PUBLIC UTILITIES COMMISSION

STATE OF HAWAII

ANNUAL REPORT

(HAW. REV. STAT. § 269-5)

FISCAL YEAR 2009-10

NOVEMBER 2010

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I. INTRODUCTION

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

The Public Utilities Commission ("Commission") of the State of Hawaii ("State") submits this Annual Report pursuant to 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, 2009 to June 30, 2010 fiscal year ("Fiscal Year").

In recent years the Legislature has entrusted the Commission with more and more authority and discretion in implementing state energy policy as we try to move our State towards our energy independence goals as we facilitate, encourage, and require the use of more renewable energy, and reduce electricity consumption through energy efficiency programs. The major strategies that are being used to implement State energy policies are energy efficiency programs to reduce our need for additional electricity generation and renewable portfolio standards to require that more electricity generation be accomplished with renewable energy.

As described in greater detail herein, the Commission has aggressively sought to implement the State's energy policy through the implementation of renewable portfolio standards, net energy metering, feed-in-tariffs, renewable energy infrastructure surcharge program, decoupling, third party administration of energy efficiency programs, energy efficiency portfolio standards, and an update of the integrated resource planning process to incorporate clean energy scenario planning, among other matters.

Nonetheless, despite these additional policy-making and implementation duties, the Commission's traditional duty to oversee and regulate public utilities so that they provide reliable service at just and reasonable rates to protect consumers remain, and the Commission must continue to balance its traditional regulatory duties with the need to implement energy policy.

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 (until June 30, 2010, when the Commission's duties under the PIMAR program were repealed). In addition, the Commission established the public benefits fee surcharge for 2010, which is 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 Public Utilities Commission and named Chairman of the Commission by Governor Linda Lingle on April 30, 2003. In 2004, he was reappointed to a full term through June 30, 2010. In 2010, he was reappointed to another term, which he may serve through April 29, 2015.

Chairman Caliboso is a member of the Board of Directors of the National Association of Regulatory Utility Commissioners ("NARUC"), which is an association representing the State public service commissioners who regulate essential utility services throughout the country. He served as President of the Western Conference of Public Service Commissioners ("WCPSC") from 2008-2009, as Hawaii Commission hosted the 2009 WCPSC Annual meeting in June 2009. From 2004 to 2009, Chairman Caliboso served two terms on the Federal Communication Commission's ("FCC") Intergovernmental Advisory Committee ("IAC"), which is comprised of 15 elected and appointed officials of municipal, county, state, and tribal governments, most recently as the Vice Chair of the IAC. In 2010, the FCC appointed him to its FCC-State Joint Conference on Advanced Telecommunications Services.

Prior to joining the Commission, Mr. Caliboso practiced law in Hawaii for over 11 years. His primary areas of practice were in business and transactional matters. Chairman Caliboso earned a Bachelor of Business Administration degree from the College of Business Administration at the University of Hawaii with a double major in Finance and in Management in 1984; a Juris Doctor degree from the William S. Richardson School of Law at the University of Hawaii in 1991, and an Executive MBA degree from the Shidler College of Business at the University of Hawaii 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 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. In 2010, Commissioner Cole accepted an invitation to participate in the State Energy Efficiency Action Network working group on Customer Information and Behavior.

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, 2010, 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]

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 clean energy resources for the production of electricity to increase the efficiency, reliability, and sustainability of electricity generation and supply for consumers.

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

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 in the Commission's Legal section. Due to a Reduction-In-Force process that affected the State's Executive Branch, two employees from other departments who had been laid-off obtained positions with the Commission. One (1) such employee replaced an employee in the Commission's Information Technology Services and one (1) employee filled a vacancy in the District Representatives (Hawaii County) section. Further, the Commission initiated a Summer Legal Internship Program that would allow law students to work with the Commission's Legal section and assist the Commission in the performance of its duties and responsibilities during the summer, starting June 1, 2010.

In September 2009, the Commission was able to secure a formula-based American Recovery and Reinvestment Act of 2009 ("ARRA") Federal Government grant issued by the United States Department of Energy ("USDOE"), FOA-DE-0000100, in the amount of $782,834. The primary objective of this ARRA grant is 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 supplemental funding from this ARRA grant is being used to hire two (2) temporary staff positions and to enable electricity-related training for new and existing Commission staff. ARRA recruitment efforts resulted in the hiring of an ARRA Program Administrator in May 2010. More information about this ARRA grant can be found at: http://hawaii.gov/recovery/b-f/department-of-budget-finance.

Additionally, the Commission, through a Memorandum of Agreement with the Department of Business, Economic Development, and Tourism ("DBEDT") executed in August 2009, agreed to assist DBEDT in distributing portions of certain USDOE ARRA grants thru funding of energy efficiency programs that meet and comply with requirements established by the USDOE. Currently the USDOE ARRA grants that the Commission is involved in include the State Energy Program grant, DE-FOA-0000052, and the State Energy Efficient Appliance Rebate Program grant, DE-FOA-0000119.

Major administrative points of focus for Fiscal Year ("FY") 2011 will include personnel recruitment and training, technological and regulatory process improvements, public education and information transparency enhancements, and enforcement activities expansion. In May 2010, Governor Linda Lingle also signed into law, Act 130, Session Laws of Hawaii ("SLH") 2010 ("Act 130"), which among other things, funded (in FY 2011) the positions previously required by Act 177, SLH 2007 ("Act 177"). Pursuant to Act 177, the Commission is required to restructure its organization 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. Act 130 also, among other things, restored the nine (9) positions abolished by Act 162, SLH 2009.

In FY 2011, the Commission will also continue to focus appropriate administrative efforts on securing and employing additional Federal Government grants that arise from the ARRA that the Commission is eligible for or can assist with via other agencies.

V. REGULATORY ISSUES AND PROCEEDINGS

A. MAJOR REGULATORY ISSUES

The Commission is responsible for regulating 219 utility companies or entities (4 electric, 1 gas, 176 telecommunications, and 38 water and sewer companies), 4 water carriers, 679 passenger carriers and 593 property carriers in the State. During the fiscal year, the Commission opened 330 new dockets relating to those regulated utilities and transportation companies, completed and disposed of 448 dockets from its total case load and issued 690 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, while other energy initiatives were explored and implemented. 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 reviewed 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. 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.

In May 2010, HECO submitted the Renewable Portfolio Standard ("RPS") Status Report for the year ending December 31, 2009 for Hawaiian Electric Company, Inc., Hawaii Electric Light Company, Inc. and Maui Electric Company, Limited ("HECO Companies"). The HECO Companies have achieved a consolidated RPS of 19.0 per cent in 2009. The HECO Companies state that this is an increase from the 18.0 per cent achieved in 2008 and is primarily the result of the additional energy efficiency demand-side management implemented in 2009 and increased installations of solar water heating and photovoltaic systems. According to the HECO Companies, in 2009, renewable energy generation totals were hampered by lower generation output available from geothermal and biomass resources.

b. ENERGY EFFICIENCY PORTFOLIO STANDARDS Docket No. 2010-0037

In March 2010, the Commission instituted an investigation to examine establishing energy efficiency portfolio standards ("EEPS") for the State of Hawaii, pursuant to Act 155, Session Laws of Hawaii 2009 ("Act 155") and HRS § 269-96. Act 155, as codified in HRS § 269-96 requires, among other things, that the Commission establish EEPS "designed to achieve four thousand three hundred gigawatt hours of electricity use reductions statewide by 2030; provided that the commission shall establish interim goals for electricity use reduction to be achieved by 2015, 2020, and 2025 and may also adjust the 2030 standard by rule or order to maximize cost-effective energy-efficiency programs and technologies." Pursuant to a Stipulated Procedural Order that was approved, with modifications, on July 7, 2010, the parties in the docket will hold a series of Informational Workshops in the Fall of 2010, a Technical Session in April 2011, and will file Final Statements of Position in May 2011.

c. 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.

d. NET ENERGY METERING Docket No. 2006-0084

This investigative docket was opened in April 2006 to evaluate whether the Commission should increase: (1) the maximum capacity of eligible customer-generators to more than fifty kilowatts; and (2) the total rated generating capacity produced by eligible customer-generators to an amount above 0.5 percent of an electric utility's system peak demand, under Hawaii's Net Energy Metering Law, codified as Hawaii Revised Statutes §§ 269-101 to 269-111.

In Fiscal Year 2009-10, the parties filed several proposals, including: a proposed plan to address Net Energy Metering ("NEM"), as set forth in the Energy Agreement;[2] a stipulation on the NEM system cap filed by the HECO Companies and the Consumer Advocate; a request to forego the development of an NEM Pilot Program for the HECO Companies; a proposed NEM Pilot Program and alternate rate structure for KIUC; and a stipulation to increase the NEM system cap for Oahu. These proposals are currently pending Commission 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

[2] "Energy Agreement" refers to a comprehensive agreement dated October 20, 2008 between the Governor of the State of Hawaii, the State Department of Business Economic Development and Tourism, the Consumer Advocate, and the HECO Companies that is 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."

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.[3]

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." By Decision and Order filed on December 30, 2009, the Commission: (1) approved, with conditions, the HECO Companies' proposal for a REIP, including a REIP Surcharge; and (2) denied the HECO Companies' proposal for a Consolidation Incentive.

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 third party administrator ("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 James Flanagan Associates as the Contract Manager to oversee aspects of third-party administration of energy efficiency programs.

The Commission selected Science Applications International Corporation, nka R.W. Beck ("SAIC/RW Beck"), as the TPA in December 2008 and also established the Public Benefits Fee ("PBF") surcharge for 2009 at 1.0% of the HECO Companies' projected total electric revenue, plus revenue taxes. The HECO Companies continued their current DSM programs during the

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

transition period from January 1, 2009 through June 30, 2009, as the new TPA completed its transition plan.

In November 2009, the Commission set the PBF surcharge for 2010 at 1.0% of the HECO Companies' projected total electric revenue, plus revenue taxes.

In December 2009, the Commission contracted with Economic Consultants Oregon Ltd., dba ECONorthwest as the evaluation, measurement & verification contractor for the third party administered energy efficiency programs in the HECO Companies' service territories.

As of June 30, 2010, SAIC/RW Beck completed its initial program year. Highlights of the PY 2009 are presented below. Additional information may be found on the Hawaii Energy website at www.hawaiienergy.com

	YTD Results	PY 2009 Targets	YTD % of Target PY 2009	PY 2009 Min Target
Key Performance Metrics				
Annual Energy Savings Impacts (Net Generation Level)				
Residential (MWh)	60,416	68,722	88%	51,542
Business (MWh)	46,787	57,301	82%	42,976
Peak Demand (KW)	21,663	20,097	108%	15,073
Island Equity (% of Total Incentive Dollars)				
Oahu	85%	69%	123%	
Maui County	7%	19%	37%	
Hawaii County	8%	11%	73%	
Market Transformation (Applications Completed)				
Emerging Technologies	22	20	110%	
Ally Referrals	423	40	1058%	
Financials*				
Total Incentives (Billed)	$9,211,671	$12,881,723	72%	
Total Program Expenses (Billed)	$3,957,710	$6,284,611	63%	
Total Program Costs	$13,169,381	$19,166,334	69%	

*Financials reflect deduction of $700,000 in performance incentive fees for the award pool and $200,000 in contractor contributions

Source: Hawaii Energy PY 2009 Annual Report

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.

Subsequently, the Commission selected an Independent Observer ("IO") to oversee queuing and interconnection procedures related to FITs. The parties also filed proposed reliability standards, queuing and interconnection procedures, proposed FIT tariffs, and extensive comments and information requests relating thereto.

In response to a proposal filed by the HECO Companies, in August 2010, the Commission approved the creation of a working group, technical support group, and technical review committee to examine issues relating to grid reliability and integration of intermittent renewable resources on the HECO Companies' systems. Also in August 2010, after several months of discussions with the parties that were facilitated by the IO, the HECO Companies filed revised proposed tariffs and contracts for Commission review.

On October 13, 2010, the Commission approved: (1) proposed FITs for Tier 1 and Tier 2 renewable energy generators, which includes applicable pricing, other terms and conditions, and a standard form of contract for the FIT program; and (2) proposed queuing and interconnection procedures for Tier 1 and Tier 2 of the FIT program. The October 13, 2010 Order directed the HECO Companies to implement all of Tiers 1 and 2 on Oahu within two weeks from the date of the Order, and on the HELCO and MECO systems four weeks thereafter. The Commission will address Tier 3 FITs in a separate order.

h. DECOUPLING MECHANISM Docket No. 2008-0274

By its Order Initiating Investigation, filed on October 24, 2008, the Commission opened Docket No. 2008-0274 to examine implementing a decoupling mechanism for the HECO Companies that would modify the traditional model of ratemaking for the HECO Companies by separating the HECO Companies' revenues and profits from electricity sales.

The Commission held a panel-format evidentiary hearing, commencing on June 29, 2009, and ending on July 1, 2009. Post-hearing briefs were filed in September 2009.

On February 19, 2010, the Commission approved a decoupling mechanism subject to the issuance of a Final Decision and Order in Docket No. 2008-0274.

The Commission, in a 2-1 decision, issued its Final Decision and Order on August 31, 2010. The decoupling mechanism approved by the Commission in the Final Decision and Order includes: (1) a sales decoupling component, or Revenue Balancing Account, which is intended to break the link between the HECO Companies' sales and their total electric revenue; and (2) a Revenue Adjustment Mechanism, which is intended to compensate the HECO Companies for increases in utility costs and infrastructure investment between rate cases.

As explained in the Final Decision and Order, and acknowledged by the parties in the docket, decoupling represents a transformational change from traditional rate-making. For the HECO Companies, the conservation, energy efficiency, and customer-sited renewable generation measures that are advanced in Hawai'i's recent energy policies and laws will contribute to falling sales. Thus, while these measures move the State toward important energy goals that all stakeholders and the Commission support, the erosion of electricity sales and revenues may result in negative financial impacts to the HECO Companies. Decoupling, which de-links or "decouples" the HECO Companies' revenues from the amount of electricity or kWh they sell, is intended to remove the disincentive for the HECO Companies to aggressively pursue Hawai'i's clean energy objectives.

i. ISLAND-WIDE POWER OUTAGE OF 12/26/08
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 October 26, 2009.

In March 2006, HECO filed its Outage Report prepared by its expert consultant, POWER Engineers, Inc. HECO filed its Preliminary Statement of Position in June 2009, the Consumer Advocate its Statement of Position in January 2010, and HECO filed its Final Statement of Position in April 2010. A decision on this matter is pending.

j. 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.

k. HECO RESIDENTIAL AND COMMERCIAL DIRECT LOAD CONTROL PROGRAMS
Docket Nos. 2009-0073 and 2009-0097

HECO's Residential Direct Load Control ("RDLC") Program offers eligible residential customers the opportunity to participate in an interruptible program for electric water heaters and central air-conditioning systems. Customers receive a monthly electric bill credit of $3.00 for electric water heaters and $5.00 for central air-conditioning systems as an incentive for participating in the program.

Similarly, HECO's Commercial and Industrial Direct Load Control ("CIDLC") Program offers eligible commercial and industrial electric customers the opportunity to designate a portion of their electrical load as directly controllable or interruptible by HECO under certain circumstances. Participants receive a monthly and per event incentive in exchange for agreeing to reduce their electrical usage to a designated contract level during a load control event.

By reducing electrical demand through reductions from participating customers rather than by increasing generation, load control programs help to meet system reserve capacity, increase electrical-grid stability, and avert power outages during period of energy generation shortfalls. Load control also enables HECO to accommodate more renewable energy and manage the frequency fluctuations resulting from intermittent renewable resources connected to the electric system.

HECO's RDLC and CIDLC Programs were initially approved as a five year pilot ending on December 31, 2009. In March and April of 2009, HECO filed two applications to extend the RDLC and CIDLC Programs for an additional three years from January 2010 through December 2012, and expand customer enrollment. On December 29, 2009, the Commission issued an order which approved the three-year extension of the RDLC Program and two CIDLC Program elements (Direct Load Control and Small Business Direct Load Control), but denied without prejudice's HECO request to expand the enrollment of customers in the load control programs.

l. HECO PURCHASE POWER AGREEMENT – KAHUKU WIND POWER, LLC
Docket No. 2009-0176

On May 12, 2010, the Commission approved HECO's request for approval of Power Purchase Agreement with Kahuku Wind Power, LLC, and Determination that Hawaiian Electric-Owned Interconnection Facilities be constructed above the surface of the ground pursuant to HRS 269-27.6(A).

2. HECO, HELCO, MECO, AND KIUC PROCEEDINGS

a. HECO 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.

Evidentiary hearings were held in October 2009, with post-hearing briefs filed in January 2010.

In February 2010, the Commission issued a second Interim Decision and Order, approving the request by HECO to increase its rates an additional $12,671,000, resulting in an adjusted 2009 test year interim increase of $73,769,000 over revenues at current effective rates.

A final decision in this matter is pending, and will include, among other things, the implementation of the Commission's decoupling order.

b. MECO 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 percent 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 separated revenue decoupling investigative proceeding. Docket No. 2008-0274.

In July 2010, the Commission approved an interim increase in revenues of $10,296,200, or approximately 3.3% over revenues at current effective rates, based on total revenue requirement of $323,885,100 (consolidated operations basis) for the January 1, 2010 to December 31, 2010 test year. A final decision is pending, and will include, among other things, the implementation of the Commission's decoupling order.

c. HELCO 2010 TEST YEAR RATE INCREASE REQUEST
Docket No. 2009-0164

On December 9, 2009 HELCO filed an application requesting a general rate increase of $20,934,500 (approximately 6.0%) over its revenues at current effective rates. In addition, HELCO 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.

Public hearings on HELCO's application were held on February 22 (Kona, Hawaii) and February 25, 2010 (Hilo, Hawaii). Representatives from (1) HELCO, (2) the Department of Commerce and Consumer Affairs, Division of Consumer Advocacy ("Consumer Advocate"), and (3) the public appeared and testified at each public hearing.

Extensive discovery and settlement negotiations have been conducted by HELCO and the Consumer Advocate. An evidentiary hearing is scheduled for October 18, 2010. If HELCO and the Consumer Advocate reach a settlement and the evidentiary hearing is unnecessary, an interim decision and order addressing HELCO's request for rate increase will be issued before October 9, 2010.

d. KIUC 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 seeking an increase in its revenues of $12,991,518 (approximately 10.45 percent) over its present total revenue requirement of $124,276,813, based on the 2010 calendar test year. In addition, KIUC proposed to 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.

In April 2010, the Commission issued its Interim Decision and Order, approving on an interim basis a net increase in revenues over present rates of $3,063,023 (approximately 1.984%) for KIUC, based on a Regulatory Times Interest Earned Ratio ("TIER") of 2.27 and a test year revenue requirement of $157,420,296. On May 26, 2010, KIUC's interim rates took effect.

In September 2010, the Commission issued its Decision and Order, approving a net increase in revenues of $3,063,023 (approximately 1.98%) for KIUC, based on a Regulatory TIER of 2.27 and a test year revenue requirement of $157,420,296. The practical effect of the Commission's Decision and Order issued is that the Commission-approved interim rates for KIUC remain unchanged and were converted final rates. The Commission also approved certain modifications to the annual patronage capital refund condition by changing the triggering mechanism for refunds to whenever KIUC's patronage capital amount exceeds a reported Rural Utilities Service TIER level of 2.0 for the prior reporting period.

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

In May 2009, the Commission instituted an investigation to examine amendments to the Framework for Integrated Resource Planning that were proposed by the HECO Companies, KIUC, and the Consumer Advocate in a letter filed on April 28, 2009. In that letter, the HECO Companies, KIUC, and the 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.

The Commission held a panel hearing in February 2010. In March 2010, the Commission issued a letter to the parties, listing its inclinations as to what should be contained in the final framework. In August 2010, the Parties filed their proposed frameworks and Opening Briefs. Reply Briefs were due in September 2010. A decision on this matter is pending.

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

On December 1, 2008, the HECO Companies filed an application for approval of an Advanced Metering Infrastructure ("AMI") Project.

After the HECO Companies filed their application, the parties involved in the docket reviewed the application and conducted discovery, filed and submitted their written testimonies, and then conducted more discovery through August 24, 2009, when the HECO Companies submitted their last responses to information requests.

On August 28, 2009, the HECO Companies submitted a letter to the Commission requesting that the evidentiary hearing that was scheduled to be held on September 28, 2009, be delayed to June 21, 2010, as the HECO Companies explained that the "delay will allow the Hawaiian Electric Companies to provide information on their Smart Grid Roadmaps, and how the proposed AMI will facilitate the roadmaps." The Commission approved the HECO Companies' request.

The Commission held a status conference on April 13, 2010, at which time the HECO Companies asked for an opportunity to propose a revised procedural plan for this docket. The HECO Companies were given to May 4, 2010 to do so, and the parties were given to May 11, 2010 to respond.

The HECO Companies filed their revised proposal on May 4, 2010, which proposed that the Commission suspend the remaining procedural steps scheduled in this docket, which included additional discovery and testimony, the re-scheduled evidentiary hearing, and post-hearing briefing, pending the completion of an extended pilot program the HECO Companies then proposed.

The other parties filed their responses as scheduled on May 11, 2010, which included opposition to the HECO Companies' proposal, recommendations that the docket be closed, and that the HECO Companies should be required to submit a more comprehensive smart grid plan or framework for the parties and Commission to review.

Although the Commission was supportive of the "smart grid" and advanced metering infrastructure, on July 26, 2010, the Commission denied the HECO Companies' request filed on May 11, 2010, dismissed the application filed in December 2008, and closed this docket. The Commission, however, dismissed the application without prejudice so HECO may re-submit the application, although the Commission noted that any new AMI or smart grid project should also be preceded by or include an overall smart grid plan or proposal.

g. EAST OAHU TRANSMISSION PROJECT – PHASE 2 MODIFICATION Docket No. 2003-0417

On April 9, 2010, HECO filed an application to modify Phase 2 of the East Oahu Transmission Project ("EOTP"). The purpose of the EOTP, which was originally approved by the Commission on October 19, 2007 in Docket No. 2003-0417, is to address several transmission constraints involving HECO's 138 kilovolt ("kV") transmission system in the East Oahu area.

HECO's proposal to modify Phase 2 of the EOTP involves: (1) the installation of supervisory control and data acquisition ("SCADA") equipment, upgrade/replacement of 46 kV switch operators, and interconnection into existing communication networks at eight distribution substations served by the Pukele Substation; (2) the installation of a 46 kV pole-mounted switch equipped with a motor-operator and SCADA functionality and a pole mounted radio system on existing poles in the McCully area; and (3) the installation and integration of smart grid technology into HECO's Energy Management System. The proposed modifications is designed to improve system reliability by utilizing smart grid technology to automate field devices at the 46 kV level, with the possibility of expanding the reach of the technology into the 12 kV system in the future.

The total estimated cost of the EOTP Phase 2 Modification project is approximately $15.4 million. Federal funding through the Smart Grid Investment Grant Program of the American Reinvestment and Recovery Act of 2009, however, will reduce the project costs to approximately $10.1 million. The Commission issued a Decision and Order on October 19, 2010 approving HECO's request to modify Phase 2 of the EOTP.

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

The HECO Companies filed an application on April 30, 2009 for approval of a two-year PV Host Pilot Program, under which each company would target the installation of 8 MW, 4 MW and 4 MW of PV at HECO, HELCO, and MECO, respectively.

In September 2009, the Commission approved the stipulated procedural order for this docket. The parties conducted several rounds of discovery related to the proposed program. Thereafter, the HECO Companies requested certain modifications to, and extensions of the deadlines in, the stipulated procedural order so that they could amend the PV Host Pilot Program design described in the HECO Companies' April 30, 2009 application to address comments received during the technical and settlement discussion processes in the proceeding. The Commission approved the HECO Companies' extension requests. The HECO Companies filed an amended application on August 31, 2010.

i. 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.

The Consumer Advocate conducted discovery and filed its Statement of Position in December 2009. In February 2010, the Commission issued information requests to the HECO Companies, to which they responded in March 2010.

j. BIOFUEL PROCEEDINGS

During the Fiscal Year, the Commission reviewed and approved the following requests related to the use of renewable biofuels by the HECO Companies' in their existing generating units and HECO's new unit at Campbell Industrial Park.

- **HECO Kahe 3 Biofuel Co-firing Demonstration Project - Docket No. 2009-0155**

  HECO's request to commit funds for the purchase and installation of capital equipment for the Biofuel Co-firing Project, for approval of the biofuel supply contract with Sime Darby Biodiesel SDN BHD, and to include costs in its energy cost adjustment clause.

- **MECO Biodiesel Demonstration Project - Docket No. 2009-0168**

  MECO's request for approval of the biodiesel supply contract with Sime Darby Biodiesel SDN BHD and inclusion of costs in its energy cost adjustment clause.

- **HECO Biodiesel Supply Contract with Renewable Energy Group Marketing & Logistics Group, LLC ("REG") - Docket No. 2009-0353**

  HECO's request for approval of the Biodiesel Supply Contract with REG and inclusion of costs in its energy cost adjustment clause.

k. FUEL SUPPLY CONTRACTS

During the Fiscal Year, the Commission reviewed the following requests to amend the HECO Companies' existing fuel supply contracts:

- **HECO - Chevron Products Company's Low Sulfur Fuel Oil Supply Contract - Docket No. 2009-0346**

  On December 8, 2009, HECO filed an application requesting Commission approval of its proposed Second Amendment to its existing Low Sulfur Fuel Oil ("LSFO") Supply Contract with Chevron Products Company. The proposed Second Amendment essentially renegotiated the pricing formula for LSFO delivered by Chevron to HECO, and shortened the term of the supply contract. On January 28, 2010, the Commission issued an Interim Order approving, on an interim basis, the Second Amendment and HECO's request to include the related costs of the Second Amendment in its Energy Cost Adjustment Clause, to the extent that such costs are not recovered in HECO's base rates. A final decision and order is pending.

- **HECO - Tesoro Hawaii Corporation's Low Sulfur Fuel Oil Supply Contract - Docket No. 2010-0113**

  On June 7, 2010, HECO filed an application requesting Commission approval of its proposed Second Amendment to its existing LSFO Supply Contract with Tesoro Hawaii Corporation ("Tesoro"). The proposed Second Amendment renegotiated the operative price of LSFO delivered by Tesoro to HECO. HECO's application also requests approval of a Pipeline Throughput Contract, which would allow HECO to use Tesoro's pipeline facilities for the transport of fuel. The matter is currently pending.

- **MECO – Lanai Oil Company, Inc.'s Fuel Supply Contract - Docket No. 2010-0105**

  On June 1, 2010, MECO filed an application requesting Commission approval of its proposed Third Amendment to Supply Contract for No. 2 Diesel Fuel with Lanai Oil Company, Inc. The proposed Third Amendment modifies the existing supply contract to allow MECO to purchase ultra low sulfur diesel from Lanai Oil. A final decision and order was issued on October 6, 2010.

l. 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:

- **HECO - Docket No. 2009-0290**

  HECO's request to construct a 46 kV overhead line extension and associated switches to connect two existing 46 kV subtransmissions lines near Campbell Estate Industrial Park.

- **HECO - Docket No. 2009-0042**

  HECO's request for approval to Commit Funds in Excess of $2,500,000 (Excluding Customer Contributions) for Item Y00038, DOT Underground Request, and Kakaako Makai Iwilei 25kV Circuits, and of a Waiver of Rule 13 of Hawaiian Electric's Tariff to Allow Hawaiian Electric to Pay for a Portion of the Underground Conversion Cost for Item P001579, DOT Underground Request.

- **HECO - Docket No. 2008-0321**

  HECO's request for approval to Commit Funds in Excess of $2,500,000 (excluding Customer contributions) for Item Y00118, Beckoning Point Substation and 46kV Circuit.

m. 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 last 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.

- **REVISE RULE 13—LINE EXTENSIONS - Docket No. 2009-0356**

  In August 2010, the Commission approved HECO's request to incorporate into its Tariff Rule 13 its existing Policy on Underground Lines; Cost Contribution for Placing Overhead Distribution Lines Underground/Guideline Summary, and Dedicated and System Substation Guideline. As a result of the Commission's action, HECO, on a going forward basis, will no longer be required to seek a waiver of its Rule 13.D.4 whenever it proposes to pay for a portion of overhead-to-underground conversion costs requested by an entity.

n. COMMISSION APPROVAL OF CAPITAL IMPROVEMENTS

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

During the Commission's 2009-2010 Fiscal Year, HECO was authorized to expend approximately $21 million for its capital improvements. Expenditures include approximately $3.3 million for Beckoning Point Substation and 46 kilovolt ("kV") Circuit, approximately $8.8 million for Converting Existing 12kV Overhead Lines to 25kV Underground Lines along Ala Moana Boulevard from Queen Street to Cooke Street, approximately $4.7 million for Kahe 3 Biofuel Co-firing Demonstration Project and approximately $4.3 million for Waiau 7 Boiler Control System Upgrade Project.

During this fiscal year, HELCO was authorized to expend approximately $8.4 million for Puna Turbine Upgrade Project.

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

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 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.

