCEEDINGS.

a. EXAMINATION OF DISTRIBUTED GENERATION.

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]

In December 2006, the Commission instituted an investigation to review and address (1) the HECO Companies' proposed standby service tariffs and interconnection tariffs and (2) Sections 111(d)(15) and 112(b)(5) of the Public Utility Regulatory Policies Act of 1978 ("PURPA") governing interconnection standards.

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

---

[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 the HECO Companies.

[5] In July 2006, KIUC filed its proposed interconnection tariff and the HECO Companies filed proposed revisions to their existing interconnection tariff. The HECO Companies also filed their proposed standby service tariff in August 2006. KIUC's proposed standby service tariff was filed in November 2006.

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 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] After considering parties' comments on the proposed framework, the Commission adopted a final framework in December 2006. Thereafter, in March 2007, the Commission granted KIUC's Motion for Exemption from the competitive bidding framework in March 2007.

As part of the implementation process governing competitive bidding, in June 2007, the Commission approved the list of qualified candidates for the Independent Observer position for future HECO Companies' competitive bidding processes

c. NET ENERGY METERING.

In April 2006, the Commission opened an investigation to evaluate whether the Commission should increase: (1) the maximum capacity of eligible customer-generators to more than fifty (50) kilowatts ("kW"); and (2) the total rated generating capacity produced by eligible customer-generators to an amount above 0.5 per cent of an electric utility's system peak demand, under Hawaii's Net Energy Metering law, codified as HRS §§ 269-101 to 269-111. The HECO Companies, KIUC, and the Consumer Advocate were designated parties to this investigative proceeding, and in June 2006, the Commission granted motions to intervene filed by HREA and Hawaii Solar Energy Association ("HSEA") and a motion for participation without intervention filed by Zero Emissions Leasing LLC. In September 2006, the Commission amended the Stipulated Procedural Order to include the issue of whether the Commission should adopt, modify, or decline to adopt, in whole or part, the standard for net energy metering articulated in Section 111(d)(11) of PURPA, as amended by EPAct (16 U.S.C.§ 2621(d)(11)), including consideration of whether, and the extent to which, the EPAct standard for net energy metering has already been met by Hawaii's Net Energy Metering Law.

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

In October 2006, the Commission opened an investigation to examine the major power outages that occurred on the islands of Oahu, Hawaii, and Maui on October 15-16, 2006. HECO, HELCO, MECO, and the Consumer Advocate were designated parties to this investigative proceeding and in November 2006 Life of the Land's Motion to Intervene was denied. In December 2006, HECO filed its report on the investigation of the power outage on Oahu, and in March 2007, the HECO Companies submitted reports on the outages that occurred on all three (3) islands.

e. RENEWABLE PORTFOLIO STANDARDS LAW.

In January 2007, the Commission opened an investigation pursuant to Act 162, Session Laws of Hawaii 2006 which amended Hawaii's Renewable Portfolio Standards ("RPS") Law,

---

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

codified as Hawaii Revised Statutes §§ 269-91 – 269-95 to examine the appropriate penalty framework for non-compliance with the RPS. HECO, HELCO, MECO, KIUC, and the Consumer Advocate were designated parties to this investigative proceeding and in February 2007, the Commission granted motions to intervene filed by Life of the Land ("LOL") and Hawaii Renewable Energy Alliance ("HREA").

Information and comments received from the participants in the Act 95 workshops are included in this proceeding. The issues are: (1) What is the appropriate penalty framework to establish under HRS § 269-92(c) for failure to meet the RPS? (2) What is the appropriate utility ratemaking structure to establish and include in the commission's RPS framework under HRS § 269-95 to provide incentives that encourage electric utilities to use cost-effective renewable energy resources found in Hawaii to meet the RPS, while allowing for deviation from the standards in the event that the standards cannot be met in a cost-effective manner, or as a result of circumstances beyond the control of the utility that could not have been reasonably anticipated or ameliorated? (3) Should the commission's RPS framework include a provision that provides incentives to encourage electric utility companies to exceed their RPS or to meet their RPS ahead of time, or both, and if so, what is the appropriate incentive to establish under HRS §269-94? A final decision from the Commission is pending.

f. SOLAR WATER HEATING PAY AS YOU SAVE PROGRAM.

In October 2006, the Commission opened an investigation pursuant to Act 240, Session Laws of Hawaii 2006 §13 to examine the issues and requirements raised by, and contained in, Hawaii's Solar Water Heating Pay As You Save Program. HECO, HELCO, MECO, KIUC, and the Consumer Advocate were designated parties to this investigative proceeding and in November 2006, the Commission granted motions to intervene filed by Hawaii Renewable Energy Alliance ("HREA") and Hawaii Solar Energy Association ("HSEA"). In June 2007 the Commission approved the HECO Companies' and KIUC's tariffs utilizing a three-year pilot program period.

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

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

In November 2004, HECO filed an application requesting a rate increase of 9.9 per cent over present rates, which includes the transfer of the cost of existing energy conservation programs from a surcharge line item on electric bills into base electricity charges, which appear on another line on electric bills.[7] 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.

Subsequently, the Commission found that HECO's energy cost adjustment ("ECA") factor approved in the interim order did not include a component for the fuel and trucking costs associated with the operation of the distributed generation ("DG") units that are located at certain of HECO's substations, and the trucking costs to transport low sulfur fuel oil ("LSFO") for use at HECO's Honolulu power plant (hereinafter, "Additional DG and LSFO Costs"). Therefore, their request to recover increases or decreases in the unit cost of fuel resulting from the Additional DG

---

[7]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, "Commission Establishes Third Party Administrator for Energy Efficiency Programs.")

and LSFO Costs through the ECA reconciliation factor was denied in April 2007. HECO is also required to refund or otherwise reconcile the amounts collected as Additional DG and LSFO Costs under the ECA clause. They may establish and implement a new and separate interim surcharge to recover its Additional DG and LSFO Costs. Such recovery would be limited to future Additional DG and LSFO Costs, incurred on or after the effective date of the new and separate interim surcharge.[8]

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

In December 2006 HECO filed a request of a general rate increase of approximately $99,556,000 or 7.1 per cent over revenues at current effective rates for the normalized 2007 test year. HECO is also proposing several new rate designs and rate schedules, including an inclining rate block structure for residential customers, optimal time-of-use rates, and standby service rates.[9]

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

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

In the same interim order, the commission approved on an interim basis, the adoption of the pension and Postretirement Benefits Other Than Pensions tracking mechanisms and interim rates that incorporate the 2006 test year Net Periodic Pension Costs of $2,744,000, and the test year net periodic benefit costs of $1,530,400, and amortization of the pension asset of $2,554,000.

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

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

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

IRP has become a key vehicle for state regulatory commissions, electric utilities, energy stakeholders, and the public to understand and influence utility planning. Generally, the process identifies and evaluates combinations of demand–side and supply-side energy resources that will

---

[8]In October 2007, the Commission issued an order granting HECO a rate increase of $45,741,000 in additional revenues for the 2005 calendar test year or a 3.74 per cent increase over revenues at present rates. HECO's $78,791,000 prepaid pension asset should be excluded from HECO's rate base. Accordingly, HECO is required to refund its ratepayers any amount that was collected per the interim rate increase that is in excess of this authorized increase together with interest.

[9]In October 2007, the Commission approved on an interim basis, a rate increase of $69,997,000 in additional revenues, or 4.96 per cent over revenues at current effective rates for the normalized 2007 test year.

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 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, 2007.

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. In December 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 in October 2005.

In March 2007, the Commission approved the agreed-upon terms to govern the disposition of the third IRP and procedures to govern the development of HECO's IRP-4. HECO filed its Evaluation Report for its IRP-3 in May 2007.

Also in March 2007, the Commission instituted a proceeding to formally commence the next integrated resource planning cycle for HECO and to examine the IRP-4 to be submitted to the Commission by June 30, 2008.

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, which was filed in April 2007.

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. In March 2004, HELCO filed its evaluation report of its second IRP. The Commission also opened a proceeding to examine HELCO's third IRP. In May 2007, HELCO filed its IRP-3.

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.

f. COMMISSION ESTABLISHES THIRD PARTY ADMINISTRATOR FOR ENERGY EFFICIENCY PROGRAMS.

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.

In February 2007, the Commission ordered that all of the HECO Companies' Energy Efficiency DSM programs shall transition from the HECO Companies to a Non-Utility Market Structure by January 2009, under which a third-party administrator would oversee the programs through funding from a Public Benefits Fund ("PBF") surcharge. The Commission further ordered: (1) the establishment of specific DSM objectives; (2) until their next IRP dockets, the HECO Companies will have separate megawatt-hour and megawatt Energy Efficiency goals for their commercial and industrial sector and their residential sector; (3) prior to transitioning to a third-party administrator, under the interim Utility Market Structure, the existing cost recovery mechanism shall continue to apply, such that base labor costs shall be recovered through base rates and all other DSM-related utility-incurred costs shall be recovered through a surcharge; (4) utilities can recover their reasonably-incurred DSM implementation costs, in accordance with the IRP Framework; (5) the HECO Companies' DSM Utility Incentive Mechanism will be calculated based on net system benefits (less program costs), limited to the authorized rate of return for supply-side investments, subject to the performance requirements and incentive schedule established by the commission; (6) HECO must meet or exceed the megawatt-hour and megawatt Energy Efficiency goals for both the commercial and industrial sector, and the residential sector for HECO to be eligible for a DSM utility incentive, and if HECO fails to meet one or more of its four Energy Efficiency goals, HECO will not be eligible to receive a DSM utility incentive; (7) HECO's proposed Energy Efficiency DSM Programs (i.e., CIEE, CINC, CICR, REWH, RNC, RLI, and ESH programs) were approved with modifications; (8) HECO's Residential Customer Energy Awareness program was also approved with modifications and requirements; (9) at this time, KIUC and The Gas Company ("TGC") shall continue under the Utility Market Structure and not be subject to Energy Efficiency goals and excluded from DSM utility incentives and mechanisms; (10) a new docket will be opened to approve HECO's periodic reports, including HECO's A&S Report and M&E Report;[10] and (11) a new docket will also be opened to select a PBF administrator and to refine details of the new market structure.[11]

g. COMMISSION APPROVES BUDGET INCREASE FOR HECO'S RESIDENTIAL DIRECT LOAD CONTROL ("RDLC") PROGRAM.

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

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

In October 2006, the Commission approved HECO's request to increase the 2006 budget for the RDLC Program by $404,550 to respond to an increase in installation labor costs that resulted when the Hawaii State Professional and Vocational Licensing Division ("PVL") ruled that journeymen electricians, rather than apprentice electricians, were required to install water heater load control switches. Additionally, in December 2006, the Commission approved HECO's request to (1) modify the 2007–2009 budget to account for higher installation labor costs related to the PVL decision and (2) add a new program element, residential central air conditioning, which would allow HECO to pay residential customers with an eligible air conditioning system a monthly credit of $5 to allow HECO to control the system in order to help obtain an estimated additional 1.4 MW of interruptible load.

h. COMMISSION ADDRESSES KIUC'S NET ENERGY METERING TARIFF.

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. In June 2007, the Commission approved KIUC's Revised Rule No. 17, Net Energy Metering, filed on May 1, 2007.

---

[10] In October 2007, the Commission opened a new docket to review the HECO Companies demand-side management reports and requests for program modifications.

[11] In September 2007, the Commission opened a new docket to select a Public Benefits Fund Administrator and to implement a new market structure for Energy Efficiency Demand-Side Management programs pertaining to the HECO Companies.

i. 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 July 2006, the Commission reviewed and approved HELCO's request to remove two (2) existing poles and sections of the existing 7600 69 kilovolt ("kV"), 3100 34 kV, and 4.2 kV lines and install three (3) 90-foot wooden poles and 69 kV, 34 kV, and 4.2 kV lines along the Hawaii Belt Highway in the Kealakaha Hamakua area on the island of Hawaii.

In October 2006, the Commission reviewed and approved MECO's proposal to relocate an existing 69 kV transmission line above the surface of the ground, in connection with Project M0000697, the Waikapu 69 kV Line Relocation project, Relocation of an Existing Overhead Transmission System.

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. In November 2006, the Commission reviewed and approved HELCO's request to construct an overhead 69 kV transmission line for this project.

In December 2006, the Commission reviewed and approved HELCO's request to relocate an existing 69 kV overhead transmission line (and associated transmission lines) above the surface of the ground in connection with the Kealakaha Bridge Replacement Project located in the Hamakua area of the island of Hawaii.

In December 2006, the Commission reviewed and approved HECO's request to revise the alignment for one of the 46 kV overhead line extensions for item Y00044, Ko Olina Substation Transformer #1 and Circuit Project which was approved in August 2005. Upon further engineering review, HECO determined that it would not be able to attach the proposed 46 kV line to three of the seven existing transmission steel poles due to inadequate ground clearances. The Commission found the revised alignment not appreciably different from the original proposal with an increased cost of $22,000.

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 December 2006, the Commission reviewed and approved HECO's request for a waiver of Rule 13 of its tariff to allow HECO to pay approximately $727,441 for the underground conversion of its 11.5 kV lines along Ahui Street, Koula Street, Ohe Lane, and Olomehani Street within the Kakaako Redevelopment District, Improvement District 12 ("ID12").[12] HECO initiated the proposed project on behalf of the State of Hawaii-Hawaii Community Development Authority ("HCDA") who had expressed interest in undergrounding the 11.5 kV overhead lines for ID12.

---

[12]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.

The total cost of the proposed project is estimated to be $1,737,120 (excluding change-over and removal costs). Of this amount, HCDA and affected property owners will share in the project cost with a contribution-in-aid-of-construction of $1,009,679. 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).

Also in April 2007, the Commission reviewed and approved HECO's request for a waiver of Rule 13 of its tariff to allow HECO to contribute approximately $21,296 to convert the existing 12.47 kV overhead line to underground facilities for the Kapolei Parkway Extension at the North South Road intersection. The total cost of the proposed project is estimated to be $154,604 (excluding change-over and removal costs). Of this amount, the City and County of Honolulu will contribute $131,840 ($55,062 in-kind contribution in aid of construction and $76,778 cash contribution in aid of construction. 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 REVIEWS AND APPROVES HECO'S REQUEST FOR A NEW GENERATING STATION POWERED BY BIOFUELS.

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.

In May 2007, the Commission reviewed and approved HECO's request to expend an estimated $137,430,260 for the purchase and installation of the Campbell generating station project.[13] The project will include a new 110 megawatt combustion turbine that will run on 100% biofuels and a new 138 kV transmission line.

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.

---

[13]This amount is higher than estimated in HECO's Application and Direct Testimonies because HECO's land cost estimates have increased since those filings.

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.

In June 2007, the Commission reviewed and approved the Reverse Osmosis water pipeline from Campbell Industrial Park to HECO's Kahe Power Plant and the Air Quality and Fish Monitoring Programs. The accounting and ratemaking treatment of the water pipeline project and environmental monitoring programs was also approved. However, HECO's proposal to offer a rate discount on the base energy charge for residential ratepayers who live in the 96707 zip code was denied.

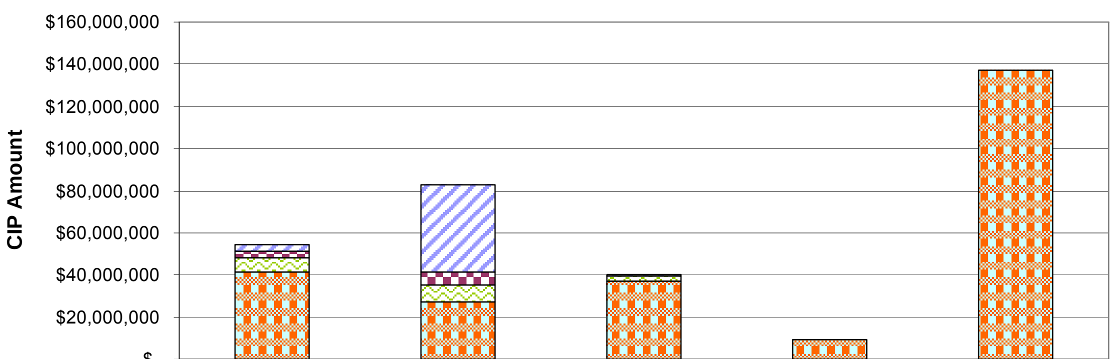
m. COMMISSION APPROVES CAPITAL IMPROVEMENTS.

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

During the Commission's 2006-2007 Fiscal Year, HECO was authorized to expend $137 million for its capital improvements. Expenditures include $137 million for the Campbell Industrial Park Generating Station and Transmission Additions.

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.

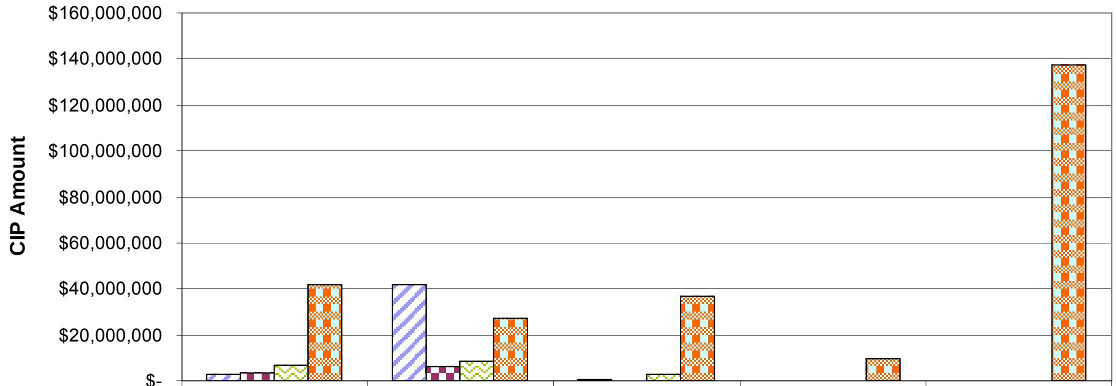
Figure 1
Five-Year Comparison of Commission-Approved
Electric Utilitiy CIP



	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07
KIUC	$2,958,900	$41,750,000	$580,000	$-	$-
MECO	$3,379,707	$5,984,591	$-	$-	$-
HELCO	$6,502,973	$8,221,363	$2,585,463	$-	$-
HECO	$41,639,829	$26,999,323	$36,835,359	$9,500,000	$137,430,260
Total CIP	$54,481,409	$82,955,277	$40,000,822	$9,500,000	$137,430,260

Fiscal Year (FY)

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



	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07
KIUC	$2,958,900	$41,750,000	$580,000	$-	$-
MECO	$3,379,707	$5,984,591	$-	$-	$-
HELCO	$6,502,973	$8,221,363	$2,585,463	$-	$-
HECO	$41,639,829	$26,999,323	$36,835,359	$9,500,000	$137,430,260

Fiscal Year (FY)

C. GAS PROCEEDINGS.

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

Key proceedings in the gas service industry are summarized below:

1. 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.

2. TGC REQUESTS APPROVAL OF CAPITAL EXPENDITURE FOR THE NEW FEDERAL PIPELINE INTEGRITY MANAGEMENT PROGRAM.

In December 2006, the Commission reviewed and approved TGC's request to expend an estimated $1,170,346 to implement the first phase of the federally mandated, multi-year, pipeline integrity management program applicable to its synthetic natural gas transmission system.

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 INSTITUTED A PROCEEDING REGARDING HAWAIIAN TELCOM, INC.'S SERVICE QUALITY AND PERFORMANCE LEVELS AND STANDARDS.

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

2. COMMISSION REVIEWS AND APPROVES REORGANIZATION OF PARENT COMPANIES OF TIME WARNER CABLE INFORMATION SERVICES.

In May 2007, the Commission issued an order approving the reorganization of Time Warner Cable Information Services (Hawaii), LLC's parent companies, which is intended to streamline and normalize their overall organizational structure and eliminate inefficiencies related to their current corporate structure. Time Warner Cable Information Services expects to directly benefit from this reorganization and there will be no material impact on its operations or customers.

3. COMMISSION CERTIFICATES NEW TELECOMMUNICATIONS CARRIERS.

The Commission certificated 13 new telecommunications companies in the Fiscal Year, which were resellers of various intrastate wireless, calling card, and interexchange (long-distance) telecommunications services.

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

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

In May 2007, the Commission initiated an investigation to examine whether to modify the TRS carrier contribution factor and fund size for the period July 1, 2007 to June 30, 2008. In June 2007, the Commission approved a contribution factor of 0.0008 for the period July 1, 2007 to June 30, 2008 and established the projected TRS fund size for the period at approximately $531,487

5. 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, 2007, four carriers in Hawaii have been granted ETC status: Hawaiian Telcom, Sandwich Isles Communications, Inc., NPCR, Inc., dba Nextel Partners and Coral Wireless, LLC, dba MOBI PCS.

6. 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:

Pacific Lightnet, Inc. In June 2007, the Commission approved the jointly filed Interconnection Agreement between Hawaiian Telcom and PLNI. The conforming interconnection agreement incorporates the commission's findings regarding open issues, as well as issues previously settled between Hawaiian Telcom and PLNI.

T-Mobile USA, Inc. In September 2006, the Commission approved Amendment No. 2 to the Interconnection Agreement Hawaiian Telcom and T-Mobile. 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 T-Mobile to access Hawaiian Telcom's E911 network systems and databases to provide wireless E911 services.

Clearwire Telecommunications Services, LLC. In April 2007, the Commission approved Clearwire Telecommunications Services, LLC's 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 Clearwire Telecommunications Services, LLC.

7. COMMISSION REVIEWS AND APPROVES ACQUISITION OF STOCK OF XSPEDIUS COMMUNICATIONS, LLC BY TIME WARNER TELECOM INC.

In October 2006, the Commission reviewed and approved the proposed acquisition of stock of Xspedius Communications, LLC ("Xspedius") by Time Warner Telecom, Inc ("TWTC"), which is a limited partner of Time Warner Telecom of Hawaii, L.P., dba Oceanic Communications. The proposed transaction allows Xspedius to become a wholly owned subsidiary of TWTC. The acquisition of stock will not result in changes to TWTC's certificated entity in Hawaii, Time Warner Telecom of Hawaii, L.P., dba Oceanic Communications.

8. COMMISSION REVIEWS AND APPROVES TRANSFER OF TRINSIC'S ASSETS TO MATRIX.

In May 2007, the Commission reviewed and granted a request for approval to transfer control of Trinsic Communications, Inc. ("Trinsic Communications"), Touch 1 Communications, Inc. ("Touch 1"), and any successor in interest of either, including a Chapter 7 bankruptcy trustee (collectively, "Trinsic")'s assets to Matrix Telecom, Inc. Trinsic Communications and Touch 1 are both wholly owned subsidiaries of Trinsic, Inc. On February 7, 2007, Trinsic was forced to seek bankruptcy relief. On March 21, 2007, Trinsic and Tide Acquisition Corporation ("Tide") entered into an Asset Purchase Agreement and subsequently Tide assigned its rights to Matrix. The sale of Trinsic's assets to Matrix will ensure that Trinsic's customers continue to receive high-quality telecommunications services without interruption or disruption that would otherwise be caused by their original chosen carrier's bankruptcy. This transaction will not affect the rates, terms or conditions of any services being provided by Trinsic to customers in Hawaii.

9. COMMISSION REVIEWS REQUIREMENTS RELATED TO TRANSFER OF CONTROL.

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

DSLnet Communications, LLC. In November 2006, the Commission waived the requirements of HRS §§269-7(a) and 269-19 and HAR §§ 6-61-101 and 6-61-105 to the extent applicable, for the proposed transfer control of DSLnet Communications, LLC ("DSLnet") to MDS Acquisition, Inc.'s ("MDSAI"). DSLnet's sole member and managing entity is DSL.net, Inc. ("Parent"). MDSAI is a wholly owned subsidiary of MegaPath Inc. ("MegaPath"). Pursuant to a purchase agreement dated August 22, 2006, between Parent, MDSAI and MegaPath, MDSAI purchased certain convertible promissory notes of Parent, which would allow MDSAI to acquire control of DSLnet through the conversion of the convertible notes into common stock of the Parent. Following the conversions, MegaPath intends to merge Parent with MDSAI, with MDSAI being the surviving entity. The transaction will be completed at the holding company level, will not change the rates, terms or conditions of DSLnet's services.

Talk America, Inc. In December 2006, the Commission waived the requirements of HRS §§ 269-7(a), 269-17, and 269-19 and HAR §§ 6-61-101 and 6-61-105, to the extent applicable, for the proposed indirect transfer of control and related financing transactions proposed by Talk America Holdings, Inc. ("TA Holdings"), Talk America, Inc. ("Talk America"), and Cavalier Telephone Corporation ("CTC"). These companies filed a joint petition to allow TA Holdings to acquire indirect control of Talk America and allow Talk America to participate in certain financing transactions as a co-guarantor. Through the several steps to complete the transaction, CTC will indirectly control Talk America.

Broadwing Communications, LLC. In December 2006, the Commission waived the requirements of HRS §§ 269-7(a), 269-17, and 269-19 and HAR

§§ 6-61-101 and 6-61-105, to the extent applicable, for the proposed transfer of control of Broadwing Communications, LLC (“Broadwing”) to Level 3 Communications, Inc. (“Level 3”) and for related financing arrangements to effectuate the proposed transfer.

Lightyear Network Solutions, LLC. In January 2007, the Commission waived the requirements of HRS §§ 269-7(a), 269-17 and 269-19 and HAR §§ 6-61-101 and 6-61-105, to the extent applicable, for the proposed transaction that would allow First Communications, Inc. (“FCI”) to undertake an initial public offering of its shares and subsequently acquire control of Lightyear Network Solutions, LLC (“Lightyear”). Lightyear will continue to provide service to its existing customers in Hawaii under the same rates, terms and conditions.

OPEX Communications, Inc. In March 2007, the Commission waived the requirements of HRS §§ 269-7(a) and 269-19 and HAR §§ 6-61-101 and 6-61-105, to the extent applicable, for the proposed transfer of control of OPEX Communications, Inc. (“OPEX”) from Premiercom Management Company (“Premiercom”) to Total Call International, Inc (“Total Call”). OPEX will continue to offer its customers the same services at the same rates, terms and conditions.

Startec Global Operating Company. In May 2007, the Commission waived the requirements of HRS §§ 269-7(a) and 269-19 and HAR §§ 6-61-101 and 6-61-105 to the extent applicable for the proposed indirect transfer of control of Startec Global Operating Company (“Startec”), a subsidiary of Startec Global Communications Corporation (“SGCC”), to Platinum Equity, LLC (“Platinum”). Startec will continue to offer services with no change in the rates or terms and conditions of service.

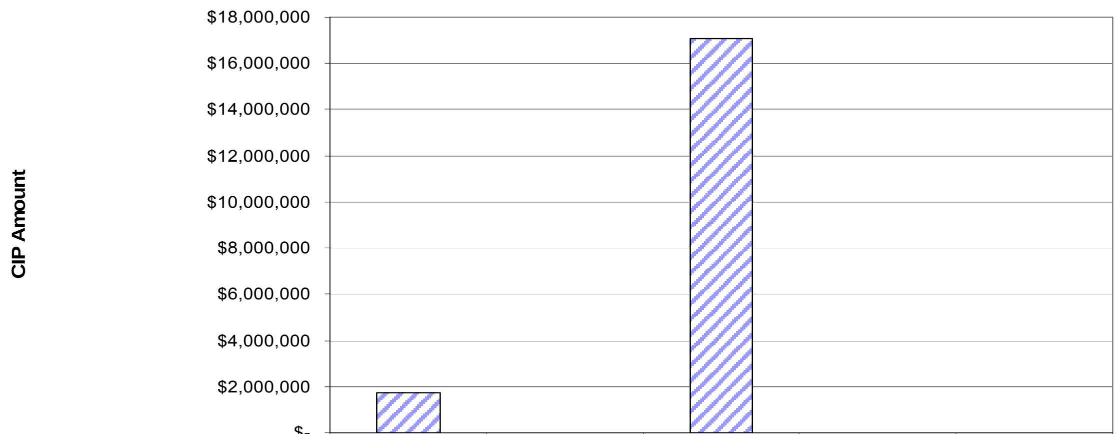
Inter-Tel Netsolutions, Inc. In June 2007, the Commission waived the requirements of HRS §§ 269-7(a) and 269-19 and HAR §§ 6-61-101 and 6-61-105, to the extent applicable, for the proposed indirect transfer of control of Inter-Tel Netsolutions, Inc. (“ITNS”) to Mitel Networks Corporation (“Mitel”).

