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NEWS RELEASE

For Immediate Release:

PUBLIC UTILITIES COMMISSION ISSUES MAJOR ENERGY ORDERS

HONOLULU, HAWAII –

Noting that ratepayers at each of the HECO Companies are growing increasingly frustrated by high electric rates and poor customer service, the Hawaii Public Utilities Commission (Commission) issued three orders affecting rates and the ratemaking process for the Hawaiian Electric Companies[1] on Friday, May 31, 2013. “Taken together, the decisions are intended to hold the HECO Companies responsible and accountable for their performance,” said Commission Chair, Hermina Morita.

The orders include: (1) Decision and Order No. 31288, filed in Docket No. 2011-0092, Maui Electric Company’s 2012 Test Year application; (2) Order No. 31287, approving the HECO Companies’ 2013 decoupling tariffs; and (3) Order No. 31289, filed in Docket No. 2013-0141, opening an investigation into the effectiveness and fairness of the sales decoupling mechanism and other related automatic rate adjustment mechanisms.

First, Maui Electric was held accountable financially for its inefficient performance. Base electric rates were decreased by $7.7 million from current levels

[1]The HECO Companies are comprised of Hawaiian Electric Company, Inc., serving the island of Oahu; Maui Electric Company, Limited, serving the islands of Maui, Lanai, and Molokai; and Hawaii Electric Light Company, Inc., serving Hawaii island.

and a rate refund of more than $8 million was ordered. Furthermore, Maui Electric's allowed profit level was reduced. The Commission ordered Maui Electric to file, within 90 days, a System Improvement and Curtailment Reduction Plan to lower its fuel costs and reduce curtailment of lower cost wind energy.

Second, attached to the Maui Electric rate order was the Commission's observations and perspectives, which put the HECO Companies on notice that utility performance must be improved. "The HECO Companies need to employ sound business practices focused on customer value. Hawaii should have financially healthy electric utilities; however attractive financial returns are not a utility entitlement. Instead, excellent utility performance with affordable rates and superior customer service should drive utility financial performance. This linkage is well known, is accepted in the electric utility industry, and is called the Virtuous Circle," said Commissioner Michael Champley.

Third, Commissioner Lorraine Akiba stated "the Commission is reaffirming its support for a properly structured sales decoupling mechanism as an essential component to achieve Hawaii's clean energy policies. Such a mechanism removes any utility financial disincentives to enable customers to manage their energy costs and reduce their energy usage." The Commission approved a $77.2 million rate increase under the existing sales decoupling and Rate Adjustment Mechanism (RAM) mechanisms for the HECO Companies.

Finally, to address concerns regarding poor utility performance, the Commission commenced an investigation to reexamine the decoupling and RAM rate adjustment mechanisms. The purpose is to ensure that these mechanisms do not insulate the HECO Companies from making timely and necessary improvements to their business models, strategies and operational practices to serve customers and the public interest. The investigation will also address legislative guidance outlined in Act 37, Session Laws of Hawaii 2013 to examine whether shared cost savings and other incentives could encourage and reward utility performance for accelerated cost reductions and retirement of old, inefficient fossil generators.

Commission Chair Morita said, “The Commission will work collaboratively with the HECO Companies, State Consumer Advocate, and other stakeholders to improve and streamline the ratemaking process to achieve outcomes that are in the public interest. However, achieving a high performance, customer focused and financially viable electric utility with affordable rates is the responsibility and public interest duty of utility management.”

A summary of the orders and background on the decoupling mechanisms are attached. Docket documents and orders can be found on the Commission’s Document Management System at http://dms.puc.hawaii.gov/dms/. The HECO Companies’ decoupling tariffs can be found on the Commission’s website: http://puc.hawaii.gov/ under the “What’s New” section.

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Docket No. 2011-0092, Maui Electric Company, Ltd. (MECO), For Approval of Rate Increases and Revised Rate Schedules and Rules, Decision and Order No. 31288

Decision and Order No. 31288 – MECO Rate Case Final Order

- Ordered a $7.7 million reduction in base rates (non-fuel expenses), results in a rate refund of more than $8 million
- The result of rate reductions are offset by approved RBA and RAM tariffs, effective on June 1, 2013
- Disallowed portions of certain operating expenses that were not reasonable and prudent such as pensions, technical studies and the new customer information service computer system
- Lowered allowed profit level (return on equity) from 10% to 9% due to lower interest rates (.5%) and inefficiencies found in its system operations (.5%)
- Addressing operational inefficiencies, the Commission ordered MECO to file within 90 days a System Improvement and Curtailment Reduction Plan to lower fuel costs and reduce curtailment of lower cost wind energy
- Directed MECO, beginning with information from January 2013, communicate monthly via its website the (1) quantity of wind energy accepted per month and (2) quantity of wind curtailed per month to increase accountability to ratepayers
- Detailed information with regard to system inefficiencies and wind curtailment can be found in section G, Curtailment of Renewable Energy, on page 128