In April 2010, the Commission issued its final decision and order, approving an increase in revenues of $9,211,450 or approximately 10.67% over revenues at present rates, for TGC based on a rate of return of 8.0 per cent and a total revenue requirement of $95,538,302 for the Test Year (consolidated utility basis).

In June 2010, the Commission approved the Joint Refund Plan that will commence during the July 2010 billing cycle.

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

2. CHAPTER 11 PLAN OF REORGANIZATION OF HAWAIIAN TELCOM, INC. ("HT") AND HAWAIIAN TELCOM SERVICES COMPANY, INC. ("HTSC") Docket No. 2010-0001

In January 2010, HT and HTSC filed an application requesting Commission approval of the Plan of Reorganization ("Plan") of Hawaiian Telcom Communications, Inc. and its debtor affiliates confirmed by the U.S. Bankruptcy Court for the District of Hawaii in In re Hawaiian Telcom Communications, Inc., et al., Case No. 08-02005, including the security arrangements associated with the Plan that directly affect HT and HTSC, to the extent required. In addition, HT and HTSC requests other Commission approvals triggered by HRS Chapter 269, including HRS §§ 269-7, 269-17 and 269-19 to effectuate and carry out the Plan or any portions of the Plan.

The participants of the proceeding (tw telecom of hawaii, l.p. and the International Brotherhood of Electrical Workers, Local 1357) and the Consumer Advocate conducted discovery regarding HT and HTSC's request and filed their position statements on May 10, 2010 and May 6, 2010, respectively. In June 2010, HT and HTSC filed their joint Response/Rebuttal Statement to the Consumer Advocate's and Participants' Position Statements.

In September 2010, the Commission issued its Decision and Order approving applicable portions of the Reorganization Plan. In addition, the Commission approved related financing arrangements to the extent necessary to effectuate and carryout the Reorganization Plan, and required HT and HTSC to adhere to certain regulatory conditions.

In October 2010, the Reorganization Plan was effectuated and HT Communications and its debtor affiliates including HT and HTSC emerged from bankruptcy.

3. TELECOMMUNICATIONS RELAY SERVICES ("TRS") CONTRIBUTION FACTOR AND FUND SIZE MODIFICATION Docket No. 2010-0070

In April 2010, the Commission initiated an investigation to examine whether to modify the TRS carrier contribution factor and fund size for the period July 1, 2010 to June 30, 2011. In May 2010, the Commission approved a contribution factor of 0.0012 for the period July 1, 2010 to June 30, 2011 and established the annual projected TRS fund size at approximately $120,684.

4. 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:

- **NEXTG NETWORKS OF CALIFORNIA, INC., dba NEXTG NETWORKS WEST – Docket No. 2009-0125**
- **SPRINT COMMUNICATIONS COMPANY L.P. - Docket No. 2009-0289**
- **PRIMUS TELECOMMUNICATIONS, INC. - Docket No. 2009-0144**
- **TOTAL CALL INTERNATIONAL, INC., OPEX COMMUNICATIONS, INC., and KDDI AMERICA, INC. - Docket No. 2009-0324**

- **LIGHTYEAR NETWORK SOLUTIONS, LLC - Docket No. 2010-0031**
- **MEGAPATH INC., DSLNET COMMUNICATIONS, LLC and CCGI HOLDING CORPORATION - Docket No. 2010-0076**
- **QWEST COMMUNICATIONS COMPANY, LLC and CENTURYLINK, INC. - Docket No. 2010-0110**

5. COMMISSION RECEIVES NO APPLICATIONS FOR APPROVAL OF CAPITAL EXPENDITURES DURING FISCAL YEAR

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, there were no CIP filings approved by the Commission.

6. T-MOBILE WEST CORPORATION Docket No. 2010-0119

In June 2010, T-Mobile West Corporation ("T-Mobile") filed its application requesting: (1) the Commission's designation as an eligible telecommunications carrier ("ETC") for the purpose of being eligible to receive federal universal service support from the federal universal service fund; and (2) ETC designation for its identified service areas within the State of Hawaii. In October 2010, the Consumer Advocate filed its position statement, and T-Mobile filed its reply position statement. The Parties' proposed decision and order is due in November 2010. The Commission's decision is pending.

E. PRIVATE WATER AND SEWAGE UTILITIES PROCEEDINGS

The Commission regulates 38 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:

- **Hawaiian Beaches Water Company, Inc. - Docket No. 2009-0161**

2. NEW AND AMENDED CPCNS

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

- **North Shore Water Company, LLC - Docket No. 2008-0180**
- **Hawaii Water Service Company, Inc. - Docket No. 2009-0019**

3. MOLOKAI PUBLIC UTILITIES, INC. ("MPU"), WAI'OLA 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, seeking an increase in revenues over present rates of $886,259 (approximately 201.50 per cent) over its present total revenue requirement, based on the July 1, 2009 to June 30, 2010 test year and a rate of return of two per cent.

In May 2010, the Commission issued its Interim Decision and Order, approving an increase in revenues over present rates of $542,724 (approximately 125%) for MPU, based on a total revenue requirement of $976,375. MPU's Phase 1 interim rates took effect on July 1, 2010.

In September 2010, the Commission issued its Decision and Order, approving an increase in revenues over present rates of $548,682 (approximately 126.52%) for MPUC, based on a total revenue requirement of $982,333. MPU's Phase 1 interim rates, which took effect on July 1, 2010, will remain in effect for a six-month period, through December 31, 2010. MPU's Phase 1 final rates will take effect thereafter, from January 1, 2011.

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, Waiʻola 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.

In September 2009, the Commission held a public hearing on Wai`ola's amended application on the island of Molokai. The parties to this proceeding, Wai'ola, the Consumer Advocate, Molokai Properties Limited, and the County of Maui, conducted discovery and filed their respective direct and rebuttal testimonies in this proceeding. On May 19 and 20, 2010, the Commission held an evidentiary hearing regarding the matters of this docket.

On May 28, 2010, the Interim Decision and Order and the Dissenting Opinion of Leslie H. Kondo, Commissioner was issued. In the Interim Decision and Order, the Commission approved, on an interim basis, an increase in revenues over present rates of $241,478 (approximately 223%) for Wai`ola, based on the July 1, 2009 to June 30, 2010 test year, and a total revenue requirement of $329,877. In addition, the Commission approved Wai`ola and the Consumer Advocate's proposal to apply the increase on an "across-the-board, three-step phased-in basis", for interim purposes.

In June 2010, notice was provided to the parties of the availability of the official transcripts triggering the filing of post-hearing pleadings.

6. HAWAII WATER SERVICE COMPANY, INC., RATE INCREASE REQUEST Docket No. 2009-0310

In October 2009, HAWAII WATER SERVICE COMPANY, INC. ("HWSC") gave notice of its intent to file a general rate increase application for its Kaanapali Division.

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.

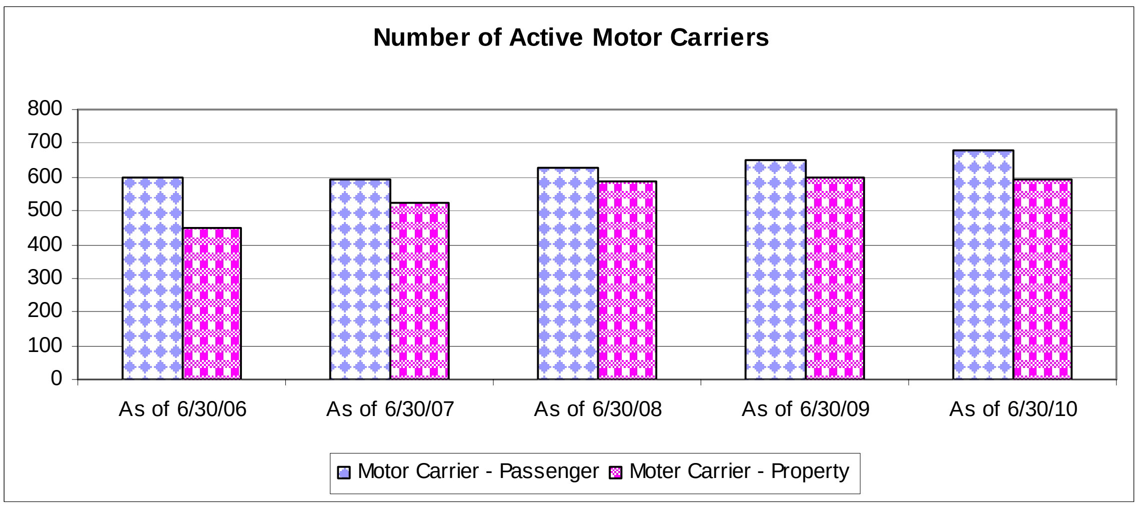
In accordance with its statutory requirements, the Commission performs the following functions in the regulation of motor carriers: (1) certification and licensing; (2) ratemaking; and (3) business regulation. During the Fiscal Year, the Commission issued many new certificates and licenses, reviewed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

a. NEW MOTOR CARRIER CERTIFICATIONS

The Commission regulates 679 passenger carriers and 593 property carriers in the State. During the Fiscal Year, new certificates or permits were issued to 83 motor carriers, 61 passenger carriers and 22 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 2.

Figure 2



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 54 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 six (6)) or ten (10) per cent. Other rate increases ranged from less than two (2) to five (5) per cent. The Commission approved the following motor carrier increases and decreases within the zone:

FISCAL YEAR JULY 09 - JUNE 2010

Rate Changes Within the Ten (10) Percent Zone Limit

Type of Carrier/Company (County)		Rate Increase or (-Decrease)
Dump Truck		
Samson Trucking, Inc	Oahu	10.00%
Tampos Trucking, Inc	Oahu	10.00%
JN Transport, Inc.	Maui	10.00%
Correa Hauling, LLC	Maui	10.00%
Dependable Hawaiian Express, Inc	Hawaii	10.00%
Harris Trucking, Inc.	Oahu	10.00%
ER Ranch & Services, LLC	Maui	10.00%
Diamond B Ranch Trucking, LLC	Maui	10.00%
Moniz Trucking, LLC	Oahu	10.00%
Pacific Commercial Services, LLC	Oahu	10.00%
Erwin & Trinadean Decoite, LLC	Maui	10.00%
Island Lowboy & Trucking, LLC	Maui	10.00%
Ed Yamashiro, Inc.	H,M,L,MO,K	7.25%
General Commodities		
Diamond B Ranch Trucking, LLC	Maui	10.00%
Moniz Trucking, LLC	Oahu	10.00%
Erwin & Trinadean Decoite, LLC	Maui	10.00%
Island Lowboy & Trucking, LLC	Maui	10.00%
Samson Trucking, Inc	Oahu	10.00%
Pomaika'I Transport Services, Inc.	Oahu	1.7-10%
Tri Isle Inc.	Maui	(-10%)
Correa Hauling, LLC	Maui	10.00%
Dependable Hawaiian Express, Inc	Oahu	5-10%
Dependable Hawaiian Express - Big Isle, Inc	Hawaii	6.6- 10%
DHX Maui, Inc	Maui	10.00%
Harris Trucking, Inc.	Oahu	10%
Tri Isle Inc.	Maui	(-4.79%)
Alven Corp.,dba Hawaii Logistic Services	Oahu	7-10%
Xpress Trucking, Inc.	Maui	10%
Safety First Equipment Sales & Rentals, LLC	Oahu	5%
Direct Support Resources, Inc	Oahu	6.5-9%
Alven Corp.,dba Hawaii Logistic Services	Oahu	ref 8-6%, ref 7-(-10%)
Hawaii Transfer Co., Ltd.	Oahu	ref 7-(-10%), ref 8- 6%
Ed Yamashiro, Inc.	H,M,L,MO,K	7.25%
E & A Produce, Inc.	Hawaii	10.00%
International Express, Inc.	Oahu	97.5/100 of 1%
ER Ranch & Services, LLC	Maui	10.00%

Household Goods

Dependable Hawaiian Express, Inc	Maui	6.6-7.7%
John Robert Darrah, dba HI Piano & Moving	Oahu	10%(-10)

Others

None

Break Bulk and Delivery

Tri Isle, Inc. dba Valley Isle Express	Maui	(-10%)
WMTB - Hitco Moving & Storage	Hawaii	8%
WMTB - Hitco Moving & Storage	Hawaii	(-8%)
WMTB - Bering Sea Ecotech	Oahu	1.50%

Passenger

Enoa Corporation	Oahu	5.8-10%
WMTB - R. Fergerstrom Rentals, Inc.	Hawaii	(-5%) flag out
Katherine Barr dba T & C Limo Service	Maui	10%
Carey Hawaii, LLC	Maui	(.2 of 1% to -10%)
RDH Transportation Services, Inc.	Oahu	2-10%
WMTB - Exclusive Inc.	Oahu	2.77-5.53%
WMTB - Jack's Tours, Inc.	Hawaii	10%
Hawaii Forest & Trail	Hawaii	2.16-8.6%

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		
Jaime, Juan Jose, dba Hawaii Airport Shuttle	Oahu	6-33%
Kona Transportation Co., Inc.	Hawaii	(-20%)
WMTB – Speedishuttle LLC	Maui	(-50%)
Property		
C.J. Peterson Services, Inc.	Oahu	20.00%

2. WATER CARRIERS

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

In May 2010 the Commission authorized the continuation of the Zone of Reasonableness Program for an additional three-year period, until April 9, 2013, subject to: (1) the adjustments to the Zone set forth in the Parties' Stipulation, filed on December 4, 2009; and (2) the reporting requirements set forth herein. The Commission, during the late 2012-early 2013 time period, intends to review anew whether it is the public interest to continue with the Zone for Young Brothers. Lastly, notwithstanding the Commission's decision to continue the Zone for a three-year period until April 9, 2013, the Commission reserves the right, at any time to: (1) review and adjust the Zone of Reasonableness or its applicable requirements; and (2) terminate the Zone, upon finding that the Zone is no longer consistent with the public interest.

b. PASHA HAWAII TRANSPORT LINES LLC'S REQUEST FOR A CPCN Docket No. 2009-0059

In March 2009, Pasha Hawaii Transport Lines LLC ("Pasha") filed an application for the issuance of a CPCN to operate as a water carrier of property between and among the island of Oahu, Maui, Hawaii, and Kauai, and for approval of its proposed Local Tariff No. 1 for such water carrier service. Pasha currently operates a roll-on/roll-off car and truck liner service between San Diego, California and Hawaii, and is seeking to expand its existing interstate operations to include inter-island water carrier service.

On September 20, 2010, the Commission issued an Interim Decision and Order authorizing Pasha to operate as a water carrier of property between and among the ports of Honolulu, Kahului, Hilo, Nawiliwili, Barbers Point, and Pearl Harbor on an interim basis until December 31, 2013. During the interim operational period, the Commission and the Consumer Advocate will monitor Pasha's operations, including its intrastate revenue, cargo volume, and cost support data, and evaluate the impact of Pasha's operations on the State's inter-island shipping industry and the public interest. Following further proceedings, the Commission will issue a final decision and order regarding Pasha's request for a CPCN.

G. DOCKET PROCEEDINGS

As of July 1, 2009, 271 pending dockets were carried over from prior years, and 330 new dockets were opened during the Fiscal Year. Thus, during the Fiscal Year, a total of 601 dockets were before the Commission for review and consideration. Of the 601 dockets, 448 or approximately 75 per cent of the dockets were completed by the end of the Fiscal Year.

As of June 30, 2010, 153 dockets were pending, including 51 dockets carried over from years prior to the Fiscal Year and 102 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 2007-08, 2008-09, and 2009-10

	Fiscal Year (July 1 - June 30)		
Dockets Pending on July 1	**2007-08**	**2008-09**	**2009-10**
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

DOCKETS FILED, COMPLETED, AND PENDING
FISCAL YEARS 2007-08, 2008-09, and 2009-10

New Dockets Opened in Fiscal Year	**2007-08**	**2008-09**	**2009-10**
Utilities			
Electric	32	32	33
Gas	2	0	1
Telecommunications	51	47	57
Private Water/Sewer	30	12	5
Subtotal	115	91	96
Transportation			
Motor Carriers	249	240	233
Water Carriers	6	7	1
Subtotal	255	247	234
Petroleum	0	0	0
One Call Center	0	0	0
Total	370	338	330

Dockets Completed in FY	**2007-08**	**2008-09**	**2009-10**
Utilities			
Electric	10	28	42
Gas	0	0	1
Telecommunications	37	41	77
Private Water/Sewer	16	9	22
Subtotal	63	78	142
Transportation			
Motor Carriers	248	238	302
Water Carriers	4	7	4
Subtotal	252	245	306
Petroleum	0	0	0
One Call Center	0	1	0
Total	315	324	448

DOCKETS FILED, COMPLETED, AND PENDING
FISCAL YEARS 2007-08, 2008-09, and 2009-10

Dockets Pending on June 30	2007-08	2008-09	2009-10
Utilities			
Electric	58	62	53
Gas	2	2	2
Telecommunications	25	31	11
Private Water/Sewer	24	27	10
Subtotal	109	122	76
Transportation			
Motor Carriers	142	144	75
Water Carriers	5	5	2
Subtotal	147	149	77
Petroleum	0	0	0
One Call Center	1	0	0
Total	257	271	153

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 137 written informal complaints in the Fiscal Year against regulated and unregulated utility and transportation companies. Complaints on Oahu amounted to 92 out of 137 complaints statewide, or 67 per cent of the total complaints.

Total Informal Complaints	**2007-08**	**2008-09**	**2009-10**
Utilities			
Telecommunications:			
Wire line (telephone)	176	51	27
Cellular and Paging	51	28	36
Other	33	0	7
Total Telecom	260	79	70
Electricity	104	52	31
Gas	11	10	7
Water/Sewer	14	13	6
Transportation Carriers			
Water Carrier	6	1	1
Motor Carrier	92	18	22
Total Complaints	487	173	137

For all islands, the Commission received 63 written informal and verbal complaints involving telecommunications providers. The majority of telecommunications complaints (27) related to Hawaiian Telcom. These complaints mainly involved service problems, mostly relating to interruptions, repairs, and installations. The cellular and paging companies received 36 complaints, mostly relating to billing problems (service contracts and charges).

The electric utilities received 31 complaints, mostly relating to billing problems (high consumption). The 7 complaints against gas utilities were mostly relating to service and billing problems. The 6 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 22 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 24 responses to its informal complaint survey. Figure 3 to 6 show the results of the survey.

Informal Complaint Survey

Figure 3

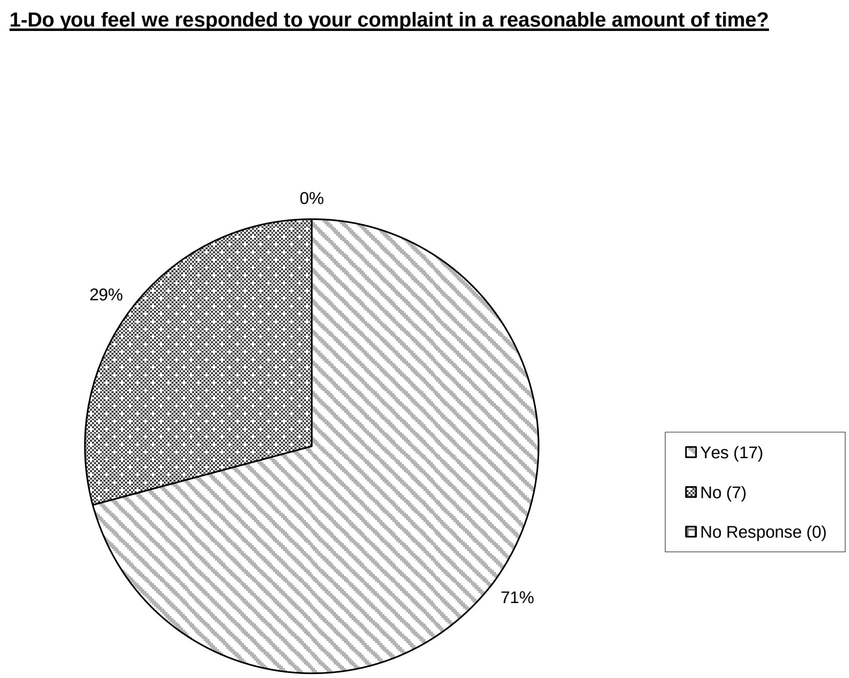


Figure 4

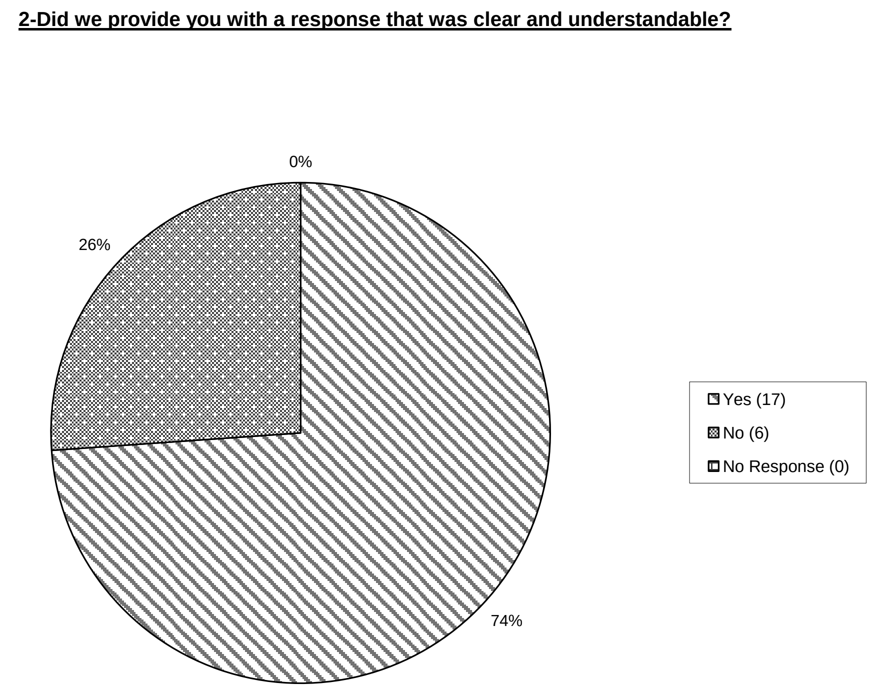


Figure 5

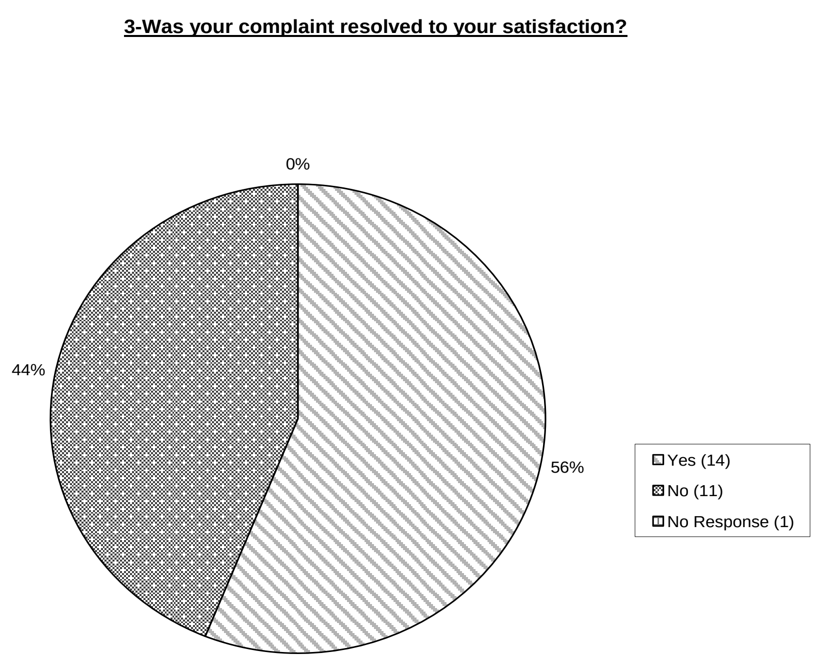
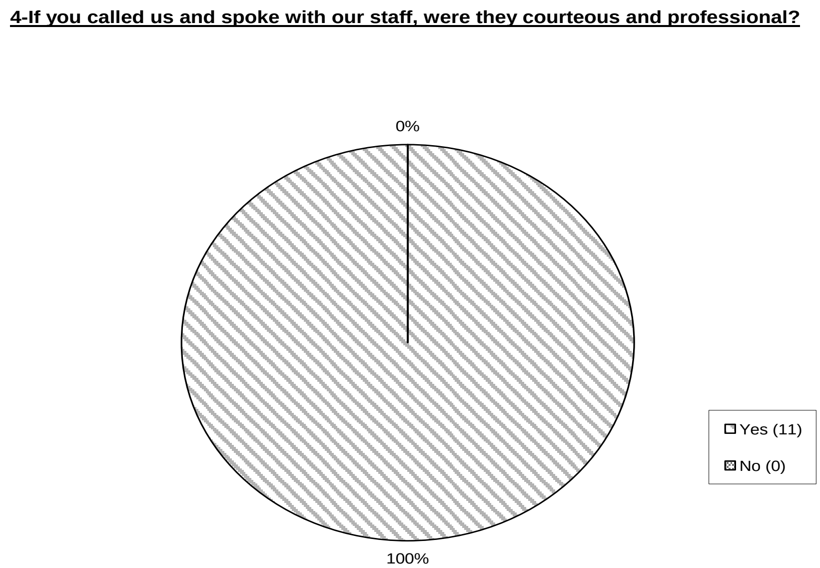


Figure 6



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~~ $69,100.[*] The Commission enforcement officers issued 16 motor carrier citations on the following islands: Oahu (14) and Hawaii (2).

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

[*]Updated as of January 26, 2011.

Total Inquiries Fiscal Year	2007-08	2008-09	2009-10
Utilities:			
Telecommunications	145	239	103
Electric	114	428	50
Gas	31	28	76
Water/Sewer	30	25	56
Transportation Carriers:			
Property Motor Carrier	591	431	380
Passenger Motor Carrier	506	404	67
General Motor Carrier	116	42	0
Water Carrier	42	17	77
Petroleum	1	4	3
One Call Center	0	0	0
General Regulated & Unregulated	58	0	0
Total Inquiries	1,634	1,618	809

VIII. 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, 2011. The Commission is in the process of sending out a Request for Proposal (RFP) to contract for the future operation of the One Call Center.

The Committee was established by the Commission under Chapter 269E, HRS to advise the Commission in implementing the One Call Center. The Committee consists of 18 members appointed by the Commission from various sectors of the utility industry and government. In the FY 2010, the Advisory Committee held three meetings to deliberate on a variety of issues regarding the One Call Center. In May 2010, the One Call Concepts held training seminars on

Oahu, Maui, Kauai and the Island of Hawaii. The training seminars educated participants in the many facets of the One Call Center law including notification of excavation, marking of excavation sites, identification of subsurface installations by operator, excavation procedures and more. There were approximately 200 participants who attended the training seminars. To supplement Chapter 269E with new administrative rules, the Committee is currently reviewing a draft of the rules. Subsequent to Commission approval, there will be a public hearing process for input and comments from interested parties on the draft rules.

IX. PETROLEUM INDUSTRY MONITORING

A. WEEKLY REPORTS

On May 28, 2010, Governor Linda Lingle signed into law Act 152, which establishes the Energy Industry Information Reporting Act ("EIIRA") and repeals the Petroleum Industry Monitoring, Analysis and Reporting ("PIMAR") Program, effective July 1, 2010. The EIIRA will require refiners and distributors to report monthly to the Research and Economic Analysis Division of the Department of Business, Economic Development, and Tourism.

Act 152, however, does not affect the statutory requirements under HRS § 486J-2. As a result, every distributor, as defined in HRS § 486J-1, and any person before becoming a distributor, shall continue to register with the Commission. Each distributor is required to submit an updated registration form to the Commission annually, beginning July 1, 2010. The registration form is available on the Commission's website.

Pursuant to HRS Chapter 486J, on a weekly basis, beginning September 5, 2007 and continuing until June 30, 2010, the Commission collected confidential petroleum industry data and information from distributors and major fuel users as part of the PIMAR Program. The weekly PIMAR reports that the Commission received from reporting entities included 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 was filed under confidential seal by the reporting entities under confidential protective order and 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.[4]

Under the law, the Commission was required to report to the public, using the best readily available technology, the information contained in the reports that were collected, within fourteen (14) days of receipt of the reports. Each PIMAR Weekly Report published by the Commission included a compilation and aggregation of data and information that reporting entities filed with the Commission in their weekly submissions.

The PIMAR Weekly Report included 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 were collected in time series format in a Microsoft Excel (.xls) file also available on the Commission website.

[4]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.

B. ANNUAL REPORT TO THE LEGISLATURE

As required by statute, the Commission annually published and submitted to the governor and legislature a summary report on the information submitted to it by distributors, as defined in HRS § 486J-1. In December 2009, the Commission presented its third report to the legislature on the petroleum industry in Hawaii. This report, "2009 Report on the Hawaii Petroleum Market under the Petroleum Industry Monitoring, Analysis and Reporting (PIMAR) Program" ("ICF Report"), prepared by consultant ICF International ("ICF"), analyzed available petroleum industry data based on criteria set forth in HRS, Chapter 486J, as provided under HRS § 486J-5.1

The report focused directly on the analysis and the key findings on the impact on Hawaii consumers in the very volatile 2008-2009 time period in global oil markets. 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.