10. 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, 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 Utilitiy CIP



	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07
Verizon Hawaii/Hawaiian Telcom	$1,734,200	$-	$17,090,401	$-	$-

Fiscal Year (FY)

E. PRIVATE WATER AND SEWAGE UTILITIES PROCEEDINGS.

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

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

1. COMMISSION REVIEWS AND APPROVES REQUESTED RATE INCREASES.

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

Hawaii-American Water Company ("HAWC"). In July 2006, the Commission approved HAWC's request for a interim rate increase of $789,078, or approximately 10.78% over revenues at present rates, for the 2006 calendar test year. Upon issuance of the final decision and order, any amount collected pursuant to this interim rate increase that is in excess of the increase determined by the final decision and order to be just and reasonable shall be refunded to HAWC's ratepayers, together with interest. HAWC provides wastewater collection, treatment, and disposal services to the residences, condominiums, and commercial establishments in the Hawaii Kai community on the island of Oahu.

KRWC Corporation, dba Kohala Ranch Water Company ("KRWC"). In May 2007, the Commission approved KRWC's request for a general rate increase of $572,267, or approximately 60.24% over revenues at present rates, for the 2006 calendar test year. KRWC is a public utility authorized to provide potable water service in Kohala, Hawaii.

Puhi Sewer & Water Co., Inc. ("Puhi Sewer"). In April 2007, the Commission issued a proposed decision and order approving a general rate increase of $55,274, or approximately 5% over revenues at present rates for the 2007 calendar test year. In the proposed decision and order, the Commission: (1) authorized an increase in the rates and charges assessed to its customers and (2) authorized the implementation of an automatic power cost adjustment clause. Puhi Sewer is a public utility that provides wastewater collection and treatment services to its residential, industrial, and commercial customers located in the Lihue/Puhi area on the island of Kauai.

Miller and Lieb Water Co., Inc. now known as Hawaiian Beaches Water Co., Inc. ("HBWC"). In June 2007, the Commission issued a decision and order approving a general rate increase of $374,134, or approximately 118.0%, over revenues at present rates for services rendered by HBWC for the test year ending December 31, 2007. HBWC proposed to increase its rates and charges and to reset its electric power adjustment clause ("EPAC"). Also approved were certain changes to its rules and regulations governing water services and certain financial transactions which would be used to finance proposed water system improvements. HBWC is authorized by the commission to provide water service to the residents and occupants of the Hawaiian Beaches subdivision, located in Pahoa, district of Puna, on the island of Hawaii.

Laie Water Co., Inc. ("LWC"). In June 2007, the Commission issued a proposed decision and order approving a general rate increase of $1,015,443, or approximately 132%, over revenues at present rates for Laie Water Company, Inc. ("LWC") for the test year ending December 31, 2007. Also approved was an Automatic Power Cost Adjustment Charge ("APCAC") that will allow LWC to increase or decrease its water service rates based on any corresponding increase or decrease in LWC's cost for electricity.

Launiupoko Water Company, LLC ("LWC"). In June 2007, the Commission issued a proposed decision and order approving a general rate increase of $42,248, or approximately 35.15%, over revenues at present rates, for Launiupoko Water Company, LLC for the test year ending December 31, 2007. Also approved was the establishment and the stipulated methodology of an automatic power cost adjustment charge ("APCAC") to account for the cost of electricity. LWC is authorized to provide utility water services within the services territory of West Maui.

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:

Manele Water Resources, LLC. In March 2007, the Commission granted Manele Water Resources, LLC a CPCN to provide sewer service in Manele-Hulopoe, Lanai; and approved its initial rules, regulations, implementation of an APCAC and rates for service. Also approved was a request to transfer ownership of the wastewater plant and facilities from Castle & Cooke Resorts, LLC ("CCR") to Manele Water Resources, LLC, and to enter into easement and licensing agreements with its affiliate companies to utilize certain lands upon which sewer and R-1 lines are located.

Kapalua Water Company, Ltd. In July 2006, the Commission approved Kapalua Water Company, Ltd.'s application to expand its existing service territory to provide both potable and non-potable water utility services to additional properties and to amend its rules and regulations to reflect the revised service territory. Kapalua Water Co., Ltd. is a wholly-owned subsidiary of Maui Land & Pineapple Company, Inc.

Kaupulehu Waste Water Company. In March 2007, the Commission approved Kaupulehu Waste Water Company's application to expand its existing service territory to provide wastewater treatment services to additional properties in the Kaupulehu area of Hawaii County, Hawaii.

Kapalua Waste Treatment Company, Ltd. In February 2007, the Commission approved Kapalua Waste Treatment Company, Ltd.'s application to expand its existing service territory to provide wastewater treatment services to additional properties in the Kapalua area of Maui, Hawaii. Kapalua Waste Treatment Co., Ltd. is a wholly-owned subsidiary of Maui Land & Pineapple Company, Inc.

Kukio Utility Company, LLC In June 2007, the Commission approved Kukio Utility Company, LLC's application to expand its existing service territory to provide water and wastewater treatment services to additional properties in the North Kona area of Hawaii.

3. COMMISSION REVIEWS AND CONDITIONALLY APPROVES SALE OF MOKULEIA WATER, LLC ("MWL") WATER SYSTEM ASSETS.

In May 2007, the Commission conditionally approved the joint request of Metropolitan Mortgage & Securities Co., Inc. ("Metropolitan") and North Shore Water Company, LLC's ("NSWC") to sell Mokuleia Water, LLC's ("MWL") water system assets to NSWC. Metropolitan owns 100% of the sole membership interest in MWL. On February 4, 2004, Metropolitan voluntarily petitioned the United States Bankruptcy Court for relief under Chapter 11 of the U.S. Bankruptcy Code. NSWC's sole member is Dillingham Ranch Aina LLC ("DRA"). In May 2006, DRA purchased the former Dillingham Ranch property upon which the water well used by MWL to provide water service in the Mokuleia area is located. All parties recognize the long term benefits of having the Board of Water Supply ("BWS") supply water to the users in the area, eliminating the need for MWL to continue providing service. The proposed transfer was approved subject to the following conditions: 1) NSWC is willing and able to provide the funding necessary to continue operations and maintenance of the system until the system is successfully transferred to the BWS or until some entity assumes ownership of the system and obtains a CPCN to provide this service. 2) NSWC must be willing and able to provide the funding necessary to upgrade or improve the system to meet BWS standards. 3) the rates charge to customers should be no more than the BWS rates that were effective as of October 1, 2006. 4) rates charged by MWL and NSWC shall remain unchanged, unless approval is sought from the commission 5) file quarterly statement of income or profit and loss 6) quarterly report should include the progress made to ensure that all existing customers in the area receive water service.

4. COMMISSION REVIEWS AND APPROVES PARTNERSHIP INTEREST PURCHASE AND SALE AGREEMENT OF KAUPULEHU WATER COMPANY ("KWC") AND KAUPULEHU WASTE WATER COMPANY ("KWWC").

In December 2006, the Commission approved Kaupulehu Water Company ("KWC") and Kaupulehu Waste Water Company ("KWWC") 's application for the sale and transfer of the partnership interests of KWC and KWWC to Hualalai Utility GP, LLC ("HUGL") and Hualalai Investors, LLC ("HIL").

5. COMMISSION REVIEWS AND APPROVES SALE AND TRANSFER OF MILLER AND LIEB WATER COMPANY, INC. ("MILLER AND LIEB") AND HAWAIIAN BEACHES WATER COMPANY, INC. ("HBWC").

In March 2007, the Commission approved the sale and transfer of Miller and Lieb utility assets, operations, and issuance of a certificate of public convenience and necessity ("CPCN") to Hawaiian-Beaches Water Company ("HBWC"), subject to certain conditions. HAWC will assume the duties to provide water service within the Hawaiian Beaches Subdivision, located in Pahoa, Puna District, island of Hawaii. In addition, the commission approves Miller and Lieb's financing leases for the two vehicles that are used as part of the utility operations.

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.

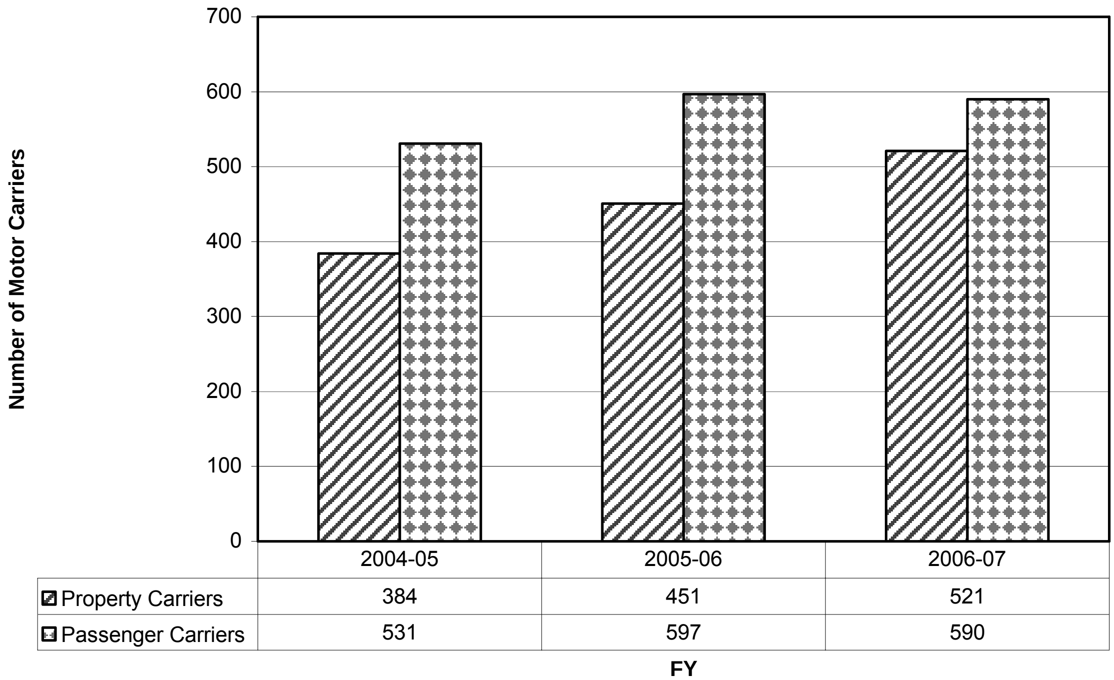
In accordance with its statutory requirements, the Commission performs the following functions in the regulation of motor carriers: (1) certification and licensing; (2) ratemaking; and (3) business regulation. During the Fiscal Year, the Commission issued many new certificates and licenses, reviewed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

a. COMMISSION APPROVES NEW MOTOR CARRIER CERTIFICATIONS.

The Commission regulates 590 passenger carriers and 521 property carriers in the State. During the Fiscal Year, new certificates or permits were issued to 174 motor carriers—69 passenger carriers and 105 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



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 48 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 eight (8) or ten (10) per cent. Other rate increases ranged from less than two (2) to four (4) per cent. The Commission approved the following motor carrier increases and decreases within the zone:

Type of Carrier/Company (County)	Rate Increase or Decrease
Dump Truck	
Dump Truck (Statewide)	10.00%
Kai's Trucking, LLC (Hawaii)	10.00%
Pine Enterprise, Inc., dba Honolulu Transfer and Storage (Oahu)	10.00%
Pomaika'i Transport Services, Inc., dba P.T.S.I. (Oahu)	10.00%
Correa Hauling, LLC (Maui)	10.00%
Dependable Hawaiian Express-Big Island, Inc. (Hawaii)	10.00%

ER Ranch & Services, LLC (Maui)	10.00%
JN Transport, Inc. (Maui)	10.00%
Matsuyama Brothers Trucking, Inc. (Hawaii)	10.00%
Wilber, Rodney Everett, dba R&C Hauling (Hawaii)	10.00%
CJ Peterson Services, Inc. (Oahu)	10.00%
De Ponte, Ida G., dba De Ponte & Sons (Hawaii)	10.00%
Genesis Trucking, LLC (Oahu)	10.00%
Iron Horse Trucking, LLC (Hawaii)	10.00%
JC Trucking, LLC (Hawaii)	10.00%
Pacis, Sanny P., dba Pacis Trucking (Oahu)	10.00%
Wassie's Trucking, LLC (Hawaii)	10.00%
Hanoa Trucking, Inc. (Oahu)	10.00%
Jay Lo's Trucking, LLC (Maui)	10.00%
Nakamura, Arthur Makoto, dba ATA's Hauling (Hawaii)	10.00%
Nick's Hauling Service, LLC (Hawaii)	10.00%
Royal Hawaiian Movers, Inc. (Oahu)	6.00%
J & S Trucking, LLC (Maui)	10.00%
Kaluahine, Fredstan K., dba Fredstan Kaulahine's Towing and Service (Kauai)	10.00%
T & S Trucking, LLC (Oahu)	10.00%
RRL, Inc. (Oahu)	8.00% to 10.00%
Tri Isle, Inc., dba Valley Isle Express & dba Haleakala Transportation & Warehousing (Maui)	8.00%
Pomaika'i Transport Services, Inc., dba P.T.S.I. (Oahu)	10.00%
Pomaika'i Transport Services, Inc., dba P.T.S.I. (Oahu)	4.00% to 9.00%
Brown's Trucking, Inc. (Kauai)	10.00%
General Commodities	
General Commodities (Kauai, Maui, Hawaii)	10.00%
Emoto, Derrik J., dba Roadmaster Services (Oahu)	10.00%
International Express, Inc. (Oahu)	1.20%
Brown's Trucking, Inc. (Kauai)	10.00%
RPM Transportation, Inc. (Oahu)	10.00%
DHX Maui, Inc. (Maui)	1.86%
DHX Maui, Inc. (Maui)	1.80%
Dependable Hawaiian Express, Inc., dba DHX (Oahu)	2.92%
Dependable Hawaiian Express, Inc., dba DHX (Oahu)	2.81%
Pine Enterprise, Inc., dba Honolulu Transfer and Storage (Oahu)	10.00%
Pomaika'i Transport Services, Inc., dba P.T.S.I. (Oahu)	10.00%
Correa Hauling, LLC (Maui)	10.00%
Dependable Hawaiian Express-Big Island, Inc. (Hawaii)	10.00%
ER Ranch & Services, LLC (Maui)	10.00%
Wilber, Rodney Everett, dba R&C Hauling (Hawaii)	10.00%
CJ Peterson Services, Inc. (Oahu)	10.00%
Direct Support Resources, Inc., dba DSR (Oahu)	5.00% to 9.50%
JC Trucking, LLC (Hawaii)	10.00%
Pacis, Sanny P., dba Pacis Trucking (Oahu)	10.00%
UPS Cartage Services, Inc. (Oahu)	10.00%
Wassie's Trucking, LLC (Hawaii)	10.00%
Hanoa Trucking, Inc. (Oahu)	10.00%
Jay Lo's Trucking, LLC (Maui)	10.00%

Nakamura, Arthur Makoto, dba ATA's Hauling (Hawaii)	10.00%
Nick's Hauling Service, LLC (Hawaii)	10.00%
Royal Hawaiian Movers, Inc. (Oahu)	6.00%
Honolulu Freight Service, Inc. (Oahu)	10.00%
J & S Trucking, LLC (Maui)	10.00%
Pacific Transfer, LLC (Oahu)	6.00%
Dependable Hawaiian Express, Inc., dba DHX (Oahu)	1.86% to 7.00%
MPD, Inc., dba Multi Petroleum Distributors (Oahu)	10.00%
RRL, Inc. (Oahu)	8.00% to 10.00%
Tri Isle, Inc., dba Valley Isle Express & dba Haleakala Transportation & Warehousing (Maui)	8.00%
Local Joint and Freight (Oahu)	8.00%
Knight's Unlimited, Inc. (Oahu)	5.90%
Tri Isle, Inc., dba Valley Isle Express & dba Haleakala Transportation & Warehousing (Maui)	8.19%
Pomaika'i Transport Services, Inc., dba P.T.S.I. (Oahu)	10.00%
Pomaika'i Transport Services, Inc., dba P.T.S.I. (Oahu)	4.00% to 9.00%
Matsuyama Brothers Trucking, Inc. (Hawaii)	10.00%
Kaluahine, Fredstan K., dba Fredstan Kaulahine's Towing and Service (Kauai)	10.00%
Bearing Sea Echo Tech, Inc. (Oahu)	1.50%
Tri Isle, Inc., dba Valley Isle Express & dba Haleakala Transportation & Warehousing (Maui)	8.00%
Household Goods	
Royal Hawaiian Movers, Inc., dba Royal Hawaiian Trucking & Warehousing (Hawaii, Kauai, Maui)	6.00%
Honolulu Freight Service, Inc. (Oahu)	10.00%
Pacific Transfer, LLC (Oahu)	6.00%
Tri Isle, Inc., dba Valley Isle Express & dba Haleakala Transportation & Warehousing (Maui)	8.19%
Others	
Local Specialized Freight (Oahu)	8.00%
Brown's Trucking, Inc. (Molokai)	10.00%
Break Bulk and Delivery	
Break Bulk and Delivery (Maui, Kauai, Hawaii)	10.00%
Break Bulk and Delivery (Oahu)	8.00%
Hawaii Transfer Co., LTD (Oahu)	5.50%
Dependable Hawaiian Express, Inc., dba DHX (Oahu)	7.00%
Tri Isle, Inc., dba Valley Isle Express & dba Haleakala Transportation & Warehousing (Maui)	8.00%
Passenger	
Jack's Tour, Inc. (Hawaii)	10.00%
Jack's Tour, Inc. (Maui)	10.00%
Tran's Quality, Inc. (Oahu)	7.00%
Naumu, Alexander C., dba Anytime Island Express (Kauai)	10.00%
Paradise Excursions, Inc. (Hawaii)	10.00%

Vesperas, Frank K., dba Ala Kai' Taxi and Tours (Hawaii)	10.00%
Armijo, Inc., dba Kapalua Executive Transportation Services & Executive Shuttle (Maui)	10.00%
Carey Hawaii, LLC (Oahu, Maui, Hawaii)	10.00%
Arthur's-Star 21, Inc., dba Maui Classic Coach and dba Arthur's Limousine Service (Maui)	5.00% to 10.00%
RDH Transportation Services, Inc., dba Superstar Hawaii Transit Service (Oahu)	10.00%
Handi-Ride Hawaii, LLC (Oahu)	6.67% to 10.00%
Mahalo Tours and Transportation, LLC (Maui)	8.30% and 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	
CNA Senior Transport, LLC (Oahu)	20.97%
CNA Senior Transport, LLC (Oahu)	29.53%
Island Transporter, LLC (Oahu)	33.3% to 114.3%
Jaime, Juan Jose, dba Hawaii Airport Shuttle (Oahu)	7.69% to 50.00%
Property	
Oahu Express, LTD (Oahu)	1.97% to 42.28%
Nohili Trucking, LLC (Oahu)	20.00%

2. WATER CARRIERS.

The Commission regulates four water carriers: Young Brothers, Limited ("Young Brothers"), a provider of inter-island cargo service between all major islands; Sea Link of Hawaii, Inc., 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 PROPOSAL TO TERMINATE YOUNG BROTHERS' LESS THAN CONTAINER LOAD SERVICE.

In April 2006, Young Brothers filed a tariff application requesting to eliminate its less than container load service to and from Kahului Harbor on Maui. Less than container load ("LCL") service consists of consolidating and deconsolidating cargo at the harbor for shippers that do not place their cargo in containers. In working with the State Department of Transportation ("DOT") to address critical shortages of harbor space, it was recognized that the harbor space shortage at Kahului's Pier 2 is the most acute. As a mitigation measure, Young Brothers proposed to eliminate effective January 1, 2007, its LCL service at Kahului Harbor. In May 2006, the Commission suspended Young Brothers' tariff application and opened an investigation to examine the merits of the filing. The Commission held public meetings on this matter throughout the State in June and July 2006. In August 2006, Young Brothers notified the Commission that it had entered into a memorandum of understanding ("MOU") with the Consumer Advocate and the DOT that addresses the issues in its application, and it subsequently filed a notice of withdrawal of its application. In the MOU, the DOT stated that it is willing to allocate certain additional harbor space to and complete certain harbor improvements for Young Brothers by dates specified in the MOU and Young Brothers stated that, provided that DOT makes such space and improvements as set forth in the MOU, it is willing to continue LCL service to and from Kahului Harbor for the periods and as otherwise described in the MOU. In September 2006, the Commission approved Young Brothers' withdrawal of its tariff application without prejudice.

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

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

In September 2006, the Commission approved Young Brothers' request for a 2006 across-the-board increase of 5.5 per cent of its rates pursuant to its Zone. The 5.5 per cent rate of return would provide a rate of return of 8.27 per cent on Young Brothers' average rate base for the test year. The Commission found that the proposal was reasonable and was within the threshold authorized by the Zone.

c. COMMISSION SUSPENDS YOUNG BROTHERS' REQUEST FOR A GENERAL RATE INCREASE.

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

In January 2007, the Commission suspended Young Brothers' application and opened an investigation to examine its merits.[14]

---

[14] In October 2007, the Commission approved a stipulation on settlement of all issues in the proceeding jointly filed by Young Brothers and the Consumer Advocate, thereby approving an

d. HONE HEKE CORPORATION TO FINANCE NEW VESSEL.

In January 2007, the Commission approved Hone Heke Corporation, dba Expeditions ("Hone Heke") request to finance the construction of a new vessel, M/V Expeditions 5, through a preferred ships mortgage from Bank of Hawaii.

G. ONE CALL CENTER PROCEEDING.

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.[15] Pursuant to Section 269E-6, HRS, subsurface facility 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 included: (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. On November 28, 2006, the Commission issued Decision and Order No. 23086, in Docket No. 05-0195, setting forth the methodology for determining the fees and assessments necessary to finance the administration and operation of the Hawaii One Call Center. In that same Decision and Order, the Commission established a billing and collection schedule for those fees and assessments. In a further related matter, the Commission, on February 9, 2007, issued Order No. 23251, in Docket No. 05-0195, establishing the methodology for public utilities falling under the purview of the one call law to petition the Commission for a possible credit toward One Call Center fees made available through sections 269E-6 and 269-30(d) HRS.

H. DOCKET PROCEEDINGS.

At the beginning of the Fiscal Year, 209 pending dockets were carried over from prior years, and 510 new dockets were opened during the Fiscal Year. Thus, during the Fiscal Year, a total of 719 dockets were before the Commission for review and consideration. Of the 719 dockets, 517 or approximately 72 per cent of the dockets were completed by the end of the Fiscal Year (June 30, 2007).

At the end of the Fiscal Year, 202 dockets were pending, including 80 dockets carried over from years prior to the Fiscal Year and 122 dockets that were opened during the Fiscal Year.

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

---

intrastate revenue increase of $4,391,105, or approximately 7.51 per cent over intrastate revenues at present rates for the 2007 calendar test year.

[15]The One Call Center began operations in January 2006 and is administered under a contract with One Call Concepts, Inc.

DOCKETS FILED, COMPLETED, AND PENDING
FISCAL YEARS 2004-05, 2005-06, and 2006-07

	Fiscal Year (July 1 - June 30)		
Dockets Pending on July 1	**2004-05**	**2005-06**	**2006-07**
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
New Dockets Opened in Fiscal Year	**2004-05**	**2005-06**	**2006-07**
Utilities			
Electric	30	25	36
Gas	2	2	1
Telecommunications	89	49	54
Private Water/Sewer	16	20	12
Subtotal	137	96	103
Transportation			
Motor Carriers	230	244	405
Water Carriers	1	2	2
Subtotal	231	246	407
Gas Price Cap	1	1	0
One Call Center	2	1	0
Total	371	344	510

DOCKETS FILED, COMPLETED, AND PENDING
FISCAL YEARS 2004-05, 2005-06, and 2006-07

Dockets Completed in FY	**2004-05**	**2005-06**	**2006-07**
Utilities			
Electric	38	25	42
Gas	1	2	2
Telecommunications	188	72	60
Private Water/Sewer	17	16	18
Subtotal	244	115	122
Transportation			
Motor Carriers	330	257	393
Water Carriers	0	4	0
Subtotal	330	261	393
Gas Price Cap	0	1	1
One Call Center	1	0	1
Total	575	377	517
Dockets Pending on June 30	**2004-05**	**2005-06**	**2006-07**
Utilities			
Electric	42	42	36
Gas	1	1	0
Telecommunications	40	17	11
Private Water/Sewer	12	16	10
Subtotal	95	76	57
Transportation			
Motor Carriers	142	129	141
Water Carriers	3	1	3
Subtotal	145	130	144
Gas Price Cap	1	1	0
One Call Center	1	2	1
Total	242	209	202

VI. RULEMAKING PROCEEDING.

The Commission initiated proceedings in 2001 aimed at developing administrative rules that would, in effect, adopt the National Electrical Safety Code to replace Commission General Order No. 6, Revised Rules for Overhead Electric Line Construction (effective Mar. 1969), and Commission General Order No. 10, Rules for Construction of Underground Electric and Communications Systems (effective Feb. 1968). That initiative, however, was discontinued for a period of time, and on March 30, 2006 the Commission, with the intention of bringing the State's rules on the subject up-to-date, and into greater conformance with current national safety and engineering standards, held a meeting at which it voted to begin anew the rulemaking process on proposed chapter 6-73, Hawaii Administrative Rules.

As part of the revived rulemaking proceeding, Commission staff reviewed records dating from the initial proceeding and, together with input from industry participants, revised the original draft rules to more accurately reflect current engineering and operating standards. After receiving a recommendation to proceed to public hearing from the Small Business Regulatory Review Board in May, 2006, and permission to proceed to public hearing from the Governor, the Commission published statewide notice, and on December 22, 2006, the Commission held a public hearing where it elicited comments from interested entities including Hawaiian Electric Company, Hawaiian Electric Light Company, Maui Electric Company and Kauai Island Utility Cooperative. The companies' recommendations were reviewed and analyzed by Commission staff and incorporated, along with certain modifications to the Code of particular applicability to the State, into a revised draft of HAR chapter 6-73.

On March 8, 2007, the Commission convened an open meeting at which it adopted the new chapter 6-73, HAR and repealed General Order Nos. 6 and 10. Governor Linda Lingle thereafter signed the new administrative rules and they became effective on April 23, 2007.

VII. ENFORCEMENT ACTIVITIES.

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

A. COMPLAINT RESOLUTION.

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

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

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

1. WRITTEN INFORMAL AND VERBAL COMPLAINTS.

As shown in the table below, the Commission received a total of 1,350 written informal and verbal complaints in the Fiscal Year against regulated and unregulated utility and transportation companies. Complaints on Oahu amounted to 935 out of 1,350 complaints statewide, or 69 per cent of the total complaints.

