PUBLIC UTILITIES COMMISSION

STATE OF HAWAII

ANNUAL REPORT

(HAW. REV. STAT. § 269-5)

FISCAL YEAR 2008-09

NOVEMBER 2009

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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"). This report summarizes the Commission's goals and objectives, as well as the activities and operations of the Commission and the public utilities it regulates during the July 1, 2008 to June 30, 2009 fiscal year ("Fiscal Year").

II. COMMISSION HISTORY AND BACKGROUND.

The Commission is responsible for regulating all chartered, franchised, certificated, and registered public utility companies that provide electricity, gas, telecommunications, private water and sewage, and motor and water carrier transportation services in the State. The Commission has statutory authority to establish and enforce applicable state statutes, administrative rules and regulations, and to set policies and standards.

It also oversees 1) 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 and 2) the development and maintenance of the petroleum industry monitoring, analysis and reporting ("PIMAR") program that is intended to increase transparency within the petroleum industry. In addition, the Commission established the public benefits fee during the Fiscal Year, which will be used to fund and support energy efficiency programs and services implemented by an independent third party administrator on the islands of Oahu, Maui, Molokai, Lanai and Hawaii.

A. HISTORY.

The Commission was established in 1913 by Act 89, SLH 1913, as a part-time, three-member body with broad regulatory oversight and investigative authority over all public utility companies doing business in the Territory of Hawaii. This act, amended over the years and codified in Chapter 269, HRS, is the basis for utility regulation in Hawaii. The Commission's authority to regulate various classifications of motor carriers of passengers and property is derived from the Hawaii Motor Carrier Law (Chapter 271, HRS) enacted in 1961. Responsibility for all commercial water transportation carriers of persons and property within the State is derived from the Hawaii Water Carrier Act of 1974 (Chapter 271G, HRS). Chapter 6-61, "Rules of Practice and Procedure Before the Public Utilities Commission," of the Hawaii Administrative Rules ("HAR") sets forth general procedural requirements for intervention and participation in proceedings before the Commission. Other HARs and general orders of the Commission set forth the standards, rules, and other procedures governing electric, gas, telecommunications, private water and sewage, and motor and water carrier transportation services.

Today, the Commission is a full-time body comprised of three (3) Commissioners. The Governor, with the consent of the State Senate, appoints the Commissioners. They each serve six-year terms on a staggered basis.

B. COMMISSIONERS.

Carlito P. Caliboso, Chairman

Carlito P. Caliboso was appointed to the 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. In October 2007, Chairman Caliboso was named to serve a second term on the FCC Intergovernmental Advisory Committee as the Vice Chair of the committee. In addition, he serves on the State Energy Emergency Preparedness Advisory Committee. During the past year, he has served as the President of the Western Conference of Public Service Commissioners. He is a member of the National Association of Regulated Utilities Commissioners ("NARUC"), and serves on NARUC's Board of Directors, the Committee on Telecommunications, the Ad Hoc Committee on National Wireless Protection Standards, the Committee on International Relations, and the Committee on Critical Infrastructure Protection. In addition, Chairman Caliboso serves on the Board of Directors of the National Regulatory Research Institute.

Chairman Caliboso earned a bachelor of business administration degree from the University of Hawaii at Manoa ("UH-Manoa") in 1984, a law degree from the William S. Richardson School of Law at UH-Manoa in 1991, and an Executive MBA from the Shidler College of Business at UH-Manoa in 2009.

John E. Cole, Commissioner

John E. 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, Commissioner Cole was appointed as a member of the FCC's 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 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 UH-Manoa and a law degree from Washington University School of Law.

Leslie H. Kondo, Commissioner

Leslie H. Kondo was appointed on July 2, 2007, to serve as an interim commissioner of the Public Utilities Commission to fill the vacancy created by the retirement of Commissioner Wayne Kimura and to serve for the remainder of the six-year term that expired on June 30, 2008. Commissioner Kondo was subsequently appointed to a new six-year term, which expires June 30, 2014.

Since February 2003 until his appointment to the Commission, Commissioner Kondo served as director of the State of Hawaii Office of Information Practices ("OIP"), which administers Hawaii's open meetings and public records laws.

Prior to his appointment with OIP, Commissioner Kondo was a partner at the law firm of Chun & Nagatani. He also worked at the law firms of Tom & Petrus and McCorriston Miho Miller Mukai. He served as a law clerk for Chief Justice Herman T.F. Lum of the Supreme Court of Hawaii from 1990-1991.

Commissioner Kondo has a bachelor of science in industrial engineering from Northwestern University and juris doctor degree from the William S. Richardson School of Law at the University of Hawaii. He is a member of NARUC and the Hawaii State Bar Association and served as director of Make-A-Wish Hawaii from 2001 to 2008.

C. ADMINISTRATION AND OFFICES.

The Commission is comprised of three commissioners and, as of June 30, 2009, a staff of 37 employees. These employees include an administrative director, attorneys, engineers, auditors, researchers, investigators, neighbor island representatives for Kauai, Maui County and Hawaii, documentation staff, and clerical staff. The Commission has four offices located throughout the State:

OAHU:	Public Utilities Commission Kekuanaoa Building 465 South King Street, #103 Honolulu, HI 96813 Phone: (808) 586-2020 Fax: (808) 586-2066	KAUAI:	PUC Kauai District Office 3060 Eiwa Street, #302-C Lihue, HI 96766 Phone: (808) 274-3232 Fax: (808) 274-3233
MAUI:	PUC Maui District Office State Office Building #1 54 S. High Street, #218 Wailuku, HI 96793 Phone: (808) 984-8182 Fax: (808) 984-8183	HAWAII:	PUC Hawaii District Office 688 Kinoole Street, #106-A Hilo, HI 96720 Phone: (808) 974-4533 Fax: (808) 974-4534
Email:	Hawaii.PUC@hawaii.gov		
Web:	www.hawaii.gov/budget/puc/		

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

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

III. GOALS AND OBJECTIVES OF COMMISSION.

A. PRIMARY PURPOSE.

The Commission's primary purpose is to 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, renewable, and/or clean 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 one (1) new staff member that filled the Commission's Information Technology section. Commission staff and consultants successfully implemented the external roll-out (Phase II) of the Commission's Document Management System ("DMS") which achieved the Commission's goal of providing greater transparency into the Commission's dockets by increasing public access to Commission records. DMS allows the public to view documents filed in docketed proceedings online at www.dms.puc.hawaii.gov/dms. Users may also click on the docket numbers in this report to access the docket files.

Major administrative points of focus for Fiscal Year ("FY") 2010 were to include personnel recruitment and training, technological and regulatory process improvements, public education and information transparency enhancements, and enforcement activities expansion. Pursuant to

Act 177, Session Laws of Hawaii ("SLH") 2007, ("Act 177") the Commission is required to restructure its organization in FY 2010 by establishing fourteen (14) new positions, expanding the existing Research Section to include policy support positions and functions and renaming it the Office of Policy and Research, creating a Consumer Affairs and Compliance Section to be responsible for consumer relations and current investigative and enforcement activities, creating an Administrative Support Section to centralize clerical services, case management services, fiscal services and information technology staff, and the updating and redescription of twelve (12) existing positions. However, due to recent economic conditions, Act 162, SLH 2009 abolished nine (9) vacant positions, a few of which were identified in Act 177 to be redescribed, and did not approve the funding of two (2) new FY 2010 reorganization positions. Eliminated positions decreased the Commission's total permanent position count to fifty-one and impacted the following sections: research, information technology, investigative and enforcement, and legal and legal support.

Therefore, in FY 2010, the Commission will focus appropriate administrative efforts on securing and employing Federal Government grants that arise from the American Recovery and Reinvestment Act of 2009 ("ARRA") that the Commission is eligible for. In August 2009, the Commission applied for one (1) formula-based ARRA grant in the amount of $782,834, specifically FOA-DE-0000100, offered by the United States Department of Energy to supplement all State Public Utilities Commissions' resources and ability to manage a significant increase in dockets and other regulatory actions resulting from ARRA electricity-related activities. The Commission is currently awaiting the funding of this grant.

V. REGULATORY ISSUES AND PROCEEDINGS.

A. MAJOR REGULATORY ISSUES.

The Commission is responsible for regulating 211 utility companies or entities (4 electric, 1 gas, 169 telecommunications, and 37 water and sewer companies), 4 water carriers, 651 passenger carriers and 600 property carriers in the State. During the fiscal year, the Commission opened 338 new dockets relating to those regulated utilities and transportation companies, completed and disposed of 324 dockets from its total case load and issued 733 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 Decoupling; Feed-In Tariffs ("FIT"); a Renewable Energy Infrastructure ("REI") Program; a competitive bidding process for renewable energy projects on Oahu; a Photovoltaic ("PV") Host Program; an Advanced Metering Infrastructure ("AMI") Project; and Standards for Residential Solar Water Heater Systems. A Third Party Administrator ("TPA") was selected to implement and administer energy efficiency programs within the HECO Companies' service territories with a Fiscal Agent and a Contract Manager. The Intra-Governmental Wheeling and Schedule Q proceedings were suspended. The Commission also reviewed HECO's request for a general rate increase for the 2009 calendar test year; KIUC's request for a general rate increase for the 2010 calendar year; and was notified by HELCO and MECO of their intent to file general rate cases in the 2010 fiscal year.

In the gas utility area, The Gas Company filed an application for a general rate increase for the 2009 calendar test year.

In the telecommunications area, the Commission continued to examine Hawaiian Telcom, Inc.'s service quality and performance levels and standards in relation to its retail and wholesale customers. The Commission also modified the telecommunications relay services carrier contribution factor and fund size for the period July 1, 2009 to June 30, 2010.

In the water carrier transportation area, the Commission reviewed Pasha Hawaii Transport Lines LLC's application for a CPCN and approved a general rate increase and re-examined the zone of reasonableness program for Young Brothers Limited.

In the water and wastewater public utility area, several companies initiated applications for general rate increases during the Fiscal Year, including applications by Molokai Public Utilities, Inc. and Waiʻola O Molokaʻi. The two Molokai utilities had previously advised the Commission of a possible shutdown of vital water and wastewater services to customers in West Moloka'i.

The following sections highlight significant Commission proceedings.

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. NET ENERGY METERING. Docket No. 2006-0084

In March 2008, the Commission approved an increase in the net energy metering ("NEM") generator size limit from 50 kW to 100 kW for customers of the HECO Companies, while allowing KIUC to keep its generator size limit at 50 kW. In their respective stipulations HECO agreed to reserve 40 per cent, while HELCO and MECO agreed to 50 per cent of their 1.0 per cent system peak demand for smaller systems and KIUC agreed to reserve 50 per cent of its system peak demand for smaller systems that have a NEM generator size of 10 kW or less. The maximum allowable NEM cap increased from 0.5 per cent to 1.0 per cent of each utility's system peak demand.

In addition, the Commission ordered the HECO Companies and KIUC to design and propose NEM pilot programs for their respective service territories, which would allow a limited number of larger generating units (of up to 500 kW or greater) for NEM purposes. In April 2008, the HECO Companies submitted a proposal for a four year pilot program. In May 2008, KIUC filed a motion for reconsideration of the portion of the decision and order relating to the pilot program. Specifically, KIUC requested, among other things, that the range for the program be lowered from "100 kW to 500 kW" to "50 kW to 200 kW". KIUC expressed concern with the potential impact of the required range, particularly the upper size requirement of 500 kW, on KIUC due to its size and operations.

In June 2008, the Commission requested that the HECO Companies and KIUC update their NEM status reports in response to KIUC's having reached its total rated generating capacity limit of 1% of KIUC's peak demand. The HECO Companies filed their updates in June 2008, and KIUC filed its updates in July 2008.

In December 2008, the Commission approved increases to the NEM system cap limits for HELCO and MECO and directed the development of a new review process, outside of the integrated resource planning process, for considering any future increases to the NEM limits for the HECO Companies.

In April 2009, the Commission granted KIUC's motion for reconsideration of the portion of the decision and order relating to the pilot program stating that, modifying the NEM Pilot Program range for KIUC appears appropriate in light of KIUC's relatively smaller operational size. KIUC filed its stipulated proposed NEM Pilot Program and Alternate Rate Structure in October 2009.

b. MAJOR POWER OUTAGES OF OCTOBER 15-16, 2006. Docket No. 2006-0431

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.

In December 2006, HECO filed a 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 the islands of Hawaii and Maui.

The Consumer Advocate and the HECO Companies filed their Statements of Position in August 2007 and October 2007, respectively. HECO held a briefing in December 2007 to provide a more detailed explanation of the training programs in place and to review the broad array of training materials used by the HECO Companies.

In December 2008, the Commission determined that the HECO Companies' activities and performance prior to and during the major power outages were reasonable and in the public interest. No penalties were imposed on the HECO Companies with regards to these power outages.

c. RENEWABLE PORTFOLIO STANDARDS LAW. Docket No. 2007-0008

In January 2007, the Commission opened an investigation pursuant to Act 162, SLH 2006, which amended Hawaii's Renewable Portfolio Standards ("RPS") Law, codified as Hawaii Revised Statutes §§ 269-91 – 269-95 to examine the appropriate penalty framework for non-compliance with the RPS.

In December 2007, the Commission approved a framework for RPS to govern electric utilities' compliance with the RPS. It also denied a proposal by the parties for the implementation of a Renewable Energy Infrastructure ("REI") Program, including a temporary REI Surcharge, which was proposed by the HECO Companies. Instead, the Commission determined that it would open a separate docket to examine the proposed REI Program. At the same time, the Commission decided to further examine the subject of penalties on electric utilities that fail to meet the RPS and required the utilities to file supplemental briefs on the matter.

In December 2008, the Commission approved a penalty of $20 for every megawatt-hour ("MWh") that an electric utility is deficient under Hawaii's RPS Law. In the Commission's discretion, this penalty may be reduced based on the factors listed in HRS § 269-92(d) and in the RPS Framework, Section III.C.5. Any RPS penalties assessed against the HECO Companies for failure to meet the RPS shall go into the account established for the public benefits fees and shall not be recovered through rates. Any RPS penalties assessed against KIUC shall be paid into the Commission's special fund and may be recovered from its members or ratepayers.

d. COMPETITIVE BIDDING PROCESS FOR RENEWABLE ENERGY ON OAHU. Docket No. 2007-0331

In October, 2007 the Commission opened this docket pursuant to the Framework for Competitive Bidding dated December 8, 2006 ("Framework"), to receive filings, review approval requests, and resolve disputes, if necessary, related to HECO's proposal to proceed with a competitive bidding process to acquire approximately 100 MW of non-firm renewable energy for the Island of Oahu. Given that this was the first competitive bidding process since the Commission's adoption of the Framework, an Independent Observer ("IO") was selected to oversee the process and in June 2008, HECO issued the Request For Proposals.

In January 2009, HECO advised the Commission of HECO's selection of its Initial Short List and filed the IO's report of HECO's evaluation and short list selection process. During the FY 2010, HECO plans to complete its interconnection studies; select its award group; execute contracts with the award group; and file the contracts with the Commission for approval.

e. RENEWABLE ENERGY INFRASTRUCTURE PROGRAM. Docket No. 2007-0416

In December 2007, the Commission opened a proceeding to examine the HECO Companies' proposed REI Program. The HECO Companies initially proposed this program in the RPS proceeding, but the Commission determined that a separate docket should be opened on this matter. The REI Program, as proposed, consists of renewable energy infrastructure projects and the creation and implementation of an REI Surcharge to recover the utilities' investment in renewable infrastructure in a timely fashion. Also part of the REI Program is a proposed consolidation incentive mechanism, which generally works to credit customers of electric utility affiliates within a consolidated electric utility whose service territories exceed their RPS percentages on a stand-alone basis, to be paid through a surcharge on customers of the affiliated electric utilities, if any, whose service territories fall short of their RPS percentage on a stand-alone basis. In effect, the mechanism, if approved, would allow the HECO Companies to recover certain costs for renewable projects built in the County of Hawaii and the County of Maui from Oahu ratepayers.

Public hearings were held in May 2008 on the islands of Oahu, Hawaii, Molokai, Maui, and Lanai. In October 2008, the parties notified the Commission that they 1) had reached an agreement on all of the issues in this docket, 2) agree that it is appropriate that the Commission approve the HECO Companies' proposed REI Program and related REIP Surcharge, as provided in Exhibit B to the HECO Companies' Reply Position Statement, filed September 17, 2008, 3) agree that with respect to the Consolidation Incentive, the Commission should generally approve the mechanism in this proceeding and reserve for itself and the parties the opportunity to more fully review the cost sharing for a proposed project when such application is filed, 4) agree that with respect to renewable energy implementation study projects, included under Section III.B.I.a.ii of the REI Program, these project costs would be recovered through the REIP Surcharge after the study project is approved by the Commission, 5) agree that the record in this proceeding is complete and ready for Commission decision-making, and 6) waive an evidentiary hearing.[2]

Per the Energy Agreement among the State of Hawaii, Division of Consumer Advocacy of the Department of Commerce and Consumer Affairs, and the HECO Companies, the parties intend to propose a Clean Energy Infrastructure Surcharge ("CEIS") recovery mechanism. By letter dated November 28, 2008, the HECO Companies and the Consumer Advocate stated that the proposed REIP Surcharge is "substantially similar to the CEIS included in the Energy Agreement," and that "no further regulatory action by the Commission is necessary at this time with respect to the CEIS." A decision on this matter is pending.

[2]Letter jointly filed on October 22, 2008, from the Parties to the commission, at 2 (footnotes omitted).

f. THIRD PARTY ADMINISTRATION OF ENERGY EFFICIENCY PROGRAMS.
Docket No. 2007-0323

In September 2007, the Commission instituted an investigation to examine the issues and requirements raised by, and contained in, Part VII of Chapter 269, Sections 269-121, et seq., HRS, pertaining to Hawaii's Public Benefits Fee. This proceeding was initiated to select a TPA to implement and administer energy efficiency programs within the HECO Companies' service territories. The load management and pilot programs remained with the HECO Companies.

In August 2008, the Commission selected Bank of Hawaii as the Fiscal Agent and in October 2008, selected a JFA Associates as the Contract Manager to oversee aspects of third-party administration of energy efficiency programs.

The Commission selected Science Applications International Corporation as the TPA in December 2008 and also established the Public Benefits Fee ("PBF") surcharge for 2009. The HECO Companies continued their current DSM programs during the transition period from January 1, 2009 through June 30, 2009, as the new TPA completed its transition plan.

g. FEED-IN TARIFFS.
Docket No. 2008-0273

In October 2008, the Commission instituted an investigation to examine the issues and requirements raised by the implementation of feed-in tariffs ("FITs) in the HECO Companies' service territories. Feed-in tariffs, or locked-in rates for renewable power fed into the electric grid requires the utility to pay a fixed rate for renewable energy as approved by the Commission.

In September 2009, the Commission issued its decision and order on the general principles for the implementation of FITs in the HECO Companies' service territories. The HECO Companies are scheduled to submit initial FITs rates in FY 2010 for Commission approval.

h. DECOUPLING MECHANISM.
Docket No. 2008-0274

In October 2008, the Commission instituted an investigation to examine the issues and requirements raised by the implementation of a decoupling mechanism for the HECO Companies that would modify the traditional model of rate-making by separating the HECO Companies' revenues and profits from electricity sales.

Opening and reply briefs were filed in September 2009. A decision on this matter is pending.

i. ISLAND-WIDE POWER OUTAGE OF DECEMBER 26, 2008.
Docket No. 2009-0005

In January 2009, the Commission opened an investigation to examine the island-wide power outage that occurred on the island of Oahu on December 26, 2008.