C. PETROLEUM DATABASE

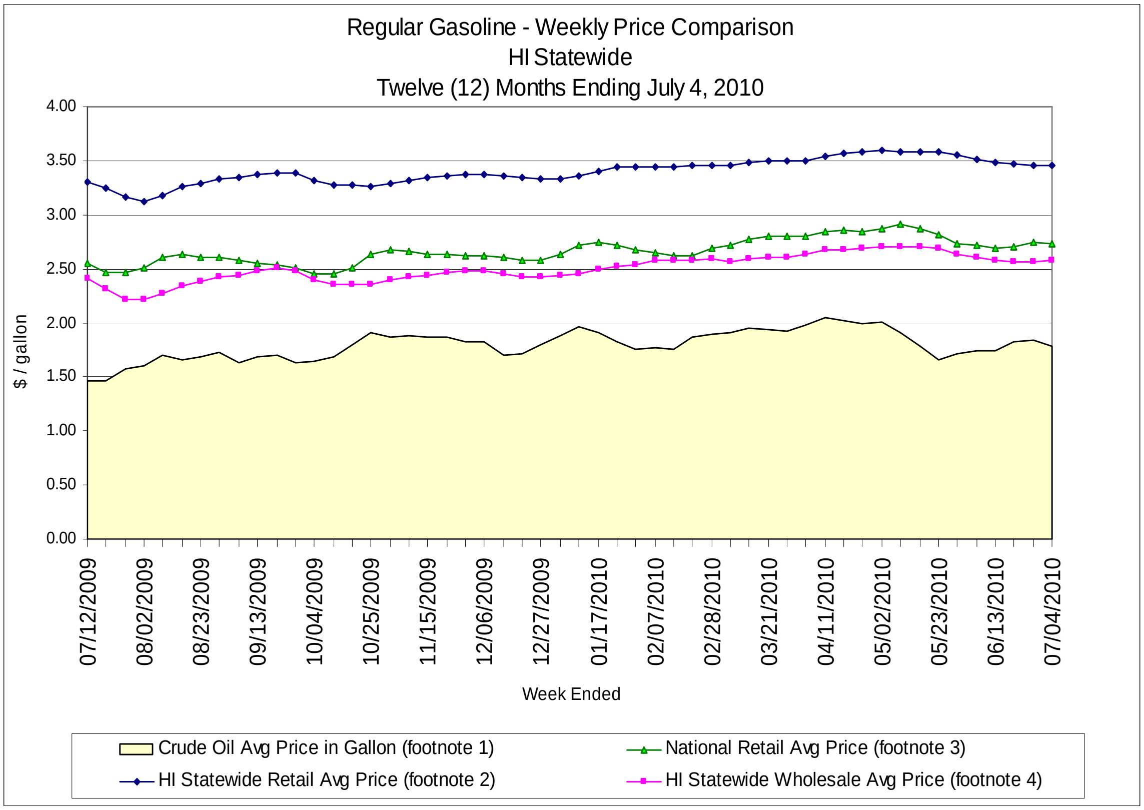
All of the data and information to be collected under the PIMAR Program was input and maintained by Commission staff into a Microsoft Access database, through which staff (and its consultants) reviewed and analyzed the data. Meanwhile, the Commission continued to move forward in its efforts to develop 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 was still working with ICF to build the database when the PIMAR program was repealed by Act 152. Performance on that contract was subsequently stopped by the Commission due to the repeal of the PIMAR program.

D. GASOLINE TRANSACTION DATA

To help inform gasoline consumers and others, the Commission has been using transaction-specific gasoline data (collected under the authority of the PIMAR program) and other data to create graphs for viewing on its website. These graphs provide non-confidential statewide and Hawaii zone 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 7 is an example of the information and graphs that are available to the public on the Commission's website at: http://puc.hawaii.gov/industries/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.

Figure 7



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 $20,325,575 in public utility fees and $1,262,806 motor carrier fees, respectively. The total revenues of the Commission's Special Fund were $21,782,763

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 $9,569,891 for personnel services and other current expenses as shown in the table below. Allotments for the Commission's personnel services expenses were $4,304,918 for 51 authorized permanent positions. The Commission was allotted $5,264,973 for other current expenses. The Commission's other current expenses allotment included $2,169,331 that was transferred to the Consumer Advocate to cover its operating expenses.

	FY 2009-10 Appropriation	FY 2009-10 Allotment
Personnel Services	$ 4,304,918	$ 3,977,363
Other Current Expense	5,264,973	5,264,973
Total	$9,569,891	$9,242,336

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 $14,694,267, from the Special Fund was transferred to the general fund. This excess balance amount includes the balance of the moneys appropriated through Act 162, SLH 2009 (2009 Appropriations Act).

XI. UTILITY COMPANY OPERATIONS, CAPITAL IMPROVEMENTS, AND RATES

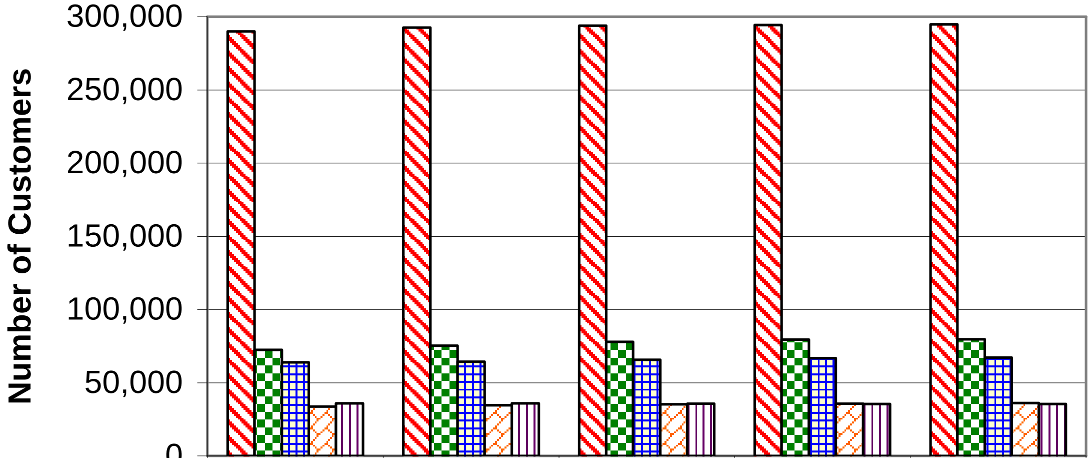
A. UTILITY COMPANY OPERATIONS

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 2005 – 2009 time period, as shown in Figure 8.[5]

[5]Sources: HECO 2009 Service Reliability Report, MECO 2009 Service Reliability Report, HELCO 2009 Service Reliability Report, TGC Annual Reports and KIUC Annual Report to the PUC.

Figure 8
Number of Electric and Gas Utility Customers
2005 - 2009

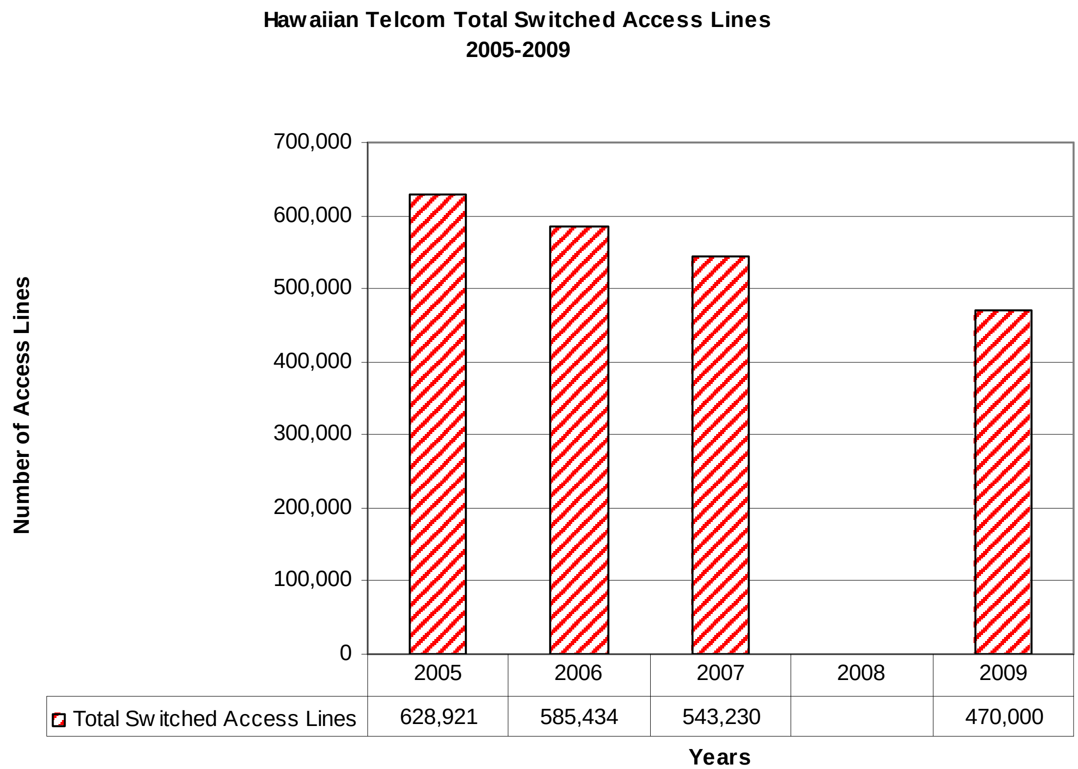


	2005	2006	2007	2008	2009
HECO	289,972	292,554	293,893	294,371	294,802
HELCO	72,513	75,353	77,933	79,386	79,679
MECO	63,901	64,405	65,728	66,810	67,126
KIUC	33,772	34,671	35,207	35,713	36,004
TGC	35,977	35,820	35,681	35,463	35,401

Annual Periods

As shown in Figure 9, 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 five (5) years.[6] This decrease is believed to be due primarily to loss of business customers to competitors and increased competition from wireless telecommunications carriers and cable modem service (which does not require telephone lines for dial-up internet access).

Figure 9



*Note: Due to the Protective Order in Hawaiian Telcom, Inc.'s Chapter 11 Bankruptcy proceeding, the 2008 switched access lines count is not disclosed.

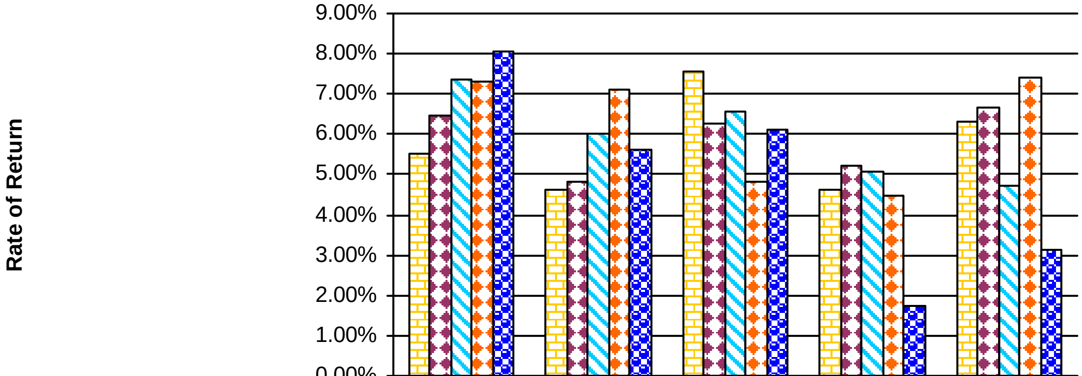
[6] Hawaiian Telcom's ARMIS Operating Data Reports (FCC Report 43-09) for 2005 through 2009.

2. RATES OF RETURN EARNED BY UTILITY COMPANIES

Each regulated utility is entitled to an opportunity to earn a fair rate of return. Figure 10 summarizes the recent history and trends of rates of return earned by the various regulated utilities.

Figure 10

Utility Rate of Return Five Year Comparison

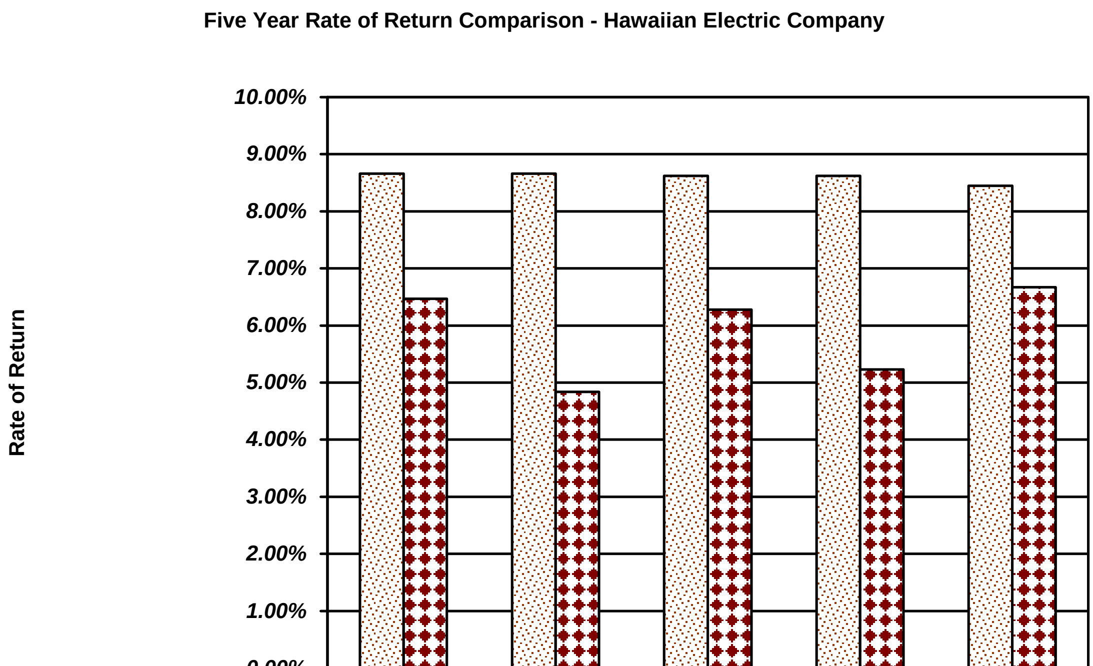


	Jun '06	Jun '07	Jun '08	Jun '09	Jun '10
Haw aii Electric Light Company, Inc_	5.54%	4.64%	7.55%	4.63%	6.33%
Haw aiian Electric Company, Inc_	6.47%	4.84%	6.28%	5.23%	6.67%
Maui Electric Company, Ltd_	7.35%	6.00%	6.55%	5.08%	4.73%
The Gas Company, LLC	7.30%	7.10%	4.80%	4.50%	7.40%
Young Brothers, Ltd_	8.06%	5.64%	6.14%	1.76%	3.15%

12 MTD Ended June 30

As shown in Figures 11 to 13 and 15 to 16, 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 14 shows KIUC's TIER for the past five (5) years.

Figure 11

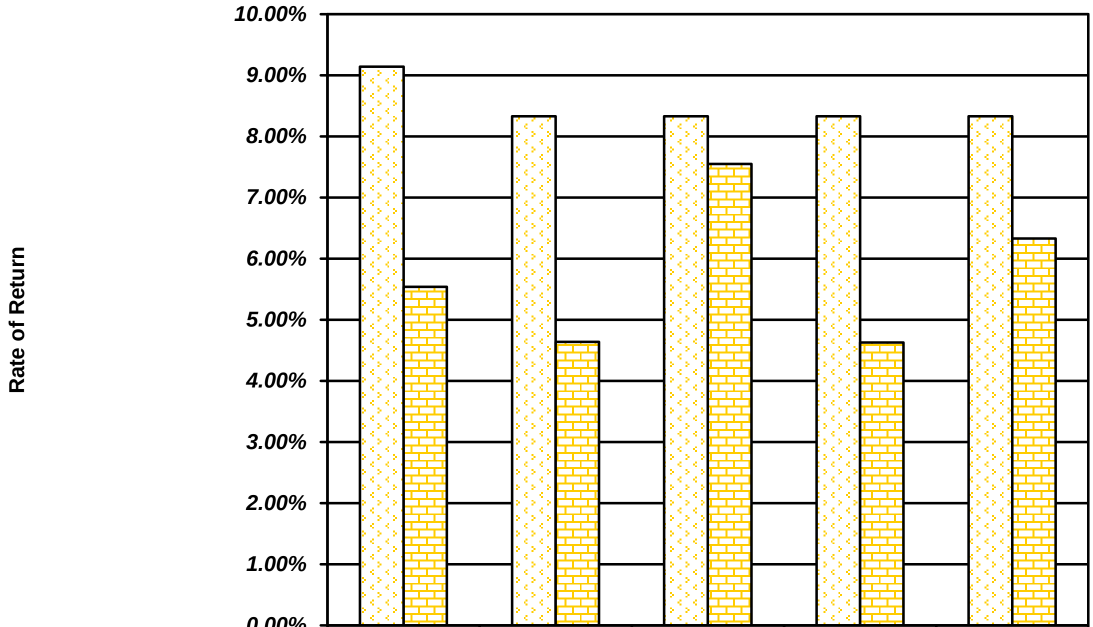


	Jun '06	Jun '07	Jun '08	Jun '09	Jun '10
Authorized Rate of Return	8.66%	8.66%	8.62%	8.62%	8.45%
Rate of Return	6.47%	4.84%	6.28%	5.23%	6.67%

12 MTD Ended June 30

Figure 12

Five Year Rate of Return Comparison - Hawaii Electric Light Company, Inc.



	Jun '06	Jun '07	Jun '08	Jun '09	Jun '10
Authorized Rate of Return	9.14%	8.33%	8.33%	8.33%	8.33%
Rate of Return	5.54%	4.64%	7.55%	4.63%	6.33%

12 MTD Ended June 30

Figure 13

Five Year Rate of Return Comparison - Maui Electric Company, Ltd.

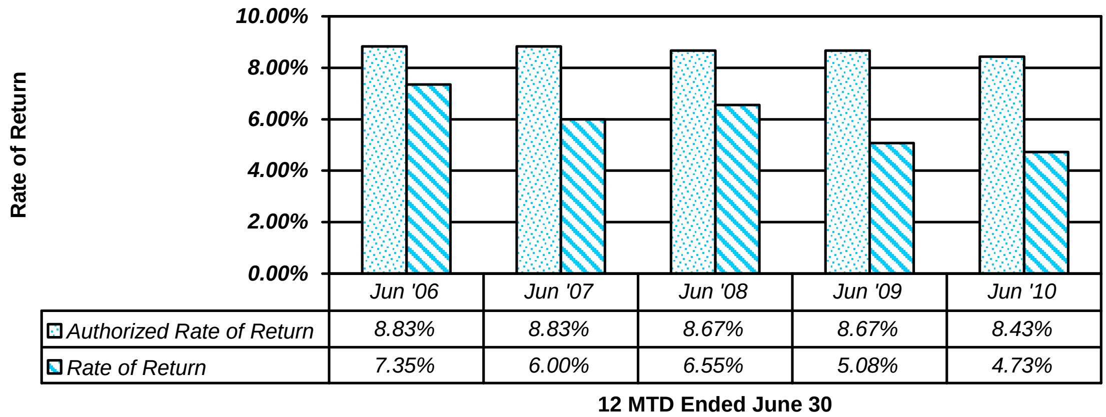


Figure 14

Five Year TIER Comparison - KIUC

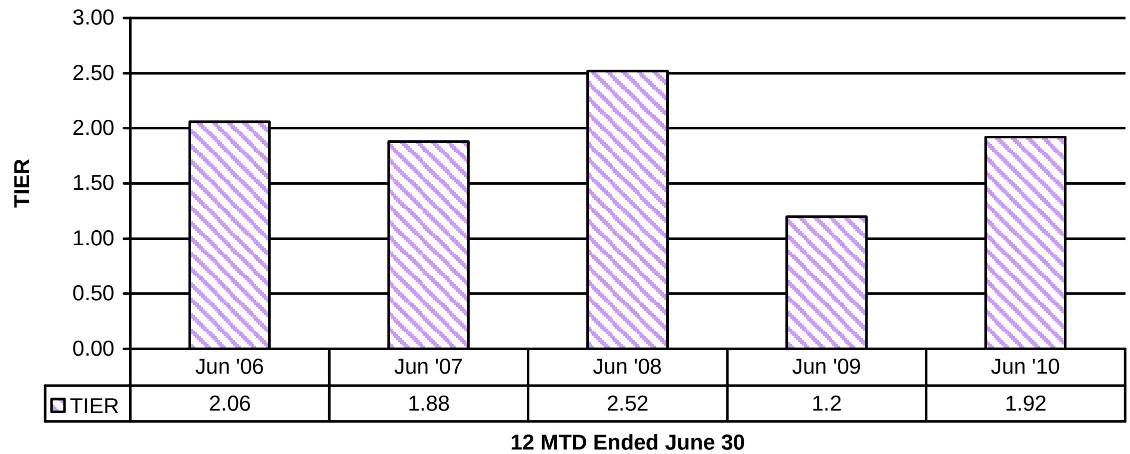
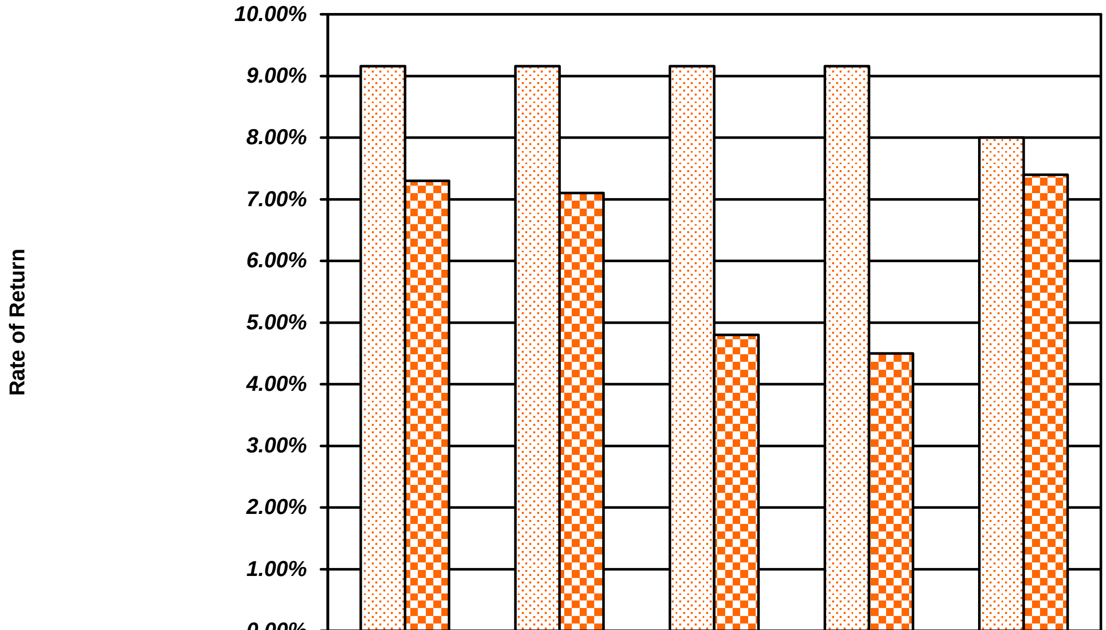


Figure 15

Five Year Rate of Return Comparison - The Gas Company, LLC

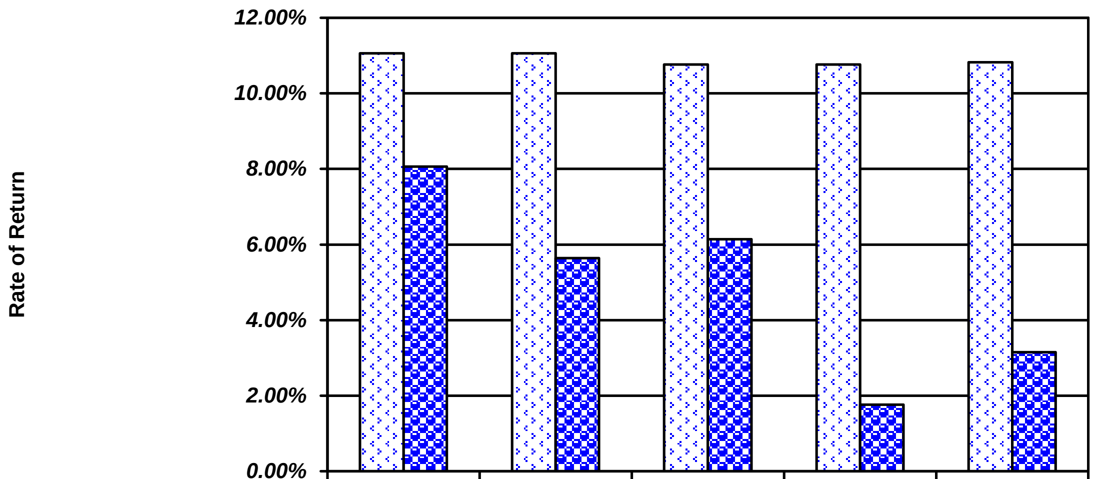


	Jun '06	Jun '07	Jun '08	Jun '09	Jun '10
Authorized Rate of Return	9.16%	9.16%	9.16%	9.16%	8.00%
Rate of Return	7.30%	7.10%	4.80%	4.50%	7.40%

12 MTD Ended June 30

Figure 16

Five Year Rate of Return Comparison - Young Brothers, Ltd.



	Jun '06	Jun '07	Jun '08	Jun '09	Jun '10
Authorized Rate of Return	11.06%	11.06%	10.76%	10.76%	10.82%
Rate of Return	8.06%	5.64%	6.14%	1.76%	3.15%

12 MTD Ended June 30

B. FORECASTED CAPITAL IMPROVEMENTS

1. ELECTRIC UTILITY CIPs

The total 2010 capital expenditure budget forecasted for HECO is approximately $164 million. The Capital Improvement Projects ("CIPs") in HECO's 2010 budget exceeding one million dollars include the construction of the East Oahu Transmission, Mobile Radio Replacement, Kakaako Makai 25 DL, First Wind, Whitmore Substation for NCTAMS, Beckoning Point Substation, Mamala Phase 5, Spare 48/8 MVA Transmission Substation Transformer #2, Pukele Civil Structural Architectural Infrastructure, School Street SS Cable Replacement, Iwilei SS Cable Replacement, Kalanianaole Highway, Keahole Street 12 kV Underground, Halawa SS Access Road, Corrective Miscellaneous Cable Replacement, Preventive Miscellaneous Cable Failure Replacement, Preventive Overhead Distribution Replacement, Vehicle Purchases, Preventive Overhead Subtransmission Replacement, Corrective Overhead Distribution Replacement, Minor Distribution Substation Additions, Preventive Overhead Transmission Replacement, and Minor Transmission & Distribution System.

The total 2010 capital expenditure budget forecasted for HELCO is approximately $59 million. HELCO's more than one million dollars CIPs for 2010 include Hokukano Substation, Purchase of Transformers and Related Equipments, Poleline Replacement, and Relocation, minor overhead extensions, Minor Overhead Services, Unforeseeable Underground Customer Requests, Unforeseeable Overhead Customer Requests, Minor Underground Services, Unit Substation Purchase, Puna Turbine Upgrade, Keahole Noise Mitigation, PV Installations, Replacement of Heavy trucks, and PV Host Pilot Project.

The total 2010 capital expenditure budget forecasted for MECO is approximately $45 million. The CIPs more than one million dollars in MECO's 2010 budget include 6th Increment Distribution Rebuild, Wailea Underground System Upgrade Circuit 1517, Underground Services & Extensions, Transformers & Related Equipment, Other

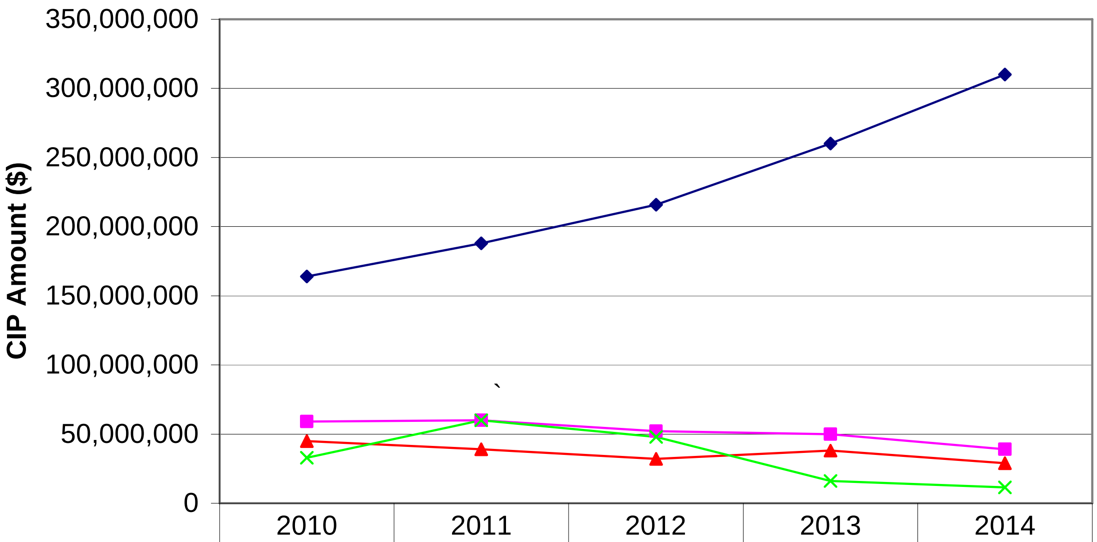
Overhead Additions, M19 Control System Interface, Photovoltaic Host Program, and Kahului Base Yard Engineering Photovoltaic.