Total Informal and
Verbal Complaints
Fiscal Year 2007

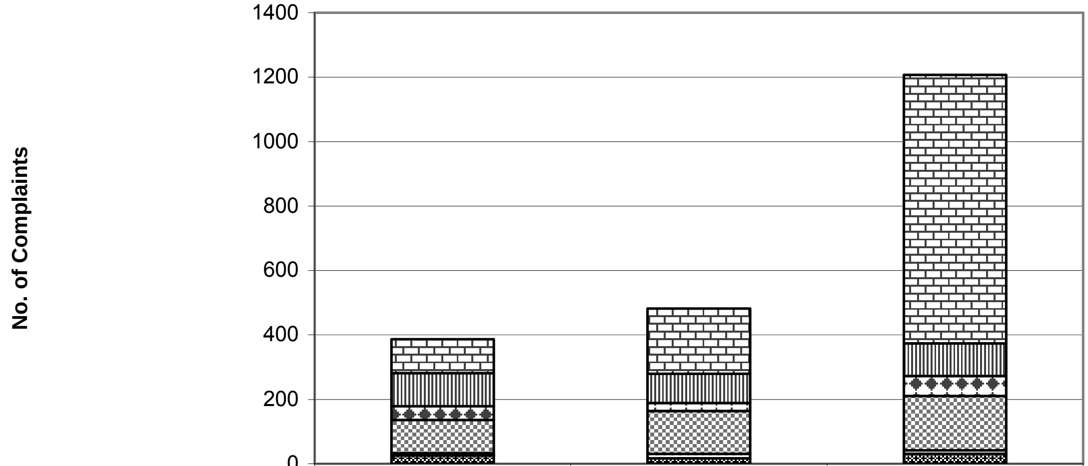
Utilities	
Telecommunications:	
Wireline (telephone)	833
Cellular and Paging	102
Other Telecom Providers	61
Total Telecom	996
Electricity	169
Gas	11
Water/Sewer	31
Transportation Carriers	
Water Carrier	7
Motor Carrier	136
Total Complaints	1350

For all islands, the Commission received 996 written informal and verbal complaints involving telecommunications providers. The majority of telecommunications complaints (833) related to Hawaiian Telcom. These complaints mainly involved service problems, mostly relating to interruptions, repairs, and installations. The cellular and paging companies received 102 complaints, mostly relating to billing problems (service contracts and charges). Most of the 61 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 169 complaints, mostly relating to billing problems (high consumption). The eleven (11) complaints against gas utilities were mostly relating to service and billing problems. The 31 complaints relating to water and sewer facilities were primarily over tariffs (rates and charges) and billing (high consumption) problems. The seven (7) complaints against water carriers involved primarily service problems and tariffs. Most of the 136 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.

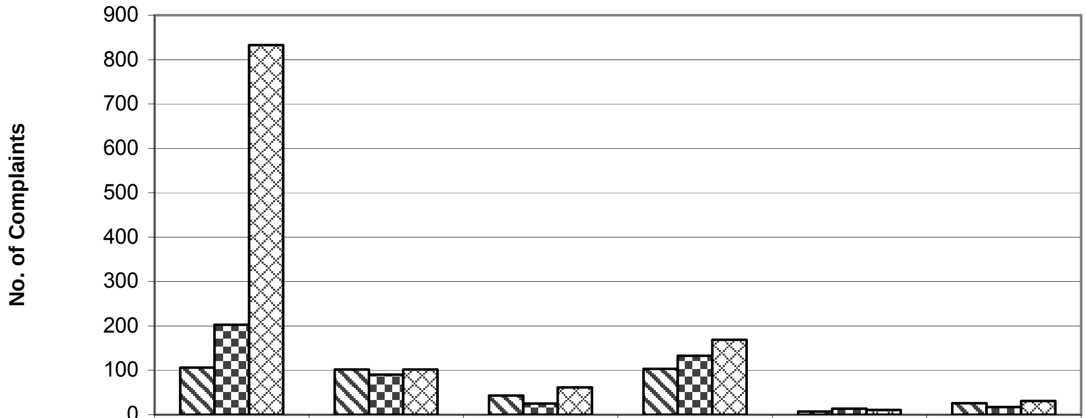
Figure 5
Informal and Verbal Complaints
Total All Utility Companies - Fiscal Years 2005-2007



	FY 2005	FY 2006	FY 2007
Telephone	106	203	833
Cellular and Paging	102	90	102
Other Telecom Providers	43	25	61
Electricity	103	133	169
Gas	7	14	11
Water/Sewer	26	17	31
Total Complaints	387	482	1207

FY

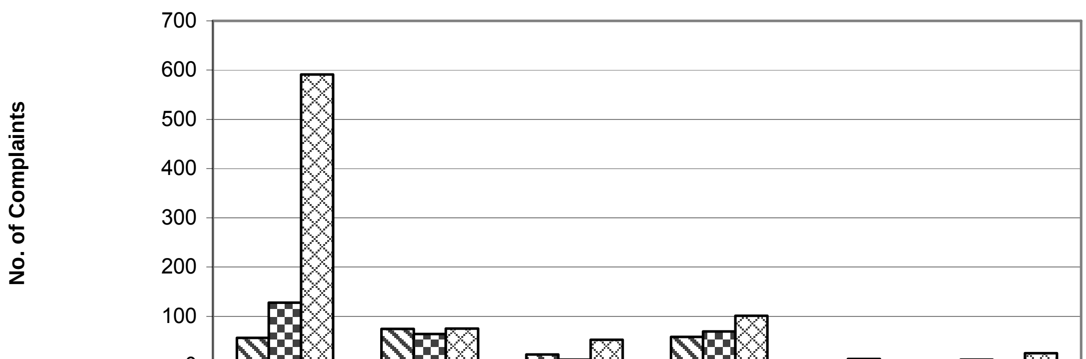
Figure 6
Informal and Verbal Complaints
Statewide - All Utility Companies - Fiscal Years 2005-2007



	Telephone	Cellular and Paging	Other Telecom Providers	Electricity	Gas	Water/Sewer
FY 2005	106	102	43	103	7	26
FY 2006	203	90	25	133	14	17
FY 2007	833	102	61	169	11	31

Type of Utility

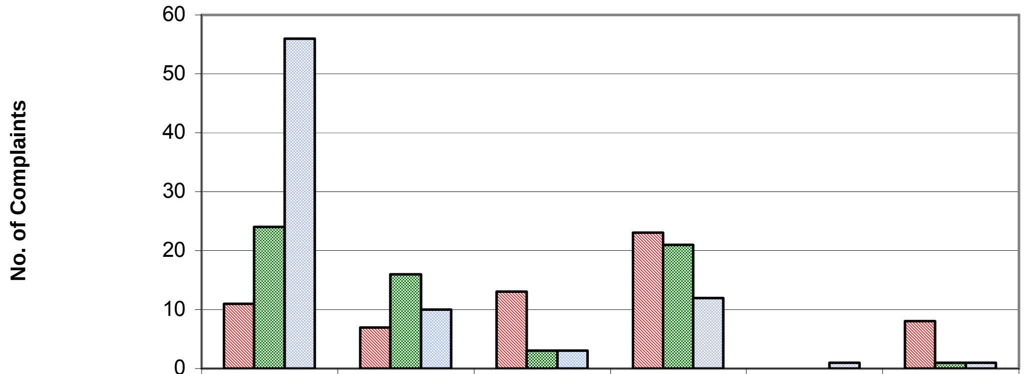
Figure 7
Informal and Verbal Complaints
Oahu - Utility Companies - Fiscal Years 2005-2007



	Telephone	Cellular and Paging	Other Telecom Providers	Electricity	Gas	Water/Sewer
FY 2005 Oahu	56	74	22	58	5	12
FY 2006 Oahu	128	64	12	69	13	8
FY 2007 Oahu	591	75	52	101	9	25

Type of Utility

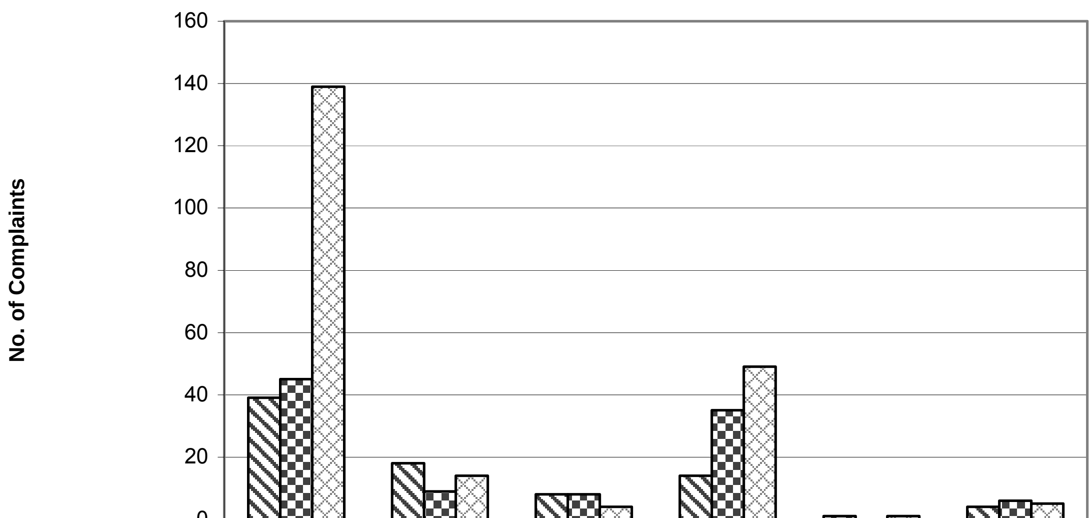
Figure 8
Informal and Verbal Complaints
Maui - Utility Companies - Fiscal Years 2005-2007



	Telephone	Cellular and Paging	Other Telecom Providers	Electricity	Gas	Water/Sewer
FY 2005 Maui	11	7	13	23	0	8
FY 2006 Maui	24	16	3	21	0	1
FY 2007 Maui	56	10	3	12	1	1

Type of Utility

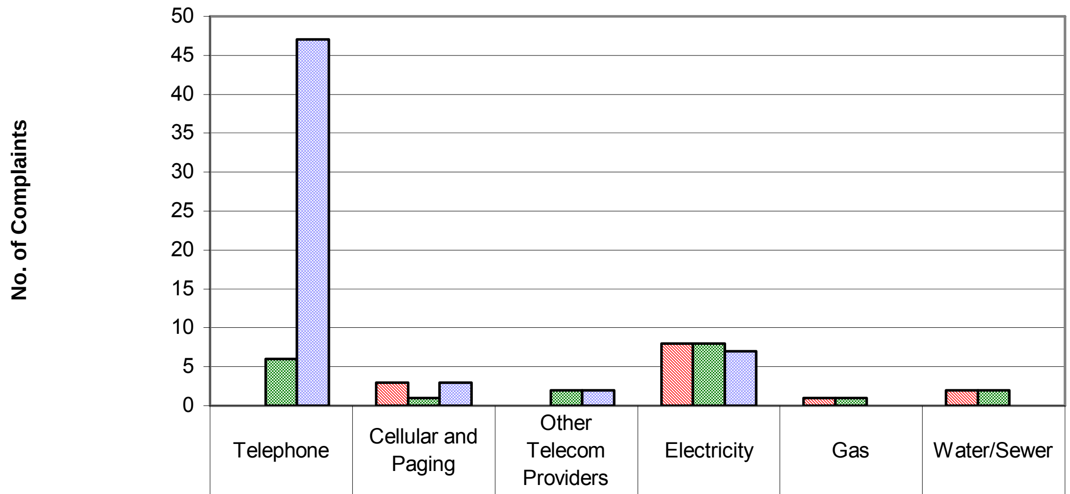
Figure 9
Informal and Verbal Complaints
Hawaii - Utility Companies - Fiscal Years 2005-2007



	Telephone	Cellular and Paging	Other Telecom Providers	Electricity	Gas	Water/Sewer
FY 2005 Hawaii	39	18	8	14	1	4
FY 2006 Hawaii	45	9	8	35	0	6
FY 2007 Hawaii	139	14	4	49	1	5

Type of Utility

Figure 10
Informal and Verbal Complaints
Kauai - Utility Companies - Fiscal Years 2005-2007

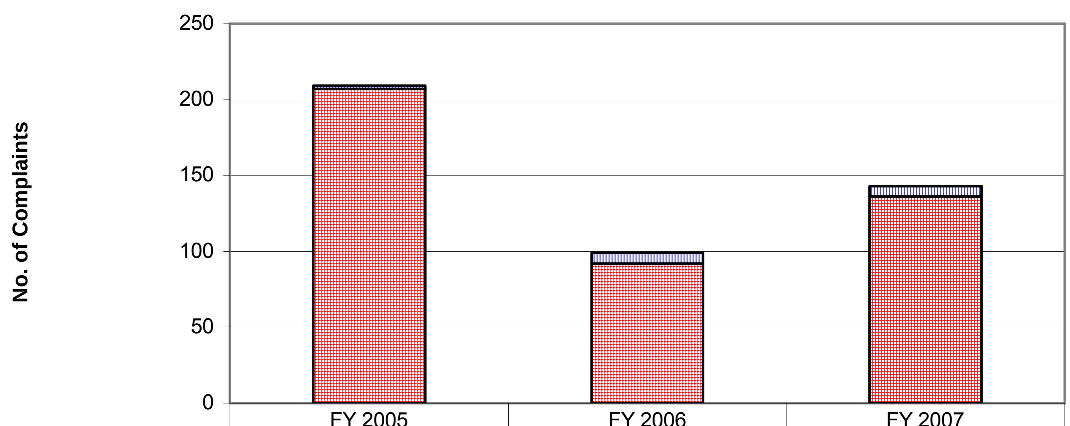


	Telephone	Cellular and Paging	Other Telecom Providers	Electricity	Gas	Water/Sewer
FY 2005 Kauai	0	3	0	8	1	2
FY 2006 Kauai	6	1	2	8	1	2
FY 2007 Kauai	47	3	2	7	0	0

Type of Utility

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

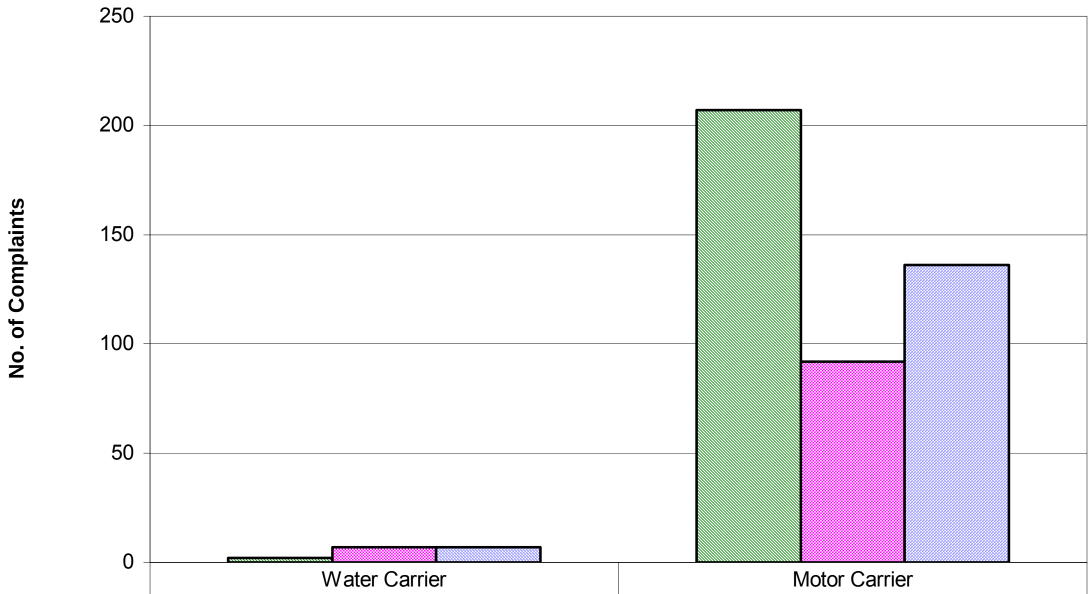
Figure 11
Informal and Verbal Complaints
Statewide All Transportation Carriers - Fiscal Years 2005-2007



	FY 2005	FY 2006	FY 2007
Water Carrier	2	7	7
Motor Carrier	207	92	136
Total Complaints	209	99	143

FY

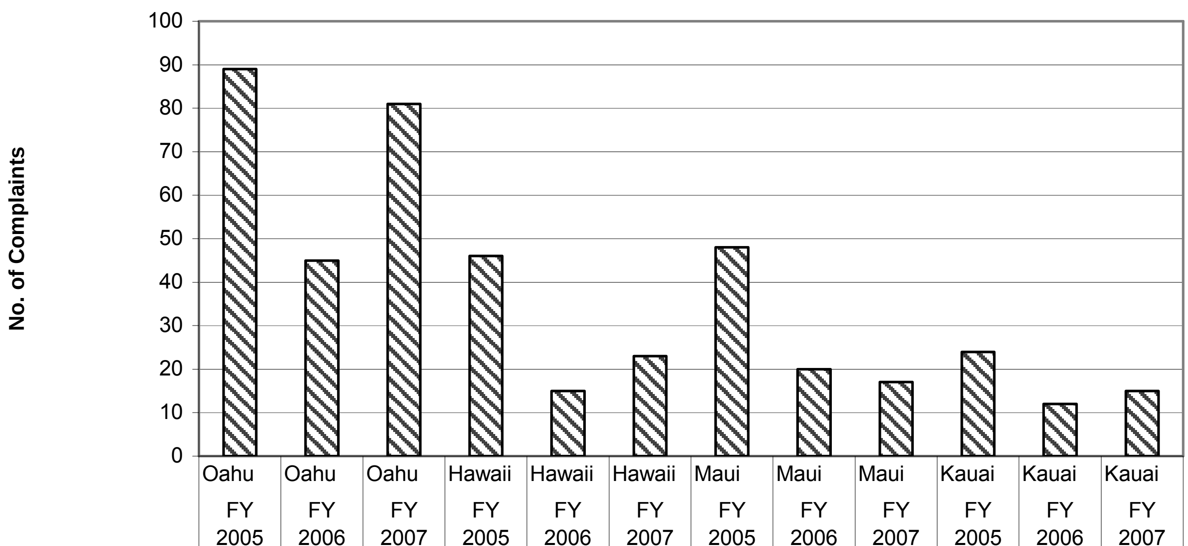
Figure 12
Informal and Verbal Complaints
Statewide - Water Carrier and Motor Carrier - Fiscal Years 2005-2007



	Water Carrier	Motor Carrier
FY 2005	2	207
FY 2006	7	92
FY 2007	7	136

Type of Carrier

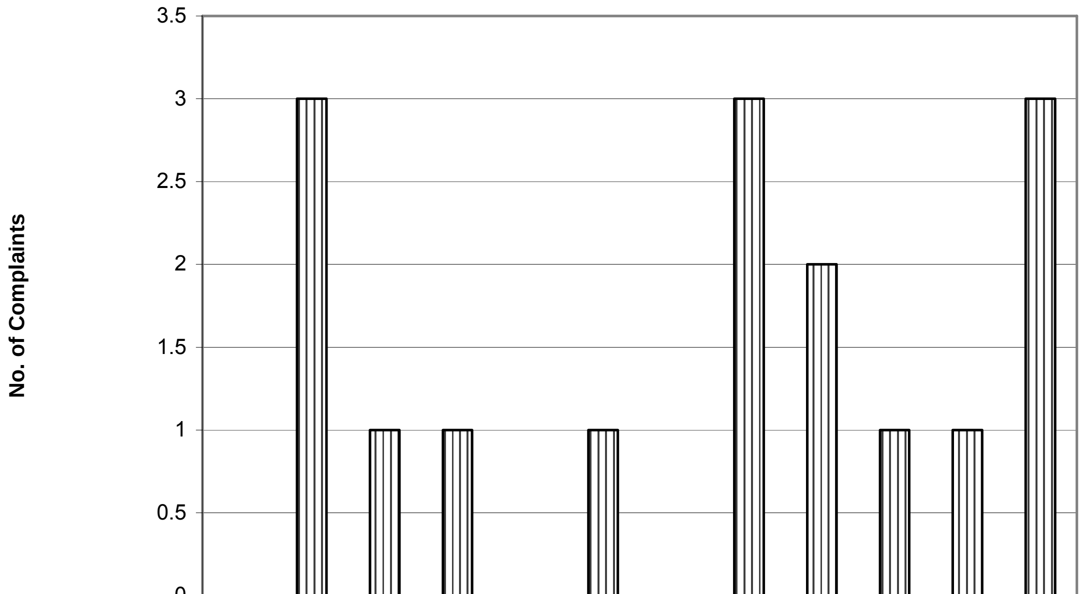
Figure 13
Informal and Verbal Complaints
Motor Carrier - By Islands - Fiscal Years 2005-2007



	Oahu FY 2005	Oahu FY 2006	Oahu FY 2007	Hawaii FY 2005	Hawaii FY 2006	Hawaii FY 2007	Maui FY 2005	Maui FY 2006	Maui FY 2007	Kauai FY 2005	Kauai FY 2006	Kauai FY 2007
Motor Carrier	89	45	81	46	15	23	48	20	17	24	12	15

Islands and FY

Figure 14
Informal and Verbal Complaints
Water Carrier - By Islands - Fiscal Years 2005-2007



	Oahu FY 2005	Oahu FY 2006	Oahu FY 2007	Hawaii FY 2005	Hawaii FY 2006	Hawaii FY 2007	Maui FY 2005	Maui FY 2006	Maui FY 2007	Kauai FY 2005	Kauai FY 2006	Kauai FY 2007
Water Carrier	0	3	1	1	0	1	0	3	2	1	1	3

2. INFORMAL COMPLAINT SURVEY.

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

In the Fiscal Year, the Commission received 144 responses to its informal complaint survey. Figures 15 to 18 show the results of the survey.

Figure 15
INFORMAL COMPLAINT SURVEY
Fiscal Year 2006-07

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

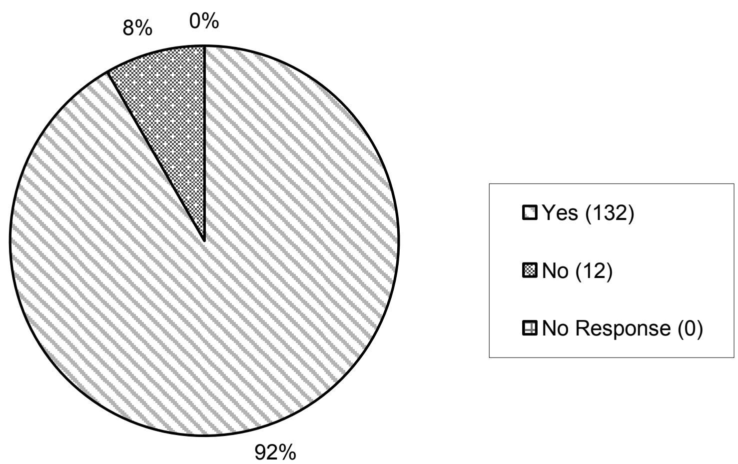


Figure 16
INFORMAL COMPLAINT SURVEY
Fiscal Year 2006-07

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

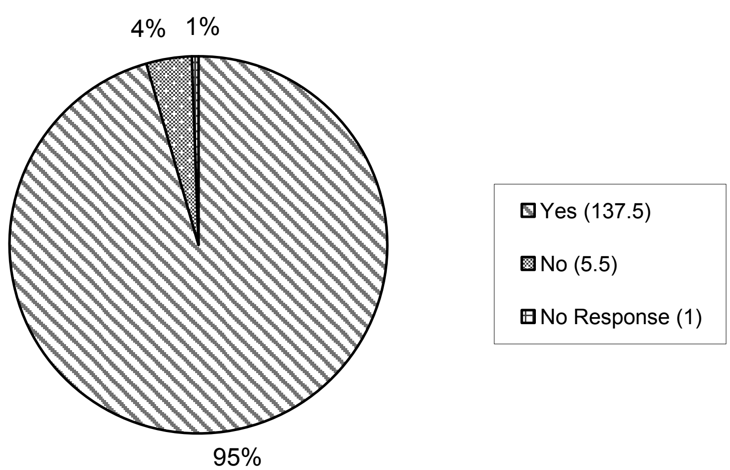


Figure 17
INFORMAL COMPLAINT SURVEY
Fiscal Year 2006-07

3-Was your complaint resolved to your satisfaction?

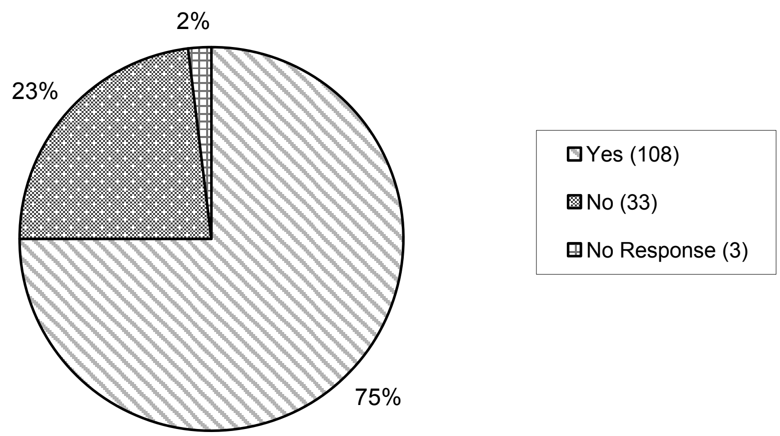
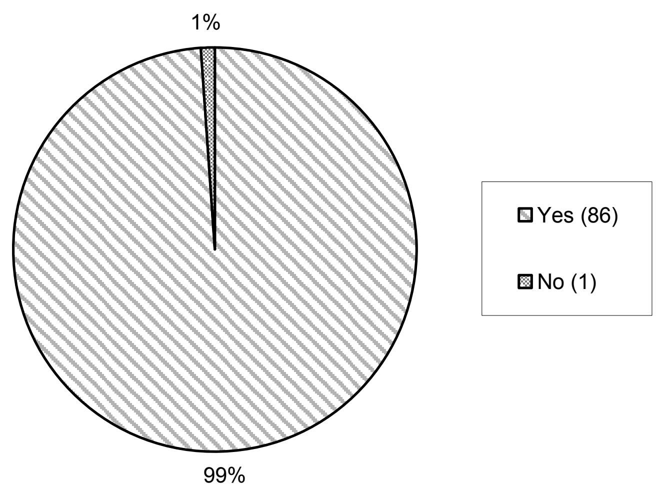


Figure 18
INFORMAL COMPLAINT SURVEY
Fiscal Year 2006-07

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



B. MOTOR CARRIER CITATIONS.

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

The Commission has been successful in its efforts to enforce the law by issuing citations to discourage illegal motor carrier activities on Oahu and the neighbor islands. Some of the common types of motor carrier citations relate to operating without a CPCN, the failure to maintain the required liability insurance and improper vehicle marking. For this Fiscal Year, civil penalties collected through motor carrier citations totaled $52,900. The Commission enforcement officers issued 106 motor carrier citations on the following islands: Oahu (77), Hawaii (10), Kauai (6), and Maui (13).

VIII. INQUIRIES.

In addition to consumer complaints, the Commission is responsible for collecting and compiling all inquiries concerning public utilities. Commission staff receives various requests for information relating to utilities, transportation carriers, gasoline price cap, one call center, general regulated matters, and non-regulated matters. As shown in the table below, the Commission received a total of 3,111 inquiries in the Fiscal Year, mostly relating to motor carriers.

Total Inquiries
Fiscal Year 2006-07

Utilities:	
Telecommunications	399
Electric	131
Gas	12
Water/Sewer	49
Transportation Carriers:	
Property Motor Carrier	1347
Passenger Motor Carrier	755
General Motor Carrier	236
Water Carrier	53
Gas Price Cap	1
One Call Center	1
General Regulated & Unregulated	127
Total Inquiries	3,111

IX. PETROLEUM INDUSTRY MONITORING.

A. Development of the Petroleum Industry Monitoring, Analysis and Reporting Program

Pursuant to HRS Chapter 486J, as amended, the Commission took steps during the Fiscal Year to establish the PIMAR Program, through which it will be regularly collecting information from every petroleum industry distributor and major fuel user, as defined in HRS Chapter 486J, with the objective of increasing petroleum industry transparency.

As part of the effort to implement petroleum monitoring components of HRS Chapter 486J, the Commission developed data collection forms and solicited input from the major stakeholders including major fuel users, refiners, marketers, and other distributors. Based on comments and information from these stakeholders, the Commission revised the forms to more accurately, effectively and efficiently gather information on fuel imports, exports, inventories, transaction volumes and prices, production, stocks, gross margins, and price changes. The first set of finalized forms was issued by the Commission on June 18, 2007.[16] At the same time, the Commission notified the reporting entities of the deadlines to: (1) register with the Commission by July 16, 2007; (2) submit first weekly reports, for the week of June 25, 2007, through July 1, 2007, by August 22, 2007; and (3) submit first monthly reports, for the calendar month of July 2007, by August 20, 2007. In addition, the Commission required reporting entities to submit historical data and information, using these forms, for the period of January 1, 2007, through June 24, 2007.