In June 2009, HECO filed its preliminary position statement.

j. AMENDMENTS TO THE FRAMEWORK FOR INTEGRATED RESOURCE PLANNING.
Docket No. 2009-0108

In May 2009, the Commission instituted an investigation to examine the HECO Companies, KIUC and the Consumer Advocate's proposed amendments to the Framework for Integrated Resource Planning as set forth in their letter dated and filed on April 28, 2009. In that letter, the HECO Companies, KIUC, and Consumer Advocate proposed that the Commission open a docket to replace the IRP Framework with a Clean Energy Scenario Planning ("CESP") process, and submitted a Proposed CESP Framework for the commission's review.

A panel hearing is scheduled for February 2010.

k. SOLAR WATER HEATER SYSTEMS STANDARDS. Docket No. 2008-0249

In September 2008, the Commission opened a docket to examine the issues and requirements of adopting or establishing standards for solar water heater systems as mandated by Act 204, Session Laws of Hawaii (2008) ("Act 204"). Act 204, required the installation of solar water heater systems, comparable renewable energy systems, or demand gas water heaters in all new residential development projects constructed after January 1, 2010; restricts the solar thermal energy system tax credit available for single-family residential properties to properties for which building permits were issued prior to January 1, 2010; and also requires the Commission to adopt or establish by rule tariff, or order, standards for solar water heater systems.

In July 2009 the Commission established Solar Water Heater Systems Standards and in October 2009, revised the standards after receiving comments from the parties to the docket and other interested parties. The Standards are available on the Commission's website.

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

a. HECO'S 2009 TEST YEAR RATE INCREASE REQUEST. Docket No. 2008-0083

In July 2008, HECO filed an application requesting a general rate increase of 5.2 per cent over revenues at current effective rates. In July 2009, the Commission issued an interim decision and order granting a revenue increase of $61,098,000, or a 4.71 per cent increase over revenues at current effective rates for a normalized 2009 test year.[3]

b. KIUC'S 2010 TEST YEAR RATE INCREASE REQUEST Docket No. 2009-0050

In June 2009, KIUC, a not-for-profit electric cooperative that provides electric utility service on the island of Kauai, filed an application for an across-the-board rate increase in its various customer classes of approximately 10.5 percent over its existing rates and charges. In addition, KIUC proposed to: (1) remove the efficiency component from its Energy Rate Adjustment Clause ("ERAC") such that KIUC will recover only its actual fuel and purchased power costs and rename the ERAC the Cost of Power Adjustment or COPA; and (2) have the Commission rescind the requirement that KIUC seek approval from its lenders on an annual basis to retire patronage capital of twenty-five percent of its margins, and instead, allow KIUC to have the discretion to decide when and how much patronage capital should be retired in any given year.

For any increases in KIUC's rates and charges ultimately approved by the Commission, the total revenue requirement for the January 1, 2010 to December 31, 2010 test year ("2010 Test Year") will not exceed the increase in revenues of $12,991,518 (approximately 10.5 percent)

[3]Evidentiary hearings were held in October 2009.

as set forth in KlUC's Application over KlUC's total revenues at present rates for the 2010 Test Year. However, the increases in KlUC's rates and charges to be finally approved by the Commission, If any, may be higher or lower than the proposed rates and charges noted in KlUC's Application.

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

On October 20, 2008, the Governor of the State of Hawaii, the State Department of Business Economic Development and Tourism ("DBEDT"), the Consumer Advocate ("CA") and the HECO Companies ("HCEI Parties") entered into a comprehensive agreement designed to move the State away from its dependence on imported fossil fuels for electricity and ground transportation, and toward "indigenously produced renewable energy and an ethic of energy efficiency." As a part of the Energy Agreement and in order to improve analysis and guidance for Hawaii's clean energy future, the HCEI Parties agreed to replace the current IRP process with a new Clean Energy Scenario Planning ("CESP") process. Please refer to Docket No. 2009-0108.

HECO - Docket No. 2007-0084 – In November 2008, the Commission approved HECO and the CA's request to close this docket.

MECO - Docket No. 2004-0077 – In December 2008, the Commission approved MECO and the CA's request to close this docket.

HELCO - Docket No. 2004-0046 – In November 2008, the Commission approved HELCO and the CA's request to close this docket.

KIUC - Docket No. 2006-0165 – In February 2009, KIUC filed a letter requesting that the Commission suspend the review of KIUC's 3rd IRP, filed in December 2008, in order to provide KIUC additional time and opportunity to fully analyze and consider whether to adopt all or parts of the new CESP process set forth in the October 20, 2008 Energy Agreement. The Commission denied KIUC's suspension request and closed the docket to allow KIUC's resources to be diverted to the development of a CESP Framework.

d. ADVANCED METERING INFRASTRUCTURE PROJECT. Docket No. 2008-0303

The HECO Companies filed an application in December 2008 for approval of an Advanced Metering Infrastructure ("AMI") Project. Also requested was to commit capital funds, to defer and amortize software development costs, to begin installation of meters and implement time-of-use rates, for approval of accounting and ratemaking treatment, and other matters related to the project.

In September 2009, the Commission granted the HECO Companies request to move the evidentiary hearing from September 2009 to June 2010.

e. PV HOST PILOT PROGRAM. Docket No. 2009-0098

The HECO Companies filed an application in April 2009 for approval of PV Host Pilot Programs. Each company would establish a two-year PV Host Pilot Program which targeted installations of 8 MW, 4MW and 4MW of PV at HECO, HELCO and MECO, respectively.

In September 2009, the Commission approved the stipulated procedural order for this docket.

f. LIFELINE RATE PROGRAM Docket No. 2009-0096

In April 2009, the HECO Companies filed an application with the Commission to establish a Lifeline Rate Program that would provide a monthly bill credit, ranging from $25 to $35 per month, to qualified, low-income customers.

g. 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:

Waimea-Kawaihae Reconductor 7300 Line Project - Docket No. 2007-0124 - HELCO's request to reconductor and reinforce the 7300 Line in connection with the Project.

Kuhio Highway 69kV Transmission Line Undergrounding Project - Docket No. 2009-0038 - KIUC's request to construct a 69kV electric transmission line below the surface of the ground along Kuhio Highway.

h. WAIVER OF RULE 13 TO ALLOW HECO TO PAY FOR PORTION OF THE UNDERGROUND CONVERSION COST.

HECO's Rule 13.D.4 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.

During the Fiscal Year, the Commission reviewed and approved the following request for waiver of Rule 13, to allow HECO to pay for a portion of underground conversion costs:

Kalanianaole Highway Improvements Conversion Project - Docket No. 2007-0217 - HECO's request to allow HECO to contribute approximately $275,344 to convert existing 12kV overhead lines to 12kV underground lines for Kalanianaole Highway improvements, retaining wall at Makapuu project.

i. PROPOSED CAPITAL IMPROVEMENT PROJECTS.

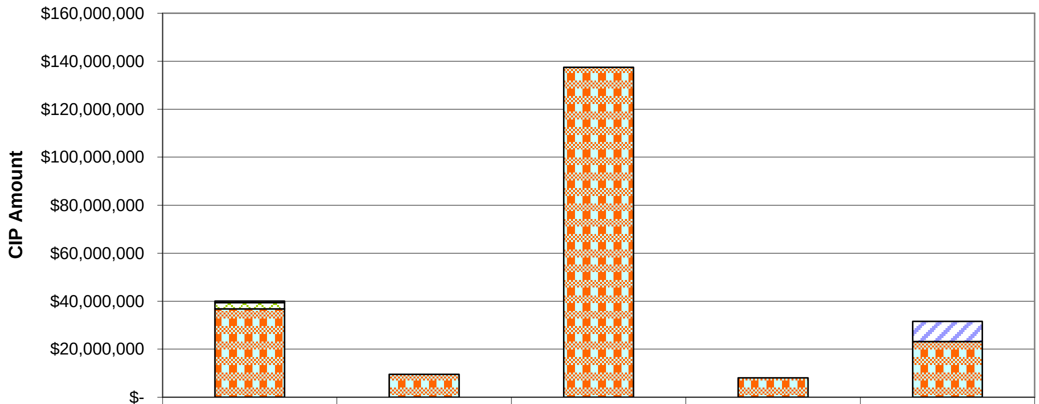
Prior to July 1, 2004, electric and telecommunications utilities were required by the Commission's administrative rules to obtain approval for all capital improvement project ("CIP") expenditures over $500,000. Effective July 1, 2004, the threshold increased from $500,000 to $2.5 million for the electric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

During the Fiscal Year, HECO was authorized to expend approximately $23 million in capital improvements. Expenditures included approximately $14 million for the Kaloi Substation serving the University of Hawaii's new West Oahu ("UHWO") Campus and the surrounding developments in the Ewa Plains; approximately $3.4 million for the Airport Dispatchable Standby Generation Project, and approximately $5.5 million for Whitmore Substation Transformer #1 and 46 kV circuit.

During the Fiscal Year, KIUC was authorized to expend approximately $8.4 million to replace the existing Lydgate Substation.

There were no CIP filings by MECO and HELCO.

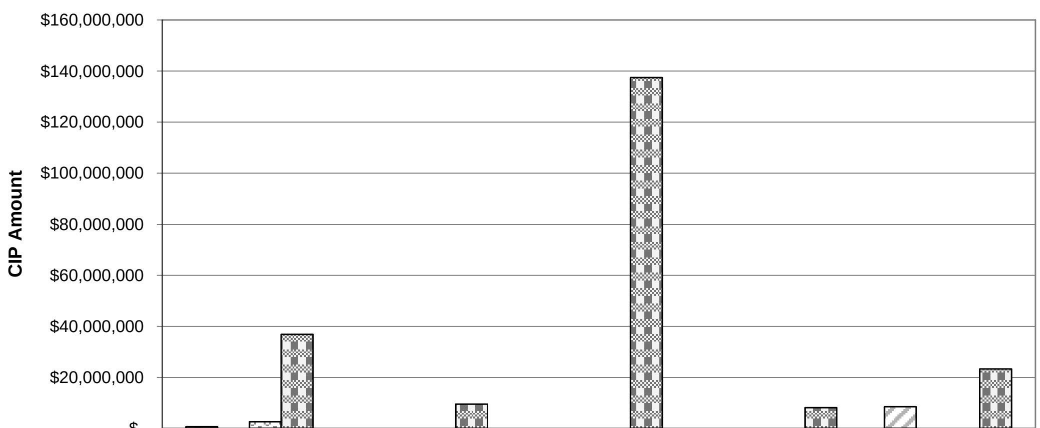
Figure 1
Five-Year Comparison of Commission-Approved
Electric Utilitiy CIP



	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
KIUC	$580,000	$-	$-	$-	$8,423,000
MECO	$-	$-	$-	$-	$-
HELCO	$2,585,463	$-	$-	$-	$-
HECO	$36,835,359	$9,500,000	$137,430,260	$8,062,814	$23,192,710
Total CIP	$40,000,822	$9,500,000	$137,430,260	$8,062,814	$31,615,710

Fiscal Year (FY)

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



	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
KIUC	$580,000	$-	$-	$-	$8,423,000
MECO	$-	$-	$-	$-	$-
HELCO	$2,585,463	$-	$-	$-	$-
HECO	$36,835,359	$9,500,000	$137,430,260	$8,062,814	$23,192,710

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.

A key proceeding in the gas service industry is summarized below:

TGC'S 2009 TEST YEAR RATE INCREASE REQUEST. Docket No. 2008-0081

In August 2008, TGC filed its application for a general rate increase of $12,510,047 over revenues at present rates for its Oahu, Maui, Kauai, Hawaii (Hilo and Kona), Molokai, and Lanai utility districts. TGC requested rate relief based on an estimated total revenue requirement of $160,416,523 for the 2009 calendar test year (consolidated operations basis), and an overall rate of return of 8.81 per cent. Statewide public hearings were held by the Commission in Fall 2008.

In June 2009, the Commission approved, on an interim basis, an increase in revenues over present rates of $9,519,293 based on the 2009 calendar test year.

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. NEW TELECOMMUNICATIONS CARRIER CERTIFICATIONS.

The Commission certificated 6 new telecommunications companies in the Fiscal Year, which were resellers of various intrastate wireless, calling card, and interexchange (long-distance) telecommunications services.

2. TELECOMMUNICATIONS RELAY SERVICES ("TRS") CONTRIBUTION FACTOR AND FUND SIZE MODIFICATION. Docket No. 2009-0095

In May 2009, the Commission initiated an investigation to examine whether to modify the TRS carrier contribution factor and fund size for the period July 1, 2009 to June 30, 2010. In June 2009, the Commission approved a contribution factor of 0.0012 for the period July 1, 2009 to June 30, 2010 and established the annual projected TRS fund size at approximately $138,415.

3. 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. Waivers were granted in the following proceedings:

U.S. South Communications, Inc., d/b/a US South and d/b/a INCOMM and First Data Corporation. - Docket No. 2008-0108

Time Warner Cable Information Services (Hawaii), LLC. - Docket No. 2008-0114

Primus Telecommunications, Inc. – Docket No. 2007-0410

Globalcom, Inc. and First Communications, Inc. - Docket No. 2008-0147

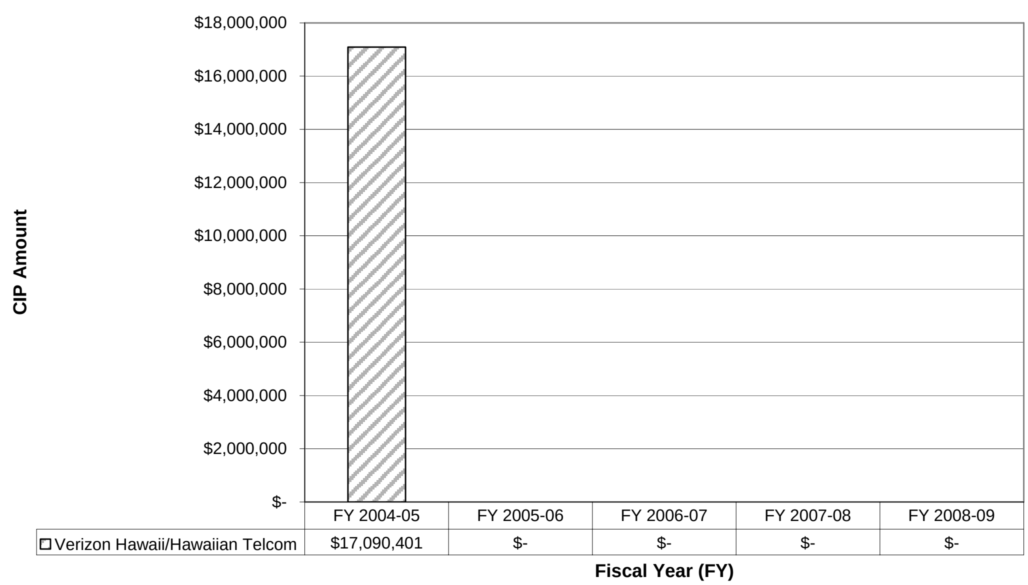
Nynex Long Distance Company, dba Verizon Enterprise Solutions and Bell Atlantic Communications, Inc., dba Verizon Long Distance. - Docket No. 2008-0171

Embarq Corporation. - Docket No. 2008-0317

4. PROPOSED CAPITAL IMPROVEMENT PROJECTS.

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. During the Fiscal Year, Hawaiian Telcom did not file any requests for CIP approvals. For the past five (5) years, the Commission approved approximately $17 million in CIP in the fiscal year 2005 (FY 2004-05).

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



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. APPROVED RATE INCREASES.

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

Waikoloa Sanitary Sewer Co., Inc. dba West Hawaii Sewer Company - Docket No. 2005-0329

Hawaii-American Water Company ("HAWC") - Docket No. 2007-0180

KRWC Corporation, dba Kohala Ranch Water Company ("KRWC") - Docket No. 2008-0283

2. NEW AND AMENDED CPCNS.

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

Puhi Sewer & Water Company, Inc. - Docket No. 2008-0130

Lanai Water Company, Inc. ("LWC") - Docket No. 2008-0322

3. MOLOKAI PUBLIC UTILITIES, INC. ("MPU"), WAI'OLA O MOLOKA'I, INC. ("WAI'OLA"), AND MOSCO, INC. ("MOSCO") TEMPORARY RATE RELIEF REQUEST. Docket No. 2008-0115

In June 2008, the Commission initiated a proceeding to consider providing temporary rate relief, via a temporary surcharge, to MPU, Wai'ola, and MOSCO. The Commission proposed temporary rate relief for MPU and Wai'ola and no rate increase for MOSCO, as MOSCO appeared to be financially viable and operating at a profit.

All three utility companies are affiliated with Moloka'i Properties Limited, better known as Moloka'i Ranch, which had informed the Commission in March 2008 that services by these utilities would be discontinued if an entity was not found to take over the operations by the end of August. Facing a shutdown of vital water and wastewater services to customers in West Moloka'i, the Commission opened this temporary rate proceeding in June in an unprecedented effort to enable MPU and Wai'ola to remain in operation until their water and sewer systems can be operated by another entity. In August 2008, the Commission approved temporary rate increases for MPU and Wai'ola. Specifically, the Commission ruled that MPU's rates shall be temporarily increased from $3.18 per 1,000 gallons to $6.04 per 1,000 gallons – resulting in projected additional annual revenues of $398,687; and Wai'ola's rates shall be temporarily increased from $1.85 per 1,000 gallons to $5.15 per 1,000 gallons – resulting in projected additional annual revenues of $156,710. Since MOSCO was financially viable, the Commission approved a 0.00% rate increase for it.

In October 2008, MPU and Wai'ola filed a motion to extend the Order approving a temporary rate increase from February 28, 2009 for an additional six months, or such time as may be necessary for the utilities to obtain Commission approval of general rate increases. MPU and Wai'ola filed general rate increase applications in June 2009 as discussed in the next section.

4. MOLOKAI PUBLIC UTILITIES, INC. GENERAL RATE INCREASE REQUEST. Docket No. 2009-0048

In June 2009, MPU filed an amended application for a general rate increase. MPU is seeking an increase in its revenues of $886,259 (approximately 201.50 per cent) over its present total revenue requirement for the July 1, 2009 to June 30, 2010 test year and a rate of return of 2 per cent.

As part of its amended application, MPU also proposed to: (1) establish an Automatic Power Cost Adjustment Clause for its electricity expense; (2) establish a Purchased Fuel Adjustment Clause for the fuel component of its water costs; and (3) increase its deposit fee and reconnection fee by approximately 100 per cent each.

5. WAI'OLA O MOLOKA'I, INC. GENERAL RATE INCREASE REQUEST. Docket No. 2009-0049

In June 2009, Wai'ola filed an amended application for a general rate increase. Wai'ola is seeking additional revenues of $473,431 or an approximate 382.85 per cent increase, over the pro forma revenue requirement for the July 1, 2009 to June 30, 2010 test year and a rate of return of 2 per cent.

In addition, as part of its amended application, Wai'ola also proposed to: (1) establish an Automatic Power Cost Adjustment Clause, which permits adjustments for electric costs during the year, and amend Rule 20 of its Rules and Regulations to increase its Reconnection Charge from $50.00 to $100.00, which is an increase of 100 per cent.

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.