The total 2010 capital expenditure budget forecasted for KIUC is nearly $33 million. KIUC's CIP with budget of one million dollars or above for 2010 include State Department of Transportation – Kaumualii Highway Widening (Lihue and Maluhia Junction), Kumanu Substation, Gas Turbine 2 (GT-2) Rotor Replacement, New Radio System, Advanced Metering Infrastructure, AMI Meters, and Battery Energy Storage System (BESS).

Figure 17 shows the five (5)-year capital expenditure budget forecast for HECO, HELCO, MECO, and KIUC.

Figure 17

Electric Utilities Five-Year Capital Expenditures Forecast



	2010	2011	2012	2013	2014
HECO	164,000,000	188,000,000	216,000,000	260,000,000	310,000,000
HELCO	59,000,000	60,000,000	52,000,000	50,000,000	39,000,000
MECO	45,000,000	39,000,000	32,000,000	38,000,000	29,000,000
KIUC	32,797,300	59,978,800	47,887,300	16,053,800	11,542,900

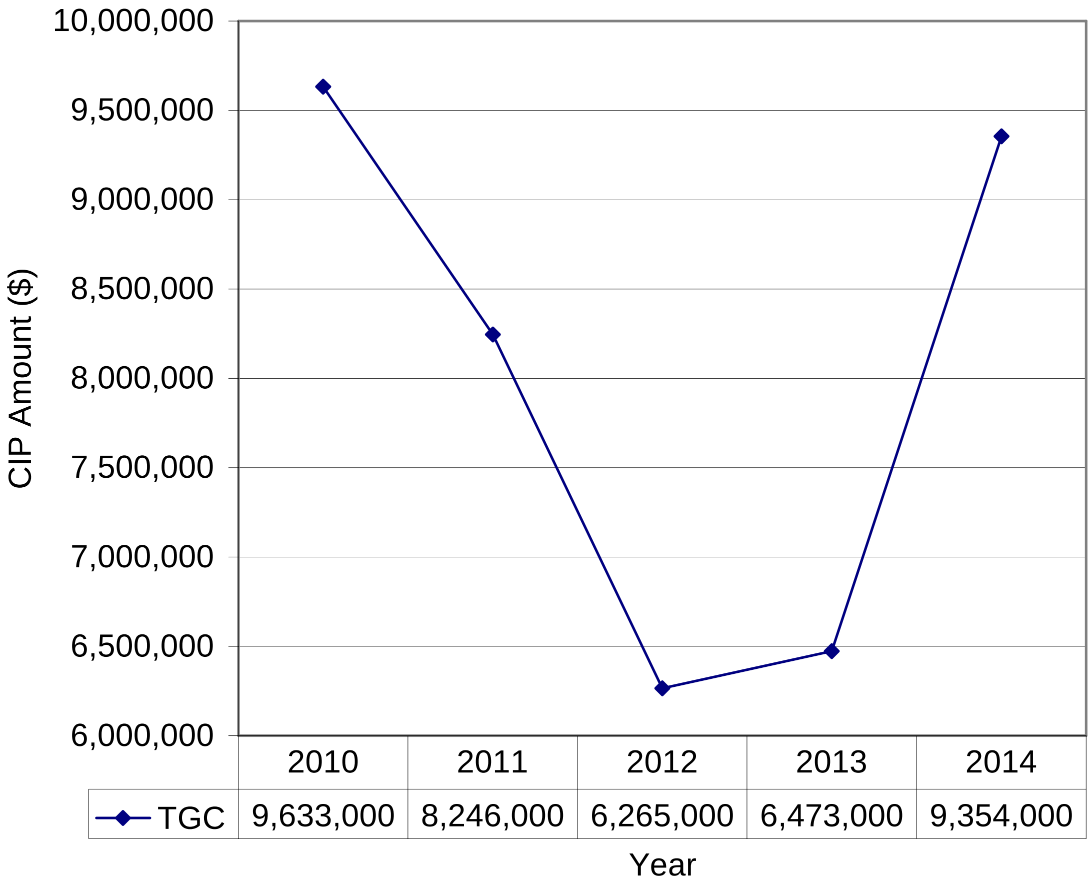
Year

2. GAS CIPs

The total 2010 capital expenditure budget forecasted for TGC is approximately $9.6 million. The projects in the TGC 2010 budget higher than one million dollars include utility main pipeline renewal, 2008-11BV-5011 Installation of New 16" Line at Campbell Industrial Park, and Renewable Energy Project on Oahu.

Figure 18 shows the five (5)-year capital expenditure budget forecast for TGC.

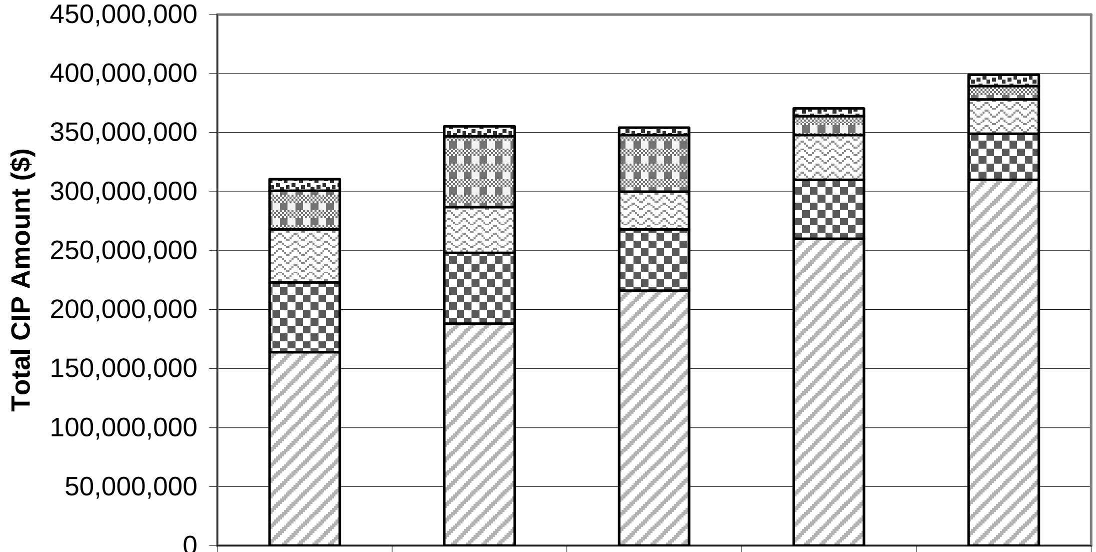
Figure 18
TGC Five-Year Capital Expenditures Forecast



FORECASTED UTILITY CIP EXPENDITURES

Figure 19 shows the total five (5)-year capital expenditures forecast for the electric and gas utilities.

Figure 19
Total Capital Expenditures – Forecasted



	2010	2011	2012	2013	2014
TGC	9,633,000	8,246,000	6,265,000	6,473,000	9,354,000
KIUC	32,797,300	59,978,800	47,887,300	16,053,800	11,542,900
MECO	45,000,000	39,000,000	32,000,000	38,000,000	29,000,000
HELCO	59,000,000	60,000,000	52,000,000	50,000,000	39,000,000
HECO	164,000,000	188,000,000	216,000,000	260,000,000	310,000,000
Total CIP	310,430,300	355,224,800	354,152,300	370,526,800	398,896,900

Year

C. RATES OF MAJOR UTILITY COMPANIES

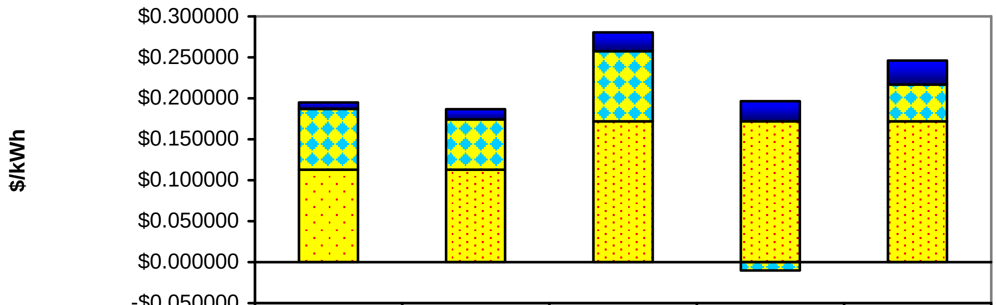
Generally, base rates for most regulated utilities have not changed over the past several years. However, variable components of rates, such as energy rate adjustment factors, have changed the overall amounts billed to utility customers. As such, the following information on electricity rates reflect the increase in oil prices to over $140 per barrel in July 2008, and subsequent reduction.

1. ELECTRICITY RATES

In Figures 20 to 25, the electricity rates consist of the base energy rate plus the energy rate adjustment clause ("ERAC") and other adjustments.[7] The total of the base energy rate and the ERAC is referred to herein as the "Effective Energy Rate."

Figure 20

HECO Five Year Comparison of Residential Base Rates, ERAC, and Other Adjustments



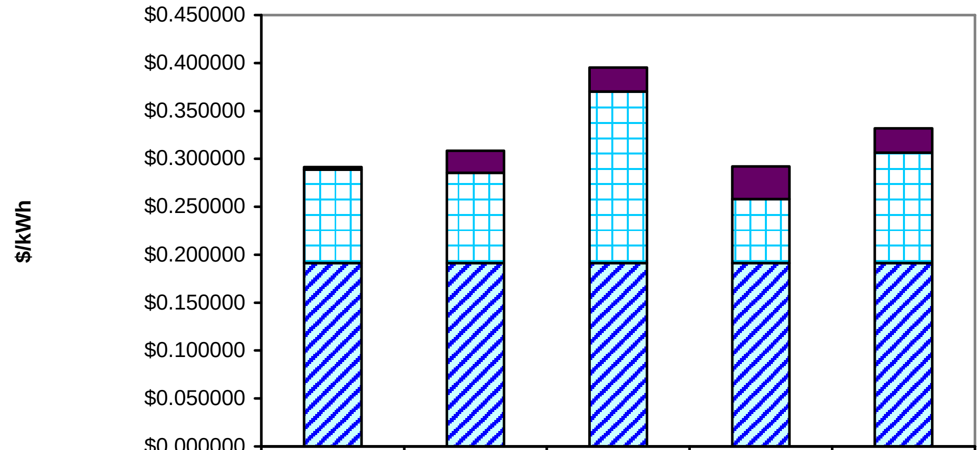
	Jun '06	Jun '07	Jun '08	Jun '09	Jun '10
Other Adjustments	$0.007652	$0.012399	$0.023277	$0.024682	$0.029209
ERAC	$0.074210	$0.061420	$0.085360	-$0.010250	$0.045050
Base Rates	$0.112954	$0.112954	$0.171896	$0.171896	$0.171896
Total	$0.194816	$0.186773	$0.280533	$0.186328	$0.246155

Year

[7] 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 21

HELCO Five Year Comparison of Residential Base Rates, ERAC, and Other Adjustments

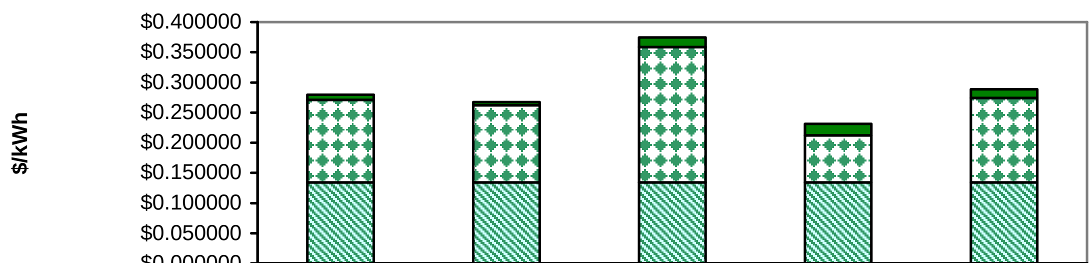


	Jun '06	Jun '07	Jun '08	Jun '09	Jun '10
Other Adjustments	$0.002694	$0.023022	$0.025006	$0.033998	$0.025428
ERAC	$0.097320	$0.093950	$0.178710	$0.066700	$0.114970
Base Rates	$0.191370	$0.191370	$0.191370	$0.191370	$0.191370
Total	$0.291384	$0.308342	$0.395086	$0.292068	$0.331768

Year

Figure 22

MECO - Maui Division Five Year Comparison of Residential Base Rates, ERAC, and Other Adjustments

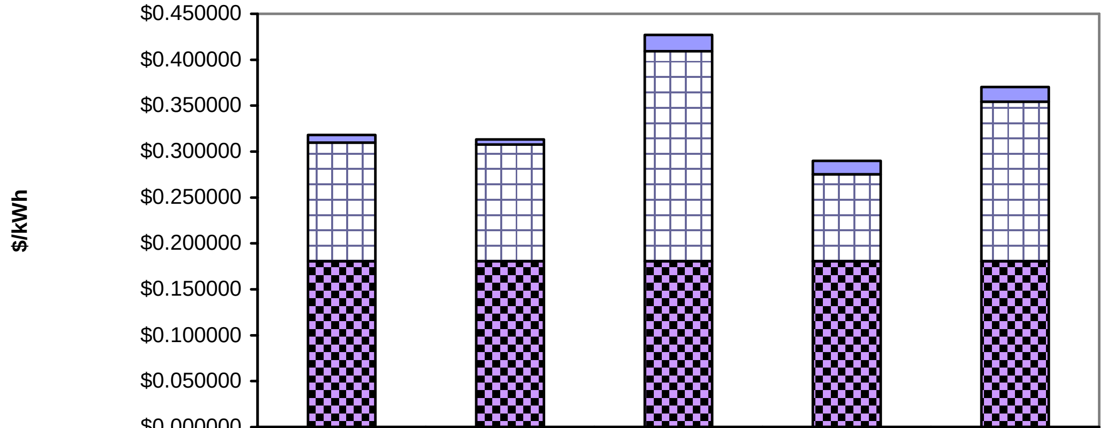


	Jun '06	Jun '07	Jun '08	Jun '09	Jun '10
Other Adjustments	$0.008311	$0.005237	$0.015796	$0.019317	$0.014491
ERAC	$0.136800	$0.127920	$0.224320	$0.077850	$0.139920
Base Rates	$0.134231	$0.134231	$0.134231	$0.134231	$0.134231
Total	$0.279342	$0.267388	$0.374347	$0.231398	$0.288642

Year

Figure 23

MECO - Lanai Division Five Year Comparision of Residential Base Rates, REAC, and Other Adjustments

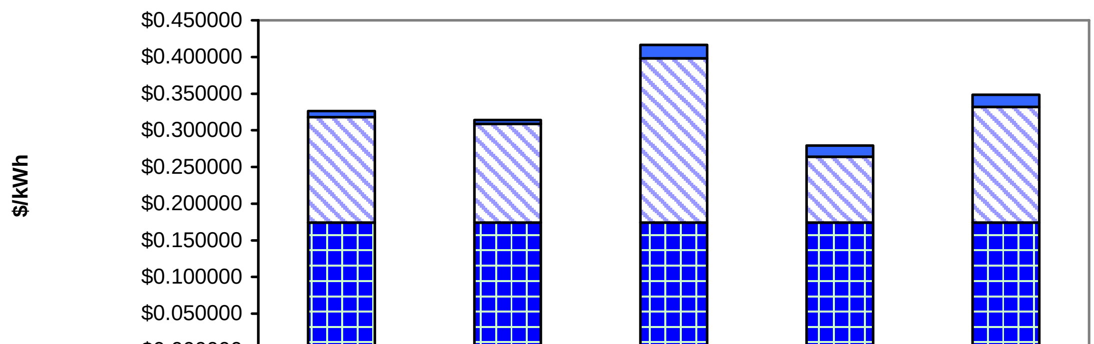


	Jun '06	Jun '07	Jun '08	Jun '09	Jun '10
Other Adjustments	$0.008542	$0.005429	$0.017420	$0.014611	$0.016014
ERAC	$0.128950	$0.127060	$0.228800	$0.094800	$0.173740
Base Rates	$0.180648	$0.180648	$0.180648	$0.180648	$0.180648
Total	$0.318140	$0.313137	$0.426868	$0.290059	$0.370402

Year

Figure 24

MECO - Molokai Division Five Year Comparision of Residential Base Rates, ERAC, and Other Adjustments

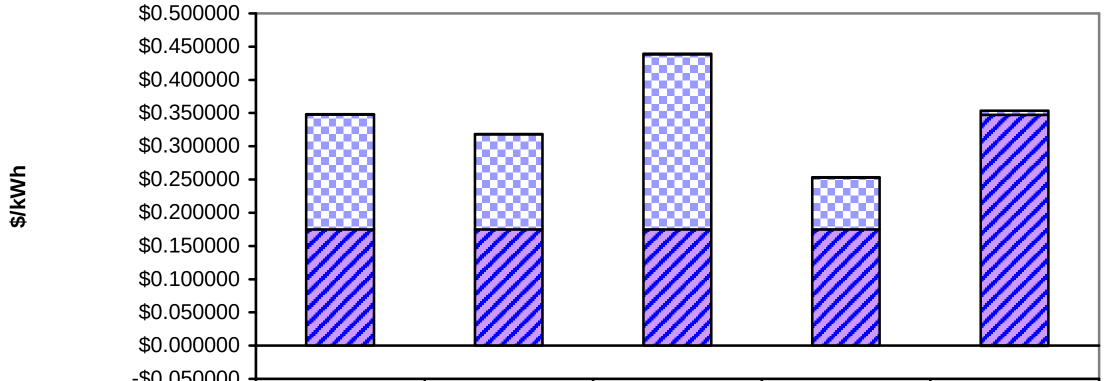


	Jun '06	Jun '07	Jun '08	Jun '09	Jun '10
Other Adjustments	$0.008356	$0.005330	$0.018015	$0.015250	$0.016653
ERAC	$0.143600	$0.134330	$0.223920	$0.089430	$0.157610
Base Rates	$0.174383	$0.174383	$0.174383	$0.174383	$0.174383
Total	$0.326339	$0.314043	$0.416318	$0.279063	$0.348646

Year

Figure 25

KIUC Five Year Comparision of Residential Base Rate, ERAC, and Other Adjustments



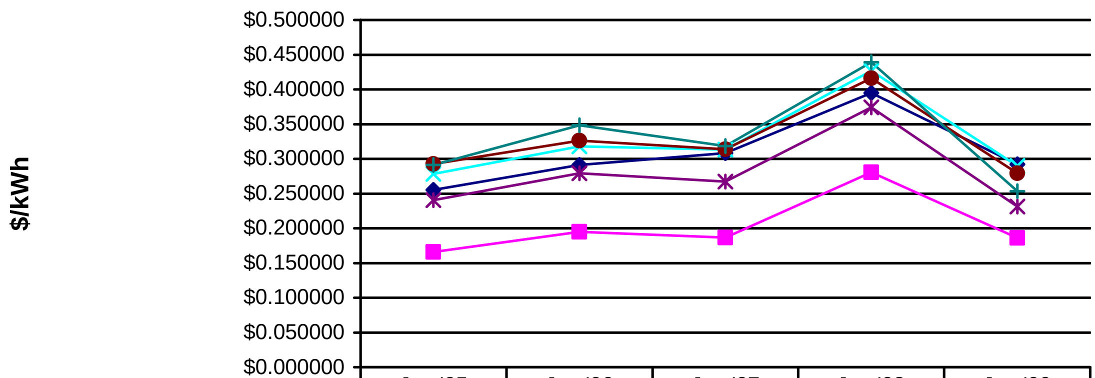
	Jun '06	Jun '07	Jun '08	Jun '09	Jun '10
Other Adjustments	$0.000674	$0.000303	$0.001050	$0.000264	($0.000324)
ERAC	$0.172760	$0.143260	$0.263448	$0.078136	$0.006244
Base Rates	$0.174890	$0.174890	$0.174890	$0.174890	$0.347430
Total	$0.348324	$0.318453	$0.439388	$0.253290	$0.353350

Year

Figure 26 compares Effective Energy Rates (combined base rate and ERAC) for residential electricity customers across the State.

Figure 26

Five Year Comparison of Effective Residential Rates



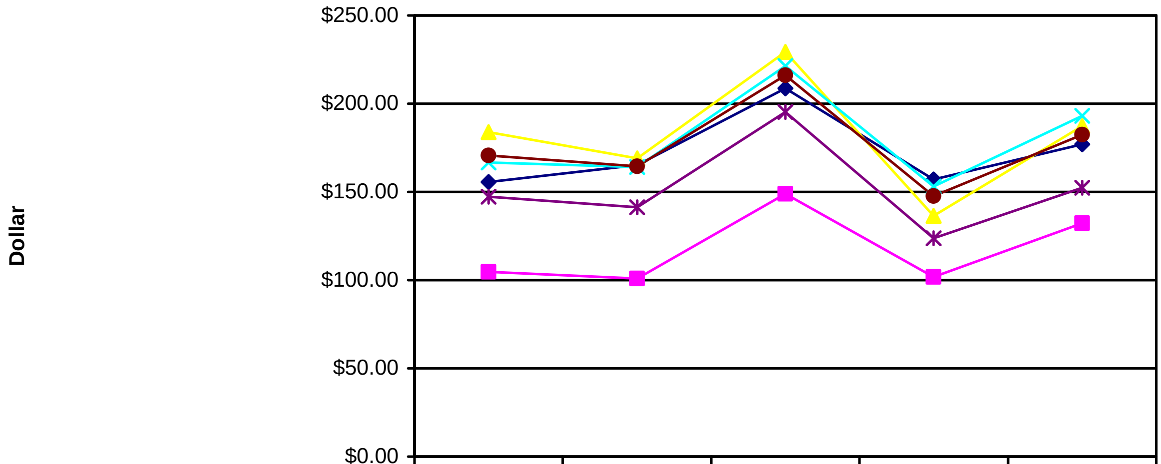
	Jun '05	Jun '06	Jun '07	Jun '08	Jun '09
HELCO	0.255380	0.291384	0.308342	0.395086	0.292068
HECO (1)	0.166079	0.194816	0.186773	0.280533	0.186328
MECO - Lanai Division	0.278177	0.318140	0.313137	0.426868	0.290059
MECO - Maui Division	0.240693	0.279342	0.267388	0.374347	0.231398
MECO - Molokai Division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

Year

Figure 27 compares monthly residential bills across the State over the past five (5) years, assuming 500 kwh is used by the customer during the month.[8]

Figure 27

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



	Jun '06	Jun '07	Jun '08	Jun '09	Jun '10
Hawaii Electric Light Company, Inc.	$155.70	$165.26	$208.63	$157.11	$176.97
Hawaiian Electric Company, Inc.	$104.66	$100.82	$148.84	$101.73	$132.21
Kauai Island Utility Cooperative	$183.88	$168.95	$229.42	$136.37	$187.26
MECO - Lanai Division	$166.61	$164.10	$221.42	$152.99	$193.16
MECO - Maui Division	$147.21	$141.23	$195.24	$123.74	$152.36
MECO - Molokai Division	$170.71	$164.55	$216.20	$147.56	$182.35

Year Ended June 30

2. ELECTRICITY RATES AND OIL PRICES

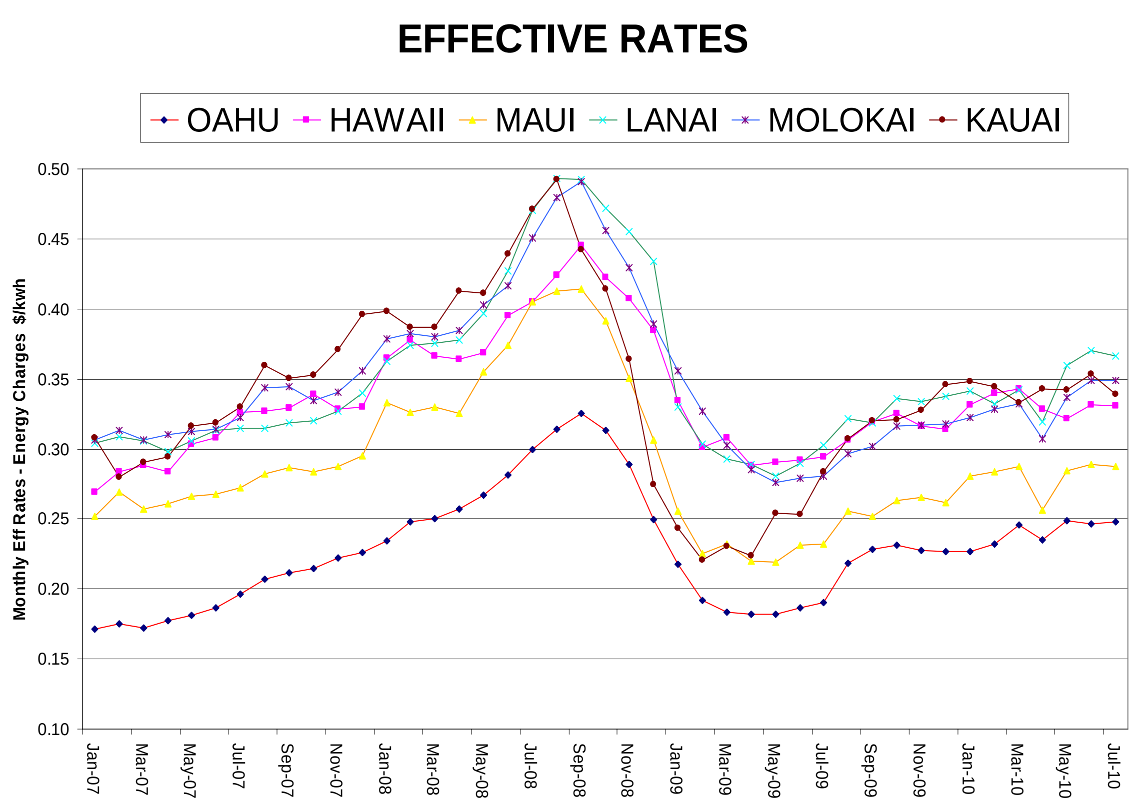
The utilities purchase their fuel under a contract and have a certain amount of inventory to protect against any temporary delivery disruptions. The typical fuel inventory is enough to last about sixty days. The ECAC is based on the cost paid for the fuel used to generate electricity during the billing period, so when prices decrease (or increase) there is about a two month lag before the change is reflected in the ECAC.

Electricity rates also vary depending on the category of customer, such as residential, business (small, medium, and large power users), and commercial as well. For illustrative purposes, the following data and information will summarize residential electricity rates and fluctuations in the price of oil since January 2007.

[8]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).

The following chart shows monthly residential effective rates ($/kilowatt hour), which vary primarily based on the ECAC changes, for its customers on Oahu, Hawaii (Big Island), Maui, Lanai, Molokai and Kauai. As you can see from this chart, effective electricity rates increased greatly from mid-2007 to mid-2008, and decreased significantly thereafter.