All of the data and information to be collected under the PIMAR Program will initially be inputted and maintained by Commission staff into an interim database, through which staff will be reviewing and analyzing the data. Meanwhile, the Commission continues to move forward in its efforts to develop an automated PIMAR reporting system, pursuant to HRS § 486J-5.5. During the Fiscal Year, the Commission met and worked with the Information and Communication Services Division of the State Department of Accounting and General Services to develop a request for proposals to obtain a consultant responsible for designing the specifications of an appropriate automated system for the PIMAR Program. The RFP is expected to be issued during Fiscal Year 2007-08.

Using the data and information collected from the reporting entities and other sources, the Commission will be developing separately its annual report for this Fiscal Year required under HRS § 486J-5. Please refer to that report for more information about the Commission's analyses and interpretation of the data collected under the PIMAR Program.

B. Gasoline Transaction Data

Since September 2005, the Commission has required petroleum manufacturers, wholesalers and jobbers to submit detailed gasoline wholesale sales and purchase information on a monthly basis. Hawaii's gas cap law, which initiated this data collection to monitor for compliance, remains suspended pursuant to Act 78, SLH 2006. However, the Commission continues to collect the transaction-specific volume and price information from gasoline wholesalers for each grade of gasoline sold throughout the State.[17] In addition, other gasoline price data is obtained through public sources and subscriptions from price information reporting services.

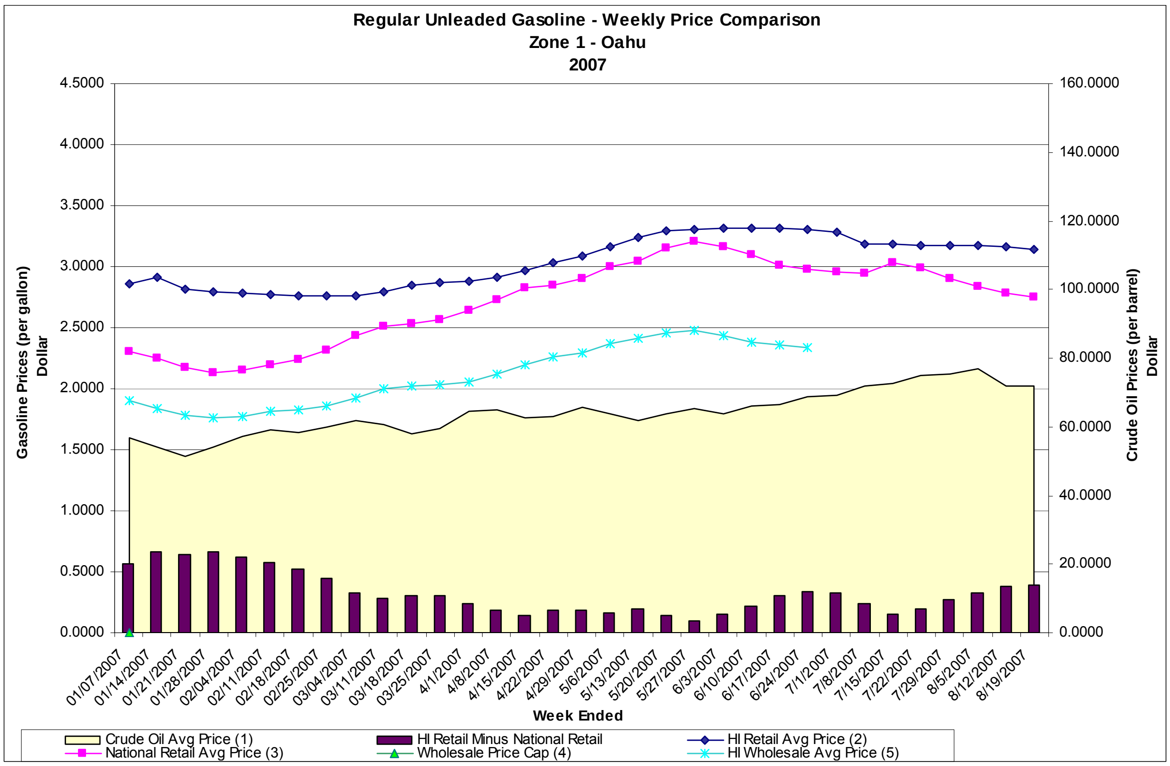
---

[16]The Commission clarified its reporting instructions by letter issued on August 10, 2007.

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

To help inform gasoline consumers and others, the Commission has been using the transaction-specific gasoline and other data to create graphs for viewing on its website. The on-line graphs present aggregated wholesale prices, retail prices and national retail prices for regular unleaded for each zone in the State, as defined in HRS § 486H-13(g). 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 22 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) 2007; (2) 2006; (3) 2005; and (4) 1999 – 2004. Similar information for the remaining Zones 2 – 8 is available on the Commission's website.

Figure Number 19



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

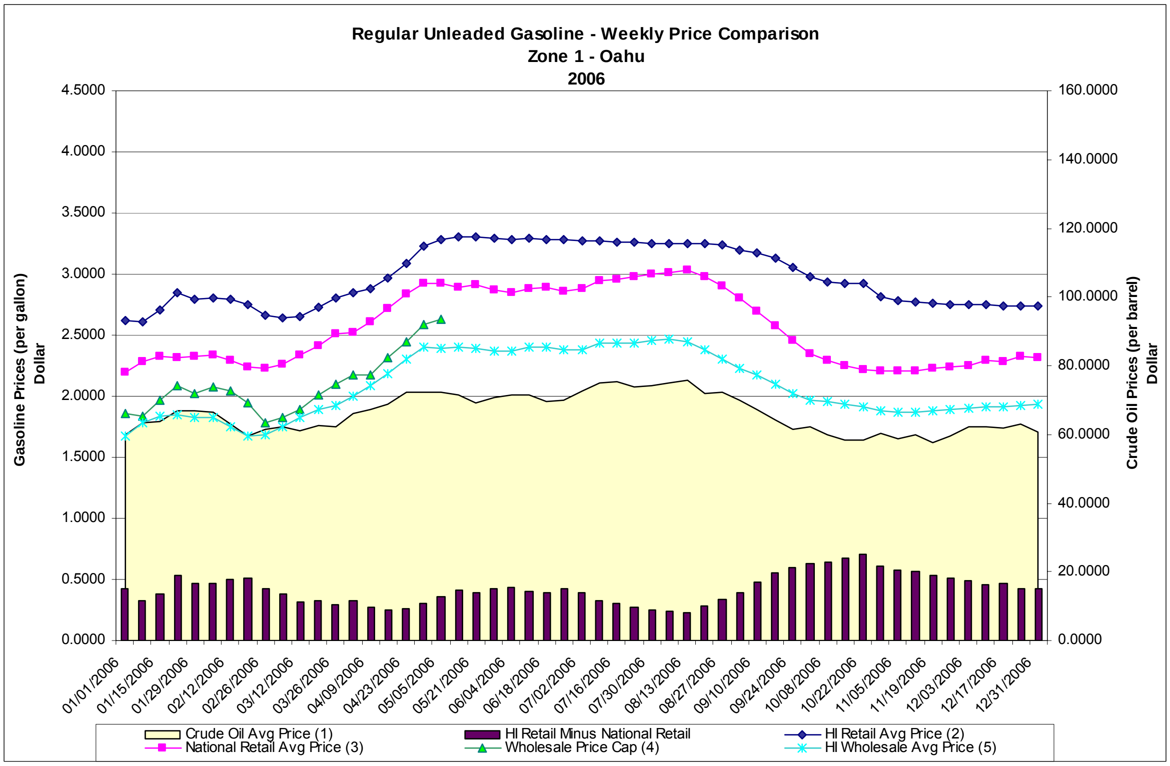
(2) Hawaii retail prices provided by Oil Price Information Service ("OPIS") were aggregated and averaged for the applicable week. OPIS reports retail prices of gasoline obtained from a sample of gasoline service stations located throughout the State of Hawaii. OPIS did not provide retail prices for certain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

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

(4) Maximum pre-tax wholesale price of gasoline ("Wholesale Price Cap") calculated pursuant to Hawaii Revised Statues 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.

Figure Number 20



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

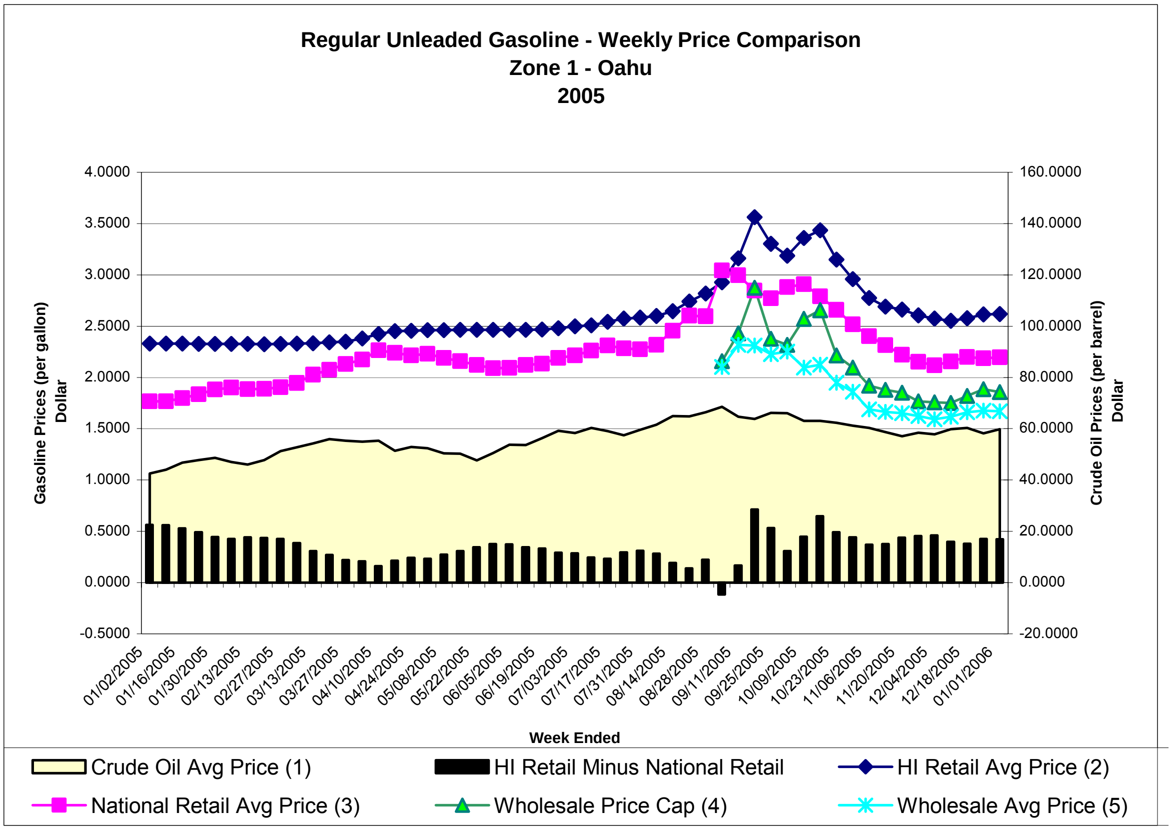
(2) Hawaii retail prices provided by Oil Price Information Service ("OPIS") were aggregated and averaged for the applicable week. OPIS reports retail prices of gasoline obtained from a sample of gasoline service stations located throughout the State of Hawaii. OPIS did not provide retail prices for certain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

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

(4) Maximum pre-tax wholesale price of gasoline ("Wholesale Price Cap") calculated pursuant to Hawaii Revised Statue 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.

Figure Number 21



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

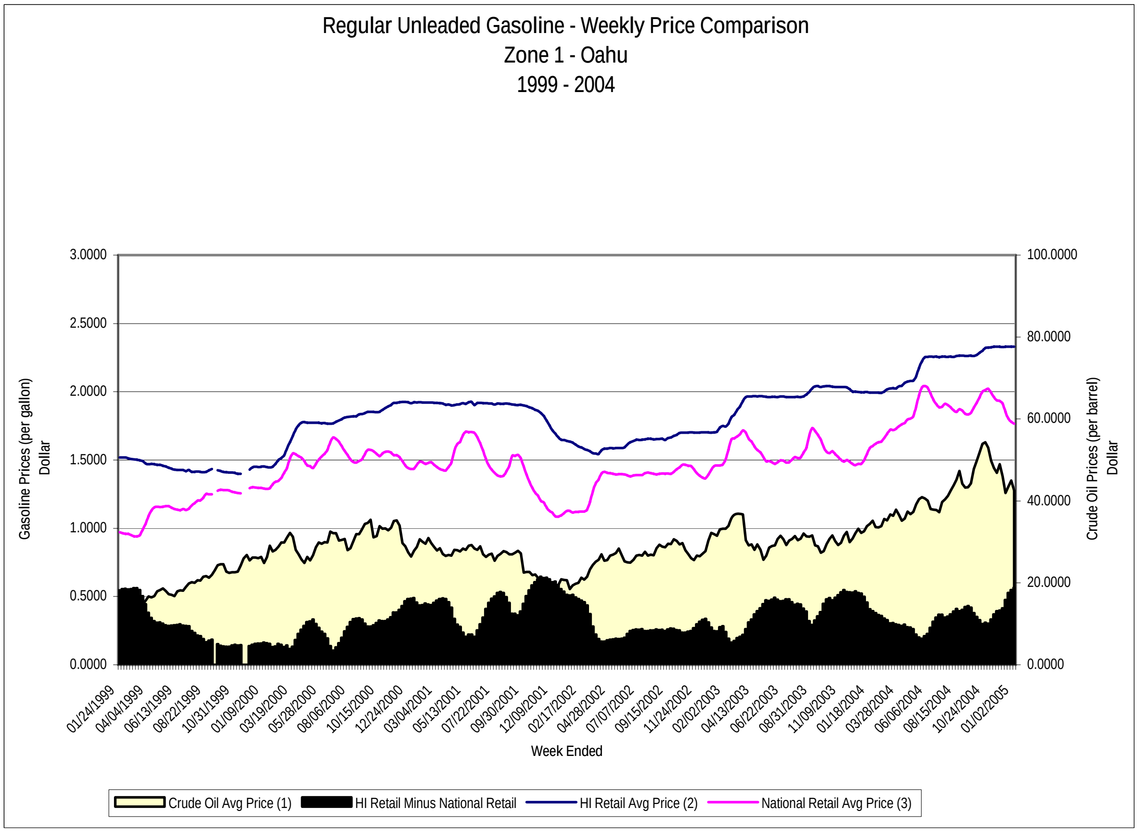
(2) Hawaii retail prices provided by Oil Price Information Service ("OPIS") were aggregated and averaged for the applicable week. OPIS reports retail prices of gasoline obtained from a sample of gasoline service stations located throughout the State of Hawaii. OPIS did not provide retail prices for certain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

Figure Number 22



(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.

X. FISCAL INFORMATION.

The Public Utilities Commission Special Fund ("Special Fund") is used to cover the operating expenses of the Commission and Consumer Advocate. The Special Fund's sources of income include public utility fees, motor carrier fees, penalties and interest, application and intervention filing fees, Hawaii One Call Center fees and duplication fees. For the Fiscal Year, the regulated utilities and transportation carriers paid $14,579,602 in public utility fees and $1,325,775 in motor carrier fees, respectively. The total revenues of the Commission's Special Fund were $16,062,885.

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 $8,205,197 for personal services and other current expenses as shown in the table below. Allotments for the Commission's personal services expenses were $3,440,525 for 41 authorized permanent positions. The Commission was allotted $4,902,499 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 2006-07 Appropriation	FY 2006-07* Allotment
Personal Services	$3,302,698	$3,440,525
Other Current Expense	4,902,499	4,902,499
Total	$8,205,197	$8,343,024

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 $8,716,533 from the Special Fund was transferred to the general fund. This excess balance amount includes the balance of the moneys appropriated through Act 160, SLH 2006 (2006 Appropriations Act).

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

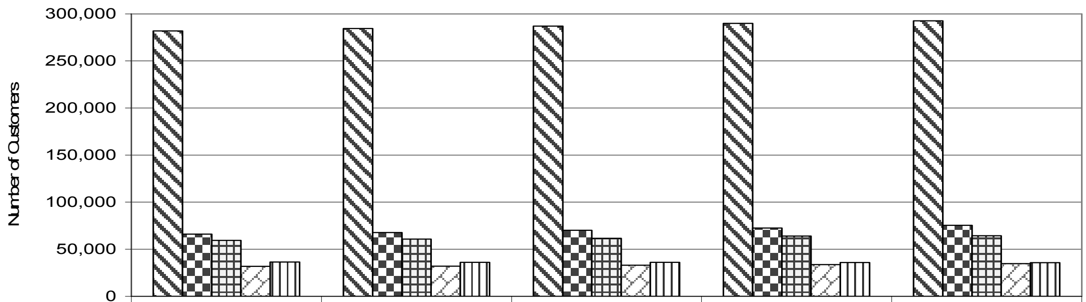
A. UTILITY COMPANY OPERATIONS.

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 2002 – 2006 time period, as shown in Figure 23.[18]

[18]Sources: HECO 2006 Service Reliability Report, MECO 2006 Service Reliability Report, HELCO 2006 Service Reliability Report, TGC Annual Reports and KIUC Annual Report to the PUC.

Figure 23
Number of Electric and Gas Utility Customers
2002 - 2006



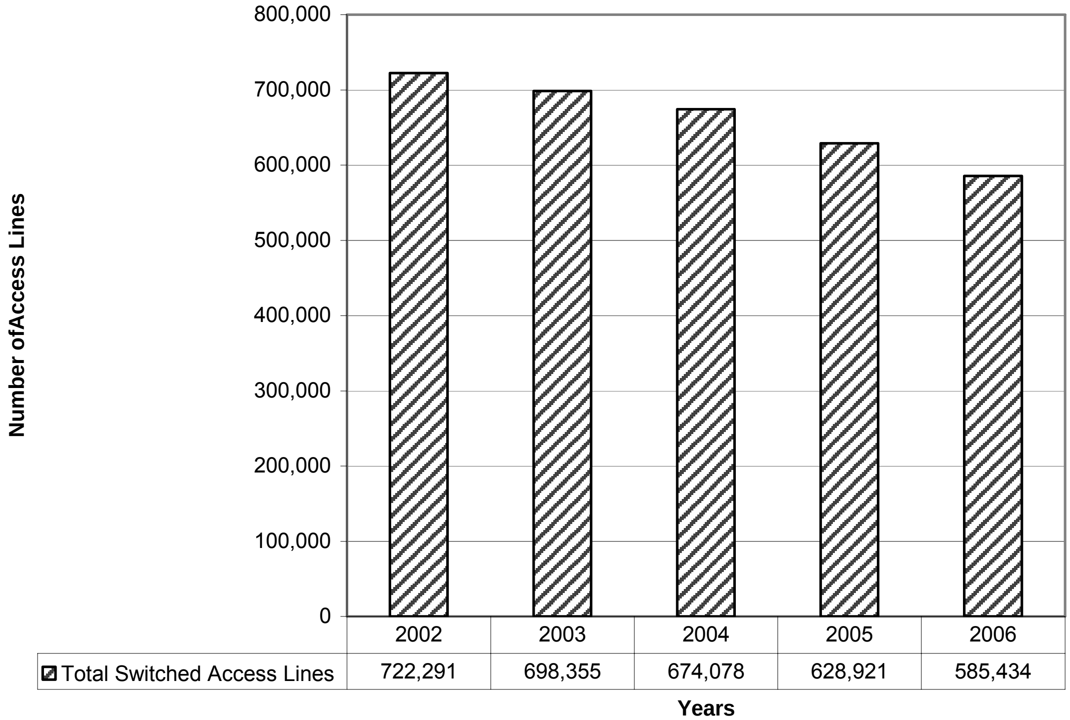
	2002	2003	2004	2005	2006
HECO	281,922	284,460	287,074	289,972	292,554
HELCO	66,034	67,879	70,124	72,513	75,353
MECO	59,410	60,651	61,684	63,901	64,405
KIUC	31,768	32,065	32,950	33,772	34,671
TGC	36,322	36,093	36,094	35,977	35,820

Annual Periods

As shown in Figure 24, 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.[19] 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).

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

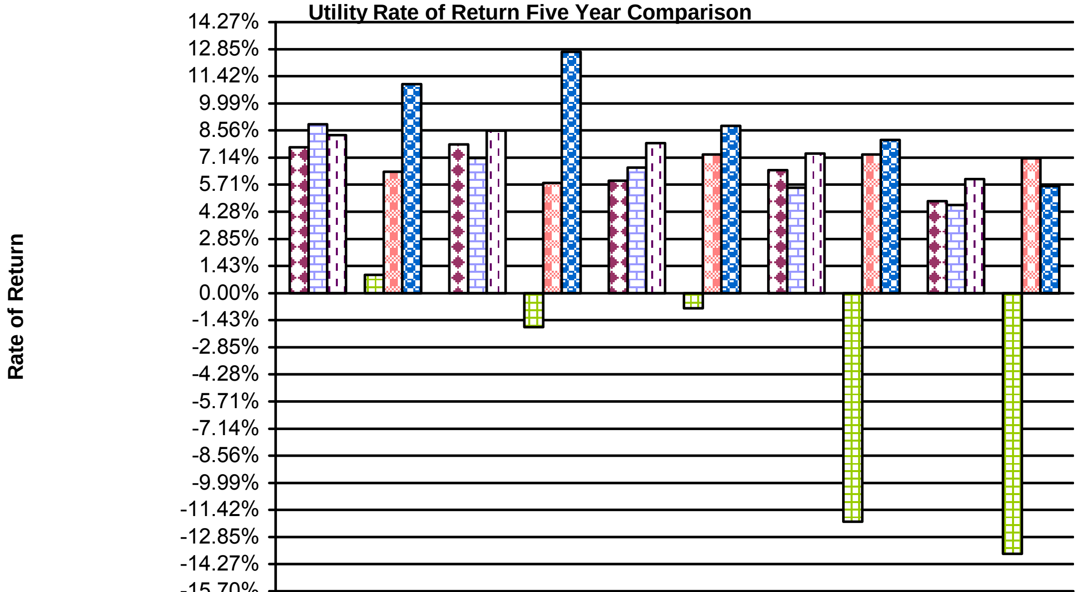
Figure 24
Hawaiian Telcom Total Switched Access Lines
2002-2006



2. RATES OF RETURN EARNED BY UTILITY COMPANIES.

Each regulated utility is entitled to an opportunity to earn a fair rate of return. Figure 25 summarizes the recent history and trends of rates of return earned by the various regulated utilities.

Figure 25
Utility Rate of Return Five Year Comparison



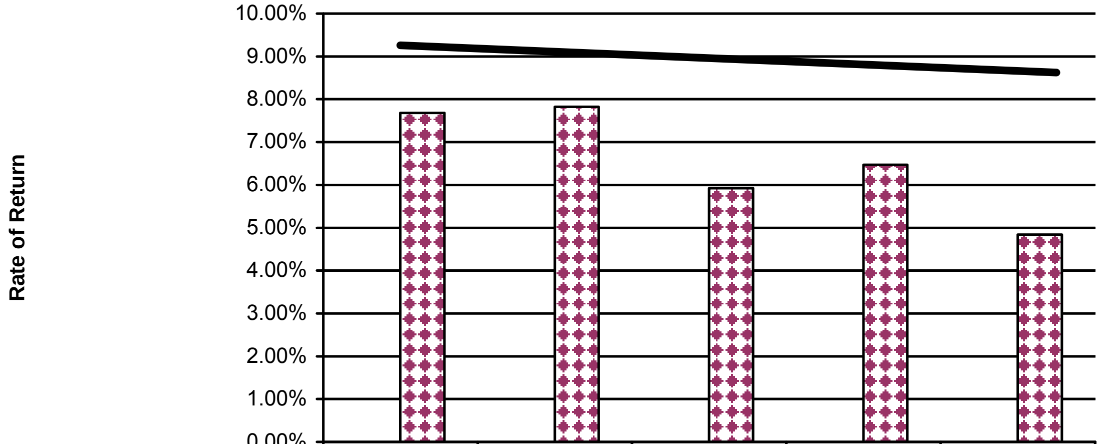
	Jun '03	Jun '04	Jun '05	Jun '06	Jun '07
HECO	7.68%	7.82%	5.92%	6.47%	4.84%
HELCO	8.89%	7.12%	6.61%	5.54%	4.64%
MECO	8.31%	8.55%	7.89%	7.35%	6.00%
KE/KIUC (1)	n/a (4)	n/a (4)	n/a (4)	n/a (4)	n/a (4)
Hawaiian Telcom (2)	0.96%	-1.80%	-0.80%	-12.04%	-13.72%
TGC (3)	6.40%	5.80%	7.30%	7.30%	7.10%
Young Brothers	11.00%	12.70%	8.81%	8.06%	5.64%

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 26 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 five (5) years.