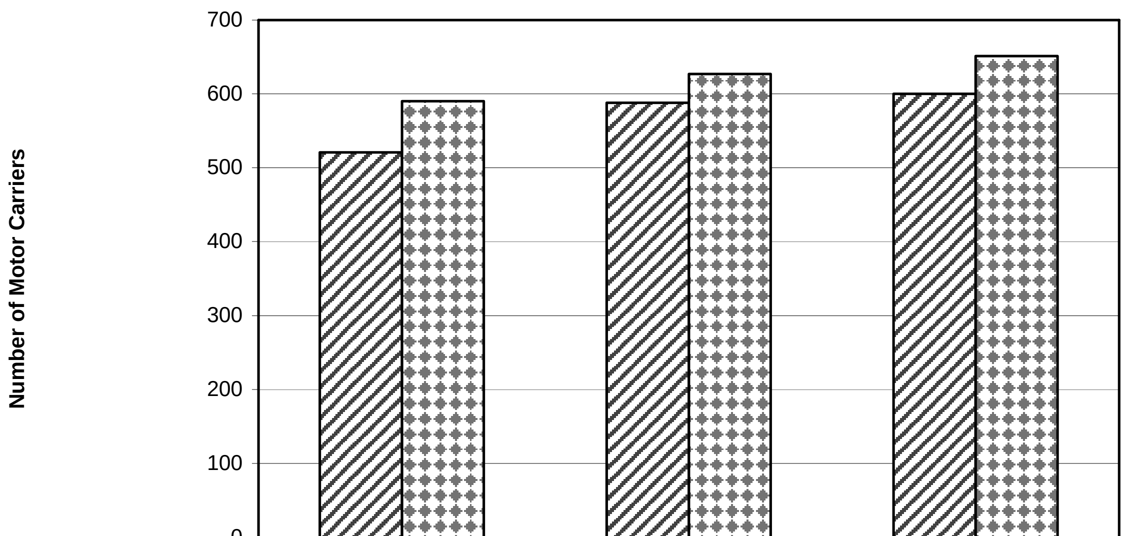
In accordance with its statutory requirements, the Commission performs the following functions in the regulation of motor carriers: (1) certification and licensing; (2) ratemaking; and (3) business regulation. During the Fiscal Year, the Commission issued many new certificates and licenses, reviewed requested rate increases, and extended the zone of reasonableness program for motor carriers to December 2011.

a. NEW MOTOR CARRIER CERTIFICATIONS.

The Commission regulates 651 passenger carriers and 600 property carriers in the State. During the Fiscal Year, new certificates or permits were issued to 101 motor carriers, 64 passenger carriers and 37 property carriers.

In the 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



	2006-07	2007-08	2008-09
Property Carriers	521	588	600
Passenger Carriers	590	627	651

FY

b. 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 program, which went into effect on January 1, 2004 and continues through December 31, 2011. 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 100 motor carriers. All of the motor carriers belonging to HSCCCA filed requests for rate increases. 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 five (5) 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		
Conen's Freight Transport	Hawaii	10.00%
Big Boys Trucking, LLC – 08	Oahu	10.00%
J.L Hauling, LLC	Hawaii	10.00%
Pacific Comm Services	Oahu	10.00%
Tri Isle, Inc. dba Valley	Maui	8.00%
Ivan Kozinsky, dba Superior	Hawaii	10.00%
Kalaka Nui, Inc.	Oahu	10.00%
Ed Yamashiro, Inc	Oahu	10.00%
David J. Estrella, dba Estrella Enterprises	K,M	10.00%
Island Topsoil, LLC	O,M,H,K	(-10%)
Pineridge Farms, Inc.	O,M	9-10.00%
Tri Isle, Inc. dba Valley	Maui	3.80%
Kai's Trucking, LLC	Hawaii	10.00%
Richard H.S. Lee, Inc.	Oahu	10.00%
Niles Hauling, LLC	Maui	10.00%
WMTB – All	O,M,H,K	10.00%
Big Boys Trucking, LLC – 09	Oahu	10.00%
Sonny P. Pacis	Oahu	10.00%
WMTB - Volcano Pacific Construction , LLC	Oahu	(-10%)
WMTB - Ilae's Trucking, LLC	Oahu	(-10%)
WMTB - Amazon Trucking	Oahu	(-10%)
WMTB -T. Sniffen and Sons LLC	Maui	(-10%)
Kali Corp.	Oahu	10.00%
Harris Trucking, Inc.	Oahu	10.00%
Pacific Comm Services, LLC	Oahu	10.00%
West Maui Land Co., Inc.	Maui	10.00%
WMTB - Tajiri Lumber, Concrete Coring	Oahu	(flag out -10%)
Moniz Trucking, LLC	Oahu	10.00%
Diamond B Ranch Trucking, LLC	Maui	10.00%
Erwin Decoite & Son's Trucking	Maui	10.00%
ER Ranch & Services, LLC	Maui	10.00%
Island Lowboy and Trucking, LLC	Maui	10.00%

General Commodities

WMTB - All	O,M,K	10.00%
International Express	Oahu	0.97%
Direct Support Res. Inc	Oahu	5 - 9.5%
Conen's Freight Transport	Hawaii	10.00%
J.L Hauling, LLC	Hawaii	10.00%
Xpress Trucking	O,M	3.00%
Merlin L. Peters, G.P. Services	Oahu	10.00%
DHX, Maui	Maui	8.00%
Tri Isle, Inc. dba Valley	Maui	8.00%
Kalaka Nui, Inc.	Oahu	10.00%
Pacific Transfer, LLC	Oahu	8.5%-10%
Royal Hawaiian Movers	O,M,H,K	10.00%
Ed Yamashiro, Inc	Oahu	10.00%
Pacific Bridges, Inc.	Oahu	10.00%
Island Topsoil, LLC	O,M,H,K	(-10%)
Carnor Sumida dba ACR Water Hauling	Hawaii	10.00%
Xpress Trucking	O,M	2.00%
Pineridge Farms, Inc.	O,M	9-10.00%
International Express	Oahu	5.00%
Tri Isle, Inc. dba Valley	Maui	3.80%
International Express	Oahu	(-1.025%)
Kai's Trucking, LLC	Hawaii	10.00%
Valley Isle Produce, Inc.	Maui	10.00%
Richard H.S. Lee, Inc.	Oahu	10.00%
Niles Hauling, LLC	Maui	10.00%
Sonny P. Pacis	Oahu	10.00%
Roadmaster Services	Oahu	(-8-10%)
WMTB -T. Sniffen and Sons LLC	Maui	(-10%)
Harris Trucking, Inc.	Oahu	10.00%
Kali Corp.	Oahu	10.00%
Hawaii Transfer Co., Ltd.	Oahu	(-10%)
Alven Corp dba HI Logistic Services	Oahu	(-8-10%)
Moniz Trucking, LLC	Oahu	10.00%
Diamond B Ranch Trucking, LLC	Maui	10.00%
Erwin Decoite & Son's Trucking	Maui	10.00%
ER Ranch & Services, LLC	Maui	10.00%
Island Lowboy and Trucking, LLC	Maui	10.00%

Household Goods

DHX, Maui	Maui	8.00%
Royal Hawaiian Movers	O,M,H,K	10.00%
Pacific Bridges, Inc.	Oahu	10.00%
WMTB -Big Isle Moving & Storage	Hawaii	(-5%)

Others

WMTB - All	Oahu	10.00%

Break Bulk and Delivery

WMTB – Yamada	Hawaii	5.00%
WMTB - All	O,M,K	10.00%
WMTB - Bering Sea Ecotech, Inc.	Oahu	1.50%
International Express	Oahu	0.97%
Xpress Trucking	O,M	3.00%
Tri Isle, Inc. dba Valley	Maui	8.00%
Pacific Transfer, LLC	Oahu	8.5%-10%
Xpress Trucking	O,M	2.00%
International Express	Oahu	5.00%
Tri Isle, Inc. dba Valley	Maui	3.80%
International Express	Oahu	(-1.025%)
WMTB - T. Sniffen and Sons LLC	Maui	(-10%)

Passenger

Tariff #12 – All	Oahu	10.00%
E Noa Corp.	Oahu	5.5 - 10%
Elite Limo Service, Inc.	Oahu	2.77-9.46%
Arthur's - Star 21, Inc.	Maui	3.00%
E Noa Corp.	Oahu	10.00%
Nui Pohaku, LLC	Hawaii	10.00%
Tri Isle, Inc. dba Valley	Maui	10.00%
WMTB - All	O,M,H,K	10.00%
Platinum Management LLC,	Hawaii	10.00%
Hawaii Forest & Trail	Hawaii	4.2 - 9.5%
RDH Trans dba Superstar Hawaii	Oahu	4.32 - 10%
Aloha Way Trans, Hawaii Kogyo, LLC	Oahu	2-10% (-4%)
Carey Hawaii, LLC	O,M	10.00%
Katherine Barr, dba Town & Country Limo	Maui	10.00%
WMTB - Jack's Tours Inc.	Hawaii	(-10%)
Akina Bus Service, Ltd.	Maui	5-10%
Akina Aloha Tours, Inc.	Maui	5-10%
E Noa Corp.	Oahu	5-9%
Roberts Hawaii (WMTB)	Oahu	(-10%)
Jack's Tours, Inc.(WMTB)	Oahu	5-10%
Akina Bus Service, Ltd.	Maui	(-10%)
Akina Aloha Tours, Inc.	Maui	(-10%)
E Noa Corp.	Oahu	7-9%

Kapohokine Adventures, LLC	Hawaii	10.00%
E Noa Corp.	Oahu	5.8-10%
Hawaii Kogyo, LLC dba Aloha Way Transportation	Oahu	1-10%
Property		
WMTB-Imperial Trucking	Oahu	4.76%

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		
Island Transporter LLC	Oahu	8.3% - 66.6%, (-23.5-50%)
Juan Jaime dba Hawaii Airport Shuttle	Oahu	6-33%

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. ("Sea Link"), 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., a passenger and cargo carrier between the islands of Oahu and Kauai, Maui and Hawaii.[4] Water carrier docket proceedings are summarized below.

a. YOUNG BROTHERS' REQUEST FOR A RATE INCREASE PURSUANT TO ITS NEW ZONE PRACTICE. Docket No. 2001-0255

In April 2008, the Commission approved the 2007 Stipulation, which is Young Brother's New Zone Practice effective April 9, 2008, that authorizes Young Brothers to seek a maximum overall rate increase of 5.5 per cent and a maximum overall rate decrease of 10 per cent over a twelve-month period. The New Zone Practice shall no longer be a pilot program and shall remain in effect until terminated or modified through an order of the Commission.

In July 2009, the Commission initiated a re-examination of the New Zone Practice.

[4]In March 2009, Hawaii Superferry suspended its operations.

b. YOUNG BROTHERS' REQUEST FOR A GENERAL RATE INCREASE. Docket No. 2008-0266

Shortly after receiving approval for an across-the-board rate increase of 5.5 per cent in July 2008, Young Brothers filed a Notice of Intent to file an application for approval of a general rate increase. In December 2008, Young Brothers then filed an application for an average overall rate increase of 17.91 per cent for certain types of cargo, based on a 2009 calendar test year, and also proposed certain other changes to its Local Freight Tariff No. 5-A ("Tariff 5-A").

In January 2009, the Commission suspended Young Brothers' tariff application in order to fully examine and investigate the request on its merits.

In July 2009, the Commission approved in part a stipulation on the global settlement of all issues in the proceeding jointly filed by Young Brothers and the Consumer Advocate, adjusted for certain provisions thereby approving an intrastate revenue increase of $7,554,000, or approximately 13.46 per cent over intrastate revenues at present rates for the 2009 calendar test year. As a separate, non-docketed filing, Young Brothers shall file with the commission and the Consumer Advocate a list of third-party reviews and audits completed from January 1, 2009 and going forward a list of third-party reviews and audits shall be filed every January 31st for the previous calendar year period. Young Brothers shall also undergo and have completed an independent financial audit on a stand-alone basis, as part of the water carrier's next rate adjustment application.

c. YOUNG BROTHERS' REQUEST TO ENTER INTO A LONG-TERM LEASE OF PHOTOVOLTAIC EQUIPMENT. Docket No. 2008-0253

In October 2008, the Commission approved Young Brothers' request to enter into a long-term lease for photovoltaic equipment to power its shore-side maintenance operations at its Honolulu harbor facilities. Central Pacific Bank will purchase the photovoltaic equipment from Island Pacific Energy LLC and will lease it to Young Brothers for a term of ten years. However, Young Brothers' later advised the Commission that they decided not to consummate the lease transaction.

d. HONE HEKE'S REQUEST FOR RATE INCREASE. Docket No. 2008-0026

In June 2008, Hone Heke filed its application to increase its fares of certain of its passenger classifications and to establish two new passenger classifications and corresponding fares. The Consumer Advocate, Hone Heke and the individuals from the general public all spoke in support of the general rate increase at the public hearings held on Maui and Lanai in August 2008. In October 2008, the Commission approved Hone Heke's request for a rate increase based on the 2008 calendar test year which would generate approximately $584,915 in additional operating revenues that would allow it to operate at a profit again.

e. SEA LINK'S REQUEST FOR A RATE INCREASE TO ESTABLISH A FUEL SURCHARGE. Docket No. 2008-0133

In June 2008, the Commission reviewed Sea Link's application for a temporary rate increase by establishing a fuel surcharge. In its request for immediate and temporary relief, Sea Link cited among other things, substantial increases in fuel prices and lower passenger counts that had financially impacted its ferry service between the islands of Maui and Molokai.

Sea Link requested to implement a temporary fuel surcharge to all passengers except its employee commuter passengers.

Sea Link filed an application in July 2008 for a general rate increase to establish a permanent fuel surcharge. In August 2008, the Commission approved Sea Link's request to establish and assess a temporary fuel surcharge, based on Sea Link's financial need and its potential abandonment of service. Also in August, public hearings were held on Molokai and Maui. In October 2008, the Commission approved the fuel surcharge on a permanent basis which is subject to the exemption of the fuel surcharge for Employee Commuter Passengers.

G. DOCKET PROCEEDINGS.

As of July 1, 2008, 257 pending dockets were carried over from prior years, and 338 new dockets were opened during the Fiscal Year. Thus, during the Fiscal Year, a total of 595 dockets were before the Commission for review and consideration. Of the 595 dockets, 324 or approximately 55 per cent of the dockets were completed by the end of the Fiscal Year.

As of June 30, 2009, 271 dockets were pending, including 108 dockets carried over from years prior to the Fiscal Year and 163 dockets that were opened during the Fiscal Year.

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

DOCKETS FILED, COMPLETED, AND PENDING
FISCAL YEARS 2006-07, 2007-08, and 2008-09

	Fiscal Year (July 1 - June 30)		
Dockets Pending on July 1	**2006-07**	**2007-08**	**2008-09**
Utilities			
Electric	42	36	58
Gas	1	0	2
Telecommunications	17	11	25
Private Water/Sewer	16	10	24
Subtotal	76	57	109
Transportation			
Motor Carriers	129	141	142
Water Carriers	1	3	5
Subtotal	130	144	147
Petroleum	1	0	0
One Call Center	2	1	1
Total	209	202	257

DOCKETS FILED, COMPLETED, AND PENDING
FISCAL YEARS 2006-07, 2007-08, and 2008-09

New Dockets Opened in Fiscal Year	**2006-07**	**2007-08**	**2008-09**
Utilities			
Electric	36	32	32
Gas	1	2	0
Telecommunications	54	51	47
Private Water/Sewer	12	30	12
Subtotal	103	115	91
Transportation			
Motor Carriers	405	249	240
Water Carriers	2	6	7
Subtotal	407	255	247
Petroleum	0	0	0
One Call Center	0	0	0
Total	510	370	338

Dockets Completed in FY	**2006-07**	**2007-08**	**2008-09**
Utilities			
Electric	42	10	28
Gas	2	0	0
Telecommunications	60	37	41
Private Water/Sewer	18	16	9
Subtotal	122	63	78
Transportation			
Motor Carriers	393	248	238
Water Carriers	0	4	7
Subtotal	393	252	245
Petroleum	1	0	0
One Call Center	1	0	1
Total	517	315	324

DOCKETS FILED, COMPLETED, AND PENDING
FISCAL YEARS 2006-07, 2007-08, and 2008-09

Dockets Pending on June 30	**2006-07**	**2007-08**	**2008-09**
Utilities			
Electric	36	58	62
Gas	0	2	2
Telecommunications	11	25	31
Private Water/Sewer	10	24	27
Subtotal	57	109	122
Transportation			
Motor Carriers	141	142	144
Water Carriers	3	5	5
Subtotal	144	147	149
Petroleum	0	0	0
One Call Center	1	1	0
Total	202	257	271

VI. ENFORCEMENT ACTIVITIES.

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

A. COMPLAINT RESOLUTION.

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

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

Written informal complaints should: (1) state the name of the respondent, the date and approximate time of the alleged act, and set forth fully and clearly the facts of the act complained of; (2) advise the respondent and the Commission in what respects the provisions of the law or rules have been or are being violated or will be violated and should provide the facts claimed to constitute the violation; and (3) specify the relief sought or desired. The Commission assigns a tracking number to each written informal complaint filed with the Commission and 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 173 written informal complaints in the Fiscal Year against regulated and unregulated utility and transportation companies. Complaints on Oahu amounted to 107 out of 173 complaints statewide, or 62 per cent of the total complaints.

Total Informal Complaints
Fiscal Year 2009

Utilities	
Telecommunications:	
Wireline (telephone)	51
Cellular and Paging	28
Other Telecom Providers	0
Total Telecom	79
Electricity	52
Gas	10
Water/Sewer	13
Transportation Carriers	
Water Carrier	1
Motor Carrier	18
Total Complaints	173

For all islands, the Commission received 79 written informal and verbal complaints involving telecommunications providers. The majority of telecommunications complaints (51) related to Hawaiian Telcom. These complaints mainly involved service problems, mostly relating to interruptions, repairs, and installations. The cellular and paging companies received 28 complaints, mostly relating to billing problems (service contracts and charges).

The electric utilities received 52 complaints, mostly relating to billing problems (high consumption). The 10 complaints against gas utilities were mostly relating to service and billing problems. The 13 complaints relating to water and sewer facilities were primarily over tariffs (rates and charges) and billing (high consumption) problems. The complaint against water carriers involved primarily service problems and tariffs. Most of the 18 complaints against motor carriers were related to operating without CPCNs.

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 39 responses to its informal complaint survey. Figures 5 to 8 show the results of the survey.

Figure 5
INFORMAL COMPLAINT SURVEY
Fiscal Year 2008-09

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

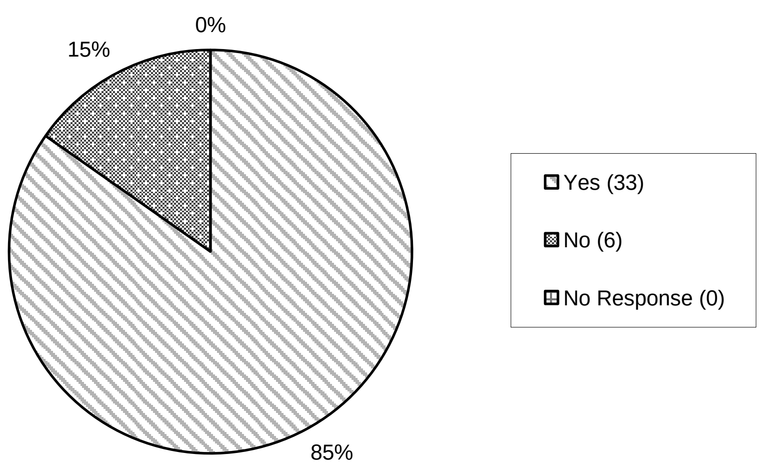


Figure 6
INFORMAL COMPLAINT SURVEY
Fiscal Year 2008-09

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

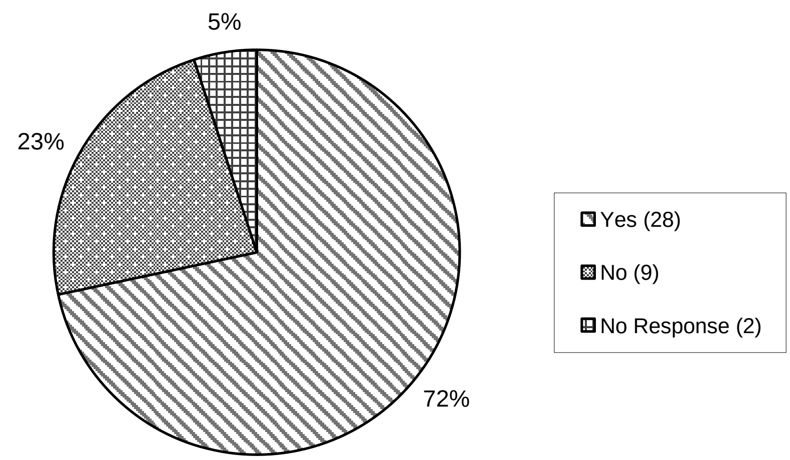


Figure 7
INFORMAL COMPLAINT SURVEY
Fiscal Year 2008-09

3-Was your complaint resolved to your satisfaction?