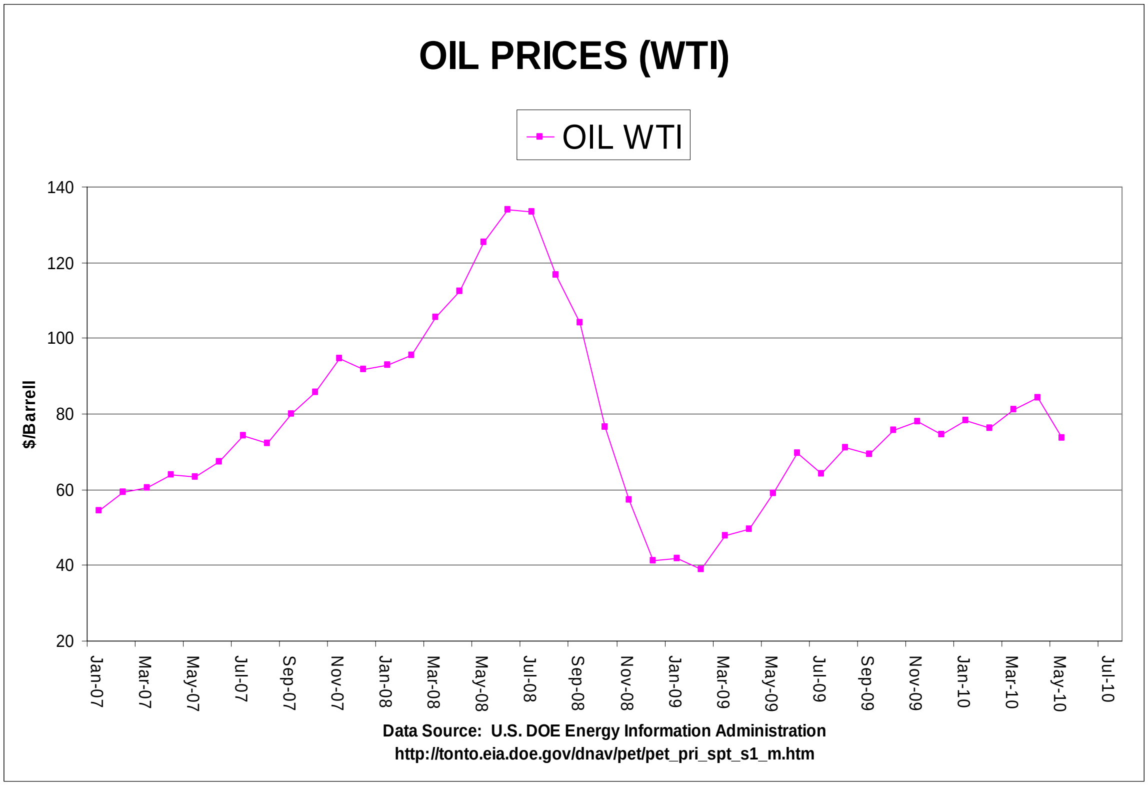
Figure 28



Data Source: HECO Companies' "Effective Rate Summaries" Reports
KIUC Fuel and Purchased Power Rate Adjustment Reports

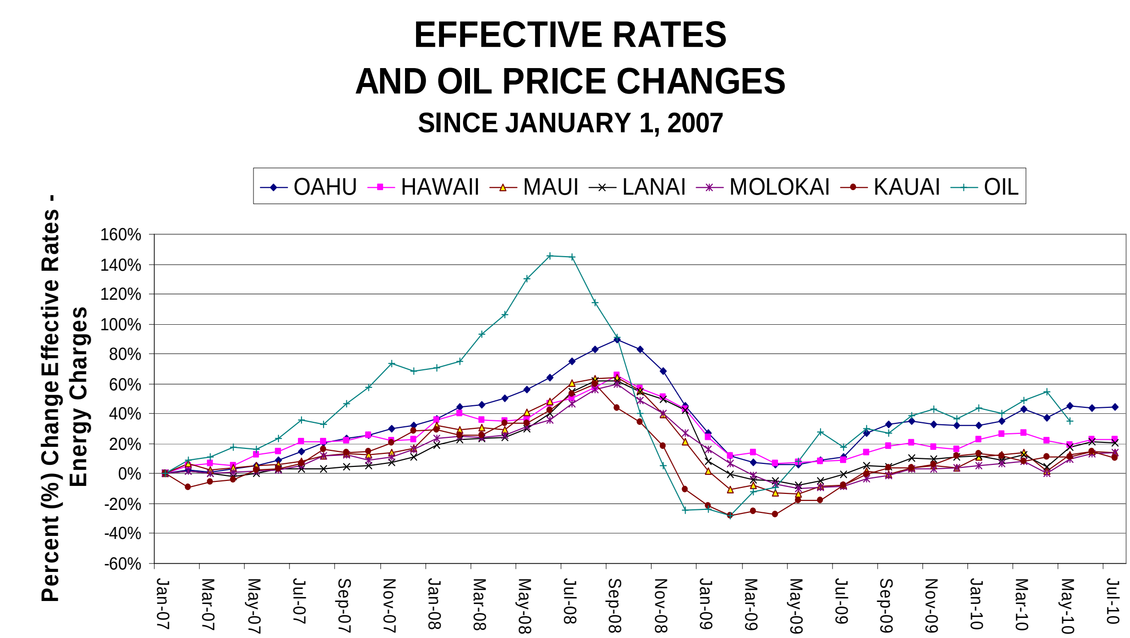
The following chart is a simple graph of crude oil prices during the same time period, which shows similar increases and decreases.

Figure 29



The next chart combines the preceding two charts and shows percentage changes from January 2007.

Figure 30



Data Source: HECO Companies' "Effective Rate Summaries" Reports
KIUC Fuel and Purchased Power Rate Adjustment Reports
U.S. DOE Energy Information Administration
http://tonto.eia.doe.gov/dnav/pet/pet_pri_spt_s1_m.htm

As you can see from this chart, the effective rates for electricity generally correspond with changes in crude oil prices, but there is an approximate 60-day lag due to the use of existing inventories after oil prices may change. Thus, after crude oil prices began declining after July 2008, the effective rates did not start declining until October 2008, and effective rates began to increase again after crude oil prices increased in 2009.

We will continue to monitor changes in the price of oil and its effect on electricity rates. However, the data also confirms and illustrates how dependent Hawaii is on world crude oil prices. Although oil prices have retreated from their 2008 summer highs, we will continue to be vulnerable to increases in oil prices until oil-fired electricity generation is substantially replaced with alternative resources.

3. TELECOMMUNICATION RATES

Effective July 15, 2009, Act 180 Session Laws of Hawaii 2009 designated local exchange intrastate telephone services as fully competitive. According to Act 180, "the public utilities commission shall treat the State's local exchange intrastate services, under the commission's classification of services relating to costs, rates, and pricing, as fully competitive and apply all commission rules in accordance with that designation." Under the Act, rates for telephone services do not require Commission approval and are filed with the Commission for informational purposes as long as the rates are not more than the currently effective tariff.

Hawaiian Telcom's basic rates have remained unchanged over the past several years. The current rates have been in effect since 1995. However, since 1997, with the approval of the Commission, Hawaiian Telcom has assessed an 11.23 percent surcharge on most intrastate services, including basic services. The following table shows residential individual line telephone service by island that customers have been paying since 1997 for residential service.

Island	Residential Rate w/ 11.23% Surcharge	Residential Rate in Tariff
Oahu	$16.02	$14.40
Hawaii	$14.57	$13.10
Maui	$13.90	$12.50
Kauai	$13.90	$12.50
Molokai	$12.07	$10.85
Lanai	$11.01	$9.90

XI. UTILITY COMPANY PERFORMANCE

A. ELECTRIC UTILITIES EFFICIENCY AND SERVICE QUALITY

The following electric utility service quality report was based on or excerpted directly from the 2009 Service Reliability Report submitted to the Commission by HECO, MECO, HELCO, and KIUC. The report covers the 2009 calendar year ("2009"). A complete copy is available for review at the Commission's office or the Commission's website (http://puc.hawaii.gov/industries/Energy/reports).

The reliability indices are calculated using the data from all sustained[9] system outages except customer maintenance outages. If data normalization is required, it is done using the guidelines specified in the report on reliability that was prepared for the Commission, titled "Methodology for Determining Reliability Indices for HECO Utilities," dated December 1990. That report indicates that normalization is allowed for "abnormal" situations such as hurricanes, tsunamis, earthquakes, floods, catastrophic equipment failures, and single outages that cascade into a loss of load greater than 10% of the system peak load. These normalizations are made in 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 incorporates the impact of frequency and duration of outages on the company's total customer base.

To determine the relative level of reliability, the statistics for four prior years, 2005 through 2009, are used for comparison.

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

1. HECO SERVICE QUALITY – NORMALIZED RESULTS

This is the 2009 annual service reliability report of HECO. The average number of electric customers increased from 294,371 in 2008 to 294,802 in 2009 (a 0.15% increase). The peak 2009 demand for the system was 1,260 MW (evening peak); however, the highest system peak demand remains at 1,327 MW set on the evening of October 12, 2004.

Annual Service Reliability Indices

The annual service reliability for 2009 was the best in the past five years for SAIFI and SAIDI. The reliability results for 2009 and four prior years are shown below in Table of Annual Service Reliability Indices – All Events, and Table of Annual Service Reliability Indices – with Normalizations. There were no outage events that were normalized in 2009. All subsequent comparisons and discussion are based on the normalized data.

	2005	2006*	2007**	2008***	2009
Number of Customers	289,972	292,554	293,893	294,371	294,802
Customer Interruptions	383,410	724,280	639,886	729,784	333,908
Customer-Hours Interrupted	532,156	4,260,045	1,970,925	3,985,756	442,546
ASA (Percent)	99.979	99.834	99.923	99.846	99.983
SAIF (Occurrences)	1.322	2.476	2.177	2.479	1.133
CAID (Minutes)	83.28	352.91	184.81	327.69	79.52
SAID (Minutes)	110.11	873.69	402.38	812.39	90.08

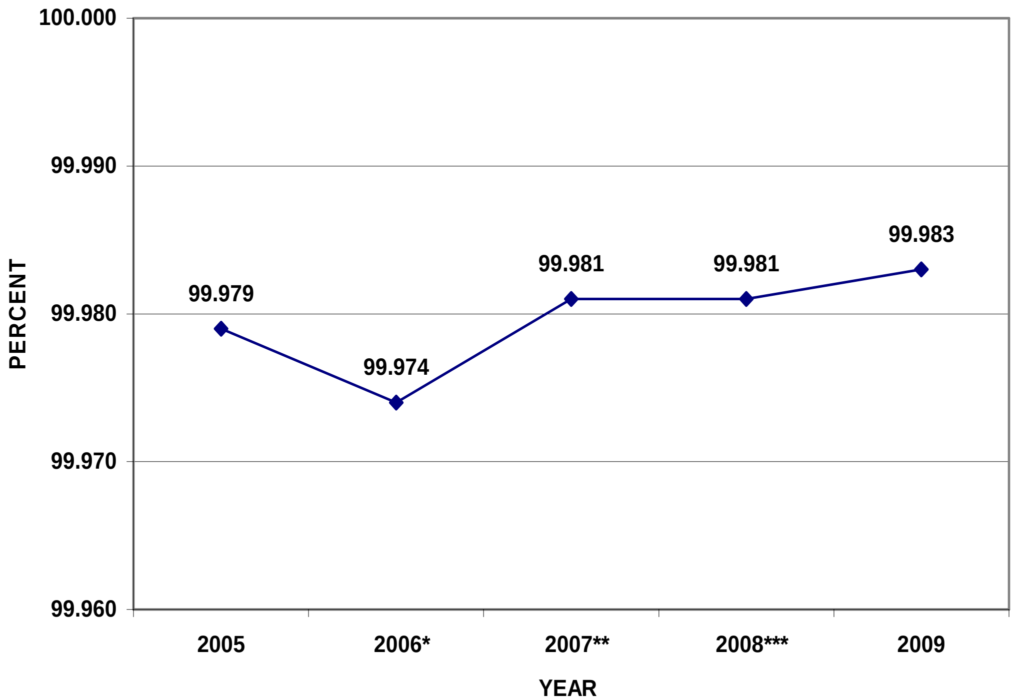
Table of Annual Service Reliability Indices – with Normalization

	2005	2006*	2007**	2008***	2009
Number of Customers	289,972	292,554	293,892	294,371	294,802
Customer Interruptions	383,410	420,749	367,837	382,124	333,908
Customer-Hours Interrupted	532,156	666,188	488,144	490,842	442,546
ASA (Percent)	99.979	99.974	99.981	99.981	99.983
SAIF (Occurrences)	1.322	1.438	1.252	1.298	1.133
CAID (Minutes)	83.28	95.00	79.62	77.07	79.52
SAID (Minutes)	110.11	136.63	99.66	100.05	90.08

NOTE:

2006* **Data normalized to exclude the 6/01/06 Load Shedding Outage**
Data normalized to exclude the 10/15/06 Earthquake Outage
2007** **Data normalized to exclude the 1/29/07 and 02/02/07 High Wind Outages**
Data normalized to exclude the 11/04/07 - 11/05/07 and 12/04/07 - 12/06/07 Storms
2008*** **Data normalized to exclude the 12/10/08 - 12/14/08 High Wind Outages**
Data normalized to exclude the 12/26/08 Island Wide Blackout

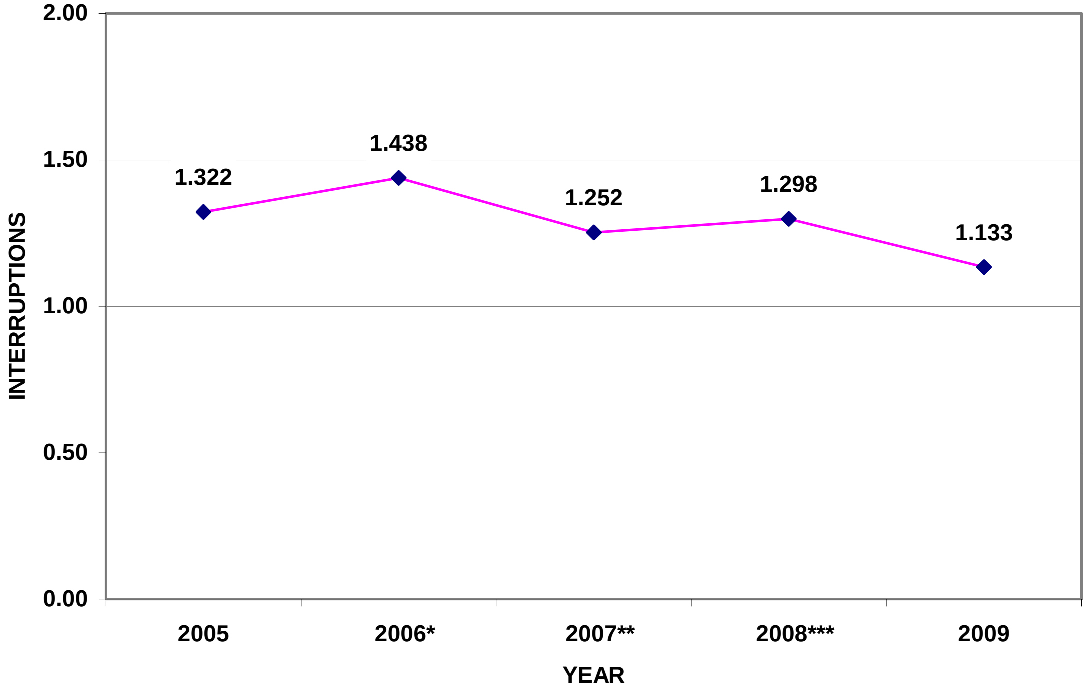
Figure 31
HECO Average Service Availability (ASA)
(Higher is better)



*Data normalized to exclude 6/01/06 Load Shedding Outage, 10/15/06 Earthquake Outage
**Data normalized to exclude 1/29/07 and 2/2/07 High Wind, 11/4-5/07 and 12/4-6/07 Storm Outages
***Data normalized to exclude 12/10-14/08 High Wind Outages, and 12/26/08 Island Wide Blackout

Figure 31 shows that the 2009 ASA increased compared to the 2008 results after a period of decline from 2005 to 2006. Approximately 48,216 less customers experienced sustained service interruptions during 2009 compared to the previous year, a decrease of 12.6%. Also, the total 2009 Customer-Hours Interrupted as shown in the above Annual Service Reliability Indices decreased by 9.8% compared to 2008.

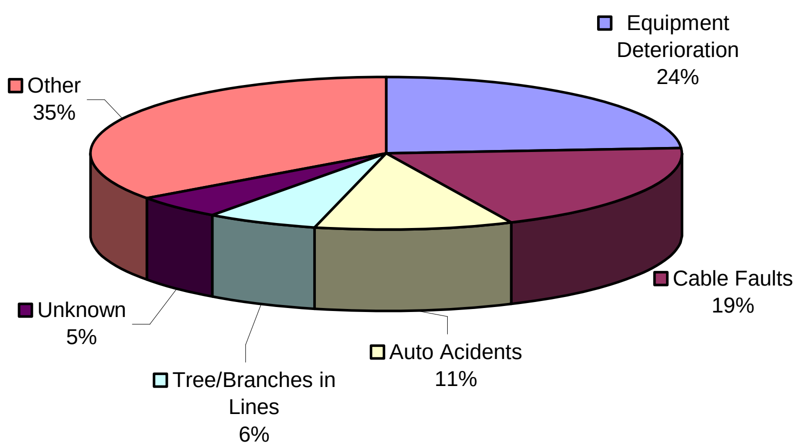
Figure 32
HECO System Average Interruption Frequency (SAIFI)
(Lower is better)



***Data normalized to exclude 6/01/06 Load Shedding Outage, 10/15/06 Earthquake Outage**
****Data normalized to exclude 1/29/07 and 2/2/07 High Wind, 11/4-5/07 and 12/4-6/07 Storm Outages**
*****Data normalized to exclude 12/10-14/08 High Wind Outages, and 12/26/08 Island Wide Blackout**

Figure 32 shows the System Average Interruption Frequency Index (SAIFI) for the past five years. It shows that the 2009 SAIFI of 1.133 was the lowest in the past five years. Looking further back, the 2009 SAIFI was the lowest in the past 30 years.

Figure 33
HECO Outage Causes

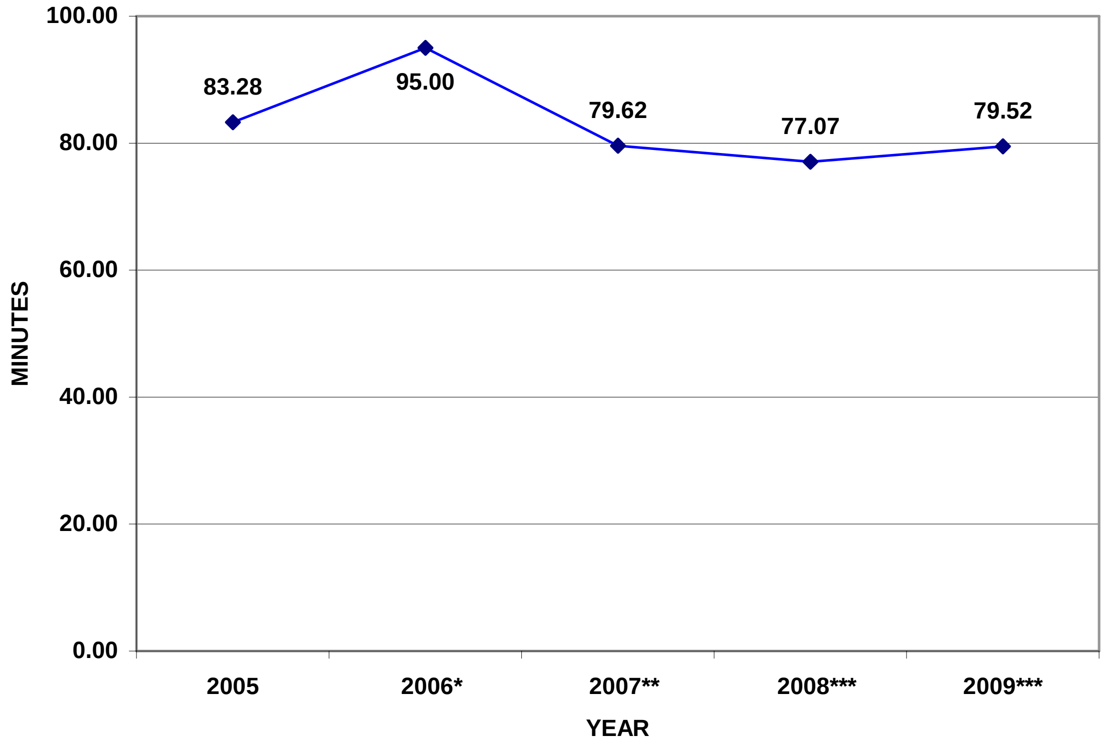


The Top 5 Outage Causes, as illustrated in Figure 33, equal about 65% of the total Customer Interruptions in 2009; these causes are "Equipment Deterioration," "Cable Faults, "Auto Accidents," "Trees/Branches in Lines," and "Unknown." All of these were also major cause factors in 2008 with the exception of "Auto Accidents" which replaced "Equipment Overload" as a top contributor.

The number of Customer Interruptions due to "Equipment Deterioration" decreased, from 82,422 in 2008 to 79,629 in 2009, an improvement of 3%. The number of Customer Interruptions due to "Auto Accidents" increased from 16,493 in 2008 to 35,194 in 2009, an increase of 113%. The number of Customer Interruptions due to "Trees and Branches in Lines" decreased from 38,047 in 2008 to 21,152 in 2009, an improvement of 44%. The number of Customer Interruptions due to "Cable Faults" increased from 62,591 in 2008 to 63,868 in 2009, an increase of 2%. Although the Customer Interruptions due to "Cable Faults" increased slightly from 2008 to 2009, the ongoing cable maintenance programs and the relatively dry weather throughout the year continued to help maintain these Customer Interruptions well below the 2006 figure of 106,653.

There were no sustained interruptions affecting 10,000 or more customers during 2009 as compared to six events in 2008.

Figure 34
HECO Customer Average Interruption Duration Index (CAIDI)
(Lower is better)



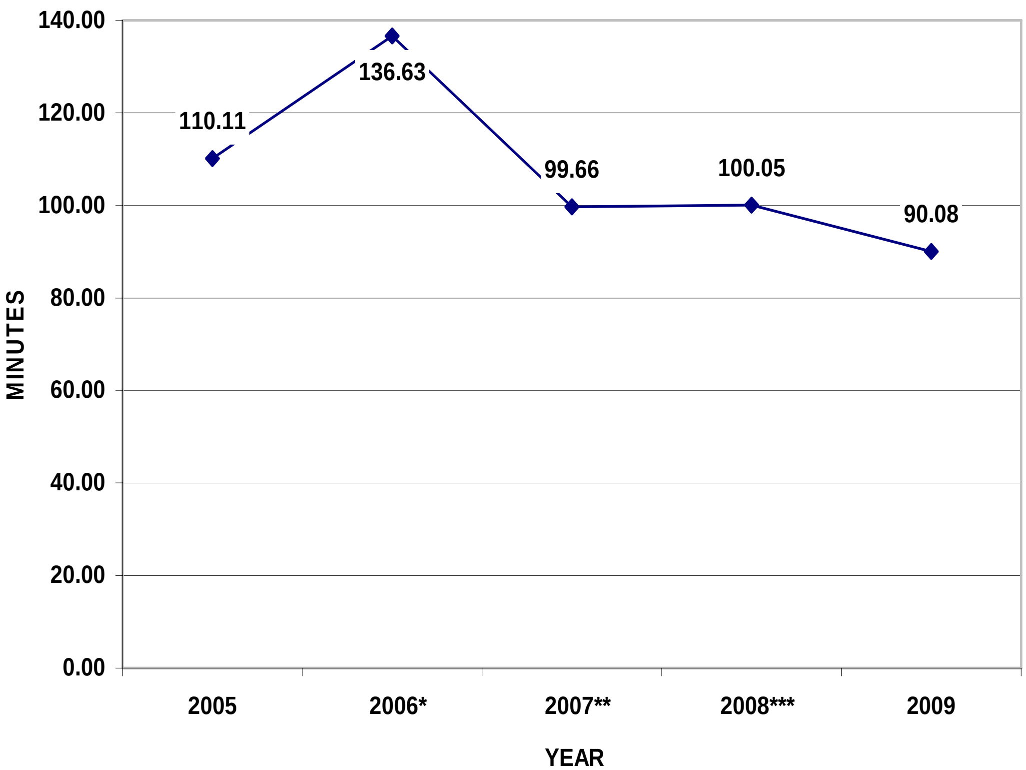
***Data normalized to exclude 6/01/06 Load Shedding Outage, 10/15/06 Earthquake Outage**
****Data normalized to exclude 1/29/07 and 2/2/07 High Wind, 11/4-5/07 and 12/4-6/07 Storm Outages**
*****Data normalized to exclude 12/10-14/08 High Wind Outages, and 12/26/08 Island Wide Blackout**

Figure 34 shows that the average duration of a customer's outage (CAIDI) for 2009 was the second lowest in the past 5 years. This shows that a good effort was made in minimizing the time a customer was out of service. The average electrical outage duration (CAIDI) for 2009 was 79.52 minutes, a 3.2% increase from the 77.07 minutes for the 2008 results. Improvements in outage durations were noticeable for “Unknown” and “Auto Accidents”, over these same areas from 2008 to 2009.

Two significant events affected the CAIDI results in 2009:

1. January 16, 2009 – Trees in the lines alongside Kalaheo Avenue caused outages in the Kailua area affecting about 6,800 customers for 2 hours and 51 minutes.
2. January 30, 2009 – An automobile accident at 46-205 Lilipuna Rd. caused outages in the Kaneohe area affecting about 1,500 customers from 51 minutes to 16 hours and 31 minutes.

Figure 35
HECO System Average Interruption Duration Index (SAIDI)
(Lower is better)



*Data normalized to exclude 6/01/06 Load Shedding Outage, 10/15/06 Earthquake Outage
**Data normalized to exclude 1/29/07 and 2/2/07 High Wind, 11/4-5/07 and 12/4-6/07 Storm Outages
***Data normalized to exclude 12/10-14/08 High Wind Outages, and 12/26/08 Island Wide Blackout

Figure 35 shows the System Average Interruption Duration Index (SAIDI) for the past five years. It shows that the 2009 SAIDI of 90.08 minutes, which was a 10% decrease from the 2008 SAIDI results, was the lowest during the last five years. SAIDI is the composite of both the SAIFI and CAIDI indices and produces a broader system wide benchmark of system reliability by combining both the duration and the number of customer interruptions during a given period of time. The decrease in the 2009 SAIDI result from 2008 was strongly affected by the decrease in the SAIFI statistics.

2. MECO SERVICE QUALITY – NORMALIZED RESULTS

The following MECO electric utility service quality discussion is based on or excerpted directly from the MECO Annual Service Reliability Report 2009 submitted to the Commission by MECO. The report covers the 2009 calendar year. A complete copy is available for review at the Commission's office.

The average number of electric customers increased from 66,810 in 2008 to 67,126 in 2009 (an increase of 0.47%). The peak 2009 demand for the system was 204.3 MW (gross) that occurred on October 21, 2009. The peak 2008 demand was higher than the 2008 peak demand of 199.0 MW (gross) on January 9, 2008 (an increase of 2.66%).

This analysis of the system reliability for MECO is for the year 2009. To determine the relative level of reliability, the statistics for five prior years, 2004 through 2008, are used for comparison.

The reliability indices are calculated using the data from all sustained system outages, except customer maintenance outages. The data used for the 2005 reliability indices was not normalized due to the lack of system events that would qualify certain data to be normalized. The data used for calculating the reliability indices for 2004, 2006, 2007 and 2008 was normalized.

The data used for the 2004 reliability indices for MECO was normalized to exclude the following event:

- January 14 - Kona Storm

The data used for the 2006 reliability indices for MECO was normalized to exclude the following event:

- October 15 - Earthquake

The data used for the 2007 reliability indices for MECO was normalized to exclude the following events:

- January 29 – Kona Storm
- December 5 - Kona Storm

The data used for the 2008 reliability indices for MECO was normalized to exclude the following events:

- January 16 – Outage due to high winds on Molokai
- March 4 – Load shed due to unknown cause on Lanai
- March 25 – Load shed due to loss of generator on Molokai
- April 2 - Load shed due to loss of generator on Lanai
- April 3 - Load shed due to loss of generator on Lanai
- April 4 - Load shed due to loss of generator on Lanai
- June 19 - Outage due to high winds on Maui
- July 6 - Load shed due to loss of generator on Lanai
- November 17 - Load shed due to unknown cause on Lanai
- November 26 - Load shed due to unknown cause on Lanai (Ckt. 1226)
- November 26 - Load shed due to unknown cause on Lanai (Ckt. 1227)
- December 13 – Load shed due to animal in lines on Lanai
- December 19 – Load shed due to loss of generator on Molokai
- December 21 – Load shed due to loss of generator on Molokai

2009 NORMALIZED RESULTS

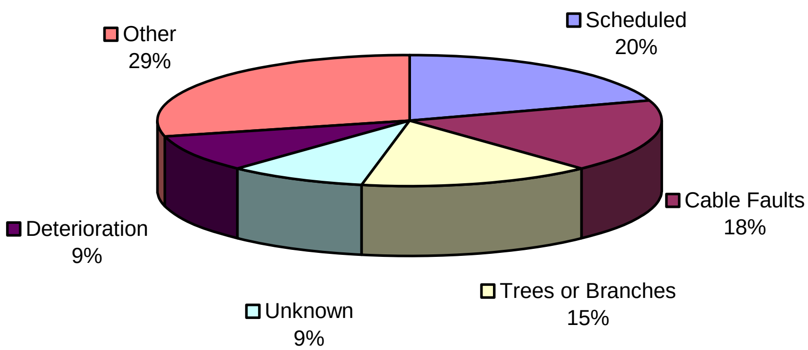
The 2009 service reliability results were normalized to exclude the effects of various catastrophic equipment failures and large storms on Maui, Molokai and Lanai. There were 14 outages in 2009 that were classified as "abnormal" situations (i.e. catastrophic equipment failures and major storms) that cascaded into a loss of load greater than 10% of the system peak load.

The 2009 service reliability results (normalized) indicate that MECO did not make any improvement in the ASA, SAIFI, CAIDI and SAIDI indices compared to 2008.