Decision and Order No. 31288 – Commission's Observations and Perspectives

- Sets forth concerns and issues regarding utility operations and regulation
- Existing automatic adjustment mechanisms appear to unduly insulate the HECO Companies from making timely and necessary improvements to their business models, strategies and operational practices.
- A well-managed, customer focused electric utility is one that is driven by a management philosophy and corporate culture to provide superior customer value
- HECO Companies lack a strategic and sustainable business model to address technological changes and increasing customer expectations
- Articulating a strategic vision for modernizing Hawaii's electric system is a prerequisite for regulatory approval of a substantial capital improvement program
- Virtuous cycle or virtuous circle focuses on sound business practices and customer value where positive performance drives positive regulatory outcomes, which drive positive financials, which can then be reinvested in the utility, to keep the cycle going
- Commission will work collaboratively with the HECO Companies, Consumer Advocate, and other stakeholders to streamline and improve the ratemaking process to achieve outcomes in the public interest and address issues such as regulatory timeliness

Commission's May 31, 2013 Orders Regarding Decoupling

Order No. 31287 – Approving Multiple Tariff Transmittals

- Consolidated and approved, effective June 1, 2013, the HECO Companies' RBA and RAM tariffs submitted as Transmittals 13-01 through 13-06, as revised
- Tariffs approvals will result in a $77.2 million rate increase with $43.5 million attributable to lower sales (RBA tariff) and $33.7 million to higher cost and capital investment (RAM tariff)
- HECO's RAM reduced by $2.6 million credit to customers due to an earnings sharing revenue credits mechanism triggered when earnings are above the authorized return on equity
- All filings related the Transmittal Nos. 13-01 through 13-06 and Order 31287 posted under the "What's New" section on the home page of the Commission's website

Docket No. 2013-0141, Order No. 31289 ("Investigation Order") – Instituting an Investigation to Reexamine the Existing Decoupling Mechanism for the HECO Companies

- Commission reiterated its support for a properly structured sales decoupling mechanism and stated that this is essential to achieve Hawaii's clean energy policies
- Investigation will examine if the sales decoupling mechanism can
  - Ensure fair allocation of risks and costs between the utility and ratepayers
  - Provide incentives for the utility to control its costs
  - Be predicated upon the utility meeting performance expectations
  - Provide an incentive to the utility to proactively and timely adjust its business model and strategies as technology and customers' expectations change
- Investigation will address legislative guidance outlined in Act 37, Session Laws of Hawaii 2013 to examine whether economic incentives could encourage and reward utility performance to
  - Accelerate reductions in energy and operating costs
  - Reduce the curtailment of lower cost renewable energy
  - Accelerate the retirement of old, inefficient fossil generation units
  - Encourage investments to modernize Hawaii's electric grid while discouraging investments that enable the continued operation of old, inefficient fossil generation units

Decoupling Background and History

- Decoupling prompted by the 2008 "Energy Agreement Among the State of Hawaii, Division of Consumer Advocacy of the Department of Commerce and Consumer Affairs, and the Hawaiian Electric Companies," executed on October 20, 2008 by the former Governor of the State of Hawaii, the Department of Business, Economic Development, and Tourism, the HECO Companies, and the Department of Commerce and Consumer Affairs, Division of Consumer Advocacy.

- October 24, 2008 Commission initiated an investigation to examine implementing a decoupling mechanism "that would modify the traditional model of rate-making for the HECO Companies by separating the HECO Companies revenue and profits from electricity sales."

- August 31, 2010 Commission issued its decision and order approving a sales decoupling mechanism

- Sales decoupling mechanism comprised primarily of two components, the Revenue Balancing Account tariff ("RBA") and Rate Adjustment Mechanism tariff ("RAM")

- Both tariffs (RBA and RAM) grouped administratively under the sales decoupling mechanism umbrella but each serves a different purpose

- Primary purpose of the RBA is to de-link or "decouple" the HECO Companies' revenues from the amount of electricity or kWh sold to remove financial disincentives due to sales declines attributable to the aggressive pursuit of Hawaii's clean energy mandates

- RAM intended to, via formula-driven estimates and escalators, compensate the HECO Companies for changes in utility costs and infrastructure investment between rate cases and reduce the frequency of rate cases

- Under present decoupling scheme each utility is under a 3-year rate case cycle

- Commission ruled that decoupling could not be implemented until "rates that reflect a reduced [rate of return ("ROR")] due to decoupling are approved by the Commission in either an interim or final decision in the HECO Companies' pending rate cases"

- Commission allowed the implementation of decoupling
    - December 29, 2010 final decision and order HECO's 2009 test year case
    - February 8, 2012 final decision and order HELCO's 2010 test year case
    - May 2, 2012 final decision and order MECO's 2010 test year case

- Since initial implementation in subsequent rates cases, HECO has submitted three annual decoupling tariff filings (2011, 2012 and 2013); HELCO has submitted two annual tariff filings (2012 and 2013) and MECO has submitted one (2013)