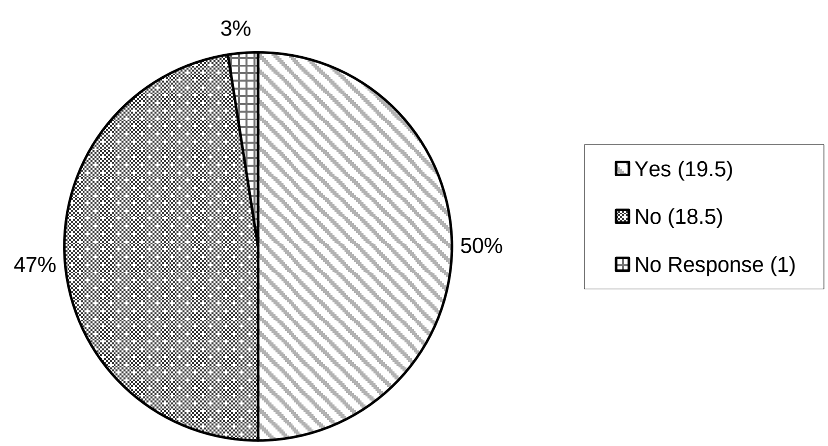
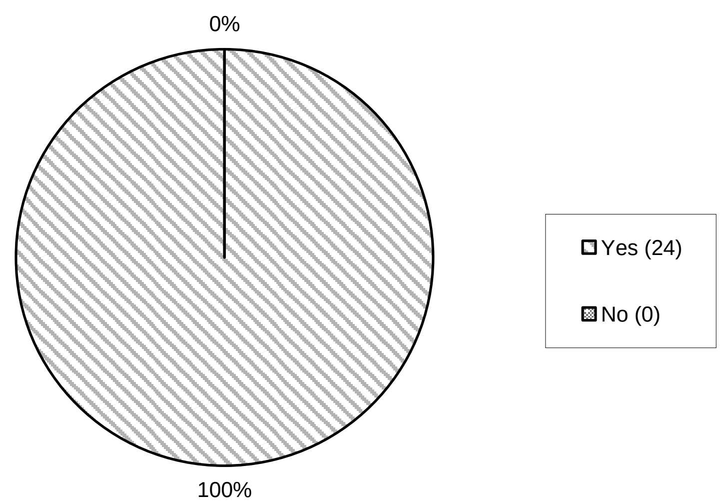


Figure 8
INFORMAL COMPLAINT SURVEY
Fiscal Year 2008-09

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 $22,000. The Commission enforcement officers issued 30 motor carrier citations on the following islands: Oahu (22), Hawaii (5), and Maui (3).

VII. INQUIRIES.

In addition to consumer complaints, the Commission is responsible for collecting and compiling all inquiries concerning public utilities. Commission staff receives various requests for information relating to utilities, transportation carriers, gasoline price cap, one call center, general regulated matters, and non-regulated matters. As shown in the table below, the Commission received a total of 1,618 inquiries in the Fiscal Year, mostly relating to motor carriers.

Total Inquiries
Fiscal Year 2008-09

Utilities:	
Telecommunications	239
Electric	428
Gas	28
Water/Sewer	25
Transportation Carriers:	
Property Motor Carrier	431
Passenger Motor Carrier	404
General Motor Carrier	42
Water Carrier	17
Petroleum	4
One Call Center	0
General Regulated & Unregulated	0
Total Inquiries	1,618

VIII. ONE CALL CENTER.

Hawaii One Call Center

The 2004 Legislature passed Act 141, SLH 2004 ("Act 141"), which established a one call center to coordinate the location of subsurface installations and to provide advance notice to subsurface installation operators of proposed excavation work. Pursuant to Act 141 (codified as chapter 269E, HRS), the Commission was required to establish a One Call Center advisory committee ("Committee") to advise the Commission on the implementation of Act 141. Act 141 required that the Commission establish and begin administration of the One Call Center by January 1, 2006.

In November 2005, the Commission selected and contracted with One Call Concepts, Inc. ("One Call Concepts") as the exclusive provider for the administration and operation of the Hawaii One Call Center, commencing December 1, 2005 through June 30, 2009. One Call Concepts provides one call services for one call centers in Minnesota, Kansas, Louisiana, Missouri, Oregon and Washington and has been providing one call center services since its formation in 1982. In January 2006, pursuant to HRS Chapter 269E, the Commission, through One Call Concepts, began operations of the One Call Center. On May 26, 2009, Governor Linda Lingle signed House Bill 1059 H.D.2 S.D.1 into law as Act 72 which changed the status of the State One Call Center program from a pilot program to a permanent program. Shortly thereafter, the Commission entered into a formal extension of the One Call Concepts, Inc., contract for operation of the One Call Center through June 30, 2010.

During the Fiscal Year, the advisory committee, through its five-member administrative rules subcommittee, continued with its efforts to supplement chapter 269E with new administrative rules Subsequent to Commission approval, the draft rules will then head to the public hearing process for input and comments from interested parties.

IX. PETROLEUM INDUSTRY MONITORING.

A. Weekly Reports

Pursuant to HRS Chapter 486J, on a weekly basis, beginning September 5, 2007, the Commission collects confidential petroleum industry data and information from distributors and major fuel users as part of the Petroleum Industry Monitoring, Analysis and Reporting ("PIMAR") Program. The weekly PIMAR reports that the Commission receives from reporting entities include company-specific, detailed data and information regarding petroleum product imports, exports, inventories, production, retail and wholesale transactions, and gross margins. All of the data and information submitted to the Commission is filed under confidential seal by the reporting entities under confidential protective order and Hawaii Revised Statutes ("HRS") Chapter 486J. Accordingly, the data and information cannot be publicly disclosed unless they are aggregated to the extent necessary to maintain confidentiality. In instances where data is provided by only a few reporting entities and aggregation does not ensure confidentiality, the Commission cannot release the data.[5]

Under the law, the Commission must disclose to the public, using the best readily available technology, the information contained in the reports that are collected, within fourteen (14) days of receipt of the reports. Further, the Commission is required to analyze and interpret the data and information it collects, and to submit annual reports to the Governor and the State Legislature.

B. Weekly PIMAR Reports

Each PIMAR Weekly Report published by the Commission includes a compilation and aggregation of data and information that reporting entities file with the Commission in their weekly submissions.

The PIMAR Weekly Report includes data on ending inventories, sales volumes and prices, and non-refiner gross margins. Please refer to the Commission's website for a complete set of weekly reports. Data from Weekly PIMAR Reports are collected in time series format in a Microsoft Excel (.xls) file available on the Commission website.

C. Annual Report to the Legislature

As required by statute, the commission must annually publish and submit to the governor and legislature a summary report on the information submitted to it by distributors, as defined in HRS § 486J-1. In December 2008, the Commission presented its second report to the legislature on the petroleum industry in Hawaii. This report, "2008 Report on the Hawaii Petroleum Market Under the Petroleum Industry Monitoring, Analysis & Reporting (PIMAR) Program" ("ICF Report"), prepared by consultant ICF International ("ICF"), analyzes available petroleum industry data based on criteria set forth in Hawaii Revised Statutes ("HRS"), Chapter 486J, as provided under HRS § 486J-5.1

Please refer to this report, available on the Commission's website, for more information about the Commission's analyses and interpretation of the data collected under the PIMAR Program.

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[5] For instance, because there are only two refiners in Hawaii, there are not enough companies to aggregate the confidential information from the two refiners to maintain the confidentiality of the information. This includes information concerning imports and production by the refiners.

D. Petroleum Database

All of the data and information to be collected under the PIMAR Program is input and maintained by Commission staff into a Microsoft Access database, through which staff (and its consultants) reviews and analyzes 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.

Through RFP-PUC-08-01 the Commission solicited bids to design and implement an automated system to collect and maintain PIMAR data and by this process selected ICF International, Inc. to build the new PIMAR database. The Commission plans to transition to this new system in early 2010.

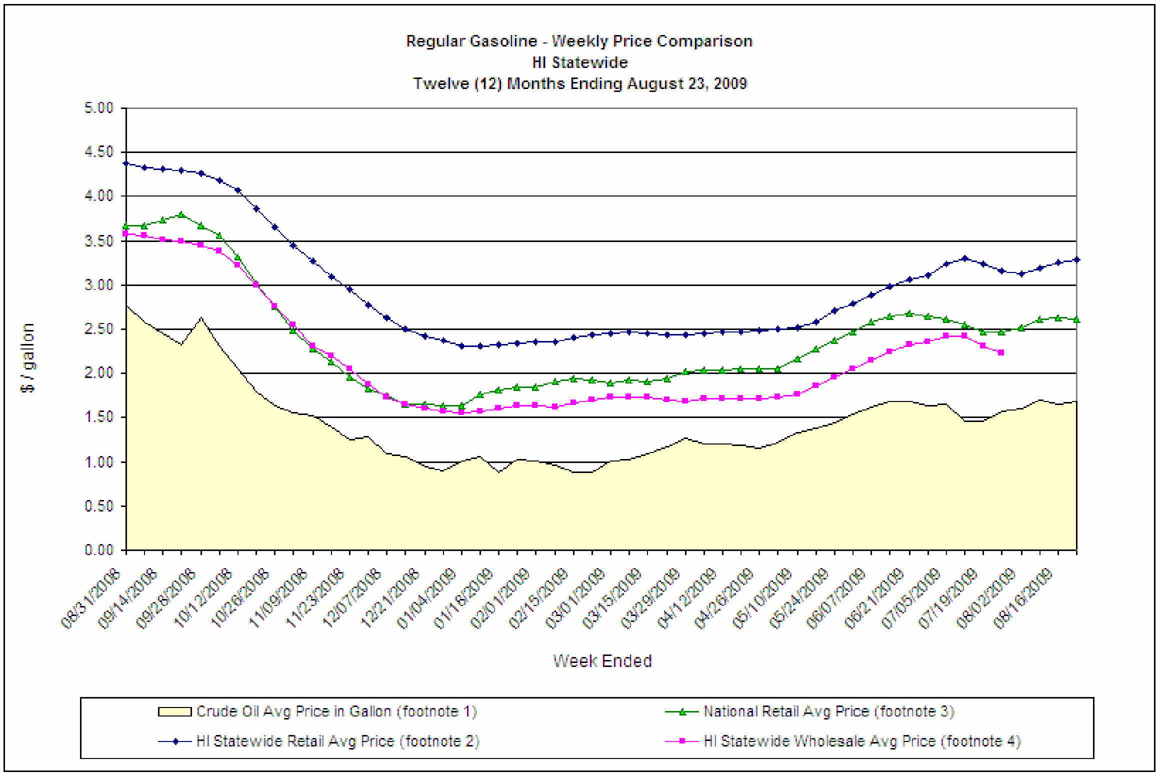
E. Gasoline Transaction Data

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.[6] In addition, other gasoline price data is obtained through public sources and subscriptions from price information reporting services.

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 online graphs provide non-confidential statewide and Hawaii zones average prices for wholesale and retail regular unleaded gasoline, national average retail for regular unleaded, and average crude oil price. The gas caps are also shown during the time they were in effect (from September 1, 2005 to May 5, 2006). Figure 9 is an example of the information and graphs that are available to the public on the Commission's website at: http://puc.hawaii.gov/RII/Petroleum/wholesaleprices. They depict statewide price levels of regular unleaded gasoline during the last 12 Months Similar information for Zones 1, 2, 3, 7, and 8, along with historical information, is available on the Commission's website.

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

Figure 9



(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) Pre-tax wholesale weighted average prices were derived based on volume and wholesale price information for DTW gasoline transactions (excluding hyper-marketer and military sales) reported by manufacturers, wholesalers, and jobber.

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 $16,171,397 in public utility fees and $1,310,540 motor carrier fees, respectively. The total revenues of the Commission's Special Fund were $17,617,423.

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 $10,429,994 for personnel services and other current expenses as shown in the table below. Allotments for the Commission's personnel services expenses were $4,346,963 for 55 authorized permanent positions. The Commission was allotted $6,281,417 for other current expenses. The Commission's other current expenses allotment included $2,903,793 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 2008-09 Appropriation	FY 2008-09 Allotment
Personnel Services	$ 4,148,577	$ 4,346,963
Other Current Expense	6,281,417	6,281,417
Total	$10,429,994	$10,628,380

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 $9,338,759 from the Special Fund was transferred to the general fund. This excess balance amount includes the balance of the moneys appropriated through Act 158, SLH 2008 (2008 Appropriations Act).

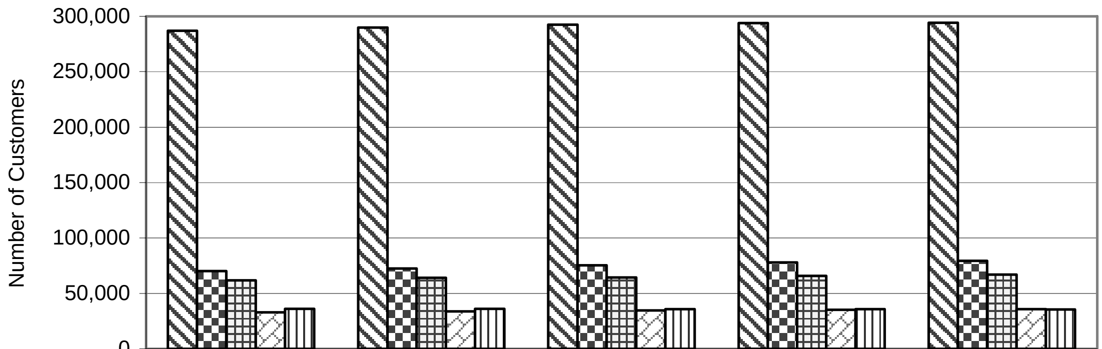
XI. UTILITY COMPANY OPERATIONS, CAPITAL IMPROVEMENTS, AND RATES.

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 2004 - 2008 time period, as shown in Figure 10.[7]

Figure 10
Number of Electric and Gas Utility Customers
2004 - 2008



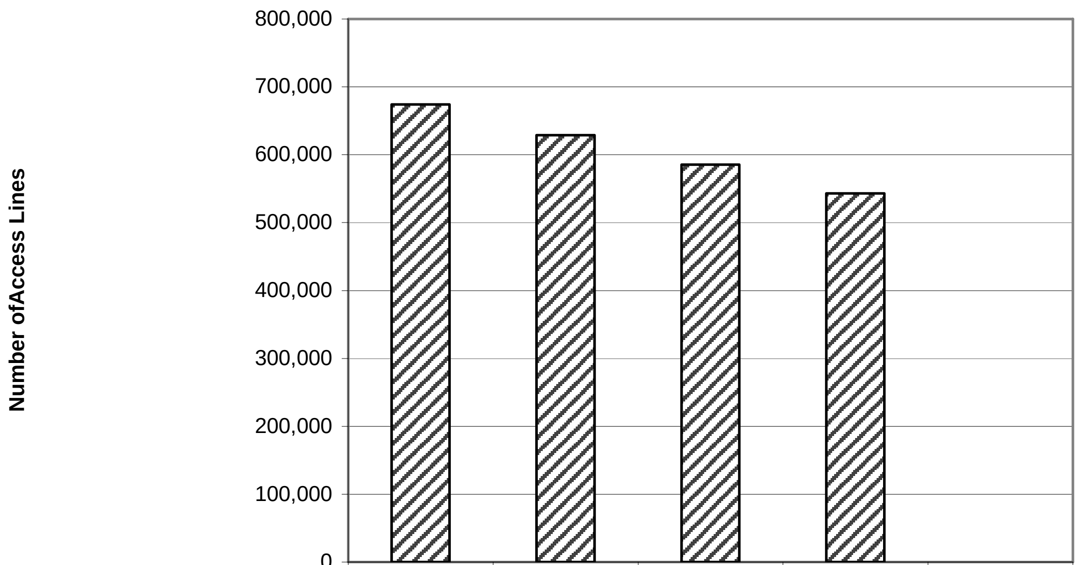
	2004	2005	2006	2007	2008
HECO	287,074	289,972	292,554	293,893	294,371
HELCO	70,124	72,513	75,353	77,933	79,386
MECO	61,684	63,901	64,405	65,728	66,810
KIUC	32,950	33,772	34,671	35,207	35,679
TGC	36,094	35,977	35,820	35,681	35,452

Annual Periods

[7]Sources: HECO 2008 Service Reliability Report, MECO 2008 Service Reliability Report, HELCO 2008 Service Reliability Report, KIUC Annual Service Reliability Report and TGC Annual Reports to the PUC.

As shown in Figure 11, 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.[8] 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). Note: Due to the Protective Order filed in Hawaiian Telcom, Inc.'s Chapter 11 Bankruptcy proceeding, the 2008 switched access lines count is not disclosed.

Figure 11
Hawaiian Telcom Total Switched Access Lines
2004-2008



	2004	2005	2006	2007	2008
Total Switched Access Lines	674,078	628,921	585,434	543,230	

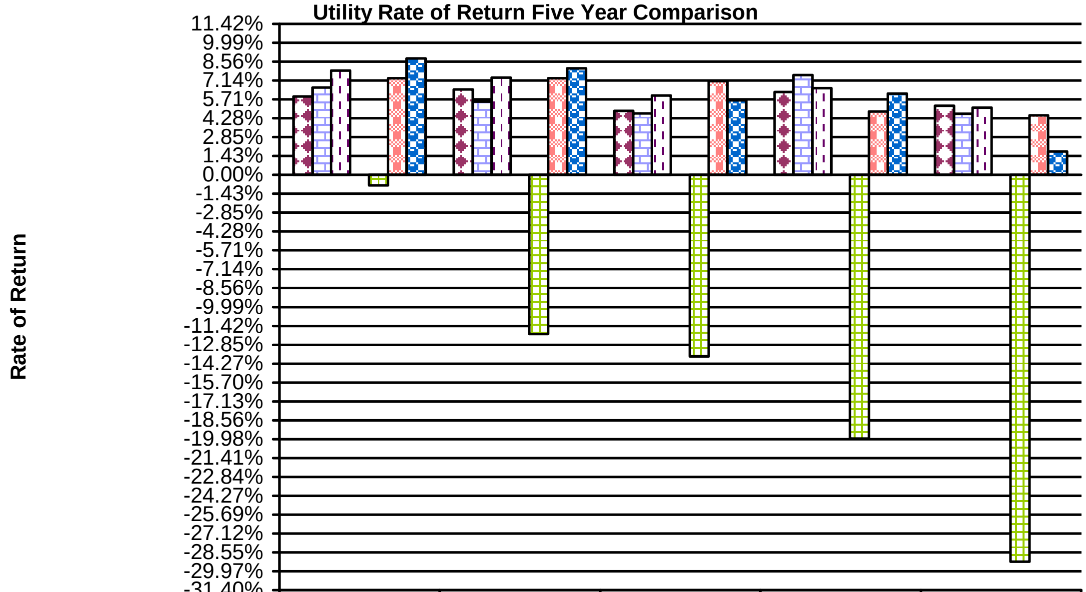
Years

[8]Hawaiian Telcom's ARMIS Operating Data Reports (FCC Report 43-08) for 2004 through 2008.