- The ASA index of 99.9705% is a decrease from 2008 and is ranked the fourth best ASA index of the last six years. (Higher is better.)
- The SAIFI index of 1.614 is an increase from 2008 and is ranked the third best SAIFI index of the last six years. (Lower is better.)
- The CAIDI index of 96.12 minutes is an increase from 2008 and is ranked the worst CAIDI index of the last six years. (Lower is better.)
- The 2009 SAIDI index of 155.17 minutes is an increase from 2008 and is ranked the fourth best SAIDI index of the last six years. (Lower is better.)
- Cable faults were the leading cause of outages in 2007, with 115 outages, which accounted for 19.56% of all outages. This was a decrease of 7.3% from 2006. Tree or branches were the second leading cause of outages in 2007, with 89 outages and accounted for 15.14% of all outages. This was an increased of 25.3% from 2006.

MECO experienced 26 load shed events in 2007. Maui experienced 12 load shed events, Molokai experienced 2 load shed events and Lanai experienced 12 load shed events in 2007.

Figure 36
MECO 2009 OUTAGE CAUSES



Scheduled outages were the leading cause of outages in 2009, with 155 outages, which accounted for 20.18% of all outages. This was an increase of 138.46% from 2008. Outages caused by cable faults were the second leading cause of outages in 2009, with 142 outages and accounted for 18.49% of all outages. This was an increase of 31.48% from 2008.

MECO experienced 27 load shed events in 2009. Maui experienced 2 load shed events, Molokai experienced 5 load shed events and Lanai experienced 20 load shed events in 2009.

Annual Service Reliability Indices

The normalized results for 2009, the previous un-normalized indices for 2005 and the normalized indices for 2004, 2006, 2007 and 2008 are shown in the table "Annual Service Reliability Indices

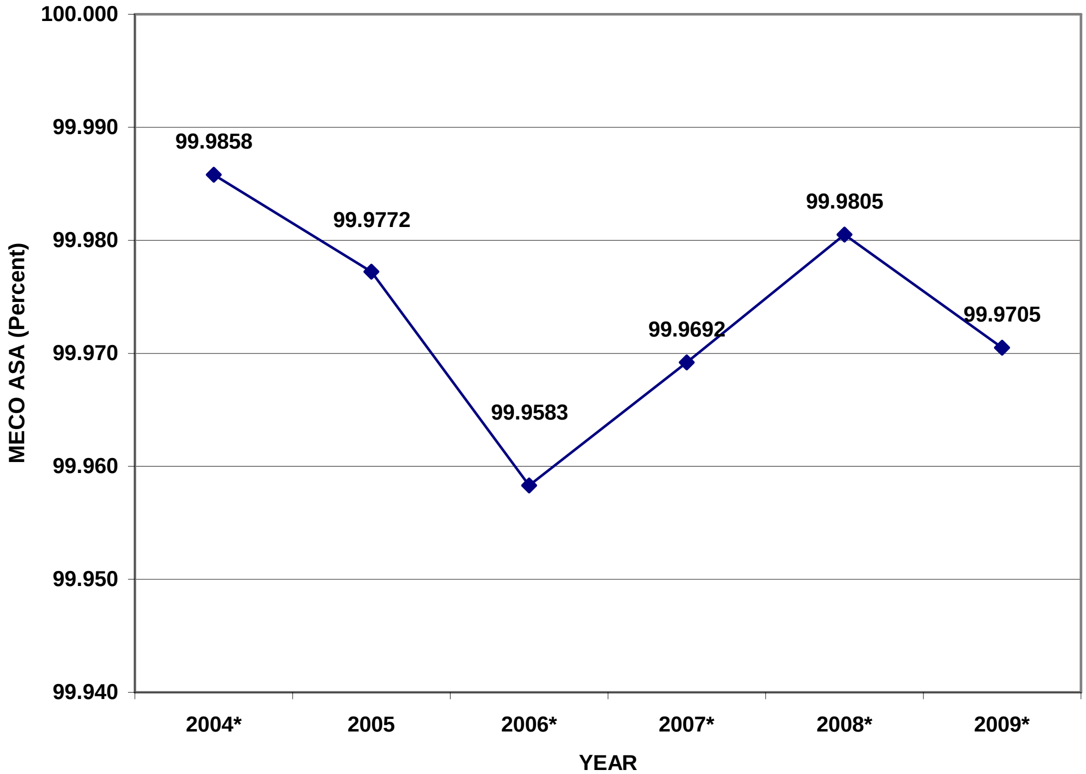
MECO

Table of Annual Service Reliability Indices

SYSTEM TOTALS	2004 *	2005	2006 *	2007 *	2008 *	2009 *
Number of Customers	61,846	63,103	64,405	65,728	66,810	67,126
Customer Hrs. Interrupted	77,122	126,010	235,186	186,022	114,001	173,602
Customer-Interruptions	99,424	162,827	249,485	170,299	75,764	108,368
ASA (Percent)	99.9858	99.9772	99.9583	99.9692	99.9805	99.9705
SAIFI (Occurrence)	1.608	2.580	3.874	2.593	1.134	1.614
CAIDI (Minutes)	46.54	46.43	56.56	62.52	90.28	96.12
SAIDI (Minutes)	74.82	119.81	219.10	162.13	102.38	155.17

*Data normalized per 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.

Figure 37
MECO Average Service Availability (ASA)
(Higher is better)



Note: *Data normalized for 2004, 2006, 2007, 2008 & 2009

Figure 37 shows that the 2009 Average Service Availability (ASA) index has decreased from the 2008 results of 99.9805% to 99.9705% during 2009. This was a decrease of approximately 0.0100% in the 2009 Average Service Availability compared to the previous year. The 2009 service reliability results (normalized) showed that MECO did not make improvements in the SAIFI, CAIDI or SAIDI indices compared to 2008.

Figure 38
MECO System Average Interruption Frequency (SAIFI)
(Lower is better)

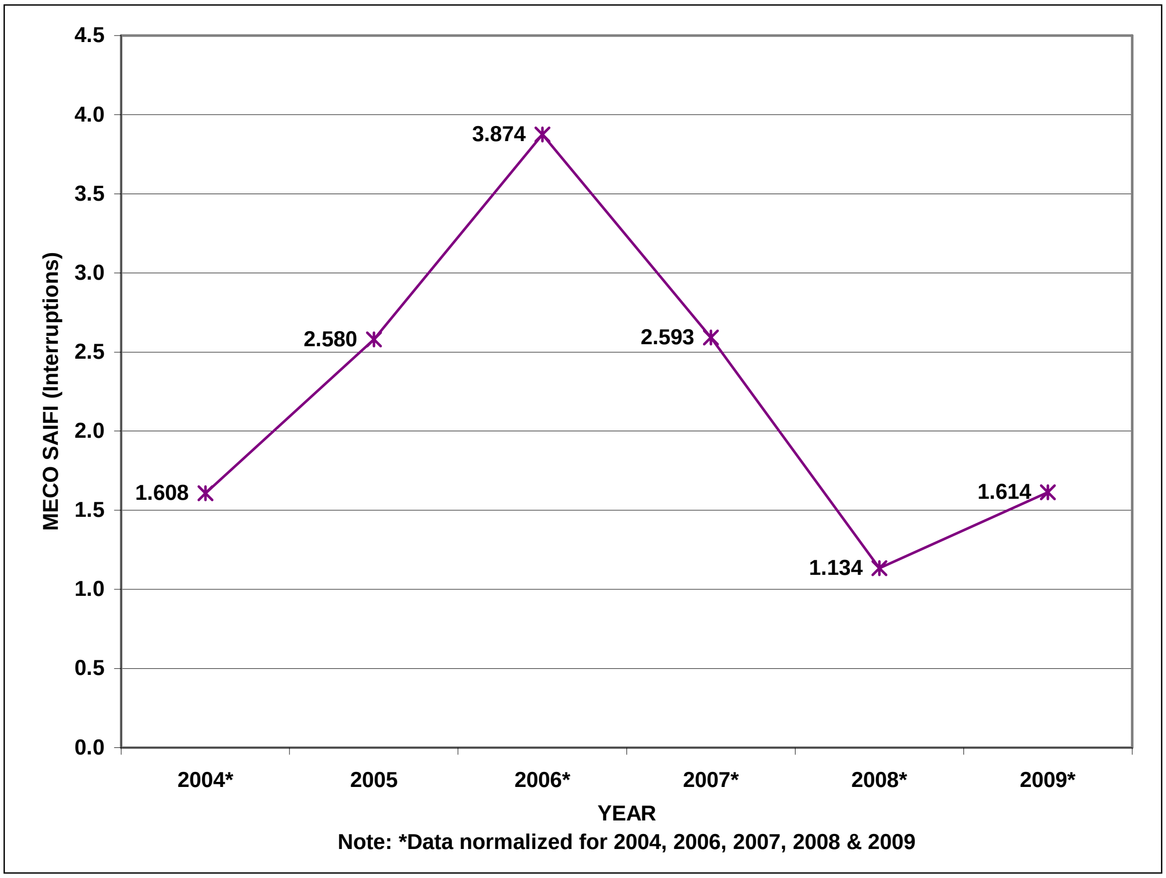


Figure 38 shows the System Average Interruption Frequency Index (SAIFI) for the past six years. It shows that in 2009, the recorded SAIFI index was 1.614 and it had increased from 2008 by 42.3%.

An increase in interruptions due to scheduled maintenance, cable faults and trees or branches in lines contributed to a higher SAIFI for 2009.

Figure 39
MECO Customer Average Interruption Duration (CAIDI)
(Lower is better)

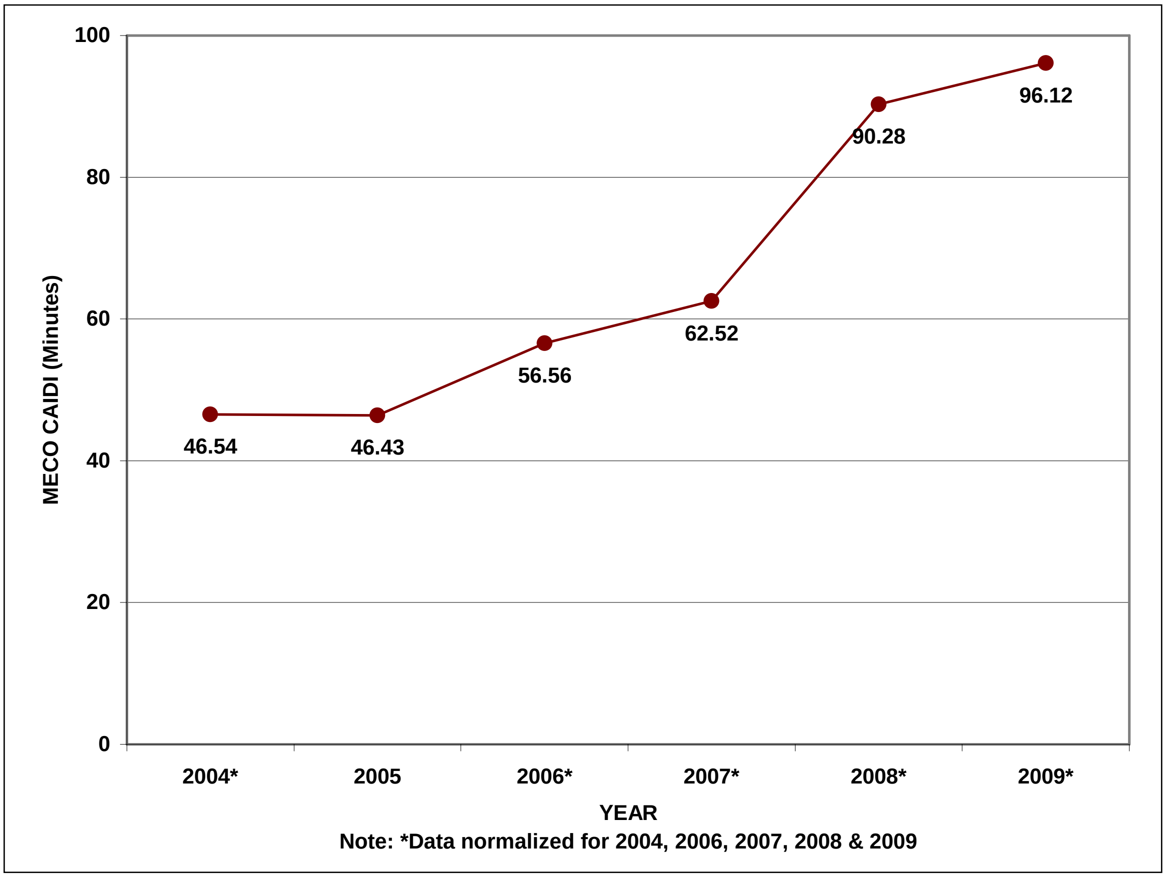


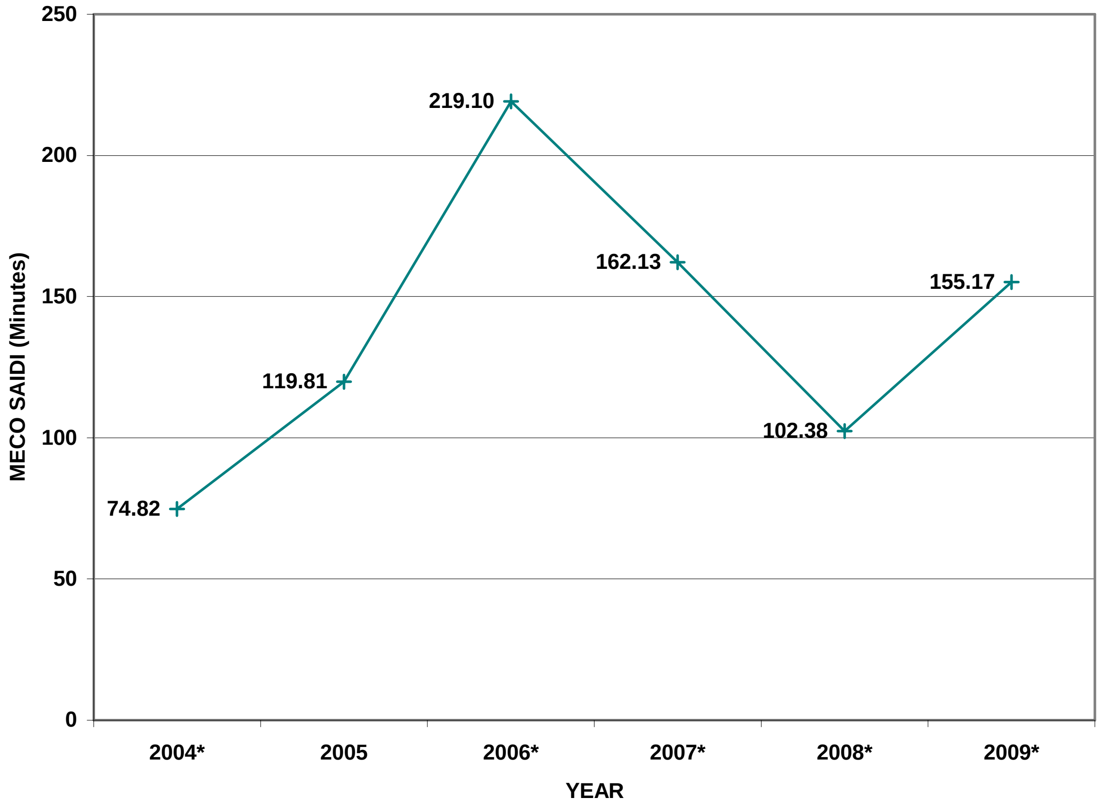
Figure 39 shows the Customer Average Interruption Duration index (CAIDI) for the past six years.

The average electrical outage duration of 96.12 minutes per customer for 2009 is an increase of 6.5% from the previous year.

The contributing factors to the increase of the CAIDI index are outages related to trees or branches in lines, equipment failure and high winds. Outages due to trees or branches in lines increased in 2009, which incurred 38,834.8 customer interruption hours and accounted for 22.4% of all customer interruption hours in 2009. Outages due to equipment failure increased in 2009, which incurred 27,364.7 customer interruption hours and accounted for 15.8% of all customer interruption hours in 2009. Outages due to high winds also increased in 2009, which incurred 20,393.8 customer interruption hours and accounted for 11.7% of all customer interruption hours in 2009.

Outages related to trees or branches in lines and high winds for 2009 caused extensive damage to MECO property and required time consuming work (i.e. the replacement of poles and conductors), which increases the duration of the outage. Also, a majority of the outages caused by trees or branches in lines occurred in rural areas, which increased the duration of the outage due to the additional travel time required to reach the various outage sites.

Figure 40
MECO System Average Interruption Duration (SAIDI)
(Lower is better)



Note: *Data normalized for 2004, 2006, 2007, 2008 & 2009

Figure 40 shows the System Average Interruption Duration Index (SAIDI) for the past six years. It shows that in 2009, the recorded SAIDI index was 155.17 and it had increased from 2008 by 51.7%.

The SAIDI is the composite of both the SAIFI and CAIDI indices and produces a broader benchmark of system reliability by combining both the duration and the number of customer interruptions during a given period of time. The higher SAIDI result was due to an increase in the SAIFI and CAIDI statistics as noted previously.

3. HELCO SERVICE QUALITY – NORMALIZED AND UNNORMALIZED RESULTS

The following HELCO electric utility service quality discussion is based on or excerpted directly from the HELCO Annual Service Reliability Report 2009 submitted to the Commission by HELCO. The report covers the 2009 calendar year. A complete copy is available for review at the Commission's office.

The average customer count increased 0.37% from 79,386 in 2008 to 79,679 in 2009.

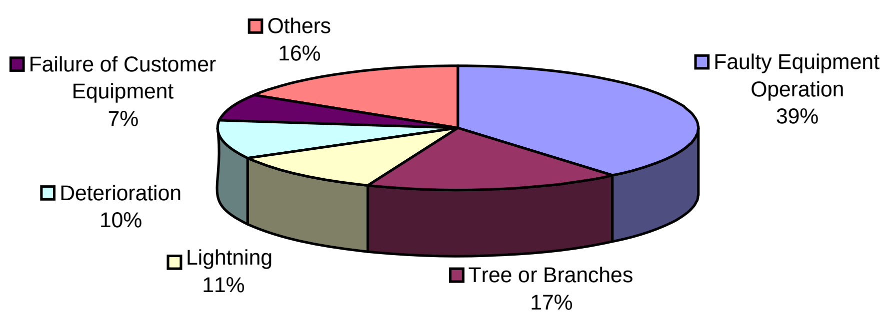
On a Not-Normalized basis, in 2009 a total of 298,334 Customer Interruptions were recorded for a total of 246,916 Customer Hours of Interruption. The System Average Interruption Frequency (SAIF) index was 3.744 and the Customer Average Interruption Duration (CAID) was 49.66 minutes.

On the Normalized basis, a total of 246,437 Customer Interruptions were recorded for a total of 197,371 Customer Hours of Interruptions. The System Average Interruption Frequency (SAIF) index was 3.093 and the Customer Average Interruption Duration (CAID) was 48.05 minutes.

On a Not-Normalized basis, the following were the leading causes of customer interruptions in 2009:

1. Faulty Equipment Operation. There were 117,361 Customer Interruptions, 112,196 (96%) of those were related to HELCO Generation.
2. Trees and Branches. There were 51,754 Customer Interruptions.
3. Lightning. There were 32,419 Customer Interruptions.
4. Deterioration. There were 28,362 Customer Interruptions.
5. Failure of Customer Equipment. There were 20,666 Customer Interruptions, 20,660 (nearly 100%) of those were related to Independent Power Producers (non-HELCO Generation).

Figure 41
HELCO Causes of Interruption



There were 132,856 generation related Customer Interruptions in 2009, of which 112,196 were related to HELCO Generation sources (84%) and 20,660 were related to Independent Power Producer (non-HELCO Generation) sources (16%). In 2009 Hamakua Energy Partners (HEP) and Pakini Nui Wind farm were the non-HELCO generation sources that caused customer interruptions.

HELCO normalized data per guidelines specified in a special report on reliability prepared for the Commission. This report, "Methodology for Determining Reliability Indices for HECO Utilities," dated December 1990, indicates that normalization may be utilized for "abnormal" situations such as hurricanes, tsunamis, earthquakes, floods, catastrophic equipment failures, and a single equipment outage that cascades into a loss of load that is greater than 10% of the system peak load. HELCO normalized three events in 2009:

- Transmission line insulator failure that lead to an Under frequency Load shedding event on June 25 and isolated HRD Wind farm, resulted in 11,654 Customer Interruptions and 6,065 Customer Hours of Interruptions.
- Under frequency Load shedding event on September 22 due to Keahole ST-7 tripping off-line while exporting 12.6MW resulted in 11,635 Customer Interruptions and 1,700 Customer Hours of Interruption.
- Lightning storm on December 19-20 affecting customers in the Puna area resulted in 28,608 Customer Interruptions and 41,779 Customer Hours of Interruptions.

Significant interruptions, contributing more than 5,000 Customer Interruptions (CI) or Customer Interruption Duration (CID) greater than 5,000 Customer Hours of Interruption, that did not meet the normalization criteria were:

Date	Problem	CI	CID
January 15	Trees & Branches contacted transmission lines in the Lower Puna area during windy conditions.	8,960	194
February 5	Under frequency Load shedding – Hill 6 Tripped offline.	7,647	2,310
March 19	Distribution capacitor bank failed and caused distribution circuit to trip.	3,385	6,714
March 20	Under frequency Load shedding – Pakini Nui Windfarm trip following fault at South Point Substation.	5,499	605
April 25	Scheduled maintenance for North Kohala	1,935	13,821
May 21	Underfrequency Loadshedding – Puna CT-3	9,723	303
July 8	Underfrequency Loadshedding – Keahole CT-4	12,094	4,206
July 14	Underfrequency Loadshedding – Keahole CT-4	12,094	1,083
August 13	Underfrequency Loadshedding – Keahole CT-5	10,521	743
September 25	Failed insulator bolt on distribution circuit	3,400	6,037
September 29	Tree fell on lines affecting distribution circuit	3,400	6,592
October 3	Tree fell on transmission lines	2,122	6,207
October 14	Underfrequency Loadshedding – Hamakua Energy Partners	10,549	579
October 20	Tree fell on lines affecting distribution circuit	661	5,519
October 23	Underfrequency Loadshedding – Keahole ST-7	8,618	418
November 18	Underfrequency Loadshedding – Hamakua Energy Partners	6,117	510
November 30	Underfrequency Loadshedding – Keahole CT	8,618	592
December 3	Underfrequency Loadshedding – Keahole CT	8,618	536

HELCO Normalized

Year	ASA	Number of Customers	Customer Interruptions	CID	SAIF	CAID
2004	99.976	70,124	163,745	150,905	2.335	55.30
2005	99.968	72,513	153,982	200,374	2.124	78.08
2006	99.971	75,353	188,602	190,061	2.503	60.46
2007	99.961	77,933	208,000	269,475	2.669	77.73
2008	99.973	79,386	179,862	189,156	2.266	63.10
2009	99.972	79,679	246,437	197,371	3.093	48.05

HELCO Not-Normalized

Year	ASA	Number of Customers	Customer Interruptions	CID	SAIF	CAID
2004	99.937	70,124	417,462	388,891	5.953	55.89
2005	99.962	72,513	246,557	239,935	3.400	58.39
2006	99.950	75,353	341,289	328,758	4.529	57.80
2007	99.955	77,933	257,924	305,681	3.310	71.11
2008	99.973	79,386	194,807	190,314	2.454	58.62
2009	99.965	79,679	298,334	246,916	3.744	49.66

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

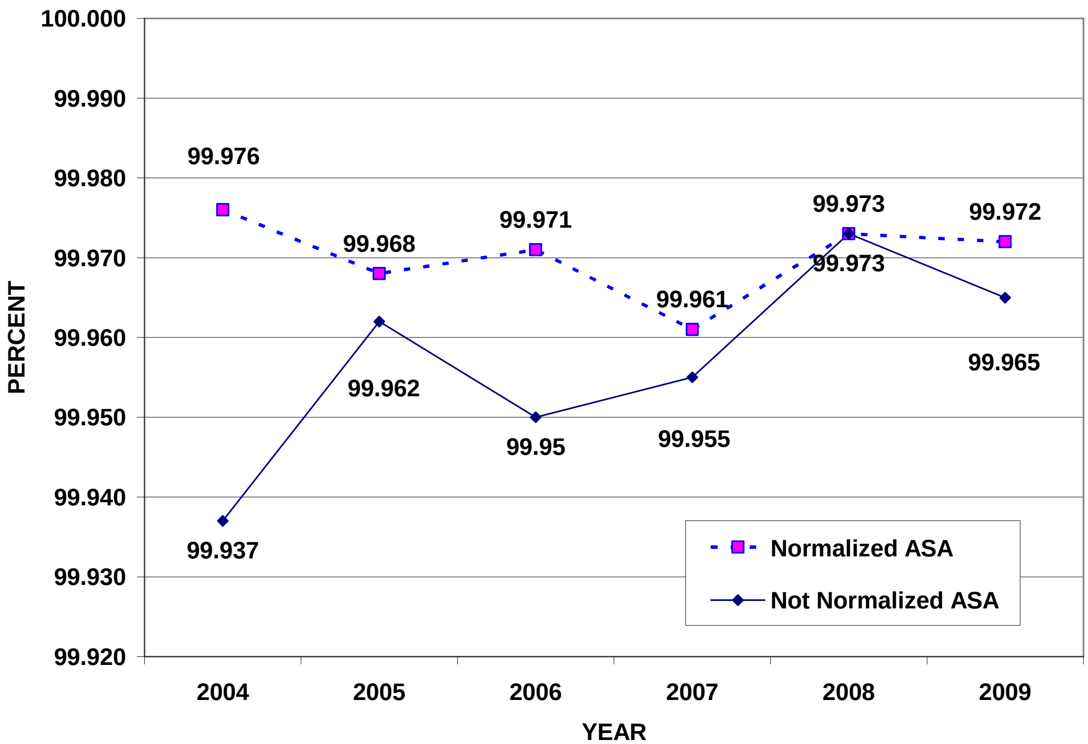


Figure 43
HELCO System Average Interruption Frequency (SAIF)
(Lower is better)

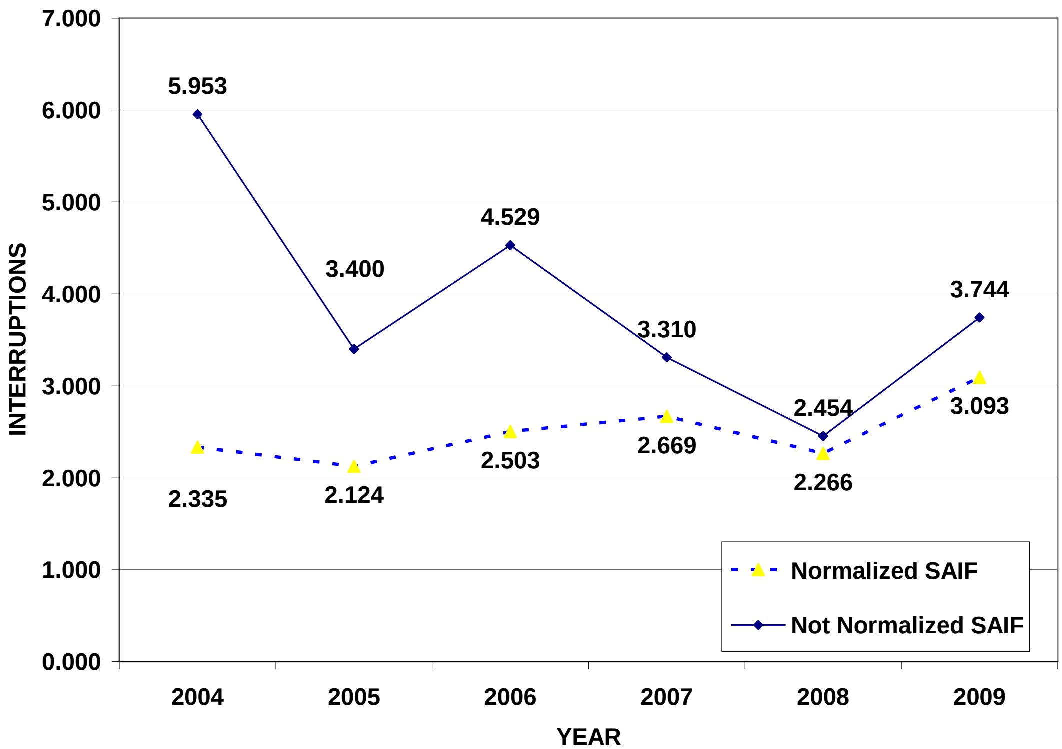
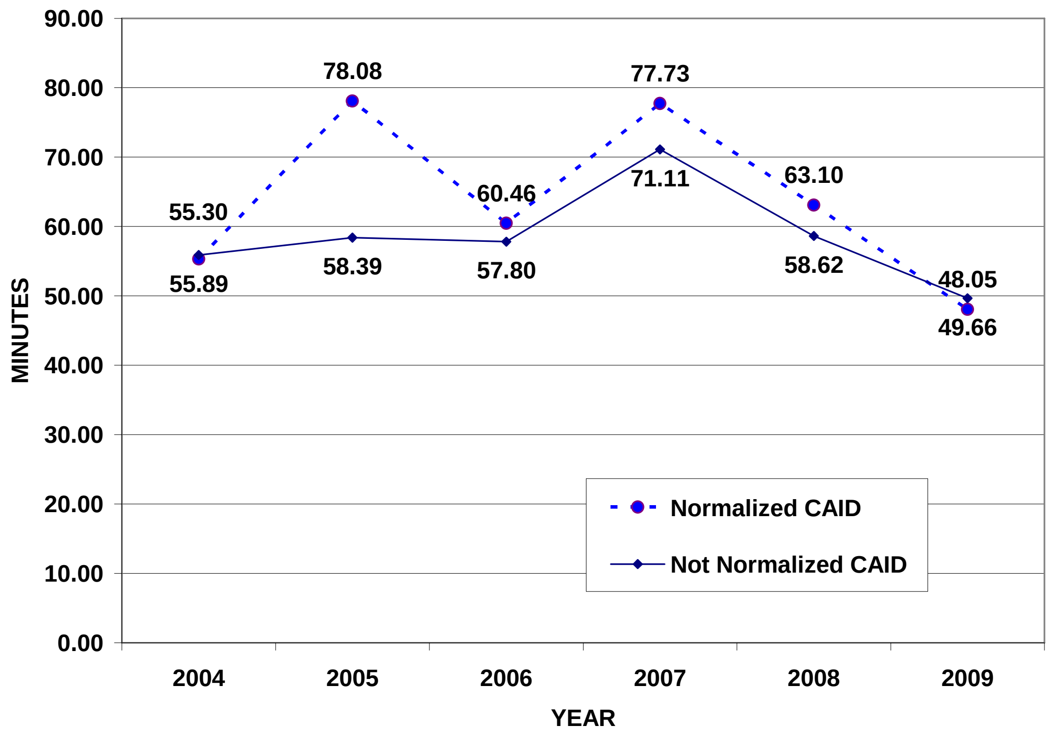


Figure 44
HELCO Customer Average Interruption Duration (CAID)
(Lower is better)



4. KIUC 2007 SERVICE QUALITY – UNNORMALIZED RESULTS

The following KIUC electric utility service quality discussion is based on or excerpted directly from the KIUC Annual Service Reliability Report 2009 submitted to the Commission by KIUC. The report covers the 2009 calendar year. A complete copy is available for review at the Commission's office.