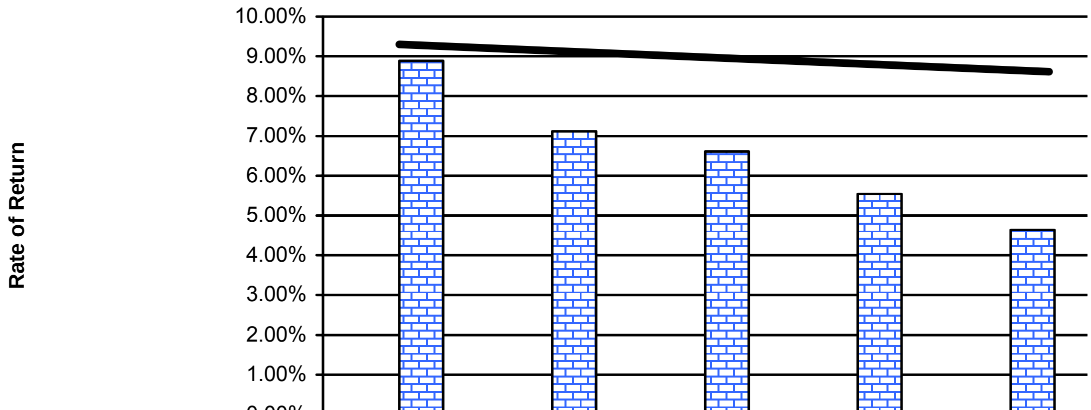
Figure 26
Five Year Rate of Return Comparison - Hawaiian Electric Company



	Jun '03	Jun '04	Jun '05	Jun '06	Jun '07
Authorized Rate of Return	9.16%	9.16%	9.16%	8.66%	8.66%
Rate of Return	7.68%	7.82%	5.92%	6.47%	4.84%

12 MTD Ended June 30

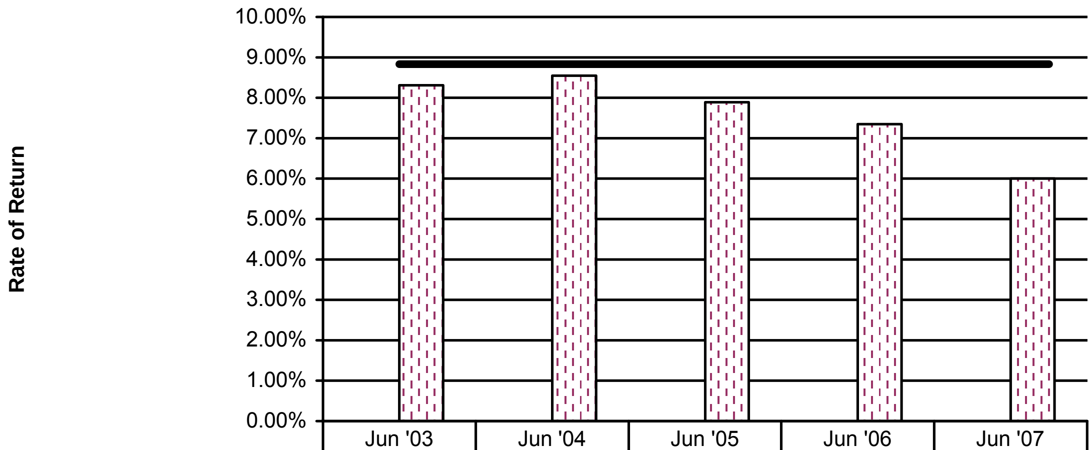
Figure 27
Five Year Rate of Return Comparison - Hawaii Electric Light Company



	Jun '03	Jun '04	Jun '05	Jun '06	Jun '07
Authorized Rate of Return	9.14%	9.14%	9.14%	9.14%	8.33%
Rate of Return	8.89%	7.12%	6.61%	5.54%	4.64%

12 MTD Ended June 30

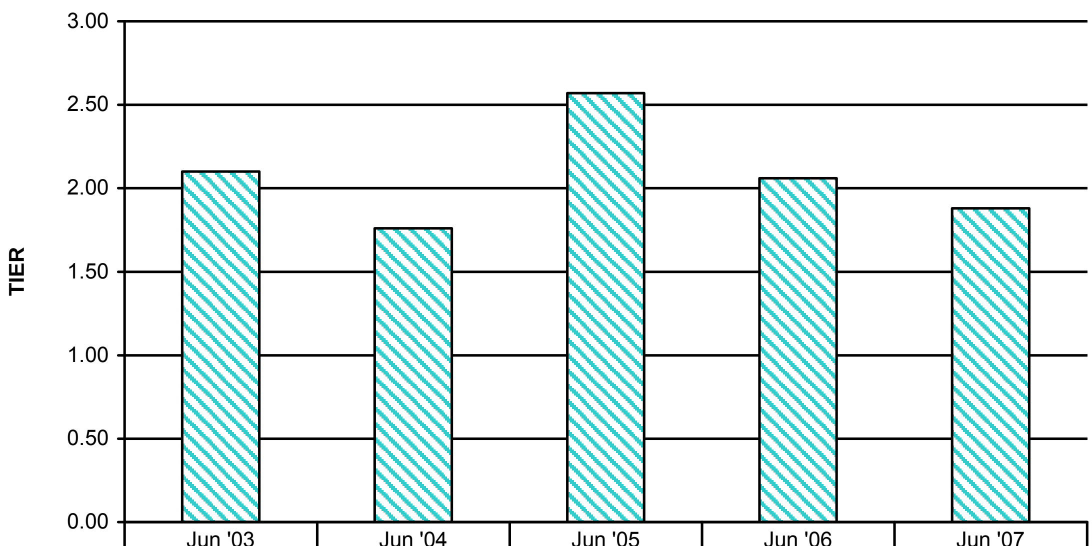
Figure 28
Five Year Rate of Return Comparison - Maui Electric Company



	Jun '03	Jun '04	Jun '05	Jun '06	Jun '07
Authorized Rate of Return	8.83%	8.83%	8.83%	8.83%	8.83%
Rate of Return	8.31%	8.55%	7.89%	7.35%	6.00%

12 MTD Ended June 30

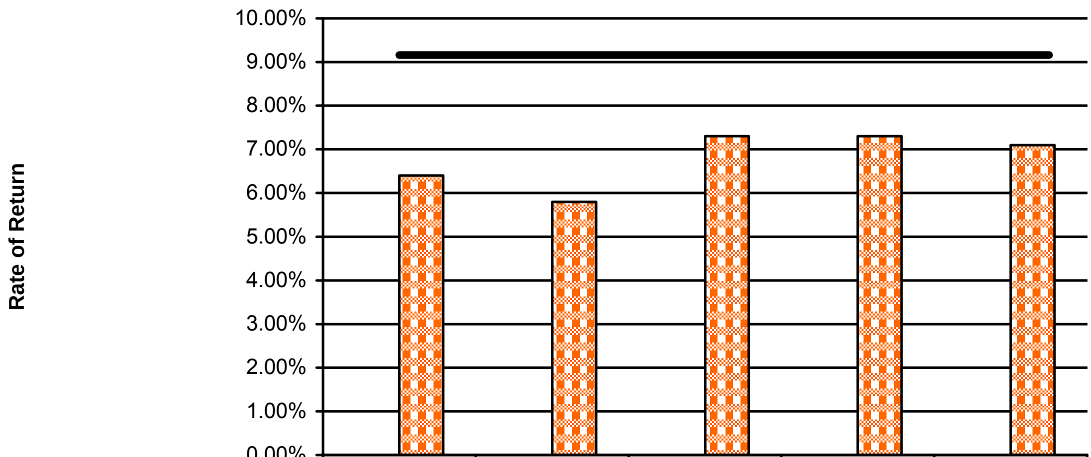
Figure 29
Five Year TIER Comparison - KIUC



	Jun '03	Jun '04	Jun '05	Jun '06	Jun '07
TIER	2.1	1.76	2.57	2.06	1.88

12 MTD Ended June 30

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



	Jun '03	Jun '04	Jun '05	Jun '06	Jun '07
Authorized Rate of Return	9.16%	9.16%	9.16%	9.16%	9.16%
Rate of Return	6.40%	5.80%	7.30%	7.30%	7.10%

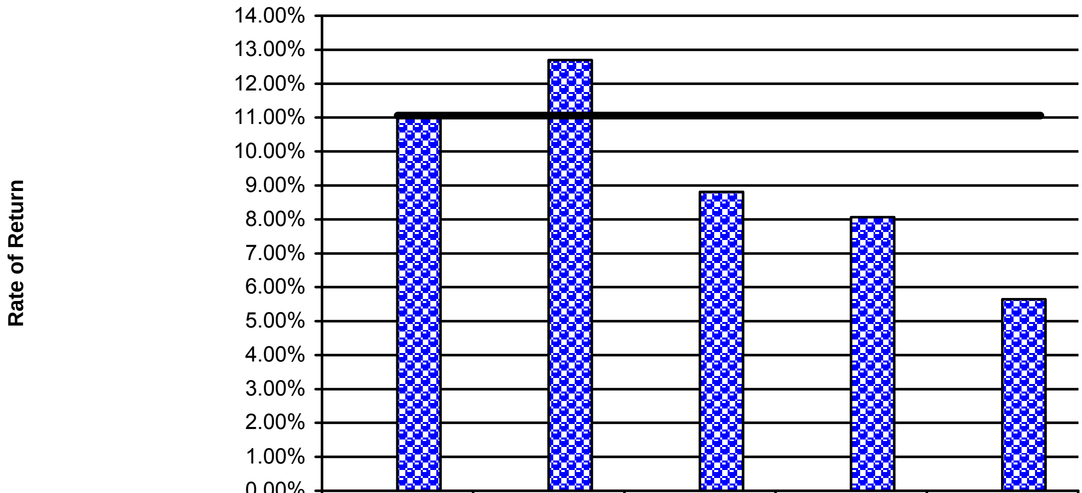
12 MTD Ended June 30

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

	Jun '03	Jun '04	Jun '05	Jun '06	Jun '07
Authorized Rate of Return	9.73%	9.73%	9.73%	9.73%	9.73%
Rate of Return	0.96%	-1.80%	-0.80%	-12.04%	-13.72%

12 MTD Ended June 30

Figure 32
Five Year Rate of Return Comparison - Young Brothers



	Jun '03	Jun '04	Jun '05	Jun '06	Jun '07
Authorized Rate of Return	11.06%	11.06%	11.06%	11.06%	11.06%
Rate of Return	11.00%	12.70%	8.81%	8.06%	5.64%

12 MTD Ended June 30

B. FORECASTED CAPITAL IMPROVEMENTS.

1. ELECTRIC UTILITY CIPs.

The total 2007 capital expenditure budget forecasted for HECO is approximately $140 million. Some of the major Capital Improvement Projects ("CIPs") in HECO's 2007 budget include the construction of the Campbell Industrial Park Generating Station and transmission line, miscellaneous underground service and extensions, transformer and equipment purchase/service, construction of the Mamala Substation, and East Oahu transmission project.

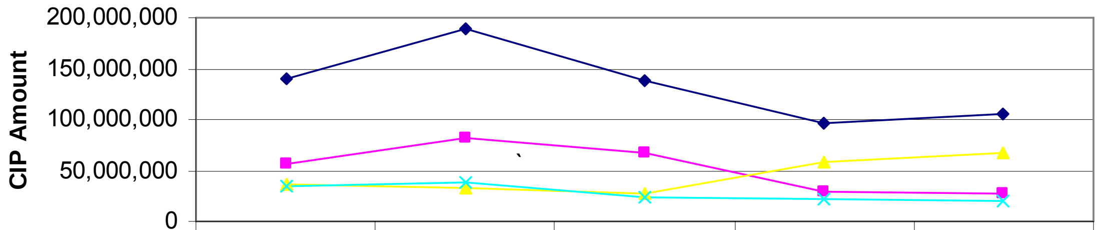
The total 2007 capital expenditure budget forecasted for HELCO is approximately $56 million. HELCO's major CIPs for 2007 include the purchase and installation of the Keahole 18 MW Steam Turbine, purchase of transformers and related equipments, poleline replacement and relocation project, reconductoring of Waimea-Ouli 7300 transmission line for increase capacity, and minor overhead extensions.

The total 2007 capital expenditure budget forecasted for MECO is approximately $36 million. Some of the major CIPs in MECO's 2007 budget include the installation of underground services and extensions, and operation and maintenance of a combined heat and power (CHP) system at Manele Bay Hotel.

The total 2007 capital expenditure budget forecasted for KIUC is approximately $35 million. KIUC's major CIP for 2007 include the Lydgate Substation Rebuild Project.

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



	2007	2008	2009	2010	2011
HECO	140,000,000	189,000,000	139,000,000	96,000,000	106,000,000
HELCO	56,000,000	81,000,000	67,000,000	30,000,000	27,000,000
MECO	36,000,000	32,000,000	27,000,000	59,000,000	68,000,000
KIUC	35,073,800	37,719,500	23,042,200	20,923,700	19,770,200

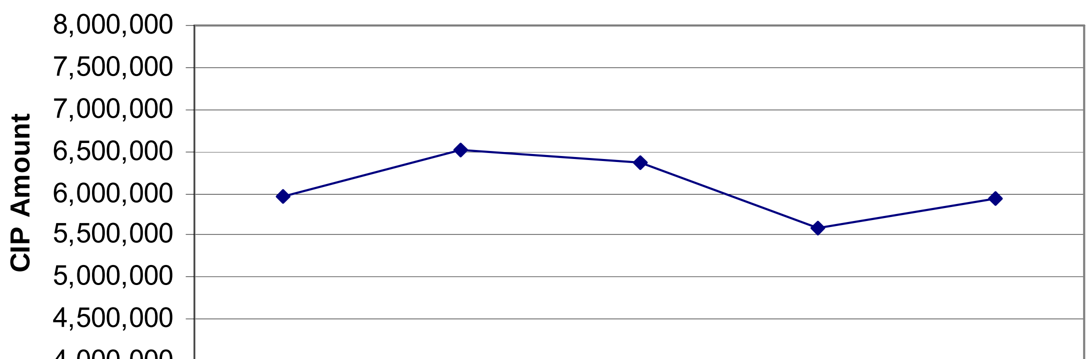
Year

2. GAS CIPs

The total 2007 capital expenditure budget forecasted for TGC is approximately $6 million. Some of the major projects in the TGC 2007 budget include the utility main pipeline renewal and Propane Air SNG Plant projects on Oahu.

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

Figure 34
TGC Five-Year Capital Expenditures Forecast



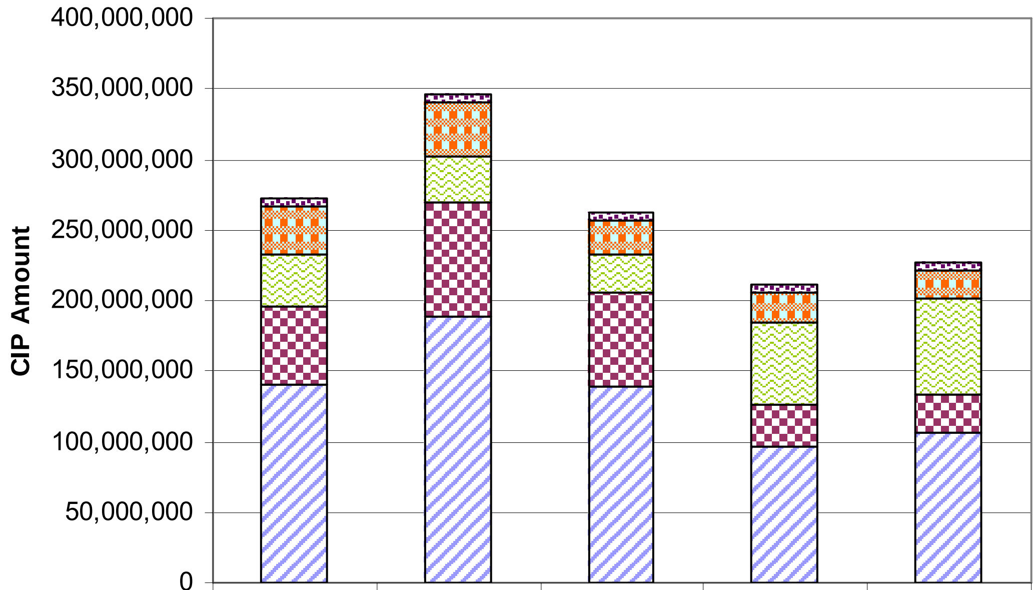
	2007	2008	2009	2010	2011
TGC	5,960,000	6,527,000	6,376,000	5,576,000	5,941,000

Year

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

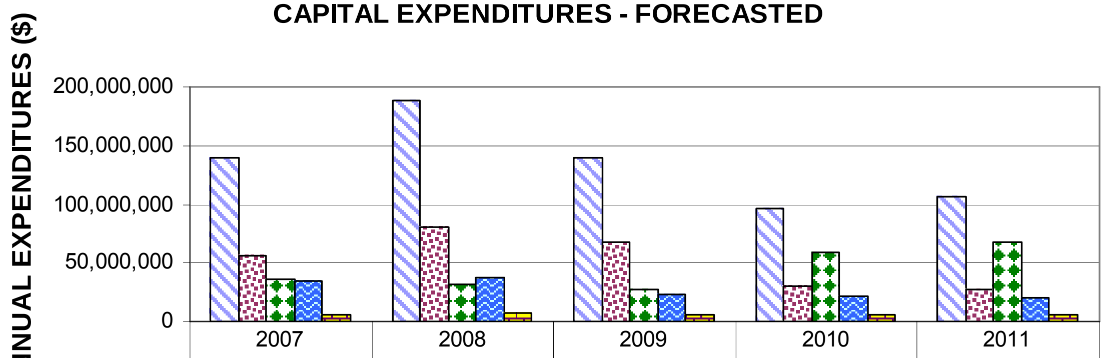


	2007	2008	2009	2010	2011
TGC	5,960,000	6,527,000	6,376,000	5,576,000	5,941,000
KIUC	35,073,800	37,719,500	23,042,200	20,923,700	19,770,200
MECO	36,000,000	32,000,000	27,000,000	59,000,000	68,000,000
HELCO	56,000,000	81,000,000	67,000,000	30,000,000	27,000,000
HECO	140,000,000	189,000,000	139,000,000	96,000,000	106,000,000
Total CIP	273,033,800	346,246,500	262,418,200	211,499,700	226,711,200

Year

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

Figure 36
CAPITAL EXPENDITURES - FORECASTED



	2007	2008	2009	2010	2011
HECO	140,000,000	189,000,000	139,000,000	96,000,000	106,000,000
HELCO	56,000,000	81,000,000	67,000,000	30,000,000	27,000,000
MECO	36,000,000	32,000,000	27,000,000	59,000,000	68,000,000
KIUC	35,073,800	37,719,500	23,042,200	20,923,700	19,770,200
TGC	5,960,000	6,527,000	6,376,000	5,576,000	5,941,000

C. RATES OF MAJOR UTILITY COMPANIES.

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

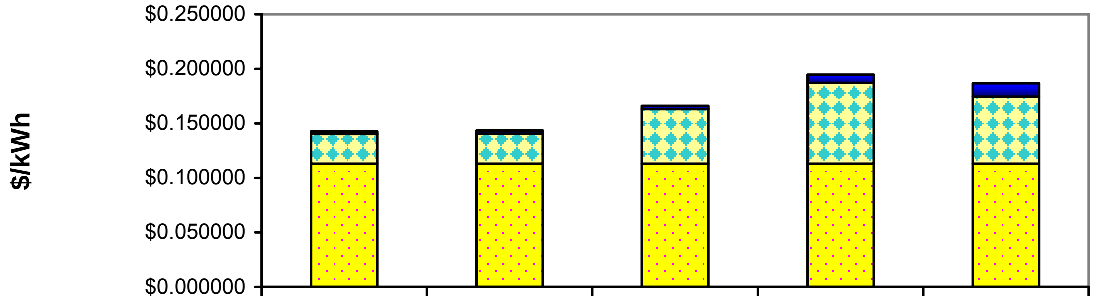
1. ELECTRICITY RATES.

In Figures 37 to 42, the electricity rates consist of the base energy rate plus the energy rate adjustment clause ("ERAC") and other adjustments.[20] The total of the base energy rate and the ERAC is referred to herein as the "Effective Energy Rate."

---

[20] 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.

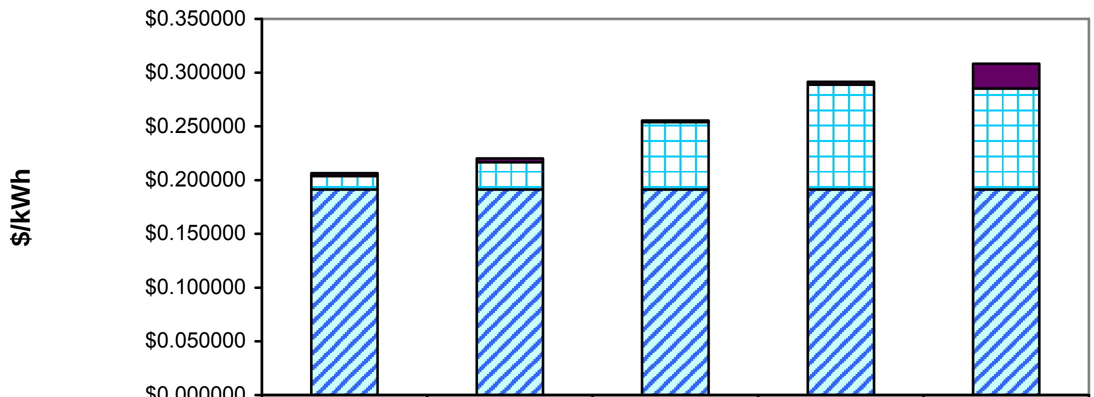
Figure 37
HECO Base Rates, ERAC, and Other Adjustments
2003 - 2007



	Jun '03	Jun '04	Jun '05	Jun '06	Jun '07
Other Adjustments	$0.002271	$0.003042	$0.002755	$0.007652	$0.012399
ERAC	$0.027340	$0.027500	$0.050370	$0.074210	$0.061420
Base Rates	$0.112954	$0.112954	$0.112954	$0.112954	$0.112954
Total	$0.142565	$0.143496	$0.166079	$0.194816	$0.186773

Year

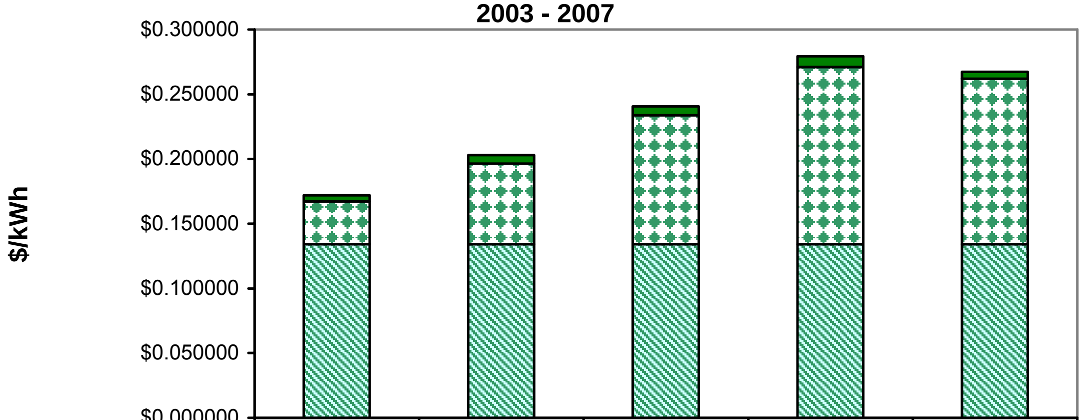
Figure 38
HELCO Base Rates, ERAC, and Other Adjustments
2003 - 2007



	Jun '03	Jun '04	Jun '05	Jun '06	Jun '07
Other Adjustments	$0.002726	$0.003418	$0.001570	$0.002694	$0.023022
ERAC	$0.012460	$0.025300	$0.062440	$0.097320	$0.093950
Base Rates	$0.191370	$0.191370	$0.191370	$0.191370	$0.191370
Total	$0.206556	$0.220088	$0.255380	$0.291384	$0.308342

Year

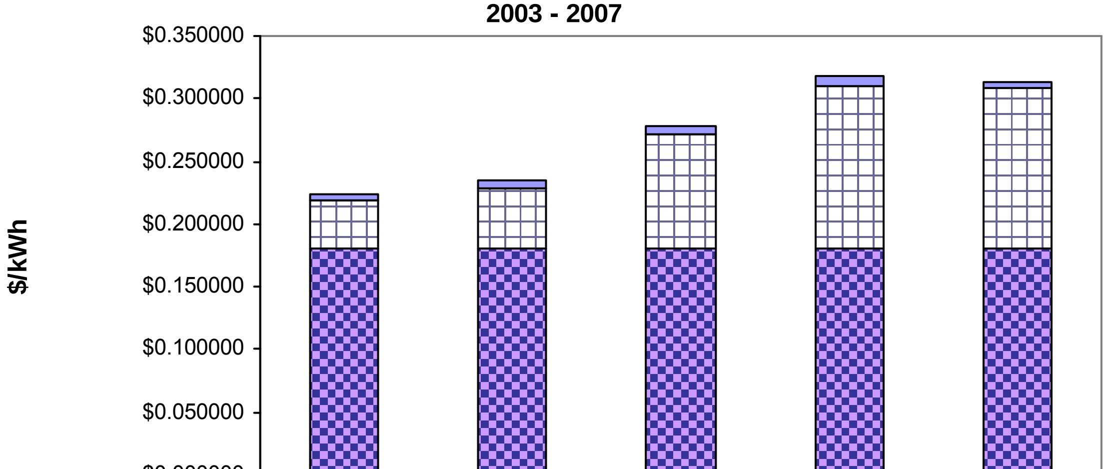
Figure 39
MECO - Maui Division Base Rates, ERAC, and Other Adjustments
2003 - 2007



	Jun '03	Jun '04	Jun '05	Jun '06	Jun '07
Other Adjustments	$0.004636	$0.006737	$0.006752	$0.008311	$0.005237
ERAC	$0.033090	$0.062130	$0.099710	$0.136800	$0.127920
Base Rates	$0.134231	$0.134231	$0.134231	$0.134231	$0.134231
Total	$0.171957	$0.203098	$0.240693	$0.279342	$0.267388

Year

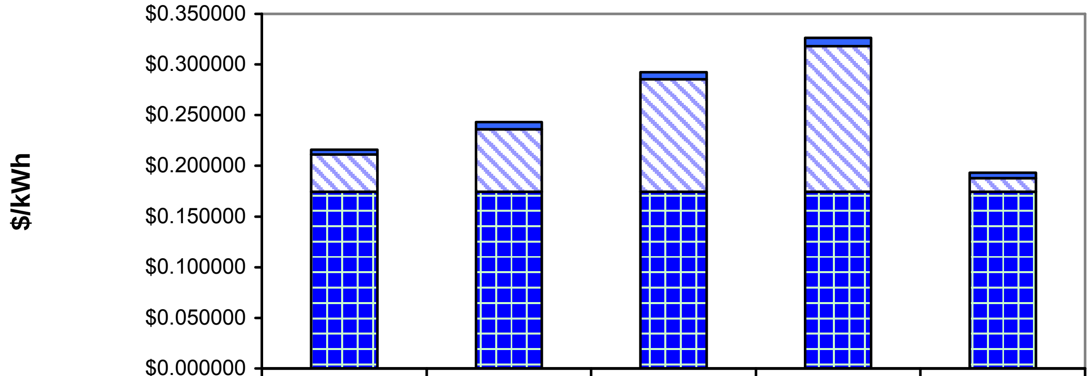
Figure 40
MECO - Lanai Division Base Rates, ERAC, and Other Adjustments
2003 - 2007



	Jun '03	Jun '04	Jun '05	Jun '06	Jun '07
Other Adjustments	$0.004803	$0.006889	$0.006889	$0.008542	$0.005429
ERAC	$0.038190	$0.047100	$0.090640	$0.128950	$0.127060
Base Rates	$0.180648	$0.180648	$0.180648	$0.180648	$0.180648
Total	$0.223641	$0.234637	$0.278177	$0.318140	$0.313137

Year

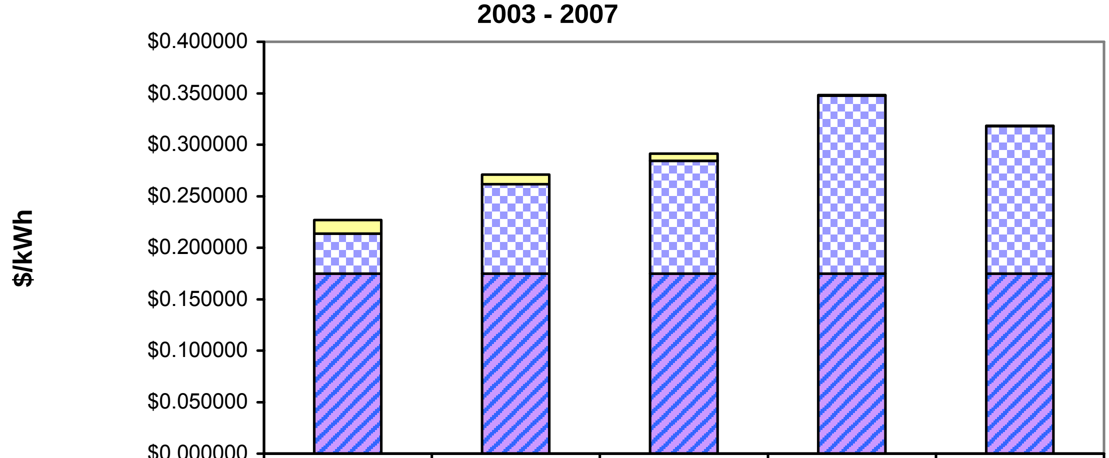
Figure 41
MECO - Molokai Division Base Rates, ERAC, and Other Adjustments
2003 - 2007



	Jun '03	Jun '04	Jun '05	Jun '06	Jun '07
Other Adjustments	$0.004740	$0.006832	$0.006832	$0.008356	$0.005330
ERAC	$0.036830	$0.061900	$0.111240	$0.143600	$0.013433
Base Rates	$0.174383	$0.174383	$0.174383	$0.174383	$0.174383
Total	$0.215953	$0.243115	$0.292455	$0.326339	$0.314043

Year

Figure 42
KIUC/KE Base Rate, ERAC, and Other Adjustments
2003 - 2007

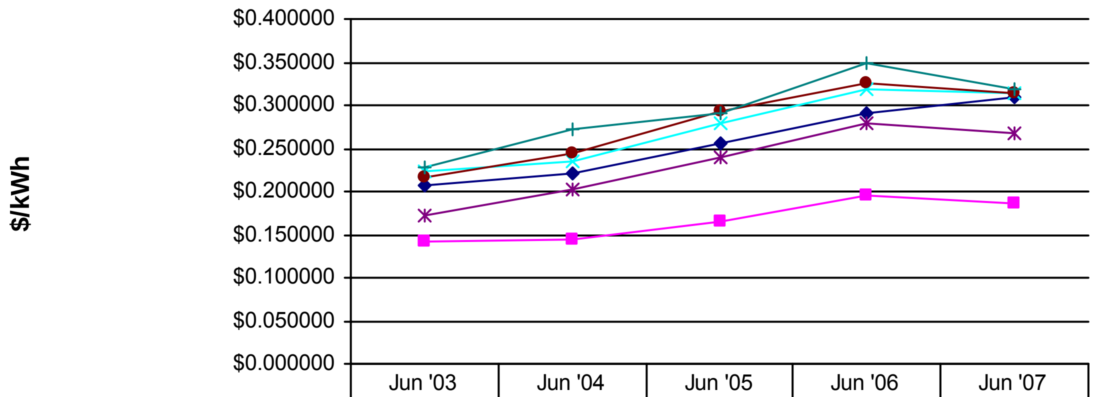


	Jun '03	Jun '04	Jun '05	Jun '06	Jun '07
Other Adjustments	$0.012967	$0.009156	$0.006942	$0.000674	$0.000303
ERAC	$0.038933	$0.086903	$0.109411	$0.172760	$0.143260
Base Rates	$0.174890	$0.174890	$0.174890	$0.174890	$0.174890
Total	$0.226790	$0.270949	$0.291243	$0.348324	$0.318453

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

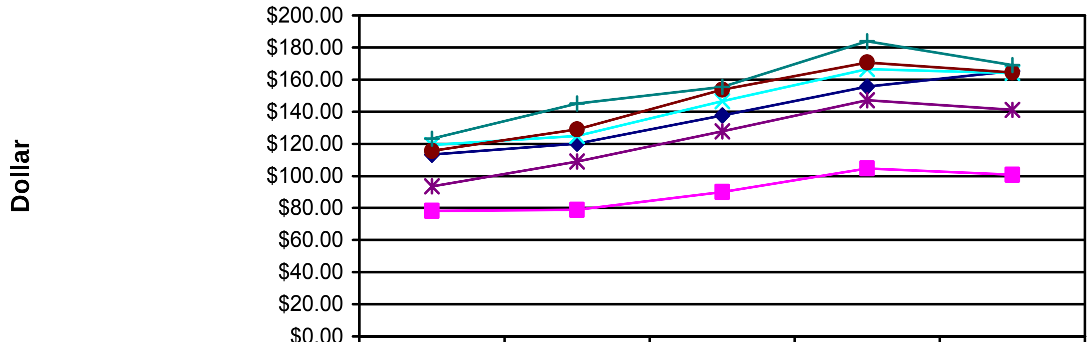


	Jun '03	Jun '04	Jun '05	Jun '06	Jun '07
HELCO	0.206556	0.220088	0.255380	0.291384	0.308342
HECO	0.142565	0.143496	0.166079	0.194816	0.186773
MECO - Lanai Division	0.223641	0.234637	0.278177	0.318140	0.313137
MECO - Maui Division	0.171957	0.203098	0.240693	0.279342	0.267388
MECO - Molokai Division	0.215953	0.243115	0.292455	0.326339	0.314043
KIUC	0.226790	0.270949	0.291243	0.348324	0.318453

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.[21]

Figure 44
Five Year Comparison of Average Monthly Residential Electric Bill Based on 500 kWh



	Jun '03	Jun '04	Jun '05	Jun '06	Jun '07
HELCO	$113.28	$120.05	$137.69	$155.70	$165.26
HECO	$78.29	$78.77	$90.04	$104.66	$100.82
MECO - Lanai Division	$119.33	$124.83	$146.59	$166.61	$164.10
MECO - Maui Division	$93.50	$109.06	$127.85	$147.21	$141.23
MECO - Molokai Division	$115.50	$129.08	$153.73	$170.71	$164.55
KIUC	$123.12	$145.20	$155.34	$183.88	$168.95

Year

2. TELECOMMUNICATION RATES.

Hawaiian Telcom's basic rates have remained unchanged over the past several years.[22] The following table shows amounts by islands that customers have been paying since 1997 for residential service.