2. RATES OF RETURN EARNED BY UTILITY COMPANIES.

Each regulated utility is entitled to an opportunity to earn a fair rate of return. Figure 12 summarizes the recent history and trends of rates of return earned by the various regulated utilities.

Figure 12
Utility Rate of Return Five Year Comparison



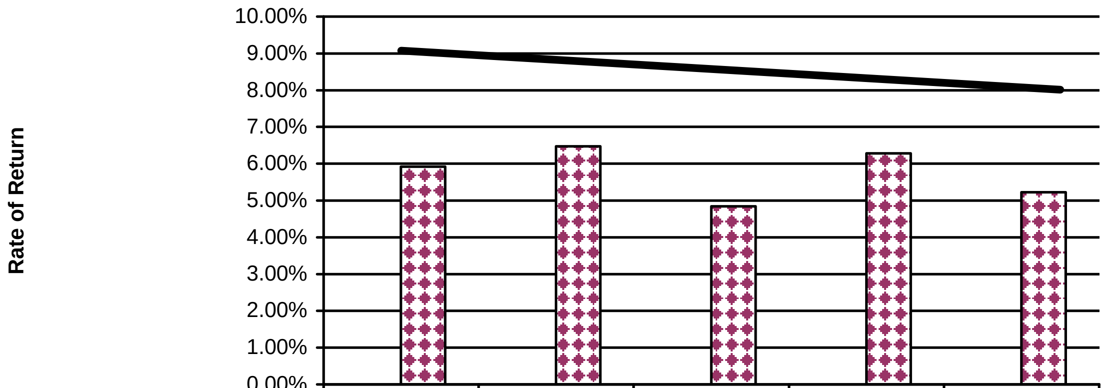
	Jun '05	Jun '06	Jun '07	Jun '08	Jun '09
HECO	5.92%	6.47%	4.84%	6.28%	5.23%
HELCO	6.61%	5.54%	4.64%	7.55%	4.63%
MECO	7.89%	7.35%	6.00%	6.55%	5.08%
KE/KIUC (1)	n/a (4)	n/a (4)	n/a (4)	n/a (4)	n/a (4)
Hawaiian Telcom (2)	-0.80%	-12.04%	-13.72%	-19.93%	-29.26%
TGC (3)	7.30%	7.30%	7.10%	4.80%	4.50%
Young Brothers	8.81%	8.06%	5.64%	6.14%	1.76%

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 13 to 15 and 17 to 19, 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 16 shows KIUC's TIER for the past five (5) years.

Figure 13
Five Year Rate of Return Comparison - Hawaiian Electric Company

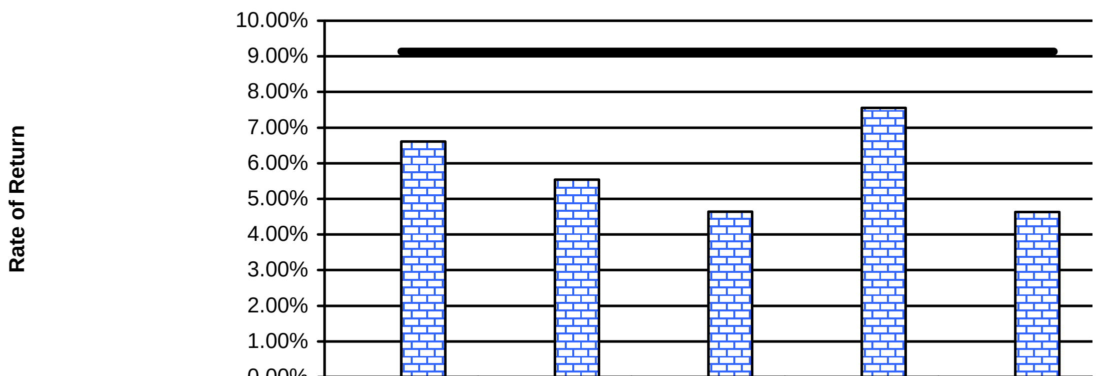


	Jun '05	Jun '06	Jun '07	Jun '08	Jun '09
Authorized Rate of Return	9.16%	8.66%	8.66%	8.62% (1)	8.62% (1)
Rate of Return	5.92%	6.47%	4.84%	6.28%	5.23%

12 MTD Ended June 30

(1) HECO utilized a rate of return of 8.62% on average rate base in Docket No. 2006-0386, by Interim D&O No. 23749 filed on October 22, 2007.

Figure 14
Five Year Rate of Return Comparison - Hawaii Electric Light Company

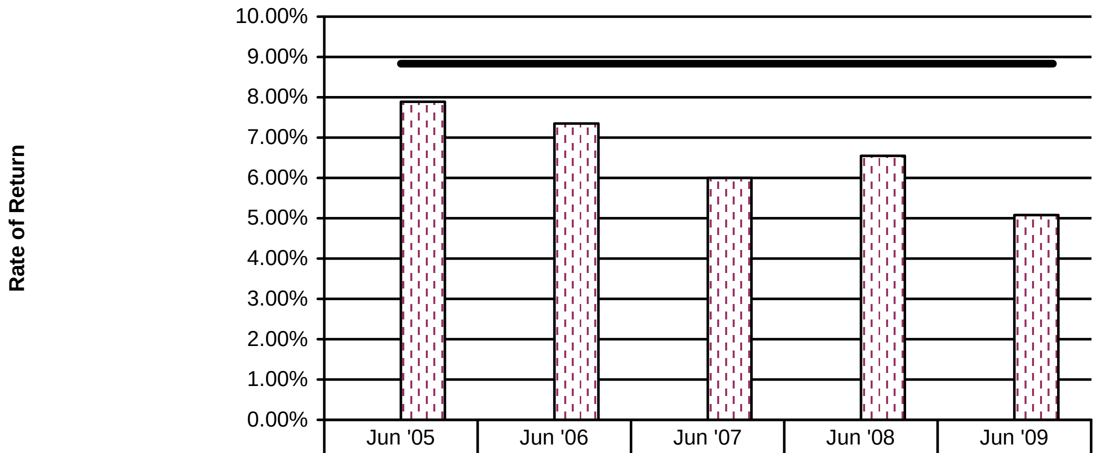


	Jun '05	Jun '06	Jun '07	Jun '08	Jun '09
Authorized Rate of Return	9.14%	9.14%	8.33% (1)	8.33% (1)	8.33% (1)
Rate of Return	6.61%	5.54%	4.64%	7.55%	4.63%

12 MTD Ended June 30

(1) HELCO utilized a rate of return of 8.33% on average rate base in Docket No. 05-0315, by Interim D&O No. 23342, filed on April 4, 2007.

Figure 15
Five Year Rate of Return Comparison - Maui Electric Company

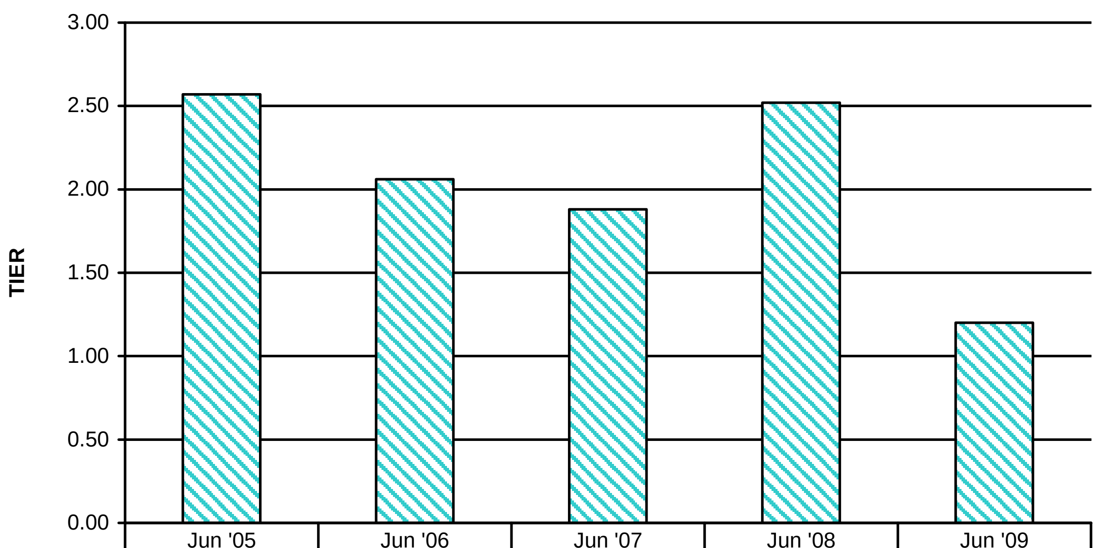


	Jun '05	Jun '06	Jun '07	Jun '08	Jun '09
Authorized Rate of Return	8.83%	8.83%	8.83%	8.67% (1)	8.67% (1)
Rate of Return	7.89%	7.35%	6.00%	6.55%	5.08%

12 MTD Ended June 30

(1) MECO utilized a rate of return of 8.67% on average rate base in Docket No. 2006-0387, by Interim D&O No. 23926, filed on December 21, 2007.

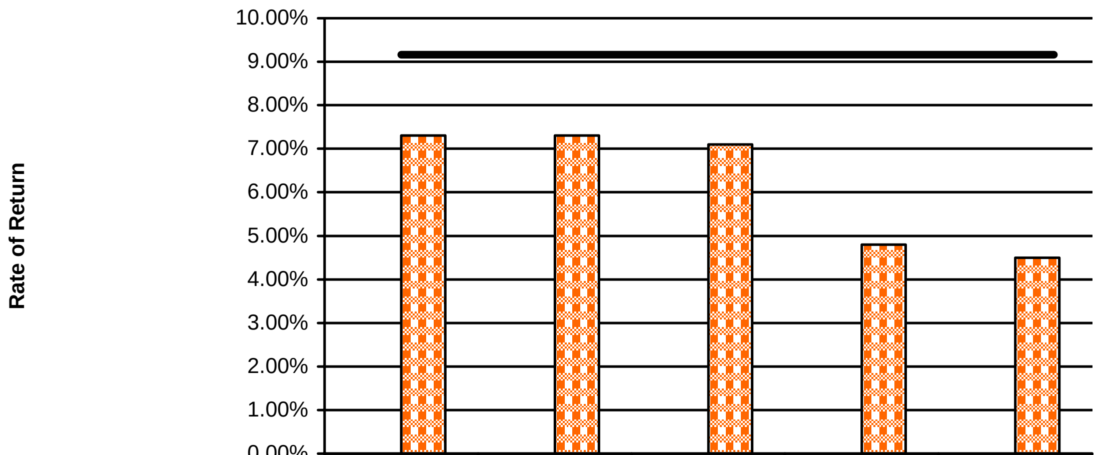
Figure 16
Five Year TIER Comparison - KIUC



	Jun '05	Jun '06	Jun '07	Jun '08	Jun '09
TIER	2.57	2.06	1.88	2.52	1.20

12 MTD Ended June 30

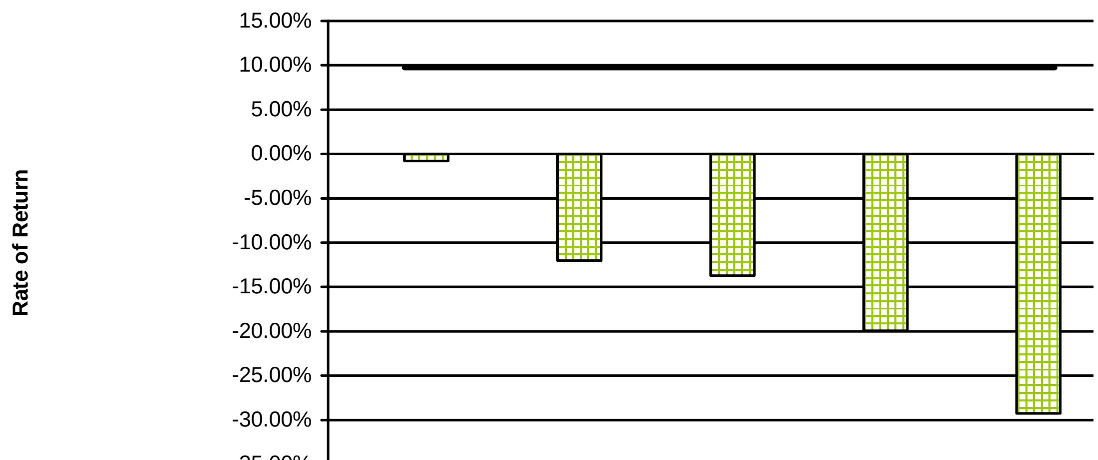
Figure 17
Five Year Rate of Return Comparison - The Gas Company



	Jun '05	Jun '06	Jun '07	Jun '08	Jun '09
Authorized Rate of Return	9.16%	9.16%	9.16%	9.16%	9.16%
Rate of Return	7.30%	7.30%	7.10%	4.80%	4.50%

12 MTD Ended June 30

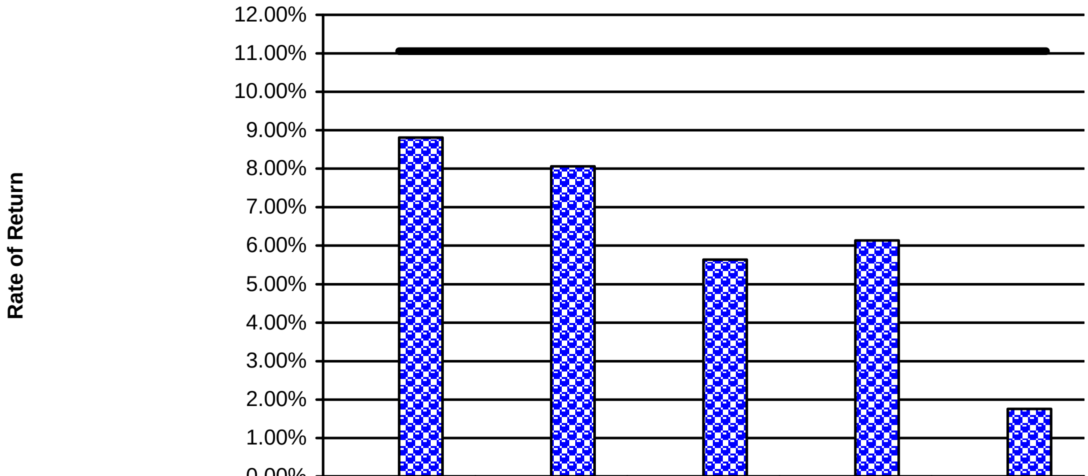
Figure 18
Five Year Rate of Return Comparison -
Verizon Hawaii/Hawaiian Telcom



	Jun '05	Jun '06	Jun '07	Jun '08	Jun '09
Authorized Rate of Return	9.73%	9.73%	9.73%	9.73%	9.73%
Rate of Return	-0.80%	-12.04%	-13.72%	-19.93%	-29.26%

12 MTD Ended June 30

Figure 19
Five Year Rate of Return Comparison - Young Brothers



	Jun '05	Jun '06	Jun '07	Jun '08	Jun '09
Authorized Rate of Return	11.06%	11.06%	11.06%	10.76% (1)	10.76% (1)
Rate of Return	8.81%	8.06%	5.64%	6.14%	1.76%

12 MTD Ended June 30

(1) YB utilized a rate of return of 10.76% on average rate base in Docket No. 2006-0396, by D&O No. 23714, filed on October 12, 2007.

B. FORECASTED CAPITAL IMPROVEMENTS.

1. ELECTRIC UTILITY CIPs.

The total 2009 capital expenditure budget forecasted for HECO is approximately $207 million. The Capital Improvement Projects ("CIPs") in HECO's 2009 budget exceeding one million dollars include the construction of the East Oahu Transmission, Kahe-Permanente 46kV Underground Conversion, Mobile Radio Replacement, UH West Oahu Substation, Whitmore Substation, Whitmore Substation for NCTAMS, Kamokila Transformer #3 Installation, Kahe-Permanente 46kV Nanakuli Pole Installation, Mikilua Substation Transformer #3 T&D Work, Waikiki Rehabilitation Phase 3, Maunalani Height Cable Replacement, Ocean Pointe Transformer #2 Installation, Halawa-School Shield Wire Replacement, and miscellaneous underground service and extensions, transformer and equipment purchase/service, and corrective miscellaneous cable replacement projects.

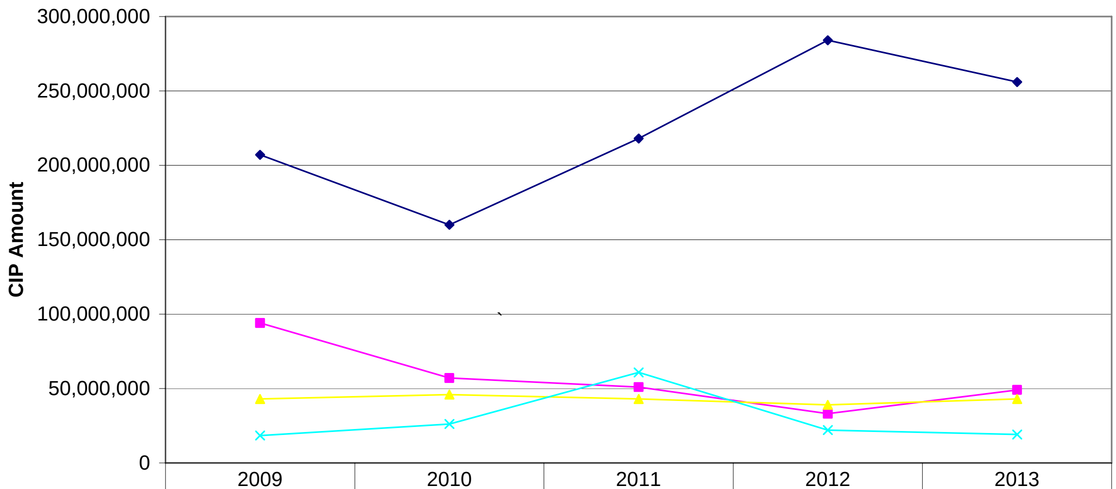
The total 2009 capital expenditure budget forecasted for HELCO is approximately $94 million. HELCO's more than one million dollars CIPs for 2009 include reconductoring of Keamuku-Waimea 7200 transmission line for increase capacity, Kohala Ranch Well #3, Installation of overhead and underground distribution system for Shore at Kohanaiki, Hokukano 12kV Underground Offsite Circuits, the purchase and installation of the Keahole 18 MW Steam Turbine, Replacement of Puna Turbine Rotor and Conversion of to Straight Condensing with extraction, Replacement of Puna Retube Furnace, Kawaihae Fuel Terminal, Purchase of Transformers and Related Equipments, Poleline Replacement, and Relocation, minor overhead extensions, underground customer request, minor overhead services, overhead customer request, and minor underground extensions.