The average number of electric ratepayers increased in 2009 to 36,004 (0.81%) over 2008's 35,713. The system peak of 75.41 MW was recorded. The 2009 system peak demand increased by 1.14 MW or 1.53% over 2008's peak of 74.27 MW.

KIUC has not normalized any of its data for the period 2003 through 2007. The reliability indices are calculated using the data from all system interruptions except scheduled interruptions for maintenance.

The unnormalized reliability results for 2005, 2006, 2007, 2008 and 2009 are shown in the table "KIUC Annual Service Reliability Indices." Figures 45 to 48 contain the data discussed above in graphical form.

KIUC Annual Service Reliability Indices					
	2005	**2006**	**2007**	**2008**	**2009**
System Peak (MW)	76.18	76.78	77.75	74.27	75.41
Number of Customers	33,772	34,671	35,207	35,713	36,004
ASA (Per cent)	99.976	99.969	99.961	99.983	99.983
SAIF (Occurrences)	4.89	8.17	8.43	4.45	6.17
CAID (Minutes)	25.63	20.16	24.35	19.84	14.63
SAID (Minutes)	124.92	164.7	205.15	88.18	90.28

Figure 45
KIUC Average Service Availability (ASA)
(High is better)

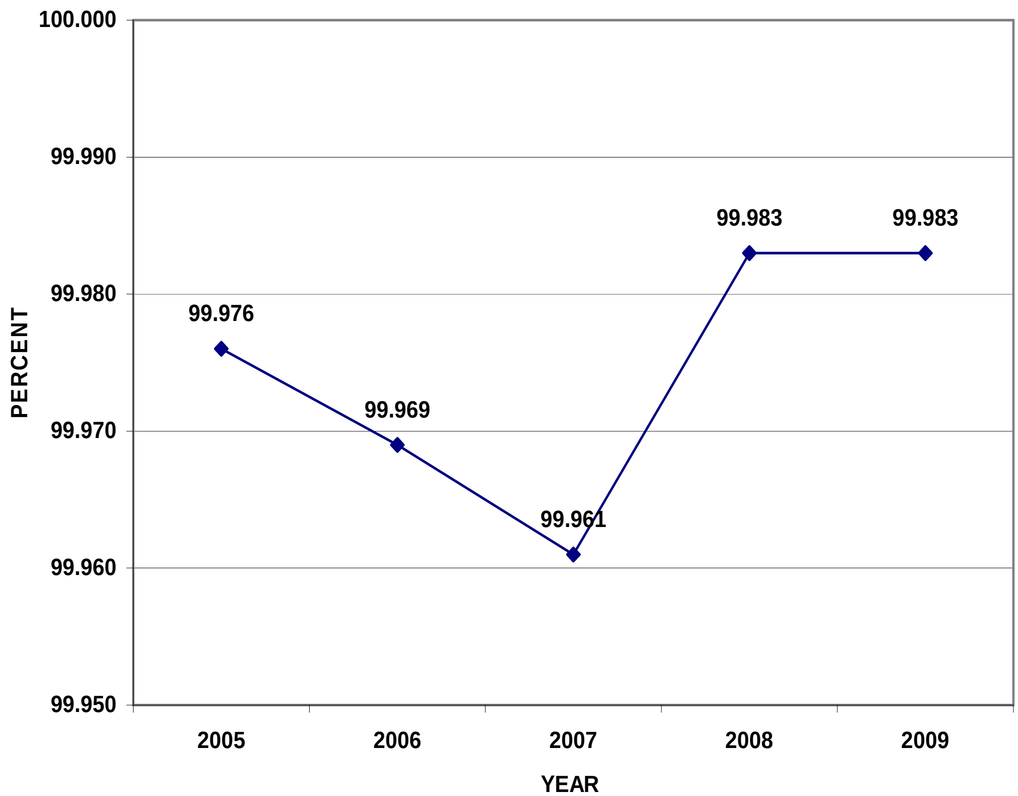


Figure 45 shows the Average System Availability Index (ASA) for the past five years. The 2009 ASA and 2008 ASA of 99.983% were the best of the five-year period and better than the five-year average of 99.974.

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

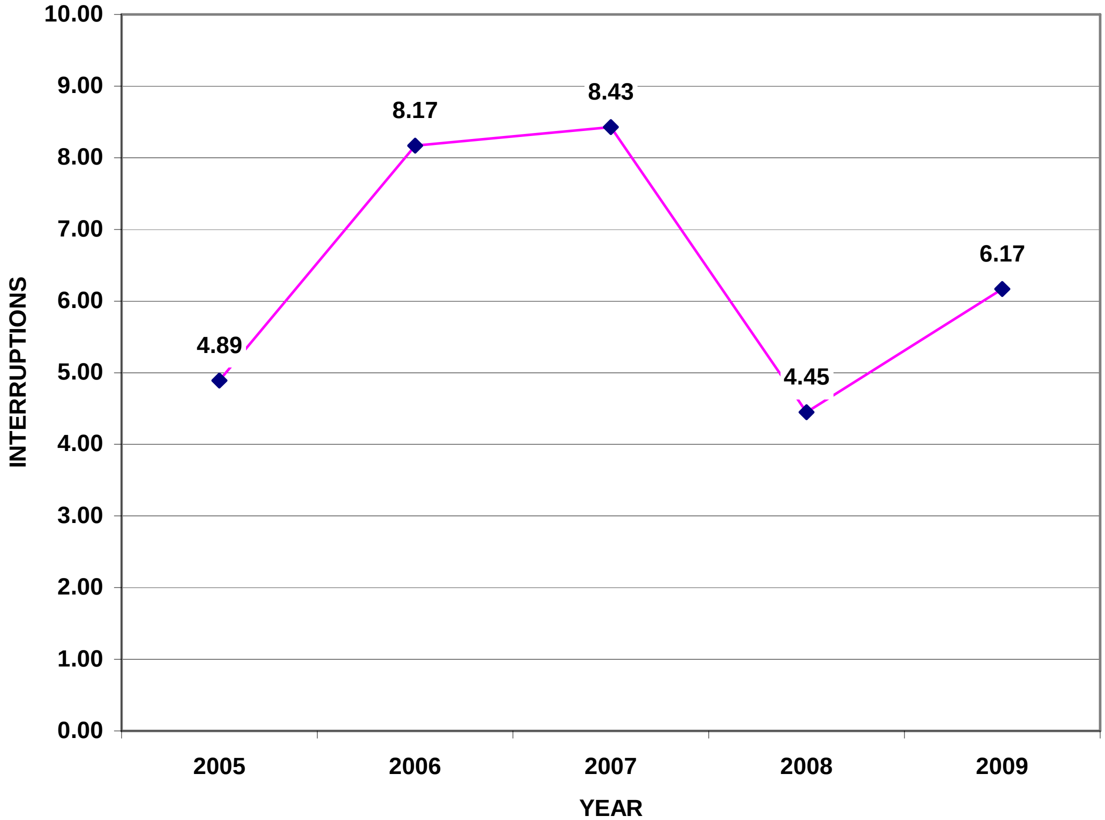


Figure 46 shows the System Average Interruption Frequency Index (SAIF) for the past five years. The 2009 SAIF index of 6.17 was the best third best of the five-year period and better than the five-year average of 6.42.

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

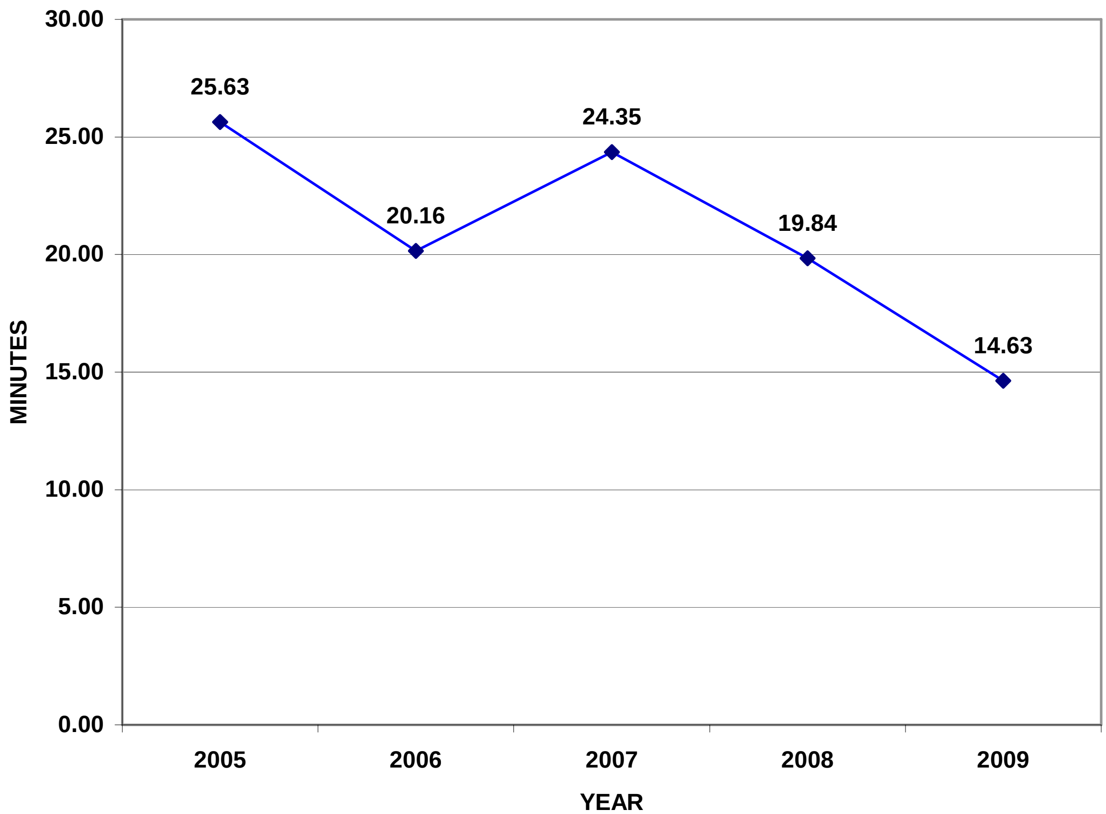


Figure 47 shows the Customer Average Interruption Duration Index (CAID) for the past five years. The CAID index of 14.63 was the best of the five-year period and better than the five-year average of 20.92.

Figure 48
KIUC Average Interruption Duration Index (SAIDI)
(Lower is better)

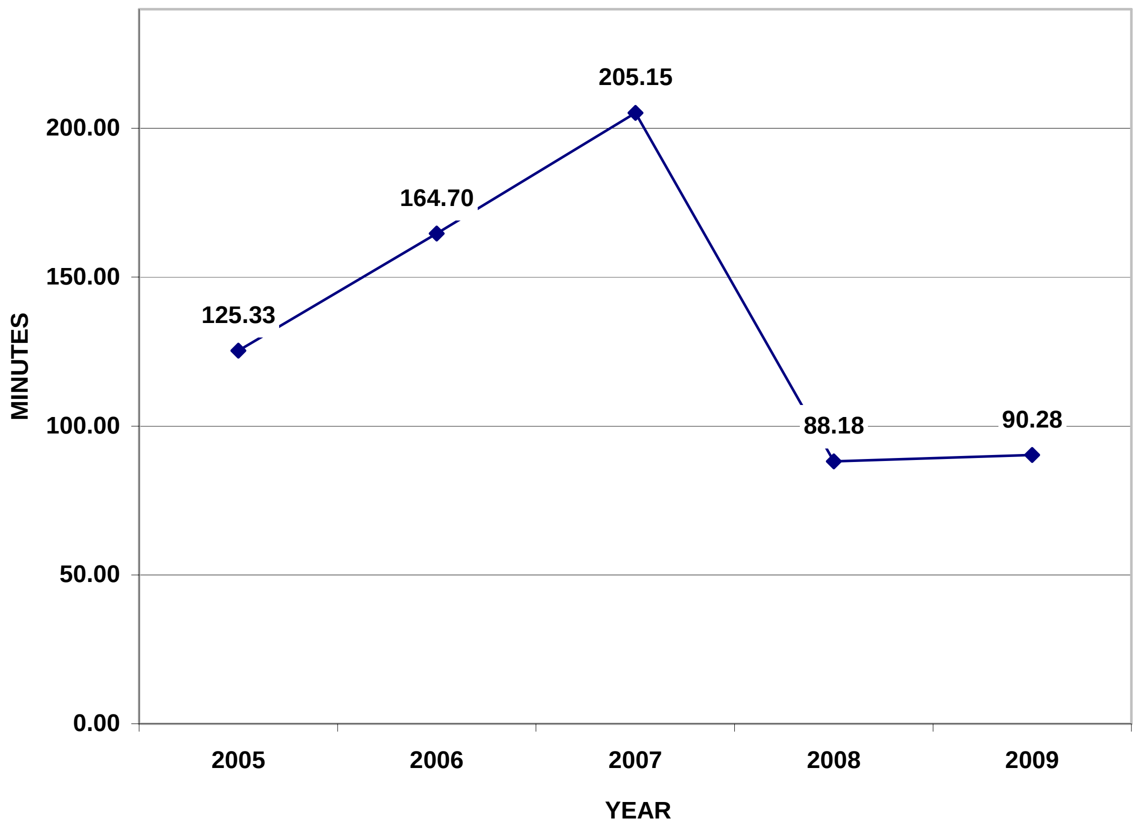


Figure 48 shows the System Average Interruption Duration Index (SAID) for the past five years. The 2009 SAIDI index of 90.28 was second best of the five-year period and better than the five-year average of 134.73.

In the following figures, the most recent year's sustained interruption causes are examined. Interruptions can be broken down many ways, but we will focus on two areas: 1) causes by frequency (what caused the most interruptions), and 2) causes by magnitude (what caused the most severe interruptions).

Figure 49
KIUC Sustained Interruptions by Frequency

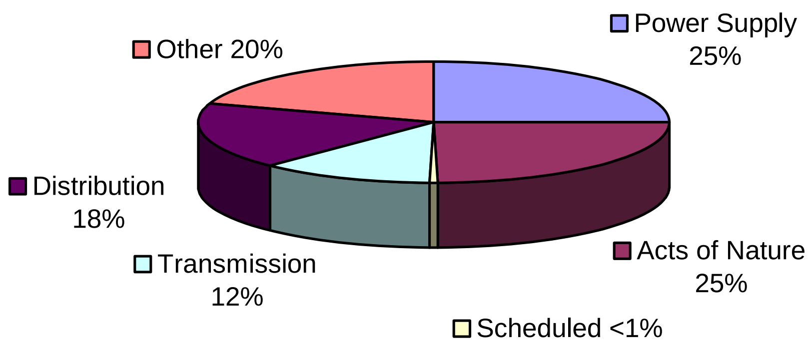


Figure 49 shows the breakdown by frequency. Loss of "Power Supply" confined within KIUC caused the most interruptions. This is an example of this is generating unit problems that result in a reduction of output, causing an under frequency load shed. A close second was "Acts of Nature" - high winds, floods, storms, etc. For KIUC, acts of nature typically involve high winds causing debris such as trees to contact or topple wires. Causing the third most interruptions was "Other" - persons or equipment not related to or owned by KIUC. Examples include auto accidents that contact utility poles or wires, non-KIUC contractors such as construction crews that dig into underground cables or tree trimmers that contact overhead wires, and trees that contact wires due to overgrowth. The fourth leading cause of interruptions was "Distribution" - failure or malfunction of distribution equipment including cables, fuses, insulators, poles, and transformers. The fifth leading cause of interruptions was "Transmission" - failure or malfunction of transmission equipment including insulators, large transformers, lightning arresters, and switches. The sixth (or least) and final cause of interruptions was "Scheduled" - prearranged outages to conduct repairs to transmission or distribution circuits.

Figure 50
KIUC Sustained Interruptions by Magnitude

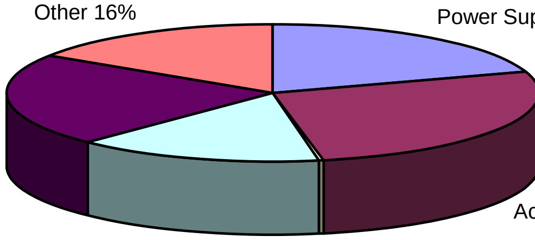
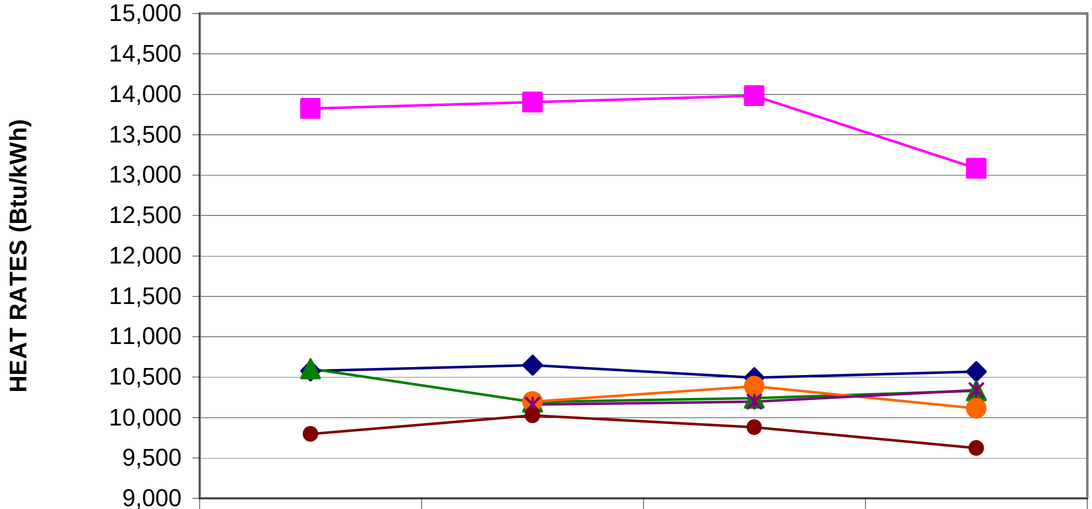


Figure 50 shows the breakdown by magnitude. The same descriptions and examples that were described following Figure 49 apply also for Figure 50 The causes of severe interruptions, in order from most to least, were "Acts of Nature," "Distribution," "Power Supply," "Other," "Transmission," and "Scheduled."

5. ELECTRIC UTILITIES GENERATING EFFICIENCY RESULTS

The following provides annual 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 are only available for the past three years. Heat rates are measured in Btu/kWh, and equate to the amount of energy consumed by the generating units (in Btu) per kWh of electricity produced. The heat rates provide a measure of the generating efficiency of the utility, with a lower value indicative of greater generating efficiency. The heat rate is generally dependent on the age, type of generating units and fuels used by a given utility. Figure 51 shows the heat rates of the electric utilities from 2006 to 2009.

Figure 51
Electric Utility Heat Rates



	2006	2007	2008	2009
HECO	10,577	10,646	10,493	10,568
HELCO	13,823	13,903	13,984	13,085
Maui	10,604	10,191	10,238	10,329
Lanai		10,195	10,387	10,113
Molokai		10,159	10,198	10,337
KIUC	9,797	10,027	9,879	9,621

YEAR

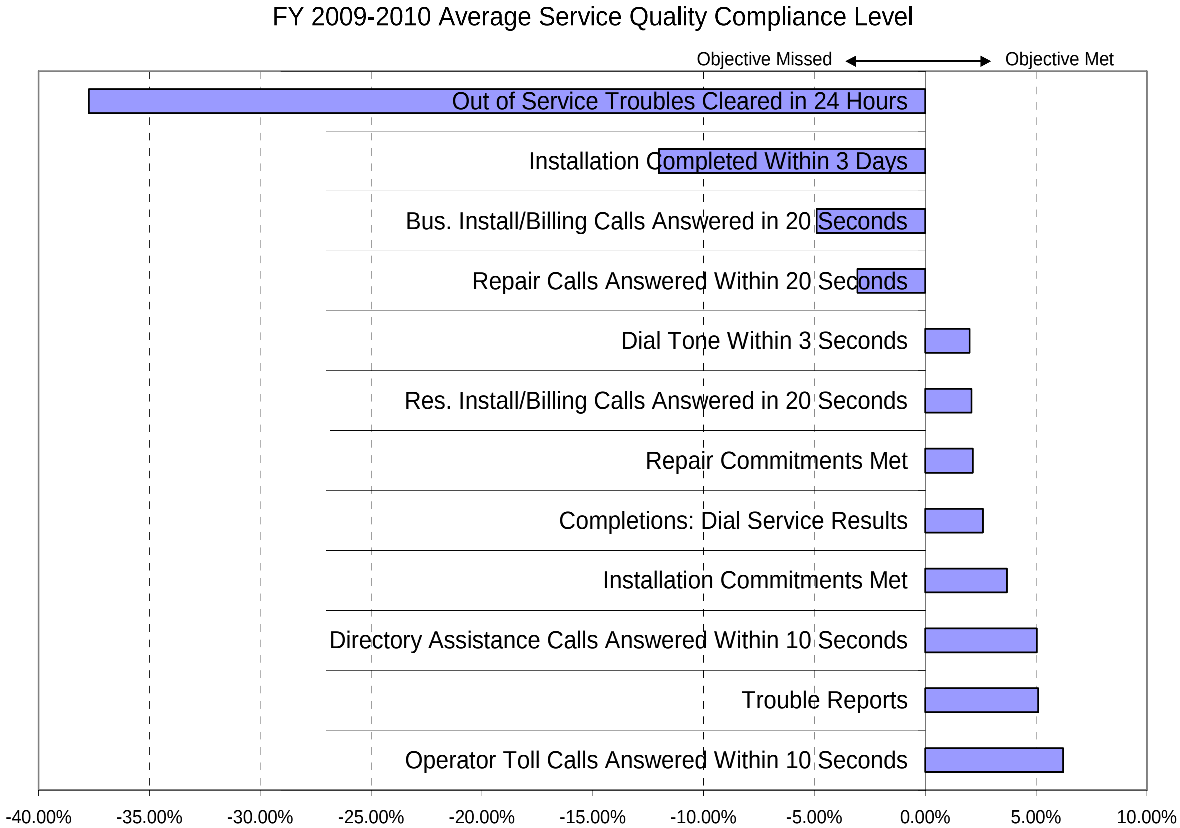
B. TELECOMMUNICATIONS SERVICE QUALITY MEASUREMENTS

Hawaiian Telcom files monthly reports to the Commission which measure and report the company's compliance with twelve telecommunications service quality objectives, as required under HAR Sections 6-80-93 through -98. Regulated activity (such as installation of a primary line) and non ILEC regulated activity (such as provision of DSL service) are not always separately tracked by the company, and this may affect the consistency of service quality data beginning in 2007. The Commission continues to monitor Hawaiian Telcom's systems and activities to resolve issues and address customer concerns and complaints.

In order to compare all service quality measurements, which have different objectives, the Commission has calculated the degree to which the companies have either exceeded or missed service quality objectives for each service quality measure. A positive average service quality compliance level of five percent (5%) means that the company has exceeded the service quality compliance objective by an average of five percent (5%) over the reporting period. A negative average service quality compliance level of negative five percent (-5%) means that the company missed the service quality compliance objective by an average of five percent over the reporting period. If, on average, the company meets the service quality objective the average service quality compliance level would be zero percent (0%).

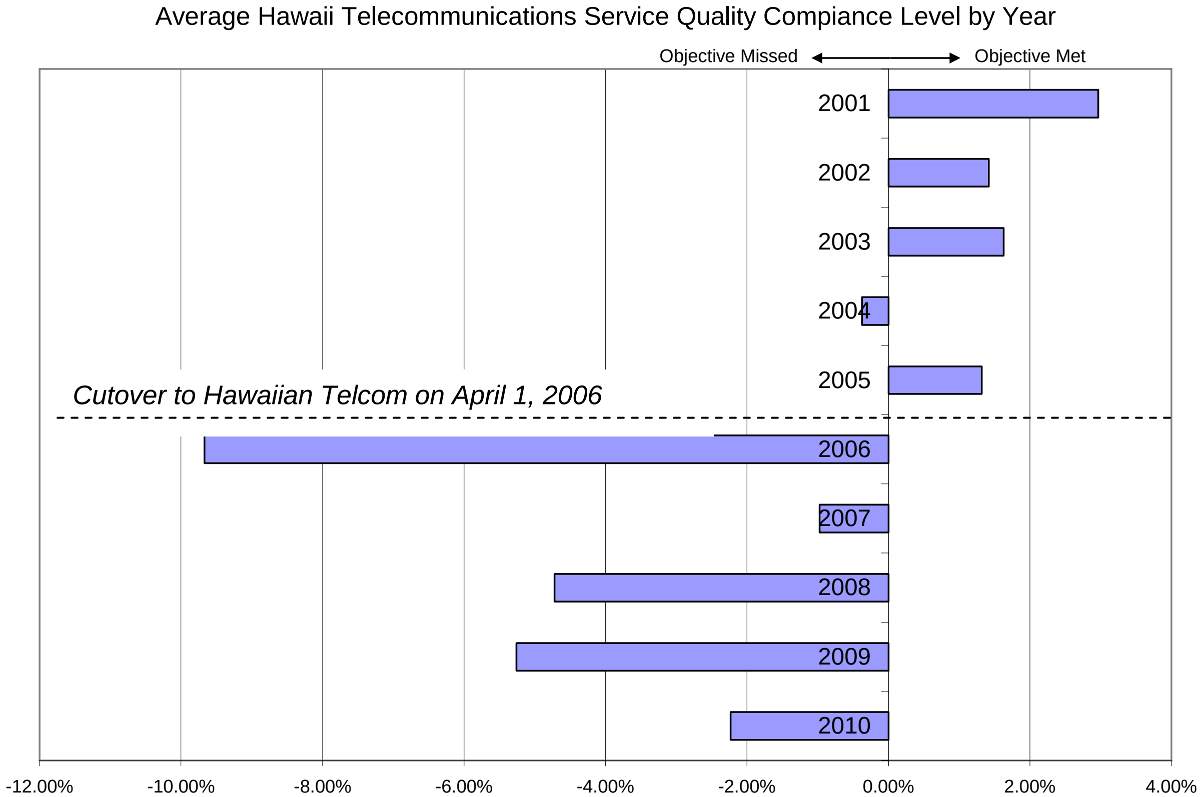
The following charts show Hawaiian Telcom's Average Service Compliance Levels for Fiscal Year 2009-2010 and aggregated Verizon and Hawaiian Telcom Average Service Compliance Levels from 2001 through 2010.