[21]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).

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

Island	Residential Service (1997 – Present)[23]
Oahu	$16.02
Hawaii	$14.57
Maui	$13.90
Kauai	$13.90
Molokai	$12.07
Lanai	$11.01

XII. UTILITY COMPANY PERFORMANCE.

A. ELECTRIC UTILITIES EFFICIENCY AND SERVICE QUALITY.

1. HECO 2006 SERVICE QUALITY – NORMALIZED RESULTS.

The following HECO electric utility service quality report was based on or excerpted directly from the 2006 Service Reliability Report submitted to the Commission by HECO. The report covers the 2006 calendar year ("2006"). 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 289,972 in 2005 to 292,554 in 2006 (a 0.9% increase). The peak 2006 demand for the system was 1,315 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 292,554 customers).

This analysis of the system reliability for HECO is for the year 2006. To determine the relative level of reliability, the statistics for four prior years, 2002 through 2005, are used for comparison.

The reliability indices are calculated using the data from all sustained[24] 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

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

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

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 2006 was the 4th best in the past 5 years in terms of system reliability (SAIF). The reliability results for 2006 and four prior years are shown in the Table of Annual Service Reliability Indices.

Table of

Annual Service Reliability Indices

	2002*	2003	2004**	2005	2006***
Number of Customers	**281,922**	**284,460**	**287,074**	**289,972**	**292,554**
Customer Interruptions	**325,332**	**469,372**	**364,491**	**383,410**	**420,749**
Customer-Hours Interrupted	**359,810**	**450,530**	**480,299**	**532,156**	**666,188**
ASA (Percent)	**99.985**	**99.982**	**99.981**	**99.979**	**99.974**
SAIF (Occurrences)	**1.154**	**1.650**	**1.270**	**1.322**	**1.438**
CAID (Minutes)	**66.36**	**57.59**	**79.06**	**83.28**	**95.00**
SAID (Minutes)	**76.58**	**95.03**	**100.39**	**110.11**	**136.63**

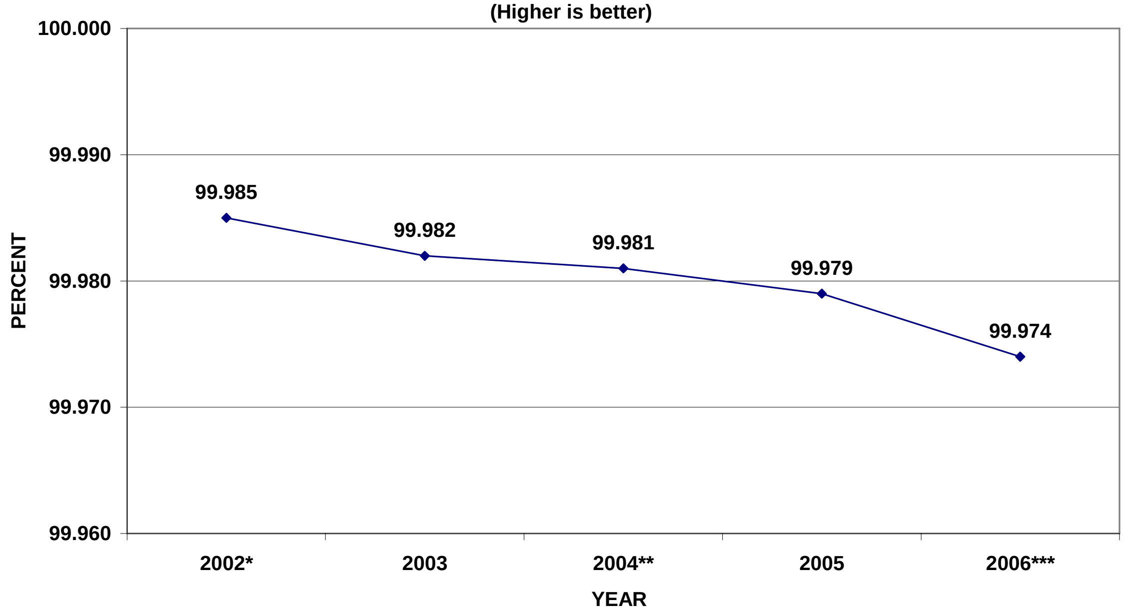
NOTE:

* **Data normalized to exclude 12/19/02 AES Load Shedding Outage**

** **Data normalized to exclude 1/14/04 - 1/15/04 High Wind Outages**
Data normalized to exclude 2/26/04 - 2/28/04 Storm, 3/3/04 Pukele Outage

*** **Data normalized to exclude 6/1/06 Load Shedding Outage, 10/15/06 Earthquake Outage**

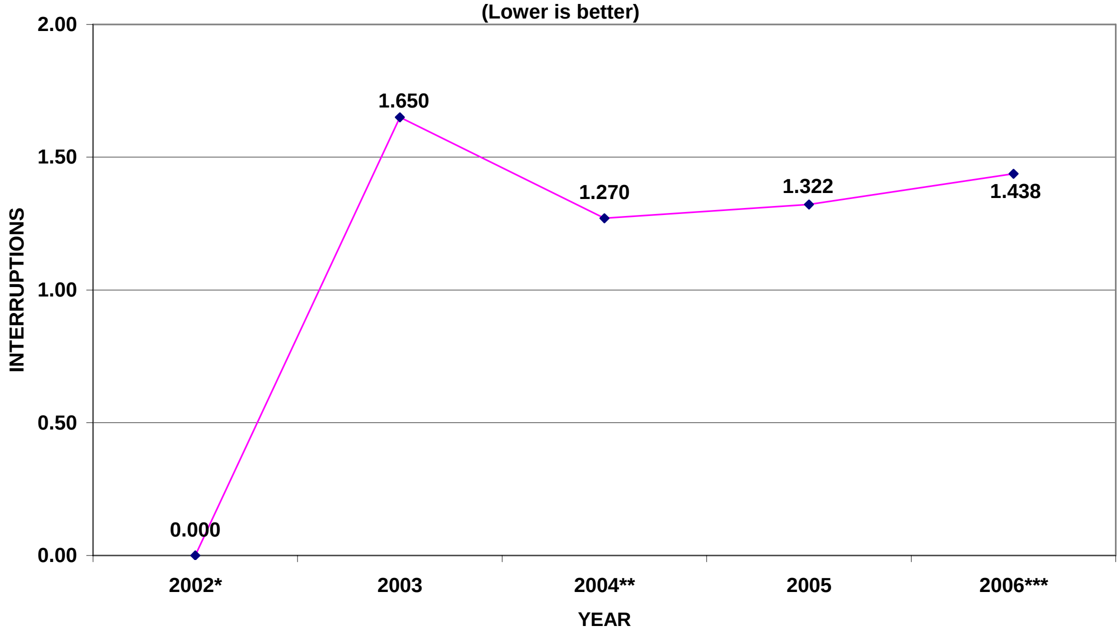
Figure 45
HECO Average Service Availability (ASA)
(Higher is better)



***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 outages**
*****Data normalized to exclude 6/01/06 Load Shedding and 10/15/06 Earthquake outages**

Figure 45 shows that the 2006 Average Service Availability (ASA) index has decreased from 2002 results of 99.985% to 99.974% during 2006. Approximately 37,339 more customers experienced sustained service interruptions during 2006 compared to the previous year. Also, the number of Customer-Hours Interrupted as shown in the Table of Annual Service Reliability Indices was the highest within the 5 year period.

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

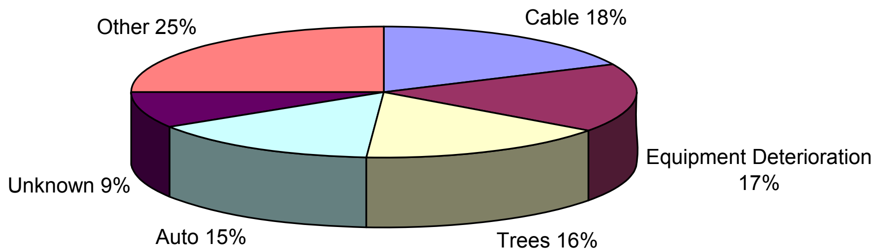


*Data normalized to exclude 12/19/02 AES Load Shedding outage
**Data normalized to exclude 1/14/04-1/15/04 High Winds, 2/26/04-2/28/04 Storm, and 3/3/04 Pukele outages
***Data normalized to exclude 6/01/06 Load Shedding and 10/15/06 Earthquake outages

Figure 46 shows the System Average Interruption Frequency (SAIF) indices for the past five years. It shows that in 2006 the SAIF was the fourth lowest in the past five years at 1.438, or slightly more than one outage per customer for the year.

The Top 10 Outage Causes explained about 1.252 or about 87% of the total Customer Interruptions in 2006. Two Outage Causes categories that were significant factors in 2005, “Lightning” and “Animals in Line”, dropped out of the top 10 in 2006.

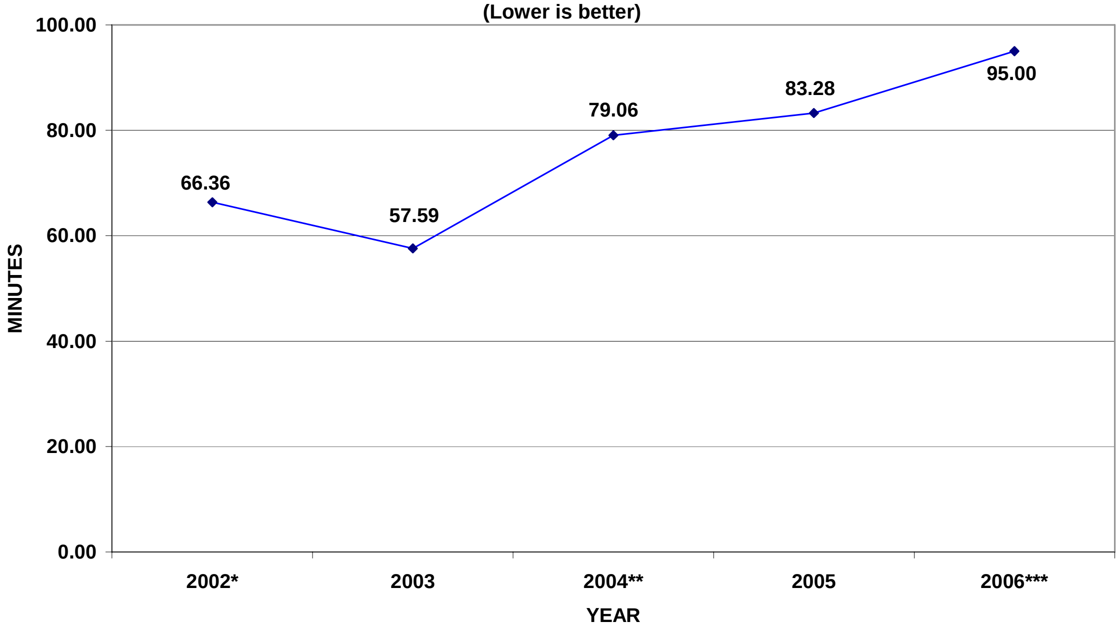
Figure 47: Outage Causes



The Top 5 Outage Causes, as shown in Figure 47, explained about 1.053 or about 74% of the total Customer Interruptions in 2006; these causes are “Cable Faults”, “Equipment Deterioration”, “Trees/Branches in Lines”, “Auto Accidents”, and “Unknown”. These were the major outage causes in 2005 and they continued to be major outage causes in 2006.

One sustained interruption affected 10,000 or more customers during 2006. Approximately 12,899 customers were affected by one interruption and this contributed 0.044 to the SAIF. The interruption occurred on December 7, 2006 when the Koolau-Wailupe #1 46 kV line tripped open due to an unknown cause while the Koolau-Wailupe #2 46 kV line, its alternate feeder to the Hawaii Kai area, was abnormal due to a previous outage. This event contributed to about 50% of the “Unknown” cause results for 2006.

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



*Data normalized to exclude 12/19/02 AES Load Shedding outage
**Data normalized to exclude 1/14/04-1/15/04 High Winds, 2/26/04-2/28/04 Storm, and 3/3/04 Pukele outages
***Data normalized to exclude 6/01/06 Load Shedding and 10/15/06 Earthquake outages

Figure 48 shows the average duration of a customer's outage (CAID) for 2006 ranked the worst in the past 5 years. An increase in outage durations over the 2005 results were noted for Cable Faults, Equipment Deterioration, Trees/Branches in Lines and Auto Accidents.

The average electrical outage duration (CAID) for 2006 was 95.00 minutes. Within the last five years, 2006 had the longest (CAID) duration with an increase of nearly 12 minutes over 2005 results. Four major events affected the CAID results in 2006 after a period of 40 days of rain:

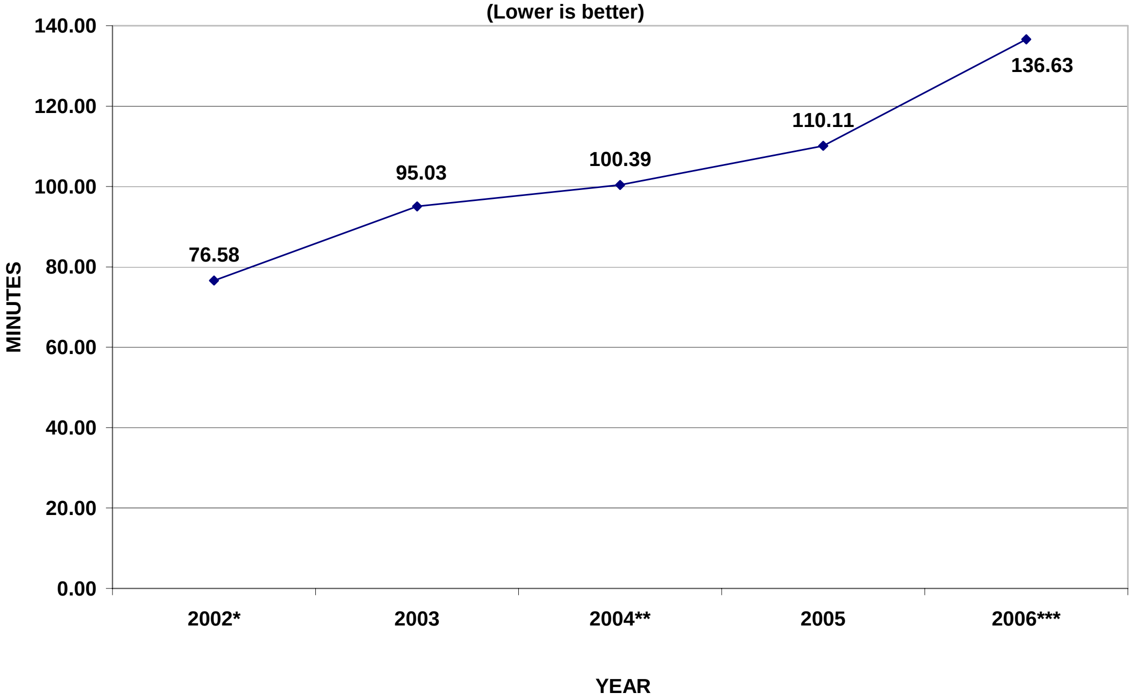
1. A problem with a circuit breaker at Waialae Sub caused several 4 kV conductors to burn down in front of Waialae Sub and affected 622 customers for up to 12 hours and 19 minutes on March 3, 2006.

2. Gusty winds on the Leeward Coast caused 12 poles to fall along Farrington Hwy on March 12, 2006 affecting 2,176 customers from 5 hours and 9 minutes to 27 hours and 36 minutes.

3. A burnt tap on the Wahiawa-Mililani sub-transmission 46 kV line, while the back-up line was out of service, affected 7,796 customers for 1 hour and 52 minutes in the Mililani area on March 27, 2006. A section of the Waiau-Mililani 46 kV line was abnormal and tied to the Wahiawa-Mililani 46 kV circuit due to a previous pole failure earlier in the morning.

4. A pole fell on Akaikai Loop feeding Pacific Palisades on May 10, 2006 and affected 1,951 customers in the Pearl City area for 17 hours and 36 minutes. There is no back-up 12 kV line in this area.

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



*Data normalized to exclude 12/19/02 AES Load Shedding outage
**Data normalized to exclude 1/14/04-1/15/04 High Winds, 2/26/04-2/28/04 Storm, and 3/3/04 Pukele outages
***Data normalized to exclude 6/01/06 Load Shedding and 10/15/06 Earthquake outages

Figure 49 shows the System Average Interruption Duration (SAID) indices for the past five years. It shows that the 2006 SAID of 136.63 minutes was the 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 2006 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 2006 submitted to the Commission by MECO. The report covers the 2006 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 63,901 in 2005 to 64,405 in 2006 (an increase of 1.65%). The peak 2006 demand for the system was 210.8 MW (gross) that occurred on August 14, 2006. The peak 2006 demand was higher than the 2005 peak demand of 206.5 MW (gross) on August 8, 2005 (an increase of 2.08%).

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 64,405 customers).

The reliability indices are calculated using the data from all sustained[25] system outages except customer maintenance outages. MECO has not normalized any data for 2002, 2003, and 2005. The 2004 reliability indices for MECO was normalized to exclude the effects of the January 14th Kona Storm and the 2006 reliability indices for MECO was normalized to exclude the effects of the October 15th earthquake 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 50), SAIF (Figure 51), CAID (Figure 52), and SAID (Figure 53) for the five years are included.

2006 UNNORMALIZED RESULTS

The 2006 service reliability results are normalized to exclude the October 15th, 2006 earthquake, when Maui County experienced an earthquake that measured 6.7 on the Richter scale offshore, 10 km southwest of Puakō, Hawai'i.

Annual Service Reliability Indices

The unnormalized results for 2006 and the previous un-normalized three years 2002, 2003 and 2005 and the normalized indices for 2004 are shown in the table "Annual Service Reliability Indices". Figures 50-53 contain the same data shown in graphical form.

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

MECO

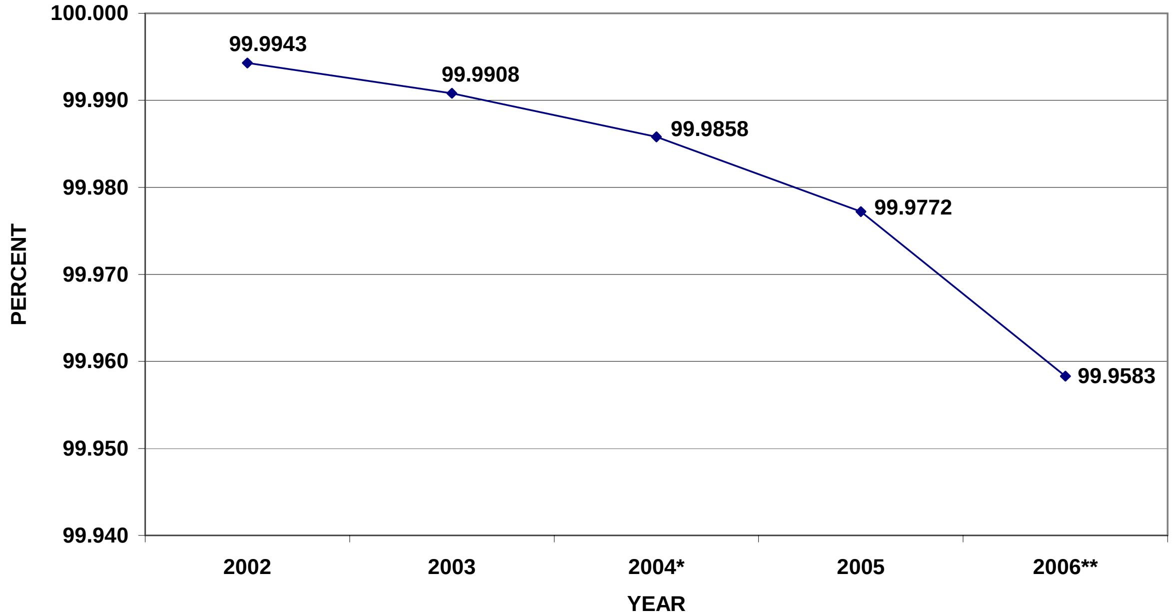
Table of Annual Service Reliability Indices

	2002	2003	2004*	2005	2006**
Number of Customers	59,410	60,651	61,846	63,103	64,405
Customer Hrs. Interrupted	29,201	48,567	77,122	126,010	235,186
Customer-Interruptions	34,388	45,446	99,424	162,827	249,485
ASA (Percent)	99.9943	99.9908	99.9858	99.9772	99.9583
SAIF (Occurrence)	0.579	0.749	1.608	2.580	3.874
CAID (Minutes)	50.95	64.12	46.54	46.43	56.56
SAID (Minutes)	29.49	48.05	74.82	119.81	219.10

* 2004 – Data normalized to exclude January 14 2004 storm

** 2006 – Data normalized to exclude October 15, 2006 earthquake

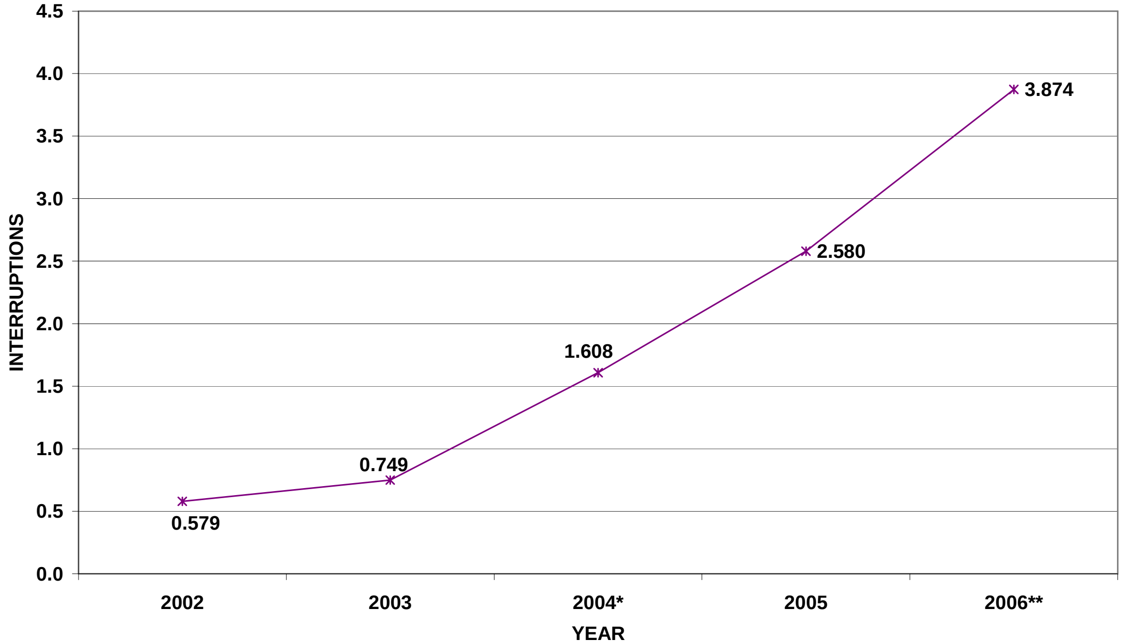
Figure 50
MECO Average Service Availability (ASA)
(Higher is better)



Note: 2004* Data normalized to exclude 1/14/04 storm
2006** Data normalized to exclude October 15, 2006 earthquake

Figure 50 shows that the 2006 Average Service Availability (ASA) index has decreased from the 2005 results of 99.9772 to 99.9583 during 2006. There was a decrease of approximately 0.0189 % in the 2006 Average Service Availability 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 51
MECO System Average Interruption Frequency (SAIF)
(Lower is better)



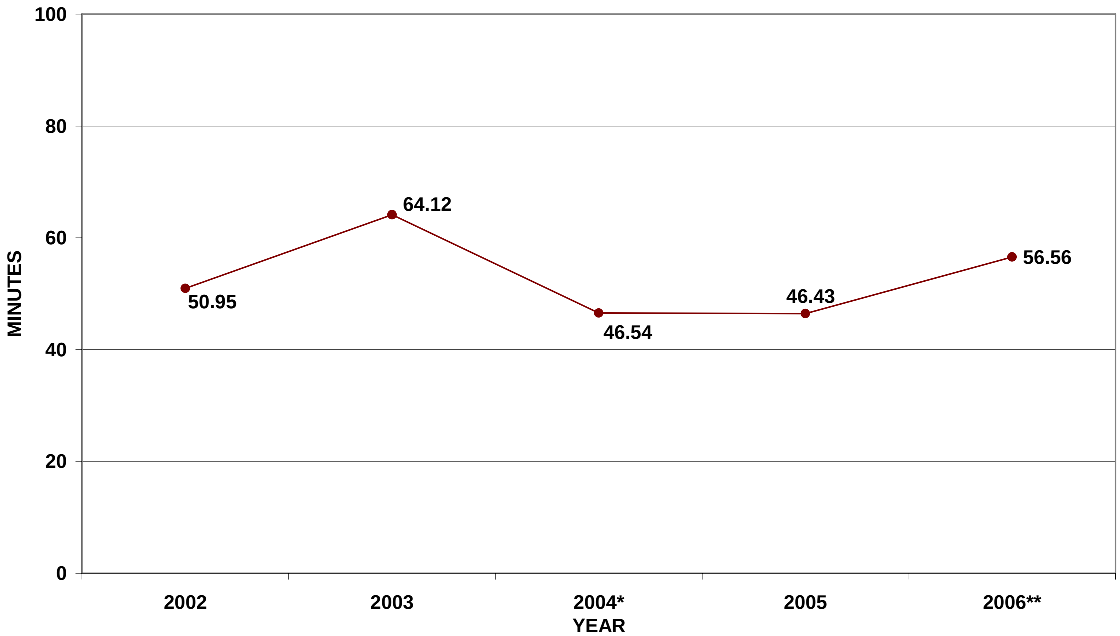
Note: 2004* Data normalized to exclude 1/14/2004 storm
2006** Data normalized to exclude 10/15/2006 earthquake

Figure 51 shows the System Average Interruption Frequency (SAIF) indices for the past five years. It shows that in 2006 the SAIF was the highest in the past five years at 3.874, or slightly less than 4 outages per customer for the year.