The total 2009 capital expenditure budget forecasted for MECO is approximately $43 million. The CIPs more than one million dollars in MECO's 2009 budget include Puukolii Substation Expansion, Wailea Substation Transformer #4, Underground Services & Extensions, Transformers Services and Extensions, Purchase of Transformers and Related Equipment, Other Overhead Additions, and Purchase and Installation of a combined heat and power (CHP) 830-kW system at Manele Bay Hotel.

The total 2009 capital expenditure budget forecasted for KIUC is approximately $18 million. KIUC's CIP with budget of one million dollars or above for 2009 include State Department of Transportation – Kaumualii Highway (Lihue-Puhi) and Lydgate Substation.

Figure 20 shows the five (5)-year capital expenditure budget forecast for HECO, HELCO, MECO, and KIUC.

Figure 20
Electric Utilities Five-Year Capital Expenditures Forecast



	2009	2010	2011	2012	2013
HECO	207,000,000	160,000,000	218,000,000	284,000,000	256,000,000
HELCO	94,000,000	57,000,000	51,000,000	33,000,000	49,000,000
MECO	43,000,000	46,000,000	43,000,000	39,000,000	43,000,000
KIUC	18,481,600	26,110,100	60,881,900	22,139,800	19,121,400

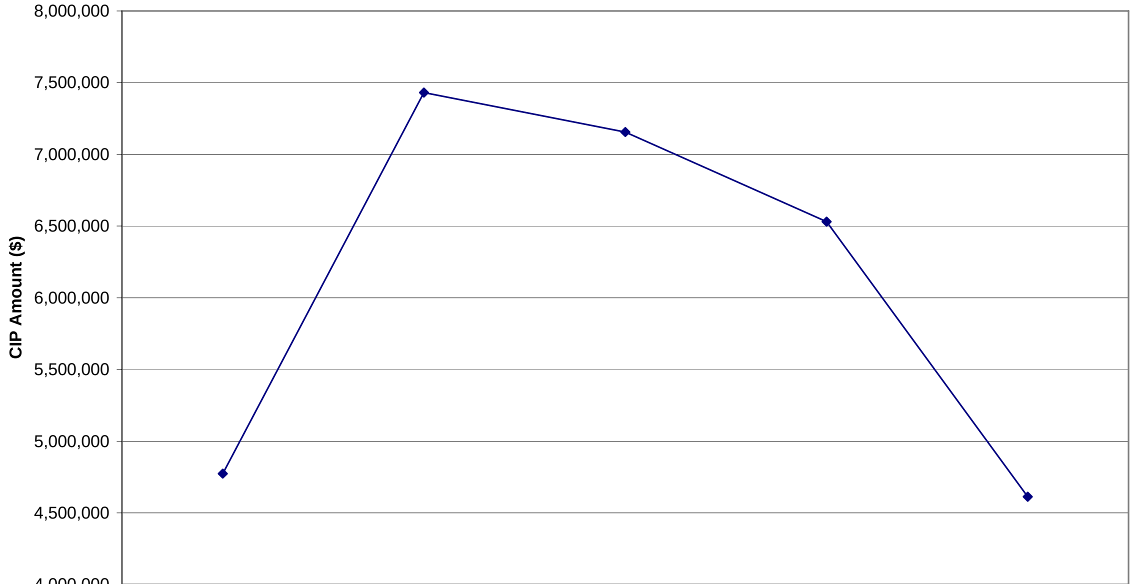
Year

2. GAS CIPs

The total 2009 capital expenditure budget forecasted for TGC is approximately $4.8 million. The project in the TGC 2009 budget higher than one million dollars is utility main pipeline renewal on Oahu.

Figure 21 shows the five (5)-year capital expenditure budget forecast for TGC.

Figure 21
TGC Five-Year Capital Expenditures Forecast



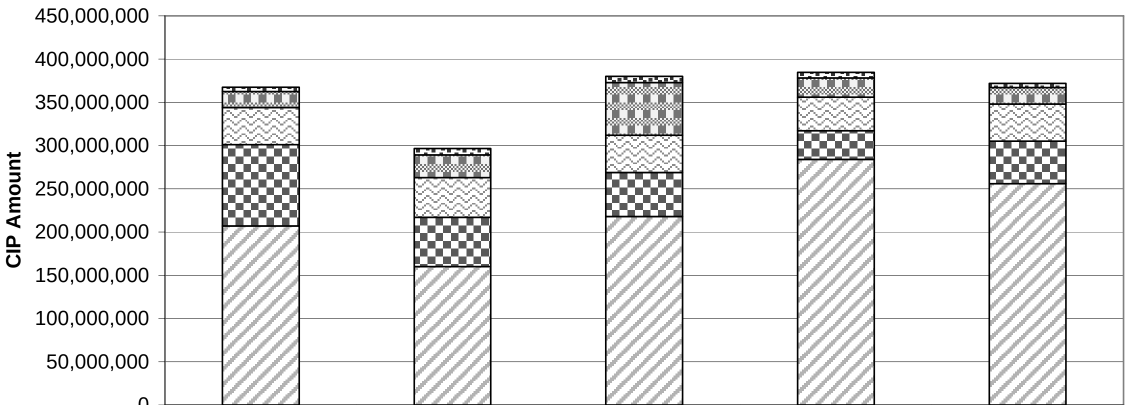
	2009	2010	2011	2012	2013
TGC	4,773,000	7,430,000	7,155,000	6,531,000	4,613,000

Year

3. FORECASTED UTILITY CIP EXPENDITURES.

Figure 22 shows the total five (5)-year capital expenditures forecast for the electric and gas utilities.

Figure 22
Capital Expenditures - Forecasted

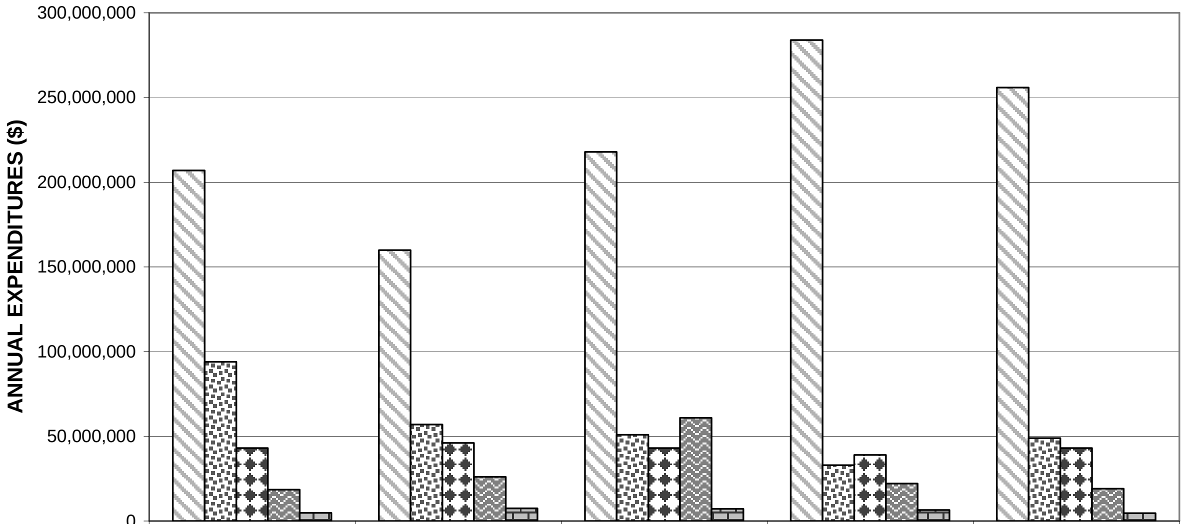


	2009	2010	2011	2012	2013
TGC	4,773,000	7,430,000	7,155,000	6,531,000	4,613,000
KIUC	18,481,600	26,110,100	60,881,900	22,139,800	19,121,400
MECO	43,000,000	46,000,000	43,000,000	39,000,000	43,000,000
HELCO	94,000,000	57,000,000	51,000,000	33,000,000	49,000,000
HECO	207,000,000	160,000,000	218,000,000	284,000,000	256,000,000
Total CIP	367,254,600	296,540,100	380,036,900	384,670,800	371,734,400

Year

Figure 23 shows the five (5)-year capital expenditure forecasts by utility company.

Figure 23
CAPITAL EXPENDITURES - FORECASTED



	2009	2010	2011	2012	2013
HECO	207,000,000	160,000,000	218,000,000	284,000,000	256,000,000
HELCO	94,000,000	57,000,000	51,000,000	33,000,000	49,000,000
MECO	43,000,000	46,000,000	43,000,000	39,000,000	43,000,000
KIUC	18,481,600	26,110,100	60,881,900	22,139,800	19,121,400
TGC	4,773,000	7,430,000	7,155,000	6,531,000	4,613,000

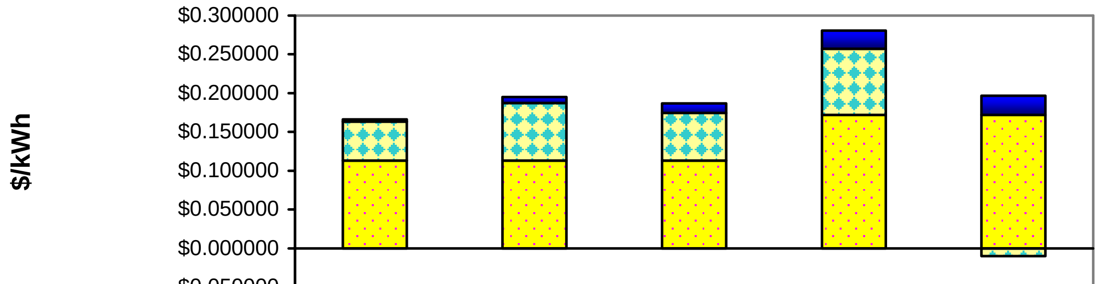
C. RATES OF MAJOR UTILITY COMPANIES.

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 24 to 29, the electricity rates consist of the base energy rate plus the energy rate adjustment clause ("ERAC") and other adjustments.[9] The total of the base energy rate and the ERAC is referred to herein as the "Effective Energy Rate."

Figure 24
HECO Base Rates, ERAC, and Other Adjustments
2005 - 2009



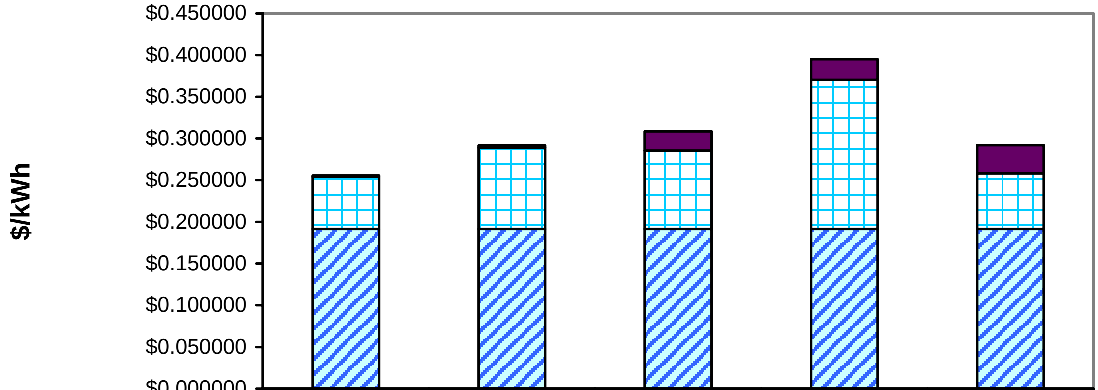
	Jun '05	Jun '06	Jun '07	Jun '08	Jun '09
Other Adjustments (1)	$0.002755	$0.007652	$0.012399	$0.023277	$0.024682
ERAC	$0.050370	$0.074210	$0.061420	$0.085360	-$0.010250
Base Rates	$0.112954	$0.112954	$0.112954	$0.171896	$0.171896
Total	$0.166079	$0.194816	$0.186773	$0.280533	$0.186328

Year

(1) Other Adjustments did not reflect a one-time rate refund (TY 2005) of 17.45% on base rates, ordered by the Commission in Docket No. 04-0113, by D&O No. 24171, filed on May 1, 2008 and by Order Approving HECO's Revised Tariff Sheets and Rate Schedules, filed on June 20, 2008.

[9] 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. <u>See</u> Chapter 6-60, HAR.

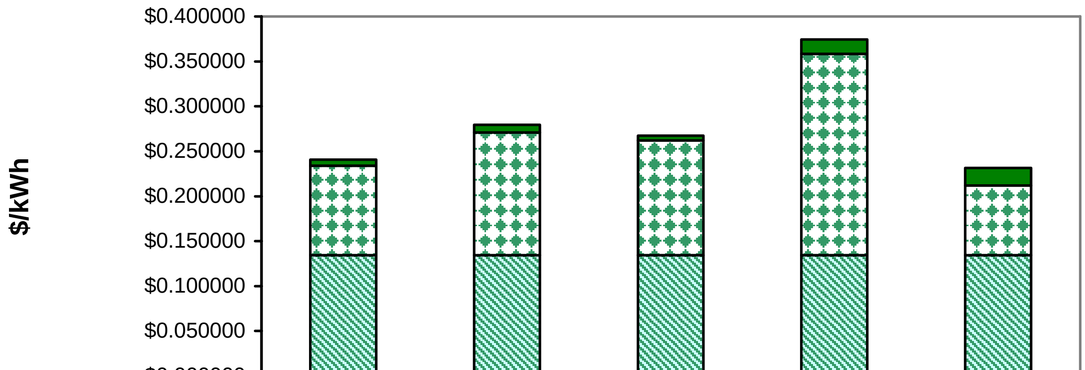
Figure 25
HELCO Base Rates, ERAC, and Other Adjustments
2005 - 2009



	Jun '05	Jun '06	Jun '07	Jun '08	Jun '09
Other Adjustments	$0.001570	$0.002694	$0.023022	$0.025006	$0.033998
ERAC	$0.062440	$0.097320	$0.093950	$0.178710	$0.066700
Base Rates	$0.191370	$0.191370	$0.191370	$0.191370	$0.191370
Total	$0.255380	$0.291384	$0.308342	$0.395086	$0.292068

Year

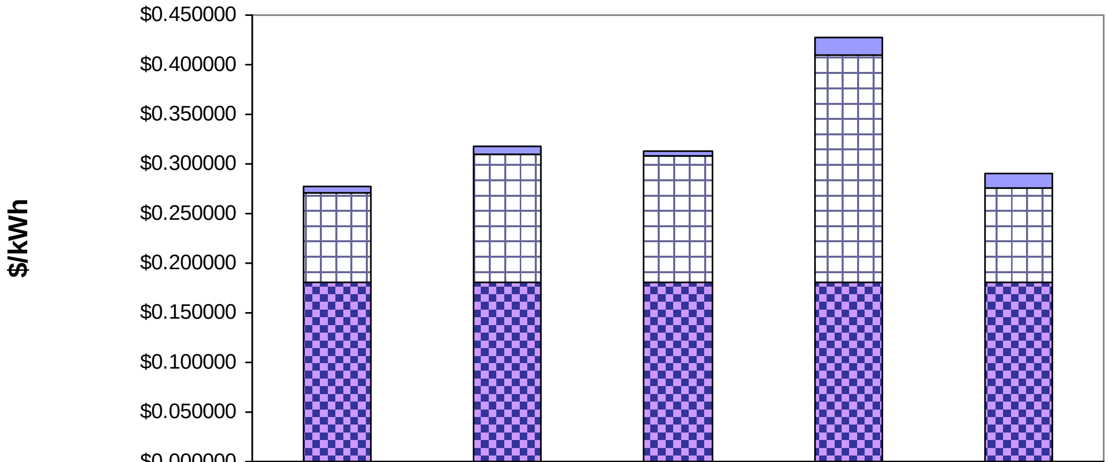
Figure 26
MECO - Maui Division Base Rates, ERAC, and Other Adjustments
2005 - 2009



	Jun '05	Jun '06	Jun '07	Jun '08	Jun '09
Other Adjustments	$0.006752	$0.008311	$0.005237	$0.015796	$0.019317
ERAC	$0.099710	$0.136800	$0.127920	$0.224320	$0.077850
Base Rates	$0.134231	$0.134231	$0.134231	$0.134231	$0.134231
Total	$0.240693	$0.279342	$0.267388	$0.374347	$0.231398

Year

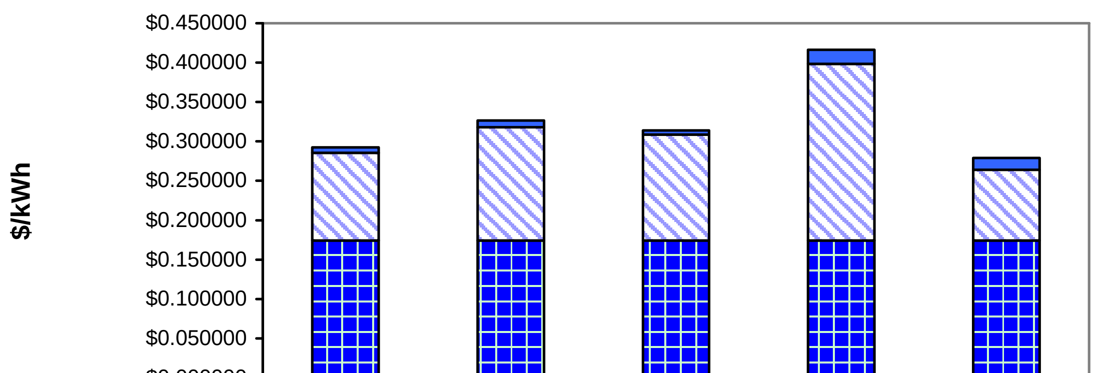
Figure 27
MECO - Lanai Division Base Rates, ERAC, and Other Adjustments
2005 - 2009



	Jun '05	Jun '06	Jun '07	Jun '08	Jun '09
Other Adjustments	$0.006889	$0.008542	$0.005429	$0.017420	$0.014611
ERAC	$0.090640	$0.128950	$0.127060	$0.228800	$0.094800
Base Rates	$0.180648	$0.180648	$0.180648	$0.180648	$0.180648
Total	$0.278177	$0.318140	$0.313137	$0.426868	$0.290059

Year

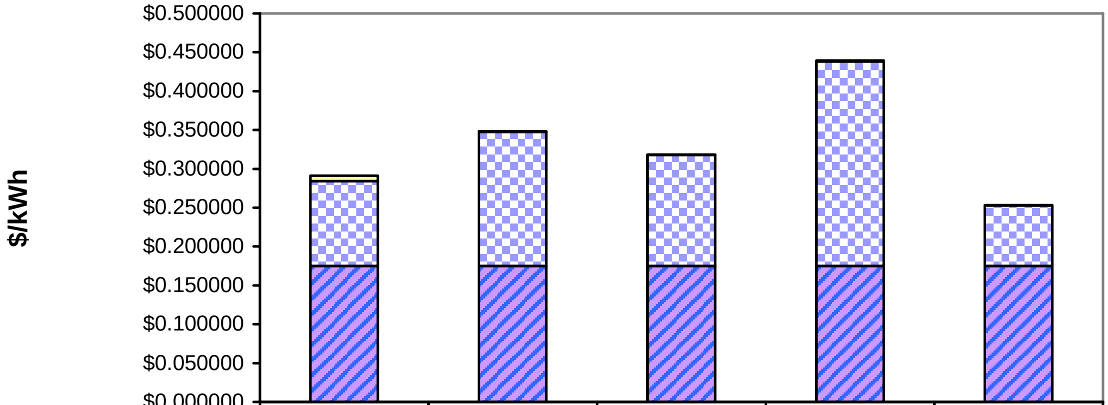
Figure 28
MECO - Molokai Division Base Rates, ERAC, and Other Adjustments
2005 - 2009



	Jun '05	Jun '06	Jun '07	Jun '08	Jun '09
Other Adjustments	$0.006832	$0.008356	$0.005330	$0.018015	$0.015250
ERAC	$0.111240	$0.143600	$0.134330	$0.223920	$0.089430
Base Rates	$0.174383	$0.174383	$0.174383	$0.174383	$0.174383
Total	$0.292455	$0.326339	$0.314043	$0.416318	$0.279063

Year

Figure 29
KIUC/KE Base Rate, ERAC, and Other Adjustments
2005 - 2009

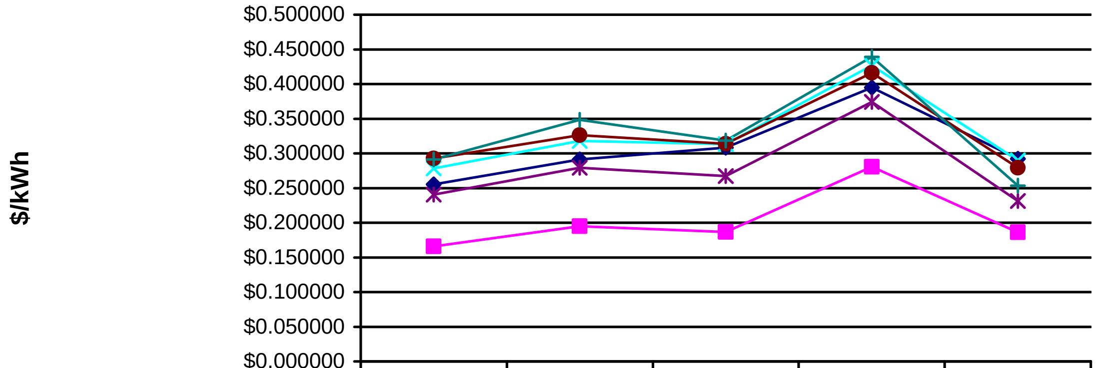


	Jun '05	Jun '06	Jun '07	Jun '08	Jun '09
Other Adjustments	$0.006942	$0.000674	$0.000303	$0.001050	$0.000264
ERAC	$0.109411	$0.172760	$0.143260	$0.263448	$0.078136
Base Rates	$0.174890	$0.174890	$0.174890	$0.174890	$0.174890
Total	$0.291243	$0.348324	$0.318453	$0.439388	$0.253290

Year

Figure 30 compares Effective Energy Rates (combined base rate and ERAC) for residential electricity customers across the State.