Figure 52

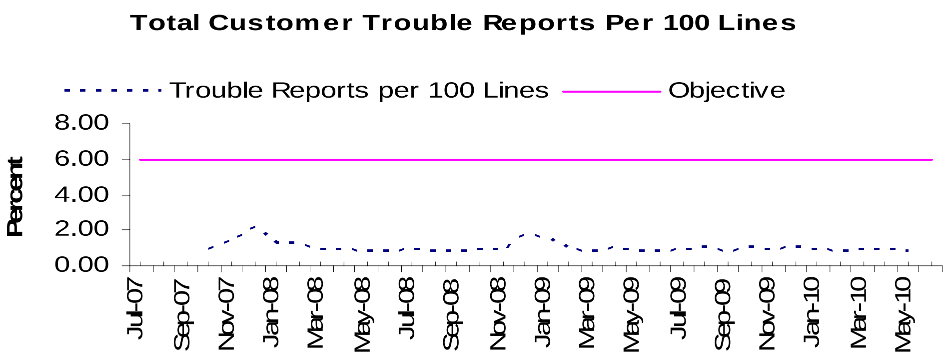


Looking at performance during Fiscal Year 2009-10, the measurements show that, on average, the company usually met or exceed objectives for eight of the twelve service quality objectives. Four (4) areas in which Hawaiian Telcom failed to meet service quality objectives were: (1) Percent Out-of-Service Troubles Cleared in 24 Hours; (2) Percent Installations Completed Within 3 Days; (3) Percent Business Installation/Billing Office Calls Answered Within 20 Seconds; and (4) Repair Calls Answered Within 20 Seconds.

Figure 53

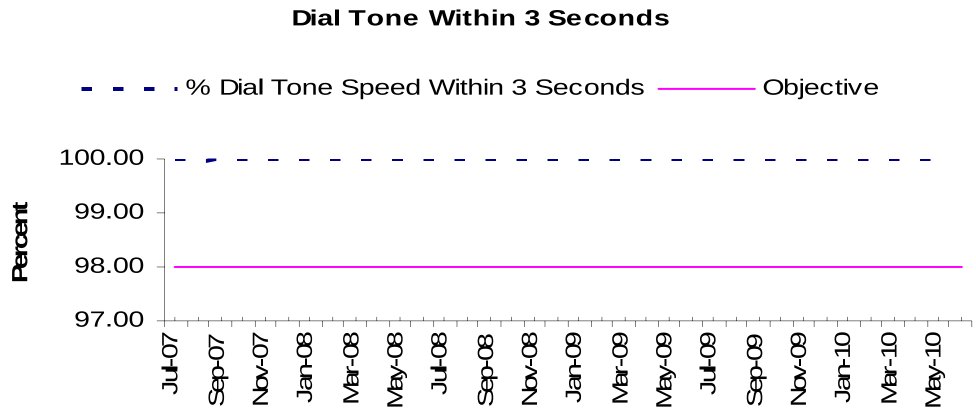


Service Quality Measurement Detail
Figure 54



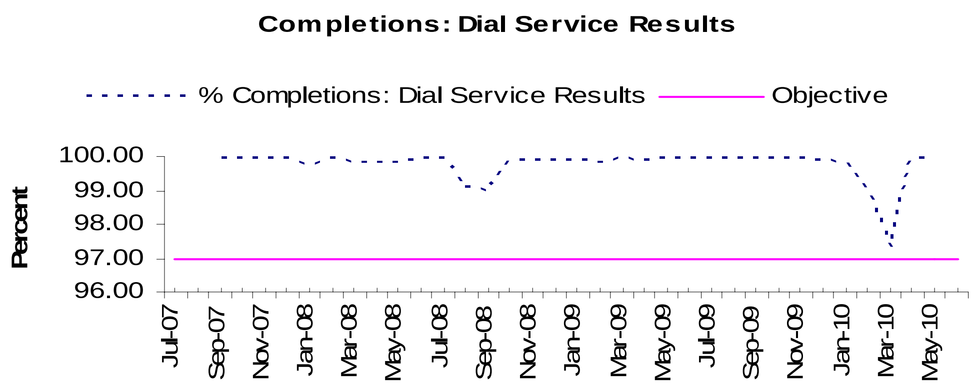
Total Customer Trouble Reports Per 100 Lines - This performance area measures customer network trouble reports per 100 access lines. It is calculated by taking the total customer network trouble reports divided by total access lines times 100. Since October 2007, the results include additional trouble report activity that was not previously included in this metric. Hawaiian Telcom's systems are currently unable to exclude FCC regulated services (such as DSL) when computing these results, which may affect the consistency of the service quality measurements.

Figure 55



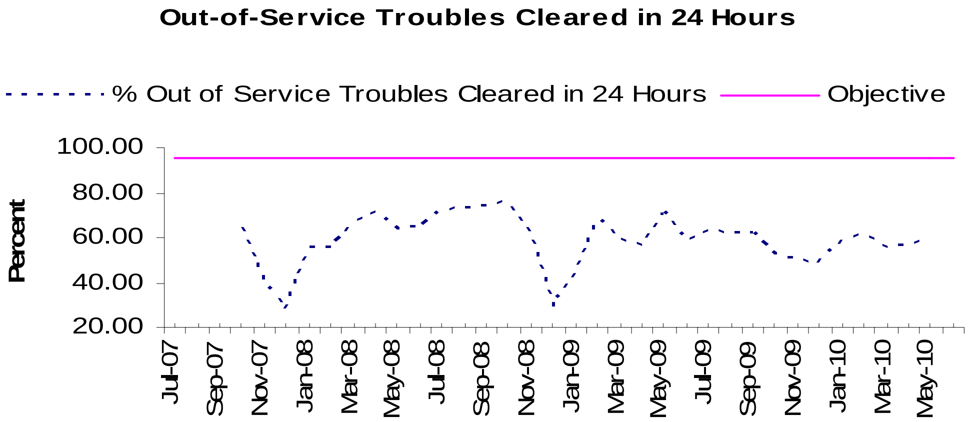
Dial Tone Speed - % Dial Tone Within 3 Seconds - This performance area measures the percentage of calls receiving dial tone within three (3) seconds. It is calculated by taking the number of calls in which dial tone was provided within three (3) seconds divided by the total number of calls times 100.

Figure 56



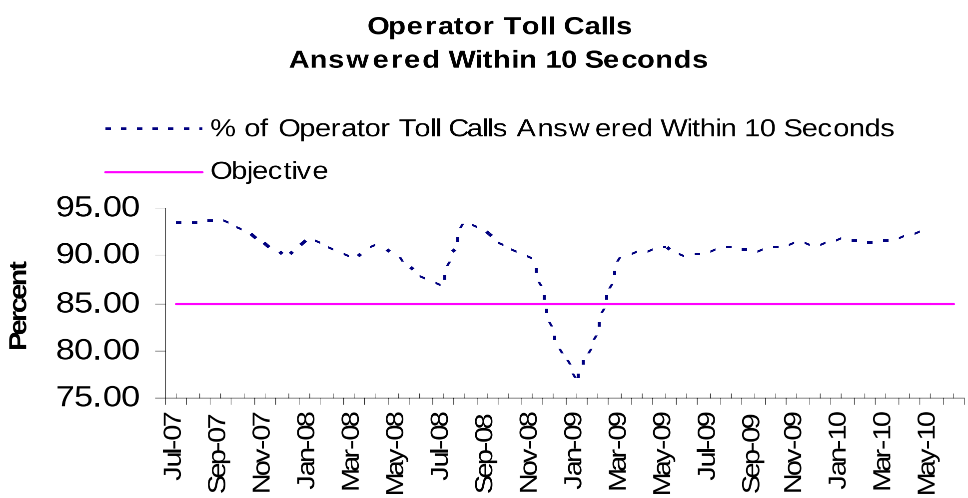
Dial Service Results - % Completion - This performance area measures call completion performance on interoffice trunk groups. It is calculated by taking the number of unblocked calls on interoffice trunk groups divided by the total number of attempts on interoffice trunk groups times 100.

Figure 57



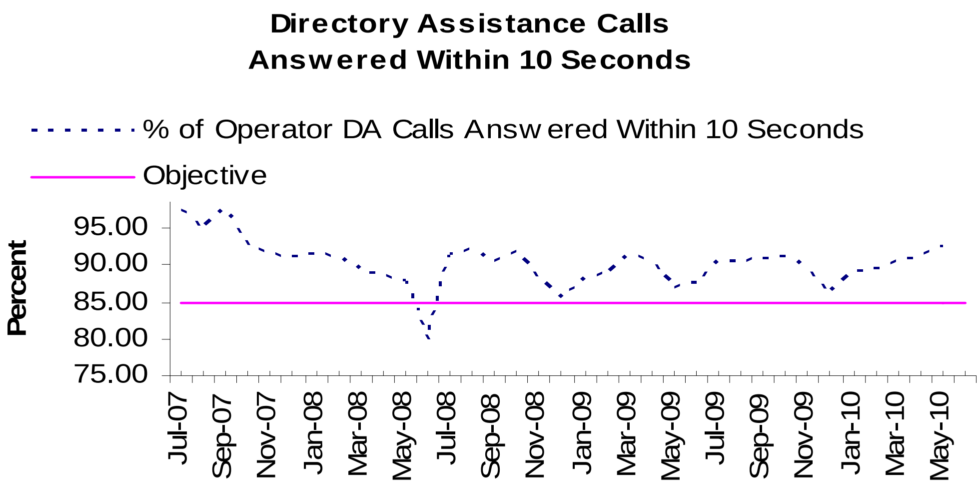
% OOS Trouble Cleared in 24 Hours - This performance area measures customer out of-service ("OOS") network trouble reports cleared within 24 working hours. It is calculated by taking the total customer OOS network reports cleared within 24 working hours divided by the total customer OOS network trouble reports times 100. Since October 2007, the results include additional activity that was not previously included in this metric. Hawaiian Telcom's systems are currently unable to exclude FCC regulated services (such as DSL) when computing these results, which may affect the consistency of the service quality measurements.

Figure 58



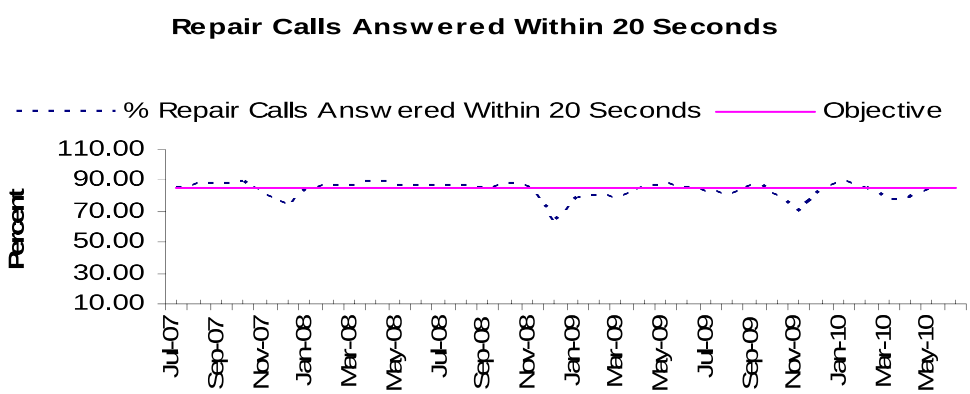
% Operator Toll Calls Answered Within 10 Seconds - This performance area measures the number of calls handled within ten (10) seconds divided by the total number of calls handled times 100 for calls to the toll operator.

Figure 59



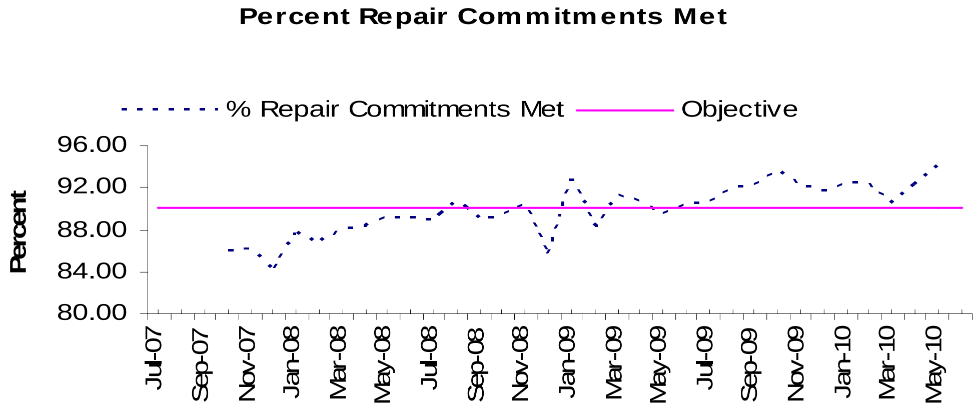
% Operator Directory Assistance Calls Answered Within 10 Seconds - This performance area measures the number of calls handled within ten (10) seconds divided by the total number of calls handled times 100 for calls to the directory assistance operator.

Figure 60



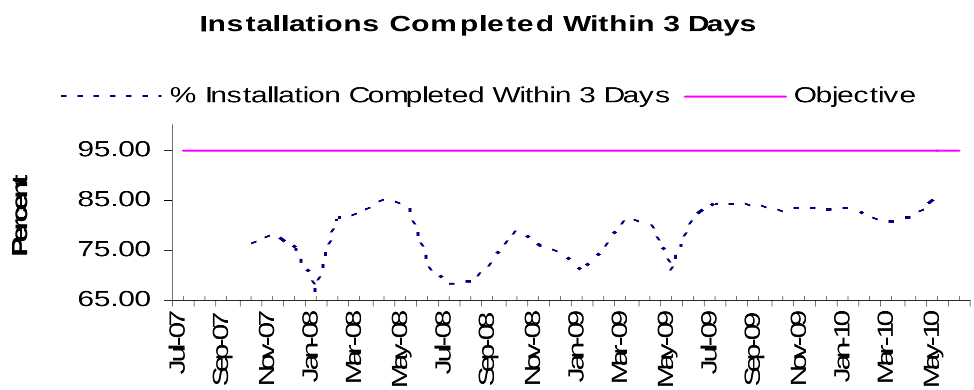
% Repair Calls Answered Within 20 Seconds - This performance area measures the number of calls answered within twenty (20) seconds divided by the total number of calls times 100 for calls to the repair answer center.

Figure 61



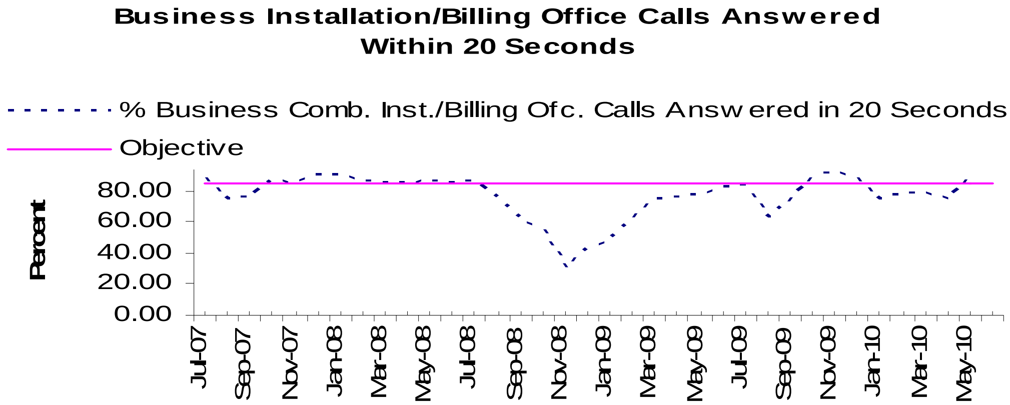
% Repair Commitments Met - This performance area measures the repair tickets completed by the committed due date. It is calculated by taking the total customer network trouble reports for which the commitments were met divided by total customer network troubles times 100. Since October 2007, the results include additional activity that was not previously included in this metric. Hawaiian Telcom's systems are currently unable to exclude FCC regulated services (such as DSL) when computing these results, which may affect the consistency of the service quality measurements.

Figure 62



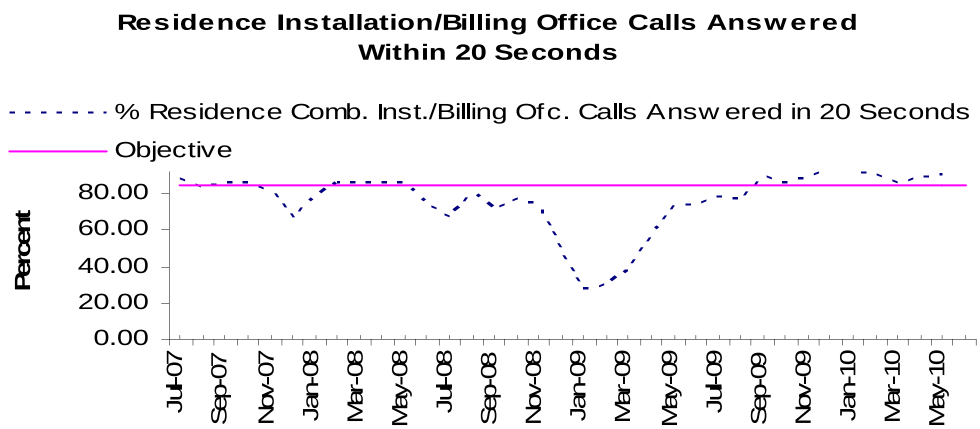
% Installations Completed Within 3 Days - This performance area measures the percent of basic orders completed within three (3) working days. It is calculated by taking the total installation ("I"), move ("M") and change ("C") basic orders completed within three (3) working days divided by the total number of I, M and C orders times 100. Since October 2007, the results include additional activity that was not previously included in this metric. Hawaiian Telcom's systems are currently unable to exclude FCC regulated services (such as DSL) when computing these results, which may affect the consistency of the service quality measurements.

Figure 63



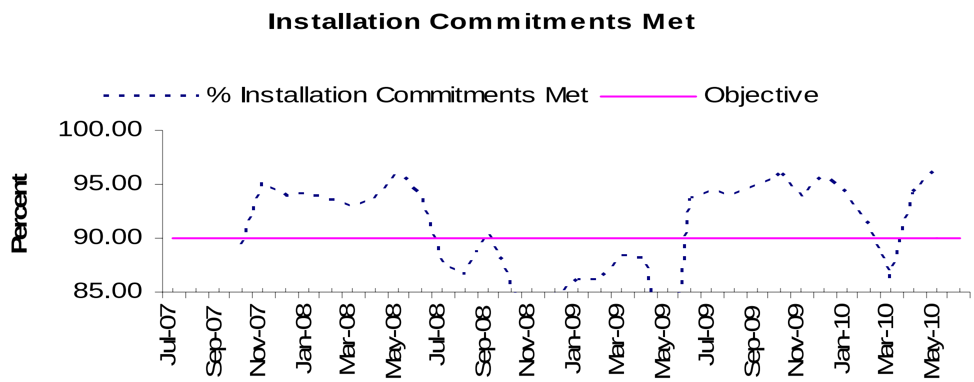
% Combined Business Installation/Billing Office Calls Answered Within 20 Seconds - This performance area measures the number of calls answered within twenty (20) seconds divided by the total number of calls times 100 for calls to the business installation and billing center.

Figure 64



% 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 65



% 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 activity that was not previously included in this metric. Hawaiian Telcom's systems are currently unable to exclude FCC regulated services (such as DSL) when computing these results, which may affect the consistency of the service quality measurements.

XII. LEGISLATION ENACTED BY 2010 LEGISLATURE AFFECTING PUBLIC UTILITIES

A. 2010 LEGISLATIVE MEASURES RELATING TO THE PUBLIC UTILITIES COMMISSION:

1. RELATING TO INTRASTATE TELECOMMUNICATIONS SERVICES

Act 8, SLH 2010, clarifies that the public utilities commission shall treat retail intrastate telecommunications services as fully competitive. It also clarifies that the fully competitive designation shall not apply to services provided according to the statutory obligations of telecommunications carriers.

The Commission treats retail intrastate telecommunications services as fully competitive. Originally the language used to describe these services were, "the State local exchange". The Act uses the term, "retail interstate telecommunications services to further clarify its intent.

2. RELATING TO RENEWABLE ENERGY

Act 30, SLH 2010, requires gas utility companies to annually report to the public utilities commission information on the use of renewable energy resources. It defines feedstock, total feedstock, and non-petroleum feedstock.

The first report for 2011 shall be submitted not later than March 31, 2012. The Gas Company is required to send to the Commission its quantities, energy values and percentages of natural gas, bio-gas, bio-fuel or bio-feedstock sold and distributed in Hawaii derived from fossil fuels and renewable energy.

3. RELATING TO UTILITIES REGULATION

Act 130, SLH 2010, Appropriates moneys out of the public utilities commission's special fund for the operations of the public utilities commission and the department of commerce and consumer affairs division of consumer advocacy.

The Act appropriates $1,704,000 for Fiscal Year 2010 – 2011 to fund position created by Act 177 Session Laws 2007 including the reinstatement of the positions lost in Act 162 Session Laws 2009.

4. RELATING TO ENERGY INDUSTRY REPORTING

Act 152, SLH 2010, repeals the Petroleum Industry Monitoring, Analysis, and Reporting Program, and its special fund; establishes the Energy Data Collection Program; requires refiners and distributors to report monthly to the Research and Economic Analysis Division of DBEDT, on fuel imported, exported, transferred, used, refined, manufactured, compounded, and distributed.

Act 152 did not repeal the requirement of distributors to register with the Commission. Companies will be providing registration annually to the Commission. The duty to enforce §486J is transferred from the Commission to DBEDT. The Commission still retains powers under §486J -11 to examine and investigate each distributor. PIMAR Reports will be kept on the Commission's website. The last weekly report was due on June 30, 2010 and the last monthly report was due on July 19, 2010.

5. RELATING TO THE STATE BUDGET

Act 180, SLH 2010, is the fiscal biennium appropriations for FY 2009 – 2011. The Commission was allocated $9,249,331.

B. OTHER 2010 LEGISLATIVE MEASURES RELATING TO UTILITIES

1. RELATING TO THE ISSUANCE OF SPECIAL PURPOSE REVENUE BONDS TO ASSIST HONOLULU SEAWATER AIR CONDITIONING ON THE ISLAND OF OAHU

Act 80, SLH 2010, this Act extends the authorization to issue special purpose revenue bonds for Honolulu Seawater Air Conditioning LLC. Effective June 29, 2010.

2. RELATING TO PROCUREMENT

In procurements contracts payable by the State or County and a Utility, Act 140, SLH 2010, provides that the utility's share of contract costs is subject to certification as to sufficiency of funds, and certification is to be based on amounts to be paid by a utility under a legal agreement with the State or County.

3. RELATING TO RENEWABLE ENERGY FACILITIES

Act 151, SLH 2010, clarifies that the exemption from subdivision requirements for leases and easements for renewable energy facilities applies to renewable energy facilities on agricultural land approved by the Land Use Commission and county planning Commissions, and renewable energy facilities on conservation land permitted by the Board of Land and Natural Resources.

4. RELATING TO SOLAR ENERGY DEVICES

Act 201, SLH 2010, requires every private homeowners association or entity to revise rules by July 1, 2011, that does not impose conditions or restrictions that render a solar energy device more than 25 percent less effective. Increases the cost of installation, maintenance, and removal of a solar energy device by more than 15 percent; or until June 20, 2015, require an encumbrance on title because of the placement of the solar energy device.

5. RELATING TO ENERGY EFFICIENCY

Act 175, SLH 2010, authorizes the director of business, economic development, and tourism to impose and collect fees for the administration of the solar water heater system variances. It sets the goal of using alternative fuels to meet 30 percent of the highway fuel demand by 2030.

6. RELATING TO TECHNOLOGY

Act 199, SLH 2010, requires the Director of DCCA to promote and encourage telework in conjunction with broadband services and appropriates moneys from the Compliance Resolution Fund for these activities. Establishes a Telework Promotion and Broadband Assistance Advisory Council. It establishes a work group to develop streamlined permitting procedures for the development of broadband services or technology. It also requires DCCA to report annually to the Legislature services, equipment, or contracts.

XIII. FEDERAL ISSUES AND ACTIVITIES

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 and redistributed to 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, 2010, the Commission has granted ETC status to four carriers: Hawaiian Telcom, Inc. (“HT”), Sandwich Isles Communications, Inc. (“SIC”), Sprint Nextel (“Sprint”), and Coral Wireless, LLC, d/b/a Mobi PCS (“Mobi”). Sprint and Mobi are considered competitive eligible telecommunications (“CETCs”) providers. On June 14, 2010, T-Mobile West Corporation filed an application with the Commission for designation as an eligible telecommunications carrier in the state of Hawaii, Docket No. 2010-0119.

In response to explosive growth in high-cost universal service fund disbursements, the FCC issued an order on May 1, 2008 which adopted an interim cap on the amount of high-cost support that CETCs may receive. Under the interim cap, CETC support is capped at the state-level based on the support that each state was eligible to receive in March 2008 (annualized). Sprint also has a voluntary agreement with the FCC (WT Docket No. 08-94) to reduce its high-cost support funding by 20% by 12/31/2008 and an additional 20% for each of the following four years until they receive no support. The year 2009 represents the second year of 20% reduction in high-cost funding support for Sprint.

The Commission must annually certify to the FCC that all ETCs and CETCs that receive high-cost USF support are using those funds for their intended purposes. Along with FCC requirements, the Commission established its own annual certification procedures for certification in Decision and Order 22228 on January 16, 2006. The Commission recertified SIC, Mobi, and Sprint in 2009. HT does not require certification, because it does not receive high-cost USF disbursements.

XIV. PREVIEW FISCAL YEAR 2010-11

The following sections highlight some of the significant proceedings and activities of the Commission for the upcoming Fiscal Year 2010-11.

A. HECO 2011 TEST YEAR RATE INCREASE REQUEST Docket No. 2010-0080

On July 2010, HECO filed an application requesting a general rate increase of 6.6 per cent over revenues at current effective rates. On August 11, 2010, the United States Department of Defense ("DOD") filed a motion to intervene in this matter. The Order Granting DOD's motion to intervene was filed on September 14, 2010.

B. IMPLEMENTATION OF DECOUPLING MECHANISM Docket No. 2008-0274

On August 31, 2010, the Commission issued a Final Decision and Order approving a decoupling mechanism, which provided that the decoupling mechanism would be implement in either an interim or final decision and order in HECO's on-going rate case proceedings. These on-going rate case proceedings are in the following dockets: HECO 2009 Test Year Rate Case Docket No. **2008-0083**, MECO 2010 Test Year Rate Case Docket No. **2009-0163**, and HELCO 2010 Test Year Rate Case Docket No. **2009-0164**.

C. IMPLEMENTATION OF FEED-IN-TARIFF PROGRAM Docket No. 2008-0273

The Feed-in-Tariffs for Tiers 1 and 2 were scheduled to be made available to potential renewable energy generators for HECO on November 17, 2010, and for renewable energy generators for MECO and HELCO on November 24, 2010. The Commission is also scheduled to address the implementation of Tier 3 Feed-in-Tariffs during the upcoming fiscal year.

D. HECO PURCHASE POWER AGREEMENT – HONUA POWER LLC Docket No. 2010-0010

Application of Hawaiian Electric Company, Inc. for Approval of Power Purchase Contract with Honua Power, LLC, To Include Costs in Energy Cost Adjustment Clause and Other Related

Matters, filed on January 19, 2010. Discovery and investigation is ongoing in this matter and the Commission expects to address this during the upcoming fiscal year.

E. KIUC PURCHASE POWER AGREEMENT – PIONEER HI-BRED INTERNATIONAL INC.
Docket No. 2010-0122

Application of Kauai Island Utility Cooperative for Approval of Power Purchase Contract for As-Available Energy with Pioneer Hi-Bred International Inc. and To Include Costs In Its Energy Rate Adjustment Clause. The Commission issued its Decision and Order on November 12, 2010.

F. YOUNG BROTHERS RATE INCREASE REQUEST
Docket No. 2010-0171

On September 10, 2010, Young Brothers filed its notice of intent with the Commission to file an application for a general rate case increase and certain tariff changes

G. KIUC PURCHASE POWER AGREEMENT – KAPAA SOLAR LLC
Docket No. 2010-0179

Application Of Kauai Island Utility Cooperative For Approval Of Power Purchase Agreement For As-Available Energy With Kapaa Solar LLC And To Include Costs In Kauai Island Utility Cooperative's Energy Rate Adjustment Clause, filed on September 20, 2010.

H. MECO PURCHASE POWER AGREEMENT - KAHEAWA WIND POWER II LLC
Docket No. 2010-0279

Application For Approval Of Power Purchase Agreement With Kaheawa Wind Power II, LLC, And Determination That The Maui Electric-Owned Interconnection Facilities Be Constructed Above The Surface Of The Ground Pursuant To HRS 269-27.6(a), filed on October 4, 2010.

I. KIUC PURCHASE POWER AGREEMENT – POIPU SOLAR LLC
Docket No. 2010-0307

Application Of Kauai Island Utility Cooperative For Approval Of Power Purchase Agreement For As-Available Energy With Poipu Solar, LLC, And To Include Costs In Kauai Island Utility Cooperative's Energy Rate Adjustment Clause, filed on November 8, 2010.