An increase in Equipment Failures, Operator or Switching Errors, Tree or Branches in Lines and Equipment Overloads contributed to a higher SAIF for 2006.

Equipment failures and Operator or Switching Errors contributed to 37% of the 2006 SAIF Indices, primarily due to several load shed events. The most significant occurred on October 6, 2006, when a Combustion Turbine Generator at Maalaea Power Plant tripped due to a contractor error, resulting in a system wide loadshed event that affected approximately 17,219 customers.

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

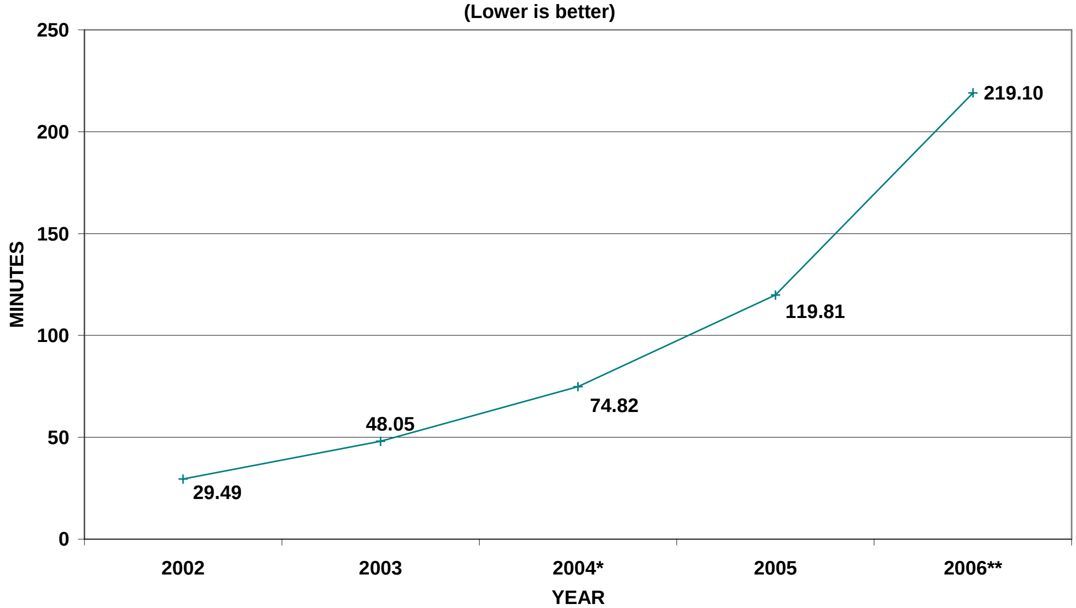


Note: 2004* Data normalized to exclude 1/14/2004 storm
2006** Data normalized to exclude 10/15/2006 earthquake

Figure 52 shows the Customer Average Interruption Duration (CAID) indices for the past five years.

The average electrical outage duration of 56.56 minutes per customer for 2006 is an increase of 21% from the previous year.

Figure 53
MECO System Average Interruption Duration (SAID)
(Lower is better)



Note: 2004* Data normalized to exclude 1/14/2004 storm
2006** Data normalized to exclude 10/15/2006 earthquake

Figure 53 shows the System Average Interruption Duration (SAID) for the past five years. It shows that in the 2006 SAID of 219.1 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 2006 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 2006 submitted to the Commission by HELCO. The report covers the 2006 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 increased 3.9% from 72,513 in 2005 to 75,353 in 2006.

On a not-normalized basis, in 2006 a total of 341,289 customer interruptions were recorded for a total of 328,757 Customer Hours of Interruption. The System Average Interruption Frequency (SAIF) index was 4.529 and the Customer Average Interruption Duration (CAID) was 57.80 minutes.

On the normalized basis, a total of 188,602 customer interruptions were recorded for a total of 190,061 customer hours of interruptions. The System Average Interruption Frequency (SAIF) index was 2.503 and the Customer Average Interruption Duration (CAID) was 60.46 minutes.

The following were the leading causes of customer interruptions in 2006:

1. **Faulty equipment operations**. There were 75,692 customer interruptions, 71,398 (94%) of those were related to HELCO generation.
2. **Failure of customer equipment**. There were 60,279 customer interruptions, 60,262 (nearly 100%) of those were related to Independent Power Producers (non-HELCO Generation).
3. **Auto accident**. There were 60,328 customer interruptions, with 60,031 (99.5%) attributed directly to the October 15, 2006 Magnitude 6.7 earthquake. Details are provided under a separate report.

There were 165,851 generation related customer interruptions in 2006, of which 105,589 were related to HELCO Generation sources (64%) and 60,262 were related to Independent Power Producers (non-HELCO Generation) sources (36%). In 2006 Hamakua Energy Partners (HEP) and Puna Geothermal Ventures (PGV) were the two non-HELCO generation sources that caused customer interruptions.

In 2006 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 2006 events listed below:

- Underfrequency Loadshedding events on:
  - January 9 due to both HELCO CT-3 and CT-4 tripping offline contributed 16,197 customer interruptions and 3,499 customer hours of interruption
  - February 8 due to PGV losing generation capacity during windy conditions that blew tree onto one of two transmission lines that connects PGV, contributed 22,545 customer interruptions and 3,274 customer hours of interruption
  - October 6 due to both HEP CT-2 and HELCO CT-5 tripping offline contributed 32,566 customer interruptions and 7,511 customer hours of interruption

- Earthquake on October 15, 2006 contributed 79,654 customer interruptions and 123,674 customer hours of interruption, primarily consisting of:
  - Direct resultant of earthquake: 60,031 customer interruptions and 106,037 customer hours of interruption
  - Forced Maintenance: 14,318 customer interruptions and 17,356 customer hours of interruption

Significant interruptions, contributing more than 5,000 customer interruptions or 5,000 customer hours of interruption, that did not meet the normalization criteria were:

- Underfrequency Loadshedding events on:
  - March 20 due to both HELCO CT-3 and CT-4 tripping offline contributed 15,994 customer interruptions and 4,895 customer hours of interruption
  - June 20 due to both HELCO Hill 5 and CT-5 tripping offline contributed 8,402 customer interruptions and 1,653 customer hours of interruption
  - October 16 due to HELCO Puna Steam Unit tripping offline during a lightning storm contributed 5,083 customer interruptions and 306 customer hours of interruption
  - November 26 due to HELCO CT-4 tripping offline contributed 8,336 customer interruptions and 3,083 customer hours of interruption

- Transmission and Distribution System problems on:
  - February 4 when windy conditions caused tree branches to fall onto:
    - Distribution lines in the Keaau area contributed 2,761 customer interruptions and 5,430 customer hours of interruption
    - Transmission line from Pohoiki to Kaumana contributed 5,903 customer interruptions and 5,043 customer hours of interruption
  - March 19 when a transmission pole failed in the South Kona area contributed 5,905 customer interruptions and 3,489 customer hours of interruption
  - October 20 due to a problem with an Ainaloa Substation transformer sensor that contributed 3,807 customer interruption and 11,897 customer hours of interruption
  - November 9 due to a cable fault in the Keauhou area contributed 4,090 customer interruption and 14,054 customer hours of interruption

Normalized

Year	ASA	Number of Customers	Customer Interruptions	CID	SAIF	CAID
2001	99.976	64,660	278,507	137,659	4.307	29.66
2002	99.973	66,034	195,614	154,064	2.962	47.26
2003	99.962	67,879	213,873	225,439	3.151	63.24
2004	99.976	70,124	163,745	150,905	2.335	55.30
2005	99.968	72,513	153,982	200,374	2.124	78.08
2006	99.971	75,353	188,602	190,061	2.503	60.46

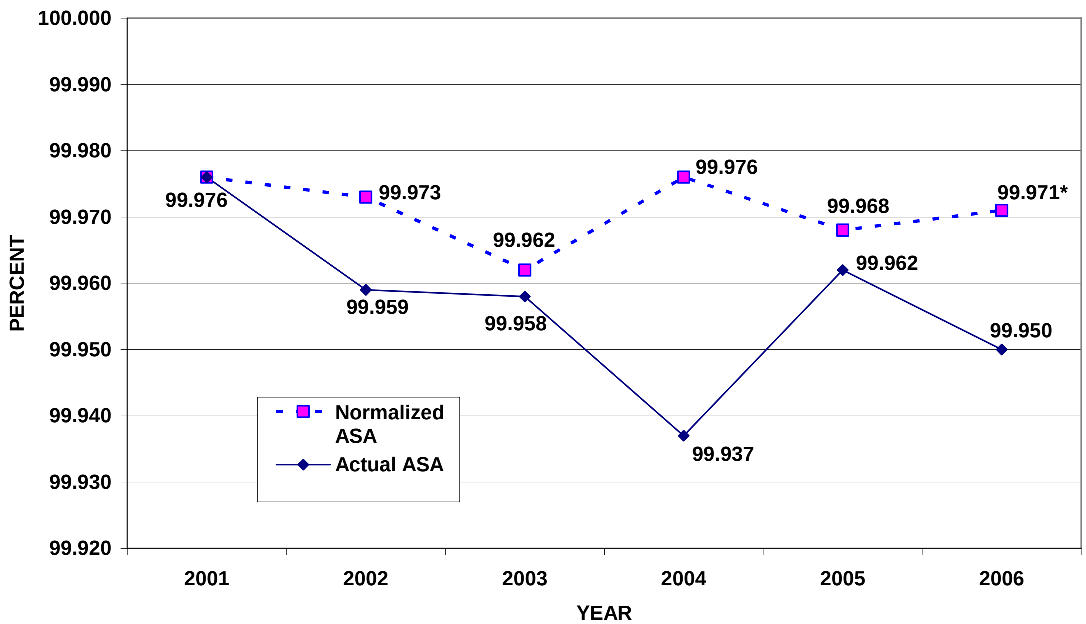
Not-Normalized

Year	ASA	Number of Customers	Customer Interruptions	CID	SAIF	CAID
2001	99.976	64,660	278,507	137,659	4.307	29.66
2002	99.959	66,034	339,184	238,789	5.137	42.24
2003	99.958	67,879	289,027	251,280	4.258	52.16
2004	99.937	70,124	417,462	388,891	5.953	55.89
2005	99.962	72,513	246,557	239,935	3.400	58.39
2006	99.950	75,353	341,289	328,758	4.529	57.80

AVERAGE SERVICE AVAILABILITY INDEX

(ASA IN %)

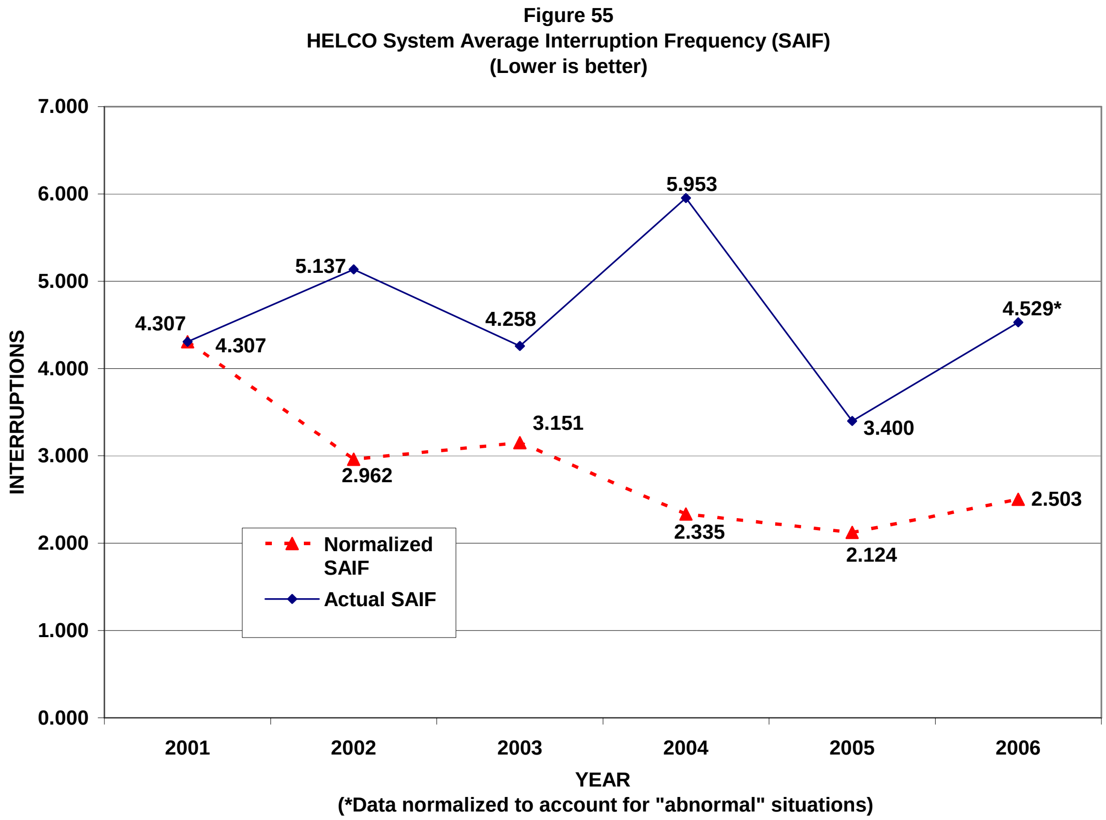
Figure 54
HELCO Average Service Availability (ASA)
(Higher is better)



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

SYSTEM AVERAGE INTERRUPTION FREQUENCY

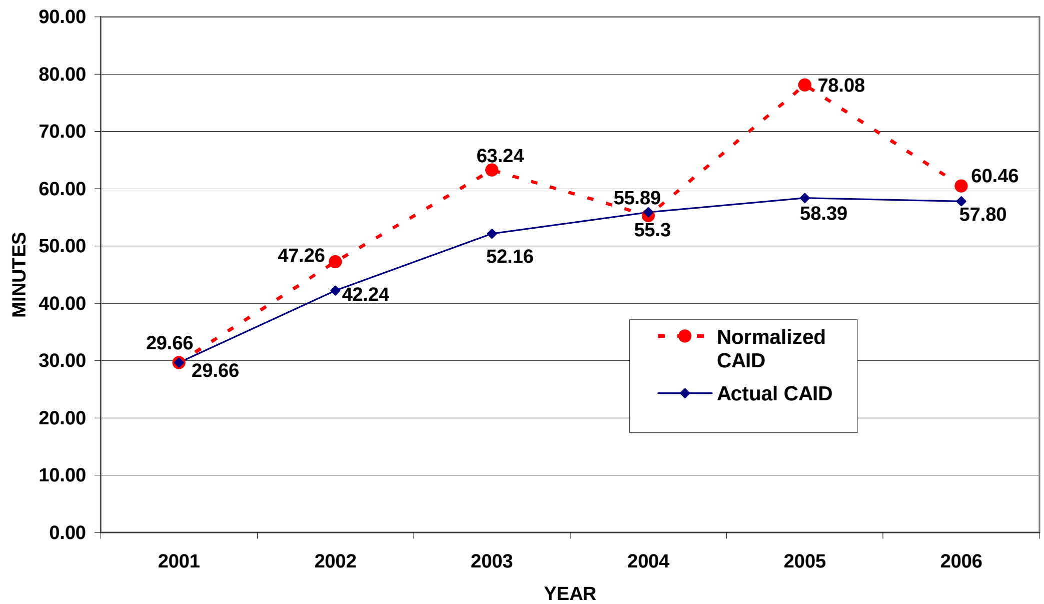
(SAIF)



CUSTOMER AVERAGE INTERRUPTION DURATION

(CAID)

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



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

4. KAUAI ISLAND UTILITY COOPERATIVE ("KIUC") 2006 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 2006 calendar year ("2006"). 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 ratepayers increased in 2006 to 34,671 (2.66%) over 2005's 33,772. There were two identical system peaks in 2006 of 76.780 mWs which were recorded during the evenings of October 12, 2006 and December 26, 2006. The 2006 system peak demand increased by 1.65 mWs or 2.20% over 2005's peak of 75.130 mWs, set during the evening of November 22, 2005.

KIUC has not normalized any of its data for the period 2002 through 2006. The reliability indices are calculated using the data from all system interruptions except scheduled interruptions for maintenance.

The ASA index of 99.9686% in 2006 is 0.76% lower than 2005's 99.9762%.

The SAIF index of 8.17 occurrences in 2006 has increased by 67.08% from 4.89 occurrences in 2005.

The CAID index of 20.16 minutes in 2006 is 21.34% lower than 2005's 25.63 minutes.

The SAID index of 164.7 minutes is 31.84% higher than 2005's 124.92 minutes.

Fifty-seven (57) interruptions caused 432,650 kWs of losses for KIUC in 2006. The 57 interruptions caused kW losses as follows: 29-transmission and distribution ("T&D") - 178,340 kWs (41.22%); 17-generation - 194,830 kWs (45.03%); and, 11-external[26] - 59,480 kWs (13.75%).

The unnormalized reliability results for 2002, 2003, 2004, 2005 and 2006 are shown in the table "KIUC Annual Service Reliability Indices." Figures 57 to 60 contain the data discussed above in graphical form.

KIUC Annual Service Reliability Indices

	2002	**2003**	**2004**	**2005**	**2006**
Number of Customers	31,487	32,069	33,232	33,772	34,671
Customer Interruptions	32	43	39	40	57
Customer Hours Interrupted	38,235	92,646	100,874	70,186	93,556
ASA (Per cent)	99.9861	99.9672	99.9648	99.9762	99.9686
SAIF (Occurrences)	5.03	7.73	6.98	4.89	8.17
CAID (Minutes)	14.49	22.43	26.26	25.63	20.16
SAID (Minutes)	72.89	173.42	184.92	124.92	164.7

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

Figure 57
KIUC Average Service Availability (ASA)
(Higher is better)

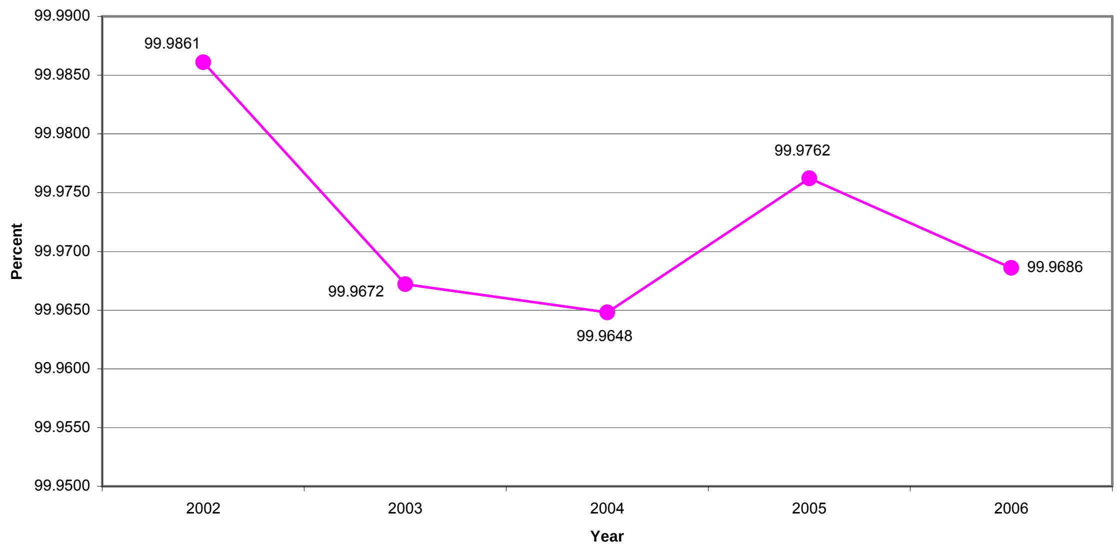


Figure 58
KIUC System Average Interruption Frequency (SAIF)
(Lower is better)

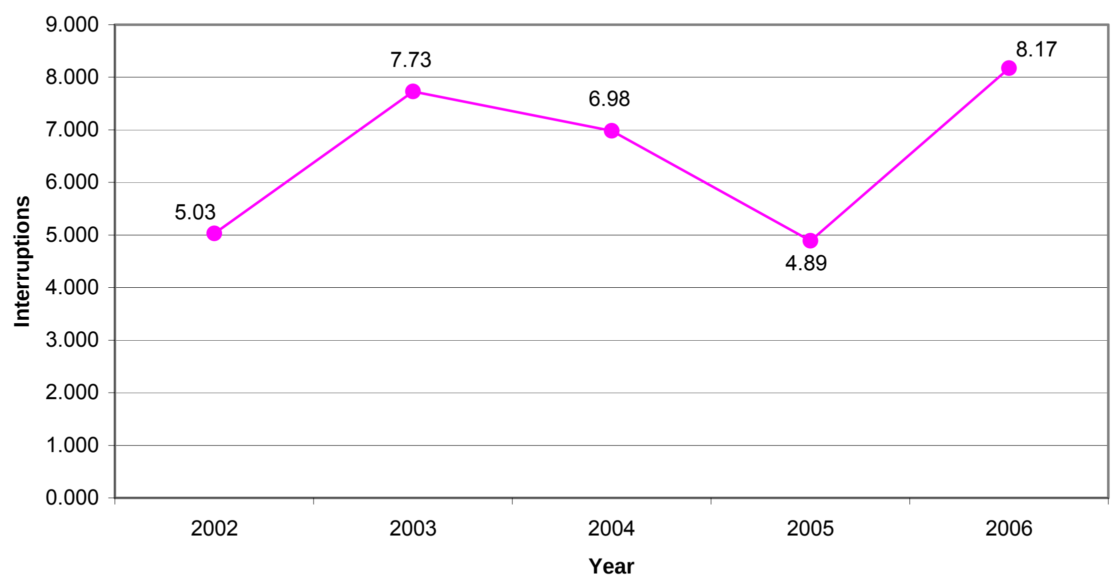


Figure 59
KIUC Customer Average Interruption Duration (CAID)
(Lower is better)

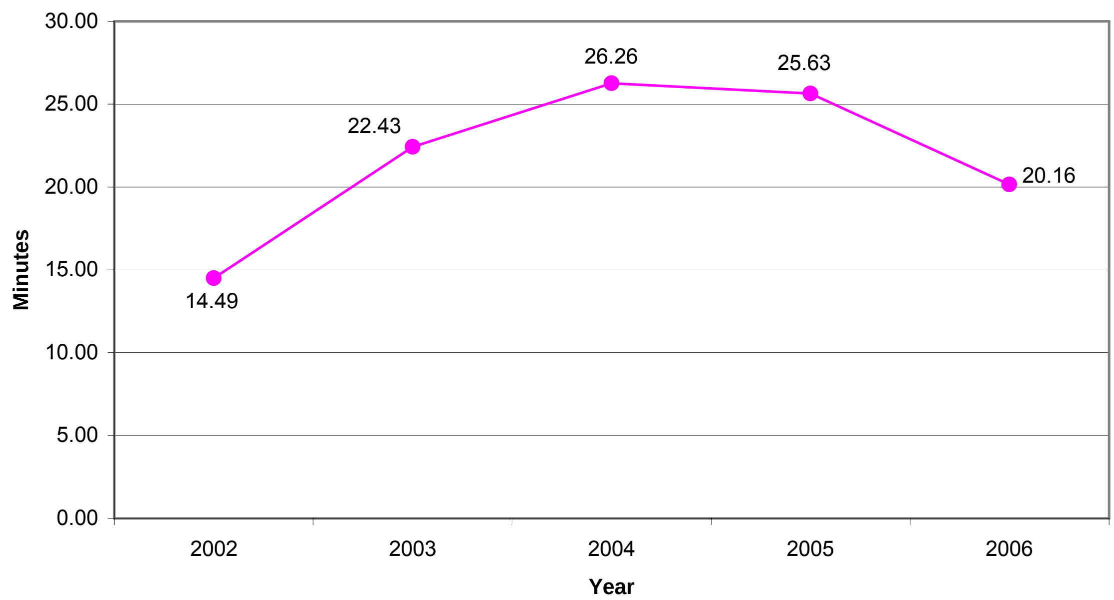
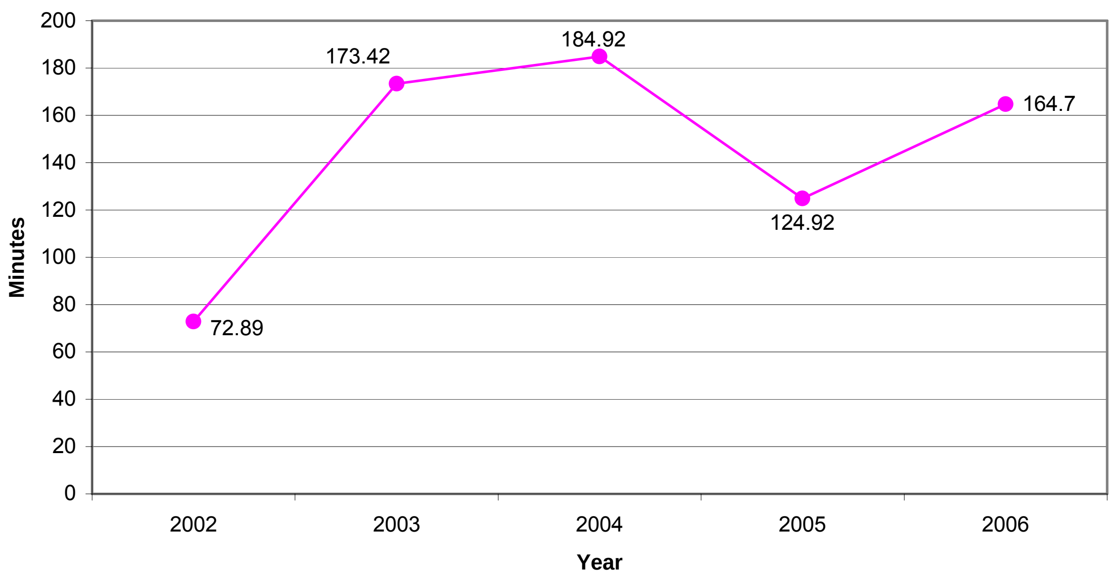


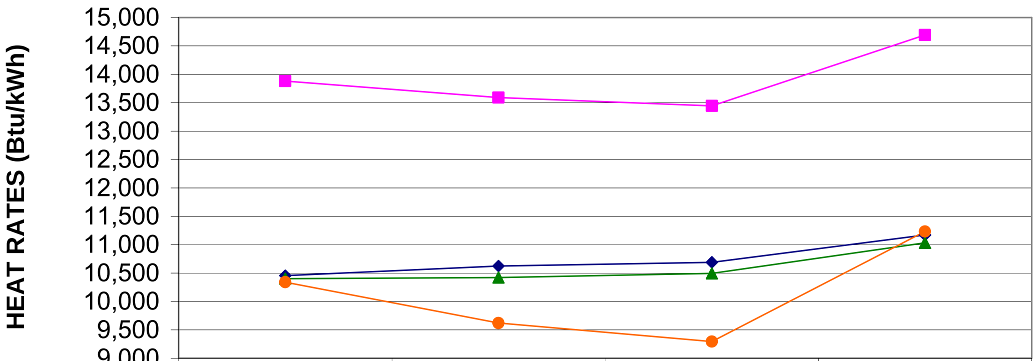
Figure 60
KIUC System Average Interruption Duration (SAID)
(Lower is better)



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 61 shows the heat rates of the electric utilities from 2003 to 2006

Figure 61
Electric Utility Heat Rates



	2003	2004	2005	2006
HECO	10,452	10,621	10,690	11,170
HELCO	13,881	13,591	13,443	14,692
MECO	10,400	10,418	10,493	11,032
KIUC	10,340	9,618	9,293	11,230

YEAR

B. RENEWABLE PORTFOLIO STANDARDS.

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

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

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

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

In 2004, the Legislature passed Act 95, SLH 2004 ("Act 95"), which amended HRS Sections 269-27.2, 269-91, 269-92, and added HRS Section 269-95. Act 95 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.