Figure 30
Five Year Comparison of Effective Residential Rates



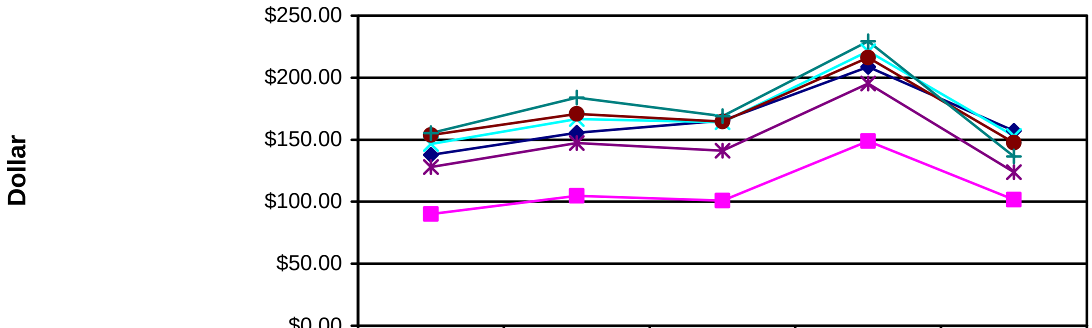
	Jun '05	Jun '06	Jun '07	Jun '08	Jun '09
HELCO	0.255380	0.291384	0.308342	0.395086	0.292068
HECO (1)	0.166079	0.194816	0.186773	0.280533	0.186328
MECO - Lanai Division	0.278177	0.318140	0.313137	0.426868	0.290059
MECO - Maui Division	0.240693	0.279342	0.267388	0.374347	0.231398
MECO - Molokai Division	0.292455	0.326339	0.314043	0.416318	0.279063
KIUC	0.291243	0.348324	0.318453	0.439388	0.253290

Year

(1) HECO's effective residential rate for June 2008 did not reflect a one-time rate refund (TY 2005) of 17.45% on base rates, ordered by the Commission in Docket No. 04-0113, by D&O No. 24171, filed on May 1, 2008 and by Order Approving HECO's Revised Tariff Sheets and Rate Schedules, filed on June 20, 2008.

Figure 31 compares monthly residential ***bills*** across the State over the past five (5) years, assuming 500 kwh is used by the customer during the month.[10]

Figure 31
Five Year Comparison of Average Monthly Residential Electric Bill Based on 500 kWh



	Jun '05	Jun '06	Jun '07	Jun '08	Jun '09
HELCO	$137.69	$155.70	$165.26	$208.63	$157.11
HECO (1)	$90.04	$104.66	$100.82	$148.84	$101.73
MECO - Lanai Division	$146.59	$166.61	$164.10	$221.42	$152.99
MECO - Maui Division	$127.85	$147.21	$141.23	$195.24	$123.74
MECO - Molokai Division	$153.73	$170.71	$164.55	$216.20	$147.56
KIUC	$155.34	$183.88	$168.95	$229.42	$136.37

Year

(1) HECO's average monthly residential electric bill based on 500 kWh for June 2008 did not reflect a one-time rate refund (TY 2005) of 17.45% on base rates, ordered by the Commission in Docket No. 04-0113, by D&O No. 24171, filed on May 1, 2008 and by Order Approving HECO's Revised Tariff Sheets and Rate Schedules, filed on June 20, 2008.

[10]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).

2. TELECOMMUNICATION RATES.

Hawaiian Telcom's basic rates have remained unchanged over the past several years.[11] The following table shows amounts by islands that customers have been paying since 1997 for residential service.

Island	Residential Service (1997 – Present)[12]
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.

The electric utilities filed annual service quality reliability reports based on calendar year. The latest reports cover the 2008 calendar year ("2008"). A complete copy is available for review at the Commission's website.

The reliability indices are calculated using the data from all sustained[13] system outages except customer maintenance outages. If data normalization is required, it is done using the guidelines specified in the report on reliability that was prepared for the Public Utilities Commission, titled "Methodology for Determining Reliability Indices for HECO Utilities," dated December 1990. That report indicates that normalization is allowed for "abnormal" situations such as hurricanes, tsunamis, earthquakes, floods, catastrophic equipment failures, and single outages that cascade into a loss of load greater than 10% of the system peak load. These normalizations are made in calculating the reliability indices because good engineering design takes into account safety, reliability, utility industry standards, and economics, and cannot always plan for catastrophic events.

Indices measure reliability in terms of the overall availability of electrical service (ASA), the frequency or number of times a company 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 the company'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

[11]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.

[12]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.

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

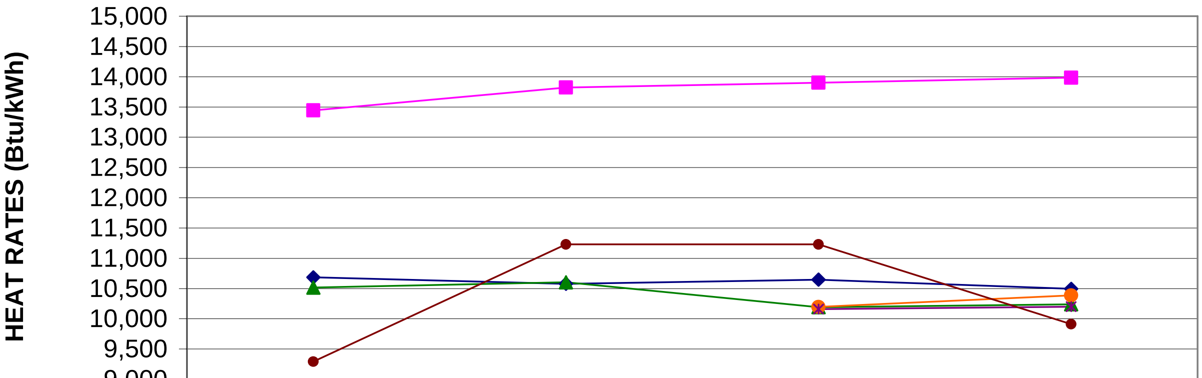
incorporates the impact of frequency and duration of outages on the company's total customer base.

This analysis of the system reliability for the company is for the year 2008. To determine the relative level of reliability, the statistics for five to six prior years through 2008, are used for comparison.

ELECTRIC UTILITIES GENERATING EFFICIENCY RESULTS.

The following provides the annual net heat rate values for HECO, HELCO, Maui division of MECO, and KIUC for the past four (4) years. The annual heat rates for Lanai and Maui of MECO available for the past two years. Net 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 net 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 32 shows the heat rates of the electric utilities from 2005 to 2008.

Figure 32
Electric Utility Heat Rates



	2005	2006	2007	2008
HECO	10,687	10,577	10,646	10,493
HELCO	13,443	13,823	13,903	13,984
Maui	10,516	10,604	10,191	10,238
Lanai			10,195	10,387
Molokai			10,159	10,198
KIUC	9,293	11,230	11,230	9,910

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 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

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.

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 155 SLH 2009 amended section 269-92, HRS, by increasing the renewable portfolio standard of each electric utility company that sells electricity for consumption from twenty to twenty-five per cent of net electricity sales by Dec. 31, 2020; and to require forty per cent of net electricity sales by Dec. 31, 2030.

In addition, this section was also amended to require that prior to January 1, 2015, at least fifty per cent of the renewable portfolio standards shall be met by electrical energy generated using renewable energy as the source, and after Dec. 31, 2014, the entire renewable standard shall be met by electrical generation from renewable energy

For the year ended December 31, 2008, HECO, HELCO and MECO, in the aggregate, reported that they have reached a consolidated renewable energy penetration of 18.0 per cent, which was up from 16.1 per cent in 2007. The increase in aggregate RPS percentage between 2007 and 2008 is a result of increases in RPS percentages for 2 of the 3 companies. HECO increased from 11.0 per cent in 2007 to 13.8 per cent in 2008; HELCO from 39.8 per cent to 40.7 per cent; and MECO decreased from 24.7 per cent to 22.5 per cent.

The remaining electric utility company, KIUC, reported that renewable energy resources supplied 13.85 per cent of KIUC's net electricity sales, as of December 31, 2008, an increase from 2007's 11.42 per cent.

C. TELECOMMUNICATIONS UTILITIES EFFICIENCY AND SERVICE QUALITY.

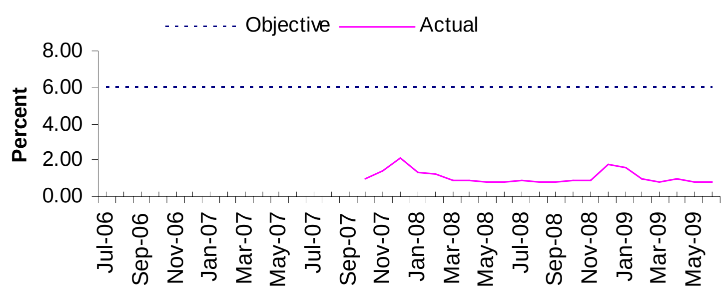
The following service quality data was provided by Hawaiian Telcom in its monthly reports to the Commission as required under HAR Sections 6-80-93 through -98, relating to service quality in telecommunications. Figures 33 to 44 show Hawaiian Telcom's service quality results for the last three (3) fiscal years; i.e., from July 2006 through June 2009.

Much of the service quality data normally provided by Hawaiian Telcom was not, however, due to numerous issues related to the April 1, 2006 switch, or "cutover", of Hawaiian Telcom's back office systems from Verizon Communications to its own newly-created systems. The service quality results for the months of July, 06 through August/September 2007, relating to measurements for figures 33, 35, 36, 40, 41, and 44, appearing below, are therefore, not shown. 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 during this time.[14]

Looking at performance during Fiscal Year 2008-09, the measurements show that the company usually met or exceed objectives for most of them. Three (3) areas in which Hawaiian Telcom fell below objectives were: (1) Percent Out-of-Service Troubles Cleared in 24 Hours; (2) Percent Repair Commitments Met; and (3) Percent Installations Completed Within 3 Days.

The Commission continues to monitor Hawaiian Telcom's systems problems and activities to rectify the problems, while also helping to address customer concerns and complaints. Its formal investigation of the company's service quality and performance levels and standards is also ongoing.

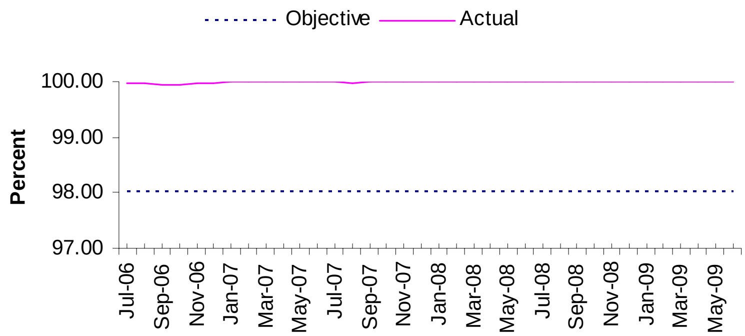
Figure 33
Total Customer Trouble Reports Per 100 Lines



Total Customer Trouble Reports Per 100 Lines - This performance area measures customer network trouble reports per 100 access lines. It is calculated by taking the total customer network trouble reports divided by total access lines times 100. Since October 2007, the results include additional trouble report activity that would normally not be included in this metric. Hawaiian Telcom's systems are currently unable to exclude FCC regulated services when computing these results. The actual results may be more favorable than shown herein.

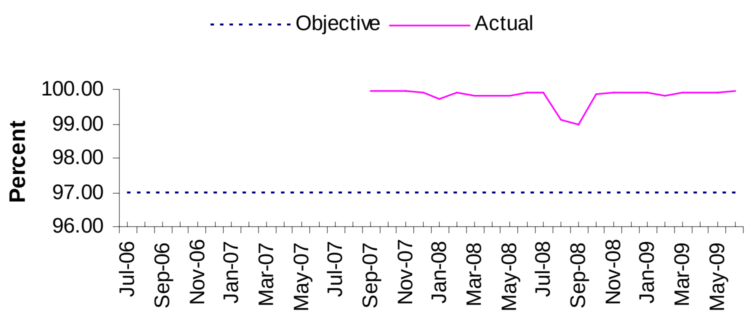
[14]However, the operations of Hawaiian Telcom's network have continued to function at or better than standards since the cutover.

Figure 34
Dial Tone Speed - Percent Dial Tone Within 3 Seconds



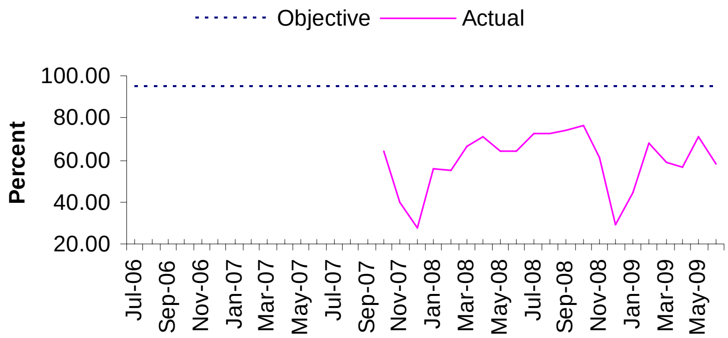
Dial Tone Speed - % Dial Tone Within 3 Seconds - This performance area measures the percentage of calls receiving dial tone within three (3) seconds. It is calculated by taking the number of calls in which dial tone was provided within three (3) seconds divided by the total number of calls times 100.

Figure 35
Dial Service Results - Percent Completion



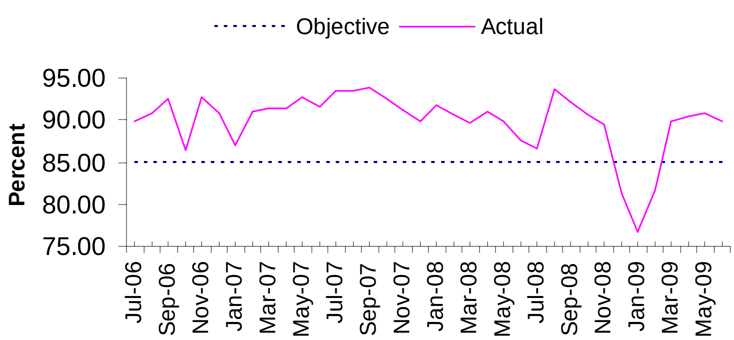
Dial Service Results - % Completion - This performance area measures call completion performance on interoffice trunk groups. It is calculated by taking the number of unblocked calls on interoffice trunk groups divided by the total number of attempts on interoffice trunk groups times 100.

Figure 36
Percent Out-of-Service Troubles Cleared in 24 Hours



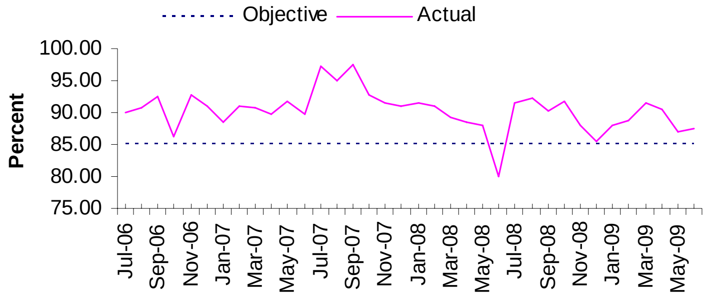
% OOS Trouble Cleared in 24 Hours - This performance area measures customer out-of-service ("OOS") network trouble reports cleared within 24 working hours. It is calculated by taking the total customer OOS network reports cleared within 24 working hours divided by the total customer OOS network trouble reports times 100. Since October 2007, the results include additional trouble report activity that would normally not be included in this metric. Hawaiian Telcom's systems are currently unable to exclude FCC regulated services when computing these results. The actual results may be more favorable than shown herein.

Figure 37
Percent of Operator Toll Calls
Answered Within 10 Seconds



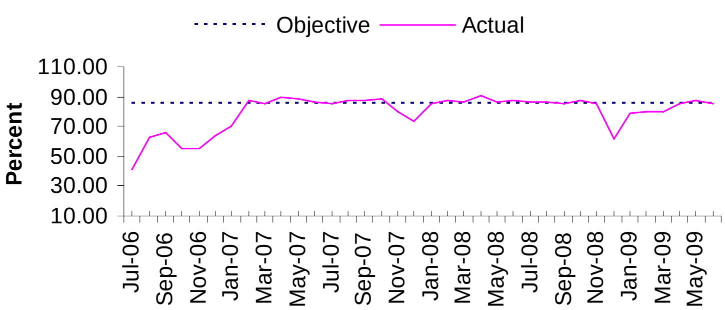
% Operator Toll Calls Answered Within 10 Seconds - This performance area measures the number of calls handled within ten (10) seconds divided by the total number of calls handled times 100 for calls to the toll operator.

Figure 38
Percent of Operator Directory Assistance Calls Answered Within 10 Seconds



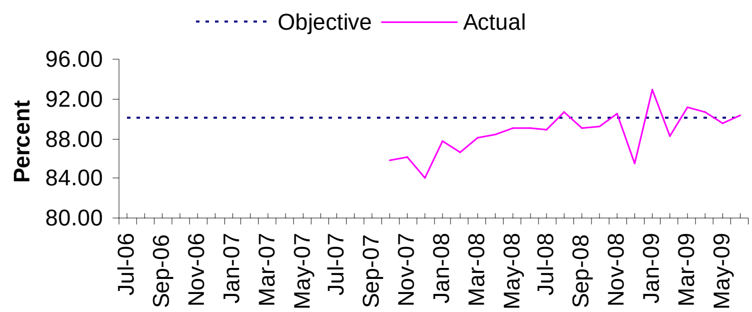
% Operator Directory Assistance Calls Answered Within 10 Seconds - This performance area measures the number of calls handled within ten (10) seconds divided by the total number of calls handled times 100 for calls to the directory assistance operator.

Figure 39
Percent of Repair Calls Answered Within 20 Seconds



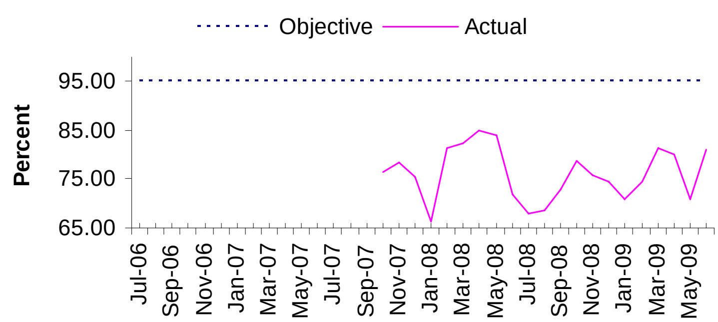
% Repair Calls Answered Within 20 Seconds - This performance area measures the number of calls answered within twenty (20) seconds divided by the total number of calls times 100 for calls to the repair answer center.

Figure 40
Percent Repair Commitments Met



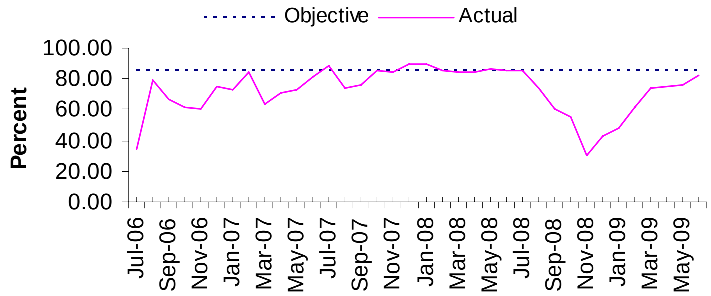
% Repair Commitments Met - This performance area measures the repair tickets completed by the committed due date. It is calculated by taking the total customer network trouble reports for which the commitments were met divided by total customer network troubles times 100. Since October 2007, the results include additional trouble report activity that would normally not be included in this metric. Hawaiian Telcom's systems are currently unable to exclude FCC regulated services when computing these results. The actual results may be more favorable than shown herein.

Figure 41
Percent Installations Completed Within 3 Days



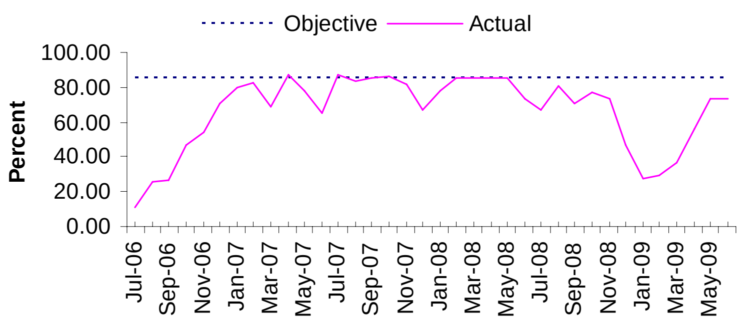
% Installations Completed Within 3 Days - This performance area measures the percent of basic orders completed within three (3) working days. It is calculated by taking the total installation ("I"), move ("M") and change ("C") basic orders completed within three (3) working days divided by the total number of I, M and C orders times 100. Since October 2007, the results include additional order activity that would normally not be included in this metric. Hawaiian Telcom's systems are currently unable to separately track the incumbent local exchange carrier ("ILEC") regulated activity (such as installation of a primary line) from the non-ILEC regulated activity (such as provision of DSL service) if they are included on the same order. Exclusion of these non-ILEC regulated services would produce results that are more favorable than shown herein.

Figure 42
Percent Combined Business Installation/Billing Office Calls Answered Within 20 Seconds



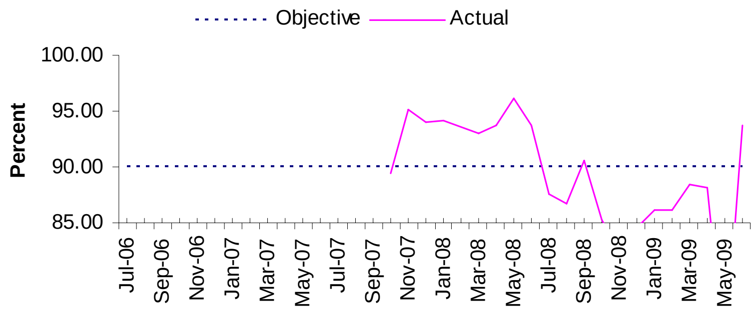
% Combined Business Installation/Billing Office Calls Answered Within 20 Seconds - This performance area measures the number of calls answered within twenty (20) seconds divided by the total number of calls times 100 for calls to the business installation and billing center.

Figure 43
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 44
Percent Installation Commitments Met



% Installation Commitments Met - This performance area measures the percent of basic orders where the work for the customer is complete and service is available for use by no later than the commitment made to the customer. It reflects the percent as calculated by taking the installation ("I"), move ("M") and change ("C") order installation commitments met divided by the total number of I, M and C orders taken times 100. Since October 2007, the results include additional order activity that would normally not be included in this metric. Hawaiian Telcom's systems are currently unable to separately track the ILEC regulated activity (such as installation of a primary line) from the non-ILEC regulated activity (such as provision of DSL service) if they are included on the same order.

XIII. LEGISLATION ENACTED BY 2009 LEGISLATURE AFFECTING PUBLIC UTILITIES.

A. 2009 LEGISLATIVE MEASURES RELATING TO THE PUBLIC UTILITIES COMMISSION.

1. ONE CALL CENTER.

Act 72, SLH 2009, repeals the sunset date contained in the Hawaii One Call Center law, thereby making the pilot program permanent. The Hawaii One Call Center law, codified as Chapter 269E, HRS, and effective on July 1, 2004, established the first statewide one call center as a clearinghouse for excavators and subsurface utility operators to organize the identification of subsurface facilities in the area of a proposed excavation, thereby reducing the possibility of accidental damage and/or disruption of utility services. This Act includes an exemption from the law for pest control operators under Chapter 460J, HRS, but includes a sunset date of June 30, 2012 for that exemption.

2. PUBLIC UTILITIES; RECEIVERSHIP.

Act 74, SLH 2009, provides the Commission with authority to appoint a receiver to take such temporary action as is necessary to assure continued adequate water or sewer service whenever the Commission finds that a regulated water utility or regulated sewer utility is failing, or that there is an imminent threat of the utility failing, to provide adequate and reasonable service to its customers, and that such failure is a serious and imminent threat to the health, safety, and welfare of those customers. The Commission may appoint the receiver to take such temporary action as is necessary to assure continued service, or to bring the service up to appropriate regulatory standards. The Act also provides the Commission authority to appoint a receiver to take such temporary action as is necessary to assure continued service if, after notice and hearing, the Commission finds that any water or sewer utility it regulates is consistently failing to provide adequate and reasonable service.

3. PUBLICATION OF HEARING NOTICES; LIMITATION.

Act 29, SLH 2009, reduces the Commission's outlay of resources used to pay for publication of hearing notices statewide by providing that notice be published only in the county served by the utility seeking a proposed change. The Commission had been required to generate public notice statewide even if the public utility to which the notice pertains, and the customers who are affected, reside in one county, not statewide. This will reduce government waste by lowering the Commission's publications costs by as much as fifty (50) percent per fiscal year.

4. GAS PIPELINE SYSTEMS.

Act 25, SLH 2009, repeals the provisions relating to gas pipeline systems under Part IV, Chapter 269, HRS. Part IV, had required the Commission to establish safety standards consistent with those of the federal pipeline safety office, and authorized the Commission to make inspections of pipeline systems within the State for purposes of compliance with those safety standards. The federal office of Pipeline Safety has been overseeing and performing all functions relating to gas pipeline systems in the State since 1993, including establishing compliance with its safety standards, and exercising authority to issue and enforce safety regulations for the transportation of synthetic natural gas by pipeline under the Natural Gas Pipeline Safety Program of 1968, as amended.

5. RENEWABLE ENERGY.

Act 50, SLH 2009, refocuses the regulatory standard of "avoided cost" of section 269-27.2(c), HRS, by significantly reducing any linkages between the volatile prices of fossil fuels and the rate for non-fossil fuel generated electricity, thereby creating the potential that electricity customers might share in the benefits of price stability and fuel cost savings resulting from the use of non-fossil fuel generated electricity, and encourages the use of non-fossil fuels for generating electricity.

6. ENERGY RESOURCES; RENEWABLE PORTFOLIO STANDARDS; ENERGY EFFICIENCY PORTFOLIO STANDARDS.

SLH 2009's Act 155 provides an important first step in aligning Hawaii's energy policy laws with the State's energy goals, so that it can begin to realize energy independence, economic and energy stability, and the transformation of its energy system to encompass changes to the State's energy policy and regulatory framework, and incorporate system-level technology development and integration. Among other things, the Act amends Chapter 269, HRS, Part V, Renewable Portfolio Standards, section 269-91, by amending the definition of "renewable electrical energy" to provide that beginning Jan. 1, 2015, electrical energy savings shall not include customer-sited, grid-connected renewable-energy systems, and amending the definition of "renewable energy" to include energy generated or produced using ocean thermal energy conversion, and other solid waste such as biomass.

The Act also amends section 269-92, HRS, by increasing the renewable portfolio standard of each electric utility company that sells electricity for consumption from twenty (20) to twenty-five (25) per cent of net electricity sales by Dec. 31, 2020, and to require a standard of forty (40) per cent of net electricity sales by Dec. 31, 2030. This section is also amended to require that prior to Jan. 1, 2015, at least fifty (50) per cent of the renewable portfolio standards shall be met by electrical energy generated using renewable energy as the source, and after

Dec. 31, 2014, the entire renewable standard shall be met by electrical generation from renewable energy sources.

Further, beginning Jan. 1, 2015, electrical energy savings shall **not** count toward renewable energy portfolio standards. Section 269-95, HRS (Renewable Portfolio Standards Study), is amended to require the Commission to evaluate the standards every five (5) years, beginning in 2013, and may revise the standards based on best information available at the time. Act 155 also adds a new section to HRS, to be appropriately designated, that requiring the Commission to establish energy-efficiency portfolio standards that will maximize cost-effective energy-efficiency programs and technologies designed to achieve a reduction of 4,300 gWh in electricity usage by 2030. Interim goals shall also be established for 2015, 2020, and 2025.

The Act further amends Chapter 269, HRS (relating to the Public Benefits Fee Administrator, section 269-122), to add that all moneys transferred to the third-party administrator shall be comprised solely of public benefit fees, or from funds provided by the federal government or by private funding sources.

7. TELECOMMUNICATIONS; FULLY COMPETITIVE TELEPHONE SERVICES.

Act 180, SLH 2009, requires the Commission to 1) classify the State's local exchange intrastate telephone services as fully competitive with respect to certain classifications of services; and 2) require telecommunications carriers to file their rates, fares, charges, and bundled service offerings with the Commission for informational purposes only. The Act essentially provides that a telecommunications carrier cannot charge for intrastate telephone services a rate higher than the one they inform people they will charge in its tariff filed with the Commission.

8. TRANSPORTATION ENERGY INITIATIVES.

Act 156, SLH 2009, will help to provide sufficient tools to develop an infrastructure for electric vehicles in Hawaii, and will assist the State in reducing its overdependence on imported fossil fuels by requiring government agencies to lead the way in the electrification of transportation in the State, while providing an aggressive but realistic timetable to replace fossil fuel vehicles with electric and alternative fuel vehicles. The bill directly affects the Commission by amending the definition of "public utility" in section 269-1, HRS, by excluding from Commission oversight, "any person who owns, controls, operates, or manages plants or facilities primarily used to charge or discharge a vehicle battery that provides power for vehicle propulsion."

B. OTHER 2009 LEGISLATIVE MEASURES RELATING TO UTILITIES.

1. RENEWABLE ENERGY FACILITIES.

Act 173, SLH 2009. This Act will help further expedite the process established by Act 207, SLH 2008, whereby the renewable energy facility siting process was designed and established to expedite the processing and approval, or denial, of any permit plan application for siting, development, construction, and operation of a renewable energy facility. Under this Act 173, the energy resources coordinator is given the necessary power and authority to expedite the development of renewable energy facilities, while still protecting the public's health, safety, and welfare. (Amends Chapter 201N, HRS, to accomplish these goals.).

2. PUBLIC UTILITIES; RENEWABLE ENERGY; PREFERENTIAL RATES.

Act 185, SLH 2009, authorizes and encourages the establishment of preferential rates for renewable energy produced in conjunction with agricultural activities, to increase energy self sufficiency and agricultural sustainability in the State. This Act adds a new section to Chapter 269, HRS, that clarifies that it is the policy of the State to promote the long-term viability of agriculture in the State and gives the Commission "the authority to establish preferential rates for the purchase of renewable energy produced in conjunction with agricultural activities."

3. PRIVATE AGRICULTURAL PARKS.

Act 122, SLH 2009, encourages owners of neighboring ("contiguous") agricultural lands to enter into private agreements to reduce the shared costs of generating and transmitting electrical energy, coldwater for refrigeration and cooling, and non-potable water for irrigation. The law does not include an exemption from regulation as "public utilities" under Chapter 269, HRS. Therefore, the operators and activities contemplated by this bill in agricultural parks may or may not be considered "public utilities" under existing law, as determined by the courts and the Commission, depending on the facts and circumstances of each particular case.

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 Telecommunications Act of 1934, as amended in 1996 ("Act"), is designed: 1) to promote the availability of quality telecommunications services at just, reasonable, and affordable rates; 2) to increase access to advanced telecommunications services throughout the nation; 3) to advance the availability of such services to all consumers, including those in low income, rural, insular, and high cost areas; and 4) at rates reasonably comparable to those charged in urban areas. The Act also 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 additional principles that, consistent with the 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, calculations made, and the moneys paid out to those carriers designated as ETCs, in order to assist them in recovering costs of providing telecommunications services in areas where otherwise it would not be financially feasible. As of June 30, 2009, the Hawaii Commission has granted ETC status to four carriers: Hawaiian Telcom, Inc., Sandwich Isles Communications, Inc., Sprint Nextel, and Coral Wireless, LLC, d/b/a Mobi PCS.

Amid continued concern over large increases in USF payments to ETCs over the last decade, there is now, on the national and state levels, and from public and private entities, a greater focus on ensuring that the moneys from the fund are being spent by the recipient 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 of the nation.

B. DTV TRANSITION.

In 1996, the U.S. Congress ("Congress") authorized each broadcast TV station an additional broadcast channel to allow them to establish a digital broadcast channel. The DTV Transition or switch from analog to digital broadcast television was mandated by Congress to free up frequencies for public safety communications, including police, fire and emergency rescue. The initial completion date for the DTV Transition was February 17, 2009; but was later postponed to June 12, 2009,.

According to the DTV.gov website, additional public benefits for the DTV Transition included:

- Allow some of the spectrum to be auctioned to companies that will be able to provide consumers with more advanced wireless services (such as wireless broadband);
- Allow stations to offer improved picture (HDTV) and surround sound (enhanced audio);
- Expand programming choices for viewers. For example, a broadcaster will be able to offer multiple digital programs simultaneously (multicasting); and
- Provid interactive video and data services that are not possible with analog technology.

The transition to digital television broadcasts also meant that some consumers lost or gained access to some television stations. Depending on the viewers location, they might receive more or less TV stations under DTV than via analog TV. Because of the all-or-nothing nature of receiving digital broadcast television, over-the-air television viewers with marginal reception may not receive some of the stations they had received using their analog tuner. Although the stations that do tune in should be clear without any TV "snow."

Viewers who wished to continue receiving over-the-air television after the DTV Transition needed a digital television tuner either in the television or were required to purchase a converter box to covert DTV for reception on analog sets.

The state of Hawaii switched to digital broadcasts on January 15, 2009, being the first state in the nation to complete its DTV transition.

Additional information regarding the DTV Transition may be found on the FCC's website or at www. DTV.gov.

XV. PREVIEW FISCAL YEAR 2009-10.

The following sections highlight some of the significant proceedings and activities of the Commission for the upcoming Fiscal Year 2009-10.

A. HAWAIIAN TELCOM, INC. CHAPTER 11 BANKRUPTCY

In December 2008, Hawaiian Telcom Communications, Inc; Hawaiian Telcom Holdco, Inc., Hawaiian Telcom, Inc., Hawaiian Telcom IP Service Delivery Research, LLC; Hawaiian

Telcom IP Video Research, LLC; Hawaii Telcom IP Service Delivery Investment, LLC; Hawaiian Telcom IP Video Investment, LLC; Hawaiian Telcom Services Company, Inc. (collectively "Hawaiian Telcom") filed for relief under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware in Wilmington. Hawaiian Telcom received approval to move the proceeding from Delaware to Hawaii and in June 2009, filed its Reorganization Plan with the U.S. Bankruptcy Court for the State of Hawaii. Upon the November 2009 confirmation of the plan by the U.S. Bankruptcy Court, Hawaiian Telcom is soon expected to file a request for the Commission to review and approve the Reorganization Plan.

B. BIG WIND IMPLEMENTATION STUDIES
Docket No. 2009-0162

In July 2009, HECO filed an application with the Commission to defer the costs for outside services (estimated at $6,258,000) for the Big Wind Implementation Studies that are expected to be incurred from January 1, 2009 through 2010, and that would otherwise be expensed; and to recover the revenue requirements of those deferred costs through the Renewable Energy Infrastructure Program /CIean Energy Infrastructure Surcharge that under review by the Commission in Docket No. 2007-0416, or in the alternative, through a Big Wind Project-specific surcharge ("Big Wind Surcharge") mechanism, that the Commission would approve in this proceeding.

C. MECO'S 2010 TEST YEAR RATE INCREASE REQUEST
Docket No. 2009-0163

In September 2009, MECO filed an application requesting a general rate increase of 9.7 per cent over revenues at current effective rates. In addition, MECO proposes to establish: (1) a purchased power adjustment clause/surcharge to recover non-energy purchased power agreement costs by effectively transferring the recovery of purchased power costs from base rates to the new surcharge that will be adjusted monthly and reconciled on a quarterly basis; and (2) a revenue balancing account for a revenue decoupling mechanism that will remove the linkage between electric revenues and sales, if such a revenue balancing account is not otherwise approved by the Commission in its separate revenue decoupling investigative proceeding. Docket No. 2008-0274.

D. HELCO'S 2010 TEST YEAR RATE INCREASE REQUEST
Docket No. 2009-0164

In July 2009, HELCO filed its notice of intent to file an application for a general rate increase on or after November 25, 2009 but before January 1, 2010.