For year ended December 31, 2006, HECO, HELCO and MECO, in the aggregate, reported that they have reached a consolidated renewable energy penetration of 13.8 per cent, which was up from 11.7 per cent in 2005. The increase in aggregate RPS percentage between 2005 and 2006 is a result of increases in RPS percentages for each of the 3 companies. HECO increased from 8.8 per cent in 2005 to 10.3 per cent in 2006; HELCO from 29.4 per cent to 31.3 per cent; and MECO from 14.0 per cent to 19.3 per cent.

The remaining electric utility company, KIUC, reported on February 23, 2007 that renewable energy resources supplied 13.92 per cent of KIUC's net electricity sales, as of

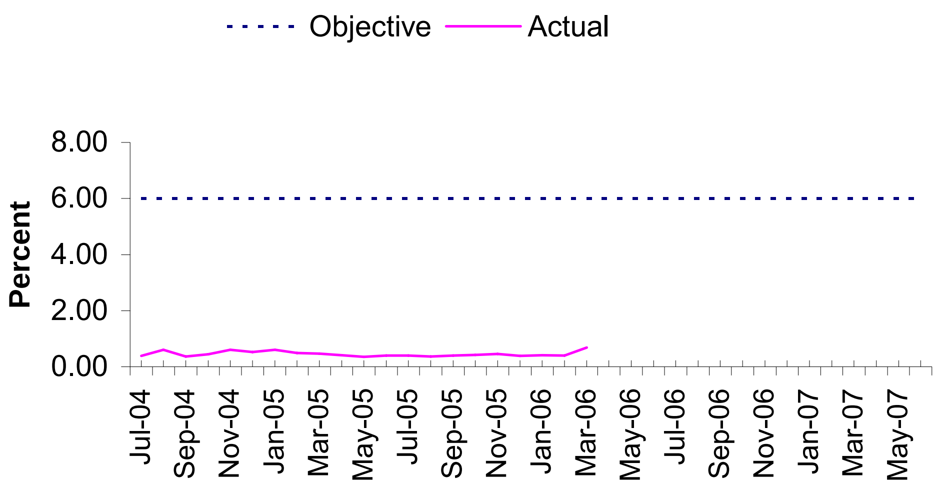
December 31, 2006, an increase from 2005's 13.9 per cent.[27] This percentage was achieved through KIUC's own renewable generation (hydro) and non-firm (100 per cent renewable) power purchases from Gay & Robinson (bagasse), Kauai Coffee (hydro) and Agribusiness Development Corp. (hydro). Also reflected 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 62 to 73 show Hawaiian Telcom's service quality results for the last three (3) fiscal years; i.e., from July 2004 through June 2007.

In many of the figures, however, the service quality results for the months of April 2006 through June 2007 were not provided, due to issues related to the April 1, 2006 cutover of Hawaiian Telcom's back office systems from Verizon Communications to its own newly-created systems. Largely because of impacts from this cutover, Hawaiian Telcom also experienced very significant slow-downs in call answer and handling times in its customer contact centers and errors in its billing.[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. It is also addressing matters through its ongoing investigation of Hawaiian Telcom's service quality and performance levels and standards, as discussed in Section V.D.1. above.

Figure 62
Total Customer Trouble Reports Per 100 Lines

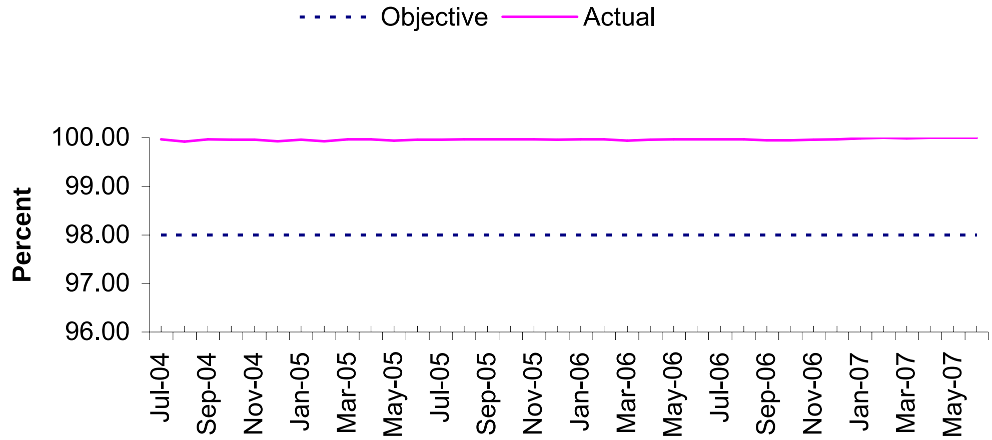


[27]KIUC's Renewable Portfolio Standards Status Report for year ending December 31, 2006, dated February 23, 2007.

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

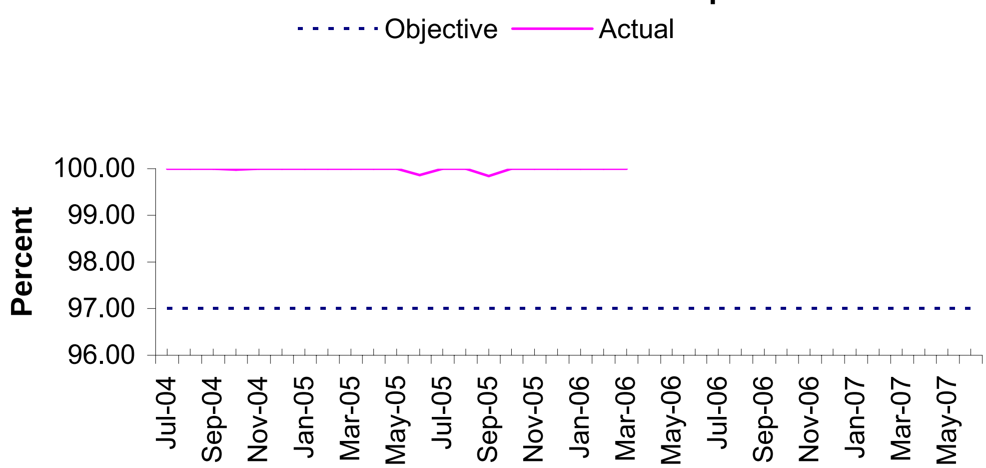
Total Customer Trouble Reports Per 100 Lines - This performance area measures customer network trouble reports per 100 access lines. It is calculated by taking the total customer network trouble reports divided by total access lines times 100.

Figure 63
Dial Tone Speed - Percent Dial Tone Within 3 Seconds



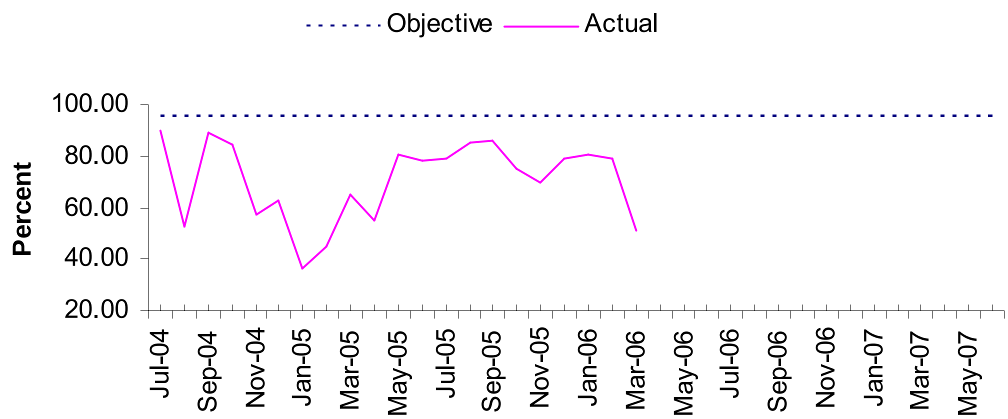
Dial Tone Speed - % Dial Tone Within 3 Seconds - This performance area measures the percentage of calls receiving dial tone within three (3) seconds. It is calculated by taking the number of calls in which dial tone was provided within three (3) seconds divided by the total number of calls times 100.

Figure 64
Dial Service Results - Percent Completion



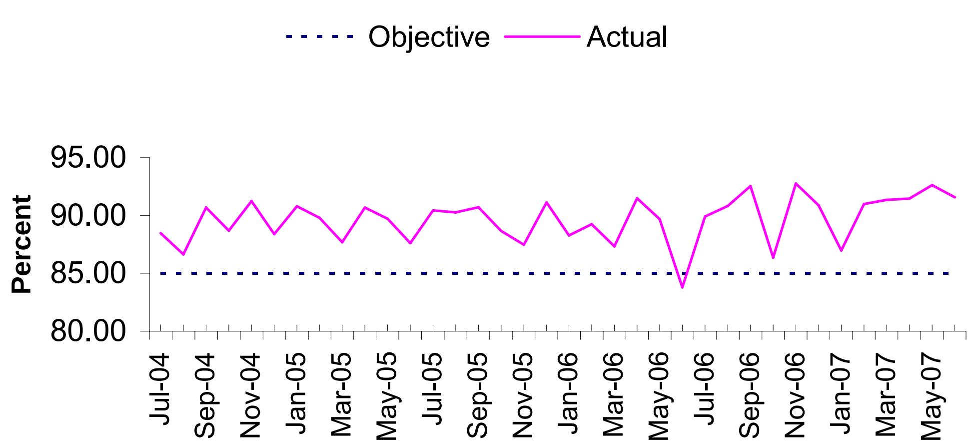
Dial Service Results - % Completion - This performance area measures call completion performance on interoffice trunk groups. It is calculated by taking the number of unblocked calls on interoffice trunk groups divided by the total number of attempts on interoffice trunk groups times 100.

Figure 65
Percent Out-of-Service Troubles Cleared in 24 Hours



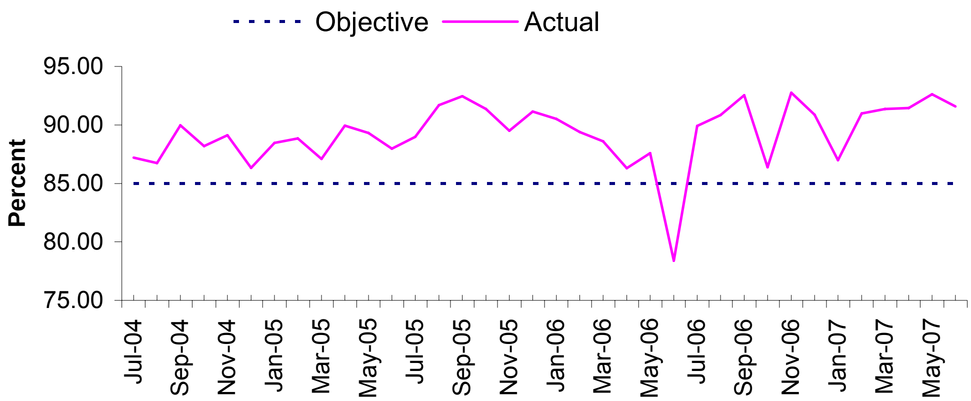
% OOS Trouble Cleared in 24 Hours - This performance area measures customer out-of-service ("OOS") network trouble reports cleared within 24 working hours. It is calculated by taking the total customer OOS network reports cleared within 24 working hours divided by the total customer OOS network trouble reports times 100.

Figure 66
Percent of Operator Toll Calls
Answered Within 10 Seconds



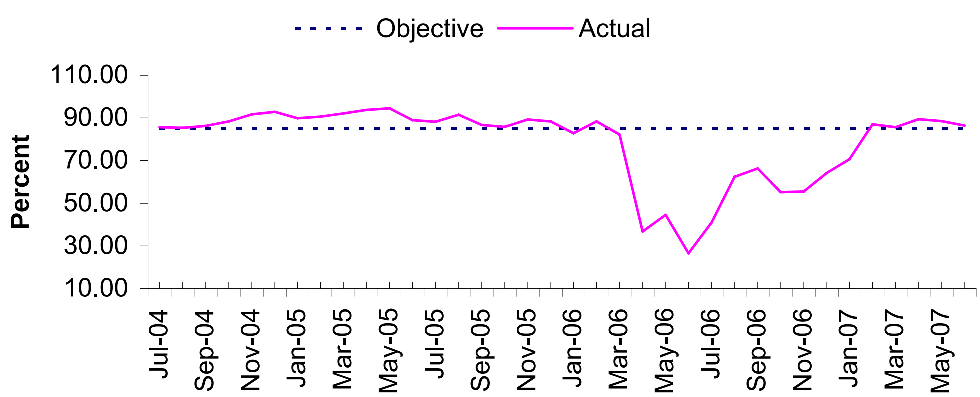
% Operator Toll Calls Answered Within 10 Seconds - This performance area measures the number of calls handled within ten (10) seconds divided by the total number of calls handled times 100 for calls to the toll operator.

Figure 67
Percent of Operator Directory Assistance Calls Answered Within 10 Seconds



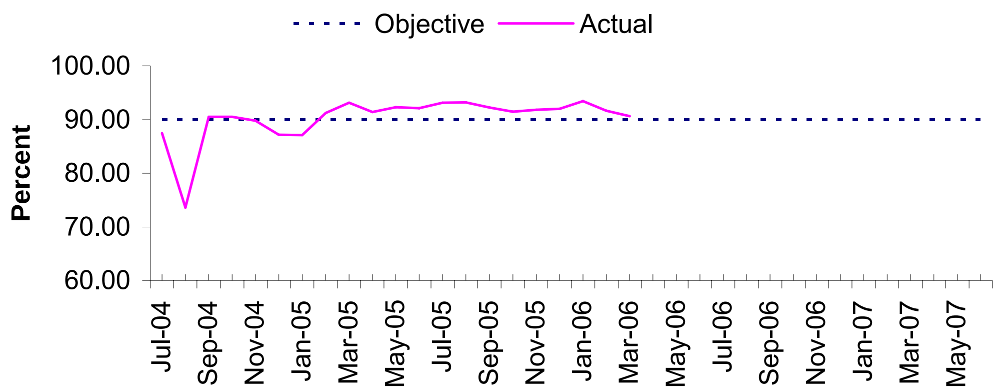
% Operator Directory Assistance Calls Answered Within 10 Seconds - This performance area measures the number of calls handled within ten (10) seconds divided by the total number of calls handled times 100 for calls to the directory assistance operator.

Figure 68
Percent of Repair Calls Answered Within 20 Seconds



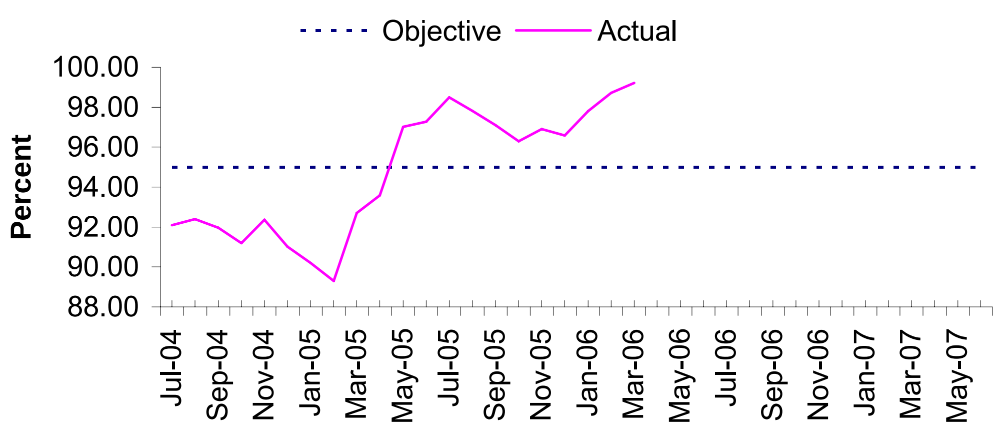
% Repair Calls Answered Within 20 Seconds - This performance area measures the number of calls answered within twenty (20) seconds divided by the total number of calls times 100 for calls to the repair answer center.

Figure 69
Percent Repair Commitments Met



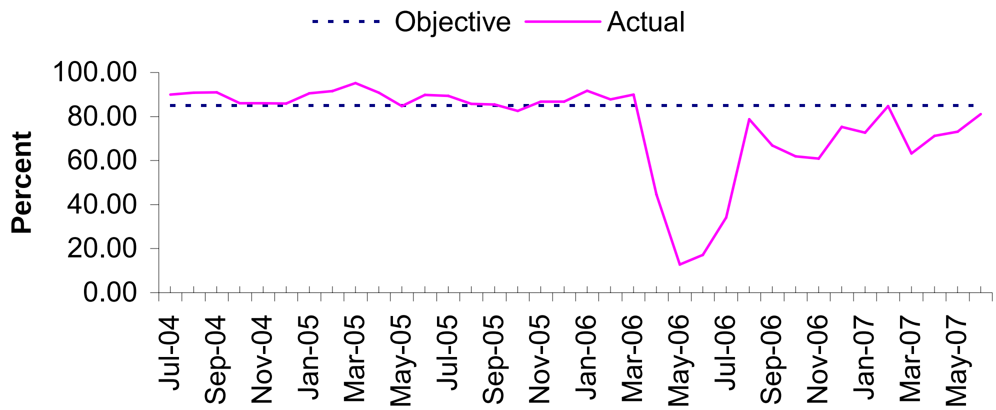
% Repair Commitments Met - This performance area measures the repair tickets completed by the committed due date. It is calculated by taking the total customer network trouble reports for which the commitments were met divided by total customer network troubles times 100.

Figure 70
Percent Installations Completed Within 3 Days



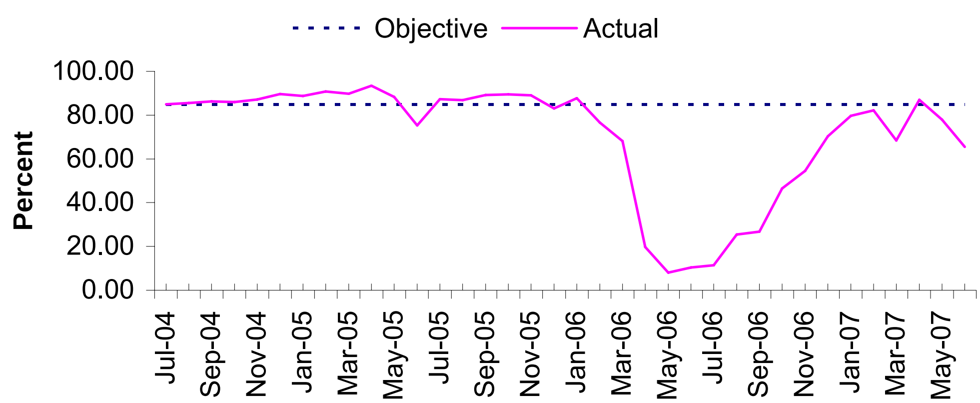
% Installations Completed Within 3 Days - This performance area measures the per cent of basic orders completed within three (3) working days. It is calculated by taking the total installation ("I"), move ("M") and change ("C") basic orders completed within three (3) working days divided by the total number of I, M and C orders times 100.

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



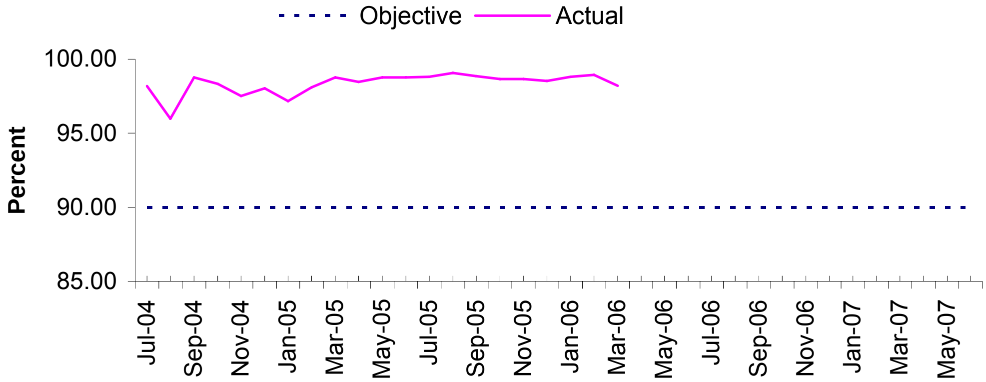
% Combined Business Installation/Billing Office Calls Answered Within 20 Seconds - This performance area measures the number of calls answered within twenty (20) seconds divided by the total number of calls times 100 for calls to the business installation and billing center.

Figure 72
Percent Combined Residence Installation/Billing Office Calls Answered Within 20 Seconds



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

Figure 73
Percent Installation Commitments Met



% Installation Commitments Met - This performance area measures the per cent 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 per cent 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.

XIII. LEGISLATION ENACTED BY 2007 LEGISLATURE AFFECTING PUBLIC UTILITIES.

A. 2007 LEGISLATIVE MEASURES RELATING TO THE PUBLIC UTILITIES COMMISSION.

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

Act 182, SLH 2007 authorizes investigatory and subpoena powers for the Commission; appropriates $1.2 million for FY 2007-2008 from the state general fund into the petroleum industry monitoring, analysis, and reporting special fund; adds new and amended definitions to section 486J-1; adds requirement for certain financial data to be filed weekly by distributors and major fuel users; requires the Commission to refer to the Attorney General any matter that is a violation of chapter 486B that it in carrying out its duties under chapters 486H and 486J; and requires that the Department of Business, Economics Development and Tourism use the information obtained under chapter 486J to effectuate the purposes of chapters 125C, 196, and other relevant laws.

2. PUBLIC UTILITIES COMMISSION RESTRUCTURING; CONSIDERATION OF NEED FOR RENEWABLE ENERGY.

Act 177, SLH 2007 expressly allows the Commission to consider the need for increased renewable energy use in exercising its authority and duties under Chapter 269, HRS. It also requires the Commission to restructure its operations as provided for in its report to the Legislature, pursuant to Act 143, SLH 2006. In addition, new office space shall be leased and the office relocated.

B. OTHER 2007 LEGISLATIVE MEASURES RELATING TO UTILITIES.

1. ENVIRONMETAL QUALITY; GREENHOUSE GAS EMISSIONS.

Act 234, SLH 2007 establishes policy goal of reducing greenhouse gas emissions to 1990 levels by 2020.

2. HAWAII BROADBAND TASK FORCE.

Act 2, SLH 2007 (Special Session), establishes the Hawaii Broadband Task Force to remove barriers to broadband access; identify opportunities for increased broadband opportunities and adoption; and enable the creation and deployment of new advanced communication technologies in Hawaii. Members are to be named by Senate President and House Speaker. The Hawaii Broadband Task Force shall cease to exist after June 30, 2009.

C. 2007 RESOLUTION RELATING TO UTILITY ISSUES.

1. COMMISSION TO STUDY RATE STRUCTURES OF PRIVATE ENTITIES FURNISHING WATER USED FOR AGRICULTURAL PURPOSES

Senate Concurrent Resolution No. 3 SD 1, SLH 2007, requests a study of rate and fee structures of private entities statewide that furnish water for agricultural uses and to inventory all privately owned water systems used for that purpose. It further requests that the Commission examine water rate structures established by county boards of water supply; distinguish between rate and fee structures for privately owned water systems used for agriculture and for residential uses; seek input, guidance and assistance from the Department of Agriculture, the University of Hawaii College of Tropical Agriculture & Human Resources, Hawaii Farm Bureau Federation and each board of water supply.

XIV. FEDERAL ISSUES AND ACTIVITIES.

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

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

As provided by the Act, the USF receives contributions from providers of telecommunications services to support four programs: 1) Lifeline/Link-up; 2) High-Cost; 3) Schools and Libraries; and 4) Rural Health Care. Those contributions are then pooled and the moneys paid out to those carriers designated as ETCs, to assist them in defraying the cost of providing telecommunications services to customers in areas where otherwise it would not be financially feasible to do so. As of June 30, 2007, the Hawaii Commission has granted ETC status to four carriers: Hawaiian Telcom, Inc., Sandwich Isles Communications, Inc., NPCR, Inc., d/b/a Nextel Partners, with Coral Wireless, d/b/a Mobi PCS, having been designated on February 23, 2007, in Docket No. 05-0300, Decision and Order No. 23275.

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

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 as opposed to 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, disability access, and local number portability. 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. Finally, the FCC on May 31, 2007 issued FCC Report and Order 07-110 extending the disability access requirements of Sections 225 and 255 of the Act to providers of interconnected VOIP services, and to manufacturers of specially designed equipment used to provide those services to the disabled.

XV. PREVIEW FISCAL YEAR 2007-08.

The following sections highlight some of the significant proceedings and activities of the Commission for Fiscal Year 2007-08.

A. COMMISSION OPENS AN INVESTIGATION TO EXAMINE THE FEASIBILITY OF IMPLEMENTING INTRA-GOVERNMENTAL WHEELING OF ELECTRICITY IN HAWAII.

In late June 2007, the Commission opened a proceeding on intra-governmental wheeling of electricity to determine whether it would be feasible to implement such a process in the State. This issue initially arose through a resolution adopted by the 2004 Legislature, which requested that the Commission explore ways to implement intra-governmental wheeling to facilitate government wheeling of electricity. Wheeling in that resolution was defined as “the process of transmitting electric power from a seller’s point of generation across a third-party-owned transmission and distribution system to the seller’s retail customer.” Wheeling was also discussed in the Commission’s Distributed Generation proceeding, but the Commission was unable to fully address all of the issues relevant to intra-governmental wheeling in the course of that docket.

B. COMMISSION OPENS PROCEEDING TO SELECT A PUBLIC BENEFITS FUND ADMINISTRATOR.

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

C. COMMISSION INITIATES A PROCEEDING TO REVIEW THE DEMAND-SIDE MANAGEMENT REPORTS AND REQUESTS FOR PROGRAM MODIFICATIONS OF HECO, HELCO AND MECO.

In October 2007, the Commission opened a proceeding to review HECO's, HELCO's, and MECO's demand-side management reports and requests for program modifications. This docket is a result of the Energy Efficiency docket, in which the Commission determined that it will be opening a new docket to approve HECO's periodic DSM reports, and that HECO may file requests for modifications to its DSM programs in the newly established docket.

D. RULE-MAKING PROCEEDINGS.

In Fiscal Year 2007-08, 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 the HRS Chapter 269E, as amended (i.e., procedures for filing complaints and establishing a mechanism to assess feels 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 Chapter 6-60.